



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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November 01, 2019

The Chairmen
All Regional Rural Banks

Madam / Sir,

Issue of additional instruments for augmenting regulatory capital for RRBs

Capital adequacy norms were prescribed for Regional Rural Banks (RRBs) vide [circular RPCD.CO.RRB.BC.44/05.03.095/2007-08 dated December 28, 2007](#), to compute capital to risk weighted assets (CRAR) and disclose it in 'Notes on Accounts' to their Balance Sheets. Further, the 'risk weights for calculation of CRAR' were revised, vide [circular RPCD.CO.RRB.BC.No.35/03.05.33/2014-15 dated October 21, 2014](#). RRBs were also advised vide [circular RPCD.CO.RRB.BC.No.60/03.05.33/2013-14 dated November 26, 2013](#), to achieve and maintain a minimum CRAR of 9 per cent on an ongoing basis with effect from March 31, 2014.

2. With a view to providing RRBs additional options for augmenting regulatory capital funds, so as to maintain the minimum prescribed CRAR, besides meeting the increasing business requirements, it has been decided to allow RRBs to issue Perpetual Debt Instruments (PDIs) eligible for inclusion as Tier 1 capital.

The terms and conditions for issue of Perpetual Debt Instruments (PDIs) are given in the [Annex](#).

3. Capital Funds

RRBs are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis. The capital funds for capital adequacy purpose shall consist of both Tier 1 and Tier 2 capital.

विनियमन विभाग, केंद्रीय कार्यालय, 12वीं और 13वीं मंज़िल, केंद्रीय कार्यालय भवन, शहीद भगत सिंह मार्ग, मुंबई 400001
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हिन्दी आसान है, इसका प्रयोग बढ़ाइये



3.1 Tier 1 Capital

3.1.1 Common Equity (CET 1) Capital: The elements of Common Equity Capital are,

- a) Paid up share capital
- b) Share capital deposit
- c) Statutory and other disclosed free reserves
- d) Capital Reserve representing surplus arising out of sale proceeds of assets.
- e) Any surplus (net) in profit and loss account i.e. balance after appropriation

3.1.2 Additional Tier 1 Capital

- f) Perpetual Debt Instruments

3.1.3. Limits on Tier 1 capital

- i) The total Tier 1 capital should not be less than 7 per cent of risk weighted assets after the regulatory adjustment / deduction as per paragraph 3.1.4 and 3.1.5 below.
- ii) Of the minimum Tier 1 capital of 7 percent, the Perpetual Debt Instruments will be limited to 1.5 per cent of the total risk weighted assets.
- iii) Any additional amount raised through Perpetual Debt Instruments over and above the 1.5 per cent of the risk weighted assets will also be reckoned as Tier 1 capital provided the bank complies with the minimum Tier 1 capital of 7 percent of risk weighted assets before reckoning such additional amounts.

3.1.4 Deductions from Tier 1 Capital

The amount of intangible assets, losses in current year and those brought forward from previous years, deficit in NPA provisions, income wrongly recognized on non-performing assets, provision required for liability devolved on bank etc., shall be deducted from Tier 1 capital.

3.1.5 Treatment of deferred tax assets (DTAs)

- i) Deferred tax assets (DTAs) associated with accumulated losses and other such assets should be deducted in full from CET1 capital.
- ii) DTAs which relate to timing differences (other than those related to accumulated losses) may, instead of full deduction from CET1 capital, be recognized in the CET1 capital up to 10% of a bank's CET1 capital [after the application of all regulatory adjustments].



iii) The amount of DTAs which are to be deducted from CET1 capital may be netted with associated deferred tax liabilities (DTLs) provided:

- Both the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority;
- The DTLs permitted to be netted against DTAs must exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets; and
- The DTLs must be allocated on a pro rata basis between DTAs subject to deduction from CET1 capital as at (i) and (ii) above.

4. Other Conditions

- a) RRBs are not permitted to issue Perpetual Debt Instruments to retail investors / FPIs / NRIs.
- b) RRBs are not permitted to invest in the Perpetual Debt Instruments of other banks including RRBs.
- c) RRBs shall issue the Perpetual Debt Instruments in Indian currency only.

The other instructions in the circulars cited above remain unchanged.

Yours faithfully,

(Dr. S. K. Kar)

Chief General Manager



**Terms and Conditions applicable to Perpetual
Debt Instruments (PDI) to qualify for inclusion as Tier 1 Capital**

The Perpetual Debt Instruments (PDI) that may be issued as bonds or debentures by RRBs should meet the following terms and conditions to qualify for inclusion as Tier 1 Capital for capital adequacy purposes:

1. Terms of Issue of Perpetual Debt Instruments (PDI)

i) Amount:

The amount of PDI to be raised (in Indian Rupees only) may be decided by the Board of Directors of banks.

ii) Limits:

Within minimum Tier 1 of 7 percent, the Perpetual Debt Instruments will be limited to 1.5 per cent of the total risk weighted assets. Any additional amount raised through Perpetual Debt Instruments over and above the 1.5 per cent of the risk weighted assets will also be reckoned as Tier 1 capital provided the bank complies with the minimum Tier 1 capital of 7 percent of risk weighted assets before reckoning such additional amounts.

iii) Maturity Period:

The instruments shall be Perpetual.

iv) Rate of Interest:

The interest payable to the investors shall be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

The instrument cannot have a credit sensitive coupon feature, i.e. a dividend that is reset periodically based in whole or in part on the banks' credit standing. For this purpose, any reference rate including a broad index which is sensitive to changes to the bank's own creditworthiness and / or to changes in the credit worthiness of the wider banking sector will be treated as a credit sensitive reference rate. Banks desirous of offering floating reference rate may take prior approval of the RBI as regard permissibility of such reference rates.



v) *Options:*

PDI shall not be issued with a 'put option' or a 'step-up option'. However RRBs may issue the instruments with a call option subject to strict compliance with each of the following conditions:

- a) Call option shall be exercised only after the instrument has run for minimum five years; and
- b) Call option shall be exercised only with the prior approval of RBI (Department of Banking Regulation). While considering the proposals received from RRBs for exercising the call option the RBI would, among other things, take into consideration the bank's CRAR position both at the time of exercise of the call option and after exercise of the call option.

vi) *Lock-In Clause:*

(a) PDI should be subject to a lock-in clause in terms of which the issuing bank shall not be liable to pay interest, if

i) The bank's CRAR is below the minimum regulatory requirement prescribed by RBI;

Or

ii) The impact of such payment results in bank's capital to risk assets ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by Reserve Bank of India.

(b) However, RRBs may pay interest with the prior approval of RBI, when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm. For this purpose 'Net Loss' would mean either (a) the accumulated loss at the end of the previous financial year; or (b) the loss incurred during the current financial year.

(c) The interest shall not be cumulative.



(d) All instances of invocation of the lock-in clause should be notified by the issuing banks to the Chief General Manager, RRB Division, Department of Banking Regulation, Reserve Bank of India and Department of Supervision, NABARD, Head Office, Mumbai.

vii) *Seniority of Claim:*

The claims of the investors in PDI shall be:

- a) Senior to the claims of investors in equity shares; and
- b) Subordinated to the claims of all other creditors.

viii) *Discount:*

The PDI shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

ix) *Other Conditions:*

- a) PDI should be fully paid-up, unsecured, and free of any restrictive clauses.
- b) RRBs should comply with the terms and conditions, if any, stipulated by SEBI / other regulatory authorities in regard to issue of the instruments.

2. Compliance with Reserve Requirements

The total amount raised by a bank through PDI 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.

3. Reporting Requirements

RRBs issuing PDI shall submit a report to Chief General Manager, Department of Supervision, NABARD, Head Office, Mumbai giving details of the debt raised, including the terms of issue specified at paragraph 1 above, together with a copy of the offer document soon after the issue is completed.



4. Investment in PDIs

- i) RRB's shall not invest in PDI issued by other banks including RRBs.
- ii) RRBs shall not issue PDI to retail investors / FPI / NRIs.

5. Grant of Advances against PDI

RRBs should not grant advances against the security of the PDI issued by them.

6. Classification in the Balance Sheet

RRBs may indicate the amount raised by issue of PDI in the Balance Sheet under 'Schedule 4 – Borrowings'.