

22 MAY 2006

Bill No. 45 of 2006

**THE STATE BANK OF INDIA (SUBSIDIARY BANKS LAWS)  
AMENDMENT BILL, 2006**

A

**BILL**

*further to amend the State Bank of Saurashtra Act, 1950, and the State Bank of  
Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959.*

BE it enacted by Parliament in the Fifty-seventh Year of the Republic of India as  
follows:—

**PART I**

**PRELIMINARY**

5           1. (1) This Act may be called the State Bank of India (Subsidiary Banks Laws)  
Amendment Act, 2006.

Short title an  
commence-  
ment.

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

10           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.

## CHAPTER II

## AMENDMENTS TO THE STATE BANK OF SAURASHTRA ACT, 1950

Substitution of  
new section for  
section 5.

2. For section 5 of the State Bank of Saurashtra Act, 1950 (hereafter in this Chapter referred to as the State Bank of Saurashtra Act), the following section shall be substituted, namely:—

5

Authorised  
capital.

“5. (1) Subject to the provisions of this Act, the authorised capital of the Saurashtra Bank shall be rupees five hundred crores.

(2) The authorised capital of the Saurashtra Bank shall be divided into shares of one hundred rupees each or of such denomination as the Saurashtra Bank may, with the approval of the State Bank, decide.

10

(3) The Saurashtra Bank may issue the certificates of shares of equivalent values of such denomination as the Saurashtra Bank may decide with the approval of the State Bank, in accordance with the procedure as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959 and every shareholder of the Saurashtra Bank shall be entitled to have the certificate of shares of equivalent value of such denomination.

38 of 1959.

15

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

Amendment of  
section 6.

3. In section 6 of the State Bank of Saurashtra Act,—

20

(a) after sub-section (1), the following sub-section shall be inserted, namely:—

“(1A) Notwithstanding anything contained in sub-section (1), the issued capital of the Saurashtra 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 5.”;

25

(b) for sub-section (3), the following sub-sections shall be substituted, namely:—

“(3) The Saurashtra 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 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.

30

38 of 1959.

(3A) The issued capital of the Saurashtra Bank shall consist of equity shares or equity and preference shares:

35

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.

40

(3B) The Saurashtra 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.

(3C) No increase or reduction in the issued capital of the Saurashtra Bank shall be made in such a manner that the State Bank holds at any time less than fifty-one per cent. of the issued capital consisting of equity shares of the Saurashtra Bank.

45

(3D) The Saurashtra Bank may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them, in the manner as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959."

38 of 1959.

5

## CHAPTER III

## AMENDMENTS TO THE STATE BANK OF HYDERABAD ACT, 1956

79 of 1956.

4. For section 9 of the State Bank of Hyderabad Act, 1956 (hereafter in this Chapter referred to as the State Bank of Hyderabad Act), the following section shall be substituted, namely:—

Substitution of new section for section 9.

10

"9. (1) Subject to the provisions of this Act, the authorised capital of the Hyderabad Bank shall be rupees five hundred crores.

Authorised capital.

(2) The authorised capital of the Hyderabad Bank shall be divided into shares of one hundred rupees each or of such denomination as the Hyderabad Bank may, with the approval of the State Bank, decide.

15

(3) The Hyderabad Bank may issue the certificates of shares of equivalent values of such denomination as the Hyderabad Bank may decide with the approval of the State Bank, in accordance with the procedure as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959 and every shareholder of the Hyderabad Bank shall be entitled to have the certificate of shares of equivalent value of such denomination.

38 of 1959.

20

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

5. In section 10 of the State Bank of Hyderabad Act,—

Amendment of section 10.

25

(a) after sub-section (1), the following sub-section shall be inserted, namely:—

"(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."

30

(b) for sub-section (3), the following sub-sections shall be substituted, namely:—

"(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 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

35

(3A) The issued capital of the Hyderabad Bank shall consist of equity shares or equity and preference shares:

40

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.

45

(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.

50

(3C) No increase or reduction in the issued capital of the Hyderabad Bank shall be made in such a manner that the State Bank holds at any time less than

fifty-one per cent. of the issued capital consisting of equity shares of the Hyderabad Bank.

(3D) The Hyderabad Bank may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them, in the manner as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959." 5  
38 of 1959.

#### CHAPTER IV

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

Substitution of new section for section 6.

6. For section 6 of the State Bank of India (Subsidiary Banks) Act, 1959 [hereafter in this Chapter referred to as the State Bank of India (Subsidiary Banks) Act], the following section shall be substituted, namely:— 10  
38 of 1959.

Authorised capital of new bank.

"6. (1) Subject to the provisions of this Act, the authorised capital of every new bank shall be rupees five hundred crores.

(2) The authorised capital of every new bank shall be divided into shares of one hundred rupees each or of such denomination as the new bank may, with the approval of the State Bank, decide. 15

(3) Every new bank may issue the certificates of shares of equivalent values of such denomination as the new bank may, decide, with the approval of the State Bank, in accordance with the procedure as may be prescribed and every shareholder of the new bank shall be entitled to have the certificate of shares of equivalent value of such denomination. 20

(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." 25

Amendment of section 7.

7. In section 7 of the State Bank of India (Subsidiary Banks) Act,— 25

(a) after sub-section (1), the following sub-section shall be inserted, namely:—

"(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."; 30

(b) for sub-sections (4) and (5), the following sub-sections shall be substituted, namely:—

"(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. 35

(5) The issued capital of a new bank shall consist of equity shares or equity and preference shares:

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. 40

(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 shareholders, its issued capital in such manner as the State Bank, with the approval of the Reserve Bank, direct. 45

(7) No increase or reduction in the issued capital of a new bank shall be made in such a manner that the State Bank holds at any time less than fifty-one per cent. of the issued capital consisting of equity shares of new bank.

(8) A new bank may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them, in the manner as may be prescribed."

8. In section 18 of the State Bank of India (Subsidiary Banks) 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.

Amendment of section 18.

9. After section 18 of the State Bank of India (Subsidiary Banks) Act, the following section shall be inserted, namely:—

Insertion of new section 18A.

"18A. (1) Every individual registered shareholder of a subsidiary bank 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.

Right of registered shareholder to nominate.

(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.

(3) Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of such shares where a nomination made in the prescribed manner purports to confer on any individual 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 to the exclusion of all other persons unless the nomination is varied or cancelled in the prescribed manner.

(4) Where the nominee is a minor, it shall be lawful for the individual registered as the 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."

10. For section 19 of the State Bank of India (Subsidiary Banks) Act, the following section shall be substituted, namely:—

Substitution of new section for section 19.

"19. No shareholder, other than the State 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 of the subsidiary bank concerned:

Restriction on voting rights.

Provided that the shareholder holding any preference share capital in the subsidiary bank shall, in respect of such capital, have a right to vote only on resolutions placed before such subsidiary bank which directly affect the rights attached to his preference shares:

Provided further 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 the total voting rights of all the shareholders holding preference share capital only."

11. Section 21 of the State Bank of India (Subsidiary Banks) Act shall be numbered as sub-section (1) thereof and after sub-section (1) as so numbered, the following sub-sections shall be inserted, namely:—

Amendment of section 21.

"(2) Notwithstanding anything contained in sub-section (1), it shall be lawful for a subsidiary bank to keep the register of shareholders in computer floppies or diskettes or any other electronic form subject to such safeguards as may be prescribed.

(3) Notwithstanding anything contained in the Indian Evidence Act, 1872, a copy of, or extract from, the register of shareholders, certified to be a true copy under the hand of any officer of the subsidiary bank authorised in this behalf shall in all legal proceedings, be admissible in evidence.” 1 of 1872.

Amendment of section 22.

12. In section 22 of the State Bank of India (Subsidiary Banks) Act, for the words and figures "Notwithstanding anything contained in section 19, no notice of any trust," the words "No notice of any trust," shall be substituted. 5

Amendment of section 25.

13. In section 25 of the State Bank of India (Subsidiary Banks) Act,—

(i) in sub-section (1)—

(a) for clause (a), the following clause shall be substituted, namely:— 10

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

(b) clause (b) shall be omitted;

(c) for clause (d), the following clause shall be substituted, namely:— 15

“(d) not more than three directors to be elected in the following manner, namely:—

(i) if the total amount of holdings of the shareholders (other than the State Bank) of a subsidiary bank is more than one per cent. of the total issued capital, and equal to or less than sixteen per cent. of such capital, one director to be elected, in the prescribed manner, by such shareholders and two directors shall be nominated by the State Bank, or 20

(ii) if the total amount of holdings of the shareholders (other than the State Bank) of a subsidiary bank is more than sixteen per cent. of the total issued capital and equal to or less than thirty-two per cent. of such capital, two directors to be elected in the prescribed manner by such shareholders and one director shall be nominated by the State Bank, or 25

(iii) if the total amount of holdings of the shareholders (other than the State Bank) of a subsidiary bank is more than thirty-two per cent. of the total issued capital, all the three directors to be elected, in the prescribed manner, by such shareholders: 30

Provided that in case, the total amount of holdings of the shareholders of a subsidiary bank (other than the State Bank) is not more than one per cent. of the total issued capital, all three directors shall be nominated by the State Bank and such directors shall, for the purposes of this Act, be deemed to be directors elected under this clause. 35

*Explanation.*—For the purposes of this sub-section, the total amount of holdings of the shareholders (other than the State Bank) whose names are on the register of shareholders of the subsidiary bank three months before the date fixed for election of directors shall be taken into account.”; 40

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

(iii) in sub-section (4), the words “the Reserve Bank or” shall be omitted. 45

Insertion of new sections 25A and 25B.

14. After section 25 of the State Bank of India (Subsidiary Banks) Act, the following sections shall be inserted, namely:—

"25A. (1) The Directors to be elected under clause (d) of sub-section (1) of section 25 shall—

Fit and proper status of an elected director.

(a) have special knowledge or practical experience in respect of one or more of the following matters, namely:—

(i) agricultural and rural economy,

(ii) banking,

(iii) co-operation,

(iv) economics,

(v) finance,

(vi) law,

(vii) small-scale industry,

(viii) any other matter the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to the subsidiary 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) and notwithstanding anything to the contrary contained in this Act or in any other law for the time being in force, no person shall be eligible to be elected as director under clause (d) of sub-section (1) of section 25 unless he is a person having fit and proper status based upon track record, integrity and such other criteria as the Reserve Bank may notify from time to time in this regard.

(3) The Reserve Bank may also specify in the notification issued under sub-section (2), the authority to determine the fit and proper status, the manner of such determination, the procedure to be followed for such determinations and such other matters as may be considered necessary or incidental thereto.

(4) Where the Reserve Bank is of the opinion that any director of a subsidiary bank elected under clause (d) of sub-section (1) of section 25 does not fulfil the requirements of sub-sections (1) and (2), it may, after giving to such director and the subsidiary bank a reasonable opportunity of being heard, by order, remove such director and on such removal, the Board of Directors 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 subsidiary 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 subsidiary bank as a director.

25B. (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 subsidiary 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 subsidiary bank.

Power of Reserve Bank to appoint additional directors.

(2) Any person appointed as additional director in pursuance of this section shall—

(a) hold office during the pleasure of the Reserve Bank and subject thereto for a period not exceeding three years or such further period not exceeding three years at a time as the Reserve Bank may specify;

(b) not incur any obligation or liability by reason only of his being a 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 subsidiary bank.

(3) For the purpose of reckoning any proportion of the total number of directors of the subsidiary bank, any additional director appointed under this section shall not be taken into account."

- Amendment of section 26. 15. In section 26 of the State Bank of India (Subsidiary Banks) Act, in sub-section (1), the words, brackets and letter "clause (b) or" shall be omitted.
- Amendment of section 27. 16. In section 27 of the State Bank of India (Subsidiary Banks) Act, in sub-section (5), in clause (a), for the words and figures "Banking Companies Act, 1949", the words and figures "Banking Regulation Act, 1949" shall be substituted. 10 of 1949.  
5 10 of 1949.
- Amendment of section 28. 17. In section 28 of the State Bank of India (Subsidiary Banks) Act, in the proviso, the words, brackets, letter and figures "a director referred to in clause (b) of sub-section (1) of section 25 or to" shall be omitted.
- Amendment of section 34. 18. In section 34 of the State Bank of India (Subsidiary Banks) Act,—  
(a) in sub-section (2), for the words "The chairman of the State Bank", the words "The chairman of the Board of Directors of a subsidiary bank" shall be substituted; 10  
(b) in sub-section (4), for the words, brackets and letters "clauses (a) and (b)", the word, brackets and letter "clause (a)" shall be substituted;  
(c) in sub-section (5), in the proviso, in clause (ii), for the words, brackets and letters "of the Reserve Bank or the State Bank nominated under clause (b) or clause (c)", the words, brackets and letter "of the State Bank nominated under clause (c)" shall be substituted; 15  
(d) in sub-section (6), the words "and the Reserve Bank" shall be omitted.
- Insertion of new section 35A. 19. After section 35 of the State Bank of India (Subsidiary Banks) Act, the following section shall be inserted, namely:— 20
- Supersession of Board of Directors in certain cases. "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 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: 25
- 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. 30
- (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. 35
- (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; 40
- (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 a 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): 45
- 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. 50
- (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 the Administrator in the discharge of his duties.
- 1 of 1956.  
1 of 1956.



(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 allowances 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.

(8) On and before the expiration of two months before expiry of the period of supersession of the Board of Directors as specified in the order issued under sub-section (1), the Administrator of the subsidiary bank, shall call the general meeting of the subsidiary bank to elect new directors and reconstitute its Board of Directors.

(9) Notwithstanding anything contained in any other law or in any contract, the memorandum or articles of association, no person shall be entitled to claim any compensation for the loss or termination of his office.

(10) The Administrator appointed under sub-section (2) shall vacate office immediately after the Board of Directors of the subsidiary bank has been reconstituted."

20. In section 38 of the State Bank of India (Subsidiary Banks) Act, in sub-section (10), in clause (a), for the words and figures "Banking Companies Act, 1949", the words and figures "Banking Regulation Act, 1949" shall be substituted.

Amendment of section 38.

21. In section 39 of the State Bank of India (Subsidiary Banks) Act, for the word "December", the word "March" shall be substituted.

Amendment of section 39.

22. After section 40 of the State Bank of India (Subsidiary Banks) Act, the following section shall be inserted, namely:—

Insertion of new section 40A.

40A. (1) Where, after the commencement of the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2006, a dividend has been declared by the subsidiary bank but has not been paid, or claimed, within thirty days from the date of declaration, to or by any shareholder entitled to the payment of the dividend, the subsidiary bank shall, within seven days from the date of the expiry of such period of thirty days, transfer the total amount of dividend which remains unpaid, or unclaimed within the said period of thirty days, to a special account to be called "unpaid dividend account of ..... (Name of the subsidiary bank)".

Transfer of unpaid or unclaimed dividend to special dividend account.

*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.

(2) Where the whole or any part of any dividend, declared by the subsidiary bank before the commencement of the State Bank of India (Subsidiary Banks Laws) Amendment Act, 2006, remains unpaid at such commencement, the subsidiary bank shall, within a period of six months from such commencement, transfer such unpaid amount to the account referred to in sub-section (1).

(3) Any money transferred to the unpaid dividend account of the subsidiary 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 subsidiary bank to the Investor Education and Protection Fund established under sub-section (1) of section 205C of the Companies Act, 1956.'

(4) The money transferred under sub-section (3) to the Investor Education and Protection Fund shall be utilised for the purposes and in the manner specified in section 205C of the Companies Act, 1956.'

23. In section 43 of the State Bank of India (Subsidiary Banks) Act,—

Amendment of section 43.

(a) in sub-section (1), in clause (a), for the word "December", the word "March" shall be substituted;

(b) for sub-section (2), the following sub-section shall be substituted, namely:—

"(2) The balance-sheet and profit and loss account of the subsidiary bank shall be signed by persons holding the office of the chairman, managing director, and a majority of the other directors of the subsidiary bank in office."

- Amendment of section 44. 24. In section 44 of the State Bank of India (Subsidiary Banks) Act,—  
 (a) in sub-section (2),—  
 (i) for the words "discuss the balance-sheet", the words "discuss and adopt the balance-sheet" shall be substituted;  
 (ii) for the word "December", the word "March" shall be substituted; 5  
 (b) in sub-section (3), for the word "December", the word "March" shall be substituted.
- Amendment of section 48. 25. In section 48 of the State Bank of India (Subsidiary Banks) Act, in sub-section (2), for the words and figures "Indian Income-tax Act, 1922", the words and figures "Income tax-Act, 1961" shall be substituted. 11 of 1922, 43 of 1961
- Amendment of section 50. 26. In section 50 of the State Bank of India (Subsidiary Banks) Act, after sub-section (1), the following sub-section shall be inserted, namely:— 10  
 "(1A) The officers, advisers and employees of the subsidiary bank concerned shall individually or jointly, or with other officers, advisers and employees in a committee exercise such powers and perform such duties as may, by general or special order, be entrusted or delegated to them by the Board of Directors or its Executive Committee." 15
- Amendment of section 55. 27. In section 55 of the State Bank of India (Subsidiary Banks) Act, for the words "Banking Companies Act", the words "Banking Regulation Act" shall be substituted.
- Amendment of section 63. 28. In section 63 of the State Bank of India (Subsidiary Banks) Act,—  
 (a) in sub-section (1), for the words "provisions of this Act", the words "provisions of this Act or any other law for the time being in force" shall be substituted. 20  
 (b) in sub-section (2),—  
 (i) after clause (f), the following clauses shall be inserted, namely:—  
 "(fa) the procedure for issuing the certificates of shares;  
 (fb) the procedure with respect to increase, whether by public issue or by preferential allotment or private placement, the issued capital by issue of equity or preference shares;  
 (fc) the manner of acceptance of share money in instalments, the manner of making calls and the manner of forfeiture of unpaid shares and their re-issue;" 25  
 (ii) for clause (g), the following clauses shall be substituted, namely:—  
 "(g) the maintenance of share registers, and the particulars to be entered in such registers in addition to those specified in sub-section (1) of section 21, the safeguards to be observed in the maintenance of the register of shareholders on computer floppies or diskettes or any other electronic form, the inspection and closure of the registers and all other matters connected therewith; 30  
 (ga) the manner in which every individual registered shareholder nominate, an individual to whom all his rights in the shares shall vest in the event of his death under sub-section (1) of section 18A; 35  
 (gb) the manner in which, the joint holders may nominate an individual to whom all their rights in the shares shall vest in the event of the death of all the joint holders under sub-section (2) of section 18A;  
 (gc) the manner in which nomination is varied or cancelled under sub-section (3) of section 18A; 40  
 (gd) the manner in which every individual registered as the holder of the shares to make nomination where nominee is a minor to appoint, any person to become entitled to the shares in the event of his death during the minority of the nominee under sub-section (4) of section 18A;" 45  
 (c) in sub-section (4), for the words "made under this Act", the words "made under this section" shall be substituted. 50

## STATEMENT OF OBJECTS AND REASONS

The State Bank of the Saurashtra Act, 1950, the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959 has been in force for more than four decade. The said three Acts contain provisions regarding constitution of the State Bank of Saurashtra, the State Bank of Hyderabad and other Subsidiary Banks of the State Bank of India (being the State Bank of Patiala, the State Bank of Bikaner and Jaipur, the State Bank of Indore, the State Bank of Mysore and the State Bank of Travancore), their capital, management and control and other connected matters.

2. There are more than twenty-eight lakhs shares held by private shareholders (other than the State Bank of India) of the four subsidiary banks, i.e., the State Bank of Bikaner and Jaipur, the State Bank of Indore, the State Bank of Mysore and the State Bank of Travancore. The shareholders of these four subsidiary banks are facing certain difficulties due to certain restrictions imposed under the State Bank of India (Subsidiary Banks) Act, 1959. These restrictions, *inter alia*, include, (a) lack of dematerialisation facility for the shares (b) difficulty in free transferability (c) restrictions on individual holdings of shares and their voting rights etc. The shareholders, at the annual general meetings of these four banks, have been expressing, time and again, the difficulty faced by them due to such restrictive provisions in the said Act.

3. The Basel Capital Accord, the current international framework on Capital Adequacy, was adopted in the year 1988 by many banks worldwide and in the year 1992 in India. Afterwards, over the past several years, the Basel Committee on Banking Supervision has worked on a new accord for international convergence on capital standards and released the latest version of the new Basel Capital Accord known as Basel II in June, 2004. With the introduction of the new capital adequacy framework (Basel II), all the banks (including subsidiary banks of the State Bank of India) may be required to increase their capital base to meet 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. In order to remove the difficulties faced by the shareholders of the subsidiary banks and to facilitate increase of the capital of the subsidiary banks to enable them to raise resources from the market and also to comply with certain guidelines issues by the Securities Exchange Board of India (SEBI) under the Securities Exchange Board of India Act, 1992 and the Depositories Act, 1996, it has become necessary to amend the State Bank of the Saurashtra Act, 1950, the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959. The Bill proposes to amend the said three Acts, *inter alia*, to—

(a) increase the authorised capital of subsidiary banks to five hundred crores and divide the authorised capital into shares of one hundred rupees each or of such denomination as may be decided by the subsidiary banks, with the approval of the State Bank of India (SBI);

(b) allow the subsidiary banks to issue share certificates of such denomination as may be prescribed by regulations made by the SBI with the approval of the RBI to the existing shareholders;

(c) fix the issued capital of subsidiary banks by the SBI with the approval of the RBI and also decide, with the approval of the SBI, on the denomination of shares of subsidiary banks;

(d) allow the subsidiary banks to raise issued capital by preferential allotment or private placement or public issue in accordance with the procedure as may be specified by regulations made by the SBI with the approval of the RBI and to issue preference shares in accordance with guidelines framed by the RBI;

(e) allow the subsidiary banks to issue, with the approval of the SBI and RBI, bonus shares to the equity shareholders;

(f) allow reduction of the SBI's shareholding in the subsidiary banks from fifty-five per cent. to fifty-one per cent.;

(g) allow the subsidiary banks to accept share monies in instalments, make calls, and forfeiture of unpaid shares and their re-issue;

(h) provide for nomination facility in respect of shares held by individual/joint shareholders of the subsidiary banks;

(i) remove the restriction on individual shareholdings in excess of two hundred shares and increase the percentage of voting rights of shareholders, (other than the SBI) from one per cent. to ten per cent. of the issued capital of the subsidiary bank concerned;

(j) restrict the voting rights of preference shares of subsidiary 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.

(k) allow the chairman of the SBI to nominate an official of the SBI as the Chairman of the Board of a subsidiary bank, with the approval of the RBI;

(l) omit the provisions relating to nomination of official of the RBI 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.*;

(m) increase the number of elected directors representing shareholders of subsidiary bank limited to a maximum of three subject to different percentage of public ownership;

(n) specify the qualification regarding eligibility criteria including "fit and proper" criteria for elected directors of subsidiary bank and to confer power upon the RBI to remove elected directors who are not fit and proper and also to allow the Board of Directors of a subsidiary banks to co-opt any other persons who is fit and proper in his place;

(o) confer power upon the RBI to supersede the Board of Directors of subsidiary banks in public interest or for depositor's interest or for securing proper management of the subsidiary banks on the recommendation of the SBI and to appoint an administrator and a committee to assist the administrator;

(p) allow transfer of unpaid or unclaimed dividend of subsidiary 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;

(q) entitle the shareholders present in the annual general meeting to "adopt" the balance sheet.

5. The Bill seeks to achieve the above objectives.

P. CHIDAMBARAM.

NEW DELHI;  
The 11th May, 2006.

*Notes on clauses*

*Clause 2.*—This clause seeks to substitute section 5 of the State Bank of Saurashtra Act, 1950 relating to authorised capital.

Under the existing provisions contained in said section 5, the authorised capital of the State Bank of Saurashtra shall be two crore of rupees, divided into shares of one hundred rupees each. However, the State Bank of India may, with the approval of the Reserve Bank of India, authorise the State Bank of Saurashtra to increase or reduce its authorised capital. Where the authorised capital is so increased, the shares issued shall be of the denomination of one hundred rupees each.

It is proposed to increase the authorised capital of the State Bank of Saurashtra to rupees five hundred crores.

It is further proposed to provide that the authorised capital of the State Bank of Saurashtra shall be divided into shares of one hundred rupees each or such denomination as the State Bank of Saurashtra may, with the approval of the State Bank of India, decide.

It also provides that the State Bank of Saurashtra may issue the certificates of shares of equivalent values in such denomination as it may decide with the approval of the State Bank of India in accordance with the procedure as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959.

*Clause 3.*—This clause seeks to amend section 6 of the State Bank of Saurashtra Act, 1950 relating to issued capital.

Under the existing provisions contained in sub-section (1) of the said section, the issued capital of the State Bank of Saurashtra shall consist of such amount as the State Bank of India may, with the approval of the Reserve Bank of India, fix. The issued capital is divided into fully paid-up shares of one hundred rupees each.

It is proposed to insert new sub-section (1A) in the aforesaid section to provide that the issued capital of the State Bank of Saurashtra shall consist of such amount as the State Bank of India 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 5.

Under the existing provisions contained in sub-section (3) of the aforesaid section, the State Bank of Saurashtra may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital and the increased issued capital shall consist of fully paid up shares which shall be issued in such manner as the State Bank of India may, with the approval of the Reserve Bank of India may, direct. The increase or reduction of the issued capital of the State Bank of Saurashtra cannot be made in a manner which makes the State Bank of India to hold less than fifty-five per cent. of the issued capital of the State Bank of Saurashtra.

It is proposed to substitute the said sub-section (3) by new sub-sections (3), (3A), (3B), (3C) and (3D).

The proposed new sub-section (3) provides that the State Bank of Saurashtra may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital by issue of equity or preference shares. The increase of issued capital can be by public issue or by preferential allotment or private placement in accordance with the procedure as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959.

The proposed new sub-section (3A) provides that the issued capital of the State Bank of Saurashtra shall consist of equity shares or equity and preference shares. The issue of preference shares shall be in accordance with the guidelines framed by the

Reserve Bank of India specifying the class of and 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.

The proposed new sub-section (3B) provides that with the approval of the State Bank of India and the Reserve Bank of India, the State Bank of Saurashtra may, increase its issued capital by issuing bonus shares to the existing shareholders in such manner as the State Bank of India, with the approval of the Reserve Bank of India, direct.

The proposed new sub-section (3C) provides that the issued capital cannot be increased or reduced in a manner which makes the State Bank of India to hold at any time less than fifty-one per cent. instead of fifty-five per cent. of the issued capital consisting of equity shares of the State Bank of Saurashtra.

The proposed new sub-section (3D) provides that the State Bank of Saurashtra may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them in the manner as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959.

*Clause 4.*—This clause seeks to amend section 9 of the State Bank of Hyderabad Act, 1956 relating to authorised capital.

Under the existing provisions contained in the said section 9, the authorised capital of the State Bank of Hyderabad shall be one crore rupees, divided into shares of one hundred rupees each. However, the State Bank of India may, with the approval of the Reserve Bank of India, authorise the State Bank of Hyderabad to increase or reduce its authorised capital. Where the authorised capital is so increased, the shares issued shall be of the denomination of one hundred rupees each.

It is proposed to increase the authorised capital of the State Bank of Hyderabad to rupees five hundred crores.

It is further proposed to provide that the authorised share capital of the State Bank of Hyderabad shall be divided into shares of one hundred rupees each or such denomination as the State Bank of Hyderabad may, with the approval of the State Bank of India, decide.

It also proposed to provide that the State Bank of Hyderabad may issue the certificates of shares of equivalent values in such denomination as it may decide with the approval of the State Bank of India in accordance with the procedure as may be specified by regulations made under Section 63 of the State Bank of India (Subsidiary Banks) Act, 1959.

*Clause 5.*—This clause seeks to amend section 10 of the State Bank of Hyderabad Act, 1956 relating to issued capital.

Under the existing provisions contained in sub-section (1) of the said section, the issued capital of the State Bank of Hyderabad shall consist of such amount as the State Bank of India may, with the approval of the Reserve Bank of India, fix. The issued capital is divided into fully paid up shares of hundred rupees each.

It is proposed to insert new sub-section (1A) in the aforesaid section to provide that the issued capital of the State Bank of Hyderabad shall consist of such amount as the State Bank of India may, with the approval of the Reserve Bank of India, fix and shall be divided into fully paid up shares of such denomination in accordance with sub-section (2) of section 9.

Under the existing provisions contained in sub-section (3) of the aforesaid section, the State Bank of Hyderabad may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital and the increased issued capital shall consist of fully paid up shares which shall be issued in such manner as the State Bank of India may, with the approval of the Reserve Bank of India, direct. The increase of the issued capital of the State Bank of Hyderabad cannot be made in a manner which

makes the State Bank of India to hold less than fifty-five per cent. of the issued capital of the State Bank of Hyderabad.

It is proposed to substitute the said sub-section (3) by new sub-sections (3), (3A), (3B), (3C) and (3D).

The proposed new sub-section (3) provides that the State Bank of Hyderabad, may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital by issue of equity or preference shares. The increase of issued capital can be by public issue or by preferential allotment or private placement in accordance with the procedure as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959.

The proposed new sub-section (3A) provides that the issued capital of the State Bank of Hyderabad shall consist of equity shares or equity and preference shares. The issue of preference shares shall be in accordance with the guidelines framed by the Reserve Bank of India specifying the class of, and, 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.

The proposed new sub-section (3B) provides that the State Bank of Hyderabad may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital by issuing bonus shares to existing shareholders in such manner as the State Bank of India with the approval of the Reserve Bank of India, direct.

The proposed new sub-section (3C) provides that the issued capital of the State Bank of Hyderabad cannot be increased or reduced in a manner which makes the State Bank of India, to hold at any time less than fifty-one per cent. instead of fifty-five per cent. of the issued capital consisting of equity shares of the State Bank of Hyderabad.

The proposed new sub-section (3D) provides that the State Bank of Hyderabad may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them in the manner as may be specified by regulations made under section 63 of the State Bank of India (Subsidiary Banks) Act, 1959.

*Clause 6.*—This clause seeks to substitute section 6 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to the authorised capital of new banks.

Under the existing provisions contained in the said section 6, the authorised capital of the State Bank of Mysore and the State Bank of Travancore is rupees two crores each and the authorised capital of every other new Bank, *i.e.*, the State Bank of Bikaner, the State Bank of Indore and the State Bank of Patiala is rupees one crore.

It is proposed to increase the authorised capital of each new bank to rupees five hundred crores.

It is further proposed to provide that the authorised share capital of every new bank shall be divided into share of one hundred rupees each or such denomination as the new bank may, with the approval of the State Bank of India, decide.

It also provides that every new bank may issue the certificates of shares of equivalent values in such denomination as it may decide with the approval of the State Bank of India in accordance with the procedure as may be specified by regulations made under section 63 of the aforesaid Act.

*Clause 7.*—This clause seeks to amend section 7 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to the issued capital of new banks.

Under the existing provisions contained in sub-section (1) of the said section, the issued capital of a new bank shall consist of such amount as the State Bank of India may, with the approval of the Reserve Bank of India, fix. The issued capital is divided into fully paid up shares of hundred rupees each.

It is proposed to insert new sub-section (1A) in the aforesaid section to provide that the issued capital of a new bank shall consist of such amount as the State Bank of

India may, with the approval of the Reserve Bank of India, fix and be divided into fully paid up shares of such denomination in accordance with sub-section (2) of section 6.

It is proposed to substitute the said sub-sections (4) and (5) of the said Act by new sub-sections (4) to (8).

Under the existing provisions contained in sub-section (4), a new bank may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital and the increased issued capital shall consist of fully paid up shares which shall be issued in such manner as the State Bank of India may, with the approval of the Reserve Bank of India may, direct.

The proposed new sub-section (4) provides that a new bank may, with the approval of the State Bank of India and the Reserve Bank of India, increase its issued capital by issue of equity or preference shares. The increase of issued capital can be by public issue or by preferential allotment or private placement in accordance with the procedure as may be specified by Regulation made under Section 63 of the aforesaid Act.

The proposed new sub-section (5) provides that the issued capital of the new bank shall consist of equity shares or equity and preference shares. The issue of preference shares shall be in accordance with the guidelines framed by the Reserve Bank of India specifying the class of, and the extent of, issue of each preference shares (whether perpetual or irredeemable or redeemable), and the terms and conditions subject to which, each class of preference shares may be issued.

The proposed new sub-section (6) provides for increase of issued capital of a new Bank by issue of bonus shares to the existing equity shareholders in such manner as the State Bank of India may with the approval of the Reserve Bank of India, direct.

Under the existing provisions contained in sub-section (5) of the aforesaid section 7, the increase or reduction of the issued capital of a new bank cannot be made in a manner which makes the State Bank of India to hold at any time less than fifty-five per cent. of the issued capital of that new bank.

The proposed new sub-section (7) provides that the issued capital of a new Bank cannot be increased or reduced in a manner which makes the State Bank of India to hold at any time less than fifty-one per cent. instead of fifty-five per cent. of the issued capital consisting of equity shares of new bank.

The proposed new sub-section (8) provides that the new bank, may accept the money in respect of shares issued towards increase in issued capital in instalments, make calls and forfeit unpaid shares and re-issue them in the manner as may be specified by regulation made under section 63 of the State Bank (Subsidiary Banks) Act, 1959.

**Clause 8.**—This clause proposes to amend section 18 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to transferability of shares.

Under the existing provisions contained in sub-section (2) of the said section, the State Bank of India cannot transfer any shares held by it in any subsidiary bank (the State Bank of Bikaner and Jaipur, the State Bank of Indore, the State Bank of Mysore, the State Bank of Patiala, the State Bank of Travancore and the State Bank of Hyderabad and the State Bank of Saurashtra) if such transfer result in reducing the shares held by it to less than fifty-five per cent. of the issued capital of that subsidiary bank.

It is proposed to reduce the said limit from fifty-five per cent. to fifty-one per cent. of the issued capital of that subsidiary bank.

**Clause 9.**—This clause proposes to insert a new section 18A in the State Bank of India (Subsidiary Banks) Act, 1959 relating to right of registered shareholder to nominate.

The provisions contained in new section, *inter alia*, allows an individual registered shareholder and individual joint holders to nominate an individual to whom all his or their rights in shares shall vest in the event of 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 a nominee who is a minor.

*Clause 10.*—This clause seeks to substitute a new section for section 19 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to restriction on individual holdings.

Under the existing provisions contained in sub-section (1) of the said section 19, no person referred to in the proviso to that sub-section shall be registered as a shareholder in respect of any shares in a subsidiary bank held by him, whether in his own name or jointly with any other person, in excess of two hundred shares, or be entitled to payment of any dividend on the excess shares held by him, or to exercise any of the rights of a shareholder in respect of such excess shares otherwise than for the purpose of selling them. The persons referred to in the said sub-section are (i) the State Bank of India (ii) a State Government; (iii) a Corporation; (iv) an insurer as defined in the Insurance Act, 1938; (v) a local authority; (vi) a co-operative society; (vii) a trustee of a public or private religious or charitable trust; (viii) a shareholder of an existing bank who is allotted any shares under sub-section (9) of section 13 of the said Act.

Under the existing provisions contained in sub-section (3) of the said section no shareholder, (other than the State Bank of India) shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent. of the issued capital of the subsidiary bank concerned.

It is proposed to increase the percentage of voting rights to ten per cent. of the issued capital of subsidiary bank.

It is also proposed that the shareholder holding any preference share capital in the subsidiary bank shall, in respect of such capital, have a right to vote only on resolutions placed before such subsidiary 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 11.*—This clause seeks to amend section 21 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to register of shareholders.

The existing provisions contained in the said section provides that every subsidiary bank shall keep at its head office a register, in one or more books, of the shareholders and shall enter therein, *inter alia*, the particulars relating to the names, addresses and occupation, if any, of the shareholder, distinguish each share by its denoting number, the date on which each person is so entered as a shareholder; and the date on which any person ceases to be a shareholder and such other particulars as may be prescribed.

It is proposed to insert two new sub-sections (2) and (3), to provide that a subsidiary bank may keep the said register in computer floppies or diskettes or any other electronic form subject to such safeguards as may be specified by regulations made under section 63 of the aforesaid Act. It further provides that a copy of, or extract from, the register of shareholders, certified to be a true copy under the hand of any officer of the subsidiary bank authorised in this behalf shall, notwithstanding anything contained in the Indian Evidence Act, 1872, be admissible in evidence in all legal proceedings.

*Clause 12.*—This clause seeks to amend section 22 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to trusts not to be entered on the register.

It is proposed to omit the words "Notwithstanding anything contained in section 19". The proposed amendment is of consequential nature.

*Clause 13.*—This clause seeks to amend section 25 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to composition of the Board of Directors.

The existing provisions contained in clause (a) of sub-section (1) of the said section provides that the Board of Directors of a subsidiary bank shall consist of the chairman for the time being of the State Bank of India, as, *ex officio*, member.

It is proposed to substitute said clause so as to provide that the Board of Directors of a subsidiary bank, *inter alia* shall consist of the chairman for the time being of the State Bank of India, or an official of the State Bank of India nominated by chairman, with the approval of the Reserve Bank of India, as, *ex officio*, member.

The existing provision contained in clause (b) of sub-section (1) provides that the Board of Directors of a subsidiary bank, *inter alia*, shall consist of an officer by the Reserve Bank of India nominated.

It is proposed to omit the said clause.

The existing provisions contained in clause (d) of sub-section (1) of the above said section provides that the Board of Directors of a subsidiary bank, *inter alia*, shall consist of two directors to be elected in the prescribed manner by the shareholders, other than the State Bank of India.

It is proposed to substitute the said clause (d) so as to provide that the Board of Directors of a subsidiary bank, *inter alia*, shall consist of more than three directors to be elected in the manner specified in that clause. It provides that (a) if the total amount of holdings of the shareholders (other than the State Bank of India) of a subsidiary bank is more than one per cent. of the total issued capital, and equal to or less than sixteen per cent. of such capital, one director to be elected, in the manner as may be specified by regulations made under section 63 of the aforesaid Act, by such shareholders and two directors shall be nominated by the State Bank of India, or (b) if the total amount of holdings of the shareholders (other than the State Bank of India) of a subsidiary bank is more than sixteen per cent. of the total issued capital and equal to or less than thirty-two per cent. of such capital, two directors to be elected in the manner as may be specified by regulations made under section 63 of the aforesaid Act by such shareholders and one director shall be nominated by the State Bank of India, or (c) if the total amount of holdings of the shareholders (other than the State Bank of India) of a subsidiary bank is more than thirty-two per cent. of the total issued capital, all the three directors to be elected, in the manner as may be specified by regulations made under section 63 of the aforesaid Act, by such shareholders. However, in case, the total amount of holdings of the shareholders of a subsidiary bank (other than the State Bank of India) is not more than one per cent. of the total issued capital, all three directors shall be nominated by the State Bank of India and such directors shall, be deemed to be directors elected under this clause.

It further clarifies that the total amount of holdings of the shareholders (other than the State Bank) whose names are on the register of shareholders of the subsidiary bank three months before the date fixed for election of directors shall be taken into account.

It is also proposed to omit sub-sections (3) and (4). The proposed amendment is consequential nature.

*Clause 14.*—This clause seeks to insert in the State Bank of India (subsidiary Banks) Act, 1959, a new section 25A relating to fit and proper status of an elected director and also insert new section 25B relating to power of the Reserve Bank to appoint additional directors.

The provisions contained in sub-section (1) of the said new section 25A, *inter alia*, provides that the directors to be elected under clause (d) of sub-section (1) of section 25 shall have special knowledge or practical experience in respect of one or more of the matters, namely, agricultural and rural economy, banking, co-operation,

economics, finance, law, small-scale industry or any other matter the special knowledge of, and practical experience which would, in the opinion of the Reserve Bank, be useful to the subsidiary bank; or such elected directors should represent the interests of depositors; or represent the interests of farmers, workers and artisans.

The provisions contained in sub-section (2) of the aforesaid new section 25A provides that no person shall be eligible to be elected as director under clause (d) of sub-section (1) of section 25 unless he is a person having fit and proper status based upon track record, integrity and such other criteria as the Reserve Bank of India may notify from time to time in this regard.

The provisions contained in sub-section (3) of the aforesaid new section 25A provides that the Reserve Bank of India may also specify in the notification issued under sub-section (2), the authority to determine the fit and proper status, the manner of such determination, the procedure to be followed for such determination, and such other matters as may be considered necessary or incidental thereto.

The provisions contained in sub-section (4) of the aforesaid proposed new section 25A provides that where the Reserve Bank of India is of the opinion that any director of a subsidiary bank elected under clause (d) of sub-section (1) of section 25 does not fulfil the requirements of sub-sections (1) and (2) of the proposed new section 25A, it may, after giving to such director and the subsidiary bank a reasonable opportunity of being heard, by order, remove such director and on such removal, the Board of Directors 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 subsidiary 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 subsidiary bank as a director.

The provisions contained in sub-section (1) of the said new section 25B provide that if the Reserve Bank of India is of the opinion that in the interest of banking policy or in the public interest or in the interest of the subsidiary 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 subsidiary bank.

The provisions contained in sub-section (2) of the aforesaid new section 25B provide that any person appointed as additional director in pursuance of this section shall hold office during the pleasure of the Reserve Bank of India and subject thereto for a period not exceeding three years or such further 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 a 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 not be required to hold qualification shares in the subsidiary bank.

The provisions contained in sub-section (3) of the aforesaid new section 25B provides that for the purpose of reckoning any proportion of the total number of directors of the subsidiary bank, any additional director appointed under this section shall not be taken into account.

*Clause 15.*—This clause seeks to amend section 26 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to term of office of directors.

The existing provisions contained under sub-section (1) of section 26 provides that the directors nominated under clause (b), (c) or (e) of sub-section (1) of section 25 shall hold office at the pleasure of the nominating authority.

It is proposed to omit the reference of clause (b) of sub-section (1) of section 25 which relates to nomination of officer of the Reserve Bank of India as director in a subsidiary bank which is proposed to be omitted by clause 13 of the Bill. The amendment is of consequential nature.

*Clause 16.*—This clause seeks to amend section 27 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to disqualification for directorship.

It is proposed to substitute the reference of "Banking Companies Act, 1949", by the "Banking Regulation Act, 1949". The proposed amendment is of consequential nature.

*Clause 17.*—This clause seeks to amend section 28 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to vacation of office of directors.

The existing provisions contained under said section 28 provides that the vacation of office of directors such as resignation, absence without permission, etc., which are applicable to the directors nominated by the Reserve Bank of India.

It is proposed to omit the reference of clause (b) of sub-section (1) of section 25 which relates to nomination of office of the Reserve Bank of India as director in a subsidiary bank which is proposed to be omitted by clause 13 of the Bill the proposed amendment is of consequential nature.

*Clause 18.*—This clause seeks to amend section 34 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to meetings of the Board of Directors.

The existing provisions contained in sub-section (2) provides that the chairman of the State Bank of India shall preside at every meeting of the Board of Directors of a subsidiary bank and, in his absence, such one of the directors as may generally or in relation to any particular meeting be authorised by the chairman in this behalf shall preside and in the absence of the chairman and also failing such authorisation, the directors of the subsidiary bank present at the meeting shall elect one from among themselves to preside at the meeting.

It is proposed to provide that the chairman of the Board of Directors of a subsidiary bank shall preside at every meeting of the Board of Directors of the subsidiary bank instead of the chairman of the State Bank of India.

It is also proposed to omit in sub-sections (4) and (5), the reference of clause (b) of sub-section (1) of section 25 which relates to nomination of officer of the Reserve Bank of India as director in a subsidiary bank which is proposed to be omitted by clause 13 of the Bill.

The provisions contained in sub-section (6) provides that a copy of the minutes of every meeting of the Board of Directors of a subsidiary bank, together with copies of all connected papers, shall be forwarded to the State Bank of India and the Reserve Bank of India as soon as possible.

It is proposed to omit the reference of the Reserve Bank of India from the scope of aforesaid section so as to provide that a copy of the minutes of every meeting of the Board of Directors of a subsidiary bank, together with copies of all connected papers, shall not be required to be forwarded to the Reserve Bank of India.

*Clause 19.*—This clause seeks to insert section 35A of the State Bank of India (Subsidiary Banks) Act, 1959 relating to supersession of Board of Directors in certain cases.

The provisions contained in the said new section 35A, *inter alia*, provides that where the Reserve Bank of India, on the recommendation of the State Bank of India, 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 of India may, for 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. However, the period of supersession of the Board of Directors may be extended from time to time, but that total period shall not exceed twelve months.

It further provides that the Reserve Bank of India may, on supersession of the Board of Directors of the subsidiary bank, appoint an Administrator (not being an officer of the Central Government or State Government) who has experience in law, finance, banking, economics or accountancy for such period as it may determine. 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. The Administrator appointed shall vacate office immediately after the Board of Directors of the subsidiary bank has been reconstituted.

It also contains provisions in connection with or arising out of supersession of the Board of Directors of the subsidiary bank.

*Clause 20.*—This clause seeks to amend section 38 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to acquisition of business of other banks.

It is proposed to substitute the reference of "Banking Companies Act", by the "Banking Regulation Act". The proposed amendment is of consequential nature.

*Clause 21.*—This clause seeks to amend section 39 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to closing of annual accounts.

The existing provisions contained in section 39 of the said Act, *inter alia*, provide that a subsidiary bank shall cause its books to be closed and balanced as on the 31st day of December or such other date as the Central Government may specify. It is proposed to change the said period from the month of December to the month of March.

*Clause 22.*—This clause seeks to insert new section 40A in the State Bank of India (Subsidiary Banks) Act, 1959 relating to transfer of unpaid or unclaimed dividend to Special dividend account.

The provisions contained in the proposed new section provides that in case a dividend has been declared by the subsidiary bank but has not been paid, or claimed, within thirty days from the date of declaration, to or by, any shareholder entitled to the payment of the dividend, the subsidiary bank shall, within seven days from the date of the expiry of such period of thirty days, transfer the total amount of dividend which remains unpaid, or unclaimed within the said period of thirty days, to a special account to be called 'unpaid dividend' account of such subsidiary bank. The expression "dividend which remains unpaid" has been defined to mean any dividend the warrant in respect thereof has not been encashed or which has otherwise not been paid or claimed.

It further provides that where the whole or any part of any dividend, declared by the subsidiary bank before the commencement of the proposed legislation remains unpaid at such commencement, the subsidiary bank shall, within a period of six months from such commencement, transfer such unpaid amount to the account referred to in sub-section (1) of the said new section.

It also provides that any money transferred to the unpaid dividend account of the subsidiary bank in pursuance of the proposed new section, which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the subsidiary bank to the Investor Education and Protection Fund established under sub-section (1) of section 205C of the Companies Act, 1956 and the money so transferred to the Investor Education and Protection Fund shall be utilised for the purposes and in the manner specified in section 205C of the said Act.

*Clause 23.*—This clause seeks to amend section 43 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to returns to be furnished by a subsidiary bank.

The existing provisions contained in the said section, *inter alia*, provide that a subsidiary bank shall furnish, to the State Bank of India, the Reserve Bank of India and the Central Government, within three months from the 31st day of December or the date notified 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 auditor's report, and a report by its Board of Directors on the working and activities of the subsidiary bank during the period covered by the accounts.

It is proposed to change the said period from the month of December to the month of March.

It is further proposed to provide that the balance-sheet and profit and loss account of the subsidiary bank shall be signed by persons holding the office of the chairman, managing director, and a majority of the other directors in office of the subsidiary bank.

*Clause 24.*—This clause seeks to amend section 44 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to general meetings.

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 concerned, made up to the previous 31st day of December, or the date notified under section 39, as the case may be, the report of the Board of Directors on the working and activities of that bank for the period covered by the accounts and the auditors' report on the balance-sheet and accounts.

It is proposed to provide that shareholders present at an annual general meeting shall be entitled to discuss and adopt the balance-sheet instead of to discuss balance-sheet made up to the previous 31st day of March instead of 31st day of December, or the date notified under section 39, as the case may be, the report of the Board of Directors on the working and activities of that bank for the period covered by the accounts and the auditors' report on the balance-sheet and accounts.

*Clause 25.*—This clause seeks to amend section 48 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to cost of development programme.

It is proposed to substitute the reference of Indian Income-tax Act, 1922, by the Income-tax Act, 1961. The proposed amendment is of consequential nature.

*Clause 26.*—This clause seeks to amend section 50 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to staff of a subsidiary bank.

It is proposed to insert a new sub-section (1A) in the said section so as to provide that the officers, advisers and employees of the subsidiary bank concerned shall individually or jointly, or with other officers, advisers and employees in a committee exercise such powers and perform such duties as may, by general or special order, be entrusted or delegated to them by the Board of Directors or its Executive Committee.

*Clause 27.*—This clause seeks to amend section 55 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to non-applicability of the Companies Act, 1956, and the Banking Companies Act, 1949 to certain existing banks.

It is proposed to substitute the reference of "Banking Companies Act", by the "Banking Regulation Act". The proposed amendment is of consequential nature.

*Clause 28.*—This clause seeks to amend section 63 of the State Bank of India (Subsidiary Banks) Act, 1959 relating to power of the State Bank of India to make regulations.

The existing provisions contained in the said section confers power upon the State Bank of India to make, with the approval of the Reserve Bank of India, by the notification in the Official Gazette, the regulations in respect of a subsidiary bank.

Certain provisions of the Bill confer power upon the State Bank of India to make the regulations in respect of certain matters. It is proposed to amend the said section so as to include within the scope of the said section the said matters in respect of which the State Bank of India may make the regulations.

## MEMORANDUM REGARDING DELEGATED LEGISLATION

Clause 28 of the Bill seeks to amend section 63 of the State Bank of India (Subsidiary Banks) Act, 1959 which empowers the State Bank, with the approval of the Reserve Bank, to make regulations in respect of a subsidiary bank (being the State Bank of Saurashtra, the State Bank of Hyderabad and subsidiary banks of State Bank of India), 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. These matters, *inter alia*, relate to (a) the procedure for issuing the certificates of shares, (b) the procedure with respect to increase, whether by public issue or by preferential allotment or private placement, the issued capital by issue of equity or preference shares, (c) the manner of acceptance of share money in instalments, the manner of making calls and the manner of forfeiture of unpaid shares and their re-issue, (d) the maintenance of share registers, and particulars to be entered in such registers in addition to those specified in sub-section (1) of section 21, the safeguards to be observed in the maintenance of the register of shareholders on computer floppies or diskettes or any other electronic form, the inspection and closure of the registers and all other matters connected therewith, (e) the manner in which every individual registered shareholder nominate an individual to whom all his rights in the shares shall vest in the event of his death under sub-section (1) of section 18A, (f) the manner in which, the joint holders may nominate an individual to whom all their rights in the shares shall vest in the event of the death of all the joint holders under sub-section (2) of section 18A, (g) the manner in which nomination is varied or cancelled under sub-section (3) of section 18A, (h) the manner in which every individual registered as holder of the shares to make nomination where nominee is a minor to appoint any person to become entitled to the shares in the event of his death during the minority of the nominee under sub-section (4) of section 18A.

2. The regulations made under this section shall have to be laid 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 SAURASHTRA ACT, 1950

\* \* \* \* \*

Authorised  
Capital.

5. (1) The authorised capital of the Saurashtra Bank shall be two crores of rupees divided into shares of one hundred rupees each.

(2) Notwithstanding anything contained in the section, the State Bank may, with the approval of the Reserve Bank, authorise the Saurashtra Bank to increase or reduce its authorised capital:

Provided that where the authorised capital is so increased, the shares issued shall be of the denomination specified in sub-section (1).

Issued Capital.

6. (1)\* \* \* \* \*

(3) Without prejudice to the provisions contained in sub-section (4), the Saurashtra Bank may, with the approval of the State Bank and the Reserve Bank, increase, from time to time, its issued capital and the capital so increased shall consist of fully paid-up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct:

Provided that the issued capital shall be so increased that at no time shall the State Bank hold less than fifty-five per cent. of the issued capital of the Saurashtra Bank.

\* \* \* \* \*

### EXTRACTS FROM THE STATE BANK OF HYDERABAD ACT, 1956

(79 OF 1956)

\* \* \* \* \*

## CHAPTER III

### CAPITAL OF THE HYDERABAD BANK

Authorised  
Capital.

9. (1) The authorised capital of the Hyderabad Bank shall be one crore of rupees, divided into shares of one hundred rupees each.

(2) Notwithstanding anything contained in this section, the State Bank may, with the approval of the Reserve Bank, authorise the Hyderabad Bank to increase or reduce its authorised capital:

Provided that where the authorised capital is so increased, the shares issued shall be of the denomination specified in sub-section (1).

Issued Capital.

10. (1)\* \* \* \* \*

(3) Without prejudice to the provisions contained in sub-section (4), the Hyderabad Bank may, with the approval of the State Bank and the Reserve Bank, increase, from time to time, its issued capital and the capital so increased shall consist of fully paid-up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct:

Provided that the issued capital shall be so increased that at no time shall the State Bank hold less than fifty-five per cent. of the issued capital of the Hyderabad Bank.

\* \* \* \* \*



## EXTRACTS FROM THE STATE BANK OF INDIA (SUBSIDIARY BANKS) ACT, 1959

(38 OF 1959)

\* \* \* \* \*

6. (1) Subject to the provisions of this Act, the authorised capital of the State Bank of Mysore and the State Bank of Travancore shall be rupees two crores each, and the authorised capital of every other new bank shall be rupees one crore. Authorised capital of new banks.

(2) The authorised capital of every new bank shall be divided into shares of one hundred rupees each.

(3) Notwithstanding anything contained in this section, the State Bank may, with the approval of the Reserve Bank, authorise a new bank to increase or reduce its authorised capital:

Provided that where the authorised capital is so increased, the shares issued shall be of the denomination specified in sub-section (2).

7. (1)\* \* \* \* \* Issued capital of new banks.

(4) Without prejudice to the provisions contained in sub-section (3), a new bank may, with the approval of the State Bank and the Reserve Bank, increase from time to time, its issued capital and the capital so increased shall consist of fully paid-up shares to be issued in such manner as the State Bank may, with the approval of the Reserve Bank, direct.

(5) No increase or reduction in the issued capital of a new bank shall be made in such a manner that the State Bank holds at any time less than fifty-five per cent. of the issued capital of that bank.

## CHAPTER IV

## SHARES OF THE SUBSIDIARY BANKS

18. (1)\* \* \* \* \* Transferability of shares.

(2) Nothing contained in sub-section (1) shall entitle the State Bank to transfer any shares held by it in any subsidiary bank such transfer will result in reducing the shares held by it to less than fifty-five per cent. of the issued capital of that subsidiary bank.

19. (1) No person shall be registered as a shareholder in respect of any shares in a subsidiary bank held by him, whether in his own name or jointly with any other person, in excess of two hundred shares, or be entitled to payment of any dividend on the excess shares held by him, or to exercise any of the rights of a shareholder in respect of such excess shares otherwise than for the purpose of selling them: Restriction on individual holdings.

Provided that nothing contained in this sub-section shall apply to—

(a) the State Bank;

(b) a State Government;

(c) a Corporation;

8. (d) an insurer as defined in the Insurance Act, 1938;

(e) a local authority;

(f) a co-operative society;

(g) a trustee of a public or private religious or charitable trust;

(h) a shareholder of an existing bank who is allotted any shares under sub-section (9) of section 13.

(2) Notwithstanding anything contained in sub-section (1), no person referred to in the proviso to that sub-section, other than the State Bank, shall be entitled to exercise voting rights in respect of any shares held by such person in excess of one per cent. of the issued capital of the subsidiary bank concerned.

\* \* \* \* \*

Trusts not to be entered on the register.

22. Notwithstanding anything contained in section 19, no notice of any trust, express, implied or constructive, shall be entered on the register of shareholders of a subsidiary bank or be receivable by it in respect of its shares:

Provided that nothing in this section shall apply to a depository in respect of shares held by it as a registered owner on behalf of the beneficial owners.

*Explanation.*—For the purposes of section 21, section 21A and this section, the expressions "beneficial owner", "depository" and "registered owner" shall have the meanings respectively assigned to them in clauses (a), (e) and (j) of sub-section (1) of section 2 of the Depositories Act, 1996.

22 of 1996.

\* \* \* \* \*

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*;
- (b) an officer of the Reserve Bank, to be nominated by that bank;

\* \* \* \* \*

(d) two directors to be elected in the prescribed manner by the shareholders, other than the State Bank:

Provided that if the total amount of the holdings of all such shareholders registered in the books of the subsidiary bank three months before the date fixed for election is below five per cent. of the total issued capital, or if there are no shareholders other than the State Bank registered on the books of the subsidiary bank, the directors to be elected by the shareholders shall be nominated by the State Bank and such directors shall, for the purposes of this Act, be deemed to be directors elected under this clause:

\* \* \* \* \*

(3) If, for any reason, a director of a subsidiary bank nominated under clause (b) of sub-section (1) is unable to exercise his functions or to discharge his duties as such director, the Reserve Bank may nominate any of its officers to exercise all the functions and discharge all the duties of such director whenever he is so unable to exercise his functions or discharge his duties, and the officer so nominated shall for all purposes of this Act be deemed to be a director of the subsidiary bank.

(4) An officer of the Reserve Bank or the State Bank may be nominated as a director of a subsidiary bank by virtue of his office.

\* \* \* \* \*

Term of office of Directors.

26. (1) A director of subsidiary bank, nominated under clause (b) or clause (c) or clause (e) of sub-section (1) of section 25 or appointed under clause (ca) or clause (cb) of that sub-section.

Disqualification for directorship.

27. (1) A person shall be disqualified to be a director of a subsidiary bank, if—

\* \* \* \* \*

(5) In this section,—

(a) "banking company" has the same meaning as in the Banking Companies Act, 1949;

\* \* \* \* \*

10 of 1949.

28. If a director of a subsidiary bank—

Vacation of office of Directors.

(a) is, or has become subject to any of the disqualifications mentioned in section 27; or

(b) resigns his office by giving notice in writing under his hand, in the case of a nominated director to the State Bank, and in the case of an elected director to the Board of Directors of the subsidiary bank, and his registration is accepted; or

(c) is absent without leave of the Board of Directors for more than three consecutive meetings thereof;

his seat on the Board of Directors shall thereupon become vacant:

Provided that nothing in clause (b) or clause (c) shall apply to a director referred to in clause (b) of sub-section (1) of section 25 or to a director, being an officer of the State Bank, nominated under clause (c) or to a director, being an officer of the Central Government nominated under clause (e) of that sub-section.

\* \* \* \* \*  
34. (1)\* \* \* \* \*

Meetings of the Board of Directors

(2) The Chairman of the State Bank shall preside at every meeting of the Board of Directors of a subsidiary bank and, in his absence such one of the directors as may generally or in relation to any particular meeting be authorised by the chairman in this behalf shall preside; and in the absence of the chairman and also failing such authorisation, the directors of the subsidiary bank present at the meeting shall elect one from among themselves to preside at the meeting.

*Explanation.*—For the purposes of this sub-section, "absence from a meeting" means non-attendance for any reasons whatsoever at the meeting or any part of the meeting during which any business is transacted.

\* \* \* \* \*

(4) Where any of the directors specified in clauses (a) and (b) of sub-section (1) of section 25 or any of the directors, being an officer of the State Bank specified in clause (c) of that sub-section is unable to attend any meeting of the Board of Directors of a subsidiary bank and the State Bank or any other such director as may be present at the meeting considers that the State Bank would not be adequately or effectively represented at such meeting by reason of the absence of any such director, the State Bank or director present may give notice in writing to that subsidiary bank—

(i) that the meeting should be adjourned to such date as may be indicated in the notice; or

(ii) that any matter, action, step or proceeding proposed to be considered, taken or carried out at that meeting, should not be so considered, taken or carried out; or

(iii) that no decision should be taken at that meeting on any such matter, action, step or proceeding;

and that subsidiary bank and its Board of Directors shall be bound to comply with such notice and act accordingly.

(5) A director of a subsidiary bank who is directly or indirectly concerned or interested in any contract, loan, arrangement or proposal, entered into or proposed to be entered into or made by or on behalf of the subsidiary bank shall, at the earliest possible opportunity, disclose the nature of his interest to the Board of Directors of that bank: and any such director shall not be present at any meeting of the Board of Directors when any such contract, loan, arrangement or proposal is discussed, unless his presence is required by the other directors for the purpose of eliciting information and where any director is so required to be present, he shall not vote on any such contract, loan, arrangement or proposal:

Provided that nothing contained in this sub-section shall apply to such director by reason only of his being—

(i) a shareholder (other than a director) holding not more than two per cent of the paid-up capital in any public company as defined in the Companies Act, 1956, or any corporation established by or under any law for the time being in force in India or any co-operative society, with which or to which the subsidiary bank has entered into or made, or proposes to enter into or make, contract, loan, arrangement or proposal; and

1 of 1956.

(ii) a director of the State Bank or any other subsidiary bank being a director under clause (a) or clause (e) of sub-section (1) of section 25 or being an officer of the Reserve Bank or the State Bank nominated under clause (b) or clause (c) of that sub-section; or

(iii) an officer or other employee of the State Bank, or any other institution, if he is the managing director appointed under sub-section (1) of section 29 or under section 32, or

(iv) an officer or other employee of the subsidiary bank, if he is a director appointed under clause (ca) or clause (cb) of sub-section (1) of section 25.

(6) A copy of the minutes of every meeting of the Board of Directors of a subsidiary bank, together with copies of all connected papers, shall be forwarded to the State Bank and the Reserve Bank as soon as possible.

\* \* \* \* \*

Acquisition of business of other banks.

38. (1)\* \* \* \* \*

(10) Simultaneously with the appointment of a suitable person under sub-section (9) or immediately thereafter, the Central Government shall issue directions to be followed by that person in the management of that banking institution for the purposes aforesaid and thereupon—

(a) the provisions of the Companies Act, 1956, or the Banking Companies Act, 1949, or any other law for the time being in force or any instrument having effect by virtue of any such Act or law, in so far as they are inconsistent with such directions, shall cease to apply to, or in relation to, that banking institution;

1 of 1956.  
10 of 1949.

\* \* \* \* \*

CHAPTER VII

ACCOUNTS AND AUDIT

Closing of annual accounts.

39. A subsidiary bank shall cause its books to be closed and balanced as on the thirty-first day 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 to be furnished by a subsidiary bank

43. (1) A subsidiary bank shall furnish to the State Bank, the Reserve Bank and the Central Government—

(a) within three months from the 31st day of December or the date notified 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 auditor's report,

and a report by the Board of Directors on the working and activities of the subsidiary bank during the period covered by the accounts; and

(b) any other information relating to the affairs and business of the subsidiary bank which the State Bank or the Reserve Bank may require:

Provided that the Reserve Bank may, after consultation with the State Bank, extend the said period of 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 of a subsidiary bank shall be signed by the managing director and a majority of the directors of the subsidiary bank.

\* \* \* \* \*

44. (1)\* \* \* \* \*

General meetings.

(2) The shareholders present at an annual general meeting shall be entitled to discuss the balance-sheet and profit and loss account of the bank concerned, made up to the previous 31st day of December or the date notified under section 39, as the case may be, the report of the Board of Directors on the working and activities of that bank for the period covered by the accounts and the auditors' report on the balance-sheet and accounts.

(3) Nothing contained in this section relating to an annual general meeting shall apply in relation to a subsidiary bank if, as on the previous 31st day of December or the date notified under section 39, as the case may be, all the shares in the issued capital of that bank are held by the State Bank.

\* \* \* \* \*

48. (1)\* \* \* \* \*

Cost of development programme.

11 of 1922.

(2) For the purposes of the Indian Income-tax Act, 1922, any subsidy received by a subsidiary bank under sub-section (1) shall not be treated as income, profits or gains of the subsidiary bank.

\* \* \* \* \*

1 of 1956.

1 of 1949.

55. Subject to the provisions of this Act and unless the Central Government, by notification in the Official Gazette, otherwise directs, on and from the appointed day, the provisions of the Companies Act, 1956, and the Banking Companies Act, 1949, shall not apply to an existing bank, in so far as the said provisions impose any obligation on, or require anything to be done by, any such bank.

Companies Act, 1956, and Banking Companies Act, 1949, not to apply to certain existing banks.

\* \* \* \* \*

63. (1) The State Bank of 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 all matter for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act.

Power of the State Bank to make regulations.

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

\* \* \* \* \*

(g) the maintenance of share registers, and the particulars to be entered in such registers in addition to those specified in section 21, the inspection and closure of the registers and all other matters connected therewith;

\* \* \* \* \*

(4) Every regulation shall, as soon as may be after it is made under this Act 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.



LOK SABHA

---

A  
BILL

further to amend the State Bank of Saurashtra Act, 1950, and the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959.

---

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

MGIPMRND—594LS(S1)—16.05.2006.