Bill Summary

The Regional Rural Banks (Amendment) Bill, 2014

- The Regional Rural Banks (Amendment) Bill, 2014 was introduced by the Minister of Finance, Mr. Arun Jaitley, in Lok Sabha on December 18, 2014. The Bill seeks to amend the Regional Rural Banks Act, 1976.
- The Regional Rural Banks Act, 1976 mainly provides for the incorporation, regulation and winding up of Regional Rural Banks (RRBs).
- **Sponsor banks:** The Act provides for RRBs to be sponsored by banks. These sponsor banks are required to (i) subscribe to the share capital of RRBs, (ii) train their personnel, and (iii) provide managerial and financial assistance for the first five years. The Bill removes the five year limit, thus allowing such assistance to continue beyond this duration.
- **Authorised capital:** The Act provides for the authorised capital of each RRB to be Rs five crore. It does not permit the authorised capital to be reduced below Rs 25 lakh. The Bill seeks to raise the amount of authorised capital to Rs 2,000 crore and states that it cannot be reduced below Rs one crore.
- **Issued capital:** The Act allows the central government to specify the capital issued by a RRB, between Rs 25 lakh and Rs one crore. The Bill requires that the capital issued should be at least Rs one crore.
- **Shareholding:** The Act mandates that of the capital issued by a RRB, 50% shall be held by the central government, 15% by the concerned state government and 35% by the sponsor bank. The Bill allows RRBs to raise their capital from sources other than the central and state governments, and sponsor banks. In such a case, the combined shareholding of the central government and the sponsor bank cannot be less than 51%. Additionally, if the shareholding of the state government in the RRB is reduced below 15%, the central government would have to consult the concerned state government.
- The Bill states that the central government may by notification raise or reduce the limit of shareholding of the central government, state government or the sponsor bank in the RRB. In doing so, the central government may consult the state government and the sponsor bank. The central government is required to consult the concerned state government when reducing the limit of shareholding of the state government in the RRB.
- **Board of directors:** The Act specifies the composition of the Board of Directors of the RRB to include a Chairman and directors to be appointed through the central government, NABARD, sponsor bank, Reserve Bank of India, etc. The Bill states that any person who is a director of an RRB is not eligible to be on the Board of Directors of another RRB.
- The Bill also adds a provision for directors to be elected by shareholders based on the total amount of equity share capital issued to such shareholders. If the equity share capital issued to shareholders is 10% or less, one director shall be elected by such shareholders. Two directors shall be elected by shareholders where the equity share capital issued to them is from 10% to 25%. Three directors shall be elected in case of equity share capital issued being 25% or above. If required, the central government can also appoint an officer to the board of directors to ensure effective functioning of the RRB.
- The Act specifies the term of office of a director (excluding the Chairman) to be not more than two years. The Bill raises this tenure to three years. The Bill also states that no director can hold office for a total period exceeding six years.
- **Closure and balancing of books:** As per the Act, the books of a RRB should be closed and balanced as on December 31 every year. The Bill changes this date to March 31 to bring the Act in uniformity with the financial year.

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