

List of recommendations of “IWG to review extant ownership guidelines and corporate structure for Indian private sector banks” which have been accepted or accepted with modifications as indicated

Lock-in period for promoters’ initial shareholding, limits on shareholding in long run, dilution requirement and voting rights

1. **Recommendation No. 1:** No change may be required in the extant instructions related to initial lock-in requirements, which may continue as minimum 40 per cent of the paid-up voting equity share capital of the bank for first five years.
2. **Recommendation No. 2:** There is no need to fix any cap on the promoters’ holding in initial five years.
3. **Recommendation No. 3:** The cap on promoters’ stake in long run of 15 years may be raised from the current levels of 15 per cent to 26 per cent of the paid-up voting equity share capital of the bank. This stipulation should be uniform for all types of promoters and would not mean that promoters, who have already diluted their holdings to below 26 per cent, will not be permitted to raise it to 26 per cent of the paid-up voting equity share capital of the bank. The promoter, if he/she so desires, can choose to bring down holding to even below 26 per cent, any time after the lock-in period of five years.

It is clarified that the lock-in period here refers to initial lock-in period.

4. **Recommendation No. 4:** No intermediate sub-targets between 5-15 years may be required. However, at the time of issue of licences, the promoters may submit a dilution schedule which may be examined and approved by the Reserve Bank. The progress in achieving these agreed milestones must be periodically reported by the banks and shall be monitored by the Reserve Bank.

Accepted without any modification. However, it is clarified that the submission of a dilution schedule shall be mandatory.

5. **Recommendation No. 5:** As regards non-promoter shareholding, current long-run shareholding guidelines may be replaced by a simple cap of 15 per cent of the paid-up voting equity share capital of the bank for all types of non-promoter shareholders.

Accepted with following modifications:

Non-promoter shareholding will be capped at 10 per cent of the paid-up voting equity share capital of the bank in case of natural persons and non-financial institutions/entities and at 15 per cent of the paid-up voting equity share capital of the bank in case of all categories of financial institutions/entities, supranational institutions, public sector undertaking or Government.

It is clarified that the extant instructions on the requirement of prior approval of Reserve Bank to acquire shareholding or voting rights of five per cent or more of the paid-up share capital/ total voting rights of the concerned bank will continue as hitherto.

- 6. Recommendation No. 6:** A monitoring mechanism may be devised to ensure that control of promoting entity/ major shareholder of the bank, does not fall in the hands of persons who are not found to be fit and proper. Licensing conditions/ approvals for acquisitions may stipulate reporting requirements whenever a shareholder becomes a significant beneficial owner (as defined in the Companies Act, 2013) of the promoting entity/ major shareholder of the bank.

Pledge of shares

- 7. Recommendation No. 8:** The IWG is of the view that pledge of shares by promoters during the lock-in period, which amounts to bringing the unencumbered promoters' shares below the prescribed minimum threshold, should be disallowed.
- 8. Recommendation No. 9:** In case the invoking the pledge results in purchase/transfer of shares of such bank beyond 5 per cent of the total shareholding of the bank, without prior approval of Reserve Bank, it may restrict the voting rights of such pledgee till the pledgee applies to Reserve Bank for regularisation of acquisition of these shares.

Accepted with modification that the voting rights of such pledgee shall be restricted to 5 per cent till the pledgee obtains permission of Reserve Bank for regularisation of acquisition of these shares.

- 9. Recommendation No. 10: Reporting requirement:** The Reserve Bank may introduce a reporting mechanism for pledging of shares by promoters of private sector banks.

Eligibility of Promoters

10. Recommendation No. 16: As part of the framework for scale-based regulation of NBFCs, the Reserve Bank may consider putting in place a tighter, bank-like regulatory framework for large NBFCs.

11. Recommendation No. 18: The minimum requirement on track record of experience of promoting entity, including for a converting NBFC, may continue at 10 years for Universal Banks and 5 years for SFBs, as hitherto. However, for a Payments Bank (PB) intending to convert into an SFB, track record of 3 years of experience as PB may be sufficient.

Accepted with the modification that for a Payments Bank (PB) intending to convert into an SFB, requirement of 5 years of experience as PB may continue, along with other requirements as laid down in para 3(a) of [“Guidelines for ‘on tap’ Licensing of Small Finance Banks in the Private Sector -December 5, 2019”](#).

Initial Capital

12. Recommendation No.19: The minimum initial capital requirement for licensing new banks should be enhanced as below:

- (i) For Universal Banks: The initial paid-up voting equity share capital/ net worth required to set up a new universal bank, may be increased to ₹1000 crore (*from present ₹500 crore*).
- (ii) For SFBs: The initial paid-up voting equity share capital/ net worth required to set up a new SFB, may be increased to ₹300 crore (*from present ₹200 crore*).
- (iii) For UCBs transiting to SFBs: The initial paid-up voting equity share capital/ net worth should be ₹150 crore (*from present ₹100 crore*) which has to be increased to ₹300 crore in five years (*from present ₹200 crore*).

Accepted without any modification. However, it is clarified that:

- (i) *These norms will be applicable for entities whose application for banking license is received after the date of this press release.*
- (ii) *The entities/individuals who have already applied for banking license, prior to issue of this press release, and whose applications are presently under examination by RBI, would continue to be governed by the norms on initial*

capital/ net-worth requirement as prescribed under respective existing 'on-tap' licensing guidelines as on the date of submission of such applications.

(iii) For existing banks and the banks to be set up under the existing 'on-tap' licensing guidelines, a road map for adherence with the new norms will be announced separately in due course.

13. Recommendation No. 21: The IWG also recommends uniform usage of the term 'paid-up voting equity share capital' in all guidelines and instructions of Reserve Bank.

<p>Corporate Structure – Non-operative Financial Holding Company (NOFHC)</p>

14. Recommendation No. 22: NOFHCs should continue to be the preferred structure for all new licenses to be issued for Universal Banks. However, NOFHC may be mandatory only in cases where the individual promoters / promoting entities / converting entities have other group entities.

***Accepted without modification.** It is, however, clarified that this is subject to the promoters/promoting entities being eligible to set-up a Universal Bank/Small Finance Bank.*

15. Recommendation No. 23: Banks currently under NOFHC structure may be allowed to exit from such a structure if they do not have other group entities in their fold.

<p>Listing Requirements</p>

16. Recommendation No. 27: SFBs to be set up in future: Such banks should be listed within 'six years from the date of reaching net worth equivalent to prevalent entry capital requirement prescribed for universal banks' or 'ten years from the date of commencement of operations', whichever is earlier.

Accepted with following modification:

***In case of SFBs to be set up in future:** Such banks should be listed within 'eight years from the date of commencement of operations'.*

(The cap of eight years for mandatory listing for these banks has been stipulated considering the importance of listing and to provide sufficient time to these banks for stabilization, consolidation of operations and to gain investors' confidence.)

17. Recommendation No. 29: Universal banks: Such banks shall continue to be listed within six years of commencement of operations.

Fit and Proper Criteria

18. Recommendation No. 30: The criteria to assess 'fit and proper' status of promoters/major shareholders as prescribed in the 'Guidelines for on tap Licensing of Universal Banks in the Private Sector – 2016' and in '[Master Directions on Prior Approval for Acquisition of Shares or Voting Rights in private sector banks - dated November 19, 2015](#)' are appropriate and may be continued. Going forward, a harmonised approach may be adopted in various guidelines.

Issue of harmonisation of various licensing guidelines

19. Recommendation No. 31: Whenever a new licensing guideline is issued, if new rules are more relaxed, benefit should be given to existing banks, immediately. If new rules are tougher, legacy banks should also confirm to new tighter regulations, but transition path may be finalised in consultation with affected banks to ensure compliance with new norms in a non-disruptive manner.

20. Recommendation No. 32: As and when the changes in certain norms, as recommended by the IWG in this report are accepted by Reserve Bank, these should be made applicable to existing banks also, in the manner as prescribed in previous recommendation.

21. Recommendation No. 33: As the licensing is now on-tap, Reserve Bank may prepare a comprehensive document encompassing all licensing and ownership guidelines at one place, with as much harmonisation and uniformity as possible, providing clear definition of all major terms. These may be equally applicable to legacy and new banks. This may be updated from time to time depending on emerging requirements. It will also provide flexibility to Reserve Bank to fine tune the instructions, at a short notice, through small relevant amendment in this document.