AT-1 BONDS

INTRODUCTION

- Additional Tier-1 (AT-1) bonds are unsecured, perpetual, high-risk bonds that banks issue to shore up their core capital base to meet the Basel III norms.
- AT-1 bonds are like any other bonds issued by banks and companies, but pay a slightly higher rate of interest compared to other bonds.
- These bonds are also listed and traded on the exchanges. So, if an AT-1 bondholder needs money, he can sell it in the secondary market.

RISK INVOLVED

- Investors cannot return these bonds to the issuing bank and get the money. i.e. there is no put option available to its holders.
- The issuing banks have the option to recall AT-1 bonds issued by them (termed call options that allow banks to redeem them after 5 or 10 years).
- Banks issuing AT-1 bonds can skip interest payouts for a particular year or even reduce the bonds' face value

Market regulator Securities and Exchange Board of India has tightened its regulations of AT-1 bonds and ensured that these risky instruments are less accessible to retail investors.

CHANGE IN NORMS

- Banks can issue these bonds only on electronic platform.
- Only qualified institutional buyers (QIBs) can participate in issuances.
- The minimum allotment size and trading lot size has to be ₹1 crore