

The Role of Chartered Accountants in Strengthening India's Insolvency Ecosystem

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A Decade of IBC: Transforming India's Credit Ecosystem

The enactment of the Insolvency and Bankruptcy Code, 2016 (IBC) marked a turning point in India's economic and financial governance framework. Widely regarded as one of the most significant structural reforms of recent times, the Code sought to replace a fragmented and inefficient insolvency regime with a unified, modern, and market-oriented framework for resolving financial distress. Before the advent of the IBC, insolvency proceedings were often characterised by protracted litigation, multiplicity of forums, and substantial destruction of enterprise value. Businesses languished for years in various recovery and restructuring mechanisms, resulting in deterioration of assets, loss of employment, diminished investor confidence, and low recoveries for creditors. Frequently, by the time proceedings concluded, the underlying enterprise had ceased to exist as a viable going concern.

Against this backdrop, the IBC introduced a comprehensive and time-bound mechanism aimed at facilitating resolution of distressed businesses while preserving economic value. By placing creditors at the centre of the decision-making process and prioritising resolution over liquidation, the Code brought about a fundamental shift in the treatment of financial distress in India. More importantly, it established a framework that promotes accountability, commercial discipline, and efficient allocation of capital, thereby strengthening the foundations of the country's credit ecosystem.

Over the past decade, the IBC has evolved beyond a statutory framework into a key institution of economic governance. Its influence extends far beyond insolvency proceedings, shaping borrower behaviour, lending practices, investment decisions, and corporate governance standards. The Code has contributed significantly to enhancing confidence in India's financial architecture by providing a credible mechanism for addressing business failure and financial stress. Simultaneously, judicial pronouncements and regulatory refinements have helped develop a mature and evolving insolvency ecosystem capable of responding to changing economic realities and stakeholder expectations.

The achievements of the Code are reflected in its outcomes. As on March 2026, resolution plans had been approved in 1,419

cases, resulting in realisations exceeding ₹4 lakh crore for creditors. Significantly, these recoveries amounted to approximately 95 per cent of the fair value and 167 per cent of the liquidation value of the resolved entities, demonstrating the effectiveness of resolution as a value-preserving mechanism. Since inception till March 2026, 8,987 cases were admitted under the Code, of which 7,102 had reached closure. Of these concluded cases, 4,099 companies, representing nearly 58 per cent of closures, were rescued through resolution, settlement, withdrawal, appeal, or review processes, while 3,003 proceeded to liquidation. Notably, around 42% of the cases that ended with resolution plans had previously been with the Board for Industrial and Financial Reconstruction or were defunct, underscoring the Code's role in facilitating the revival of financially distressed enterprises.

One of the most transformative effects of the IBC has been its impact on credit culture. The Code has altered the dynamics between borrowers and creditors by creating a credible consequence for persistent default. Faced with the possibility of losing management control upon admission into insolvency proceedings, many debtors have chosen to resolve financial stress at an early stage. This behavioural change is evident from the fact that more than 30,000 matters involving nearly ₹14 lakh crore were settled prior to admission under IBC. These settlements illustrate the significant deterrent value of the Code and underscore its role as an instrument for promoting consensual resolution outside formal insolvency proceedings.

The broader impact of this behavioural shift is visible in the banking sector. The improvement in asset quality witnessed over

the past decade cannot be viewed in isolation from the insolvency reforms introduced through the IBC. The gross non-performing asset ratio of the banking system, which stood at nearly 11.8 per cent in 2017, declined to approximately 2.1 per cent by September 2025. While several factors contributed to this improvement, the discipline induced by the insolvency framework and the increased willingness of borrowers to engage with creditors played an important role in strengthening the overall credit environment.

India's insolvency framework has also earned increasing recognition at the international level. Reflecting improvements in recovery mechanisms and resolution efficiency, S&P Global Ratings upgraded India's insolvency regime from Group C to Group B. This recognition is indicative of the progress made in creating a more effective and predictable resolution framework. Recovery rates have improved considerably when compared with the pre-IBC era. While creditors historically recovered only around 15–20 per cent of their claims through traditional mechanisms, average recoveries under the IBC have increased to nearly 30 per cent. Equally important, the time required for resolution has reduced substantially from an average of six to eight years under earlier frameworks to approximately two years under the Code.

The effectiveness of the IBC is further reflected in the Reserve Bank of India's Report on Trends and Progress of Banking in India 2024–25. The report identifies the Code as the most successful recovery channel for stressed assets among the various mechanisms available to banks. Of the total recoveries of 1.04 lakh crore made by Scheduled Commercial Banks during the year, approximately 0.54 lakh crore, accounting for more than half of the

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total recoveries, was realised through the IBC process. The report also notes an increase in recovery rates under the Code from 28.3 per cent in the previous year to 36.6 per cent in 2024–25, reaffirming its growing effectiveness in addressing stressed assets and improving balance sheet health within the banking sector.

The impact of the IBC extends beyond recovery statistics and financial outcomes. Studies examining its behavioural effects point towards a significant improvement in repayment discipline among borrowers. Research conducted by the Indian Institute of Management, Bangalore observed a steady increase in the proportion of loan accounts transitioning from overdue status to normal classification following the introduction of the Code. This behavioural shift was also reflected in a sharp reduction in the average number of days an account remained overdue, which declined from 248–344 days to just 30–87 days.

Evidence of the Code's success is also visible in the post-resolution performance of rescued businesses. A study undertaken by the Indian Institute of Management, Ahmedabad in 2025 examined the

long-term outcomes of companies resolved under the IBC and reported substantial improvements across key business indicators. During the five years following resolution, average sales increased by nearly 89 per cent, while asset turnover ratios improved by approximately 131 per cent, reflecting enhanced operational efficiency and business recovery. The average capital expenditure rose by approximately 106 per cent in five years after, reflecting renewed investment and economic viability. The study further noted a remarkable increase in the aggregate market valuation of resolved listed entities, which rose from nearly ₹2.8 lakh crore to about ₹9 lakh crore over five years, signalling strengthened investor confidence and improved long-term growth prospects following successful resolution.

Role of Chartered Accountants under IBC

The success of the IBC, however, cannot be attributed solely to legislative design. It is equally a product of the professionals who operationalise the framework and translate statutory objectives into practical outcomes. Among these professionals, Chartered Accountants occupy a uniquely significant position. Indeed, the insolvency ecosystem is deeply dependent upon accounting expertise, financial analysis, valuation, auditing, forensic examination, restructuring advisory and regulatory compliance—areas that lie at the very core of the Chartered Accountancy profession.

(i) Chartered Accountants qualified to register as IPs: The contribution of Chartered Accountants to the insolvency framework begins at the very foundation of the process. Recognising the specialised financial expertise required to administer insolvency proceedings, the IBC permits Chartered Accountants possessing the prescribed experience

and qualifications to register as Insolvency Professionals. More than 50 per cent of the Insolvency Professionals registered with IBBI are Chartered Accountants, reflecting their significant presence in the profession. Insolvency Professionals constitute the backbone of the insolvency ecosystem. The effectiveness of the Code is, to a considerable extent, dependent upon their competence, independence and professional judgement. Once appointed as an Interim Resolution Professional or Resolution Professional, the Insolvency Professional assumes control of the affairs of the corporate debtor, manages its operations as a going concern, preserves and protects its assets, constitutes the Committee of Creditors and facilitates the entire resolution process. Each of these responsibilities requires an exceptional understanding of financial statements, business operations, stakeholder interests and commercial realities which are competencies that Chartered Accountants are uniquely equipped to provide.

(ii) Maintaining Books of Accounts:

The role of Chartered Accountants becomes particularly critical during the initial stages of insolvency proceedings. One of the first challenges confronting an Insolvency Professional is obtaining a clear and reliable picture of the financial affairs of the corporate debtor. In this endeavour, statutory auditors and accounting professionals often provide the essential starting point. The Code empowers the Insolvency Professional to access books of account, financial records and audit documents maintained by auditors and accountants of the corporate debtor. These records form the basis upon which the financial position of the distressed enterprise is reconstructed and assessed. Without accurate accounting information, the insolvency process itself would struggle to achieve transparency and credibility.

The importance of accounting expertise extends further into the management of the corporate debtor during the Corporate Insolvency Resolution Process. In many cases, the financial records of distressed companies are incomplete, outdated or inadequately maintained. Chartered Accountants are engaged to assist Insolvency Professionals in reconstructing books of account, ensuring compliance with statutory obligations and maintaining accounting records throughout the resolution process. Their involvement enables continuity in financial reporting and facilitates informed decision-making by stakeholders.

(iii) Verification of Claims: One of the most consequential responsibilities during insolvency proceedings is the verification and collation of claims. The composition of the Committee of Creditors, the determination of voting shares and the ultimate distribution of proceeds are all dependent upon the accurate admission of claims. This exercise often involves reconciliation of complex financial records, examination of supporting documentation and assessment of claims. Chartered Accountants, by virtue of their training in accounting, auditing and financial reconciliation, play a pivotal role in ensuring that claims are verified accurately and fairly.

(iv) Audits during CIRP: Beyond claim verification, Chartered Accountants contribute significantly to financial transparency and governance during the insolvency process. Recent amendments to the insolvency framework permit the Committee of Creditors to direct audits of the Corporate Debtor, where considered necessary. Given their expertise in auditing and assurance services, Chartered Accountants are naturally positioned to undertake such assignments. Their findings often provide critical insights that

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assist creditors in making informed decisions during the process.

(v) Identification of Avoidance Transactions:

Perhaps one of the most specialised contributions of Chartered Accountants within the insolvency ecosystem relates to the identification of avoidance transactions. The Code contains elaborate provisions empowering Resolution Professionals to examine whether the corporate debtor has entered into preferential, undervalued, extortionate or fraudulent transactions during the relevant look-back period. The identification of such transactions requires far more than a superficial review of records. It demands examination of financial statements, tracing of fund flows, analysis of related-party transactions and assessment of commercial rationale. Chartered Accountants, particularly those possessing forensic and investigative expertise, play a central role in this exercise. Their work not only facilitates recovery of value for creditors but also reinforces accountability and deters misconduct by errant managements.

(vi) Evaluation of Resolution Plans:

The contribution of Chartered Accountants becomes even more

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visible when the process enters the stage of evaluating resolution plans. The objective of the IBC is not merely to recover dues but to preserve viable businesses and maximise enterprise value. Resolution plans frequently involve complex restructuring proposals encompassing debt restructuring, mergers, demergers, asset transfers, operational turnaround strategies and fresh investments. The preparation and evaluation of such plans require rigorous financial modelling and commercial assessment. Chartered Accountants provide critical support in analysing business viability, projecting future cash flows, assessing financial feasibility and evaluating implementation strategies. Their expertise enables stakeholders to distinguish between commercially sustainable proposals and those that may be unlikely to succeed in practice.

(vii) Valuation of Assets: Valuation constitutes another area where Chartered Accountants make substantial contributions. Accurate valuation is indispensable for informed decision-making by creditors. The determination of fair value and liquidation value provides the benchmark against which resolution plans are assessed. Under the regulatory framework, members

of the Institute of Chartered Accountants of India possessing the prescribed qualifications and experience are eligible to register as valuers for the asset class "Securities or Financial Assets".

(viii) Contribution to Liquidation Proceedings:

The significance of Chartered Accountants is equally evident in liquidation proceedings. While the Code prioritises resolution, liquidation remains necessary where revival is not commercially feasible. Liquidation involves identification and preservation of assets, verification of stakeholder claims, realisation of value and distribution of proceeds in accordance with the statutory waterfall mechanism. Each of these activities requires meticulous accounting and financial management. Chartered Accountants assist liquidators in maintaining accounts, ensuring compliance and safeguarding stakeholder interests throughout the liquidation process.

Concluding Remarks

The broader success of the IBC has highlighted an important truth: insolvency resolution is not solely a legal process; it is fundamentally an exercise in financial and commercial decision-making. Law establishes the framework, but the effectiveness of the framework depends on professionals capable of interpreting financial realities, preserving value and building stakeholder confidence. Chartered Accountants bring precisely these capabilities to the insolvency ecosystem. Their professional training emphasises objectivity, analytical rigour, ethical conduct and public interest i.e., qualities that are indispensable in situations involving competing stakeholder interests and significant economic consequences.

As India advances towards the vision of Viksit Bharat 2047, the importance of an efficient insolvency regime

will continue to grow. Economic expansion, increasing credit penetration, globalisation of business operations and the emergence of complex financial structures will inevitably create new challenges in the management of financial distress. Addressing these challenges will require professionals who possess not only technical expertise but also strategic insight and commercial judgement. Chartered Accountants are exceptionally well positioned to meet this requirement.

The journey of the IBC over the last decade has demonstrated that insolvency resolution is ultimately about preserving value, restoring confidence and enabling economic renewal. Chartered Accountants have been active participants in this journey from its inception. Whether as Insolvency Professionals, auditors, valuers, forensic experts, advisors or restructuring specialists, they have contributed significantly to the development of a robust and credible insolvency ecosystem. Their role extends beyond compliance and process management; they serve as custodians of transparency, accountability and value maximisation. As the insolvency framework continues to evolve, Chartered Accountants will remain central to its success, helping transform financial distress into opportunities for revival and ensuring that the objectives of the Code are translated into meaningful economic outcomes.

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