

**CIRCULAR**

**SEBI/HO/DDHS/CIR/P/2020/199**

**October 6, 2020**

**To**

**Recognised Stock Exchanges**

**Registered Depositories**

**Issuers of PNCPS and IPDIs/PDIs**

**Merchant Bankers, Stock Brokers and Registrars to an Issue registered with SEBI**

**Madam / Sir,**

**Sub: Issuance, listing and trading of Perpetual Non-Cumulative Preference Shares (PNCPS) and Innovative Perpetual Debt Instruments (IPDIs)/ Perpetual Debt Instruments (PDIs) (commonly referred to as Additional Tier 1 (AT 1) instruments)**

1. Perpetual Non-Cumulative Preference Shares (PNCPS') and Innovative Perpetual Debt Instruments (IPDIs) / Perpetual Debt Instruments (PDIs) (commonly referred to as AT 1 instruments) are essentially non-equity regulatory instruments, forming part of a bank's capital, governed by Reserve Bank of India (RBI) guidelines and issued under the issuance and listing framework given under Chapter VI of the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 ("*NCRPS Regulations*").
2. These instruments have certain unique features which, *inter-alia*, grant the issuer (i.e. banks, in consultation with RBI) a discretion in terms of writing down the principal / interest, to skip interest payments, to make an early recall etc. without commensurate

right for investors to legal recourse, even if such actions of the issuer might result in potential loss to investors.

3. Given the nature and contingency impact of these AT 1 instruments and the fact that full import of the discretion is available to an issuer, may not be understood in the truest form by retail individual investors, the matter was discussed in SEBI's advisory committee on the development of corporate bond market in India viz. Corporate Bonds and Securitization Advisory Committee (CoBoSAC). Based on the recommendations of the CoBoSAC, the following shall be the additional framework related to issuance, listing and trading of PNCPS and IPDIs which are proposed to be listed :

**a. Manner of Issuance:**

- i. The issuance of AT1 instruments shall be done mandatorily on the Electronic Book Provider (EBP) platform irrespective of the issue size in terms of SEBI circulars SEBI/HO/DDHS/CIR/P/2018/05 dated January 05, 2018 and SEBI/HO/DDHS/CIR/P/2018/122 dated August 16, 2018.
- ii. "*Securities*" as defined in clause 1.1.8 of Schedule A of SEBI circular SEBI/HO/DDHS/CIR/P/2018/05 dated January 05, 2018, shall include:
  - i) Perpetual non-cumulative preference shares (PNCPS)
  - ii) Innovative perpetual debt instruments (IPDIs) and
  - iii) Perpetual debt instruments (PDIs)

**b. Investors**

Issuers and Stock Exchanges shall ensure that only QIBs are allowed to participate in the issuance of AT1 instruments.

**c. Allotment size**

The minimum allotment of AT1 instruments shall not be less than Rs.1 crore.

**d. Trading lot size**

The minimum trading lot size for AT1 instruments shall be Rs.1 crore.

**e. Other requirements:**

Issuers, in addition to making disclosures as per Schedule I of the SEBI NCRPS Regulations, shall comply with the following:

- i. Disclosures as specified in Annex I.
  - ii. Provisions of circulars as specified in Annex II.
  - iii. Specific disclosures about:
    - a) Details of all the conditions upon which the call option will be exercised by them for AT1 instruments, in the Information /Private Placement Memorandum.
    - b) Risk factors, to include all the inherent features of these AT1 instruments highlighted at para 2 above.
    - c) Point of Non Viability (PONV) clause: The absolute right, given to the RBI, to direct a bank to write down the entire value of its outstanding AT1 instruments/bonds, if it thinks the bank has passed the Point of Non Viability (PONV), or requires a public sector capital infusion to remain a going concern.
4. This circular shall come into force with effect from October 12, 2020.
5. This Circular is issued in exercise of powers under Section 11(1) of Securities and Exchange Board of India Act, 1992 read with regulations 23(5) and 26 of the SEBI (NCRPS) Regulations.
6. This Circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories "*Legal Framework*" and under "*Circulars*".

Yours faithfully,

**Pradeep Ramakrishnan**  
**General Manager**  
**Department of Debt & Hybrid Securities**  
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## Annex I

| S.no | Description of disclosure   |
|------|---|
| 1    | An undertaking from the issuer stating that the necessary documents for the creation of the charge, where applicable, including the Trust Deed would be executed within the time frame prescribed in the relevant regulations/act/rules etc. and uploaded on the website of the Designated Stock exchange, where the AT1 Instruments have been listed, within 5 working days of execution of the same.  |
| 2    | An undertaking that permission / consent from the prior creditor for a second or <i>pari passu</i> charge being created, where applicable, in favor of the trustees to the proposed issue has been obtained.  |
| 3    | Latest Audited / Limited Review Half Yearly Consolidated (wherever available) and Standalone Financial Information (Profit & Loss statement, Balance Sheet and Cash Flow statement) and auditor qualifications.   |
| 4    | A copy of the latest annual report to the Trustee and the Trustee shall be obliged to share the details submitted under this clause with all 'Qualified Institutional Buyers' (QIBs) within 180 days from the end of the financial year and other existing AT 1 instrument holders within 2 working days of their specific request.   |
| 5    | Gross debt-equity ratio of the company, before and after the issuance of the AT1 instrument.  |
| 6    | The names of the debenture trustee(s) with a statement to the effect that debenture trustee(s) has given its consent to the Issuer for its appointment and in all the subsequent periodical communications sent to the holders of AT1 instruments.  |
| 7    | If the security is backed by a guarantee or letter of comfort or any other document / letter with similar intent, a copy of the same.<br><br>In case such document does not contain detailed payment structure (procedure of invocation of guarantee and receipt of payment by the investor along with timelines), disclosure of the same in the placement memorandum.  |
| 8    | Copy of consent letter from the Debenture Trustee.  |
| 9    | Other details:<br>i. Issue/instrument specific regulations - relevant details (Companies Act, RBI, guidelines etc.).<br>ii. Application process.  |
| 10   | Other issue details:<br>Coupon rate, Step Up/Step Down Coupon Rate, Coupon Payment Frequency, Coupon payment dates (Dates on which coupon will be paid.), Coupon Type (Fixed, floating or other coupon structure), Coupon Reset Process (including rates, spread, effective date, interest rate cap and floor etc). Day Count Basis( Actual/ Actual), Security (where applicable) (Including description, type of security, type of charge, likely date of creation of security, minimum security cover, revaluation, replacement of security ["], interest to the AT1 instruments holder over and above the coupon rate as specified in the Trust deed and disclosed in the IM/PPM, Roles and responsibility of Debenture Trustee. |

**Annex II**

| <b>S. no</b> | <b>Circular date</b> | <b>Subject</b>  | <b>Cir.no</b>               |
|--------------|----------------------|---|-----------------------------|
| 1            | October 22, 2013     | Centralized Database for Corporate Bonds/ Debentures  | CIR/IMD/DF/17/2013          |
| 2            | October 29,2013      | Clause I of the Circular on Issues pertaining to primary issuance of debt securities  | CIR/IMD/DF/18/2013          |
| 3            | October 13, 2015     | Format of uniform Listing Agreement   | CIR/CFD/CMD/6/2015          |
| 4            | November 11, 2016    | Clarification on aspects related to day count convention for debt securities issued under the SEBI ILDS Regulations,  | CIR/IMD/DF-1/122/2016       |
| 5            | June 30, 2017        | Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.  | CIR/IMD/DF-1/ 67/2017       |
| 6            | March 28, 2018       | Clarifications with respect to circular on " <i>Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008</i> " | CIR/DDHS/P/59/2018          |
| 7            | January 05, 2018     | Electronic book mechanism for issuance of securities on private placement basis   | SEBI/HO/DDHS/CIR/P/2018/05  |
| 8            | August 16, 2018      | Electronic book mechanism for issuance of securities on private placement basis-Clarification   | SEBI/HO/DDHS/CIR/P/2018/122 |