भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2013-14/571
DNBS (PD) CC. No. 38/ SCRC/ 26.03.001/2013-14 **April 23, 2014**

The Chairman/Managing Director/Chief Executive Officer
All registered Securitisation Companies/Reconstruction Companies

Dear Sir,

Uniform Accounting Standards at ARCs

Please refer to "The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003" dated April 23, 2003 (herein after called Guidelines).

2. Pursuant to the recommendations of the Key Advisory Group (KAG) constituted by the Government of India on the Asset Reconstruction Companies (ARCs), Reserve Bank of India advises the guidelines on uniform accounting standard for ARCs as under:

a. Acquisition cost (Pre and post acquisition)

Expenses incurred at pre acquisition stage for performing due diligence etc. for acquiring financial assets from banks/ FIs should be expensed immediately by recognizing the same in the statement of profit and loss for the period in which such costs are incurred.

Expenses incurred after acquisition of assets on the formation of the trusts, stamp duty, registration, etc. which are recoverable from the trusts, should be reversed, if these expenses are not realised within 180 days from the planning period [In terms of RBI Notification No.DNBS.2/CGM(CSM)-2003, dated April 23, 2003 planning period means a period not exceeding twelve months allowed for formulating a plan for realization of nonperforming assets (in the books of originator) acquired for the purpose of reconstruction] or downgrading of Security receipts (SRs) (i.e. Net Asset Value(NAV) is less than 50% of the face value of SRs) whichever is earlier.

b. Revenue Recognition-

(i) *Yield* should be recognised only after the full redemption of the entire principal amount of Security Receipts.

(ii) *Upside income* should be recognized only after full redemption of Security Receipts.

(iii) *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 should be realized within 180 days from the date of recognition. Unrealised *Management* fees should be reversed thereafter. Further any unrealized *Management* fees will be reversed if before the prescribed time for realisation, NAV of the SRs fall below 50% of face value. [In terms of RBI Notification No.DNBS.2/CGM(CSM)-2003, dated April 23, 2003 planning period means a period not exceeding twelve months allowed for formulating a plan for realization of non-performing assets (in the books of originator) acquired for the purpose of reconstruction.]

c. Valuation of Security Receipts (SRs)

Considering nature of investment in SRs where underlying cash flows are dependent on realization from non performing assets, 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 should be ignored. Net depreciation required to be provided for should not be reduced on account of net appreciation.

d. Applicability of 'Operating Cycle Concept' under Schedule VI

SC/ RCs are advised in their balance sheet to 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". Capital and Reserves will be treated as liabilities on liability side while investment in SRs and Long term deposits with banks will be treated as fixed assets on the assets side.

3. The accounting guidelines will be effective from the accounting year 2014-15.

Yours sincerely,

(N. S. Vishwanathan)
Principal Chief General Manager