



## 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 2016<sup>1</sup> 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.

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<sup>1</sup> <http://www.bankofengland.co.uk/pr/Documents/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