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# INSOLVENCY LAW REFORM BILL: TRANSFORMING INDIA'S INSOLVENCY FRAMEWORK

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## ABSTRACT

The Insolvency and Bankruptcy Code (IBC), 2016 significantly reformed India's insolvency framework by introducing a unified and time-bound mechanism for insolvency resolution. However, practical challenges such as delays before the National Company Law Tribunal (NCLT), excessive litigation, absence of cross-border insolvency mechanisms and lack of group insolvency provisions highlighted the need for further reforms.

The Insolvency and Bankruptcy Code (Amendment) Act, 2026 seeks to address these shortcomings through major structural and procedural changes. The reform introduces creditor-initiated insolvency resolution, enables group and cross-border insolvency frameworks, strengthens creditor participation, clarifies treatment of statutory dues and imposes stricter timelines for insolvency proceedings. These reforms aim to improve efficiency, maximize asset value and align Indian insolvency law with international standards.

This article examines the key provisions, objectives and implications of the Insolvency Law Reform Bill and analyzes its impact on creditors, corporate entities, financial institutions and the Indian Economy. The study concludes that the reforms have the potential to strengthen India's insolvency ecosystem, improve investor confidence and promote a faster and more effective corporate rescue framework.

**Keywords:** Insolvency and Bankruptcy Code, Corporate Insolvency Resolution Process, Cross-Border Insolvency, Creditor-Initiated Insolvency, Corporate Restructuring.

## 1. Introduction

The Insolvency and Bankruptcy Code (IBC) enacted in 2016, brought a revolutionary transformation to India's Insolvency and Corporate restructuring framework. Before the enactment of the IBC, insolvency matters were governed by fragmented legislations such as the Sick Industrial Companies Act, 1985, the Companies Act, 2013, and the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. These laws resulted in overlapping jurisdictions, excessive delays, low recovery rates and erosion of asset value. The IBC introduced a consolidated, creditor-driven and time-bound insolvency mechanism aimed at maximizing asset value, balancing stakeholder interests, promoting entrepreneurship and strengthening credit discipline in India.<sup>1</sup>

After nearly a decade of implementation, several practical challenges emerged within the insolvency framework. Delays before the National Company Law Tribunal (NCLT), excessive litigation, procedural inefficiencies and absence of comprehensive cross-border insolvency mechanisms highlighted the need for further reforms. Consequently, the Government introduced the Insolvency and Bankruptcy Code (Amendment) Bill, 2025, later enacted as the Insolvency and Bankruptcy Code (Amendment) Act, 2026. The legislation is regarded as one of the most important insolvency reforms since the original enactment of the IBC.

## 2. Objectives of the Insolvency Law Reform Bill

The primary objective of the reform bill is to strengthen the efficiency, transparency and speed of insolvency resolution in India. The amendment seeks to reduce procedural delays, preserve the value of distressed assets, improve creditor confidence and encourage effective corporate restructuring. Another important objective is to align Indian insolvency law with international best practices and modern commercial realities.<sup>2</sup>

The reform bill also aims to reduce the burden on NCLTs by encouraging creditor-led and out-of-court restructuring mechanisms. Further, it seeks to strengthen creditor participation, improve liquidation administration, prevent abuse of insolvency proceedings and create a framework for handling multinational insolvency disputes. These reforms are expected to

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<sup>1</sup> Insolvency and Bankruptcy Code, No. 31 of 2016, INDIA CODE (2016).

<sup>2</sup> Ministry of Corporate Affairs, Government of India, Report of the Bankruptcy Law Reforms Committee (2015).

improve India's investment climate and promote economic growth.<sup>3</sup>

### **3. Need for Insolvency Law Reforms**

Although the IBC significantly improved India's insolvency regime, practical difficulties weakened its effectiveness over time. One major concern was the delay in completion of Corporate Insolvency Resolution Processes (CIRP). Even though the IBC prescribed a maximum period of 330 days for insolvency resolution, many cases remained pending for years because of litigation, repeated adjournments and shortage of judicial infrastructure. Such delays caused severe erosion of enterprise value and reduced recovery for creditors.

Another significant issue was the absence of an effective framework for group insolvency and cross-border insolvency. Modern corporations often operate through interconnected subsidiaries and multinational structures. However, the earlier IBC framework primarily focused on individual entities, thereby creating inefficiencies and conflicting outcomes in complex corporate insolvencies. Therefore, reforms became essential to modernize India's insolvency framework and ensure smoother corporate restructuring.<sup>4</sup>

### **4. Introduction of Creditor-Initiated Insolvency Resolution Process (CIIRP)**

One of the most important reforms introduced by the Amendment Act is the Creditor-Initiated Insolvency Resolution Process (CIIRP). Under the earlier system, insolvency proceedings formally commenced only after approval by the NCLT, which frequently caused substantial delays. The new CIIRP mechanism allows eligible financial creditors to initiate insolvency resolution outside the traditional court-centered process through a creditor-driven framework.<sup>5</sup>

Under this mechanism, the management of the corporate debtor may continue business operations under creditor supervision, thereby preserving enterprise value and business continuity. This reform reflects a shift from a purely court-centric model toward a commercially negotiated restructuring process. It is expected to reduce procedural delays,

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<sup>3</sup> PRS Legislative Research, The Insolvency and Bankruptcy Code (Amendment) Bill, 2025: Bill Summary (2025), <https://prsindia.org>.

<sup>4</sup> Chambers & Partners, The Insolvency and Bankruptcy Code Amendment Bill 2025: Key Reforms and Implications (2025), <https://www.chambers.com>.

<sup>5</sup> Reuters, India Proposes Creditor-Led Insolvency Mechanism to Reduce Tribunal Delays (Mar. 30, 2026), <https://www.reuters.com>.

encourage faster settlements and prevent value destruction of distressed companies.<sup>6</sup>

## 5. Group Insolvency Framework

The Amendment Act also introduces provisions enabling a framework for group insolvency. Under the earlier IBC regime, insolvency proceedings were conducted separately for each company even when they belonged to the same corporate group and had interconnected liabilities, operations and assets. This created inefficiency and often resulted in contradictory decisions.<sup>7</sup>

The reform empowers the Central Government to frame rules for co-ordinated insolvency resolution of corporate groups. Such a framework enables simultaneous consideration of related entities, thereby improving efficiency and maximizing overall asset value. Group insolvency is particularly important in sectors such as infrastructure, aviation, telecommunications and real estate where multiple subsidiaries function as a single economic unit.<sup>8</sup>

## 6. Cross-Border Insolvency Reforms

One of the most progressive aspects of the reform bill is the introduction of a framework for cross-border insolvency. Prior to this amendment, India lacked a comprehensive mechanism to deal with insolvency matters involving foreign creditors, overseas assets or multinational corporate entities. Sections 234 and 235 of the IBC were considered inadequate because they depended mainly on bilateral agreements and judicial cooperation.<sup>9</sup>

The Amendment Act empowers the Government to introduce a modern cross-border insolvency framework based upon internationally accepted principles, particularly the UNCITRAL Model Law on Cross-Border Insolvency. This reform is expected to improve co-operation between Indian courts and foreign insolvency authorities, facilitate recognition of foreign proceedings and protect international investors.<sup>10</sup>

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<sup>6</sup> Parinam Law Associates, The Insolvency and Bankruptcy Code Amendment Act, 2026: Overview of Key Reforms (2026), <https://parinamlaw.com>.

<sup>7</sup> CMS IndusLaw, The Insolvency and Bankruptcy Code (Amendment) Act, 2026: Analysis and Implications (2026), <https://cms-induslaw.com>.

<sup>8</sup> Swiss Ribbons Pvt. Ltd. v. Union of India, (2019) 4 S.C.C. 17 (India).

<sup>9</sup> Insolvency and Bankruptcy Code Sections 234–235, No. 31 of 2016, INDIA CODE (2016).

<sup>10</sup> UNCITRAL Model Law on Cross-Border Insolvency, U.N. GAOR, 52nd Sess., Supp. No. 17, U.N. Doc.

## 7. Strengthening the Role of Creditors

The reform bill significantly strengthens the role and powers of creditors during insolvency and liquidation proceedings. Under the earlier framework, concerns were raised regarding lack of accountability in liquidation administration and limited creditor oversight. The Amendment Act grants greater supervisory powers to the Committee of Creditors (CoC), including authority relating to appointment and replacement of liquidators and monitoring of asset realization processes.<sup>11</sup>

The reforms reinforce the principle that financial creditors play a central role in commercial decision-making during insolvency proceedings. By strengthening creditor rights, the amendment seeks to improve confidence among banks, financial institutions and investors. This is expected to strengthen India's financial ecosystem and improve lending activity.<sup>12</sup>

## 8. Clarification on Government Dues and Security Interests

The Amendment Act clarifies the treatment of statutory dues and security interests during insolvency proceedings. Judicial interpretations under the earlier framework created uncertainty regarding whether government dues could obtain priority similar to secured creditors. Such ambiguity discouraged potential resolution applicants and complicated insolvency proceedings.<sup>13</sup>

The reform clarifies that government dues do not automatically obtain secured creditor status merely because they arise under statutory obligations. This strengthens the "clean slate principle," under which successful resolution applicants acquire distressed companies free from past liabilities. Such clarity improves certainty in insolvency transactions and encourages investor participation.<sup>14</sup>

## 9. Prevention of Abuse and Procedural Delays

The Amendment Act also introduces measures to prevent misuse of insolvency proceedings.

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A/52/17 (1997).

<sup>11</sup> K. Sashidhar v. Indian Overseas Bank, (2019) 12 S.C.C. 150 (India).

<sup>12</sup> Reserve Bank of India, Report on Trend and Progress of Banking in India 2024–25 (2025).

<sup>13</sup> Ghanashyam Mishra & Sons Pvt. Ltd. v. Edelweiss Asset Reconstruction Co. Ltd., (2021) 9 S.C.C. 657 (India).

<sup>14</sup> ArcelorMittal India Pvt. Ltd. v. Satish Kumar Gupta, (2019) 2 S.C.C. 1 (India).

In several cases, parties used insolvency applications as pressure tactics for debt recovery or delayed proceedings through repeated withdrawal applications and litigation strategies. The reform therefore strengthens provisions dealing with fraudulent, undervalued and extortionate transactions.

Additionally, stricter procedural requirements and timelines are introduced to reduce unnecessary delays in insolvency proceedings. Faster admission of applications and greater procedural discipline are expected to improve efficiency and preserve the value of distressed assets. These reforms reinforce the principle that insolvency law should prioritize timely resolution rather than prolonged litigation.<sup>15</sup>

## **10. Impact on the Indian Economy**

The Insolvency Law Reform Bill is expected to have a substantial impact on India's banking and financial sectors. Since the introduction of the IBC, banks have recovered significant amounts from stressed assets, thereby reducing non-performing assets (NPAs) and improving financial discipline. However, delays and heavy haircuts weakened recovery outcomes. The new reforms aim to improve recovery rates through faster and more efficient insolvency mechanisms.<sup>16</sup>

The reforms are also expected to improve investor confidence and strengthen India's ease of doing business environment. A robust insolvency framework assures lenders and investors that financial distress can be resolved efficiently and transparently. Consequently, the reform bill contributes not only to legal modernization but also to broader economic growth and financial stability.<sup>17</sup>

## **11. Challenges and Criticism**

Despite its progressive features, the reform bill has faced criticism from certain stakeholders. Critics argue that excessive emphasis on creditor rights may reduce protections available to operational creditors, employees and small businesses. Concerns have also been raised

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<sup>15</sup> Ministry of Finance, Government of India, The Insolvency and Bankruptcy Code (Amendment) Bill, 2025, Bill No. 107 of 2025.

<sup>16</sup> The Times of India, Lok Sabha Passes Insolvency Code Amendment Bill: Key Highlights (Apr. 2026), <https://timesofindia.indiatimes.com>.

<sup>17</sup> CMS IndusLaw, The Insolvency and Bankruptcy Code (Amendment) Act, 2026: Analysis and Implications (2026), <https://cms-induslaw.com>.

regarding concentration of power in financial institutions and possible misuse of creditor-driven insolvency mechanisms.

Further, effective implementation of group insolvency and cross-border insolvency frameworks will require substantial institutional capacity, judicial expertise and international cooperation. Without adequate infrastructure and trained insolvency professionals, practical implementation challenges may continue to affect the efficiency of the insolvency regime.<sup>18</sup>

## **12. Conclusion**

The Insolvency and Bankruptcy Code (Amendment) Act, 2026 marks a transformative phase in India's insolvency jurisprudence. By introducing Creditor-Initiated Insolvency Resolution, group insolvency mechanisms, cross-border insolvency provisions, stronger creditor supervision and stricter timelines, the legislation seeks to overcome the practical limitations experienced under the earlier IBC framework. The reforms aim to establish a faster, transparent, commercially efficient and globally aligned insolvency system capable of balancing the interests of creditors, debtors, investors and the economy as a whole.

If implemented effectively, the Insolvency Law Reform Bill has the potential to strengthen India's financial ecosystem, improve investor confidence, reduce corporate distress and promote a culture of timely corporate rescue and restructuring. The reforms therefore represent a major step toward building a modern and resilient insolvency framework capable of supporting India's rapidly growing economy in the twenty-first century.<sup>19</sup>

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<sup>18</sup> Parinam Law Associates, *The Insolvency and Bankruptcy Code Amendment Act, 2026: Overview of Key Reforms (2026)*, <https://parinamlaw.com>.

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