All you wanted to know about ARCs

Q1. Whether ARCs are NBFCs, and whether the regulatory frameworks prescribed for NBFCs under Chapter IIIB of the Reserve Bank of India Act, 1934, are applicable to ARCs?

ARCs are registered under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (hereinafter referred to as the SARFAESI Act) and regulated using the powers vested with the Reserve Bank thereunder. In terms of paragraph 52 of the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025, dated November 28, 2025, ARCs are exempted from Sections 45IA, 45IB, and 45IC of the RBI Act, 1934. Further, paragraph 57 of the Directions ibid exempts ARCs from the applicability of the Directions ibid (except Chapter IV, wherein these exemptions are specified), the Reserve Bank of India (Non-Banking Financial Companies – Acceptance of Public Deposits) Directions, 2025, and other Master Directions issued to NBFCs specified thereunder. In view of the aforesaid exemptions, ARCs are not considered a class/ category of NBFC, and as such, guidelines issued for NBFCs are not applicable to ARCs unless specifically addressed to ARCs and issued using the powers vested with the Reserve Bank under the provisions of the SARFAESI Act.

Q2. What constitute the permissible business activities for an ARC?

The scope of activities of an ARC is strictly limited to securitisation and asset reconstruction, other functions enumerated under Section 10, and activities specifically permitted by the Reserve Bank utilizing powers conferred under Section 10(2) of the SARFAESI Act. The permissible business activities of ARCs are delineated in paragraphs 17 to 23 of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025, dated November 28, 2025.

Q3. Are ARCs permitted to invest in Security Receipts (SRs) issued by other ARCs?

ARCs can undertake only those functions which are specifically allowed for them under the extant legal and regulatory framework for ARCs. Accordingly, ARCs are not permitted to invest in the SRs issued by another ARC.

Q4. Are ARCs not meeting the NOF of ₹1000 crore permitted to act as resolution applicant under IBC for acquisition of a financial asset?

In terms of the definitions of asset reconstruction and securitisation provided under sections 2(1)(b) and 2(1)(z), respectively of the SARFAESI Act, acquisition of debt is a permitted activity for ARCs. Therefore, ARCs need not meet the conditions specified in paragraph 18 of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025 dated November 28, 2025, inter alia, a net owned fund of ₹1000 crore, for acting as a resolution applicant to acquire financial assets as defined under the SARFAESI Act. However, an ARC should meet the aforesaid conditions if the activities undertaken by it as part of the resolution plan submitted by it are not included in the permitted activities under the SARFAESI Act.

Q5. Whether ARCs can transfer financial assets to entities other than ARCs?

While undertaking the activities of securitisation and asset reconstruction under the SARFAESI framework, an ARC is not permitted to transfer financial assets to entities other than those explicitly permitted in the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025.

Q6. Are ARCs permitted to acquire financial assets which have already completed the maximum realisation period of 8 years from other ARCs?

ARCs are not prohibited from transferring financial assets to another ARC even after the completion of eight years from the date of acquisition of such assets by the first ARC, subject to adherence to all conditions prescribed in paragraph 33 of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025, dated November 28, 2025. However, the transferee ARC shall not issue SRs to other QBs for acquiring such assets after the expiry of the stipulated eight-year period from the date of initial acquisition by the first ARC. Further, such financial assets including SRs shall be classified as 'loss assets' and provided for accordingly.

Q7. What is accounting treatment for the fair value of SRs held beyond the eight-year realisation window by Ind AS-compliant ARCs?

If an ARC recognises in its balance sheet the fair value of SRs that have crossed eight years from the date of acquisition of the financial assets, any net unrealised gains arising on such fair valuation should not be included in its owned funds.

Q8. What is the waterfall mechanism to be followed by ARCs for distribution of yield and upside income?

In terms of paragraphs 140 and 141 of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025, yield on SRs shall be recognised only after the full redemption of the entire principal amount of SRs, and upside income shall be recognised only after the full redemption of SRs, respectively. ARCs are not permitted to distribute yield or upside income on a priority basis to one class of SR holders over another, before the redemption of all classes of SRs issued under a scheme.

Q9. Are ARCs permitted to undertake restructuring of stressed assets where the borrower has been classified as a fraud account by the lender?

ARCs are not permitted to restructure borrower accounts classified as fraud/ wilful defaulter. For this purpose, restructuring would include, inter-alia, rescheduling of debt, conversion of any portion of debt into equity of a borrower entity and additional funding either from the surplus funds of the ARC or through Restructuring Support Finance. However, in cases where the existing promoters are replaced by new promoters, and the borrower company is totally delinked from such erstwhile promoters/management, ARCs may take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters/management.

Q10. What arrangements should an ARC put in place to ensure segregation of duties regarding the acquisition of financial assets and the subsequent settlement of the same assets?

ARCs shall ensure that 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 either processing or approving the proposal for settlement of the same financial asset, in any capacity as mandated under Paragraph 65(1) of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025 dated November 28, 2025. This shall also apply to any official involved in the backend processing of asset acquisition and settlement proposals.

Q11. Whether ARCs can outsource their activities?

In general, ARCs are not restricted from outsourcing their functions. However, they shall not outsource their core functions viz., policy formulation for asset reconstruction and securitisation, decision-making functions on measures towards asset reconstruction viz., acquisition of financial assets, formulating a plan for realisation of financial assets, change in or takeover of the management of the business of the borrower, rescheduling of debts payable by the borrower, enforcement of security interest, settlement of dues payable by the borrower, conversion of any portion of debt into equity of a borrower entity, activity as a resolution applicant under Insolvency and Bankruptcy Code, 2016 (IBC), etc.

Q12. What are the principles to be followed by ARCs in collection of management fee?

The management fee charged by ARCs must be linked to the performance of the ARC and contingent upon actual financial transactions and recoveries. Any practice aimed at delinking the management fee from the performance of ARCs by clauses like 'NAV Protection Clauses' is inconsistent with the principles of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025, dated November 28, 2025.

Q13. Are ARCs required to follow Know Your Customer (KYC) guidelines?

Yes, ARCs are required to follow the provisions of the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025, dated November 28, 2025, for all financial assets acquired by them.

Q14. Whether ARCs are required to conduct fresh KYC of borrowers at the time of acquisition of financial assets from banks/FIs I?

ARCs shall acquire only those financial assets for which updated KYC information is available and the same is uploaded with CKYCR. Accordingly, no fresh KYC documents may be required by the ARCs from the customer at the time of acquisition of financial assets provided that (a) ARCs download the KYC information from CKYCR with the consent of the customer, in accordance with Section 59 of the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025, or (b) ARCs obtain the KYC information from the transferring bank/ FI at the time of transfer of financial assets in compliance to provisions of Section 21 of the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025.

Q15. Whether ARCs required to carry out ongoing due diligence of the KYC information of borrowers of acquired stressed assets?

Yes, ARCs shall carry out ongoing due diligence, including updation/ periodic updation of KYC information based on risk-categorization of customers in terms of Paragraphs 37-40 and Chapter IV, respectively, of the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025. The ARCs shall update such information on CKYCR, as per Section 59 of the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025.

Q16. What are the KYC obligations of an ARC when it appoints the transferor bank/FI as a servicing facility provider for the acquired financial assets?

In those cases, where ARCs appoint the transferor banks/ FIs as servicing facility providers, ARCs shall:

(i) Ensure compliance with Section 21 of the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025, as amended from time to time.

(ii) Maintain a record of customer's information generated from CKYCR with themselves.

(iii) Ensure that the KYC information of the customers is kept updated by the servicing facility providers and the same is uploaded with CKYCR.

(iv) Ensure that KYC related services are not sub-delegated to any third party by the bank/ FI whom the ARC has appointed as the servicing facility provider.

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