TIER ONE CAPITAL FOR BANKS (AMENDMENT) INSTRUMENT 2003

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the power in section 157(1) (Guidance) of the Financial Services and Markets Act 2000.

Commencement

B. This instrument comes into force on 1 January 2004.

Amendments to the Interim Prudential sourcebook for banks

C. IPRU(BANK) is amended in accordance with the Annex to this instrument.

Citation

D. This instrument may be cited as the Tier One Capital for Banks (Amendment) Instrument 2003.

By Order of the Board
18 December 2003

ANNEX

Amendment to IPRU(BANK)

In this Annex, text in square brackets indicates text already made[1] but coming into force on 1 January 2004. Chapter CA: section 5 is now modified as indicated by inserting the text underlined below.

Volume 1

...

CA: Section 5

…

5 TIER 1 CAPITAL

…

5.1 [Core and Innovative Tier 1] capital

...

[4]

…

(a) the bank should be able to eliminate the [interest or] dividend on the shares;

a) [Where a tier 1 instrument includes a step-up in interest or dividends, it is regarded as 'innovative' provided no step-up occurs before the tenth anniversary of the date of issue. If the step-up occurs before the tenth anniversary of the date of issue, then the instrument is not eligible for Tier 1 capital.] <u>A one-off step-up in dividend from the tenth anniversary of issue associated with a call is permissible as long as the whole dividend can be waived. The dividend step up should be no greater than either (i) 100bp, less the swap spread between the initial index basis and the stepped up index basis or (ii) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.</u> A bank wishing to include such an option should consult its line supervisor ahead of issue.

…

[1] The text was made through the Tier One Capital for Banks Instrument 2003.