

Asset Reconstruction Company (ARC)

March 4, 2021

In news : ARC proposed in the Budget will be set up by state-owned and private sector banks, and there will be no equity contribution from the government

Background

In her Budget speech, the Finance Minister had said that an Asset Reconstruction Company Ltd and an Asset Management Company would be set up to consolidate and take over the existing stressed debt of banks and then manage and dispose of the assets to Alternate Investment Funds and other potential investors for eventual value realisation.

About the Asset Reconstruction Company(ARC)

- The ARC, which will have an Asset Management Company (AMC) to manage and sell bad assets, will look to resolve stressed assets of Rs 2-2.5 lakh crore that remain unresolved in around 70 large accounts.
- It is an
- Of the existing ARCs, only 3-4 are adequately capitalised, while the more-than-dozen remaining are thinly capitalised necessitating the need to set up a new structure to resolve stressed assets urgently.
- It is to be noted that the **government will not provide any direct equity support to the ARC**, it may provide sovereign guarantee that could be needed to meet regulatory requirements.
- The transfer of stressed assets to the ARC will happen at net book value, which is the value of assets minus provisioning done by banks against these assets.
- The bank will get 15 per cent cash and 85 per cent security receipts against bad debt that will be sold to

the ARC.

- This structure will reduce the load of stressed assets on the bank balance sheet and look to resolve these bad debt in a market-led way.

What is an Asset Reconstruction Company (ARC)?

- ARC is a company incorporated under the Companies Act and registered with Reserve Bank of India under section 3 of The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act(SARFAESI), 2002.
- It is a special type of financial institution that buys the debtors of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself.
- The ARCs take over a portion of the debts of the bank that qualify to be recognised as Non-Performing Assets.
- Thus ARCs are engaged in the business of asset reconstruction or securitisation or both.
- All the rights that were held by the lender (the bank) in respect of the debt would be transferred to the ARC.
- The required funds to purchase such debts can be raised from Qualified Buyers.