भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2013-14/433
RPCD.RCB.BC.73 /07.51.012 /2013-14 **January 7, 2014**

The Chairman / Managing Director
All State and Central Cooperative Banks

Dear Sir / Madam,

Application of Minimum Capital Adequacy Norms to State and Central Cooperative Banks (StCBs/CCBs)

Please refer to the circular RPCD.CO.RF.BC.40/07.38.03/2007-08 dated December 4, 2007 wherein the State and Central Cooperative Banks had been advised to disclose the level of Capital to Risk weighted Assets Ratio (CRAR) as on March 31, 2008 and thereafter every year as 'Notes on Accounts' to their Balance Sheets. It was also advised that the roadmap for achieving the desired level of CRAR norms would be communicated in due course.

2. In the context of financial stability of the rural cooperative banking system and to strengthen the capital structure of State and Central Cooperative Banks (StCBs/CCBs), it is decided to prescribe a minimum CRAR for StCBs/CCBs. Accordingly, StCBs/CCBs are advised to achieve a minimum CRAR of 9% in a phased manner over a period of three years as indicated below:

As on March 31, 2015	-	7%
As on March 31, 2017	-	9%

StCBs/CCBs are advised to maintain a mandated minimum CRAR of 7% on an ongoing basis with effect from March 31, 2015 and 9% with effect from March 31, 2017.

3. Further, it is decided that StCBs/CCBs be permitted to issue Long Term (Subordinated) Deposits (LTD) and Innovative Perpetual Debt Instruments (IPDI) to facilitate raising of capital funds (Tier I and Tier II) for the purpose of compliance with the prescribed CRAR

ग्रामीण आयोजना और ऋण विभाग,केंद्रीय कार्यालय, 10वीं मंज़िल, केंद्रीय कार्यालय भवन,शहीद भगत सिंह मार्ग.पो.बा.सं.10014, मुंबई 400 001
टेलीफोन:Tel: 022-22601000 फैक्स Fax: 91-22-22621011/22610948 ईमेल E-mail: cgmicrpcd@rbi.org.in
Rural Planning & Credit Department,Central Office, 10th Floor, Central Office Building, S. B. S. Marg,P. Box No.10014, Mumbai 400001

norms,. The guidelines for issuance of LTD and IPDI are set out in (Annex-I) and (Annex-II) respectively.

4. The other contents of the circular RPCD.CO.RF.BC.40/07.38.03/2007-08 dated December 4, 2007 remain unchanged.

5. Please acknowledge receipt this circular to the concerned Regional Office within whose jurisdiction the StCB/CCB is located.

Yours faithfully,

(A. Udgata)
Principal Chief General Manager
Encl. As above

ANNEX - I

Guidelines to State/Central Co-operative Banks on Issuance of Long Term (Subordinated) Deposits

Term of Issue

1. State/Central Co-operative Banks (StCBs/CCBs) may issue Long Term (Subordinated) Deposits (LTD) with the prior permission of the respective Registrar (RCS) granted in consultation with the Reserve Bank. LTD may be issued to members and non-members, including those outside the area of operations of the StCBs/CCBs concerned. There is no prohibition on existing shareholders subscribing to LTD. The amounts raised through LTD, which comply with the following terms and conditions will be eligible to be treated as lower Tier II capital

Maturity

2.1 LTD should have a minimum maturity of not less than 5 years.

Limits

2.2 The outstanding amount of LTD, which is eligible to be reckoned as Tier II capital, will be limited to 50 percent of Tier I capital. The above limit will 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.

Amount

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

Seniority of Claims

2.4 LTD will be subordinated to the claims of depositors and other creditors but would rank senior to the claims of shareholders, including holders of preference shares (both Tier I & Tier II). Among investors of instruments included in lower Tier II, the claims shall rank *pari passu* with each other.

2.5 Options

(a) LTD shall not be issued with a 'put option' or a 'step up' option.

(b) The 'call option' will be permissible and may be exercised after 5 years with prior permission of the Reserve Bank. While considering the proposals received from banks for exercising the call option the Reserve Bank 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.

Redemption / Prepayment

2.6 Repayment of LTD at maturity shall be made only with the prior approval of the Reserve Bank of India (Rural Planning and Credit Department, Central Office) subject inter alia to the following conditions :

(i) The bank's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank.

(ii) The impact of such repayment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.

Interest Rate

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

DICGC Cover

2.8 LTD will not be eligible for DICGC cover

Progressive Discount

2.9 These deposits will be subjected to a progressive discount for capital adequacy purposes as under :

Remaining Period of Maturity	Rate of Discount
Less than one year	100%
More than one year and Less than two years	80%
More than two years and less than three years	60%
More than three years and less than four years	40%
More than four years and less than five years	20%

Classification in the Balance Sheet

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

Reserve Requirement

2.11. Total amount raised by a bank through the issue of LTD will be reckoned as a liability for the computation of net demand and time liabilities for the purpose of reserve requirements (CRR and SLR).

Reporting Requirements

4. Banks issuing such long LTD shall submit a report to the Principal Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Mumbai giving details of the deposit raised, including the terms of issue specified as above.

Investment in / Grant of Advances against LTD

5. StCBs/CCBs should not invest in LTD of other StCBs/CCBs; nor they should grant advances against the security of LTD issued by them or by other banks

ANNEX - II

Terms and conditions applicable to Innovative Perpetual Debt Instruments (IPDI)) for inclusion as Tier I capital

The Innovative Perpetual Debt Instruments (Innovative Instruments) that may be issued as bonds or debentures by StCBs/CCBs should meet the following terms and conditions to qualify for inclusion as Tier I Capital for capital adequacy purposes.

1. Terms of Issue of Innovative Instruments

(i) RBI Approval

Banks shall obtain prior approval of the Reserve Bank of India, on a case-by-case basis, for issue of innovative instruments.

(ii) Amount

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

(iii) Limits

Innovative instruments shall not exceed 15 per cent of total Tier I capital. Innovative instruments in excess of the above limits shall be eligible for inclusion under Tier II, subject to limits prescribed for Tier II capital. However, investors' rights and obligations would remain unchanged.

(iv) Maturity period

The innovative instruments shall be perpetual.

(v) 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.

(vi) Options

Innovative instruments shall not be issued with a 'put option'. However, banks may issue the instruments with a call option subject to strict compliance with each of the following conditions:

(a) Call option may be exercised after the instrument has run for at least ten years; and

(b) Call option shall be exercised only with the prior approval of RBI (Rural Planning and Credit Department). 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.

(vii) Step-up option

The issuing bank may have a step-up option which may be exercised only once during the whole life of the instrument, in conjunction with the call option, after the lapse of ten years from the date of issue. The step-up shall not be more than 100 bps. The limits on step-up apply to the all-in-cost of the debt to the issuing banks.

(viii) Lock-in-Clause

(a) Innovative instruments shall be subjected to a lock-in-clause in terms of which the issuing bank shall not be liable to pay interest, if

1. the bank's CRAR is below the minimum regulatory requirement prescribed by RBI; OR

2. the impact of such payment results in bank's capital to risk assets ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by Reserve Bank of India;

(b) However, banks may pay interest with the prior approval of RBI when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm.

(c) The interest shall not be cumulative.

(d) All instances of invocation of the lock-in-clause should be notified by the issuing banks to the Principal Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Mumbai.

(ix) Seniority of claim

The claims of the investors in innovative instruments shall be

(a) Superior to the claims of investors in equity shares; and
(b) Subordinated to the claims of all other creditors.

(x) Discount

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

(xi) Other conditions

Innovative instruments should be fully paid-up, unsecured, and free of any restrictive clauses.

2. Compliance with Reserve Requirements

The total amount raised by a bank through innovative instruments will not be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR /SLR requirements.