

Chapter 3

Own funds



3.5 Tier 2 capital

- 3.5.1
- R
- (1) A *firm* must determine its *tier 2 capital* in accordance with Chapter 4 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.

- 3.5.1A
- G
- MIFIDPRU 3 Annex 7R contains additional provisions relating to the calculation of a *firm's tier 2 capital*.

Holdings of tier 2 instruments of financial sector entities

- 3.5.2
- R
- (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 the *tier 2 instruments* of *financial sector entities* under article 66(c) of the *UK CRR* without applying article 70 of the *UK CRR* (deduction of tier 2 instruments where an institution does not have a significant investment in the relevant entity).

(3) The requirement in article 66(c) of the *UK CRR* does not apply where ■ MIFIDPRU 3.5.4R applies.

- 3.5.3
- R
- The following provisions do not apply to *tier 2 instruments* held in the *trading book* of the *firm*:

(1) article 66(c) of the *UK CRR*; and

(2) article 70 of the *UK CRR*.

Holdings of tier 2 instruments issued by a financial sector entity within an investment firm group

- 3.5.4
- R
- A *firm* is not required to deduct holdings of *tier 2 instruments* issued by a *financial sector entity* from the *firm's tier 2 items* in accordance with article 66 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 2.6 does not apply to the investment firm group.