

Guidelines on Settlement of Dues of borrowers by ARC

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The RBI has introduced a more detailed framework for compromise-settlements by ARCs, vide notification on January 20, 2025, i.e. 'Guidelines on Settlement of Dues of Borrowers by ARCs' ('[Settlement Guidelines](#)'). These Settlement Guidelines introduce additional points under Paragraph 15 of the [Master Direction – Reserve Bank of India \(Asset Reconstruction Companies\) Directions, 2024](#) (which pertain to settlement of dues by borrowers). Salient features of the changes are as below:

- ❖ **Cases where outstanding amount is ₹1 crore or above:** Previously, all settlements were subjected to a two-stage review, first by the Independent Advisory Committee (IAC) for preliminary examination, and review by a Board Level Committee. Now, for settlement, such process is prescribed only for cases where outstanding amount is ₹1 crore or above, or where borrower is classified as Fraud/Wilful Defaulter.
- ❖ **Borrower classified as Fraud/ Wilful Defaulter:** Where borrower is classified as Fraud/Wilful Defaulter, the two-tiered review process mentioned above shall be followed irrespective of the amount involved.

- ❖ **Board Approved Policy (Policy) on settlement:** Now, aspects to be mentioned in Policy are specified, i.e cut off date for one time settlement, permissible sacrifice for various categories of exposures, and methodology for arriving at reasonable value of security.
- ❖ **Where settlement not in lump sum:** Now, additional requirements have been introduced for settlements not in lump sum, i.e. borrowers proposal should be aligned with business plan (where applicable), and projected cash flows
- ❖ **Recovery proceedings sub-judice:** Prescribed now that, where ARC has commenced recovery proceedings, which is pending, settlement with the borrower shall be subject to a compromise decree from the relevant court.