BANK OF ENGLAND

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

News release

29 November 2013

The Prudential Regulation Authority sets out key decisions on capital standards

The Prudential Regulation Authority (PRA) is announcing key decisions on capital standards ahead of the introduction of a new European capital regime next year. These decisions will enhance the stability of the financial sector and strengthen the capital regime in the UK.

Alongside this, the PRA has set out its capital and leverage expectations for the major UK banks and building societies (1) that were included in the 2013 capital exercise, from 2014 onwards.

Capital standards

In August, the PRA published a consultation paper (2) which set out proposals dealing with the implementation of the new European capital regime - the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR). Although the PRA has not finalised all aspects of the rules, it is setting out a number of key decisions in order to give firms clarity on the key policy issues that affect the minimum level of Common Equity Tier 1 (CET1) capital which firms need to maintain.

Specifically, the PRA has confirmed the minimum Pillar 1 capital requirements for firms and the dates from which they apply. The PRA will require firms to meet a 4% Pillar 1 CET1 requirement in 2014, rising to 4.5% from 1 January 2015. Similarly, during the same period the required Pillar 1 Tier 1 capital ratio will be 5.5%, rising to 6% from 1 January 2015 onwards. Total Pillar 1 capital remains at 8%.

The PRA has confirmed that, in line with its consultation proposals, it will introduce the final definition of CET1 as quickly as possible. Firms will accordingly be required to make all necessary deductions to bring CET1 in line with the end-point definition (3) from 1 January 2014 (4).

The PRA has decided that firms should meet all Pillar 2A risks (5), including pension risk, with at least 56% CET1 capital from 1 January 2015 onwards. This matches the proportion of CET1 capital required for Pillar 1. In its consultation the PRA asked for views on whether Pillar 2A should be met in full with CET1 capital from 1 January 2016. In light of consultation responses, the PRA has decided that it will not require firms to meet Pillar 2A in full with CET1.

Supervisory statement on capital and leverage ratios

The PRA has decided to change the existing capital regime for the major UK banks and building societies to bring it into line with the capital and leverage requirements set out following the capital review undertaken earlier this year. These standards were published in June 2013 (6).

From 1 January 2014, the PRA will no longer monitor the capital position of major UK banks and building societies using the 4/6/8 capital framework (7) which was introduced in 2008 and used the definition of capital developed at that time by the Financial Services Authority.

The PRA will expect the major UK banks and building societies to meet a 7% CET1 capital ratio and a 3% Tier 1 leverage ratio – after taking into account adjustments to risk-weighted assets (RWAs) and CET1 capital deemed necessary by the PRA – from 1 January 2014.

These firms will be expected to maintain a 3% Tier 1 leverage ratio under the definition set out in the CRR. This standard will be reviewed in 2014 once Basel and CRR leverage ratio definitions are finalised.

The adjustments to CET1 capital and RWAs will generally continue at the same level, after any double counting has been removed, as those communicated on 20 June until the firms meet the 7% and 3% targets.

Notes to Editors

1. Barclays, HSBC, Santander UK, Lloyds Banking Group, Royal Bank of Scotland, Co-operative Bank, Nationwide and Standard Chartered.
2. http://www.bankofengland.co.uk/publications/Pages/news/2013/097.aspx
3. That is, the definition of end-point CET1 that applies at the end of the transition period.
4. The main exception is the capital standards applied at individual firm (solo) level where the deduction of significant investments in financial sector entities included in the same regulatory consolidation will be phased in from 1 January 2014 to 1 January 2019.
5. Pillar 2A is intended to ensure that firms have adequate capital to support all the relevant risks in their business not captured or not fully captured by the CRR. Under the current regime Pillar 2A can be met with any regulatory capital.
6. http://www.bankofengland.co.uk/publications/Pages/news/2013/081.aspx
7. http://www.fsa.gov.uk/library/communication/statements/2009/bank_capital_.shtml

Statement on CP5/13 - Strengthening capital standards: Implementing CRD IV
Capital and leverage ratios for major UK banks and building societies - SS3/13