

## Chapter 3

### Own funds

## 3.7 Composition of capital for parent undertakings subject to the group capital test

- 3.7.1** **R** This section applies to a *parent undertaking* in accordance with ■ MIFIDPRU 3.1.2R.
- 3.7.2** **R** A *parent undertaking* must, at all times, have *own funds instruments* that satisfy the following conditions:
- (1) the *parent undertaking's common equity tier 1 capital* must be at least equal to:
    - (a) the sum of the book value of the *parent undertaking's* holdings of the *common equity tier 1 capital* of the *relevant financial undertakings* under ■ MIFIDPRU 2.6.5R; plus
    - (b) the total amount of all the *parent undertaking's* contingent liabilities in favour of the *relevant financial undertakings* under ■ MIFIDPRU 2.6.5R;
  - (2) the sum of *common equity tier 1 capital* and *additional tier 1 capital* of the *parent undertaking* must be at least equal to the sum of:
    - (a) the amounts in (1)(a) and (1)(b); plus
    - (b) the sum of the book value of the *parent undertaking's holdings* in the *additional tier 1 capital* of the *relevant financial undertakings* under ■ MIFIDPRU 2.6.5R; and
  - (3) the sum of the *parent undertaking's own funds instruments* must be at least equal to the total requirement under ■ MIFIDPRU 2.6.5R.
- 3.7.3** **G** As explained in ■ MIFIDPRU 2.6.6G, the *group capital test* effectively applies to each intermediate parent undertaking, as well as to the ultimate *parent undertaking* of the *investment firm group*.
- 3.7.4** **R** (1) Subject to (2), a *parent undertaking* must comply with:
- (a) ■ MIFIDPRU 3.3.2R to ■ MIFIDPRU 3.3.4G when issuing *own funds instruments* which are intended to qualify as *common equity tier 1 capital*;
  - (b) ■ MIFIDPRU 3.6.5R when issuing *own funds instruments* which are intended to qualify as *additional tier 1 instruments* or *tier 2 instruments*.

- (12) Where the *Handbook* provisions in (1)(a) and (b) apply, they apply as if a reference to:
- (a) a "*firm*" is a reference to the *parent undertaking*;
  - (b) "*capital instruments*" is a reference to capital instruments issued by the *parent undertaking*;
  - (c) "*additional tier 1 instruments*" and "*tier 2 instruments*" is a reference to these instruments issued by the *parent undertaking*; and
  - (d) "*common equity tier 1 capital*" is a reference to this type of capital as held by the *parent undertaking*.

## 3.7.5

**R**

- (1) This *rule* applies where a *responsible UK parent* applies the approach in ■ MIFIDPRU 2.6.7R(2)(a) in relation to an *undertaking* established in a *third country*.
- (2) Where this *rule* applies, a *responsible UK parent* must comply with ■ MIFIDPRU 3.7.4R in relation to any issuance of own funds instruments by the *undertaking* established in a *third country*.