



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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RBI/2015-16/285

DBR.No.BP.BC.71/21.06.201/2015-16

January 14, 2016

All Scheduled Commercial Banks
(Excluding Local Area Banks
and Regional Rural Banks)

Madam / Sir,

Master Circular – Basel III Capital Regulations - Clarification

Please refer to para 7: Coupon Discretion on Additional Tier 1 Debt Capital Instruments of the [Circular DBOD.No.BP.BC.38/21.06.201/2014-15 dated September 1, 2014](#) on 'Implementation of Basel III Capital Regulations in India – Amendments'. The amendments have been incorporated in the latest [Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015](#) on 'Basel III Capital Regulations' also.

2. Para 1.8(e) of Annex 4: 'Criteria for Inclusion of Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital' of the Master Circular states as under:

"Coupons must be paid out of distributable items. In this context, coupon may be paid out of current year profits. However, if current year profits are not sufficient i.e. payment of coupon is likely to result in losses during the current year, the balance amount of coupon may be paid out of revenue reserves (i.e. revenue reserves which are not created for specific purposes by a bank) and / or credit balance in profit and loss account, if any.

However, payment of coupons on PDIs from the revenue reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios at all times and subject to the requirements of capital buffer frameworks (i.e. capital conservation buffer, countercyclical capital buffer and Domestic Systemically Important Banks).

Banks must ensure and indicate in the offer document that they have full discretion at all times to cancel distributions / payments in order to meet the eligibility criteria for perpetual debt instruments."

3. In order to remove any potential ambiguity and to fully reflect the intent of the amendment, para 1.8(e), Annex 4 of the Master Circular is re-worded as under:

“Coupons must be paid out of distributable items. In this context, coupon may be paid out of current year profits. However, if current year profits are not sufficient, coupon may be paid subject to availability of sufficient revenue reserves (those which are not created for specific purposes by a bank) and / or credit balance in profit and loss account, if any.

However, payment of coupons on PDIs from the revenue reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios at all times and subject to the requirements of capital buffer frameworks (i.e. capital conservation buffer, countercyclical capital buffer and Domestic Systemically Important Banks).

Banks must ensure and indicate in the offer document that they have full discretion at all times to cancel distributions / payments in order to meet the eligibility criteria for perpetual debt instruments.”

4. These instructions are applicable with immediate effect.

Yours faithfully,

(Sudarshan Sen)
Principal Chief General Manager