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Asset reconstruction companies seek review of law governing them

HELP SOUGHT. Request FinMin to set up working group to review their existing position and expand role

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Asset reconstruction companies (ARCs) have sought a review of the statute governing them as well as their functioning in the backdrop of financial entities such as private credit (alternative investment funds) and mutual funds emerging as meaningful players in the debt market in the last two decades.

The Association of ARCs in India has requested the Finance Ministry to set up a working group on ARCs to review their existing position and expand their role. Banks and financial institutions clean up their balance sheets through the sale of stressed assets to ARCs.

When the SARFAESI Act 2002 was enacted, the financial sector was dominated by banks and FIs. This statute empowers banks and FIs to recover dues from defaulting borrowers without court intervention.



LESS STRESS. Banks and financial institutions clean up their balance sheets through the sale of stressed assets to ARCs ISTOCK

But with private credit (AIFs) and mutual funds also becoming a force to reckon with in the debt market, ARCs want suitable amendments to the SARFAESI Act so that the former gets an exit route in case their investors seek payback.

ARCs can provide the exit by buying debt from private credit and MFs. The court process that is currently available to the aforementioned entities can take years to conclude.

"By next year, the SARFAESI Act will complete 25 years. The market dynamics have changed considerably in these years. To remain relevant and appropriate, this Act, which defines the framework of functioning of ARCs, among others, needs a comprehensive review, to remain as an integral and effective enabling legal framework in resolutions," said Hari Hara Mishra, CEO, Association of ARCs in India

ADVISORY GROUP

He emphasised that debt aggregation is the first step towards a resolution, and a comprehensive resolution should cover stressed assets with entities such as private credit and mutual funds also. The last time a review of ARCs functioning was done was about 15 years ago. Then the Department of Financial Services formed a key advisory group representing all stakeholders such as banks, regulators, rating agencies, industry bodies and law firms.

ARCs now want a similar body to be formed and a comprehensive review to be done.

As of March-end 2026, the book value of assets acquired by 27 ARCs stood at ₹16,19,124 crore, with the security receipts (SRs) issued by them to entities such as banks, ARCs (own investment in SRs issued by them), financial institutional investors and qualified institutional buyers stood at ₹3,20,887 crore, per RBI data. Outstanding SRs stood at ₹1,53,323 crore.