

Regulatory Hotline

January 24, 2018

BANKRUPTCY CODE AMENDMENT: PARLIAMENT CONFIRMS BIDDING RESTRICTIONS

INTRODUCTION

In order to address the vexed issue of eligibility of certain class of promoters to bid for projects, Government of India promulgated the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 ("IBC Ordinance"). An ordinance was promulgated as Parliament was not in session. The ordinance amended the Insolvency and Bankruptcy Code, 2016 ("Bankruptcy Code") and, amongst other things, ostensibly put certain safeguards to prevent unscrupulous persons from misusing or vitiating provisions of the Bankruptcy Code. Please refer to our analysis on the IBC Ordinance [here](#).

Since an ordinance ceases to operate at the expiration of six weeks from the reassembly of the both Houses of the Parliament and as certain representations had been made on the IBC Ordinance, the Government introduced the Insolvency and Bankruptcy Code (Amendment) Bill, 2017 ("IBC Bill"). The IBC Bill was passed by Lok Sabha on December 29, 2017 and Rajya Sabha on January 2, 2018 and presidential assent was received on January 18, 2018 ("Amendment Act"). Recently, apprehensions had been raised on the Bankruptcy Code on the ground that it restricts or bars certain specified persons and / or prescribing certain eligibility criteria from submitting a resolution plan or participating in the acquisition process of the assets of a company at the time of liquidation¹. The Amendment Act has been passed to address these apprehensions and imposes restrictions on persons (who have demonstrated misconduct or are otherwise undesirable) to participate in the resolution or liquidation process, and gain or regain control of the corporate debtor. Accordingly, the objectives of the Amendment Act are, among others, as follows: (i) to facilitate phased implementation of the provisions for corporate persons, individuals and partnership firms; (ii) to provide clarity on persons who can submit a resolution plan; (iii) to enable the resolution professional, with the approval of the committee of creditors, to specify the eligibility conditions for submission of eligibility conditions etc.

The Amendment Act has repealed the IBC Ordinance and will be deemed to come force on November 23, 2017 i.e. the day on which the IBC Ordinance was promulgated. Our analysis of the changes introduced by the Amendment Act vis-a-vis the IBC Ordinances are as under:

ANALYSIS:

Our analysis on the Amendment Act can be found [here](#).

CONCLUSION

The Amendment Act and the IBC Ordinance were designed to strengthen the insolvency resolution process and bar certain ineligible persons from participating in the resolution process. However, the market's reaction to the Ordinance and several challenges indicate that stringent provisions of the Ordinance may be counter-productive².

While exclusion of AIFs from the definition of connected persons may hint at the legislature's intent of excluding financial / strategic investors, the inclusion of PAC under Section 29A may have far reaching consequences on such investors. The Government has also formed a committee to further review and improve the implementation of the Bankruptcy Code and further changes in the Bankruptcy Code to provide for operation ease and clarity is expected.³

The Insolvency Ordinance has already been challenged before the Punjab and Haryana High Court⁴ and Gujarat High Court⁵ where the courts have read down provisions of the IBC Code to uphold its constitutionality. Given the very clear economic objective behind IBC and the growing NPAs, it will be interesting to see if the Amendment Act opens gates to litigation in near future. Further, clarity on operational aspect of the Amendment Act vis-a-vis micro, small and medium enterprises is still awaited.

— Swati Sharma, M.S. Ananth & Sahil Kanuga

You can direct your queries or comments to the authors

¹ <http://www.livemint.com/Industry/Bmk1Tp5GVXWU2R6ePIYoM/IBC-ordinance-may-bar-clean-bidders-too-say-stakeholders.html>

² <http://www.thehindu.com/business/Economy/ibc-ordinance-will-affect-pending-suits/article20724711.ece>

³ <http://www.livemint.com/Industry/i417k3rY025x0eT0NAa2H/IBC-ordinance-Govt-asks-panel-to-review-amendment-to-Insolv.html>

⁴ <http://www.livemint.com/Companies/osFPCEM3hJGRqimibYvUL/Insolvency-code-Recorders-and-Medicare-Systems-challenges-o.html>

⁵ Shivam Water Treaters Private Limited vs. Union of India & Ors. Special Civil Application No. 19808 of 2017

DISCLAIMER

Research Papers

Fintech

May 05, 2025

Medical Device Industry in India

April 28, 2025

Clinical Trials and Biomedical Research in India

April 22, 2025

Research Articles

2025 Watchlist: Life Sciences Sector India

April 04, 2025

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Wyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

April 01, 2025

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

**Vaibhav Parikh, Partner, Nishith
Desai Associate on Tech, M&A, and
Ease of Doing Business**

March 19, 2025

**SIAC 2025 Rules: Key changes &
Implications**

February 18, 2025