



JSA Prism Mergers & Acquisitions

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Prior approval of RBI by non-bank payment system operators

The Reserve Bank of India (“RBI”) has issued a directive on July 4, 2022 (“**Directive**”), amending the existing regulatory requirements governing the takeover / acquisition of control of a non-bank payment system operators (“PSOs”) and sale of payment system activity of a non-bank PSO.

This Directive has been issued under Section 10(2) read with Section 18 of Payment and Settlement Systems Act, 2007 and is effective from July 4, 2022.

Key Highlights

1. Pursuant to the Directive, a non-bank PSO is mandatorily required to obtain the prior approval of the RBI in the following cases:
 - a) takeover/ acquisition of control, which may or may not result in change of management of such non-bank PSO; and
 - b) sale or transfer of payment system activity to an entity not authorised for undertaking similar activity.
2. Pursuant to this Directive, a non-bank PSO is also required to inform the RBI of the following, within 15 calendar days:
 - a) change in management or directors of such non-bank PSO; and
 - b) sale or transfer of payment system activity to an entity authorised for undertaking similar activity.

The seller or transferor non-bank PSO is required to voluntarily surrender its certificate of authorisation as per the prescribed process. In terms of the Directive, the buyer/ transferee bank/ non-bank will be liable for complying with any regulatory or supervisory action taken by the RBI for the period prior to the sale or transfer.

Procedural Requirements (in case of approval)

1. Obtaining a certificate of authorisation prior to the sale or transfer

For seeking prior approval of the RBI, a non-bank PSO must apply to the Department of Payment and Settlement Systems, the Central Office, RBI along with the relevant information.

In case the buyer or the transferee is not authorised for undertaking similar activity, an application (akin to an application for a new authorisation) is also required to be made by the buyer/ transferee entity along with an application fee. If the buyer or the transferee is a bank, it must apply to the Department of Payment and Settlement Systems, the Central Office, RBI for approval.

The RBI will endeavour to respond within 45 days after receipt of the complete details from the relevant entities.

2. Public Notice

- a) After obtaining the RBI approval, a public notice (with identified particulars) must be issued (in the prescribed manner) at least 15 calendar days prior to effecting the change.
- b) Further, the seller or transferor non-bank PSO must inform all its stakeholders (agents, bankers, customers, merchants, etc.) of the change, at least 15 calendar days before effecting the said change.

Procedural Requirements (in case of intimation)

1. In cases of change in management or directors of a non-bank PSO, an intimation must be filed with the Department of Payment and Settlement Systems, the Central Office, RBI within 15 calendar days along with the prescribed details. The 'fit and proper' status of the management/ directors will be examined by the RBI, and if required, the RBI may place suitable restrictions.
2. In cases of sale or transfer of payment system activity to an entity authorised by the RBI for undertaking similar activity:
 - a) the authorised non-bank PSO is required to intimate the Department of Payment and Settlement Systems, the Central Office, RBI within 15 calendar days along with the prescribed details;
 - b) the entities are required to issue (in the prescribed manner) a public notice (with identified particulars) at least 15 calendar days before effecting the change; and
 - c) the seller or transferor non-bank PSO is required to inform all stakeholders (agents, bankers, customers, merchants, etc.) of the sale or transfer at least 15 calendar days before the actual sale or transfer.

The above approval requirement is similar to the restrictions imposed by the RBI on other regulated entities like non-banking financial companies. Prior to the said Directive, there was no requirement to obtain any prior approval from RBI for such takeover or acquisition of control of a non-bank PSO and only a *post facto* intimation was made by the entities. Though prior written consent from the regulator may impact deal timelines and increase uncertainty, inclusion of a response timeline in the Directive will ensure that the transactions involving acquisition of control are not unnecessarily delayed due to this new Directive.

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22 Ranked Lawyers



15 Practices and
18 Ranked Lawyers



7 Practices and
2 Ranked Lawyers



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