

FIFTY-SEVENTH REPORT

STANDING COMMITTEE ON FINANCE
(2007-2008)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

THE STATE BANK OF INDIA
(AMENDMENT) BILL, 2006

Presented to Lok Sabha on 30 August, 2007

Laid in Rajya Sabha on 30 August, 2007



LOK SABHA SECRETARIAT
NEW DELHI

August, 2007/Sravana, 1929 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE
(2007-2008)

Shri Ananth Kumar—*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
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 Chandra Yadav

(iv)

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 Mangani Lal Mandal
28. Shri C. Ramachandraiah
29. Shri Vijay J. Darda
30. Shri S. Anbalagan
31. Shri Moinul Hassan

SECRETARIAT

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

INTRODUCTION

I, Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this Fifty-seventh Report on the State Bank of India (Amendment) Bill, 2006.

2. The State Bank of India (Amendment) Bill, 2006 introduced in Lok Sabha on 18 December, 2006 was referred to the Committee on 19 December, 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 15 May, 2007.

4. Written views/memoranda were received from Reserve Bank of India (RBI), Indian Banks' Association (IBA), State Bank of India (SBI), All India Bank Officers' Association, All India Bank Officers' Confederation, All India State Bank Officers' Federation/All India State Bank of India Staff Federation, Bank Employees Federation of India, Bombay Chamber of Commerce & Industry and ASSOCHAM.

5. The Committee at their sitting held on 31 May, 2007 heard the views of the representatives of Indian Banks' Association, State Bank of India, All India Bank Officers' Association, All India Bank Officers' Confederation, All India State Bank Officers Federation, All India State Bank of India Staff Federation and Bank Employees Federation of India.

6. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) and the Reserve Bank of India on 19 June, 2007.

7. The Committee, at their sitting held on 22 August, 2007, considered and adopted the draft report and authorized the Chairman to finalize the same and present it to both Houses of Parliament.

8. The Committee wish to express their thanks to the officers of the Ministry of Finance (Department of Economic Affairs), representatives of Reserve Bank of India, State Bank of India, All India Bank Officers' and Employees' Associations/Confederations/Unions etc. 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.

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

NEW DELHI;
22 August, 2007

31 Sravana, 1929 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

REPORT

INTRODUCTORY

In August, 1951, the Reserve Bank of India had appointed a Committee of Directors for conducting an All India rural credit survey. One of the important recommendations propounded by the Committee appointed by the Reserve Bank was the setting up of a State Bank of India (SBI) as one strong integrated State-partnered commercial banking institution with an effective machinery of branches spread over the whole country for stimulating banking development by providing vastly extended remittance facilities for co-operative and other banks and following a policy which would be in effective consonance with national policies adopted by the Government without departing from the canons of sound business. Such a Bank was envisaged to come into being by the amalgamation of the Imperial Bank of India with certain "State-associated" banks. On the 28th December, 1954, the Government announced that they accepted in principle this recommendation of the Committee and that they had decided as a first step towards the setting up of such an institution, to assume effective control over the Imperial Bank.

2. Subsequently, the State Bank of India Bill, 1955 was formulated under which suitable provisions were made relative to the acquisition of the undertaking of the Imperial Bank, taking over of its business and staff, payment of compensation to shareholders, setting up of an appropriate machinery for the governance of the Bank, the business which the Bank may and may not transact etc. It was contemplated that the Reserve Bank would always hold a minimum shareholding of 55 per cent in the paid up capital of the State Bank. Upon being passed by both the Houses of Parliament, and receiving the assent of the President on 8 May, 1955, the legislation came into force on 1 July, 1955 as the State Bank of India Act, 1955.

3. The State Bank of India Act, 1955 was last amended in 1993 to enable the bank to access the capital market. The following were the

important amendments carried out in the year 1993, for enabling SBI to access the capital market:

- A. Section 4 of the State Bank of India Act, 1955 which provides for an authorized capital of twenty crores of rupees to be divided into twenty lakh of fully paid up shares of one hundred rupees each, was amended and twenty lakh of fully paid up shares of one hundred rupees each was substituted by two crores of fully paid up shares of ten rupees each.
- B. Section 11 which deals with restrictions on individual holdings was substituted with a new section providing for restriction on voting rights whereby a shareholder other than RBI is not entitled to exercise voting rights in respect of any shares held by him in excess of ten per cent of the issued capital.
- C. Section 13 of the Act which provides for the 'principal register of shareholders' was substituted by a new section providing for 'register of shareholders' at the Central Office and in computer floppies or diskettes.

4. While the authorised capital of the State Bank of India in terms of Section 4 of the SBI Act is Rs. 20 crores, the current position of the authorised capital of the bank as notified in terms of Notification No. 14(3) 89/Accts. dated 28th June 1990 of Banking Division, Ministry of Finance, Government of India is Rs. 1000 crore. The issued/paid-up capital of the bank as on March 31, 2006 is Rs. 526.30 crore. The distribution of shareholdings of the State Bank, as on 31.3.2007 is as under:

Distribution of Shareholdings (as on 31.3.2007)

Shareholders	% of shares held
1	2
Reserve Bank of India	59.73%
GDRs	7.88%

1	2
Non-residents (FIs/OCBs/NRIs)	11.95%
Financial Institutions including Insurance Companies/Banks	5.28%
Mutual Funds/UTI	6.92%
Domestic Companies/Private Corp. Bodies/Trusts	2.28%
Others including Resident Individuals	5.96%
	100.00%

5. The Basel Capital Accord, the current international framework on Capital Adequacy, was adopted in the year 1988 by many banks worldwide and by India in the year 1992. Thereupon, the Reserve Bank of India had introduced a set of norms for income recognition, provisioning and also for capital adequacy in relation to risk weighted assets. These norms were designed to put the financial accounting and prudential standards of Indian banks on a sound footing in line with current international practices. The Basel Committee on Banking Supervision has worked on a new framework for international convergence on capital standards and in June, 2004 released the new capital adequacy framework known as Basel II.

6. As indicated in the background information furnished to the Committee, the introduction of Basel II norms, would require all the public sector banks including the State Bank of India and its subsidiary banks to increase their capital base to meet the minimum requirements. Achievement of the capital adequacy norms under Basel II is expected to 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.

7. While, under the existing provisions, the State Bank can access the capital market by issuing equity shares or bonds, or by issue of both equity shares and bonds, there is no express provision under the SBI Act, 1955 to enable the bank to issue preference shares and also bonus shares.

8. The State Bank of India (Amendment) Bill, 2006 was introduced in Lok Sabha on 18 December, 2006 and referred to the Standing Committee on Finance by the Hon'ble Speaker on 19 December, 2006 for examination and report thereon. The Bill seeks to amend the SBI Act, 1955 to provide, *inter-alia*, for enhancement of the capital of the State Bank by issue of preference shares, to enable the Bank to raise resources from the market by public issue or preferential allotment or private placement on lines similar to the proposals made/approved or effected for private sector banks as well as the nationalised banks and the subsidiary banks of SBI *vide* amendments in the Banking Regulation Act, 1949, Bank Nationalisation Acts, 1970/1980 and the Subsidiary Banks Laws. The Bill also aims to provide flexibility in the management of the bank.

9. As indicated in the Statement of Objects and Reasons appended, the Bill proposes to amend the SBI Act, 1955, *inter-alia*, (i) to increase the authorised capital of State Bank of India to rupees five thousand crores divided into shares of ten rupees each or of such denomination as may be decided by the Central Board, with the approval of the Reserve Bank and also enable the Central Government to increase or reduce the authorized capital in consultation with the Reserve Bank;

(ii) allow the issued capital of the State Bank to be raised by preferential allotment of shares or private placement or public issue in accordance with the procedures as may be prescribed by regulations with the previous approval of the Reserve Bank and the Central Government, and the preference shares may be issued in accordance with guidelines framed by the Reserve Bank;

(iii) allow the State Bank to issue bonus shares to the existing equity shareholders with the direction of the Reserve Bank and with the approval of the Central Government;

(iv) allow reduction of Reserve Bank's shareholding from fifty-five per cent to fifty-one per cent consisting of the equity shares of the issued capital;

(v) allow the State Bank to accept share monies in instalments, make calls and forfeiture of unpaid shares and their re-issue;

(vi) provide for nomination facility in respect of shares held by individual or joint shareholders;

(vii) restrict the voting rights of preference shareholders of the State Bank only to resolutions directly affecting their rights and also restrict the preference shareholders to exercise voting rights in respect of preference shares held by him to a ceiling of ten per cent of the total voting rights of all the shareholders holding preference share capital only;

(viii) allow the Central Government to appoint not more than four Managing Directors in consultation with the Reserve Bank;

(ix) abolish the post of Vice-Chairman;

(x) enable a sole shareholder or a first named holders of shares (when held jointly) of a nominal value of at least Rs. 5000/- to contest the election for the directorship of State Bank;

(xi) specify the qualifications for election of directors of the State Bank and to confer powers upon Reserve Bank to notify eligibility criteria for such directors;

(xii) allow the Reserve Bank to appoint additional directors as and when considered necessary in the interest of banking policy and depositors' interest;

(xiii) Confer power upon the Central Government to supersede the Central Board in certain cases on the recommendations of the Reserve Bank and to appoint an administrator for the period during which the Central Board stands superseded;

(xiv) allow the State Bank to hold Central Board meetings through video conferencing or such other electronic means as may be prescribed by regulations;

(xv) allow transfer of unpaid or unclaimed dividend of the State Bank up to thirty days to 'unpaid dividend account' and after seven years to the 'Investor Education and Protection Fund' established under Section 205C of the Companies Act, 1956;

(xvi) entitle the shareholders' present in an annual general meeting to 'adopt' the balance sheet.

10. The amendments proposed to the SBI Act as listed above, which pertain to enabling the SBI to raise capital by preferential allotment/ private placement, issuing of preference shares; qualifications and criteria for election of directors; appointment of additional directors and supersession of the Board in certain conditions; transferring unclaimed dividend of over seven years to the Investor Education and Protection Fund etc., are, as brought out above, aimed at maintaining uniformity among the various banking statutes and are identical to the proposals made for private sector banks *vide* the Banking Regulation (Amendment) Bill, 2005, which is yet to be enacted, the public sector banks *vide* the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005 and the Subsidiary Banks of the SBI *vide* the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006.

11. While the proposal to enable for reducing the capping on the minimum of RBI's shareholding in SBI from the existing level of 55% to 51% is at par with the capping of the Government's shareholding in nationalized banks; and that of the currently applicable minimum holding of SBI in the subsidiary/associate banks, the amendment proposals relating to abolition of the post of Vice-Chairman, President of the Local Boards and increasing the number of Managing Directors on the Board etc., are specific to the State Bank of India.

Transfer of RBI's equity holding in SBI to Central Government

12. Apart from the amendment proposals of the Bill *per se* which, as per the information furnished by the Government, are intended, *inter alia*, to enhance the capital raising options of SBI and bring in uniformity in the banking statutes governing the nationalized banks, private sector banks and the subsidiary banks to SBI, the Committee felt it to be imperative to take cognizance of the Budget announcement (2007-08) of the Finance Minister regarding the provisioning proposed for the 'deficit neutral' transfer/acquisition of RBI's equity holding in SBI by the Government.

13. The relevant announcement, as made in the Budget, 2007-08 reads as follows:

“Government proposes to acquire RBI’s equity holding in State Bank of India. I have provided a sum of Rs. 40,000 crore for this purpose, but the transaction will be deficit neutral to the Government.”

14. Questioned as to why the amendments required to be carried out in the SBI Act, 1955 for effecting the proposed transfer of shareholding, as announced in the Budget 2007, were not proposed in the State Bank of India (Amendment) Bill, the Ministry of Finance, in a written reply submitted as follows:

“When the current Bill to amend State Bank of India Act, 1955 was moved in 2006, the issue regarding transfer of shareholding had not fructified. Government approved the proposal of the Reserve Bank of India to transfer the ownership in February, 2007. Therefore, the relevant amendments to facilitate the transfer of shares in favour of the Central Government, were not proposed in this Bill.”

15. In response to a further query on the basis or rationale for proposing divestment/transfer of RBI’s equity holding in SBI to the Government, the Ministry of Finance, *inter alia*, cited the relevant observation/recommendations made in the Report of the Committee on Banking Sector Reforms (Narsimhan Committee; April, 1998), which reads as follow:

“At present, the laws stipulate that not less than 51% of the share capital of public sector banks should be vested with the Government and similarly not less than 55% of the share capital of the State Bank of India should be held by the Reserve Bank of India. The Committee believes that these minimum stipulations should be reviewed. It would suggest that the Minimum share holding by Government/Reserve Bank in the equity of the nationalised banks and the State

Bank should be brought down to 33%. The Reserve Bank as a regulator of the monetary system should not be also the owner of a bank in view of the potential for possible conflict of interest.....”

16. On the proposal of the Government to acquire RBI’s equity holding in SBI, the Committee on Fuller Capital Account Convertibility (Tarapore Committee) had observed *inter alia*: ‘If this transfer materializes, the share of nationalised banks in the banking system, will increase from around 50 per cent to around 75 per cent. The SBI, at present, has a greater degree of functional autonomy than the nationalised banks and bringing it under the category of nationalised banks would be a retrograde step.... Given the imperative need for strengthening the capital of banks in the context of Basel-II and FCAC, this transfer should be put on hold. This way the increased capital requirement for a sizeable segment of the banking sector would be met for the ensuing period’.

17. When asked to give the Government’s perception on the observations of Tarapore Committee on the proposed transfer of equity holding to the Government — with particular reference to the likely adverse effect on the managerial autonomy and the distinctive legacy the SBI holds, as pointed out by the Tarapore Committee — the Ministry of Finance, in a written reply, *inter alia*, stated as follows:

“....today, the Public Sector Banks have been given total managerial autonomy. So also the SBI. Public Sector Banks are owned by the Government. So, if SBI begins to do it, then there will be no difference *vis-à-vis* any other public sector banks. The same managerial autonomy which has been given to public sector banks will be applicable to SBI also. So, powers, autonomy, managerial exercise of power will be the same and we are reasonably certain that there will be no restriction in the autonomy of the bank.”

18. Responding to a specific query on the likely impact on the managerial/functional autonomy of SBI, the transfer of equity holding,

as proposed in the Budget would have, the Secretary, Financial Sector stated as under while tendering evidence:

“I want to assure you that there would be absolutely no change in the financial autonomy that is available to the State Bank of India when the stakes change because the managerial autonomy has been given to all the public sector banks. Each of them is on uniform turf. So, whether the RBI holds the stakes or the Government holds the stakes, there is absolutely no change in the financial autonomy because the financial autonomy, guidelines and the parameters apply equally to the State Bank of India as they apply to other banks.”

19. Questioned on the ways and means of effecting the transfer of shareholding from RBI to the Government, which would be ‘deficit neutral’, as per the Budget stipulations, the Ministry of Finance, in a written reply, *inter alia*, stated:

“As SBI is a listed entity, and its stocks are widely traded, RBI’s shareholding in SBI may be transferred against cash payment of the valuation amount to be determined based on market price in accordance with SEBI guidelines. As per SEBI guidelines, the valuation is done at the higher of the average of weekly high — low of closing price for the last 26 weeks and the average of daily high — low price for the last two weeks.

The transfer of ownership can be done against cash payment by the Government of India. Since a substantial part of the premium to be paid by Government of India to RBI is expected to be transferred back to Government of India as part of RBI’s Annual Transfer of Surplus (ATOS), in effect, the stake will be transferred at RBI’s book value. Thus, except to the extent of the book value, the transfer would be fiscally neutral. The Government of India will be required to fund this acquisition out of its own funds during the interim period, that is, between the date of transfer of stake, to mid-August when the ATOS takes place after the finalization of RBI’s accounts. In order

to reduce the period during which Government would need to fund the acquisition, RBI has proposed that such transfer of ownership be done on the day of closure of annual accounts of RBI *i.e.* 30th June.”

20. It was also added in the reply of the Ministry that a proposal to issue an Ordinance to make necessary amendments in SBI Act for facilitating the transfer of shares held by RBI to the government was under consideration.

21. While responding to a query, *inter alia*, on the need and appropriateness of the proposal to issue an Ordinance for effecting the transfer of equity holding to the Government, the Secretary, Financial Sector, stated as under while tendering evidence:

“.....Firstly, a clarification had been sought by the hon. Committee as to how the transfer was going to take place because in the Bill, there is no mention about the transfer of stakes of the RBI in to the SBI being transferred to the Government. Sir, we had clarified that it was not in the Bill because at the time when the Bill was being discussed in the Parliament, the proposals had not fructified. We had clarified this, in writing also. I had mentioned in my evidence then that the Government proposed to undertake transfer by bringing an Ordinance. It has been prepared. We are hoping to undertake the transfer before the 30th of June, 2007.

We had explained the mechanics of how the transfer would take place. The Reserve Bank of India has followed the financial year of July to June. So, by the end of June, the Government would be giving the amount, which would be required in that take over of the equity stakes of the SBI to the RBI. The RBI closes its accounts on 30th June. It will incorporate that into their receipts. After they have audited it by the end of July or beginning of August when it transfers its surplus minus expenditure to the Government, this amount

would be transferred back. So, it would be cash neutral as far as the Budget is concerned. That is how the transfer would take place. That is how we have worked it out.”

22. When asked to detail the government’s perception on the purported averment of the Chairman of the Committee on Fuller Capital Accountability that the spirit of the recommendation of the Committee on Banking Sector Reforms (Narasimhan Committee) was not that ‘one regulator should transfer ownership of SBI to an even bigger regulator’, the Ministry of Finance, in a written reply stated:

“RBI should not be an owner of a bank, as being a regulator of the banking system it would result in conflict of interest.”

23. It was also, *inter alia*, added as follows in reply:

“.....Narasimhan Committee has neither recommended nor commented adversely against RBI’s divestment of its shareholding in SBI to Government of India. Transfer of ownership from RBI to Government would address the issue of possible conflict of interest mentioned by the Narasimhan Committee.”

24. While the changes required/contemplated in the State Bank of India Act, 1955 for enabling the Government to acquire RBI’s shareholding in SBI as well as other related changes proposed in the Act, were informed about to the Committee by the Ministry of Finance *vide* communication dated the 13th June, 2007, on 21st June, 2007, the Government issued an Ordinance making necessary changes to the SBI Act, 1955 for facilitating the transfer of RBI’s shares in SBI to the Government.

25. The Committee received written views/suggestions on the various provisions of the Bill from: (i) Reserve Bank of India (ii) State Bank of India (iii) Indian Banks’ Association (iv) All India Bank Officers Association, (v) All India Bank Officer’s Confederation (vi) All India State Bank Officers’ Federation/All India State Bank of India Staff Federation, (vii) Bank Employees Federation of India (viii) ASSOCHAM and (ix) Bombay Chamber of Commerce and Industry. The Committee

also had personal hearings of the views of the representatives of the Reserve Bank, the State Bank, the Indian Banks' Association and the representatives of the Bank Officers and Employees Unions and Associations.

26. 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.

27. While the representatives of the Reserve Bank of India, Indian Banks' Association and the management of the State Bank have, in general, welcomed and expressed support to the amendment proposals of the Bill, the representatives of the Bank Officers and Employees Unions have expressed reservations on certain of the provisions, which include, *inter alia*, the proposal for enabling reduction of RBI's equity holding in SBI from 55% to 51%; and providing space for SBI to raise preference capital etc. to meet the enhanced capital requirements of the future.

28. **The Committee, upon examining the State Bank of India (Amendment) Bill, 2006 express agreement in general with the objective of enhancing the capital raising options of the State Bank to meet the regulatory capital requirements of the New Capital Adequacy Framework envisaged by the Reserve Bank in line with Basel-II guidelines; and provide for flexibility in the management of the bank *inter alia* by enabling for appointment of a maximum of four managing directors on the Board in place of two at present etc. The provisions seeking to enable the State Bank to raise capital by means of private placement of equity/issue of preference shares etc. are in line with the amendments proposed/effectuated in the banking statutes governing the private sector banks, public sector banks as well as the subsidiary banks of SBI. These were examined and reported upon by the Committee in the related reports *viz.*, the 26th Report on the Banking Regulation (Amendment) Bill, 2005, the 34th Report on the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Bill, 2005 and the 50th Report on the State Bank of India (Subsidiary**

Banks Laws) Amendment Bill, 2006. While recognizing the need to address the issue of increasing capital requirement of the banking system, especially of the State Bank of India, the Committee, nevertheless, cannot also help taking note of the fact that the State Bank of India in general holds a distinctive legacy in the banking system and in expanding the banking network in rural areas and advancing credit to the weaker sections in particular. The Committee, hence, desire that the objectives and goals that aim for endeavouring for the upliftment of the downtrodden and the deprived which were envisaged during the yester years may not be lost sight of by the bank while coping with the pressures of the new capital adequacy framework and the changing business requirements of the banking system.

29. The significant amendment proposals of the Bill, the observations/recommendations of the Committee thereon, as well as certain inconsistencies that came to notice in the provisions, which the Government have sought to rectify, are dealt with in the later part of the report.

30. The examination of the proposals of the State Bank of India (Amendment) Bill, 2006 apart, the Committee are inclined to note with serious concern the fact that the Government have, on 21st June, 2007, issued an Ordinance effecting changes to the SBI Act, 1955 for facilitating the transfer of RBI's shareholding in SBI to the Government — a policy measure announced and provisioned for in the Budget, 2007. As informed to the Committee, the amendment proposals required for effecting the transfer of shareholding, have not been included in the Bill under consideration *viz.* the State Bank of India (Amendment) Bill, 2006, ostensibly because the proposal was approved by the Government only in February, 2007. The Committee note that the proposal for transferring RBI's shareholding in the bank to the Government has been on the anvil since the making of the related recommendations way back in 1998 by the Committee on Banking Sector Reforms (Narsimhan Committee) and the policy measures contemplated to this effect by the Government have been considered and commented upon by yet

another RBI appointed Committee *viz.*, the Committee on Fuller Capital Account Convertibility (Tarapore Committee; 2006). With specific reference to the issue of transfer of shareholding of RBI to the Government, the Committee note that while the Tarapore Committee has perceived this move to be a retrograde step, which would, *inter alia*, impact the financial autonomy the SBI presently exercises, the Government have been categorical in assuring that the change of stakes from the Reserve Bank to the Government would not, in anyway, impact the financial/managerial autonomy of the bank. The Committee find the clarification given by the Ministry of Finance for non-inclusion of the amendments required for facilitating the transfer of RBI's equity holding in SBI to the Central Government in the current Bill to be not at all acceptable. The Government knew before hand that the Ordinance route was to be pursued for effecting this proposal, even while various related aspects as contained in the Bill referred were being examined. While taking exception to and expressing their displeasure on the Government's approach of bypassing the scrutiny of important issues, the Committee also emphasise that, as assured by the Government, it should be ensured that the likely adverse implications of the 'transfer of stakes' in SBI from the RBI to the Government, as expressed by the Tarapore Committee do not, in anyway, prove to come true.

**Clause 3 — Substitution of new Section for Section 4 and
Clause 4 — amendment of Section 5 (Share Capital of
State Bank of India)**

31. Clauses 3 and 4 deal with provisions relating to the authorized and issued capital respectively of the State Bank of India.

32. Clause 3 relating to substitution of Section 4 of the Principal Act on the authorized capital of the State Bank reads as under:-

“For Section 4 of the Principal Act, the following section shall be substituted namely:-

subject to the provisions of this Act, the authorized capital of the State Bank shall be five thousand crores of rupees divided into five hundred crores of fully paid-up shares of ten rupees each:

Provided that the Central Board may reduce the nominal or face value of the shares, and divide the authorized capital into such denomination as it may decide with the approval of the Reserve Bank:

Provided further that the Central Government may in consultation with the Reserve Bank increase or reduce the authorized capital so however that the shares in all cases shall be fully paid-up shares.”

33. Clause 4 relating to amendment of Section 5 of the Principal Act on the issued capital of the State Bank reads as under:-

“In section 5 of the principal Act,-

(a) for sub-section (2), the following sub-section shall be substituted, namely:-

(2) The issued capital of the State 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:

Provided further that the Central Board may from time to time increase, with the previous approval of the Reserve Bank and the Central Government, whether by public issue of preferential allotment or private placement, in accordance with the procedure as may be prescribed, the issued capital by the issue of equity or preference shares:

Provided also that the Reserve Bank shall, at all times, hold not less than fifty-one per cent of the issued capital consisting of equity shares of the State Bank.”;

(b) after sub-section (3), the following sub-sections shall be inserted, namely:–

“(4) Subject to the provisions contained in sub-section (2), the Central Board may increase from time to time, by way of issuing bonus shares to existing equity shareholders, the issued capital in such manner as the Reserve Bank may, with the approval of the Central Government, direct.

(5) The State Bank may, accept the money in respect of shares issued towards increase in the issued capital in installments, make calls, forfeit unpaid shares and re-issue them, in such manner as may be prescribed.”

(a) Authorized Capital (Clause 3):

34. The existing provisions of Section 4 of the State Bank of India Act, 1955 provide that the authorized capital of the State Bank of India shall be Rs. 20 crores. The existing statutory stipulation of authorized capital notwithstanding, the Central Government may increase the

authorized capital 'as it thinks fit'. Consequently, the authorized capital of the Bank was increased to Rs. 1000 crore in terms of Notification No. 14(3)89/Accts. dated 28th June 1990 of the Banking Division, Ministry of Finance, Government of India.

35. The proposal to increase the authorized capital from the existing position of Rs. 20 crore to Rs. 5000 crore is expected to take care of future needs of the bank.

36. Expressing concurrence with the proposal to increase the Authorised Capital of State Bank of India to Rs. 5000 crore, the Reserve Bank, in their Memorandum submitted to the Committee, *inter-alia*, submitted as follows:-

“Following the introduction of the Capital adequacy norms and the proposed requirement under Basel II recommendations, all the public sector banks, including State Bank of India, will have to build up their capital base urgently. Achievement of the prescribed capital adequacy norms is essential for the basic financial health of the banking system. It is also essential for its international credibility since banks all over the world are adopting these standards.”

(b) Issued Capital (Clause 4):

(i) Amendment proposals *vis-a-vis* provisions proposed/ applicable to private sector and nationalized banks

37. The proposed substitution of sub-section (2) of Section 5 of the Principal Act in terms of the amendment proposals of Clause 4 provides that the Central Board of State Bank may, with the previous approval of the Reserve Bank and the Central Government, increase by way of public issue or preferential allotment or private placement, the Bank's issued capital by issue of equity or preference shares. The issue of preference shares is to be in accordance with the guidelines framed by the Reserve Bank specifying the class and the terms and conditions of issue. This is in line with the amendments 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 as well as the subsidiary banks in the Subsidiary Banks Laws.

38. The existing provisions of Section 5 of the State Bank of India Act, 1955 provide that no increase or decrease in the issued capital of the Bank shall be made in a manner such that the Reserve Bank holds, at any time, less than 55% of the issued capital of the State 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) — which would now be applicable to the Central Government in view of the transfer of shares to them — may be reduced from the existing 55% to 51% of the issued capital consisting of equity shares of that Bank.

39. The proposed new section also enables the State Bank to issue bonus shares as per the guidelines framed by RBI with the prior approval of the Central Government.

40. In regards 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 examined and endorsed by the Committee in the related report (26th Report) provides, *inter-alia*, as follows:—

“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.”

41. 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 Nationalised 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”

42. On similar lines, the amendments effected to the laws applicable to the subsidiary banks of SBI, which were examined and reported upon by the Committee (in their 50th Report) provide that the issued capital of a subsidiary bank shall consist of equity shares or equity and preference shares. The relevant provision in regard to issue of preference shares as incorporated in the subsidiary banks laws, *inter-alia*, reads:

“Provide 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.”;

(ii) Shareholding of RBI/Government in SBI

43. On the specific issue of enabling for reduction of the statutorily prescribed minimum equity holding of the Reserve Bank in SBI from 55% to 51% — which would now be applicable to the Central Government — a representative of All India State Bank Officers Federation stated as under while tendering evidence:-

“.....We are of the view that at present, the Government’s holding in the State Bank of India is more than 55 per cent, and through this amendment, there is a proposal to bring it down to 51 per cent. Technically, it will not affect the public sector character but it would affect the image of the bank as a Government Bank, though everybody considers the SBI as a Government Bank.

About recapitalizing through reduction of Government’s shares and going to the public, our opinion is that the State Bank of India is also following the capital equity norms. We feel that there is no need to reduce the Government equity from 55 per cent to 51 per cent. Instead, we could welcome if it is enhanced from 55 per cent to 60 per cent or 65 per cent.”

44. While responding to a related query on the proposal to enable for dilution of the RBI/Government’s equity holding in the Bank, the CMD, SBI, while tendering evidence, pointed out as follows:-

“.....there is a fear that by diluting stake of the RBI or the Government of India to 51 per cent, it is apprehended whether it is creeping privatization. To the best of my understanding dilution would not be by way of disinvestment of the existing shares. Dilution would be by issue of fresh shares. Currently, if about 4.5 crore additional shares are issued then the dilution will take place from 59 per cent to 55 per cent. Roughly similar amount would take it further down from 55 per cent to 51 per cent. So, this issue of additional shares will give State Bank of India an additional capital without reducing the capital in the hands of Reserve Bank of India or the

Government of India. But since additional shares would have been issued and on that count additional capital and premium received by the State Bank of India, therefore, the percentage holding of the Government or the Reserve Bank of India would go down to either 55 per cent or 51 per cent as the case may be.”

45. On the enabling provision for reducing the statutorily prescribed minimum holding of the Government/RBI in SBI, the Secretary, Financial Sector, stated, *inter alia*, as follows:—

“.....The RBI today owns 59.73 per cent of the shares of the SBI. We are seeking to bring it down to minimum 51 per cent, in line with all other public sector banks, to ensure that public sector characteristic of the bank is preserved and, at the same time, that it provides a certain amount of flexibility to raise additional capital.”

(iii) Capital requirements of SBI

46. The Committee desired to know whether any estimation/evaluation has been made of the additional capital requirements of SBI to meet the capital adequacy norms/requirements of the future as well as business needs. In this regard, the Ministry of Finance, in a written reply, informed as under:—

The present level of the capital funds of the SBI, as on March 31, 2007 was Rs. 46,934 crore. The bank’s capital requirements are estimated to be around Rs. 1,93,172 crore on the basis of certain assumptions regarding business growth and Basel II impact by March 31, 2013 as indicated below.

(Rs. Crore)

Capital Item	31.03.2007	31.03.2013 (Projected)
1	2	3
Paid up equity share capital, Reserves and surplus	28,729	86,221

1	2	3
Preference shares		25,756
Innovative Perpetual Debt Instruments eligible for inclusion in Tier 1 capital	1,739	16,804
Upper Tier 2 instruments and Subordinate debt instruments	13,073	60,998
Other Tier 2 elements	3,393	3,393
Total	46,934	1,93,172

47. In the context of the issue of the additional capital requirements of the bank to meet the Basel II requirements, anticipated business growth of the bank etc., the Ministry also added as under in their reply:

- (a) If preference shares are not allowed to be raised, the bank will *not* be able to meet its capital requirements without Government or RBI making any contribution to the equity share capital even for the financial year ending March 31, 2008.
- (b) If preference shares are allowed, the bank will be able to meet its capital requirement for the year ending March 31, 2008, when the Govt./RBI's minimum shareholding is 55% and for the year ending March 31, 2009, when the Govt./RBI's minimum shareholding is 51%.
- (c) Any further capital requirements of the SBI will have to be met by the Government/RBI in proportion to their shareholding to enable the bank to maintain its business growth and retain the capital adequacy ratio of 12% (with a Tier 1 ratio of 8%).

48. The Ministry also pointed out that Banks, such as SBI, with international presence would be required to target a higher capital

adequacy ratio for which the following reasons would be relevant: (i) to support the large number of both banking and non-banking subsidiaries/associates both in India and abroad; (ii) to meet the anticipated business growth without the need to access market for capital every year, (iii) to qualify for regulatory autonomy for undertaking certain types of activities (iv) to have greater freedom to declare a higher level of dividend, (v) to secure a higher credit rating from the credit rating agencies (which help in reducing the cost of raising capital) etc.

49. On the amendment proposals of the Bill for enhancing the capital raising options of SBI by way of private placement, issue of preference shares etc., the Secretary, Financial Sector stated *inter alia* as follows while deposing before the Committee:

“.....There are certain international banking standards. Any bank which is proposing to have global operations normally if it conforms to international standards, it evokes a certain element of comfort among its international clients if the bank conforms to international standards. “....today the capital adequacy of SBI is only about 11 per cent and nine per cent is as prescribed by the RBI today. But when the Basel-II norms start applying, this 11 per cent will decline very rapidly because capital will have to be provided for market and operational risks also. That is why, when the State Bank of India is seen in comparison with any other foreign institution it will not be able to withstand that kind of economic scrutiny.”

(iv) Norms for issue of preference shares

50. In terms of amended Bank Nationalisation Acts, 1970 & 1980 and the Subsidiary Banks Laws, nationalised banks as well as the subsidiary banks of SBI are now enabled to issue preference shares for meeting regulatory capital requirements. A similar proposal for the private sector banks incorporated *vide* the Banking Regulation (Amendment) Bill, 2005 and endorsed by this Committee *vide* their 26th Report (14th Lok Sabha) remains to be brought before Parliament. As informed to the Committee in a written reply, the guidelines for issue of preference shares are at an advanced stage of finalisation.

51. On the matter of formulation of guidelines for issue of preference shares by Banks, the Deputy Governor, RBI stated, *inter alia*, as under, while tendering evidence:

“I would say that the guidelines that we would issue in respect of preference shares as to how much a bank can raise and what are limits, and the terms and conditions would be in line with the best international practices. What our banks will be able to do would be the same as what other country banks would also be able to do. We are in line with the international standards in this regard.”

52. While responding to a question on the stipulations for enabling SBI/other Banks to issue preference shares *vis-à-vis* the related provisions on preference shares, as applicable under the Companies Act and the possible dichotomy in the provisions as contained in the Banking Statutes and the Companies Act, the Deputy Governor, RBI *inter alia* stated:

“...The State Bank of India is not subject to the Companies Act because the State Bank of India has a separate statute. The provisions of the Companies Act do not apply to the State Bank of India. Similar is the situation for even the nationalised banks and the subsidiaries of the State Bank of India where the same amendments have been made. There would not be any legal conflict. Of course, from the point of view of policy one might argue this point, but legally there would not be any conflict with the provisions of the Companies Act.”

53. Asked to highlight the distinctive aspects of the preference capital/shares that Banks may be required to issue for raising capital *vis-à-vis* the norms/stipulations applicable in this regard to companies under the Companies Act, the Deputy Governor added as under:

“.....in the banking sector we need to have both perpetual preference shares as well as preference shares with certain

maturity. It is because the perpetual preference shares are given the status of tier I capital; whereas preference shares with the certain maturity of minimum 15 years are given the benefit of tier II capital. This kind of distinction in the banking sector is because we have our capital requirements. We have redeemable as well as irredeemable preference shares. The irredeemable preference shares are also called perpetual preference shares. Currently it is not provided in the Companies Act, but we are providing for it in this Act.”

54. In terms of the amendment proposals of the Bill (Clause 7: amendment of section 11), the voting rights of preference shareholding are to be restricted to apply only on resolutions placed before the State Bank which directly affect the rights attached to the preference shares. Further, the entitlement of voting rights of preference shareholders is to be capped at a maximum of ten per cent of total voting rights of all shareholders holding preference share capital.

55. As per section 87(2)(a) of the Companies Act, 1956, any resolution for winding up of the company or for the reduction or repayment of the share capital are deemed to affect directly the rights attached to preference shares. In case of the nationalised banks, the General Regulations provide the meaning of preference share capital which reads as follows:-

- (i) Preference share capital means that part of share capital which fulfils both the following conditions:
 - (A) that as respects dividends, it carries a preferential right to be paid a fixed amount or an amount calculated at fixed rate, which may be either free of or subject to income tax, and
 - (B) that as respect capital, it carries or will carry, on winding up or repayment of capital, a preferential right to be repaid the amount of the capital paid-up or deemed to have been

paid-up, whether or not there is preferential right to the payment of either or both of the following amounts, namely:-

- (a) any money remaining unpaid, in respect of the amounts specified in clause (A), upto the date of winding up or repayment of capital; and
- (b) any fixed premium or premium on any fixed scale, specified by the Board with the previous consent of the Central Government.

56. The Ministry of Finance, in a written reply, informed the Committee that in the case of State Bank of India, matters relating to these issues *viz.*, dividend payments etc. on which preference shareholders could exercise voting rights would be “covered under the guidelines/regulations to be framed for this purpose.”

57. **From the information furnished, the Committee note that the capital funds of SBI, as on March 31, 2007 stood at Rs. 46,934 crore — which include paid up equity capital, reserves and surplus, perpetual debt instruments qualifying for inclusion in Tier-I capital, subordinate debt instruments qualifying for Tier-II capital etc. The projected capital requirement of the Bank by March 31, 2013 is estimated at 1,93,172 crore. Of the projected capital requirement of Rs. 1,93,172 crore, an amount of Rs. 25,756 crore is expected to be raised by the Bank by issue of preference shares, which the Bank would be able to issue as per the provisions of the Bill. The amendment proposals envisaged under clause 3 (Substitution of Section 4; authorised capital) and Clause 4 (amendment of Section 5; share capital of State Bank) for meeting the higher capital requirement of the future are at par with the provisions already made and/or given effect to for private sector banks, public sector banks as well as subsidiary banks of SBI.**

58. The proposals envisaged, which, *inter alia*, enable for reducing the statutorily prescribed minimum shareholding of RBI in SBI from 55% to 51% — which would now be applicable to the

Central Government in view of the transfer of shares from RBI to them — and provide for the bank to issue preference shares etc. are expected to provide substantial leverage to the SBI in meeting the capital requirements of the future from the market in a cost effective manner. While the Committee, recognize the need for enhancing the capital raising options of the bank, however, they cannot also help taking cognizance of the apprehensions expressed in certain quarters, that the proposal to enable for dilution of the Government's/RBI's holding in the Bank from 55% to 51% in particular, would leave the possibility of affecting the 'State owned character' of the bank and tantamount to 'creeping privatisation' of the Bank. From the point of view of the Government as well as the management of SBI, however, this policy measure would be at par with the capping of 51% on the minimum shareholding of the Government in the nationalised banks/that of the SBI in the subsidiary banks, and would, alongwith the proposal for enabling raising of capital by issue of preference shares etc. help the bank in conforming to the international norms on capital adequacy. Mainly in view of the apprehensions expressed on this count, the Committee feel it essential to emphasize on ensuring that the amendment proposals envisaged in terms of the provisions under Clauses 3 and 4, which are intended to give head room to the bank for raising capital from the market, do not, in anyway dilute the 'state owned' character of the State Bank.

59. With specific reference to the proposal for enabling the State Bank to issue preference shares, the Committee recall that while considering the related proposal as made for public sector banks, and the subsidiary banks of SBI, they had, *inter-alia*, recommended that the guidelines to be framed for issue of such shares conform to international standards and ensure a level playing field for the public sector banks/subsidiary banks *vis-a-vis* the private sector banks. While the proposal to enable banks to issue preference shares was mooted in 2005 in the amendments proposed to the Banking Regulation Act, 1949, and has already been given effect to in the case of nationalised banks/subsidiary banks of SBI, the

Committee note that the policy guidelines specifying the terms and conditions for issue of such shares remain to be finalized and issued by the Reserve Bank. From the deposition of the Deputy Governor of Reserve Bank in particular, the Committee note that the policy guidelines for issue of preference shares which are in an advanced stage of finalisation, are intended to be in line with international norms, and designed to meet the specific requirements of the banking sector. The Committee while endorsing the amendment proposals under Clauses 3 and 4 of the Bill enabling for reduction of the statutorily prescribed minimum equity holding of RBI (now Central Government) in SBI from 55% to 51% and infusion of capital by way of private placement, issue of preference shares, etc., reiterate the need for ensuring that the related guidelines are in line with international standards and adaptable to local requirements. They also feel it necessary to emphasize on ensuring fairness and transparency in the terms and conditions for issue of preference shares. The Committee also expect that, as agreed to, the meaning as well as the nature of rights exercisable by preference shareholders, are clearly defined in the general regulations applicable to the State Bank so as to leave no scope for ambiguity on the rights exercisable by preference shareholders *vis-à-vis* the rights of equity shareholders of the bank or, any possible dichotomy with the provisions/ regulations relating to issue of preference shares in terms of the provisions of the Companies Act, 1956.

**Clause 11 — Insertion of new Section 19 (A) (2) : Qualifications
for Election of Director/Appointment of Additional Directors**

60. Clause 11 relating to amendment of Section 19 A (Qualifications for election of directors) and section 19(B) (power of Reserve Bank to appoint Additional Directors) read as follows:

“19 A. (1) The directors elected under clause (c) of section 19 shall—

- (a) have special knowledge or experience in respect of one or more of the following areas, namely:—
 - (i) agriculture and rural economy,
 - (ii) banking,
 - (iii) co-operation,
 - (iv) economics,
 - (v) finance,
 - (vi) law,
 - (vii) small-scale industry,
 - (viii) any other area the special knowledge of, and experience in, which in the opinion of the Reserve Bank shall be useful to the State Bank;
- (b) represent the interests of depositors; or
- (c) represent the interests of farmers, workers and artisans.

(2) Without prejudice to the provisions of sub-section (1), the Reserve Bank may from time to time notify any additional criteria for persons to be elected as director under clause (c) of section 19.

(3) Where the Reserve Bank is of the opinion that any director of the State Bank elected under clause (c) of section 19 does not fulfil the requirements of sub-sections (1) and (2), it may, after giving to such director and the State Bank a reasonable opportunity of being heard, by order, remove such director.

(4) On the removal of a director under sub-section (3), the Central Board shall co-opt any other persons fulfilling the requirements of sub-sections (1) and (2), as a director in place of the person so removed, till a director is duly elected by the shareholders of the State Bank in the next annual general meeting; and the person so co-opted shall be deemed to have been duly elected by the shareholders of the State Bank as a director.

19B. (1) If the Reserve Bank is of the opinion that in the interest of banking policy or in the public interest or in the interests of the State Bank or its depositors, it is necessary so to do, it may, from time to time and by order in writing appoint, with effect from such date as may be specified in the order, one or more persons as additional directors of the State Bank.

(2) Any person appointed as additional director under sub-section (1) shall,—

- (a) hold office during the pleasure of the Reserve Bank and subject thereto for a period not exceeding three years or such further periods not exceeding three years at a time as the Reserve Bank may, by order, specify;
- (b) not incur any obligation or liability by reason only of his being an additional director or for anything done or omitted to be done in a good faith in the execution of the duties of his office or in relation thereto; and
- (c) not be required to hold qualification shares in the State Bank.

(3) For the purpose of reckoning any proportion of the total number of directors of the State Bank, any additional director appointed under this section shall not be taken into account.”

A. Qualifications for Election of Directors

61. Presently, no qualification has been prescribed in the SBI Act, 1955 as has been prescribed in Section 10A of the Banking Regulation Act, 1949 for private sector banks for the members of Board of Directors and for elected directors in nationalised banks as per section 9 (3A) of

Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980. The Bill, therefore, proposes to insert a new Section 19A in the Act specifying the qualifications for directors to be elected under Section 19(C) of the Act.

62. While the amendments proposed to section 19(B) under clause 11 provide for making provisions empowering the Reserve Bank to lay down additional criteria for elected directors and remove elected directors who do not fulfil the requirements, these do not provide that the Reserve Bank would specify such 'fit and proper' criteria for 'elected directors' on the lines of amendments made to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and the State Bank of India (Subsidiary Banks) Act, 1959. The Reserve Bank proposes to prescribe 'fit and proper' criteria for the elected directors of nationalised banks/ subsidiary banks of SBI/State Bank of India on lines similar to the criteria prescribed for 'directors' on the boards of private sector banks *vide* circular dated January 25, 2004, which provide, *inter-alia*, for signing of 'covenants', and furnishing of 'declarations'.

63. Accordingly, with a view to maintain uniformity across the banking statutes, the Reserve Bank has proposed that the following sub-section may substitute the proposed sub-section(2) of section 19A of the Bill:

Amendment proposed in the Bill	Changes proposed
1	2
Section 19A (2) Without prejudice to the provisions of sub-section (1), the Reserve Bank may from time to time notify any additional criteria for persons to be elected as director under clause (c) of section 19.	“(2) Without prejudice to the provisions to sub-section (1) and notwithstanding anything to the contrary contained in this Act or in any other law for the time being in force, no person shall be eligible to be elected as director under clause (c) of Section 19 unless he is a person having fit and proper status based upon track record, integrity and such other

1

2

criteria as the Reserve Bank may notify from time to time in this regard. The Reserve Bank may also specify in the notification issued under this sub-section, the authority to determine the fit and proper status, the manner of such determination, the procedure to be followed for such determinations and such other matters as may be considered necessary or incidental thereto."

64. Asked whether the above-mentioned change proposed in the provisions of the Bill by the Reserve Bank in Section 19A was agreeable to be carried out, the Ministry of Finance, in a written reply, stated as follows:-

"Yes, for maintaining uniformity across the banking statutes, the sub-section may be substituted as proposed by the Reserve Bank."

B. Appointment of Additional Directors

65. The proposed incorporation of the new section 19B seeks to empower the Reserve Bank of India to appoint Additional Directors, if the Bank is of the opinion that in the interest of banking policy or in the public interest or in the interest of State Bank of India or its depositors, it is necessary to do so.

66. 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. Similar amendments have been made in the case of Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970/1980 applicable to the nationalised banks and the State Bank of India (Subsidiary Banks) Act, 1959 applicable to the subsidiary banks of SBI.

67. On the rationale for enabling for nomination of additional directors on the Boards of Banks, the Ministry of Finance had, when the Committee considered the related Bill proposing to amend the subsidiary banks laws, informed, *inter-alia*, as under:

“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 this 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.....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.”

68. In terms of the existing provisions of the SBI Act, 1955, a nominee of the Reserve Bank serves on the Board of the Bank (Clause f of Section 19). In the case of the nationalised banks and the subsidiary banks of SBI, the amendment proposals to the relevant statutes as recommended upon by the Committee and enacted, provide for doing away with the nomination of the Reserve Bank’s official on the Boards of the Banks’, in lieu of which one person possessing necessary expertise and experience in matters relating to regulation or supervision of commercial banks is to be nominated as Director on the Boards by the Central Government, on the recommendation of the Reserve Bank.

69. On the issue of desirability of the Reserve Bank’s nominee, serving on the Board of SBI and simultaneously providing for nomination of Additional Director(s) on the board by RBI, if the situation so warrants,

a representative of Indian Banks' Association, stated, *inter-alia*, as under while tendering evidence:

“There is a thinking that RBI should withdraw its nominee from the Board because there is likelihood of a conflict of interest. This proposed amendment was already introduced in the amendments to the Banking Companies (Acquisition and Transfer of Undertakings) Act, and the Subsidiary Banks Act. When these were considered by this Hon'ble Committee, it was suggested that it is not advisable to totally withdraw the RBI nominees and the provision be replaced by “any person having experience in the banking supervision may be appointed as Director on the bank”. Not a working employee or officer of the bank but somebody who is experienced in the banking supervision may be appointed. In pursuant to the said recommendation of the Committee, those two Acts were amended accordingly by the government and subsequently passed by the Parliament. Eventually this may have to be done in case of State Bank of India also.”

70. Questioned whether it would not be desirable to pursue a similar proposal — as followed in the case of nationalised banks and the subsidiary banks of SBI *vide* the amendments carried out in the Bank Nationalization Acts 1970/1980 and SBI (Subsidiary Banks) Act, 1959 — of doing away with the nomination of an RBI official on the SBI Board and instead provide for a RBI recommended official to be nominated by the Central Government to serve on the Board of SBI, the Ministry of Finance in a written submission stated as follows:—

“Yes, it is proposed to replace clause (f) of section 19 (RBI nominee director) 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.”

71. Clause (f) of Section 19 of the Principal Act reads as under:—

“(f) one director to be nominated by the Reserve Bank”.

72. The Committee observe that while the amendments proposed to Section 19A in terms of the provisions of Clause 11 seek to specify the qualifications for elected Directors on the SBI Board in terms of Section 19 (c) of the SBI Act, they do not, however, enable the Reserve Bank to prescribe/lay down the criteria for determining the ‘fit and proper’ status of the Directors in line with the amendments made to the Banks Nationalization Acts, 1970/1980 and the Subsidiary Banks Laws. The Committee understand that the Reserve Bank proposes to prescribe ‘fit and proper’ criteria for the elected Directors of State Bank of India as well, on lines similar to the criteria prescribed for ‘Directors’ on the Boards of private sector banks, which include, *inter-alia*, the ‘manner’ and ‘procedure’ for determination of ‘fit and proper’ status of the Directors. Consequently, the Government have expressed concurrence with the proposal placed before the Committee by the Reserve Bank for substituting the sub-section (2) of Section 19A, as proposed in the Bill, with a new sub-section, enabling the Reserve Bank to prescribe the ‘criteria’ for determining ‘fit and proper’ status of the elected directors. The changes proposed in the sub-section by the Reserve Bank, and agreed to by Government, being in line with the proposals made in the other banking statutes, the Committee recommend that the same be carried out in the Bill.

73. The Committee also note that while the proposed incorporation of the new section 19B, which seeks to empower the Reserve Bank to appoint Additional Directors on the Board of SBI, ‘in the interest of banking policy or in the public interest’ is in line with the proposal as made applicable to the nationalized banks and the subsidiary banks of SBI, the provisions of the Bill, as introduced, do not propose to do away with the nomination of an official from the RBI on the SBI Board, as provided for in terms of Section 19 (f). In response to the questioning on the rationale

for continuing with the nomination of an RBI official on the Board, while proposing to enable for appointment of Additional Directors too by the RBI, the Government have agreed to replace Clause (f) with a new proviso providing for nomination of an official with 'experience and expertise in regulation or supervision of commercial banks' on the Board by the Central Government, on the recommendation of the Reserve Bank. The proposal for replacing the existing section 19 (f) (RBI Nominee Director) to provide for nomination of an official 'with experience and expertise in banking supervision' being in conformity with the proposals pertaining to the nationalized banks and the subsidiary banks of SBI, the Committee recommend the same for being carried out.

Clause 23 — Amendment of Section 31: Holding Board Meeting through Video Conferencing-extending the applicability of this provision to all nationalised banks

74. Clause 23 reads as under:—

“In section 31 of the Principal Act,—

(a) for sub-section (1) and (2), the following sub-section shall be substituted, namely:—

“(1) The Central Board shall meet at such time and place and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed; and the meeting of the Central Board may be held by participation of the directors of the Central Board through video-conferencing or such other electronic means, as may be prescribed, which are capable of recording and recognizing the participation of the directors and the proceedings of such meetings are capable of being recorded and stored:

Provided that the Central Government may in consultation with the Reserve Bank, by a notification in the Official Gazette, specify the matters which shall not be discussed in a meeting of the Central Board held through video-conferencing or such other electronic means.

(2) All questions at the meeting shall be decided by a majority of the votes of the directors present in the meeting or through video-conferencing or such other electronic means and in the case of equality of votes the Chairman or, in his absence, the Managing Director authorized by the Chairman shall have a second or casting vote.

(b) in sub-section (4), for the word “vice-chairman”, the words “managing director authorized by the chairman” shall be substituted.”

75. The proposed amendment to Section 31 of the SBI Act would enable the bank to hold Board meetings through video conferencing or any other electronic means 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 exercised in a meeting of the Board of Directors held through video conferencing or such other electronic means.

76. The Reserve Bank of India had, in their memorandum submitted to the Committee earlier on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006, indicated that the suggestion for enabling for holding Board meetings through video conferencing had come from the State Bank. Making out a case for enabling Subsidiary Banks of SBI too to hold Board meetings through video conferencing, the Reserve Bank had then submitted *inter-alia* as under:

“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 exercised 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.”

77. The proposed amendment to section 31 of the State Bank of India Act, 1955, enabling the SBI to hold Board meetings through video conferencing or any other electronic means, is similar to the proposal made in respect of the subsidiary banks of SBI, and is also to be akin to the provisions proposed in respect of private sector banks, which, if

passed, would enable the private sector banks also to hold Board meeting through video conferencing.

78. In regard to this specific amendment proposal, a representative of All India State Bank Officers' Federation, however, stated as under during oral evidence:—

“Though the video conferencing may reduce the travelling cost, but it would have its own negative points. Like we are talking face to face here. But if this meeting is conducted through video conferencing, it would not be that effective.”

79. The representative also added as follows in this regard:

“.....Like in a witness, you see not only the word spoken but also the body language and other things, which may not be possible in the video conferencing and the seriousness also may not be there. This is our opinion. The only advantage is that it may reduce the cost to some extent. But in view of the decisions taken, which are involving crores and crores of rupees, I think, the present position is working well, and it may be continued.”

80. Since only the nationalised banks may be left out of the enabling measure of holding Board meetings through video conferencing, the Reserve Bank have, in their memorandum, suggested that a consequential amendment to this effect may be made to the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 which may be proposed as a part of the State Bank of India (Amendment) Bill, 2006.

81. Asked whether the Government concurs with the proposal of the Reserve Bank for enabling nationalised banks also to hold Board meetings through video conferencing, the Ministry of Finance, in a written reply, stated as follows:

“Yes, the Government concurs with the above mentioned proposal of the Reserve Bank which could enable the nationalised banks also to hold board meetings through

video conferencing as proposed for the SBI, private sector banks, and as already approved for the subsidiary banks of SBI.”

82. The proposal for amending section 31 of the SBI Act with the view to enable the State Bank to hold Board meetings through video conferencing or such other electronic means is in line with the proposal accepted for incorporation in the SBI subsidiary banks laws. The Committee note that the Government have now expressed concurrence with the proposal placed before them by the Reserve Bank for extending the facility of holding Board meetings through video conferencing to the nationalized banks as well by proposing a consequential amendment to this effect in the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980, as a part of the State Bank of India (Amendment) Bill, 2006. The Committee recall that while considering the related proposal in respect of the subsidiary banks of SBI, they had *inter alia* opined that enabling the Boards of the banks to hold meetings through video conferencing would provide ‘a cost effective and time saving means of decision making process’. The Committee express agreement with the proposed amendment of section 31 for enabling the State Bank to hold Board meetings through video conferencing, and also extending this provision to the nationalized banks, as proposed by the Reserve Bank, and concurred with by the Government. The Committee, nevertheless, also feel the need to ensure that the general regulations applicable to the State Bank, as well as the nationalized banks, clearly detail the procedure/manner of conduct of such meetings, as well as the powers that can, and cannot, be exercised in the meetings held through video conferencing etc. The Committee also desire that issues of secrecy and confidentiality of the proceedings of the meetings held through video conferencing also be vouchsafed and necessary provisions/regulations to this effect incorporated.

Clause 25 — Insertion of new Section 38A — Transfer of unpaid or unclaimed Dividend to Unpaid Dividend Account.

83. Clause 25 – New Section 38A regarding transfer of unpaid or unclaimed dividend reads as follows:—

“After section 38 of the Principal Act, the following section shall be inserted, namely:—

“38A. (1) Where, after the commencement of the State Bank of India (Amendment) Act, 2006, a dividend has been declared by State Bank but which has not been paid to a shareholder or claimed by any shareholder entitled to it, within thirty days from the date of declaration, the State Bank shall, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid, or unclaimed, to a special account to be named, the “unpaid dividend account” maintained by it.

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 State Bank before the commencement of the State Bank of India (Amendment) Act, 2006, remains unpaid at such commencement, the State 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 State 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 State Bank to the Investor Education and Protection Fund established under

sub-section (1) of section 205(C) of the Companies Act, 1956 for being utilised for the purpose and in the manner specified in that section.”

84. Presently, there is no provision in the SBI Act to deal with unclaimed or unpaid dividend on the books of the SBI. The proposed incorporation of the new Section 38A seeks to enable the SBI to transfer such dividend within seven days from the expiry of the 30 days from the date of declaration, which remains unpaid or unclaimed, to a special account to be named ‘Unpaid Dividend Account’ and to the ‘Investor Education and Protection Fund’ after a period of 7 years from the date of transfer to the ‘Special Dividend Account’. The amendment proposal is in line with the amendments made to the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 and the SBI (Subsidiary Banks) Act, 1959.

85. Expressing concurrence with the proposed insertion of section 38A to the SBI Act, the RBI in a written submission stated as follows:—

“The Bill proposed to incorporate a new section 38A with regard to transfer of unclaimed or unpaid dividends on the lines of section 205A of the Companies Act, 1956.

This is in line with amendments made to Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/98 and aimed at bringing uniformity among all the banks with respect to transfer of unclaimed dividend. As such, we concur with the proposed amendments.”

86. The Committee had, while examining the related proposals for the nationalised banks, *vide* the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws Amendment Bill, 2005 and the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006, noted that in terms of the explanation under section 205C of the Companies Act, 1956 — which would apply to transferred unclaimed dividend amounts — ‘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 date that they became due for payment and no payment shall be made in respect of any such claims’.

87. On the specific aspect of the prohibition placed on the shareholders to stake claim on unpaid dividends after the lapse of the seven years period, the Indian Banks’ Association, has, in line with the suggestions made earlier during the consideration of the related Bills by the Committee, expressed their view point as under:—

“In regard to the amendments for payment of unpaid and unclaimed dividends to the Investor Education and Protection Fund, we suggest that a provision may be made enabling any person entitled to such dividend to make a claim after the unclaimed dividend is transferred to the Fund. Under the provisions of the explanation below sub-section (2) of section 205C of the Companies Act, no claim shall lie against the Fund or the company in respect of individual amounts which were unclaimed and unpaid for a period of seven years from the date that it first became due for payment and no payment shall be made in respect of any such claims. After the amendments proposed to the SBI Act, unclaimed dividends of the shareholders of SBI can be transferred to the Investor Education and Protection Fund and such shareholder cannot make a claim in respect of such dividend. We had earlier suggested that a bar on making a claim is unreasonable and provision needs to be made for permitting the investor to make a claim for such dividend and payment of the same to such investor. We wish to add that we had made similar suggestion in regard to the proposed amendments to the SBI Subsidiary Banks Laws (Amendment) Bill, 2006 as also the Banking Companies (Acquisition and Transfer of Undertakings) Amendments Bill.”

88. Asked whether it was not necessary to provide legitimate space to the *bona fide* shareholders to stake claims on unclaimed dividend, the Ministry of Finance had, in respect of the provisions pertaining to nationalised banks, informed that the Government agreed to the suggestion. With regard to the State Bank of India (Subsidiary Banks

Laws) Amendment Bill, 2006, the Committee were, *inter-alia*, informed that the preliminary draft Bill relating to the amendment to the Companies Act, 1956 [section 68 (4)] provide for entitling the claimants to apply to the 'fund' for refund of the amounts subject to the conditions to be stipulated.

89. Asked once again, to furnish the Government's perception on the suggestion made by IBA to enable *bona fide* claimants to stake claim on the unpaid dividend account even after the 'seven years stipulation', the Ministry of Finance, in a written reply stated as follows:—

“Sub-section (4) of section 68 of the Preliminary Draft (The Companies Act, 1956) provides that any person claiming to be entitled to any money transferred to the Fund may apply to the Fund and the fund, if satisfied and subject to such conditions as the Central Government may prescribe in this regard, make payment to that person or any other person entitled thereto.”

90. The Ministry also added in this regard that the Bill to amend the Companies Act, 1956 is yet to be finalized.

91. The Committee note that the proposed incorporation of Section 38A providing for transfer of unclaimed and unpaid dividend amounts on the books of the State Bank of India to the Investor Education and Protection Fund (IEPF) is in conformity with the provisions relating to management of unclaimed/unpaid dividend amounts, as made for the nationalized banks/subsidiary banks of SBI. The Committee recall that while considering the related proposal on the earlier occasion, they had, *inter alia*, taken note of the fact that in terms of the existing provisions of section 205C of the Companies Act, 1956 — which would apply to the unclaimed amounts transferred to the 'IEPF' — the amounts will cease to be payable after the lapse of seven years from the dates they first became due for payment. In response to the need felt by the Committee, and also as expressed by the Indian Banks' Association for providing legitimate space to *bona fide* claimants to make claim on unpaid dividend amounts even after the end of the seven years

stipulation, the Government had then, *inter alia*, informed that enabling provisions to this effect were proposed for incorporation in the preliminary draft of the revised Companies Act, 1956.

92. The Committee note from the information now furnished by the Government that the relevant provisions to this effect, as proposed in the preliminary draft of the revised Companies Act provide *inter alia* that, "any person claiming to be entitled to any money transferred to the Fund may apply to the Fund and the Fund, if satisfied and subject to such conditions as the Central Government may prescribe in this regard, make payment". The Committee, being convinced of the need for ensuring that legitimate claimants to the unpaid amounts are not deprived of the rightful dues even after the seven years' stipulation, as applicable at present, reiterate the need for ensuring that the enabling provision to this effect, as proposed, is necessarily incorporated in the revised Companies Act.

Clause 31 — Amendment of Section 50 (Power of Central Board to make regulations)

93. Clause 31 reads as under:—

“In section 50 of the principal Act, in sub-section (2),—

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

“(aa) procedure for increasing issued capital by the issue of equity or preference shares under sub-section (2); the manner of accepting money for issued capital, forfeiture and re-issue of shares under sub-section (5) of section 5;

(ab) the manner of nominating an individual by one individual jointly under sub-sections (1) and (2); manner of nominating a minor under sub-section (4); and the manner of varying or cancellation of nomination under sub-section (3) of section 10A;”;

(ii) In clause (b), for the words “floppies of diskettes”, the words “floppies or diskettes or any other electronic form” shall be substituted;

(iii) In clause (i), after the words “meetings shall be convened”, the words “and the participation through such other electronic means.” shall be inserted.”

94. While the amendments proposed under clause 23 seek to amend Section 31 of SBI Act, 1955 (Meetings of the Central Board) for enabling the SBI to hold Central Board Meetings through video conferencing or any other electronic media, the proposed amendment to section 50 (iii) of the Act under clause 31 seeks to enable the Board of SBI to make regulations for holding Annual General Meetings through video conferencing, which according to RBI is contrary to the intended objectives of the Bill.

95. The Reserve Bank of India has, therefore, suggested as under in this regard:-

“The amendments proposed in clause (i) of sub-section (2) of section 50 may be dropped.”

96. Questioned in this regard, the Ministry of Finance, in a written reply, informed as under:—

“Amendments have been proposed to section 31 to enable the Central Board of the State Bank to hold Board meeting through video conferencing or any other electronic media. Relevant changes to the State Bank of India General Regulation, 1955 will be carried out for this purpose which is covered under clause (f) of sub-section (2) of section 50 of the Act.

Provisions relating to annual general meeting are provided in section 42 where no such enabling amendment has been proposed in the Bill. Government therefore, agree to drop amendment to clause (i) of sub-section (2) of section 50.”

97. The Committee note that the Government have agreed to drop the proposal for amendment of clause (i) of sub-clause 2 of Section 50 of the SBI Act, which would have enabled the Central Board of the Bank to frame regulations for holding Annual General Meetings through video conferencing, or any other electronic means. The intended objective of the proposals under Clause 23 of the Bill seeking to amend Section 31 of the Act (Meetings of the Central Board) is to enable the SBI to hold Central Board meetings through video conferencing, and does not cover Annual General Meetings. The Committee, therefore, expect that, as agreed to, the amendments proposed in Clause (i) of sub-section (2) of Section 50 of the Act are dropped, and instead relevant changes carried out in Clause (f) of sub-section (2) of Section 50 which covers ‘Central Board meetings’ for the purpose of framing of the related regulations.

NEW DELHI;
24 August, 2007

2 Bhadrapada, 1929 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

NOTES OF DISSENT

Submitted by S/Shri Rupchand Pal, Lakshman Seth, M.Ps.

In the Statement of Objects and Reasons of the State Bank of India (Amendment) Bill, it is stated that the Bill seeks amendment of the SBI Act, 1955 to provide for enhancement of the capital of State Bank by issue of preference share to enable the Bank to raise resources from the market by public issue or preferential allotment or private placement on lines similar to the proposals made/approved or effected for private sector banks as well as nationalized banks and the subsidiary banks of SBI. I have serious objections to this proposed amendment on the following grounds:-

1. Putting the SBI at par with other banks including private sector banks will be a retrograde step and the special position of the SBI which it has been holding and the special social obligations it has been fulfilling to our countrymen, will be to a large extent diluted as a result of the proposed amendment of the SBI Act, 1955.
2. It is a step towards privatization of this major public sector bank. The proposed step to bring down RBI/Government equity from 59.73% now in the hands of RBI (now transferred to Central Government) to 55% and then to 51% under Central Govt. control is indicative of the direction towards privatization which the Govt. has preferred as it has chosen path for financial sector reforms.
3. When the Govt. advocates policy, financial inclusion and its commitment to financial inclusion is reiterated by the Hon'ble Prime Minister, by the Hon'ble Finance Minister through Budget speech and on other occasions and bringing down the Govt.'s share in SBI to 51% at the same time contradicts Government's commitment to strengthen the role of state sector

in banking particularly the State Bank of India with a view to provide better service to the poor and the unprivileged and large sections of the population having no access to the banking system at all.

4. If the SBI is put at par with private sector banks as is proposed through the present amendment it will hardly be able to fulfill its social obligation and simultaneously maintain its competitive edge *vis-a-vis* the private sector banks who have virtually little or no social obligation as can be seen from the experience of the past few years. The SBI has already satisfactory level of capital adequacy (11%) and capital can be mobilized by the SBI without bringing down Government share in various ways.
5. The private placement of SBI equity will be detrimental to this great institution which has grown on its own and has a larger number of branches and has the capacity for capital mobilization in various innovative ways.
6. The transfer of RBI equity holding to Central Govt. through Ordinance was a step not acceptable at all. Because while the comprehensive SBI (Amendment) Bill is under the consideration of Standing Committee on Finance, it is unfortunate that the Government could not wait a little while for the report of the Standing Committee making no reference to the Standing Committee on Finance which has been engaged in examining various aspects of the proposed SBI (Amendment) Bill.

I have serious concern for such practice of ignoring the Standing Committee in such a manner by piecemeal finalization of the governmental proposal by promulgating ordinance while the major part of the amendment of the Bill is under the consideration of the concerned Standing Committee.

Although the transfer of RBI equity to Central Govt. was a prime measure in relation to the proposed amendment, the

Government's impatience to proceed with the ordinance of that part which is internally related to the proposed amendment is unfortunate and unacceptable.

7. In sum, I suspect that it is one of the key steps towards privatization of the great institution of SBI and this proposed steps will do no good to countrymen, it will rather weaken the major public sector giant called SBI.

I would request the Chairman to kindly take note of my Note of Dissent and incorporate the same as part of the Report.

I would like to add that although the draft Report has "taken cognizance of the apprehensions" expressed in certain quarters that the proposal to enable dilution of the Government's/RBI's holding in the Bank from 55% to 51% in particular would leave the possibility of affecting the State owned character of the bank and tantamount to creeping privatization of the Bank it has proceeded with the point of view of the Govt. as well as the management of SBI only.

But even after taking cognizance of the apprehension the Report should have strongly disapproved of the step which has not been done in the Report. Hence my Note of Dissent.

Sd/-
(Shri Lakshman Seth)

Sd/-
(Shri Rupchand Pal)

NOTE OF DISSENT

Submitted by Shri Moinul Hassan, MP

This is to express my opposition to the recommendation contained in Clause 59 of the Draft Report of the Standing Committee on the State Bank of India (Amendment) Bill, 2006, which says:-

“The Committee while endorsing the amendment proposals under Clauses 3 and 4 of the Bill enabling for a reduction of the statutorily prescribed minimum equity holding of RBI (now Central Government) in SBI from 55% to 51% and infusion of capital by way of private placement, issue of preference shares etc.....”

While the Standing Committee Report in Clause 58 has taken into account the objections raised by the officers and employees of the SBI to this amendment, because it amounts to ‘creeping privatisation’ and would dilute the ‘State owned character’ of the SBI, it has chosen to endorse the Government’s position on the matter. I am not in agreement with this view.

Sd/-

(Shri Moinul Hassan)

APPENDIX I

MINUTES OF THE TWENTY-FOURTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 15 May, 2007 from 1600 to 1710 hrs.

PRESENT

Shri Bhartruhari Mahtab—*Acting Chairman*

MEMBERS

Lok Sabha

2. Shri Rupchand Pal
3. Shri P.S. Gadhavi
4. Shri K.S. Rao
5. Shri Magunta Sreenivasulu Reddy
6. Shri Jyotiraditya Madhavrao Scindia

Rajya Sabha

7. Shri Santosh Bagrodia
8. Shri Vijay J. Darda

SECRETARIAT

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

WITNESSES

Ministry of Finance

(Department of Economic Affairs – Banking Division)

1. Shri Vinod Rai, Secretary (Financial Sector)
2. Shri Amitabh Verma, Joint Secretary (BO&A)

2. In the absence of the Chairman, the Committee chose Shri Bhartruhari Mahtab to act as Chairman for the sitting under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. At the outset, the Acting Chairman welcomed the representatives of the Ministry of Finance (Department of Economic Affairs – Banking Division) and invited their attention to the provisions contained in the Direction 55 of the Directions by the Speaker.

4. Then, the representatives of the Ministry of Finance (Department of Economic Affairs – Banking Division) briefed the Committee on the various provisions of the 'State Bank of India (Amendment) Bill, 2006'.

5. The Members asked clarificatory questions which were replied to by the representatives. The Acting Chairman, then, directed the representatives that the information with regard to queries of the Members which was not readily available with them may be furnished to the Committee later on, *viz.*, on the capital requirements of the State Bank of India in the future, changes proposed in the Bill for enabling transfer of RBI's stake in SBI, and the extent to which the amendment proposals would help in strengthening and improving the functioning of State Bank of India.

6. The briefing was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-FIFTH SITTING OF THE
STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, the 31 May, 2007 from 1100 to
1225 hrs. and 1500 to 1725 hrs.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Shyama Charan Gupta
4. Shri A. Krishnaswamy
5. Shri Bhartruhari Mahtab
6. Shri P.S. Gadhavi
7. Shri M.A. Kharabela Swain
8. Shri Bhal Chandra Yadav

Rajya Sabha

9. Shri Santosh Bargodia
10. Shri Raashid Alvi
11. Shri Yashwant Sinha
12. Shri Mangani Lal Mandal
13. Shri C. Ramachandraiah
14. Shri S. Anbalagan

SECRETARIAT

- | | | |
|----------------------------|---|-------------------------|
| 1. Shri P.K. Grover | — | <i>Joint Secretary</i> |
| 2. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 3. Shri T.G. Chandrasekhar | — | <i>Deputy Secretary</i> |

Part-I
(1100 to 1225 hours)

WITNESSES

- 1. All India Bank Officers' Association**
 - (i) Shri N.S. Virk, Organising Secretary
 - (ii) Shri Shisodia, State Secretary
- 2. All India Bank Officers' Confederation and All India State Bank Officers' Federation**
 - (i) Shri Amar Pal, President
 - (ii) Shri G.D. Nadaf, General Secretary
 - (iii) Shri T.N. Goyal, Vice President
- 3. All India State Bank of India Staff Federation**
 - (i) Shri Umesh P. Naik, President
 - (ii) Shri V.K. Gupta, Sr. Vice President
- 4. Bank Employees Federation of India**

Shri M.L. Malkotia, Joint Secretary

2. At the outset, the Chairman welcomed the representatives of (i) All India Bank Officers' Association, (ii) All India Banks Officers' Confederation, (iii) All India State Bank Officers' Federation, and (iv) Bank Employees Federation of India to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of (i) All India Bank Officers' Association, (ii) All India Banks Officers' Confederation, (iii) All India State Bank Officers' Federation, and (iv) Bank Employees Federation of India on the State Bank of India (Amendment) Bill, 2006. The Members asked clarificatory questions which were replied to by the representatives.

4. Thereafter, the Chairman requested the representatives to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

5. The main issues that were discussed pertain to (i) capital adequacy norms, (ii) issue of preference shares, (iii) authorised capital of SBI, (iv) RBI's shareholding (v) voting rights, (vi) appointment of Directors and (vii) video conferencing.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

Part-II
(1500 to 1725 hrs.)

WITNESSES

1. State Bank of India

- (i) Shri O.P. Bhatt, Chairman
- (ii) Shri Mohandas, DGM (Law)
- (iii) Shri S.S. Ranjan, CGM (Financial Controller)

2. Indian Banks' Association

Shri M.R. Umarji, Chief Advisor-Legal

8. At the outset, the Chairman welcomed the representatives of State Bank of India and Indian Banks' Association to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

9. The Committee then took oral evidence of the representatives of the State Bank of India and India Banks' Association on the various

provisions contained in the State Bank of India (Amendment) Bill, 2006. 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.

10. The main issues discussed during the meeting were (i) capital adequacy norms under Basel II, (ii) preference shares, (iii) to increase authorised capital of SBI, (iv) RBI's shareholding, (v) voting rights, (vi) appointment of MDs and Directors, (vii) abolition of post of Vice-Chairman, (viii) video conferencing and (ix) unpaid/unclaimed dividend etc.

11. The evidence was concluded.

12. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-EIGHTH SITTING OF THE
STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, the 19th June, 2007 from 1500 to
1630 hrs.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri M.A. Kharabela Swain

Rajya Sabha

7. Shri Santosh Bagrodia
8. Shri Raashid Alvi
9. Shri Yashwant Sinha
10. Shri Mangani Lal Mandal
11. Shri C. Ramachandraiah
12. Shri Vijay J. Darda

SECRETARIAT

- | | | |
|---------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 2. Shri P.K. Grover | — | <i>Joint Secretary</i> |
| 3. Shri S.B. Arora | — | <i>Deputy Secretary</i> |

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

1. Shri Vinod Rai, Secretary, Financial Sector
2. Shri Amitabh Verma, Joint Secretary (BO&A)

Reserve Bank of India

1. Smt. Shyamala Gopinath, Deputy Governor
2. Shri Prashant Saran, Chief General Manager
3. Shri Subrata Das, Deputy General Manager

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Department of Economic Affairs – Banking Division) and RBI to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of Ministry of Finance (Department of Economic Affairs - Banking Division) and RBI on the various provisions contained in the State Bank of India (Amendment) Bill, 2006. 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 main issues discussed during the meeting related to deficit neutral transfer of shares held by RBI to the Government of India; nomination of an executive of RBI on the board of SBI; allotment of preference shares and voting rights; necessity of reducing the RBI's shareholding and perceived clash of interest between the provisions of the Bill with that of the provisions of the Companies Act.

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

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE FIRST SITTING OF THE STANDING
COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 22nd August, 2007 from
1700 hrs. to 1745 hrs.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Shyama Charan Gupta
4. Shri Vijoy Krishna
5. Shri A. Krishnaswamy
6. Shri Bhartruhari Mahtab
7. Shri Madhusudan Mistry
8. Shri Rupchand Pal
9. Shri P.S. Gadhavi
10. Shri K.S. Rao
11. Shri Jyotiraditya Madhavrao Scindia
12. Shri Lakshman Seth
13. Shri A.R. Shaheen
14. Shri G.M. Siddeshwara
15. Shri M.A. Kharabela Swain

Rajya Sabha

16. Shri Mahendra Mohan
17. Shri C. Ramachandraiah
18. Shri Vijay J. Darda
19. Shri Moinul Hassan

SECRETARIAT

1. Shri P.K. Grover — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Deputy Secretary*

2. At the outset, the Chairman welcomed the members and congratulated them on their nomination to the Committee for the year 2007-08.

3. ** ** ** ** **

4. ** ** ** ** **

5. The Committee, thereafter, took up for consideration the draft report on the State Bank of India (Amendment) Bill, 2006. The Committee, after deliberation, adopted the draft report with the modifications/amendments shown in the Annexure.

6. As some members did not agree with some of the provisions of the Bill, they desired to submit their notes of dissent. The Chairman informed them that they could send the notes of dissent by 23 August, 2007.

7. The Committee then authorised the Chairman to finalise the Report in the light of the suggestions received from the Members and factual verification by the Ministry and also to make consequential verbal changes and present the report to Parliament.

The Committee then adjourned.

**[MODIFICATIONS/AMENDMENTS MADE BY STANDING
COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON
THE STATE BANK OF INDIA (AMENDMENT) BILL, 2006
AT THEIR SITTING HELD ON 22 AUGUST, 2007]**

Page	Para	Line	Amendment/Modification
1	2	3	4
5	10	9	<p><i>After</i></p> <p style="text-align: center;">‘Banking Regulation (Amendment) Bill, 2005,</p> <p style="text-align: center;">Insert</p> <p style="text-align: center;">‘which is get to be enacted,’</p>
11	28	19	<p><i>For</i></p> <p>‘...the State bank <i>per se</i> holds a distinctive legacy in the Country’s banking system. The Committee, therefore, trust and hope that the pressures of the new capital adequacy framework and the changing business requirements of the banking system, do not, in anyway, undermine or reorient the distinctive position and role played by the State Bank in the Banking System.”</p> <p style="text-align: center;"><i>Read</i></p> <p>‘.....the State Bank of India in general holds a distinctive legacy in the banking system and in expanding the banking network in rural areas and advancing credit to the weaker sections in particular. The Committee, hence, desire that the objectives and</p>

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goals that aim for endeavouring for the upliftment of the downtrodden and the deprived which were envisaged during the yester years may not be lost sight of by the bank while coping with the pressures of the new capital adequacy framework and the changing business requirements of the banking system.”

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For

‘Though the Committee endorse the perception of the Government regarding transfer of ownership from RBI to the Government, they cannot help point out that the approval for effecting the proposed transfer of shareholding in SBI could very well have been obtained beforehand and the consequential amendments required in the SBI Act, 1955, incorporated as a part of the current Bill referred to them instead of issuing an Ordinance effecting changes in the SBI Act. The Committee would also emphasize that, as assured by the Government, it should be ensured that the likely adverse implications of the ‘transfer of stakes’ in SBI from the RBI to the Government, as expressed by the Tarapore Committee do not, in anyway, prove to come true.’

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Read

'The Committee find the clarification given by the Ministry of Finance for non-inclusion of the amendments required for facilitating the transfer of RBI's equity holding in SBI to the Central Government in the current Bill to be not at all acceptable. The Government knew beforehand that the Ordinance route was to be pursued for effecting this proposal, even while various related aspects as contained in the Bill referred were being examined. While taking exception to and expressing their displeasure on the Government's approach of bypassing the scrutiny of important issues, the Committee also emphasise that, as assured by the Government, it should be ensured that the likely adverse implications of the 'transfer of stakes' in SBI from the RBI to the Government, as expressed by the Tarapore Committee do not, in any-way, prove to come true.

37

82

Last
Line*After*

'.....video conferencing etc.'

Insert

'The Committee also desire that issues of secrecy and confidentiality of the proceedings of the meetings held through video conferencing also be vouchsafed and necessary provisions/regulations to this effect incorporated.'

APPENDIX-II

AS INTRODUCED IN LOK SABHA
on
18 December, 2006

Bill No. 99 of 2006

THE STATE BANK OF INDIA (AMENDMENT) BILL, 2006

A

BILL

further to amend the State Bank of India Act, 1955.

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

1. (1) This Act may be called the State Bank of India (Amendment) Act, 2006. Short title and commencement.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint:

Provided that different dates may be appointed for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision.

Amendment of section 2. 2. In section 2 of the State Bank of India Act, 1955 (hereinafter referred to as the principal Act), clause (i) shall be omitted. 23 of 1955.

Substitution of section 4. 3. For section 4 of the principal Act, the following section shall be substituted, namely:—

Authorised capital. "4. Subject to the provisions of this Act, the authorised capital of the State Bank shall be five thousand crores of rupees divided into five hundred crores of fully paid-up shares of ten rupees each:

Provided that the Central Board may reduce the nominal or face value of the shares, and divide the authorised capital into such denomination as it may decide with the approval of the Reserve Bank:

Provided further that the Central Government may in consultation with the Reserve Bank increase or reduce the authorised capital so however that the shares in all cases shall be fully paid-up shares."

Amendment of section 5. 4. In section 5 of the principal Act,—

(a) for sub-section (2), the following sub-section shall be substituted, namely:—

"(2) The issued capital of the State 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:

Provided further that the Central Board may from time to time increase, with the previous approval of the Reserve Bank and the Central Government, whether by public issue or preferential allotment or private placement, in accordance with the procedure as may be prescribed, the issued capital by the issue of equity or preference shares:

Provided also that the Reserve Bank shall, at all times, hold not less than fifty-one per cent. of the issued capital consisting of equity shares of the State Bank.”;

(b) after sub-section (3), the following sub-sections shall be inserted, namely:—

“(4) Subject to the provisions contained in sub-section (2), the Central Board may increase from time to time, by way of issuing bonus shares to existing equity shareholders, the issued capital in such manner as the Reserve Bank may, with the approval of the Central Government, direct.

(5) The State Bank may, accept the money in respect of shares issued towards increase in the issued capital in instalments, make calls, forfeit unpaid shares and re-issue them, in such manner as may be prescribed.”.

5. In section 10 of the principal Act, in sub-section (2), for the words “fifty-five per cent. of the issued capital”, the words “fifty-one per cent. of the issued capital consisting of equity shares,”, shall be substituted.

Amendment
of section 10.

Insertion of new section 10A. 6. After section 10 of the principal Act, the following section shall be inserted, namely:—

Right of registered shareholders to nominate. “10A. (1) Every individual registered shareholder may, at any time, nominate, in the prescribed manner, an individual to whom all his rights in the shares shall vest in the event of his death.

(2) Where the shares are registered in the name of more than one individual jointly, the joint holders may together nominate in the prescribed manner, an individual to whom all their rights in the shares shall vest in the event of the death of all the joint holders.

(3) Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, where a nomination in respect of shares is made in the prescribed manner and which purports to confer on the nominee the right to vest the shares, the nominee shall, on the death of the shareholder or, as the case may be, on the death of all the joint holders, become entitled to all the rights of the shareholder or, as the case may be, of all the joint holders, in relation to such shares and all other persons shall be excluded unless the nomination is varied or cancelled in the prescribed manner.

(4) Where the nominee is a minor, it shall be lawful for the individual registered holder of the shares to make nomination to appoint, in the prescribed manner, any person to become entitled to the shares in the event of his death during the minority of the nominee.”.

7. In section 11 of the principal Act, after the proviso, the following provisos shall be inserted, namely:—

Amendment
of section 11.

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

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

8. In section 13 of the principal Act, in sub-section (2), for the words “in computer floppies or diskets”, the words “in computer floppies or diskettes or any other electronic form” shall be substituted.

Amendment
of section 13.

9. In section 16 of the principal Act,—

Amendment
of section 16.

(a) In sub-section (1), for the words “Bombay, the words “Mumbai, and shall also be known as Corporate Centre” shall be substituted;

(b) In sub-section (2), for the word “Bombay”, Calcutta and Madras”, the words “Mumbai, Kolkata and Chennai” shall be substituted;

10. In section 19 of the principal Act,—

Amendment
of section 19.

(a) in clause (a), the words “and a vice-chairman” shall be omitted;

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

“(b) Such number of managing directors not exceeding four, as may be appointed by the Central Government in consultation with the Reserve Bank;”;

(c) clause (bb) shall be omitted.

Insertion of
new sections
19A and 19B.

11. After section 19 of the principal Act, the following sections shall be inserted, namely:—

Qualifications
for elections
as directors.

“19A. (1) The directors elected under clause (c) of section 19 shall—

(a) have special knowledge or experience in respect of one or more of the following areas, namely:—

- (i) agriculture and rural economy,
- (ii) banking,
- (iii) co-operation,
- (iv) economics,
- (v) finance,
- (vi) law,
- (vii) small-scale industry,

(viii) any other area the special knowledge of, and experience in, which in the opinion of the Reserve Bank shall be useful to the State Bank;

(b) represent the interests of depositors; or

(c) represent the interests of farmers, workers and artisans.

(2) Without prejudice to the provisions of sub-section (1), the Reserve Bank may from time to time notify any additional criteria for persons to be elected as director under clause (c) of section 19.

(3) Where the Reserve Bank is of the opinion that any director of the State Bank elected under clause (c) of section 19 does not fulfill the requirements of sub-sections (1) and (2), it may, after giving to such director and the State Bank a reasonable opportunity of being heard, by order, remove such director.

(4) On the removal of a director under sub-section (3), the Central Board shall co-opt any other person fulfilling the requirements of sub-sections (1) and (2), as a director in place of the person so removed, till a director is duly elected by the shareholders of the State Bank in the next annual general meeting; and the person so co-opted shall be deemed to have been duly elected by the shareholders of the State Bank as a director.

19B. (1) If the Reserve Bank is of the opinion that in the interest of banking policy or in the public interest or in the interests of the State Bank or its depositors, it is necessary so to do, it may, from time to time and by order in writing appoint, with effect from such date as may be specified in the order, one or more persons as additional directors of the State Bank.

Power of Reserve Bank to appoint additional directors.

(2) Any person appointed as additional director under sub-section (1) shall,—

(a) hold office during the pleasure of the Reserve Bank and subject thereto for a period not

exceeding three years or such further periods not exceeding three years at a time as the Reserve Bank may, by order, specify.

(b) not incur any obligation or liability by reason only of his being an additional director or for anything done or omitted to be done in good faith in the execution of the duties of his office or in relation thereto; and

(c) not be required to hold qualification shares in the State Bank.

(3) For the purpose of reckoning any proportion of the total number of directors of the State Bank, any additional director appointed under this section shall not be taken into account.”.

Amendment
of section 20.

12. In section 20 of the principle Act,—

(a) in sub-section (1), the words “the vice-chairman” shall be omitted;

(b) in sub-section (1A), the word “vice-chairman”, occurring at both the places, shall be omitted.

Amendment
of section 21.

13. In section 21 of the principal Act, in sub-section (1), for clause (a), the following clause shall be substituted, namely:—

“(a) the chairman, *ex officio* or the managing director nominated by the chairman;”.

Substitution of
new section
for section
21B.

14. For section 21B of the principle Act, the following section shall be substituted, namely:—

Powers of
Local Board.

“21B. In respect of the area falling within the jurisdiction of the local head office for which the

Local Board has been constituted, a Local Board shall, subject to such general or special direction as the Central Board may give from time to time, exercise such powers and perform such duties and functions as may be entrusted or delegated to it by the Central Board.”.

15. In section 21C of the principal Act, for sub-section (2), the following sub-section shall be substituted, namely:— Amendment of section 21C.

“(2) The chairman or the managing director nominated by him shall be an *ex officio* member of every such Local Committee.”.

16. In section 22 of the principal Act, in sub-section (1),— Amendment of section 22.

(a) in clause (d), the word “vice-chairman” shall be omitted;

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

“(h) in the case of an elected director, he is not registered as a holder in his own right of unencumbered shares in the State Bank, either as sole holder or as first named holder when jointly held, of a nominal value of at least five thousand rupees:”.

17. In section 23 of the principal Act, in clause (b), the word “vice-chairman” shall be omitted. Amendment of section 23.

18. In section 24 of the principal Act, in sub-section (1), the word “vice-chairman” shall be omitted. Amendment of section 24.

Insertion
of new
section 24A. 19. After section 24 of the principal Act, the following section shall be inserted, namely:—

Supersession
of Board in
certain cases. “24A. (1) Where the Central Government, on the recommendation of the Reserve Bank is satisfied that in the public interest or for preventing the affairs of the State Bank being conducted in a manner detrimental to the interest of the depositors or the State Bank or for securing the proper management of the State Bank, it is necessary so to do, the Central Government may, for reasons to be recorded in writing, by order, supersede the Central Board for a period not exceeding six months as may be specified in the order:

Provided that the period of supersession of the Central Board may be extended from time to time, so, however, that total period shall not exceed twelve months.

(2) The Central Government may, in consultation with the Reserve Bank, on supersession of the Central Board under sub-section (1), appoint an Administrator (not being an officer of the Central Government or a State Government) who has experience in law, finance, banking, economics or accountancy, for such period as it may determine.

(3) The Central Government may issue such directions to the Administrator as it may consider necessary and the Administrator shall be bound to follow such directions.

(4) Notwithstanding anything contained in this Act, upon making the order of supersession of the Central Board—

(a) the chairman, managing director and other directors shall, as from the date of supersession, vacate their offices as such;

(b) all the powers, functions and duties which may, by or under the provisions of this Act or any other law for the time being in force, be exercised and discharged by or on behalf of the Central Board, or by a resolution passed in the general meeting of the State Bank, shall, until the Central Board is reconstituted, be exercised and discharged by the Administrator appointed under sub-section (2):

Provided that the powers exercised by the Administrator shall be valid notwithstanding that such power is also exercisable by a resolution passed in the general meeting of the State Bank.

(5) The Central Government may, in consultation with the Reserve Bank, constitute a committee of three or more persons who have experience in law, finance, banking, economics or accountancy to assist the Administrator in the discharge of his duties.

(6) The Committee shall meet at such times and places and observe such rules of procedure as may be specified by the rules made under this Act.

(7) The salary and allowances of the Administrator and the members of the committee shall be such as may be specified by the rules made under this Act and be payable by the State Bank.

(8) On and before the expiration of two months before the expiry of the period of supersession of the Central Board, the Administrator of the State Bank shall call the general meeting of the State Bank to elect new directors and re-constitute the said Board.

(9) Notwithstanding anything contained in any other law for the time being in force or in any contract, no person shall be entitled to claim any compensation for the loss or termination of his office on supersession of the Central Board.

(10) The Administrator appointed under sub-section (2) shall vacate office immediately after the re-constitution of the Central Board.”.

Amendment
of section 25.

20. In section 25 of the principal Act, in sub-sections (1) and (2), the word “vice-chairman” occurring at both the places shall be omitted.

Omission of
section 28.

21. Section 28 of the principal Act shall be omitted.

Amendment
of section 29.

22. In section 29 of the principal Act, in sub-section (1),—

(a) in clause (a), the word “and” shall be omitted;

(b) in clause (b),—

(i) the words “and the vice-chairman” shall be omitted;

(ii) at the end, the word “and” shall be inserted;

(c) after clause (b), the following clause shall be inserted, namely:—

“(c) when authorised by the chairman, shall preside at the meetings of the Central Board in his absence.”.

Amendment
of section 31.

23. In section 31 of the principal Act,—

(a) for sub-sections (1) and (2), the

following sub-sections shall be substituted, namely:—

“(1) The Central Board shall meet at such time and place and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed; and the meeting of the Central Board may be held by participation of the directors of the Central Board through video-conferencing or such other electronic means, as may be prescribed, which are capable of recording and recognizing the participation of the directors and the proceedings of such meetings are capable of being recorded and stored:

Provided that the Central Government may in consultation with Reserve Bank, by a notification in the Official Gazette, specify the matters which shall not be discussed in a meeting of the Central Board held through video-conferencing or such other electronic means.

(2) All questions at the meeting shall be decided by a majority of the votes of the directors present in the meeting or through video conferencing or such other electronic means and in the case of equality of votes the Chairman or, in his absence, the Managing Director authorised by the Chairman shall have a second or casting vote.”;

(b) in sub-section (4), for the word “vice-chairman”, the words “managing director authorised by the chairman” shall be substituted.

24. In section 31A of the principal Act, in sub-section (5), for the words “the vice-chairman if he is a member of the Local Board”, the words “the

Amendment
of section 31A.

managing director authorised by the chairman” shall be substituted.

Insertion of new section 38A.

25. After section 38 of the principal Act, the following section shall be inserted, namely:—

Transfer of unpaid or unclaimed dividend.

‘38A. (1) Where, after the commencement of the State Bank of India (Amendment) Act, 2006, a dividend has been declared by the State Bank but which has not been paid to a shareholder or claimed by any shareholder entitled to it, within thirty days from the date of declaration, the State Bank shall, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid, or unclaimed, to a special account to be named, the “unpaid dividend account” maintained by it.

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 State Bank before the commencement of the State Bank of India (Amendment) Act, 2006, remains unpaid at such commencement, the State 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 State 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 State Bank to

1 of 1956. the Investor Education and Protection Fund established under sub-section (1) of section 205C of the Companies Act, 1956 for being utilised for the purpose and in the manner specified in that section.”.

26. In section 39 of the principal Act, for the word “December”, the word “March” shall be substituted. Amendment of section 39.

27. In section 40 of the principal Act,— Amendment of section 40.

(a) in sub-section (1), for the word “December”, the word “March” shall be substituted;

(b) for sub-section (2), the following sub-section shall be substituted, namely:—

“(2) The balance sheet and the profit and loss account shall be signed by the Chairman, managing directors and at least three other directors of the Central Board.”.

28. For section 42 of the principal Act, the following section shall be substituted, namely:— Substitution of new section for section 42.

“42. (1) An annual general meeting shall be held in each financial year at the Corporate Centre or at such other place in Mumbai other than the Corporate Centre or at such other place in India and at such time, as shall from time to time be specified by the Central Board and a general meeting other than an annual general meeting may be convened by the State Bank at any other time and at such place in India as shall from time to time be specified by the Central Board: Balance sheet, etc., of State Bank may be discussed at general meeting.

Provided that such annual general meeting shall be held before the expiry of six weeks from

the date on which the balance sheet together with the profit and loss account and auditors' report, under sub-section (1) of section 40, is forwarded to the Central Government or to the Reserve Bank, whichever date is earlier.

(2) The shareholders present at an annual general meeting shall be entitled to discuss and adopt the balance sheet and the profit and loss account of the State Bank made up to the previous 31st day of March or the date specified under section 39, as the case may be, the report of the Central Board on the working and activities of the State Bank for the period covered by the accounts and the auditors' report on the balance sheet and accounts."

Amendment
of section 43.

29. In section 43 of the principal Act, sub-section (2), the following sub-section shall be substituted, namely:—

"(2) The officers, advisers and employees of the State Bank shall individually or jointly or with other officers, advisers and employees in a Local Committee exercise such powers and perform such duties as may by general or special order, be entrusted or delegated to them by the Central Board or its executive committee."

Amendment
of section 49.

30. In section 49 of the principal Act, in sub-section (2), after clause (c), the following clause shall be inserted, namely:—

"(d) the time and place of meeting of the Committee and the rules of procedure to be observed by it under sub-section (6); the salary and allowances of the Administrator and the members of the committee under sub-section (7) of section 24A."

31. In section 50 of the principal Act, in sub-section (2),— Amendment
of section 50.

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

“(aa) procedure for increasing issued capital by the issue of equity or preference shares under sub-section (2); the manner of accepting money for issued capital, forfeiture and re-issue of shares under sub-section (5) of section 5;

(ab) the manner of nominating an individual by one individual jointly under sub-sections (1) and (2); manner of nominating a minor under sub-section (4); and the manner of varying or cancellation of nomination under sub-section (3) of section 10A;”;

(ii) in clause (b), for the words “floppies of diskettes”, the words “floppies or diskettes or any other electronic form” shall be substituted;

(iii) in clause (i), after the words “meetings shall be convened”, the words “and the participation through such other electronic means,” shall be inserted.

STATEMENT OF OBJECTS AND REASONS

The State Bank of India Act, 1955 (hereinafter referred to as the SBI Act) was last amended in 1993 to enable the State Bank of India to access capital market. While State Bank of India can access capital market by issuing equity shares or bonds, or by both equity share and bonds, there is no express provision under the SBI Act to enable the State Bank to issue preference shares and also bonus shares.

2. The Basel Capital Accord, the current international framework on Capital Adequacy, was adopted in the year 1988 by many banks worldwide and by India in the year 1992.

Thereupon the Reserve Bank of India had introduced a set of norms for income recognition, provisioning and also for capital adequacy in relation to risk weighted assets. These norms were designed to put the financial accounting and prudential standards of Indian banks on a sound footing in line with current international practices.

3. The Basel Committee on Banking Supervision has worked on a new framework for international convergence on capital standards and in June, 2004 released the new capital adequacy framework known as Basel II.

With the introduction of the Basel II, all the public sector banks including the State Bank of India and its subsidiary banks could be required to increase their capital base to meet the 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.

4. The State Bank of India (Amendment) Bill, 2006 seeks to provide for enhancement of the capital of the State Bank by issue of preference shares, to enable it to raise resources from the market by public issue

or preferential allotment or private placement. The Bill also aims to provide for flexibility in the management of the bank. The Bill proposes to amend the, SBI Act, *inter alia*, to—

- (i) increase the authorised capital of State Bank of India to rupees five thousand crores divided into shares of ten rupees each or of such denomination as may be decided by the Central Board, with the approval of the Reserve Bank and also enable the Central Government to increase or reduce the authorised capital in consultation with the Reserve Bank;
- (ii) allow the issued capital of the State Bank to be raised by preferential allotment of share or private placement or public issue in accordance with the procedure as may be prescribed by regulations with the previous approval of the Reserve Bank and the Central Government, and the preference shares may be issued in accordance with guidelines framed by the Reserve Bank;
- (iii) allow the State Bank to issue bonus shares to the existing equity shareholders with the direction of the Reserve Bank and with the approval of the Central Government;
- (iv) allow reduction of Reserve Bank's shareholding from fifty-five per cent to fifty-one per cent consisting of the equity shares of the issued capital;
- (v) allow the State Bank to accept share monies in instalments, make calls and forfeiture of unpaid shares and their re-issue;
- (vi) provide for nomination facility in respect of shares held by individual or joint shareholders;
- (vii) restrict the voting rights of preference shareholders of the State Bank only to resolutions directly affecting their rights and also restrict the preference shareholder to exercise voting rights in respect of preference shares held by him to a ceiling of ten per cent of total voting rights of all shareholders holding preference share capital only;
- (viii) allow the Central Government to appoint not more than four Managing Directors in consultation with the Reserve Bank;

- (ix) abolish the post of Vice-Chairman;
 - (x) enable a sole shareholder or a first named holder of shares (when held jointly) of a nominal value of at least Rs. 5000/- to contest the election for the directorship of State Bank;
 - (xi) specify the qualifications for election of directors of the State Bank and to confer powers upon Reserve Bank to notify eligibility criteria for suchy directors;
 - (xii) allow the Reserve Bank to appoint additional directors as and when considered necessary in the interest of banking policy and depositors' interest;
 - (xiii) confer power upon the Central Government to supersede the Central Board in certain cases on the recommendations of the Reserve Bank and to appoint an administrator for the period during which the Central Board stands superseded;
 - (xiv) allow the State Bank to hold Central Board meetings through video conferencing or such other electronic means as may be prescribed by regulations;
 - (xv) allow tranfer of unpaid or unclaimed dividend of the State Bank upto thirty days to 'unpaid dividend account' and after seven years to the 'Investor Education and Protection Fund' established under section 205C of the Companies Act, 1956;
 - (xvi) entitle the shareholders present in an annual general meeting to 'adopt' the balance sheet.
5. The Bill seeks to achieve the above objects.

NEW DELHI;
The 6th December, 2006.

P. CHIDAMBARAM.

Notes on Clauses

Clause 2.— This clause seeks to omit clause (i) of section 2 of the State Bank of India Act, 1955 (hereinafter referred to as the Act) as the post of Vice-Chairman is proposed to be abolished.

Clause 3.— This clause seeks to substitute section 4 of the Act for enhancing the authorised capital of the State Bank from twenty crores of rupees divided into two crores of fully paid-up shares of rupees ten each, to five thousand crores of rupees divided into five hundred crores of fully paid-up shares of ten rupees each.

It is also proposed to provide that the Central Board may reduce the nominal or face value of the shares, and divide the authorised capital into such denomination as it may decide with the approval of the Reserve Bank.

It is further proposed to provide that the Central Government may in consultation with the Reserve Bank increase or reduce the authorised capital so however that the shares in all cases shall be fully paid-up shares.

Clause 4.— This clause seeks to amend section 5 of the Act relating to the issued capital of the State Bank.

Under the existing provisions contained in sub-section (2) of section 5 of the Act, the Central Board may from time to time increase the issued capital but no increase in the issued capital shall be made in such a manner that the Reserve Bank holds at any time less than fifty-five per cent. of the issued capital of the State Bank.

It is proposed to substitute sub-section (2) of section 5 of the Act so as to incorporate a provision to enable the State Bank to issue, in

addition to equity shares, preference shares as per guidelines framed by the Reserve Bank specifying the class of preference shares, the extent of issue of each class of preference shares (whether perpetual or irredeemable or redeemable) and the terms and conditions subject to which each class of preference shares may be issued.

It is further proposed to enable the Central Board to increase the issued capital by public issue or preferential allotment or private placement by issue of equity or preference shares with the previous approval of the Reserve Bank and the Central Government.

It is also proposed to provide that the Reserve Bank shall, at all times, hold not less than fifty-one per cent of the issued capital consisting of equity shares of the State Bank.

It is also proposed to insert a new sub-sections (4) and (5) to section 5 of the Act so as to enable State Bank to issue bonus shares to existing equity shareholders as per direction issued by Reserve Bank with the approval of the Central Government; and also to enable the State Bank to accept the money in respect of shares issued towards the increase in the issued capital in instalments, make calls forfeit unpaid shares and re-issue them in such manner as may be prescribed.

Clause 5.— This clause seeks to amend section 10 of the Act relating to the transferability of shares. It is proposed to amend sub-section (2) of section 10 of the Act so as to reduce the Reserve Bank's existing equity shareholding from fifty-five per cent to fifty-one per cent of the issued capital consisting of equity shares of the State Bank.

Clause 6.— This clause seeks to insert a new section 10A in the Act to enable an individual registered shareholder and individual joint holders to nominate an individual to whom all his or their rights in the shares shall vest in the event of the death of such individual or joint holders. The nominee on the death of the shareholder or all joint shareholders will become entitled to all the rights of the shareholder or

joint holders as the case may be. It also contains provisions relating to nominee who is a minor.

Clause 7.— This clause seeks to amend section 11 of the Act relating to restriction on exercise of voting rights by shareholders. It is proposed to insert provisos so as to provide that a shareholder holding any preference share capital shall have a right to vote only on resolutions placed before the State Bank which directly affect the rights attached to his preference shares and such preference shareholder shall not be entitled to exercise voting rights in respect of preference shares held by him in excess of ten per cent. of the total voting rights of all the shareholders holding preference share capital only.

Clause 8.— This clause seeks to amend sub-section (2) of section 13 of the Act so as to provide for maintenance of Register of shareholders in any other electronic form in addition to computer floppies or diskettes.

Clause 9.— This clause seeks to amend section 16 of the Act to reflect the change of name of Bombay to Mumbai, Calcutta to Kolkata and Madras to Chennai and also to name Mumbai as State Bank Corporate Centre.

Clause 10.— This clause seeks to amend section 19 of the Act relating to composition of the Central Board. It is proposed to amend clause (a) of section 19 of the Act to indicate abolition of the post of Vice-Chairman.

Further, as per the existing provisions contained in clause (b) of section 19 of the Act, there can be two managing directors. It is proposed that there shall not be more than four managing directors as may be appointed by the Central Government in consultation with the Reserve Bank.

In the existing provisions of clause (bb) of section 19 of the Act, the Central Board shall consist of the Presidents of the Local Boards

appointed under sub-section (5) of section 21 as *ex-officio* member. Therefore, it is proposed to delete clause (bb) of section 19.

Clause 11.— This clause seeks to insert in the Act a new section 19A relating to qualification for elected director and also insert a new section 19B relating to power of the Reserve Bank to appoint additional directors.

The provisions contained in sub-section (1) of the said new section 19A, *inter-alia*, provide that the directors to be elected under clause (c) of section 19 shall have special knowledge or experience in respect of one or more of the areas, namely, agriculture and rural economy, banking, co-operation, economics, finance, law, small-scale industry, any other area the special knowledge of, and experience in which in the opinion of the Reserve Bank, be useful to the State Bank and such elected directors should represent the interest of the depositors; and represent the interest of the farmers, workers and artisans.

The provisions contained in sub-section (2) of the said new section 19A also provide that without *prejudice* to the provisions of sub-section (1), Reserve Bank may notify any additional criteria for persons to be elected under clause (c) of section 19 of the Act.

The provisions contained in sub-section (3) of the aforesaid new section 19A provide that where the Reserve Bank is of the opinion that any director of the State Bank elected under clause (c) of section 19 does not fulfill the requirements of sub-sections (1) and (2) of the proposed new section 19A, it may, after giving to such director and the State Bank a reasonable opportunity of being heard, by order, remove such director.

The provisions contained in sub-section (4) of the aforesaid new section 19A provide that on the removal of a director under sub-section (3) of the proposed new section 19A, the Central Board shall co-opt any other person fulfilling the requirements of the said

sub-sections as a director in place of the person so removed till a director is duly elected by the shareholders of the State Bank in the next annual general meeting and the person so co-opted shall be deemed to have been duly elected by the shareholders of the State Bank as a director.

The provisions contained in sub-section (1) of the said new section 19B provide that if the Reserve Bank is of the opinion that in the interest of banking policy or in the public interest or in the interest of the State Bank or its depositors, it is necessary so to do, it may from time to time and by order in writing appoint with effect from such date as may be specified in the order, one or more persons to hold office as additional directors of the State Bank.

The provisions contained in sub-section (2) of the aforesaid new section 19B provide that any person appointed as additional director in pursuance of this section shall hold office during the pleasure of the Reserve Bank and subject thereto for a period not exceeding three years at a time as the Reserve Bank may specify and shall not incur any obligation or liability by reason only of his being an additional director or for anything done or omitted to be done in good faith in the execution of the duties of his office or in relation thereto and he shall not be required to hold qualification shares in the State Bank.

The provisions contained in sub-section (3) of the aforesaid new section 19B provide that for the purpose of reckoning any proportion of the total number of directors of the State Bank, any additional director appointed under this section shall not be taken into account.

Clause 12.— Consequent to the proposed abolition of the post of the Vice Chairman, this clause seeks to delete the expression “Vice Chairman” from section 20 of the Act.

Clause 13.— This clause seeks to amend section 21 of the Act relating to composition of Local Boards.

The existing provisions contained in clause (a) of sub-section (1) of the said section provide that the Local Boards shall consist of Chairman, *ex officio* member.

It is proposed to substitute the said clause so as to provide that the Local Board shall consist of the Chairman, *ex officio* or the Managing Director nominated by the Chairman as a member of the Local Boards.

Clause 14.— This clause seeks to substitute the section 21B of the Act to provide the rationalisation of the powers of the Local Boards by empowering Local Boards to perform such duties and functions as may be entrusted or delegated to it by the Central Board.

Clause 15.— This clause seeks to amend section 21C of the Act.

It is proposed to substitute sub-section (2) of the aforesaid section so as to provide that the Local Committee shall consist of the Chairman, *ex officio* or the Managing Director, nominated by the Chairman as a member of every such Local Committee.

Clause 16.— This clause seeks to amend clause (d) of sub-section (1) of section 22 of the Act by deleting the word “vice chairman” consequent upon the proposed abolition of the post of vice-chairman.

Further, clause (h) of sub section (1) of section 22 of the Act is proposed to be substituted so that either a sole shareholder or a first named holder of the shares when held jointly of a nominal value of at least five thousand rupees can contest the election for directorship of the State Bank pursuant to clause (c) of section 19 of the Act.

Clause 17 and 18.— This clause seeks to amend clause (b) of section 23 and sub-section (1) of section 24 of the Act by deleting the word “vice chairman” consequent upon the post of vice-chairman being abolished.

Clause 19.— This clause seeks to insert a new section 24A in the Act relating to supersession of Central Board in certain cases.

The provisions contained in the said new section 24A, *inter alia*, provide that where the Central Government, on the recommendation of the Reserve Bank, is satisfied that in the public interest or for preventing the affairs of the State Bank being conducted in a manner detrimental to the interest of the depositors or the State Bank or for securing the proper management of the State Bank, it is necessary so to do, the Central Government may, for reasons to be recorded in writing, by order, supersede the Central Board for a period not exceeding six months as may be specified in the order. However, the period of supersession of the Central Board may be extended from time to time so however that the total period shall not exceed twelve months.

It further provides that the Central Government, in consultation with the Reserve Bank may, on supersession of the Central Bank, appoint an Administrator (not being an officer of the Central Government or a State Government) who has experience in law, finance, banking, economics or accountancy for such period as it may determine. The Central Government may issue such directions to the Administrator as it may consider necessary and the Administrator shall be bound to follow such directions. The Administrator appointed shall vacate office immediately after the Central Board has been reconstituted. The Central Government may in consultation with the Reserve Bank, constitute a Committee to assist the Administrator for managing the affairs of the State Bank during the period of supersession.

It also contains provisions in connection with or arising out of supersession of the Central Board.

Clause 20.— This clause seeks to amend sub-sections (1) and (2) of section 25 by deleting the word “vice chairman” occurring at both the places, consequent upon the post of vice-chairman being abolished.

Clause 21.— This clause seeks to delete section 28 of the Act relating to powers and remuneration of vice chairman consequent upon the post of vice-chairman being abolished.

Clause 22.— This clause seeks to amend section 29 of the Act so as to provide for powers of the Managing Director to preside in the absence of the Chairman over the Central Board meetings when authorised by the Chairman.

Clause 23.— This clause seeks to amend section 31 of the Act relating to meetings of the Central Board. It is proposed to substitute the said-sub-section (1) so as to provide that the meetings of the Central Board may be held by participation of the directors of the Central Board through video conferencing or through such other electronic means as may be prescribed, which are capable of recording and recognising the participation of the directors and the proceedings of such meetings are capable of being recorded and stored. Further, the Central Government may in consultation with the Reserve Bank, by a notification in the Official Gazette, specify the matter which shall not be discussed in a meeting of the Central Board held through video conferencing or such other electronic means.

It is further proposed to substitute sub-section (2) of the said section 31, so as to empower the directors present through video conferencing or such other electronic means for the purpose of voting.

It is further proposed to amend sub-section (4) to substitute the words 'vice-chairman' by the words 'managing director authorised by the Chairman' due to abolition of the said post.

Clause 24.— This clause seeks to amend sub-section (5) of section 31A of the Act so as to provide for powers of the Managing Director to preside over the Central Board Meetings when authorised by the Chairman.

Clause 25.— This clause seeks to insert a new section 38A in the Act to provide for the State Bank to transfer the dividend which remains unpaid or unclaimed, after seven days from the expiry of the period of thirty days from the declaration of such dividend to a special account to be named “unpaid dividend account” and after a period of seven years from the date of such transfer, to the “Investor Education and Protection Fund” established under sub-section (1) of section 205C of the Companies Act, 1956 to be utilised for the purpose and in the manner specified in that section.

Clause 26.— This clause seeks to change the present annual closing date as March in place of December by amending section 39 of the Act.

Clause 27.— This clause seeks to amend sub-section (1) of section 40 of the Act to incorporate the present annual closing date as March in place of December.

It is also proposed to amend sub-section (2) of section 40 of the Act relating to signing of balance sheet and profit and loss account by the vice chairman etc., by deleting the words “vice chairman” consequent upon the post of vice chairman being abolished and also to provide that the balance sheet and the profit and loss account shall be signed by the Chairman, managing directors and at least three other directors of the Central Board.

Clause 28.— This clause seeks to amend section 42 of the Act relating to Balance Sheet etc., to be discussed at general meetings.

The existing provisions contained in sub-section (1) of the said section provides that a general meeting referred to as annual general meeting shall be held at such time and place where there is local head office of the State Bank, as shall from time to time be specified by the Central Board and a general meeting be convened by the State Bank at any other time.

It is proposed to provide that an annual general meeting shall be held in each financial year at the Corporate Centre or at such other place in Mumbai other than the Corporate centre or at such other place in India at such time, as shall from time to time be specified by the Central Board and a general meeting other than an annual general meeting may convened by the State Bank at any other time and at such place in India as shall from time to time be specified by the Central Board.

Further, the existing provisions contained in sub-section (2) of the said section provides that shareholders present at an annual general meeting shall be entitled to discuss the balance sheet and profit and loss account of the bank.

It is proposed to provide that shareholders present at the annual general meeting shall be entitled to discuss and adopt the balance sheet and profit and loss account.

Clause 29.— This clause seeks to amend sub-section (2) of section 43 of the Act.

As per the existing provision the officers, advisers and employees of the State Bank shall exercise such powers and perform such duties as may by general or special order, be entrusted or delegated to them by the Central Board.

It is proposed to amend the aforesaid section so as to provide that the officers, advisers and employees of the State Bank shall individually or jointly or with other officers, advisers and employees in a Local Committee exercise such powers and perform such duties as may by general or special order, be entrusted or delegated to them by the Central Board or its executive committee.

Clause 30.— This clause seeks to insert clause (d) after clause (c) to sub-section (2) of section 49 of the Act, so as to provide for the time and place of meeting of the Committee and the rules of procedure to be observed by it under sub-section (6) of the proposed new section 24A,

and the salary and allowances of the Administrator and the members of the committee under sub-section (7) of the section 24A.

Clause 31.— This clause seeks to amend section 50 of the Act relating to power of Central Board to make regulations.

It is proposed to insert clause (aa) after clause (a) of sub-section (2) of section 50 of the Act, so as to provide that regulations may provide for procedure for increasing issued capital by the issue of equity or preference shares and the manner of accepting money for issued capital, forfeiture and re-issue of shares under sub-sections (2) and (5) of section 5.

It is further proposed to insert clause (ab) after clause (aa) mentioned above, so as to provide for regulation for the manner of nominating an individual by one individual or jointly, the manner of nominating minor, the manner of varying or cancellation of nomination under section 10A.

It is also proposed to amend clause (b) of sub-section (2) of section 50, so as to provide for keeping the register of shareholders in any other electronic form in addition to floppies or diskettes.

MEMORANDUM REGARDING DELEGATED
LEGISLATION

Clause 31 of the Bill seeks to amend section 50 of the State Bank of India Act, 1955 which empowers the Central Board to make regulations after having consultation with the Reserve Bank and with the previous sanction of the Central Government. The matters on which regulations may be made *inter alia* relate to (a) procedure for increasing issued capital by the issue of equity or preference shares under sub-section (2) of section 5 and the manner of accepting money for issued capital, forfeiture and re-issue of shares under sub-section (5) of section 5; (b) the manner of nomination, the variation or cancellation of nomination under section 10A; and (c) the maintenance of register of shareholders in computer floppies or diskettes or in any other electronic form.

2. The regulations made under section 50 of the said Act shall have to be laid, as soon as they are made, before both Houses of Parliament.

3. The matters in respect of which regulations may be made are matters of procedure or administrative detail and it is not practicable to provide for them in the Bill itself. The delegation of legislative power is, therefore, of a normal character.

ANNEXURE

EXTRACTS FROM THE STATE BANK OF INDIA ACT, 1955.

(23 of 1955)

2. In this Act, unless the context otherwise requires,— Definitions.

* * * * *

(i) "vice-chairman" means the vice-chairman of the Central Board;

* * * * *

4. Subject to the provisions of this Act, the authorised capital of the State Bank shall be twenty crores of rupees divided into two crores of fully paid-up shares of ten rupees each: Authorised capital.

Provided that the Central Government may increase or reduce the authorised capital as it thinks fit so however that the shares in all cases shall be fully paid-up shares of ten rupees each.

5. (1) * * * * * Issued capital.

(2) The Central Board may from time to time increase the issued capital but no increase in the issued capital shall be made in such a manner that the Reserve Bank holds at any time less than fifty-five per cent. of the issued capital of the State Bank.

* * * * *

CHAPTER IV

SHARES

10. (1)* * * * * Transferability of shares.

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

Restrictions on voting rights.

11. No shareholder, other than the Reserve Bank, shall be entitled to exercise voting rights in respect of any shares held by him in excess of ten per cent. of the issued capital:

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

Register of shareholders.

13. (1)* * * * *

(2) Notwithstanding anything contained in sub-section (1), it shall be lawful for the State Bank to keep the register of shareholders in computer floppies or diskettes subject to such safeguards as may be prescribed.

* * * * *

CHAPTER V

MANAGEMENT

Offices, branches and agencies.

16. (1) Unless otherwise provided by the Central Government by notification in the Official Gazette, the central office of the State Bank shall be at Bombay.

(2) The State bank shall have local head offices in Bombay, Calcutta and Madras and at

such other places in India as the Central Government, in consultation with the Central Board, may determine.

* * * * *

19. (1) The Central Board shall consist of the following, namely:—

Composition of the Central Board.

(a) a chairman and a vice-chairman to be appointed by the Central Government in consultation with the Reserve Bank.

(b) not more than two managing directors, if any, appointed by the Central Government in consultation with the Reserve Bank;

(bb) the presidents of the Local Boards appointed under sub-section (5) of section 21, *ex officio*;

* * * * *

20. (1) The chairman, vice-chairman and each managing director shall hold office for such term, not exceeding five years, as the Central Government may fix when appointing them and shall be eligible for reappointment.

Term of office of chairman, managing director, etc.

(1A) Notwithstanding anything contained in sub-section (1), the Central Government shall have the right to terminate the term of office of the chairman, vice-chairman or a managing director, as the case may be, at any time before the expiry of the term fixed under sub-section (1) by giving him notice of not less than three months in writing or three months salary and allowances in lieu of such notice; and the chairman, vice-chairman or a

managing director, as the case may be, shall also have the right to relinquish his office at any time before the expiry of the term so fixed by giving to the Central Government notice of not less than three months in writing.

* * * * *

Local
Boards.

21. (1) There shall be constituted at each place where the State Bank has a local head office, a Local Board which shall consist of the following members, namely:—

(a) the chairman, *ex officio*;

* * * * *

Powers
of Local
Board.

21B. Save as may otherwise be prescribed and subject to any general or special directions which the Central Board may give from time to time, a Local Board, shall, in respect of the area fallings within the jurisdiction of the local head office for which the Board has been constituted, exercise all powers and perform all functions and duties of the State Bank in relation to the business of banking and the forms of business set out in clauses (a), (b), (e), (f), (g), (h), (i), (k) and (l) of sub-section (1) of section 6 of the Banking Regulation Act, 1949 and such other forms of business referred to in sub-section (1) of the said section 6, as may be approved by the Central Board in this behalf and shall also exercise such other power and perform such other functions and duties as may be conferred on or assigned to it by the Central Board:

Provided that a Local Board shall transact the businesses of borrowing of money and the

acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debenture, debenture stock, bonds, obligations, securities and investments, only if the Central Board approves any of such business in this behalf and confers or assigns any of such businesses to the Local Board.

21.C.(1) * * * * * Local Committees.

(2) The Chairman shall an *ex officio* member of every such Local Committee.

22.(1) No person shall be qualified to be a director of the Central Board or a member of a Local Board or of a Local Committee if—

* * * * * Disqualifications for directorship of Central Board or membership of Local Boards or Committees

(d) he holds any office of profit under the State Bank other than the office of chairman, vice-chairman, managing director, chief general manager or legal or technical adviser, or

* * * * *

(h) in the case of an elected director, he is not registered as a holder in his own right of unencumbered shares in the State Bank of a nominal value of at least five thousand rupees:

Provided that in the case of a director appointed under clause (ca) or clause (cb) of section 19, the disqualification mentioned in clause (d) shall not operate.

* * * * *

23. If a director of the Central Board or a member of a Local Board or a Local Committee—

* * * * * Vacation of office of directors, etc.

(b) resigns his office by giving notice in writing under his hand, in the case of the chairman, vice-chairman and a managing director, to the Central Government and in the case of other directors or members of Local Boards or Committees, to the Central Board, and the resignation is accepted; or

* * * * *

Removal
from office
of direc-
tors, etc.

24. (1) The Central Government may, after consulting the Reserve Bank, remove from office of the chairman, vice-chairman or a managing director.

* * * * *

Casual
vacancies.

25. (1) If the chairman, vice-chairman or a managing director is rendered incapable of discharging his duties by reason of infirmity or otherwise or is absent on leave or otherwise in circumstances not involving the vacation of his office, the Central Government may, in consultation with the Reserve Bank, appoint another person to officiate in the vacancy.

(2) where any vacancy occurs before the expiry of the term of office of a director, other than the chairman, vice-chairman or a managing director or a director appointed under clause (ca) or clause (cb) of section 19 or of a member of a Local Board other than the chief general manager, the vacancy shall be filled—

(a) in the case of an elected director, by election; and

(b) in the case of a director nominated under clause (d) of section 19 or a member of a Local

Board nominated under clause (c) of sub-section (1) of section 21, by nomination in consultation with the Reserve Bank.

Provided that where the duration of the vacancy in the office of an elected director is likely to be less than six months, the vacancy may be filled by the remaining directors.

28. (1) the vice-chairman shall preside at the meetings of the Central Board in the absence of the chairman and, subject to the general control of the chairman, exercise such powers and perform such duties as may be entrusted or delegated to him by the Central Board.

Powers and remuneration of vice-chairman

(2) The vice-chairman shall receive such salary, fees, allowances and perquisites as may be determined by the Central Government.

(3) The fact that the vice-chairman exercises any of the powers and does any act or thing for or on behalf of the State Bank shall be conclusive proof of his authority to do so.

29. (1) A managing director—
(a) shall be a whole-time officer of the State Bank; and

Powers and remuneration of managing director.

(b) subject to the general control of the chairman and the vice-chairman, shall exercise such powers and perform such duties as may be entrusted or delegated to him by the Central Board.

* * * * *

31. (1) The Central Board shall meet at such time and place and shall observe such rules of

Meetings of the Central Board.

procedure in regard to the transaction of business at its meetings as may be prescribed.

(2) All questions at the meeting shall be decided by a majority of the votes of the directors present and in the case of equality of votes, the chairman or, in his absence, the vice-chairman shall have a second or casting vote.

* * * * *

Meetings of
Local Board.

31A. (1)* * * *

(5) Notwithstanding anything contained in this section, the chairman shall preside at any meeting of a Local Board at which he is present and in the absence of the chairman, the vice-chairman, if he is a member of the Local Board, shall whenever he is present, preside at such meeting.

* * * * *

Books to
be balanced
each year.

39. The Central Board shall cause the books of the State Bank to be closed and balanced as on the 31st of December or such other date in each year as the Central Government may, by notification in the Official Gazette, specify:

Provided that with a view to facilitating the transition from one period of accounting to another period of accounting under this section, the Central Government may, by order published in the Official Gazette, make such provisions as it considers necessary or expedient for the closing and balancing of, or for other matters relating to, the books in respect of the concerned years.

40. (1) The State Bank shall furnish to the Returns.
Central Government and to the Reserve Bank within three months from the 31st day of December, or the specified under section 39, as the case may be, as on which its books are closed and balanced, its balance-sheet, together with the profit and loss account and the audior’s report and a report by the Central Board on the working and activities of the State Bank during the period covered by the accounts:

Provided that the Central Government may, after consultation with the Reserve Bank, extend the said period of the three months by such further period, not exceeding three months, as it may think fit.

(2) The balance-sheet and the profit and loss account shall be signed by the chairman, vice-chairman, managing directors, if any, and a majority of the other directors.

* * * * *

42. (1) A general meeting in this Act referred to as an annual general meeting shall be held in each year at such time and at such place where there is a local head office of the State Bank, as shall from time to time be specified by the Central Board and a general meeting may be convened by the State Bank at any other time:

Balance-sheet etc., of State Bank may be discussed at general meeting.

Provided that such annual general meeting shall be held before the expiry of six weeks from the date on which the balance-sheet, together with the profit and loss account and auditor’s report, is under sub-section (1) of section 40, forwarded to the

Central Government or to the Reserve Bank, whichever date is earlier.

(2) The shareholders present at an annual general meeting shall be entitled to discuss the balance-sheet and the profit and loss account of the State Bank made up to the previous 31st day of December or the date specified under section 39, as the case may be, the report of the Central Board on the working and activities of the State Bank for the period covered by the accounts and the auditors' report on the balance-sheet and accounts.

CHAPTER VIII

Miscellaneous

State Bank may appoint officers and other employees.	43. (1) * * * * *	(2) The officers, advisers and employees of the State Bank shall exercise such powers and perform such duties as may, by general or special order, be entrusted or deligated to them by the Central Board.
Power of Central Government to make rules.	49. (1) * * * * *	(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for— * * * * *
Power of Central Board to make regulations.	50. (1) * * * * *	(2) In particular, and without prejudice to the generality of the foregoing power, such regulations may provide for— * * * * *

(b) the maintenance of register of shareholders, and the particulars to be entered in such register in addition to those specified in section 13, the safeguards to be observed in the maintenance of register of shareholders on computer floppies or diskettes, the inspection and closure of the register of shareholders and all other matters connected therewith;

* * * * *

(i) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which voting rights may be exercised;

* * * * *

LOK SABHA

A

BILL

further to amend the State Bank of India Act, 1955.

(Shri P. Chidambaram, Minister of Finance)