

All State / Central / Primary  
Co-operative Banks

**Section 19 of the Banking Regulation Act -  
Restriction on Holding Shares in Other Co-operative Societies**

Under Section 19 of the Banking Regulation Act as applicable to co-operative banks there will be no restriction on the holding of shares by co-operative banks in other co-operative societies in respect of the following:

- (i) shares acquired through funds provided by the state government for that purpose;
- (ii) in the case of a central co-operative bank, the holding of shares in the state co-operative bank to which it is affiliated;
- (iii) in the case of a primary co-operative bank, the holding of shares in the central co-operative bank to which it is affiliated or in the state co-operative bank of the state in which it is registered.

In terms of that section, save as aforesaid, a co-operative bank shall not hold shares in any other co-operative society except to such extent and subject to such conditions as the Reserve Bank may specify in that behalf.

2. In pursuance of the powers conferred by Section 19 read with Section 56 of the said Act, the Reserve Bank hereby specifies, that the extent and conditions subject to which co-operative banks may hold shares in any other co-operative society shall be as follows, namely :

- (a) The total investments of a co-operative bank in the shares of co-operative institutions other than those falling under any of the categories (i) to (iii) of para 1 shall not exceed 2 per cent of its owned funds (paid-up share capital and reserves).
- (b) The investment of a bank in the shares of any one co-operative institution coming under (a) above shall not exceed 5 per cent of the subscribed capital of that institution.

Further, when more than one co-operative bank contributes to the shares in a co-operative society falling under category (a), the limit of 5 per cent of the subscribed capital indicated above should apply not in respect of the investment of each of the banks but in respect of the investment of all the banks taken together. In other words, the total investment of all the co-operative banks should be limited to 5 per cent of the subscribed capital of the enterprise concerned.

- (c) A co-operative bank should offer to make its contribution to the shares of a co-operative society coming under (a) above only if the by-laws of the recipient societies provide for the retirement of share capital contributed by it.
- (d) The retirement of the share capital contributed by a bank to the shares of any society coming under (a) above should be completed in 10 equal annual instalments commencing from the co-operative year immediately following the year in which the concern commences business or production. In the case of investments already made, the retirement should be so arranged that it is completed within the above period. For example, if a particular society went into production or commenced business in 1962-3 and no redemption has taken place till 1964-5, the share capital should be redeemed in 8 years beginning from 1965-6 in equal annual instalments.
- (e) A co-operative bank should not, except with the permission of the Reserve Bank, contribute to the share capital of a society coming under category (a) above if it is situated outside its area of operation.
- (f) A state co-operative bank should not, except with the permission of the Reserve Bank, contribute to the share capital of a society not having the entire state in which the bank is registered as its area of operation.

Provided that the above restrictions will not apply to holdings by co-operative banks of shares in non-profit making co-operative societies such as those formed for the protection of mutual interests, (e.g., co-operative banks' association) or for the promotion of co-operative education etc., (e.g., state co-operative union).

3. In terms of the second proviso to Section 19 read with Section 56 ibid., if any co-operative bank holds shares in contravention of that Section at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965, (i.e., on 1 March 1966) (i.e., if holding of shares by the co-operative bank is not covered by categories (i) to (iii) of para 1 above and are not saved by the permissible extent and conditions specified in para 2 above) it has to report the matter to the Reserve Bank without delay and it can hold such shares thereafter only for such period and on such conditions as the Reserve Bank may specify. We advise that the particulars of shares held in contravention of Section 19, as aforesaid should be reported on or before 31 May 1966, giving full particulars as in the enclosed form (Annexure) to the Regional Office of the Agricultural Credit Department of the Reserve Bank situated in your state.

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