

# SEVENTH REPORT

STANDING COMMITTEE ON FINANCE  
(1994-95)

(TENTH LOK SABHA)

THE BANKING COMPANIES  
(ACQUISITION & TRANSFER OF  
UNDERTAKINGS)  
AMENDMENT BILL, 1993.



सत्यमेव जयते

PAPERS LAID ON THE TABLE  
OF THE RAJYA SABHA

ON

*Presented to Lok Sabha on 22 April, 1994  
Laid in Rajya Sabha on 22 April, 1994*

LOK SABHA SECRETARIAT  
NEW DELHI

*April, 1994/Chaitra, 1916 (Saka)*

F.C. No. 007

Price : Rs. 12.00

PARLIAMENTARY  
(Centre) Govt. Publ. ...  
Acc No. C....89554 (1)  
Date..... 27/5/1994

LC  
228350  
NA, 1

© 1994 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and printed by the Akashdeep Printers, 20, Ansari Road, New Delhi-110 002.

## CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE .....	(iii)
INTRODUCTION .....	(v)
Report of the Committee .....	1
Statement of Conclusion/Recommendations of the Committee contained in the Report .....	4

### ANNEXURES

- (i) Minutes of the sittings held on 10 and 31 January, 1994, 15 February, 1994, 8 March, 1994, 23 and 24 March, 1994 and 18 April, 1994 ..... 6-20
- (ii) List of Associations/Organisations etc. from whom Memoranda were received by the Committee ..... 21
- (iii) Note of Dissent ..... 23

COMPOSITION OF THE STANDING COMMITTEE ON FINANCE  
(1994-95)

Dr. Debiprosad Pal — *Chairman*

MEMBERS

*Lok Sabha*

2. Sh. P. Chidambaram
3. Sh. Magunta Subbarama Reddy
4. Prof. K.V. Thomas
5. Sh. Chandulal Chandrakar
6. Dr. K.V.R. Chowdary
7. Sh. Chhitubhai Gamit
8. Sh. Prithviraj D. Chavan
9. Sh. S.B. Sidnal
10. Smt. Maragatham Chandrasekhar
11. P.C. Chacko
12. Sh. Prakash V. Patil
13. Sh. Mahendra Kumar Singh Thakur
14. Sh. B. Akbar Pasha
15. Sh. Satyapal Singh Yadav
16. Sh. Sushil Chandra Varma
17. Sh. Jeewan Sharma
18. Sh. Chetan P.S. Chauhan
19. Sh. Dileepbhai Sanghani
20. Sh. Manabendra Shah
21. Sh. Sartaj Singh Chhatwal
22. Sh. Harin Pathak
23. Sh. George Fernandes
24. Sh. Abdul Ghafoor
25. Sh. Srikant Jena
26. Sh. Nirmal Kanti Chatterjee
27. Prof. Susanta Chakraborty
28. Sh. T.J. Anjalose
29. Sh. Bhogendra Jha
30. Sh. Kadambur M.R. Janardhanan

*Rajya Sabha*

31. Sh. Satish Chandra Agarwal
32. Sh. Krishna Kumar Birla
33. Sh. Triloki Nath Chaturvedi
34. Sh. Sanjay Dalmia
35. Dr. Biplab Kumar Dasgupta
36. Sh. K.R. Jayadevappa
37. Dr. Shrikant Ramchandra Jichkar
38. Sh. Mahendra Prasad
39. Sh. Chimanbhai Mehta
40. Sh. Rajubhai A. Parmar
41. Sh. T. Venkatram Reddy
42. Sh. Surinder Kumar Singla
43. Sh. Arangil Sreedharan
44. Sh. S. Viduthalai Virumbi

SECRETARIAT

1. Shri G.L. Batra — *Additional Secretary*
2. Shri S.C. Gupta — *Joint Secretary*
3. Shri Satish Loomba — *Deputy Secretary*
4. Shri P.K. Bhandari — *Under Secretary*

## INTRODUCTION

I, the Chairman of the Standing Committee on Finance (1994-95), to which The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993 was referred by the Speaker under Rule 331 E (b) of the Rules of Procedure and Conduct of Business in Lok Sabha for examination, having been authorised to submit the Report on their behalf, present this Report.

2. The Bill was introduced in Lok Sabha on 21st December 1993 and published in the Gazette of India, Extraordinary, Part-II, Section 2 dated 21st December, 1993. The Committee held seven sittings to consider the Bill.

3. The first sitting of the Committee was held on 10th January, 1994. At their sitting held on 10th January, 1994, the Committee held general discussion on aims & objects of the Bill. On 31st January 1994, the Committee took oral evidence of the officials of the Ministry of Finance on the Bill. On 15th February, 1994 also there was general discussion on the Bill. At their sittings held on 8th March, 1994, 23rd and 24th March, 1994, the Committee considered the Bill clause-by-clause. The representatives of the Ministry of Finance (Banking Division) and the Ministry of Law assisted the Committee in the Clause-by-Clause consideration of the Bill.

4. The Committee considered and adopted the Report on the Bill at their sitting held on 18th April, 1994.

5. The Committee place on record their deep appreciation of the contributions made by S/Shri Ashis Sen, Ghulam Rasool Matto, Gurudas Das Gupta, Kamal Morarka, who were Members of this Committee for the year 1993-94.

NEW DELHI;  
19 April, 1994

---

29 Chaitra, 1916 (Saka)

  
DR. DEBIPROSAD PAL,  
Chairman,  
Standing Committee on Finance.

## REPORT

The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993 has been brought forward to amend The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. At present, the entire paid up capital of the nationalised banks stands vested in and allotted to the Central Government. The Central Government have been contributing to the paid up capital of the banks during the last few years. However, on adoption of new norms for income recognition, provisioning and for capital adequacy in relation to risk weighted assets of banks, the need for additional capital has gone up considerably. The banks have to ensure that their total capital equals at least 8 percent of their risk weighted assets by 31 March, 1996. The banks having foreign operations were to achieve these norms by 31 March, 1994.

Since the resources of the Government are limited and funds are required for other priority areas, it has been decided by Government that the nationalised banks which are in a position to do so may be allowed to approach the capital market to raise fresh equities to meet their shortfall in capital requirements. Government will, however, continue to retain a majority ownership and, therefore, effective control in the public sector banks. The Bill seeks to give effect to the above and other related objects.

2. The observations of the Committee in regard to changes recommended in the Bill are detailed in the succeeding paragraphs.

### *Clause 4*

3. Clause 4 of the Bill seeks to amend section 3 of The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

Sub-Section (2D) provides for free transferability of shares not held by the Central Government. In this regard, there was considerable apprehension amongst Members of the Committee that control of these banks may go in the hands of foreign investors and foreign financial institutions. It was explained that there were already ceilings prescribed by the Government and in force in other guidelines/statutes that take care of this aspect of foreign investment and therefore a specific mention in the Bill in this regard was not necessary. Several Members were, however, of the view that it was nevertheless desirable to make a specific mention in the Bill in regard to the maximum limit about the foreign investment in a bank. The Committee, therefore, recommend that a specific provision may be made in the Bill itself that the free transferability of the shares shall be subject to such restrictions as may be prescribed from time to time regarding foreign investment which should not exceed 20% of the total issued capital.

**Clause 6**

4. Clause 6 deals with the constitution of Board of Directors of the banks by amending Sub-section (3) of Section 9 of 1970 Act. At present, the Board of Directors of nationalised banks consist of 15 directors. It is now proposed to reduce the number of directors to 13 as given below:-

- (a) not more than two wholetime directors to be appointed by the Central Government after consultation with the Reserve Bank;
- (b) one director who is an official of the Central Government to be nominated by the Central Govt.
- (c) one director who is an officer of the Reserve Bank to be nominated by the Central Government on the recommendation of the Reserve Bank;

Explanation—For the purpose of this clause, “an officer of the Reserve Bank” who is deputed by that Bank under Section 54AA of the Reserve Bank of India Act, 1934 to any institution referred to therein;

- (d) one director, from among such of the employees of the corresponding new bank who are workmen under clause (s) of Section 2 of the Industrial Disputes Act, 1947, to be nominated by the Central Government in such manner as may be specified in a scheme made under this Section;
- (e) one director, from among the employees of the corresponding new bank, who are not workmen under clause (s) of Section 2 of the Industrial Disputes Act, 1947 to be nominated by the Central Government after consultation with the Reserve Bank;
- (f) one director who is a Chartered Accountant, to be nominated by the Central Government after consultation with the Reserve Bank;
- (g) subject of the provisions of clause (h), not more than six directors; to be nominated by the Central Government;
- (h) where the capital issued under clause (c) of Sub-section (2B) of Section 3 is—
  - (i) not more than twenty per cent of the total paid up capital, not more than two directors,
  - (ii) more than twenty per cent but not more than forty per cent of the total paid up capital, not more than four directors,
  - (iii) more than forty per cent of the total paid up capital, not more than six directors to be elected by the shareholders, other than the Central Government, from amongst themselves;

Provided that on the assumption of charge after election of any such directors under this clause, equal number of directors nominated under clause (g) shall retire in such manner as may be specified in the statement”.



The Committee, however, feel that to retain Government's effective control in the public sector banks, the number of directors may be retained at 15 as at present. Out of the two additional nominee directors, which Committee now recommend, one should be from S.E.B.I/Financial Institutions and the other from NABARD.

5. Sub-clauses 3(c) and 3(d) of clause 6 provided for nomination of workmen employees and officers employees directors from amongst such employees of the bank. The Committee recommend that these directors should be elected by the workmen employees and officers employees, from amongst themselves.

6. Sub-clause 3(f) of the clause 6 provides for appointment of a Chartered Accountant. The Committee recommend that the person to be appointed under this clause should not be of less than 15 years standing.

7. Sub-clause (3B) of clause 6 deals with the removal of a director elected under clause (h) of Sub-section (3A). It also provides for appointment by RBI of a suitable person as director in place of the person so removed. The Committee recommend that instead of giving powers to RBI, the Board of Directors should be empowered to co-opt any other suitable person as a member of the Board of Director in the place of the person so removed till the conclusion of the next Annual General Meeting, wherein a regular director should be elected by the shareholders.

8. Sub-clause 3(h) provides for nomination of an official of the Central Government as a director on the Board. The Committee recommend that in order to ensure that the Government nominee directors are able to devote time to the affairs of the bank and attend the meetings of the Board, any Government nominee on the Board of Directors of a bank should not be nominated on more than one Board.

The Committee recommend that suitable amendment be made in the Bill to incorporate the recommendations of the Committee.

9. The Committee further recommend that the similar changes as suggested in clause 4 and clause 6 in paras 3 to 8 above, may also be made in clauses 12 and 14 of Chapter III of the Bill which seek to make corresponding amendments in The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.

*Debi Prosad Pal*

DR. DEBIPROSAD PAL,  
Chairman,

Standing Committee on Finance.

NEW DELHI;  
19 April, 1994

29 Chaitra, 1916 (Saka)

**STATEMENT OF CONCLUSION/RECOMMENDATIONS OF THE  
STANDING COMMITTEE ON FINANCE CONTAINED IN THE  
REPORT**

Sl. No.	Reference Para No. of the Report	Conclusions/Recommendations
1	2	3
1.	3	Sub-clause 2D of Clause 4 deals with the transferability of shares of the new banks not held by the Central Government. To ensure that control of these banks may not go in the hands of foreign investors and foreign financial institutions, members were of the view that it was desirable to make a specific mention in the Bill in regard to the maximum limit about the foreign investment in a bank. The Committee, therefore, recommend that a specific provision may be made in the Bill itself that the free transferability of all the shares shall be subject to such restrictions as may be prescribed from time to time regarding foreign investment which should not exceed 20% of the total issued capital.
2.	4	Clause 6 deals with the constitution of Board of Directors of the new banks by reducing the number of directors from the present 15 to 13. The Committee recommend that to retain Govt's effective control in the public sector banks, the number of directors may be retained at 15 as at present. However, the Committee recommend that one of the Government nominee directors should be from SEBI/Financial Institution and the other from NABARD.
3.	5	Sub-clauses 3(c) and 3(D) of clause 6 provide for nomination of workman and officer employees, directors from amongst such employees of the bank. The Committee recommend that these directors should be elected by the workman and officer employees from amongst themselves.
4.	6	Sub-clause 3(f) of clause 6 provides for appointment of Chartered Accountant. The Committee recommend that a person to be appointed under this clause should not be of less than 15 years standing.

---

1	2	3
5.	7	<b>Sub-clause 3(B) of clause 6 deals with the co-option of a person as a director on removal of a director who does not fulfil the requisite qualifications. The Committee recommend that instead of giving powers to RBI, the Board of Directors should be empowered to co-opt any suitable person as a member of the Board of Directors in place of the person so removed till the conclusion of the next Annual General Meeting wherein a regular director may be elected by the private shareholders.</b>
6.	8	<b>Sub-clause 3(h) of clause 6 provides for nomination of officials of the Central Govt. as a director on the Board. The Committee recommend that in order to ensure that the Government nominee directors are able to devote time to the affairs of the bank and attend the meetings of the Board, the Government nominee on the Board of Directors of a bank should not be nominated on more than one Board.</b>
7.	9	<b>The Committee recommend that the similar changes as suggested in clauses 4 and 6 may also be made in clauses 12 and 14 of Chapter 3 of the Bill which seek to make corresponding amendments in the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.</b>

---

**MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 10 JANUARY, 1994.**

**The Committee met from 1500 hrs. to 1730 hrs. in Committee Room No. 50,  
Parliament House.**

**PRESENT**

**Dr. Debiprosad Pal — *Chairman***

**MEMBERS  
*Lok Sabha***

2. **Dr. K.V.R. Chowdary**
3. **Sh. Chhitubhai Gamit**
4. **Sh. Prithviraj D. Chavan**
5. **Sh. S.B. Sidnal**
6. **Smt. Maragatham Chandrasekhar**
7. **Sh. P.C. Chacko**
8. **Sh. Mahendra Kumar Singh Thakur**
9. **Sh. Jeewan Sharma**
10. **Sh. Chetan P.S. Chauhan**
11. **Sh. Manabendra Shah**
12. **Sh. Sartaj Singh Chhatwal**
13. **Sh. George Fernandes**
14. **Sh. Abdul Ghafoor**
15. **Sh. Bhogendra Jha**

***Rajya Sabha***

16. **Sh. Triloki Nath Chaturvedi**
17. **Sh. Gurudas Das Gupta**
18. **Sh. Ghulam Rasool Matto**
19. **Sh. Chimanbhai Mehta**
20. **Sh. Rajubhai A. Parmar**
21. **Sh. Ashis Sen**

**SECRETARIAT**

1. **Sh. G.L. Batra** — ***Additional Secretary***
2. **Sh. Satish Loomba** — ***Deputy Secretary***
3. **Sh. P.K. Bhandari** — ***Under Secretary***

The Chairman informed the members that 'The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993' had been referred for consideration of the Committee by the Hon'ble Speaker, Lok Sabha and invited the members to express their views on the Bill.

Members of the Committee then expressed their views on the Bill. Some of the members stated that it was a step towards denationalisation and privatisation of the public sector banks. After this, it would be difficult for farmers, weavers and other weaker sections of the society, which came to be regarded as the priority sector, to have loans from the banks. Other members felt that, under the present circumstances, it would not be possible for the Union Government to contribute the huge amounts now required by nationalised banks for meeting the new capital adequacy norms. Hence, the present legislation is in right direction and even after this, the Central Government will continue to have effective control on the public sector banks as it would retain majority ownership by having at least 51 per cent share. Some other members stated that the Committee, in the first instance, should call, officials from the Banking Division, Ministry of Finance for seeking more information on these aspects and resolving the queries of the members. It was agreed that the officials might be called for giving more information and replying to the queries of the members during the next sitting of the Committee.

The Chairman decided that the next sitting of the Committee be fixed up for 31 January, 1994.

*The Committee then adjourned.*

**MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 31 JANUARY 1994**

The Committee met from 1100 hrs. to 1300 hrs. in Committee Room 'D',  
Parliament House Annexe, New Delhi.

**PRESENT**

**Dr. Debiprosad Pal — *Chairman***

**MEMBERS  
*Lok Sabha***

2. **Sh. Magunta Subbarama Reddy**
3. **Dr. K.V.R. Chowdary**
4. **Sh. Prithviraj D. Chavan**
5. **Smt. Maragatham Chandrasekhar**
6. **Sh. P.C. Chacko**
7. **Sh. Sushil Chandra Varma**
8. **Sh. Jeevan Sharma**
9. **Sh. Chetan P.S. Chauhan**
10. **Sh. Dileepbhai Sanghani**
11. **Sh. Manabendra Shah**
12. **Sh. Sartaj Singh Chhatwal**
13. **Sh. Harin Pathak**
14. **Sh. George Fernandes**
15. **Sh. Abdul Ghafoor**
16. **Sh. Satyapal Singh Yadav**
17. **Sh. Nirmal Kanti Chatterjee**
18. **Prof. Susanta Chakraborty**
19. **Sh. T.J. Anjalose**
20. **Sh. Kadambur M.R. Janardhanan**  
*Rajya Sabha*
21. **Sh. Mahendra Prasad**
22. **Sh. Triloki Nath Chaturvedi**
23. **Sh. Gurudas Das Gupta**
24. **Sh. K.R. Jayadevappa**
25. **Sh. Ghulam Rasool Matto**
26. **Sh. Chimanbhai Mehta**

27. Sh. Rajubhai A. Parmar
28. Sh. Ashis Sen
29. Sh. Arangil Sreedharan
30. Sh. S. Vidhuthalai Virumbi

## SECRETARIAT

- |    |                   |   |                         |
|----|-------------------|---|-------------------------|
| 1. | Sh. S.C. Gupta    | — | <i>Joint Secretary</i>  |
| 2. | Sh. Satish Loomba | — | <i>Deputy Secretary</i> |
| 3. | Sh. P.K. Bhandari | — | <i>Under Secretary</i>  |

*Representatives from the Ministry of Finance, Banking Division*

- |    |                    |   |                                 |
|----|--------------------|---|---------------------------------|
| 1. | Sh. M.S. Ahluwalia | — | <i>Finance Secretary</i>        |
| 2. | Sh. R.V. Gupta     | — | <i>Spl. Secretary (Bkg.)</i>    |
| 3. | Sh. N.N. Mookerjee | — | <i>Joint Secretary (Bkg.)</i>   |
| 4. | Sh. J.R. Prabhu    | — | <i>Chief Officer, DBOD, RBI</i> |
| 5. | Smt. K.S. Shere    | — | <i>Legal Adviser</i>            |
| 6. | Smt. Anita Kapur   | — | <i>Director</i>                 |

At the outset, the Chairman, on behalf of the Committee and on his own behalf welcomed the new member, Sh. Mahendra Prasad, who had been recently nominated to the Committee. The Chairman also welcomed the witnesses from the Ministry of Finance, Banking Division and read out 'Direction 58' from the Directions of the Speaker. As directed by the Chairman, the representatives of the Ministry introduced themselves to the Committee.

The Chairman then told the representatives of the Ministry that they had been invited for having interaction with the Committee, in respect of 'The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993' which had been referred to the Standing Committee on Finance for its report. The officers of the Ministry then informed the Committee about the salient features of the Bill and the background in which the Bill was introduced in the House. They also replied to several queries from the Members.

The Chairman then thanked the officers from the Ministry of Finance and the Banking Division for their cooperation to the Committee.

The Chairman requested the members of the Committee to give their notices for amendments on the Bill latest by 8 February, 1994. He also decided that the next sitting of the Committee be fixed for 15 February, 1994 to consider the Bill.

*The Committee then adjourned.*

MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 15 FEBRUARY, 1994

The Committee met from 1500 hrs. to 1700 hrs. in Committee Room 'A',  
Parliament House Annexe.

PRESENT

Dr. Debiprosad Pal — *Chairman*

MEMBERS  
*Lok Sabha*

2. Prof. K.V. Thomas
3. Dr. K.V.R. Chowdary
4. Smt. Maragatham Chandrasekhar
5. Shri P.C. Chacko
6. Shri B. Akbar Pasha
7. Shri Sushil Chandra Varma
8. Shri Jeewan Sharma
9. Shri Dileepbhai Sanghani
10. Shri Sartaj Singh Chhatwal
11. Shri Abdul Ghafoor
12. Shri Satyapal Singh Yadav
13. Shri Nirmal Kanti Chatterjee
14. Prof. Susanta Chakraborty
15. Shri Bhogendra Jha
16. Shri Kadambur M.R. Janardhanan

*Rajya Sabha*

17. Shri Mahendra Prasad
18. Shri Triloki Nath Chaturvedi
19. Shri K.R. Jayadevappa
20. Shri Ghulam Rasool Matto
21. Shri Chimanbhai Mehta
22. Shri Ashis Sen
23. Shri Surinder Kumar Singla
24. Shri Arangil Sreedharan



## SECRETARIAT

- |                       |   |                         |
|-----------------------|---|-------------------------|
| 1. Shri S.C. Gupta    | — | <i>Joint Secretary</i>  |
| 2. Shri Satish Loomba | — | <i>Deputy Secretary</i> |
| 3. Shri P.K. Bhandari | — | <i>Under Secretary</i>  |

*Representatives from the Ministries of Finance and Law, Justice and Company Affairs*

1. Shri Dinesh Chandra, J.S. Banking Division.
2. Smt. Anita Kapur, Director, Banking Division.
3. Shri K. Sivaraman, Jt. Chief Officer, DBOD, RBI-Bombay.
4. Shri Raghbir Singh, Jt. Secretary & Legislative Counsel.
5. Shri N.K. Nampoothiry, A.L.C.

The Committee considered "The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993" in the light of amendments/suggestions received from the members on the Bill. The Chairman requested the members to express their views on the amendments given by them. Some of the members were of the view that the bill should be withdrawn. Some other Members stated even if Government do not want to withdraw the Bill, the consideration of the bill should at least be postponed by a few years. A large number of the Members, however, wanted the Bill to be considered by the Committee. The Chairman observed that the consensus was for the consideration of the Bill.

The Chairman decided that the clause by clause consideration of the Bill in the light of the amendments/suggestions received might be taken up during the next sitting of the Committee. The next sitting of the Committee was fixed for 21 February, 1994.

*The Committee then adjourned.*

MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 8 MARCH, 1994

The Committee met from 1500 hrs. to 1700 hrs. in Committee Room 'A',  
Parliament House Annexe, New Delhi.

PRESENT

Dr. Debiprosad Pal — *Chairman*

MEMBERS  
*Lok Sabha*

2. Prof. K.V. Thomas
3. Shri Chandulal Chandrakar
4. Dr. K.V.R. Chowdary
5. Shri Prithviraj D. Chavan
6. Shri S.B. Sidnal
7. Shri P.C. Chacko
8. Shri Prakash V. Patil
9. Shri Sushil Chandra Varma
10. Shri Chetan P.S. Chauhan
11. Shri Manabendra Shah
12. Shri George Fernandes
13. Shri Nirmal Kanti Chatterjee
14. Prof. Susanta Chakraborty

*Rajya Sabha*

15. Shri Krishna Kumar Birla
16. Shri Triloki Nath Chaturvedi
17. Shri K.R. Jayadevappa
18. Dr. Shrikant Ramchandra Jichkar
19. Shri Ghulam Rasool Matto
20. Shri Chimanbhai Mehta
21. Shri Ashis Sen
22. Shri Surinder Kumar Singla

## SECRETARIAT

- |                       |   |                        |
|-----------------------|---|------------------------|
| 1. Shri S.C. Gupta    | — | <i>Joint Secretary</i> |
| 2. Shri P.K. Bhandari | — | <i>Under Secretary</i> |

*Representatives from the Ministries of Law, Justice and Company Affairs and Finance*

1. Dr. Raghbir Singh, Jt. Secretary and Legislative Counsel.
2. Shri N.K. Nampoothiry, Asstt. Legislative Counsel.
3. Shri N.N. Mookerjee, Jt. Secretary (Banking).
4. Shri K. Sivaraman, JCO, RBI.
5. Shri S.R. Kularhavi, Dy. Legal Adviser, RBI.

The Committee took up the consideration of 'The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993' in the light of amendments received from the members. Several members of the Committee expressed their view on the amendments on Clause 4 of the Bill. Officials from the Ministry of Law and Ministry of Finance (Banking Division) also clarified the position in respect of some of these amendments.

The Committee considered some amendments moved by the members on clause 4 of the Bill. Members were of the view that the authorised capital of the Banks should not be reduced. Therefore, it was agreed that the words "or reduce" and "or reduction" occurring in proviso to Section 2A may be deleted.

The Committee could not complete the deliberations. The Chairman directed that further consideration of the Bill in the light of amendments would continue at the next sitting of the Committee. He also directed that the next sitting of the Committee be fixed up on 18 March, 1994.

*The Committee then adjourned.*

MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 23 MARCH, 1994

The Committee met from 1030 hrs. to 1300 hrs. in Committee Room 62,  
Parliament House, New Delhi.

PRESENT

Dr. Debiprosad Pal — *Chairman*

MEMBERS  
*Lok Sabha*

2. Dr. K.V.R. Chowdary
3. Smt. Maragatham Chandrasekhar
4. Shri Jeewan Sharma
5. Shri Chetan P.S. Chauhan
6. Shri Dileepbhai Sanghani
7. Shri Manabendra Shah
8. Shri Sartaj Singh Chhatwal
9. Shri George Fernandes
10. Shri Nirmal Kanti Chatterjee
11. Prof. Susanta Chakraborty
12. Shri Bhogendra Jha

*Rajya Sabha*

13. Shri Mahendra Prasad
14. Shri Triloki Nath Chaturvedi
15. Dr. Shrikant Ramchandra Jichkar
16. Shri Ghulam Rasool Matto
17. Shri Chimanbhai Mehta
18. Shri Ashis Sen
19. Shri Surinder Kumar Singla
20. Shri S. Vidhuthalai Virumbi

SECRETARIAT

1. Sh. S.C. Gupta — *Joint Secretary*
2. Sh. Satish Loomba — *Deputy Secretary*
3. Sh. P.K. Bhandari — *Under Secretary*

**REPRESENTATIVES FROM THE MINISTRY OF FINANCE (BANKING DIVISION) AND  
MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS (LEGISLATIVE DEPTT.)**

1. Shri N.N. Mookerjee, J.S. (Banking).
2. Shri K. Sivaraman, JCO, RBI.
3. Shri S.R. Kolarkar, DLA, RBI.
4. Dr. Raghbir Singh, JS & LC.
5. Shri N.K. Nampoothiry, Asstt. Legislative Counsel.

The Committee took up the further consideration of 'The Banking Companies (Acquisition and Transfer of Undertakings) Amendments Bill, 1993' in the light of amendments received.

Sub-clause (2B)(a) which deals with the increase in paid up capital by transfer from Reserve Fund established by a bank was discussed in detail. It was felt by some members that since this Reserve Fund was accumulated during the period when a bank was owned cent percent by the Government, any subsequent transfer from the Reserve Fund to the paid up capital at a time when there was some private shareholding, would tantamount to giving undue benefit to the private shareholders. It was, therefore, suggested that the entire Reserve Fund of a bank should be converted into paid up capital before offering the shares to the public. The Committee were informed by the officers of the Banking Department that such advance conversion of the Reserve Funds into share capital would reduce the projected earning per share of the concerned bank and therefore impair the prospects of that bank to raise equity from the public. Further, the amount of Reserve Fund available with any bank will be *inter-alia* taken into consideration while fixing the premium on the face value of the shares. After some discussion, it was decided that no change be suggested to the existing provision in the Bill in this regard.

The Committee then considered the amendment moved by Sh. Nirmal Kanti Chatterjee, M.P. that the words "or group of shareholder with a single controlling authority"..." be added after "no shareholder" on P.3, line 17. Members of the Committee expressed their views on the amendment and officials from the Ministries apprised the Committee about the position in this regard. The Committee then decided that it should not be added.

The Committee also considered the amendment in regard to the transferability of shares. Members were of the view that there should be some restrictions on the free transferability of the shares to avoid a single person or group of persons acquiring the controlling interest in a public sector bank. It was pointed out by the Ministry officials that this can be done only through an amendment in the Stock Exchange Act and Companies Act. The Committee did not suggest any change in the Bill in this regard.

In the last, the Chairman expressed the view that the further consideration of the Bill might be continued on 24 March, 1994.

*The Committee then adjourned.*

MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 24 MARCH, 1994

The Committee met from 1500 hrs. to 1800 hrs. in Committee Room 62,  
Parliament House, New Delhi.

PRESENT

Dr. Debiprosad Pal — *Chairman*

MEMBERS  
*Lok Sabha*

2. Prof. K.V. Thomas
3. Dr. K.V.R. Chowdary
4. Shri S.B. Sidnal
5. Smt. Maragatham Chandrasekhar
6. Shri P.C. Chacko
7. Shri Chetan P.S. Chauhan
8. Shri George Fernandes
9. Shri Nirmal Kanti Chatterjee
10. Shri T.J. Anjalose
11. Shri Bhogendra Jha

*Rajya Sabha*

12. Shri Mahendra Prasad
13. Shri Triloki Nath Chaturvedi
14. Shri Gurudas Dasgupta
15. Dr. Shrikant Ramchandra Jichkar
16. Shri Ghulam Rasool Matto
17. Shri Ashis Sen

SECRETARIAT

1. Shri S.C. Gupta — *Joint Secretary*
2. Shri Satish Loomba — *Deputy Secretary*
3. Shri P.K. Bhandari — *Under Secretary*

**REPRESENTATIVES FROM THE MINISTRY OF FINANCE (BANKING DIVISION) AND  
MINISTRY OF LAW, JUSTICE & COMPANY AFFAIRS**

1. Sh. R.V. Gupta — *Spl. Secretary (Banking).*
2. Sh. N.N. Mookerjee — *J.S. (Banking).*
3. Dr. Raghbir Singh — *JS & LC.*
4. Sh. N.K. Nampoothiry — *Asstt. LC*

2. The Committee continued the deliberations on the amendments on 'The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993 and took up the amendments moved by Sh. Ghulam Rasool Matto. Members were of the view that there should be some restrictions on the foreign investment in the shareholdings of a bank. Officials from the Ministry apprised the Committee about the position in this regard.

3. The Committee agreed that necessary amendments should be made in the Bill to provide that the free transferability of all the shares shall be subject to such restrictions as may be prescribed from time to time regarding foreign investment which should not exceed 20% of the total issued capital.

4. The Committee also considered the amendments relating to the constitution of Board of Directors moved by Sh. Ghulam Rasool Matto, M.P. Members expressed their views on the amendments. The Committee agreed that there should be in all 15 Directors in the Board of a bank—9 should be appointed by the Central Govt. and 6 should be from the other shareholders of a bank. It was also decided that one of nominated directors should be from SEBI and one may be from NABARD.

5. The Committee also decided that the Government nominee Director should not be nominated on a Board of Directors of more than one bank.

6. The Committee considered amendments to Sub-clause 3(c) and 3(d) of clause 6 regarding nomination of workmen and officer employees' directors and recommended that these directors should be elected by workmen and officer employees from amongst themselves.

7. The Committee also decided that the Chartered Accountant to be nominated on the Board of Directors of a Bank should not be of less than 10 years standing.

8. The Committee were also of the view that if a Director is removed from the Board of Directors for not fulfilling the requisite qualifications and another person is coopted in his place, that Director should not continue in office indefinitely. It was agreed that necessary amendments might be made in the Bill to provide that such a person might continue in office till the conclusion of the next Annual General Body Meeting. The Committee also decided that the

power to coopt any suitable person in place of the person so removed should be given to the Board of Directors instead of RBI. Rest of the amendments were rejected/not considered by the Committee.

9. In the last, the Chairman thanked the officials from the Ministries of Finance and Law, Justice and Company Affairs for the assistance given to the Committee.

10. The Chairman also directed the Secretariat to prepare the Draft Report incorporating the above suggestions.

*The Committee then adjourned.*



**MINUTES OF THE SITTINGS OF THE STANDING COMMITTEE ON  
FINANCE HELD ON 18TH APRIL, 1994**

**The Committee met from 1500 hrs. to 1830 hrs in Committee Room 'E'  
Parliament House Annexe.**

**PRESENT**

**Dr. Debiprosad Pal — *Chairman***

**MEMBERS**

***Lok Sabha***

2. **Shri Magunta Subbarama Reddy**
3. **Shri Chandulal Chandrakar**
4. **Shri Prithviraj D. Chavan**
5. **Smt. Maragatham Chandrasekhar**
6. **Shri P.C. Chacko**
7. **Shri B. Akbar Pasha**
8. **Shri Chetan P.S. Chauhan**
9. **Shri Dileepbhai Sanghani**
10. **Shri Nirmal Kanti Chatterjee**
11. **Prof. Susanta Chakraborty**

***Rajya Sabha***

12. **Shri Triloki Nath Chaturvedi**
13. **Shri Sanjay Dalmia**
14. **Dr. Biplab Kumar Dasgupta**
15. **Dr. Shrikant Ramchandra Jichkar**
16. **Shri Mahendra Prasad**
17. **Shri T. Venkatram Reddy**

**SECRETARIAT**

1. **Shri S.C. Gupta — *Joint Secretary***
2. **Shri Satish Loomba — *Deputy Secretary***
3. **Shri P.K. Bhandari — *Under Secretary***

**REPRESENTATIVES FROM THE MINISTRY OF FINANCE (BANKING DIVISION) AND  
MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS**

1. Shri N.N. Mukherjee — J.S. (Banking Division)
2. Dr. Raghbir Singh — J.S. & L.C.

The Committee considered the draft report on 'The Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1993. The Committee decided that sub-para of para 3 of the draft report may be deleted and no amendment may be suggested in the Bill in this regard.

The Committee further decided that the word "some" occurring in line 3 of para 4 of the Draft Report may be deleted.

The Committee further decided that the words 'Financial Institutions' may be added after the words 'SEBI' in line 5 of sub-para of para 5.

The Committee then adopted the Report and authorised the Chairman to present/lay the report in both Houses of Parliament.

**LIST OF MEMORANDA RECEIVED FROM SOME ORGANISATIONS/ASSOCIATIONS OF THE BANKING COMPANIES (ACQUISITION AND TRANSFER OF UNDERTAKING) AMENDMENT BILL, 1993 IN RESPONSE TO A LETTER FROM THE STANDING COMMITTEE ON FINANCE.**

- 1. Joint memorandum received from All India Bank Officer's Confederation and National Confederation of Bank Employees.**
- 2. Bank Employees Federation of India.**
- 3. All India Kisan Sabha.**
- 4. All India Regional Rural Bank Employees Association.**

**MEMBER OF PARLIAMENT  
(LOK SABHA)**



135, Parliament House,  
New Delhi-110 001  
18 April, 1994

**The Chairman,  
Standing Committee on Finance,  
Lok Sabha.**

Please find annexed our Note of Dissent to the main Report on the Banking Acquisition and Transfer Amendment Bill. We want this to be laid on the Table of the House.

**With regards,**

Sd./

**N.K. Chatterjee  
Bhogendra Jha  
Susanta Chakraborty  
George Fernandes  
Dr. Biplab Dasgupta**

## NOTE OF DISSENT

In the Statement of Objects and Reasons for the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, it has been said that Banks have to build up their capital base substantially over the next three years.

During the period from 1985-86 to 1992-93 Government have contributed Rs. 4000 crores to the paid up capital of these banks. A sum of Rupees 5700 crores have been paid in the year 1993-94. Another Rs. 5600 crores have been proposed for 1994-95.

The undersigned have demanded that this Bill be withdrawn.

We have pointed that (a) there is no reason why the so-called capital adequacy norms have to be fulfilled, if at all, in the course of next three years. More, public sector banks are backed by Government ownership. The case for such capital adequacy norms are not very relevant in India for the public sector.

(b) The main thrust of the Bill seems to be to open up the public sector banks not only to Indian private sector but also to private sector of foreign countries;

(c) While the Government continues to make large provisions for the paid up capital it refuses to remember the real reasons that led to depletion of capital in the banks and to correct them energetically;

(d) Among the reasons listed by various Committees for growing losses in the banks are:

(i) Government's own admission is that to finance very large budget deficit a very high statutory liquidity ratio (SLR) and cash reserve ratio (CRR) were forced on the banks and that these banks were made to invest in low-yielding Government securities.

As is known, the picture now is entirely different. The yield rates on Government securities have jumped to nearly double the previous rates at 13.5%. Also, the SLRs. and CRRs. are being drastically brought down.

(ii) The second factor admitted by the Government is the low spread between rates of deposits and rates of advances which is supposed to make banking business less profitable. It may be mentioned here that this has been no obstacle to the burgeoning profits of the foreign banks in India.

(iii) The third factor which affects the profitability of the banks, is the socio-economic objectives of public sector banking in India, with its lending under the DRI, priority sector lending and expansion of branch banking;

(iv) The fourth and a very important factor is the large scale default of large borrowers leading to bad debts write-off, holding of non-earning assets having high proportion of risks etc.

It is these large borrowers who are being tempted to own shares in public sector banks through this Amendment Bill.

(v) It has also been pointed out that lack of supervision by RBI, non-filling up of the management posts and corruption at various levels are all factors leading to lack of adequate profitability in the public sector banking system.

(vi) Another factor that should be noted in connection with (iv) and (v) above is the stubborn refusal of the Government to make the names of the large defaulters public, refusing them further advances and deleting the secrecy clauses of the various Banking Acts.

It will be seen from the foregoing that none of the causes, leading to lack of adequate profitability in the banking sector can be countered by trying to open up the public sector banks to the private, Indian and foreign citizens and institutions. In fact they are more likely to accentuate the problems of the banks.

Among the dangerous provisions of the Bill are the following:—

- (a) 49% of the shares will be offered to the public including foreign nationals and institutions;
- (b) These 49% shares will be freely transferable;
- (c) While no one shareholder will be allowed to own more than 1% of share, any group with one controlling authority can lap up the entire 49% of the shares;
- (d) There is no provision to reserve a significant per cent of the shares exclusively for employees and their families and making them non-transferable to outside this group;
- (e) As initially formulated of the 13 Directors, 6 are to come from these 49% share-holders and one more among the Chartered Accountant giving them a majority of 7 out of a total of 13.
- (f) There is no provision to have a Director to be elected by the depositors treating all depositors alike.
- (g) As already indicated, there is no bar on either investment or number of Directors from outside India. Even if, as the majority opinion states, the foreigners will not be allowed to own more than 20% of the shares, there is no bar on their having all the six Directors through private influence and management.
- (h) The Bill seems to be coy in not being explicit that large houses in India,

**foreign institutions, investors and representatives of multi-national corporation are most welcome, as is evident in 3(A)A(viii).**

**Taking all the foregoing into account, it seems to us that as we demanded there is no case for getting the Bill passed into law.**

**The decision, the hurry to get the Bill passed arises only because of outside pressures and to fall in line with GATT 1994 (Dunkel proposals).**

**We therefore totally oppose this Bill.**