

## Qualifying Parent Undertakings Capital Buffers and Pillar 2A Model Direction

### Definitions

1.1 In these requirements the following definitions shall apply:

*Capital Buffers Regulations*

means the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894)

*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 *Direction*; and
- (d) the *O-SII buffer*, where specified in the *Direction*.

*Direction*

means the written notice imposing requirements on the *qualifying parent undertaking* pursuant to section 192C and 192D of the Financial Services and Markets Act 2000.

*G-SII*

means a *person* or group identified by the PRA in accordance with Part 4 of the *Capital Buffers Regulations*

*G-SII buffer*

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

*G-SII buffer rate*

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

*MDA*

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

*O-SII*

means a *person* or group identified by the PRA in accordance with Part 5 of the *Capital Buffers Regulations*.

*O-SII buffer*

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

*O-SII buffer rate*

means the rate specified in the *Direction*, if any, to be applied in determining the O-SII buffer.

*Pillar 1 requirements*

means the capital requirements under paragraphs (a), (b) and (c) of Article 92(1) of the *CRR*.

*Pillar 2A*

means *own funds* in the amount specified in the *Direction*.

*Pillar 2A requirement*

means the requirements in 2.1 and 2.2.

*qualifying parent undertaking*

means the qualifying parent undertaking (as defined in section 192B of the Financial Services and Markets Act 2000) specified in the *Direction*.

*relevant O-SII*

has the meaning given in regulation 34 of the *Capital Buffers Regulations*.

*RFB sub-consolidated basis*

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

*sub-consolidated basis*

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

- 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 *qualifying parent undertaking* must at all times hold *Pillar 2A* in excess of its *Pillar 1 requirements*.
- 2.2 The *qualifying parent undertaking* must meet the requirements in 2.1 with:
- (a) at least 56.25% *common equity tier 1 capital*;
  - (b) no more than 43.75% *additional tier 1 capital*; and
  - (c) no more than 25% *tier 2 capital*.

### **Global systemically important institution capital buffer**

- 3.1 If the *qualifying parent undertaking* is a *G-SII*, or is part of a group that 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*.

### **Other systemically important institution capital buffer**

- 4.1 If the *qualifying parent undertaking* is a *relevant O-SII*, it must calculate an *O-SII buffer of common equity tier 1 capital* equal to its *total risk exposure amount* multiplied by the *O-SII buffer rate*.

### **Combined buffer**

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

### **Restrictions on distributions**

- 6.1 (1) If the *qualifying parent undertaking* 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 *qualifying parent undertaking* identified that it did not meet the *combined buffer*.
- (2) A *qualifying parent undertaking* 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 *qualifying parent undertaking* did not meet the *combined buffer*; or
  - (c) make payments on *additional tier 1 instruments*.
- (3) If the *qualifying parent undertaking* 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 *qualifying parent undertaking* 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 amount resulting from 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 be the sum of the profits earned in each of the past four calendar quarters less, in each case:
- (a) any distributions of profits or payments resulting from the actions referred to in points (a), (b) or (c) of (2), or
  - (b) amounts which would be payable by tax if the undistributed profits of the past four calendar quarters 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 *qualifying parent undertaking* which is not used to meet any of its *Pillar 1 requirements* 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 *qualifying parent undertaking* which is not used to meet any of its *Pillar 1 requirements* 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 *qualifying parent undertaking* which is not used to meet any of its *Pillar 1 requirements* 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 *qualifying parent undertaking* which is not used to meet any of its *Pillar 1 requirements* 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 *qualifying parent undertaking* must calculate the lower and upper bounds of each quartile of the *combined buffer* as follows:

Lower bound of quartile

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

Upper bound of quartile

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

"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 *qualifying parent undertaking*.
- (9) If the *qualifying parent undertaking* 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 *qualifying parent undertaking* must give as much notice as is practicable in those circumstances. When giving notice the *qualifying parent undertaking* must provide the following information:
- (a) the amount of *own funds* maintained by the *qualifying parent undertaking*, 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 *qualifying parent undertaking* did not meet its *combined buffer*.
- (10) The *qualifying parent undertaking* 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

- 6.2 When a *qualifying parent undertaking* 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 *qualifying parent undertaking* identified that it did not meet the *combined buffer*.
- 6.3 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 *qualifying parent undertaking*; 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:

### *Consolidated basis*

(1) The *qualifying parent undertaking* must comply with these requirements except for 4.1<sup>1</sup> on the basis of its *consolidated situation*, unless otherwise stated in the *Direction*.

### *Sub-consolidated basis*

(2) If the *qualifying parent undertaking* is a *relevant O-SII*, it must apply these requirements, except for 3.1<sup>2</sup>, on an *RFB sub-consolidated basis*, unless otherwise stated in the *Direction*.

## Effective Date

- 8.1 These requirements will take effect from the date specified in the *Direction*.

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<sup>1</sup> For the purposes of calculating its *combined buffer* on a *consolidated basis* the *qualifying parent undertaking* to which the consolidated requirement applies should not include the *O-SII buffer*, unless otherwise stated in the *Direction*.

<sup>2</sup> For the purposes of calculating its *combined buffer* on a sub-consolidated basis the *qualifying parent undertaking* should not include the *G-SII buffer*.