

Lok Sabha passes Insolvency and Bankruptcy Code (Amendment) Bill, 2025; Introduces a Creditor-Initiated Insolvency Resolution Process (CIIRP) that allows for out-of-court commencement of insolvency proceedings

Seeking to address procedural delays and interpretational issues that the Insolvency and Bankruptcy Code, has faced, the **Lok Sabha passes Insolvency and Bankruptcy Code (Amendment) Bill, 2025 on March 30, 2026**, removes the liquidator's powers with respect to admitting/rejecting claims and determining their value. It also provides the committee of creditors (CoC) the power to appoint or remove the liquidator and supervise the liquidation process.

The Bill introduces a Creditor-Initiated Insolvency Resolution Process (CIIRP) that allows for out-of-court commencement of insolvency proceedings by select financial institutions. Further, the debtor remains in control of the company during CIIRP. The Bill empowers the central government to frame rules related to group insolvency and cross-border insolvency proceedings.

Key updates:

1. The Code states that NCLT may admit CIRP if the default is proven, the application is complete, and no disciplinary proceedings are pending against proposed RP. It requires NCLT to pass an order within 14 days of receiving the application. The Bill makes it mandatory to admit the application when these conditions are met. It specifies that: (i) no other grounds can be considered to reject an application, (ii) NCLT must record reasons in writing if no order is passed within 14 days, and (ii) records from information utility will be sufficient proof of default.
2. The Bill allows withdrawal of an insolvency application only after the CoC has been constituted and before the first invitation for resolution plans. Such withdrawal would require the approval of 90% of the CoC. Currently, withdrawals are permitted even before the constitution of CoC, and after first invitation of resolution plans. The Bill also allows withdrawal of voluntary liquidation by a special resolution of shareholders and, if required, a resolution of creditors of two-third in value.
3. The Bill empowers the CoC to supervise liquidation. Presently, a stakeholder consultation committee (SCC) is constituted with all creditors, employees and even shareholders/partners during liquidation. The liquidator is required to consult the SCC on key decisions. However, their advice is not binding on him. The Bill also provides that the RP will not be appointed as the liquidator automatically. The liquidator will be appointed on the proposal of the CoC. CoC may also replace the liquidator.
4. The Bill adds that NCLT must pass the order for liquidation within 30 days from the date of the application or intimation. It also specifies that liquidation proceedings

must be completed in 180 days, extendable by up to 90 days. Further, voluntary liquidation proceedings must be completed within one year.

5. The Bill clarifies that 'security interest' excludes security interest created by virtue of provisions in law. Further, government dues do not have the status of 'secured creditor'. A security interest is the legal right a creditor has over a debtor's asset(s) that serve as collateral.
6. The Bill introduces an alternative process called Creditor-initiated Insolvency Resolution Process (CIIRP). CIIRP is different from CIRP in the following manner: (i) it may be initiated only by specified financial creditors, (ii) it is to be initiated out-of-court, with at least 51% (by value of debt) of the notified financial creditors agreeing to the initiation, and (iii) during CIIRP, management of the company will remain with the debtor, subject to oversight by the RP. CIIRP must be concluded within 150 days, extendable by up to 45 days. CoC may decide at any time to convert the CIIRP into CIRP and seek an order from the NCLT for that conversion.
7. The Bill contains an enabling provision empowering the central government to prescribe rules for administering and conducting cross-border insolvency proceedings.
8. The Bill empowers the central government to formulate rules for conducting group insolvency proceedings. The rules may provide for a common bench for such debtors, coordination between the proceedings, common insolvency professionals, and a committee of CoCs of the debtors.
9. The Bill enables a creditor, who holds a security interest over a guarantor's asset and has taken possession of that asset under any law, to transfer that asset as part of the corporate debtor's CIRP. This can only be done with the approval of the CoC. Where the guarantor is also undergoing insolvency or bankruptcy proceedings, approval from the guarantor's creditors would also be required.

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