

Standing Committee Report Summary

The Banking Laws (Amendment) Bill, 2011

- The Standing Committee on Finance submitted its 43rd Report on The Banking Laws (Amendment) Bill, 2011 on December 13, 2011. The Chairman of the committee is Mr. Yashwant Sinha. The Bill was introduced in the Lok Sabha on March 22, 2011 and referred to the Standing Committee on March 29, 2011.
- The Bill seeks to amend the Banking Regulation Act, 1949, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.
- The provisions of this Bill incorporate almost all recommendations proposed by the Standing Committee on the earlier Banking Regulations (Amendment) Bill, 2005, which lapsed with the dissolution of the 14th Lok Sabha.
- The Bill proposes the exemption of bank mergers from the scrutiny of the Competition Commission of India (CCI). This would allow the Reserve Bank of India (RBI) to approve bank mergers and secure proper management of the banking company in a timely manner without waiting for the approval of the CCI. The Committee supports this proposal. However, it recommends that this exemption should be treated as a special case and that it should be reviewed in due course based on the experience of the two regulators (CCI and RBI).
- The Committee recommends that the RBI should conduct due diligence to ensure that the regulatory mechanism is complied with.
- The Bill proposes that the voting rights of the shareholders of private sector banks be made proportionate to their shareholding rights. This would help private banks access capital for the development of the banking business. The Committee is of the view that the existing ceiling of 10 per cent on the voting rights in the case of private banks be removed. However, the Committee recommends that this limit be increased from 10 per cent to 26 per cent so as to maintain balance between concentration of economic control and corporate democracy.
- The Committee recommends that the government considers issuing non-voting shares as an avenue to widen the capital base of the banks without allowing concentration of management in a few hands.
- The Bill proposes that a Depositor Education and Awareness Fund be set up by the RBI. This fund would take over the deposit accounts which have not been claimed or operated for more than 10 years. The Committee supports the establishment of this fund and suggests that even after the transfer of accounts to this fund the bank shall be liable to repay the claims that are made within one month of the transfer.
- The Committee recommends that instead of bringing piecemeal amendments to the laws governing the banking sector, the government should consider bringing an integrated modern banking law for the country.

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