AT 1 bonds

September 4, 2021

In news– Recently, the SBI and Axis Banks have raised money through AT 1 bonds.

Key updates

- State Bank of India (SBI) has raised Rs4,000 crore via additional Tier 1 bonds at a coupon rate of 7.72%.
- It is the first such issuance in the domestic market after the Securities and Exchange Board of India issued new rules.
- Axis Bank is the second Indian lender this year to tap overseas debt markets to raise funds through AT1 bonds. HDFC Bank recently raised $1 billion.
- SBI was the first lender to raise capital through offshore AT1 bonds in 2016.
- In June 2021, India's largest lender said it will raise AT1 capital by issuing Basel III compliant debt instruments in dollar or rupee through a public offer or private placement to overseas and/or Indian investors this fiscal.

What are AT (Additional Tier)1 Bonds?

- AT-1 are a type of unsecured, perpetual bonds that banks issue to shore up their core capital base to meet the Basel-III norms.
- AT1 bonds carry no maturity date but have a call option.
- The issuer of such bonds may call or redeem the bonds if it is getting money at a cheaper rate, especially when interest rates are falling.
- These bonds are subordinate to all other debt and only senior to equity shares. These bonds give better returns than the rest of the bonds but have no maturity date like other bonds.

Basel III norms & AT 1 bonds

- Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09.
- Under the Basel III norms, banks are required to have higher capital relative to the size of their risk weighted assets.
- The complex Basel III framework allows instruments/money other than equity (Tier I) to also be counted as capital (under Tier II & Tier III),.
- Perpetual, Non-Cumulative Preference Shares and Perpetual Debt Instruments, also known as Additional Tier I or AT-1 bonds, emerged as instruments to shore up Tier I capital of banks.

SEBI's amended rules on AT 1 Bonds

- In March 2021, SEBI amended a 100-year valuation rule for perpetual bonds.
- SEBI capped mutual fund investments in debt instruments, especially with reference to AT1 (Additional Tier-1) bonds.
- Accordingly, no mutual fund scheme will be allowed to invest more than 10% of its debt assets in such bonds and not more than 5% in the bonds of a single issuer.
- It said that the deemed residual maturity of Basel III additional tier-1 (AT-1) bonds will be 10 years until 31 March, 2022.
- It also mentioned that the period will be increased to 20 and 30 years over the subsequent six-month period.
- From April 2023 onwards, the residual maturity of AT-1 bonds will become 100 years from the date of issuance of the bond. Residual maturity is the time pending for the bond's maturity.