

Bill No. 99 of 2006

THE STATE BANK OF INDIA (AMENDMENT) BILL, 2006

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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.

23 of 1955.

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

Amendment of section 2.

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: 5

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.” 10

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: 15

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: 20

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: 25

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. 30

(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.” 35

Amendment of section 10.

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.

Insertion of new section 10A.

6. After section 10 of the principal Act, the following section shall be inserted, 40 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. 45

5 (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.

10 (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:—

15 “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:

20 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 diskettes”, the words “in computer floppies or diskettes or any other electronic form” shall be substituted.

25 9. In section 16 of the principal Act,—

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

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

30 10. In section 19 of the principal Act,—

(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;”;

35 (c) clause *(bb)* shall be omitted.

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

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

40 (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,

45 (v) finance,

(vi) law,

Amendment of section 11.

Amendment of section 13.

Amendment of section 16.

Amendment of section 19.

Insertion of new sections 19A and 19B.

Qualifications for elections as directors.

(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 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.

Power of Reserve Bank to appoint additional directors.

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 a 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 principal 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 principal 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.

5 “(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:—

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“(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.

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

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

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“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: Supersession of Board in certain cases.

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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.

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(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.

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(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;

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(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):

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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. 5

(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

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

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. Amendment of section 25.

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

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

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

(b) in clause (b),— 20

(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." 25

23. In section 31 of the principal Act,— Amendment of section 31.

(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 recognising the participation of the directors and the proceedings of such meetings are capable of being recorded and stored: 30 35

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 authorised by the Chairman shall have a second or casting vote."; 40

(b) in sub-section (4), for the word "vice-chairman", the words "managing director authorised by the chairman" shall be substituted. 45

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 managing director authorised by the chairman" shall be substituted. Amendment of section 31A.

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

10 '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. Transfer of unpaid or unclaimed dividend.

15 *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.

20 (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).

25 (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 205C of the Companies Act, 1956 for being utilised for the purpose and in the manner specified in that section. 1 of 1956.

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

30 27. In section 40 of the principal Act,—  
 (a) in sub-section (1), for the word "December", the word "March" shall be substituted; Amendment of section 40.

(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."

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

40 "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.

45 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." 5

Amendment of section 43.

29. In section 43 of the principal Act, for 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 10 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 15 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."

Amendment of section 50.

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

(i) after clause (a), the following clauses shall be inserted, namely:— 20

"(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 25 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; 30

(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 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 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 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.

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 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 the sub-section (2) of section 10 of the Act so as to reduce the Reserve Bank's existing equity shareholding from fifty-five percent. to fifty-one percent. 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.

*Clauses 17 and 18.*—These clauses 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 Board, 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 matters 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 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.

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.

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:

Restrictions on voting rights.

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.

13. (1)

\* \* \* \* \*

Register of shareholders.

(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

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.

Offices, branches and agencies.

(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.

\* \* \* \* \*

Composition of the Central Board.

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

(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*;

\* \* \* \* \*

Term of office of chairman, managing director, etc.

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.

(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 falling 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 powers and perform such other functions and duties as may be conferred on or assigned to it by the Central Board:

10 of 1949.

Provided that a Local Board shall transact the businesses of borrowing of money and the acquiring, holding, issuing on commission, under-writing and dealing in stock, funds, shares, debenture, debenture stock, bonds, obligations, securities and investments, only if the Central Board approves any of such businesses in this behalf and confers or assigns any of such businesses to the Local Board.

Local Committees.

21C.(1) \* \* \* \* \*

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

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

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—

\* \* \* \* \*

(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

\* \* \* \* \*

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

\* \* \* \* \*

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. Casual vacancies.

(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

(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. Powers and remuneration of managing director.

\* \* \* \* \*

Meetings of the Central Board.

31. (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.

(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.

Returns.

40. (1) The State Bank shall furnish to the 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 auditors' 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.

\* \* \* \* \*

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

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:

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, 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

43. (1) \* \* \* \* \* State Bank may appoint officers and or other employees.

(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.

49. (1) \* \* \* \* \* Power of Central Government to make rules.

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

\* \* \* \* \*

50. (1) \* \* \* \* \* Power of Central Board to make regulations.

(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 concerned, the procedure to be followed thereat and the manner in which voting rights may be exercised;

\* \* \* \* \*

LOK SABHA

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BILL

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

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*(Shri P. Chidambaram, Minister of Finance)*