**RBI/2008-09/424**
IDMD.PDRD.No.4878/ 03.64.00/2008-09 April 1, 2009

All Standalone Primary Dealers

Dear Sir,

**Issue of Tier II and Tier III Capital**

Please refer to our Master Circular RBI/2008-2009/71 IDMD.PDRS.02 / 03.64.00 / 2008-09 dated July 1, 2008 on Capital Adequacy Standards and Risk Management Guidelines for standalone Primary Dealers setting out, *inter alia*, guidelines on issuance of sub-ordinated debt instruments by Primary Dealers.

2. The existing guidelines on issue of subordinated debt stipulates that the interest rate spread of the instrument over the yield of comparable residual maturity of the Government of India dated security at the time of issue shall not exceed 200 basis points. On a review, it has been decided to remove the ceiling on the interest rate spreads at the time of issue of the subordinated instruments by the Primary Dealers under Tier II and Tier III capital requirements, with immediate effect. The Primary Dealers may, hereinafter, issue subordinated Tier II and Tier III bonds at coupon rates as decided by their Boards of Directors. Other terms and conditions prescribed in regard to issue of subordinated bonds, however, remain unchanged.

3. Banks undertaking PD activities departmentally may follow the extant guidelines applicable to banks in regard to issue of subordinated debt instruments.

Yours faithfully

(K.V.Rajan)
Chief General Manager