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STANDING COMMITTEE ON FINANCE

(2010-11)

FIFTEENTH LOK SABHA

**Ministry of Finance
(Department of Financial Services)**

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

THIRTY FIRST REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 2011/ Magha, 1932 (Saka)

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(FIFTEENTH LOK SABHA)

Ministry of Finance
(Department of Financial Services)

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

Presented to Hon'ble Speaker on 25 January, 2011

Presented to Lok Sabha on 22 February, 2011

Laid in Rajya Sabha on 22 February, 2011



LOK SABHA SECRETARIAT
NEW DELHI

February, 2011/ Magha, 1932 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2010-2011

Shri Yashwant Sinha - Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram (Lalganj)
3. Shri Sudip Bandyopadhyay
4. Shri C.M. Chang
5. Shri Harishchandra Chavan
6. Shri Bhakta Charan Das
7. Shri Khagen Das
8. Shri Gurudas Dasgupta
9. Shri Nishikant Dubey
10. Shri Bhartruhari Mahtab
11. Shri Mangani Lal Mandal
12. Smt. Jaya Prada Nahata
13. Shri Rayapati Sambasiva Rao
14. Shri Magunta Sreenivasulu Reddy
15. Vacant*
16. Shri Sarvey Sathyanarayana
17. Shri G.M. Siddeshwara
18. Shri N. Dharam Singh
19. Shri Manicka Tagore
20. Dr. M. Thambidurai
21. Shri Anjankumar M. Yadav

RAJYA SABHA

22. Shri S.S. Ahluwalia
23. Shri Raashid Alvi
24. Shri Vijay Jawaharlal Darda
25. Shri Piyush Goyal
26. Shri Moinul Hassan
27. Shri Satish Chandra Misra
28. Shri Mahendra Mohan
29. Dr. Mahendra Prasad
30. Dr. K.V.P. Ramachandra Rao
31. Shri Y.P. Trivedi

SECRETARIAT

- | | | |
|---------------------------------|---|---------------------|
| 1. Shri A.K. Singh | - | Joint Secretary |
| 2. Shri T.G. Chandrasekhar | - | Additional Director |
| 3. Shri Ramkumar Suryanarayanan | - | Deputy Secretary |

* Shri Y.S. Jagan Mohan Reddy, MP resigned on 29 November, 2010

INTRODUCTION

1, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Thirty-First Report on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009.

2. The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 introduced in Lok Sabha on 12 December, 2009, was referred to the Committee on 18 December, 2009 for examination and report thereon, by the 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 Financial Services).

4. Written views/memoranda were received from the Reserve Bank of India, State Bank of India, State Bank of Hyderabad, State Bank of Indore, State Bank of Travancore, State Bank of Mysore, State Bank of Bikaner and Jaipur, State Bank of Patiala, Indian Banks Association and All India Bank Officers' Association.

5. The Committee, at their sitting held on 24 November, 2010 took evidence of the representatives of the Ministry of Finance (Department of Financial Services) and State Bank of India.

6. The Committee, at their sitting held on 21 December, 2010 considered and adopted the draft report and authorised the Chairman to finalise the same and present it to the Speaker/Parliament..

7. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Financial Services) and the representatives of State Bank of India for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the Bill.

8. The Committee also wish to express their thanks to the Reserve Bank of India, State Bank of Hyderabad, State Bank of Indore, State Bank of Travancore, State Bank of Mysore, State Bank of Bikaner and Jaipur, State Bank of Patiala, Indian Bank Association and All India Bank Officers' Association for placing before them their considered views on the Bill in the form of memoranda.

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

New Delhi;
26 December, 2010
06 Pausa, 1932(Saka)

(YASHWANT SINHA)
Chairman,
Standing Committee on Finance.

REPORT

I. BACKGROUND

In 1951 the Reserve Bank of India had appointed a Committee of Directors for conducting an all India rural credit survey. The General Report of the Survey made comprehensive recommendations relating to numerous aspects of problem of rural credit. One of the important recommendations and an integral part of the solution of rural credit problem propounded by the Committee was the **setting up of a State Bank of India** as one strong integrated State-partnered commercial banking institution with an effective machinery of the 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 Government without departing from the canons of sound business. It was envisaged that such a **State Bank of India should come into being by the amalgamation of the Imperial Bank of India and with certain “State associated” banks**. On the 28th December, 1954, Government announced that they accepted in principle this recommendation of the Committee and they had decided as a first step towards the setting up of such an institution, to assume effective control over the Imperial Bank. The State Bank of India Bill was introduced subsequently, which after having been passed by both the Houses of the Parliament, received the assent of the the President of India on 8th May, 1955.

(i) The State Bank of the India (Subsidiary Banks) Act, 1959

2. **The State Bank of the India (Subsidiary Banks) Act, 1959 [Act No. 38 of 1959]** was enacted to provide for the formation of certain Government or Government associated banks as subsidiaries of the State Bank of the India and for the constitution, management and control of the subsidiary banks so formed, and for matters connected therewith, or incidental thereto.

3. The Chairman, State Bank of India while deposing before the Standing Committee on Finance on 25.11.2010, made the following submission regarding the conversion of the banks owned by princely States into Subsidiary Banks of the State Bank of India:

“... as regards our subsidiary banks, this is historical. The subsidiary banks were there even before Independence and after Independence it was decided that instead of banks being owned by the erstwhile princely States, to convert them into an instrument of the Indian State. Sir, as a result, about eight subsidiary banks were formed. Two of them – State Bank of Bikaner and another one State Bank of Jaipur were combined to make the State Bank of Bikaner and Jaipur. So, that is one amalgamation which took place at that point of time. Even at that point of time, the intention was not to have so many separate banks, but to put them together in one bank under the umbrella of the State Bank of India. For reasons which I do not remember at this point of time, there were some technical reasons that it could not be done and, therefore, as a *via media*, a separate Subsidiary Banks Act was created”.

(ii) The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006

4. The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 was introduced in the Lok Sabha on 22 May, 2006 and was referred to the Standing Committee on Finance for examination and report thereon. The amendments/changes proposed in the Subsidiary Banks laws in terms of the provisions of the Bill included:

- (i) allowing the chairman of the SBI (amendment to Section (25)(a) of the Act) to nominate an official of the SBI as the Chairman of the Board of a subsidiary bank, with the approval of the RBI;
- (ii) omitting the provisions relating to nomination of official of the RBI (amendment to Section (25)(b) of the Act) on the Board of Directors of subsidiary bank and to make provisions for nomination of additional director by the RBI as and when considered necessary, in the interest of banking policy and depositors' interest etc.; and
- (iii) including certain matters in respect of which regulations could be made (amendment of Section 63 relating to power of the State Bank to make regulations).

5. On the issues listed as (i), (ii) and (iii) above, the observations/recommendations made by the Standing Committee on Finance, in their 50th Report on State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006, read inter alia as follows :

- (i) "...The Committee are of the view that extending the scope of the proposed Section 25(1)(a) to include the executives of the subsidiary banks also to be considered for the post would not effect the cohesive nature of the SBI Group Banks. The Committee are, therefore, inclined to recommend for a re-look at the proposed provision so as to include the executives of subsidiary banks also for being considered for nomination as Chairman of a subsidiary bank";
- (ii) "...In terms of the proposals as made applicable to nationalized banks, in lieu of doing away with the Reserve Bank's nominee, an official with 'experience and expertise in regulation or supervision of commercial banks' would be nominated to serve on the Boards by the Central Government on the recommendation of the Reserve Bank...The Committee, accordingly, recommend that similar changes, on lines with the related proposal pertaining to nationalized banks be carried out in Section 25(10(b) instead of doing away with it; and
- (iii) "...convinced of the need for enabling adequate autonomy and independenceappropriate changes be carried out in the existing provisions of the Section 63" (to empower the Board of Directors of the Subsidiary Banks to make regulations).

6. The recommendations contained in the 50th Report of the Standing Committee on Finance on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 enumerated in the preceding paragraphs were incorporated appropriately in the State Bank of India (Amendment) Act, 2007.

(iii) The State Bank of India (Amendment) Act, 2007

7. The transfer of ownership of the State Bank of India from the Reserve Bank of India to the Central Government was carried out pursuant to the coming into force of the State Bank of India (Amendment) Act, 2007.

8. The transfer of ownership of the State Bank of India from the Reserve Bank of India to the Central Government was, as per the Government's submission effected on the basis of report of the Committee on Banking Sector Reforms (Narasimhan II, 1998), which had observed that : "***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 conflict of interest’.

(iv) The State Bank of the India (Subsidiary Banks Laws) Amendment Bill, 2009

9. As per the statement of objects and reasons of the State Bank of India (Subsidiary banks laws) Amendment Bill, 2009 there are certain provisions in State Bank of the India (Subsidiary Banks) Act, 1959 and the State Bank of Hyderabad Act, 1956 dealing with the approval of or consultation with the Reserve Bank of India (in the capacity as owner of State Bank of India) in the management and functioning of the subsidiary banks. Due to the change in the ownership, those provisions need to be suitably modified to reflect the change in ownership.

10. The Bill, as introduced in the Lok Sabha on 18 December, 2010 and referred to the Standing Committee on Finance for examination and report thereon by the Hon'ble Speaker on 29 December, 2010 proposes to amend the said Acts *inter alia* :

- (a) confer power on the Central Government instead of the Reserve Bank of India, but after consultation with the Reserve Bank of India, 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 of India;
 - (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 of India to nominate an official of the State Bank of India 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 of India and appointment of an administrator and a committee to assist the administrator; and

(viii) making of regulations by the Board of the subsidiary banks; and

(b) confer power on the Central Government in place of the Reserve Bank of India under section 31 to approve the removal from office of directors nominated and elected under clauses (c) and (d) respectively, of sub-section (1) of section 25 of the State Bank of India (Subsidiary Banks) Act, 1959.

(v) Subsidiary Banks Laws

11. Questioned *inter-alia* as to why the amendments to the acts regulating the State Bank and its subsidiaries were being brought about in a piece - meal manner, the Ministry of Finance (Department of Financial Services) in a written reply, stated *inter alia* :

“With enactment of State Bank of India (Amendment) Act, 2007 (30 of 2007), the transfer of ownership of the State Bank from the Reserve Bank to the Central Government was carried out and the actual transaction of transfer of ownership was effected on 29th June, 2007. The consequential changes in the State Bank of India (Subsidiary Bank) Act, 1959 relating to ownership changes could be effected only after the ownership is actually transferred. A Cabinet Note suggesting the consequential changes in the State Bank of India (Subsidiary Bank) Act, 1959 was considered and approved by the Cabinet in its meeting held on 24th July, 2008 which was introduced in the 14th Lok Sabha on 24th February, 2009. However, the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 could not be taken up for consideration and passing due to the dissolution of the 14th Lok Sabha. In July, 2009, a Cabinet Note was again submitted to the Cabinet for this purpose and the Cabinet meeting held in July, 2009 has considered and approved the proposal. Accordingly, the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 (Bill No. 141 of 2009) was introduced In the Lok Sabha on 18th December, 2009. This explains the reasons for submission of the current Bill”.

12. The Ministry was asked to give their comments on the submission made by All India Bank Officers Association in the memorandum submitted to the Committee which states “...many of the amendments made in Subsidiary Bank Act, 1959 through the amendment Acts of 2007 are yet not implemented and being overlooked...” In this regard, the reply of the Ministry of Finance (Department of Financial Services) reads *inter alia* :

“While the State Bank of India (Subsidiary Banks) Act, 1959 has been amended in the year 2007, the consequential amendments to the Regulations are under the consideration of the concerned authorities. However, this has not come in the way of the efficient functioning of the subsidiary banks”.

13. Further, the Ministry furnished the following written reply on the reasons for not implementing or overlooking the amendments made vide the State Bank of India (Subsidiary Banks) Amendment Act, 2007 :

“Amendments were made in the State Bank of India (Subsidiary Bank) Act, 1959 in the year 2007. Pursuant to the said amendments in the Act, the regulations are required to be amended so that the amendments are reflected in the regulations of the Subsidiary Banks. It may be stated that in terms of the existing provisions under the State Bank of India (Subsidiary Bank) Act, 1959, the Board of Directors of a subsidiary bank is empowered to frame regulations after consultation with the State Bank of India and with previous approval of the RBI. Therefore, amended regulations were forwarded to RBI for its prior approval. However, RBI has advised that the consequential amendments to the State Bank of India (Subsidiary Banks) Act 1959 are under consideration of the Parliament and therefore, it would be proper to wait for the amendments to be passed before the regulations can be framed”.

(vi) Merger Of Subsidiary Banks With SBI

14. The State Bank of Saurashtra and the State Bank of Indore were merged with the State Bank of India vide notification nos. GSR 589(E) dated 13.08. 2008 and GSR (E) dated 28.07.2010 respectively.

15. To a specific query on the policy of the Government on merger of banks, the reply of the Ministry of Finance (Department of Financial Services) is stated as below:

“The current policy of the Government on consolidation leaves the initiative for consolidation to come from the managements of the banks themselves with Government playing a supportive role as the common shareholder. No directive on consolidation has been issued either by the Government or the Reserve Bank of India. The Boards of the two merging banks have to take a decision in this regard based on the synergy levels of the merging entities. While supporting any merger proposal, Government ensures that the interests of the stakeholders and employees of the merging banks are adequately protected”.

16. Questioned on the appropriation of pursuing the policy of merging the Subsidiary banks with the State Bank of India without first seeking the approval of the Parliament, the Ministry of Finance (Department of Financial Services) in a post evidence reply *inter- alia* stated as follows:

“.....State Bank of India can take over the business of its own subsidiaries under Section 35 of the SBI Act without first seeking the approval of the Parliament as Section 35 of the SBI Act does not call for approval of the parliament. Section 35 of the State Bank of India Act, 1955 provides the legal framework and is a complete code for the acquisition of a banking institution by State Bank of India. The State Bank of India Act, 1955 does not require any legislative sanction or approval of the Parliament for acquisition of any bank including a subsidiary bank by State Bank of India. Further, though the provisions of the State Bank of India Act, 1955, do not expressly so require, the Scheme of acquisition of the State Bank of Saurashtra by the State Bank of India was laid before both Houses of the Parliament, post-merger”.

17. Asked further on the policy stance of the Government on merging the subsidiaries with SBI, the reply furnished by the Ministry states *inter alia*:

“.....the Bank (SBI) envisages consolidation of all subsidiary banks with SBI within a period of 12 to 18 months.

Preparations towards consolidation of the banking subsidiaries within the State Bank group has been systematically planned by bringing all associate banks and SBI under the same state-of-the-art core banking technology platform. All the associate banks also have products, services and processes broadly similar to that of SBI.

The consolidation is thus seen as the next logical step so as to bring in economies of scale, reduce administrative overheads, redeploy and channelise trained manpower to business development and, in the process, also reduce avoidable competition from different arms of the same group engaged in the same activity in the same segments and geography.

The consolidation is aimed at making the State Bank Group a stronger and more resilient organization”.

18. On the rationale for seeking to merge the Subsidiaries with SBI, the response furnished by the Ministry of Finance (Department of Financial Services) reads as follows:

“The merger / acquisition of its subsidiary banks by SBI is not merger in the conventional sense but is more in the nature of restructuring within the Group as SBI already holds 75% or more stake in all its subsidiary banks. The merger of subsidiary banks with itself is thus more in the nature of a consolidation or

restructuring within State Bank group leaving size, market share etc. of the group unchanged but leading to better operational efficiency. Such restructuring or amalgamation within the group will be immensely beneficial to the group for the following reasons:

- a) Such an amalgamation will free up a large number of employees from administrative functions, to be deployed in business development leading to all round growth in business and profitability.
- b) Unnecessary competition within the group, in the same geographical areas and for the same segments of business will be avoided leading to substantially better operational efficiency for the Group. Overall levels of competition, which is necessary to ensure better customer service at affordable prices, will not, however, come down because most of public sector banks and large private banks are present in the main operational areas of these subsidiary banks.
- c) The technology platform of the State Bank of India and that of subsidiary banks is the same. Many of the policies of SBI and the subsidiary banks such as Loan Policy, Investment Policy etc. are very similar to each other. The products and services offered are also largely the same. It would, therefore, be operationally much easier to amalgamate the State Bank Group to achieve economies of scale.
- d) The major operations of the subsidiary banks are confined mostly to one or two states resulting in some amount of geographical concentration risk.

The Indian economy is growing rapidly and the growth momentum is expected to continue. In this scenario the needs of Indian corporates are also increasing in terms of the size and complexities of the financial services / products provided by Banks. A number of corporates are also pursuing growth opportunities abroad. All these require that SBI and a few other Indian banks grow in size and financial muscle to cater to the growing needs of such corporates, failing which such clientele and their business would be taken over by foreign banks.

Moreover, although SBI is the largest Bank in India, it ranks only 68th amongst the world's large banks. Considering the growing role and importance of India in the world economy, it is desirable that the country's largest Bank is sufficiently strong in terms of Balance Sheet size to cater to the growing requirements especially of Indian-origin multinational companies. While SBI has also stepped up its efforts to grow organically, the inorganic growth through mergers would also help the Bank in scaling up within an acceptable time frame, to enable it to compete on an equal footing with foreign banks, not only in India but in the international economic arena as well".

19. On issues relating to career prospects of employees of the merged Subsidiary banks vis-à-vis employees of the State Bank of India, the written reply of the Ministry of Finance (Department of Financial Services) states:

“Various issues relating to HR area arising out of the merger have been handled in a fair and equitable manner balancing the interests of the employees of the merging Bank as also SBI.

“ it has been ensured that the pay and allowances (after merger) of the employees of Banks which have been merged, are not less than the overall pay and allowances which they would have drawn in that Bank”.

20. The Chairman, State Bank of India made the following submission in this regard while tendering evidence before the Committee:

“The State Bank of Saurashtra was merged two years ago. After merger, there was not a ripple in the Indian media. There was no newspaper report, no television report, no protest and demonstration. It went as smooth as silk. All the employees of the erstwhile State Bank of Saurashtra today enjoy the better status in terms of remuneration, perks and privileges. Even today, what the associate bank employees get is slightly less than what the State Bank of India officials get. Therefore, on merger, it was decided that their remuneration would be raised to that of the State Bank of India. So, not only all the remuneration, perks etc. have been raised but also wherever they had something additional or different, that has been retained plus they have all been given the benefit of pension which was not there in these banks”.

21. He also added:

“In terms of employees dissatisfaction, there is nil. Even in the State Bank of Indore, there is nothing. When it was subsequently merged, the State Bank of Indore had conducted a web-based voting to elicit the response of the employees to the merger. More than 90 per cent were for pro-merger. It is true that there were certain people who did not want merger for whatever reason but an overwhelming majority of them wanted merger. The State Bank of Indore has since been merged. Apart from a court case, which has been instituted by certain people, there is no protest, no opposition, no demonstration of any kind. There are five banks remaining. We have representations from various association leaders, etc. from these five banks which want these banks also to be merged with the State Bank of India simply because it is primarily good for the employees in multiple ways”.

22. Asked whether it was true that there were no specific regulations or provisions for protecting the interest of retired employees of merged subsidiary banks either in the State Bank of India (Subsidiary Banks) Act or the State Bank of India Act, and if so, to detail the

measures proposed/ required to address this issue, the reply furnished by the Ministry of Finance (Department of Financial Services) states as under:

“It is true that there is no specific Regulation or provision as of now to protect the interest of the retired employees (employees who retired before the merger) of merged Subsidiary Banks in terms of enhancement of Pension and other benefits either in State Bank of India Act, 1955 or in the State Bank of India (Subsidiary Banks) Act, 1959. (The employees who retired after the merger and who had opted to join SBI, with SBI superannuation benefits are being paid pension on par with the employees of the State Bank of India.)

It is proposed to carry out amendments in State Bank of India Pension Fund Rules to take care of payment of pension to the retired employees of merged subsidiary banks (i.e., employees who retired before the merger). The said amendments will also take care of enhancement, if any, to be made in the pension payable to such retired employees. The Board of State Bank of India/Trustees of the pension fund will be authorised (as proposed) to make payment of pension to the retired employees of merged subsidiaries and to decide the amount/quantum of the pension. The said amount/quantum will be decided on the basis of the pension payable to similarly placed retired employees of other subsidiary banks. Hence the pension and other non-discretionary benefits provided by the merged bank will continue to be provided by State Bank of India”.

23. The Committee note that the amendment proposals of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 have been necessitated owing to the transfer of ownership of the State Bank of India (SBI) from the Reserve Bank (RBI) to the Central Government, which was effected pursuant to the enactment of the State Bank of India (Amendment) Act, 2007. While in terms of the existing provisions of the State Bank of India (Subsidiary Banks) Act, 1959, the SBI is allowed, with approval from the RBI, to take certain actions regarding the functioning of subsidiary banks, the Bill now requires approval from the Central Government in consultation with RBI for taking such actions. Matters on which approval by the Central Government will be required in terms of the Bill include,

inter-alia, (i) increase of issued capital of the subsidiary banks, (ii) composition of the Board of Directors, (iii) nominations or appointment of Directors and (iv) regulations relating to the subsidiary banks.

24. The Committee, while expressing agreement about the necessity of the amendment proposals at a broader plane, nevertheless, cannot help noting that there is a strong element of adhocism in the policy stance and approach of the Government in bringing in legislative changes in the Acts regulating the SBI and its subsidiaries in particular. For instance, though the amendments carried out earlier vide the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007 remain to be given effect to, and the present Bill is pending before Parliament, the Government has embarked on merging two of the subsidiary banks with SBI. The submission made that proposals of merger 'come from the management of banks themselves' with the Government playing a supportive role as a common shareholder is, in the opinion of the Committee, indicative of ambivalence in the Government's approach on merger and consolidation of banks. With reference to SBI group of banks per se, the subsidiary banks carry the legacy of the past with their operations mainly concentrated in the states of their incorporation. The Committee feel it to be expedient on the part of the Government to make an in-depth analysis of issues relating to mergers and consolidation of public sector banks in general. It is also imperative to assess, in clear terms, the reasons for rising NPAs in the SBI Group of Banks as well as the desirability of pursuing the policy of merging the subsidiary banks with SBI, particularly in the light of issues relating to manageability of large sized banks. The Committee expect the Government to spell out the policy related aspects in this regard.

25. An issue of concern that the Committee feel the need to once again highlight is the fact that the amendments made in the subsidiary banks laws vide the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007, which included provisions for enabling the Chairman, SBI to nominate the Chairman of the Board of a subsidiary bank from the functionaries of the subsidiary as well, and entrusting the regulation making power with the Board of Directors of the subsidiary banks remain to be given effect to. Also, amendments remain to be made in the State Bank of India Pension Fund Rules, which is detrimental to the retirees of the merged subsidiary banks. The Committee expect the Government to expeditiously act on these matters.

Some of the amendment proposals of the Bill are discussed in the subsequent paragraphs of this report.

II. CLAUSE 5 - Amendment of section 7 – issued capital of new banks

26. Sub-section (4) of Section 7 of the State Bank of India (Subsidiary Banks) Act, 1959 as amended vide the State Bank of India Subsidiary Banks Laws Amendment Act, 2007 reads as under :

“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”.

27. The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 proposes the following amendment in sub-section (4) of Section 7 :

“...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.”

28. On the provisions of Section 7 of Subsidiary Banks Laws Act of 1959 the Reserve Bank of India, in a written memorandum, made the following suggestion:

“Subsidiary banks were allowed to raise capital by public issue or by preferential allotment or private placement of its equity or preferential shares in terms of the amendments made to Section 7 of the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007 (w.e.f. 9.7.2007). They were allowed to increase their issued capital by issue of bonus shares to existing equity shareholders.

There is, however, no explicit provision in the Act for rights issue of equity share as another mode of increasing the issued capital of the subsidiary banks. ‘Rights issue’ is an important method of raising capital by issuing equity shares to the existing equity shareholders. Whereas private sector banks can raise capital through rights issue, public sector banks suffer from clear disadvantage in the absence of explicit provision in their respective statutes/ Acts enabling them to do so”.

29. Questioned whether the Ministry of Finance concern with the proposal made by the Reserve Bank for carrying out appropriate amendments in sub-section (4) of Section 7 of SBI (Subsidiary Banks) Act, 1959, sub-section (3) of Section 10 of SBH Act, 1956 and sub-section 2B(c), 2BB and 2(c) of Section 3 of the Banking Companies (Acquisition and

Transfer of Undertakings) Act, 1970/1980 so as to enable the Subsidiary banks of SBI and other public sector banks to raise capital through right issues, as is the case with private sector banks, the response furnished to the Committee is stated as below :

“We concur with the suggestion.

In view of the above, the following amendments could be proposed:–

- (a) The words "rights issue" may be inserted in sub-section (4) of Section 7 of State Bank of India (Subsidiary banks) Act, 1959.
- (b) The words "rights issue" may be inserted in sub-section (3) of Section 10 of the State Bank of Hyderabad Act, 1956.
- (c) The words "rights issue" may be inserted in sub-sections, 2B (C), 2BB and (2C) of Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 / 1980”.

30. As pointed out by RBI, unlike the case with private sector banks, there is no explicit provision in the State Bank of India (Subsidiary Banks) Act, 1959 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 for enabling the subsidiary banks and other public sector banks to raise equity capital by way of ‘rights issue’ of shares as well. The Committee expect that, as agreed to appropriate amendments are carried out in Sub-section (4) of Section 7 and the laws regulating the public sector banks so as to enable the banks to raise capital through ‘rights issue’.

III. CLAUSE 10 – AMENDMENT OF SECTION 63 – POWER OF STATE BANK TO MAKE REGULATIONS

31. Prior to the enactment of the amendment Act of 2007 Section 63 (1) of the Act provided as under :

“The State Bank may, with the approval of the Reserve Bank [by notification in the official Gazette] make in respect of a subsidiary bank 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. (w.e.f. 09.07.2007).”

32. Following the enactment of the subsidiary banks laws act, 2007 consequent to the presentation of the 50th Report of the Standing Committee on Finance on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006, the provisions of Section 63(1) were amended to read as follows:

“The Board of Directors of a subsidiary bank may, after consultation with the State Bank and with the previous permission of the Reserve Bank, by notification in the Official Gazette, make regulations not inconsistent with this Act and the rules made there under, too 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.”

33. The amendment proposed to Section 63(1) in terms of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 is as follows:

“In sub-section (1), for the words “after consultation with the 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.”

34. Despite the power of making regulations being vested with the subsidiary banks following the amendment act of 2007 the marginal heading of Section 63 of the Act continues to read as : “Power of the State Bank to Make Regulations”. Asked whether it would not be appropriate to amend/ modify the marginal heading to the Section to read as, “Power of the Subsidiary Banks to Make regulations”, the Ministry of Finance (Department of Financial Services) in reply informed :

“We have no objection to amending/ modifying the Marginal Heading to the Section, to read as, “Power of the Subsidiary Banks to Make regulations.” We agree with the observation of the Standing Committee on Finance”.

35. Though the regulation making power is vested with the Boards of Directors of subsidiary banks to be exercised in consultation with the State Bank following the enactment of the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007, the marginal heading of section 63 continues to read as, ‘ Power of the

State Bank to make Regulations'. As agreed to, the Committee expect that the marginal heading of the section is amended to read as 'Power of the Subsidiary Banks to make regulations'.

**New Delhi;
26 December, 2010
06 Pausa, 1932(Saka)**

**YASHWANT SINHA,
Chairman,
Standing Committee on Finance.**

MINUTES OF THE SIXTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2010-11)

The Committee sat on Thursday, the 25th November, 2010 from 1530 hrs to 1750 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram (Lalganj)
3. Shri Bhakta Charan Das
5. Shru Gurudas Dasgupta
6. Shri Nishikant Dubey
7. Shri Bhartruhari Mahtab
8. Shri Rayapati Sambasiva Rao
9. Dr. M. Thambidurai

RAJYA SABHA

10. Shri S.S. Ahluwalia
11. Shri Raashid Alvi
12. Shri Moinul Hassan
13. Shri Piyush Goyal
14. Dr. Mahendra Prasad

SECRETARIAT

- | | | |
|--------------------------------------|---|---------------------|
| 1. Shri A. K. Singh | – | Joint Secretary |
| 2. Shri T. G. Chandrasekhar | – | Additional Director |
| 3. Shri Shri Ramkumar Suryanarayanan | – | Deputy Secretary |

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Shri R. Gopalan, Secretary
2. Shri Rakesh Singh, Additional Secretary
3. Shri Alok Nigam, Joint Secretary

State Bank of India (SBI)

4. Shri O.P. Bhatt, Chairman
5. Shri R. Sridharan, Managing Director & Group Executive (Associates & Subsidiaries)
6. Shri Jeevandas Narayan, General Manager (Human Resources – Merger)

2. The Committee heard the representatives of the Ministry of Finance (Department of Financial Services) and State Bank of India in connection with the examination of the State Bank of India (Subsidiary Banks Laws) Amendment, Bill 2009. Major issues discussed included, the rationale of merger of State Bank of India with its subsidiary banks in particular, welfare and protection of interest of employees of merged banks, rising NPAs of subsidiary banks, implementation of amendments of the State Bank of India (Subsidiary Banks) Act, 2007 etc. The Chairman directed the representatives to furnish written replies to the questions posed by Members within seven days.

The witnesses then withdrew.

A verbatim record of the proceedings was kept.

MINUTES OF THE NINTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2010-11)

The Committee sat on Tuesday, the 21st December, 2010 from 1115 hrs to 1715 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

MEMBERS

LOK SABHA

2. Shri Sudip Bandyopadhyay
3. Shri Khagen Das
4. Shru Gurudas Dasgupta
5. Shri Nishikant Dubey
6. Shri Bhartruhari Mahtab
7. Shri Magunta Sreenivasulu Reddy
8. Shri Sarvey Sathyanarayana
9. Shri Manicka Tagore
10. Dr. M. Thambidurai
11. Shri Anjan Kumar M. Yadav

RAJYA SABHA

12. Shri Raashid Alvi
13. Shri Vijay Jawaharlal Darda
14. Shri Piyush Goyal
15. Shri Moinul Hassan
16. Shri Mahendra Mohan
17. Dr. Mahendra Prasad
18. Dr. K.V.P. Ramachandra Rao

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri A. K. Singh | – | Joint Secretary |
| 2. | Shri T. G. Chandrasekhar | – | Additional Director |
| 3. | Shri Ramkumar Suryanarayanan | – | Deputy Secretary |

PART- I
(1115 to 1345 hrs.)

2. **xxx** **xxx** **xxx** **xxx**

PART – II
(1445 TO 1715)

3. The Committee took up the draft report on the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 for consideration and adoption. The Committee adopted the draft report with minor modifications. The Committee also authorized the Chairman to present the Report to Parliament.

4. **xxx** **xxx** **xxx** **xxx**

A verbatim record of the proceedings was kept

The Committee then adjourned.