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**STANDING COMMITTEE ON
FINANCE
(1995-96)**

TENTH LOK SABHA

**THE STATE BANK OF INDIA
(SUBSIDIARY BANKS) AMENDMENT BILL, 1995**

TWENTIETH REPORT



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1996/Phalguna, 1917 (Saka)

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TWENTIETH REPORT
STANDING COMMITTEE ON
FINANCE
(1995-96)

(TENTH LOK SABHA)

THE STATE BANK OF INDIA
(SUBSIDIARY BANKS) AMENDMENT BILL, 1995

Presented to Lok Sabha on 7 March, 1996
Laid in Rajya Sabha on 8 March, 1996



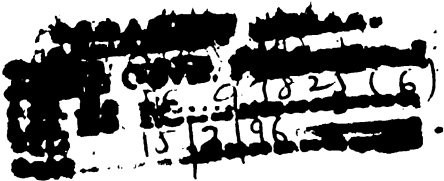
समयम जयते

LOK SABHA SECRETARIAT
NEW DELHI

February, 1996/Phalgun, 1917 (Saka)

Price: Rs. 19.00

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**COMPOSITION OF THE STANDING COMMITTEE
ON FINANCE (1995-96)**

@ Smt. Maragatham Chandrasekhar — *Chairperson*

MEMBERS

Lok Sabha

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

@ Appointed w.e.f. 22.9.1995 *vice* Dr. Debiprosad Pal ceased to be a Member and Chairman of the Committee consequent upon his appointment as Minister on 13.9.1995.

*Expired on 1.12.1995.

Rajya Sabha

28. Shri Satish Agarwal
29. Shri Krishna Kumar Birla
30. Shri Triloki Nath Chaturvedi
31. Shri Sanjay Dalmia
32. Dr. Biplab Dasgupta
33. Shri Gurudas Das Gupta
34. Shri K.R. Jayadevappa
35. Dr. Shrikant Ramchandra Jichkar
36. Shri Chimanbhai Mehta
37. Shri Rajubhai A. Parmar
38. Shri Narendra Pradhan
39. Shri T. Venkatram Reddy
40. Shri Surinder Kumar Singla
41. Shri Mohan Babu
42. Shri V.P. Duraisamy

SECRETARIAT

1. Shri S.N. Mishra — *Secretary-General*
2. Smt. Roli Srivastava — *Joint Secretary*
3. Shri K.L. Narang — *Deputy Secretary*
4. Shri C.S. Joon — *Under Secretary*

INTRODUCTION

1. The Chairperson of the Standing Committee on Finance (1995-96), having been authorised by the Committee to submit the Report on their behalf, present this Twentieth Report on the State Bank of India (Subsidiary Banks) Amendment Bill, 1995.

2. The Bill was introduced in Lok Sabha on 16 August, 1995. As the present Bill related to Ministry of Finance, the Hon'ble Speaker referred it to the Standing Committee on Finance for examination and report on 17 August, 1995 under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. At their first Sitting held on 12 October, 1995, the Committee held preliminary discussion on the provisions of the amendments proposed in the Bill in the light of Statement of Objects and Reasons and the Background Note received from the Ministry of Finance (Deptt. of Economic Affairs—Banking Division). The Committee took oral evidence of the representatives of the Ministry of Finance (Deptt. of Economic Affairs—Banking Division)/RBI/SBI on the subject at their Sittings held on 17 November, 13 December, 1995 and 9 January, 1996. Clause-by-clause consideration of the Bill took place at the sitting of the Committee held on 24 January, 1996.

4. The Committee considered and adopted the draft Report at their sitting held on 13 February, 1996.

5. The Committee wish to express their thanks to the Officers of Ministry of Finance (Department of Economic Affairs—Banking Division), Reserve Bank of India and State Bank of India for placing before them the detailed written notes on the subject and for furnishing the information the Committee desired in connection with the examination of the Bill.

6. For facility of reference, recommendations/observations of the Committee have been printed in thick type.

NEW DELHI;
27 February, 1996
8 Phalguna, 1917 (Saka)

MARAGATHAM CHANDRASEKHAR,
Chairperson,
Standing Committee on Finance.

REPORT

The State Bank of India (Subsidiary Banks) Act, 1959 was enacted to provide for the formation of certain Government or Government associated Banks as subsidiaries of the State Bank of India and for the constitution, management and control of the subsidiary banks so formed, and for matters connected therewith or incidental thereto.

2. Under the provision of State Bank of India (Subsidiary Banks) Act, 1959, the following banks are the subsidiaries of the State Bank of India:—

State Bank of Bikaner & Jaipur
State Bank of Hyderabad
State Bank of Indore
State Bank of Mysore
State Bank of Patiala
State Bank of Saurashtra
State Bank of Travancore

3. The authorised share capital of each of these Banks is Rs. 50 crores.

4. The present percentage of shareholding of SBI in each of the subsidiary banks is as under:—

State Bank of Bikaner & Jaipur	99.25%
State Bank of Hyderabad	100.00%
State Bank of Indore	97.45%
State Bank of Mysore	88.20%
State Bank of Patiala	100.00%
State Bank of Saurashtra	100.00%
State Bank of Travancore	97.20%

5. Under the provisions of the State Bank of India (Subsidiary Banks) Act, 1950, the State Bank of Hyderabad Act, 1956 and the State Bank of Saurashtra Act, 1950, the power to increase the authorised capital of the subsidiary banks with the approval of the Reserve Bank of India is vested with the State Bank of India. There is a restriction on individual holdings of shares upto 200. In order to meet certain norms for capital adequacy in relation to risk weighted assets prescribed by the Reserve Bank of India according to the Government it is necessary to expand the capital base of the subsidiary banks by increasing their authorised as well as issued capital.

6. The State Bank of India (Subsidiary Banks) Amendment Bill, 1995 has been brought forward to amend the State Bank of India (Subsidiary Banks) Act, 1959, the State Bank of Hyderabad Act, 1956 and the State

Bank of Saurashtra Act, 1950 to provide, *inter-alia*, for the following namely:—

- (i) To increase the authorised capital of every subsidiary bank to Rs. 100 crores.
- (ii) To remove the ceiling on individual share holdings of 200 shares and to increase the ceiling on voting rights to ten per cent of the issued capital with power to the Central Government to relax.
- (iii) To specify the face value of a share at Rs. 10.
- (iv) Provision for making calls and forfeiture of shares, issue of bonus shares, etc.
- (v) A provision for maintaining register of shares on computer floppies or diskettes subject to such safeguards as may be prescribed by regulations.
- (vi) To provide for appointment of Chairman of every subsidiary bank, who shall be the Chairman of the Board of Directors.

Independent Status to Subsidiary Banks

7. The Committee desired to know whether Government had any objection to amendment being recommended/introduced to make Subsidiary Banks independent of the State Bank of India. In reply, the Ministry have stated *inter-alia* as follows:—

“The seven Associate Banks were brought into the public sector fold through an Act of Parliament whereby State Bank of India became the majority shareholders in these banks. State Bank of India has supported these banks both in financial and managerial areas for the past over 35 years. The Associate Banks have benefited to a considerable extent through this arrangement and have now grown into medium sized banks, starting from small regional banks. It may be added that all the 7 associate banks have been continuously earning profits”.

8. The Ministry also enumerated the following advantages of the functioning of these banks within the State Bank Group:—

- (i) Availability of large branch network of the Group (about 13,000 branches taken together).
- (ii) Confidence of public who perceive these banks as strong due to the ownership/majority ownership of State Bank of India.
- (iii) The Group handles a large market share of domestic/international banking business.
- (iv) All the banks within the Group are able to share good quality business offered by high value clientele through consortia arrangements.

- (v) Availability of funds within the Group which not only helps in quicker funds settlement but also lower cost thereof.
- (vi) By sharing the foreign exchange/international banking business within the Group, the income generation is helped.
- (vii) The benefit of product development is shared by all Group members thereby saving costs in these areas.
- (viii) The vast experience of State Bank of India in the field of computerisation is available to all Associate Banks without costs.
- (ix) Human resources development through vast training facilities at Staff Colleges, Specialist training facilities in Agriculture, Computerisation at specialised branches and Departments and also at foreign branches.
- (x) Development of Systems and Procedures and improving the quality of advances through Board level control by State Bank of India.

9. In this connection, the Committee note the submission made by the Ministry of Finance stating *inter alia* as follows:

Presently, State Bank of India holds majority shares and exercise management control over the functioning of the Subsidiary Banks, through board level interventions. If the Subsidiary Banks are to be independent of State Bank of India, either SBI shall have to off load its shareholding in the market or to RBI/GOI. If RBI or GOI acquire the shares from SBI, only the ownership pattern will vary. Majority shareholder, even if it is RBI or the Government of India, shall exercise such board level controls. While exercising rights as a majority shareholder. The association between State Bank of India and the Subsidiary Banks has been of immense benefit to the Subsidiary Banks.

In view of the position explained above, the Committee feel that there is no need to change the *status quo* of Subsidiary Banks.

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

Clauses 4, 5 & 6 — Issued Capital of Subsidiary Banks

11. Sub-section (5) in Section 7 of the State Bank of India (Subsidiary Banks) Act, 1959 provides that State Bank holds issued capital not less than fifty-five per cent of the issued capital of a Subsidiary Bank. Clause 4 of the Bill seeks omission of this Sub-Section. Since augmentation of the authorised capital is expected through wider and better participation of the general public, the Government intend that SBI may dilute its shareholding in the Subsidiary Banks upto 49% as against 45% at present in favour of the general public keeping the majority shareholding with SBI. In sub-section (2) of new Section 7A, the Bill proposes to provide for a minimum of fifty one per cent shareholding of State Bank of India in all its Subsidiary Banks.

12. As regards dilution of shareholding in subsidiaries, it is proposed to provide for minimum 51 per cent shareholding of State Bank of India (reduced from 55 per cent) through the proposed amendment. However, pending the amendment proposed herein, no dilution of State Bank of India's shareholding in the seven Subsidiary Banks is contemplated. After the amendment, it is proposed to raise further share capital of Subsidiary Banks through a public issue at the appropriate time. The actual shareholding of State Bank of India after the public issue will depend upon the size of the issue, whether the public issue is accompanied by a rights issue to State Bank of India and other existing shareholders of the Subsidiary Banks, etc.

13. The Committee are not in favour of any dilution of the present statutory provision of shareholding of the State Bank of India of fifty-five per cent of the issued capital in any of its Subsidiary Banks even though authorised capital is proposed to be raised from Rs. 50 crores to Rs. 100 crores of these subsidiaries and augmentation of their capital resources is expected to be achieved through wider and better participation of the public.

14. In order to retain the present shareholding of the SBI of fifty-five per cent of the issue capital in all Subsidiary Banks, the Committee recommend the following modification:

(i) In sub-Section (2) of new section 7A proposed to be inserted by Clause 5 of the Bill for the word "fifty-one", the word "fifty-five" may be substituted.

(ii) Consequently, the Sub-clause (b) in clause 6 of the Bill which reads as under may be *omitted*:

'(b) in sub-section (2), for the word "fifty-five", the word "fifty-one" shall be substituted.'

Clause 6

Limitation for Foreign Investment

15. At present provision for foreign investment as far as nationalised banks are concerned is governed by RBI guidelines. In case of State Bank of India and its Subsidiaries, in the absence of provision in the Act, foreign investment is regulated by general guidelines of the Government of India which may be amended from time to time.

16. For nationalised banks, the percentage has to be prescribed by the Government which can not exceed 20% of the paid up capital of the bank.

17. As regards limitation foreign investment in SBI and its subsidiaries, the guidelines are the same as applicable to other Indian Companies under the policy guidelines framed by Government of India from time to time in accordance with its Industrial Policy.

18. Investments by FIIs in primary and secondary markets are subject to a ceiling of 24% of the total paid up equity capital of any company. Reservation in favour of NRIs/OCBs/FIIs can go upto 40% both in case of public issue or by way of private arrangement as per the present policy cleared by the Government. However, SEBI has restricted reservation in a public issue upto 24% in favour of NRIs/OCBs and FIIs.

19. Explaining the position during evidence, the Secretary (Banking) of the Ministry of Finance stated as under:

“In respect of nationalised banks, there is a specific provision and, therefore, they are governed by the specific provision, which says ‘twenty per cent collectively’. In regard to State Bank of India and its subsidiaries, there is no provision at all in regard to the limitation of foreign investment. In the absence of any specific provision in the law, it is governed by the general guidelines of the Government of India, which may be amended from time to time. So, either a conscious decision can be taken with regard to all public sector banks or we can say that it can be left to the general guidelines. This is the explanation for the variation”.

20. While Industrial Policy is universally applicable to investment in all sectors, different provisions for specific sectors, within the policy, can be made and have been made. While there can be common provisions regarding foreign investments in both the nationalised banks and the SBI Group separate legislation only for governing foreign investment, and that too only for public sector banks, will make it impossible to frame a cohesive policy on foreign investment in the country.

21. If specific provisions are inbuilt in individual Acts, changes in economic policies and consequential changes in the approach to foreign investments would call for amendments to individual Acts. Alternately, when the guiding factor is the general guidelines issued by Government of India through official Gazette such amendments are not called for in several individual Acts. Hence, it is considered that it is prudent not to build in limitations for foreign investment in the individual acts.

22. Clause 6 of the Bill seeks to amend Section 18 of the Subsidiary Banks Act to provide for free transferability of shares of the Subsidiary Banks. The Committee note that there are already ceilings on foreign shareholdings prescribed under the General Policy Guidelines framed by Government of India from time to time in accordance with its Industrial Policy for SBI and Subsidiary Banks are the same as applicable to other Indian Companies. In respect of nationalised banks, there is specific provision for the percentage to be prescribed for foreign investment by the Government under RBI guidelines which can not exceed 20% of the paid up capital of the bank. Whereas in case of SBI and its Subsidiaries who in the absence of specific provision, are governed by Government guidelines, the limit for foreign shareholdings is 24% at present. The Committee, however, feel that it is

desirable to have a specific provision in the Bill itself in regard to limitation for foreign investment in Subsidiary Banks also and that there should be a uniform limit for foreign investment for all Public Sector Banks. The Committee, therefore, recommend that a specific provision by adding a new sub-section (4) in Section 7A in Clause 5, 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 7-Voting Right

23. Clause 7 of the Bill seeking substitution of new section for Section 19 of the principal Act for raising ceiling of exercising individual voting rights of shareholders of Subsidiary Banks except State Bank of India to ten per cent as also to make enabling provision for the Central Government in consultation with Reserve Bank of India, to specify higher percentage for such exercising voting rights, provides as follows:

“19. No shareholder, other than the State Bank shall be entitled to exercise voting rights in respect of any shares held by such person in excess of ten per cent of the issued capital of the subsidiary bank concerned.

Provided that such shareholder shall be entitled to exercise voting rights at such higher percentage as the Central Government may, after consultation with the Reserve Bank, specify.”

24. Explaining the position for imposition of ceiling on the individual voting rights of shareholders and raising of ceiling on voting rights to ten per cent, the Ministry of Finance in a note have stated as follows:

“The reason for imposition of ceiling on the individual voting rights of shareholders in a bank have to be seen in the content of similar restriction in respect of banking companies as defined in the Banking Regulation Act, 1949. The restriction on voting rights is contained in Section 12(2) of that Act. When that Act was enacted in 1949, the voting rights were restricted to 5% of the total voting rights of all shareholders. In 1963, Section 12(2) was amended to further restrict voting rights from 5% to 1%. By the Amendment Act No. 20 of 1994, the ceiling on voting rights has now been raised to 10%.

In the case of State Bank also, Section 11(2) provides for restriction on voting rights upto 10% of the issued capital of the bank.”

25. As regards imposing ceiling of 10% on individual rights in the subsidiary banks when individual can have shareholding upto 49% and whether it is legally sustainable, the Ministry have stated as follows:

“The object in placing a restriction on the voting rights is to disperse influence on decision making so that the interests of the public who are the depositors is not ignored. It may be stated that

as there is no restriction on the actual amount of shares that a person may hold in banking company, control of voting rights is considered necessary as one of the features of the mechanism to achieve regulation of the banking company. On these considerations, it would be possible to sustain the legal validity of such a time tested restriction. Formal legal opinion in this regard is being sought from the Ministry of Law & Justice."

26. Explaining the rationale and certain circumstances which might make it necessary for the Government to enhance the voting rights in respect of the subsidiary Banks, the Ministry have stated as under:

"While State Bank of India is bound to hold a minimum of 51% (reduced from 55 per cent through the proposed amendment in the Bill) of the issued capital of the subsidiary banks, other financial institutions or the agencies of the Government such as respective State Governments may take up substantial portion of the issued capital in the subsidiary banks. These investors may not like to restrict their voting rights to only 10%. They may demand on the Central Government to raise the voting rights on par with their shareholdings.

Looking to the needs of the market and in order to attract potential investors, incentives like increase in the voting rights may become necessary in future."

27. According to the Ministry, while there are no such enabling provisions in the nationalised banks Act, where the voting right is restricted to 1% of the total voting rights, provisions similar to those recommended for the subsidiary banks are the same as in the SBI Act.

28. The Committee do not approve the raising of ceiling on voting rights of individual shareholders from one per cent to ten per cent as envisaged in the amendment in clause 7 of the Bill, as also the proviso which will empower the Central Government in consultation with the Reserve Bank of India to specify higher percentage for exercising voting rights for shareholders other than the State Bank of India. The Committee, accordingly, recommend that there is no need to change the existing provisions of the principal Act and that clause 7 of the Bill may be deleted.

Clause 11—Appointment of Chairman of Subsidiary Bank.

29. Proviso to clause 11 which seeks to substitute Section 25(1) (a) of State Bank of India (Subsidiary Banks) Act, 1959 states as follows:

"Provided that until such appointment is made or in the absence of any such Chairman appointed, the Chairman of the State Bank shall exercise the powers and discharge the duties of the Chairman".

30. The Committee are of the view that in the past, there have been cases of inordinate delays on the part of the Government in appointing Chairmen/Managing Directors for some of the public sector banks. They, therefore, recommend that the words "However in no case the delay should be more than three months" may be added at the end of the above proviso.

31. As per Section 25(1) (c) of the State Bank of India (Subsidiary Banks) Act, 1959, State Bank can nominate five Directors on the Board of Directors of the Subsidiary Bank of whom not more than three Directors are the officers of State Bank. In this connection, the Committee recommend that:

- (i) Not more than two Directors to be nominated on the Board of Directors of the Subsidiary Banks are State Bank Officers; and
- (ii) As regards nomination of the three Directors to be made by the State Bank in consultation with the Central Government, two Directors should be from amongst the Agricultural Scientist, preferably from ICAR, Technocrat and Economist and the third one should be a nominee of the State Government where Subsidiary Bank has a predominant presence in the State.

32. Section 25(d) of the State Bank of India (Subsidiary Banks) Act, 1959 is proposed to be amended by clause 11(B) of the Bill for election of Directors to the Board of Directors of a Subsidiary Bank by Shareholders other than the State Bank where the paid up capital is held by such shareholders should also be mentioned as a provision at item (vii) in para 3 of the 'Statement of Objects and Reasons' of the Bill.

NEW DELHI;
27 February, 1996

MARAGATHAM CHANDRASEKHAR,
Chairperson,
Standing Committee on Finance.

8 Phalguna, 1917 (Saka)

**MINUTES OF THE SITTING OF THE
STANDING COMMITTEE ON FINANCE**

The Committee sat on Thursday, 12 October, 1995 from 1500 hrs. to 1600 hrs.

PRESENT

Smt. Maragatham Chandrasekhar — Chairperson

MEMBERS

Lok Sabha

2. Prof. K.V. Thomas
3. Dr. K.V.R. Chowdary
4. Shri Chhitubhai Gamit
5. Shri P.C. Chacko
6. Shri Prakash V. Patil
7. Shri B. Akber Pasha
8. Shri Satyapal Singh Yadav
9. Shri Jeewan Sharma
10. Shri Chetan P.S. Chauhan
11. Shri Dileepbhai Sanghani
12. Shri Manabendra Shah
13. Shri Sartaj Singh Chhatwal
14. Shri Harin Pathak
15. Shri Nirmal Kanti Chatterjee
16. Shri Srikanta Jena
17. Shri Bhogendra Jha
18. Shri George Fernandes
19. Shri Abdul Ghafoor
20. Shri Kadambur M.R. Janardhanan

Rajya Sabha

21. Shri Satish Agarwal
22. Shri Triloki Nath Chaturvedi
23. Dr. Biplab Dasgupta
24. Shri Gurudas Das Gupta
25. Shri K.R. Jayadevappa
26. Shri Chimanbhai Mehta
27. Shri Rajubhai A. Parmar
28. Shri Surinder Kumar Singla
29. Shri V.P. Duraisamy

SECRETARIAT

1. Sh. K.L. Narang — *Deputy Secretary*
2. Sh. C.S. Joon — *Under Secretary*

2. At the outset, the Chairperson welcomed the Members of the Committee. The Committee then considered the revised Tour Programmes of Study Groups I and II of the Standing Committee on Finance covering North Eastern region commencing from 30 October, 1995. The Committee then unanimously approved the revised tour programmes of the both Study Groups.

3. The Chairperson, thereafter, requested the Members to send their options as early as possible for joining of any one Study Group as per revised tour programmes so that Ministry concerned might be requested for making necessary arrangements for tours.

4. The Committee then considered the State Bank of India (Subsidiary Banks) Amendment Bill, 1995 in the light of background material and other relevant papers circulated to them. The Committee felt that as the provisions contained in the proposed Bill required clarifications the Committee decided to take evidence of representatives of the Ministry of Finance (Department of Economic Affairs—Banking Division). The Committee accordingly decided to hold their next sitting on 17.11.95 for taking oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs—Banking Division) for seeking clarifications on the proposed Bill.

The Committee then adjourned.

**MINUTES OF THE FOURTEENTH SITTING OF THE
STANDING COMMITTEE ON FINANCE
(1995-96)**

The Committee sat on Friday, 17 November, 1995 from 11.30 hrs. to 13.15 hrs.

PRESENT

Smt. Maragatham Chandrasekhar — *Chairperson*

MEMBERS

Lok Sabha

2. Prof. K.V. Thomas
3. Dr. K.V.R. Chowdary
4. Shri Prithviraj D. Chavan
5. Shri Akber Pasha
6. Shri Satyapal Singh Yadav
7. Shri Jeewan Sharma
8. Shri Manabendra Shah
9. Shri Sartaj Singh Chhatwal
10. Shri Nirmal Kanti Chatterjee
11. Prof. Susanta Chakraborty
12. Shri Bhagendra Jha
13. Shri Kadambur M.R. Janardhanan

Rajya Sabha

14. Shri Satish Agarwal
15. Shri Triloki Nath Chaturvedi
16. Shri Sanjay Dalmia
17. Dr. Biplab Dasgupta
18. Shri Gurudas Das Gupta
19. Dr. Shrikant Ramchandra Jichkar
20. Shri Chimanbhai Mehta
21. Shri Rajubhai A. Parmar
22. Shri Narendra Pradhan
23. Shri V.P. Duraisamy

SECRETARIAT

- | | | |
|-------------------------|---|-------------------------|
| 1. Smt. Roli Srivastava | — | <i>Joint Secretary</i> |
| 2. Shri K.L. Narang | — | <i>Deputy Secretary</i> |
| 3. Shri C.S. Joon | — | <i>Under Secretary</i> |

WITNESSES

MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS—BANKING DIVISION).

1. Dr. Y.V. Reddy — *Secretary (Banking)*
2. Shri Sudhir Bhargava — *Director (Banking)*

STATE BANK OF INDIA

3. Shri P. G. Kakodkar — *Acting Chairman*
4. Shri R. Vishwanathan — *Deputy Managing Director*

RESERVE BANK OF INDIA

5. Shri R.J. Prabhu — *Chief General Manager*

2. At the outset, the Chairperson welcomed the Members of the Standing Committee on Finance and the Secretary, Ministry of Finance (Department of Economic Affairs—Banking Division) and his colleagues to the sitting of the Committee and invited their attention to the provisions contained in direction 58 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of Ministry of Finance (Deptt. of Economic Affairs—Banking Division) on 'The State Bank of India (Subsidiary Banks) Amendment Bill, 1995'.

4. The Committee desired the representatives of Ministry of Finance (Deptt. of Economic Affairs—Banking Division) to furnish notes on some points raised during the sitting.

5. The evidence was not concluded.

6. A verbatim record of the evidence was kept.

7. The Committee decided to take further evidence of the representatives of Ministry of Finance (Deptt. of Economic Affairs—Banking Division) on 'The State Bank of India (Subsidiary Banks) Amendment Bill, 1995' at their subsequent sitting on receipt of written information on points raised during the discussion.

(The witnesses then withdrew)

The Committee then adjourned.

**MINUTES OF THE SIXTEENTH SITTING OF THE
STANDING COMMITTEE ON FINANCE
(1995-96)**

The Committee sat on Wednesday, 13 December, 1995 from 15.00 hrs. to 18.00 hrs.

PRESENT

Smt. Maragatham Chandrasekhar — Chairperson

MEMBERS

Lok Sabha

2. Dr. K.V. Chowdhary
3. Shri Prithviraj D. Chavan
4. Shri P.C. Chacko
5. Shri Satyapal Singh Yadav
6. Shri Sushil Chandra Varma
7. Shri Jeewan Sharma
8. Shri Chetan P.S. Chauhan
9. Shri Dileepbhai Sanghani
10. Shri Nirmal Kanti Chatterjee
11. Shri Bhogendra Jha
12. Prof. K.V. Thomas

Rajya Sabha

13. Shri Satish Agarwal
14. Shri Triloki Nath Chaturvedi
15. Shri Sanjay Dalmia
16. Shri K.R. Jayadevappa
17. Dr. Shrikant Ramchandra Jichkar
18. Shri T. Venkatram Reddy
19. Shri Surinder Kumar Singla
20. Shri V.P. Duraisamy

SECRETARIAT

1. Shri S.N. Mishra — *Additional Secretary*
2. Smt. Roli Srivastava — *Joint Secretary*
3. Shri K.L. Narang — *Deputy Secretary*

WITNESSES

1. Dr. Y.V. Reddy — *Secretary (Banking), Ministry of Finance.*
 2. Shri P.G. Kakodkar — *Acting Chairman, State Bank of India.*
 3. Shri V. Rangarajan — *Chief General Manager, DBOD, Reserve Bank of India, C/O; Bombay.*
 4. Shri M.N. Prasad — *Joint Secretary.*
 5. Shri R. Vishwanathan — *Deputy Managing Director, State Bank of India.*
 6. Shri Sudhir Bhargava — *Director, Banking Division, Ministry of Finance.*
 7. Shri S.R. Kolhathkar — *Jt. Legal Advisor, Legal Deptt. Reserve Bank of India.*
2. The Committee heard further evidence of the representatives of the Ministry of Finance (Department of Economic Affairs—Banking Division) on the State Bank of India (Subsidiary Banks) Amendment Bill, 1995.
3. The Committee desired the representatives of the Ministry of Finance to furnish written replies on certain points raised during discussion. The Committee felt that in the light of the written replies then would decided further evidence of the representatives of the Ministry of Finance.
4. A verbatim record of the proceedings was kept.

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**MINUTES OF THE EIGHTEENTH SITTING OF THE
STANDING COMMITTEE ON FINANCE
(1995-96)**

The Committee sat on Tuesday, 9 January, 1996 from 11.00 hrs to 12.45 hrs.

PRESENT

Smt. Maragatham Chandrasekhar — Chairperson

MEMBERS

Lok Sabha

2. Prof. K.V. Thomas
3. Dr. K.V.R. Chowdary
4. Shri Chhitubhai Gamit
5. Shri Prithviraj D. Chavan
6. Shri P.C. Chacko
7. Shri Satyapal Singh Yadav
8. Shri Dilcepbhai Sanghani
9. Shri Sartaj Singh Chhatwal
10. Shri Harin Pathak
11. Shri Nirmal Kanti Chatterjee
12. Shri Srikanta Jena
13. Shri George Fernandes
14. Shri Abdul Ghafoor
15. Shri Kadambur M.R. Janardhanan

Rajya Sabha

16. Shri Triloki Nath Chaturvedi
17. Shri Satish Agarwal
18. Shri Sanjay Dalmia
19. Dr. Biplab Dasgupta
20. Shri K.R. Jayadevappa
21. Shri Chimanbhai Mehta
22. Shri T. Venkatram Reddy
23. Shri Narendra Pradhan
24. Shri Surinder Kumar Singla
25. Shri Mohan Babu
26. Shri V.P. Duraisamy

SECRETARIAT

1. Shri K.L. Narang — *Deputy Secretary*
2. Shri C.S. Joon — *Under Secretary*

WITNESSES

MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS—BANKING DIVISION)

1. Dr. Y.V. Reddy — *Secretary (Banking)*
2. Shri M.N. Prasad — *Joint Secretary (BO)*

STATE BANK OF INDIA

1. Shri P. G. Kakodkar — *Chairman*
2. Shri R. Vishwanathan — *Deputy Managing Director*
3. Shri R.B. Srivastava — *Deputy General Manager*
4. Shri S.N. Sahai — *Deputy General Manager*
5. Shri T.S. Krishnaswamy — *Chief Manager*

RESERVE BANK OF INDIA

1. Shri V. Rangarajan — *Chief General Manager*
2. Shri S.R. Kolhatkar — *General Manager*

2. The Committee resumed further oral evidence of the representatives of Ministry of Finance (Deptt. of Economic Affairs—Banking Division) on 'The State Bank of India (Subsidiary Banks) Amendment Bill, 1995':

3. After conclusion of the evidence, the Committee desired the representatives of Ministry of Finance (Deptt. of Economic Affairs—Banking Division) to furnish notes on some points raised during the sitting.

4. A verbatim record of the evidence was kept.

The witness then withdrew.

5. The Committee then decided to meet again on 24 January, 1996 to have deliberations on the provisions of the SBI (Subsidiary Banks) Amendment Bill, 1995 and to finalise their conclusions and recommendations on the matter.

The Committee then adjourned.

MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, 24 January, 1996 from 11.00 hrs. to 12.30 hrs.

PRESENT

Smt. Maragatham Chandrasekhar — *Chairperson*

MEMBERS

Lok Sabha

2. Prof. K.V. Thomas
3. Dr. K.V.R. Chowdary
4. Shri Prakash V. Patil
5. Shri Jeevan Sharma
6. Shri Sartaj Singh Chhatwal
7. Shri Nirmal Kanti Chatterjee
8. Shri Srikanta Jena
9. Shri George Fernandes
10. Shri Abdul Ghafoor
11. Shri Kadambur M.R. Janardhanan

Rajya Sabha

12. Shri Satish Agarwal
13. Shri Sanjay Dalma
14. Shri K.R. Jayadevappa
15. Shri Chimanbhai Mehta
16. Shri Rajubhai A. Parmar
17. Shri Narendra Pradhan
18. Shri Mohan Babu

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri K.L. Narang — *Deputy Secretary*
3. Shri C.S. Joon — *Under Secretary*

The Committee took up clause-by-clause consideration of amendments proposed in the State Bank of India (subsidiary Banks) Amendment Bill, 1995. After deliberations, the Committee approved changes/modifications in the amendments as follows:—

Clauses 4, 5, & 6—Issued Capital of Subsidiary Banks

Clause 4 of the Bill sought omission of the Sub-section (5) in Section 7 of the State Bank of India (Subsidiary Banks) Act, 1959 which provided that the State Bank held not less than fifty-five per cent of the issued capital of a Subsidiary Bank. Sub-section (2) of new Section 7A, proposed to be inserted by Clause 5 of the Bill, sought to provide for a minimum of fifty-one per cent shareholding of State Bank of India in all its Subsidiary Banks.

The Committee were not in favour of any dilution of the present statutory provision of shareholding of the State Bank of India of fifty-five per cent of the issued capital in any of its Subsidiary Banks even though authorised capital was proposed to be raised from Rs. 50 crores to Rs. 100 crores of these subsidiaries and augmentation of their capital resources was expected to be achieved through wider and better participation of the general public.

In order to retain the present shareholding of the State Bank of India of fifty-five per cent of the issued capital in all subsidiary Banks, the Committee recommended the following modification:

- (i) In sub-Section (2) of new section 7A proposed to be inserted by Clause 5 of the Bill for the word "fifty-one", the word "fifty-five" may be substituted.
- (ii) Consequently, the Sub-clause (b) in clause 6 of the Bill which reads as under may be *Omitted*:

'(b) in sub-section (2), for the word "Fifty-five", the word "fifty-one" shall be substituted.'

Clause 6—Limitation for Foreign Investment

Clause 6 of the Bill sought to amend Section 18 of the Subsidiary Banks Act to provide for free transferability of shares of the subsidiary Banks. The Committee noted that there were already ceilings on foreign shareholdings prescribed under the General policy Guidelines framed by Government of India from time to time in accordance with its Industrial Policy for SBI and subsidiary Banks were the same as applicable to other Indian Companies. In respect of nationalised banks, there was specific provision for the percentage to be prescribed for foreign investment by the Government under RBI guidelines which can not exceed 20% of the paid up capital of the bank. Whereas in case of SBI and its Subsidiaries who in the absence of specific provision, were governed by Government guidelines, the limit for foreign shareholdings was 24% at present. The committee, however, felt that it was desirable to have a specific provision in the Bill itself in regard to limitation for foreign investment in Subsidiary Banks also and that there should be a uniform limit for foreign investment for all Public Sector Banks. The Committee, therefore, recommended that a specific provision by adding a new sub-section (4) in proposed Section 7A in Clause 5, may be made in the Bill itself so 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 7—Voting Right

Clause 7 of the Bill seeking substitution of new section for Section 19 of the principal Act for raising ceiling of exercising individual voting rights of shareholders of Subsidiary Banks except State Bank of India to ten per cent as also to make an enabling provision for the Central Government in consultation with Reserve Bank of India, to specify higher percentage for such exercising voting rights, provided as follows:

"19. No shareholder, other than the State Bank shall be entitled to exercise voting rights in respect of any shares held by such person in excess of ten per cent of the issued capital of the Subsidiary Bank concerned:

Provided that such shareholder shall be entitled to exercise voting rights at such higher percentage as the Central Government may, after consultation with the Reserve Bank, specify."

The Committee did not approve the raising of ceiling on voting rights of individual shareholders from one percent to ten percent as envisaged in the amendment in clause 7 of the Bill, as also proviso which would empower the Central Government in consultation with the Reserve Bank of India to specify higher percentage for exercising voting rights for shareholders other than the State Bank of India. The Committee, accordingly, recommended that there was no need to change the existing provisions of the principal Act and that clause 7 of the Bill might be deleted.

Clause 11 — Appointment of Chairman of Subsidiary Banks

Proviso to clause 11 which seeks to substitute Section 25(1) (a) of State Bank of India (Subsidiary Banks) Act, 1959 stated as follows:

"Provided that until such appointment is made or in the absence of any such Chairman appointed, the Chairman of the State Bank shall exercise the powers and discharge the duties of the Chairman."

The Committee were of the view that in the past, there have been cases of inordinate delays on the part of the Government in appointing Chairmen/Managing Directors for some of the public sector banks. They, therefore, recommended that the words "However in no case the delay should be more than three months" may be added at the end of the above proviso.

As per Section 25(1)(c) of the State Bank of India (Subsidiary Banks) Act, 1959, State Bank could nominate five Directors on the Board of Directors of the Subsidiary Bank of whom not more than three Directors were the officials of State Bank. As regards the appointment of two non-official Directors to be made by the State Bank in consultation with the Central Government, the Committee recommended that one Director should be either an Agricultural Scientist preferably from ICAR or a Technocrat or an Economist and the other one should be a nominee of the State Government where subsidiary bank had a pre-dominant presence in the State.

3. The Committee approved the remaining Clauses of the Bill as contained therein.

4. The Committee then decided to meet again on 13 February, 1996 to consider and adopt the draft Report on the Bill.

The Committee then adjourned.

MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 13 February, 1996 from 1500 hrs. to 1600 hrs.

PRESENT

Smt. Maragatham Chandrasekhar,—*Chairperson*

MEMBERS

Lok Sabha

2. Dr. K.V.R. Chowdary
3. Shri Chhitubhai Gamit
4. Shri Satyapal Singh Yadav
5. Shri Sushil Chandra Varma
6. Shri Jeevan Sharma
7. Shri Manabendra Shah
8. Shri Harin Pathak
9. Shri Nirmal Kanti Chatterjee
10. Shri Bhogendra Jha
11. Shri George Fernandes
12. Shri Abdul Ghafoor

Rajya Sabha

13. Shri Satish Agarwal
14. Dr. Biplab Das Gupta
15. Dr. Shrikant Ramchandra Jichkar
16. Shri Chimanbhai Mehta
17. Shri Surinder Kumar Singla
18. Shri V.P. Duraisamy

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri K.L. Narang — *Deputy Secretary*
3. Shri C.S. Joon — *Under Secretary*

2. The Committee then took up for consideration their draft Report on the State Bank of India (Subsidiary Banks) Amendment Bill, 1995. The Committee after deliberation adopted the Report with the following modifications/amendments:—

(i) *Para 9*, last sentence.

For "there is need to maintain the present *status quo*."

Substitute "there is no need to change the *status quo*".

(ii) Para 31

For "31. As per Section 25(1) (c) of the State Bank of India (Subsidiary Banks) Act, 1959, State Bank can nominate five Directors on the board of Directors of the Subsidiary Bank of whom not more than three Directors are the officials of State Bank. As regards the appointment of two non-official Directors to be made by the State Bank in consultation with the Central Government, the Committee recommend that one Director should be either an Agricultural scientist preferably from ICAR or a Technocrat or an Economist and the other one should be a nominee of the State Government where Subsidiary Bank have a predominant presence in the State."

Substitute "31. As per Section 25 (1) (c) of the State Bank of India (Subsidiary Banks) Act, 1959, State Bank can nominate five Directors on the Board of Directors of the Subsidiary Bank of whom not more than three Directors are the officers of the State Bank. In this connection, the Committee recommend that:

- (a) Not more than two Directors to be nominated on the Board of Directors of the Subsidiary Banks are State Bank Officers; and**
- (b) As regards nomination of the three Directors to be made by the State Bank in consultation with the Central Government, two Directors should be from amongst Agricultural Scientists, (Preferably from ICAR) Technocrats and Economists and the third one should be a nominee of the State Government where Subsidiary Bank has a predominant presence in the State."**

(iii) New Para 32

After para 31, add

"32. Section 25(d) of the State Bank of India (Subsidiary Banks) Act, 1959 was proposed to be amended by clause 11(B) of the Bill for election of Directors to the Board of Directors by shareholders other than the State Bank where the paid up capital is held by such shareholders, should also be mentioned as a provision at item (vii) in para 3 of the 'Statement of Objects and reasons' of the Bill".

3. The Committee authorised the Chairperson to finalise the Report in the light of the aforesaid amendments as also to make verbal changes in narration in paras 5 and 8 of the Report and present the same to Parliament.

4. The Committee then considered a request received from the French Embassy for a meeting of some Members of the Committee on Finance

with a delegation of ten members of the French Senate led by Mr. Jean Francois Poncet, Chairman of the Senate Committee for Economic Affairs and Planning for an informal exchange of views on a wide range of subjects and in particular the Indian economic reforms and the prospects of the economic situation in India. The Committee authorised the Chairperson to fix the meeting preferably on 21 February, 1996 in consultation with the French Embassy.

5. The Committee also decided to hold their next sitting on 22 February, 1996 to consider and adopt draft Action Taken Report(s).

The Committee then adjourned.

THE STATE BANK OF INDIA
(SUBSIDIARY BANKS) AMENDMENT
BILL, 1995

A

BILL

*further to amend the State Bank of India
(Subsidiary Banks) Act, 1959, the State
Bank of Hyderabad Act, 1956 and the
State Bank of Saurashtra Act, 1950.*

BE it enacted by Parliament in the
Forty-sixth Year of the Republic of India
as follows:—

CHAPTER I

PRELIMINARY

- 5 1. This Act may be called the State Bank of India (Subsidiary Banks) Amendment Act, 1995. Short title.

CHAPTER II

10 AMENDMENTS TO THE STATE BANK OF
INDIA (SUBSIDIARY BANKS) ACT, 1959

- 38 of 1959. 2. In Chapter II of the State Bank of India (Subsidiary Banks) Act, 1959 (hereafter in this Chapter referred to as the Subsidiary Banks Act), for the heading "Constitution of NEW BANKS and CHANGE of name of any Subsidiary Bank", the following heading shall be substituted, namely:—
- Substitution of new heading for heading of Chapter II.

20 "CONSTITUTION OF NEW BANKS, CHANGE OF
NAME AND SHARE CAPITAL OF SUBSIDIARY
BANKS".

3. For section 6 of the Subsidiary Banks Act, the following section shall be substituted, namely:—
- Substitution of new section for section 6.

Authorised
capital of
subsidiary
banks.

“6. (1) Subject to the provisions of this Act, the authorised capital of every subsidiary bank shall be rupees one hundred crores.

(2) The authorised capital of every subsidiary bank shall be divided into shares of ten rupees each. 5

(3) Notwithstanding anything contained in this section, the State Bank may, with the approval of the Reserve Bank, authorise a subsidiary bank to increase or reduce its authorised capital: 10

Provided that where the authorised capital is so increased the shares issued shall be of the denomination specified in sub-section (2).” 15

Amendment
of section 7.

4. In section 7 of the Subsidiary Banks Act, sub-sections (4) and (5) shall be omitted. 20

Insertion of
new section
7A.

5. After section 7 of the Subsidiary Banks Act, the following section shall be inserted, namely:—

Increase or
reduction of
issued capital
of subsidiary
banks.

“7A. (1) without prejudice to the provisions contained in sub-section (3) of section 7 relating to new banks, a subsidiary bank may, with the approval of the State Bank and the Reserve Bank, increase from time to time including by way of issuing bonus shares to existing shareholders, its issued capital and the capital so increased shall consist of paid-up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct. 25 30 35

(2) No increase or reduction in the issued capital of a subsidiary bank shall be made in such a manner that the State Bank holds at any time less than fifty-one per cent of the issued capital of that bank. 40

5 (3) A subsidiary bank may accept the money in respect of shares issued towards increase in issued capital in instalments, forfeit unpaid shares and reissue them as may be prescribed.”.

6. In section 18 of the Subsidiary Banks Act,—

Amendment of section 18.

10 (a) for sub-section (1), the following sub-section shall be substituted, namely:—

15 of 1992.

15 “(1) Save as otherwise provided in sub-section (2) and subject to the provisions of the Securities Exchange Board of India Act, 1992 as applicable to securities as defined in section 2 of the Securities Contracts (Regulation) Act, 1956 and any other law for the time being in force, the Shares of a subsidiary bank shall be freely transferable.

42 of 1956.

20 (1A) Every shareholder of a subsidiary bank holding shares in the denomination of one hundred rupees immediately before the commencement of the State Bank of India (Subsidiary Banks) Amendment Act, 1995 shall be entitled to have the certificates of shares of equivalent value in the denomination of ten rupees in accordance with the procedure specified by the subsidiary bank in this behalf.”;

35 (b) in sub-section (2), for the word “fifty-five”, the word “fifty-one” shall be substituted.

40 7. For section 19 of the Subsidiary Banks Act, the following section shall be substituted, namely:—

Substitution of new section for section 19.

45 “19. No shareholder, other than the State Bank, shall be entitled to exercise voting rights in respect of any shares held by such person in excess of ten per cent of the issued capital of the subsidiary bank concerned:

Restrictions on voting rights.

Provided that such share holder shall be entitled to exercise voting rights at such higher percentage as the Central Government may after consultation with the Reserve Bank specify." 5

Amendment
of section 20.

8. In section 20 of the Subsidiary Banks Act, for the words and figures "Banking Companies Act, 1949", the words and figures "Banking Regulation Act, 1949" shall be substituted. 10

Amendment
of section 21.

9. Section 21 of the Subsidiary Banks Act shall be re-numbered as sub-section (1) thereof, and—

(a) in sub-section (1) as so renumbered or the words "as its head office", the words "at any place within the city or town where its head office is situated" shall be substituted; 15

(b) after sub-section (1) as so re-numbered, the following sub-sections shall 20 be inserted, namely:—

"(2) Notwithstanding anything contained in sub-section (1), it shall be lawful for a subsidiary bank to keep the register in computer floppies or diskettes subject to 25 such safeguards as may be prescribed.

(3) Notwithstanding anything contained in the Indian Evidence Act, 1872, a copy 1 of 1872 of or extract from, the register of shareholders, certified to be a true copy 30 under the hand of an officer of the subsidiary bank authorised in this behalf, shall, in all legal proceedings, be admissible in evidence."

Amendment
of section 22.

10. In section 22 of the Subsidiary Banks Act, the words and figures "Notwithstanding anything contained in section 19," shall be omitted. 35

Amendment
of section 25.

11. In section 25 of the Subsidiary Banks Act,— 40

(a) in sub-section (1),—

(A) for clause (a), the following clause shall be substituted, namely:—

“(a) the chairman to be appointed by the State Bank with the approval of the Reserve Bank:

Provided that until such appointment is made or in the absence of any such chairman appointed, the chairman of the State Bank shall exercise the powers and discharge the duties of the chairman;”;

(B) for clause (d), the following clause shall be substituted, namely:—

“(d) directors to be elected in the prescribed manner by the shareholders other than the State Bank, where the paid-up capital held by such shareholders is—

(i) not more than ten per cent of the total paid-up capital, not more than two directors,

(ii) not more than twenty-five per cent of the total paid-up capital, not more than three directors,

(iii) more than twenty-five per cent of the total paid-up capital, not more than four directors:

Provided that if the total amount of the holdings of all such shareholders registered in the books of the subsidiary bank three months before the date fixed for election is below five per cent of the total paid-up capital, or if there are no shareholders other than the State Bank registered on the books of the subsidiary bank, the directors to be elected by the shareholders shall be nominated by the State Bank and such directors shall, for the purposes of this Act, be deemed to be directors elected under this clause;”;

(b) after sub-section (I) the following sub-section shall be inserted, namely:—

“(1A) The terms and conditions of appointment of, and the Remuneration payable to, the chairman of every subsidiary bank shall be such as may be determined by the State Bank with the approval of the Reserve Bank:” 5

Amendment
of section 27.

12. In section 27 of the Subsidiary Banks Act, in sub-section (5), in clause (a), for the words and figures “Banking Companies Act, 1949”, the words and figures “Banking Regulation Act, 1949” shall be substituted. 10

Amendment
of section 34.

13. In section 34 of the Subsidiary Banks Act, in sub-section (2), for the words “The chairman of the State Bank”, the words “The chairman of the Board of Directors” shall be substituted. 15

Amendment
of section 38.

14. In section 38 of the Subsidiary Banks Act, in sub-section (10), in clause (a), for the words and figures “Banking Companies Act, 1949”, the words and figures “Banking Regulation Act, 1949” shall be substituted. 20

Amendment
of section 48.

15. In section 48 of the Subsidiary Banks Act, in sub-section (2), for the words and figures “Indian Income-tax Act, 1922” the words and figures “Income-tax Act, 1961” shall be substituted. 25

11 of 1922
43 of
1961.

Amendment
of section 55.

16. In section 55 of the Subsidiary Banks Act, for the words and figures “Banking Companies Act, 1949”, the words and figures “Banking Regulation Act, 1949” shall be substituted. 30

Amendment
of section 63.

17. In section 63 of the Subsidiary Banks Act, in sub-section (2),— 35

79 of
1956;

(i) after clause (f), the following clause shall be inserted namely:

“(fa) the conditions of payment of share-money in instalments and the manner of forfeiture of unpaid shares and their reissue;” 40

(ii) in clause (g), after the word and figures "section 21" the words "the safeguards to be observed in the maintenance of the register on computer floppies or diskettes", shall be inserted.

CHAPTER III

AMENDMENTS TO THE STATE BANK OF HYDERABAD ACT, 1956

18. In the State Bank of Hyderabad Act, 1956 (hereafter in this chapter referred to as the Hyderabad Bank Act), section 9 shall be omitted.

Omission of section 9.

19. In section 10 of the Hyderabad Bank Act, sub-section (3) shall be omitted.

Amendment of section 10.

CHAPTER IV

AMENDMENT TO THE STATE BANK OF SAURASHTRA ACT, 1950

20. In the State Bank of Saurashtra Act, 1950 (hereafter in this Chapter referred to as the Saurashtra Bank Act), section 5 shall be omitted.

Omission of section 5.

21. In section 6 of the Saurashtra Bank Act, sub-section (3) shall be omitted.

Amendment of section 6.

STATEMENT OF OBJECTS AND REASONS

Under the provisions of the State Bank of India (Subsidiary Banks) Act, 1959, the State Bank of Hyderabad Act, 1956 and the State Bank of Saurashtra Act, 1950, the power to increase the authorised capital of the subsidiary banks with the approval of the Reserve Bank of India is vested with the State Bank of India. There is a restriction on individual holdings of shares up to 200. In order to meet certain norms for income recognition and provisioning and also for capital adequacy in relation to risk weighted assets prescribed by the Reserve Bank of India, it is necessary to expand the capital base of the subsidiary banks by increasing their authorised capital as well as issued capital.

2. Augmentation of capital resources of the subsidiary banks is expected to be achieved through wider and better participation of the general public, keeping a majority holding of fifty-one per cent of shares by the State Bank of India. In accordance with the wide market acceptability, the face value of share has to be fixed at rupees ten each from rupees hundred each as at present. In accordance with the guidelines for issue of shares by companies issued by the Securities and Exchange Board of India (SEBI), there is a necessity to provide for subscriptions for shares to be called in instalments and consequently make provision for forfeiture of unpaid shares. It is also necessary to subject the transfer of shares amenable to SEBI's restrictions, as the existing provisions provide for free transferability of the shares except for maintaining the majority holding of the State Bank. With the increase in capital and wider participation in equity by the investing public larger volume of transactions in the shares of subsidiary banks through various stock exchanges in the country is expected. In order to facilitate the transactions in shares and to streamline and smoothen the share registry function with the help of current technological advancement, computerisation of the register of share holders is also desirable. While the Chairman of State Bank is the *ex officio* Chairman of the subsidiary banks, a provision is also proposed to be made for appointment of Chairman of any subsidiary bank, who shall be the Chairman of the Board of Directors.

3. The Bill, *inter alia*, provides for the following, namely:—

- (i) To increase the authorised capital of every subsidiary bank to Rs. 100 crores.
- (ii) To remove the ceiling on individual share holdings of 200 shares and to increase the ceiling on voting rights to ten per cent of the issued capital with power to the Central Government to relax.
- (iii) To specify the face value of a share at Rs. 10.

(iv) Provision for making calls and forfeiture of shares, issue of bonus shares, etc.

(v) A provision for maintaining register of shares on computer floppies or diskettes subject to such safeguards as may be prescribed by regulations.

(vi) To provide for appointment of Chairman of every subsidiary bank, who shall be the Chairman of the Board of Directors.

4. The Bill seeks to achieve the above objects.

NEW DELHI;

M. V. CHANDRASHEKARA MURTHY.

The 31st July, 1995.

MEMORANDUM REGARDING DELEGATED LEGISLATION

Clause 5 of the Bill seeks to insert a new section 7A in the State Bank of India (Subsidiary Banks) Act, 1959 empowering the State Bank to make regulations regulating the payment of share money in instalments and the manner of forfeiture of unpaid shares and their reissue. Clause 9 of the Bill seeks to amend section 21 of the Act empowering the subsidiary banks to keep the register of shares in computer floppies or diskettes subject to such safeguards as may be prescribed by regulations. Clause 11 of the Bill seeks to amend section 25 of the Act empowering the State Bank to make regulations regarding the manner of election of directors.

2. Clause 17 of the Bill seeks to amend section 63 of the Act which empowers the State Bank, with the approval of the Reserve Bank, to make regulations. The amendments to section 63 are consequential to the amendments mentioned above.

3. The matters in respect of which regulations may be made under the aforesaid provisions are matters of procedure and administrative details. The delegation of legislative power is, therefore, of a normal character.

ANNEXURE

EXTRACTS FROM THE STATE BANK OF INDIA (SUBSIDIARY BANKS) ACT, 1959 (38 OF 1959)

* * * *

CHAPTER II

CONSTITUTION OF NEW BANKS AND CHANGE OF NAME OF ANY SUBSIDIARY BANK

* * * *

Authorised
Capital of
new banks.

6. (1) Subject to the provisions of this Act, the authorised capital of the State Bank of Mysore and the State Bank of Travancore shall be rupees two crores each, and the authorised capital of every other new bank shall be rupees one crore.

(2) The authorised capital of every new bank shall be divided into shares of one hundred rupees each.

(3) Notwithstanding anything contained in this section, the State Bank may, with the approval of the Reserve Bank, authorise a new bank to increase or reduce its authorised capital:

Provided that where the authorised capital is so increased, the shares issued shall be of the denomination specified in sub-section (2).

7. (1)

Issued capital of new banks.

(4) Without prejudice to the provisions contained in sub-section (3), a new bank may, with the approval of the State Bank and the Reserve Bank, increase from time to time, its issued capital and the capital so increased shall consist of fully paid-up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct.

(5) No increase or deduction in the issued capital of a new bank shall be made in such a manner that the State Bank holds at any time less than fifty-five per cent of the issued capital of that bank.

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CHAPTER IV

SHARES OF THE SUBSIDIARY BANKS

18. (1) Save as otherwise provided in sub-section (2), the shares of a subsidiary bank shall be freely transferable.

Transferability of shares.

(2) Nothing contained in sub-section (1) shall entitle the State Bank to transfer any shares held by it in any subsidiary bank such transfer will result in reducing the shares held by it to less than fifty-five per cent of the issued capital of that subsidiary bank.

19. (1) No person shall be registered as a shareholder in respect of any shares in a subsidiary bank held by him, whether in his own name or jointly with any other person, in excess of two hundred shares, or be entitled to payment of any dividend on the excess shares held by him, or to exercise any of the rights of a shareholder in respect of such excess shares otherwise than for the purpose of selling them:

Restriction on individual holdings.

Provided that if the total amount of the holding of all such shareholders registered in the books of the subsidiary bank three months before the date fixed for election is below five per cent. of the total issued capital, or if there are no shareholders other than the State Bank registered on the books of the subsidiary bank, the directors to be elected by the shareholders shall be nominated by the State Bank and such directors shall, for the purposes of this Act, be deemed to be directors elected under this clause.

* * * * *

Disqualifi-
cation for
director-
ship.

27. (1) * * * * *

(5) In this section,—

10 of 1949.

(a) "banking company" has the same meaning as in the Banking Companies Act, 1949;

* * * * *

Meetings
of the
Board of
Directors.

34. (1) * * * * *

(2) The chairman of the State Bank shall preside at every meeting of the Board of Directors of a subsidiary bank and, in his absence such one of the directors as may generally or in relation to any particular meeting be authorised by the chairman in this behalf shall preside; and in the absence of the chairman and also failing such authorisation, the directors of the subsidiary bank present at the meeting shall elect one from among themselves to preside at the meeting.

Explanation.—For the purposes of this subsection, "absence from a meeting" means non-attendance for any reason whatsoever at the meeting or any part of the meeting during which any business is transacted.

* * * * *

38. (1) * * * * *

Acquisition of business of other banks.

(10) Simultaneously with the appointment of a suitable person under sub-section (9) or immediately thereafter, the Central Government shall issue directions to be followed by that person in the management of that banking institution for the purposes aforesaid and thereupon—

1 of 1956.
10 of 1949.

(a) the provisions the Companies Act, 1956, or the Banking Companies Act, 1949, or any other law for the time being in force or any instrument having effect by virtue of any such Act or law, in so far as they are inconsistent with such directions, shall cease to apply to, or in relation to, that banking institution;

* * * * *

48. (1) * * * * *

Cost of development programme.

11 of 1922.

(2) For the purposes of the Indian Income-tax Act, 1922, any subsidy received by a subsidiary bank under sub-section (1) shall not be treated as income, profits or gains of the subsidiary bank.

* * * * *

55. Subject to the provisions of this Act and unless the Central Government, by notification in the Official Gazette, otherwise directs, on and from the appointed day, the provisions of the Companies Act, 1956, and the Banking Companies Act, 1949, shall not apply to an existing bank, in so far as the said provisions impose any obligation on, or require anything to be done by, any such bank.

Companies Act, 1956, and Banking Companies Act, 1949, not to apply to certain existing banks.

1 of 1956.

* * * * *

Power of the State Bank to make regulations.

63. (1)

(2) If particular, and without prejudice to the generality of the foregoing power, such regulations may provide for—

.

(g) the maintenance of share registers, and the particulars to be entered in such registers in addition to those specified in section 21, the inspection and closure of the registers and all other matters connected therewith;

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EXTRACTS FROM THE STATE BANK OF HYDERABAD ACT, 1956 (79 OF 1956)

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CHAPTER III

CAPITAL OF THE HYDERABAD BANK

Authorised capital.

9. (1) The authorised capital of the Hyderabad Bank shall be one crore of rupees, divided into shares of one hundred rupees each.

(2) Notwithstanding anything contained in this section, the State Bank may, with the approval of the Reserve Bank, authorise the Hyderabad Bank to increase or reduce its authorised capital:

Provided that where the authorised capital is so increased, the shares issued shall be of the denomination specified in sub-section (1).

10. (1) * * * * *

Issued
Capital

(3) Without prejudice to the provisions contained in sub-section (4), the Hyderabad Bank may, with the approval of the State Bank and the Reserve Bank, increase, from time to time, its issued capital and the capital so increased shall consist of fully paid up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct:

Provided that the issued capital shall be so increased that at no time shall the State Bank hold less than fifty-five per cent. of the issued capital of the Hyderabad Bank.

* * * * *

EXTRACTS FROM THE STATE BANK OF
SAURASHTRA ACT, 1950

* * * * *

5. (1) The authorised capital of the Saurashtra Bank shall be two crores of rupees divided into shares of one hundred rupees each.

Authorised
capital.

(2) Notwithstanding anything contained in this section, the State Bank may, with the approval of the Reserve Bank, authorise the Saurashtra Bank to increase or reduce its authorised capital:

Provided that where the authorised capital is so increased, the shares issued shall be of the denomination specified in sub-section (1).

**Issued
Capital.**

6. (1) * * * * *

(3) Without prejudice to the provisions contained in sub-section (4), the Saurashtra Bank may, with the approval of the State Bank and the Reserve Bank, increase, from time to time, its issued capital and the capital so increased shall consist of fully paid-up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct:

Provided that the issued capital shall be so increased that at no time shall the State Bank hold less than fifty-five per cent. of the issued capital of the Saurashtra Bank.

* * * * *

LOK SABHA

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BILL

further to amend the State Bank of India (Subsidiary Banks) Act, 1959, the State Bank of Hyderabad Act, 1956 and the State Bank of Saurashtra Act, 1950.

*(Shri M.V. Chandrashekhara Murthy,
Minister of State in the Ministry of
Finance)*

LOK SABHA
CORRIGENDA

to

**THE STATE BANK OF INDIA (SUBSIDIARY BANKS)
AMENDMENT BILL, 1995**

(To be/As introduced in Lok Sabha)

1. Page 2, line 28,—
for "reissue" read "re-issue"
2. Page 2, line 43,—
for "behaf" read "behalf"
3. Page 5,—
against line 3 in the marginal citation,—
omit "79 of 1956"
4. Page 5, against clause 17 in the marginal heading,—
for "itsecon" read "section"
5. Page 5, line 4,—
for "reissue" read "re-issue"
6. Page 5,—
against clause 18 in the marginal citation,—
insert "79 of 1956"
7. Page 5, line 16,—
for "Amendment" read "Amendments"

NEW DELHI;

August 4, 1995

Sravana 13, 1917 (Saka)