Chapter 10

Capital buffers

10.3 Countercyclical capital buffer

Main requirement

10.3.1 R A *firm* must calculate a *countercyclical capital buffer* of *common equity tier 1 capital* equal to its *total risk exposure amount* multiplied by the weighted average of the *countercyclical buffer rates* that apply to exposures in the jurisdictions where the *firm's relevant credit exposures* are located.

[**Note:** article 130(1) (part) of *CRD*]

Calculation of countercyclical capital buffer rates

10.3.2 R (1) To calculate the weighted average in IFPRU 10.3.1 R, a *firm* must apply to each applicable *countercyclical buffer rate* its total *own funds requirements* for credit risk, specific risk, incremental default and migration risk that relates to the *relevant credit exposures* in the jurisdiction in question, divided by its total *own funds requirements* for credit risk that relates to all of its *relevant credit exposures*.

(2) For the purposes of (1), a *firm* must calculate its total *own funds requirement* for credit risk, specific risk, incremental default and migration risk in accordance with Part Three, Titles II (Capital requirements for credit risk) and IV (Own funds requirements for market risk) of the *UK CRR*.

(3) The *countercyclical buffer rate* for an exposure located in the *UK* is the rate set by the *UK countercyclical buffer authority* for the *UK*.

(4) [deleted]

(5) The *countercyclical buffer rate* for an exposure located in a *third country* is the rate set by the *UK countercyclical buffer authority* for that jurisdiction.

(6) If the *UK countercyclical buffer authority* has not set a rate for a *third country*, the *countercyclical buffer rate* for an exposure located in that jurisdiction is:

(a) the rate set by the *third country countercyclical buffer authority* for that jurisdiction; or

(b) if that rate exceeds 2.5% and has not been recognised by the *UK countercyclical buffer authority*, 2.5%.

(7) If the *UK countercyclical buffer authority* has not set a rate for a *third country* and either there is no *third-country countercyclical buffer authority* for that country or the authority has not set a rate for that

jurisdiction, the *countercyclical buffer rate* for an exposure located in that jurisdiction is zero.

(8) If the *countercyclical buffer rate* for the *UK* is increased, that increase takes effect from the date specified by the *UK countercyclical buffer authority*.

(9) [deleted]

(10) If the *countercyclical buffer rate* for a *third country* is increased by the *UK countercyclical buffer authority*, that increase takes effect from the date specified by the *UK countercyclical buffer authority*.

(11) If the *UK countercyclical buffer authority* does not set a *countercyclical buffer rate* for a *third country* and that rate is increased by the *third-country countercyclical buffer authority* for that jurisdiction, subject to 6(b), that increase takes effect from:

(a) the date 12 months after the date on which the increase was published by the *third-country countercyclical buffer authority* in accordance with the relevant law of the *third country*, if the rate applied under this chapter does not exceed 2.5%; or

(b) the date specified by the *UK countercyclical buffer authority* if the rate applied under this chapter exceeds 2.5%.

(12) If a *countercyclical buffer rate* is reduced, that reduction takes effect immediately.

[**Note:** articles 136(4) (part) , 139(2) to (5) (part) and 140(1) to (4) and (6) (part) of *CRD*]

Location of exposures

10.3.3 G A *firm* must identify the geographical location of a *relevant credit exposure* in accordance with the *CRD RTS on the identification of the geographical location of credit exposures for calculating institution-specific countercyclical capital buffer rates*.

[**Note:** article 140(5) of *CRD*]