Draft Guidelines	Feedback	Final Guidelines
Promoters / promoter groups with diversified ownership, sound credentials and integrity that have a successful track record for at least 10 years in running their businesses shall be eligible	The stakeholders sought greater clarity in respect of the stipulations on eligible promoters, clear definition of 'real estate construction', 'well diversified group' and 'promoter group' in the context of eligibility criteria	Same as Draft
Applicants will be required to list group companies undertaking key business activities.	Clarity on the time frame within which the group companies undertaking key business activities were to be listed.	
Promoter / promoter groups will be permitted to set up a new bank only through a wholly-owned Non-Operative Holding Company (NOHC)	Requirement of the Non-Operative Holding Company (NOHC) to be wholly owned by the promoters may be revisited, and diversified shareholding at the NOHC level be permitted to improve corporate governance	Same as draft
Only non-financial services companies / entities and individuals belonging to the promoter group will be allowed to hold shares in the NOHC.	Certain NBFCs also suggested that existing Non-operative investment/Holding Companies should be allowed to own / hold shares of the NOHC.	Same as draft
The initial minimum paid-up capital for a new bank shall be `500 crore. The actual capital to be brought in will depend on the business plan of the promoters.	Certain banks and institutions felt that the minimum capital required should be Rs.1000cr instead of Rs.500cr	Same as draft
Shareholding by NOHC in the bank in excess of 40% of the total paid-up capital shall be brought down to 40% within **two** years from the <u>date of licensing of the bank.</u>	Dilution of promoter shareholding to 40% in the bank should be increased from 2 years to 3-5 years horizon.	Dilution in excess of 40% within **3yrs of commencement of business**
The shareholding by NOHC shall be brought down to 20% of the paid up capital of the bank within a period of 10 years and to 15% within 12 years from the date of licensing of the bank and retained at that level thereafter.	To stagger the process of dilution to a period of 15 years and to permit higher stake (26% to 40%) to promoters/NOHC. Certain parties suggested that the schedule for dilution of promoters' shareholding should be reckoned from the date of commencement of business instead of date of licensing of the bank.	Same as draft **but beginning from date of commencement of business**
The aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks shall not exceed 49% for the first 5 years from the date of licensing of the bank.	Some institutions felt that the foreign shareholding should not be restricted in the new banks and be permitted upto a level of 74%. A few business houses, NBFCs and a federation felt that restricting foreign shareholding to 49% for initial 5 years was not a deterrent.	Same as draft but from commencement of business After 5yrs, existing policy of upto 74% foreign holding in pvt. bank to be permitted

No non-resident shareholder, directly or indirectly, individually or in groups, will be permitted to hold 5% or more of the paid up capital of the bank.	5% cap for non-resident individual / group is passive and that it would be important to raise the limit from 5% to 25%	Same as draft
No financial services entity under the NOHC would be allowed to engage in any activity that a bank is permitted to undertake departmentally. All such activities, if any, will have to be moved to the new bank subject to such conditions as RBI may specify.	NBFCs suggested that a time span of 2-3 years or 5-10 years should be given to the bank to transfer activities permitted to it from other entities / NBFCs in the group. NBFCs also felt that the tax implication for transferring existing financial services business to the bank should be addressed. Some infrastructure companies suggested that infrastructure business should be allowed to be run outside the bank with stringent and appropriate regulatory compliance. They also suggested that on infrastructure companies getting converted into banks, exemption from CRR, SLR, Priority Sector Lending etc should be granted in the initial years.	Same as draft Transfer permitted activity to new bank. Activities not allowed to be undertaken by a bank dept to be done through separate JV/Subsidiary/Associate structure In any case, NBFC to have minimum networth of Rs.500cr Can Convert NBFC branches in Tier 2-6 centres into bank branches Need prior RBI approval to convert Tier 1 branches into bank branches New bank will have to comply with PSL and sub targets as applicable to existing banks from commencement of business
The business models will have to address how the bank proposes to achieve financial inclusion.	An FII suggested that targets for financial inclusion by the new banks should be specified and that the Head Office of banks (not Registered Office) should be encouraged to be based in a non-metro centre.	Same as draft
To ensure sound corporate governance, it would be required that at least 50% of the Directors of the NOHC should be totally independent of the promoter / promoter group entities, their business associates, and their customers and suppliers.	NBFCs suggested that a large number of independent directors in a holding company are redundant. An industrial house suggested that some leeway for common directorship between NOHC and the bank as well as the bank and the group companies should be allowed.	Same as draft Major Customers And Major Suppliers of the promoter Group would mean dealings with Whom constitute 10 per Cent or more of the annual purchases or sales or both taken together **Ownership and management shall be separate and distinct in the NOFHC, the bank and entities regulated by RBI.**

The bank should operate on Core Banking Solution (CBS) from the beginning.	An NBFC opined that a phased approach of five years from the commencement of operations to upgrade to modern infrastructure would be realistic for switching over to Core Banking Solution (CBS).	Same as draft
The bank shall get its shares listed on the stock exchanges within **two** years of licensing of the bank.	Certain industrial and business houses, NBFCs, federations, chambers, banks and consultants suggested that 2 years period is a short period for listing of banks and a period of 4-5 years should be provided for the same. Some of the consultants also suggested that if the NOHC or the promoter entity holding the NOHC is listed, listing the banking entity may not be imposed	Bank should get shares listed **within 3 years.**
The NOHC shall not be permitted to set up any new financial services entity for at least three years from the date of licensing.	Many of them felt that the restriction of not permitting the NOHC to set up any new financial services entity for at least three years should be removed.	Same as draft but from date of commencement of business
The bank shall open at least 25 per cent of its branches in unbanked rural centres	requirement of the bank having 25% of branches in unbanked rural centres is too onerous	Same as draft Unbanked means population less than 9999
The bank shall maintain arm's length relationship with promoter group entities, their business associates, and the suppliers and customers of these entities.	Certain industrial house sought clarifications and definitions of terms such as business associates, major suppliers and customers.	Same as draft Major Customers And Major Suppliers of the promoter Group would mean dealings with Whom constitute 10 per Cent or more of the annual purchases or sales or both taken together
In order to ensure transparency, the names of the applicants and all details submitted along with the application for new bank licenses will be placed on the RBI website.	A business house sought clarification as to what information about the applications would be put in the public domain during the licensing process.	Names of the applicant will be published after last date of receipt of applications

Other key highlights:

- Entities / groups in the private sector that are 'owned and controlled by residents and entities in **public sector** shall be eligible to promote a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).
- Promoter / Promoter Groups' business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk on account of group activities such as those which are speculative in nature or subject to high asset price volatility.
- The NOFHC shall hold the bank as well as all the other financial services entities of the Group regulated by RBI or other financial sector regulators.
- **On a consolidated basis, the NOFHC and the entities held by it shall maintain a minimum capital adequacy of 13 per cent of its consolidated RWA for a minimum period of 3 years**
- NOFHC shall not have any equity, debt capital and credit exposure to any entity outside the Group including other NOFHCs or other banks, financial and non-financial entities.
- **The bank shall not invest in the equity / debt capital instruments of any financial entities under the NOFHC**
- **The financial entities held by NOFHC shall not make investment in the equity / debt capital instruments amongst themselves.**
- Banks promoted by Groups having 40 per cent or more assets / income from non-financial business will require RBI' s prior approval for raising paid-up voting equity capital beyond 10 billion for every block of 5 billion. RBI while examining such proposals would primarily look into whether the corporate governance standards are adequate, whether information from Promoter Group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'fit and proper'.

Process:

Applications have to be submitted by 1st July 2013.

Procedure for RBI decisions:

- At the first stage, the applications will be screened by the Reserve Bank. Thereafter, the applications will be referred to a High Level Advisory Committee, the constitution of which will be announced shortly.
- The Committee will submit its recommendations to the Reserve Bank. The decision to issue an in-principle approval for setting up of a bank will be taken by the Reserve Bank.
- The validity of the in-principle approval issued by the Reserve Bank will be one year.

Banhem View:

The final guidelines are largely similar to the draft with minor changes in terms of extension in time frame and from commencement of business. Although the explicit mentioning of broking/real estate sectors is not stated, the clear mention of "group activities such as those which are speculative in nature or subject to high asset price volatility", in our opinion largely underlines the same message without ruffling any feathers. We see players such as L&T Finance, M&M Financials, Shriram Transport Finance, LIC Hsg, Tata Capital and Birla group as front runners in the race.

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