

Standing Committee Report Summary

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

- The Standing Committee on Finance submitted its 31st Report on The State Bank of India (Subsidiary Banks Laws) Amendment Bill on December 26, 2010. The Chairman of the committee is Shri Yashwant Sinha. The Bill was introduced in the Lok Sabha on December 12, 2009. The Bill seeks to amend the State Bank of Hyderabad, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959.
- The State Bank of India (Subsidiary Banks) Act, 1959, and the State bank of Hyderabad, 1956 allow the State Bank of India (SBI) to take certain actions regarding the functioning of subsidiary banks, with the approval of the Reserve Bank of India (RBI). The Amendment Bill, 2009 now requires the SBI to get approval from the central government in consultation with the RBI to take such actions. The approval will be required in matters of (a) increase of issued capital of the subsidiary banks, (b) composition of the Board of Directors, (c) nomination or appointment of Directors, and (d) regulations relating to the subsidiary banks. The Committee feels that these proposals are in the lines of the transfer of ownership of the SBI from the RBI to the central government.
- In matters of mergers and consolidation of the SBI subsidiary banks, the committee is of the opinion that the government cannot just play a supportive role in the demand for mergers of the banks by the management. The Committee feels that it is essential for the government to do a thorough analysis of public sector banks especially in matters relating to their rising NPAs and the reasons put forth for consolidation. The Committee expects the government to have a clear policy stance on these issues.
- Some of the amendments proposed in 2007 Amendment Bill have not come into effect yet. These include enabling the Chairman of the SBI to nominate the Chairman of the Board of a subsidiary bank, and entrusting the regulation making power with the Board of Directors of the subsidiary banks. The Committee feels that the government should act expeditiously on these matters.
- The RBI pointed out that the existing acts do not have any explicit provision for public sector banks to raise capital through “rights issue” of shares as is the case for private sector banks. The Committee expects that the laws regulating public sector banks are amended to enable these banks to raise capital through ‘rights issue’.

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