

## Tighter RBI norms for ARCs to buy assets

By: FE Bureau

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Asset reconstruction companies (ARCs) will no longer be allowed to bilaterally buy assets from banks or financial institutions (FIs) that they count among their sponsors, the Reserve Bank of India (RBI) said on Friday. ARCs will also be barred from directly buying assets from institutions that have lent to them, subscribed to the fund or are part of the same group as the ARC.

“However, they may participate in 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 market forces,” the central bank said in a notification.

The firm most likely to be affected by the RBI directive is Asset Reconstruction Company (India) (Arcil), which is sponsored by [State Bank of India \(SBI\)](#), [ICICI Bank](#), [Punjab National Bank \(PNB\)](#) and [IDBI Bank](#). Other ARCs sponsored by prominent FIs are Edelweiss ARC, [JM Financial](#) ARC and Phoenix ARC, which is promoted by the Kotak group.

Sector watchers have long called for an expansion of the market for stressed assets in India to attract more long-term investors, such as pension funds.

In the absence of clear regulations governing foreign entities’ participation in the market, such entities have often used ARCs to buy distressed assets. In December 2018, Bank of America

bought a stake in debt-ridden Jayaswal Neco through Assets Care & Reconstruction Enterprise (Acre) while also reaching out to the RBI seeking easier norms for takeover of stressed assets by foreign banks.

Earlier this year, a task force on the development of a secondary market for corporate loans recommended to the RBI that foreign portfolio investors (FPIs) should be allowed to directly buy stressed loans from Indian banks within certain annual prudential limits.

Analysts say that the regulator has, in recent years, tried to make ARCs more accountable for their participation in the market. In a recent note, rating agency Crisil said, "Regulatory changes in recent years have been aimed at increasing ARCs' skin in the game and diversifying the potential investor base for stressed assets." In August 2014, the minimum investment requirement by ARCs for assets acquired was increased from 5% to 15%. Norms for investment in ARCs as well as SRs, including for foreign investors, were eased subsequently.

Crisil said that assets under management (AUM) of ARCs, as measured by security receipts (SRs) outstanding, crossed the Rs 1 lakh-crore mark as on March 31, 2019, up 7% from the previous year.

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