

Annexure to Roadmap for Presence of Foreign Banks in India

The guidelines for setting up of WOS by foreign banks and conversion of existing branches of foreign banks into WOS are given hereunder:

Eligibility of the parent bank

1. Foreign banks applying to the RBI for setting up a WOS in India must satisfy RBI that they are subject to adequate prudential supervision in their home country. In considering the standard of supervision exercised by the home country regulator, the RBI will have regard to the Basel standards.
2. The setting up of a wholly-owned banking subsidiary in India should have the approval of the home country regulator.
3. Other factors (but not limited to) that will be taken into account while considering the application are given below:
 - i. Economic and political relations between India and the country of incorporation of the foreign bank
 - ii. Financial soundness of the foreign bank
 - iii. Ownership pattern of the foreign bank
 - iv. International and home country ranking of the foreign bank
 - v. Rating of the foreign bank by international rating agencies
 - vi. International presence of the foreign bank

Capital

- 4 The minimum start-up capital requirement for a WOS would be Rs. 3 billion and the WOS shall be required to maintain a capital adequacy ratio of 10 per cent or as may be prescribed from time to time on a continuous basis, from the commencement of its operations.
- 5 The parent foreign bank will continue to hold 100 per cent equity in the Indian subsidiary for a minimum prescribed period of operation.

Corporate Governance

6. The composition of the Board of directors should meet the following requirements:
 - Not less than 50 per cent of the directors should be Indian nationals resident in India.
 - Not less than 50 per cent of the Directors should be non-executive directors

- A minimum of one-third of the directors should be totally independent of the management of the subsidiary in India, its parent or associates.
- The directors shall conform to the 'Fit and Proper' criteria as laid down in RBI's extant guidelines dated June 25, 2004.
- RBI's approval for the directors may be obtained as per the procedure adopted in the case of the erstwhile Local Advisory Boards of foreign bank branches.

7. Accounting, Prudential Norms and other requirements

- i. The WOS will be subject to the licensing requirements and conditions, broadly consistent with those for new private sector banks
- ii. The WOS will be treated on par with the existing branches of foreign banks for branch expansion. The Reserve Bank may also prescribe market access and national treatment limitation consistent with WTO as also other appropriate limitations to the operations of WOS, consistent with international practices and the country's requirements.
- iii. The banking subsidiary will be governed by the provisions of the Companies Act, 1956, Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, other relevant statutes and the directives, prudential regulations and other guidelines/instructions issued by RBI and other regulators from time to time.

8. Conversion of existing branches into a WOS

All the above requirements prescribed for setting up a WOS will be applicable to existing foreign bank branches converting into a WOS. **In addition** they would have to satisfy the following requirements.

Supervisory Comfort

Permission for conversion of existing branches of a foreign bank into a WOS will *inter alia* be guided by the manner in which the affairs of the branches of the bank are conducted, compliance with the statutory and other prudential requirements and the over all supervisory comfort of the Reserve Bank.

Capital Requirements

The minimum net worth of the WOS on conversion would not be less than Rs. 3 billion and the WOS will be required to maintain a minimum capital adequacy ratio of 10 per cent of the risk weighted assets or as may be prescribed from time to time on a continuous basis. While reckoning the minimum net worth the local available capital including remittable surplus retained in India, as assessed by the RBI, will qualify. Reserve Bank will cause an inspection/ audit to assess the financial position of the branches operating in

India and arrive at the aggregate net worth of the branches. RBI's assessment of the net worth will be final.

9. Acquisition of holding in select private sector banks

Foreign banks may apply to the Reserve Bank for making investment in private sector banks that are identified by RBI for restructuring. Reserve Bank will examine the application with regard to the eligibility criteria prescribed for foreign banks to set up a WOS vide paragraphs 1 to 4 above as well as their track record in restructuring banks.

While permitting foreign banks to acquire stake in the identified private sector banks, RBI may undertake enhanced due diligence on the major shareholders to determine their 'Fit and Proper' status. Reserve Bank may also prescribe additional conditions in this regard as may be considered appropriate.

10. Application procedure

Applications for setting up of wholly-owned banking subsidiaries by foreign banks including conversion of existing branches should be made to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, World Trade Centre, Cuffe Parade, Colaba, Mumbai 400 005. The prescribed application form will be placed on the RBI's web site.

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