



DOR.CAP.REC.____/09.18.201/2020-21

July 14, 2021

The Chief Executive Officer
All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

Issue and regulation of share capital and securities - Primary (Urban) Co-operative Banks - Draft guidelines

The Banking Regulation (Amendment) Act, 2020 (No. 39 of 2020), notified in the Gazette of India on September 29, 2020 (vide Notification No. 64 of that date), is deemed to have come into force with effect from June 29, 2020 for Primary (Urban) Co-operative Banks (UCBs).

2. The extant instructions for UCBs on issue and regulation of capital funds have been reviewed keeping in view, *inter alia*, the provisions of Section 12 read with Section 56 of the amended Banking Regulation Act, 1949 (BR Act).

Augmentation of capital funds

3. UCBs are permitted to raise equity share capital, as hitherto, by way of (i) issue of equity shares to persons within their area of operation enrolled as members, in accordance with the provisions of their bye-laws, and (ii) issue of additional equity shares to the existing members.

4. UCBs are also permitted to issue the following instruments to augment their capital:

I. Preference Shares

- a. Perpetual Non-Cumulative Preference Shares (PNCPS) eligible for inclusion in Tier I capital
- b. Perpetual Cumulative Preference Shares (PCPS) eligible for inclusion in Tier II capital
- c. Redeemable Non-Cumulative Preference Shares (RNCPS) eligible for inclusion in Tier II capital
- d. Redeemable Cumulative Preference Shares (RCPS) eligible for inclusion in Tier II capital

विनियमन विभाग, केंद्रीय कार्यालय, सी -7, पहली/दूसरी मंज़िल, बांद्रा-कुर्ला संकुल, बांद्रा (पूर्व), मुंबई - 400 051

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

चेतावनी: भारतीय रिज़र्व बैंक द्वारा ई-मेल, डाक, एसएमएस या फोन कॉल के जरिए किसी को भी व्यक्ति की जानकारी जैसे बैंक के खाते का ब्योरा, पासवर्ड आदि नहीं मांगी जाती है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी तरीके से जवाब मत दीजिए।
Caution: RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords, etc. It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.



II. Debt instruments

- a. Perpetual Debt Instruments (PDI) eligible for inclusion in Tier I capital
- b. Long Term Subordinated Bonds (LTSB) eligible for inclusion in Tier II capital

5. The guidelines governing the instruments specified in para 4 (I) &(II) above, indicating the regulatory requirements, are enclosed in [Annexes I](#) & [II](#) respectively.

6. For the purpose of enhancing investor education on the risk characteristics of regulatory capital requirements, UCBs, which issue regulatory capital instruments as specified in para 4 above, shall adhere to the following conditions:

a) For floating rate instruments, banks should not use its Fixed Deposit rate as benchmark.

b) A specific sign-off as quoted below, from the investors, for having understood the features and risks of the instruments, may be incorporated in the common application form of the proposed issue:

"By making this application, I / we acknowledge that I / we have understood the terms and conditions of the issue of [Name of the share/security] being issued by [Name of the bank] as disclosed in the Prospectus and Offer Document".

c) UCBs shall ensure that all the publicity material / offer document, application form and other communication with the investor should clearly state in bold letters (Arial font, size 14, equivalent size in English / Vernacular version) how a PNCPS / PCPS / RNCPS / RCPS / PDI / LTSB, as the case may be, is different from a fixed deposit, and that these instruments are not covered by deposit insurance.

d) The procedure for transfer to legal heirs in the event of death of the subscriber of the instrument should also be specified.

Refund of share capital

7. In terms of Section 12 (2) (ii) read with Section 56 of the BR Act, a co-operative bank shall not withdraw or reduce its share capital, except to the extent and subject to such conditions as the Reserve Bank may specify in this behalf. Accordingly, it has been decided to permit UCBs to refund the share capital to their members, or nominees / heirs of deceased members, on demand, subject to the following conditions:



a) The bank's capital to risk-weighted assets ratio (CRAR) is 9 percent or above, both as per the latest audited financial statements and the last CRAR as assessed by RBI during statutory inspection.

b) Such refund does not result in the CRAR of the bank falling below regulatory minimum of 9 per cent.

8. It is clarified that for the purpose of computing CRAR as above, accretion to capital funds after the balance sheet date¹, other than by way of profits, may be taken into account. Any reduction in capital funds, including by way of losses, during the aforesaid period shall also be considered.

Share linking to borrowing norms

9. Borrowings from UCBs are linked to shareholdings of the borrowing members as below:

- i. 5 per cent of the borrowings, if the borrowings are on unsecured basis.
- ii. 2.5 per cent of the borrowings, in case of secured borrowings.
- iii. In case of secured borrowings by Micro and Small Enterprises (MSE), 2.5 per cent of the borrowings; of which 1 per cent is to be collected initially and the balance of 1.5 per cent is to be collected in the course of next 2 years.

10. The above share linking norm may be applicable for member's shareholdings up to the limit of 5 per cent of the total paid up share capital of the bank. Where a member is already holding 5 per cent of the total paid up share capital of a UCB, it would not be necessary for him / her to subscribe to any additional share capital on account of the application of extant share linking norms. In other words, a borrowing member may be required to hold shares for an amount that may be computed as per the extant share linking norms or for an amount that is 5 per cent of the total paid up share capital of the bank, whichever is lower².

11. In terms of the extant norms³, UCBs which maintain CRAR of 12 per cent on a continuous basis, are exempted from the mandatory share linking norms outlined in para 9 above. On a review, it has been decided that the share-linking to borrowing norms shall be discretionary for UCBs which meet the minimum regulatory CRAR criteria of 9 per cent and a Tier 1 CRAR

¹ Capital funds shall be as per audited data

² Please refer [Circular Ref UBD.CO.BPD.\(PCB\).Cir.No.25/09.18.200/2013-14 dated October 1, 2013](#) on Share Linking to Borrowing Norm in Urban Co-operative Banks as per which all the State Governments have been requested to carry out necessary amendments to the respective State Co-operative Societies Acts for dispensing with, wherever applicable, monetary ceilings on individual shareholding and restricting the individual shareholding of a member to 5 per cent of the total paid up share capital of a UCB. Pending amendment to the State Co-operative Societies Act, UCBs are required to adhere to the above-mentioned share linking to borrowing norms and ceiling on individual share holding

³ Please refer [circular UBD.BPD.\(PCB\).Cir.No.22/09.18.201/2010-11 dated November 15, 2010](#) on Share Linking to Borrowing Norm in Urban Co-operative Banks



of 5.5 per cent as per the latest audited financial statements and the last CRAR as assessed by RBI during statutory inspection. Such UCBs shall have a Board-approved policy on share-linking to borrowing norms, which shall be implemented in a transparent, consistent and non-discriminatory manner. The policy may be reviewed by the Board at the beginning of the accounting year. UCBs which do not maintain the minimum CRAR of 9 percent and Tier 1 CRAR of 5.5 per cent, shall continue to be guided by the norms on share-linking to borrowing as specified in paragraph 9 above.

12. Specific feedback may be furnished on the following two issues:

1. In light of the prudential regulations on capital adequacy having been implemented for UCBs over the last many years, should the RBI instructions on share linking to borrowing norms still continue? If yes, whether threshold criteria as suggested above is reasonable?

2. Should the investment in the Perpetual Debt Instrument (PDI), to be issued by UCBs, be restricted to institutional investors?

13. Perpetual Non-Cumulative Preference Shares (PNCPS) held by members/ subscribers, may be treated as shares for the purpose of compliance with the extant share linking to borrowing norms.

Repeal

14. The list of circulars, that stand repealed fully or partially, is furnished in [Appendix](#) to the circular.

Effective Date

15. These instructions shall come into force with immediate effect.

Yours faithfully

(Usha Janakiraman)
Chief General Manager
Encl: As above



Annex-I

Guidelines on Issue of Preference Shares

A. Perpetual Non-Cumulative Preference Shares (PNCPS) eligible for inclusion in Tier-I capital

UCBs are permitted to issue Perpetual Non-Cumulative Preference Shares (PNCPS) at face value to their members or any other person residing within their area of operation, with the prior approval of Reserve Bank of India (RBI). The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum, to the concerned Regional Office of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. The amounts raised through PNCPS shall comply with the following terms and conditions to qualify for inclusion as Tier-I capital.

2. Terms of Issue

2.1 Limits

The outstanding amount of PNCPS and Perpetual Debt Instruments (PDI) along with outstanding Innovative Perpetual Debt Instruments (IPDI) shall not exceed 35 per cent of total Tier-I capital at any point of time. The above limit will be based on the amount of Tier-I capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any. PNCPS issued in excess of the overall ceiling of 35 per cent, shall be eligible for inclusion under Upper Tier-II capital, subject to limits prescribed for Tier-II capital. However, investors' rights and obligations would remain unchanged.

2.2 Amount

The amount of PNCPS to be raised shall be decided by the Board of Directors of banks.

2.3 Maturity

The PNCPS shall be perpetual.

2.4 Options

- a. PNCPS shall not be issued with a 'put option' or 'step up option'.
- b. PNCPS may be issued with a call option, subject to following conditions:
 - i. The call option on the instrument is permissible after the instrument has run for at least ten years; and
 - ii. Call option shall be exercised only with the prior approval of Department of Regulation (DoR), RBI. While considering the proposals received from banks 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.

2.5 Classification in the Balance Sheet

These instruments shall be classified as 'Capital' and shown separately in the Balance Sheet.

2.6 Dividend

The rate of dividend payable to the investors will be a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

2.7 Payment of Dividend

2.7.1 The payment of dividend by the bank shall be subject to availability of distributable surplus out of current year's profits, and if:

- i. the CRAR is above the minimum regulatory requirement prescribed by RBI
- ii. the impact of such payment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement prescribed by RBI
- iii. the balance sheet as at the end of the previous year does not show any accumulated loss

2.7.2 The dividend shall not be cumulative, i.e. dividend missed in a year shall not be paid in subsequent years even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. When dividend is paid at a rate lesser than the prescribed rate, the unpaid amount will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum.

2.7.3 All instances of non-payment of dividend / payment of dividend at a rate less than that specified should be reported by the issuing UCB to the concerned Regional Office (RO) of Department of Supervision (DoS), RBI.

2.8 Seniority of Claim

The claims of the investors in PNCPS shall be senior to the claims of investors in equity shares and subordinated to the claims of all other creditors and the depositors.

2.9 Voting Rights

The investors in PNCPS shall not be eligible for any voting rights.

2.10 Discount

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



2.11 Other Conditions

2.11.1 PNCPS shall be fully paid-up, unsecured, and free of any restrictive clauses.

2.11.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PNCPS, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier I capital.

2.12 Compliance with Reserve Requirements

2.12.1 The total amount raised by the bank by issue of PNCPS 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.

2.12.2 However, the amount collected from members / prospective investors and held pending allotment of the PNCPS, shall be reckoned as liability for the purpose of calculating the net demand and time liabilities and shall, accordingly, attract reserve requirements. Such amounts shall not be reckoned for calculation of capital funds.

2.13 Reporting Requirements

UCBs issuing PNCPS shall submit a report to the concerned RO of DoS, RBI, giving details of the capital raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document, soon after the issue is completed.

2.14 Investments in PNCPS and Advances for Purchase of PNCPS

UCBs shall not grant any loan or advance to any person for purchasing their own PNCPS or the PNCPS of other banks. Further, UCBs shall not invest in PNCPS of other banks and shall not grant advances against the security of the PNCPS issued by them or other banks.

B. Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS) for inclusion in Upper Tier-II capital

UCBs are permitted to issue Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS), at face value, to their members or any other person residing within their area of operation, with the prior approval of the RBI. The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum to the concerned Regional Office of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be



submitted along with the application. These three instruments, collectively referred to as Tier-II preference shares, shall comply with the following terms and conditions, to qualify for inclusion as Upper Tier-II capital.

2. Terms of issue

2.1 Limits

The outstanding amount of these instruments along with other components of Tier-II capital shall not exceed 100 per cent of Tier-I capital at any point of time. The above limit shall be based on the amount of Tier -I capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any.

2.2 Amount

The amount to be raised may be decided by the Board of Directors of banks.

2.3 Maturity

The Tier-II preference shares could be either perpetual (PCPS) or dated (RNCPS and RCPS) instruments with a minimum maturity of 10 years.

2.4 Options

2.4.1 These instruments shall not be issued with a 'put option' or 'step up option'.

2.4.2 These instruments may be issued with a call option, subject to following conditions:

- a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
- b) Call option shall be exercised only with the prior approval of DOR, RBI. While considering the proposals received from banks 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.

2.5 Classification in the Balance Sheet

These instruments will be classified as 'Borrowings' and shown separately in the Balance sheet.

2.6 Coupon

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



2.7 Payment of Coupon

2.7.1 The coupon payable on these instruments will be treated as interest and accordingly debited to P& L Account. However, it will be payable only if:

- a) the bank's CRAR is above the minimum regulatory requirement prescribed by RBI
- b) the impact of such payment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement.
- c) the bank should not have a net loss. For this purpose, the net loss is defined as either (i) the accumulated loss at the end of the previous financial year or (ii) the loss incurred during the current financial year.

2.7.2 In the case of PCPS and RCPS, the unpaid / partly unpaid coupon will be treated as a liability. The interest amount due and remaining unpaid may be allowed to be paid in later years subject to the bank complying with the above requirements.

2.7.3 In the case of RNCPS, deferred coupon will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. The bank can however pay a coupon at a rate lesser than the specified rate, if adequate profit is available and the level of CRAR conforms to the regulatory minimum, subject to conformity with para 2.7.1.

2.7.4 All instances of non-payment of interest or payment of interest at a rate lesser than the specified rate should be reported by the issuing UCB to the concerned RO of DoS, RBI.

2.8 Redemption / Repayment of Redeemable Tier-II Preference Shares

RNCPS and RCPS shall not be redeemable at the initiative of the holder. Redemption of these instruments at maturity shall be made only with the prior approval of the DoR, RBI subject, *inter alia*, to the following conditions:

- (a) the bank's CRAR is above the minimum regulatory requirement prescribed by RBI
- (b) the impact of such payment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement.

2.9 Seniority of Claim

The claims of the investors in these instruments shall be senior to the claims of investors in instruments eligible for inclusion in Tier-I capital and subordinate to the claims of all other creditors including those in lower Tier-II capital and the depositors. Amongst the investors of various instruments included in Upper Tier-II capital, the claims shall rank pari-passu with each other.



2.10 Voting Rights

The investors in Tier-II preference shares shall not be eligible for any voting rights.

2.11 Progressive Discount for the purpose of computing CRAR

The Redeemable Preference Shares (both cumulative and non-cumulative) shall be subjected to progressive discount for capital adequacy purposes over the last five years of their tenor, as under:

Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

2.12 Other Conditions

2.12.1 The Tier II preference shares shall be fully paid-up, unsecured, and free of any restrictive clauses.

2.12.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the Tier II preference shares, provided they are not in conflict with any terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier II capital.

2.13 Compliance with Reserve Requirements

2.13.1 The total amount raised by a bank through the issue of these instruments shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR / SLR requirements.

2.13.2 The amount collected from members / prospective investors and held pending allotment shall not be reckoned for calculation of capital funds until the allotment process is over.

2.14 Reporting Requirements

UCBs issuing these instruments shall submit a report to the concerned RO of DoS, RBI, giving details of the capital raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document soon after the issue is completed.



2.15 Investments in Tier-II preference shares and advances for purchase of Tier-II preference shares

UCBs shall not grant any loan or advance to any person for purchasing their own Tier-II preference shares or Tier-II preference shares of other banks. UCBs shall not invest in Tier-II preference shares issued by other banks and shall not grant advances against the security of Tier-II preference shares issued by them or other banks.



Guidelines on issuance of Debt Capital Instruments

A. Perpetual Debt Instrument (PDI) eligible for inclusion in Tier-I Capital

UCBs may issue Perpetual Debt Instruments (PDI) as bonds or debentures to their members or any other person residing within their area of operation, with the prior approval of RBI. The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum to the concerned Regional Office of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. PDI can also be issued through conversion of a portion of existing deposits of the Institutional Depositors as a part of revival plan / financial reconstruction of the UCB with consent of individual depositor. The amounts raised through PDI shall comply with the following terms and conditions to qualify for inclusion as Tier I capital.

2. Terms of Issue

2.1 Limit

The amount of PDI reckoned for Tier-I capital shall not exceed 15 per cent of total Tier-I capital⁴. The outstanding Innovative Perpetual Debt Instruments (IPDI)⁵ shall also be covered in the aforementioned ceiling of 15 per cent and reckoned for capital purposes as hitherto. The eligible amount shall be computed with reference to the amount of Tier-I capital as on March 31 of the previous year, after deduction of goodwill, DTA and other intangible assets, but before deduction of equity investment in subsidiaries, if any. PDI in excess of the above limits shall be eligible for inclusion under Tier-II capital, subject to the limits prescribed for Tier-II capital. However, investors' rights and obligations would remain unchanged.

2.2 Amount

The amount of PDI to be raised may be decided by the Board of Directors of banks.

2.3 Maturity

These instruments shall be perpetual.

2.4 Options

2.4.1 The PDI shall not be issued with a 'put option' or 'step-up' option.

⁴ Reference is invited to para 2.1 of [Annex 1](#) as per which the outstanding amount of PNCPS and Perpetual Debt Instruments (PDI) along with outstanding Innovative Perpetual Debt Instruments (IPDI) shall not exceed 35 per cent of total Tier-I capital at any point of time

⁵ Issued in terms of [circular UCB.PCB.Cir.No.39/09.16.900/2008-09 dated January 23, 2009](#) on Financial Restructuring of UCBs.



2.4.2 However, PDI may be issued with a call option subject to following conditions:

- a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
- b) Call option shall be exercised only with the prior approval of Department of Regulation (DoR), RBI. While considering the proposals received from banks 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.

2.5 Classification

PDI shall be classified as 'Borrowings' and shown separately in the Balance Sheet.

2.6 Rate of interest

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

2.7 Lock-in-Clause

2.7.1 PDI shall be subjected 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 CRAR falling below or remaining below the minimum regulatory requirement prescribed by RBI;

2.7.2 However, UCBs may pay interest with the prior approval of the DoR, RBI when the impact of such payment may result in net loss or increase the net loss, provided the CRAR meets the regulatory norm. For this purpose, net loss is defined as either (i) the accumulated loss at the end of the previous financial year or (ii) the loss incurred during the current financial year.

2.7.3 The interest shall not be cumulative.

2.7.4 All instances of invocation of the lock-in-clause should be reported by the issuing UCB to the concerned Regional Office (RO) of DoS, RBI.

2.8 Seniority of claim

The claims of the investors of PDI shall be superior to the claims of investors in equity shares and PNCPS but subordinated to the claims of all other creditors and the depositors. Among



investors in PDI and outstanding Innovative Perpetual Debt Instruments (IPDI⁶), the claims shall rank pari passu with each other.

2.9 Discount

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

2.10 Other conditions

2.10.1 PDI shall be fully paid-up, unsecured and free of any restrictive clauses.

2.10.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PDI, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier-I capital.

2.11 Compliance with Reserve Requirements

The total amount raised by a UCB through the issue of 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. However, the amount collected from members / prospective investors and pending issue of PDI, shall be reckoned as liability for the purpose of calculating the net demand and time liabilities and shall, accordingly, attract reserve requirements. Such amounts pending issue of PDI, shall not be reckoned for calculation of capital funds.

2.12 Reporting Requirements

UCBs issuing PDI shall submit a report to the concerned RO of DoS, RBI giving details of the amount raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document, soon after the issue is completed.

2.13 Investments in PDI and Advances for Purchase of PDI

UCBs shall not grant any loan or advance to any person for purchasing their PDI or PDI of other banks. UCBs shall not invest in PDI issued by other banks (except when the PDI are issued as a part of revival plan of a UCB as mentioned in Para 1 above) and shall not grant advances against the security of PDI issued by them or other banks.

⁶ IPDI issued in terms of [circular no. UBD.PCB. Cir.No. 39/09.16.900/08-09 on 'Financial restructuring of UCBs' dated January 23, 2009.](#)



B. Long Term Subordinated Bonds (LTSB) eligible for inclusion in Lower Tier-II capital

UCBs are permitted to issue LTSB to their members, or any other person residing within their area of operation. The amounts raised through LTSB shall comply with the following terms and conditions to be eligible for inclusion in Lower Tier-II capital.

2. Term of Issue

2.1 Eligibility

2.1.1 Banks fulfilling the following criteria as per their latest audited financial statements are permitted to issue LTSB without seeking specific permission of RBI in this regard:

- i. CRAR not less than 10%.
- ii. Gross NPA less than 7% and net NPA not more than 3%.
- iii. Net profit for at least three out of the preceding four years subject to the bank not having incurred net loss in the immediate preceding year.
- iv. No default in maintenance of CRR/SLR during the preceding year.
- v. The bank has at least two professional directors on its Board.
- vi. Core Banking Solution (CBS) fully implemented.
- vii. No monetary penalty has been imposed on the bank for violation of RBI directives / guidelines during the two financial years preceding the year in which the LTSB are being issued.

2.1.2 Prior permission of the RBI is required for banks which do not comply with the above criteria. The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum to the concerned Regional Office of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application.

2.2 Limit

The amount of LTSB eligible to be reckoned as Tier-II capital shall be limited to 50 per cent of total Tier-I capital. The outstanding Long Term (Sub-ordinated) Deposits (LTDs) shall also be covered in the aforementioned ceiling of 50 per cent and reckoned for capital purposes as hitherto. These instruments, together with other components of Tier-II capital shall not exceed 100 per cent of Tier-I capital. The aforementioned limit shall be based on the amount of Tier-I capital after deduction of goodwill and other intangible assets, but before the deduction of equity investments in subsidiaries, if any.

2.3 Amount

The amount to be raised may be decided by the Board of Directors of banks.



2.4 Maturity

LTSB shall be issued with a minimum maturity of ten years.

2.5 Options

2.5.1 The LTSB shall not be issued with a 'put option' or 'step-up' option.

2.5.2 However, LTSB may be issued with a call option subject to following conditions:

- a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
- b) Call option shall be exercised only with the prior approval of Department of Regulation (DoR), RBI. While considering the proposals received from banks 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.

2.6 Classification in the Balance Sheet

These instruments will be classified as 'Borrowings' and shown separately in the Balance Sheet.

2.7 Interest Rate

LTSB may bear a fixed rate of interest or a floating rate of interest referenced to a market determined rupee interest benchmark rate.

2.8 Redemption / Repayment

Redemption / repayment at maturity shall be made only with the prior approval of the DoR RBI.

2.9 Seniority of Claims

LTSB will be subordinated to the claims of depositors and other creditors but would rank senior to the claims of investors in instruments eligible for inclusion in Tier-I capital and holders of preference shares (both Tier I & Tier II). Among investors of instruments included in Lower Tier-II capital (i.e. including outstanding LTDs, if any), the claims shall rank pari passu with each other.

2.10 Progressive Discount

These Bonds shall be subjected to a progressive discount for capital adequacy purposes in the last five years of their tenor, as under:



Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

2.11 Other conditions

2.11.1 LTSB shall be fully paid-up, unsecured, and free of any restrictive clauses.

2.11.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the LTSB, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier-II capital.

2.12 Reserve Requirement

The total amount raised through the issue of LTSB shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR / SLR requirements. The amount collected by the UCB from members / prospective investors and held by it pending issue of LTSB, shall not be reckoned for calculation of capital funds.

2.13 Reporting Requirements

UCBs issuing LTSB shall submit a report to the concerned RO of DoS, RBI giving details of the amount raised, including the terms and conditions of issue together with a copy of Prospectus / Offer Document, soon after the issue is completed.

2.14 Investments in LTSB and advances for purchase of LTSB

UCBs shall not grant any loan or advance to any person for purchasing their LTSB or LTSB of other banks. UCBs shall not invest in LTSB issued by other banks nor shall they grant advances against the security of LTSB issued by them or other banks.



Appendix

A. List of circulars which shall stand repealed

Si. No.	Circular Number	Date of Circular	Subject
1	UBD.PCB.Cir.No.4/09.18.201/08-09	July 15, 2008	Instruments for Augmenting Capital Funds-UCBs
2	UBD.PCB.Cir.No.32/09.18.201/2008-09	January 13, 2009	Instruments for Augmenting Capital Funds-UCBs
3	UBD.PCB.Cir.No.61/09.18.201/2008-09	April 21, 2009	Instruments for Augmenting Capital Funds-UCBs
4	UBD.PCB.Cir.No.24/09.18.201/2009-10	November 27, 2009	Augmentation of capital funds by issue of Long Term Deposits
5	UBD.BPD.(PCB).Cir.No.22/09.18.201/2010-11	November 15, 2010	Share Linking to Borrowing Norm in Urban Co-operative Banks
6	UBD.CO.BPD.PCB.Cir.No.51/09.18.201/2013-14	March 25, 2014	Instruments for Augmenting Capital Funds-UCBs - Modification

B. List of circulars which shall stand partially repealed

Si. No.	Circular Number	Date of Circular	Subject	Remarks
1	UBD.PCB.Cir.No.39/09.16.900/08-09	January 23, 2009	Financial restructuring of UCBs	Annex to the circular stands repealed. PDI have to be issued in compliance with the terms and conditions mentioned in Part A of Annex 2 to this circular, to qualify for inclusion in Tier 1 capital.
2	UBD.CO.BPD.(PCB).Cir.No.25/09.18.200/2013-14	October 01, 2013	Share Linking to Borrowing Norm in Urban Co-operative Banks	Paragraph 3 stands repealed.
3	DCBR.BPD.Cir.No.21/09.18.201/2016-17	July 07, 2016	Long Term (Subordinated) Deposits (LTDs) – Review of Guidelines	Stands repealed for UCBs