Basel III-compliant Additional Tier-I (AT-1) Perpetual Bonds

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Why in News?

Recently, SBI raised funds via its first Basel III-compliant AT1 bonds, diversifying sources and securing long-term non-equity regulatory capital to support growth strategy.

- **Basel III compliant AT1 (Additional Tier 1) bonds** – They are special debt instruments issued by banks, ***perpetual and unsecured*** (not backed by collateral).
- Banks use them to meet strict capital adequacy rules set by regulators, ensuring financial stability.

Basel III

- It is a regulatory framework followed on a voluntary basis on a global scale.
- The framework deals with capital adequacy in banks, stress testing, and market liquidity risk.

AT1 Bonds

- Qualify as core equity capital under Basel-III norms.
- **Purpose –** Helps banks meet global capital adequacy requirements.
- **Loss Absorbency –** Can be written off or converted into equity during stress, subject to RBI approval.
- **Perpetual Tenor –** They have no maturity date and continue forever unless the bank chooses to redeem them.
- **Call Option –** Banks may buy back or redeem them after 5–10 years, but are not obliged to.
- **Higher Yield –** They pay more interest than normal bonds or deposits because they carry higher risk.

Key Features of SBI Basel III-compliant AT1 bonds

- **Tenor –** Perpetual bonds with call option after 5 years and each anniversary thereafter.
- **Rating –** AA+ (Stable) by CRISIL & CARE Ratings.

  CRISIL Ratings and CARE Ratings, registered with SEBI, are major agencies that assess the creditworthiness of corporate and financial debt issuers.

Reference

The Hindu | AT-1 Bonds

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