

Own funds

## Chapter 3

Own funds

## 3.4 Additional Tier 1 capital

- 3.4.1** **R** (1) A *firm* must determine its *additional tier 1 capital* in accordance with Chapter 3 of Title I of Part Two of the *UK CRR*, as modified by the rules in this section.
- (2) Any reference to the *UK CRR* in this section is to the *UK CRR* as applied by (1) and modified by the *rules* in this section.

- 3.4.1A** **G** ■ MIFIDPRU 3 Annex 7R contains supplementary provisions relating to the calculation of a *firm's additional tier 1 capital* and to write-down and conversion requirements for *additional tier 1 instruments*.

### Trigger events and write-down or conversion

- 3.4.2** **R** The following provisions of the *UK CRR* do not apply in relation to the *additional tier 1 capital* of a *MIFIDPRU investment firm*:
- (1) article 54(1)(a); and
- (2) article 54(4)(a).
- 3.4.3** **R** (1) A *firm* must specify in the terms of an *additional tier 1 instrument* one or more trigger events for the purposes of article 52(1)(n) of the *UK CRR*.
- (2) The trigger events specified under (1) must include a trigger event that occurs where the *common equity tier 1 capital* of the *firm* falls below a level specified by the *firm* that is no lower than 64% of the *firm's own funds requirement*.
- (3) Article 54 of the *UK CRR* applies as if references to the trigger event in article 54(1)(a) of the *UK CRR* are references to the trigger event in (1).
- (4) The full principal amount of an *additional tier 1 instrument* must be written down or converted when a trigger event occurs.
- 3.4.4** **G** ■ MIFIDPRU 3.4.3R requires that the principal amount of an *additional tier 1 instrument* will convert into *common equity tier 1 capital* or will be written down if the *firm's common equity tier capital* falls below a specified level. This level must be set at no lower than 64% of the *firm's own funds requirement*. The *firm* may set the relevant trigger at a higher level (such as

70% of its *own funds requirement*) if it wishes. The *firm* may also specify additional trigger events alongside the required trigger event in ■ MIFIDPRU 3.4.3R(1).

### Holdings of additional tier 1 instruments of financial sector entities

3.4.5

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- (1) This *rule* applies to a *firm's* holdings of capital instruments that are not held in its *trading book*.
- (2) A firm must deduct its direct, indirect and synthetic holdings in *additional tier 1 instruments of financial sector entities* under article 56(c) of the *UK CRR* without applying article 60 of the *UK CRR* (deduction of holdings of additional tier 1 instruments where an institution does not have a significant investment in a financial sector entity).
- (3) The requirement in article 56(c) of the *UK CRR* does not apply where ■ MIFIDPRU 3.4.7R applies.

3.4.6

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The following provisions do not apply to *additional tier 1 instruments* held in the trading book of a firm:

- (1) article 56(c) of the *UK CRR*; and
- (2) article 60 of the *UK CRR*.

### Holdings of additional tier 1 instruments issued by a financial sector entity within an investment firm group

3.4.7

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A *firm* is not required to deduct holdings of *additional tier 1 instruments* issued by a *financial sector entity* from the *firm's* additional tier 1 items in accordance with article 56 of the *UK CRR* if all of the following conditions are met:

- (1) the *financial sector entity* forms part of the same *investment firm group* as the *firm*;
- (2) there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the *financial sector entity*;
- (3) the risk evaluation, measurement and control procedures of the *parent undertaking* include the *financial sector entity*; and
- (4) the *group capital test* under ■ MIFIDPRU 2.5 does not apply to the *investment firm group*.