

Master Direction

Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023



**Reserve Bank of India
Department of Regulation**

Contents

INTRODUCTION

CHAPTER I PRELIMINARY

- 1 Short title and commencement
- 2 Applicability
- 3 Definitions

CHAPTER II PRIOR APPROVAL FOR ACQUISITION

- 4 Procedure for prior approval

CHAPTER III CONTINUOUS MONITORING ARRANGEMENTS

- 5 Due diligence
- 6 Detecting violation of Section 12B (1) of the B R Act, 1949
- 7 Diversified shareholding in the banking company
- 8 Reporting requirements

CHAPTER IV REPEAL AND OTHER PROVISIONS

FORMS

Form A1 Comments of the banking company on “major shareholding”

Form A2 Details of issue of shares and aggregate shareholding

ANNEX

Annex I Indirect acquisition of shares or voting rights

Annex II Illustrative criteria for determining “fit and proper” status of applicants/major shareholders

Master Direction – Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023

In exercise of the powers conferred by Sections 12, 12B, and 35A of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

These directions may be read along with the ‘Guidelines on Acquisition and Holding of Shares or Voting Rights in Banking Companies’ issued by the Reserve Bank of India ([the Guidelines](#)).

Objective: These directions are issued with the intent of ensuring that the ultimate ownership and control of banking companies are well diversified and the major shareholders of banking companies are ‘fit and proper’ on a continuing basis.

CHAPTER – I
PRELIMINARY

1. Short Title and Commencement.

- 1.1 These directions shall be called the Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023.
- 1.2 These directions shall become effective from the date of issue.

2. Applicability

- 2.1 The provisions of these directions shall apply to all banking companies (as defined in clause (c) of Section 5 of the Banking Regulation Act, 1949), including Local Area Banks (LABs), Small Finance Banks (SFBs) and Payments Banks (PBs) operating in India¹.

¹ These directions are not applicable to foreign banks [operating either through branch mode or Wholly Owned Subsidiary (WOS) mode].

3. Definitions

3.1 In these directions, unless the context otherwise requires, the terms used shall bear the meanings assigned to them below, and their cognate expressions and variations shall be construed accordingly:-

- (a) “acquisition” means, acquiring, or agreeing to acquire, shares² or voting rights in a banking company, directly or indirectly³;
- (b) “aggregate holding” means the total holding, directly or indirectly, beneficial or otherwise, of shares or voting rights by a person along with his relatives, associate enterprises and persons acting in concert with him in a banking company [For the purpose of arriving at indirect holding, the acquisition of shares or voting rights mentioned in [Annex I](#) shall also be considered and that indirect acquisition is not limited to the acquisition(s) mentioned therein];
- (c) “applicant” means the person making an application under Section 12B of the Banking Regulation Act, 1949 (10 of 1949);
- (d) “encumbrance” has the same meaning as assigned to it in the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- (e) “major shareholding” means “aggregate holding” of five per cent or more of the paid-up share capital or voting rights in a banking company by a person;
- (f) “person” means a natural person or a legal person;
- (g) “relative” has the same meaning as defined in Section 2(77) of the Companies Act, 2013 and rules made thereunder; and
- (h) “significant beneficial owner” has the same meaning as stated in Companies (Significant Beneficial Owners) Rules, 2018.

3.2 All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949.

²Shares include equity shares and preference shares as mentioned in Section 12(1)(ii) of the BR Act, 1949.

³ In these directions usage of the word “indirectly” will include the meaning as provided in Explanation III to Rule 2(h) of Companies (Significant Beneficial Owners) Rules, 2018.

CHAPTER – II

PRIOR APPROVAL FOR ACQUISITION

4. Procedure for prior approval

4.1 Any person who intends to make an acquisition which is likely to result in major shareholding in a banking company⁴, is required to seek previous approval of the Reserve Bank by submitting an application to the Reserve Bank.

4.2 On receipt of the application and declaration from the applicant, the Reserve Bank may seek comments from the banking company on the proposed acquisition.

4.3 On receipt of the reference from the Reserve Bank, without prejudice to the generality of the aspects to be considered, the board of directors (the board) of the banking company shall, based on the information provided as well as due diligence undertaken by the banking company, deliberate on the proposed acquisition, and assess the 'fit and proper' status of the person. The concerned banking company shall furnish its comments after considering all relevant aspects along with a copy of the relevant board resolution and information in [Form A1](#) specified in these directions to the Reserve Bank within 30 days. For this purpose, banking companies shall put in place a board-approved 'fit and proper' criteria for major shareholders, which shall consider, at a minimum, the illustrative 'fit and proper' criteria mentioned in the [Annex II](#).

4.4 The Reserve Bank would undertake due diligence to assess the 'fit and proper' status of the applicant. The decision of the Reserve Bank to (a) accord or deny permission or (b) accord permission for acquisition of a lower quantum of aggregate holding than that has been applied for, shall be binding on the applicant and the concerned banking company. The Reserve Bank may impose such conditions on the applicant and the concerned banking company as deemed fit while according the permission.

⁴ Shall be computed assuming that all the instruments (including convertible instruments) issued/to be issued to the person have been converted into shares (with applicable voting rights) and deemed to be included in the paid-up share capital or total voting rights of the banking company.

4.5 Subsequent to such acquisition, if at any point in time the aggregate holding falls below five per cent, the person will be required to seek fresh approval from the Reserve bank if the person intends to again raise the aggregate holding to five percent or more of the paid-up share capital or total voting rights of the banking company (as per sub-section (1) of Section 12B of B R Act, 1949).

4.6 The persons from⁵ Financial Action Task Force (FATF) non-compliant jurisdictions⁶ shall not be permitted to acquire major shareholding in a banking company. The existing major shareholders from such FATF non-compliant jurisdictions will, however, be allowed to continue with their investment, provided that there shall not be any further acquisition without prior approval of the Reserve Bank. Reserve Bank may, however, at any point of time, consider the fitness of such persons holding shares and pass appropriate orders on their permissible voting rights in accordance with law and applicable rules.

CHAPTER – III

CONTINUOUS MONITORING ARRANGEMENTS

5. Due diligence

5.1 A banking company shall continuously monitor that the following persons are 'fit and proper' on an ongoing basis:

- (a) its major shareholders⁷ who have completed the approved acquisition;
- (b) those applicants for whom comments have been provided by the concerned banking company to the Reserve Bank for approval to have major shareholding; and
- (c) those applicants who have been approved by the Reserve Bank to have major shareholding but are yet to complete the approved acquisition⁸.

5.2 Further, a banking company shall:

- (a) put in place a mechanism to obtain information on a continuous basis on any changes in the information provided in **Form A** appended to the [Guidelines](#) or

⁵ This shall also be applicable to various jurisdictions through which the funds for investments are routed.

⁶ i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring.

⁷ Major shareholders include promoter(s) with major shareholding.

⁸ Subject to any validity period for the approval granted by the Reserve Bank under sub-section (4) of Section 12B of B R Act, 1949.

any other development which may have a bearing on the 'fit and proper' status of major shareholder / applicant;

- (b) examine any concern / information regarding the major shareholders / applicants that could render such persons not 'fit and proper' to continue as / become major shareholder and immediately furnish the report on the same to the Reserve Bank;
- (c) obtain, within one month of the close of financial year, a report on any changes in the information provided in **Form A** appended to the [Guidelines](#) from the major shareholder / applicant; and
- (d) make an assessment about the 'fit and proper' status of such person(s) in the light of information provided and its own investigations and forward the comments of its Board regarding the 'fit and proper' status of its major shareholders / applicants, to the Department of Regulation, Reserve Bank of India, not later than September 30 every year.

5.3 The banking companies shall put in place a mechanism to obtain information on any change in Significant Beneficial Owner or acquisition by a person to the extent of 10 per cent or more of paid-up equity share capital of the major shareholder. In seeking the information, banking companies shall also be guided by the information sought in **Form A** appended to the [Guidelines](#). Based on the information so received, the concerned banking company shall conduct requisite due diligence to ascertain whether the major shareholder continues to be 'fit and proper'. The banking company shall, within 30 days from receipt of information on such changes, submit a brief report, along with the board note and resolution to Department of Regulation, Reserve Bank of India.

6. Detecting violation of Section 12B (1) of the B R Act, 1949

6.1 A banking company shall establish a continuous monitoring mechanism to ascertain that a major shareholder has obtained prior approval of the Reserve Bank for the shareholding/voting rights. Any violation of sub-section (1) of section 12B of B R Act, 1949 shall be immediately brought to the notice of the Reserve Bank. Any major shareholder⁹ who is covered by sub-section (3) of section 12B of the B R Act, 1949,

⁹ Includes acquisition of shares or entitlement to exercise voting rights involving invocation of encumbrance of shares.

and has not obtained prior approval of the Reserve Bank, can exercise voting rights only after obtaining the approval of Reserve Bank for major shareholding.

6.2 Even when the acquisition / aggregate holding is less than five per cent of paid-up share capital or voting rights of a banking company, a reference shall be made to the Reserve Bank by the banking company along with a copy of board resolution and necessary documents, if it has reason to believe that the methods adopted are meant to circumvent the statutory requirements.

6.3 The banking company shall submit periodical reports on the continuous monitoring arrangements to its board, which *inter alia*, shall include assessment of compliance to sub-section (5) of Section 12B of the B R Act, 1949.

7. Diversified shareholding in the banking company

7.1 The banking companies (excluding Payments Banks) which are operational as on the date of issue of these directions and where the aggregate holding of a person is not in conformance with the [Guidelines](#) shall within six months from the date of issue of these directions submit a shareholding dilution plan.

8. Reporting requirements

8.1 After issue¹⁰ and allotment of shares, a banking company shall report the details in the [Form A2](#) within 14 days of completion of the allotment process. The banking company shall also ensure that the limits approved by the Reserve Bank for a person shall not be breached.

8.2 The banking company shall forward the details on encumbrance of shares reported by promoter(s)¹¹ and promoter group in **Form B** appended to the [Guidelines](#) to the Department of Supervision within one working day. Further, the banking company shall place the report before its board and within 30 days from the date of event submit a report to Department of Regulation, Reserve Bank of India.

¹⁰ A banking company has general permission for issue of shares subject to various conditions such as FEMA, 1999, SEBI regulations, provisions of Companies Act and rules made thereunder, etc.

¹¹ “promoter and promoter group” has the same meaning as stated in Annex I of [Guidelines for ‘on tap’ Licensing of Small Finance Banks in the Private Sector dated December 5, 2019](#), amended from time to time.

CHAPTER IV

REPEAL AND OTHER PROVISIONS

9. Following three Master Directions have been consolidated into these directions with suitable modifications, and thus they are repealed from the date of issue of these directions:

S. No.	Date of Master Directions	Master Directions number	Subject
(i)	November 19, 2015	Master Direction No. DBR.PSBD.No.56/16.13.100/2015-16	Prior approval for acquisition of shares or voting rights in private sector banks
(ii)	April 21, 2016	Master Direction DBR.PSBD. No. 95/16.13.100/2015-16	Issue and Pricing of Shares by Private Sector Banks
(iii)	May 12, 2016	Master Direction DBR.PSBD.No. 97/16.13.100/2015-16	Ownership in Private Sector Banks

10. The instructions / guidelines contained in the following circulars issued by the Reserve Bank, had already been repealed through earlier Master Directions (as mentioned below), and thus they continue to remain repealed:

(A) [Master Direction No.DBR.PSBD.No.56/16.13.100/2015-16 dated November 19, 2015](#) –Reserve Bank of India (Prior approval for acquisition of shares or voting rights in private sector banks) –Directions, 2015

S. No.	Date of circular	Circular number	Subject
(i)	May 23, 1991	DBOD.No.Fol.BC.129/C.249-91	Transfer of Shares of Banks addressed to all Indian Private Sector Commercial Banks
(ii)	April 16, 1994	DBOD.No.44/16.13.100/94	Acquisition of Shares of Banks for Gaining Controlling Interest addressed to all Indian Private Sector Commercial Banks
(iii)	September 21, 1999	DBOD.No.PSBS.BC.349/16.13.100/99-2000	Transfer of Shares addressed to all Indian Private Sector Commercial Banks
(iv)	May 31, 2000	DBOD.No.PSBS.BC.182/16.13.100/99-2000	Transfer of Shares addressed to all Indian Private Sector Commercial Banks
(v)	July 18, 2000	DBOD.No.PSBS.BC.05/16.13.100/2000-2001	Transfer of Shares addressed to all Indian Private Sector Commercial Banks
(vi)	November 7, 2002	DBOD.No.PSBS.BC.41/16.13.100/2002-2003	Transfer of Shares – Prior Acknowledgment of Reserve Bank addressed to all Indian Banks in the Private Sector

S. No.	Date of circular	Circular number	Subject
(vii)	February 3, 2004	DBOD.No.PSBS.BC.64/16.13.100/2003-04	Guidelines for Acknowledgement of Transfer / Allotment of Shares in Private Sector Banks addressed to all Scheduled Commercial Banks
(viii)	August 13, 2005	DBOD.No.PSBD.155/16.13.100/2004-05	Transfer of shares of banks addressed to all Private Sector Banks.
(ix)	October 26, 2005	DBOD.No.PSBD.435/16.13.100/2005-06 dated October 26, 2005	Transfer of shares of banks addressed to all Private Sector Banks.

(B) [Master Direction DBR.PSBD.No.95/16.13.100/2015-16 dated April 21, 2016](#)- Reserve Bank of India (Issue and Pricing of Shares by Private Sector Banks) Directions, 2016.

S. No.	Date of circular	Circular number	Subject
(i)	June 17, 1994	DBOD.No.BC.76/16.13.100/94	Issue of Shares by Private Sector Banks
(ii)	July 10, 1998	DBOD.No.PSBS.BC.72/16.13.100/98-99	Issue of Shares by Private Sector Banks
(iii)	June 25, 2005	DBOD.No.PSBD.BC.99/16.13.100/2004-05	Rights Issue by Private Sector Banks – Acknowledgement of Transfer/Allotment of Shares
(iv)	April 20, 2010	DBOD.No.PSBD.BC.92/16.13.100/2009-2010	Issue and Pricing of Shares by Private Sector Banks

(C) [Master Direction DBR.PSBD.No. 97/16.13.100/2015-16 May 12, 2016](#) - Reserve Bank of India (Ownership in Private Sector Banks) Directions, 2016.

S. No.	Date of circular	Circular number	Subject
(i)	February 28, 2005	DBOD.No.PSBD.BC.99/16.13.100/2004-05	Ownership and Governance in Private Sector Banks – The following paragraphs are repealed: 1(iii), (iv), 2, 3 (i), (ii), (iv) & (v), 4, 5, 7, 7.1, 7.2, 7.3, 9 (i) to (iv), 10 (i), 11
(ii)	February 5, 2007	DBOD.No.PSBD.7269/16.13.100/2006-07	Issue of American Depositary Receipts (ADRs) / Global Depositary Receipts (GDRs) - Depositary Agreement.

11. All approvals / acknowledgements given under the above circulars/ directions shall be deemed as given under these directions.

Form A1

Comments of the banking company on “major shareholding”

1	Name of the banking company	
2	Applicant's track record on integrity and reputation	
3	Report of the banking company on the proposed acquisition (based on a review by the board)	
4	In case of non-resident investors, declaration of the banking company regarding compliance with the relevant provisions of FEMA 1999	
5	Whether the applicant or persons / entities listed at Sr. No. 9 and 33 of Form A appended to the Guidelines been subjected to any proceedings of serious nature	
6	Whether the applicant or persons / entities listed at Sr. No. 9 and 33 of Form A appended to the Guidelines meet the fit and proper criteria of the banking company	
7	Does the board consider/suspect the proposed acquisition as an attempt for takeover or for destabilisation of the management. If so, full details to be provided.	
8	Name of person(s) holding only voting rights in the banking company (To be listed along with the percentage of voting rights)	

Encl:

1. Report of the banking company
2. Copy of the board resolution

Name of Authorised Signatory of the banking company

Signature of Authorised Signatory

Date:

Place:

FORM A2

Details of issue of shares and aggregate holding

Name of the banking company:

1) Details of issue of shares

Sr. No	Date of the issue	Type of the issue	Size of the issue				Paid up capital	
			No. of shares	Face value of each share	Premium on each share	Amount raised	Pre-issue	Post-issue

2) Details of aggregate holding of five per cent or more of paid-up share capital or voting rights post issue of shares

Sr. No	Name of the Major shareholder	Aggregate holding of the Major Shareholder as a percentage of paid-up share capital or total voting rights prior to issue of shares ¹²	Aggregate holding of the Major Shareholder as a percentage of paid-up share capital or total voting rights post issue of shares	Date of RBI approval for major shareholding

Encl:

- 1) copy of the board / shareholder resolution
- 2) Copy of the prospectus / offer document

Name of Authorised Signatory of the banking company

Signature of Authorised Signatory

Date:

Place:

¹² In case the holding of the major shareholder in percentage of paid-up share capital is different from the percentage of voting rights of the banking company, the same may be indicated separately.

Annex I

Indirect acquisition of shares or voting rights

The indirect acquisition of shares or voting rights by a person (natural or legal) may include, amongst others, such acquisition by:

- (i) any body-corporate under the same management or control or owner¹³ to which the person belongs to and its directors;
- (ii) the directors of the person and any other person entrusted with the management of the person;
- (iii) promoter and promoter group¹⁴ of the person;
- (iv) mutual funds, its sponsor, trustees, trustee company and asset management company;
- (v) a collective investment scheme and its collective investment management company, trustees and trustee company of the person;
- (vi) venture capital fund, its sponsor, trustees, trustee company and asset management company;
- (vii) alternative investment fund, acquisition through its sponsor, trustees, trustee company and manager;
- (viii) a portfolio manager and its client;
- (ix) Any person¹⁵ who manages the funds of one or more investors and exercise voting rights on their behalf or direct the manner of exercise of voting rights in the banking company;
- (x) Any other person having control¹⁶ over the person;
- (xi) Proxy voters¹⁷ (other than Corporate representative and relatives of the registered members) without any specific mandate on manner of voting.

¹³ Illustratively, entities related to one or more other entities because they all have the same shareholder structure without a single controlling shareholder or because they are managed on a unified basis.

¹⁴ For the purpose of these directions, the recognition norms for recognizing the promoter group of a banking company shall be applied to recognize the promoter and promoter group of the person.

¹⁵ This shall also include Private Equity funds, its General Partners and Limited Partners, investment manager or any other person doing similar activity of managing funds of one or more persons.

¹⁶ Control as defined in Section 2(27) of Companies Act, 2013 - Control shall include the right to appoint majority of the directors or to control the management or to control policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

¹⁷ This shall include Proxy Adviser for one or more persons with authorisation to exercise voting rights.

Annex II

Illustrative criteria for determining “fit and proper” status of applicants/major shareholders

- (i) For acquisition of five per cent or more but less than 10 per cent in the banking company:
 - (a) Integrity, reputation and track record in financial/non-financial matters and compliance with tax laws,
 - (b) Any proceedings of a serious nature, or has been notified of any such impending proceedings or of any investigation which may lead to such proceedings,
 - (c) Record or evidence of previous business conduct and activities resulting in conviction for an offence under any legislation designed to protect members of the public from financial loss due to dishonesty, incompetence or malpractice,
 - (d) Outcome of due diligence conducted with the relevant regulator, revenue authorities, investigation agencies and credit rating agencies etc., as considered appropriate,
 - (e) Serious financial misconduct, including defaulting on financial obligations or whether the applicant was adjudged to be insolvent,
 - (f) The credibility of source of funds for the acquisition,
 - (g) Where the applicant is a body corporate, track record or reputation for operating in a manner that is consistent with the standards of good corporate governance, financial strength and integrity in addition to the assessment of individuals and other entities associated with the body corporate as enumerated above.
 - (h) Adherence to the [Guidelines](#) on acquisition and holding of shares or voting rights in banking companies

 - (ii) For acquisition of 10 per cent or more in the banking company:
 - (a) All aspects as laid down in (i) above.
 - (b) Details of group entities, in case the applicant belongs to a group.
 - (c) Source and stability of funds for acquisition and the ability to access financial markets as a source of continuing financial support for the banking company.
 - (d) The business record and experience of the applicant including any experience in acquisition of business.
 - (e) The extent to which the corporate structure of the applicant will be in consonance with effective supervision and regulation of the banking company.
 - (f) The soundness and feasibility of the plans of the applicant for the future conduct and development of the business of the banking company.
 - (g) Shareholder agreements and their impact on control and management of the banking company.
-

Related Links	
January 16, 2023	Guidelines on Acquisition and Holding of Shares or Voting Rights in Banking Companies
November 26, 2021	Recommendations of the Internal Working Group to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks



Reserve Bank of India

Department of Regulation

13th Floor, Central Office Building,
Shahid Bhagat Singh Road,
Mumbai-400 001.