Annex-III

Guidelines to Primary (Urban) Cooperative Banks (UCBs) on Issue of Preference Shares

A. Perpetual Non-Cumulative Preference Shares (PNCPS)

UCBs may issue Perpetual Non-Cumulative Preference Shares (PNCPS) with the prior permission of the respective Registrar / Central Register of Cooperative Societies (RCS / CRCS) granted in consultation with the Reserve Bank. PNCPS should be issued at par. The amounts raised through PNCPS which comply with the following terms and conditions will be eligible to be treated as Tier I capital.

2. Terms of Issue

2.1 *Limits*

The outstanding amount of PNCPS would be eligible for inclusion in Tier I capital and should not exceed 20 % of total Tier I capital excluding PNCPS at any point of time. 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 investments.

2.2 *Amount*

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

2.3 *Maturity*

The PNCPS shall be perpetual.

2.4 *Options*

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

(ii) However, banks may issue PNCPS with a call option at a particular date subject to following conditions :

(a) The call option on the instrument is permissible after the instrument has run for at least ten years; and

(b) Call option shall be exercised only with the prior approval of Reserve Bank of India (Urban Banks Department). 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.

2.5 *Classification in the Balance Sheet*

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

2.6 *Dividend*

The rate of dividend payable to the investors will be a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate

2.7 *Payment of Dividend*

(a) The issuing bank shall pay dividend subject to availability of distributable surplus out of current year's earnings, and if

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

(ii) The impact of such payment does not result in bank's capital to risk weighted assets ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank; and

(iii) While paying dividends, it may be ensured that the current year balance sheet does not show any accumulated losses

(b) The dividend shall not be cumulative. i.e., dividend missed in a year will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. When dividend is paid at a rate less than the prescribed rate, the unpaid amount will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum.

(c) All instances of non-payment of dividend / payment of a dividend at a lesser rate than prescribed in consequence of conditions as at (a) above should be reported by the issuing banks to the Chief General Managers-in-Charge of Urban Banks Department, Central Office of the Reserve Bank of India, Mumbai.

2.8 *Seniority of Claim*

The claims of the investors in PNCPS shall be senior to the claims of investors in equity shares and subordinated to the claims of all other creditors and the depositors.

2.9 ***Voting Rights***

The investors in PNCPS will not be eligible for any voting rights.

2.10 ***Other Conditions***

(a) PNCPS should be fully paid-up, unsecured, and free of any restrictive clauses.

(b) The PNCPS may be rated at the discretion of the issuer.

(c) Banks should comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PNCPS, provided they do not result in violation of any of the terms and conditions specified in these guidelines. Any instance of conflict, shall be brought to the notice of the RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier I capital.

3. **Compliance with Reserve Requirements**

(a) The funds collected for the issue and held by the bank pending finalization of allotment of the Tier I preference shares will have to be taken into account for the purpose of calculating reserve requirements.

(b) However, the total amount raised by the bank by issue of PNCPS shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR / SLR requirements.

4. **Reporting Requirements**

Banks issuing PNCPS shall submit a report to the Chief General Manager-in-charge, Urban Banks Department , Reserve Bank of India, Mumbai giving details of the capital raised, including the terms and conditions of issue as specified above together with a copy of the offer document soon after the issue is completed.

5. **Investment by Commercial Banks in perpetual non-cumulative preference shares issued by UCBs**

(a) Commercial banks can invest in PNCPS issued by the UCBs within the 10 % ceiling for unlisted securities or as prescribed by Department of

Banking Operations and Development (DBOD), Central Office, Reserve Bank of India, provided they are rated.

(b) The investments in PNCPS issued by UCBs will attract such risk weight for capital adequacy purposes, as may be prescribed by DBOD.

6. **Investment in / Grant of Advances Against Tier I Preference Shares**

UCBs should not invest in PNCPS of other banks; nor they should grant advances against the security of the PNCPS issued by them or other banks.

7. Share linkage norms

PNCPs held may be treated as shares for the purpose of compliance with extant share linking norms.

B. Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS)

1. **Terms of Issue**

UCBs may issue Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS) with the prior permission of the respective Registrar / Central Register of Cooperative Societies (RCS / CRCS) granted in consultation with the Reserve Bank. These three instruments will be collectively referred to as Tier II preference shares. These Tier II preference shares should be issued at par. The amounts raised through the Tier II preference shares, which comply with the following terms and conditions, will be eligible to be treated as upper Tier II capital

2.1 ***Characteristics of the instruments***

The Tier II preference shares could be either perpetual (PCPS) or dated (RNCPS and RCPS) instruments with a fixed maturity of minimum 15 years.

2.2 ***Limits***

The outstanding amount of these instruments along with other components of Tier II capital shall not exceed 100% of Tier I capital at any point of time. 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 investments.

2.3 ***Amount***

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

2.4 ***Options***

(i) These instruments shall not be issued with a 'put option'.

(ii) However, banks may issue the instruments with a call option at a particular date subject to strict compliance with each of the following conditions :

(a) The call option on the instrument is permissible after the instrument has run for at least ten years; and

(b) Call option shall be exercised only with the prior approval of Reserve Bank of India (Urban Banks Department). 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.

2.5 ***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.

2.6. ***Classification in the Balance Sheet***

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

2.7 ***Coupon***

The coupon 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

2.8. ***Payment of Coupon***

2.8.1 *The coupon will be payable only if*

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

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

(c) The bank does not have a net loss. For this purpose, the Net Loss is defined as either (i) the accumulated loss at the end of the previous financial year or (ii) the loss incurred during the current financial year.

(d) In the case of PCPS and RCPS the unpaid / partly unpaid coupon will be treated as a liability. The interest amount due and remaining unpaid may be allowed to be paid in later years subject to the bank complying with the above requirements.

(e) In the case of RNCPS, deferred coupon will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. The bank can however pay a coupon at a rate lesser than the prescribed rate, if adequate profit is available and the level of CRAR conforms to the regulatory minimum.

2.8.2. All instances of non-payment of interest / payment of interest at a lesser rate than prescribed rate should be notified by the issuing banks to the Chief General Managers-in-Charge of Urban Banks Department, Central Office of the Reserve Bank of India, Mumbai.

2.9. ***Redemption / repayment of redeemable preference shares included in Upper Tier II***

Redemption of these instruments at maturity shall be made only with the prior approval of the Reserve Bank of India (Urban Banks Department) subject inter alia to the following conditions :

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

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

2.10 ***Seniority of Claim***

The claims of the investors in these instruments shall be senior to the claims of investors in instruments eligible for inclusion in Tier I capital and subordinate to the claims of all other creditors including those in lower Tier II and the depositors. Amongst the investors of various instruments included in upper Tier II, the claims shall rank pari-passu with each other.

2.11 ***Voting Rights***

The investors in Tier II preference shares shall not be eligible for any voting rights.

2.12 ***Amortization for the purpose of computing CRAR***

The Redeemable Preference Shares (both cumulative and non-cumulative) shall be subjected to a progressive discount for capital adequacy purposes over the last five years of their tenor, as they approach maturity as indicated in the table below for being eligible for inclusion in Tier II capital.

Remaining Maturity of Instruments	**Rate of Discount (%)**
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

2.13 ***Other Conditions***

(a) The Tier II preference shares should be fully paid-up, unsecured, and free of any restrictive clauses.

(b) The Tier II preference shares may be rated at the discretion of the issuer.

(c) Banks should comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the Tier II Preference Shares, provided they do not result in violation of any of the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier II capital.

3. Compliance with Reserve Requirements

(a) The funds collected by the bank and held pending finalization of allotment of these instruments will have to be taken into account for the purpose of calculating reserve requirements.

(b) The total amount raised by a bank through the issue of these instruments shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR / SLR requirements.

4. Reporting Requirements

UCBs issuing these instruments shall submit a report to the Chief General Manager-in-charge, Urban Banks Department, Reserve Bank of India, Mumbai giving details of the debt raised, including the terms and conditions of issue specified above together with a copy of the offer document soon after the issue is completed.

5. Commercial Bank's investment in Tier II preference shares issued by UCBs

(a) Commercial Banks may invest in Tier II preference shares issued by the UCBs within the 10% ceiling for unlisted securities or as prescribed by Department of Banking Operations and Development (DBOD), Central Office, Reserve Bank of India, provided they are rated

(b) Investments in Tier II preference shares will attract such risk weight for capital adequacy purposes, as may be prescribed by DBOD.

6. Investment in / grant of advances against these instruments

UCBs should not invest in Tier II preference shares issued by other banks; nor they should grant advances against the security of Tier II preference shares issued by them or other banks.