RBI/2016-17/222
DBR.BP.BC.No.50/21.06.201/2016-17

February 02, 2017

All Scheduled Commercial Banks
(Excluding Regional Rural Banks)

Madam/ Sir,

**Basel III Capital Regulations- Additional Tier 1 Capital**


2. It has been decided to amend Para 1.8(e) of Annex 4 of the Master Circular 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:

(i) Profits brought forward from previous years, and/or

(ii) Reserves representing appropriation of net profits, including statutory reserves, and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation.

The accumulated losses and deferred revenue expenditure, if any, shall be netted off from (i) and (ii) to arrive at the available balances for payment of coupon.
If the aggregate of: (a) profits in the current year; (b) profits brought forward from the previous years and (c) permissible reserves as at (ii) above, excluding statutory reserves, net of accumulated losses and deferred revenue expenditure are less than the amount of coupon, only then the bank shall make appropriation from the statutory reserves. In such cases, banks are required to report to the Reserve Bank within twenty-one days from the date of such appropriation in compliance with Section 17(2) of the Banking Regulation Act 1949.

It may be noted that prior approval of the Reserve Bank for appropriation of reserves as above, in terms of the circular, DBOD.BP.BC No.31/21.04.018/2006-07 dated September 20, 2006 on ‘Section 17 (2) of Banking Regulation Act, 1949 - Appropriation from Reserve Fund’ is not required in this regard.

However, payment of coupons on PDIs from the reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios including the additional capital requirements for Domestic Systemically Important Banks at all times and subject to the restrictions under the capital buffer frameworks (i.e. capital conservation buffer and counter cyclical capital buffer in terms of paras 15 and 17 respectively of the Master Circular on Basel III Capital Regulations dated July 1, 2015 as amended from time to time).

In order to meet the eligibility criteria for perpetual debt instruments, banks must ensure and indicate in their offer documents that they have full discretion at all times to cancel distributions / payments.”
3. These instructions are applicable with immediate effect.

Yours faithfully

(S S Barik)
Chief General Manager-in-Charge