

## ● ICRA VIEW

# Proposed accounting adjustment to help PSBs service AT-1 bonds

FE BUREAU

Mumbai, October 19

**THE RECENT PROPOSAL** by some public sector banks (PSBs) to set off their accumulated losses against the share premium account balances could improve their ability to service additional tier-I (AT-I) bonds, rating agency Icra said on Monday. While this accounting adjustment will not impact the net worth and capital ratios of the banks, it will significantly lower their accumulated losses (and improve

their distributable reserves – DRs), thereby improving their ability to service the coupon on AT-I bonds.

Servicing of the coupon on AT-I bonds of banks is contingent on their profits, including accumulated profits. In a year of loss, banks can use their accumulated profits or DRs to pay the coupon on these bonds. Four PSBs – Bank of India, Bank of Maharashtra, Punjab National Bank and Union Bank of India – recently secured shareholders' approval and are awaiting regulatory approval to make the account-

### AT A GLANCE

- Servicing of the coupon on AT-I bonds of banks is contingent on their profits
- As per Icra's estimates, the outstanding volume of AT-I bonds of PSBs is estimated at ₹60,880 crore
- With this accounting adjustment, the coupon payment is now effectively serviceable through capital infusions, Icra said

ing adjustment.

Anil Gupta, sector head – financial sector ratings, Icra, said with sizeable losses in recent years, many PSBs have

significantly eroded their DRs and this process can be seen as one among many measures to prevent defaults on the AT-I bonds issued by PSBs.

“Although investors as well as rating agencies do factor in the sovereign ownership of PSBs at the time of rating their borrowings (including AT-I bonds), it is difficult to factor in such one-off relaxations ab initio while rating these bonds,” he said.

The share capital, including the share premium, is not a part of accumulated profits or DRs. Hence, capital infusion by the GoI or through other means does not improve the coupon-servicing ability on these AT-I bonds in case of losses. With this accounting

adjustment, the coupon payment is now effectively serviceable through capital infusions, Icra said. This could improve the risk appetite of investors and improve the ability of PSBs to roll over the large quantum of AT-Is when the first call option falls due.

As per Icra's estimates, the outstanding volume of AT-I bonds of PSBs is estimated at ₹60,880 crore, or 1.1% of their risk weighted assets as on October 1, 2020. Of these, the first call option is falling due on bonds totalling ₹23,365 crore in FY22.