LAW AND JUSTICE COMMISSION OF PAKISTAN

LAW REFORM REPORT NO. 140

Amendments in the Insolvency Act, 1920
(Relating to sections 9(1)(a), 10(1)(a), 26(1), 61(b), 72(1) and 74)

2026

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Foreword

The Law and Justice Commission of Pakistan, in pursuance of its statutory mandate to examine the laws relating to the administration of justice and to recommend appropriate legislative reforms, has undertaken a review of certain provisions of the Insolvency Act, 1920.

The Insolvency Act, 1920, continues to regulate insolvency proceedings in Pakistan. Although the Act has generally remained functional, several of its provisions prescribe monetary thresholds that were fixed nearly a century ago. These amounts no longer bear any reasonable relationship to present-day economic conditions, the prevailing value of money, or the contemporary scale of commercial and financial transactions. Consequently, the operation of these provisions has become increasingly detached from the realities of modern economic life.

Recognising this anomaly, the Hon'ble Chief Justice of the High Court of Balochistan proposed that the obsolete monetary limits contained in various provisions of the Act should be reviewed and suitably revised. The proposal was considered by the Law and Justice Commission of Pakistan at its 48th meeting held on 11 June 2026. The Commission unanimously agreed that the existing monetary thresholds require legislative revision in order to ensure that the Act remains effective, relevant and capable of achieving its intended objectives.

This Report identifies the provisions requiring amendment, explains the reasons necessitating such reforms, and recommends that appropriate legislative action be initiated by the competent Governments.

It is hoped that the recommendations contained in this Report will facilitate the modernisation of Pakistan's insolvency laws and contribute towards a more effective and efficient legal framework governing insolvency proceedings.

Justice Yahya Afridi
Chairperson
Law and Justice Commission of Pakistan

Background and Rationale for The Proposed Amendment

(In sections 9(1)(a), 10(1)(a), 26(1), 61(b), 72(1) and 74 of the Insolvency Act, 1920)

1. Introduction

The Insolvency Act, 1920, constitutes the principal legislation governing insolvency proceedings of individuals in Pakistan. The Act prescribes the circumstances in which a debtor may seek adjudication as an insolvent, the conditions under which creditors may institute insolvency proceedings, the powers exercisable by insolvency courts, and the legal consequences flowing from an order of adjudication.

Like many statutes enacted during the colonial period, the Insolvency Act contains numerous monetary thresholds intended to distinguish matters warranting judicial intervention from those of comparatively insignificant value. At the time of enactment, these thresholds reflected the prevailing economic conditions and served as practical standards for regulating insolvency proceedings.

However, over the course of more than a century, substantial economic transformation, persistent inflation, currency depreciation and significant increases in the value of commercial transactions have rendered many of these statutory amounts obsolete. Monetary figures that were once substantial have now become nominal and no longer fulfil the legislative purpose for which they were originally prescribed.

As a consequence, several provisions of the Act operate on unrealistically low monetary limits, thereby diminishing their practical utility and creating inconsistencies with contemporary economic realities.

2. Background of the Proposal

The proposal for amendment originated from the Hon'ble Chief Justice of the High Court of Balochistan, who drew the attention of the Law and Justice Commission of Pakistan to the obsolete monetary thresholds prescribed in several provisions of the Insolvency Act, 1920.

During the 48th meeting of the Commission held on 11 June 2026, His Lordship explained that the monetary limits contained in the Act had remained unchanged for several decades and no longer correspond to prevailing economic realities or the current value of money. It was observed that the statutory thresholds require revision so that the legislation may continue to operate effectively and consistently with present-day financial conditions.

3. Existing Legal Framework

The Insolvency Act, 1920 establishes a comprehensive statutory mechanism governing insolvency proceedings. The Act regulates, inter alia—

- presentation of insolvency petitions by debtors and creditors;
- conditions for adjudication of insolvency;
- administration and distribution of the insolvent's estate;
- rights and obligations of creditors;
- discharge of insolvents; and
- offences and miscellaneous procedural matters.

Various provisions of the Act prescribe minimum monetary limits as conditions for initiating proceedings or exercising statutory powers. These monetary limits were intended to ensure that insolvency proceedings were invoked only in matters involving debts of sufficient significance.

Although the legal principles embodied in these provisions continue to remain sound, the monetary figures themselves have become outdated.

4. Need for Revision of Monetary Thresholds

The Commission considers revision of the prescribed monetary thresholds necessary as they no longer reflect contemporary economic realities. Enacted in 1920, the Insolvency Act prescribes monetary limits that were appropriate at the time but have become obsolete owing to inflation, the depreciation in the purchasing power of money, and the substantial increase in the value of commercial transactions.

The continued retention of these outdated thresholds diminishes the practical effectiveness of the Act by permitting insolvency proceedings in matters involving comparatively insignificant sums, contrary to the legislative purpose underlying the relevant provisions.

The proposed amendments are limited to updating the prescribed monetary limits. They do not alter the substantive rights or liabilities of debtors and creditors or the legal principles governing insolvency proceedings. Their sole object is to modernise the Act by aligning its pecuniary thresholds with present-day economic conditions, thereby promoting greater certainty, proportionality and effective administration of the insolvency regime.

Provisions Requiring Amendment

(Sections 9(1)(a), 10(1)(a), 26(1), 61(b), 72(1) and 74 of the Insolvency Act, 1920)

The Commission has identified six provisions of the Insolvency Act, 1920, which prescribe monetary thresholds that have remained unchanged for several decades. These provisions are reproduced below with a brief explanation of the reasons necessitating their revision.

1. Section 9(1)(a)

Section 9(1)(a) prescribes a minimum pecuniary threshold of ***five hundred rupees*** for a creditor to present an insolvency petition against a debtor.

The prescribed monetary threshold was fixed at the time of enactment of the Act and reflected the economic conditions then prevailing. Owing to the passage of time, sustained inflation, depreciation in the purchasing power of money and substantial expansion in commercial activity, the prescribed amount has become wholly unrealistic. The existing threshold is no longer capable of distinguishing between debts of sufficient financial significance and comparatively trivial liabilities.

Revision of the prescribed amount is therefore necessary to ensure that insolvency proceedings continue to be invoked only in cases involving debts of appropriate magnitude, consistent with the legislative object of the provision.

2. Section 10(1)(a)

Section 10(1)(a) prescribes a minimum pecuniary threshold of ***five hundred rupees*** for a debtor to present an insolvency petition.

The existing pecuniary limit was enacted nearly a century ago and has remained unchanged despite fundamental changes in the country's economic conditions. The continued retention of such an outdated amount diminishes the practical utility of the provision and fails to reflect present-day financial realities.

Appropriate revision of the monetary threshold would restore the intended balance between the availability of insolvency relief and the seriousness of the debtor's financial circumstances.

3. Section 26(1)

Section 26(1) empowers the Insolvency Court to award compensation to a debtor where a creditor's insolvency petition is dismissed and the Court is satisfied that the petition was frivolous or vexatious. The amount of compensation that may be awarded is presently capped at ***one thousand rupees***.

The prescribed maximum amount was fixed many decades ago and no longer bears any reasonable relationship to present-day economic conditions or the actual expense, inconvenience and injury that may be suffered by a debtor as a result of frivolous or vexatious insolvency proceedings. Consequently, the existing statutory limit has ceased to serve as an effective deterrent against the institution of such proceedings.

Revision of the prescribed maximum amount is therefore necessary to ensure that the Court retains an effective power to award fair and reasonable compensation commensurate with contemporary economic realities, while preserving the underlying purpose of the provision.

4. Section 61(b)

Section 61(b) accords priority, in the distribution of the insolvent's estate, to the unpaid salary or wages of a clerk, servant or labourer in respect of services rendered to the insolvent during the four months preceding the presentation of the insolvency petition. The amount entitled to such priority is presently limited to ***twenty rupees***.

The prescribed amount was fixed at a time when twenty rupees represented a substantial sum. Owing to inflation and the significant increase in wage levels over the past century, the existing limit has become wholly unrealistic and no longer affords meaningful protection to employees whose wages remain unpaid at the commencement of insolvency proceedings.

Revision of the prescribed amount is therefore necessary to preserve the beneficial object of the provision by ensuring that employees continue to receive an effective measure of priority in respect of their unpaid wages, consistent with present-day economic conditions.

5. Section 72(1)

Section 72(1) makes it an offence for an undischarged insolvent to obtain credit of ***fifty rupees or more*** without disclosing to the creditor that he is an undischarged insolvent.

The prescribed monetary threshold was fixed several decades ago and no longer reflects the present value of money or prevailing commercial realities. In contemporary circumstances, the amount of fifty rupees has become nominal and is incapable of serving as a meaningful threshold for the application of the provision.

Revision of the prescribed amount is therefore necessary to preserve the effectiveness of the provision by ensuring that the statutory obligation of disclosure continues to operate in relation to credit transactions of practical significance, consistent with present-day economic conditions.

6. Section 74

Section 74 empowers the Insolvency Court to order the summary administration of a debtor's estate where it is satisfied that the value of the estate is not likely to exceed ***five hundred rupees***. The provision is intended to facilitate the expeditious and economical administration of insolvency proceedings involving estates of comparatively small value by simplifying the prescribed procedure.

The prescribed pecuniary limit was fixed at the time of enactment of the Act and no longer reflects present-day economic conditions or the current value of money. In view of the substantial increase in property values over the past century, the existing threshold has become wholly unrealistic, with the result that the summary procedure envisaged by the provision is seldom capable of application.

Revision of the prescribed amount is therefore necessary to restore the practical utility of the provision and to ensure that the Court continues to have an effective mechanism for the simplified and cost-efficient administration of insolvency estates of relatively modest value, consistent with contemporary economic realities.

Recommendations of the Commission

After due deliberation, the Commission, at its 48th meeting held on 11 June 2026, unanimously recommended that the obsolete monetary thresholds prescribed in sections 9(1)(a), 10(1)(a), 26(1), 61(b), 72(1) and 74 of the Insolvency Act, 1920, be revised through appropriate legislative amendments to bring them into conformity with present-day economic realities.

Since the Insolvency Act, 1920 is a provincial law and also applies in the Islamabad Capital Territory as a federal law, the Commission resolved that the Secretary, Ministry of Law and Justice, shall undertake the necessary steps for processing the proposed amendments for consideration of the Federal Government in respect of the Islamabad Capital Territory.

The Commission further resolved that the Secretariat of the Law and Justice Commission of Pakistan shall transmit its recommendations to the Provincial Governments for their consideration and initiation of appropriate legislative action within their respective jurisdictions.

Capt. (R) Mushtaq Ahmed
Secretary
Law and Justice Commission of Pakistan