

**50** **STANDING COMMITTEE ON FINANCE**  
**(2006-07)**

**FOURTEENTH LOK SABHA**

**MINISTRY OF FINANCE**  
**(DEPARTMENT OF ECONOMIC AFFAIRS)**

**THE STATE BANK OF INDIA (SUBSIDIARY BANKS LAWS)**  
**AMENDMENT BILL, 2006**

**FIFTIETH REPORT**



**LOK SABHA SECRETARIAT**  
**NEW DELHI**

December, 2006/Agrahyana, 1928 (Saka)

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## **THE STATE BANK OF INDIA (SUBSIDIARY BANKS LAWS) AMENDMENT BILL, 2006**

Presented to Lok Sabha on 14 December, 2006  
Presented to Rajya Sabha on 14 December, 2006



**LOK SABHA SECRETARIAT  
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# COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2006-2007

Maj. Gen (Retd.) B.C. Khanduri - Chairman

## **MEMBERS**

### **LOK SABHA**

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
7. Dr. Rajesh Kumar Mishra
8. Shri Bhartruhari Mahtab
9. Shri Madhusudan Mistry
10. Shri Rupchand Pal
11. Shri Prakash Paranjpe
12. Shri P.S. Gadhavi<sup>1</sup>
13. Shri R. Prabhu
14. Shri K.S. Rao
15. Shri Magunta Sreenivasulu Reddy
16. Shri Jyotiraditya Madhavrao Scindia
17. Shri Lakshman Seth
18. Shri A.R. Shaheen
19. Shri G.M. Siddeshwara
20. Shri M.A. Kharabela Swain
21. Shri Bhal Chand Yadav

### **RAJYA SABHA**

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Shri M. Venkaiah Naidu
25. Shri Yashwant Sinha
26. Shri Mahendra Mohan
27. Shri Chittabrata Majumdar
28. Shri S.P.M. Syed Khan
29. Shri Mangani Lal Mandal
30. Shri C. Ramachandraiah
31. Vacant

### **SECRETARIAT**

1. Dr. (Smt.) P.K. Sandhu - Additional Secretary
2. Shri A. Mukhopadhyay - Joint Secretary
3. Shri S.B. Arora - Deputy Secretary
4. Shri T. G. Chandrasekhar - Under Secretary

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<sup>1</sup> Nominated to this Committee w.e.f. 31.8.2006 vice Shri Raosaheb Danve Patil

## INTRODUCTION

1. Chairman of the Standing Committee on Finance having been authorized by the Committee to submit the Report on their behalf present this Fiftieth Report on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006.

2. The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 introduced in Lok Sabha on 22 May, 2006 was referred to the Committee on 24 May, 2006 for examination and report thereon, by the Hon'ble Speaker, Lok Sabha under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee obtained written information on various provisions contained in the aforesaid Bill from the Ministry of Finance (Department of Economic Affairs), who also briefed them at their sitting held on 19 September, 2006.

4. Written views/ Memoranda were received from Reserve Bank of India (RBI), Indian Banks' Association (IBA), State Bank of India (SBI), State Bank of Indore, State Bank of Travancore, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Saurashtra, State Bank of Patiala, State Bank of Hyderabad, Bombay Chamber of Commerce and Industry, ASSOCHAM, The Institute of Company Secretaries of India, Associate Banks Officers' Association, All India Bank Officers' Association, All India Bank Officers' Confederation, Bank Employees Federation of India, State Bank of Travancore Employees' Union, All India Bank Employees' Association and All India State Bank of Indore Officers' Co-ordination Committee.

5. The Committee at their sitting held on 26 October, 2006 heard the views of the representatives of Indian Banks' Association, All India Bank Officers' Association, All India Bank Officers' Confederation, All India Bank Employees Association, Bank Employees Federation of India and National Confederation of Bank Employees.

6. At their sitting held on 27 October, 2006, the Committee heard the views of the representatives of State Bank of Travancore, State Bank of Mysore and State Bank of Hyderabad. On 6 and 7 November, 2006, the Committee heard the views of the representatives of State Bank of India and Reserve Bank of India respectively.

7. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) on 29 November, 2006.

8. The Committee, at their sitting held on 11 December, 2006, considered and adopted the draft report and authorized the Chairman to finalize the same and present it to both Houses of Parliament.

9. The Committee wish to express their thanks to the officers of the Ministry of Finance (Department of Economic Affairs), representatives of subsidiary banks/State Bank of India, Officers' and Employees' Associations/Confederations/Unions of public

sector banks and other individuals for their cooperation in placing before them their considered views and perceptions on the provisions of the Bill and for furnishing written notes and information that the Committee had desired in connection with the examination of the Bill.

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

***NEW DELHI;***  
**12 December, 2006**  
**21 Agrahayana, 1928(Saka)**

***MAJ. GEN. (RETD.) B.C. KHANDURI***  
**Chairman,**  
**Standing Committee on Finance**

## REPORT

### **Introductory**

The preamble to the State Bank of India (Subsidiary Banks) Act, 1959 reads as follows:—

“An Act 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. Separate Acts namely, the State Bank of Saurashtra Act, 1950 and the State Bank of Hyderabad Act, 1956 relate to taking over of the Saurashtra Bank and Hyderabad Bank and the capital and reserve funds of the banks. The State Bank of India (Subsidiary Banks) Act, 1959 deals with the establishment of State Bank of Bikaner and Jaipur (SBBJ), State Bank of Indore (SBI), State Bank of Mysore (SBM) State Bank of Patiala (SBP) and State Bank of Travancore (SBT) which are termed as ‘new banks’ and other provisions relating to management, business of subsidiary banks, accounts and audit and miscellaneous provisions such as power of making rules, regulations etc. The provisions of the State Bank of India (Subsidiary Banks) Act, 1959 which relate to management, business, accounts and audit are also applicable to the State Bank of Hyderabad (SBH) and State Bank of Saurashtra (SBS).

3. The Structure of the SBI Group of Banks represents the legacy of the operations of the subsidiary banks mainly concentrated in the States of their incorporation. The State-wise concentration of the branches of the subsidiary banks as on 31 March, 2006 is as under:—

States	SBBJ	SBH	SBI	SBM	SBP	SBS	SBT
			Indore				
1	2	3	4	5	6	7	8
M.P.	7		337				

1	2	3	4	5	6	7	8
Haryana	11				143		
H. Pradesh					77		
Punjab	9				<b>361</b>		
Chandigarh					24		
Delhi	27	11		10	37		
U.P.	21				46		
Rajasthan	<b>671</b>				12		
Tamil Nadu				35			69
Karnataka		115		521			
Kerala				10			<b>565</b>
Andhra Pradesh		<b>575</b>		18			
Maharashtra	20	166	20	19		19	12
Gujarat							<b>363</b>
All India Total	816	930	436	634	753	425	694
Total branch— All subsidiary banks				<b>4688</b>			

4. While the entire capital of State Bank of Hyderabad, State Bank of Patiala and State Bank of Saurashtra is at present held by the State Bank of India, the remaining four Subsidiary Banks have private share holdings, in addition to the shares held by SBI. The shares of these four Subsidiary Banks with private shareholdings are listed on the Stock



Exchanges. The present share holding pattern in all the seven Subsidiary Banks of SBI is as under:—

Name of the Subsidiary Bank	Paid up capital of Subsidiary Bank	% of paid up capital held by SBI	% of paid up capital held by other share holders
	Rs. in Crores	(%)	(%)
State Bank of Hyderabad	17.25	100	—
State Bank of Patiala	24.75	100	—
State Bank of Saurashtra	314.00	100	—
State Bank of Bikaner & Jaipur	50.00	75.00	25.00
State Bank of Indore	17.50	98.05	1.95
State Bank of Mysore	36.00	92.33	7.67
State Bank of Travancore	50.00	75.00	25.00

5. The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 was introduced in Lok Sabha on 22.5.2006 and referred to the Standing Committee on Finance by the Hon'ble Speaker on 24.5.2006 for examination and report.

6. The statement of objects and reasons for seeking enactment of the amendment proposals of the Bill, *inter-alia*, reads as under:—

“There are more than twenty-eight lakh shares held by private shareholders (other than the State Bank of India) of the four subsidiary banks, *i.e.* the State Bank of Bikaner and Jaipur, the State Bank of Indore, the State Bank of Mysore and the State Bank of Travancore. The shareholders of these four subsidiary banks are facing certain difficulties due to certain restrictions imposed under the State Bank of India (Subsidiary Banks) Act, 1959. These restrictions, *inter alia*, include (a) lack of dematerialisation facility

for the shares; (b) difficulty in free transferability; (c) restrictions on individual holdings of shares and their voting rights etc. The shareholders, at the annual general meetings of these four banks, have been expressing, time and again, the difficulty faced by them due to such restrictive provisions in the said Act.

The Basel Capital Accord, the current international framework on Capital adequacy, was adopted in the year 1988 by many banks world-wide and in the year 1992 in India. Afterwards, over the past several years, the Basel Committee on Banking Supervision has worked on a new accord for international convergence on capital standards and released the latest version of the new Basel Capital Accord known as Basel II in June, 2004. With the introduction of the new capital adequacy framework (Basel II), all the banks (including subsidiary banks of the State Bank of India) may be required to increase their capital base to meet minimum requirements. Achievement of the capital adequacy norms under Basel II will improve the basic financial health of the banking system and thus improve its international credibility since banks in many countries are also in the process of adopting these standards.

In order to remove the difficulties faced by the shareholders of the subsidiary banks and to facilitate increase of the capital of the subsidiary banks to enable them to raise resources from the market and also to comply with certain guidelines issued by the Securities Exchange Board of India (SEBI) under the Securities Exchange Board of India Act, 1992 and the Depositories Act, 1996, it has become necessary to amend the State Bank of Saurashtra Act, 1950, the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959.”

7. The amendments proposed to be carried out *vide* the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 are as under:—

- (1) increasing the authorised capital of subsidiary banks to Rs. 500 crores and dividing the authorised capital into shares of one hundred rupees each or such denomination as may be

decided by the subsidiary banks, with the approval of the State Bank.

- (2) enabling subsidiary banks to issue shares of such denomination as may be prescribed to the existing shareholders.
- (3) fixing the issued capital of subsidiary banks by the State Bank with the approval of RBI and deciding on the denomination of shares with the approval of the State Bank.
- (4) enabling subsidiary banks to raise issued capital by preferential allotment or private placement or public issue in accordance with the procedure as may be prescribed and to issue preference shares in accordance with guidelines framed by RBI.
- (5) enabling subsidiary banks to issue bonus shares to the equity shareholders with the approval of the State Bank and RBI.
- (6) reducing State Bank's shareholding from 55% to 51% and restricting State Bank's shareholding in subsidiary banks not to fall below the ceiling of 51% of the issued capital consisting of equity shares.
- (7) enabling the subsidiary banks to accept share monies in instalments, make calls, and forfeiture of unpaid shares and their reissue.
- (8) providing for nomination facility for shareholders.
- (9) removing the restriction on individual shareholdings, in excess of two hundred shares and increase the percentage of voting rights of shareholders, other than SBI from the existing level of one per cent to 10 per cent of the issued capital of the subsidiary bank concerned.
- (10) restricting the voting rights of preference shares only to resolutions directly affecting their rights and also restricting the preference shareholder to exercise voting rights in respect of preference shares held by her/him to a ceiling of 10% of total

voting rights of all the shareholders holding preference share capital only.

- (11) enabling the Chairman of State Bank to nominate an official of State Bank as Chairman of the Board of subsidiary bank, with the approval of RBI.
- (12) deleting the provisions relating to nomination of RBI Official on the Board of Directors and to provide an enabling clause to nominate additional director by RBI as and when considered necessary, in the interest of banking policy/depositor's interest etc.
- (13) increasing the number of elected directors representing shareholders limited to a maximum of 3 subject to different percentage of public ownership.
- (14) prescribing qualification regarding eligibility criteria including 'fit and proper' criteria for elected directors with the condition that a director can not be elected unless he is a person having fit and proper status based on the criteria to be notified by RBI and empowering RBI to remove elected directors who are not fit and proper and empowering the Board to co-opt any other person who is fit and proper in his place.
- (15) providing for the Chairman of subsidiary bank to preside over the meetings of the Board instead of the Chairman of SBI.
- (16) empowering RBI to supercede the Board of Directors in public interest or for depositors' interest or for securing proper management of the subsidiary banks on the recommendation of SBI and to appoint an administrator and a Committee to assist the administrator.
- (17) transferring unpaid/unclaimed dividend upto 30 days to 'unpaid dividend account' and after 7 years to 'Investor Education and Protection Fund'.
- (18) entitling the Shareholders present in an AGM to 'adopt' the balance sheet.

8. The amendment proposals of the Bill listed above that relate to raising of capital by preferential allotment/private placement, issuing of preference shares, 'fit and proper' criteria for elected directors, fixing the number of elected directors, supersession of the Board, transferring unclaimed dividend etc. are primarily aimed at maintaining uniformity among the various banking statutes in order to provide a level playing field to the Banks.

9. The restrictive provisions such as the limitation on individual holdings of shares which are proposed to be removed are specific to the subsidiary banks. The other provisions of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 are largely similar to the proposals made for private sector banks *vide* the Banking Regulation (Amendment) Bill, 2005 and the Public Sector Banks *vide* the Banking Companies (Acquisition & Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005. Both these Bills were scrutinized by the Standing Committee on Finance and the related reports presented to Parliament.

10. In addition to the amendment proposals of the Bill, *per se*, issues relating to level playing field among the public and private sector banks including the subsidiary banks; the benefits that may accrue to the subsidiary banks on account of being a part of the 'SBI Group'; and the alternatives that could be considered for enabling the subsidiary banks to effectively face competition, mainly from the private banks figured prominently in the course of the Committee's interactions, particularly with the representatives of the Ministry of Finance and the Reserve Bank of India.

11. Communicating the Government's perception of the recommendations of the Committee on Fuller Capital Account Convertibility on issues relating to strengthening the Banking System in the Country, the Ministry of Finance, in a written note furnished to the Committee, informed as under:—

"Recently, the Committee on Fuller Capital Account Convertibility commenting on the strengthening of the banking system, recommended that all commercial banks should be subject to a

single Banking Legislation and separate legislative frameworks for groups of public sector banks should be abrogated. All banks, including public sector banks, should be incorporated under the Companies Act which would provide a level playing field.

The Government is also proposing/examining to have a comprehensive Act which will regulate all the public sector banks in order to have uniformity in approach among these banks.”

12. By way of giving the Reserve Bank’s perception on the benefits that accrue to the subsidiary banks on account of belonging to the ‘SBI Group’; and issues relating to possible merger of the subsidiary banks, a written note furnished by the Bank *inter-alia* reads as under:—

“Subsidiary banks, being a part of SBI group enjoy the benefits that the powerful SBI brand bring along with it. However, if subsidiary banks differ too much from each other and SBI, the cohesiveness of the group would suffer and reduce the value of the brand for the subsidiaries.”

13. The benefits to the subsidiary banks on account of belonging to the SBI group, as stated in the Reserve Bank’s note furnished to the Committee are as under:—

- “(i) availability of large branch network of the Group (about 13,800 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 computerization is available to all Associate Banks without costs. The banks share the same IT platform.
- (ix) human resource development through vast training facilities at Staff Colleges, Specialist training facilities in Agriculture, Computerisation at specialized 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.”

14. The Committee received written views/suggestions on the various provisions of the Bill from (i) Reserve Bank of India (RBI), (ii) Indian Banks Association (IBA), (iii) State Bank of India (SBI), (iv) State Bank of Indore, (v) State Bank of Travancore, (vi) State Bank of Bikaner and Jaipur, (vii) State Bank of Mysore, (viii) State Bank of Saurashtra, (ix) State Bank of Patiala, (x) State Bank of Hyderabad, (xi) Bombay Chamber of Commerce and Industry, (xii) ASSOCHAM, (xiii) The Institute of Company Secretaries of India, (xiv) Associate Banks Officers’ Association, (xv) All India Bank Officers’ Association, (xvi) All India Bank Officers Confederation, (xvii) Bank Employees Federation of India, (xviii) State Bank of Travancore Employees’ Union, (xix) All India Bank Employees Association, (xx) All India State Bank of Indore Officers’ Co-ordination Committee and (xxi) Elected Directors of State Bank of Mysore. The Committee also had personal hearings of the views of the representatives of RBI, SBI, IBA, the subsidiary banks of SBI and officers/employees associations and unions.

15. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) to further enlighten themselves on various aspects of the proposed legislation.

16. The Committee, upon examining the State of Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006, express agreement with the broad objectives envisaged. The proposals of the Bill mainly attempt to bring forth uniformity among various banking statutes *inter-alia* by proposing enabling provisions in regard to raising of capital by the subsidiary banks by means of preferential allotment/ private placement of equity/issue of preference shares; and removing certain restrictive provisions in the laws, such as the limitation presently applicable on individual shareholdings. Enactment of the proposed legislation is expected to aid the subsidiary banks in augmenting their capital funds to ensure continuous compliance with the regulatory capital adequacy requirements, and prepare the banks for competition in the banking sector in future by providing them a level playing field vis-à-vis other banks.

17. The changes proposed in the statutory provisions pertaining to the capital structure of the subsidiary banks as well as the provisions proposed in regard to eligibility criteria for Directors, determining the number of elected directors on the basis of percentage of public shareholding, supersession of the boards of the subsidiary banks etc., are in line with the proposals already made for private as well as public sector banks, which were examined and reported upon by the Committee in the related reports *viz.*, the 26th Report on the Banking Regulation (Amendment) Bill, 2005 and the 34th Report on the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005. Some of the amendment proposals of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 are discussed in the subsequent paragraphs of the Report.



**Clauses 6 — Substitution of New Section for Section 6 and Clause 7 — Amendment of Section 7 (Capital Structure of Subsidiary Banks).**

18. Clauses 6 and 7 of the Bill deal with provisions relating to authorised capital and issued capital of the subsidiary banks respectively. Clauses 2 and 3 (Chapter II of the Bill) and Clauses 4 and 5 (Chapter III of the Bill) contain similar provisions relating to authorised capital and issued capital of State Bank of Saurashtra and State Bank of Hyderabad respectively.

19. **Clause 6** relating to the authorised capital of the subsidiary banks reads as under:—

“For section 6 of the State Bank of India (Subsidiary Banks) Act, 1959 [hereafter in this Chapter referred to as the State Bank of India (Subsidiary Banks) Act], the following section shall be substituted, namely:—

- 6.(1) Subject to the provisions of this Act, the authorised capital of every new bank shall be rupees five hundred crores.
- (2) The authorised capital of every new bank shall be divided into shares of one hundred rupees each or of such denomination as the new bank may, with the approval of the State Bank, decide.
- (3) Every new bank may issue the certificates of shares of equivalent values of such denomination as the new bank may, decide, with the approval of the State Bank, in accordance with the procedure as may be prescribed and every shareholder of the new bank shall be entitled to have the certificate of shares of equivalent value of such denomination.
- (4) Notwithstanding anything contained in sub-section (1), the State Bank may, with the approval of the Reserve Bank, authorise a new bank to increase or reduce its authorised capital.”

20. **Clause 7** relating to the issued capital of the subsidiary banks reads as under:—

“In section 7 of the State Bank of India (Subsidiary Banks) Act,—

(a) after sub-section (1), the following sub-section shall be inserted, namely:—

“(1A) Notwithstanding anything contained in sub-section (1), the issued capital of a new bank shall, consist of such amount as the State Bank may, with the approval of the Reserve Bank, fix, and shall be divided into fully paid-up shares of such denomination in accordance with sub-section (2) of section 6.”;

(b) for sub-sections (4) and (5), the following sub-sections shall be substituted, namely:—

“(4) A new bank may from time to time, with the approval of the State Bank and the Reserve Bank, increase, whether by public issue or by preferential allotment or private placement in accordance with the procedure as may be prescribed, its issued capital by issue of equity or preference shares.

(5) The issued capital of a new bank shall consist of equity shares or equity and preference shares:

Provided that the issue of preference shares shall be in accordance with the guidelines framed by the Reserve Bank specifying the class of preference shares, the extent of issue of each class of such preference shares (whether perpetual or irredeemable or redeemable) and the terms and conditions subject to which, each class of preference shares may be issued.

(6) A new bank may, with the approval of the State Bank and the Reserve Bank, increase from time to time by way of issuing bonus shares to existing equity shareholders, its issued capital in such manner as the State Bank, with the approval of the Reserve Bank, direct.

(7) No increase or reduction 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-one per cent of the issued capital consisting of equity shares of new bank.

(8) A new bank may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them, in the manner as may be prescribed.”.

**(a) Authorised Capital:**

21. By way of giving the rationale for proposing to raise the authorised capital of the subsidiary banks to Rs. 500 crore, the Ministry of Finance, in a written submission *inter-alia* informed as under:—

“As per the existing provision, the authorised capital of State Bank of Mysore and the State Bank of Travancore is Rs. 2 crore. In case of other subsidiary banks, it is Rs. 1 crore. As against this, the paid-up or issued capital of these banks is quite high which is as follows:—

Name of the Bank	Paid-up Capital (in Rs. crore)
State Bank of Bikaner & Jaipur	50.00
State Bank of Hyderabad	17.25
State Bank of Indore	17.50
State Bank of Mysore	36.00
State Bank of Patiala	24.75
State Bank of Saurashtra	314.00
State Bank of Travancore	50.00

The subsidiary banks can raise the authorised capital with the approval of the Reserve Bank by issuance of a notification. However, this leaves the provisions of the SBI (subsidiary banks) Act, 1959 unchanged and the actual position on a cursory glance appears to be in contravention of the provisions of the Act. This amendment is proposed to remove this apparent inconsistency between what has been provided in the statute and the actual paid-up capital.

Further, it enables the bank to raise capital as and when required without seeking further approval of the Reserve Bank.”

**(b) Issued Capital :**

22. The proposed insertion of the new Section 7A in terms of the proposals of Clause 7 provides that subsidiary banks may, with the

approval of State Bank and Reserve Bank, increase by way of public issue or preferential allotment or private placement, their issued capital by issue of equity or preference shares. The issue of preference shares shall be in accordance with the guidelines framed by the Reserve Bank specifying the class of and the terms and conditions of issue. This is in line with the amendment proposed for private sector banks in the Banking Regulation Act, 1949 and as already made applicable for nationalised banks in the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980.

23. The existing provisions of Section 7 of the State Bank of India (Subsidiary Banks) Act, 1959 provide that no increase or decrease in the issued capital of a Subsidiary Bank shall be made in a manner such that State Bank holds, at any time, less than 55% of the issued capital of a Subsidiary Bank. This section has been proposed to be amended by inserting a provision in the new section to provide that State Bank's holding (statutory minimum) may be reduced from the existing 55% to 51% of the issued capital consisting of equity shares of that Bank.

24. The proposed new section also enables the subsidiary banks to issue bonus shares with the prior approval of State Bank and the Reserve Bank.

25. In regard to the matter of enabling private sector banks to issue preference shares for meeting the regulatory capital requirements, the relevant provision proposed in the Banking Regulation Act, 1949, which has been endorsed by the Committee in the related report (26th Report) reads as follows:—

“(ii) that notwithstanding anything contained in the Companies Act, 1956, the capital of such banking company consists of—

- (a) ordinary or equity shares, and
- (b) preference shares issued in accordance with the guidelines framed by the Reserve Bank specifying the class of, and the terms and conditions subject to which, the preference shares may be issued:

Provided that no holder of the preference share issued by the company shall be entitled to exercise the voting

right specified in clause (b) of sub-section (2) of Section 87 of the Companies Act, 1956.;

(iii) the proviso shall be omitted.”

26. Similarly, the amendments already carried out in the Bank Nationalisation Acts, 1970/1980 (as endorsed by the Committee in their report on the related Bill *viz.* 34th Report) *inter-alia* provide that the paid-up capital of the nationalized banks can be increased by:—

“(c) such amounts as the Board of Directors of the corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, raise whether by public issue or preferential allotment or private placement, of equity shares or preference shares in accordance with the procedure as may be prescribed, so, however that the Central Government shall, at all times hold not less than fifty-one per cent of the paid-up capital consisting of equity shares of each corresponding new bank:

Provided that the issue of preference shares shall be in accordance with the guidelines framed by the Reserve Bank specifying the class of preference shares, the extent of issue of each class of such preference shares (whether perpetual or irredeemable or redeemable) and the terms and conditions subject to which, each class of preference shares may be issued.”;

“Provided that the shareholder holding any preference share capital in the corresponding new bank shall, in respect of such capital, have a right to vote only on resolutions placed before such corresponding new bank which directly affects the rights attached to his preference shares:

Provided further that no preference shareholder shall be entitled to exercise voting rights in respect of preference shares held by him in excess of one percent of the total voting rights of all the shareholders holding preference share capital only.”

27. On the provisions proposed under Clause 7 of the present Bill, which relate to the capital structure of the subsidiary banks, the Reserve Bank in its memorandum, stated as under:—

“At present, the Act does not provide for issue of preference shares. The current amendment would therefore, enable the subsidiary

banks to raise capital by issuing preference shares. Being in the nature of instruments, akin to capital, in that the redemption of such capital will be subordinate to the claims of other creditors, it is expected that subscribers to such capital will be mostly qualified institutional buyers. For targeting such subscribers, issuance of preference shares is usually through the private placement made and is more flexible. Further, additional advantages in private placement would be the cost and time saving”.

28. Responding to a query on the urgency that may have necessitated initiation of the proposed amendments, the representative of RBI stated:

“.....We are not looking really at a short-term point of view. We need to look at longer term perspective. As and when advances increase, as and when capital requirements go up because of Basel-II requirements and growth, they will need to raise capital. Therefore, while retaining the majority holdings, it has been proposed that the shareholding can be brought down to 51% per cent”.

29. In response to a question *inter-alia* on the necessity of the proposal to reduce SBI's shareholding in the subsidiary banks from 55% to 51%, the Ministry of Finance, in a written reply, stated as under:—

“Reduction of SBI's shareholding from the prescribed minimum of 55% to 51% will bring the holding of SBI in the subsidiary banks at par with the Central Government's holding in the nationalized banks. In the SBI Act too, there is a proposal to bring down RBI's shareholding to 51%.

Under Basel I, the banks were required to maintain capital for credit risk and market risk, whereas under Basel II, the banks will be required to additionally maintain capital for operational risk in addition to credit risk. This will necessitate maintaining higher capital. The reduction of SBI's shareholding from 55% to 51% is aimed at providing more head-room to the subsidiary banks to raise capital from the market without the necessity for infusion of capital by SBI and also without diluting their public sector character. As per the existing provision, the subsidiary banks can raise capital

only through public issue of equity shares. The process is time-consuming and costly and cannot be resorted to in exigencies”.

30. Questioned on the regulatory capital requirements of the public sector banks and the subsidiary/associate banks in particular in the coming years, particularly in the wake of the proposed transition to the Basel II framework on Capital Adequacy, a written note furnished by the Ministry of Finance, *inter alia*, reads as under:—

“RBI had carried out a simulation study of the regulatory capital requirement of the public and private sector banks under certain assumptions and in different scenarios.

RBI will have to contribute Rs. 3161 Crore to SBI and Govt. will have to contribute Rs. 2573 crore to 10 nationalised banks. The RBI and the Government will have to contribute the above mentioned amounts on account of the fact that RBI’s share holding in SBI and SBI’s shareholding in subsidiary banks has to be a minimum of 55% and likewise Govt.’s shareholding in the nationalised banks has a floor of 51%. The details are as under :

- (i) 2 banks in SBI Group and 9 nationalised banks have sufficient head room available and they will be able to maintain 9% CRAR, as on 31st March 2009 by raising equity for Rs. 507 crore and Rs. 6483 crore, respectively from the market.
- (ii) 6 banks in the SBI Group will have to raise Rs. 9563 crores by way of equity (Rs. 3161 crores from the RBI and Rs. 6402 crores from the market).
- (iii) 10 Nationalised banks will have to raise Rs. 14728 crores of equity (Rs. 2573 crores from the Govt. and Rs. 12155 crores from the market)”.

31. Questioned specifically on the total capital requirements of the SBI Group banks per se in the coming years, the Ministry, in a written reply *inter-alia* stated as follows:—

- “(i) The two banks in the SBI Group, which are said to have sufficient head room for raising equity capital of Rs. 507 crore, without infusion of additional capital from the SBI are State Bank of Mysore and State Bank of Saurashtra.

- (ii) The infusion of additional capital of Rs. 3161 crore in six banks in the SBI Group would be required to maintain the SBI's shareholding in subsidiary banks and RBI's holding in SBI at the statutory minimum level of 55%. The details are as follows:

Name of the Bank	SBI/RBI's share in equity (Rs. in crore)
State Bank of India	2543
State Bank of Bikaner & Jaipur	57
State Bank of Hyderabad	123
State Bank of Indore	129
State Bank of Patiala	213
State Bank of Travancore	96
<b>Total</b>	<b>3161</b>

It is clarified that out of Rs. 3161 crore, RBI would have to contribute Rs. 2543 crore to State Bank of India and the balance amount *i.e.*, Rs. 618 crore will be contributed by State Bank of India to the capital of the 5 subsidiary banks.

- (iii) 6 banks in the SBI Group (SBI and 5 other subsidiary banks as mentioned above) will have to raise Rs. 9563 crore by way of equity. This is based on the assumption that these banks will register an annual compound growth rate of 25% in the risk weighted assets from which they will have to meet the minimum CRAR prescription of 9% as on March 31, 2009 and maintain the shareholding of SBI at the statutory minimum level at 55%."

32. For enhancing the banks' capital raising options for capital adequacy purposes, the Reserve Bank has vide circular dated January, 2006 issued policy guidelines enabling the banks to issue; "Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier 1 Capital; and Debt Capital Instruments eligible for inclusion as Upper Tier 2 Capital."



33. In terms of the amended Bank Nationalisation Act, 1970 & 1980, nationalised banks are now enabled to issue preference shares for meeting regulatory capital requirements. Questioned as to by when the policy guidelines for issue of preference shares would be notified, the Reserve Bank, in a written reply *inter-alia* informed:—

“Guidelines in this respect are being drafted. Similar guidelines will be issued to SBI, its subsidiaries and private sector banks as and when enabling legislations are passed”.

34. In response to a query on the means by which fairness and transparency would be ensured in private placement/allotment of shares, the Reserve Bank, in a written response, stated as follows:—

“Raising capital through preferential allotment/private placement will be done in a transparent manner as it involves:—

- Approval of State Bank of India and Reserve Bank of India.
- The procedure as will be prescribed by the Regulation.”.

35. In terms of the proposed provisions of clause 7(b)(6), subsidiary banks are to be entitled to issue bonus shares to the existing shareholders. Asked whether it was not essential to provide clarity in the provisions by specifically including ‘rights issue of shares’, in the proposals, the Ministry informed as follows:—

“The proposal will be examined in consultation with the Ministry of Law & Justice”.

**36. As per the existing provisions of Section 6 of the Act, the authorized capital of the State Bank of Travancore and State Bank of Mysore is limited to Rs. 2 crore, and that of the other five subsidiary banks to Rs. 1 crore. However, the actual position of the paid up or issued capital of the subsidiary banks is much higher. The Committee note that the proposal to raise the authorized capital of the subsidiary banks to Rs. 500 crore would remove the apparent inconsistency between the existing statutory provisions and the actual position of issued or paid up capital of the subsidiary banks. The banks being entitled to raise capital beyond the statutory prescription with the specific approval of the Reserve Bank, the current figures**

relating to the paid up or issued capital range from Rs. 17.25 crores in the case of State Bank of Hyderabad to Rs. 314 crore in the case of State Bank of Saurashtra. The amendment proposal to raise the authorized capital of the subsidiary banks to Rs. 500 crore being intended to remove the apparent inconsistency between what has been presently provided in the statute and the actual paid up capital of the banks, and enable the banks to raise capital as per their business requirements, without seeking specific approval of the Reserve Bank, the Committee endorse the same for enactment.

37. The amendments proposed to Section 7 of the Act (under the proposals of Clause 7), *inter-alia* seek to reduce the SBI's shareholding in the subsidiary banks from the prescribed minimum of 55% to 51%, which, the Committee note, is at par with the capping on the Government's shareholding in nationalized banks. The Committee further note that in consonance with the proposals already made in respect of private sector banks as well as public sector banks, the provisions proposed seek to entitle the subsidiary banks to shore up their capital requirements by way of public issue or private placement of equity, or raise preference capital by way of preferential allotment of shares in accordance with the guidelines framed by the Reserve Bank. The statutory measures, as proposed are intended to enable the subsidiary banks to meet the regulatory capital requirements of the future, and are at par with the proposals already made for public as well as private sector banks. The Committee, while endorsing the same for enactment, however, note that though the Reserve Bank has issued the policy guidelines relating to enhancing the banks' capital raising options by way of issue of innovative debt capital instruments etc., the policy guidelines prescribing the terms and conditions for issue of preference shares are yet to be issued. The Committee feel it necessary to emphasize on ensuring fairness and transparency in the regulations/procedures relating to private placement of equity shares; and enabling a level playing field for the subsidiary banks *vis-à-vis* the other banks, particularly in matters relating to the terms and conditions for issue of preference shares, guidelines relating to which are to be framed by the Reserve Bank.

**Clause 13—Amendment of Section 25 (Composition of the Board of Directors)**

38. Clause 13 reads as under:—

“In section 25 of the State Bank of India (Subsidiary Banks) Act,—

(i) in sub-section (1)—

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

“(a) the Chairman for the time being of the State Bank, *ex officio* or an official of the State Bank nominated by him as Chairman, with the approval of the Reserve Bank;”;

(b) clause (b) shall be omitted;

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

(d) not more than three directors to be elected in the following manner, namely:—

(i) if the total amount of holdings of the shareholders (other than the State Bank) of a subsidiary bank is more than one per cent. of the total issued capital, and equal to or less than sixteen per cent. of such capital, one director to be elected, in the prescribed manner, by such shareholders and two directors shall be nominated by the State Bank, or

(ii) if the total amount of holdings of the shareholders (other than the State Bank) of a subsidiary bank is more than sixteen per cent. of the total issued capital, and equal to or less than thirty-two per cent, of such capital, two directors to be elected, in the prescribed manner, by such shareholders and one director shall be nominated by the State Bank, or

(iii) if the total amount of holdings of the shareholders (other than the State Bank) of a subsidiary bank is more than

thirty-two per cent, of the total issued capital, all the three directors to be elected, in the prescribed manner, by such shareholders:

Provided that in case, the total amount of holdings of the shareholders of a subsidiary bank (other than the State Bank) is not more than one per cent, of the total issued capital, all three directors 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.

Explanation.— For the purposes of this sub-section, the total amount of holdings of the shareholders (other than the State Bank) whose names are on the register of shareholders of the subsidiary bank three months before the date fixed for election of directors shall be taken into account.”;

- (ii) sub-section (3) shall be omitted;
- (iii) in sub-section (4), the words “the Reserve Bank or” shall be omitted”.

#### **A. Chairman of Subsidiary Banks**

39. As per the existing provisions of Section 25(1)(a), the Chairman of State Bank will be the *ex-officio* Chairman of the Board of a Subsidiary Bank. Now, by way of the amendment proposal, it has been proposed that the Chairman of SBI may also nominate an official of the State Bank as Chairman of the Board of a subsidiary bank with the approval of RBI.

40. Asked to give the rationale for enabling the Chairman of SBI to nominate an official of the Bank as Chairman, the Ministry of Finance, in a written reply stated:

“As per the provisions of section 25(1)(a), the Board of a subsidiary bank shall consist of the Chairman of the State Bank, *ex officio*. Further, as per section 43(2) of the Act, 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 authorized by the Chairman in this behalf shall preside; and in the absence of the Chairman and also failing such authorization, the Directors of the subsidiary bank present at the meeting shall elect one from among themselves to preside at the meeting.

In practice, it was difficult on the part of the Chairman to attend the meeting of the Board of all the seven subsidiary banks. Thus, in order to avoid such problem of representation of the Chairman in the Board, it has been proposed that the Chairman of the State Bank of India can nominate an official of the State Bank with the approval of the Reserve Bank to be the ex officio Chairman of the Board of Directors”.

41. On the provision proposed, the All India Bank Officers Association and the All India State Bank of Indore Officers’ Coordination Committee, in particular, in their written Memoranda, *inter-alia*, stated that the provision of SBI Chairman “for the time being”, functioning as the Chairman of subsidiary banks was 47 years old which was incorporated when the subsidiaries were very small banking institutions. Now, that these banks were performing at par and rather better than many public sector banks, it has been, *inter-alia*, submitted as follows in the memoranda:—

“.....subsidiary banks too have talented and well experienced executives to discharge Board level responsibilities. In the past, executives of subsidiary banks have successfully worked as CMDs in UCO bank, United Bank, Indian Bank, Vijaya Bank, Bank of India, Bank of Maharashtra etc. Now they are not permitted to opt for CMD or ED postings in nationalized banks so as to protect the interests of respective banks’ cadres. On similar lines, subsidiary banks cadre to expect to rise up to the highest positions in their respective banks. It will be grossly unfair to deprive them of senior most positions in their banks”.

42. It has also been suggested as follows:

“(a) subsidiary banks too may be headed by a Chairman-cum-Managing Director, which should invariably be from subsidiary banks only.”

43. Making out a case for enabling the executives of subsidiary banks too for being considered for nomination as Chairman of the subsidiary banks, the MD of the State Bank of Hyderabad stated as follows while tendering evidence:—

“.....out of all the seven associate banks, four are headed by officers from the State Bank of India and three are headed by the officers from the associate banks. At the end of the day, the authority to appoint Chairman to the Board vests with the Chairman of the State Bank of India. We feel that the scope can be expanded by saying that an officer from the associate bank, who is heading the particular associate bank, could be the Chairman of the Board of Directors. So, we feel that enabling provision to that effect should be there. That is our only suggestion.”

44. Questioned whether it was not desirable to consider the executives of subsidiary banks too for nomination as Chairman in terms of the proposed change in Section 25(1) (a), a representative of SBI responded as follows during evidence:—

“It is our view and it is the practice among all organizations that the Chairman of the parent bank of the parent organization or the parent company should continue as the Chairman of all subsidiary banks, even though he may be a figure head. In fact, this question has been debated very many times. In fact, the Chairman of the State Bank of India, because of the tremendous pressure on his time, has also been discussing this with various subsidiary banks that should I relinquish the charge etc. The common feedback from the associate banks themselves has been that this is the only link we have with the State Bank of India, in the sense that if even the Chairman of the State Bank of India is not the Chairman of the

associate banks, then that link which is a very strong link, will be snapped. I think it is in the benefit of the associate banks that link continues to be there. That is the sense of it.”

45. To a similar question on why the ‘nomination process’ of the Chairman of a subsidiary bank should be confined to officials from the SBI, when other capable persons would also be available, the representative of RBI submitted as follows during evidence:—

“.....because the State Bank is the owner of the subsidiaries and the SBI does have a very large pool of professionals and very competent people.”

46. The rank of officers of SBI who are nominated as Managing Director and Directors to serve on the Boards of Subsidiary Banks as per the written note of the Ministry of Finance is as under:—

“SBI has a separate department for looking after the domestic banking as well as non-banking subsidiaries. The said department *viz.* “Associates & Subsidiaries” is headed by an officer of Dy. Managing Director’s rank as group executive. The Deputy Managing Director (Associates & Subsidiaries) along with General Manager (Associates & Subsidiaries) and Deputy General Manager (Associates & Subsidiaries) are the three officers nominated by SBI as Directors on the Board of all the seven subsidiary banks under Section 25 (1) (C) of the Act. This nomination is made by Chairman, SBI. They have a dual role to play *i.e.* one as a coordinator & supervisor and another as a director of the respective Board.

The Managing Director of a subsidiary bank is of the rank of Deputy Managing Director. Deputy Managing Directors of SBI/ subsidiary banks are appointed by SBI, with the approval of RBI, as Managing Director in subsidiary banks. Deputy Managing Director (A&S) nominated on the board of subsidiary banks is generally one of the senior most Deputy Managing Director in SBI. The other two nominated officers, one in the rank of General Manager and the other in the rank of Deputy General Manager are in the Top Executive Grade of SBI

but relatively junior in rank to the Managing Director of the subsidiary banks.”

47. On the rank of the official of SBI who would be entitled for nomination as Chairman of a subsidiary bank in terms of the proposed amendment to Section 25(1) (a), the Ministry informed:—

“Such an official shall be in the rank of either Managing Director of SBI or the Dy. Managing Director of SBI.”

48. Asked whether it would not be prudent to consider the executives of the subsidiary/associate banks too, for nomination as the Chairman of the subsidiary/associate banks, the Ministry of Finance in a written reply at first stated that :

“The proposal will be considered by the Government.”

49. In a subsequent reply, however, the Ministry informed as follows:—

“It would be appropriate that an official from State Bank of India *i.e.* the parent bank be nominated as Chairman of a Subsidiary Bank. State Bank of India is also the major shareholder in these banks. The Chairman of the State Bank of India has so far continued as Chairman of all the group entities and the proposed amendment is an enabling clause for him to appoint another suitable official as Chairman of a Subsidiary Bank in case of need. The post of Chairman also serves as an important link between State Bank of India and the Subsidiary Banks. Many of the business policies in the Subsidiaries as well as major new initiatives such as in the fields of Technology and Business Process Re-engineering have their origin in or are closely integrated with those in the parent bank. Further, State Bank of India is often entrusted with task of pioneering responsibilities in business, developmental and regulatory areas by the Government of India and the Reserve Bank of India. Implementation of these responsibilities is discussed and operationalised by the Group of the Top Executives in State Bank of India *viz.* Central Management Committee, consisting of the



Chairman, Managing Directors and Dy. Managing Directors. Considering the policy exposure and perspective required for the position of a Chairman of a Subsidiary Bank, Government's view is that a senior officer of State Bank of India would be suitable for it."

#### **B. Withdrawal of RBI Nominee Director**

50. Section 25(1)(b) of the State Bank of India (Subsidiary Banks Act), 1959 envisages for mandatory nomination of an officer of RBI as a director on the Board of Subsidiary Bank. As the provision is perceived to be in conflict with the regulatory/supervisory function of RBI, the amendment Bill proposes to drop the present provision and insert a new section 25B in the Act providing for appointment of one or more persons by RBI to hold office as additional directors of the subsidiary bank as and when it is considered necessary in the interest of banking policy/public/subsidiary bank or its depositors.

51. By way of giving the reasons for proposing to withdraw the RBI Director from the Boards of Subsidiary Banks and instead enable for nomination of Additional Directors under the newly proposed Section 25B — which is similar to the amendments proposed in respect of nationalised banks *vide* the Banking Companies (Acquisitions and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005 — the Secretary, Financial Sector stated as follows during evidence:—

"...Private sector banks do not have an RBI nominee. As you are well aware, in the Banks Nationalisation Act amendment which was passed by the Parliament recently, a view had been expressed— there are both sides of the picture – that RBI, which is a regulator, should not be having its own official sitting on the Board of a particular bank. It leads to a certain element of conflict of interest. That is why, the *via* media that was devised in consultation with RBI and as per the recommendations of the hon. Standing Committee that instead of having an RBI official, there will be an RBI nominated person who has expertise and experience in regulation or supervision of commercial banks so that when the

business of the bank is being discussed in the Board, he will be the eyes and ears of the RBI, and from his experience of commercial banking, will be able to advise the Board of the bank regarding direction that they are proposing to take. That is why, in the public sector banks, it has been decided to withdraw the RBI official as a nominee and have somebody who will be a nominee yet not an official, but only an experienced person.”

52. Echoing views, similar to those expressed when the Committee considered the identical proposal in respect of nationalised banks, a representative of All India Bank Employees Association stated as follows during evidence:—

“About RBI role and also continuation of Directors on the Boards, we feel there is absolutely no conflict of duty or interest in that. Our experience is we are also part of Board in different banks. Our representatives are there. We find that the Reserve Bank nominees are playing very important role and they are able to instantly correct certain things in the activities of the Boards. So withdrawing them and even later on saying that we are monitoring is not right. Why leave the dog out and then try to catch him? Reserve Bank Directors must be there. He is able to play a very effective role. There is no conflict of interest. In fact, continuation of Reserve Bank Director is in no way conflicting. We find from our experience since the nationalization of banks that they are very effective and very useful on many occasions to take proper decisions in the Board in relation to overall framework of the Reserve Bank of India. It is very utility oriented and, therefore, should not be discontinued.”

53. In this regard, the representative of State Bank of Hyderabad, however, stated as under during evidence:—

“.....I feel that we are matured enough to manage ourselves without induction of the RBI members....we can manage as well as we can do even without the induction of the RBI nominees. But again, I would like to emphasize, that yes, they are contributing meaningfully but the degree of contribution again depends as to who is the representative sitting in the Board.”

54. In response to a query on the proposal for withdrawing RBI's nominee from the Boards, and instead enabling for nomination of additional directors, when the situation warrants, the representative of RBI stated as follows during evidence:—

“As regards the role of nominee director, he has to perform certain immediate functions. The main thing is that we expect the nominee director to bring his specialized knowledge and expertise to the Boards. I think to that extent, the RBI nominee Directors are able to play an important role and they do bring such expertise to the Board because of the experience that they have of working with the RBI.”

55. The representative also added:—

“The big problem is that we are also regulator of banks. Therefore, that creates a conflict of interest. The main reason is that there are several decisions which banks have to take in their commercial interest. We do not want to be constrained in our regulation and supervision of that bank because we have a nominee director in the bank. The conflict of interest arises from the fact that we are the regulator of the bank.”

56. In the written response to a question posed on the issue, the Ministry of Finance, informed as follows:—

“Section 25(1)(b) of the State Bank of India (Subsidiary Banks) Act, 1959 provides for an officer of the RBI to be nominated by the Reserve Bank of India as a Director on the Board of such banks. The desirability of a representative of the regulator and supervisor of the banking system being on the Board of a bank has been questioned. The proposal to remove RBI nominee director is based on the recommendations of the Narasimham Committee on the Financial System and the observation of the Joint Parliamentary Committee, the main reason being the potential conflict of interest between the decision-making and regulation. As far as the private sector banks are concerned, the RBI has the power under Section 36 AB of the Banking Regulation Act, 1949 to appoint additional

directors on the boards of such banks whenever the situation so warrants. It would be desirable to incorporate a similar provision in the Act also to provide for nomination of director by RBI as considered necessary in the interest of banking policy or in the public interest or in the interest of the subsidiary banks or its depositors rather than to make it compulsory to have a serving officer of the RBI as a member of the Board. Under normal circumstances, the presence of RBI's nominee might lead to conflict of interest. However, in situation where the bank's undergoing stress, presence of RBI's nominee is necessary to enable RBI to closely monitor the bank with a view to protect the depositors' interest. This also brings the provisions in line with the enabling powers of the Reserve Bank in relation to the private sector banks. This will enable adoption of selective approach in the case of nomination of a director by the Reserve Bank. This is similar to amendment made to Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970/80 which was passed by both the Houses of Parliament."

57. The Committee considering the fact that in the case of nationalised banks, the proposals of the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005 which was passed by Parliament recently, provides that, in lieu of the proposal to do away with the nomination of a serving officer of RBI on the Boards, one person, 'possessing necessary expertise and experience in matters relating to regulation of supervision of commercial banks' would be nominated as Director on the Boards by the Central Government, on the recommendation of the Reserve Bank. Questioned whether it was agreeable to the Government to incorporate a similar provision in the subsidiary banks amendment Bill, the Ministry of Finance, in a written response, informed as follows:—

"Yes, it is proposed to amend the existing provision similar to the amended provision of Bank Nationalisation Act rather than deleting section 25(1)(b) as proposed in the Bill."

58. In response thereto, the Reserve Bank too stated as follows:—

“Yes, we agree to the incorporation of a similar provision in the present Bill. It is proposed to replace clause (b) of section (1) of Section 25 with the following:—

One director, possessing necessary expertise and experience in matters relating to regulation or supervision of commercial banks, to be nominated by the Central Government on the recommendation of the Reserve Bank.”

59. In terms of the existing provisions of Section 25(1)(a), the Chairman of the State Bank of India functions as the *ex-officio* Chairman of the subsidiary banks. The proposed amendment to the Section seeks to entitle the Chairman of SBI to nominate an official of the State Bank to function as the Chairman of a subsidiary bank. A case was made out before the committee for entitling the officials of the subsidiary banks too for being considered for nomination as Chairman in terms of the newly proposed Section 25(1)(a). As per the Government’s submission, however, it was argued on the other hand, that it would be preferable to choose an official of the SBI for this post as he ‘serves as an important link between State Bank of India and the Subsidiary Banks’. In terms of the existing stipulations, the executives of the Associates and Subsidiaries Department of SBI are adequately represented on the Boards of the subsidiary banks, and the Managing Director of a subsidiary bank is drawn from the SBI or the cadres of the subsidiary banks. The Committee are not convinced of the reasoning advanced by the Government on confining the ‘nomination process’ of the Chairman of the subsidiary banks in terms of the proposed Section 25(1)(a) to the officials of the State Bank of India. Also, as per the information furnished to the Committee, an official equivalent in rank to that of the Managing Director of a subsidiary bank could be chosen for nomination as Chairman of a subsidiary bank. The Committee are of the view that extending the scope of the proposed Section 25(1)(a) to include the executives of the subsidiary banks also to be

considered for the post would not affect the cohesive nature of the SBI Group of Banks. The Committee are, therefore, inclined to recommend for a re-look at the proposed provision so as to include the executives of subsidiary banks also for being considered for nomination as Chairman of a subsidiary bank.

60. With specific reference to the proposal to do away with the nomination of an official of the Reserve Bank as Director on the Boards of the subsidiary banks by deleting Section 25(1)(b) — which has been proposed on account of possible conflict of interest — the related proposals, as made applicable to nationalised banks, provide a *via media*. In terms of the proposals as made applicable to nationalized banks, in lieu of doing away with the Reserve Bank's nominee, an official with 'experience and expertise in regulation or supervision of commercial banks' would be nominated to serve on the Boards by the Central Government on the recommendation of the Reserve Bank. In response to the Committee's questioning on the need for incorporating a similar provision in the Subsidiary Banks Laws, whereby an official with 'experience and expertise in regulation or supervision of commercial banks' could be nominated to serve on the Boards in lieu of doing away with the Reserve Bank's nominee, both the Ministry of Finance and Reserve Bank have expressed agreement. The Committee, accordingly, recommend that similar changes, on lines with the related proposal pertaining to nationalized banks be carried out in Section 25(1)(b) instead of doing away with it.

**Clause 22 — Insertion of New Section 40A (Transfer of Unpaid or Unclaimed Dividend to Special Dividend Account).**

61. Clause 22 — Insertion of new Section 40A regarding transfer of unpaid or Unclaimed Dividend to Special Dividend Account reads as follows:

“After section 40 of the State Bank of India (Subsidiary Banks) Act, the following section shall be inserted, namely:—

‘40A. (1) Where, after the commencement of the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2006, a dividend has been declared by the subsidiary bank but has not been paid, or claimed, within thirty days from the date of declaration, to or by any shareholder entitled to the payment of the dividend, the subsidiary bank shall, within seven days from the date of the expiry of such period of thirty days, transfer the total amount of dividend which remains unpaid, or unclaimed within the said period of thirty days, to a special account to be called “unpaid dividend account of .....(Name of the subsidiary bank)”.

*Explanation* — In this sub-section, the expression “dividend which remains unpaid” means any dividend the warrant in respect thereof has not been encashed or which has otherwise not been paid or claimed.

(2) Where the whole or any part of any dividend, declared by the subsidiary bank before the commencement of the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2006, remains unpaid at such commencement, the subsidiary bank shall, within a period of six months from such commencement, transfer such unpaid amount to the account referred to in sub-section (1).

(3) Any money transferred to the unpaid dividend account of the subsidiary bank in pursuance of this section, which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the subsidiary bank to the

Investor Education and Protection Fund established under sub-section (1) of section 205C of the Companies Act, 1956.’

(4) Money transferred under sub-section (3) to the Investor Education and Protection Fund shall be utilized for the purposes and in the manner specified in section 205C of the Companies Act, 1956”.

62. By way of giving the rationale behind the proposed addition of Section 40A to the State Bank of India (Subsidiary Banks) Act, the Ministry of Finance, in a written submission stated as under:—

“At present, there is no provision in the Act to deal with unclaimed or unpaid dividend. It has, therefore, been decided to propose insertion of a new section to enable the subsidiary banks to transfer such dividend to Investors Education and Protection Fund on the lines of the provisions of Companies Act, 1956. This is in line with the amendment proposed in Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and aimed at bringing similarity among all banks regarding transfer of unclaimed dividend. The new section would bring the provisions in respect of unclaimed dividend at par with those of Companies Act.”

63. The Committee had, while considering the related proposal as envisaged to be made applicable to the nationalised banks *vide*, the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005 noted that in terms of the explanation under Section 205 (c) of the Companies Act ‘no claim shall lie against the funds or the company in respect of individual amounts which were unclaimed and unpaid for a period of seven years from the dates that they first become due for payment and no payment shall be made in respect of any such claims’.

64. On the specific aspect of the prohibition placed on the shareholders to stake claim on unpaid dividends after the lapse of the seven years limitation, the Indian Banks’ Association, on lines with the suggestion made by them on the earlier occasion, when the Committee



considered the Bill pertaining to nationalised banks, expressed the following view point:

“It is respectfully submitted that this provision is against public interest. There can be situation where for genuine reasons a person is unable to make a claim in respect of dividend payable to him and to totally bar any such claim after a period of 7 years is unreasonable. There is a need to modify this provision by adding a further sub-section stating that it shall be permissible for any person to make a claim in respect of any unclaimed dividend credited to the fund from the concerned bank and if such claim on verification is found to be genuine and payable the bank shall pay the same with interest and claim reimbursement from the fund. While amendment to Section 205C of the Companies Act may not be feasible by making a change in the present Bill under consideration it will be permissible to make the provisions of Section 205C applicable to the unclaimed dividends of subsidiary banks of SBI with a modification as suggested above. The amendment of Section 205C can be taken up separately”.

65. Questioned on the suggestion made by IBA for providing legitimate space to the shareholders to the unclaimed dividends, the Ministry of Finance had, on the earlier occasion, informed that the ‘Government agrees to the suggestion’. Asked, once again to respond to the IBA’s suggestion on the need for adding a separate sub-section in the present Bill, whereby a shareholder could stake claims on the unpaid dividend even after the seven year time stipulation, the Ministry of Finance, in a written reply stated as follows:—

“...*bona fide* claimants to unpaid dividends transferred to the Investor Education and Protection Fund, after the expiry of the seven years time stipulation can only be made after enabling provisions are made in the Companies Act, 1956. The Preliminary Draft Bill relating to amendment of the Companies Act, 1956 provides for entitling the claimants to apply to the ‘fund’ for refund of the amounts. This will be applicable to the subsidiary banks.

The suggestion of IBA to add a separate sub section to the proposed Bill whereby a claim in respect of any dividend credited to the fund should be payable by the bank concerned (which would subsequently claim reimbursement from the IEPF), would require amendment which will be in conflict with the provisions of section 205C and hence the amendment may have to be in supersession of the provision of section 205C of the Companies Act, 1956. Whereas the investors of the subsidiary banks will get the benefit of getting the unclaimed dividend, the same will not be available to the investors of the private sector banks”.

**66. The Committee note that in terms of the existing provisions of Section 205(c) of the Companies Act, 1956, the unclaimed dividend amounts on the books of subsidiary banks, which would be transferred to the Investor Education and Protection Fund (IEPF) as per the proposals of Section 40A of the Bill, will cease to be payable after the lapse of seven years following the transfer. In response to the suggestion placed before the Committee by the Indian Banks’ Association (IBA) expressing the need for incorporating a separate sub-section to the proposed Section 40 A, whereby a shareholder could, owing to *bona fide* reasons, and subject to verification, claim his dividend dues even after the seven year limitation, the Ministry of Finance have, *inter-alia*, informed that enabling provisions to this effect have been proposed in the preliminary draft Bill relating to amendment of the Companies Act, 1956.**

**67. The Committee are convinced of the need for providing legitimate space for *bona fide* claimants to their dividend dues even after a lapse of the seven years limitation. They, therefore, desire that appropriate enabling provisions, as informed to have been proposed, be necessarily incorporated in the revised Companies Law Bill so as to ensure that legitimate claimants are not deprived of their rightful dues.**

**Clause 28 – Amendment of Section 63 (Power of the State Bank to make regulations)**

68. Clause 28 of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 reads as follows:—

“In section 63 of the State Bank of India (Subsidiary Banks) Act—

(a) in sub-section (1), for the words “provisions of this Act”, the words “provisions of this Act or any other law for the time being in force” shall be substituted.

(b) in sub-section (2),—

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

“(fa) the procedure for issuing the certificates of shares;

(fb) the procedure with respect to increase, whether by public issue or by preferential allotment or private placement, the issued capital by issue of equity or preference shares;

(fc) the manner of acceptance of share money in installments, the manner of making calls and the manner of forfeiture of unpaid shares and their reissue;”;

(ii) for clause (g), the following clauses shall be substituted, namely:—

“(g) the maintenance of share registers, and the particulars to be entered in such registers in addition to those specified in sub-section (1) of section 21, the safeguards to be observed in the maintenance of the register of shareholders on computer floppies or diskettes or any other electronic form, the inspection and closure of the registers and all other matters connected therewith;

(ga) the manner in which every individual registered shareholder nominate, an individual to whom all his rights in the shares shall vest in the event of his death under sub-section (1) of section 18A;

- (gb) the manner in which, the joint holders may nominate an individual to whom all their rights in the shares shall vest in the event of the death of all the joint holders under sub-section (2) of section 18A;
  - (gc) the manner in which nomination is varied or cancelled under sub-section (3) of section 18A;
  - (gd) the manner in which every individual registered as the holder of the shares to make nomination where nominee is a minor to appoint, any person to become entitled to the shares in the event of his death during the minority of the nominee under sub-section (4) of section 18A;
- (c) in sub-section (4), for the words “made under this Act”, the words “made under this section” shall be substituted”.

69. The proposals of clause 28 seek to amend section 63 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to power of the State Bank of India to make regulations. The amendment proposals seek to include within the scope of section 63, certain matters in respect of which the State Bank of India may make the regulations.

70. With specific reference to the provisions of Section 63 of the State Bank of India (Subsidiary Banks) Act, whereby the ‘State Bank may, with the approval of the Reserve Bank make in respect of a subsidiary bank, regulations’, the Reserve Bank, in their Memorandum submitted to the Committee made the following suggestion:—

“At present, in terms of section 63, the power to make regulation in subsidiary banks is entrusted to State Bank of India (with the approval of Reserve Bank) whereas in case of nationalised banks [section 19 of Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970/80] and the State Bank (section 50 of State Bank of India Act, 1955), it is entrusted to the Board of Directors after consultation with Reserve Bank and with the previous sanction of the Central Government. In order to maintain uniformity among

the banking statutes and to allow more autonomy, it is proposed that the Board of Directors of the subsidiary banks may be empowered to make regulations with the approval of Reserve Bank by amending section 63 of the Act.”

71. Asked to respond to the above-mentioned suggestion of the Reserve Bank for entitling the Boards of Subsidiary banks to make regulations, the Ministry of Finance in a written reply stated as follows:—

“The proposal of the Reserve Bank may be considered to maintain uniformity among the banking statutes and to allow more autonomy to the Boards of the subsidiary banks”.

72. While tendering evidence, the Secretary, Financial Sector too informed the Committee that this proposal of the Reserve Bank was acceptable to the Government.

73. **In terms of the existing provisions of Section 63 of the State Bank of India (Subsidiary Banks) Act, 1959, the regulation making powers with regard to the subsidiary banks vest in the State Bank of India, with the approval of the Reserve Bank of India. The Committee, however, find that in response to the submission made to them by the Reserve Bank on the need for amending Section 63 of the said Act so as to empower the Board of Directors of the Subsidiary Banks to make regulations with approval of Reserve Bank of India, the Ministry of Finance have expressed concurrence. The suggestion for amending the existing provisions, as made by the Reserve Bank, is intended to give more autonomy to the subsidiary banks and bring forth uniformity among the banking statutes viz., the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and the State Bank of India Act, 1955, in terms of which the Board of Directors of nationalized banks and SBI respectively, are vested with the regulation making powers. The Committee are also convinced of the need for enabling adequate autonomy and independence to the Boards of the subsidiary banks. They, therefore, desire that, as agreed to, appropriate changes be carried out in the existing provisions of Section 63.**

### **Amendment of Section 34 — Meetings of the Board of Directors**

74. Section 34 of the State Bank of India (Subsidiary Banks) Act, 1959 contains provisions relating to the meetings of the Board of Directors of the subsidiary banks. The proposal for amending Section 34 of the Act for enabling the subsidiary banks to hold Board meetings through video conferencing on lines with the amendment proposals — envisaged in respect of the State Bank of India Act, 1955 for enabling SBI to hold Board meetings through video conferencing came from the Reserve Bank.

75. The related suggestion, as made to the Committee by the Reserve Bank, reads as under:—

“State Bank of India has suggested amendment to State Bank of India Act, 1955 for enabling the bank to hold board meetings through video conferencing. We have examined the suggestion and advised Government of India to consider the same subject to the condition that the Central Government may in consultation with the Reserve Bank, by a notification in the official Gazette, specify the powers which shall not be exercise in a meeting of the Board of Directors held through video conferencing or such other electronic means. This is in line with the provisions contained in section 90(1)(B) of the preliminary draft of Companies Bill, 2006 seeking amendment to Companies Act, 1956. It is, therefore, proposed that similar amendment to section 34 of the State Bank of India (subsidiary banks) Act, 1959 may also be made to enable them to hold board meetings through video conferencing or any other electronic means subject to aforesaid condition.”

76. Questioned about the factual position on the proposal pertaining to amending the State Bank of India Act, 1955 for enabling holding of board meetings of the Bank through video conferencing, and the need for incorporation of similar provisions in Section 34 of the subsidiary banks laws, the Ministry of Finance, in a written reply, stated:—

“The Cabinet has approved the amendment proposed to Section 31 of the State Bank of India Act, 1955 so as to enable the bank to hold board meetings through video conference or such other electronic means subject to the provision that Central Government

will specify the powers which will not be exercised in such meetings. It is also proposed to consider the directors present in the meeting through video conferencing for the purpose of voting. The proposal is based on a new section proposed *i.e.*, Section 90(1)(B) of the preliminary draft of the Companies Bill, 2006 seeking amendment to Companies Act, 1956. The amendment to Companies Act will help the private sector banks to hold such meeting through video conferencing or through such other electronic media.”

77. Expressing agreement to the proposal for incorporating similar provisions in the State Bank of India (Subsidiary Banks) Act, 1959, the Ministry of Finance, also informed as follows:—

“... in order to maintain uniformity among the banks with regard to these provisions, it is preferable to insert similar provisions in the State Bank of India Act and SBI (subsidiary banks) Act, 1959. This is expected to provide an effective, cost efficient, time saving and convenient decision making process.”

**78. The proposal for amending Section 34 of the Act, with a view to enable the subsidiary banks to hold board meetings through video conferencing was placed before the Committee by the Reserve Bank and accepted for incorporation by the Government. The Committee note from the information furnished in this regard that in terms of the amendments proposed separately to the State Bank of India Act, 1955, the SBI would be entitled to hold board meetings through video conferencing or such other electronic means. As enabling the boards of the subsidiary banks to hold board meetings through video conferencing would provide a cost effective and time saving means of decision making process, as agreed to by the Government, the Committee desire that appropriate changes, on the lines of the related proposals pertaining to the State Bank of India be carried out to this effect in Section 34 of the Act.**

NEW DELHI;  
12 December, 2006  

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21 AgraHayana, 1928 (Saka)

MAJ. GEN. (RETD.) B.C. KHANDURI,  
Chairman,  
Standing Committee on Finance.

## NOTE OF DISSENT

The statement of objects and reasons for seeking enactment of the Amendment Bill under consideration are two-fold *viz.*

- (i) to remove the difficulties faced by the shareholders; and
- (ii) to facilitate increase of the capital of subsidiary banks.

But the provisions of the Amendment Bill seek to make far-reaching changes in the structure of the subsidiary banks.

For instance, presently there is no cap on the State Bank of India holding in the subsidiary banks. It may vary from a minimum of 55 per cent to a maximum of 100 per cent even. But the Amendment Bill seeks to freeze the percentage of share-holding in subsidiary banks by the State Bank of India to 51. At the same time, the Amendment Bill seeks to raise the cap on voting rights of the shareholders other than the State Bank of India from 1 to 10 per cent.

The difficulties faced by the shareholders of the subsidiary banks (other than the State Bank of India) in so far as they relate to lack of dematerialization facility and transferability can be removed without an Amendment to the Act. The extent shares held by persons other than State Bank of India could be held/transferred in a dematerialised form within the framework of Securities and Exchange Board of India. But citing these difficulties, the Amendment Bill seeks to remove the cap on shareholding by any person to 200 in terms of number of shares and 1 per cent in terms of voting rights. These are not warranted in my opinion.

The Ministry of Finance in their written reply furnished to the Standing Committee had, *inter-alia*, stated:—

“The Government is also proposing/examining to have a comprehensive Act which will regulate all the public sector banks in order to have uniformity in approach among these banks.”



The Government thinking in this matter is, admittedly, influenced by the recommendation of the Committee on Fuller Capital Account Convertibility that “separate legislative frameworks for groups of public sector banks should be abrogated”.

When this proposal is under consideration of the Government there is no need, in my opinion, to bring about comprehensive changes in the subsidiary Banks Act, as is presently attempted.

I, therefore, suggest that the Amendment Bill confines itself to two limited provisions *viz.*

- (i) increasing the authorized capital of subsidiary bank to a modest level of Rs. 100 crore; and
- (ii) enabling the State Bank of India, as a holding company, to nominate the Chairman of the Board of Subsidiary Bank.

Even in respect of (ii) above, I am of the view that the nomination should be by the Board of State Bank of India and not by the Chairman, and it should be open for the Board of State Bank of India to consider any official of the subsidiary banks for appointment as Chairman.

I, therefore, suggest that the investment consider a limited amendment covering the above two aspects only and all other matters covered by the Amendment Bill may be revisited, through a consultative process, at the time of bringing in a Comprehensive Act covering all public sector banks.

In view of the above, I record my dissent.

Sd/-

Chittabrata Majumdar

ANNEXURE-I

MINUTES OF THE FOURTH SITTING OF STANDING COMMITTEE  
ON FINANCE

The Committee sat on Tuesday, 19th September, 2006 from 1030 to 1150 hrs. and 1210 to 1330 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Gurudas Dasgupta
3. Shri Shyama Charan Gupta
4. Shri A. Krishnaswamy
5. Shri Rupchand Pal
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri A.R. Shaheen
8. Shri M.A. Kharabela Swain
9. Shri Bhal Chand Yadav

*Rajya Sabha*

10. Shri Santosh Bagrodia
11. Shri M. Venkaiah Naidu
12. Shri Yaswant Sinha
13. Shri Mahendra Mohan
14. Shri Chittabrata Majumdar
15. Shri Mangani Lal Mandal
16. Shri C. Ramachandraiah

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Shri T.G. Chandrasekhar — *Under Secretary*
4. Smt. Anita B. Panda — *Under Secretary*

PART-I  
(1030 to 1150 hrs.)

WITNESSES

MINISTRY OF FINANCE

**(Department of Economic Affairs)**

1. Shri Vinod Rai, Special Secretary (FS)
2. Shri Amitabh Verma, Joint Secretary

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Department of Economic Affairs) to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. Then, the representatives of the Ministry of Finance (Department of Economic Affairs) briefed the Committee on certain aspects of the provisions of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. Thereafter, the representatives made a powerpoint presentation on the various provisions of the Bill. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives that the information with regard to queries of the Members, which was not readily available with them, might be furnished to the Committee later on.

4. The briefing was concluded.
5. A verbatim record of proceedings has been kept.

*The witnesses then withdrew.*

PART-II  
(1210 to 1330 hrs.)

6. \*\*                      \*\*                      \*\*                      \*\*                      \*\*

*The Committee then adjourned.*

MINUTES OF THE SEVENTH SITTING OF STANDING COMMITTEE  
ON FINANCE

The Committee sat on Thursday, 26th October, 2006 from 1030 to 1135 hrs. and 1150 to 1250 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Shri A. Krishnaswamy
5. Shri Bhartruhari Mahtab
6. Shri Rupchand Pal
7. Shri K.S. Rao
8. Shri A.R. Shaheen
9. Shri G.M. Siddeshwara
10. Shri M.A. Kharabela Swain

*Rajya Sabha*

11. Shri M. Venkaiah Naidu
12. Shri Mahendra Mohan
13. Shri Chittabrata Majumdar
14. Shri Mangani Lal Mandal
15. Shri C. Ramachandraiah

SECRETARIAT

- |                            |   |                             |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu  | — | <i>Additional Secretary</i> |
| 2. Shri A. Mukhopadhyay    | — | <i>Joint Secretary</i>      |
| 3. Shri T.G. Chandrasekhar | — | <i>Under Secretary</i>      |

PART I  
(1030 to 1135 hrs.)

WITNESSES

**1. Indian Banks' Association**

Shri M.R. Umarji, Chief Adviser — Legal

**2. All India Bank Officers' Association**

- (i) Shri Alok Khare, President
- (ii) Shri N.S. Virk, Vice President
- (iii) Shri S. Nagarajan, Deputy General Secretary

**3. All India Bank Officers' Confederation**

- (i) Shri Amar Pal, General Secretary
- (ii) Shri Chandraprasad, Deputy General Secretary

**4. All India Bank Employees' Association**

- (i) Shri C.H. Venkatachalam, General Secretary
- (ii) Shri Ramanand, Joint Secretary
- (iii) Shri C.M. Puri, General Council Member

**5. Bank Employees Federation of India**

- (i) Shri S. Bardhan, General Secretary
- (ii) Shri M.L. Malkotia, Joint Secretary

**6. National Confederation of Bank Employees**

- (i) Shri V.K. Gupta, Vice President
- (ii) Shri Profullo Kumar Patnaik, General Secretary

2. At the outset, the Chairman welcomed the representatives of the (i) Indian Banks' Association, (ii) All India Bank Officers' Association, (iii) All India Bank Officers' Confederation,

(iv) All India Bank Employees Association, (v) Bank Employees Federation of India and (vi) National Confederation of Bank Employees to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. The Members raised queries which were replied to by the representatives.

4. The evidence was concluded.

*The witnesses then withdrew.*

PART II  
(1150 to 1250 hrs.)

5. \*\* \*\* \*\* \*\*

*The Committee then adjourned.*

MINUTES OF THE EIGHTH SITTING OF STANDING COMMITTEE  
ON FINANCE

The Committee sat on Friday, the 27th October, 2006 from 1030 to 1145 hrs. and 1200 to 1230 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Gurudas Dasgupta
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri Prakash Paranjpe
8. Shri P.S. Gadhavi
9. Shri A.R. Shaheen

*Rajya Sabha*

10. Shri Raashid Alvi
11. Shri Mahendra Mohan
12. Shri Chittabrata Majumdar
13. Shri Mangani Lal Mandal
14. Shri C. Ramachandraiah

SECRETARIAT

- |                            |   |                        |
|----------------------------|---|------------------------|
| 1. Shri A. Mukhopadhyay    | — | <i>Joint Secretary</i> |
| 2. Shri T.G. Chandrasekhar | — | <i>Under Secretary</i> |
| 3. Smt. Anita B. Panda     | — | <i>Under Secretary</i> |

PART-I  
(1030 to 1145 hrs.)

WITNESSES

**1. State Bank of Travancore**

Shri K. Sitaraman, Managing Director

**2. State Bank of Mysore**

Shri P.P. Pattanayak, Managing Director

**3. State Bank of Hyderabad**

Shri Amitabh Guha, Managing Director

2. At the outset, the Chairman welcomed the representatives of the (i) State Bank of Travancore, (ii) State Bank of Mysore, and (iii) State Bank of Hyderabad to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. The Members raised queries which were replied to by the representatives.

4. The evidence was concluded.

5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART-II  
(1200 to 1230 hrs.)

6. \*\* \*\* \*\* \*\*

*The Committee then adjourned.*



MINUTES OF THE NINTH SITTING OF STANDING COMMITTEE  
ON FINANCE

The Committee sat on Monday, the 6th November, 2006 from 1030 to 1130 hrs., 1145 to 1300 hrs. and 1430 to 1630 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Jaswant Singh Bishnoi
3. Shri Bhartruhari Mahtab
4. Shri Rupchand Pal
5. Shri Prakash Paranjpe
6. Shri P.S. Gadhavi
7. Shri K.S. Rao
8. Shri A.R. Shaheen
9. Shri G.M. Siddeshwara
10. Shri M.A. Kharabela Swain
11. Shri Bhal Chand Yadav

*Rajya Sabha*

12. Shri Yashwant Sinha
13. Shri Raashid Alvi
14. Shri Chittabrata Majumdar
15. Shri S.P.M. Syed Khan
16. Shri C. Ramachandraiah

SECRETARIAT

- |                            |   |                             |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu  | — | <i>Additional Secretary</i> |
| 2. Shri S.B. Arora         | — | <i>Deputy Secretary</i>     |
| 3. Shri T.G. Chandrasekhar | — | <i>Under Secretary</i>      |
| 4. Smt. Anita B. Panda     | — | <i>Under Secretary</i>      |

PART-I  
(1030 to 1130 hrs.)

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PART-II  
(1145 to 1340 hrs.)

WITNESSES

**2. State Bank of India**

1. Shri O.P. Bhatt, Chairman and Managing Director
2. Shri Yogesh Agarwal, Managing Director
3. Shri Y. Vijaya Nand, Deputy Managing Director
4. Shri Mohan Dass, Deputy General Manager

3. At the outset, the Chairman welcomed the representatives of the State Bank of India to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

4. The Committee then took oral evidence of the representatives in connection with the examination of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. The Members raised queries which were replied to by the representatives. The Chairman then directed the representatives to furnish written replies to the points in respect of which information was not readily available with them at an early date.

5. The evidence was concluded.
6. A verbatim record of proceedings has been kept.

*The Witnesses then withdrew.*

PART-III  
(1430 to 1630 hrs.)

7. \*\*                      \*\*                      \*\*                      \*\*                      \*\*

*The Committee then adjourned.*

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE  
ON FINANCE

The Committee sat on Tuesday, the 7th November, 2006 from  
1030 to 1130 hrs. and 1215 to 1315 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Jaswant Singh Bishnoi
3. Shri Bhartruhari Mahtab
4. Shri Rupchand Pal
5. Shri Prakash Paranjpe
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri Bhal Chand Yadav

*Rajya Sabha*

8. Shri Mahendra Mohan
9. Shri Chittabrata Majumdar
10. Shri C. Ramachandraiah
11. Shri Raashid Alvi

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Shri T.G. Chandrasekhar — *Under Secretary*

PART-I  
(1030 to 1130 hrs.)

WITNESSES

**Reserve Bank of India**

- (i) Smt. Shyamala Gopinath, Deputy Governor
- (ii) Shri Prashant Saran, Chief General Manager — Incharge, DBOD
- (iii) Shri Subrat Das, Deputy General Manager, DBOD

2. At the outset, the Chairman welcomed the representatives of the Reserve Bank of India to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. The Members raised queries which were replied to by the representatives. The Chairman then directed the representatives to furnish written replies to the points in respect of which information was not readily available with them at an early date.

- 4. The evidence was concluded.
- 5. A verbatim record of proceedings has been kept.

*The Witnesses then withdrew.*

PART-II  
(1215 to 1315 hrs.)

6. \*\* \*\* \*\* \*\*

*The Committee then adjourned.*

MINUTES OF THE TWELFTH SITTING OF STANDING COMMITTEE  
ON FINANCE

The Committee sat on Wednesday, the 29th November, 2006 from  
1500 to 1600 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Bhartruhari Mahtab
3. Shri Rupchand Pal
4. Shri Prakash Paranjpe
5. Shri P.S. Gadhavi
6. Shri K.S. Rao
7. Shri A.R. Shaheen
8. Shri Magunta Sreenivasulu Reddy
9. Shri Jyotiraditya Madhavrao Scindia
10. Shri M.A. Kharabela Swain

*Rajya Sabha*

11. Shri Santosh Bagrodia
12. Shri Mahendra Mohan
13. Shri C. Ramachandraiah

SECRETARIAT

- |                            |   |                         |
|----------------------------|---|-------------------------|
| 1. Shri A. Mukhopadhyay    | — | <i>Joint Secretary</i>  |
| 2. Shri S.B. Arora         | — | <i>Deputy Secretary</i> |
| 3. Shri T.G. Chandrasekhar | — | <i>Under Secretary</i>  |

## WITNESSES

**Ministry of Finance (Department of Economic Affairs)**

1. Shri Vinod Rai, Secretary (Financial Sector)
2. Shri Amitabh Verma, Joint Secretary (BOA), Banking Division

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Department of Economic Affairs) to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. The Members asked clarificatory questions which were replied to by the representatives of the Ministries. The Chairman, then, directed the representatives that the information with regard to queries of the Members which was not readily available with them might be furnished to the Committee later on.

4. The evidence was concluded.
5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

*The Committee then adjourned.*

MINUTES OF THE FOURTEENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Monday, the 11th December, 2006.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Gurudas Dasgupta
3. Shri A. Krishnaswamy
4. Shri Bhartruhari Mahtab
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri Prakash Paranjpe
8. Shri P.S. Gadhavi
9. Shri M.A. Kharabela Swain

*Rajya Sabha*

10. Shri Mahendra Mohan
11. Shri Chittabrata Majumdar

SECRETARIAT

- |                            |   |                             |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu  | — | <i>Additional Secretary</i> |
| 2. Shri A. Mukhopadhyay    | — | <i>Joint Secretary</i>      |
| 3. Shri S.B. Arora         | — | <i>Deputy Secretary</i>     |
| 4. Shri T.G. Chandrasekher | — | <i>Under Secretary</i>      |
| 5. Smt. Anita B. Panda     | — | <i>Under Secretary</i>      |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee first took up for consideration the draft report on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. The Committee, after deliberation, adopted the draft Report with the modifications/amendments shown in **Annexure-II**.

4. As one of the Members did not agree to some of the recommendations contained in the draft Report, he desired to submit a Note of Dissent. The Chairman informed him that he could send his Note of Dissent by 12 December, 2006.

5. \*\*                      \*\*                      \*\*                      \*\*                      \*\*

6. \*\*                      \*\*                      \*\*                      \*\*                      \*\*

7. The Committee authorized the Chairman to finalise the Report in the light of suggestions received from the Members and also make consequential changes arising out of factual verification and present the same to Parliament.

*The Committee then adjourned.*



ANNEXURE-II

[MODIFICATIONS/AMENDMENTS MADE BY STANDING  
COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON  
THE STATE BANK OF INDIA (SUBSIDIARY BANKS  
LAWS) AMENDMENT BILL, 2006]

Page	Para	Amendment/Modification
29	60	<p><i>For</i></p> <p>“The Committee, accordingly, recommend that on lines with the related proposal pertaining to nationalised banks, appropriate changes to this effect be carried out in Section 25(1)(b) instead of doing away with it.”</p> <p><i>Read</i></p> <p>“The Committee accordingly, recommend that similar changes, on lines with the related proposal pertaining to nationalised banks, be carried out in Section 25(1)(b) instead of doing away with it.”</p>