



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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DBOD.BP.BC.No.75/21.06.001/2010-11

January 20, 2011

The Chairman and Managing Directors/  
Chief Executive Officers of  
All Scheduled Commercial Banks  
(Excluding RRBs)

Dear Sir / Madam,

### **Regulatory Capital Instruments – Step up option**

In terms of extant instructions, banks have been permitted to issue capital instruments with a 'step-up' option viz.

- i. Innovative Perpetual Debt Instruments (IPDI) and Upper Tier 2 debt capital instruments (vide circular [DBOD.No.BP.BC.57 /21.01.002/2005-2006 dated January 25, 2006](#));
- ii. Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) as part of Upper Tier 2 preference shares (vide circular [DBOD. No. BP. BC.42/21.01.002/2007-2008 dated October 29, 2007](#)) and;
- iii. Subordinated debt as Tier 2 capital (vide circular [DBOD.No.BP.BC.38/21.01.002/2009-10 dated September 7, 2009](#)).

2. As you may be aware, the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) have undertaken an extensive review of the regulatory framework in the wake of the sub-prime crisis. In the document titled 'Basel III: A global regulatory framework for more resilient banks and banking systems', released by the BCBS in December 2010, it has *inter alia* proposed certain minimum set of criteria for inclusion of instruments in the new definition of regulatory capital. One of

the criteria is that instruments should not have step-ups or other incentives to redeem. However, the BCBS has proposed certain transitional arrangements, in terms of which only those instruments having such features which were issued before September 12, 2010 will continue to be recognized as eligible capital instruments under Basel III which becomes operational beginning January 1, 2013 in a phased manner.

3. In view of the foregoing, it is advised that henceforth, banks should not issue Tier 1 or Tier 2 capital instruments with 'step-up option' so that these instruments continue to remain eligible for inclusion in the new definition of regulatory capital. However, such instruments can be issued with only 'call option' as per existing rules contained in the circulars mentioned above.

Yours faithfully,

(B. Mahapatra)  
Chief General Manager-in-Charge