

TO BE INTRODUCED IN LOK SABHA

AS INTRODUCED IN LOK SABHA

Bill No. 7 of 2009

THE STATE BANK OF INDIA (SUBSIDIARY BANKS LAWS)
AMENDMENT BILL, 2009

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BILL

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

BE it enacted by Parliament in the Sixtieth Year of the Republic of India as follows:—

CHAPTER I

PRELIMINARY

1. (1) This Act may be called the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2009. Short title and
commence-
ment.

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

CHAPTER II

AMENDMENTS TO THE STATE BANK OF HYDERABAD ACT, 1956

Amendment of section 9. **2.** In sub-section (4) of section 9 of the State Bank of Hyderabad Act, 1956 (hereafter in this Chapter referred to as the State Bank of Hyderabad Act), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted. 79 of 1956.

Amendment of section 10. **3.** In section 10 of the State Bank of Hyderabad Act,—

(a) in sub-section (1A), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted;

(b) in sub-section (3), for the words "with the approval of the State Bank and the Reserve Bank", the words "with the approval of the State Bank and the Central Government in consultation with the Reserve Bank" shall be substituted;

(c) in sub-section (3B),—

(i) for the words "with the approval of the State Bank and the Reserve Bank", the words "with the approval of the State Bank and the Central Government in consultation with the Reserve Bank" shall be substituted;

(ii) for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted.

CHAPTER III

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

Amendment of section 6. **4.** In sub-section (4) of section 6 of the State Bank of India (Subsidiary Banks) Act, 1959 (hereinafter referred to as the principal Act), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted. 38 of 1959.

Amendment of section 7. **5.** In section 7 of the principal Act,—

(a) in sub-section (1A), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted;

(b) in sub-section (4), for the words "with the approval of the State Bank and the Reserve Bank", the words "with the approval of the State Bank and the Central Government in consultation with the Reserve Bank" shall be substituted;

(c) in sub-section (6),—

(i) for the words "with the approval of the State Bank and the Reserve Bank", the words "with the approval of the State Bank and the Central Government in consultation with the Reserve Bank" shall be substituted;

(ii) for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted.

Amendment of section 25. **6.** In section 25 of the principal Act,—

(a) in sub-section (1),—

(i) in clause (a), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted;

(ii) in clause (b), for the words "to be nominated by the Reserve Bank", the words "to be nominated by the Central Government on the recommendation of the Reserve Bank" shall be substituted;

(b) in sub-section (6), for the words "in consultation with the Reserve Bank", the words "in consultation with the Central Government" shall be substituted.

7. In section 29 of the principal Act,—

Amendment
of section 29.

(a) in sub-section (1), for the words "and with the approval of the Reserve Bank", the words "and the Reserve Bank, and with the approval of the Central Government" shall be substituted;

(b) in sub-section (3),—

(i) in the proviso to clause (a), for the words "with the approval of the State Bank and the Reserve Bank", the words "with the approval of the State Bank and the Central Government in consultation with the Reserve Bank" shall be substituted;

(ii) in clauses (b) and (c), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall respectively be substituted;

(c) in sub-section (5), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted.

8. In section 31 of the principal Act,—

Amendment of
section 31.

(a) in sub-section (1), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted;

(b) in clause (a) of sub-section (3), for the words "with the approval of the Reserve Bank", the words "in consultation with the Reserve Bank and with the approval of the Central Government" shall be substituted.

9. In section 35A of the principal Act,—

Amendment
of section
35A.

(a) in sub-section (1),—

(i) for the words "Where the Reserve Bank, on the recommendation of the State Bank", the words "Where the Central Government, on the recommendation of the Reserve Bank and in consultation with the State Bank" shall be substituted;

(ii) for the words "the Reserve Bank may", the words "the Central Government may" shall be substituted;

(b) in sub-sections (2) and (5), for the words "The Reserve Bank may", the words "The Central Government in consultation with the Reserve Bank may" shall respectively be substituted;

(c) in sub-section (3), clause (b) of sub-section (4) and sub-sections (6) and (7), for the words "the Reserve Bank", wherever they occur, the words "the Central Government" shall respectively be substituted.

10. In section 63 of the principal Act,—

Amendment
of section 63.

(a) in sub-section (1), for the words "after consultation with State Bank and with the previous approval of the Reserve Bank", the words "after consultation with the State Bank and the Reserve Bank and with the previous approval of the Central Government" shall be substituted;

(b) sub-section (3) shall be omitted;

(c) in sub-section (4), for the words "by the State Bank", the words "by the Board of Directors of a subsidiary bank" shall be substituted.

STATEMENT OF OBJECTS AND REASONS

The transfer of ownership of the State Bank from the Reserve Bank to the Central Government was carried out pursuant to the coming into force of the State Bank of India (Amendment) Act, 2007 (30 of 2007). There are certain provisions in the State Bank of India (Subsidiary Banks) Act, 1959 and the State Bank of Hyderabad Act, 1956 dealing with the approval of, or consultation with the Reserve Bank in the management and functioning of the subsidiary banks. Due to change in the ownership, those provisions need to be suitably modified to reflect the change in ownership. Further, the change of ownership in the State Bank also necessitate consequential changes in the aforesaid Acts. The Bill proposes to amend the said two Acts, *inter alia*,—

(a) to confer power on the Central Government instead of the Reserve Bank, but after consultation with the Reserve Bank, to approve—

- (i) increase or reduction of the authorised capital of a subsidiary bank;
- (ii) fixation of the issued capital of subsidiary banks by the State Bank;
- (iii) raising of issued capital by preferential allotment or private placement or public issue by the subsidiary banks;
- (iv) issuing of bonus shares to the existing equity shareholders;
- (v) permitting the Chairman of the State Bank to nominate an official of the State Bank or the subsidiary bank as the Chairman of the Board of a subsidiary bank;
- (vi) appointment of the Managing Director, fixation of the term of the office; salary and allowances and removal of the Managing Director;
- (vii) supersession of the Board of Directors of subsidiary banks in public interest or for depositors' interest or for securing the proper management of the subsidiary banks on the recommendation of the Reserve Bank and appointment of an administrator and a committee to assist the administrator; and
- (viii) making of regulation by the Board of the subsidiary banks;

(b) to confer power on the Central Government in place of the Reserve Bank to approve the removal from office of a director nominated under clauses (c) and (d) of sub-section (1) of section 25.

The Bill seeks to achieve the above objectives.

NEW DELHI;
The 10th December, 2008.

PAWAN KUMAR BANSAL.

ANNEXURE

EXTRACTS FROM THE STATE BANK OF HYDERABAD ACT, 1956

(79 OF 1956)

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CHAPTER III

CAPITAL OF THE HYDERABAD BANK

9. (1) * * * * * Authorised Capital.

(4) Notwithstanding anything contained in sub-section (1), the State Bank may, with the approval of the Reserved Bank, authorise the Hyderabad Bank to increase or reduce its authorised capital.

10. (1) * * * * * Issued capital.

(1A) Notwithstanding anything contained in sub-section (1), the issued capital of the Hyderabad Bank, shall consist of such amount as the State Bank may, with the approval of the Reserve Bank, fix, and shall be divided into fully paid-up shares of such denomination in accordance with sub-section (2) of section 9.

* * * * *

(3) The Hyderabad Bank may, from time to time, with the approval of the State Bank and the Reserve Bank, increase, whether by public issue or by preferential allotment or private placement in a accordance with the procedure as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959, its issued capital by issue of equity or preference shares.

38 of 1959.

* * * * *

(3B) The Hyderabad Bank may, with the approval of the State Bank and the Reserve Bank, increase from time to time by way of issuing bonus shares to existing equity shareholders, its issued capital in such manner as the State Bank, with the approval of the Reserve Bank, direct.

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STATE BANK OF INDIA (SUBSIDIARY BANKS) ACT, 1959

(38 OF 1959)

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6. (1) * * * * * Authorised Capital of New Banks.

(4) Notwithstanding anything contained in sub-section (1), the State Bank may, with the approval of the Reserve Bank, authorise a new bank to increase or reduce its authorised capital.

7. (1) * * * * * Issued Capital of New Banks.

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

* * * * *

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

* * * * *

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

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Composition of the Board of Directors.

25. (1) Subject to the provisions of sub-section (2) the Board of Directors of a subsidiary bank shall consist of the following:—

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

* * * * *

(b) One director, possessing necessary expertise and experience in the matters relating to regulation or supervision of commercial banks, to be nominated by the Reserve Bank;

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(6) Any nomination or appointment of a director made by the State Bank under this Act shall, except in so far as it relates to an Officer of that bank, be in consultation with the Reserve Bank.

* * * * *

Managing Director.

29 (1) The State Bank shall, after consulting the Board of Directors of a subsidiary bank, and with the approval of the Reserve Bank, appoint a managing director for that subsidiary bank:

Provided that in the case of the first appointment of the managing director no such consultation with the Board of Directors of the subsidiary bank shall be necessary.

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(3) The Managing Director of a subsidiary bank—

(a) shall devote his whole time to the affairs of that bank:

Provided that managing director of the subsidiary bank may, with the approval of the State Bank and the Reserve Bank, be a director of any other institution;

(b) shall hold office for such term not exceeding four years and subject to such conditions as the State Bank may, with the approval of the Reserve Bank, specify at the time of his appointment;

(c) shall receive such salary and allowances as may be determined by the State Bank with the approval of the Reserve Bank.

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(5) The State Bank may, with the approval of the Reserve Bank, for any sufficient reason, remove from office the managing director of a subsidiary bank:

Provided that no managing director shall be removed from office unless he has been given an opportunity of showing cause against such removal.

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Removal from office of director.

31. (1) The State Bank may, with the approval of the Reserve Bank, for any sufficient reason, remove from office a director nominated under clause (c) of sub-section (1) of section 25 and not being an officer of the State Bank.

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(3) Any director elected under clause (d) of sub-section (1) of section 25 may be removed from office—

(a) by the State Bank with the approval of the Reserve Bank, if at the time of the removal there are no shareholders other than the State Bank registered in the books, of the subsidiary bank concerned;

(b) by a resolution passed by a majority of the votes of such shareholders holding in the aggregate not less than one-half of the share capital held by all such shareholders:

Provided that if the total amount of the holdings of all shareholders, other than the State Bank, registered in the books of the subsidiary bank, on the date of the resolution, is below five per cent. of the total issued capital, the resolution shall not have effect unless confirmed by the State Bank.

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35A. (1) Where the Reserve Bank, on the recommendation of the State Bank is satisfied that in the public interest or for preventing the affairs of a subsidiary bank being conducted in a manner detrimental to the interest, of the depositors or the subsidiary bank or for securing the proper management of the subsidiary bank, it is necessary so to do, the Reserve Bank may, for the reasons to be recorded in writing, by order, supersede the Board of Directors of the subsidiary bank for a period not exceeding six months as may be specified in the order:

Supersession
of Board of
Directors in
certain cases.

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

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

(3) The Reserve Bank may issue such directions to the Administrator as it may deem appropriate and the Administrator shall be bound to follow such directions.

(4) Upon making the order of supersession of the Board of Directors of the subsidiary bank, notwithstanding anything contained in this Act,—

(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 this Act, or any other law for the time being in force, be exercised and discharged by or on behalf of the Board of Directors of such subsidiary bank, or by resolution passed in general meeting of the subsidiary bank, shall, until the Board of Directors of the subsidiary bank is reconstituted, be exercised and discharged by the Administrator appointed by the Reserve Bank under sub-section (2):

Provided that the power exercised by the Administrator shall be valid notwithstanding that such power is exercisable by a resolution passed in the general meeting of the subsidiary bank.

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

(6) The committee referred to in sub-section (5) shall meet at such times and places and observe such rules of procedure as may be specified by the Reserve Bank.

(7) The salary and allowance payable to the Administrator and the members of the committee constituted under sub-section (5) by the Reserve Bank shall be such as may be specified by the Reserve Bank and be payable by the concerned subsidiary bank.

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Power of the State Bank to make Regulations.

63 (1) The Board of Directors of a subsidiary bank may, after consultation with the State Bank and with the previous approval of the Reserve Bank, by notification in the Official Gazette, make regulations not inconsistent with this Act and the rules made thereunder, to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act or any other law for the time being in force.

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(3) All regulations under this section, except the first regulations, shall be made in consultation with the Board of Directors of the subsidiary bank concerned.

(4) Every regulation shall, as soon as may be after it is made under this section by the State Bank, be forwarded to the Central Government and that Government shall cause a copy of the same to be laid before each House of Parliament, while it is in session, for a total period of thirty days, which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the regulation or, both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.

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

(Shri Pawan Kumar Bansal, Minister of State in the Ministry of Finance)