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RBI releases Report of the Working Group to examine issues relating to augmenting capital of UCBs

The Reserve Bank of India (RBI) today placed on its website (www.rbi.org.in) Report of the Working Group to examine the issue of share capital of Primary (Urban) Co-operative Banks (UCBs) and to identify alternate instruments / avenues for augmenting their capital funds. Click here to send views/ suggestions on the recommendations of the Working Group to the Reserve Bank. The feedback can also be faxed to 91-22-24974030.

The Group has identified four new instruments to enable the UCBs to raise long term capital/quasi capital funds. These are:

- (i) Unsecured, subordinated, non-convertible redeemable debentures/bonds,
- (ii) Special shares which are non-voting in nature (as opposed to shares with membership rights) which could be issued even at a premium,
- (iii) Redeemable cumulative preference shares, and
- (iv) Long term subordinated deposits with maturity in excess of 15 years.

The Group has recommended that the funds raised through the special shares which are non-voting in nature (as opposed to shares with membership rights) which could be issued even at a premium may be reckoned for Tier-I capital and the rest for Tier-II capital. None of these instruments would have a put option but could have a call option exercisable by the bank with the prior permission of the Reserve Bank. Exercise of call option/redemption in case of debentures/bonds and special shares would be subject to a lock-in clause of the bank meeting the prescribed Capital to Risk Weighted Assets Ratio at the relevant time.

Since UCBs come under the purview of the Co-operative Societies Act of the State in which they are registered or the Multi-state Co-operative Societies Act (2002), the provisions of which are not similar in certain respects, the Group has suggested necessary amendments to the Acts/Rules framed under them to facilitate issuance of some of the instruments proposed by it.

It may be recalled that an announcement was made in the Annual Policy Statement for 2006-07 to constitute a working group to examine the issue of share capital of UCBs and to identify alternate instruments / avenues for augmenting their capital funds. Accordingly, a Working Group was constituted under the Chairmanship of Shri N.S. Vishwanathan, Chief General Manager-in-Charge, Urban Banks Department, Reserve Bank of India. The other members of the group were Shri Anil Diggikar*, Commissioner for Cooperation & Registrar of Cooperative Societies (RCS), Government of Maharashtra, Shri J.C. Sharma, Commissioner for Cooperation & RCS, Government of Andhra Pradesh, Shri D. Krishna, Chief Executive, National Federation of Urban Cooperative Banks and Credit Societies Ltd (NAFCUB), Prof. Mukund Ghaisas, Chairman, Maharashtra State Urban Cooperative Banks Federation and Shri K. D. Zacharias, Legal Adviser, Reserve Bank of India.

* In place of Dr. S. K. Sharma, who was initially the member of the Working Group in his capacity as Commissioner for Cooperation & Registrar of Cooperative Societies, Government of Maharashtra.