



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

RBI/2024-25/106

DoR.SIG.FIN.REC. 56/26.03.001/2024-25

January 20, 2025

All Asset Reconstruction Companies (ARCs)

Dear Sir/ Madam,

Guidelines on Settlement of Dues of borrowers by ARCs

Please refer to paragraph 15 of the [Master Direction – Reserve Bank of India \(Asset Reconstruction Companies\) Directions, 2024 dated April 24, 2024](#) which prescribes guidelines on settlement of dues payable by the borrowers of the ARCs. On a review, it has been decided to revise these guidelines and the amended paragraph 15 of the Master Direction *ibid* is provided in the [Annex](#).

2. This circular is issued in exercise of the powers conferred by Sections 9 and 12 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002). The revised provisions shall come into effect from the date of this circular.

3. [Master Direction – Reserve Bank of India \(Asset Reconstruction Companies\) Directions, 2024](#) is being updated accordingly.

Yours faithfully,

(J.P. Sharma)
Chief General Manager



Annex to circular no. DoR.SIG.FIN.REC.56/26.03.001/2024-25 dated January 20, 2025

Annex

Paragraph 15 - Settlement of dues payable by the borrower

15.1 Every ARC shall frame a Board-approved policy for settlement of dues payable by the borrowers. This policy 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.

15.2 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.

15.3 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.

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

15.5 Settlement of accounts pertaining to a borrower having aggregate value of more than ₹1 crore in terms of outstanding principal in the books of transferor/s at the time of acquisition by the ARC¹ shall be done as per Board approved policy, subject to the following:

¹ The limit of ₹1 crore shall be the aggregate outstanding principal of all the accounts of the borrower acquired by the ARC from the transferor/s.



- a) Settlement of dues with the borrower shall be done only after the proposal is examined by an Independent Advisory Committee (IAC)² which shall consist of professionals having technical/ finance/ legal background. 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.
- b) The Board of Directors including at least two independent directors or a Committee of the Board meeting the prescribed criteria³, 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.

15.6 Settlement of accounts pertaining to a borrower having aggregate value of ₹1 crore or below in terms of principal outstanding in the books of transferor/s at the time of acquisition by the ARC shall be done as per the criteria prescribed by the authority in the Board-approved policy, subject to the following:

- a) 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.
- b) A quarterly report on the resolution of these accounts shall be placed before the Board/ Committee of the Board which meets the criteria prescribed in paragraph 15.5.

² Under extant guidelines, an ARC is required to constitute an IAC for examining the proposals related to change in or takeover of management of business of the borrower. This IAC shall examine the proposals of settlement of dues with the borrower, as required under this circular.

³ The Committee is chaired by an independent director and has minimum two independent directors, including the Chair; the Committee consists 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; the Committee is created and mandated by the full Board; and the decisions of the Committee, along with rationale, are recorded in the minutes and placed before the Board at quarterly intervals.



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

15.7 For settlement of dues payable by the borrowers classified as frauds or wilful defaulters, guidelines prescribed under paragraph 15.5 above shall be applicable, irrespective of the amount involved. ARCs may undertake settlement of dues in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such borrowers.

15.8 Other legal provisions

- (i) The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force.
- (ii) Further, wherever ARCs 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.