RBI prescribes uniform accounting norms for asset reconstruction firms

The new norms will be effective from accounting year 2014-15

The Reserve Bank of India (RBI) prescribed uniform accounting standards for asset reconstruction companies(ARCs) for acquiring non-performing loans, recognising revenue and management fees to ensure common treatment for firms.

The new norms will be effective from accounting year 2014-15. These recommendations are based on the views of the Key Advisory Group (KAG) constituted by the Centre on ARCs, the RBI said on Wednesday.

The expenses for diligence before acquiring financial assets should be charged immediately by recognising these in the profit and loss statement for the period in which such costs are incurred, the RBI said.

Referring to booking income, the RBI said yields should be recognised only after fully redeeming the entire principal amount of security receipts and instruments issued to investors. Management fees may be recognised on an accrual basis.

Valuation of security receipts

Where underlying cash flows are dependent on realisation from non-performing assets, security receipts (SRs) can be classified as available for sale. Hence, investments in SRs may be aggregated for arriving at net depreciation or appreciation of investments under the category.

ARCs should provide for net depreciation. Net appreciation should be ignored. The provisions for net depreciation should not be reduced on account of net appreciation.

All the liabilities due within one year should be classified as "current liabilities". Also, assets maturing within one year, along with cash and bank balances, should be treated as "current assets".

The capital and reserves will be treated as liabilities on the liability side while investment in SRs and long-term deposits with banks will be treated as fixed assets on the assets side, the RBI added.

(Business Standard)