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Banking Central | Sebi penalty on Rana Kapoor strengthens Yes Bank's AT1 bondholders' case

On September 7, market regulator Securities and Exchange Board of India (Sebi) passed an order fining former Yes Bank managing director and chief executive Rana Kapoor in Yes Bank additional tier 1 bonds case.

AT1 bonds are a type of perpetual bonds banks issued to raise core equity. Yes Bank wrote down these bonds at the time of a bailout in March 2020. Kapoor is facing investigations in connection with the alleged financial irregularities in the bank during his stint that led to a near-collapse of the lender, forcing a bailout.

The case pertains to Yes Bank executives allegedly selling AT1 bonds to investors under the guise of Super FDs (fixed deposits), promising higher returns and the safety of a typical bank FD.

Sebi, imposing a fine of Rs 2 crore on Kapoor, said there are lapses on the part of former CEO that has impacted a large number of customers. "Considering the large number of investors impacted and the quantum of sales achieved through this scheme, I am of the opinion that this act of Noticee deserves penalty commensurate with the severity of violation and would be a deterrent," said the Sebi adjudicating officer in the order.

Now, what is the significance of this order?

There are two key aspects to it. One, the penalty reaffirms the wrongdoing on the part of bank management and officers at that point with respect to downselling of AT1 bonds to retail investors.

This is a serious aspect considering that 1,346 individual investors had invested approximately Rs 679 crore in the AT1 bonds, of which 1,311 individual investors were existing customers of Yes Bank who invested approximately Rs 663 crore in these AT1 Bonds.

Not just that. There were 277 customers with existing fixed deposits with Yes Bank that were prematurely closed and reinvested an amount to the extent of Rs 80 crore in these AT1 bonds which were subsequently written down. Yes Bank executives allegedly engaged in misselling of these bonds by presenting as 'super FDs'.

Second, the latest order strengthens the ongoing case of Yes Bank retail AT1 bond investors in Bombay High Court against the bank and the banking regulator Reserve Bank of India (RBI). The case, it is learned, is in the final stages. This isn't the first time the market regulator is acting on the case.

On April 12, 2021, Sebi penalised Yes Bank and three former bank officials in the AT1 bonds mis-selling case. It imposed a monetary penalty of Rs 25 crore on Yes Bank, Rs 1 crore on Vivek Kanwar and Rs 50 lakh each on Ashish Nasa and Jasjit Singh Banga. Kanwar was the head of Yes Bank's private wealth management team. The other two were his team members.

With the market regulator finding former CEO too guilty in the case, Yes Bank's retail investors have an additional reason to cite before the Bombay HC to seek compensation.

Also, the Sebi order raises the question of the central bank which has, in the past, refused to acknowledge the charges of mis-selling in the Yes Bank AT1 bonds case before the courts. In its counter-affidavit in the Madras High Court against the petition filed by 63 Moons Technologies (one of the institutional investors in Yes Bank AT1 bonds), the central bank said the action for writing off has been rightly taken under the provisions of the contract between Yes Bank and AT1 bondholders, and hence there is no merit in the petitioners' contentions.

All eyes are now on the Bombay HC.

(Banking Central is a weekly column that keeps a close watch and connects the dots about the sector's most important events for readers.)