

Draft Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025

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Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025

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Introduction

In exercise of the powers conferred under Sections 3, 9, 10, 12 and 12A of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002), and of all the powers enabling it in this behalf, the Reserve Bank of India, in order to ensure prudent and efficient functioning of Asset Reconstruction Companies and to protect the interest of investors, hereby issues these Directions for compliance of the same by every Asset Reconstruction Company.

Chapter-I – Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025.
2. These Directions shall come into effect on the day they are placed on the website of the Reserve Bank.

B. Applicability

3. These Directions shall be applicable to every Asset Reconstruction Company (hereinafter collectively referred to as 'ARCs' and individually as an 'ARC') registered with the Reserve Bank under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

C. Definitions

4. In these Directions, unless the context otherwise requires, the terms used herein shall bear the meanings assigned to them below —
 - (1) "Act" means the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002).
 - (2) "Breakup value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company.

(3) “Change in management” means effecting change by the borrower at the instance of ARC in the person who has responsibility for the whole or substantially whole of the management of the business of the borrower and/ or other relevant personnel.

(4) “Date of acquisition” means the date on which the ownership of financial assets is acquired by ARC either on its own books or directly in the books of the trust.

(5) “Deposit” means deposit as defined in the Companies (Acceptance of Deposits) Rules 2014 framed under Section 73 of the Companies Act, 2013.

(6) “Earning value” means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extraordinary and non-recurring items, for the immediately preceding 3 years and further divided by the number of equity shares of the investee company and capitalised at the following rate:

(i) in case of predominantly manufacturing company, 8 percent;

(ii) in case of predominantly trading company, 10 percent; and

(iii) in case of any other company, including non-banking financial company, 12 percent.

Note: If an investee company is a loss-making company, the earning value shall be taken as zero.

(7) “Fair value” means the mean of the earning value and the breakup value.

(8) “Net owned fund” (hereinafter referred to as ‘NOF’) means the amount arrived at by reducing from owned fund, the amounts representing

(i) investments of the ARC in shares of –

(a) its subsidiaries;

(b) companies in the same group;

(c) all other ARCs; and

(ii) the book value of debentures, bonds, outstanding loans and advances made to, and deposits with -

(a) subsidiaries of the ARC; and

(b) companies in the same group,

to the extent such amount exceeds 10 percent of the owned fund.

(9) “Non-performing asset (NPA)” in the books of an ARC means an asset in respect of which:

(i) Interest or principal (or instalment thereof) is overdue for a period of 180 days or more from the date of acquisition or the due date as per contract between the borrower and the originator, whichever is later;

(ii) interest or principal (or instalment thereof) is overdue for a period of 180 days or more from the date fixed for receipt thereof in the plan formulated for realisation of the assets referred to in paragraphs 35 to 39 herein;

(iii) interest or principal (or instalment thereof) is overdue on expiry of the planning period, where no plan is formulated for realisation of the assets referred to in paragraphs 35 to 39 herein; or

(iv) any other receivable, if it is overdue for a period of 180 days or more in the books of the ARC.

Provided that the Board of Directors of an ARC may, on default by the borrower, classify an asset as an NPA even earlier than the period mentioned above (for facilitating enforcement as provided for in Section 13 of the Act).

(10) “Overdue” means an amount which remains unpaid beyond the due date.

(11) “Owned fund” means

(i) the aggregate of

(a) paid up equity capital;

(b) paid up preference capital, to the extent it is compulsorily convertible into equity capital;

(c) free reserves (excluding revaluation reserve);

(d) credit balance in profit and loss account;

(ii) as reduced by-

(a) the debit balance on the profit and loss account;

- (b) miscellaneous expenditure (to the extent not written off or adjusted);
- (c) book value of intangible assets;
- (d) under/ short provision against NPA/ diminution in value of investments;
- (e) over recognition of income, if any; and
- (f) other deductions required on account of the items qualified by the auditors in their report on the financial statements.

Provided that ARC shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.

- (12) “Planning period” means a period not exceeding six months allowed for formulating a plan for realisation of financial assets acquired for the purpose of reconstruction.
- (13) “Standard asset” means an asset, which is not an NPA.
- (14) “Takeover of management” means taking over of the responsibility for the management of the business of the borrower with or without effecting change in management personnel of the borrower by the ARC.
- (15) “Trust” means trust as defined in Section 3 of the Indian Trusts Act, 1882.

5. Words or expressions used but not defined herein and defined in the Act, shall have the same meaning as assigned to them in the Act. Any other words or expressions not defined in that Act shall have the same meaning as assigned to them in the Companies Act, 2013.

Chapter-II – Role of Board, Registration and Related Matters

A. Role of Board and Periodic Review

6. An ARC shall put in place a Board approved policies and establish periodic review mechanisms to ensure sound processes and systems. An illustrative list of such policies to be approved by the Board or a Committee(s) to which powers have been delegated is provided below. The specific aspects to be addressed in these policies are detailed in the relevant paragraphs of these Directions.

(1) **Activities of the ARC:** Taking up the role of Resolution Applicant which may, *inter alia*, include the scope of activities, internal limit for sectoral exposures, etc.

(2) **Financial asset acquisition policy:** Policy shall cover, *inter alia*, procedure for acquisition, types and desirable profile of assets, valuation procedure and plan for realisation of financial asset to ensure that transactions take place in a transparent manner and at a fair price in a well-informed market and the transactions are executed on arm's length basis by exercise of due diligence.

(3) Change in or takeover of the management of the business of the borrower

(4) Rescheduling of debts due from borrowers

(5) **Settlement of dues payable by the borrowers:** Covering aspects such as cut-off date for one-time settlement eligibility, permissible sacrifice for various categories of exposures while arriving at the settlement amount, and methodology for arriving at the realisable value of the security.

(6) Conversion of debt into equity of the borrower entity

(7) Issue of Security Receipts under each scheme formulated by the trust

(8) Broad parameters for utilization of funds raised from Qualified Buyers under such a scheme

(9) Fair Practices Code

(10) **Management fee, expenses and incentives, claimed from trusts under its management:** Indicating, *inter alia*, the quantitative cap / limit on the management fee / incentives under various scenarios

(11) **Outsourcing policy:** Covering, *inter alia*, criteria for selection of such activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities / service providers.

(12) Code of conduct for recovery agents

7. An illustrative list of reviews to be carried out by the Board or a Committee(s) to which powers have been delegated is provided below. The specific aspects to be addressed in these reviews are detailed in the relevant paragraphs of these Directions.

- (1) Compliance of the Fair Practices Code
- (2) Annual Performance Review of MD / CEO and WTD

B. Registration

8. Before commencement of the business of securitisation or asset reconstruction, an ARC shall apply for registration and obtain a certificate of registration (CoR) from the Reserve Bank as provided under Section 3 of the Act.

9. The ARC seeking registration shall submit its application in the application form hosted on the Reserve Bank's website, duly filled in with all the relevant annexures/ supporting documents, to the Chief General Manager-in-Charge, Department of Regulation, Central Office, Reserve Bank of India, Shahid Bhagat Singh Marg, Fort, Mumbai – 400001 or online, through PRAVAAH Portal.

10. An ARC, which has obtained a CoR from the Reserve Bank, can undertake both securitisation and asset reconstruction activities.

11. An ARC shall commence business within six months from the date of grant of CoR by the Reserve Bank. Reserve Bank may grant extension up to twelve months from the date of grant of CoR on receipt of the application from the ARC.

12. Provisions of Section 45-IA, 45-IB and 45-IC of RBI Act, 1934 shall not apply to an ARC registered with the Reserve Bank under Section 3 of the Act.

13. Any entity not registered with the Reserve Bank under Section 3 of the Act may conduct the business of securitisation or asset reconstruction outside the purview of the Act subject to requisite authorisation/ approval.

Explanation: There may be instances wherein banks and other financial institutions undertake certain transactions, which are in the nature of securitisation or asset reconstruction, wherever these are permitted by their respective laws and regulations.

C. Net owned fund

14. To commence the business of securitisation or asset reconstruction, an ARC is required to have a minimum net owned fund of ₹300 crore and thereafter, on an ongoing basis.

15. ARC existing as on October 11, 2022 shall achieve the minimum required NOF of ₹300 crore by March 31, 2026.

16. In case of non-compliance at any of the above stages, the non-complying ARC shall be subject to supervisory action, including prohibition on undertaking incremental business till it reaches the required minimum NOF applicable at that time.

D. Activities of ARCs

17. An ARC shall commence/ undertake only securitisation and asset reconstruction activities and functions provided under Section 10 of the Act.

18. In terms of the provision of Section 10(2) of the Act, ARC has been permitted to undertake those activities as Resolution Applicants under Insolvency and Bankruptcy Code, 2016 (IBC) which are not specifically allowed under the Act. This permission shall be subject to the following conditions:

- (1) The ARC has a minimum NOF of ₹1,000 crore.
- (2) The ARC shall have a Board-approved policy regarding taking up the role of Resolution Applicant which may, *inter alia*, include the scope of activities, internal limit for sectoral exposures, etc.
- (3) A committee comprising of a majority of independent directors shall be constituted to take decisions on the proposals of submission of resolution plan under IBC.
- (4) The ARC shall explore the possibility of preparing a panel of sector-specific management firms/ individuals having expertise in running firms/ companies which may be considered for managing the firms/ companies, if needed.
- (5) In respect of a specific corporate insolvency resolution process (CIRP), the ARC shall not retain any significant influence or control over the corporate debtor after five years from the date of approval of the resolution plan by the Adjudicating Authority under IBC. In case of non-compliance with this condition, the ARC shall not be allowed to submit any fresh resolution plans under IBC either as a Resolution Applicant or a Resolution Co-Applicant.

- 19.** An ARC may, at its discretion, as a sponsor and for the purpose of establishing a joint venture, invest in the equity share capital of another ARC.
- 20.** An ARC may, at its discretion, deploy its funds for undertaking restructuring of acquired loan account with the sole purpose of realizing its dues.
- 21.** An ARC may, at its discretion, deploy any surplus funds available with it, in terms of a Board-approved policy, in -
- (1) Government securities and deposits with scheduled commercial banks, Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD) or such other entity as may be specified by the Reserve Bank from time to time.
 - (2) Short-term instruments viz., money market mutual funds, certificates of deposit and corporate bonds/ commercial papers which have a short-term rating equivalent to the long-term rating of AA- or above by an eligible credit rating agency (CRA), subject to a cap of 10 percent of the NOF of the ARC on maximum investment in such short-term instruments.
- 22.** An ARC shall not invest in land or building except for the following purposes:
- (1) investment by the ARC in land and building for its own use up to 10 percent of its owned funds; and
 - (2) land and building acquired by the ARC in satisfaction of claims in ordinary course of its business of asset reconstruction in accordance with the provisions of the Act. Any land and/ or building acquired by the ARC, in the ordinary course of its business of asset reconstruction while enforcing its security interest, shall be disposed of within a period of five years from the date of such acquisition or such extended period as may be permitted by the Reserve Bank in the interest of realisation of the dues of the ARC.
- 23.** An ARC shall not raise monies by way of deposit.

Chapter-III – Guidelines on Asset Reconstruction and Securitisation

A. Asset Reconstruction

A.1 Acquisition of financial assets

24. An ARC shall frame a Board-approved 'financial asset acquisition policy' within 90 days of grant of the CoR which shall provide that transactions take place in a transparent manner and at a fair price in a well-informed market and the transactions are executed on arm's length basis by exercise of due diligence. It shall clearly lay down the policies and guidelines covering, *inter alia*, the following:

- (1) norms and procedure for acquisition either on its own books or directly in the books of the trust;
- (2) types and the desirable profile of the assets;
- (3) valuation procedure ensuring that the assets acquired have realisable value which is capable of being reasonably estimated and independently valued; and
- (4) in the case of financial assets acquired for asset reconstruction, the broad parameters for formulation of plans for their realisation.

25. The Board may delegate powers to a committee comprising any director and/ or any functionaries of the ARC for taking decisions on proposals for acquisition of financial assets.

26. Deviation from the policy shall be made only with the approval of the Board.

27. Before bidding for the stressed assets, an ARC may seek adequate time, of not less than two weeks, from the auctioning banks to conduct a meaningful due diligence of the account by verifying the underlying assets.

28. The share of financial assets to be acquired from the bank/ financial institution shall be appropriately and objectively worked out keeping in view the provision in the Act requiring consent of secured creditors holding not less than 60 percent of the amount outstanding to a borrower for the purpose of enforcement of security interest.

29. For easy and faster realisability, all the financial assets due from a single debtor to

various banks/financial institutions may be considered for acquisition. Similarly, financial assets having linkages to the same collateral may be considered for acquisition to ensure relatively faster and easy realisation.

30. Both fund and non-fund based financial assets may be included in the list of assets for acquisition. Assets classified as special mentioned accounts (SMAs) in the books of the originator may also be acquired.

31. Acquisition of funded assets shall not include takeover of outstanding commitments, if any, of any bank/ financial institution to lend further. Terms of acquisition of security interest in non-fund transactions, shall provide for the relative commitments to continue with bank/ financial institution, till demand for funding arises.

32. As far as possible, the valuation process shall be uniform for assets of same profile. It shall be ensured that the valuation of the financial assets is done in a scientific and objective manner. Valuation may be done either internally or by engaging an independent agency, depending upon the value of the assets. Ideally, valuation may be entrusted to the committee authorised to approve acquisition of assets, which may carry out the task in line with financial asset acquisition policy mentioned at paragraph 24.

33. An ARC shall be permitted to sell financial asset to another ARC subject to the following conditions:

- (1) The transaction is settled on cash basis;
- (2) Price discovery for such transaction shall not be prejudicial to the interest of SR holders;
- (3) The selling ARC shall utilize the proceeds so received for the redemption of underlying security receipts (SRs); and
- (4) The date of redemption of underlying SRs and total period of realisation shall not extend beyond eight years from the date of acquisition of the financial asset by the first ARC.

34. An ARC shall not acquire financial assets from the following on a bilateral basis, whatever may be the consideration:

- (1) a bank/ financial institution which is the sponsor of the ARC;
- (2) a bank/ financial institution which is either a lender to the ARC or a subscriber to the fund, if any, raised by the ARC for its operations;
- (3) an entity in the group to which the ARC belongs.

Provided that they may participate in the auctions of the financial assets provided such auctions are conducted in a transparent manner, on arm's length basis and the prices are determined by the market forces.

A.2 Plan for realisation of financial assets

35. An ARC may, within the planning period, formulate a plan for realisation of assets which may provide for one or more of the following measures:

- (1) Change in or takeover of the management of the business of the borrower
- (2) Sale or lease of the whole or part of business of borrower
- (3) Rescheduling of debts payable by the borrower
- (4) Enforcement of security interest in accordance with the provisions of the Act
- (5) Settlement of dues payable by the borrower
- (6) Conversion of any portion of debt into equity of a borrower company

36. The ARC shall formulate the policy for realisation of financial assets under which the period for realisation shall not exceed five years from the date of acquisition of the financial asset concerned.

Provided that the Board of the ARC may increase the period for realisation of financial assets so that the total period for realisation shall not exceed eight years from the date of acquisition of the financial asset concerned.

37. In case, the ARC is one of the lenders in an account, where a resolution plan has been finalised and the same extends beyond the maximum resolution period allowed for ARCs as per paragraph 36 above, the ARC may accept a resolution period co-terminus with other secured lenders.

38. The Board of the ARC shall specify the steps that shall be taken by the ARC to realise the financial assets within the time frame referred to in the paragraph 36 above as

the case may be.

39. The qualified buyers (QBs) shall be entitled to invoke the provisions of Section 7(3) of the Act only at the end of such extended period if the period for realisation is extended under paragraph 36 above.

B. Measures of Asset Reconstruction

B.1 Change in or takeover of the management of the business of the borrower

40. An ARC may resort to change in or takeover of the management of the business of the borrower for the purpose of realisation of its dues from the borrower subject to the provisions of these guidelines.

41. The objective of these Directions is to ensure fairness, transparency, non-discrimination and non-arbitrariness in the action of ARCs and to build in a system of checks and balances while effecting change in or takeover of the management of the business of the borrower by the ARCs under Section 9(1)(a) of the Act.

42. An ARC shall follow these instructions while exercising the powers conferred on them under Section 9(1)(a) of the Act. The ARC resorting to takeover of management of the business of the borrower shall do so after complying with the manner of takeover of the management in accordance with the provisions of Section 15 of the Act.

43. On realisation of its dues in full, the ARC shall restore the management of the business to the borrower as provided in Section 15(4) of the Act.

Provided that if any ARC has converted part of its debt into shares of a borrower company and thereby acquired controlling interest in the borrower company, such ARC shall not be liable to restore the management of the business to such borrower.

B.2 Grounds for effecting change in or takeover of management

44. An ARC shall be entitled to effect change in management or takeover of the management of business of the borrower on any of the following grounds:

(1) the borrower defaults in repayment of the amount due under the relevant loan agreement/s in following circumstances:

- (i) non-payment of dues despite adequate cash flow and availability of other resources, or
- (ii) routing of transactions through banks which are not lenders/ consortium members so as to avoid payment of dues, or
- (iii) siphoning off funds to the detriment of the defaulting unit, or misrepresentation/ falsification of records pertaining to the transactions with the ARC.

Explanation: For the purpose of this paragraph, the default by the borrower must be deliberate and calculated as detailed above. The ARC shall keep in view the track record of the borrower and the decision regarding such defaults by the borrower should not be based on isolated transactions/ incidents which are not material.

- (2) the ARC is satisfied that the management of the business of the borrower is acting in a manner adversely affecting the interest of the creditors (including ARC) or is failing to take necessary action to avoid any event which would adversely affect the interest of the creditors;
- (3) the ARC is satisfied that the management of the business of the borrower is not competent to run the business resulting in losses/ non-repayment of dues to the ARC or the key managerial personnel of the business of the borrower have not been appointed for more than one year from the date of such vacancy which would adversely affect the financial health of the business of the borrower or the interests of the ARC as a secured creditor;
- (4) the borrower has without the prior approval of the secured creditors (including ARCs), sold, disposed of, charged, encumbered or alienated 10 percent or more (in aggregate) of its assets secured to the ARC;
- (5) there are reasonable grounds to believe that the borrower would be unable to pay its debts as per terms of repayment accepted by the borrower;
- (6) the borrower has entered into any arrangement or compromise with creditors

without the consent of the ARC which adversely affects the interest of the ARC or the borrower has committed any act of insolvency;

(7) the borrower discontinues or threatens to discontinue any of its businesses constituting 10 percent or more of its turnover;

(8) all or a significant part of the assets of the borrower required for or essential for its business or operations are damaged due to the actions of the borrower;

(9) the general nature or scope of the business, operations, management, control or ownership of the business of the borrower are altered to an extent, which in the opinion of the ARC, materially affects the ability of the borrower to repay the loan;

(10) the ARC is satisfied that serious dispute/s have arisen among the promoters or directors or partners of the business of the borrower, which could materially affect the ability of the borrower to repay the loan;

(11) failure of the borrower to acquire the assets for which the loan has been availed and utilization of the funds borrowed for other than stated purposes or disposal of the financed assets and misuse or misappropriation of the proceeds;

(12) fraudulent transactions by the borrower in respect of the assets secured to the creditor/s.

B.3 Eligibility conditions to exercise power for change in or takeover of management

45. In the circumstances set forth in paragraph 44 above,

(1) an ARC may effect change in or takeover of the management of the business of the borrower, where the amount due to it from the borrower is not less than 25 percent of the total assets owned by the borrower; and

(2) where the borrower is financed by more than one secured creditor (including ARC), secured creditors (including ARCs) holding not less than 60 percent of the outstanding SRs agree to such action.

Explanation: 'Total assets' means total assets as disclosed in its latest audited

balance sheet immediately preceding the date of taking action.

B.4 Policy regarding change in or takeover of management

46. The ARC shall have a Board-approved policy regarding change in or takeover of the management of the business of the borrower and the borrowers shall be made aware of such policy of the ARC.

47. This policy shall, *inter alia*, include the following aspects:

(1) The ARC shall carry out due diligence exercise and record the details of the exercise, including the findings on the circumstances which had led to default in repayment of the dues by the borrower and why the decision to change in or takeover of the management of the business of the borrower has become necessary.

(2) The change in or takeover of the management of the business of the borrower shall be done only after the proposal is examined by an Independent Advisory Committee (IAC) to be appointed by the ARC consisting of professionals having technical / finance / legal background.

Explanation: To ensure independence of members of IAC, such members should not be connected with the affairs of the ARC in any manner and should not receive any pecuniary benefit from the ARC except for the services rendered for acting as members of the IAC.

(3) The IAC shall, after assessment of the financial position of the borrower, time frame available for recovery of the debt from the borrower, future prospects of the business of the borrower and other relevant aspects, recommend to the ARC that it may resort to change in or takeover of the management of the business of the borrower and that such action would be necessary for effective running of the business leading to recovery of its dues.

(4) The Board of Directors including at least two independent directors of the ARC should deliberate on the recommendations of the IAC and consider the various options available for the recovery of dues before deciding whether under the existing circumstances, the change in or takeover of the management of the business of the

borrower is necessary and the decision shall be specifically included in the minutes.

(5) The ARC shall identify suitable personnel / agencies, who can take over the management of the business of the borrower by formulating a plan for operating and managing the business of the borrower effectively so that the dues of the ARC may be realized from the borrower within the time frame. This plan shall also include

- (i) the process for restoration of the management of the business to the borrower in accordance with paragraphs 40 to 43 above;
- (ii) borrower's rights and liabilities at the time of change in or takeover of management by the ARC; and
- (iii) at the time of restoration of management back to the borrower, rights and liabilities of the new management taking over management of the business of the borrower at the behest of ARC.

(6) It should be clarified to the new management by the ARC that the scope of their role is limited to recovery of dues of the ARC by managing the affairs of the business of the borrower in a prudent manner.

B.5 Procedure for change in or takeover of management

48. The ARC shall give a notice of 60 days to the borrower indicating its intention to effect change in or takeover of the management of the business of the borrower and calling for objections, if any.

49. The objections, if any, submitted by the borrower shall be initially considered by the IAC and thereafter the objections along with the recommendations of the IAC shall be submitted to the Board of the ARC.

50. The Board shall pass a reasoned order within a period of 30 days from the date of expiry of the notice period, indicating the decision of the ARC regarding the change in or takeover of the management of the business of the borrower which shall be communicated to the borrower.

B.6 Sale or lease of a part or whole of the business of the borrower

51. No ARC shall take the measures specified in Section 9(1)(b) of the Act, until the

Reserve Bank issues necessary guidelines in this behalf.

B.7 Rescheduling of debts payable by the borrower

52. The ARC shall frame a Board-approved policy, laying down the broad parameters for rescheduling of debts due from borrowers.

53. All proposals shall be supported by an acceptable business plan, projected earnings and cash flows of the borrower.

54. The proposals shall not materially affect the asset liability management of the ARC or the commitments given to investors.

55. The Board may delegate powers to a committee comprising any director and/ or any functionaries of the ARC for taking decisions on proposals for rescheduling of debts.

56. Deviation from the policy shall be made only with the approval of the Board.

57. In cases, where an ARC has exposure to a borrower in respect of which a resolution plan is under implementation in terms of the Prudential Framework on Resolution of Stressed Assets applicable to various Regulated Entities such as Commercial Banks/AIFIs/SFBs/NBFCs, as amended from time to time, the ARC shall also sign the inter-creditor agreement (ICA) and adhere to all its provisions.

B.8 Enforcement of security interest

58. The ARC shall obtain, for the purpose of enforcement of security interest, the consent of secured creditors (including ARCs) holding not less than 60 percent of the amount outstanding to a borrower.

59. While taking recourse to the sale of secured assets in terms of Section 13(4) of the Act, the ARC shall have the option to acquire the secured assets, either for its own use or for resale, only if the sale is conducted through a public auction.

B.9 Settlement of dues payable by the borrower

60. Every ARC shall frame a Board-approved policy for settlement of dues payable by the borrowers which shall, *inter alia*, cover aspects such as cut-off date for one-time

settlement eligibility, permissible sacrifice for various categories of exposures while arriving at the settlement amount, methodology for arriving at the realisable value of the security.

61. Settlement with the borrower shall be done only after all possible ways to recover the dues have been examined and settlement is considered as the best option available.

62. The Net Present Value (NPV) of the settlement amount should generally be not less than the realizable value of securities. If there is a significant variation between valuation of the securities recorded at the time of acquisition of financial assets and realisable value of the securities assessed at the time of entering into a settlement, reasons thereof shall be duly recorded.

63. The settlement amount shall preferably be paid in lump sum. Where the settlement does not envisage payment of the entire amount agreed upon in one instalment, the proposals shall be in line with and supported by an acceptable business plan (where applicable), projected earnings and cash flows of the borrower.

64. Settlement of accounts pertaining to a borrower, where the aggregate outstanding principal in the books of transferor/s in respect of all the accounts of the borrower acquired by the ARC from such transferor/s exceeds ₹1 crore at the time of acquisition by the ARC, shall be done as per Board approved policy, subject to the following:

(1) Settlement of dues with the borrower shall be done only after the proposal is examined by the Independent Advisory Committee (IAC) formed in terms of paragraph 47.

(2) The IAC, after assessing the financial position of the borrower, time frame available for recovery of the dues from the borrower, projected earnings & cash flows of the borrower and other relevant aspects, shall give its recommendations to the ARC regarding settlement of dues with the borrower.

(3) The Board of Directors including at least two independent directors or a Committee of the Board meeting the prescribed criteria, shall deliberate on the recommendations of IAC and consider various options available for recovery of dues before deciding

whether the option of settlement of dues with the borrower is the best option available under the existing circumstances and the decision, along with detailed rationale, shall be specifically recorded in the minutes of the meeting.

Explanation:

- (i) The Committee shall be chaired by an independent director and have minimum two independent directors, including the Chair;
- (ii) The Committee shall consist of at least one-third of the total strength of the Board or three directors, whichever is higher, and at least half of the directors attending the meetings of the Committee are independent directors;
- (iii) The Committee shall be created and mandated by the full Board; and
- (iv) The decisions of the Committee, along with rationale, shall be recorded in the minutes and placed before the Board at quarterly intervals.

65. *Settlement of accounts pertaining to a borrower, where the aggregate outstanding principal in the books of transferor/s in respect of all the accounts of the borrower acquired by the ARC from such transferor/s equals to ₹1 crore or below at the time of acquisition by the ARC, shall be done as per Board approved policy, subject to the following:*

- (1) Any official who was part of the acquisition (as an individual or part of a committee) of the concerned financial asset shall not be part of processing/ approving the proposal for settlement of the same financial asset, in any capacity.
- (2) A quarterly report on the resolution of these accounts shall be placed before the Board / Committee of the Board formed as per the criteria prescribed in paragraph 64.
- (3) The Board shall mandate a suitable reporting format so as to ensure adequate coverage of the following aspects at the minimum:
 - (i) trend in number of accounts and amounts subjected to compromise settlement (q-o-q and y-o-y);
 - (ii) out of (i) above, separate breakup of accounts classified as fraud, wilful default declared by the banks and NBFCs;
 - (iii) amount-wise, acquisition authority wise, and business segment / asset-class wise grouping of such accounts; and

- (iv) extent and timelines of recovery in such accounts.

66. For settlement of dues payable by the borrowers classified as frauds or wilful defaulters, guidelines prescribed under paragraph 64 above shall be applicable, irrespective of the amount involved. An ARC may, at its discretion, undertake settlement of dues in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such borrowers.

67. Other legal provisions

(1) The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force.

(2) Further, wherever an ARC had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

B.10 Conversion of any portion of debt into equity of a borrower entity

68. The ARC shall frame a Board-approved policy, laying down the broad parameters for conversion of debt into equity of the borrower entity.

69. In cases of financial assets, which have turnaround potential after restructuring but normally with huge default and unsustainable level of debt, it shall be necessary to arrive at sustainable level of debt, on the basis of evaluation of detailed business plan with projected level of operations, which can be serviced by the entity.

70. A part of residual unsustainable debt may have to be converted into equity for an optimal debt equity structure. While ARC is permitted to have significant influence or have a say in the decisions surrounding the borrower entity's turnaround through conversion of debt into equity, it should not be seen to be running the entities. The shareholding of the ARC shall not exceed 26 percent of the post converted equity of the entity under reconstruction and shall also be in accordance with permissible foreign direct investment limit for that specific sector.

71. However, an ARC satisfying the conditions mentioned below shall be exempted from the limit of shareholding at 26 percent of post converted equity of the borrower entity subject to compliance with the provisions of the Act, guidelines/ instructions issued by the Reserve Bank from time to time as applicable to ARCs as well as Foreign Exchange Management Act, 1999, Reserve Bank of India Act, 1934, Companies Act, 2013, Securities and Exchange Board of India (SEBI) Regulations and other relevant statutes:

- (1) The ARC shall be in compliance with the prescribed NOF requirement on an ongoing basis;
- (2) At least half of the Board of Directors of the ARC comprises of independent directors;
- (3) The ARC shall delegate powers to a committee comprising majority of independent directors for taking decisions on proposals of debt-to-equity conversion; and
- (4) The equity shares acquired under the scheme shall be periodically valued and marked to market. The frequency of valuation shall be at least once in a month.

72. The ARC shall explore the possibility of preparing a panel of sector-specific management entities / individuals having expertise in running entities which could be considered for managing the entities.

C. Securitisation

C.1 Special features of Security Receipts (SRs)

73. SRs cannot be strictly characterized as debt instruments since they combine the features of both equity and debt. However, these are recognized as securities under Securities Contracts (Regulation) Act, 1956.

74. The cash flows from the underlying assets cannot be predicted in terms of value and intervals.

75. These instruments, when rated, would generally be below investment grade. These instruments are privately placed.

C.2 Issuance of SRs

76. An ARC shall give effect to the provisions of Sections 7(1) and 7(2) of the Act through one or more trusts set up exclusively for the purpose. The trusteeship of such trusts shall vest with the ARC.

77. The ARC proposing to issue SRs shall, prior to such an issue, formulate a Board-approved policy providing for issue of SRs under each scheme formulated by the trust.

78. The ARC shall transfer the assets to the said trusts at the price at which those assets were acquired from the originator if the assets are not acquired directly on the books of the trust.

79. The trusts shall issue SRs only to QBs and such SRs shall be transferable / assignable only in favour of other QBs.

80. The trusts shall hold and administer the financial assets for the benefit of the QBs.

C.3 Investment in SRs issued by the trusts floated by the ARC

81. An ARC shall, by transferring funds, invest in the SRs at a minimum of either 15 percent of the transferors' investment in the SRs or 2.5 percent of the total SRs issued, whichever is higher, of each class of SRs issued by them under each scheme on an ongoing basis till the redemption of all the SRs issued under such scheme.

C.4 Rating/ Grading of SRs

82. An ARC shall mandatorily obtain initial rating / grading of SRs from a SEBI registered CRA within a period of six months from the date of acquisition of assets and declare the Net Asset Value (NAV) of the SRs issued by it.

83. Thereafter, the ARC shall get the rating / grading of SRs reviewed from the CRA as on June 30, and December 31 every year and declare the NAV of SRs forthwith, to enable the QBs to value their investments in SRs.

84. The rating shall be assigned on a specifically developed rating scale called 'recovery rating (RR) scale'. Each rating category in the recovery scale shall have an

associate range of recovery, expressed in percentage terms, which can be used for arriving at the NAV of SRs. Symbols should be assigned by the CRAs to the associated range of recovery, which would inter se not deviate by a specified percentage points, say (+/-) 10 percent. The rating would be indicative. The rating / grading should be based on 'recovery risk' as against 'default' which is the basis for rating assignments in normal assets, i.e., how much more can be recovered instead of timely payment. Rating should reflect present value of the anticipated recoverability of the future cash flows.

85. The recovery rating shall be assessed after factoring in any other relevant obligation and not on the original debt obligation. The other key factors that should be factored in while assigning recovery rating are extent of debt acquired, composition of lenders, collaterals available, security and seniority of debt, individual lender vis-à-vis institutional lender, estimated cash flows, uncertainty in realising expected cash flows in initial period, management, business risk, financial risk, etc. The recovery rating shall also reflect changes like change in resolution strategy of the ARC from time to time.

86. The recovery rating should comprise of rating of not only the SRs of the scheme as a whole but wherever feasible a desegregation of each component in the scheme, which means that the underlying assets of each entity in the scheme forming the basket should also be rated.

87. An ARC shall require the CRAs to disclose the assumptions and rationale behind the rating and shall disclose these to SR holders.

88. An ARC shall retain a CRA for at least six rating cycles (of half year each). If a CRA is changed mid-way through these six rating cycles, the ARC shall disclose the reason for such change.

C.5 Methodology for valuation of SRs for declaration of NAV

89. Each rating category in the recovery scale shall have an associate range of recovery, expressed in percentage terms, which can be used for computing the NAV of SRs.

90. The NAV shall be restricted within the recovery range associated with the rating assigned to the SRs. The ARC based on its recovery experience shall choose a particular percentage within the recovery range indicated by the CRA. The recovery rating percentage so picked by the ARC multiplied by the face value of the SR shall give the NAV. The ARC shall provide the rationale for selection of the particular percentage of recovery rating.

(i) **Illustration:** *If the range of recovery is between 81% - 90%, ARC may pick up 87% based on its judgement. If the face value of SR is ₹10, the face value will be multiplied by the recovery percentage, i.e., 87%, to arrive at the NAV as ₹8.70.*

C.6 Restructuring support finance

91. An ARC can utilize a part of funds raised under a scheme from the QBs for restructuring of financial assets acquired under the relative scheme subject to the following conditions:

(1) An ARC with acquired assets in excess of ₹500 crore can float the fund under a scheme which envisages the utilization of part of funds raised from QBs in terms of Section 7(2) of the Act, for restructuring of financial assets acquired out of such funds.

(2) The extent of funds that shall be utilized for reconstruction purpose shall not be more than 25 percent of the funds raised under the scheme in terms of Section 7(2) of the Act. The funds raised to be utilized for reconstruction (within the ceiling of 25 percent) shall be disclosed upfront in the scheme. Further, the funds utilized for reconstruction purposes shall be separately accounted for.

(3) An ARC shall frame a Board-approved policy laying down the broad parameters for utilization of funds raised from QBs under such a scheme.

C.7 Disclosures

92. An ARC intending to issue SRs shall make the following disclosures:

(1) Disclosures in the offer document

(i) Disclosure relating to the issuer of SRs

(a) Name, place of registered office, date of incorporation, date of commencement of business of the ARC

- (b) Particulars of sponsors, shareholders, and a brief profile of the Directors on the Board of the ARC with their qualifications and experience
- (c) Summary of financial information of the ARC for last five years or since commencement of business, whichever is shorter
- (d) Details of securitisation/ asset reconstruction activities handled, if any, in last eight years or since commencement of business, whichever is shorter. This shall, *inter alia*, include track record of returns generated for all SR investors on the schemes floated in last eight years.
- (e) Track record of recovery rating migration and engagement with CRAs of schemes floated in last eight years
- (f) Whether the scheme envisages the utilization of part of funds raised for restructuring of financial assets acquired out of such funds? If so, the percentage of funds raised which shall be utilized for restructuring purposes.

(ii) Terms of offer

- (a) Objects of offer
- (b) Description of the instrument giving particulars relating to its form, denomination, issue price, together with an averment that the transferability of SRs is restricted to the QBs
- (c) Arrangements made for management of assets and extent of management fee charged by the ARC
- (d) Interest rate/ probable yield
- (e) Terms of payment of principal/ interest, date of maturity/ redemption
- (f) Servicing and administration arrangement
- (g) Details of credit rating and rationale for the rating
- (h) Description of assets being securitized including date of acquisition, valuation, and the interest of the ARC in the assets at the time of issue of SRs
- (i) Geographical distribution of asset pool

- (j) Residual maturity, interest rates, outstanding principal of the asset pool
- (k) Nature and value of underlying security, expected cash flows, their quantum and timing, credit enhancement measures
- (l) Policy for acquisition of assets and valuation methodology adopted
- (m) Terms of acquisition of assets from banks/ FIs
- (n) Details of performance record with the originators
- (o) Terms of replacement of assets, if any, to the asset pool
- (p) Statement of risk factors, particularly relating to future cash flows and steps taken to mitigate the same
- (q) Arrangements, if any, for implementing asset reconstruction measures in case of default
- (r) Duties of the trustee
- (s) Specific asset reconstruction measures, if any, on which approvals shall be sought from investors
- (t) Grievance redressal mechanism

(2) Disclosures on quarterly basis

- (i) Defaults, prepayments, losses, if any, during the quarter
- (ii) Change in credit rating, if any
- (iii) Commonality and conflict of interest, if any, between the ARC and CRA
- (iv) Change in profile of the assets by way of accretion to or realisation of assets from the existing pool
- (v) Collection summary for the current and previous quarter
- (vi) Any other material information which has a bearing on the earning prospects affecting the QBs.

Chapter-IV – Prudential Regulations

A. Capital adequacy ratio

93. An ARC shall maintain, on an ongoing basis, a capital adequacy ratio of minimum 15 percent of its total risk weighted assets.
94. Capital for the purpose of calculation of capital adequacy ratio will have the same meaning as NOF.
95. The risk- weighted assets shall be calculated as the weighted aggregate of on-balance sheet and off-balance sheet items as detailed hereunder:

On-balance sheet items		Risk weight (in percent)
(i)	Cash and deposits with scheduled commercial banks/ SIDBI/ NABARD	0
(ii)	Investments in Government securities	0
(iii)	Shares in other ARCs	0
(iv)	All other assets (including ROU asset)	100
Off-balance sheet items		
(v)	All contingent liabilities	50

- (i) **Note:** Assets which have been deducted from owned fund to arrive at NOF shall have risk weight of zero percent.

B. Asset classification

96. An ARC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify the assets held in its own books into following categories, namely:
- (1) Standard assets; and
 - (2) NPAs
97. The NPAs shall be classified further as-
- (1) 'Sub-standard asset' for a period not exceeding 12 months from the date it was classified as NPA;
 - (2) 'Doubtful asset' if the asset remains a sub-standard asset for a period exceeding 12 months;

(3) 'Loss asset' if-

- (i) the asset is non-performing for a period exceeding 36 months;
- (ii) the asset is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security;
- (iii) the asset has been identified as a loss asset by the ARC or its internal or external auditor; or
- (iv) the financial asset including SRs is not realized within the total time frame specified in the plan for realisation formulated by the ARC under paragraph 36 and the ARC or the trust concerned continues to hold those assets.

98. Assets acquired by the ARC for the purpose of asset reconstruction may be treated as standard assets during the planning period, if any.

99. Where the terms of agreement regarding interest and/ or principal relating to a standard asset have been renegotiated or rescheduled by an ARC (otherwise than during planning period), the asset concerned shall be classified as sub-standard asset with effect from the date of renegotiation / rescheduling or continue to remain as a sub-standard or doubtful asset as the case be. The asset may be upgraded as a standard asset only after satisfactory performance for a period of 12 months as per the renegotiated / rescheduled terms.

C. Provisioning requirements

100. Every ARC shall make provisions against NPAs, as under:

Asset category	Provisioning required	
Sub-standard assets	A general provision of 10 percent of the outstanding amount	
Doubtful assets	(i)	100 percent provision to the extent the asset is not covered by the estimated realisable value of security
	(ii)	In addition to item (i) above, 50 percent of the remaining outstanding amount
Loss assets	The entire asset shall be written off	
	(If, for any reason, the asset is retained in the books, 100 percent thereof shall be provided for).	

Chapter-V – Governance and Conduct

A. Board and management

A.1 Fit and proper criteria for directors and CEO

101. In terms of the provisions of the Act, prior approval of the Reserve Bank is required for appointment / re-appointment of a Director or Managing Director (MD) / Chief Executive Officer (CEO).

102. An ARC shall undertake due diligence to determine the suitability of the person for the post based upon track record, integrity and other ‘fit and proper’ criteria.

103. For this purpose, an ARC shall obtain necessary information and declaration from the appointed / existing directors and MD / CEO in the format enclosed in [Annex I](#).

104. The Nomination and Remuneration Committee shall scrutinise the declarations for this purpose.

105. An ARC is advised to submit applications, complete in all respect, along with duly signed [Annex II](#) and the documents/ information mentioned in [Annex III](#) to Department of Regulation of the Reserve Bank, through the PRAVAAH portal, at least ninety days before the vacancy arises/ the proposed date of appointment or re- appointment. Reserve Bank may call for additional information/ documents for processing the application, if required.

106. The declaration in [Annex I](#) with updated information shall be obtained from the directors/ MD/ CEO on an annual basis, as on March 31 of each year. Any change in position with reference to items in paragraphs 3 and 4 of [Annex I](#) shall be communicated, through the PRAVAAH portal, to the Department of Regulation of the Reserve Bank for its consideration.

107. The ARC shall require the directors to execute a covenant in the format enclosed at [Annex IV](#), at the time of their joining the ARC, binding them to discharge their responsibilities to the best of their abilities, individually and collectively. This deed shall be

preserved by the ARC and should be made available to the Reserve Bank as and when called for.

A.2 Age of the MD/ CEO and Whole-time Directors (WTDs)

108. A person shall not continue as MD / CEO or WTD beyond the age of 70 years.

109. Within the overall limit of 70 years, as part of their internal policy, the ARC's Board shall be free to prescribe a lower retirement age.

A.3 Tenure of MD/ CEO and WTDs

110. Tenure of MD / CEO or WTD shall not be for a period of more than five years at a time and the individual shall be eligible for re- appointment.

- (i) ***Provided that*** the post of the MD / CEO or WTD shall not be held by the same incumbent for more than fifteen years continuously.
- (ii) ***Provided further that*** thereafter, the individual shall be eligible for re- appointment as MD / CEO or WTD in the same ARC, if considered necessary and desirable by the Board, after a minimum gap of three years, subject to meeting other conditions.
- (iii) ***Provided further that*** during this three-years cooling period, the individual shall not be appointed or associated with the ARC in any capacity, either directly or indirectly. The ARC shall put in place appropriate measures to ensure succession planning.

A.4 Chair and meetings of the Board of directors

111. The Chair of the Board shall be an independent director. In the absence of the Chair of the Board, meetings of the Board shall be chaired by an independent director.

112. The quorum for the Board meetings shall be one-third of the total strength of the Board or three directors, whichever is higher.

Provided that at least half of the directors attending the meetings of the Board shall be independent directors.

A.5 Performance review

113. The performance of MD / CEO and WTD shall be reviewed by the Board annually.

A.6 Committees of the Board

114. In order to strengthen the oversight by the Board, an ARC shall constitute the following committees of the Board as described in paragraphs 115 and 116.

115. Audit Committee:

- (1) An ARC shall constitute an Audit Committee of the Board, which shall comprise of non-executive directors only.
- (2) The Chair of the Board shall not be a member of the Audit Committee.
- (3) The Audit Committee shall meet at least once in a quarter with a quorum of three members.
- (4) The meetings of the Audit Committee shall be chaired by an independent director who shall not chair any other committee of the Board.
- (5) Each of the members of the Audit Committee should have the ability to understand the financial statements as well as the notes / reports attached thereto and at least one member shall have requisite professional expertise/ qualification in financial accounting or financial management.
- (6) The Audit Committee shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013.
- (7) In addition, the Audit Committee shall periodically review and assess the effectiveness of internal control systems, especially with respect to the asset acquisition procedures and asset reconstruction measures followed by the ARC and matters related thereto.
- (8) The Audit Committee shall also ensure that accounting of management fee / incentives / expenses is in compliance with the applicable regulations.

116. Nomination and Remuneration Committee:

- (1) An ARC shall constitute a Nomination and Remuneration Committee of the Board which shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013.

(2) In addition, the Committee shall ensure 'fit and proper' status of proposed / existing directors and sponsors.

A. Fit and Proper criteria for sponsors / investors

A.1 Determinants of fit and proper status of sponsors of ARCs

117. In determining whether the sponsor is fit and proper, Reserve Bank shall take into account all relevant factors, as appropriate, including but not limited to, the following:

- (1) The sponsor's integrity, reputation, track record and compliance with applicable laws and regulations;
- (2) The sponsor's track record and reputation for operating business in a manner that is consistent with the standards of good corporate governance, integrity, in addition to the similar assessment of individuals and other entities associated with the sponsor;
- (3) The business record and experience of the sponsor;
- (4) Sources and stability of funds for acquisition and the ability to access financial markets; and
- (5) Shareholding agreements and their impact on control and management of the ARC.

A.2 Information to be furnished by the sponsors along with relevant supporting documents

118. Information by a natural person: Self-declaration as per [Form I](#) (Part A, B and C) as provided in [Annex V](#).

119. Information by a legal person: Self-declaration as per [Form I](#) (Part A, B, C and D) as provided in [Annex V](#).

120. The ARC should furnish additional information as per [Form I](#) (Part E) as provided in [Annex V](#).

A.3 Continuous monitoring arrangements for due diligence in case of existing sponsors

121. For the purpose of ensuring that all its sponsors are fit and proper, an ARC shall

- (1) obtain within one month of the close of the financial year a declaration from all its sponsors in [Form I](#) as provided in [Annex V](#).
- (2) furnish a certificate in [Form III](#) as provided in [Annex V](#), by the end of May every year, to the Reserve Bank on the changes in the status of the sponsor.

122. An ARC shall examine any information on the sponsors which may come to its notice that may render such persons not fit and proper to hold such shares and shall immediately furnish a report on the same to the Reserve Bank.

A.4 Prior approval for any substantial change in management by way of transfer of shares

123. Notwithstanding anything to the contrary contained in the terms and conditions stipulated in the CoR issued under Section 3 of the Act, an ARC shall obtain prior approval of the Reserve Bank only for transfers that result in substantial change in management namely:

- (1) any transfer or fresh issuance of shares resulting in a new sponsor
- (2) any transfer or fresh issuance of shares resulting in cessation of an existing sponsor
- (3) an aggregate transfer of 10 percent or more of the total paid up share capital of the ARC by a sponsor during the period of five years commencing from the date of the CoR

Explanation: For the purposes of this paragraph, a transfer shall be deemed to be a transfer of more than 10 percent of the total paid up share capital of the ARC if the aggregate of all the transfer of shares made by the sponsor prior to that transfer, and including that transfer, is 10 percent or more of the total paid up share capital of the ARC.

124. The ARC shall make an application, through PRAVAAH portal, along with [Form II](#) as provided in [Annex V](#) and information mentioned at paragraphs 118 to 120 above, for Reserve Bank's prior approval for change in shareholding of the ARCs.

125. The Reserve Bank shall, *inter alia*, seek feedback on the persons from other domestic as well as foreign regulators and enforcement and investigative agencies as deemed appropriate to make an assessment on whether a sponsor is fit and proper.

A.5 Investment in ARCs from FATF non-compliant jurisdictions

126. New investors from or through non-compliant Financial Action Task Force (FATF) jurisdictions, whether in existing ARCs or in companies seeking CoR, are not allowed to directly or indirectly acquire 'significant influence' in the investee, as defined in the applicable accounting standards. In other words, fresh investors (directly or indirectly) from such jurisdictions in aggregate should be less than the threshold of 20 percent of the voting power (including potential voting power) of the ARC.

Explanation:

(1) The FATF periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in its following publications:

(a) High-Risk Jurisdictions subject to a Call for Action, and

(b) Jurisdictions under Increased Monitoring. A jurisdiction, whose name does not appear in the 2 aforementioned lists, shall be referred to as a FATF compliant jurisdiction.

(2) Potential voting power could arise from instruments that are convertible into equity, other instruments with contingent voting rights, contractual arrangements, etc. that grant investors voting rights (including contingent voting rights) in the future. In such cases, it should be ensured that new investments from FATF non-compliant jurisdictions are less than both (i) 20 percent of the existing voting powers and (ii) 20 percent of existing and potential voting powers assuming those potential voting rights have materialised.

(3) Existing investors in ARCs as on February 12, 2021 holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-

compliant may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

B. Fair Practices Code (FPC)

127. In order to achieve the highest standards of transparency and fairness in dealing with stakeholders, an ARC shall put in place a Board-approved FPC.

128. The FPC must be followed in letter & spirit and its implementation needs to be monitored by the Board.

129. The following paragraphs provide the minimum regulatory expectation while each ARC's Board is free to enhance its scope and coverage:

- (1) The ARC shall follow transparent and non-discriminatory practices in acquisition of assets. It shall maintain arm's length distance in the pursuit of transparency.
- (2) In order to enhance transparency in the process of sale of secured assets,
 - (i) invitation for participation in auction shall be publicly solicited; the process should enable participation of as many prospective buyers as possible;
 - (ii) terms and conditions of such sale may be decided in wider consultation with investors in the SRs as per the Act; and
 - (iii) the ARC shall ensure compliance with Section 29A of the IBC in dealing with the prospective buyers.

Explanation: Section 29A of the IBC includes in its purview such persons or any other person acting jointly or in concert with such persons who are considered ineligible to submit a resolution plan viz.,

- (a) undischarged insolvents,
- (b) wilful defaulters,
- (c) persons managing/ controlling accounts classified as NPA for more than one year,
- (d) persons convicted for any offence punishable with imprisonment for two years or more,
- (e) disqualified directors under Companies Act,
- (f) persons prohibited from trading in securities by SEBI,

- (g) persons against whom order has been made by the adjudicating authority for preferential/ undervalued/ extortionate credit/ fraudulent transactions,
- (h) guarantors to a corporate debtor against which an application for insolvency resolution has been admitted under IBC,
- (i) persons subjected to the above listed disabilities under any law in a jurisdiction outside India, and
- (j) connected persons to ineligible persons mentioned under Section 29A.

(3) An ARC shall release all securities on repayment of dues or on realisation of the outstanding amount of loan, subject to any legitimate right or lien for any other claim they may have against the borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which the ARCs are entitled to retain the securities till the relevant claim is settled / paid.

(4) An ARC shall put in place a Board-approved policy on the management fee, expenses and incentives, if any, claimed from trusts under their management. The Board-approved policy shall be transparent and ensure that management fee is reasonable and proportionate to the financial transactions.

(5) Any management fee / incentives charged towards the asset reconstruction or securitisation activity shall come only from the recovery effected from the underlying financial assets. The Board-approved policy shall indicate the quantitative cap / limit on the management fee / incentives under various scenarios, any deviation from which shall require approval of the Board.

(6) An ARC intending to outsource any of their activity shall put in place a comprehensive Board-approved outsourcing policy which incorporates, *inter alia*, criteria for selection of such activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities / service providers. An ARC shall ensure that outsourcing arrangements neither diminish its ability to fulfil their obligations to customers and the Reserve Bank nor

impede effective supervision by the Reserve Bank. The information about outsourced agency, if owned / controlled by a director of the ARC, shall be disclosed by the ARC under the disclosures provided in paragraph 150 of these Directions.

(7) In the matter of recovery of loans, an ARC shall not resort to harassment of the debtor. An ARC shall ensure that the staff are adequately trained to deal with customers in an appropriate manner.

(i) An ARC shall put in place a Board-approved code of conduct for recovery agents and obtain their undertaking to abide by that code. An ARC, as principals, is responsible for the actions of its recovery agents.

(ii) It is essential that the recovery agents observe strict customer confidentiality.

(iii) An ARC shall ensure that recovery agents are properly trained to handle their responsibilities with care and sensitivity, particularly in respect of aspects such as hours of calling, privacy of customer information, etc. They shall ensure that recovery agents do not induce adoption of uncivilized, unlawful and questionable behaviour or recovery process.

(iv) An ARC shall ensure that it or its agents does not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude upon the privacy of the debtors' family members, referees and friends, sending inappropriate messages either on mobile or through social media, making threatening and/ or anonymous calls, persistently / repeatedly calling the borrower and/ or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans, making false and misleading representations, etc.

(8) An ARC shall constitute a grievance redressal machinery within the organisation. The name and contact number of designated grievance redressal officer of the ARC shall be mentioned in the communication with the borrowers. The designated officer shall ensure that genuine grievances are redressed promptly. The ARC's grievance redressal machinery shall also deal with the issues relating to services provided by the outsourced

agency and recovery agents, if any.

(9) An ARC shall keep the information, they come to acquire in course of their business, strictly confidential and shall not disclose the same to anyone including other companies in the group except when,

- (i) required by law;
- (ii) there is duty towards public to reveal information; or
- (iii) there is borrower's permission.

(10) Compliance with FPC shall be subject to periodic review by the Board.

130. The FPC shall be placed in public domain for information of all stakeholders.

131. An ARC shall adhere to the following guidelines on 'Responsible Lending Conduct –Release of Movable / Immovable Property Documents on Repayment/ Settlement of Personal Loans':

(1) Release of Movable / Immovable Property Documents

(i) The ARC shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account.

(ii) The borrower shall be given the option of collecting the original movable / immovable property documents either from the banking outlet / branch where the loan account was serviced or any other office of the ARC where the documents are available, as per her / his preference.

(iii) The timeline and place of return of original movable / immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date.

(iv) In order to address the contingent event of demise of the sole borrower or joint borrowers, the ARC shall have a well laid out procedure for return of original movable / immovable property documents to the legal heirs. Such procedure shall be displayed on the website of the ARC along with other similar policies and procedures for customer information.

(2) Compensation for delay in release of Movable / Immovable Property Documents

- (i) In case of delay in releasing of original movable / immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment / settlement of loan, the ARC shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the ARC, it shall compensate the borrower at the rate of ₹5,000/- for each day of delay.
- (ii) In case of loss / damage to original movable / immovable property documents, either in part or in full, the ARC shall assist the borrower in obtaining duplicate / certified copies of the movable / immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated at sub-paragraph (i) above. However, in such cases, an additional time of 30 days will be available to the ARC to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).
- (iii) The compensation provided under these directions shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law.

Chapter-VI – Accounting and Disclosures

A. Guidelines related to accounting

132. An ARC shall prepare its balance sheet and profit and loss account as on 31st March every year.

133. An ARC shall classify all the liabilities due within one year as ‘current liabilities’ and assets maturing within one year along with cash and bank balances as ‘current assets’ in their balance sheet.

134. The accounting policies adopted in preparation and presentation of the financial statements shall be in conformity with the applicable prudential norms prescribed by the Reserve Bank.

135. Where any of the accounting policies is not in conformity with these guidelines / instructions, the particulars of departures shall be disclosed together with the reasons therefor and the financial impact on account thereof. Where such an effect is not ascertainable, the fact shall be so disclosed citing the reasons therefor.

136. An inappropriate treatment of an item in balance sheet or profit and loss account cannot be deemed to have been rectified either by disclosure of accounting policies used or by disclosure in notes to balance sheet and profit and loss account.

137. An ARC covered by Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 shall comply with Indian Accounting Standards (Ind AS) for the preparation of their financial statements. In order to promote a high quality and consistent implementation as well as facilitate comparison and better supervision, ARCs shall follow the regulatory guidance issued by Reserve Bank as prescribed in [Annex VI](#).

B. Investments

138. Considering the nature of investment in SRs where underlying cash flows are dependent on realisation from NPAs, it can be classified as available for sale. Hence, investments in SRs may be aggregated for the purpose of arriving at net depreciation / appreciation of investments under the category. Net depreciation, if any, shall be provided for. Net appreciation, if any, shall be ignored.

139. All other investments shall be valued at lower of cost or realisable value. Where market rates are available, the market value shall be presumed to be the realisable value and in cases, where market rates are not available, the realisable value shall be the fair value. However, investments in other ARCs shall be treated as long term investments and valued in accordance with the applicable accounting standards.

C. Income recognition

140. Yield on SRs shall be recognised only after the full redemption of the entire principal amount of SRs.

141. Upside income shall be recognized only after full redemption of SRs.

142. Management fees shall be calculated and charged as a percentage of the NAV calculated at the lower end of the range of the recovery rating specified by the CRA, provided that the same is not more than the acquisition value of the underlying asset. However, management fees are to be reckoned as a percentage of the actual outstanding value of SRs, before the availability of NAV of SRs.

143. Management fees may be recognized on accrual basis. Management fees recognized during the planning period must be realized within 180 days from the date of expiry of the planning period. Management fees recognized after the planning period shall be realized within 180 days from the date of recognition. Unrealised management fees shall be reversed thereafter. Further, any unrealized management fees shall be reversed if, before the prescribed time for realisation, NAV of the SRs fall below 50 percent of face value.

144. An ARC preparing its financial statements as per Ind AS, shall reduce the following amounts from its NOF while calculating the capital adequacy ratio and the amount available for payment of dividend:

- (1) Management fee recognised during the planning period that remains unrealised beyond 180 days from the date of expiry of the planning period.
- (2) Management fee recognised after the expiry of the planning period that remains unrealised beyond 180 days of such recognition.

(3) Any unrealised management fee, notwithstanding the period for which it has remained unrealised, where the NAV of the SRs has fallen below 50 percent of the face value.

145. The amount reduced from NOF and amount available for payment of dividend shall be net of any specific expected credit loss allowances held on unrealised management fee referred to in paragraph 144 above and the tax implications thereon, if any.

146. The Audit Committee of the Board shall review the extent of unrealised management fee and satisfy itself on the recoverability of the same while finalising the financial statements. It shall be ensured that the management fee is computed strictly in accordance with extant regulations.

147. The income recognition on all other items shall be based on recognised accounting principles.

148. Interest and any other charges in respect of all the NPAs shall be recognised only when they are actually realised. Any unrealised income recognised by an ARC before the asset became non-performing and remaining unrealised, shall be derecognised.

149. Expenses incurred at pre-acquisition stage for performing due diligence etc. for acquiring financial assets from banks / financial institutions shall be expensed immediately by recognizing the same in the statement of profit and loss for the period in which such expenses are incurred. Expenses incurred at post-acquisition stage for formation of the trusts, stamp duty, registration, etc. and which are recoverable from the trusts, shall be reversed, if these expenses are not realised within 180 days from the planning period or downgrading of SRs, i.e., NAV is less than 50 percent of the face value of SRs, whichever is earlier.

D. Disclosures in the balance sheet

150. An ARC shall, in addition to the requirements of Schedule III of the Companies Act, 2013, prepare the following schedules and annex them to its balance sheet:

- (1) The names and addresses of the banks/ financial institutions from whom financial assets were acquired and the value at which such assets were acquired from each such bank/ financial institution
- (2) Segregation of various financial assets industry-wise and sponsor-wise (to be indicated as a percentage of the total assets)
- (3) Details of related parties as per the accounting standards and the amounts due to and from them
- (4) A statement clearly charting therein the migration of financial assets from standard to non-performing
- (5) Value of financial assets acquired during the financial year either on its own books or in the books of the trust
- (6) Value of financial assets realized during the financial year
- (7) Value of financial assets outstanding for realisation as at the end of the financial year
- (8) Value of SRs redeemed partially and the SRs redeemed fully during the financial year
- (9) Value of SRs pending for redemption as at the end of the financial year
- (10) Value of SRs which could not be redeemed as a result of non-realisation of the financial asset as per the policy formulated by the ARC under paragraph 36
- (11) Value of land and / or building acquired in ordinary course of business of reconstruction of assets (year wise)
- (12) The basis of valuation of assets if the acquisition value of the assets is more than the book value of the transferors
- (13) The details of the assets disposed of (either by write off or by realisation) during the year at a discount of more than 20 percent of valuation as on the previous year end and the reasons therefor

(14) The details of the assets where the value of the SRs has declined more than 20 percent below the acquisition value

(15) Information about outsourced agency, if owned/ controlled by a director of the ARC

(16) Information about assets acquired under IBC including the type and value of assets acquired, the sector-wise distribution based on business of the corporate debtor

(17) Implementation status of the resolution plans approved by the Adjudicating Authority on a quarterly basis

(18) Information on the ageing of the unrealised management fee recognised in their books in the format specified below as part of the Notes to Accounts in the annual financial statements (applicable only to ARCs preparing their financial statements as per Ind AS):

Sr. No.	Parameters	As at the end of current year	As at the end of previous year
A.	Outstanding amount of unrealised management fee		
	Out of the above, amount outstanding for:		
B.	(a) Amounts where the net asset value of the security receipts has fallen below 50 percent of the face value		
C.	(b) Other amounts unrealised for: (i) More than 180 days but up to 1 year (ii) More than 1 year but up to 3 years (iii) More than 3 years		
D.	Allowances held for unrealised management fee (on B and C)		

E.	Net unrealised management fee (B+C-D)		
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E. Submission of returns

151. An ARC shall follow the instructions on submission of returns contained in [Master Direction – Reserve Bank of India \(Filing of Supervisory Returns\) Directions – 2024](#) as amended from time to time.

F. Submission of audited balance sheet

152. An ARC shall furnish a copy of its audited balance sheet along with the Directors' Report / Auditors' Report every year within one month from the date of Annual General Body Meeting, in which the audited accounts are adopted, to the Regional Office of the Department of Supervision of the Reserve Bank under whose jurisdiction it is registered.

G. Reporting of cases involving change in or takeover of the management of the business of the borrower

153. The ARC shall report all cases, where it has taken action to cause change in or takeover of the management of the business of the borrower for realisation of its dues from the borrower to the Department of Supervision of the Reserve Bank.

H. Display of information - secured assets possessed under the SARFAESI Act, 2002

154. An ARC shall display information, updated on a monthly basis, in respect of the borrowers whose secured assets have been taken into possession by them under the Act. The ARC shall upload this information on their website in the format given below.

Information on secured assets possessed under the SARFAESI Act, 2002											
S l. No	Branch name	State	Borrower name	Guarantor name (wherever)	Registered address of the	Registered address of the guarantor	Outstanding amount (in ₹)	Asset classification	Date of asset classification	Details of security possession	Name of the title holder of the security

				applic able)	borro wer	(wher ever applic able)					posse ssed

Chapter-VII – Miscellaneous Instructions

A. Internal audit

155. An ARC shall put in place an effective internal control system providing for periodical checks and review of the asset acquisition procedures and asset reconstruction measures followed by them and matters related thereto.

B. Guidelines regarding Credit Information Companies

156. An ARC shall follow guidelines prescribed under Reserve Bank of India (Asset Reconstruction Companies- Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025 , as amended from time to time.

157. An ARC shall follow the guidelines issued vide Reserve Bank of India (Asset Reconstruction Companies – Credit Information Reporting) Directions, 2025, as amended from time to time.

C. Filing of transactions with the Central Registry set up under the Act

158. An ARC shall file and register the records of all transactions related to securitisation, reconstruction of financial assets and creation of security interest, if any, with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (Central Registry).

D. Submission of financial information to Information Utilities

159. According to Section 215 of Insolvency and Bankruptcy Code (IBC), 2016, a financial creditor shall submit financial information and information relating to assets in relation to which any security interest has been created, to an information utility (IU) in such form and manner as may be specified by regulations.

160. Chapter V of the Insolvency and Bankruptcy Board of India (Information Utilities) Regulations, 2017, has specified the form and manner in which financial creditors are to submit this information to IUs.

161. As per Section 238 of the IBC, 2016 the provisions of the Code shall have effect, notwithstanding anything inconsistent therewith contained in any other law for the time being in force or any instrument having effect by virtue of any such law.

162. An ARC shall adhere to the relevant provisions of IBC, 2016 and IBBI (IUs) Regulations, 2017 and immediately put in place appropriate systems and procedures to ensure compliance to the provisions of the Code and Regulations.

E. Know Your Customer (KYC)

163. An ARC shall follow the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025, as amended from time to time.

F. Reporting to Indian Banks' Association (IBA):

164. An ARC shall report to IBA the details of chartered accountants, advocates and valuers (who have committed serious irregularities in the course of rendering their professional services) for including in the IBA database of third-party entities involved in fraud.

165. An ARC shall have to ensure that they follow meticulously the procedural guidelines issued by IBA (Circular No. RB-II/Fr./Gen/3/1331 dated August 27, 2009) and also give the parties a fair opportunity to explain their position and justify their action before reporting to IBA.

166. If no reply/ satisfactory clarification is received from them within one month, the ARC shall report their details to IBA. An ARC should consider this aspect before assigning any work to such parties in future.

Chapter-VIII – Repeal and Other Provisions

A. Repeal and saving

167. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to ARCs stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

168. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

169. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

170. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

D. Penal consequences for non-compliance

171. Implementation of these Directions shall be reviewed under the supervisory process and any non-compliance in this regard shall be dealt with appropriately in accordance with the provisions of the Act.

Declaration and undertaking by Director/ MD/ CEO as on

Name:

1. Relevant relationships of Director/ MD/ CEO

- (i) List of relatives, if any, who are connected with the ARC (please refer to sub-section 77 of Section 2 of the Companies Act, 2013)
- (ii) List of entities, if any, in which he/ she is considered as being interested (please refer to sub-section 49 of Section 2 and Section 184 of the Companies Act, 2013)
- (iii) List of entities in which he/ she is considered as holding substantial interest (substantial interest means the beneficial interest held by an individual or any of his/ her relatives, whether singly or taken together, in the shares of a company/ firm, the aggregate amount paid-up on which exceeds 10% of the paid-up share capital/ capital of the company/ firm)
- (iv) Name of the financial institutions including NBFCs/ ARCs in which he/ she is or has been a member of the Board (also give details of period during which such office was held)
- (v) Fund and non-fund facilities, if any, presently availed of by him/ her and/ or by entities listed at 1(ii) and (iii) above from the financial institutions including NBFCs/ ARCs
- (vi) Cases, if any, where the director or entities at 1(ii) and (iii) above are in default or have been in default in the past in respect of credit facilities obtained from financial institutions including NBFCs/ ARCs

2. Records of professional achievements

Relevant professional achievements

3. Proceedings, if any, against the Director/ MD/ CEO

- (i) Whether the director is a member of a professional association/ body? Details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him/ her or whether he/ she has been banned from entry into any profession/ occupation at any time
- (ii) Details of prosecution, if any, pending or commenced or resulting in conviction in

the past against the director and/ or against any of the entities listed at 1(ii) and (iii) above for violation of economic laws and regulations

(iii) Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director

(iv) Whether the director attracts any of the disqualifications envisaged under the Section 164 of the Companies Act, 2013? If so, details thereof.

(v) Has the director or any of the entities at 1(ii) and 1(iii) above been subject to any investigation at the instance of any Government department or agency? If so, details thereof.

(vi) Has the director at any time been found guilty of violation of rules/ regulations/ legislative requirements by customs/ excise/ income tax/ foreign exchange/ other revenue authorities? If so, details thereof.

(vii) Whether the director has at any time come to the adverse notice of a regulator such as RBI, SEBI, IRDA, MCA, etc.?

(viii) Whether the director has been declared as a wilful defaulter at any time in the preceding five years?

(ix) Whether the director is continuing as a wilful defaulter?

4. Any other explanation/ information considered relevant for judging the Director/ MD/ CEO, fit and proper

Undertaking

I confirm that the above information is, to the best of my knowledge and belief, true and complete. I undertake to keep the Board of the ARC fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided above.

*I also undertake to execute the 'Deed of Covenant' required to be executed by the directors of the ARC.

Place :

Signature :

Date :

Name :

* Applicable only for directors

Remarks of Nomination and Remuneration Committee (NRC) of having satisfied itself that the above information is true and complete.

Place :

Date :

Signature of the Chair of the NRC:

Name :

Information About the Director / MD / CEO

Name of ARC:

Sr. No.	Particulars	Information/ details												
1.	Name of the candidate (proposed appointee)													
2.	Proposed designation/ Type of directorship [Such as Whole-time Director/ Managing Director/ Chief Executive Officer/ Non-executive Director (sponsor/non- sponsor), Independent Director, Nominee Director, etc. (to be clearly specified)]													
3.	Nationality & Passport No.													
4.	Date of Birth (DD/MM/YYYY)													
5.	Address, e-mail ID and phone/mobile number													
6.	Permanent Account Number (PAN)	PAN:												
	Details of income tax returns filed during the last 3 years	<table border="1"> <thead> <tr> <th>Date of filing</th><th>Amount of tax paid (₹)</th></tr> </thead> <tbody> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> </tbody> </table>	Date of filing	Amount of tax paid (₹)										
Date of filing	Amount of tax paid (₹)													
7.	Director Identification Number (DIN) and current status thereof													
8.	Educational/ Professional qualifications													
9.	Line of Business or Vocation/ Profession (A brief write-up detailing the relevant knowledge and professional experience of the candidate)													
10.	Details of bank accounts of the candidate across all jurisdictions (Please mention details of all accounts such as savings, current, loans and advances, etc.)	<table border="1"> <thead> <tr> <th>Bank Name</th><th>Type of A/c</th><th>A/c Number</th></tr> </thead> <tbody> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> </tbody> </table>	Bank Name	Type of A/c	A/c Number									
Bank Name	Type of A/c	A/c Number												
11.	Equity shareholding ¹ , if any, of the candidate in the applicant ARC: (i) Number of shares (ii) Face value of shares (iii) Percentage to total paid-up share capital of the ARC													

¹ Please also include details of preference shares, compulsorily convertible debentures, etc., if any, separately.

12.	Whether the candidate is a nominee of or related/associated with any of the sponsor/s? If yes, details thereof.	
13.	List of relatives ² of the candidate, who are connected with the ARC (if any), and nature of such connection	
14.	Present and past ³ occupations (other than those covered at Sr. No. 15) [Designation/Role, Name and address of the organisation, Employee ID, Tenure (from-to), Name of the regulator (if regulated by a financial sector regulator in India or abroad)]	
15.	Names of banks, financial institutions (including NBFCs/ ARCs) and other entities in which the candidate has been chairman / managing director / director / chief executive officer, etc. [Name and address of the organisation and its line of activity, Position held, Tenure (from-to), Name of the regulator (if regulated by a financial sector regulator in India or abroad)]	
16.	List of entities in which the candidate is considered as interested ⁴ or holding substantial interest ⁵ and its regulator	
17.	Whether the candidate or the entities listed at (15) and (16) above are or have in the past been in default ⁶ in respect of any credit facilities (fund/ non-fund-based) obtained from banks/ financial institutions [If yes, please furnish full details such as name of the lender (including the branch name), type of facility, period and quantum of default, etc. and present status thereof]	
18.	Whether the person is a member of any professional association/ body. If yes, details of disciplinary action against him/ her, if any, commenced, pending or resulting in conviction in the past, or whether he/ she has been banned from any profession/ occupation at any time.	

² Refer to Section 2(77) of the Companies Act, 2013

³ At least during the last 10 years

⁴ Refer to Section 184 of the Companies Act, 2013.

⁵ Substantial interest means the beneficial interest held by an individual or his/her spouse or minor child, whether singly or taken together, in the shares of a company/ capital of a firm, the aggregate amount paid-up on which exceeds ten percent of the paid-up share capital of the company or total capital subscribed by all the partners of a partnership firm.

⁶ 'Default' means that the concerned facility has/had been classified as a non-performing asset by the bank/FI.

19.	Details of civil or criminal prosecution (including under Section 138 (1) of the Negotiable Instruments Act, 1881), if any, against the candidate and/ or against any of the entities listed in (15) and (16) above initiated, pending or resulting in conviction in the past for violation of economic laws/ regulations.	
20.	If the candidate has indulged in any breach of AML/CFT guidelines at any time, details thereof.	
21.	Whether the candidate attracts any of the disqualification envisaged under the Section 164 of the Companies Act, 2013? If yes, please give details thereof.	
22.	(a) If convicted by a criminal court of an offence involving moral turpitude, details thereof. (b) If convicted by any other court of law, details thereof along with outcome of such proceedings.	
23.	If the candidate or any of the entities listed at (15) and (16) above has been subject to any investigation or vigilance/ disciplinary enquiry by any of the previous employers or government departments or agencies, details thereof along with outcome of such proceedings.	
24.	If the candidate or the entities listed at (15) and (16) above have at any time been found guilty of violation of rules/ legislative requirements by customs/ excise/ income tax/ foreign exchange/ other revenue authorities/ investigative agencies (including issuance of show cause notice), details thereof.	
25.	If reprimanded, censured, restricted, suspended, barred, enjoined, or otherwise sanctioned by any regulator such as RBI, SEBI, IRDAI, PFRDA, MCA, professional organisations, government agencies or court because of professional conduct or activities, the details thereof ⁷ .	

⁷ Though it shall not be necessary for a candidate to mention herein about the orders and findings which have been later on reversed/ set aside in toto, it would be necessary to make a mention of the same in case the reversal / setting aside is on technical reasons like limitation or lack of jurisdiction, and not on merit. If the order is temporarily stayed and the appeal proceedings are pending, the same should also be mentioned.

26.	If the candidate is a professional (such as a chartered accountant, an advocate, etc.) and is undertaking or has undertaken professional work in any ARC, please provide the details (including the name of the ARC and the period of association)	
27.	Whether the candidate has been declared a wilful defaulter at any time in the last five years by any bank. If yes, details and present status thereof.	
28.	Whether the number of directorship held by the candidate exceeds the limits prescribed under Section 165 of the Companies Act, 2013/SEBI's (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as applicable).	
29.	Any other information considered relevant for assessing the person as 'fit and proper'.	
Declaration by the proposed appointee		
1. I confirm that I am not associated with any unincorporated body which is accepting public deposits. 2. I confirm that I am not associated with any company, the application for Certificate of Registration (CoR) of which has been rejected by the Reserve Bank of India, National Housing Bank or any other financial sector regulator.		
Undertaking by the proposed appointee		
1. I confirm that the above information is, to the best of my knowledge and belief, true and complete. 2. I undertake to keep the Company fully informed, as soon as possible, of all events which take place after submission of this application or after my appointment, which are relevant to the information provided herein above. 3. I also undertake to execute a 'Deed of Covenant' with the Company.		
Place: Date:		Signature of the proposed appointee
Submission of Nomination and Remuneration Committee (NRC)		
Confirmation that necessary due diligence in respect of the proposed appointee has been carried out by the NRC.		
Remarks of the NRC about having satisfied itself that the information provided herein is true and complete.		
Place: Date:		Signature of Chair of the NRC Name:

Duly filled in form must be signed by the candidate (proposed appointee) and countersigned by the chairperson of the Nomination and Remuneration Committee of the ARC.

**Indicative list of documents/ information to be furnished along with the
application**

Sr No.	Requirements to be complied with and documents to be submitted to RBI	Page No.
i.	Covering Letter by the ARC submitting the application for prior approval for appointment/ re-appointment of Director, Managing Director or CEO, duly signed by the authorised signatory (with Company's seal)	
ii.	Identity document of the candidate – PAN Card/ Election Card/ Driving License/ Passport/ Aadhaar Card (any one)	
iii.	Credit Information Report (Score + Full Report) (not older than 6 months) [Explanation for adverse remarks/features, if any, in the report should also be submitted]	
iv.	Banker's Report for all accounts (both deposit and loan/advance accounts) where the candidate is an account holder (in the bank's sealed cover)	
v.	Board Resolution proposing the appointment/ re-appointment of the director/ MD/ CEO, including the proposed tenure	
vi.	Declaration on the status of supervisory compliances by the ARC	
vii.	a) Confirmation whether there has been any change in the shareholding pattern which has led to the proposed appointment (b) Shareholding pattern of the ARC	
viii.	Composition of the Board before appointment of the proposed director (with designation, date of appointment, tenure, DIN, etc)	
ix.	Confirmation whether SEBI's LODR guidelines are applicable to the ARC or not?	

Form of deed of covenants with a Director

THIS DEED OF COVENANTS is made this _____ day of _____ Two thousand _____ BETWEEN _____, having its registered office at _____ (hereinafter called the 'ARC') of the one part and Mr./ Ms _____ of _____ (hereinafter called the 'Director') of the other part.

WHEREAS

A. The Director has been appointed as a director on the Board of Directors of the ARC (hereinafter called 'the Board') and as a term of his/ her appointment, is required to enter into a Deed of Covenants with the ARC.

B. The Director has agreed to enter into this Deed of Covenants pursuant to his/ her said terms of appointment which has been approved by the Board.

NOW IT IS HEREBY AGREED AND THIS DEED OF COVENANTS WITNESSETH AS FOLLOWS:

1. The Director acknowledges that his/ her appointment as director on the Board of the ARC is subject to applicable laws and regulations including the Memorandum and Articles of Association of the ARC and the provisions of this Deed of Covenants.

2. The Director covenants with the ARC that:

(i) The Director shall disclose to the Board the nature of his/ her interest, direct or indirect, if he/ she has any interest in or is concerned with a contract or arrangement or any proposed contract or arrangement entered into or to be entered into between the ARC and any other person, immediately upon becoming aware of the same or at meeting of the Board at which the question of entering into such contract or arrangement is taken into consideration or if the director was not at the date of that meeting concerned or interested in such proposed contract or arrangement, then at the first meeting of the

Board held after he/ she becomes so concerned or interested and in case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the Director becomes concerned or interested in the contract or arrangement.

(ii) The Director shall disclose by general notice to the Board his/ her other directorships, his/ her memberships of bodies corporate, his/ her interest in other entities and his/ her interest as a partner or proprietor of firms and shall keep the Board apprised of all changes therein.

(iii) The Director shall provide to the ARC a list of his/ her relatives as defined in the Companies Act, 2013 and to the extent the Director is aware of directorships and interests of such relatives in other body corporate, firms and other entities.

(iv) The Director shall in carrying on his/ her duties as director of the ARC:

a) use such degree of skill as may be reasonable to expect from a person with his/ her knowledge or experience

b) in the performance of his/ her duties take such care as he/ she might be reasonably expected to take on his/ her own behalf and exercise any power vested in him/ her in good faith and in the interests of the ARC

c) keep himself/ herself informed about the business, activities and financial status of the ARC to the extent disclosed to him/ her

d) attend meetings of the Board and Committees thereof (collectively for the sake of brevity hereinafter referred to as the 'Board') with fair regularity and conscientiously fulfil his/ her obligations as director of the ARC

e) not seek to influence any decision of the Board for any consideration other than in the interests of the ARC

f) bring independent judgment to bear on all matters affecting the ARC brought before the Board including but not limited to statutory compliances, performance reviews, compliances with internal control systems and procedures, key executive appointments and standards of conduct

g) in exercise of his/ her judgement in matters brought before the Board or entrusted to him/ her by the Board be free from any business or other relationship which

could materially interfere with the exercise of his/ her independent judgement

h) express his/ her views and opinions at the Board meetings without any fear or favour and without any influence on exercise of his/ her independent judgement

(v) The Director shall have:

a) fiduciary duty to act in good faith and in the interests of the ARC and not for any collateral purpose

b) duty to act only within the powers as laid down by the ARC's Memorandum and Articles of Association and by applicable laws and regulations; and

c) duty to acquire proper understanding of the business of the ARC

(vi) The Director shall:

a) not evade responsibility in regard to matters entrusted to him/ her by the Board

b) not interfere in the performance of their duties by the whole-time directors and other officers of the ARC and wherever the director has reasons to believe otherwise, he/ she shall forthwith disclose his/ her concerns to the Board; and

c) not make improper use of information disclosed to him/ her as a member of the Board for his/ her or someone else's advantage or benefit and shall use the information disclosed to him/ her by the ARC in his/ her capacity as director of the ARC only for the purposes of performance of his/ her duties as a director and not for any other purpose

3. The ARC covenants with the Director that:

(i) the ARC shall apprise the Director about the:

a) Board procedures including identification of legal and other duties of Director and required compliances with statutory obligations

b) control systems and procedures

c) matters in which Director should not participate because of his/ her interest, direct or indirect therein

d) qualification requirements and provide copies of Memorandum and Articles of Association

e) corporate policies and procedures

f) insider dealing restrictions

- g) constitution of, delegation of authority to and terms of reference of various committees constituted by the Board
- h) appointments of Senior Executives and their authority
- i) remuneration policy
- j) deliberations of committees of the Board
- k) changes in policies, procedures, control systems, applicable regulations including Memorandum and Articles of Association of the ARC, delegation of authority, Senior Executives.

(ii) the ARC shall disclose and provide to the Board including the Director all information which is reasonably required for them to carry out their functions and duties as a director of the ARC and to take informed decisions in respect of matters brought before the Board for its consideration or entrusted to the Director by the Board or any committee thereof

(iii) the disclosures to be made by the ARC to the directors shall include but not be limited to the following:

- a) all relevant information for taking informed decisions in respect of matters brought before the Board
- b) ARC's strategic and business plans and forecasts
- c) organisational structure of the ARC and delegation of authority
- d) corporate and management controls and systems including procedures
- e) economic features and marketing environment
- f) information and updates on major expenditure
- g) periodic reviews of performance of the ARC
- h) periodic reports about implementation of strategic initiatives and plans

(iv) the ARC shall communicate the outcome of Board deliberations to directors and concerned personnel and prepare and circulate minutes of meetings of the Board to directors in a timely manner and to the extent possible within 2 business days of the date of conclusion of the Board meeting

(v) advise the Director about the levels of authority delegated in matters placed before the Board

4. The ARC shall provide to the Director periodic reports on the functioning of internal control systems including effectiveness thereof.

5. The Director shall not assign, transfer, sublet or encumber his/ her office and his/ her rights and obligations as director of the ARC to any third party provided that nothing herein contained shall be construed to prohibit delegation of any authority, power, function or delegation by the Board or any committee thereof subject to applicable laws and regulations including Memorandum and Articles of Association of the ARC.

6. The failure on the part of either party hereto to perform, discharge, observe or comply with any obligation or duty shall not be deemed to be a waiver thereof nor shall it operate as a bar to the performance, observance, discharge or compliance thereof at any time or times thereafter.

7. Any and all amendments and/ or supplements and/ or alterations to this Deed of Covenants shall be valid and effectual only if in writing and signed by the Director and the duly authorised representative of the ARC.

8. This Deed of Covenants has been executed in duplicate and both the copies shall be deemed to be originals.

**IN WITNESS WHEREOF THE PARTIES HAVE DULY EXECUTED THIS AGREEMENT
ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN.**

For the ARC

Signature:

Name:

Title:

Date:

Director

Signature:

Name:

In the presence of:

1.

2

Form I: Declaration to be submitted by the sponsor

Name of the ARC:

Sl. No.	Particulars	Remarks
Part A		
1.	Name of the sponsor (including previous names, if any, along with date of such changes)	
2.	Present & permanent address of the sponsor	
3.	Registered & corporate office address of the sponsor	
4.	Occupation/ nature of business of the sponsor	
5.	Citizenship and resident status if the sponsor is an individual/ ownership and control status if the sponsor is an entity (as per FEMA)	
6.	Date of birth / incorporation	
7.	CIN/ Registration No./ PAN/ TAN	
8.	Details of bank accounts - bank, branch and account no.	
9.	Profitability and average income for the last 3 years and net worth (duly certified by the statutory auditors)	
10.	Source of funds for acquisition of shares/ compulsorily convertible preference shares/ debentures/ bonds (duly certified by the statutory auditors)	
11.	Income tax returns and audited financial statements of the sponsor for the last 3 years	
12.	Details of directorship/ shareholding/ voting rights/ compulsorily convertible preference shares/ debentures/ bonds, etc. of the sponsor in banks and other institutions in the financial sector	

Sl. No.	Particulars	Remarks
13.	Details of acquisition by the sponsor (shareholding in ₹ and %) in the ARC	
14.	Whether any other person has beneficial interest in the proposed acquisition	
15.	Detailed profile on the background and experience of the sponsor, expertise and track record of business	
16.	Whether the sponsor is a financial sector entity/ Government/ public sector undertaking	
17.	Whether the sponsor has been declared as a wilful defaulter at any time in the preceding 5 years If yes, whether the sponsor continues to be a wilful defaulter	
Part B		
18.	<p>(A) List of 'Relatives' of the sponsor</p> <p>(B) List of 'Persons acting in concert' with the sponsor</p> <p>(C) List of Associate Enterprises of the sponsor</p> <p>(D) List of Entities which hold 10% or more of the paid-up share capital of the sponsor</p> <p>(E) List of HUFs where the Sponsor or his family member is a member/ karta</p> <p>(F) List of entities in which the HUF at (E) above is holding 10% or more of the paid-up share capital of that entity</p> <p>(G) List of entities in which the Sponsor is holding 10% or more of the paid-up share capital of that entity</p> <p>(H) Entities, if any, in which the Sponsor is considered as being interested (Refer Section 184 of Companies Act, 2013)</p> <p>(I) Entities where there are common shareholders of the sponsor who collectively hold 20% or more of the paid-up share capital of the Sponsor and also those entities</p> <p>(J) Related Party (Refer AS 18) of the Sponsor</p> <p><i>Explanation: For the purpose of this part,</i></p>	

Sl. No.	Particulars	Remarks
	<p>(i) <i>“Relatives” means ‘relatives’ as defined in Section 2(77) of the Companies Act 2013.</i></p> <p>(ii) <i>Persons shall be deemed to be “acting in concert” who, for a common objective or purpose of acquisition of shares in excess of 10%, pursuant to an agreement or understanding (formal or informal) directly or indirectly cooperate by acquiring or agreeing to acquire shares in the ARC;</i></p> <p>(iii) <i>‘Associate enterprises of the sponsor’, means a company whether incorporated or not, which</i> <i>(a) is a holding company or a subsidiary company of the sponsor; or</i> <i>(b) is a joint venture (defined in terms of AS 23) of the sponsor; or</i> <i>(c) controls the composition of the Board of Directors or other body governing the sponsor; or</i> <i>(d) is able to obtain economic benefits from the activities of the sponsor.</i></p>	
Part C		
19.	Has the sponsor or the persons/ entities listed in Part B been adjudged bankrupt/insolvent at any time	
20.*	If the sponsor or the persons/ entities listed in Part B is a member of a professional association/ body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him/ her or whether he/ she has been banned from entry at any profession/ occupation at any time	
21.*	Details of serious disciplinary or criminal prosecution, if any, pending or commenced or resulting in conviction in the past against the sponsor or the persons/ entities listed in Part B	
22.*	Has the sponsor or the persons/ entities listed in Part B at any time been found guilty of violation of rules/ legislative	

Sl. No.	Particulars	Remarks
	requirements by customs/ excise/ income tax/ foreign exchange/ other revenue authorities/ investigative agencies/ economic laws/ any regulation, including issuance of Show Cause Notice, if so, give particulars	
23.	Whether the sponsor or the persons/ entities listed in Part B have been convicted for any offence due to dishonesty, incompetence or malpractice under any legislation designed to protect members of the public from financial loss	
24.	Whether the persons/ entities listed in Part B has been declared as a wilful defaulter at any time in the preceding 5 years? If yes, whether he/she continues as a wilful defaulter?	
Part D		
25.	If the sponsor is a regulated entity, names and addresses of the regulators of the sponsor in India and abroad	
26.	Shareholding pattern of the sponsor	
27.	Details of capital raised by the sponsor during the past 3 years	
28.	Detailed corporate structure of the Group in case the sponsor belongs to a Group (preferably in a pictorial form)	

*Though it shall not be necessary for a person to mention in the column about orders and findings made by regulators which have been later on reversed / set aside in toto, however, it would be necessary to make a mention of the same, in case the reversal / setting aside is on technical reasons like limitation or lack of jurisdiction, etc., and not on merit. If the order of the regulator is temporarily stayed and the appellate / court proceedings are pending, the same also should be mentioned.

Undertaking

I confirm that the above information to the best of my knowledge and belief, is true and complete. I undertake to keep the ARC fully informed, as soon as possible, of all events which take place subsequent to submission of this declaration, which are relevant to the information provided above.

Signature and stamp of the sponsor

Place :

Date :

I solemnly declare that to the best of my knowledge and belief the information furnished in the statement above is correct, complete, and truly stated.

Signature of Authorised Official of the Company

Name :

Designation :

Company Seal :

Date :

Place :

PART E

Additional information to be submitted by the ARC

Sl. No.	Particulars	Remarks
29.	Any other explanation / information in regard to items above considered relevant for judging "fit and proper" status of the sponsor	
30.	Brief details of shareholder agreements	

Signature of Authorised Official of the Company

Name :

Designation :

Company Seal :

Date :

Place :

Form II: Information to be furnished to the Reserve Bank by the ARC while forwarding the application for seeking prior approval of sponsors

Sl. No.	Particulars	Remarks
1.	Name of the ARC	
2.	Paid-up share capital of the ARC	
3.	Name of the existing sponsors of the ARC	
4.	Name of the proposed sponsor	
5.	Proposed sponsor's track record on integrity and reputation	
6.	Report of the ARC on the acquisition (based on a review by the Board of Directors)	
7.	Whether the proposed sponsor is resident or non-resident	
8.	Whether the proposed sponsor or persons/ entities listed in Part B of Form I has been subject to any proceedings of serious disciplinary or criminal nature	

Encl:

- (i) Report of the ARC
- (ii) Copy of the Board Resolution
- (iii) Form I for individual sponsors

Signature of Authorised Official of the Company

Name :

Designation :

Company Seal :

Date :

Place :

**Form III: Annual declaration (as on March 31 every year) to be furnished to the
ARC by all the existing sponsors of ARCs**

Name of the ARC:

Sl. No.	Particulars	Remarks
1.	Name of the sponsor	
2.	Address of the sponsor	
3.	Occupation of the sponsor (in case of individuals)	
4.	Total number of shares /compulsorily convertible preference shares/ debentures /bonds held by the sponsor in the ARC	
5.	Date/s of acquisition of shares/ compulsorily convertible preference shares/ debentures/ bonds in the ARC in the past 5 years	
6.	Details of regulatory actions against the sponsors and persons/ entities listed in Part B of Form I by regulators in India or abroad, during the last 5 years	
7.	Whether there have been any criminal proceedings against the sponsor and persons/ entities listed in Part B of Form I during the last 5 years, if so, details thereof.	
8.	Whether there have been any civil proceedings against the sponsor and persons/ entities listed in Part B of Form I during the last 5 years, if so, details thereof.	
9.	Change of ownership of the sponsor in the last 5 years (in case of entities), if any	

Signature and stamp of the sponsor

Place :

Date :

Implementation of Indian Accounting Standards by Asset Reconstruction Companies in terms of Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time

The responsibility of preparing and ensuring fair presentation of the financial statements of an Asset Reconstruction Company (ARC) vest primarily with its Board of Directors. The Reserve Bank, expects a high quality implementation of Ind AS which will require detailed analysis, application of judgment and detailed documentation to support judgments. These guidelines focus on the need to ensure consistency in the application of the accounting standards in specific areas, including asset classification and provisioning, and provide clarifications on regulatory capital in the light of Ind AS implementation.

A. Governance Framework

1. In view of the criticality of the nature of the business model in determining the classification of financial assets and restrictions on subsequent reclassification, an ARC is advised to put in place Board approved policies that clearly articulate and document their business models and portfolios. ARC shall also articulate the objectives for managing each portfolio.
2. ARC shall frame their policy for sales out of amortised cost business model portfolios and disclose the same in their notes to financial statements.
3. The Reserve Bank expects the Board of Directors to approve sound methodologies for computation of Expected Credit Losses (ECL) that address policies, procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the ARC. The parameters and assumptions considered as well as its sensitivity to the ECL output should be documented. ARC is advised to not make changes in the parameters, assumptions and other aspects of its ECL model for the purposes of profit smoothening. The rationale and justification for any change in the ECL model should be documented and approved by the Board. Similarly, any adjustments to the model output (i.e. a management overlay) should be approved by the Audit Committee of the Board (ACB) and its rationale and basis should be clearly documented.

Note: NBFCs/ARCs may draw reference to Guidance on Credit Risk and Accounting for Expected Credit Losses issued by Basel Committee on Banking Supervision (BCBS) in December 2015, which is structured around 11 principles out of which first eight principles deal with supervisory guidance and inter-alia cover Board/Senior Management's responsibilities, adoption of sound methodologies for credit risk measurement, disclosure requirements etc.

4. Ind AS 109 does not explicitly define default but requires entities to define default in a manner consistent with that used for internal credit risk management. It is recommended that the definition of default adopted for accounting purposes is guided by the definition used for regulatory purposes. The ACB should approve the classification of accounts that are past due beyond 90 days but not treated as impaired, with the rationale for the same clearly documented. Further, the number of such accounts and the total amount outstanding and the overdue amounts should be disclosed in the notes to the financial statements.

Note - Paragraph B5.5.37 of Ind AS 109 states that "...an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument."

5. Regardless of the way in which ARC assesses significant increase in credit risk, there is a rebuttable presumption under Ind AS 109 that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Ind AS 109 also permits that an ARC can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. ARC should educate its customers on the need to make payments in a timely manner. However, in limited

circumstances, where an ARC does rebut the presumption, it should be done only with clear documentation of the justification for doing so. All such cases shall be placed before the ACB. ARC shall not defer the recognition of significant increase in credit risk for any exposure that is overdue beyond 60 days.

B. Prudential Floor for ECL

6. ARC shall hold impairment allowances as required by Ind AS. In parallel ARC shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard as well as restructured assets, NPA ageing, etc. A comparison (as per the template in [Appendix I](#)) between provisions required under IRACP and impairment allowances made under Ind AS 109 should be disclosed by ARC in the notes to its financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on the adequacy of provisioning for credit losses.
7. Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), ARC shall appropriate the difference from its net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI.
8. The requirement for 'Impairment Reserve' shall be reviewed, going forward.

C. Computation of Regulatory Capital and Regulatory Ratios

9. In determining 'owned funds', 'net owned funds' and 'regulatory capital', ARC shall be guided by the following:
 - (1) Any net unrealised gains arising on fair valuation of financial instruments, including such gains arising on transition to Ind AS, should not be included in owned funds whereas all such net losses should be considered. In determining the net unrealised gains for reduction from owned funds, NBFCs should categorise financial assets measured at fair value into two categories viz.
 - (a) Investments in shares of other NBFCs and in shares, debentures, bonds, etc. in Group companies that are required to be reduced while determining Tier I Capital as defined in paragraph 2(xxxii) of the Non-Banking Financial Company-

Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; and

(b) Others

While netting may be done within the aforementioned categories, net gains from one category should not be offset against losses in the other category.

- (2) Any unrealised gains or losses recognised in equity due to (a) own credit risk and (b) cash flow hedge reserve shall be derecognised while determining owned funds.
- (3) Since unrealised gains on category A have been excluded in computation of owned fund, NBFCs shall reduce the lower of acquisition cost or fair value of investments/advances in subsidiaries/other group companies and other NBFCs while determining Tier I capital as specified in paragraph 2(xxxii) of the aforementioned Master Directions. Net unrealised gains on Category B (i.e. 'Others') to the extent they have been excluded in regulatory capital, shall also be reduced from risk weighted assets.
- (4) ARC shall apply the guidelines specified in sub-paragraph (1) to (3) above mutatis mutandis while determining net owned funds.
- (5) Where ARC uses fair value as deemed cost at the date of transition with respect to Property, Plant and Equipment (PPE) in terms of Ind AS 101, and the difference between the deemed cost and the current carrying cost is adjusted directly in retained earnings, any fair value gains upon such transition shall be reckoned as net owned funds for ARC at a discount of 55 percent.
- (6) 2 month expected credit loss (ECL) allowances for financial instruments i.e. where the credit risk has not increased significantly since initial recognition, shall be included under general provisions and loss reserves in Tier II capital within the limits specified by extant regulations. Lifetime ECL shall not be reckoned for regulatory capital (numerator) while it shall be reduced from the risk weighted assets.
- (7) Securitised assets not qualifying for de-recognition under Ind AS due to credit enhancement given by the originating NBFC on such assets shall be risk weighted at zero percent. However, the NBFC shall reduce 50 per cent of the

amount of credit enhancement given from Tier I capital and the balance from Tier II capital.

10. Regulatory ratios, limits and disclosures shall be based on Ind AS figures. Impaired assets and restructured assets shall be considered as non-performing assets (NPA) for calculation of NPA ratios.

Template for Disclosure in Notes to Financial Statements

Asset Classification as per RBI Norms	Asset classification as per Ind AS 109	Gross Carrying Amount as per Ind AS	Loss Allowances (Provisions) as required under Ind AS 109	Net Carrying Amount	Provisions required as per IRACP norms	Difference between Ind AS 109 provisions and IRACP norms
(1)	(2)	(3)	(4)	(5)=(3)-(4)	(6)	(7) = (4)-(6)
Performing Assets						
Standard	Stage 1					
	Stage 2					
Subtotal						
Non-Performing Assets (NPA)						
Substandard	Stage 3					
Doubtful - up to 1 year	Stage 3					
1 to 3 years	Stage 3					
More than 3 years	Stage 3					
Subtotal for doubtful						
Loss	Stage 3					
Subtotal for NPA						
Other items such as guarantees, loan commitments, etc. which are in the scope of Ind AS 109 but not covered under current Income Recognition, Asset Classification and Provisioning (IRACP) norms	Stage 1					
	Stage 2					
	Stage 3					
Subtotal						
Total	Stage 1					
	Stage 2					
	Stage 3					
	Total					