Acquisition / Transfer of Control

In addition to raising funds though borrowings, HFCs may also raise funds by way of issue of its equity shares. In terms of the RBI Master Directions – HFC, prior written permission of RBI shall be required for (i) any takeover or acquisition of control of an HFC, which may or may not result in change of management; (ii) any change in the shareholding of an HFC accepting or holding public deposits, including progressive increases over time, which would result in acquisition or transfer of shareholding of 10% or more of the paid-up equity capital of the HFC by or to a foreign investor; or (iii) any change in the shareholding of an HFC, including progressive increases over time, which would result in acquisition or transfer of shareholding of 26% or more of the paid-up equity capital of the HFC.

For details on foreign investment in a HFC, see "*Restrictions on Foreign Ownership of Indian Securities*" on page 423.

However, no such approval is required in case of any shareholding going beyond 10% or 26%, as applicable, due to buyback of shares or reduction in capital where it has approval of a competent court. However, the same shall be reported to the NHB not later than one month from the date of its occurrence.

Further, RBI Master Directions – HFC requires prior public notice about change in control/management. A public notice of at least 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares. Such public notice shall be given by the HFCs and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the RBI.

On-boarding of customers and marketing

a. *Advertising, Marketing and Sales*

The fair practices code prescribed under the RBI Master Directions – HFC ("**Fair Practices Code**"), is applicable to all the products and services, whether they are provided by the HFCs, its subsidiaries or digital lending platforms (self-owned or under an outsourcing arrangement) across the counter, over the phone, by post, through interactive electronic devices, on the internet or by any other method. In terms of the Fair Practices Code, HFCs are required to ensure that advertising and promotional material is clear and not misleading and that privacy and confidentiality of the customers' information is maintained.

The Fair Practices Code also prescribes certain requirements applicable at the time of applications for loans, loan appraisal and disbursement of loans. For instance, HFCs are *inter alia* required to (i) include in the loan application forms all necessary information so that the applicant may make a meaningful comparison with the terms offered by other HFCs; (ii) devise a system of giving acknowledgement for receipt of all loan applications; and (iii) communicate in writing the reasons for rejection of the application. Further, whenever loans are given, HFCs should explain to the customer the repayment process, including the amount, tenure and periodicity of repayment.

Further, HFCs are required to adopt the model code of conduct for direct selling agents/direct marketing agents as per the RBI Master Directions – HFC, with the approval of their Board.

b. *Know you customer and prevention of money laundering*

In terms of the provisions of the PMLA and the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, HFCs are required to follow certain customer identification procedures while undertaking a transaction either by establishing an account based relationship or otherwise by monitoring their transactions.

As per the RBI Master Directions – HFC, the Master Direction – Know Your Customer (KYC) Direction, 2016 ("**KYC Direction**"), as amended is applicable to HFCs. The KYC Direction requires an HFC to formulate a board approved KYC policy which is required to include four key elements (i) customer acceptance policy formulated by a HFC, which includes requirements applicable at the time of opening of the account by the customers and client due diligence requirements; (ii) risk management policy, which requires risk categorization of customers based on certain parameters such as identity, social/financial status, nature of business activity and information on client's business and their location, etc.; (iii) customer identification procedures, *inter alia*, at the time of commencement of an account based relationship, when there is a doubt about the authenticity or adequacy of the customer identification data, when carrying out international money transfer for non-account holder, when selling third party products; and (iv) customer due diligence procedures, which involves obtaining certain identification documents (such as PAN, Aadhaar number or any other officially verified document) from the individual when he establishes an account based relationship or when dealing with the individual who is the 'beneficial owner', authorised signatory or power of attorney holder related to the legal entity.

Corporate Governance

The corporate governance directions prescribed in the RBI Master Directions – HFC are applicable to all HFCs. All HFCs are required to constitute, amongst others, an audit committee, a nomination and remuneration committee, and a risk management