



UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

LEGISLATION TRACKER

Insolvency and Bankruptcy Code, 2016

27 March 2026

SUBJECTS COVERED

ECONOMY

CURATED & WRITTEN BY

**Bharat Choudhary**

UPSC Educator & Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)**ALSO FROM THE CREATOR****BharatNotes**Free UPSC notes, MCQs, PYQ analysis. **100% Free.**bharatnotes.com →**ADVERTISE****Advertise with Ujjari**

Reach thousands of UPSC aspirants daily.

epicbharat@gmail.com

ACT NUMBER YEAR ENACTED

Act No. 31 of 2016 2016

REPLACES

SICA 1985, Recovery of Debts Due to Banks and Financial Institutions Act 1993, SARFAESI Act 2002 (partially), Presidency Towns Insolvency Act 1909, Provincial Insolvency Act 1920

KEY PROVISIONS

- 1 Time-bound insolvency resolution: 180 days (extendable by 90 days, total cap 330 days including litigation)
- 2 Establishes National Company Law Tribunal (NCLT) as adjudicating authority for corporate insolvency
- 3 Insolvency and Bankruptcy Board of India (IBBI) as the regulator for insolvency professionals, agencies, and information utilities
- 4 Committee of Creditors (CoC) with voting share proportional to debt — requires 66% majority to approve resolution plan
- 5 Minimum default threshold of Rs 1 crore to initiate Corporate Insolvency Resolution Process (CIRP)
- 6 Waterfall mechanism for distribution of liquidation proceeds (Section 53)
- 7 Pre-packaged insolvency framework for MSMEs (Chapter IIIA, inserted 2021)

BACKGROUND

The Insolvency and Bankruptcy Code, 2016 (IBC) was enacted on May 28, 2016, based on the recommendations of the Bankruptcy Law Reforms Committee (BLRC) chaired by T.K. Viswanathan (November 2015). Before the IBC, India's insolvency framework was fragmented across multiple laws — the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA); the Recovery of Debts and Bankruptcy Act, 1993 (RDDB Act); the SARFAESI Act, 2002; and the Companies Act, 2013 — leading to overlapping jurisdictions, delays of 4-5 years on average, and low recovery rates of approximately 25 cents to the dollar.

The IBC consolidated and replaced this patchwork with a single, unified code applicable to companies, LLPs, partnership firms, and individuals. It introduced a creditor-in-control model (replacing the debtor-in-possession system under SICA) where the management of the corporate debtor is transferred to a Resolution Professional during the insolvency process. The Code was designed to maximise the value of assets of the corporate debtor, promote entrepreneurship, ensure credit availability, and balance the interests of all stakeholders.

India's ranking in the World Bank's Ease of Doing Business — Resolving Insolvency parameter improved from 136th (2014) to 52nd (2020) after the IBC's implementation. As of December 2024, the IBC has resolved over 890 cases through resolution plans, resulting in recovery of approximately Rs 3.4 lakh crore, and has been the single largest contributor to NPA resolution for Indian banks.

KEY CONCEPTS

- **Corporate Insolvency Resolution Process (CIRP):** The process initiated upon default, where the corporate debtor's management is replaced by a Resolution Professional and the Committee of Creditors invites and evaluates resolution plans — must be completed within 330 days (Section 12)
- **Committee of Creditors (CoC):** Comprises all financial creditors with voting rights proportional to their admitted debt — decides on the resolution plan by a 66% vote (reduced from 75% by 2018 Amendment) (Section 21)
- **Resolution Professional (RP):** Registered insolvency professional who manages the affairs of the corporate debtor during CIRP, constitutes the CoC, invites resolution plans, and presents them for CoC approval (Section 22-25)
- **Information Utility (IU):** Entity registered with IBBI to collect, collate, authenticate, and disseminate financial information of debtors — National E-Governance Services Limited (NeSL) is the sole IU currently (Section 210-215)
- **Insolvency and Bankruptcy Board of India (IBBI):** Regulatory body established under Section 188 to regulate insolvency professionals, insolvency professional agencies, information utilities, and oversee the insolvency resolution process
- **Liquidation Waterfall (Section 53):** Priority order for distribution in liquidation: (1) insolvency resolution costs and secured creditors with relinquished security interest; (2) employee wages (24 months) and secured creditors; (3) unsecured financial creditors; (4) government dues (2 years); (5) remaining debts; (6) preference shareholders; (7) equity shareholders

IMPORTANT PROVISIONS

Section 7 — Application by Financial Creditor: A financial creditor (bank, NBFC, bondholder) may file an application before NCLT for initiation of CIRP when a corporate debtor defaults on a minimum of Rs 1 crore (raised from Rs 1 lakh by notification in March 2020). The default must be established through records of the

information utility or other evidence.

Section 9 – Application by Operational Creditor: An operational creditor (supplier, service provider, employee, government for statutory dues) may initiate CIRP after issuing a demand notice (Form 3/4) and waiting 10 days for payment or dispute notification. If no payment or valid dispute notice is received, the operational creditor may file with NCLT.

Section 12 – Time Limit for CIRP: CIRP must be completed within 180 days from the date of admission, extendable by 90 days. The 2019 Amendment inserted Section 12(3) capping the total period at 330 days (including time spent in litigation). If no resolution plan is approved within this period, the NCLT shall order liquidation.

Section 29A – Eligibility of Resolution Applicants: Inserted by the 2018 Amendment to prevent promoters of defaulting companies from regaining control. Disqualified persons include: wilful defaulters, those with NPA accounts for 1 year or more, convicted persons, disqualified directors, those prohibited by SEBI, and connected persons of any of the above.

Section 53 – Liquidation Waterfall: Prescribes the priority order for distribution of assets during liquidation. Government dues rank below financial creditors and employee wages — this was upheld by the Supreme Court in the Swiss Ribbons case as a conscious legislative choice to incentivise credit flow.

Section 240A – MSMEs: Special provisions for micro, small, and medium enterprises — Section 29A disqualification does not apply to MSME promoters (they can bid for their own company). Chapter IIIA (inserted 2021) provides a pre-packaged insolvency resolution process (PPIRP) for MSMEs with defaults between Rs 10 lakh and Rs 1 crore, allowing the debtor to remain in control while resolving insolvency.

LANDMARK JUDGMENTS

Swiss Ribbons Pvt. Ltd. v. Union of India (2019): The Supreme Court upheld the constitutional validity of the IBC. Key holdings: (1) The Act does not violate Article 14 — the distinction between financial and operational creditors is based on intelligible differentia; (2) Section 29A (barring promoters) is valid as it prevents backdoor entry by errant promoters; (3) CoC's commercial wisdom in approving resolution plans deserves deference and NCLT/NCLAT should not interfere with commercial decisions; (4) The waterfall mechanism placing government dues below financial creditors is constitutionally valid.

Essar Steel India Ltd. (CoC v. Satish Kumar Gupta, 2019): The Supreme Court (5:0) held that the CoC has the authority to decide the distribution of amounts among creditors (including operational creditors) as part of the resolution plan, and NCLT cannot modify the commercial terms. The Court also held that the 330-day limit is mandatory and not merely directory.

Jaypee Infratech Ltd. Case (2021): The Supreme Court directed that homebuyers (allottees) are financial creditors under Section 5(8)(f) (as amended by 2018 Amendment) and are entitled to be part of the CoC. This was a landmark for protecting over 20,000 Jaypee homebuyers and established the principle that allottees who have paid amounts against the promise of a property are lenders.

Vidarbha Industries Power Ltd. v. Axis Bank (2022): The Supreme Court held that admission of CIRP under Section 7 is not mandatory even when default is established — NCLT retains discretion to reject the application if it finds that the debt is disputed or the application is premature. This introduced judicial discretion into what was earlier considered a mandatory admission process.

RECENT AMENDMENTS / DEVELOPMENTS

IBC (Amendment) Bill, 2025 (Introduced August 12, 2025): The Insolvency and Bankruptcy Code (Amendment) Bill, 2025 was introduced in the Lok Sabha on August 12, 2025 to address procedural delays, uncertainty in recovery outcomes, and ambiguity from judicial judgments. Key proposals: (1) **Creditor-Initiated Insolvency Resolution Process (CIIRP)** — an alternative to CIRP that may be initiated only by specified financial creditors, out-of-court, with at least 51% (by value of debt) of notified financial creditors agreeing; during CIIRP, management remains with the debtor subject to RP oversight; must conclude within 150 days (extendable by 45 days); (2) **Cross-border insolvency** — enabling provision empowering the Central Government to prescribe rules for administering cross-border insolvency proceedings; (3) **Group insolvency** framework for resolution of corporate groups.

IBC (Amendment) Act, 2021 — Pre-Packaged Insolvency for MSMEs: Inserted Chapter IIIA providing for Pre-Packaged Insolvency Resolution Process (PPIRP) for corporate debtors classified as MSMEs. Key features: debtor remains in possession, resolution plan must be approved by 66% CoC within 120 days, minimum default threshold of Rs 10 lakh, and the process is less adversarial and cost-effective than full CIRP.

IBC (Amendment) Act, 2020 — COVID-19 Moratorium: Section 10A was inserted to suspend initiation of CIRP for defaults occurring between March 25, 2020 and March 25, 2021 (COVID-19 period). This prevented a flood of insolvency filings during the pandemic-induced economic disruption.

S&P Global Rating Upgrade (December 2025): S&P Global Ratings upgraded India's insolvency regime from "Group C" to "Group B" on December 3, 2025, noting that average recovery rates have improved from 15-20% under the pre-IBC regime to approximately 30%, while resolution timelines have reduced from 6-8 years to about 2 years.

Performance Data (as of June 2025): 8,492 CIRPs admitted since inception; approximately 1,905 cases ongoing; resolved cases yielded recoveries of about 33% of admitted claims and 171% of liquidation value. The recovery rate improved from 28.3% in FY 2023-24 to 36.6% in FY 2024-25 (per Economic Survey 2025-26). Average resolution time approximately 602 days (still well above the 330-day statutory limit) — about 78% of ongoing CIRPs have been continuing for more than 270 days. Fully liquidated companies yielded recoveries equivalent to 90% of liquidation value.

UPSC RELEVANCE

CIRP timeline (180+90 days, 330-day cap), Rs 1 crore minimum default, CoC 66% voting threshold, Section 29A disqualification, IBBI as regulator, NCLT as adjudicating authority, Section 53 waterfall priority, homebuyers as financial creditors **Mains GS-3:** *IBC as economic reform, NPA resolution and banking sector health, creditor-in-control vs. debtor-in-possession, MSME pre-packaged insolvency, cross-border insolvency gap, impact on Ease of Doing Business ranking, credit culture transformation* **Interview:** *“Has the IBC achieved its objective of resolving insolvency in a time-bound manner? What reforms are needed to address the 330-day deadline being routinely exceeded?”*

RELATED TERMS

[Nclt](#)[Corporate Governance](#)



CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)[Read Full Article on Ujyari](#) →<https://ujyari.com/legislation/insolvency-bankruptcy-code-2016/>

ALSO FROM THE CREATOR

BharatNotes

Free UPSC study platform — subject-wise notes across all 4 GS papers, Prelims MCQs, Mains answer frameworks, PYQ analysis & progress tracking. **100% Free • No Login Required.**

[Start Preparing](http://bharatnotes.com) → bharatnotes.com

📌 OPPORTUNITY

Advertise with Ujyari

Reach **thousands of serious UPSC & State PCS aspirants** daily through our PDFs, website, and social channels.

Ideal for: Coaching institutes • EdTech platforms • Book publishers • Exam prep apps

[✉ epicbharat@gmail.com](mailto:epicbharat@gmail.com)

Write to us for rates & media kit

Free UPSC & State PCS Current Affairs · ujyari.com · bharatnotes.com