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RBI tweaks Guidelines on Ownership/Shareholding in Private Sector Banks

The Reserve Bank of India has reviewed the [extant guidelines](#) on ownership in private sector banks which envisaged diversified shareholding in private sector banks by a single entity/corporate entity/group of related entities. The guidelines have been reviewed against the background of the [guidelines on licensing of new banks in the private sector](#) issued in February 2013, the need for additional capital for the banks consequent to the implementation of Basel III capital regulations and to rationalise the ownership limits. It has stipulated the following [principles for shareholding by promoters, other entities and individuals in private sector banks](#) after the review.

Ownership limits for all shareholders in the long run are now stipulated under two broad categories: (i) natural persons (individuals) and (ii) legal persons (entities/institutions). Further, separate limits are now stipulated for (i) non-financial and (ii) financial institutions; and among financial institutions, for diversified and non-diversified financial institutions. The shareholding ceilings in private sector banks have been fitted into the following shareholding matrix:

Matrix of Shareholding Limits

Category of shareholder	Promoter group	All shareholders in the long run				
		Natural person #	Legal person			Under special Circumstances\$
Non-financial institutions/entities #	Financial institutions					
			Non-regulated or non-diversified and non-listed*	Regulated, well diversified and listed/ supranational institution/ public sector undertaking/ Government		
Sub-category of shareholders	All categories of Promoter/ Promoter group					
Proposed shareholding cap	As specified in the respective guidelines@	10%	10%	15%	40%	As permitted on a case to case basis

@ For all existing banks, the permitted promoter / promoter group shareholding will be in line with what has been permitted in the February 22, 2013 guidelines on licensing of universal banks viz. 15 per cent.

In case any promoter / promoter group is eligible for higher shareholding as per the licensing guidelines, then the same will apply and the limits prescribed for all shareholders in the long run in the matrix will not apply

* In case of financial institutions that are owned to the extent of 50 per cent or more or controlled by individuals¹, the shareholding would be deemed to be by a natural person and the shareholding will be capped at 10 per cent

\$ Shareholders permitted 10 per cent or more in a bank will be subject to a minimum holding period of five years

¹ Including relatives as defined in Section 2(77) of the Companies Act, 2013 and rules made thereunder or persons acting in concert

The voting rights will be capped at the current level of 15 per cent or as notified by the Reserve Bank from time to time.

Other salient features of the guidelines are:

(i) Any acquisition of shareholding/voting rights of 5 per cent or more of the paid-up capital of the bank or total voting rights of the bank would continue to be subject to obtaining prior approval from the Reserve Bank of India.

(ii) The 'fit and proper' criteria for acquisition of shareholding in a private bank beyond 5 per cent will continue to apply.

(iii) Acquisition of shareholding in a private sector bank by foreign entities would continue to be subject to the extant Foreign Direct Investment (FDI) policy. Currently, in terms of the Government of India's foreign direct investment (FDI) policy (April 2015), the aggregate foreign investment in private sector banks from all sources (Foreign Direct Investment (FDI), Foreign Institutional Investors (FII) / Non Resident Indians (NRI) cannot exceed 74 per cent of paid-up capital of the bank. At all times, at least 26 per cent of the paid-up share capital of the private sector banks will have to be held by resident Indians.

(iv) Banks (including foreign banks having branch presence in India) can continue to acquire stake in a bank's equity shares upto 10 per cent of the investee bank's equity capital. However, in case of exceptional circumstances, such as, restructuring of problem/weak banks or in the interest of consolidation in the banking sector, etc., the Reserve Bank may permit them a higher level of shareholding.

(v) In banks where there are no major regulatory/supervisory concerns, a person may be permitted to acquire higher shareholding, if the same is supported by the Board of the Directors of the concerned bank. In such banks, hostile takeover will not be allowed.

(vi) In banks where there are regulatory/supervisory concerns and, where in the opinion of the Reserve Bank, a change in the ownership/management of the bank is necessary in the interests of the depositors of the bank/public interest, the Reserve Bank may, at its discretion, permit a person to acquire higher shareholding, even if the existing board does not support the same. Such a person may or may not be an existing shareholder.

(vii) In the case of existing private sector banks -

a) Where specific orders have been passed by the Reserve Bank relating to dilution of shareholding by persons/entities/groups, those orders will continue to apply for such shareholding.

b) Where specific approvals have been granted by the Reserve Bank for promoters/entities/groups to have shareholding in excess of 10 per cent, they could continue to hold such shareholding in the banks upto the specified period.

c) Where any promoter/promoter group has shareholding in excess of 15 per cent and timelines have already been stipulated by the Reserve Bank for bringing it down to 10 per cent, such timelines shall continue to apply for bringing the shareholding down to 15 per cent.

The Reserve Bank of India has reviewed the current guidelines on ownership.

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