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Corporate Laws (Amendment) Bill 2026: A New Era for Buy-Backs

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The Corporate Laws (Amendment) Bill 2026 proposes many changes to the buy-back regime under the Companies Act, 2013, which are intended to facilitate the management of corporate capital by providing companies with greater flexibility[1]*. In this article, I will discuss the significant changes proposed to be made to section 68 of the Act:1) the proposed removal of restrictions on limits on buy-backs applicable to certain classes of companies; 2) the introduction of multiple buy-backs during a single financial year; 3) simplifying certain procedural requirements (e.g., the removal of the need for an affidavit to support a company's solvency declaration); 4) extending the buy-back regime to include modern employee-type compensation instruments; 5) converting the previous criminal penalties related to buy-backs into a civil penalties framework. These changes should be consistent with the overall objective of improving the ease of doing business in India and modernising India's corporate financing practices; enabling corporations to return surplus capital to shareholders in a more cost-effective manner and providing companies with more flexible ways of managing their treasury operations should result in increased shareholder value and greater corporate operational efficiency. However, while these reforms may provide significant advantages, there are also serious questions regarding their impact on creditor rights, excessive capital extraction, and uncertainty surrounding the definition of "prescribed classes" of corporations. In conclusion, the Bill represents a progressive change toward a more flexible buy-back regime, but it will only work well when rules are made carefully and enforced with balance.*

[1] Corporate Laws (Amendment) Bill 2026

Keywords: *corporate, law, amendment, bill, buyback.*

INTRODUCTION: WHY BUY-BACK MATTERS IN CORPORATE FINANCE?

A company's most important tool in corporate finance is buy-backs since they can return excess value to shareholders without fundamentally altering its capital structure as dividends do[2] and without converting shareholder investments into invariable claims or inventory as rights issues do. In practice, buy-backs are often used to:

(a) Restructure capital;

(b) Distribute excess cash;

(c) Consolidate ownership of companies; and

(d) Indicate to the market that management believes the shares of the company are undervalued by the market.

The Corporate Laws (Amendment) Bill 2026 has proposed that the law should become less rigid and more flexible in respect of buy-backs for certain prescribed categories of companies[3]. The explanatory note to the Bill states that tender offers for buy-backs provide an efficient way for companies to return surplus cash to shareholders and that the overall framework should be usable by more companies. The direction of policy is significant since buy-back regulations represent the intersection between corporate autonomy and creditor interests. Companies require some latitude to operate their capital efficiently[4]. Buy-back transactions have an influence on both the capital base and the ability of the company to continue to meet its commitments to creditors if the buy-back is done without care. The 2026 Bill does not eliminate regulation, but is an effort to recalibrate it. The objective of the reform is to allow for increased flexibility of appropriate company types while still maintaining the principles of the safety nets of solvency, timing, and procedural compliance.

[2] Surabhi Kumari, 'Buy-Back of Securities' (*ICSI*) <https://icsi.edu/media/filer_public/01/b1/01b1cde0-b7ec-4e60-b1d3-cb87ed01774a/article_on_buyback.pdf> accessed 25 March 2026
[3] Corporate Laws (Amendment) Bill 2026
[4] Companies Act 2013, s 68

CURRENT LAW UNDER SECTION 68

Concerning companies (all types) incorporated under the Companies Act 2013 (the Act), section 68 of the Act provides general permission for companies to purchase back their own shares and/or specified securities on terms and conditions as outlined in the Act, which provides for extensive regulatory conditions[5]. For instance, one of these limitations provides that the maximum amount of the buybacks cannot exceed 25% of the aggregate of the paid-up capital and the free reserves of the company[6]. The Act also requires that any buyback must be approved by the company's articles and typically by special resolution, although smaller buybacks generally may be approved by board resolution. Further, under current law, the limits on the issuer's ability to repurchase its own shares and in turn become insolvent, are limited under the debt-to-equity ratio limitation (after any repurchase, the stated ratio of the aggregate amount of secured and unsecured debt to the paid-up capital and free reserves of the company cannot exceed 2 to 1) unless otherwise stated by the Central Government for one or more specific classes of companies).

In addition, all shares and/or specified securities repurchased must be fully paid up. The existing law establishes that commercial flexibility balances with financial discipline through the regulatory requirements that must be fulfilled before completing a buy-back. Regarding procedural issues, the current legislative regime requires that buy-backs can only be completed once a declaration of solvency has been executed by two directors (one of whom must be the managing director, if there is one) and that such declaration is verified by way of an affidavit. You must demonstrate that the company will be able to meet all of its liabilities and will not become insolvent for 12 months following the date of the board's declaration. In addition to the substantive requirements contained in the existing law, the existing legal structure also imposes a standard six-month waiting period. A company cannot make an additional issuance of the same class of shares or securities for a period of 6 months after completing a buy-back (other than in limited circumstances such as bonus issues or discharging pre-existing obligations like employee stock options. Sweat equity or converting the individual's preference shares and/or convertible debentures. The underlying philosophy behind the imposition of this waiting period is to ensure that the buy-back cannot

[5] Companies Act 2013, s 68(1)
[6] Companies Act 2013, s 68(2)(c)

be used as a quick and/or repetitive means of managing capital under the existing legislative regime.

MAIN PROPOSED CHANGES

The Bill proposes two major changes to section 68[7] regarding buy-backs of shares. The most important of these changes allows certain classes of companies to have percentage limits on the total amount they can buy back, determined at the company level rather than at the aggregate level, as has previously been required. As a general rule, the Bill will specify that classes of companies may not exceed a maximum aggregate percentage, and those maximum percentages will be established by rules that can be published by the government in delegated legislation for that class of company.

The second key change is that these same companies will be permitted to make a maximum of two offers to purchase back their own shares from the market during one year, as long as no such offer for purchase back will be made more than six months after the prior offer was completed. This is a considerable change from the existing framework, which generally requires multiple buy-backs, to some extent, to be restricted to a more stringent set of conditions.

The Bill does not require companies to be in a 'prescribed class' and, as such, allows for flexibility regarding what makes a company eligible for this type of transactional activity. By changing the law to move the limitation on usage of the buy-back transaction into rules, the Government has also provided policy-makers additional flexibility with respect to different company classifications, financially strong and weak companies, and possibly other categories in the rules that will be published later. The statute will not have completely removed any limitation; rather, it will move the limitations into the rules and allow for changes to the limitations according to the particular type of company using the rule at the time.

ELIMINATION OF THE AFFIDAVIT REQUIREMENT

In addition, to promote procedural simplification, the Bill proposes removing the phrase 'and verified by an affidavit' from the solvency declaration requirement in sub-section 68.

[7] Companies Act 2013, s 68

Specifically, the Bill proposes that a company is only required to make a solvency declaration without requiring it to be verified by an affidavit; thus, allowing for a company to make a solvency declaration without filing any written documentation. The explanatory note further describes that this deletion of the affidavit verification requirement is intended as a federal and state procedural simplification.

This reform is beneficial by eliminating a formal compliance requirement but still retaining the essence of the solvency test; that is, the business would still have to complete the declaration and satisfy the solvency criteria. It is also changing the evidence process by reducing the formal requirements of evidence of contractual relationships. The Bill is not lessening the underlying discipline of the section, but instead, it is making the process of filing less cumbersome. This is relevant in business because compliance can often be a source of friction, even where the substantive legal requirement is rational. The elimination of the affidavit as a compliance step is an example of compliance reform in that there are still safeguards in place; however, the documentation requirement has been reduced. The Bill's more general objective of facilitating compliance is in accordance with this reform.

EXTENSION TO EMPLOYEE-LINKED SCHEMES

The Bill will enhance the current restrictions of section 68(5)(c)[8]. Currently, a buy-back can occur by acquiring stock from employees as a part of a stock option plan or through a sweat equity arrangement. The Bill seeks to include the phrase 'or pursuant to a scheme of arrangements which are tied to the value of the share capital of a corporation as specified in subsection 1(b), section 62' after the words 'sweat equity.'

This change matters because it indicates that the amendment is not intended solely to repurchase shares in the narrow sense but also acknowledges current employee remuneration packages and the equity instruments linked to employee remuneration. The explanatory notice for the Bill also indicates that the amendment intends to recognise Restricted Stock Units and Stock Appreciation Rights as forms of remuneration for executives to be issued with the approval of Shareholders. While the discussion occurs in the explanatory material as it relates to section 62[9], it supports the same broader theme: that the

[8] Companies Act 2013, s 68(5)(c)
[9] Companies Act 2013, s 62

Bill is modernising the corporate equity toolkit, not simply amending the buy-back threshold.

This is relevant to all listed and unlisted companies as employee equity compensation is now part of retention, alignment and value creation strategies. The Bill's provisions extend the buyback regime to a wider range of employee-linked arrangements and therefore make the law more integrated with current corporate finance and remuneration practices.

PENAL CONSEQUENCES AND THE DECRIMINALISATION ANGLE

The Bill also addresses decriminalisation as a core issue. Section 68(11)[10] currently prescribes a criminal penalty (a person or corporation is guilty of an offence and is subsequently fined) for a company's violation of either s68 or SEBI regulations applicable to s68(2)(f). Each officer responsible for that failure can also be fined in the same range. Therefore, under the current statute, violations are regarded as criminal in nature.

The Bill proposes to change those penalties from being criminal (fines) to non-criminal penalties. The explanatory memorandum makes it clear that if the offence created under the current section is to be decriminalised, the specifically identified "punitive fine" (in s68(11)) should be converted to penalties. This proposal also aligns with the Bill's general intent to change many provisions of the Companies Act, from criminal to civil, with respect to defaulting on any company law provision. From a policy perspective, this is significant, as non-compliance with respect to a share buyback will now be considered more as a regulatory default than criminal behaviour. However, this should not be interpreted as reducing the degree of legal enforcement; penalties are still deemed to be significant amounts and will likely have significant consequences upon non-compliance. The proposed shift will improve the degree to which companies can comply with the current law, while maintaining proportionate civil enforcement mechanisms under the new penalty structure.

The corporate law amendment is taking a meaningful step because buy-back defaults tend to result from procedural or financial issues rather than unethical behaviour. A switch to a penalty system for buy-back defaults more accurately represents the nature of the wrongdoing and is consistent with the broader ease of doing business purpose of the Bill.

[10] Companies Act 2013, s 68(11)

WHY THE REFORM MATTERS COMMERCIALLY?

Commercially, The Bill makes it much easier for a prescribed corporation to implement a buy-back. By allowing a corporation to purchase back more of its paid-up-and-available surplus, there will be greater access to cash and therefore more ability to utilise the buy-back to return capital to its shareholders. This will allow for improved capital/return on capital efficiencies and therefore enable the corporation to adjust its balance sheet to fit the period's changes.

With a more flexible buy-back regime, shareholders will have more options for exit and liquidity. In closely held corporations, a buy-back may be used as a controlled method of reducing the overall concentration of stock ownership or providing a structured exit without introducing additional outside equity investors. In the broader corporate finance sense, the buy-back is faster than many of the other capital-return methods of distributing value. The Bill's goals include the implementation of tender off-buy backs as an efficient method of returning value to the shareholders. Allowing for the potential of two annual buy-backs provides a business with meaningful commercial benefits. Companies can better respond to fluctuations in their cash flow and/or their capital needs more flexibly. As a result, the legal environment surrounding buy-backs treats them as regular tools of cash management, as opposed to events that are only used infrequently, and which must be supported under the rule of law and certain temporal conditions.

The simplified process for declaring solvency also supports this trend. With reduced compliance requirements, there are also reduced transaction costs associated with using buy-backs. As a result, many businesses may rely on buy-backs more frequently where it is economically justified. Thus, the passage of the proposed legislation will not only improve the overall legal framework; it will also affect businesses' practical considerations surrounding managing their capital structure.

RISKS AND LIMITATIONS

There are risks associated with these same reforms. The primary risk pertains to excessive capital withdrawals. A more flexible buy-back regime can be appropriate or inappropriate depending upon how effectively a company manages its available cash resources. This, in turn, has implications with regard to the company's growth, working capital and capacity

for weathering an economic downturn. Therefore, the importance of debt and solvency protections cannot be overstated.

Second, creditor protection is important. Due to a buy-back reducing the amount of capital that can protect creditors, the courts must confirm that solvency declarations will not be treated as documents only. Although eliminating the affidavit requirement does not eliminate the need for honest and reliable assessments of solvency, it does place a greater focus on the integrity of the declaration itself. Therefore, the final regulations will be very important.

The third item of concern is uncertainty about the "prescribed classes." The Bill gives the final parameters of the relaxation of the prescribed classes to regulations, which provides flexibility, but it also means that only after the Government establishes the companies to which the prescribed classes will apply and the percentages of the prescribed classes will the true impact of the changes be known. The tighter the rules are drafted, the more targeted and balanced the reforms will be. Conversely, the looser the rules are drafted, the more broadly the relaxation of the prescribed classes will be applied than was intended.

There is an additional concern regarding Board governance. If buy-backs are made too easily, then Boards of directors could choose to prefer financial engineering that focuses primarily on short-term results, rather than investments with long-term value to the company. This is not a reason to oppose the reforms, but is a reason to require careful rule-making and careful judgment of the initiation of a buy-back at the Board level. Flexibility may exist because of the Bill, but the wise use of that flexibility should not be guaranteed.

CONCLUSION

The Corporate Laws (Amendment) Bill 2026 transfers power over buy-backs from very restrictive to more permissive corporate-finance tools under Section 68 by allowing certain types of companies to do two buy-backs per year, allowing companies to increase buy-back amounts according to rules instead of shareholder consent, eliminating the requirement for an affidavit relating to solvency, allowing for additional employee stock plan benefits tied to buy-backs, and converting penalties for violation of section 68 into fines. The net effect is a major overhaul of section 68 of the Companies Act, as is well demonstrated by this amendment.

On the other hand, the Bill continues to provide some cautionary measures. Factors such as solvency, amount of debt, and compliance with procedural requirements remain primary to the overall integrity of the buy-back process, and the actual results of the new buy-back provision will depend upon the final regulations issued and the classifications of companies that will be subject to the new regulations. If the new provision is carefully implemented, it will provide faster, more effective buy-backs that are more in line with modern corporate finance. However, if the new buy-back provision is implemented on too broad a basis, it may undermine the safeguards in place to make buy-backs safe. The strength of the Bill is in its effort to balance the two issues mentioned above.