

July 21, 2006

**All Commercial Banks
(Excluding RRBs)**

Dear Sir

**Enhancement of banks' capital raising
options for capital adequacy purposes**

As you are aware, with a view to provide banks in India additional options for raising capital funds, to meet both the increasing business requirements as well as the Basel II requirements within the existing legal framework, it was decided to allow banks to augment their capital funds by issue of, among others, Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier 1 capital and Debt Capital Instruments qualifying for Upper Tier II capital (Upper Tier II Instruments).

2. The guidelines governing the IPDI and Debt Capital Instruments Qualifying for upper Tier II capital indicating the minimum regulatory requirements, were issued vide our circular DBOD. No.BP.BC.57/ 21.01.002 / 2005-06 dated January 25, 2006. In terms of these guidelines banks are allowed to issue these instruments in Indian Rupees and were required to obtain prior approval of the Reserve Bank of India, on a case-by-case basis, for issue in foreign currency.

3. The above guidelines have been reviewed and it has been decided to make the following changes:

3.1 Innovative Perpetual Debt Instruments (IPDI)

- i) The total amount raised by a bank through IPDIs shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR/SLR requirements.

- ii) The total amount raised by a bank through IPDIs shall not exceed 15 per cent of total Tier 1 capital. The eligible amount will be computed with reference to the amount of Tier 1 capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.
- iii) Investment by FIIs in IPDI raised in Indian Rupees shall be outside the ECB limit for rupee denominated corporate debt(currently USD 1.5 billion) fixed for investment by FIIs in corporate debt instruments.
- iv) Banks may augment their capital funds through the issue of IPDI in foreign currency without seeking the prior approval of the Reserve Bank of India, subject to compliance with the undermentioned requirements:
 - a) IPDI issued in foreign currency should comply with all terms and conditions applicable in the guidelines issued on January 25, 2006, unless specifically modified in these guidelines.
 - b) Not more than 49% of the eligible amount can be issued in foreign currency.
 - c) IPDI issued in foreign currency shall be outside the limits for foreign currency borrowings indicated in sub paragraphs 3.2(ii) and 3.2(iii) below.

3.2 Upper Tier II Instruments

Banks may augment their capital funds through the issue of Upper Tier II Instruments in foreign currency without seeking the prior approval of the Reserve Bank of India, subject to compliance with the undermentioned requirements:

- i) Upper Tier II Instruments issued in foreign currency should comply with all terms and conditions applicable as detailed in the guidelines issued on January 25, 2006, unless specifically modified in these guidelines.
- ii) The total amount of Upper Tier II Instruments issued in foreign currency shall not exceed 25% of the unimpaired Tier I capital. This

eligible amount will be computed with reference to the amount of Tier 1 capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.

- iii) This will be in addition to the existing limit for foreign currency borrowings by Authorised Dealers in terms of Master Circular No. RBI/2006-07/24 dated July 1, 2006 on Risk Management and Inter-Bank Dealings.
- iv) Investment by FIIs in Upper Tier II Instruments raised in Indian Rupees shall be outside the limit for investment in corporate debt instruments i.e., USD 1.5 billion. However, investment by FIIs in these instruments will be subject to a separate ceiling of USD 500 million.

4. Please acknowledge receipt.

Yours faithfully

(P.V.Bhaskar)
Chief General Manager