

**Bank of England PRA**

# Appendices to CP6/26: Adjustment Examples

**Consultation paper | CP6/26**

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# Adjustment Examples

The boxes below set out stylised examples of how firms lending above 15% may be expected to adjust following the aggregate becoming inconsistent with the 15% limit.

## Example 1

In this example the aggregate measure has gradually become inconsistent with the FPC's limit and so the regulators set expectations for relevant firms to reduce by the percentage point difference their individual flow measure exceeds 15% by one sixth in each successive quarter.

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11
Individual high LTI flow (%)	16.0	17.0	17.5	17.5	17.5	17.1	16.8	16.5	16.3	16.1	16.5

A) The Q3 aggregate measure is published midway through Q4 and is judged to have become inconsistent with the FPC's limit. The regulators set out that firms with a flow of greater than 15% should reduce the percentage point difference their individual flow measure exceeds 15% by one sixth in each successive quarter, with the first measure based on Q6 completions.

For the example firm, the most recent measure of its high LTI flow is 17.5%. The percentage point difference its individual flow measure exceeds 15% by is 2.5%. This difference, reduced by one sixth, is 2.1%. Therefore, the firm should take steps to reduce its future flow to no more than 17.1% in Q6.

Month XXXX

For the next quarter, the difference is reduced by one sixth again, to 1.8%. The firm should take steps to reduce its future flow to no more than 16.8% in Q7. The reduction should be applied successively in each quarter, such that the firm should reduce its future flow to no more than 16.5% in Q8, 16.3% in Q9, and so on until further notice.

B) The Q6 aggregate measure is published midway through Q7 and remains above 15%. The example firm is seen to have reduced its high LTI flow to within expectations.

C) The Q8 aggregate measure is published midway through Q9. The regulators confirm that the aggregate measure has fallen such that it is no longer considered inconsistent with the FPC's limit. The regulators set out that they are withdrawing the expectations on firms to reduce their future flows. The example firm may take steps to increase its future flows, in line with its own risk appetite. In Q10, the high LTI flow continues to decrease for the firm as it is unable to influence this lending so soon after the expectations were withdrawn.

D) The Q11 aggregate measure shows that the firm has, following the withdrawal of expectations in Q9, increased its flow.

### Example 2

In this example the aggregate measure has rapidly and sharply become inconsistent with the FPC's flow limit, so the regulators set expectations for relevant firms to reduce the percentage point difference their individual flow measure exceeds 15% by one third in successive quarters.

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
Individual high LTI flow (%)	22.5	22.5	22.5	22.5	22.5	20.0	18.3	17.2	17.7

A) The Q3 aggregate measure is published midway through Q4 and is judged to have become inconsistent with the FPC's limit. The regulators set out that firms with a flow greater than 15% should reduce the percentage point difference their individual flow measure exceeds 15% by one third in each successive quarter, with the first measured based on Q6 completions.

For the example firm, its most recent flow measure is 22.5%. The percentage point difference its individual flow measure exceeds 15% by is 7.5%. This difference, reduced by one third, is 5.0%. Therefore, the firm should take steps to reduce its future flow to no more than 20.0% in Q6.

For the next quarter, the difference is reduced by one third again, to 3.3%. The firm should take steps to reduce its future flow to no more than 18.3% in Q7. Applied successively, the firm should limit its future flow to 17.2% in Q8, 16.5% in Q9 and so on until further notice.

B) The Q6 aggregate measure is published midway through Q7. The regulators confirm that the aggregate measure has fallen such that it is no longer considered inconsistent with the FPC's limit. The regulators set out that they are withdrawing the expectations on firms to reduce their future flows. The example firm may take steps to increase its future flows, in line with its own risk appetite.

C) The Q9 aggregate measure shows that the firm has, following the withdrawal of expectations in Q7, increased its flow.