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# India's Insolvency Framework

## *From Financial Distress to Structured Resolution*

28 May, 2026

*India's insolvency framework has undergone a major transformation through the Insolvency and Bankruptcy Code, 2016 (IBC). It introduced a unified, creditor-driven and time-bound mechanism for resolving financial distress. Over the years, the Code has strengthened recovery mechanisms and improved resolution outcomes, with creditors realising nearly ₹4.32 lakh crore through approved resolution plans till March 2026. Building on this experience, the Insolvency and Bankruptcy Code (Amendment) Act, 2026 introduces several reforms to reduce delays, strengthen creditor oversight and improve procedural clarity. The amendment seeks to make the insolvency resolution and liquidation process more efficient, predictable and resolution-oriented.*

### Advancing Insolvency Resolution in India

After independence, Indian companies operated within structured legal frameworks supporting normal business activities. When financial stress emerged, they relied on multiple legal mechanisms for resolution. These included company law, debt recovery processes and secured creditor frameworks. Each mechanism followed separate forums and procedures. This often made coordination complex and time-consuming.

To address these challenges, the Government introduced the Insolvency & Bankruptcy Code, 2016. It consolidated existing laws into a single system. The Code also strengthened creditor participation and aimed to maximise asset value, while balancing the interests of all stakeholders.

As the system evolved, implementation experience highlighted areas for improvement. Refinements were introduced to enhance efficiency and outcomes. This continuous reform process led to the enactment of the **Insolvency & Bankruptcy Code (Amendment) Act, 2026**, marking the next phase of consolidation.

### The Insolvency & Bankruptcy Code, 2016: India's Principal Insolvency Law

#### The Pre-IBC Framework and the Need for Reform

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Before the enactment of the Insolvency & Bankruptcy Code, 2016, insolvency resolution in India operated through multiple overlapping legal frameworks. Companies facing financial distress were dealt with under different laws such as the Companies Act, the Sick Industrial Companies Act (SICA), debt recovery mechanisms and secured creditor frameworks including SARFAESI. These processes functioned through separate institutions and forums, often resulting in fragmented proceedings and overlapping jurisdiction.

As a result, resolution processes frequently became prolonged and uncertain. Cases remained pending for years while the value of distressed assets continued to deteriorate. Delays weakened the ability of creditors to recover dues and reduced the possibility of reviving viable businesses. The absence of a consolidated and time-bound mechanism also affected overall credit discipline and investor confidence.

Recognising these structural challenges, the Government introduced the Insolvency & Bankruptcy Code, 2016 as a comprehensive reform.

### **A Unified and Time-Bound Insolvency Framework**

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The Insolvency & Bankruptcy Code, 2016 established a unified framework for resolving insolvency across companies, partnership firms and individuals. It consolidated multiple insolvency laws into a single structure, creating a more coordinated and predictable resolution process.

A key objective introduced by the Code was the transition from a debtor-controlled system towards a **creditor-driven resolution framework**. The emphasis moved beyond mere recovery proceedings towards value maximisation, continuation of viable businesses and balanced treatment of stakeholders. The Code sought to ensure that financial distress is addressed at an early stage before prolonged delays erode enterprise value.

At the centre of the framework is the **Corporate Insolvency Resolution Process (CIRP)**, which provides a structured mechanism for resolving corporate insolvency. The **Committee of Creditors (CoC)**, comprising financial creditors, evaluates resolution plans. They then make important commercial decisions regarding the future of the stressed entity.

The Code also introduced a time-bound structure for resolution. The CIRP was designed to be completed within **180 days**, extendable up to 330 days in specified circumstances. This timeline-based approach aimed to prevent indefinite delays and preserve the economic value of distressed businesses. If resolution is not achieved within the prescribed framework, the entity moves into liquidation in accordance with the provisions of the Code.

### **Institutional Structure under the IBC**

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The effectiveness of the IBC framework rests on a regulated institutional ecosystem established under the Code. The **Insolvency and Bankruptcy Board of India (IBBI)** functions as the regulatory authority responsible for overseeing insolvency processes, Insolvency Professionals (IPs) and related institutions under the framework. It also frames regulations and standards governing the functioning of the insolvency ecosystem.

## Who are Insolvency Professionals (IPs) ?

IPs administer the affairs of distressed entities, safeguard assets and facilitate meetings of creditors. They oversee the resolution process in compliance with the Code and applicable regulations.

Also, the corporate insolvency matters are adjudicated by the **National Company Law Tribunal (NCLT)**, which acts as the adjudicating authority under the framework. Appeals against its decisions are heard by the **National Company Law Appellate Tribunal (NCLAT)**. Together, these institutions create a structured, supervised and legally enforceable mechanism for insolvency resolution in India.

## Success of the Insolvency and Bankruptcy Code

Since its enactment, the Insolvency and Bankruptcy Code, 2016 has significantly strengthened India's insolvency and credit ecosystem. The framework improved recovery mechanisms, strengthened creditor discipline and created a more structured resolution process for distressed entities.

Till March 2026, **8,987 CIRPs have been admitted** under the Code. **1,419 corporate debtors were resolved through approved resolution plans**. While several other cases were closed through settlements, appeals, reviews and withdrawals under section 12A.

As of March 2026, **creditors realised approximately ₹4.32 lakh crore** through approved resolution plans under the IBC. **Recoveries exceeded 116.85 of liquidation value** and more than 94.56% of fair value.

The framework also improved recovery outcomes for the banking sector. The RBI's Report on Trends and Progress of Banking in India for 2024-25 (released on December 29, 2025) highlights that out of a total of ₹1,04,099 crore recovered by SCBs through various channels, the IBC alone has contributed a significant ₹54,528 crore, accounting for 52.4% of the total recoveries. This was higher than recoveries through SARFAESI, Debt Recovery Tribunals and Lok Adalats.

An IIM Ahmedabad study reveals strong post-resolution recovery among resolved firms under the IBC. Creditors recovered 32% of admitted claims and 168% of liquidation value. Resolved firms saw 76% sales growth, reached operational break-even by the third year and experienced a 50% rise in employee expenses meaning higher employment. Total assets of the resolved companies grew by 50%, capital expenditure rose 130%, and profitability aligned with industry benchmarks. Market valuations tripled from Rs. 2 lakh crore to Rs. 6 lakh crore for the listed firms, while liquidity improved by 80%. Additionally, an IIM Bangalore study shows a 3% reduction in the cost of debt and improved governance through increased independent directors. Thus, these studies demonstrate that firms undergoing resolution through the IBC process have shown significant improvements in various aspects of their business, including sales, profitability, asset growth, market valuation and liquidity.

Further, the impact of the IBC on credit discipline has also been corroborated by a comprehensive study conducted by IIM Bangalore. The study has analysed data on corporate loan accounts, CIRP, firm-level financial data and NPA data. The study finds that IBC has prompted borrowers to adhere to stipulated loan payment schedules. During the period under review, the study notes a significant reduction in loan accounts deemed '*Overdue*', both in terms of the Rupee amount as well as in terms of the number of

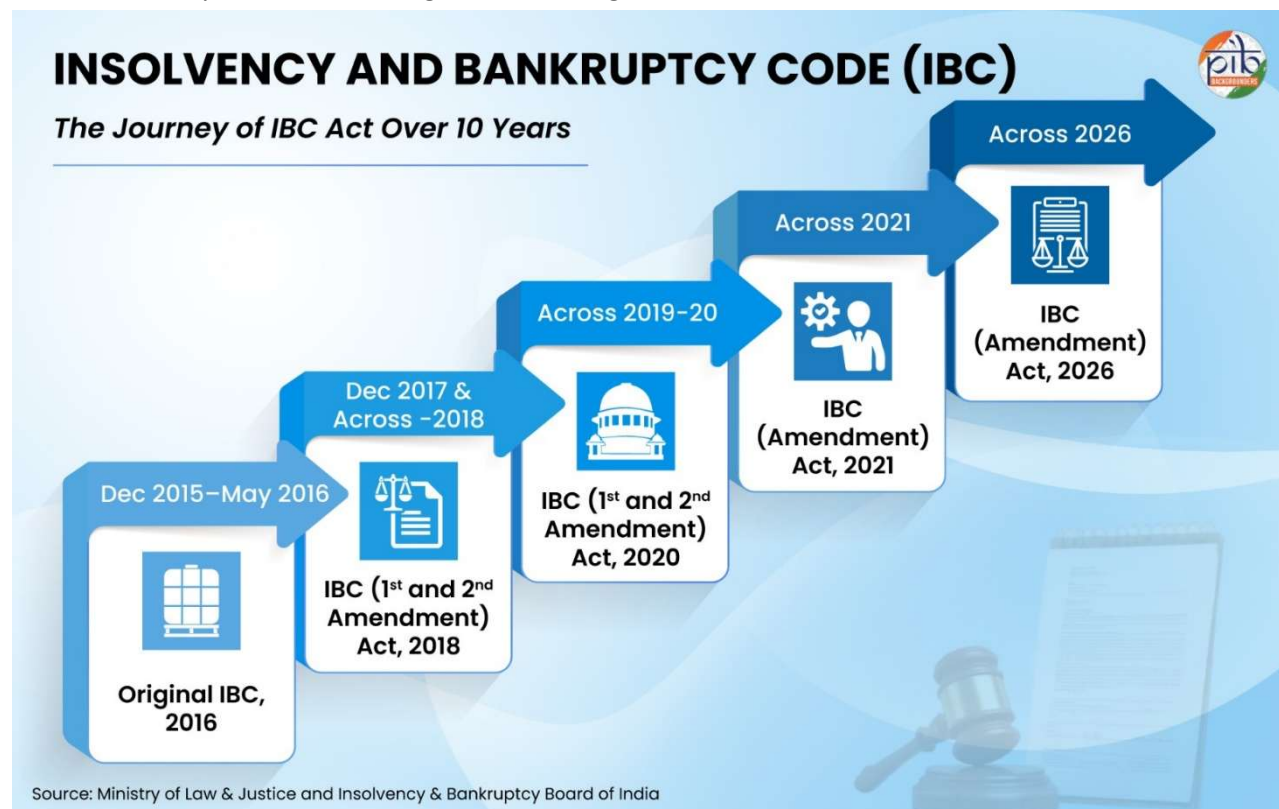
accounts. Similarly, the yearly proportion of transitions of loan accounts from the 'Overdue' category to the 'Normal' category have increased, supporting the view of an improvement in the credit culture of corporates. Even the average number of days that a loan account stays in 'Overdue' category before transitioning to 'Normal' category has reduced from 248-344 days to 30-87 days. This shows that both debtors and creditors are trying to resolve the delinquencies at the earliest.

At the same time, operational challenges continued to remain. Average resolution timelines in several cases exceeded the statutory limit of 330 days. Delays in adjudication and prolonged litigation affected value maximisation in some proceedings.

Despite these challenges, the Insolvency Bankruptcy Code is a major structural reform in India's financial and corporate resolution framework. Subsequent amendments, including the Insolvency and Bankruptcy Code (Amendment) Act, 2026, seek to further improve timelines, institutional efficiency and recovery outcomes.

### Legislative Progression of the Insolvency & Bankruptcy Code

The reform leading to the **Insolvency & Bankruptcy Code (Amendment) Act, 2026** is built on the evolution of the insolvency framework through a series of legislative amendments.



Key Amendments introduced prior to 2026 included:

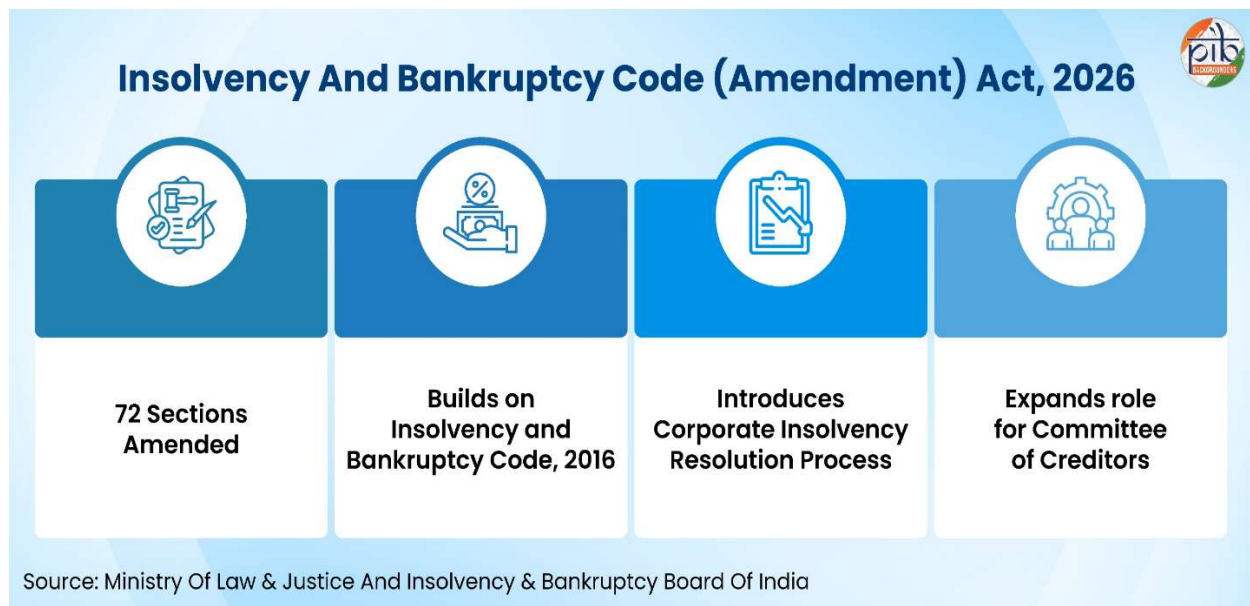
- **2018 Amendment:** Introduced significant refinements to the resolution framework, including provisions for **withdrawal of applications** and **changes in voting** thresholds. It further

**strengthened creditor** participation and **modified eligibility criteria** under Section 29A of the principal act.

- **2019 Amendment:** Improved the insolvency resolution framework by introducing an overall time limit of **330 days** for completion of the process.
- **2020 Amendment:** Introduced key safeguards, including **immunity for corporate debtors** after resolution. It also **suspended insolvency proceedings** for specified defaults in response to COVID-19.
- **2021 Amendment:** Introduced the **pre-packaged insolvency resolution process for MSMEs**, enabling faster debtor-in-possession resolution with creditor supervision and oversight. It also included provisions to improve efficacy and timelines in insolvency proceedings.

### Understanding the Insolvency and Bankruptcy Code (Amendment) Act, 2026

The Amendment Act of 2026 builds upon the Insolvency and Bankruptcy Code, 2016 after nearly a decade of implementation experience. It seeks to address procedural delays, litigation arising from legal ambiguities and operational challenges during insolvency resolution and liquidation proceedings.



The Act introduces reforms across different stages of the insolvency process. It strengthens timelines for admission and approval of cases. It expands the role of the CoCs during liquidation. It also clarifies provisions relating to security interests, avoidance transactions and resolution plans.

The amendment introduces safeguards for implementation of approved resolution plans. These include continuity of licences, permits and regulatory approvals in specified cases. It also strengthens provisions relating to fraudulent and wrongful trading.

A key feature of the amendment is the introduction of a creditor-initiated insolvency resolution process for specified categories of corporate debtors. The Act also introduces more structured timelines for liquidation and dissolution proceedings.



## Benefits of Insolvency and Bankruptcy Code (Amendment) Act, 2026



-  Eases burden on judicial system
-  Establishes a timebound framework
-  Protects interests of stakeholders
-  Ensures efficient resolution process
-  Promotes ease of doing business
-  Strengthens credibility & speed
-  Improves chance of recovery
-  Balances interests of creditors

Source: Ministry of Law & Justice and Insolvency & Bankruptcy Board of India

Overall, the amendment seeks to make the insolvency framework more time-bound, predictable and resolution-oriented while retaining the core structure of the Insolvency and Bankruptcy Code, 2016.

### Major Changes in the Amendment Act of 2026

Instead of introducing a new framework, the Amendment Act of 2026 addresses gaps that became visible over time in the principal act of 2016. The following major changes includes:

#### Making the Law Clearer and More Precise

**Earlier:** Certain terms and concepts under the Insolvency and Bankruptcy Code, 2016 were either undefined or open to interpretation. This often resulted in litigation and procedural delays during insolvency proceedings.

**Now:** The amendment provides specific definitions for terms such as “service provider”, “avoidance transaction” and “fraudulent or wrongful trading”. A “**service provider**” has been defined to include insolvency professionals, insolvency professional agencies, information utilities and other notified persons registered with the IBBI.

The law also clarifies the meaning of “**security interest**”. It states that a security interest will exist only where it arises through an agreement or arrangement between parties. Security interests created merely by operation of law have been excluded from the definition.

The amendment also defines “**avoidance transactions**”. These include transactions where creditors are unfairly preferred, assets are transferred below value, creditors are defrauded or unfair credit arrangements are created. “**Fraudulent or wrongful trading**” has also been separately defined under section 66 of the Principal Act.

#### Ensuring Faster Entry into Insolvency Process

**Earlier:** Although timelines existed for admitting insolvency applications, delays were frequent and often went unexplained. This weakened the time-bound nature of the Code.

**Now:** The Adjudicating Authority must decide **applications within 14 days**. If this timeline is not followed, reasons must be formally recorded. This introduces accountability into the system.

#### Bringing Discipline to Withdrawal of Cases

**Earlier:** Cases could be withdrawn even at advanced stages of the process. In some instances, this happened after significant time leading to wastage of effort already invested.

**Now: Withdrawal is now restricted. It cannot occur before the CoC is constituted.** It is also barred after resolution plans are invited. This prevents disruption at critical stages. The change brings stability and protects stakeholder interests throughout the process.

#### Strengthening the Moratorium Protection

**Earlier:** There were **gaps in how the moratorium operated**, particularly in cases involving guarantees. Creditors could sometimes initiate parallel actions through indirect routes.

**Now:** The amendment clarifies that the moratorium also applies to such situations. This **ensures that guarantees cannot be used to bypass the insolvency process**. The company undergoing resolution is given a more secure environment, free from parallel recovery proceedings.

#### Improving Process Efficiency and Access to Information

**Earlier:** Delays in **appointing resolution professionals** and lack of cooperation from key stakeholders often slowed down the process. In many cases, crucial information was not readily available.

**Now:** The amendment **simplifies the appointment process for resolution professionals**, reducing initial delays. It expands the obligation to cooperate, requiring employees, promoters, and other associated persons to assist throughout the process. With faster appointments and improved information access, the resolution process becomes more competent and less reliant on voluntary cooperation.

#### **Advancing the Role of Creditors Across All Stages**

**Earlier:** The CoCs played a central role during resolution, but its influence diminished significantly once the liquidation phase commenced. This led to a disconnect in decision-making across stages.

**Now:** The amendment extends the role of creditors into the liquidation stage. They are empowered to supervise the conduct of liquidation and even replace the liquidator where necessary. Creditors remain in control throughout the lifecycle of the insolvency process. This continuity improves oversight and ensures that decisions remain aligned with recovery objectives.

#### **Ensuring Accountability for Past Transactions**

**Earlier:** Transactions involving unfair transfers of assets, preferential treatment to certain creditors or fraudulent conduct were often examined separately from the main insolvency process. This created uncertainty regarding continuation of such proceedings after resolution or liquidation.

**Now:** The amendment clarifies that proceedings relating to avoidance transactions and fraudulent or wrongful trading can continue even after completion of the insolvency resolution or liquidation process.

The law also allows creditors, members or partners to approach the Adjudicating Authority if such transactions are not reported by the resolution professional or liquidator.

#### **Expanding the Asset Base for Resolution**

**Earlier:** The resolution process largely focused on the assets of the corporate debtor. This limits the recovery in cases where such assets were insufficient.

**Now:** The amendment **allows assets of guarantors to be included in the resolution process, subject to approval by creditors and certain conditions**. By widening the pool of assets, the chances of recovery improve, especially in complex financial structures involving guarantees.

#### **Ensuring Fair Treatment of All Creditors**

**Earlier:** Dissenting creditors often felt that resolution plans did not treat them fairly, leading to disputes and litigation.

**Now:** The law now clearly provides that dissenting creditors will receive at least the lower of the liquidation value or the amount receivable under the resolution plan if proceeds of such plan are distributed as per the priority waterfall under Section 53. This brings greater fairness and reduces conflicts, making resolution plans more acceptable to all parties.

### **Making Resolution Plans More Practical and Enforceable**

**Earlier:** Even after **approval, resolution plans** faced challenges and issues related to licences, regulatory approvals, and past liabilities which created uncertainty.

**Now:** The amendment allows phased approval of plans, protects licences and regulatory permissions, and clarifies how past claims are treated. Resolution plans become more workable in real situations, increasing the likelihood of successful revival of businesses.

### **Providing Flexibility Before Liquidation**

**Earlier:** Once the process moved towards liquidation, there was limited scope to reconsider resolution, even if new possibilities emerged.

**Now:** The amendment **allows one-time restoration of the resolution process within defined timelines before liquidation is finalised**. Viable businesses get an additional opportunity for revival, preventing premature liquidation.

### **Making Liquidation More Structured and Time-Bound**

**Earlier:** Liquidation proceedings often lacked clear timelines and consistent oversight, leading to prolonged closure processes.

**Now:** The amendment introduces structured timelines, clearer roles, and improved supervision during liquidation. Even when resolution fails, the exit process becomes faster and more orderly.

### **Introducing a New Creditor-Led Insolvency Process**

**Earlier:** All insolvency processes required formal admission by the adjudicating authority, which could add to delays at the initial stage.

**Now:** A new mechanism allows creditors to initiate insolvency directly, subject to defined approval thresholds and procedural safeguards. The process is also time-bound. This introduces flexibility and reduces dependency on formal admission stages, making the system more responsive.

### **Towards A Stronger Insolvency Framework**

Over the past decade, the Insolvency and Bankruptcy Code, 2016 has reshaped India's insolvency resolution framework. It introduced a more structured and creditor-driven approach towards financial distress. The framework also evolved through implementation experience, judicial interpretation and legislative reforms.

The Insolvency and Bankruptcy Code (Amendment) Act, 2026 represents the next stage of this evolution. The amendment seeks to improve procedural certainty and strengthen timelines. It also aims to enhance the effectiveness of insolvency resolution and liquidation proceedings. Together, these reforms support a more efficient and predictable insolvency framework in India.

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