



Definition of Capital

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- Disclosure requirements
- Transitional provisions

2. EBA Regulatory Technical Standards and Q&A's

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II. CRR Definition of Capital – Legenda (1/2)

- CRR Definition of Capital:
 - Own Funds
 - Part two, Title I,II,III, Art 25 – 91
 - Disclosure
 - Part eight, Title II, Art 437
 - Transitional Provisions
 - Part ten, Title I, chapter 1-3, Art 465 – 495

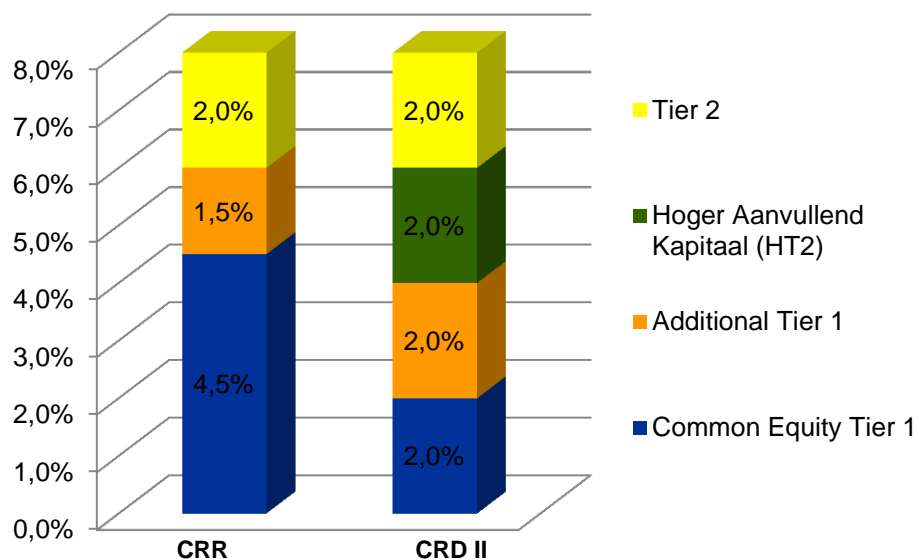
II. CRR Definition of Capital – Legenda (2/2)

Definitions:

CET 1	=	article 50 CRR
Additional T1	=	article 61 CRR
T1	=	article 25 CRR
T2	=	article 71 CRR
Own funds	=	article 72 CRR
Eligible capital	=	article 4(71) CRR
Initial capital*	=	article 12 CRD

* Relevant for Investment Firms

III. CRR Definition of Capital – A brief summary



CET 1 Art 26 - 50	=	Core capital, reserves, etc Art 91.2 a to g Bpr
Additional Tier 1 Art 51 - 61	=	a.o. Hybrids Art 91.2 h & 91a Bpr
/ / / / / / / / / /	≠	Upper Tier 2 Art 92.2 Bpr
Tier 2 Art 62 - 71	=	Lower Tier 2 Art 92.3 Bpr
/ / / / / / / / / /	≠	Other capital Art 93 Bpr

IV. CRR Definition of Capital – Structure

For each Tier (CET1, AT1, T2) there are:

- **+ Positive elements:**
 - Elements recognized in relevant Tier: items and instruments
- **- Negative elements:**
 - Deductions defined for the Tier
 - Amount of items required to be deducted from a 'lower' Tier that exceed the available capital
- **+/- Prudential filters:**
 - Lead to an exclusion from elements of own funds (either positive or negative)

V. CRR Definition of Capital – Positive elements (1/4)

	Going concern	Gone concern	5.125% trigger	Payments
CET1: CET1 instruments + reserves	y	y		
AT1: Perpetual and deeply subordinated instruments. 1st call \geq 5th birthday.		y	y	Full flexibility
T2: Capital instruments & sub. loans. Maturity and 1st call \geq 5th birthday		y		

Going concern capital absorbs losses in going concern without outside intervention: i.e. losses are charged against retained profits.

Gone concern instruments: fully written down to stay viable, or before State support. (Not in CRR yet.)

AT1 instruments shall be written down or converted into CET1 when CET1 ratio falls below 5.125% or a higher level specified in the provisions

Refer to Recital 45: In line with the decision of the BCBS, as endorsed by the GHOS on 10 January 2011, all additional Tier 1 and Tier 2 instruments of an institution should be capable of being fully and permanently written down or converted fully into Common Equity Tier 1 capital at the point of non-viability of the institution. Necessary legislation to ensure that own funds instruments are subject to the additional loss absorption mechanism should be incorporated into Union law as part of the requirements in relation to the recovery and resolution of institutions. If by 31 December 2015, Union law ... has not been adopted, the Commission should review and report on whether such a provision should be included in this Regulation ...

V. CRR Definition of Capital – Positive elements (2/4)

CET 1

- Art 26: Items are: capital instruments as per Art 28/29 + related share premium + retained earnings* + accumulated OCI + other reserves + funds for general banking risk.
 - * includes verified interim and year-end profits when permitted by competent authority
- Art 28: Conditions for capital instruments issued by joint stock companies: ordinary shares normally (but not always) comply.
- Art 29: Capital instruments issued by mutuals, cooperative societies, savings institutions and similar institutions (modifications to Art 28 conditions):
 - Conditions for redemptions.
 - Coupon conditions (cap or other restriction).
 - Limitations in rights to the reserves.

V. CRR Definition of Capital – Positive elements (3/4)

Additional Tier 1

- Art 51: Items are the capital instruments + related share premium.
- Art 52: Some conditions for AT1 instruments:
 - (g): perpetual and no incentive to redeem
 - (h) and (i): issuer call option only, provided the requirements in Art 77/78 are met and not before five years after the date of issuance, except where the conditions laid down in Art. 78(4) are met.
 - (j): no explicit or implicit indication of a call, redemption or repurchase
 - (l): full flexibility of payments (distributions).
 - (n): write down or conversion to CET1 upon trigger event (ref. Art 54).
 - (o): no feature that could hinder the recapitalisation.
 - (p): conditions for indirect issuance
- Art 53: No dividend pushers, stoppers or ACSM.

V. CRR Definition of Capital – Positive elements (4/4)

Tier 2

- Art 62: Items are: capital instruments and subordinated loans + related share premium + general CRA for SA exposures (up to 1,25% of RWA) + ‘excess’ for IRB exposures (up to 0,6% of RWA)
- Art 63: Some conditions for Tier 2 instruments
 - (g): original maturity of at least 5 years.
 - (h): no incentive to redeem.
 - (i) and (j): issuer call option only, provided the requirements in Art 77/78 are met and not before five years after the date of issuance except or raising, except where the conditions laid down in Art. 78(4) are met.
 - (k): no explicit or implicit indication of a call, redemption or repurchase
- Art 64: Amortisation of Tier 2 instruments, final five years of maturity.

VI. CRR Definition of Capital – Negative elements

Deductions (CRR Article)	CET1 (36.1)	AT1 (56)	Tier 2 (66)
Losses for the current year	a		
Intangible assets	b		
Deferred Tax assets that rely on future profitability *	c		
Shortfall over expected losses (IRB only, Art 158/159)	d		
Defined Benefit Pension Fund assets	e		
Holdings of own capital instruments	f	a	a
Reciprocal cross holdings in financial sector entities	g	b	b
Non significant holdings in financial sector entities **	h	c	c
Significant holdings in financial sector entities *	i	d	d
Deductions as an alternative to 1250% risk weighting (for certain items)	k		
Foreseeable tax charges	l	f	
Excess of deductions from AT1	j		
Excess of deductions from Tier 2		e	
* Thresholds apply for deduction of DTAs arising from temporary differences and significant holdings in FSE (Art 48). If not deducted: 250% RW.			
** Calculation is specified in Art 46. If not deducted: RW (Part three, Title II, Chapter 2 or 3).			

VII. CRR Definition of Capital – Prudential filters

Prudential filters (Art 32 - 35):

- Art 32: Exclude certain increases in equity resulting from securitisations.
- Art 33: Cash Flow Hedge reserve and gains or losses on liabilities (including derivatives) resulting from own credit standing/risk.
- Art 34: Additional value adjustments (prudent valuation, Art 105).
- Art 35: no exclusion of unrealised gains or losses (except for Art 33).

- So: no more filters on AFS assets, Investment property, PP&E.
 - But technical advice to Commission on treatment of unrealised gains (Art 80)

VIII. CRR Definition of Capital – Reducing own funds

- Art 77: Conditions for reducing own funds
 - Prior permission to:
 - (a) reduce, redeem or repurchase CET1 instruments
 - (b) call, redeem or repurchase AT1 or T2 instruments prior to maturity
- Art 78: Conditions for granting Supervisory permission
 - 1 (a): Replace with equal or higher quality instruments
 - 1 (b): Demonstrate that own funds exceed the requirement in Art 92(1) and Art 128 CRD by a margin competent authorities consider necessary (based on Art 104(3) CRD).

IX. CRR Definition of Capital – Disclosure requirements

Own funds disclosure (Part eight, Title II, Art 437):

- 1(a): full reconciliation of CET1, AT, T2 and filters and deductions to own funds and the balance sheet (audited financial statements)
 - 1(b): description of main features of instruments
 - 1(c): full terms and conditions
 - 1(d): separate disclosure of nature and amounts of filters, deductions and items not deducted in accordance with certain articles
 - 1(e): description of all restrictions
 - 1(f): other capital ratios? Explain!
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- EBA ITS on Disclosure for Own Funds by institutions.

X. CRR Definition of Capital – Transitional provisions

Transitioning (Part ten, Title I, chapter 1-3, Art 465 – 495):

- Own funds requirements
- Unrealised gains & losses
- Deductions

- Grandfathering of Capital instruments:
 - State aid and non state aid
 - Limits and cascading
 - Inclusion in AT1/T2 of instruments with a call and incentive to redeem (effective maturity prior to or after 1 January 2013!)

- ‘Open boek toezicht’ Consultation (Aug. 2012) and other Q&A (IAS 19R)

Source: http://www.toezicht.dnb.nl/binaries/Vaststelling%20transitieregelingen%20kapitaal%20consultatie_tcm50-226470.pdf

XI. EBA Regulatory Technical Standards and Q&As (1/2)

- Operational objectives Commission:
 - Enhance three core features of going-concern capital instruments: loss absorption capacity, flexibility of payments and Permanence (Table 1, RTS Part I).
- Status overview RTS (1 September 2013):

RTS on Own Funds	Status
Part I	Published, submitted to Commission 26 July
Part II	Published, submitted to Commission 26 July
Part III	Consultation period ended 18 July
Part IV	Will be consulted in 2013
Gain on sale (securitisations)	Published, submitted to Commission 26 July

Source: <http://www.eba.europa.eu/regulation-and-policy/own-funds/draft-regulatory-technical-standards-on-own-funds>

XI. EBA Regulatory Technical Standards and Q&As (2/2)

- Status overview Q&As (1 September 2013):
 - Final (8)
 - Under review (35)
 - Rejected (3)

Source: <http://www.eba.europa.eu/single-rule-book-qa/-/qna/search/topic/12#search>

XII. Monitoring the quality of Own Funds

Role EBA:

- Monitor quality of own funds
- Notify Commission when significant evidence instruments not meet criteria Art 28 or 29* (Art 80)
- Publish and maintain a list of (non-State aid) CET1 instruments
- Request competent authorities to explain why instruments comply with Art 28 or 29
- Decide to remove non-State aid instruments from the list and publicly announce that (Art 26)

* The notification a.o. consists of a technical advice on the action by the Commission that EBA considers necessary

Role Competent Authority:

- Evaluate issuances of CET1, inclusion only after permission is granted (Art 26)
- Ability to maintain pre-approval on AT1 and T2 (Recital 75)
- Forward all information that EBA deems relevant concerning new issuances of capital instruments, for EBA to monitor quality (Art 80)
- Prior permission for reducing own funds (Art 77, 78)
- Single Supervisory Mechanism?

Questions?

- Thank you for your attention!

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