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The MSMED (Amendment) Bill, 2026: Parliament Strengthens Enforcement Against Delayed Payments, and Recasts MSME Classification and Dispute Resolution

The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2026 ("the Bill") was passed by the Rajya Sabha on 3 August 2026 and by the Lok Sabha on 7 August 2026. As of the date of this update, no Presidential assent has been reported, and the Bill has not been notified as an Act. On assent, the amending Act will come into force on such date, or dates, as the Central Government notifies in the Official Gazette; the Bill expressly permits different provisions to be brought into force on different dates. Until such notification, the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act") continues to apply in its present, unamended form. Of the changes that follow, the extension of enforcement to recognise Facilitation Council awards and settlements as a debt under the Insolvency and Bankruptcy Code carries the most immediate consequence for buyers, and is addressed first; the remaining changes follow in the order they appear in the Bill.

1. Awards made recoverable as a debt under the Insolvency and Bankruptcy Code

The single most consequential change for buyers is the new Section 18A. It provides, first, that a mediated settlement agreement or arbitral award under Section 18 (the amended dispute-resolution timeline is addressed at point 6 below) may be recovered as an arrear of land revenue, through the District Collector, Deputy Commissioner or a notified authority, in the jurisdiction where the buyer's assets are situated. Second, and more significantly, it declares that the amount so determined constitutes a valid and legally enforceable debt liable to be recognised under the Insolvency and Bankruptcy Code, 2016. Taken together, these give an MSE supplier a revenue-recovery route and a potential insolvency route to enforce an award, without first converting it into a decree through separate execution proceedings. Buyers would be well advised to treat an MSEFC award, or a mediated settlement reached under Section 18, with the same seriousness as a decree capable of founding insolvency exposure.

2. Section 19 retained in substance, but interim relief to the supplier becomes mandatory

The requirement to deposit 75% of the awarded amount before an application to set aside a decree, award, order or mediated settlement can even be entertained is retained, and is now expressly extended to cover challenges to mediated settlement agreements as well as arbitral awards. The material change lies in the proviso: where the setting-aside application remains pending for more than six months, the court must now order release to the supplier of a sum equivalent to at least 50% of the awarded amount out of the deposit. This was previously a matter of judicial discretion, to be exercised "as it considers reasonable"; it is now a floor the court is required to apply once the six-month mark is crossed. Section 19 also introduces a venue rule that did not exist before; the setting-aside application must now be filed in the court within whose jurisdiction the supplier's registered address, as per its Section 8 filing, is located.

3. Classification delinked from the statute

Section 7 of the MSMED Act presently fixes the investment thresholds for classifying an enterprise as micro, small or medium within the text of the Act itself. The Bill substitutes Section 7(1) to remove these fixed thresholds and instead empowers the Central Government to classify enterprises by notification, having regard to two criteria, investment in plant and machinery or equipment, and turnover. Moving the thresholds into delegated legislation gives the Government greater latitude to revise them without a further amending Act, but it also means that "supplier" status under Chapter V, and therefore eligibility for the Act's payment protections, will need to be verified against subordinate notifications rather than the bare statute going forward.

4. Registration made uniformly voluntary

Section 8 is substituted in its entirety. Under the present provision, filing a registration memorandum is mandatory for a medium enterprise engaged in manufacturing and discretionary for other categories. The substituted section makes registration voluntary across micro, small and medium enterprises alike, through a national digital platform to be notified by the Central Government, with State Governments free to notify parallel State platforms for State-level benefits. This places the existing Udyam Registration architecture on a statutory footing for the first time, rather than leaving it to rest solely on executive notification.

5. Mandatory TReDS settlement for CPSEs, and a linked disclosure duty

A new Section 15A requires every Central Public Sector Enterprise to route settlement of invoices for procurement from micro, small and medium enterprises through a Trade Receivables Discounting System (TReDS) platform authorised by the Reserve Bank of India, with the Central Government empowered to extend the obligation to other notified entities and State Governments empowered to impose an equivalent obligation on State Public Sector Enterprises. A related new Section 22A separately requires CPSEs and other notified entities to disclose the details of invoices routed and settled through TReDS, in a form and manner still to be prescribed, a reporting obligation distinct from, and additional to, the settlement mandate itself.

6. Compressed timelines for mediation and arbitration

Section 18 itself substituted only recently by the Mediation Act, 2023, is amended again to impose fixed timelines that override the general Mediation Act timeline for this class of dispute: mediation before the Micro and Small Enterprises Facilitation Council ("MSEFC") must conclude within 90 days of the date fixed for first appearance; on failure of mediation, the dispute must be referred to arbitration within 30 days; and the resulting award must be made within 90 days of completion of pleadings. The Central Government is also empowered to notify an online mechanism for conducting mediation and arbitration under this section by audio-video and other electronic means. Businesses accustomed to the more open-ended timelines of mediation and arbitration generally will need to plan around this compressed, MSMED-specific schedule whenever an MSE counterparty is involved.

7. More Facilitation Councils, and a mandatory legal member

Sections 20 and 21 are substituted to require State Governments to establish an adequate number of MSEFCs, not merely the existing Council, meeting on a regular basis, with defined infrastructure and manpower support. Each

Council's composition is fixed at three to five members and, for the first time, must include at least one member from the field of law, alongside a Chairperson (now pegged at the rank of Joint Director rather than Director) and representatives of MSE associations.

8. Decriminalisation, replaced by a structured administrative penalty

The existing Section 27, under which contravention of the registration and disclosure obligations attracted fine on conviction, is substituted, and a new Section 27A is inserted. Wilfully furnishing false information in the registration memorandum, or non-compliance with the information-furnishing requirement under Section 26(2), now attracts a warning at the first instance and a penalty of between Rs. 1,000 and Rs. 50,000 for a second or subsequent instance. A buyer's failure to disclose unpaid MSE dues in its annual accounts under Section 22 follows a three-tier escalation of its own, warning, then a penalty of between Rs. 10,000 and Rs. 50,000 for the second contravention, then a fine of between Rs. 50,000 and Rs. 1,00,000 for the third and subsequent contravention. None of this is adjudicated by a criminal court: Section 27A designates the Development Commissioner as the adjudicating officer, subject to a mandatory hearing, with an appeal to the Secretary of the administrative Ministry within 30 days (condonable for sufficient cause) and disposal of the appeal within 60 days. Unpaid penalties are themselves recoverable as an arrear of land revenue, and Section 27(3) provides that the minimum penalty amounts will rise automatically by 10% every three years from the date of commencement, as notified, an escalator worth building into long-term compliance planning.

Effective date and transitional position

None of the foregoing is presently in force. The amendments take effect only from the date, or staggered dates, the Central Government notifies after Presidential assent, and a saving clause preserves actions, notifications and registrations made under the existing Act until they are revoked or superseded by fresh notifications. A significant part of the detail, the classification thresholds, the form and manner of registration and TReDS reporting, the online dispute resolution mechanism, and the procedure before the adjudicating officer under Section 27A, among others, is left to rules yet to be framed. The practical impact of several of these changes will only be clear once those rules, and the commencement notification, are published.

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***Disclaimer**: This update has been prepared for general informational purposes only and does not constitute legal advice. We would be pleased to discuss the implications of this judgment as they may pertain to any specific matter.*