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RBI lets asset recast cos acquire bankrupt firms

ARCs Need To Have Net Worth Of ₹1K Cr To Qualify Under Revamped Insolvency Rules

TIMES NEWS NETWORK

Mumbai: In a major reform in the insolvency process, the RBI has allowed asset reconstruction companies (ARCs) with Rs 1,000-crore net worth to bid for taking over a business undergoing insolvency. The RBI has also mandated new rules aimed at improving the governance and financial health of ARCs, which are companies that extract value from bad loans.

Going by public disclosures, there are currently three ARCs with paid-up capital of over Rs 1,000 crore—Edelweiss, JM and ARCIL.

Another major reform in the new guidelines is that, in case a bank decides to make a clean exit by selling its bad loans for cash, the ARC can now buy by contributing only 2.5% from its own funds with balance from investors. This will allow banks to clean up their books and open up new opportunities for ARCs if they find investors.

"The guidelines have mandated enhanced disclosures and higher governance standards, including increased capital requirements. One sector-positive measure is investment in security receipts (SRs) by ARCs in case cash exit to the seller is reduced to 2.5% of total SRs issued. However, many other important measures for the sector recommended by the ARC committee, like widening the qualified buyer base or seller base to include all regulated entities, are missing," said UV ARC director Hari Hara Mishra.

The other norms aimed at improving governance include requiring credit rating agencies to be retained for at least six rating cycles. Also, in the case of settlement, the ARCs will need to have an independent advisory committee to approve the settlement. ARCs will have to increase their minimum net-owned funds to Rs 200 crore by 2024 and Rs 300 crore by 2026.

ARCs are currently not permitted to commence or carry on any business other than that of securitisation or asset reconstruction. "It has now been decided under the provision of section 10(2) of the SARFAESI Act to permit ARCs to undertake those activities as a resolution applicant (RA) under IBC, which are not specifically allowed under the SARFAESI Act," the RBI said in a notification.

3 ARCs ELIGIBLE CURRENTLY

- Asset reconstruction cos (ARCs) were so far permitted to only carry on the business of securitisation or asset reconstruction to **extract value from bad loans**
- Securitisation means **buying assets from banks** by raising funds from qualified buyers by issuing security receipts (ie, units of bad loans)
- There are currently three ARCs with paid-up capital of over ₹1,000cr — **Edelweiss, JM and ARCIL** — that will be able to buy bankrupt companies

- The has also mandated new rules aimed at improving **governance and financial health** of ARCs
- Another reform is that in case a bank decides to make a clean exit by selling its bad loans for cash, the ARC can now buy by contributing **only 2.5% from its own funds** with the balance coming from investors

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