

Bill Summary

Banking Regulation (Amendment) Bill, 2005

- The Banking Regulation (Amendment) Bill, 2005 was introduced in the Lok Sabha on May 13, 2005. The Standing Committee on Finance submitted its report to Parliament on December 13, 2005. This Bill has been listed for consideration and passage during the current session (budget session 2006) of Parliament.
- The Bill seeks to amend the Banking Regulation Act, 1949 (the Principal Act). It has eight main objectives: (a) regulating acquisition of shares in banking companies, (b) Increasing the flexibility on the Statutory Liquidity Requirement (SLR), (c) Including preference shares as capital, (d) Allowing banks to lend to companies in which their directors are engaged, (e) Monitoring the activities of associate enterprises of banks, (f) vesting RBI with powers to supersede the board of directors of a bank, (g) disallowing primary credit societies from banking activities, and (h) changing the definition of “approved securities”.
- Acquisition of banking shares. Anyone desiring to acquire more than 5% shareholding of a bank needs to obtain prior approval of RBI. RBI may impose certain conditions such as a minimum amount of shareholding to be acquired or requiring specific approvals for any further increase in shareholding. RBI is required to communicate its approval or rejection of any such application within 90 days, failing which the application is deemed to be approved. The restriction of 10% voting rights on any shareholder under the Principal Act is also being revoked.
- SLR. RBI can notify SLR between zero and 40% (currently the range is 25% to 40%) of a bank’s liabilities. SLR specifies the proportion of a bank’s deposits that it must hold in government and other approved securities. A higher SLR increases the safety of a bank but pre-empts the funds available to extend as loans.
- Preference Shares may be included in addition to equity shares while computing a bank’s capital.
- Banks may, with prior permission of RBI, grant loans or advances to companies in which any of its directors is engaged as a director, manager or employee. This was earlier prohibited.
- RBI can ask for details of the business of any associate enterprise of a bank. It will also have the powers to inspect any such enterprise.
- RBI may supersede the board of directors of a bank in public interest or in the interest of the bank or its depositors. RBI may appoint an administrator to take charge of the bank. Any supersession shall not be for a period exceeding six months.
- A primary credit society cannot carry on banking business. This will be applicable one year after this Amendment Bill is notified and could be extended up to three years. Among co-operative societies, only a co-operative bank holding a licence from RBI may carry on banking business. RBI has been granted powers to order a special audit of a co-operative bank in public interest or in the interest of the bank or its depositors.
- The definition of approved securities has been modified to specify that these are securities issued by the central or state governments or any such other securities as specified by RBI from time to time. The definition in the Principal Act defined approved securities as those in which a trustee may invest under the Indian Trusts Act, 1882.

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