



BANK OF ENGLAND
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Dear Sirs,

Enhanced Capital Notes and stress testing

Your letter of 17 April asked for clarification of my open letter of 17 March. I am publishing your letter and this response to ensure that interested parties have the same information available to them.

The first passage you cite from my letter was part of a response to a question about the treatment of the ECN's in the 2014 stress test. It was not intended as a comment on how the ECN's might have been treated in different circumstances. As noted in that letter, LBG was projected to remain above the 4.5% CET1 ratio threshold in the 2014 stress test.

The second passage you cite dealt with the hypothetical situation of a stress test in which the firm was projected to cross the 4.5% CET1 ratio threshold.

The setting of that threshold for presumed action was a supervisory judgement in the design of the 2014 stress test. That judgement was reached against the wider regulatory background. This included the binding requirement, introduced by the Capital Requirements Regulation¹, that banks should at all times meet a CET1 ratio of 4% from 1 January 2014 and 4.5% from 1 January 2015.

The PRA's actual response if a firm were projected to cross that threshold in a stress test would depend on a supervisory judgement that would be taken by reference to the relevant circumstances of that firm at that time. The point at which an instrument issued by the firm would convert to CET1 capital, including in particular whether this would be before or after it crossed that threshold, would be a relevant factor in determining the PRA's response.

Yours sincerely,

Andrew Bailey

¹ See in particular Articles 11, 92(1)(a), 465(1)(a) and 521(2) of Regulation 575/2013/EU. CRR is supplemented in the UK by certain discretions exercised by the PRA, including through the Definition of Capital Part of the PRA Rulebook.