

What comes next in the Yes Bank AT-1 bond saga?

BY GOPIKA GOPAKUMAR

The Bombay High Court has set aside a March 2020 decision by the banking regulator and the Yes Bank administrator to write off ₹8,415 crore worth of the bank's additional tier-1 bonds as part of a bailout of the private lender. *Mint* explains the likely impact of the decision.



1 What are the AT-1 bonds in question?

AT-1 bonds are a type of unsecured bonds issued by banks to shore up their core capital base to meet Basel III norms. It pays a periodic coupon and has a call option, which can be used by the banks to buy these bonds back from investors after a certain period. They are generally issued on private placement basis, without having any maturity period. These bonds are subordinate to all other debt and senior only to equity. The rating on the instrument essentially reflects the ability to service its coupon. When a bank becomes non-viable, Basel III AT-1 bonds are either converted into equity or written down.

2 What is the Yes Bank AT-1 bond case?

Yes Bank's AT-1 bonds were the first in India where a write-off was triggered. Bonds worth ₹8,415 crore were written off as part of the bank's bailout scheme in March 2020 to prevent its collapse. The decision was taken by the Yes Bank administrator, who was appointed by the Reserve Bank of India after the board was superseded. Bond holders filed a case against the bank's decision, alleging that bank representatives had misrepresented their risk and mis-sold these bonds to senior citizens claiming that they could fetch higher returns than what a fixed deposit would yield.

3 Why did the HC set aside the write-off decision?

Two reasons: One, the administrator exceeded his powers and two, the absence of the clause in the final scheme. The court said that the administrator should not have taken the decision of writing off the bonds after the bank was reconstituted on 13 March 2020. It also said the government-approved recast scheme did not include a clause for writing down these bonds.

4 What could be the likely impact?

The order has no immediate impact on Yes bank's capital position as of now. But the order could set a precedent for other such cases. As per Prime Database, nearly ₹1.75 trillion worth of AT-1 bonds have been issued by banks, as on December 2022. Previously, several public sector banks had almost breached the trigger levels. But both the RBI and the Centre ensured that the bonds were serviced on time. By easing norms, infusing funds, and calling back the bonds, the regulators have built investor confidence in AT-1 bonds.

5 What can we expect next in the case?

Yes Bank can file its appeal against the order in the Supreme Court in six weeks. The RBI is also likely to appeal against the order as it believes that it could have a negative impact on the industry. The central bank maintains that the administrator's decision is as per RBI regulations. The outcome of Yes Bank case could have an impact on the Lakshmi Vilas Bank case, where bondholders are planning to seek an urgent hearing in the Madras high court against the RBI's decision to write off tier-II bonds worth ₹320 crore.

Name signals

That India's ruling dispensation takes the symbolism of names seriously has long been clear. On Monday, Prime Minister Narendra Modi named 21 unnamed islands of Andaman and Nicobar (A&N) after Param Vir Chakra awardees. The biggest such island will now be known after Major Somnath Sharma, the first awardee of that gallantry award; the second-largest after the second, and so on. Earlier, renamings of cities, roads, stadiums and other landmarks by the Bharatiya Janata Party had run into controversy, with the opposition accusing the ruling party of playing divisive politics. This time around, such protests seem unlikely. Since the exercise involved no removal of earlier names, there is no specific reason to object, and as Indian war heroes have been honoured, it would be churlish to argue that it should not have been done. The irony is that these references are only dots on our maps. Some of the A&N archipelago's islands, North Sentinel being a famous example, are inhabited by tribals in complete isolation from the world who see our attempts at establishing contact as invasive. Our policy has been to stay off. That should continue.

MINT METRIC

by Bibek Debroy

The Vande Bharat Express

Deserves a picture, no less.

Ticket-less, a man entered the train,

Somewhat silly, if not insane.

He got locked in, to his distress.

QUOTE OF THE DAY

India is on the cusp of huge change. People are looking at which other place over the next decade is going to be a great place to put capital. I haven't seen this kind of interest in India for 15 years.

NANDAN NILEKANI
CO-FOUNDER, INFOSYS

