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CAPITAL MARKETS

TOPICS

» RBI announces guidelines for merger of private sector banks in India

The Indian central bank, the Reserve Bank of India (□RBI□) has announced guidelines for the voluntary merger / amalgamation of private sector banks in India. The guidelines lay down the process for the merger proposal, the determination of the swap ratios, disclosures, the stages at which Boards must get involved in the merger process and the norms of buying / selling of shares by the promoters before and during the process of merger.

Boards of banks have been given a key role in the merger process. The decision of merger has to be approved by a two third majority of the total Board members and not just two thirds of those present. Further, the directors who participate in these meetings must be signatories to the Deeds of Covenants.

The guidelines provide that the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 would also have to be followed by the concerned entities. To the extent applicable, this would apply even if any/both of the entities were unlisted.

Merger of two banks:

The guidelines provides for the approval of the directors of both banks prior to the convening of shareholder□s meeting for approval of the scheme of amalgamation. Some of the issues that the Boards would need to consider are:

- the valuation of the assets, liabilities and reserves of the bank to be amalgamated;
- the nature of consideration to be paid to the shareholders of the bank to be amalgamated;
- the swap ratio;
- the shareholding patterns of both the banks and the amalgamating bank; and
- the impact on the amalgamating bank□s profitability and capital adequacy ratio (□CAR□).

The guidelines also provide for certain information to be submitted to RBI to facilitate RBI□s consideration of the amalgamating bank□s application for its sanction. Similarly, certain information will also have to be submitted towards RBI□s determination of the value of the shares of the amalgamated bank, which shall have to be paid to dissenting shareholders.

Merger of an NBFC with a bank:

Where a non-banking financial company (□NBFC□) is proposed to be merged with a bank (or vice versa), the guidelines provide that the bank has to obtain RBI approval after receipt of its Board approval but prior to submission of the scheme of amalgamation to the concerned High Court.

In addition to the issues covered above, some of the issues the Board of the bank also has to consider are:

- violation of any RBI / SEBI norms by the NBFC;
- compliance by the NBFC of the □know your customer□ (□KYC□) norms for all accounts; and
- NBFC□s taking of credit facilities from banks / financial institutions and terms thereof, if any.

The bank, in this case too, will have to submit certain information for and in relation to RBI sanction and the valuation of shares.

For further details please contact our Capital Markets Team.

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