



Statement on the feedback received for draft circular

Subject: Forms of Business and Prudential Regulation for Investments dated October 04, 2024

- a) Commencement** - The provisions contained in some paragraphs {4(a)(iii), 4(a)(iv)(a), 5(a)(ii)(e), 5(a)(ii)(f) and 5(a)(ii)(g) of the draft circular} shall come into effect two years from the date of the final circular.

Feedback: Stakeholders have requested to extend the timeline for implementation.

RBI Comments: Not Accepted. (Paragraph 4(a)(iii) is modified and also other paragraph numbers are now changed) Keeping in view the time that may be required for compliance under the revised guidelines, timeline till March 31, 2028, is considered sufficient. Further, banks have been advised to submit the status/detailed action plan, as applicable, by March 31, 2026.

- b) Para 4(a)(ii) of the draft circular** - Activities 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 departmentally, but, only through a group entity subject to the conditions stipulated for the respective activities.

Feedback: Investment Management business may be added in the list of activities that can be undertaken.

RBI Comments: Accepted. Investment Management business has been included in the list of activities that may be conducted by the banks through their group entity.

- c) Para 4(a)(iii) of the draft circular** - Only a single entity within a bank group (the bank and its group entities) shall undertake a particular form of permissible business.

Feedback: Stakeholders have requested to allow multiple entities in a bank group to undertake same business but catering to different segments based on geography, customer profile, ticket size, etc.



RBI Comments: Accepted. To allow flexibility in the manner in which a bank wishes to conduct its business, the suggestion has been accepted. However, to ensure that the overlap in businesses undertaken by bank group has proper rationale/justification, Board approval is being mandated.

- d) Para 4(a)(iv) of the draft circular** – NBFC group entities of banks shall additionally be subject to (i) Scale Based Regulations as applicable to NBFC - Upper Layer and (ii) Regulatory and Other Restrictions on loans and advances applicable to banks.

Feedback: Exempt NBFC group entities from Upper Layer regulations, especially listing. Further, restrictions on loans and advances that will apply to the NBFC group entity may be specified.

RBI Comments: Partially Accepted. NBFC group entities which have not been independently identified as NBFC-Upper Layer by the Reserve Bank have been exempted from listing requirement.

Further, restrictions/stipulations for specific loan segments applicable to banks, have been made applicable mutatis mutandis to NBFC group entities to obviate any circumvention of regulations. A list of such loan segments has been provided in the final circular.

- e) Para 4(e) of the draft circular** - 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.

Feedback: Allow overseas branches to undertake activities not permitted to parent bank without prior approval for market competitiveness.

RBI Comments: Partially Accepted. The restriction has now been removed. However, parent banks shall require NoC for their overseas branches to undertake businesses not permitted to them (parent banks) in India.

- f) Para 5(a)(ii)(e) of the draft circular** – Banks cannot be Sponsors (as defined in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) of 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.



Feedback: Banks may be allowed to have shareholding in ARCs without any restriction.

RBI Comments: Not Accepted. The prudential limit has been prescribed to avoid conflict of interest arising from bank/bank group controlling ARCs. Accordingly, the condition has been retained.

- g) Para 5(a)(ii)(g) of the draft circular** - No bank shall 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.

Feedback: Trustee company may be allowed to hold shares as pledges for safeguarding lender's interest and the same may not be included in the calculation of bank-group limit of 30%.

RBI Comments: Accepted. Based on the feedback, applicability of limit on holding of shares through trustee arrangement has been removed to support lending interest of banks.

- h) Para 5(a)(iv) of the draft circular** - 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.

Feedback: Increase timeline for reporting breach from 7 days to 15 days.

RBI Comments: Accepted. Timeline has been revised to 15 calendar days to provide sufficient time to banks.

- i) Para 5(b)(ii) of the draft circular** – Prior approval shall be required to make 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 (AMC) controlled by the bank.



Feedback: Investments made by mutual funds may not be included for calculating aggregate bank group investments.

RBI Comments: Accepted. The condition has been removed as 'Mutual Funds' as defined in the Reserve Bank of India (Commercial Banks – Undertaking of Financial Services) Directions, 2025, exercise interest of unit holders. However, the investments made by group entities of a bank including AMC from its own funds is required to be included for calculation of aggregate limits. Further, at present investment made by Insurance or Pension Funds on behalf of their plan holders were not covered under these limits, and removal of 'Mutual Funds' from the above brings parity to all such funds.

- j) **Definition:** The draft circular does not include any definition for group entity or bank group.

Feedback: Stakeholders have requested to include definition for 'group entity' or 'bank group'.

RBI Comments: Accepted. Definition of the term 'group entity' has been included to bring in clarity.