



5 July 2016

Dear Finance Director,

PRA statement on adjustments to firms' PRA buffers

The FPC has today stated its intention to set the UK countercyclical capital buffer rate for the UK (UK CCyB rate) at 0% and for this to take effect immediately. This follows the FPC announcement of 29 March 2016 to increase the UK CCyB rate to 0.5%.¹ The FPC has also recommended to the PRA that it reduce PRA buffers, as far as possible and as soon as practicable, by an amount of capital that is equivalent to the effect of a 0.5% UK CCyB rate. The PRA Board has confirmed its intention to make adjustments to PRA buffers today to give effect to this recommendation.

Further to the PRA statement issued today², from the date of this letter, your notified PRA buffer is adjusted in accordance with the following calculations. You should advise the PRA by 15 July 2016 of the new PRA buffer rate in force from the date of this letter.

- Your new PRA buffer (excluding any risk management and governance scalar) is your current notified PRA buffer (excluding any risk management and governance scalar) minus (0.5% multiplied by your “pass-through rate”), subject to a floor of 0.625% of RWAs. The floor ensures that firms do not use the capital that they will need to hold as a result of the increase in the capital conservation buffer from 0.625% to 1.25% from 1 January 2017.
- “Pass-through rate” is defined as the division of your own funds requirements for relevant UK credit exposures by your own funds requirements for all relevant credit exposures (as reported in COREP template C 09.03 as of March 2016).
- No changes are made to any risk management and governance scalars which are added to the amounts set out above. These will continue to be added to the buffers at their new levels.
- The PRA is not adjusting PRA buffers of firms whose current PRA buffer (excluding any risk management and governance scalar) is smaller than 0.625%.
- All firms are expected to hold the PRA buffer entirely in CET1 capital from 1 January 2019. This statement does not alter the transitional arrangements set out in the Supervisory Statement with regard to the quality of capital held in order to meet the PRA buffer.³

¹ <http://www.bankofengland.co.uk/publications/Documents/news/2016/032.pdf>

² A copy of the statement is contained in the annex to this letter and can be found at <http://www.bankofengland.co.uk/prareports/publications/reports/prastatement0716.pdf>

³ <http://www.bankofengland.co.uk/prareports/publications/ss/2015/ss3115update.pdf>



The PRA buffer does not form part of the CRDIV combined buffer. The phasing-in of elements of the CRDIV combined buffer, specifically the capital conservation buffer and systemic buffers, will not be affected by this adjustment.

Use of the PRA buffer

In accordance with Supervisory Statement SS5/13, if your firm needs or expects that it will need to use the PRA buffer, you should promptly notify us of this fact in writing. Your firm's notification should state as a minimum:

- what adverse external circumstances are likely to force the firm to draw down its PRA buffer;
- how the PRA buffer will be used up in line with the firm's capital planning projections; and
- what action plan is in place for the eventual restoration of the PRA buffer, within a realistic time period.

Where we are not satisfied with the explanation offered by you as to why you need to use your PRA buffer, even on a temporary basis, we may require immediate remedial action. We will keep this guidance under review from time to time and communicate any updates to you.

Joint Decision

Any resulting change in your PRA buffer is, where relevant, subject to the Joint Risk Assessment and Decision (JRAD) process.

Please speak to your supervisory contact if you wish to discuss the contents of this letter.

Yours sincerely,

PRA Supervisor



PRA statement on adjustments to firms' PRA buffers

1. This Prudential Regulation Authority (PRA) statement sets out the PRA's approach to adjustments to firms' PRA buffers in response to the FPC's Recommendation to the PRA that,

Where existing PRA supervisory buffers of PRA-regulated firms reflect risks that would be captured by a UK countercyclical capital buffer rate, it reduce those buffers, as far as possible and as soon as practicable, by an amount of capital which is equivalent to the effect of a UK countercyclical capital buffer rate of 0.5%.

2. The FPC has set out its view of the outlook for UK financial stability in the Financial Stability Report today, including its decision to reduce the UK countercyclical capital buffer rate to 0% at this time. This action reinforces the FPC's view that all elements of the substantial capital and liquidity buffers that have been built up by banks are able to be drawn on as necessary to allow them to cushion shocks and maintain the provision of financial services to the real economy, including the supply of credit and support for market functioning.
3. The PRA agrees to implement the Recommendation made by the FPC. As the PRA explained in March 2016¹ when the FPC set the UK countercyclical capital buffer rate above zero for the first time, the "PRA Board's intention is that, where the existing PRA supervisory buffers already reflect risks captured by a 0.5% UK countercyclical capital buffer (CCyB) rate, the effect of the first 0.5% of the UK CCyB rate will be reduced as far as possible when it comes into effect [in March 2017]." The PRA considers that the rationale for this adjustment still applies and intends to make this transitional adjustment as soon as practicable to give effect to the FPC Recommendation.
4. Therefore the PRA Board's intention is to reduce PRA supervisory buffers to the extent that they reflect such risks and to do so as soon as practicable. Firms' PRA buffer will be reduced by an amount equivalent to the capital each firm would need to meet the effect of a UK countercyclical capital buffer rate of 0.5%, as far as possible. The phasing-in of elements of the CRDIV combined buffer, specifically the capital conservation buffer and systemic buffers, will not be affected by this adjustment.
5. The PRA does not expect firms to increase dividends and other distributions due to this policy action. The reduction of the countercyclical buffer is intended to support the use of capital as necessary to allow firms to continue to support the real economy, through credit supply and market functioning.

¹ <http://www.bankofengland.co.uk/pradocuments/publications/reports/prastatement0316.pdf>



6. Firms will today be notified of the resulting reduction to their PRA buffer, which will take effect as soon as practicable. For cross-border banking groups the notification may be subject to the Joint Risk Assessment and Decision (JRAD) process.

5 July 2016