Clean Slate Doctrine under the Insolvency and Bankruptcy Code (IBC)

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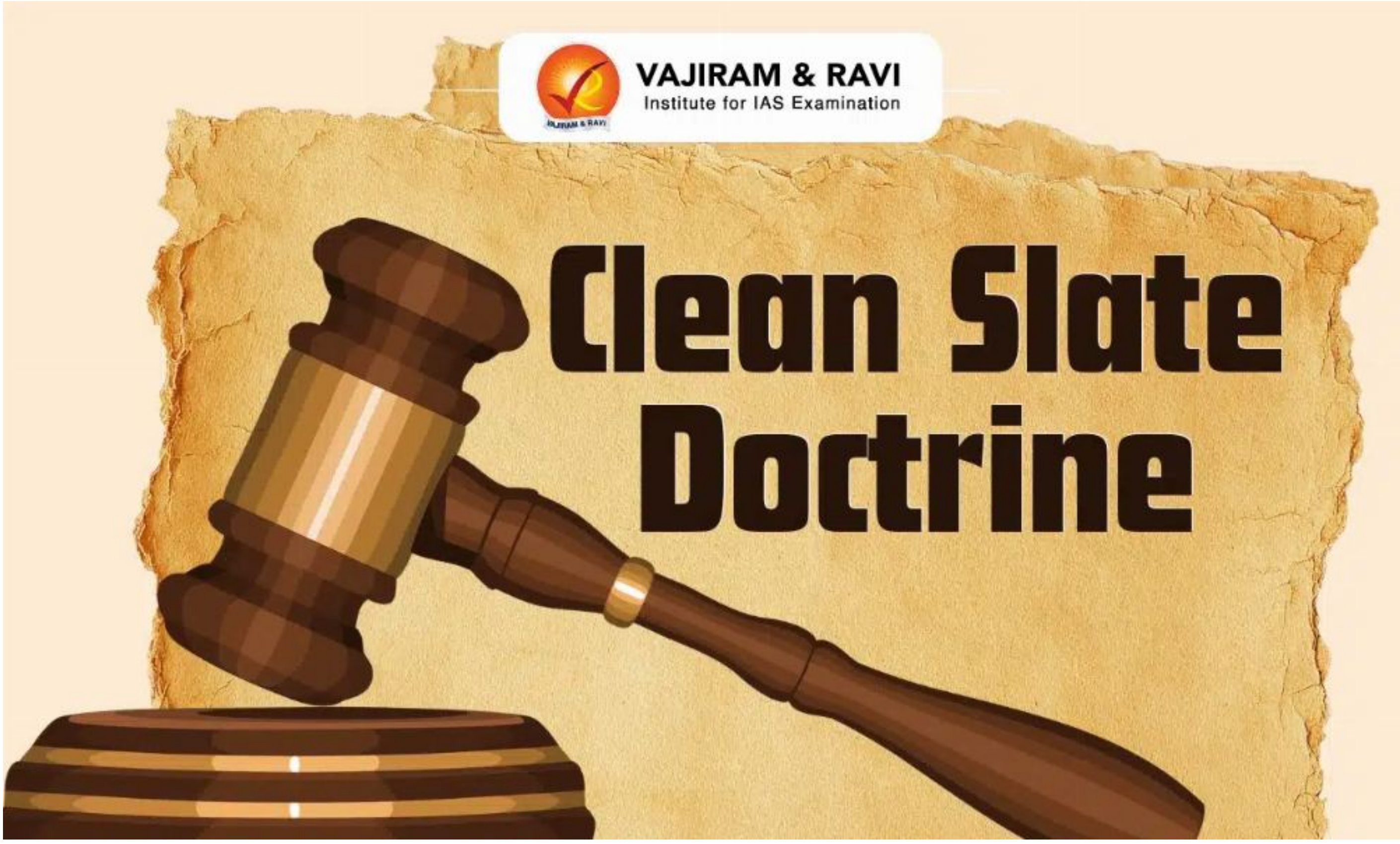

Clean Slate Doctrine Latest News

The Supreme Court’s recent judgment in Ujaas Energy reminds us that the Clean Slate Doctrine is directed at extinguishing claims and not necessarily every legal consequence that may flow from the facts underlying those claims.

About Clean Slate Doctrine

- It is a key legal principle **embedded** in the **Insolvency and Bankruptcy Code, 2016** (“IBC”), which plays a pivotal role in the corporate insolvency process in India.
- The doctrine suggests that **once a company successfully undergoes a Corporate Insolvency Resolution Process (CIRP)** and is **taken over by a new buyer**, the **new owner** should **not be held accountable for any of the company’s pre-existing debts, penalties, or liabilities.**
- It means that **once a resolution plan is approved,** the **successful resolution applicant acquires the corporate debtor free from past liabilities** that are not included in the approved resolution plan.

- This principle is designed to **give the company a fresh start,** essentially, a **"clean slate"** free from the baggage of its prior financial troubles.
- The doctrine is primarily **based on Section 31 of the IBC, 2016**.
- Several landmark **Supreme Court judgments have reinforced** the Clean Slate Doctrine:
  - **Committee of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta & Ors. (2020):**
    - The SC emphasized that one of the primary objectives of the IBC is to streamline insolvency procedures in India and bring all claims under a unified system.
    - The SC ruled that **once a resolution plan is approved** by the **National Company Law Tribunal** (NCLT), any and **all previous liabilities,** including debts and penalties, are **extinguished.**
    - This means **no party can initiate or continue any legal proceedings** related to a **claim that is not included in the approved resolution plan.**
  - **Arun Kumar Jagatramka v. Jindal Steel and Power Ltd. (2021):** The Court **reiterated that the approval of a resolution plan** under Section 31 of IBC **results in a clean slate,** allowing the successful resolution applicant to run the business without past encumbrances.
  - **Ghanashyam Mishra and Sons Pvt. Ltd. v. Edelweiss Asset Reconstruction Co. Ltd.** (2021)
    - This ruling clarified that once a resolution plan is approved, all claims that are not part of the plan stand extinguished.
    - It further held that **no stakeholder, including government authorities**, can **continue proceedings** for claims not included in the resolution plan.
  - **Ebix Singapore Pvt. Ltd. v. CoC of Educomp Solutions Ltd. (2021):** The Supreme Court emphasized that **even stakeholders who were not direct participants in the CIRP are bound** by the consequences of an **approved resolution plan.**
  - **Vaibhav Goel and Anr. v. DCIT and Anr. (2025):** The Court reaffirmed that **no belated claims can be introduced once the resolution plan is approved by NCLT.**

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