



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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October 04, 2024

All Scheduled Commercial Banks (excluding Regional Rural Banks)
All Non-Banking Financial Company (including Housing Finance Company) - group entities of Scheduled Commercial Banks
All Non-Operative Financial Holding Companies

Madam/Sir,

Draft Circular - Forms of Business and Prudential Regulation for Investments

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and Chapter IIIB of the Reserve Bank of India Act, 1934, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest to do so, hereby, amends the directions issued vide [Master Direction- Reserve Bank of India \(Financial Services provided by Banks\) Directions, 2016 dated May 26, 2016](#).

2. Section 6(1) of the Banking Regulation Act, 1949 provides the statutory framework to banks for undertaking various forms of business, in addition to the business of banking. These permissible forms of business can be undertaken by the bank departmentally or through a separate group entity as per the regulations contained in the Master Direction. In order to ringfence the banks' core business from other risk bearing non-core businesses as well as to provide level playing field to all the banks, the Reserve Bank has reviewed the extant regulatory framework contained in paragraph 4 of the Master Direction.

3. The prudential regulations applicable to banks' investments are consolidated in paragraph 5 of the Master Direction. In order to provide operational freedom to banks for making investments in financial services/non-financial services companies and Alternative Investment Funds, the Reserve Bank has reviewed the extant regulatory framework on prior approval requirements.

4. The revised draft regulatory framework on 'forms of business' and 'prudential regulation for investments' is enclosed in the [Annex](#).

Commencement

5. The provisions contained in paragraphs 4(a)(iii), 4(a)(iv)(a), 5(a)(ii)(e), 5(a)(ii)(f) and 5(a)(ii)(g) shall come into effect two years from the date of the final circular. Accordingly, banks shall submit a report to the Department of Regulation ([email](#)) containing the current status and the proposed course of action to comply with the above provisions. The report shall be submitted within two months from the date of the final circular. Remaining provisions of the circular shall come into effect from the date of the final circular.

Applicability

6. This circular is applicable to all Scheduled Commercial Banks (excluding Regional Rural Banks) operating in India. Paragraph 4(b) of this circular shall apply to all Non-Operative Financial Holding Companies. Further, paragraph 4(a)(iv) of this circular shall apply to all Non-Banking Financial Company (including Housing Finance Company) group entities of banks.

(Manoranjan Padhy)

Chief General Manager

Draft - Amendments to the Master Direction- Reserve Bank of India (Financial Services provided by Banks) Directions, 2016

Paragraphs 4 and 5 of the [Master Direction- Reserve Bank of India \(Financial Services provided by Banks\) Directions, 2016](#) ('The Master Direction') consolidate the broad regulatory framework for the banks to undertake various permissible forms of business either departmentally or through a separate group entity and prudential regulations for their investments respectively. The paragraphs stand amended as below:

4. Forms of Business

(a) A bank can undertake only those activities permitted under Section 6(1) of the Banking Regulation Act, 1949 either departmentally or through subsidiaries setup under Section 19(1)(a) of the Act. Any activity undertaken by the bank/entities held by the Non-Operative Financial Holding Company (NOFHC) shall be examined and approved by the bank/NOFHC's respective Risk Management Committee as well as Board of Directors in line with the following conditions:

- i. Core business of the bank viz. acceptance of deposits and lending, shall necessarily be carried out departmentally by the bank unless otherwise notified by the Reserve Bank. Banks will have the freedom to undertake certain businesses viz. factoring, primary dealership, credit card business, housing finance, equipment leasing and hire purchase, either departmentally or through a separate group entity (associate/joint venture/subsidiary) subject to the respective conditions stipulated in Chapter - III of the [Master Direction](#).
- ii. Activities listed under paragraphs 13, 14(a), 14(b), 15, 16, 17 and 22 in Chapter - III of the [Master Direction](#) viz. mutual fund business, insurance business, pension fund management, investment advisory services, portfolio management services and broking services or other such risk-sharing activities that require ring-fencing, shall not be carried out departmentally¹,

¹ The stipulation will not preclude the banks from undertaking agency business (without risk-participation) for distribution of third-party products/services as permitted under paragraph 18 of the [Master Direction on Financial Services provided by Banks dated May 26, 2016](#).

but, only through a group entity subject to the conditions stipulated for the respective activities.

- iii. Only a single entity within a bank group (the bank and its group entities) shall undertake a particular form of permissible business. Multiple entities within a bank group shall not undertake the same business or hold/acquire the same category of license/authorisation or registration from any financial sector regulator. Further, there shall be no overlap in the lending activities undertaken by the bank and its group entities.
- iv. In addition to complying with the above requirement on overlap in lending business, the existing Non-Banking Financial Company (including Housing Finance Company) group entities of banks shall comply with the following requirements:
 - a. Scale Based Regulations as applicable to NBFC - Upper Layer.
 - b. Regulatory and Other Restrictions on loans and advances applicable to banks.
- v. A group entity shall not be used to circumvent regulations/guidelines applicable to the parent bank or other group entity to carry on any business activity which is not permitted otherwise.
- vi. Banks shall require prior approval of the Department of Regulation, Reserve Bank of India to undertake any new activity through a group entity, other than those already permitted.
- vii. Conduct of activities by Small Finance Banks and Payments Banks shall also be subject to their respective licensing guidelines/conditions and operating guidelines.

(b) Activities undertaken by entities held by Non-Operative Financial Holding Companies (NOFHCs) shall be subject to the following conditions:

- i. NOFHCs shall not require prior approval of the Department of Regulation, Reserve Bank of India for the entities held by it to undertake activities listed under para 4(a)(ii) above. However, it shall be ensured that only a single entity within the NOFHC undertakes a particular activity/form of business. Further, multiple entities within the NOFHC shall not hold/acquire the same category of license/authorisation or registration to undertake a particular activity/form of business from a financial sector regulator. The NOFHC shall inform the

Department of Regulation prior to undertaking any activity listed under para 4(a)(ii) through an existing group entity or a new entity.

- ii. NOFHCs shall require the prior approval of the Department of Regulation, Reserve Bank of India for the entities held by it to undertake any activity other than those listed above in paragraph 4(a)(ii) subject to the licensing guidelines and other instructions as applicable.
- iii. NOFHCs shall not set up any new entity for three years from the date of commencement of its business.

(c) An activity undertaken departmentally by a bank shall be subject to the following conditions:

- i. There shall be a Board approved policy that shall comprehensively cover the said activity including identification of various risks associated with it and an appropriate risk mitigation framework, including adherence to capital allocation norms.
- ii. The instructions/ guidelines issued by the Reserve Bank from time to time on KYC/AML/CFT as applicable to banks/other bank group entities, shall be complied with on an ongoing basis.
- iii. The general principles as enunciated in the Charter of Customer Rights or other relevant instructions, including but not limited to fair practices, consumer protection and grievance redressal, issued by the Reserve Bank shall be adhered to.
- iv. The specific conditions prescribed for the respective businesses in Chapter - III of the [Master Direction](#) shall be complied with in addition to the instructions/regulations issued by other financial regulators as may be applicable.
- v. No bank shall engage in any activity other than those listed under paragraphs 9, 10, 11, 12, 14(c), 18, 19, 20 and 21 in Chapter - III of the [Master Direction](#) without the prior approval of the Department of Regulation, Reserve Bank of India.

(d) The prior approval condition specified under paragraph 4(c)(v) above shall also apply to the overseas branches of Indian banks (including the branches operating in IFSC, GIFT City).

- (e) An overseas branch of an Indian bank shall not undertake any activity that is prohibited for the parent bank in India unless specifically permitted by the Reserve Bank. Further, overseas branches shall adhere to the more stringent of the host or home country regulations.

5. Prudential Regulation for Banks' Investments

Investment by a bank in any group entity or in other financial/non-financial services company or other equity investments, including overseas investments, shall be subject to the prudential limits specified below. These Directions shall be read in conjunction with Exposure Norms and Large Exposure Framework as applicable to banks. Further, investment by Small Finance Banks and Payments Banks shall also be subject to their respective licensing guidelines/conditions and operating guidelines.

(a) Limits on Investments:

i. Bank's Paid-up Capital and Reserves:

- a. Equity investment by a bank in any company, including its group entity, individually, shall not exceed 10 per cent of the bank's paid-up share capital and reserves as per the last audited balance sheet or a subsequent unaudited balance sheet, whichever is lower.
- b. The aggregate of equity investment in factoring subsidiaries and factoring companies shall not exceed 10 per cent of the bank's paid-up share capital and reserves as per the last audited balance sheet or a subsequent unaudited balance sheet, whichever is lower.
- c. The aggregate equity investments made in all companies including group entities and overseas investments shall not exceed 20 per cent of the bank's paid-up share capital and reserves as per the last audited balance sheet or a subsequent unaudited balance sheet, whichever is lower. Provided that for calculating the aggregate investment for compliance with the limit of 20 per cent of paid-up capital and reserves, the following investments shall be excluded:
 - i) investments held under 'Held for Trading' category as stipulated in the [Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks \(Directions\), 2023 dated September 12, 2023](#) as updated from time to time;

- ii) investments in excess of 10 per cent in non-financial companies acquired in circumstances as mentioned at 5(a)(ii)(c)(ii) below.

ii. Investee Company's Equity Capital:

No bank shall -

- a. Hold more than 10 per cent in the equity of a deposit taking NBFC, provided that this does not apply to a Housing Finance Company.
- b. Make an investment of more than 10 per cent in the unit capital of a Real Estate Investment Trust/Infrastructure Investment Trust subject to overall ceiling of 20 per cent of the bank's net worth permitted for all direct investments in shares, convertible bonds/ debentures, units of equity-oriented mutual funds and exposures to Alternative Investment Funds.
- c. Hold 20 per cent or more in the equity capital of any non-financial services company. However, investments up to 30 per cent (subject to statutory and regulatory stipulations for investment in the equity capital of such investee company) shall be permissible only in the following circumstances:
 - i) the investee company is engaged in non-financial activities permissible for banks in terms of Section 6(1) of the Banking Regulation Act, 1949, subject to prior approval of the Reserve Bank; or
 - ii) the acquisition is through restructuring of debt or to protect the banks' interest on loans/investments made to a company. The bank shall submit a time bound action plan for disposal of such shares, within 30 days of such acquisition to the Reserve Bank.
- d. Make any investment in a Category III Alternative Investment Fund (AIF). Investment by a bank's subsidiary in a Category III AIF shall also be restricted to the regulatory minima prescribed by the Securities and Exchange Board of India.
- e. Sponsor (as defined in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) more than one Asset Reconstruction Company (ARC) at any point in time. Further, the aggregate shareholding of a bank group in any ARC shall be less than 20 per cent of the equity capital of the ARC.

- f. Along with its other group entities hold more than 30 per cent of the equity capital of the investee company (other than those specifically permitted). For the purpose of calculating the aggregate shareholding of the bank group, investments made individually or collectively by the bank group (with or without any investment by the bank) shall be included.
 - g. Directly or indirectly through a trustee company or otherwise hold shares in any company (other than those specifically permitted), whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 per cent of the paid-up share capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less.
- iii. Banks held under the NOFHC structure shall not hold more than 10 per cent in the paid-up equity capital of any financial or non-financial services company, subject to the limits specified under paragraph 5(a)(i) above. However, this would not preclude the bank from having a subsidiary or joint venture or associate where it is specifically permitted by the Reserve Bank.
 - iv. Any breach in the limits prescribed under this Master Direction shall be immediately reported to the Department of Regulation ([email](#)), Reserve Bank of India within seven working days, from the date of occurrence of such breach.

(b) Requirement of prior approval of Department of Regulation, Reserve Bank of India:

Prior approval shall be required for making the following investments:

- i. Investment of 20 per cent or more in the equity capital of any financial services company/ Category I or II AIF either individually or collectively by the bank group (with or without any investment by the bank).
- ii. Investment of 20 per cent or more in the equity capital of any non-financial services company either individually or collectively by the bank group (with or without any investment by the bank) including the investments made by mutual funds managed by Asset Management Companies controlled by the bank. However, prior approval shall not be required for acquisition through restructuring of debt as specified at paragraph 5(a)(ii)(c)(ii) of this Master Direction.
- iii. Additional investment in any group entity.

- (c) The prior approval shall not be required for investments wherein the aggregate shareholding of the bank group is less than 20 per cent of the equity capital of a financial services company/non-financial services company/paid-up capital or unit capital of Category I and II AIF, subject to the following conditions:
- i. The bank's CRAR shall not be less than the minimum prescribed capital (including Capital Conservation Buffer) post the investment; and
 - ii. The bank should have reported net profit in the preceding two financial years; and
 - iii. The aggregate of equity investments made by the bank in the current financial year shall not exceed the net profit reported in the preceding financial year.
- (d) Notwithstanding the conditions listed in paragraph 5(c) above, prior approval shall not be required if the investment in any company is held under 'Held for Trading' category subject to the limit stipulated under Section 19(2) of the Banking Regulation Act, 1949.
- (e) Banks shall ascertain the risks arising on account of equity investments in Alternative Investment Funds done directly or through their group entities, within the ICAAP framework and determine the additional capital required which will be subject to Supervisory Review and Evaluation Process.
- (f) Banks shall put in place a group-wide capital management policy with respect to the capital requirement and the risks faced by its group entities.