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RBI's FAQ Eases ARC Entry into the IBC Arena

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A. Background

The Reserve Bank of India (RBI) had *via* Master Directions dated 28 November 2025 titled Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025 (Master Directions 2025) for the first time allowed Asset Reconstruction Companies (ARCs) to act as resolution applicant(s) under the Insolvency and Bankruptcy Code, 2016 (Code) subject to compliance of certain conditions which *inter alia* included an ARC to maintain a net owned fund (NOF) of INR 1,000 crore. The RBI has in an FAQ dated 11 September 2026 (FAQ) *inter alia* clarified that all such compliances may not be followed by an ARC when acting as a resolution applicant under the Code unless the activities envisaged to be undertaken as part of the resolution plan are not included in the activities permitted to an ARC under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI).

B. Master Directions 2025 and Clarification by FAQ

The Master Directions 2025, under paragraph 18, state that ARCs are allowed to undertake activities of a resolution applicant under the Code, subject to the maintenance of the following conditions: (a) minimum NOF of INR 1,000 crore; (b) existence of a board approved policy in relation to acting as a resolution applicant *inter alia* comprising the scope of activities, internal limit for sectoral exposure etc; (c) constitution of a committee, comprising of a majority of independent directors to take decisions on the proposals for resolution plan submission; (d) where required, exploration of the possibility of preparing a panel of sector-specific management firms/ individuals having expertise in running firms/ companies, which may be considered for managing the firms/ companies acquired under the corporate insolvency resolution process (CIRP); (e) non-retention by an ARC of significant control over the corporate debtor after five years from the date of approval of resolution plan by the National Company Law Tribunal, for each CIRP (Paragraph 18 Requirements). Specifically, non-compliance of (e) would result in an ARC being debarred from submitting any fresh resolution plans under Code either as a Resolution Applicant or a Resolution Co-Applicant.

In terms of the FAQ, it has now been clarified that ARCs are not required to meet the Paragraph 18 Requirements for acquiring financial assets (*as defined under SARFAESI*) when acting as a resolution applicant in a CIRP, provided that the activities to be undertaken by the ARCs under the resolution plan are also permitted under the SARFAESI. These activities inter alia include, the acquisition of financial assets of any bank/financial institution, issue of security receipts, acting as an agent for bank/financial institution for recovery of debt from a borrower etc. In the event the resolution plan envisages that the relevant ARC will undertake activities which are beyond the SARFAESI, the ARC will be required to comply with the Paragraph 18 Requirements.

C. Comments

As of 30 June 2026, there are only twenty-seven ARCs registered with the RBI. Among these, many ARCs are mid to small sized, and it was observed that they are unable to comply with the Paragraph 18 Requirements due to which the market had not witnessed a surge in ARC participation in the insolvency space. With the FAQs, the ARCs will now be able to participate in varied CIRP subject to the condition the business or activities proposed to be undertaken by the ARCs under the resolution plan are permitted under SARFAESI. It may be noted that ARCs can only undertake activities that are specifically permitted under SARFAESI. The FAQ is a specific, restrictive enablement that has been conferred on the ARCs. ARCs and their role in a resolution plan, should therefore be analysed on a case-to-case basis. There appears to be significant potential in ARCs acting in a partnership with other entities as resolution applicant where the operational partner may take over the activities which are not permitted under the SARFAESI and the ARC may acquire the financial assets of the corporate debtor. However, in the event the resolution plan envisages the ARCs to take any other business activity, the Paragraph 18 Requirements will apply.

At a time when Indian markets have witnessed an extraordinary uptick in credit in recent years especially in the private credit sector with market data pointing towards a high level of debt saturation, the FAQs come at an opportune time as they will help broad base the pool of ready resolution applicants and also provide partnership opportunities between technical, domain ready experts and the ARCs.

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