BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Voluntary Requirement (VREQ) - Capital Buffers and Pillar 2A Model Requirements

Definitions and scope of the requirements

1.1 In these requirements the following definitions shall apply:

combined buffer

means the sum of:

(a) the *capital conservation buffer;*
(b) the *countercyclical capital buffer*;
(c) the *G-SII buffer*; where specified in the *VREQ Schedule;* and
(d) the *systemic risk buffer*, where specified in the *VREQ Schedule.*

firm

means the *PRA* authorised person specified in the *VREQ Schedule*.

G-SII

means the firm if it has been identified by the *PRA* as a global systemically important institution.

G-SII buffer

means the amount of *common equity tier 1 capital* the firm must calculate in accordance with 3.1.

G-SII buffer rate

means the rate specified in the *VREQ Schedule,* if any, to be applied in determining *the G-SII buffer.*

MDA

means the maximum distributable amount calculated in accordance with 6.2(4).

Pillar 1

means the *own funds* requirement under Article 92(1)(c) of the *CRR*.

Pillar 2*A*

means *own funds* in the amount specified in the *VREQ Schedule.*

Pillar 2*A requirement*

means the requirements in 2.1 and 2.2.

RFB sub-consolidated basis

means on the sub-consolidated basis of the *RFB* in accordance with the requirements imposed on the *firm* under Article 11(5) of the *CRR.*

RFB

means the *firm* if it is a ring fenced body within the meaning of Section 142A *FSMA.*

sub-consolidated basis

means the sub-consolidated basis referred to in Article 4(1) (49) *CRR*

systemic risk buffer

means the amount of *common equity tier 1 capital* the *firm* must calculate in accordance with 4.1.

systemic risk buffer rate

means the rate specified in the *VREQ Schedule* to be applied in determining the *systemic risk buffer.*

VREQ Schedule

means the schedule to be read alongside, and specifying certain aspects of, these model requirements.

1.2 Except as defined in 1.1, any italicised expression used in these requirements has the same meaning as in the Capital Buffers Part of the PRA Rulebook as at the date of these requirements.

Pillar 2A requirements

2.1 The *firm* must at all times hold *Pillar 2A* in excess of its *Pillar 1*.

2.2 The *firm* must meet the requirements in 2.1 with:

(a) at least 56% *common equity tier 1 capital*;

(b) no more than 44% *additional tier 1 capital;* and

(c) no more than 25% *tier 2 capital*.

Global systemically important institution capital buffer

3.1 If the *firm* is a *G-SII, it* must calculate a *G-SII buffer* of *common equity tier 1 capital* equal to its *total risk exposure amount* multiplied by the *G-SII buffer rate.*

Systemic Risk Buffer

4.1 If the *firm* is an *RFB, it* must calculate a *systemic risk buffer* of *common equity tier 1 capital* equal to its *total risk exposure amount* multiplied by the *systemic risk buffer rate.*

Combined buffer

5.1 For the purposes of 6.1 to 6.4, w the *firm* does not meet the *combined buffer* if the *common equity tier 1 capital* maintained by the *firm* which is not used to meet *Pillar 1* and the *Pillar 2A requirement* does not meet the *combined buffer*.

Restrictions on distributions

6.1 A *firm* that meets the *combined buffer* must not make a *distribution in connection with common equity tier 1 capital* to an extent that would decrease its *common equity tier 1 capital* to a level where the *combined buffer* is no longer met.

6.2 (1) If the *firm* does not meet the *combined buffer* it must:

(a) calculate the *MDA* in accordance with 6.2(4); and

(b) report the *MDA* to the *PRA* in writing no later than 5 working days after the *firm* identified that it did not meet the *combined buffer*.

(2) A *firm* that does not meet the *combined buffer* must not undertake any of the following actions before it has calculated the *MDA*:

(a) make a *distribution in connection with common equity tier 1 capital*;

(b) create an obligation to pay variable remuneration or *discretionary pension benefits* or pay variable remuneration or *discretionary pension benefits* if the obligation to pay was created at a time when the *firm* did not meet the *combined buffer*; or

(c) make payments on *additional tier 1 instruments.*

(3) If the *firm* does not meet the *combined buffer*, it must not distribute more than the *MDA* calculated in accordance with 6.2(4) through any action referred to in points (a) to (c) of 6.2(2).

(4) The *firm* must calculate the *MDA* by multiplying the sum calculated in accordance with 6.2(5) by the factor determined in accordance with 6.2(6). The *MDA* shall be reduced by any of the actions referred to in point (a), (b) or (c) of 6.2(2).

(5) The sum to be multiplied in accordance with 6.2(4) shall consist of:

(a) interim profits not included in *common equity tier 1 capital* pursuant to Article 26(2) of the *CRR* that have been generated since the most recent decision on the distribution of profits or any of the actions referred to in points (a), (b) or (c) of 6.2 (2)

plus

(b) year-end profits not included in *common equity tier 1 capital* pursuant to Article 26(2) of the *CRR* that have been generated since the most recent decision on the distribution of profits or any of the actions referred to in points (a), (b) or (c) of 6.2(2)

minus

(c) amounts which would be payable by tax if the items specified in points (a) and (b) were to be retained.

(6) The factor referred to in 6.2(4) shall be determined as follows:

(a) if the *common equity tier 1 capital* maintained by the *firm* which is not used to meet *Pillar 1* and the *Pillar 2A requirement* is within the first (that is, the lowest) quartile of the *combined buffer*, the factor shall be 0;

(b) if the *common equity tier 1 capital* maintained by the *firm* which is not used to meet *Pillar 1* and the *Pillar 2A requirement* is within the second quartile of the *combined buffer*, the factor shall be 0.2;

(c) if the *common equity tier 1 capital* maintained by the *firm* which is not used to meet *Pillar 1* and the *Pillar 2A requirement* is within the third quartile of the *combined buffer*, the factor shall be 0.4; and

(d) if the *common equity tier 1 capital* maintained by the *firm* which is not used to meet *Pillar 1* and the *Pillar 2A requirement* is within the fourth (that is, the highest) quartile of the *combined buffer*, the factor shall be 0.6.

(7) The *firm* must calculate the lower and upper bounds of each quartile of the *combined buffer* as follows:

Lower bound of quartile

$$= \frac{\textit{Combined buffer}}{4} \times (Q_n - 1)$$

Upper bound of quartile

$$= \frac{\textit{Combined buffer}}{4} \times Q_n$$

"Qn" indicates the ordinal number of the quartile concerned***.***

(8) The restrictions imposed by these requirements only apply to payments that result in a reduction of *common equity tier 1 capital* or in a reduction of profits, and where a suspension of payment or failure to pay does not constitute an event of default or a condition for the commencement of proceedings for an order for the appointment of a liquidator or administrator of the *firm*.

(9) If the *firm* does not meet the *combined buffer* and intends to distribute any of its distributable profits or undertake an action referred to in points (a),(b) and (c) of 6.2(2) it must give the *PRA* notice of its intention at least one month before the intended date of distribution or action unless there are exceptional circumstances which make it impracticable to give such a period of notice in which event the *firm* must give as much notice as is practicable in those circumstances. When giving notice the *firm* must provide the following information:

(a) the amount of *own funds* maintained by the *firm*, subdivided as follows:

(i) *common equity tier 1 capital*;

(ii) *additional tier 1 capital*; and

(iii) *tier 2 capital*,

(b) the amount of its interim and year-end profits;

(c) the *MDA* calculated in accordance with 6.2(4); and

(d) the amount of distributable profits it intends to allocate between the following:

(i) dividend payments;

(ii) share buybacks;

(iii) payments on *additional tier 1 instruments*; and

(iv) the payment of variable remuneration or *discretionary pension benefits*, whether by creation of a new obligation to pay, or payment pursuant to an obligation to pay created at a time when the *firm* did not meet its *combined buffer*.

(10) The *firm* must maintain arrangements to ensure that the amount of distributable profits and the *MDA* are calculated accurately and must be able to demonstrate that accuracy to the *PRA* on request.

Capital conservation plan

6.3 When a *firm* does not meet the *combined buffer*, it must prepare a capital conservation plan and submit it to the *PRA* no later than 5 working days after the *firm* identified that it did not meet the *combined buffer*.

6.4 The capital conservation plan must include the following:

(1) the *MDA*;

(2) estimates of income and expenditure and a forecast balance sheet;

(3) measures to increase the capital ratios of the *firm*; and

(4) a plan and timeframe for the increase of *own funds* with the objective of meeting the *combined buffer*.

Basis of application

7.1 These requirements apply as follows:

Individual basis

(1) They apply to the *firm* on an *individual* basis except for 3.1 and 4.1[1].

Consolidated basis

(2) If the *firm* is a *parent institution in a Member State* it must comply with these requirements except for 4.1[2] on the basis of its *consolidated situation*.

(3) If the *firm* is controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* it must comply with these requirements except for 4.1[3] on the basis of the *consolidated situation* of that holding company.

Sub-consolidated basis

(4) The *RFB* must apply these requirements, except for 3.1[4], on an *RFB sub-consolidated* basis.

(5) If the *firm* is a *subsidiary* it must apply these requirements except for 3.1 and 4.1 on a *sub-consolidated basis* if the *firm*, or the *parent undertaking* where it is a *financial holding company* or *mixed financial holding company,* has an *institution* or *financial institution* as a *subsidiary* in a *third country* or holds a *participation* in such an *institution* or *financial institution*.

Effective Date

8.1 These requirements will take effect from the date specified in the PRA's written notice to the *firm* regarding the imposition of the requirements.

January 2018

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[1] For the purposes of calculating its *combined buffer* on an *individual basis* the *firm* should not include the *G-SII buffer* or the *systemic risk buffer.*

[2] For the purposes of calculating its *combined buffer* on a *consolidated basis* the *firm* to which the consolidated requirement applies should not include the *systemic risk buffer*.

[3] For the purposes of calculating its *combined buffer* on an *individual basis* the *firm* should not include the *G-SII buffer* or the *systemic risk buffer.*

[4] For the purposes of calculating its *combined buffer* on a sub-consolidated basis the *firm* should not include the *G-SII buffer*.