PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO INSTRUMENT 2015

Powers exercised
A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
   (1) section 137G (The PRA’s general rules); and
   (2) section 137T (General supplementary powers).
B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making
C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms: Leverage Ratio Instrument 2015
D. The PRA makes the rules in the Annex to this instrument.

Commencement
E. This instrument comes into force on 1 January 2016.

Citation
F. This instrument may be cited as the PRA Rulebook: CRR Firms: Leverage Ratio Instrument 2015.

By order of the Board of the Prudential Regulation Authority
26 November 2015
Annex

In this Annex, the text is all new and is not underlined.

Part

LEVERAGE RATIO

Chapter content

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1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every firm that is a UK bank or a building society that, on the firm’s last accounting reference date, had retail deposits equal to or greater than £50 billion either on:

(1) an individual basis;

(2) if the firm is a parent institution in a Member State, on the basis of its consolidated situation; or

(3) if the firm is controlled by a parent financial holding company in a Member State or by a parent mixed financial holding company in a Member State and the PRA is responsible for supervision of that holding company on a consolidated basis under Article 111 of the CRD, on the basis of the consolidated situation of that holding company.

1.2 In this Part, the following definitions shall apply:

capital plan

means the plan described in Chapter 6.

countercyclical capital buffer rate

means the countercyclical buffer rate, as defined in Capital Buffers 1.2.

countercyclical leverage ratio buffer

means the amount of common equity tier 1 capital a firm must calculate in accordance with 4.1 and 4.2.

deposit


FPC


leverage ratio

means a firm’s tier 1 capital divided by its total exposure measure, with this ratio expressed as a percentage.

retail deposit

tier 1 capital

has the meaning given by Article 25 of the CRR except that:

(1) an additional tier 1 capital instrument can only be counted as tier 1 capital if it either:
   (a) converts into common equity tier 1 capital; or
   (b) writes down,

   when the common equity tier 1 capital ratio of the firm falls below a level equal to either:
   (a) 7%; or
   (b) a level higher than 7%,

   as specified in the provisions governing the instrument; and

(2) instruments that qualify for grandfathering under Article 483 of the CRR can be counted as tier 1 capital.

total exposure measure

has the meaning given by Article 429(4) of the CRR, as amended by the Commission Delegated Regulation (EU) 2015/62.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the CRR has the same meaning as in the CRR.

2 BASIS OF APPLICATION

2.1 A firm that is not a member of a consolidation group in relation to which 2.2 or 2.3 applies must comply with this Part on an individual basis.

2.2 A firm that is a parent institution in a Member State must comply with this Part on the basis of its consolidated situation.

2.3 A firm that is controlled by a parent financial holding company in a Member State or a parent mixed financial holding company in a Member State for which the PRA is responsible for supervision on a consolidated basis under Article 111 of the CRD must comply with this Part on the basis of the consolidated situation of that holding company.
3 MINIMUM LEVERAGE RATIO

3.1 A firm must hold sufficient tier 1 capital to maintain, at all times, a minimum leverage ratio of 3%.

3.2 For the purposes of complying with 3.1, at least 75% of the firm’s tier 1 capital must consist of common equity tier 1 capital.

4 COUNTERCYCLICAL LEVERAGE RATIO BUFFER

4.1 A firm must calculate a countercyclical leverage ratio buffer of common equity tier 1 capital equal to:

(1) the firm’s countercyclical capital buffer rate multiplied by 35% with the product expressed as a percentage rounded to the nearest tenth of a percentage; multiplied by

(2) the firm’s total exposure measure.

4.2 A firm must not count common equity tier 1 capital that is maintained for the purposes of 3.1 towards the calculation in 4.1.

5 NOTIFICATION

5.1 A firm must notify the PRA immediately if, at any time, it does not hold, or is likely not to hold, an amount and quality of capital that is:

(1) necessary to comply with 3.1; and

(2) equal to or greater than its countercyclical leverage ratio buffer.

6 CAPITAL PLAN

6.1 When a firm is required to make a notification to the PRA under rule 5.1(2), it must prepare a capital plan and submit it to the PRA no later than 5 business days after the firm identified that the notification was necessary.

6.2 The capital plan must include the following:

(1) measures to secure that the amount of the firm’s common equity tier 1 capital is equal to or greater than the firm’s countercyclical leverage ratio buffer; and

(2) a plan and timeframe for the measures outlined for the purposes of rule 6.2(1).
Part

LEVERAGE RATIO

Externally defined glossary terms

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