

Consultation Paper

Additional disclosure norms for retail/public issuance of Additional Tier 1 (AT1) instruments issued by banks

**A. Background**

1. SEBI (Issue and Listing of Non Convertible Redeemable Preference Shares) Regulations, 2013 (NCRPS Regulations), provided a framework for listing of Perpetual Non-Cumulative Preference Shares (PNCPS) and Perpetual Debt Instruments (PDIs) issued by banks.
2. RBI vide circular dated September 01, 2014 on the “Implementation of Basel III Capital Regulations in India – Amendments” has inter-alia allowed banks to issue Additional Tier 1 (AT1) instruments to retail investors. Further, RBI vide its Master Circular on Basel III Capital Regulations dated July 1, 2015 has also specified additional disclosure requirements for PNCPS and PDIs. It was felt that the retail investors may not fully appreciate the characteristics of these instruments and therefore, in view of same, a need was felt to look into the aspect of prescribing additional disclosure norms for retail issuance of PNCPS and PDIs.

**B. Recommendations of Corporate Bonds and Securitization Committee (CoBoSAC):**

Corporate Bonds and Securitization Committee (CoBoSAC), inter-alia, deliberated on the additional requirements and disclosures to be made by banks for retail issuance of AT1 instruments. Based on the recommendations of CoBoSAC, the proposals for public comments are as follows.

**C. Proposals:**

- i. AT1 instruments carry additional risks in relation to vanilla debt instruments such as risk of loss of coupon as well as principal, in certain circumstances. In view of the same, it is proposed that in order to ensure that only well informed retail investors with adequate risk tolerance level subscribe to these instruments, a minimum amount of investment for e.g. Rs 2 lakhs, may be prescribed for such instruments.
- ii. As public issue of non convertible debentures/bonds and non convertible redeemable preference shares are governed by SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (ILDS Regulations) and the NCRPS Regulations respectively, therefore any public issue of PNCPS and PDIs, made by bank(s), shall have to comply with the disclosure requirements as prescribed under provisions of NCRPS and ILDS regulations, respectively.
- iii. In addition to disclosure requirements which have already been mandated by RBI and SEBI, the following specific disclosures, in order to enable investors to comprehend risks associated with these instruments, would also be required to be given by the issuing banks:
  - a) Banks issuing PNCPS/PDIs to the retail investors, shall clearly disclose in the abridged prospects under the head "Disclaimer", about the risk characteristics of these instruments and clarify that the return on these investments may be influenced by bank's performance and the principal amount invested may be subject to losses due to loss absorbency features. It may also be specified that PNCPS and PDIs are relatively risky debt instruments and are significantly different from term deposits offered by banks.



b) It is proposed that the following disclosures, as applicable, shall also be made by the issuing bank in the abridged prospectus:

i. PNCPS are not equity instruments. They are debt instruments which carry additional risk.

ii. PDIs are not like fixed deposits of banks but are akin to bonds with some additional loss bearing features in certain situations.

iv. The key risks involved with AT1 instruments, shall be disclosed by the issuing bank, in clear and easy to understand language, in a tabular format. An illustrative table for the same is presented below:

Particulars	Perpetual Non-Cumulative Preference Shares
Maturity	This instrument is perpetual i.e. there is no maturity date.
Optionality	This instrument does not have put option.  Call option, if any, embedded in the instrument. (including details as to when can these be exercised)
Dividend/ Coupon Discretion	The dividend rate is fixed / linked to xxx floating rate.  Bank has full discretion to cancel dividend distribution in a particular year as specified in the term sheet of this instrument.
Loss Absorption features	There is a likelihood of incurring losses on the principal amount due to presence of principal loss absorption features in the instrument.  Specific triggers points at which the instrument will absorb losses, in brief.



Particulars	Perpetual Debt Instruments
Maturity	This instrument is perpetual i.e. there is no maturity date.
Optionality	This instrument does not have put option.  Call option, if any, embedded in the instrument. (including details as to when can these be exercised)
Dividend/Coupon Discretion	The coupon / interest rate is fixed / linked to xxx floating rate.  Bank has full discretion to cancel interest payment in a particular year as specified in the term sheet of this instrument.
Loss Absorption features	There is a likelihood of incurring losses on the principal amount due to presence of principal loss absorption features in the instrument.  Specific triggers points at which the instrument will absorb losses, in brief.

Further, the terms in the table referred above shall have the meanings in line with the RBI Master Circulars on Basel III Capital Regulations, as updated from time to time.

The above disclosures to be made shall be provided in the abridged prospectus under the section on "Risk Factors" under sub-head "Risk relating to the issuer", in tabular format. Also, the front page of the abridged prospectus shall refer to the page number which contains the section on "Risk Factors".

- v. Banks should also state that retail investors should carefully go through the term sheet of the instrument to fully understand the above key risk factors and other features of the instruments.
- vi. The banks issuing such AT1 instruments and having any outstanding issues of PNCPS and/or Innovative Perpetual Debt instruments (IPDI) under Basel II

framework shall also make adequate disclosures showing distinction between Basel II and Basel III perpetual instruments.

**D. Public Comments**

- i. In the light of the above, public comments are invited on the consultation paper. Comments may be forwarded by email to **at1@sebi.gov.in** or may be sent by post to the following address latest by **January 05, 2016**

**Investment Management Department, Division of Funds I**  
Securities and Exchange Board of India  
SEBI Bhavan  
C4-A, G Block  
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- ii. Comments should be given in the following format:

Name of entity/ person/ intermediary: _____			
S. No.	Pertains to Point No.	Proposed/ suggested changes	Rationale

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