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Rewriting the Rules of Resolution: The Insolvency and Bankruptcy Code (Amendment) Act, 2026 and What It Changes

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Introduction

India's insolvency framework has, since the enactment of the **Insolvency and Bankruptcy Code in 2016**, been a work in continuous progress. A decade of implementation has revealed structural gaps that courts, practitioners, and the Insolvency and Bankruptcy Board of India have long flagged for legislative intervention.

Those structural gaps include:

- Delays in adjudication
- Ambiguity around group company proceedings
- Limited pathways for smaller distressed entities
- A liquidation process that too often resulted in destruction rather than preservation of value

The pressure for reform has been compounded by the growing complexity of cross-border insolvencies and an urgent national interest in completing thousands of stalled real estate projects whose failure has left homebuyers stranded across the country.

Against this backdrop, Parliament enacted the **Insolvency and Bankruptcy Code (Amendment) Act, 2026** (No. 6 of 2026), which received Presidential assent on 6 April 2026. The Ministry of Corporate Affairs thereafter issued a commencement notification on 22 May 2026 bringing the bulk of the Amendment's provisions into force with effect from 26 May 2026.

The Amendment is the most comprehensive overhaul of the Code since its enactment, touching the corporate insolvency resolution process, the liquidation framework, avoidance transactions, personal insolvency, and the regulatory architecture of the IBBI.

Most significantly, it introduces an entirely new resolution mechanism, the **Creditor-Initiated Insolvency Resolution Process**—and for the first time empowers the Central Government to frame a Group Insolvency framework and Cross-Border Insolvency rules. This article analyses the key changes, their legal underpinnings, and their significance for Indian insolvency practice.

Table of contents

- Introduction
- Background and Context
- Key Legislative Changes
  - Creditor-Initiated Insolvency Resolution Process (Chapter IV-A)
  - Group Insolvency Framework (Chapter VA)
  - Reformation of the Liquidation Process
  - Streamlining Procedural Timelines and Adjudicatory Discipline
  - Avoidance Transactions and Fraudulent Trading
  - Enhanced Regulatory and Penalty Architecture
- Significance of the Amendment
- Conclusion

Background and Context

The **Insolvency and Bankruptcy Code, 2016** was conceived as a market-driven, time-bound framework that would replace the fragmented insolvency regime inherited from the Companies Act and the Sick Industrial Companies Act. Over the years, the Code evolved through successive amendments in 2017, 2018, 2019, and 2021, each addressing specific pressure points identified through litigation and operational experience.

However, several structural questions had remained unresolved: the treatment of group companies in insolvency, a dedicated pathway for smaller corporate debtors, the alignment of creditor rights across secured and unsecured classes, and a coherent framework for cross-border insolvency.

The 2026 Amendment emerged from extensive consultations by the IBBI, recommendations of the **Insolvency Law Committee**, and the legislative record of Bill No. 107-F of 2025. The Bill was passed by both Houses of Parliament and assented to by the President on 6 April 2026.

The commencement notification dated 22 May 2026 brought **56 of the Amendment's 72 sections** into force from 26 May 2026. The remaining provisions, particularly those relating to the new Creditor-Initiated Insolvency Resolution Process under Chapter IV-A and the Group Insolvency framework under Chapter VA, await separate notification, as they require subordinate legislation to operationalise.

The sheer breadth of the Amendment reflects the legislative acknowledgment that the Code, while far-reaching, had developed pressure points that judicial interpretation alone could not fully address. The amendments span definitional clarifications, procedural timelines, new resolution pathways, reformed liquidation governance, enhanced penalties, and new institutional architecture for both domestic and cross-border insolvency.

The commencement notification itself is notable for what it *excludes*. Section 40 introduces the new Creditor-Initiated Insolvency Resolution Process under Chapter IV-A, and Section 42 introduces the Group Insolvency framework under Chapter VA, but neither has been brought into force as of 26 May 2026.

This staged commencement signals that while the legislative architecture for these mechanisms is now in place, the Government intends to allow time for the regulatory infrastructure (rules, regulations, and designated benches) to be established before these provisions are activated.

Key Legislative Changes

The 2026 Amendment introduces changes across **five broad themes**, each of which carries independent legal and practical significance:

1. Creditor-Initiated Insolvency Resolution Process (Chapter IV-A)
2. Group Insolvency Framework (Chapter VA)
3. Reformation of the Liquidation Process
4. Simplifying of Procedural Timelines and Adjudicatory Discipline
5. Enhanced Regulatory and Penalty Architecture

Creditor-Initiated Insolvency Resolution Process (Chapter IV-A)

The first and most structurally significant change is the introduction of the **Creditor-Initiated Insolvency Resolution Process (CIRP)** under the new Chapter IV-A, comprising Sections 58A through 58K. This mechanism permits notified classes of financial institutions to initiate a resolution process for eligible corporate debtors without approaching the Adjudicating Authority at the threshold.

The key procedural steps are as follows:

1. The initiating financial creditor must obtain the approval of creditors representing at least **51% in value** of the relevant class.
2. The corporate debtor must be given at least **30 days** to make representations.
3. A Resolution Professional is appointed, who then makes a **public announcement** that triggers the commencement of the process.
4. The process runs for **150 days**, extendable once by up to 45 days.

Management of the corporate debtor remains with its board during this period, subject to the Resolution Professional's oversight and right to reject board resolutions. If no plan is approved or if the process fails, the Adjudicating Authority converts it into a standard CIRP.

Notably, a **moratorium is not automatic**—it requires a separate application by the Resolution Professional and confirmation by the Adjudicating Authority. This mechanism is designed for smaller, less-complex distressed entities where the full CIRP apparatus may be disproportionate, and it preserves the debtor-in-possession model while giving creditors direct control over the initiation of resolution.

Group Insolvency Framework (Chapter VA)

The insertion of **Chapter VA (Section 59A)** is equally consequential, even though it is not yet in force. For the first time, the Code legislatively acknowledges that corporate groups, defined as two or more corporate debtors interconnected by control or significant ownership (26% or more voting rights), may need coordinated insolvency proceedings.

The provision empowers the Central Government to prescribe rules for:

- Common benches
- Coordinated committees of creditors
- Common insolvency professionals
- Inter-creditor agreements binding on participating entities
- Treatment of coordination costs

The definition of "control" under the Explanation to Section 59A is notably broad, covering management rights, shareholder agreements, voting agreements, and articles of association in addition to shareholding.

This framework, once operationalised, will directly address the structural challenge that the Supreme Court had to resolve through the corporate veil doctrine in *Alpha Corp Development Private Limited v. Greater Noida Industrial Development Authority* (Civil Appeal No. 1526 of 2023, decided 5 May 2026).

Reformation of the Liquidation Process

The second major theme is the **reformation of the liquidation process**. The key changes include:

- **Section 21(11)** now requires the Committee of Creditors to supervise the liquidation process, extending its governance role beyond CIRP into liquidation.
- A new **Section 34A** enables the CoC to replace a liquidator mid-process by a 66% vote.
- The resolution professional who conducted the CIRP is now **expressly barred** from being appointed as liquidator for the same corporate debtor.
- A new **sub-section 33(1A)** permits the CoC, by a 66% vote, to apply to restore the CIRP before a liquidation order is passed, once, providing a last-resort pathway away from liquidation if a viable resolution plan emerges late.
- **Section 54** now mandates completion of the liquidation process within 180 days from the liquidation commencement date, extendable by 90 days, with an express dissolution mechanism for situations where the CoC decides to dissolve rather than liquidate.

These reforms collectively shift the liquidation process from a largely creditor-passive, liquidator-driven exercise to one under **meaningful creditor supervision**.

Streamlining Procedural Timelines and Adjudicatory Discipline

The third theme is the **simplifying of procedural timelines** and adjudicatory discipline. Key reforms include:

- Across Sections 7, 9, 10, 12A, 31, 33, and 54, the Amendment introduces express **14-day and 30-day timelines** within which the Adjudicating Authority must pass orders, with a mandatory requirement to record reasons in writing for any delay.
- **Section 61(6)** requires the NCLAT to dispose of appeals within three months.
- The revised **Section 12A** tightens the withdrawal mechanism by prohibiting withdrawal after the first invitation for resolution plans has been issued, and by requiring 90% CoC approval for any withdrawal.
- The Adjudicating Authority is empowered to give the CoC **notice to rectify defects** in a resolution plan before rejecting it outright, reducing the incidence of plan rejections on technical grounds.

Avoidance Transactions and Fraudulent Trading

The fourth theme concerns **avoidance transactions and fraudulent trading**. The key changes are:

- The definitions of "avoidance transaction" and "fraudulent or wrongful trading" are now expressly inserted into **Section 5**.
- **Section 47** is substituted with a broadened provision allowing creditors, members, or partners to apply directly to the Adjudicating Authority for avoidance orders where the liquidator or resolution professional has failed to act.
- The applicable look-back period for avoidance transactions is clarified to run from the **"initiation date" to the "insolvency commencement date,"** resolving an ambiguity that had generated litigation.
- **Section 26** is reformulated to confirm that avoidance proceedings survive the completion or closure of the CIRP or liquidation process.

Enhanced Regulatory and Penalty Architecture

The fifth theme is **enhanced regulatory and penalty architecture**. The principal changes include:

- Sections 74 and 76, which had carried criminal penalties for certain contraventions, are omitted and replaced by a reformed **Section 235A**, which gives the Adjudicating Authority civil penalty powers of up to three times the loss or unlawful gain caused, or up to five crore rupees where the loss or gain is not quantifiable.
- New **Sections 67B and 67C** introduce specific penalties for moratorium violations and operational creditor non-disclosure, respectively.
- A new **Section 64A** permits penalties of up to two crore rupees for frivolous or vexatious proceedings.
- The IBBI's disciplinary mechanism is restructured, with dedicated Disciplinary Committees, NCLAT appeal rights, and an upgraded show-cause process under the revised **Section 219**.

Significance of the Amendment

The 2026 Amendment represents a **legislative coming-of-age** for the Indian insolvency framework. By introducing the Creditor-Initiated Insolvency Resolution Process, Parliament has provided a faster, less adversarial, and management-preserving pathway for viable but distressed smaller enterprises, a gap that practitioners had long identified as a barrier to early resolution.

The emphasis on debtor cooperation combined with creditor control reflects a deliberate policy choice to encourage resolution before distress becomes irreversible.

The **Group Insolvency framework**, even in its as-yet-unactivated form, sends a clear signal that Parliament has recognised the limitations of treating each entity in a corporate group as an isolated legal unit when insolvency proceedings are underway. The legislative architecture closely tracks the UNCITRAL Legislative Guide on Insolvency Law's recommendations on enterprise group insolvency, positioning India to align its domestic framework with international best practices.

Alongside the new **Section 240C**, which empowers the Government to frame cross-border insolvency rules, the Amendment marks a decisive step toward India's integration with global insolvency norms.

The **procedural reforms**—mandatory timelines, rectification opportunities before rejection, and CoC supervision of liquidation, address the chronic delay and governance deficits that have undermined the Code's stated objective of time-bound resolution. The empirical track record of the Code has shown that CIRP timelines routinely exceed the statutory 330-day ceiling.

The explicit recording-of-reasons requirement and the NCLAT's new 90-day disposal mandate inject institutional accountability that the framework had previously lacked. The reforms to avoidance transactions and the **shift from criminal to civil penalties** for most contraventions will make enforcement more predictable, proportionate, and commercially sensible.

Finally, the insertion of **Section 31(5)** and the reformulation of **Section 31(6)**—protecting licences, permits, and clearances granted to the corporate debtor from suspension or termination post-plan approval, and extinguishing pre-approval claims against the corporate debtor's assets, significantly strengthen the **clean-slate principle** that is essential to making resolution plans commercially viable for resolution applicants.

These provisions draw from and codify judicial developments, providing greater certainty for investors and acquirers.

Conclusion

The Insolvency and Bankruptcy Code (Amendment) Act, 2026 is the **most far-reaching reform** of India's insolvency architecture since the Code's original enactment. Its provisions (spanning a new creditor-led resolution process, a statutory group insolvency framework, reformed liquidation governance, tightened timelines, recalibrated penalties, and cross-border insolvency infrastructure) collectively address the most persistent structural weaknesses of the existing regime.

The staged commencement of key provisions, particularly the Creditor-Initiated Insolvency Resolution Process and the Group Insolvency framework, reflects the Government's recognition that legislative architecture alone is insufficient without commensurate regulatory and judicial infrastructure.

As the IBBI frames the necessary regulations, as designated benches are established, and as practitioners develop familiarity with the new mechanisms, the true impact of this Amendment will progressively unfold.

What is already clear is that Parliament has signalled an **unambiguous commitment** to making India's insolvency framework more efficient, more equitable, and more aligned with international standards, a commitment that will have lasting consequences for creditors, investors, corporate debtors, and the broader Indian economy.

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