

RESERVE BANK OF INDIA
Department of Banking Regulation

**Clarifications to Queries on
Guidelines for Licensing of Small Finance Banks in the Private Sector**

In providing the clarifications, an attempt has been made to assist potential applicants in understanding the terms of the guidelines. The clarifications are specific to the queries and must be read in the overall context of the guidelines.

1. Will a group having two NBFC licences, one of which is a non-operative holding company for the main non-banking financial business and the other being the main financial business itself, surrender both its licences or only the active non-banking financial business licence while converting into a bank?

A. The operating NBFC has to fold into the bank and the non-operative holding company would be allowed to continue.

2. What criteria may be used for determining an enterprise as a large business house? Whether a diversified financial services group will be considered as a large business house for the purposes of these Guidelines?

3. Will an existing group with the main activity being the NBFC business (80% profit share of whole group) and certain smaller businesses (20% of profits of the whole group) be considered an industrial and business group?

4. Please clarify the meaning of 'large industrial and business houses'.

5. It is stated that large business houses and the NBFCs formed by such promoters are not eligible to apply for the license. Can you please clarify the criteria for determining the size (like large business houses)?

6. What is the threshold condition for deciding large or not large industry or business house?

7. What constitutes large industrial house / business houses, is there a threshold prescribed for this on net worth, market cap etc.?

A.(2 to 7) For the purpose of these guidelines, a Group with assets of Rs 1000 crore with the non-financial business of the group accounting for 40 per cent or more in terms of total assets / in terms of total revenue (whichever is higher), will be treated as a large industrial / business group.

8. Can a promoter (individual) of large Business / Industrial House act as promoter himself to form a Small Bank?

A. No.

9. Whether NBFCs having substantial asset sizes will also fall in this negative list even though not formed by large industrial/ business houses?

A. An NBFC, which is not part of a large business/industrial house is eligible.

10. We would also appreciate if you could clarify the exact meaning of the term “owned and controlled by residents” as contemplated in the SFB Guidelines.

11. The guidelines require that Companies, owned and controlled by residents, will be eligible. However the terms “owned” and “control” have not been defined. Would the terms have the same meaning as defined in the FDI policy?

12. Kindly clarify the meaning/scope of ‘owned and controlled by residents’.

13. Please clarify the definition of “owned and controlled” and “resident”?

14. Whether such companies and societies are to be fully (100%) owned by residents? What is the definition of control? Does this mean that the board needs

to be fully residents? or the executive management needs to be fully residents? Does society mean only charity registered ones or whether co-operatives come under the definition?

15. Whether such NBFCs and MFIs etc. are to be fully (100%) owned by residents? What is the definition of control? Does this mean that the board needs to be fully residents? or the executive management needs to be fully residents?

16. Whether the “Owned” as referred in RBI guidelines shall mean to 26% equity share holding or more than 50% of equity shareholding in the Company?

17. Whether companies incorporated in India fully or partly owned by non-residents on non-repatriation basis will be eligible to apply?

18. Whether companies incorporated in India partly owned by non residents on repatriation basis (within the FDI norms) will be eligible to apply?

A.(10 to 18) The definition is as per the Government's FDI policy and the FEMA regulations as amended from time-to-time. As per the current FDI policy and FEMA regulations, a Company 'Owned by residents' shall be an Indian company if more than 50% of the equity interest in it is beneficially owned by resident Indian citizens and or Indian companies, which are ultimately owned and controlled by resident Indian citizens. A company shall be considered 'Controlled' by resident Indian citizens and Indian companies, if the resident Indian citizens and Indian companies, which are owned and controlled by resident Indian citizens, have the power to appoint a majority of its directors in that company.

19. Can 49% of the Indian owned and controlled promoter entity shareholding be with one FDI PE fund and remaining with residential Indian investors?

A. As regards ownership and control, the definition is as per the Government's FDI policy and the FEMA regulations as amended from time to time. It appears from the

query that the FDI PE fund has the control and therefore is not eligible to promote a bank.

20. Whether the qualification of ownership and control by resident applies only to Local Area Banks and not to NBFCs and MFIs?

A. The requirement of ownership and control by residents applies to all entities promoting / converting into a small finance bank, including NBFCs and MFIs.

21. The guidelines mention that a promoter of NBFC seeking to convert into a Small Finance Bank cannot own other NBFCs. How will “ownership” be defined for this purpose? Will minority ownership with no influence on the management of an NBFC be excluded from the definition of ownership? For example, if the promoter entity has less than 25% stake in another NBFC with no representation on the board or management, will such an investment be allowed?

22. We seek your guidance on roadmap for our associate concerns. Our NBFC has 26% stake in an entity engaged in Insurance Broking Services. The insurance broking entity has the rest of the shareholding of 74% by individual promoters. The company is engaged in the business of offering Insurance Services as Direct Insurance Broker and is governed by IRDA and provides insurance cover on the assets being financed by the NBFC and for other customers.

23. Where a person / entity is acting as a promoter, for an NBFC/MFI/LAB as well as another entity which would be set-up as a SFB or converted into SFB, would it be correct to say that the NBFC/MFI/LAB and the SFB could co-exist within the same Promoter/ Promoter group?

24. Based on a combined reading of these guidelines under Para 10 and Para 4, where other entities of the promoter group which are currently engaged in non-risk sharing simple financial services activities (not requiring any commitment of own funds) such as distribution of mutual fund units, insurance products, etc.,

would it be correct to say that the promoter group need not mandatorily fold these activities (being undertaken by other entities) into the SFB?

25. Our NBFC has 38% stake in an entity engaged in micro finance. Can we continue the business outside the bank?

26. Where the promoter of a Small Finance Bank also currently owns an NBFC, would RBI insist on the promoter bringing all NBFC activities, to the extent can be undertaken by SFB, under the Small Finance Bank?

27. Can the NBFC having an NBFC MFI subsidiary make an application for a small bank through that subsidiary to convert MFI as a SMFB and whether the parent company can continue its NBFC business?

28. In the above scenario is it necessary for the NBFC to have a Non –operating holding company which will hold the stake in NBFC as well as the SMFB?

A. (21 to 28) The NBFC will be considered as belonging to the same promoter group if it falls within the definition of promoter group as indicated in the guidelines and as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009. Further, any NBFC carrying lending activity cannot co-exist with SFB.

The guidelines indicate that on conversion into a small finance bank, the NBFC / MFI will cease to exist and all its business which a bank can undertake should fold into the bank and the activities which a bank cannot undertake be divested / disposed of. The other financial and non-financial services activities of the promoters should be kept distinctly ring-fenced and not comingled with the bank.

The guidelines indicate that if a promoter setting up a small finance bank desires to set up a Payments Bank, it should set up both types of banks under a Non-Operative Financial Holding Company (NOFHC) structure. Otherwise, there is no requirement for the small finance banks to have holding company structure.

29. The guidelines prescribe that joint-ventures by different Promoter Groups would not be allowed. Would this restrict a Promoter to get new financial investors before making the application? If yes, are there any restrictions on such investments?

30. (i) What does joint ventures by different promoters group mean?

(ii) If the eligible promoter entity has a strategic investor or is formed by 2-3 different individuals/entities who are unrelated and who act as its shareholders, whether the said entity would be considered as joint venture by different promoters group?

(iii) Can there be multiple promoters, i.e. non-related individuals/corporate entities who would become shareholders of a company which will act as a promoter entity for setting up a Bank. Will the same be permissible?

(iv) Whether the individuals/professionals can set up an entity together with an existing NBFC/MFI/LAB to establish SFB?

A.(29 to 30) The guidelines indicate that joint ventures by different promoter groups for the purpose of setting up small finance banks would not be permitted. However, the promoter could get non-promoter investors in the bank subject to ceiling on such investments [para 13 (ii) of the guidelines] and subject to the respective sectoral regulators' guidelines requirement.

If the small finance bank is promoted by resident individuals / professionals, they should have 10 years of experience in banking and finance. If the small finance bank is promoted by Companies / Societies or existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and LABs desire to convert into a small finance bank, they should have a successful track record of running their businesses for at least a period of five years.

31. Whether registered Indian charitable trust/ Private or Public trusts are allowed to promote a SFB?

32. In paragraph 3 of the Guidelines for setting up of Small Finance Bank the eligible promoters include resident individuals/ professionals, Companies and Societies owned and controlled by residents. Will Trusts be considered as eligible promoters? In particular, are NGO-MFIs run by Trusts considered as eligible promoters or eligible to convert?

33. In case of a Bank where shares (say 90% of paid up capital) are held by multiple trusts (say 9) having a common trustee, how would the restriction of 10% voting rights apply:

- a. *Will the trustee have right to vote for 9 shareholders = 90% (i.e. individually); or*
- b. *The trustee can vote only once and his votes are restricted to 10%?*

A. (31 to 33) The guidelines do not envisage Registered Indian charitable trusts / Private or Public trusts to promote an SFB.

34. Whether the applicants who had applied for a universal banking licence in the last round are eligible to apply for a SFB?

A. There is no restriction on any entity applying for small finance bank licence subject to the eligibility criteria mentioned in the guidelines, except large industrial / business houses.

35. While a company registered under the Companies Act, 2013 is eligible to apply for registration as an SFB, it may be clarified that the existing Non-Banking Financial Company (NBFC)/ Micro-Finance Institution (MFI)/ Local Area Bank (LAB) registered earlier under the Companies Act, 1956 would also be eligible for conversion to an SFB under Para 10 of the Guidelines.

A. Yes.

36. Where an entity (i.e non-individual) is going to be a promoter for the applicant, whether the experience of the applicant and promoter / promoter group (individually) in banking and finance would be relevant? If yes, please clarify the number of years of experience the applicant would be expected to have.

A. If the small finance bank is promoted by resident individuals / professionals, they should have 10 years of experience in banking and finance. If the small finance bank is promoted by Companies / Societies or existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and LABs desire to convert into a small finance bank, they should have a successful track record of running their businesses for at least a period of five years.

37. In case of an existing NBFC/ MFI/ LAB which proposes to convert into an SFB having individuals and entities as its shareholders, whether the individuals and the entity shareholders, together, can act as a promoter for the proposed SFB? If yes, whether the said individuals / entities would be falling under the same promoter group?

A. The definition of promoter / promoter group would be as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

38. Where an existing NBFC/ MFI/ LAB has a majority shareholding from a multistate co-operative (which was earlier a federation) having a vintage of less than 5 years, whether the track record while the entity was a federation could be taken into account for determining the track record?

A. No. If existing NBFCs / MFIs / LABs desire to convert into a small finance bank, they should have a successful track record of running their businesses for at least a period of five years.

39. Where an NBFC/ MFI/ LAB is acquired by the present promoter/ promoter group within last 5 years, whether such NBFC/ MFI/ LAB would be eligible to convert itself into SFB and whether the experience of the applicant/ promoter/ promoter group prior to the acquisition (by the promoter/ promoter group) would be relevant?

A. Yes. If existing NBFCs / MFIs / LABs desire to convert into a small finance bank, they should have a successful track record of running their businesses for at least a period of five years. However, if there is an acquisition of the NBFC / MFI / LAB by the present promoter / promoter group, their track record for five years will be examined.

40. Whether co-operative bank is eligible as a promoter to set up small finance bank?

Further, whether co-operative bank can itself be converted into a small finance bank?

A. No. As for the second part, conversion is not allowed under the statute.

41. Our private limited company, has been working as Technology Service Provider (TSP) and National Business Correspondent (National BC) for a public sector bank (PSB) since January 2009 and November 2010. Since its incorporation, the company has been working on technology-led branchless banking models and processes. In addition to the PSB, the company also operates as a TSP to two private sector banks and a National BC to one of the banks. Whether the company is eligible to apply for “Small Finance Bank” licence as the Company as well as each of the two promoters have 7 years of experience in banking and finance but not 10 years of experience?

A. Yes, if the small finance bank is promoted by Companies / Societies or existing Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and LABs, they should have a successful track record of running their businesses for at least a period of five years.

42. A private limited company currently has only 2 promoters who would hold 40% of the paid up equity capital. However, the two promoters will be entitled to exercise only 10% voting rights each. Accordingly, for the aforesaid purposes, the private limited company will have to issue equity shares with differential voting rights to the two promoters, which would require compliance with conditions prescribed under Section 43(a)(ii) of the Companies Act, 2013 read with Rule 4 of the Companies (Share Capital and Debentures) Rules, 2014. As per the said Rules, the shares with differential rights shall not exceed twenty-six per cent of the total post-issue paid up equity share capital of a company including equity shares with differential rights issued at any point of time. Please clarify as to how the private limited company will be required to structure its shareholding pattern and the voting rights to be exercised by the promoters keeping in view the requirements of the Rules as well as the small finance bank Guidelines.

43. Whether the promoter's holding of 40% in the bank is entitled to only 10% voting rights?

A.(42 to 43) For the purpose of voting rights in respect of shares held in private sector banks, please be guided by the provisions of Section 12 (2) of the Banking Regulation Act, 1949. As regards shareholding pattern of the company, it is not under the purview of RBI.

44. Please clarify whether, an autonomous board set up under enactment of a State legislature, where all the members are residents, will be considered under the category Companies and Societies?

A. As per the current guidelines, it is not envisaged

45. Is it necessary to have banking experience for such companies/societies? If yes, will it be enough if one person with more than 10 year banking and finance experience is a member/ employee of the Board?

46. If 7 or more resident individuals join together as promoters, is it enough that there is one person with more than 10 year experience in banking and finance? If, yes, can the Boards, referred above nominate their members as promoters?

A.(45 to 46) The question does not arise in view of the answer to Q 44 above.

47. There is “Successful track record of running the business” appearing in clause 3. Does it refer to commercial business with profit motive or business of the organisation as per the objectives of its constitution?

A. It would mean objectives of the organisation. For a commercial business, it would mean a profitable / successful track record

48. Will an application from eligible promoters be considered on the basis of merit of the application or the primary focus will be on the North East and East Central region?

A. The applications will be considered based on the various criteria mentioned in the guidelines. However, preference will be given to those applicants who in the initial phase set up the bank in a cluster of under-banked States / districts, such as in the North-East, East and Central regions of the country.

49. Can a state government hold shares in the SFB as a non-promoter, subject to the cap specified in the guidelines?

A. A state government can hold shares in the SFB as a non-promoter. However, as indicated in the guidelines, as per Section 12B of the Banking Regulation Act, 1949, any acquisition of 5 per cent or more of paid-up share capital in a private sector bank will require prior approval of RBI.

50. If under the directions of the Government of Kerala, 4 Labour Welfare Boards in the state (which are autonomous bodies set up by the Act of the State) come together as promoters;

- a. **Will it be construed as Joint Venture? [No Joint venture company will be formed by them. They will come as promoters of the bank.]**
- b. **Will it qualify as private sector? [These boards are autonomous bodies, funded and managed by its beneficiaries. No government funding is there. Only one representative of government is there in their governing board and their functions are by and large independent].**

A. No, the guidelines do not provide for the cited entities to promote an SFB.

51. What is the definition of word Promoter?

A. The definition of promoter / promoter group would be as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

52. In case of an NBFC-MFI owned and controlled by resident Indians applying for SFB licence, does RBI permit any resident Indian investors be replaced with some other resident Indian investor(s)?

53. Is shareholding change allowed within the 'Indian owned and controlled promoting entity' of the small bank? Specifically – can Resident Indian investors be replaced with some other resident Indian investors?

54. If a promoter group is a corporate entity, will that be allowed to reconstitute the portfolio by replacing foreign holding with Indian one or allowing foreign holding to change hands, during the lock in period?

A.(52 to 54) Any proposed material change in the shareholding pattern in the promoter entity at the time of application and during the period between the application and in-

principle approval and even thereafter should be brought to the prior notice of Reserve Bank of India.

As regards shareholding in the bank, a person or entity belonging to the Promoter Group cannot be replaced during the lock-in-period.

55. Can a single Non Promoter FDI PE fund or single Non Promoter Resident Investor which already has greater than 10% shareholding in the proposed SFB, continue to have the same economic interest by having its voting restricted to 10% by conversion of some of the existing equity shares to non voting equity shares or through a clauses in the Articles of Association.

56. Can single Non Promoter FDI PE fund or Single Non Promoter Resident investor have greater than 10% shareholding in the proposed Promoting Entity NoHC which owns 100% of the SFB (that is indirectly interest >10%), but have its voting rights restricted to 10% in the Promoting NoHC by conversion of some of the equity shares to non-voting equity shares or through clauses in the Articles of Association.

A.(55 to 56) No.

57. Further since PE funds represent multiple global investors, use SPVs to make investments for these investors, investments by PE funds beyond 10% in the Promoting NoHC would actually mean lesser than 10% by each of final investors. In assessing the applications will the Corporate veil of the Promoting NoHC and/or SPVs that invest in the Promoting NoHC be lifted to measure the real test of <10% ownership. For example a PE Fund having 10 equal Global investors has 49% of the Promoting NOHC of the SFB which owns 100% of the SFB. Now in economic terms while 100% of SFB is with the Promoting entity, further 49% is with the PE SPA but the real global investors have only 4.9% each. Will this be the basis of determining final economic interest?

58. Where the Asset Management Company of a PE fund is the same for 2 sets of PE funding, wherein ultimate investors are different would this be aggregated for the single shareholder cap of 10% or be treated as separate. For example a PE Fund in its Fund IV has 5 investors (a,b,c...e) and invests 10% in a SFB or its NoHC. Then can the same PE Fund having the same AMC in its Fund V having 5 different investors (1,2,3...5) invest another 10% in the SFB or its NoHC?

A.(57 to 58) If the promoters desire to set up the Small Finance Bank under an NOFHC, the NOFHC would be required to be wholly owned by the promoter group and the lock-in period for the shareholding and the dilution schedule would be applied to the NOFHC shareholding in the bank. In case of the bank, the PE Fund is reckoned as a single investor. The shareholding cap of 10 per cent of the paid-up equity capital of the bank will be applied at the PE Fund and AMC level, but not additive.

59. Point No. (II) of Key features of Small Finance Bank Guideline states as “Resident individuals/professional with 10 years of experience in banking and finance will be eligible to set up small finance banks.” For an example: If the application is made jointly by four individuals/professionals like A,B, C and D. Out of four applicants, two (B & C) are Non-resident in India and two others are (A&D) are resident in India. With this example, we have the following question, which requires your answer.

- (a) *If the applicant “B” and “C” files an affidavit along with the application and declare that they are ready to convert their status as resident individual, provided their application will be accepted and they will get an in-principle approval. In this scenario, will they (B & C) be treated as an eligible promoters and RBI would have no objection in granting the In-principle approval.*
- (b) *Kindly confirm that the approval shall be granted in the joint name.*
- (c) *Kindly confirm that at the time of application, the individual promoters need not incorporate a company, as they are filing the application as a group of promoters.*

A. (a & c) Yes. At the time of making applications, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the ‘in-principle approval’ is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

(b) Yes, if the applicants / application are found suitable, the ‘in-principle approval’ will be granted in the names of the promoters as declared in the application.

60. What are the special approvals required prior to submitting the application? – is it from RBI/ROC or any government authorities? Whether the approvals are to be obtained before making the application or post receipt of in-principle approval for bank set up?

A. The approvals are to be submitted before licence is granted

61. Whereas Clause 3 of the Guidelines pertaining to eligible promoters prescribes the persons who are eligible to promote Small Finance Banks. It also states that joint venture by different promoter group is not permitted. Whether the Special Purpose Vehicle incorporated by two entities (1- MFI & other Co-operative Bank) for incorporating small banks, belonging to same promoter group is eligible.

A. This will be treated as a Joint Venture and hence not permitted.

62. Is there any specific RBI Guidelines or circular to determine fit and proper criteria for Promoter and Promoter Group w.r.t opening of SFB or does the RBI examine the same on case to case basis?

A. As stated in para 3 of the guidelines, RBI would assess the ‘fit and proper’ status of the applicants on the basis of their past record of sound credentials and integrity; financial soundness and successful track record of professional experience or of

running their businesses, etc. for at least a period of five years. RBI may, inter alia, seek feedback on applicant Groups on these or any other relevant aspects from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc. as deemed appropriate.

63. *The ideal number of branches a SFB shall have to be eligible for the license.*

A. There is no such stipulation.

64. *Can an individual/professional who is a resident in India for FEMA purposes with requisite experience (over 10 years) in banking and finance will be eligible to promote a ‘small finance bank’, if he is not an Indian citizen but is an OCI card holder?*

65. *Erstwhile Indian residents’ [as defined in Department of Industrial Policy and Promotion (DIPP)] passport holders, who currently hold foreign passport, but are resident in India in terms of FEMA as well as Income Tax Act, would be considered eligible promoters of Small Finance Bank? Can such resident individual directly and /or indirectly hold more than 24% equity of the Small Finance Bank?*

A. For the purpose of these guidelines, the eligible individual promoter will have to be an Indian citizen resident in India. As per para 13 (ii) of the guidelines, individuals (including relatives) and entities other than the promoters will not be permitted to have shareholding in excess of 10 per cent of the paid-up equity capital of the bank

66. *Whether an Individual currently an NRI can apply subject to he/she deciding to return for good for setting up of the Bank?*

A. Yes.

67. Whether the word “entities (other than promoter entities)” above in case of existing NBFCs converting into small finance bank includes the foreign private equity investors also, Since at present, one of our investor is a foreign shareholder which holds 25% stake in the company.

A. Yes. Such an entity will be deemed to be ‘other than a promoter entity’. Such an entity cannot have more than 10 per cent of the paid-up capital of the bank.

68. Whether SFCs would be eligible for promoting a SFB?

A. No, SFCs are not eligible to promote small finance banks.

69. A subsidiary of a Development finance institution is registered as non deposit taking NBFC (Rs. 1000 crore company). Will the subsidiary be eligible to apply for Small Finance Bank?

A. No.

70. Can an NBFC divest the activities which the banks are not allowed to another NBFC of the group?

71. Whether the activities that cannot be undertaken as Bank but presently carried out by NBFC / MFI can be divested to promoter of bank or other promoters’ group entity as following sub-para of Para II.4 permits the other financial and non-financial services activities of the promoters, if any, to be kept distinctly ring-fenced and not comingled with the banking business?

A.(70 & 71) Lending activities must be conducted from inside the bank. Lending activities that are not permitted to a bank, but are not prohibited to NBFCs, such as promoter financing, loans for purchase of land, etc. would have to be wound up within a period of 18 months from the date of in-principle approval or as on the date of commencement of banking business, whichever is earlier. The other financial and non-

financial services activities of the promoters should be kept distinctly ring-fenced and not comingled with the bank.

72 Use of the word ‘small finance bank’ in the name of the bank: We were given to understand in the draft guideline stage, that the bank would be merely called a bank and not a small finance bank. In terms of raising deposits, these new banks would have the major challenge of brand awareness and brand equity compared to the existing banks and hence would take a long time to build up a good level of retail deposits. On top of this, if they are required to say ‘small finance bank’ in their name, the image created amongst depositors is that these are ‘small’ banks and hence by corollary, not as safe as the ‘larger’ banks. This would further hinder the efforts of these banks in mobilising deposits. Hence it is requested that the name not be required to contain ‘small finance bank’.

A. No, the bank would be required to use “Small Finance Bank” in its name.

73. Currently banks are allowed to own housing finance companies (HFCs) regulated by the National Housing Bank. Will Small Finance Banks be allowed to own Housing Finance Companies?

If so, can the said Small Finance Bank through its subsidiaries take up Share Broking or any intermediary activity requiring SEBI Approval?

A. No, SFBs are not allowed to set up any subsidiaries.

74. Our area of operation is Kerala state. Since this is not an under banked state, can we apply? This is because the tone of the Guidelines is that initial licence will be only for under-banked states.

75. Would it be correct to read the provision to mean that requirement of at least 25 per cent of branches in unbanked rural areas is only relevant in the context of expansion plans (i.e. new branches which are proposed to be set-up over a period of 5 years by the SFB) and an existing NBFC/ MFI/ LAB already having a

wide network of branches which proposes to convert itself into SFB (pursuant to which all the branches of the existing entity shall be converted into bank branches), need not have 25 per cent of its existing branches in unbanked rural areas?

76. In clause 4 (para 2), it is stated that “The annual branch expansion plans should be in compliance with the requirement of opening at least 25 per cent of its branches in unbanked rural centres..”. Will this condition of 25% rural bank applicable at the time of formation itself or it applies only to further branch expansions?

A. (74 to 76) The guidelines do not bar such applicants. However, the business plan should include proposal for opening branches in unbanked rural centres as stipulated in the guidelines. The stipulation is for total branch network.

77. What is the standard definition of a branch as per the RBI guidelines? Would Satellite Offices, Mobile branches and Ultra Small formats be considered as branches under the requirement to have 25% of new branches in unbanked rural areas?

A. The definition of branch will be as per the provisions of Section 5(cc) of the Banking Regulation Act, 1949. Presently, other forms of presence such as satellite offices and mobile branches are not considered as full-fledged branches under the requirement to have 25 per cent branches in the unbanked rural centres. However, if the ultra-small formats are full-fledged branches, they would qualify under the requirement to have 25 per cent branches in the unbanked rural centres.

78. An existing NBFC/MFI may have a large number of branches in rural and unbanked areas. Will there be any ceiling on the number of such branches that would be converted into bank branches?

A. Please refer to para 10 of the guidelines.

79. Guidelines provide that the other financial and non-financial services activities of the Promoters, if any, should be kept distinctly ring fenced and not comingled with the banking business. Please explain what kind of management oversight, sharing of infrastructure, human capital etc., would be acceptable as being ring-fenced.

80. Where the promoters have separate board of directors, employees and an arm's length basis sharing of infrastructure/ technology, would other financial and non-financial services activities of the promoters be regarded as distinctly ring-fenced and not comingled with the banking business? If not, kindly explain the circumstances under which the activities would be regarded as distinctly ring-fenced.

81. What is the precise purport / meaning of the word "ring---fencing'? Does it mean even arm's length business transaction/association with related entities of promoter are not allowed?

82. Under the scope of activities i.e. Clause 4 of the Guidelines, it is stated that the other financial or non-financial services activities of the promoters, if any should be kept distinctly ring fenced and not comingled with banking business. Can it be inferred that Promoters previously carrying on other financial services or non-financial services should desist from carrying on such activities?

83. Will RBI consider separate Board and separate Management with no common Board member or Management functionary as adequate ring fencing of the Small Finance Bank from other financial sector businesses of the promoter?

A.(79 to 83) Ring fencing does not restrict arrangements for sharing of infrastructure of the parent promoter / promoter group entities, provided that there is an agreement / contract, etc.; if such arrangement is entered into on an arm's length basis, suitable

firewalls are built in, customer confidentiality maintained and risk mitigation measures are put in place. The business plan can clearly bring out these aspects.

84. Our private sector company is currently BC of two banks and has also received in-principle approval for PPI.

- a) **If the entity applying for the license is an existing BC of the Bank then whether the entity is required to discontinue its BC operations to be eligible to apply for a licence of small finance bank?**
- b) **If the entity is a PPI licence holder whether, the same will have to be surrendered to be eligible to apply for a licence of small finance bank?**

A. a) The guidelines stipulate that the small finance bank cannot be a Business Correspondent (BC). However, it can have its own BC network or the BC business can be transferred to a Group entity. .

b) If the entity is a PPI licence holder, this business should be folded into the bank.

85. Where an existing MFI (who proposes to convert itself into SFB) has a separately run BC business, does it need to divest its BC business? Where MFI is required to divest its BC business, could it divest the same within a period of eighteen months once in-principle approval is obtained? Please confirm.

A. **If the MFI desires to retain BC business, the same can be transferred to a Group entity.**

86. Whether the Promoter entity can continue to carry its other business (other than which is to be carried out by bank for e.g. real estate, IT solutions, services, manufacturing etc.) in the promoter entity itself or does the said business has to be transferred to other entity by the promoter entity?

A. Promoter entity can continue to carry its other business (other than which is to be carried out by bank for e.g. IT solutions, services etc.) in the promoter group. The other

financial and non-financial services activities of the promoters should be kept distinctly ring-fenced and not comingled with banking business.

87. Net worth – Can an existing NBFC with less than Rs.100 crore net worth at the time of application and midway through a fund raising process (which will take the net worth well above Rs.100 crore) apply for Small Finance Bank?

88. At the time of applying for small bank is Rs.100 crore required or RBI will provide some time? What is the minimum capital requirement at the time of application?

A.(87 & 88) At the time of making applications, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier.

89. Whether the entity shall have minimum paid up capital of Rs. 100 crore as well as Net worth of Rs. 100 crore?

A. The minimum paid-up capital of Rs.100 crore is for newly set up bank and net worth of Rs.100 crore is for an NBFC/MFI/LAB converting into a bank.

90. If the promoter's contribution in an existing NBFC is Rs. 5 crore in equity capital which is equal to 30% of total paid up capital (Rs. 16.67 crore). If the net-worth is Rs. 200 crore, will this meet the eligibility requirement of promoter holding minimum 26% diluted capital of company and net-worth of Rs. 100 crore.

91. If Promoter holding is already less than 26% in NBFC/MFIs will the Promoters have to comply with minimum initial contribution of 40% / 26% for paid-up equity capital or 26% / 40% of net-worth if the net-worth is more than Rs. 100 crore.

92. Whether an applicant, where the existing promoters hold less than 26%, be eligible for making application for setting up of a new SFB or its conversion in a SFB? Can the applicant will be given 18 months' time to operationalize (under Para II. clause 16(iv) of the guidelines) i.e. commit that the identified promoter will have 26% before the bank becomes operational i.e. final approval from RBI.

93. For an existing entity, the promoters' shareholding could be diluted below 40 per cent but above 26 per cent for 'regulatory requirements or otherwise'. Would it be correct to read this provision to mean that in case of conversion to an SFB, the minimum promoters' contribution is 26% and not 40%.

94. If a promoter of a NBFC-MFI intending to convert into SFB has diluted paid-up capital below 26% and has a diversified ownership structure, then how does the minimum promoter's holding rule apply?

A. (90 to 94) If the promoter had reduced the contribution in the NBFC/MFI/LAB owing to regulatory requirement, then the required holding in the bank will be 26%. If otherwise, the promoter's minimum initial contribution to bank shall at least be 40 per cent of the paid-up capital of the small finance bank.

95. Applicability of SEBI guidelines for the NBFCs already having net worth in excess of Rs.500 crore: For those NBFCs that have net worth in excess of Rs 500 crore, post IPO, will the market regulator, SEBI's guidelines, govern requirement on promoter holdings?

A. Yes, if the SFB is listed, RBI guidelines with regard to minimum promoter holding and SEBI guidelines will apply.

96. Point No. (iv) of Key features of Small Finance Bank Guideline states as " the minimum paid up equity capital for small finance bank shall be Rs.100 crore. Point No. (v) of Key features of Small Finance Bank Guideline states as "The promoters minimum initial contribution to the paid up equity capital of such small

finance bank shall at least be 40 per cent and gradually brought down to 26 per cent within 12 years from the date of commencement of the business of the bank".

For an example: The promoters A, B, C and D are ready to bring the required capital at their own. However, they have the following constraints in arrangement of share capital:

- (a) *Promoters have parked their funds in movable and immovable properties;*
- (b) *In the immovable properties their spouse are co-owner's; and*
- (c) *Their spouses are ready to give their consent to sell the immovable property to arrange the required share capital.*

Considering the above proposition and its constraints, we would like to seek your confirmation/clarification on the following questions:

- (a) *Will the RBI consider both the movable and immovable property as part of Net Worth of Individual promoters?*
- (b) *Is it necessary to give the name of shareholders and their creditworthiness apart from promoters to ensure the arrangement of share capital?*
- (c) *In case at the time of application, the promoters undertake that they are in a position to arrange the requirement of minimum Paid up share capital of Rs. 100 crore at their own. However, after receipt of In-principle approval they find more investors who are willing to invest in the share capital, can the promoters accommodate the investors also, because in that case the total share capital in the SFB will be in excess of Rs.100 crore?*

- A. (a) The minimum paid-up capital of Rs.100 crore should be readily available at the time of obtaining banking licence.
- (b) Yes. As indicated in the Annex to the guidelines, the applicants should furnish detailed information about the persons/entities, who would subscribe to 5 per cent or more of the paid-up equity capital (shareholding pattern) of the proposed bank, including foreign equity participation in the proposed bank and the sources of capital of the proposed investors.

(c) Any material change from the proposal made in the application should be brought to the notice of Reserve Bank of India during the period between the application and in-principle approval and even thereafter. Further, as indicated in the guidelines, as per Section 12B of the Banking Regulation Act, 1949, any acquisition of 5 per cent or more of the paid-up share capital in a private sector bank will require prior approval of RBI.

97. Will the SFB be allowed to raise 60% (after the promoters equity) by way of an IPO?

A. After setting up of the bank with the required minimum paid-up capital of Rs.100 crore, if the bank proposes to go for an IPO, prior approval of RBI is necessary.(DBOD circular dated April 20, 2010).

98. It appears that Para II. clause 6 of the SFB Guidelines requires that promoter should maintain minimum initial contribution of prescribed percentage in case promoter intends to set-up SFB. Please clarify as to whether existing Non-Banking Finance Companies (NBFCs), Microfinance Institutions (MFIs) and LABs which are planning to opt for conversion are also required to have minimum initial contribution in accordance with clause 6 of the guidelines.

A. Please refer to para 10 of the guidelines.

99. Whether the lock-in of shareholding requirement would apply at the Intermediate Holding Company level or at the Promoter/Investor level of the said intermediate holding company. In other words, can the shareholders of the intermediate holding company dilute his / its stake in the said company within 5 years / 10 years / 12 years thresholds.

A. The guidelines do not require setting up of a holding company to set up the SFB. If there is an intermediate company, it should be an NOFHC and conform to all

requirements relating to NOFHC stipulated in our guidelines on licensing of new banks in the private sector dated February 22, 2013.

100. Where part of the Holding in the Intermediate holding company is held by a Financial Investor / Private Equity Group, (as a Non-Promoter), whether there would be any lock in requirements for such investors of the intermediate holding company?

A. As the intermediate company has to be an NOFHC, it cannot have non-promoter holding.

101. Can a Promoter exit completely after lock in period of five years?

A. Whether a promoter ceases to be a promoter or could exit from the bank would depend on the RBI's regulatory and supervisory comfort / discomfort and SEBI regulations in this regard at that time.

102. If an existing entity who proposes to convert itself into an SFB, has already issued shares under Employee Stock Option Scheme (ESOP) to an individual promoter for the proposed SFB, whether the shares held by an ESOP trust for the said individual promoter be considered as promoter's contribution for the purpose of Para 6 of the Guidelines?

A. Until the ESOPs are exercised, the question does not arise.

103. Between the time period that exists after the submission of SFB application and In-principle approval – whether the promoter is required to maintain 26% of Shareholding even if fresh equity is infused?

A. Yes, incidentally any material change from the proposal made in the application should be brought to the notice of Reserve Bank of India during the period between the application and in-principle approval and even thereafter.

104. Whether promoter's holding of 40% paid-up equity capital would include only voting capital for the purposes of the initial capital requirement?

A. The initial minimum paid-up capital of Rs.100 crore would be voting equity.

105. SFB Guidelines, under Para II. Clause 7, prescribes the extent of foreign shareholding permissible in small finance bank. Does it mean that such foreign shareholding needs to be maintained only after setting-up or conversion of/ into small finance bank? Is an NBFC, which is complying with the restriction on permissible foreign shareholding as per SFB Guidelines and other requirement of SFB Guidelines, eligible to either promote or convert itself into small finance bank?

A. At the time of making applications, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines. After the 'in-principle approval' is accorded by RBI for setting up of a bank, the Promoters/Promoter Group will have to comply with all the requirements within 18 months from the date of in-principle approval or as on the date of commencement of operations whichever is earlier. In this context, it may be clarified that even if the NBFC is compliant with foreign shareholding norms as applicable to banks, any entity / individual shareholding of 5% or more would require prior approval of RBI.

106. While Para 3 of the Guidelines requires an existing entity proposed to be converted into SFB to be owned and controlled by residents, Para 7 of the Guidelines allows foreign shareholding in SFB upto 74%. We request you to clarify as to how an entity that is owned and controlled by residents can have foreign shareholding upto 74%?

A. The requirement of owned and controlled by residents is applicable to the promoter entity, whereas 74 per cent FDI/FII limit applies to the bank.

107. As per the present FDI Policy, the limit on NRI investment of 10% / 24% is applicable for investment under Portfolio Investment Schemes through stock exchanges (schedule 2, regulation 5(2) and not for investment under Foreign Direct Investment Scheme (Schedule I, regulation 5(1)). Accordingly, Para 7 (Foreign Shareholding) of Reserve Bank of India's Guidelines for Licensing of "Small Finance Banks" in the Private Sector vide Press Release dated November 27, 2014, on NRI investment of 10% / 24% is applicable for investment under Portfolio Investment Scheme through stock exchanges only. As such under Automatic route, NRIs and other eligible foreign investors in aggregate can invest to the extent of 49%. We would request your good self to kindly clarify the same.

A. Extant FEMA guidelines will be applicable.

108. Would paid-up equity capital include only voting capital and not non-voting equity shares/preference shares?

A. The minimum paid-up equity capital of Rs.100 crore shall include only voting capital.

109. Would 5% voting rights limit apply to promoter (as he may also be a shareholder) or does it apply to shareholders other than promoter/s?

A. As per Section 12 (2) of the Banking Regulation Act, 1949, any shareholder's voting rights in private sector banks are capped at 10 per cent. Therefore, the voting rights cap also applies to the promoters

110. In case of SFBs, does RBI envisage shares with differential voting rights? On one hand, 5% voting rights can be increased to 26% in a phased manner whereas there is a restriction of maximum of 10% holding which appears contradictory.

A. SFBs can issue differential voting rights, subject to minimum equity capital of Rs.100 crore being voting equity. As regards, second part there is no contradiction. As on date the voting rights are limited to 10 per cent per shareholder (Section 12(2) of the Banking

Regulation Act, 1949). The provision relating to 26 per cent voting rights is an enabling provision for the future.

111. What criteria would be considered by RBI for raising the voting rights to 26 per cent?

As on date the voting rights are limited to 10 per cent per shareholder (as per BR Act)?

A. The provision relating to 26 per cent voting right is an enabling provision for the future.

112. Where a Small Finance Bank is promoted by a company, would all transfers of shares of the promoter company require prior permission from the RBI? or prior permission will be required only for transfer of shares held by the promoter/group entities?

A. As per Section 12B of the Banking Regulation Act, 1949, any acquisition of 5 per cent or more of the paid-up share capital in a private sector bank will require prior approval of RBI. As regards the promoter entity, all transfers which will result in significant change in ownership and/or control will require prior approval of RBI.

113. Whether the shareholding in the intermediate holding company can change inter-se between Promoter group within the thresholds?

A. In case the promoters desire to set up the small finance bank under the NOFHC, the NOFHC would be required to be wholly owned by the promoter group and any change in shareholding within the promoter group of 5 per cent or more in the NOFHC should be with prior approval of RBI.

114. Will PSL criteria be applicable on the very first day of a new small bank or a timeline for compliance would be provided for the same?

115. In case of conversion of NBFC/MFI into bank, will the priority sector lending targets apply only to new loans issued after commencement of banking operations? Or will they also apply to existing portfolio? In such case, will they get a time window to meet the priority sector targets?

A.(114 & 115) Priority sector obligations will take effect with reference to the adjusted net bank credit (ANBC) (OBSE) as on 31st March following the commencement of banking business. For example, if ‘in-principle’ approval is granted in June 2015, the bank has to commence banking business latest by December 2016. In that case, the bank has to maintain PSL by March 31, 2018 on the ANBC base as of March 31, 2017(the reference date). In such a scenario about 33 months would be available to the Promoters/Promoter Group to achieve the PSL target on the existing loan book carried over to the new bank.

116. Will CRR/SLR norms be applicable on the very first day of a new small bank or a time line for compliance would be provided for the same?

117. When an existing MFI is to be converted to the bank, the SLR/CRR requirements are to be met. If the MFI has a borrowing from banks of around Rs. 3000 crore on the date of conversion, it would be required to invest about Rs. 850 Crore in the Government Securities for SLR/CRR purpose on the first date of conversion itself which would be a huge challenge. While SLR/CRR are a must and must be complied with, by all banks, in the safety of depositors, we would seek that some time be given to existing MFIs who are converting, to meet this requirement. The time can be in the range of about 1-2 years to achieve SLR/CRR on a graded basis on a quarterly basis.

A (116 to 117). No forbearance for maintenance of CRR and SLR will be granted by RBI, as these are statutory requirement for the banks.

118. PSL status of the Loans taken from Banks before conversion: On our books, these are loans taken from bank for on lending. These loans enjoy the PSL benefit on the books of the lender bank. Given that RBI has mentioned grandfathering of charge on the books of the NBFC; will RBI also grandfather these loans to enjoy the PSL status, post conversion of the NBFC into SFB, as any withdrawal of PSL benefit may result in banks recalling / repricing the loan to the NBFC/SFB?

A. Loans against the borrowings from other banks will cease to have PSL status for the lending banks once the new SFB commences its business.

119. Kindly clarify the meaning / scope of ‘group obligor’.

A. Group obligor means group borrower and the group exposure would include loans, advances, investments, etc.

120. Whether the word ‘exposure’ covers providing loans and advances or also cover arm’s length business relations (selling of product acting as agents, BCs etc)?

121. Is the word ‘exposure’ limited to providing loans and advances or does it also cover arm’s length business relations (such as selling of product acting as agents, BCs etc.)?

A. (120 & 121) The guidelines indicate that, the maximum loan size and investment limit exposure to a single and group obligor would be restricted to 10 per cent and 15 per cent of its capital funds, respectively. For a complete coverage of the word “exposure”, please see RBI Master Circular RBI/2014-15/66 DBOD.No.Dir.BC.12/13.03.00/2014-15 dated July 01, 2014 on Exposure Norms.

122. Can a SFB choose to allocate 40% of the PSL requirement to sub-sector suited to its comparative advantage or will it be required to lend to different sub-sectors that qualify towards PSL?

A. No. The guidelines clearly indicate that 40 per cent of the small finance bank's Adjusted Net Bank Credit (ANBC) should be allocated to different sub-sectors under PSL as per the extant PSL prescriptions of RBI. The balance 35 per cent can be allotted to any one or more sub-sectors where it has comparative advantages.

123. On the day 1 of the start of the SFB (after the 18 months transformation period) will CRR & SLR apply on the earlier term loans taken from banks which are allowed to be grandfathered? (capital charge)

A. Yes.

124. Will the new SFB be allowed to keep such grandfathered loans out of the computation of Inter Bank limits till the maturity of the loans?

A. Necessary guidelines will be issued in due course.

125. When a NBFC (Non-Deposit taking) converts into a Small Finance Bank, will it require maintaining CRR & SLR on its existing Borrowings which are secured and institutional and not in the nature of demand deposits?

A. Yes.

126. Will there be any restriction on the rate of interest for deposits and advances?

A. The small finance bank will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks(para 9 of the guidelines).

127. Will RBI consider allowing the small finance bank to take over and convert own existing NBFC branches into bank branches?

A. Please refer to para 10 of the guidelines

128. In case of grand-fathering of loans, there is a reference made to additional capital charge? Could you elaborate on the same?

129. Where floating charges are created by the NBFCs/ MFIs, the guideline says that RBI will provide for 'grandfathering'. Can you kindly explain the course of action intended in this case and the time line to substitute this charge by alternative sources? Can you also explain what kind of capital norms RBI is thinking of in those cases to provide the grandfathering?.

A.(128 & 129) The norms with regard to additional capital charge will be decided in due course.

130. Grandfathering of existing loans and interbank limits: Will the new SFB be allowed to keep such grandfathered loans out of the computation of inter bank limits till the maturity of the loans?

131. Most NBFCs rely on bank financing as a major source of funding. If an NBFC converts into a Small Finance Bank (SFB), it will have to comply with the current banking regulations which limit the net interbank borrowing for any bank to three times its net worth. Most NBFCs will not be able to comply with this regulation. This is because, currently, the average bank funding of NBFCs is not less than 4 to 5 times their net worth. The average bank funding is much higher in case of Housing Finance Companies. It will be difficult for the NBFCs to overnight convert their bank funding through alternative sources such as deposits. There may thus be a need to provide for grandfathering. The guidelines do outline grandfathering of floating charges against bank borrowings until these borrowings mature.

132. New Loans and Interbank Limits during the conversion period: Post conversion of NBFC into SFB, the new SFB will need 12-18 months to build up the deposit momentum. During this phase, will RBI permit the new SFB to continue to

tap into bank borrowing under the previous NBFC criteria and not limit the borrowing of SFB based on inter-bank limits?

A.(130 & 132) Necessary guidelines will be issued in due course.

133. The guidelines restrict the non-promoter's holding to 10 per cent. In this regard, kindly clarify whether the non-Promoter's holding in the Intermediate holding company (being owned and controlled by residents) promoting the proposed SFB would also be counted for this purpose?

A. In case the promoters desire to set up the Small Finance Bank under the NOFHC, the NOFHC would be required to be wholly owned by the promoter group and no non-promoter shareholding would be allowed in the NOFHC.

134. The guidelines prescribe that NBFCs / MFIs can also opt for conversion into SFBs. Please clarify whether an existing NBFC / MFI can set-up a SFB separately. In such an event, kindly clarify whether all financial services business which could be undertaken by SFB need to be folded into SFB?

A. An NBFC can set up a SFB. However, all lending activity should be folded into bank. The guidelines indicate that on conversion into a small finance bank, the NBFC / MFI will cease to exist and all its business which a bank can undertake should fold into the bank and the activities which a bank cannot undertake be divested / disposed of. The other financial and non-financial services activities of the promoters should be kept distinctly ring-fenced and not comingled with the bank

135. Whether an existing NBFC in the Promoter group can co-exist with the SFB where the business of the said NBFC is non-competing (i.e. the ticket size, target customer, etc. are different) with the business to be conducted by the proposed SFB?

A. No. All permitted lending activity should be folded into the bank and the activities which a bank cannot undertake be disposed of.

136. RBI may kindly clarify the dispensation available (on the lines of item ii Para 13) to the existing investors (mainly PE) in the existing NBFC-MFI regarding their maximum stakes that would be permitted in case the NBFC-MFI converts itself in a small finance bank.

A. Para 13(ii) applies to existing investors including PEs.

137. The guidelines provide that in case of existing NBFCs/ MFIs (opting to convert into a SFB) which have diluted the promoters' shareholding to below 40 per cent, but above 26 per cent, due to regulatory requirements or otherwise, RBI may not insist on the Promoters' minimum initial contribution of 40 percent. In this regard, kindly clarify the meaning of the term 'otherwise' or under which other scenarios, 26% Promoters' shareholding (as against the 40%) would be acceptable to RBI?

138. What is meant by 'dilution by regulatory requirement or otherwise' – if the shares of a MFI are issued to a strategic investor which has resulted into dilution of promoter's stake be regarded as falling within this?

A.(137 & 138) "Otherwise" can be interpreted in a general sense to mean as any other reason apart from regulatory requirements. The applicant should explain the circumstances.

139. Where an existing NBFC/ MFI/ LAB proposes to convert into a SFB, can the preference shares already issued be included in calculating the net worth of Rs 100 crore of the existing entity?

A. Currently, preference shares of the nature indicated in Master Circular RBI/2014-15/76

DBOD.No.BP.BC.4/21.01.002/2014-15 - Prudential Norms on Capital Adequacy - Basel I Framework dated July 1, 2014, only are eligible for inclusion in net worth.

140. Would any relief (or transition period exceeding 18 months) be available in relation to the requirement of additional infusion of capital to an existing NBFC/MFI/LAB, having a paid up share capital of Rs. 100 crores or more but having losses because of which its net worth is less than Rs. 100 crore?

A. No.

141. For existing NBFC-MFIs and transformation cases, apparently the promoter holding required is 26% and Foreign holding can be up to 74% as long as the same has been done under FDI & RBI guidelines? This may please be confirmed.

A. The presumption that the promoter's stake for all NBFCs is 26% is incorrect. The promoter holding of 26% will be allowed where the reduction has taken place due to regulatory requirement.

142. For existing NBFC-MFI transformation cases, existing plus additional paid-up capital should add to INR 100 Crore: does this mean that any share premium collected in this additional raise process will not be counted?

A. The share premium collected in raising additional paid-up capital will be counted for the purpose of net worth.

143. At the time of application, are experienced directors required?

A. The names of the Board of Directors of the small finance bank would be required to be furnished to the Reserve Bank after grant of in-principle approval.

144. Whether the Director / Individual Shareholder of an entity promoting a SFB could become the Chairman of such bank?

A. Yes, subject to prior approval of RBI as per section 35B of the Banking Regulation Act, 1949.

145. Whether the Promoter entity and the SFB can have common directors?

146. Where the promoter of the SFB already has independent directors, it may be clarified whether the said independent directors being nominated on the Board of the SFB will also qualify as independent directors for the SFB.

147. Can the Promoter entity and the Bank have common directors including managing director and common independent directors?

A.(145 to 147) There could be non-executive common directors in the promoter entity and the small finance bank. However, a director of the promoter entity being also a director on the Board of the bank will not be considered as independent director of the bank.

148. The requirement of majority being independent directors. Does such requirement exist for any kind of bank/financial institution already or is it only proposed for Small Finance Bank?

A. The requirement of independent Directors are already applicable to existing listed banks as per the Clause 49 requirements of SEBI.

149. Would a small finance bank be directly participating in clearing or it would need to go through some large bank?

A. The bank can decide upon the type of membership— direct or through sub-member route, depending upon the access criteria (eligibility norms) set for respective payment system.

150. A company may have > 10% non-promoter individual shareholding at the time of in-principle approval. Will the 3 year period of reduction to <= 10%, start from date of in-principle approval of license or commencement of banking operations?

A. The three year period will start from the date of in-principle approval.

151. Individuals (including relatives) and entities other than promoters will not be eligible to have a shareholding in excess of 10%. Does it mean that in case new investor who wants to invest in a new bank cannot hold/own in excess of 10% in such a bank?

152. In case of proposed demerger or transfer of permitted business by the Promoter/Promoter group entity to a new bank (as part of road map for meeting eligibility criteria's for bank set up), the existing shareholders including non-promoters would be issued shares in the bank. Does this need to be capped at 10% for non-promoters at the time of issue of shares itself by new bank or RBI would permit banks to issue shares in excess of 10% to non-promoters on such demerger/ transfer and subsequently the same can be diluted to 10% within 3 years from the date of issue of such shares.

A.(151 & 152)Yes. The holding will be capped at 10% for non-promoters at the time of issue of shares itself by the new bank. In case of existing NBFCs / MFIs / LABs converting into small finance banks, RBI may consider providing time upto 3 years from the date of in-principle approval for the shareholding to be brought down to 10 per cent, in case of holdings beyond 10%.

153. The guidelines mention that the SFBs will not be allowed to function as Business Correspondents (BCs) for another bank. Since this is the only exclusion expressly mentioned, will SFBs be allowed to carry out distribution of other non-bank financial products such as insurance or investment products?

A. Please refer to para 4 of the guidelines on SFB.

154. National Housing Bank (NHB) has a credit guarantee fund for small ticket housing loans. Such loans are an important component of financial inclusion and part of an important government agenda of affordable housing. Will this fund or similar funds be available to SFBs? This is particularly relevant to the (small ticket) housing loan portfolios of NBFCs (especially HFCs) converting into SFB.

A. Availability of credit guarantee fund or similar such funds to small finance banks will depend on the respective regulators' stipulations.

155. Ours is a Nidhi Company as per Section 620A of Companies Act, 1956. As per the guidelines issued, only NBFCs, MFIs and LABs can apply for conversion to Banks. Whether Nidhi Companies, catering to the small and medium segment of the society can also apply for conversion especially because we work in a low-cost environment which can be continued for extending banking services to the lower section of the society and also because all our activities are as permissible to banks.

A. If Nidhi companies are registered under the Companies Act they would be eligible to apply for SFB licence.

156. If we cannot apply for conversion, our shareholders, which is wide-spread, are interested in applying for a banking licence. There is no promoter group, as such. The company is professionally managed. It may be difficult for us to meet the stipulation that promoters should contribute at least 40% of the capital, though the shareholders can easily mobilise the stipulated capital of Rs.100 crore. Please inform whether the minimum stipulation for promoters' contribution

will be applicable in such case or should we list all major shareholders as promoters.

A. Individuals are eligible as promoters of an SFB conforming to the requirements of para 3 of the guidelines.

157. Whether it is mandatory for a SFB to implement Core Banking Solution? Can the promoter/ promoter groups leverage their existing technology infrastructure and integrate current and new technology required for sound operation of the SFB?

A. Please refer to para 13(iv) of the guidelines in this regard.

158. Is it permissible for a set of promoters to shift their holding using the NOFHC vehicle? Also, how concerns of minority promoter and foreign investor could be addressed?

A. The NOFHC has to be wholly owned by the promoters. It is for the promoters to address the concerns of minority promoters and foreign investors.

159. When the promoter is a Company or any other body corporate planning to incorporate "SFB", whether the said Promoting Company has to be compulsorily (Non-Operative Financial Holding Company) NOFHC?

A. Not necessary.

160. Can a small finance bank also offer payment/remittance products as well as access to ATMs/ POS terminals?

A. Yes.

161. We seek your clarification that whether the shareholding of "entities other than the promoters" to be brought down to 10% within 3 years of the

commencement of operations as a Small Bank or from the date of grant of license.

A. The three year period will start from the date of in-principle approval.

162 Some of the NBFCs have recourse to Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) and the mechanism of Debt Recovery Tribunals (DRTs). On similar lines, will the legal provisions of SARFAESI and DRTs be available to SFBs?

163. Will the bank be allowed to DRT, SARFAESI etc. for recovery of loans? Will the SFB be on par in terms of power to recover money, as compared to universal banks?

A.(162 & 163). Yes. The legal provisions of SARFAESI Act and DRT mechanism will be available to the small finance banks also.

164. We are a private limited company incorporated under the Companies Act, 1956. Can the conversion to public limited company be completed after receiving in principle approval to form a Small Finance Bank?

A. The requirement of Public Limited Company is for the bank and not for the promoters.

165. Based on a combined reading of Para 10, Para 1 and Para 16(iv) of the guidelines, would it be correct to say that an existing NBFC/ MFI/ LAB who is a private limited company and who proposes to convert itself into an SFB, could convert itself into public company and infuse additional capital required within eighteen months of grant of in-principle approval and at this stage it would be required to submit a plan of how to achieve the same?

A. Yes. At the time of making applications, the Promoters/Promoter Group will have to furnish a plan and methodologies they would adopt to comply with all the requirements of the guidelines

166. Where can we obtain the prescribed format of Form III to make an application?

A. Form III is annexed to The Banking Regulation (Companies) Rules, 1949.

167. Please provide a timeline for the shortlisted as well as final list of applicants getting the Small Finance Bank license.

168. What is the time frame when RBI expects to issue the licences?

169. What is the timeline for granting in-principle approvals? Will all approvals be granted at one-go or over a period of time?

A.(167 to 169)The timelines will depend primarily on the number of applications received and the time taken for completion of the approval process.

170. Can RBI provide a range / estimate on the minimum and maximum number of licences that it is planning to issue?

A. Please refer to para 16 (vii) of the guidelines.

171. Kindly clarify the scope of ‘the companies/entities with which the promoters are associated and the group in which they have interest’.

A. RBI will primarily look into the entities in the promoter group as defined by SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

172. Can we get some illustrations of 'additional criteria' from RBI perspective to determine the suitability of applications, in addition to the prescribed 'fit and proper' criteria?

A. The same will be as firmed up at the time of processing of the applications.

173. What should be the period for the business plan (3, 5 or 10 years) to be submitted as a part of the application?

A. The business plan should be realistic and viable. It should address how the bank proposes to achieve financial inclusion. It would be desirable to give business plan covering five years.

174. Whether details of relatives of the Promoters and Promoter group companies should also be furnished alongwith the application where those relatives do not hold any interest in the SFB or any of the Promoter group entities?

A. Information should be furnished as per the requirements mentioned in the guidelines and the Annex to the guidelines.

175. The annexure to the guidelines (refer Para I(1)(b) of the annexure) provide for providing the details of Promoter's direct and indirect interests in various entities/ companies/ industries, etc. Can the definition of the "Promoter" / "Promoter Groups" as per SEBI (Issue of Capital & Disclosure Requirements), Regulations 2009 be referred for the same.

A. Yes. The guidelines indicate that the Promoter / Promoter Groups will be as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009.

176. Where the promoter entity is a listed Indian company, is it sufficient to list all the entities named as shareholders of the listed company constituting the promoter/ promoter group? Where promoter group constitutes "body

corporates”, details of all the shareholders of the body corporate need not be provided. Please confirm.

A. The Annex to the guidelines indicates that a tabulation of names of all the individuals and entities in the promoter group (including financial, non-financial and overseas entities) with details mentioned should be provided with the application. For the purpose, promoter / promoter group will be as defined by SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009. As regards body corporates, details of shareholders having significant influence and control should be indicated.