Chapter 8

Commission Delegated Regulation (EU) No 527/2014

Article 1 Classes of instruments that adequately reflect the credit quality of an institution as a going concern and are appropriate to be used for the purposes of variable remuneration

(1) The following shall be the classes of instruments that satisfy the conditions laid down in rule 15.15(1)(b) of the Remuneration Part of the PRA rulebook and in rules 19A.3.47(1)(b) and 19D.3.56(1)(b) of the Senior Management Arrangements, Systems and Controls sourcebook:

(a) classes of Additional Tier 1 instruments where those classes fulfil the conditions referred to in paragraph 2 and Article 2, and comply with Article 5(9) and point (c) of Article 5(13);

(b) classes of Tier 2 instruments where those classes fulfil the conditions referred to in paragraph 2 and Article 3, and comply with Article 5;

(c) classes of instruments which can be fully converted to Common Equity Tier 1 instruments or written down and which are neither Additional Tier 1 instruments nor Tier 2 instruments ("Other Instruments") in the cases referred to in Article 4 where those classes fulfil the conditions referred to in paragraph 2 and comply with Article 5.

(2) The classes of instruments referred to in paragraph 1 shall fulfil the following conditions:

(a) instruments shall not be secured or subject to a guarantee that enhances the seniority of the claims of the holder;

(b) where the provisions governing an instrument allow its conversion, that instrument shall only be used for the purposes of awarding variable remuneration where the rate or range of conversion is set at a level that ensures that the value of the instrument into which the instrument initially awarded is converted is not higher than the value of the instrument initially awarded at the time it was awarded as variable remuneration;

(c) the provisions governing convertible instruments which are used for the sole purpose of variable remuneration shall ensure that the value of the instrument into which the instrument initially awarded is converted is not higher than the value, at the time of that conversion, of the instrument initially awarded;

(d) the provisions governing the instrument shall provide that any distributions are paid on at least an annual basis and are paid to the holder of the instrument;

(e) instruments shall be priced at their value at the time the instrument is awarded, in accordance with the applicable accounting standard. The valuation shall take into account the credit quality of the institution and shall be subject to independent review;

(f) the provisions governing the instruments issued for the sole purpose of variable remuneration shall require a valuation to be carried out in accordance with the applicable accounting standard in the event that the instrument is redeemed, called, repurchased or converted.