

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

1. APPLICATION AND DEFINITIONS
2. BASIS OF APPLICATION
3. MINIMUM LEVERAGE RATIO
4. COUNTERCYCLICAL LEVERAGE RATIO BUFFER
5. NOTIFICATION
6. CAPITAL PLAN

Links

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

has the meaning given in 30, Part 1, Annex V (Reporting on financial information) for the purposes of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.

FPC

means the Financial Policy Committee of the Bank of England.

leverage ratio

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

retail deposit

means *deposits* from “households” as defined in 35(f), Part 1, Annex V (Reporting on financial information) for the purposes of the European Banking Authority’s Implementing Technical Standards amending the Commission’s Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.

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

Term	Definition source
<i>additional tier 1 capital</i>	Article 61 CRR
<i>common equity tier 1 capital</i>	Article 50 CRR
<i>common equity tier 1 capital ratio</i>	Article 92(2)(a) CRR
<i>consolidated basis</i>	Article 4(1)(48) CRR
<i>consolidated situation</i>	Article 4(1)(47) CRR
<i>EEA State</i>	s425 FSMA
<i>parent institution in a Member State</i>	Article 4(1)(28) CRR
<i>parent mixed financial holding company in a Member State</i>	Article 4(1)(32) CRR