



## Part

# DEFINITION OF CAPITAL

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### General links

Eur-Lex	<a href="http://eur-lex.europa.eu/en/index.htm">http://eur-lex.europa.eu/en/index.htm</a>
CP5/13 Strengthening Capital Standards: Implementing CRD IV and PS	<a href="http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx">http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx</a>
PS7/13 Strengthening Capital Standards: Implementing CRD IV, feedback and final rules	<a href="http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx">http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx</a>

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## 1 APPLICATION AND DEFINITIONS

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1.1 Unless otherwise stated, this Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

*Small specialist bank*

a *bank* that has capital resources equal to or in excess of the base capital resources requirement for a *small specialist bank* in 12.1 but less than the base capital resources requirement of a *bank* and that carries out one or more of the following activities:

- (1) provides current and savings accounts;
- (2) lending to *small and medium-sized enterprises*;
- (3) lending secured by mortgages on residential property.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 HOLDINGS OF OWN FUNDS INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATED SUPERVISION

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2.1 For the purposes of calculating *own funds* on an individual basis and a *sub-consolidated basis*, *firms* subject to supervision on a *consolidated basis* must deduct at least the relevant percentage of holdings of *own funds instruments* issued by *financial sector entities* included in the scope of consolidated supervision in accordance with Part Two of the *CRR*, except where the exception in 2.3 or 2.6 applies.

2.2 For the purposes of 2.1 the relevant percentage is as follows:

- (1) 50% for the period from 1 January 2014 to 31 December 2014;
- (2) 60% for the period from 1 January 2015 to 31 December 2015;
- (3) 70% for the period from 1 January 2016 to 31 December 2016;
- (4) 80% for the period from 1 January 2017 to 31 December 2017;
- (5) 90% for the period from 1 January 2018 to 31 December 2018; and
- (6) 100% for the period after 31 December 2018.

- 2.3 A *firm* must not apply the deduction in 2.1 to its holdings of *own funds instruments* issued by a venture capital investor that is included in the scope of consolidated supervision of the *firm*.
- 2.4 For the purposes of this Chapter, a venture capital investor is a *financial institution*, in relation to which:
- (1) the sole purpose is to make venture capital investments and carry out unregulated activities in relation to the administration of venture capital investments; and
  - (2) none of its venture capital investments is in a *credit institution* or a *financial institution*, the principal activity of which is to perform any activity other than the acquisition of holdings in other undertakings (within the meaning of section 1161(1) of the Companies Act 2006).
- 2.5 For the purposes of this Chapter, a venture capital investment is a designated investment which, at the time the investment is made, is:
- (1) in a new or developing company or venture; or
  - (2) in a management buy-out or buy-in; or
  - (3) made as a means of financing the investee company or venture and accompanied by a right of consultation, or rights to information, or board representation, or management rights; or
  - (4) acquired with a view to, or in order to, facilitate a transaction falling within (1) to (3).
- 2.6 For the purposes of this Chapter, a designated investment is a security or contractually-based investment specified in Articles 76 to 85 and 89 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
- 2.7 A *firm* must not apply the deduction in 2.1 to that percentage of its holdings of *own funds instruments* issued by a venture capital holding company included in the scope of consolidated supervision of the *firm* that represents the value of the venture capital holding company's investment in venture capital investors.
- 2.8 For the purposes of this Chapter, a venture capital holding company is a *financial institution*, in respect of which:
- (1) it is a *financial institution* solely by reason of its principal activity being the acquiring of holdings;
  - (2) it holds shares (in the meaning of section 76 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) in a venture capital investor; and
  - (3) the proportion of the value of the venture capital holding company attributable to investment in Venture Capital Investors and the proportion of the value of the venture capital holding company attributable to other investments can be identified and valued on a regular basis

**[Note: Art 49(2) of the CRR]**

### 3 QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR

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- 3.1 In respect of the qualifying holdings described in Article 89(1) and (2) of the *CRR*, a *firm* must, in accordance with Article 89(3), comply with the requirement in Article 89(3)(a).

**[Note: Art 89(3) of the *CRR*]**

### 4 CONNECTED FUNDING OF A CAPITAL NATURE

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- 4.1 This Chapter applies to every *firm* that is a *UK bank*.
- 4.2 A *firm* must not avoid the requirements of the *CRR* by structuring its investments as connected funding of a capital nature.
- 4.3 A *firm* must treat all connected funding of a capital nature as a holding of capital of the connected party and apply to it the treatment under the *CRR* and the *PRA* Rulebook applicable to such a holding, including any reporting or disclosure requirements in respect of such holding.
- 4.4 If the connected party is a *financial sector entity*, the *firm* must treat the connected funding of a capital nature as a holding of *Common Equity Tier 1 instruments*, *Additional Tier 1 instruments* or *Tier 2 instruments* of the connected party, as appropriate in light of the funding's characteristics when compared to the characteristics of each type of *own funds instruments*.
- 4.5 A *firm* must report to the *PRA* all connected funding of a capital nature at least 30 days in advance of entry into the relevant funding transaction and identify each relevant transaction with sufficient detail to allow the *PRA* to evaluate it.
- 4.6 A loan or other funding transaction is connected funding of a capital nature if it is made by the *firm* to a connected party and:
- (1) based on its terms and other factors of which the *firm* is aware, the connected party would be able to consider it from the point of view of its characteristics as capital as being similar to an *own funds instrument*; or
  - (2) the position of the *firm* from the point of view of maturity and repayment is inferior to that of the senior unsecured and unsubordinated creditors of the connected party.
- 4.7 A loan or other funding transaction is connected funding of a capital nature if it:
- (1) funds directly or indirectly a loan to a connected party that has the characteristics described in 4.6 or of a capital investment in a connected party; or
  - (2) has itself the characteristics described in 4.6.
- 4.8 A guarantee is connected funding of a capital nature if it is a guarantee by the *firm* of a loan or other funding transaction from a third party to a connected party of the *firm* and:

- (1) the loan or other funding transaction has the characteristics described in 4.6 or the characteristics described in 4.7; or
  - (2) the rights that the *firm* would have against the connected party have the characteristics described in 4.6(2).
- 4.9 For the purposes of this Chapter and in relation to a *firm*, a connected party means another person (“P”) in respect of whom the *firm* has not been permitted to apply the individual consolidation method under Article 8 of the *CRR* and one of the following applies:
- (1) P is closely related to the *firm*;
  - (2) P is an associate of the *firm*; or
  - (3) the same persons significantly influence the *management body* of P and the *firm*.
- 4.10 For the purposes of 4.9(1), a *firm* and another person are closely related when:
- (1) the insolvency of one of them is likely to be associated with the insolvency or default of the others;
  - (2) it would be prudent when assessing the financial condition or creditworthiness of one to consider that of the other; or
  - (3) there is, or there is likely to be, a close relationship between the financial performance of the *firm* and that person.
- 4.11 For the purposes of 4.9(2), a person is an associate of a *firm* if it is:
- (1) in the same group as the *firm*;
  - (2) an appointed representative (in the sense of section 39 of *FSMA*) or tied agent (as described in Article 4(1)(25) of *MiFID*) of the *firm* or a member of the *firm*’s group; or
  - (3) any other person whose relationship with the *firm* or a member of the *firm*’s group might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties.

## 5 CONNECTED TRANSACTIONS

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- 5.1 In determining whether an item of capital qualifies as a *Common Equity Tier 1 item*, an *Additional Tier 1 item* or a *Tier 2 item* a *firm* must take into account any connected transaction which, when taken together with the item of capital, would cause it not to display the characteristics of a *Common Equity Tier 1 item*, an *Additional Tier 1 item* or a *Tier 2 item*.
- 5.2 A *firm* must report to the *PRA* all connected transactions described in 5.1 at least 30 days in advance of entry into the relevant transaction and identify each relevant transaction with sufficient detail to allow the *PRA* to evaluate it.

## 6 NOTIFICATION REGIME - ISSUANCE

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6.1 A *firm* shall notify the *PRA* in writing of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to issue a capital instrument that it believes will qualify under the *CRR* as an *own funds instrument* at least thirty days before the intended date of issue. This rule does not apply to the capital instruments described in 7.3 below.

6.2 When giving notice under 7.1, the *firm* shall provide:

- (1) details of the amount and type of *own funds* the *firm* is seeking to raise through the intended issue and whether the capital instruments are intended to be issued to external investors or to other members of its *group*;
- (2) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;
- (3) confirmation from a member of the *firm's senior management* responsible for authorising the intended issue or, in the case of an issue by another *group* member, for the issue's inclusion in the *firm's* consolidated *own funds*, that the capital instrument meets the conditions for qualification as an *own funds instrument*; and
- (4) a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the capital instrument meets the conditions for qualification as the relevant type of *own funds instrument*.

6.3 The *firm* does not have to give notice under 7.1 if the capital instrument is:

- (1) an ordinary share with voting rights and no new or unusual features; or
- (2) a debt instrument issued under a debt securities programme under which the *firm* or *group* member has previously issued and the *firm* has notified the *PRA* in accordance with this Chapter prior to a previous issuance under the programme.

6.4 A *firm* shall notify the *PRA* in writing no later than the date of issue of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to issue a capital instrument described in 7.3.

6.5 When giving notice under 7.4, the *firm* shall provide:

- (1) confirmation that the terms of the capital instrument have not changed since the previous issue by the *firm* of that type of capital instrument; and
- (2) the items described in 7.2(1) and (3).

6.6 The *firm* shall notify the *PRA* in writing of any change to the intended date of issue, amount of issue, type of investors, type of *own funds instrument* or any other feature of the capital instrument to that previously notified to the *PRA* under 7.1 or 7.4.

## 7 NOTIFICATION REGIME - AMENDMENT

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7.1 A *firm* shall notify the *PRA* in writing of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to amend or otherwise vary the terms of any *own funds instrument* included in its *own funds* or the *own funds* of its consolidated group at least thirty days before the intended date of such amendment or other variation.

## 8 NOTIFICATION REGIME – REDUCTION OF OWN FUNDS

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8.1 A *firm* shall notify the *PRA* of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to carry out in respect of an *own funds instrument* any of the actions described in Article 77 of the *CRR*.

## 9 BUILDING SOCIETIES – CREDITOR HIERARCHY

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9.1 This Chapter applies to every *firm* that is a *building society*.

9.2 A *firm* must ensure that any *Additional Tier 1 instrument* or *Tier 2 instrument* issued by it is contractually subordinated to its non-deferred shares.

## 10 TRANSITIONAL PROVISIONS FOR OWN FUNDS

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10.1 The *Common Equity Tier 1 capital ratio* which *firms* must under Article 465(1)(a) of the *CRR* meet or exceed for the period from 1 January 2014 until 31 December 2014 shall be 4.0%.

**[Note: Art 465(1)(a) of the CRR]**

10.2 The *Tier 1 capital ratio* which *firms* must under Article 465(1)(b) of the *CRR* meet or exceed for the period from 1 January 2014 until 31 December 2014 shall be 5.5%.

**[Note: Art 465(1)(b) of the CRR]**

10.3 The applicable percentage for the purposes of Article 467(1) of the *CRR* shall be:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 467 of the CRR]**

10.4 The applicable percentage for the purposes of Article 468(1) of the *CRR* shall be:

- (1) 0% during the period from 1 January 2015 to 31 December 2015;
- (2) 0% during the period from 1 January 2016 to 31 December 2016; and
- (3) 0% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 468(1)-(3) of the *CRR*]**

10.5 The applicable percentage for the purposes of Article 468(4) of the *CRR* shall be:

- (1) 100% for the period from 1 January 2014 to 31 December 2014;
- (2) 100% for the period from 1 January 2015 to 31 December 2015;
- (3) 100% for the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 468(4), 478(1) of the *CRR*]**

10.6 The applicable percentage for the purposes of Article 469(1)(a) of the *CRR* as it applies to the items referred to in points (a)-(b) and (d)-(h) of Article 36(1) shall be:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 469(1)(a), 478(1) of the *CRR*]**

10.7 The applicable percentage for the purposes of Article 469(1)(c) of the *CRR* as it applies to the items referred to in point (c) of Article 36(1) that existed prior to 1 January 2014 shall be:

- (1) 100% for the period from 1 January 2014 to 31 December 2014;
- (2) 100% for the period from 1 January 2015 to 31 December 2015;
- (3) 100% for the period from 1 January 2016 to 31 December 2016;
- (4) 100% for the period from 1 January 2017 to 31 December 2017;
- (5) 100% for the period from 1 January 2018 to 31 December 2018;
- (6) 100% for the period from 1 January 2019 to 31 December 2019;
- (7) 100% for the period from 1 January 2020 to 31 December 2020;



- (8) 100% for the period from 1 January 2021 to 31 December 2021;
- (9) 100% for the period from 1 January 2022 to 31 December 2022; and
- (10) 100% for the period from 1 January 2023 to 31 December 2023.

**[Note: Art 469(1)(c), 478(2) of the CRR]**

10.8 The applicable percentage for the purposes of Article 469(1)(c) of the *CRR* as it applies to the items referred to in point (c) of Article 36(1) that did not exist prior to 1 January 2014 and the items referred to in point (i) of Article 36(1) shall be:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 469(1)(c), 478(1) of the CRR]**

10.9 The applicable percentage for the purposes of Article 474(a) of the *CRR* shall be:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 474(a), 478(1) of the CRR]**

10.10 The applicable percentage for the purposes of Article 476(a) of the *CRR* shall be:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 476(a), 478(1) of the CRR]**

10.11 The applicable percentage for the purposes of Article 479(2) of the *CRR* shall be:

- (1) 0% for the period from 1 January 2014 to 31 December 2014;
- (2) 0% for the period from 1 January 2015 to 31 December 2015;
- (3) 0% for the period from 1 January 2016 to 31 December 2016; and

(4) 0% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 479 of the CRR]**

10.12 The applicable factor for the purposes of Article 480(1) of the *CRR* as it applies to point (b) of Article 84(1) shall be:

- (1) 1 in the period from 1 January 2014 to 31 December 2014;
- (2) 1 in the period from 1 January 2015 to 31 December 2015;
- (3) 1 in the period from 1 January 2016 to 31 December 2016; and
- (4) 1 in the period from 1 January 2017 to 31 December 2017.

**[Note: Art 480 of the CRR]**

10.13 The applicable factor for the purposes of Article 480(1) of the *CRR* as it applies to point (b) of Article 85(1) and point (b) of Article 87(1) shall be:

- (1) 0.2 in the period from 1 January 2014 to 31 December 2014;
- (2) 0.4 in the period from 1 January 2015 to 31 December 2015;
- (3) 0.6 in the period from 1 January 2016 to 31 December 2016; and
- (4) 0.8 in the period from 1 January 2017 to 31 December 2017.

**[Note: Art 480 of the CRR]**

10.14 The applicable percentage for the purposes of Article 481(1) of the *CRR* shall be:

- (1) 0% for the period from 1 January 2014 to 31 December 2014;
- (2) 0% for the period from 1 January 2015 to 31 December 2015;
- (3) 0% for the period from 1 January 2016 to 31 December 2016; and
- (4) 0% for the period from 1 January 2017 to 31 December 2017.

**[Note: Art 481 of the CRR]**

10.15 The applicable percentage for the purposes of Article 486(2), (3) and (4) of the *CRR* shall be:

- (1) 80% for the period from 1 January 2014 to 31 December 2014;
- (2) 70% for the period from 1 January 2015 to 31 December 2015;
- (3) 60% for the period from 1 January 2016 to 31 December 2016;
- (4) 50% for the period from 1 January 2017 to 31 December 2017;
- (5) 40% for the period from 1 January 2018 to 31 December 2018;
- (6) 30% for the period from 1 January 2019 to 31 December 2019;

(7) 20% for the period from 1 January 2020 to 31 December 2020; and

(8) 10% for the period from 1 January 2021 to 31 December 2021.

**[Note: Art 486 of the CRR]**

## 11 BASE CAPITAL RESOURCES REQUIREMENT

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11.1 A *CRR firm* must maintain at all times capital resources equal to or in excess of the base capital resources requirement set out in the table below:

<b><i>Firm category</i></b>	<b><i>Amount: Currency equivalent of</i></b>
<i>bank</i>	€5 million
<i>small specialist bank</i>	The higher of €1 million and £1 million
<i>building society</i>	The higher of €1 million and £1 million
<i>designated investment firm</i>	€730,000



Part

## DEFINITION OF CAPITAL

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Externally defined glossary terms

<b>Term</b>	<b>Definition source</b>
<i>Additional Tier 1 instruments</i>	<i>Article 52 CRR</i>
<i>Additional Tier 1 item</i>	<i>Article 51 CRR</i>
<i>Common Equity Tier 1 capital ratio</i>	<i>Article 92(2)(a) CRR</i>
<i>Common Equity Tier 1 instruments</i>	<i>Article 28 CRR</i>
<i>Common Equity Tier 1 item</i>	<i>Article 26(1) CRR</i>
<i>consolidated basis</i>	<i>Article 4 (48) CRR</i>
<i>Credit institution</i>	<i>Article 4(1)(1) CRR</i>
<i>discretionary pension benefits</i>	<i>Article 4 (73)CRR</i>
<i>Financial institution</i>	<i>Article 4(1)(26) CRR</i>
<i>Financial sector entities</i>	<i>Article 4(1)(27) CRR</i>
<i>Group</i>	<i>s421 FSMA</i>
<i>management body</i>	<i>Article 4(1)(9) CRR</i>
<i>Own funds</i>	<i>Article 4(1)(118) CRR</i>
<i>Own funds instruments</i>	<i>Article 4(1)(119) CRR</i>
<i>Senior management</i>	<i>Article 4(1)(10) CRR</i>
<i>sub-consolidated basis</i>	<i>Article 4 (49) CRR</i>
<i>Tier 1 capital ratio</i>	<i>Article 92(2)(b) CRR</i>
<i>Tier 2 instruments</i>	<i>Article 63 CRR</i>
<i>Tier 2 item</i>	<i>Article 62 CRR</i>