INSTITUTE OF INSOLVENCY PROFESSIONALS
(Subsidiary of ICSI and Insolvency Professional Agency of IBBI)

IBC UPDATE-3/2026 (11/09/2026)

"IBBI circular on Due Diligence by Insolvency Professionals regarding Misuse of the IBC Framework"

Dear Professional Member,

Greetings from **ICSI Institute of Insolvency Professionals (ICSI IIP)**!

We wish to draw your attention to a recent circular issued by the Insolvency and Bankruptcy Board of India (IBBI) on 09th September 2026, summarised below for your immediate reference and compliance.

Key Highlights

- **Background**

  - IBBI has received inputs from law enforcement and regulatory agencies indicating that, in certain cases, the IBC framework is being misused for purposes unconnected with genuine insolvency resolution or liquidation — such as reducing tax liability, effecting closure or merger of companies without regulatory scrutiny, circumventing investigations, prosecutions or penalties under other statutes, and monetising or ring-fencing assets

- **Key Indicators Flagged for IP Vigilance**

  Given their direct access to the books, records and CoC proceedings of the Corporate Debtor (CD), IPs are considered well-placed to notice red flags such as:

  - CIRP triggered by, or debt assigned shortly before filing to, a single (non-institutional) creditor who then dominates the CoC
  - A cluster of CDs with common promoters, directors or addresses, or inter-lending, admitted into CIRP within a proximate period, with overlapping CoC composition
  - Minimal competitive participation in the resolution process, or a common resolution applicant recurring across connected CDs

- Realisation to creditors grossly disproportionate to admitted claims, unsupported by proper valuation
- Linkage of the CD/group to an existing order or proceeding of another regulator or enforcement agency concerning fraud
- Substantial related-party loans, advances or investments — despite no operations — being written off or shown as doubtful/NIL without adequate basis

Note: These indicators are illustrative, not exhaustive, and none is conclusive by itself. Some may also occur in cases of genuine financial distress.

- **Action Expected from IPs**
  - On noticing one or more indicators, undertake further enquiry based on records/information reasonably available during the CIRP/liquidation
  - Assess indicators holistically and contextually to determine whether the process may be serving a fraudulent or malicious purpose
  - Where reasonable grounds so suggest, file an application before the Adjudicating Authority (AA) setting out:
  - the indicators noticed
  - the material relied upon
  - the reasons for forming such a view
  - seeking appropriate directions from the AA

Link of the IBBI Circular

For complete details, please refer to the full circular available on the IBBI website: https://ibbi.gov.in/uploads/whatsnew/832e58d2371048cebf5c2a43a55e7dfc.pdf

Members are encouraged to stay updated on these regulatory developments as they have a direct bearing on ongoing and future assignments under the Code.

We hope the above update is useful in your professional endeavours.

Warm regards,
Team ICSI Institute of Insolvency Professionals (ICSI IIP)

This communication is being circulated for information and awareness of insolvency professionals and other stakeholders.