FINANCIAL CONDUCT AUTHORITY

Policy Statement

PS25/14

Definition of capital for FCA investment firms

15 October 2025

This relates to

Consultation Paper CP25/10 which is available on our website at www.fca.org.uk/publications

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Chapter 1

Summary

1.1 This Policy Statement (PS) sets out our final rules to simplify and consolidate the definition of regulatory capital, also known as 'own funds', for FCA investment firms under MIFIDPRU 3.

1.2 Following consultation (CP25/10: Definition of capital for FCA investment firms), we are removing all cross-references to the UK Capital Requirements Regulation (UK CRR) from MIFIDPRU 3 and establishing a standalone framework for regulatory capital tailored specifically to investment firms.

1.3 The new rules do not change the overall levels of regulatory capital firms must hold or require firms to alter their capital structures. Instead, they

- Clarify what qualifies as own funds.
- Reduce unnecessary complexity.
- Remove provisions designed for banks that are not relevant to investment firms.

1.4 The new rules will come into effect on 1 April 2026.

Who this affects

1.5 These changes affect all entities subject to MIFIDPRU, including:

- MIFIDPRU investment firms.
- UK parent entities that are required to comply with MIFIDPRU 3 on the basis of their consolidated situation.
- Parent undertakings subject to the Group Capital Test.

1.6 For groups containing both FCA investment firms and PRA-regulated entities, the final rules apply to the FCA investment firm on a solo basis. The existing approach to applying requirements at group level remains unchanged.

The wider context of this policy statement

Our consultation

1.7 The rules in this PS are part of our wider programme to simplify and modernise our prudential framework for investment firms. They deliver on commitments made in PS21/6: Implementation of Investment Firms Prudential Regime to keep the Investment Firms Prudential Regime (IFPR) under review and identify simplification opportunities.

1.8 We want to reduce unnecessary complexity, remove reliance on banking-specific provisions in the UK CRR, and make sure our rules are proportionate to the business models and risks of the firms we regulate. By creating a self-contained own funds definition within MIFIDPRU, we are moving further towards a standalone prudential regime that is fully embedded in our Handbook.

1.9 This work aligns with the Government's broader regulatory reform agenda. This includes the Leeds Reforms and the commitment in the UK Chancellor's Mansion House speech to streamline regulation and support growth. Establishing a simpler own funds definition, shows that we can achieve simplification while maintaining prudential standards. We recognise that capital quality is a core building block for financial resilience.

1.10 These changes are the first phase of our vision to create an integrated prudential sourcebook. They consolidate requirements currently spread across multiple sources into a single, coherent framework.

How the new rules link to our objectives

Strategic objective

1.11 Our final rules support our strategic objective of making sure relevant markets function well. We maintain market confidence by preserving capital quality standards while enhancing transparency. We have also addressed the fragmentation of rules across our Handbook, UK CRR, and associated technical standards.

1.12 By consolidating our definition of capital into a single, accessible framework within MIFIDPRU, we improve market functioning through greater clarity and reduced risk of misinterpretation. Our clarifications, particularly on qualifying holdings, partnership profits, and consolidation treatment, further enhance market certainty and consistent application.

Operational objectives

1.13 These rules primarily advance our operational objective of protecting the integrity of the UK financial system, while also supporting our consumer protection and competition objectives.

Market integrity

1.14 Our rules support the soundness, stability and resilience of the financial system by making sure firms maintain adequate financial resources that are genuinely capable of absorbing losses. The clarified approach to deductions and eligibility criteria ensures that only capital that can absorb losses in stress counts toward regulatory requirements.

1.15 The amendments we have made following consultation, such as avoiding double-counting in qualifying holdings and clarifying the treatment of external investors' capital in participations, strengthen this objective. Clearer, more targeted rules support improved supervisory outcomes by making sure capital reported by firms accurately reflects their true loss-absorbing capacity.

Competition

1.16 Our approach removes unnecessary complexity and makes requirements more accessible, particularly benefiting smaller firms with limited compliance resources. This reduces barriers to entry and enables firms to focus on serving clients rather than navigating fragmented rules. The clarifications on partnership profits and seed investments ensure that different business models are not inadvertently disadvantaged. This supports diverse and effective competition in the investment firm sector.

Protecting consumers

1.17 Robust capital quality requirements and clearer loss absorption mechanisms help ensure firms have appropriate resources to withstand losses. This supports service continuity for consumers and reduces the risk of disorderly failure that could harm consumer interests. The simplified framework reduces the risk of firms inadvertently miscalculating their capital, providing additional protection.

Secondary international competitiveness and growth objective

1.18 By reducing complexity and regulatory burden without compromising standards, we are encouraging an environment in which firms can grow, raise investment, and deploy capital efficiently. Over time, this should strengthen the UK's reputation for maintaining high-quality, proportionate regulation that supports both resilience and growth.

Response to the consultation

1.19 We received 11 responses to CP25/10 from a range of stakeholders, including asset managers, trade associations, smaller firms, and compliance consultancies.

1.20 Most respondents supported our simplification objectives, agreeing that consolidation into MIFIDPRU will improve accessibility and reduce unnecessary complexity without lowering prudential standards.

1.21 While the overall response was positive, respondents identified some technical issues. We address these in Chapter 2.

What we are changing

1.22 Our final rules consolidate the own funds definition within MIFIDPRU 3. This creates a single, comprehensive chapter that firms can rely on without cross-referencing the UK CRR and associated technical standards. Key changes include:

1.23 Structural improvements

- All capital definitions in one place within MIFIDPRU.
- Simplified language tailored to investment firms.
- Removal of provisions designed for banks with no relevance to investment firms.

- Clearer structure distinguishing between Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 capital.

1.24 Process improvements

- Move from permission-based to notification-based approach for interim profits.
- Enhanced disclosure requirements for non-standard capital structures.

1.25 We are implementing the rules largely as consulted with targeted amendments to address specific technical issues. We are also providing further non-Handbook guidance on areas where respondents sought clarity.

Measuring success

1.26 In our consultation, we indicated that we would monitor a combination of key indicators to help assess whether our proposals achieved their intended outcomes.

1.27 We confirm that these indicators will remain as set out in CP25/10. We do not plan to collect any additional data for these changes. Instead, we will continue to rely on existing sources such as MIFIDPRU returns, supervisory reviews, and sector analysis reports.

Equality and diversity considerations

1.28 We have considered the equality and diversity issues that may arise from the new rules.

1.29 Overall, we do not consider that these rules materially impact any of the groups with protected characteristics under the Equality Act 2010.

Environmental, social and governance considerations

1.30 We have considered the environmental, social and governance (ESG) implications of these rules, including our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008.

1.31 The changes are technical in nature, focus on consolidating and clarifying existing capital definitions rather than introducing new policy requirements. So we do not consider them to have material ESG implications or to be relevant to climate-related targets.

1.32 We received no consultation feedback identifying any ESG implications of our proposals. This supports our assessment that these technical amendments are ESG-neutral.

What you need to do next

1.33 We do not expect firms to change their capital arrangements because these reforms maintain existing capital standards and eligibility criteria. However, firms may need to consider the clarifications provided and update internal documents with new rule references.

What we will do next

1.34 This completes our work on creating a standalone definition of capital for FCA investment firms, removing cross-references to the UK CRR. Our consolidated approach could serve as a template for our longer-term vision of an integrated prudential sourcebook (COREPRU). This would contain the core prudential standards applicable to all FCA solo-regulated firms, while specific requirements for different firm types would continue to be set out in dedicated prudential sourcebooks. We recently consulted on how this own funds framework could form part of COREPRU in CP25/15: A prudential regime for cryptoasset firms. These changes are part of our programme to streamline and make our prudential framework more accessible.

1.35 As a next step, our Market Risk Review will examine whether the amounts of capital that certain specialised trading firms must hold against market risk remain appropriate and proportionate. This review is part of our broader commitment to ensure our prudential framework supports the competitiveness and growth of the UK investment firm sector while maintaining appropriate standards.

Chapter 2

Consultation feedback

2.1 We received 11 responses. We are grateful for respondents' detailed and constructive feedback.

2.2 Respondents broadly supported our objectives of simplifying and consolidating the existing rules for regulatory capital, removing cross-references to the UK Capital Requirements Regulation (CRR), and improving clarity for firms. Many noted that the current requirement to navigate between MIFIDPRU, UK CRR, and various technical standards creates unnecessary complexity and compliance costs.

2.3 While the overall response was positive, several respondents raised a few important technical concerns. Respondents also sought clarity on some historic areas of uncertainty.

2.4 In this chapter, we summarise our key proposals, then address each consultation question, setting out the feedback and our response. Given the technical nature of the changes being made, we do not consider these changes to be significant so as to warrant revisions to our cost benefit analysis or compatibility statement.

Key proposals

2.5 In CP25/10, we proposed a standalone definition of capital within MIFIDPRU, removing the need for firms to cross-reference multiple sources when determining their regulatory capital. This forms part of our broader commitment to simplify the prudential framework for investment firms following the implementation of the Investment Firm Prudential Regime (IFPR).

2.6 Our proposals aimed to consolidate the definition of capital (or own funds) into MIFIDPRU 3. This would create a single, comprehensive chapter that firms could rely on without referring to the UK CRR or its associated technical standards. We proposed to maintain the existing 3-tier capital structure of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1), and Tier 2 capital, but with clearer presentation and language tailored to investment firms rather than banks.

2.7 A key element of our simplification was removing provisions that are not relevant to investment firms. The UK CRR was designed primarily for banks and includes requirements that address banking-specific risks or structures that investment firms do not encounter. By removing these, we aimed to create a more focused and accessible framework.

2.8 To reduce administrative burden, we proposed moving from a permission-based to a notification-based approach for including interim profits in CET1 capital. This would allow firms to include verified interim profits immediately on notification, rather than waiting for regulatory approval, while maintaining appropriate safeguards through verification requirements.

2.9 Throughout our proposals, we emphasised that these changes are intended to simplify and clarify rather than alter substantive prudential standards. The quality and loss-absorbing capacity of regulatory capital would remain unchanged, ensuring continued financial resilience while reducing compliance complexity.

Integrated prudential sourcebook

2.10 In CP25/10, we set out our longer-term vision to create an integrated prudential sourcebook that would consolidate a common set of core prudential standards currently spread across multiple sourcebooks. This vision responds to consistent feedback from industry that navigating our current fragmented prudential framework creates unnecessary complexity and compliance costs, particularly for firms subject to different requirements across our Handbook.

2.11 We explained that consolidating common prudential standards, such as the definition of regulatory capital, into a single, coherent framework would enable firms to find core requirements in one place, with consistent definitions and terminology throughout. The definition of capital represents a natural starting point for this work, as what constitutes eligible regulatory capital is a fundamental concept relevant across different firm types.

2.12 We asked:

Question 1: **Regarding our vision for an integrated prudential sourcebook, what practical considerations should we take into account when developing it?**

Feedback and responses

2.13 We received 7 responses to this question, all supportive of our vision. Respondents recognised the significant benefits of consolidation, particularly in reducing the time and cost of navigating different requirements with varying structures and terminology.

2.14 Respondents emphasised the importance of clear, accessible language and consistent terminology throughout any integrated sourcebook. One recommended that core prudential themes such as capital adequacy, liquidity management, and wind-down planning should be expressed consistently. They argued this would aid understanding and reduce the risk of misinterpretation while allowing for proportionate application.

2.15 A recurring theme was the current inconsistency in how identical terms are defined across different parts of our Handbook. Multiple respondents highlighted that basic concepts like 'liquid assets' have materially different definitions in different chapters, creating confusion and compliance risk. They recommended that changes to definitions should be carefully tested to make sure they work coherently across different firm types.

2.16 Several respondents urged us to maintain flexibility for diverse business models within any integrated framework. One made a particularly helpful distinction between 'sectoral guidance' and 'sectoral rules'. They argued that complex business models are better addressed through tailored guidance than prescriptive requirements.

2.17 Another respondent suggested that proportionality could be enhanced by explicitly considering firms' contribution to UK growth when setting requirements, though they acknowledged this raised broader policy questions.

2.18 Respondents offered practical suggestions on implementation priorities. One specifically requested that we focus initial efforts on modernising older parts of our Handbook that remain in less accessible formats, which they described as particularly difficult to understand and navigate. Others suggested starting with areas where definitional conflicts cause the most practical problems.

Our response

We welcome this constructive feedback on our vision for an integrated prudential sourcebook. The strong support reinforces our view that creating an integrated prudential sourcebook should be a priority, and the practical suggestions will help shape our approach.

We agree that consistency of definitions and terminology across regimes should help to reduce complexity and compliance costs for firms operating under multiple frameworks.

We will take forward these practical considerations. This will include harmonising definitions where possible across different prudential regimes. Where differences reflect genuine prudential needs, we will make sure these are clearly explained.

The distinction between sectoral guidance and sectoral rules is valuable. We will consider how to structure any integrated sourcebook to maintain clear core requirements while providing flexibility for different business models. This approach should achieve clarity without sacrificing the flexibility needed for diverse firm types.

We note the suggestion on capital thresholds for firms supporting UK growth. This falls outside the scope of this consultation. But we will consider it as part of our ongoing work to support the competitiveness and growth of the UK financial sector.

Own funds consolidation

2.19 We proposed to consolidate the definition and composition of own funds directly into MIFIDPRU 3, creating a single, standalone definition of regulatory capital specifically tailored for FCA investment firms. This would remove the need for firms to cross-reference the UK CRR and associated technical standards.

Question 2: Do you agree with our proposed approach to consolidating our definition and composition of own funds directly into MIFIDPRU 3? Please provide specific examples of how this might improve (or create challenges for) your understanding and implementation of the requirements.

Feedback and responses

2.20 All 6 respondents who addressed this question supported the consolidation. The feedback highlighted both immediate benefits and practical implementation considerations.

2.21 Respondents were unanimous that consolidation would reduce the complexity of navigating multiple sources and create a useful simplification. One respondent noted that their compliance teams currently maintain complex flowcharts to track the various cross-references between MIFIDPRU and UK CRR. This would be unnecessary under the consolidated framework. Another observed that while direct cost savings might be modest, the reduced complexity would enable more consistent application across the sector, as clearer rules leave less room for varying interpretations between firms.

2.22 One respondent cautioned against overselling the benefits, noting that the substantive requirements remain fundamentally unchanged for most firms. They characterised this as addressing change fatigue following recent IFPR implementation. They suggested we should be clear that this is primarily about improving accessibility rather than reducing regulatory burden.

2.23 A practical issue was raised about firms subject to both MIFIDPRU and other prudential regimes. One respondent highlighted the challenge for collective portfolio management investment firms that continue to experience conflicting own funds definitions under MIFIDPRU and Alternative Investment Fund Managers Directive (AIFMD) frameworks. They suggested either aligning the relevant AIFMD provisions with the proposed MIFIDPRU changes or updating references to point to the new MIFIDPRU sections.

Our response

We welcome the unanimous support for consolidating the own funds definition into MIFIDPRU 3.

We agree that this is primarily to improve clarity and accessibility rather than change substantive requirements. The own funds consolidation will not reduce firms' capital requirements or alter the fundamental characteristics of eligible capital. However, clearer rules have real value. They will reduce compliance costs over time through more efficient implementation and reduced risk of misinterpretation.

The cross-regime issue where firms are subject to both MIFIDPRU and AIFMD requirements highlights the importance of our broader vision for an integrated prudential sourcebook. Amendments to the AIFMD framework fall outside this consultation's scope. But we recognise the burden created by conflicting definitions and intend to consider this in policy work on fund managers.

Transition challenges

2.24 Our consultation also included specific proposals affecting all tiers of capital. This includes removing bank-specific provisions, simplifying complex deductions, and adding guidance on fundamental concepts like the 'fully paid-up' criterion for capital instruments.

2.25 We asked:

Question 3: **Do you foresee any practical challenges in transitioning to our proposed standalone framework? If so, please explain what these are and how they could be addressed.**

Feedback and responses

2.26 Most respondents did not foresee significant practical challenges, recognising that the proposals represent simplification rather than substantive change. They welcomed the changes as it makes the Handbook easier to navigate and reduces ongoing compliance complexity.

2.27 Some respondents supported the transition to a standalone framework but noted practical challenges. In particular, on implementation timelines, updates to internal systems and policies, and the need for adequate training and guidance to support firms through the change.

2.28 Some respondents characterised the implementation burden as contributing to change fatigue following the recent IFPR implementation, though they still supported the proposed changes. One respondent observed that even after these proposed changes, the prudential regime remains complex for smaller firms with simpler capital structures.

Our response

We acknowledge and have considered the implementation burden identified by respondents. We recognise that firms may need to update their internal documentation and systems. But the nature of these changes, which are primarily consolidation and clarification rather than substantive changes to requirements, should make implementation straightforward for most firms.

We recognise the point about change fatigue. While we cannot eliminate implementation burden entirely, we are confident the long-term benefits of a clearer, consolidated and more accessible framework for the definition of capital justify the one-off transition effort. Firms should find ongoing compliance simpler and less costly once the new framework is embedded.

In CP25/10, our Cost Benefit Analysis (CBA) shows the long-term cost savings from reduced complexity and clearer rules outweigh the one-off implementation costs.

On smaller firms, we acknowledge that structural simplification alone cannot address all proportionality concerns. This consultation focuses on making existing requirements clearer and more accessible. Broader questions about the proportionality of capital requirements for different business models remain part of our ongoing policy considerations.

Technical clarification on fully paid-up instruments

2.29 One respondent raised specific questions about our proposed guidance on fully paid-up capital instruments. They sought clarification on 2 common group treasury scenarios where:

- A parent subscribes for shares in a subsidiary which subsequently makes a loan back to the parent.
- Subscription payments and other mutual obligations between parent and subsidiary are settled on a net basis.

Our response

Our approach focuses on economic substance over legal form. The key principle remains that capital must be irrevocably received by the firm and fully under its control.

We confirm that once shares are validly issued and paid for, their fully paid-up status is established and is not affected by subsequent arm's length transactions between group entities. Standard group treasury operations, including intercompany lending arrangements, do not impair this status. The original capital contribution remains valid regardless of how the group subsequently deploys its resources.

For net settlement of mutual obligations, we confirm this is acceptable provided the economic substance is that full value has been received so that at the point of settlement the instrument does not expose the firm to continuing credit risk from the investor. Net settlement is a common operational efficiency that reduces settlement risk without affecting the validity of the capital contribution.

However, we expect a firm to consider any intercompany lending arrangements when assessing group risk under MIFIDPRU 7.9.

Disclosure requirements

2.30 We proposed enhanced disclosure requirements in MIFIDPRU 8 Annex 1R for firms with non-standard capital structures, particularly where non-CET1 instruments rank equally with CET1 instruments. These enhanced disclosure requirements would improve transparency around complex ranking arrangements that might not be immediately apparent from standard disclosures.

2.31 We asked:

Question 4: **Are the enhanced disclosure requirements we propose for MIFIDPRU 8 Annex 1R clear and workable? If not, what clarifications would be helpful?**

Feedback and responses

2.32 Respondents generally found the requirements clear and appropriate. One welcomed our clarification that CET1 instruments remain valid even where firms have issued other instruments ranking equally for loss absorption. However, several practical questions emerged about the level of detail required.

2.33 The primary concern was how much detail firms must provide when identifying equal-ranking instruments. Respondents asked whether they must provide full technical descriptions of each instrument or whether general categories would suffice. They also sought guidance on the appropriate level of detail for explaining loss absorption mechanics and how losses would be shared between equally ranked instruments.

2.34 Multiple respondents requested examples of appropriate disclosure to ensure consistent application across the firm population. They noted that without examples, different firms might interpret the requirements differently, potentially creating an uneven playing field or confusion for users of the disclosures.

2.35 One respondent questioned whether the enhanced disclosure requirements were proportionate for all firms. They suggested that for firms with straightforward capital structures, the additional disclosure requirements might provide limited value beyond existing disclosures while adding to the compliance burden. They asked us to consider whether the requirements could be limited to firms with genuinely complex arrangements.

Our response

We agree that overly prescriptive requirements could create unnecessary burden, particularly for firms with straightforward capital structures without improving transparency.

Our approach is that disclosure should be proportionate to the complexity of the arrangements. It should focus on information that helps users understand the capital structure. Firms should provide sufficient detail to identify which instruments rank equally with CET1 instruments and explain the basic mechanics of loss absorption but need not reproduce technical legal documentation.

Specifically, we consider:

- Instrument identification can use simple class descriptions rather than full legal titles.
- Loss absorption mechanics should explain the basic approach (for example, pro rata write-down) without complex formulas.
- The proportions in which losses are shared should be clearly stated.
- References to constitutional documents can provide further detail for those who need it.

Our approach is that disclosure should be proportionate and focused on material information. Firms should provide sufficient information for users to understand:

- Which non-CET1 instruments rank equally with CET1 instruments.
- The basic mechanics of how losses would be shared.
- Any material differences in rights, particularly regarding residual assets.
- Where to find detailed terms if needed.

The following examples illustrate appropriate disclosure under different scenarios where non-CET1 instruments rank equally with CET1 instruments:

Example 1: Non-voting ordinary shares

Disclosure item	Example disclosure
Instrument	Non-voting ordinary shares
Write-down features	Permanent write-down through reduction in nominal value when losses occur
Position in capital structure	Ranks *pari passu* with ordinary shares for losses; subordinated to all creditors
Description of any equal ranking arrangements with other instruments	Ranks equally with CET1 ordinary shares for all loss absorption
Loss absorption mechanics where equal ranking exists	Losses reduce nominal value of all ordinary shares (voting and non-voting) proportionally
Proportion of residual assets claims	Equal claim per share with CET1 ordinary shares
How losses are shared between equally ranked instruments	Pro rata based on nominal values (eg if non-voting shares represent 30% of total ordinary share capital, they absorb 30% of losses)
Reference	Articles 12-14 of the Articles of Association

Example 2: Shares with mandatory dividend features

Disclosure item	Example disclosure
Instrument	Class B mandatory dividend shares
Write-down features	Permanent reduction in nominal value; mandatory dividend suspended during loss absorption
Position in capital structure	Ranks *pari passu* with ordinary shares for losses; subordinated to all creditors and preference shares
Description of any equal ranking arrangements with other instruments	Ranks equally with CET1 ordinary shares for loss absorption despite mandatory dividend feature
Loss absorption mechanics where equal ranking exists	Losses allocated by reducing nominal value of all equally ranking shares simultaneously
Proportion of residual assets claims	1:1 claim ratio with CET1 ordinary shares (no preferential treatment)
How losses are shared between equally ranked instruments	Proportional based on nominal values - if Class B represents 20% of ordinary capital, absorbs 20% of losses
Reference	Articles 23-31 of the Articles of Association

Example 3: Redeemable shares ranking equally

Disclosure item	Example disclosure
Instrument	Redeemable ordinary shares
Write-down features	Permanent write-down of nominal value; redemption suspended if losses reduce capital below regulatory minima
Position in capital structure	Ranks *pari passu* with ordinary shares; redemption rights subordinated to loss absorption
Description of any equal ranking arrangements with other instruments	Ranks equally with CET1 ordinary shares while outstanding
Loss absorption mechanics where equal ranking exists	Losses absorbed through proportional reduction in nominal value across all ordinary shares
Proportion of residual assets claims	Equal per-share claim with CET1 ordinary shares if not previously redeemed
How losses are shared between equally ranked instruments	Based on proportion of total ordinary capital (eg 15% of capital bears 15% of losses)
Reference	Articles 15-18 of the Articles of Association

Example 4: Shares with capped distributions

Disclosure item	Example disclosure
Instrument	Class C capped distribution shares
Write-down features	Permanent reduction through nominal value write-down in proportion to other ordinary shares
Position in capital structure	Ranks equally with ordinary shares for losses; distributions capped at 2x ordinary dividend
Description of any equal ranking arrangements with other instruments	Full parity with CET1 ordinary shares for loss absorption (distribution cap does not affect loss ranking)
Loss absorption mechanics where equal ranking exists	All ordinary share classes (including Class C) bear losses simultaneously through nominal value reduction
Proportion of residual assets claims	1:1 with CET1 ordinary shares (distribution cap applies to dividends only, not liquidation)
How losses are shared between equally ranked instruments	Strictly proportional to nominal values - no preferential treatment despite capped upside
Reference	Articles 25-30 of the Articles of Association

These examples show that effective disclosure can be achieved in a structured format. In preparing these examples, we considered whether there may be some overlap between the 'loss absorption mechanics' and 'how losses are shared' fields in the template. However, we consider both fields serve useful purposes. The former explaining the mechanism of loss absorption and the latter the proportions in which losses are shared. Firms may exercise judgement in avoiding unnecessary repetition while making sure all material information is disclosed.

On proportionality, we consider that the enhanced requirements apply only where firms have non-CET1 instruments that rank equally with CET1 for loss absorption - a relatively uncommon situation. Firms with straightforward capital structures consisting only of ordinary shares and subordinated debt will not trigger these requirements. So, the disclosures are inherently proportionate, applying only where the complexity exists.

MIFIDPRU 8 already requires firms to provide a reconciliation between regulatory capital and balance sheet equity. The enhanced disclosures complement this existing requirement. The reconciliation shows how regulatory capital relates to accounting equity at an aggregate level, while the enhanced disclosures explain the specific loss-absorption features of individual instruments where these are not immediately apparent. Both serve important but distinct purposes.

Interim profits

2.36 Under current rules, firms must get our prior permission before including verified interim profits in their CET1 capital calculations.

2.37 We proposed moving to a notification-based approach. This would allow firms to include verified interim profits immediately upon notifying us, rather than waiting for formal permission. The change would reduce administrative burden while maintaining appropriate safeguards through the existing verification requirements.

2.38 We asked:

Question 5: **Do you agree with our proposal to move from a permission-based to a notification-based approach for including interim profits in CET1 capital? Are the verification requirements clear?**

2.39 We received 7 responses. Most respondents agreed with the proposal and said the verification requirements are clear.

2.40 One respondent suggested we could eliminate the notification requirement entirely. They argued that the inclusion of properly verified interim profits should be purely a matter for firms' governance processes, with senior management taking responsibility for ensuring compliance. They viewed even the notification requirement as representing only a modest improvement from the current permission-based approach.

2.41 Another respondent noted that, although the verification requirements are clear, it would be helpful to provide additional guidance on the necessary documentation for verification.

Our response

We recognise that moving from a permission to a notification-based system offers a limited reduction in regulatory burden. However, we believe this approach strikes an appropriate balance between making sure firms maintain high-quality capital, keeping us informed of changes to their capital position, and minimising burdens on firms.

We confirm that:

- Firms may include verified interim profits in CET1 capital immediately upon notification.
- The verification standards remain unchanged such that profits must be verified by persons independent of the firm in line with MIFIDPRU 3.3A.17R.
- Appropriate deductions must be made for foreseeable charges and dividends.
- The notification should be made promptly when interim profits are included.

We have considered the suggestion to remove the notification requirement entirely. While we appreciate the argument for a purely principles-based approach, we consider that notification serves important supervisory purposes. It provides timely information about changes in firms' capital resources, enables early identification of potential concerns, and maintains an appropriate audit trail for supervisory review.

We believe that the notification requirement is not onerous. It ensures we maintain appropriate oversight of firms' capital positions while delivering meaningful simplification compared to the current permission-based regime.

We consider this change exemplifies our broader approach in this consultation of maintaining prudential standards while removing unnecessary procedural complexity. Firms will benefit from being able to recognise capital more quickly, supporting their business flexibility, while we retain the information needed for effective supervision.

To ensure continuity and avoid unnecessary administrative burden, we are including transitional provisions that preserve the effect of any permissions or waivers granted under the current MIFIDPRU 3 framework. Firms with existing permissions, including those granted under MIFIDPRU 3.3.2R for including interim profits in CET1 capital, will not need to reapply or submit an additional notification. These permissions will automatically carry over to the equivalent provisions in the new framework and remain valid until they expire under their original terms or are revoked.

CET1 requirements

2.42 We proposed comprehensive changes to clarify and modernise the CET1 requirements within MIFIDPRU 3. These included simplifying the language throughout, removing provisions designed specifically for banks, and updating fundamental eligibility criteria.

2.43 As part of these changes, we proposed some simplifications to the requirement to deduct qualifying holdings in non-financial sector entities that exceed specified thresholds. This deduction ensures capital is available to absorb losses in the firm itself rather than being tied up in outside investments and prevents firms leveraging their capital through circular investments.

2.44 We asked

Question 6: **Are the proposed changes to CET1 requirements clear and proportionate? Do you believe they maintain the core characteristics of high-quality capital while improving accessibility?**

Feedback and responses

2.45 Respondents generally welcomed the clarifications to CET1 requirements. In particular, the simplified language and removal of bank-specific provisions.

2.46 Respondents supported our proposals to:

- Simplify the conditions for CET1 eligibility while maintaining essential quality characteristics.
- Clarify that 'fully paid' excludes undertakings to pay permitted under the UK Companies Act 2006.
- Remove complex provisions designed for bank capital instruments that have no relevance to investment firms.
- Improve overall accessibility through clearer language and structure.

2.47 However, 2 technical issues emerged on the requirement to deduct qualifying holdings in non-financial sector entities that exceed certain thresholds.

Qualifying holdings: exceptions for 'shares which are not fixed financial assets' and 'shares held in the trading book'

2.48 In the qualifying holdings deduction, we proposed replacing the current exception for 'shares which are not fixed financial assets' with an exception for 'shares held in the trading book'. This change was intended to modernise the terminology by removing the outdated reference to Directive 86/635/EEC and align with concepts more familiar to investment firms. We explained we did not expect these changes to affect how firms apply the deduction in practice.

2.49 Several responses to this proposal said that, contrary to our intention, this would narrow the availability of the exception. Responses identified 2 specific categories of holdings which could be affected:

- *Money market funds held for liquidity purposes:* respondents explained that investment firms commonly hold money market funds to meet their regulatory liquidity requirements under MIFIDPRU 6.
- *Seed capital investments:* asset managers routinely invest their own capital when launching new funds. These seed investments serve several important commercial purposes. This includes demonstrating the manager's confidence in the strategy, providing initial scale to make the fund viable, and enabling track record development.

2.50 Respondents noted that neither type of holding is maintained with short-term trading intent, so would not qualify for the trading book exception.

2.51 The responses also suggested some contradictory interpretations of how the current 'not fixed financial assets' exception operates, highlighting the need for greater clarity.

2.52 This confusion appears to stem from the reference to Directive 86/635/EEC, which defines financial fixed assets as those intended for use on a continuing basis in the normal course of an undertaking's activities. The ambiguity arises because seed investments could be viewed as either supporting the continuing business or as temporary holdings.

2.53 In reviewing this issue, we also identified a terminology error in the existing text which refers to 'fixed financial assets' rather than 'financial fixed assets'.

Our response

We agree that our proposals could result in an unintentional narrowing of the relevant exception.

We will retain both exceptions in the final rules. Firms will be able to exclude from the qualifying holdings deduction positions that are either:

- held in the trading book, or
- not financial fixed assets

This approach preserves the current treatment while adding flexibility for firms that do hold relevant positions with trading intent. This avoids creating conflicts between our capital and liquidity requirements. It also makes sure we do not penalise activities that support market development and innovation.

We are also:

- Correcting the terminology to 'financial fixed assets' to align with the established usage.
- Updating the reference from Directive 86/635/EEC to paragraph 94 of Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

We confirm that:

- Money market funds held to meet liquidity requirements can continue to rely on the 'not financial fixed assets' exception.
- The existing understanding developed under the CRR framework remains applicable.

We are not providing comprehensive guidance on the boundary between financial fixed assets and other assets. But we would expect firms to consider whether assets are genuinely intended for use on a continuing basis in the firm's activities.

Qualifying holdings: double counting

2.54 One respondent was concerned that, under the rules as they currently stand, applying the deduction for qualifying holdings outside the financial sector where both the 15% and 60% limits are exceeded could result in the same amount being deducted twice. In some instances, this could also lead to deductions exceeding the actual value of the holding.

2.55 The respondent also sought clarity on how the percentage limits relating to a firm's own funds should be applied, and whether the own funds limits should be calculated before the deduction for qualifying holdings outside the financial sector is applied.

Our response

We agree with the comments made.

We are clarifying that firms must comply with both limits at the same time. But where both limits are exceeded, the amount to be deducted is the higher of the 2 amounts determined in line with MIFIDPRU 3.3A.34R(1)(a) and (b). This approach ensures a proportionate outcome for firms while maintaining compliance with both limits.

We are also clarifying that each limit must be calculated before the qualifying holdings deduction has been applied. This avoids the circular reference.

We have provided a new, worked example at MIFIDPRU 3.3A.35G to illustrate how firms should apply this deduction in cases where both limits are exceeded.

AT1 simplification

2.56 We proposed simplifying the requirements for Additional Tier 1 (AT1) instruments to make them clearer and more accessible while maintaining their essential loss-absorbing characteristics. AT1 capital sits between CET1 and Tier 2 in the capital hierarchy, providing loss absorption on a going concern basis through conversion to CET1 or permanent write-down.

2.57 Our proposals focused on removing unnecessary complexity from provisions originally designed for banks. We streamlined the technical requirements while maintaining the core principle that AT1 instruments must absorb losses when a firm's CET1 ratio falls below specified trigger levels. As part of these simplifications, we clarified that AT1 instruments must be fully paid-up, explicitly excluding undertakings to pay that might be permitted under UK company law.

2.58 Our question was:

Question 7: Do you agree with our simplification of AT1 loss absorption mechanisms? Are the proposed changes sufficiently clear to support firms' understanding of these instruments?

2.59 We received limited but supportive feedback, reflecting that relatively few investment firms issue AT1 instruments. Those who responded welcomed the simplifications.

2.60 Respondents particularly appreciated our focus on outcomes rather than prescriptive mechanisms. They noted that the simplified requirements make it clearer what AT1 instruments must achieve, namely, loss absorption when triggered without mandating specific legal structures or mechanisms.

2.61 The clarification that AT1 instruments must be fully paid-up, excluding undertakings to pay permitted under UK company law, makes sure these instruments can provide immediate loss absorption when needed. This removes any uncertainty about the eligibility of partly paid instruments.

2.62 One respondent said while they rarely see firms using AT1 instruments, they supported changes that improve clarity and understanding for firms that do.

Our response

We welcome the support for our simplified approach to AT1 instruments. We are implementing all the proposed simplifications as consulted.

The streamlined requirements maintain the essential characteristics of AT1 capital (such as subordination, perpetual nature, loss absorption capability, and full discretion over distributions) while removing unnecessary complexity from provisions designed for banks. By focusing on outcomes rather than prescriptive processes, firms have flexibility in structuring instruments while ensuring they meet prudential objectives.

Own funds accessibility

2.63 Our overarching objective in this consultation was to make the definition of capital for FCA investment firms more accessible while maintaining substantive prudential standards. Beyond the specific proposals addressed in previous questions, we asked:

Question 8: **Have we achieved our objective of making the own funds definition more accessible while maintaining the substance of the relevant provisions? If not, please explain where further improvements could be made.**

Feedback and responses

2.64 Respondents generally agreed that our proposals significantly improved accessibility. However, several raised a couple of technical issues.

2.65 The main areas identified for clarification were:

- The treatment of partnership profits for regulatory capital purposes.
- The interaction between consolidation rules and minority interest provisions for participations.

Partnership profit treatment

2.66 One respondent highlighted what they described as a longstanding area of uncertainty regarding how partnership profits should be treated for regulatory capital purposes. They explained that while the capital framework was designed with companies in mind (where undistributed profits clearly remain as retained earnings until declared as dividends) the position for partnerships is less clear.

2.67 The respondent noted that Limited Liability Partnerships (LLPs) and other partnerships operate on a tax-transparent basis, with profits automatically allocated to partners for tax purposes at each year end. This creates ambiguity about whether such allocated but undrawn profits constitute reserves available to absorb losses or are effectively debts owed to partners. They emphasised that many investment firms operate as LLPs and require clarity to ensure consistent treatment across the industry.

2.68 The confusion may stem from focusing on the wrong factors. Specifically, whether profits are labelled as 'retained' or whether they have been physically paid out. The respondent requested clarity on the treatment of 'audited, but unpaid partnership profits' and noted that calling these allocated amounts 'reserves' is misleading since they have been allocated to specific partners.

Our response

Tax treatment does not determine whether partnership profits are eligible to count as regulatory capital.

Our existing framework already provides the necessary tools to make this determination. MIFIDPRU requires that CET1 capital be both 'permanent' and available to absorb losses on a going concern basis. In the case of a limited company, finalised retained earnings are generally only eligible as CET1 once the decision to bring forward profits for the year has been taken, and any dividends for the year subtracted. And where a limited company wishes to recognise interim profits, it must similarly deduct any foreseeable dividends from those profits.

When we apply these principles to partnership profits, the answer becomes clear. Only profits that remain under the partnership's unconditional control can meet these criteria.

We confirm that for all partnership forms (general partnerships, Limited Partnerships (LPs) and LLPs), profits only qualify as CET1 capital if the partnership has an unconditional right to refuse to make them available to partners and can maintain this refusal indefinitely.

Profits may be allocated to specific partners for tax purposes but still qualify as capital if:

- The partnership retains complete discretion over distributions.
- Partners have no enforceable right to demand payment.
- The partnership agreement does not create automatic or mandatory distribution.

However, once profits are 'divided', they are available to partners as an enforceable right. The profits would become liabilities regardless of whether physically distributed. For example:

- If a partnership agreement states that partners may withdraw their allocated profits on giving notice, those profits are available as of right and cannot qualify as CET1 capital.
- If the agreement states that distributions are at the discretion of the managing partner or management committee, and this discretion is genuinely exercised, the profits may qualify as CET1 capital even though they have been allocated for tax purposes.

Firms must carefully examine their partnership agreements to determine the true nature of profit rights. This determination is based on substance over form. Even if an agreement describes division as 'discretionary', if established practice or fiduciary duties mean partners effectively have access on demand, then division should be treated as automatic, and the profits cannot qualify as CET1 capital.

As we consider the position to be clear, we have not included any additional guidance in the Handbook.

Minority interests and consolidation treatment

2.69 We proposed updated minority interest rules as part of the consolidation into MIFIDPRU. We maintained the principle that minority interests can only be included in consolidated own funds to the extent needed to meet the subsidiary's contribution to consolidated requirements.

2.70 One respondent queried whether capital issued by a participation to external investors was eligible to count towards consolidated own funds without limit.

2.71 The respondent noted that, in joint venture scenarios where 5 firms each own 20% of an entity, the same capital might be eligible to count 5 times across the sector, representing a significant overstatement of available capital resources.

Our response

We have carefully considered the issue raised regarding the treatment of participations under our consolidation framework.

Capital of a participation that is attributable to external investors should not be eligible to count towards consolidated own funds. Unlike a subsidiary, the group does not ultimately own or control the participation, and this warrants a difference in treatment.

The availability of proportional consolidation under MIFIDPRU 2.5.17R adequately caters for the existence of participations.

We have clarified this in new Handbook guidance.

Our approach creates a clear hierarchy based on the nature of the relationship and whether appropriate loss-sharing arrangements are in place:

- For a **wholly owned subsidiary**, the group consolidates all the entity's capital requirements and can count all its own funds, reflecting complete ownership and control.
- For a **subsidiary with external investors** (for example, where the group owns 75%), the group must consolidate all the subsidiary's capital requirements but can count its own share of capital plus a restricted amount of the external investors' capital. The restriction ensures external investors' capital only counts to the extent needed to meet their proportionate share of the subsidiary's requirements. This prevents groups from benefiting from surplus capital they don't control.
- For a **participation where proportional consolidation conditions are met** (for example, a 40% stake with legally binding loss-sharing agreements), the group consolidates only its proportionate share of both the entity's capital requirements and own funds. This clean approach reflects the economic reality of the investment and the legal certainty that risks and rewards are genuinely shared.
- For a **participation where proportional consolidation conditions are not met** (for example, a 40% stake without the necessary loss-sharing agreements), the group must consolidate all the entity's capital requirements but can only count its own share of the own funds. This asymmetric treatment reflects the uncertainty about whether external investors would bear their share of losses in stress scenarios. It makes sure firms cannot benefit from capital they neither own nor control.

Additional clarifications

2.72 Finally, we have reinserted some technical guidance on indirect funding of capital instruments, so that the prohibition applies 'at issuance or thereafter' in MIFIDPRU 3.3A.10G(1). This makes sure the guidance clearly captures situations where firms might provide guarantees or other credit support arrangements after the initial capital issuance, not just at the point of issuance.

2.73 This clarification maintains the existing scope of the prohibition. It is particularly relevant where regulated entities within leveraged structures may be asked to provide guarantees that could indirectly support their own capital. Such arrangements would undermine the quality and genuineness of regulatory capital, which must be fully loss-absorbing and not dependent on the firm's own creditworthiness.

Implementation date

2.74 As we indicated in CP25/10, subject to feedback, we envisaged the new framework to come into effect on 1 January 2026. As these are primarily simplification and clarification changes rather than new substantive requirements, we considered this timeline appropriate.

2.75 Our last question was:

Question 9: **Do you agree that an implementation date of 1 January 2026 is sufficient? If not, what alternative date would you suggest and why?**

Feedback and responses

2.76 Views on the implementation timeline were mixed, though most respondents either explicitly supported the proposed date or did not object to it.

2.77 Several respondents agreed that 1 January 2026 provides adequate time given the nature of the changes. One observed that since these are not substantive changes to capital requirements, the timeline should be manageable. They suggested that any residual concerns could be addressed by converting existing capital instruments, though they did not consider this necessary.

2.78 Two respondents suggested a 12-month implementation period from the publication date of the Policy Statement to ensure a smooth transition across the industry.

2.79 They noted that although our proposals represent a simplification, changes to the Handbook text require operational work, such as updates to internal policies, procedures, and systems. This would include conducting gap analyses between current and new rule references, updating policies and procedures, making system changes where automated tools reference specific UK CRR provisions, getting board and committee approvals, providing staff training on the new framework, and potentially amending capital instrument documentation.

2.80 One respondent noted change fatigue following the relatively recent IFPR implementation in January 2022. However, they still supported the proposed implementation date, recognising that delaying further would postpone the benefits of simplification.

Our response

In response to feedback, we are changing the implementation date to 1 April 2026.

We considered the suggestion to allow 12 months from Policy Statement publication. However, this could delay implementation until late 2026. This would unnecessarily extend the period during which firms must navigate the current complex framework of cross-references.

For most firms, implementation will primarily involve updating internal documentation and references. The substantive capital calculations and eligibility criteria remain unchanged, except for the specific clarifications we have made regarding partnership profits, qualifying holdings calculations, and the treatment of participations in consolidation. But we recognise that firms need adequate time to update documentation, systems and processes.

Existing capital instruments that meet current requirements will continue to qualify under the new framework without amendment. The consolidation exercise does not change the substantive eligibility criteria for own funds. Firms should not need to restructure their capital or renegotiate capital instruments because of these changes.

The change to the 1 April 2026 implementation date balances stakeholder requests for adequate preparation time with our objective to deliver simplification benefits promptly.

Annex 1

List of non-confidential respondents

We are obliged to include a list of the names of respondents to our consultation who have consented to the publication of their name.

The list is as follows:

Aberdeen

Adempi Associates LLP

Andrew Tyrtania

Capital International Limited

Ellis Wilson

Managed Funds Association

Personal Investment Management & Financial Advice Association (PIMFA)

SimplyBiz Services Limited

The Investment Association

Annex 2

Abbreviations used in this paper

Abbreviation	Description
AIFMD	Alternative Investment Fund Managers Regulations
AT1	Additional Tier 1
CBA	Cost benefit analysis
CET1	Common Equity Tier 1
CP	Consultation paper
CRR	Capital Requirements Regulation
EEC	European Economic Community
ESG	Environmental, Social and Governance
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act
IFPR	Investment Firms Prudential Regime
LLP	Limited Liability Partnership
LP	Limited Partnership
MIFIDPRU	Prudential sourcebook for MiFID investment firms
PRA	Prudential Regulation Authority
PS	Policy Statement
UK	United Kingdom

Appendix 1

Made rules (legal instrument)

DEFINITION OF CAPITAL FOR INVESTMENT FIRMS INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 138D (Actions for damages);
(4) section 139A (Power of the FCA to give guidance);
(5) section 143D (Duty to make rules applying to parent undertakings); and
(6) section 143E (Powers to make rules applying to parent undertakings).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2026.

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) is amended in accordance with Annex B to this instrument.

Notes

F. In the annexes to this instrument, the notes (indicated by "**Note**:" or "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Definition of Capital for Investment Firms Instrument 2025.

By order of the Board
2 October 2025

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

accumulated other comprehensive income	means the accumulated balance of ‘other comprehensive income’ as defined in International Accounting Standard (IAS) 1.
additional tier 1 or comparable instrument	has the meaning in *MIFIDPRU* 3.4A.22R.
additional tier 1 item	has the meaning in *MIFIDPRU* 3.4A.2R.
common equity tier 1 or comparable instrument	has the meaning in *MIFIDPRU* 3.3A.29R.
common equity tier 1 item	has the meaning in *MIFIDPRU* 3.3A.2R.
distribution	means the payment, in any form, of dividends or interest.
external investor	an *undertaking* that is not included in the *investment firm group*.
intangible asset	has the same meaning as in the applicable accounting framework and includes goodwill.
liquidation	means the winding up of a *firm* under Part IV of the Insolvency Act 1986, and any other comparable process.
minority interest	means the *common equity tier 1 items*, *additional tier 1 items* or *tier 2 items* of a *subsidiary* of a *UK parent entity* that are attributable to an *external investor*.
other reserves	means reserves, within the meaning of the applicable accounting framework, that: (a) are required to be disclosed under the applicable accounting standard; and

	(b)	are not included in *accumulated other comprehensive income* or *retained earnings.*
reciprocal cross-holding		means a holding by a *firm* of the *own funds instruments* or other capital instruments issued by a *financial sector entity* where that entity also holds *own funds instruments* issued by the *firm*.
reduction of capital		means a call, redemption, repurchase, buyback, repayment of principal and any other transaction with a similar economic effect.
retained earnings		means profits and losses brought forward as a result of an *undertaking's* finalised profit or loss for the year under the applicable accounting framework.
tier 2 or comparable instrument		has the meaning in *MIFIDPRU* 3.5A.17R.
tier 2 item		has the meaning in *MIFIDPRU* 3.5A.2R.

Amend the following definitions as shown.

additional tier 1 capital	~~(1)~~	~~(in *MIFIDPRU*) as defined in article 61 of the *UK CRR*, as applied and modified by *MIFIDPRU* 3.4~~ has the meaning in *MIFIDPRU* 3.4A.2R.
	~~(2)~~	~~as defined in article 61 of the *UK CRR*.~~
additional tier 1 instrument	~~(1)~~	~~(in relation to an instrument issued by a *MIFIDPRU investment firm*) a capital instrument that qualifies as an additional tier 1 capital instrument under article 52 of the *UK CRR* as applied and modified by the requirements in *MIFIDPRU* 3.4~~ a capital instrument that complies with the conditions in *MIFIDPRU* 3.4A.3R to *MIFIDPRU* 3.4A.15R and that is not a *common equity tier 1 instrument*.
	~~(2)~~	~~(in any other case) a capital instrument that qualifies as an additional tier 1 capital instrument under article 52 of the *UK CRR*.~~
common equity tier 1 capital	~~(1)~~	~~(in *MIFIDPRU*) as defined in article 50 of the *UK CRR*, as applied and modified by *MIFIDPRU* 3.3~~ has the meaning in *MIFIDPRU* 3.3A.2R.
	~~(2)~~	~~(except in *MIFIDPRU*) as defined in article 50 of the *UK CRR*.~~

common equity tier 1 instrument	~~a capital instrument that qualifies as a common equity tier 1 instrument under article 26 of the *UK CRR*~~ a capital instrument that complies with the conditions in *MIFIDPRU* 3.3A.3R to *MIFIDPRU* 3.3A.16R.
contingent convertible instrument	a *financial instrument* which meets the requirements for ~~either~~: (a) Additional Tier 1 instruments under article 52 of the Own Funds (CRR) Part of the *PRA Rulebook*; ~~or~~ (aa) *Additional tier 1 instruments*; or (b) Tier 2 instruments under article 63 of the Own Funds (CRR) Part of the *PRA Rulebook* or *Tier 2 instruments*, provided: (i) the provisions governing the instrument require that, upon the occurrence of a trigger event, the principal amount of the instrument be written down on a permanent or temporary basis or the instrument be converted to one or more common equity Tier 1 instruments; and (ii) the trigger mechanism in (i) is different from, or additional to, any discretionary mechanism for converting or writing down the principal amount of the instrument which is activated following a determination by the relevant authority that the issuer of the *financial instrument* (or its *group*, or any member of its *group*) is no longer viable, or will no longer be viable unless the relevant instrument is converted or written down~~;~~. ~~in each case of the *UK CRR*, or (where applicable) its provisions as applied and amended by *MIFIDPRU* 3.~~
own funds	… (4A) (in *MIFIDPRU*) has the meaning in ~~*MIFIDPRU* 3.2.1R~~ *MIFIDPRU* 3.2A.2R. …
own funds instruments	(1) (~~in relation to an instrument issued by a *MIFIDPRU investment firm*~~ except in (2)) capital instruments that qualify as *common equity tier 1 instruments*, *additional tier 1 instruments* or *tier 2 instruments*.

	(2)	(in relation to a *parent undertaking* to which the *group capital test* applies) ~~as defined~~ has the meaning in ~~*MIFIDPRU* 2.6.2R~~ *MIFIDPRU* 2.6.2R(1).
	~~(3)~~	~~(in any other case) has the meaning in article 4(1)(119) of the *UK CRR*.~~
tier 2 capital	~~(1)~~	~~(in *MIFIDPRU*) as defined in article 71 of the *UK CRR*, as applied and modified by *MIFIDPRU* 3.5~~ has the meaning in *MIFIDPRU* 3.5A.2R.
	~~(2)~~	~~(except in *MIFIDPRU*) as defined in article 71 of the *UK CRR*.~~
tier 2 instruments	a capital instrument that ~~qualify as tier 2 instruments under article 62 of the *UK CRR*~~ complies with the conditions in *MIFIDPRU* 3.5A.3R to *MIFIDPRU* 3.5A.11R and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.	

Delete the following definitions. The text is not shown struck through.

AVA	an additional valuation adjustment calculated under *MIFIDPRU* 3 Annex 8R.
cooperative society	a cooperative society as defined in *MIFIDPRU* 3 Annex 7.4R.
intermediate entity	an intermediate entity as defined in *MIFIDPRU* 3 Annex 7.32R.
similar institution	a similar institution as defined in *MIFIDPRU* 3 Annex 7.5R.
valuation exposure	means the amount of a *valuation position* that is sensitive to the movement in a *valuation input*.
valuation input	means a market observable or non-observable parameter or matrix of parameters that influences the fair value of a *valuation position*.
valuation position	means a *financial instrument* or commodity or portfolio of *financial instruments* or commodities, which are measured at fair value.

Annex B

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

1 Application

1.1 Application and purpose

…

Voluntary application of stricter requirements

…

1.1.9 G (1) If a *firm* applies stricter measures than those required under *MIFIDPRU* in accordance with *MIFIDPRU* 1.1.8R, the *firm* must still ensure that it meets the basic requirements of *MIFIDPRU*. This is illustrated by the following two examples:

…

(b) Example 2: A *firm* decides to hold a significant amount of additional *own funds* instead of applying the deductions from its *common equity tier 1 capital* required under ~~*MIFIDPRU* 3.3.6R This is~~ *MIFIDPRU* 3. It does so on the basis that the additional *own funds* far exceed the estimated value of the required deductions and the *firm* considers that the deduction calculations are too onerous. While the *firm* may consider that holding these additional *own funds* is a stricter measure, this approach would not meet the basic requirements of *MIFIDPRU*, which require the *firm* to calculate and apply the deductions. In addition, the failure to apply the correct deductions to *common equity tier 1 capital* may result in the *firm* incorrectly applying the *concentration risk* requirements and limits in *MIFIDPRU* 5. This approach would therefore not be permitted under *MIFIDPRU* 1.1.8R because it does not meet the basic requirements of *MIFIDPRU*.

…

…

2 Level of application of requirements

…

2.5 Prudential consolidation

…

Prudential consolidation – main requirements

…

2.5.10 R ~~(1) When applying *MIFIDPRU* 3 on a *consolidated basis*, the requirements in Title II of Part Two of the *UK CRR* shall also apply with the modifications in this *rule*.~~

~~(2) A reference in Title II of Part Two of the *UK CRR* to an entity or person included within the "consolidation pursuant to Chapter 2 of Title II of Part One" is a reference to an entity or person included in the *consolidated situation* of the *investment firm group* under MIFIDPRU 2.5.~~

~~(3) The relevant *subsidiaries* for the purposes of articles 81(1)(a) and 82(a) of the *UK CRR* are:~~

~~(a) a *MIFIDPRU investment firm*;~~

~~(b) a *designated investment firm*; and~~

~~(c) a *UK credit institution* that is included in *the consolidated situation* under *MIFIDPRU* 2.5 because it is a *connected undertaking*.~~

~~(4) The modifications in (5) apply where the following provisions of the *UK CRR* apply to a *subsidiary* that is a *MIFIDPRU investment firm*:~~

~~(a) article 84(1)(a)(i);~~

~~(b) article 85(1)(a)(i); and~~

~~(c) article 87(1)(a)(i).~~

~~(5) The modifications referred to in (4) are as follows:~~

~~(a) the relevant amount of *common equity tier 1 capital* in article 84(1)(a)(i) is the sum of:~~

~~(i) the amount of *common equity tier 1 capital* required to meet the *firm's own funds threshold requirement*; and~~

~~(ii) any other requirements that apply to the *firm* under additional *third countries* local supervisory regulations in to the extent that those requirements must be met by *common equity tier 1 capital*;~~

~~(b) the relevant amount of *tier 1 capital* in article 85(1)(a)(i) is the sum of:~~

~~(i) the amount of *tier 1 capital* required to meet the *firm's own funds threshold requirement*; and~~

~~(ii) any other requirements that apply to the *firm* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *tier 1 capital*; and~~

~~(c) the relevant amount of *own funds* in article 87(1)(a)(i) is the sum of:~~

~~(i) the amount of *own funds* required to meet *the firm's own funds threshold requirement*; and~~

~~(ii) any other requirements that apply to the *firm* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *own funds*.~~

~~(6) The following provisions of the *UK CRR* are modified as follows:~~

~~(a) article 84(1)(a)(ii) applies as if it refers to the sum of:~~

~~(i) the amount of consolidated *common equity tier 1 capital* that relates to the *subsidiary* that is required on a *consolidated basis* to meet the requirement in *MIFIDPRU* 2.5; and~~

~~(ii) any other requirements that apply to the *subsidiary* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *common equity tier 1 capital*;~~

~~(b) article 85(1)(a)(ii) applies as if it refers to the sum of:~~

~~(i) the amount of consolidated *tier 1 capital* that relates to the *subsidiary* that is required on a *consolidated basis* to meet the requirement in *MIFIDPRU* 2.5; and~~

~~(ii) any other requirements that apply to the *subsidiary* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *tier 1 capital*; and~~

~~(c) article 87(1)(a)(ii) applies as if it refers to the sum of:~~

~~(i) the amount of consolidated *own funds* that relates to the *subsidiary* that is required on a *consolidated basis* to meet the requirement in *MIFIDPRU* 2.5; and~~

~~(ii) any other requirements that apply to the *subsidiary* under additional local supervisory regulations in *third countries* to the extent that those requirements must be met by *own funds*.~~ [deleted]

2.5.10A G ~~*MIFIDPRU* 3 Annex 7.57G and *MIFIDPRU* 3 Annex 7.58R contain supplementary provisions that may be relevant when a firm is applying *MIFIDPRU* 2.5.10R.~~ [deleted]

2.5.10B R (1) When applying *MIFIDPRU* 3 on a *consolidated basis*, a *UK parent entity* may include the *minority interest* of an *external investor* in a *subsidiary* ('X') in the *UK parent entity's* consolidated *common equity tier 1 capital*, subject to the requirements in (2) to (5) of this *rule*.

(2) X must be fully consolidated under *MIFIDPRU* 2.5.13R(1).

(3) The *minority interest* must meet all of the criteria for *common equity tier 1 items* in *MIFIDPRU* 3.

(4) (a) The *minority interest* must not have been funded directly or indirectly by an *undertaking* in the *investment firm group*.

(b) Sub-paragraph (a) does not apply if the funding is provided in the ordinary course of the *firm's* business.

(5) The amount of the *minority interest* in X that is eligible to count towards the *UK parent entity's* consolidated *common equity tier 1 capital* is limited to:

R*P

where:

- R is the amount of the consolidated *own funds requirement* of the *UK parent entity* that arises from the inclusion of X and its *subsidiaries* in the *consolidated situation*, to the extent this must be met by *common equity tier 1 capital*; and
- P is the percentage of X's *common equity tier 1 items* that is attributable to *external investors*.

(6) When calculating the *minority interests* eligible for inclusion in a *UK parent entity's* consolidated *tier 1 capital*, (2) to (5) apply subject to the following modifications:

(a) references to *common equity tier 1 items* in (3) and (5) are read as references to *common equity tier 1 items* and *additional tier 1 items*; and

(b) references to *common equity tier 1 capital* in (5) are read as references to *tier 1 capital*.

(7) When calculating the *minority interests* eligible for inclusion in a *UK parent entity's* consolidated *own funds*, (2) to (5) apply subject to the following modifications:

(a) references to *common equity tier 1 items* in (3) and (5) are read as references to *common equity tier 1 items*, *additional tier 1 items* and *tier 2 items*; and

(b) references to *common equity tier 1 capital* in (5) are read as references to *own funds*.

2.5.10C G (1) *MIFIDPRU* 2.5.10BR permits a *UK parent entity* to count the capital of a *subsidiary* ('X') that is attributable to an *external investor* towards the relevant component of its consolidated *own funds*.

(2) Such capital cannot have been funded directly or indirectly by an *undertaking* in the *investment firm group*, unless the funding is provided in the ordinary course of business. The *guidance* in *MIFIDPRU* 3.3A.10G(2) explains what this means.

(3) Such capital is only eligible if it is being used to meet the contribution that X makes to the consolidated *own funds requirement* of the *investment firm group*. Surplus capital that is attributable to an *external investor* is not eligible because it is not available to meet losses incurred by the wider *investment firm group* – if the capital was returned, it would be due back to the *external investor* rather than available to the *UK parent entity*.

(4) *MIFIDPRU* 2.5.24G to *MIFIDPRU* 2.5.46R explain how to calculate the consolidated *own funds requirement*. X's contribution to the consolidated requirement will not necessarily be the same as X's individual capital requirement – for example, because intra-group transactions can sometimes be netted off.

(5) X's contribution to the consolidated *own funds* requirement can be calculated by comparing the consolidated *own funds requirement* of the *investment firm group* with the consolidated requirement if X (and its *subsidiaries*) were not included in the *investment firm group*.

(6) The *UK parent entity* is still required to comply with the requirements on composition of *own funds* in *MIFIDPRU* 3.2A on a *consolidated basis*. Even where *minority interests* are eligible, their use may be limited by the applicable limits for different tiers of capital.

(7) The definition of *subsidiary* includes a *subsidiary* of another *subsidiary*. If there are multiple *subsidiaries* with *minority interests* in a single *investment firm group*, a *UK parent entity* should repeat the calculation in *MIFIDPRU* 2.5.10BR for each *subsidiary*.

2.5.10D G (1) The following examples illustrate how to apply *MIFIDPRU* 2.5.10BR to calculate how much of a *minority interest* may be included in a *UK parent entity's* consolidated *common equity tier 1 capital*.

(2) X is a *subsidiary* of a *UK parent entity*. Its contribution to the consolidated *own funds requirement* of its *UK parent entity* which must be met by *common equity tier 1 capital* is 35.

(3) X has *common equity tier 1 instruments* in issue of 20, of which 16 are owned by the *UK parent entity* and 4 by an *external investor*. 20% are therefore attributable to an *external investor*.

(4) X also has 40 in *retained earnings*. Because *retained earnings* are attributable in the same proportions as the *common equity tier 1 instruments*, 8 of the *retained earnings* (20%) are also attributable to the *external investor*.

(5) The total *minority interest* in X is therefore 4 *common equity tier 1 instruments* plus 8 in *retained earnings*, so 12.

(6) *MIFIDPRU* 2.5.10BR(5) limits how much of the 12 *minority interest* is eligible to count towards the *UK parent entity's* consolidated *common equity tier 1 capital*.

(7) To calculate the limit in *MIFIDPRU* 2.5.10BR(5):

(a) R, the contribution of X to the consolidated *own funds requirement* of its *UK parent entity* which must be met by *common equity tier 1 capital*, is 35.

(b) P, the percentage of *common equity tier 1 items* attributable to an *external investor*, is 20%.

(c) The amount of the *minority interest* eligible for inclusion in the consolidated *common equity tier 1 capital* of the *UK parent entity* is therefore limited to R*P or 35*20% = 7.

2.5.10E G (1) The following examples illustrate how to apply *MIFIDPRU* 2.5.10BR to calculate how much of a *minority interest* may be included in a *UK parent entity's* consolidated *own funds*.

(2) X is a *subsidiary* of a *UK parent entity*. Its contribution to the consolidated *own funds requirement* of its *UK parent entity* which must be met by *own funds* is 15.

(3) The sum of X's *common equity tier 1 items* and *additional tier 1 items* is 15. This capital is fully owned by the *UK parent entity*.

(4) X issues *tier 2 instruments* to *external investors* for 5 capital.

(5) The total *minority interest* in X is therefore 5.

(6) *MIFIDPRU* 2.5.10BR(5) limits how much of the 5 *minority interest* is eligible to count towards the *UK parent entity's* consolidated *own funds*.

(7) To calculate the limit in *MIFIDPRU* 2.5.10BR(5):

(a) R, the contribution of X to the consolidated *own funds requirement* of its *UK parent entity* which must be met by *own funds*, is 15.

(b) P, the percentage of *common equity tier 1 items*, *additional tier 1 items* and *tier 2 items* owned by an *external investor*, is 25% (5/20*100).

(c) The amount eligible for inclusion in the consolidated *own funds* of the *UK parent entity* is therefore limited to R*P or 15*25% = 3.75.

…

Prudential consolidation in practice: own funds

2.5.23 G …

(2) ~~*MIFIDPRU* 2.5.10R applies the provisions on minority interests and *additional tier 1 instruments* and *tier 2 instruments* issued by *subsidiaries* in Title II of Part Two of the *UK CRR* to a *UK parent entity*, but with the modifications set out in that *rule*.~~ *MIFIDPRU* 2.5.10BR to *MIFIDPRU* 2.5.10EG explain the circumstances in which the *minority interest* of an *external investor* in a *subsidiary* is eligible to count towards consolidated *own funds*.

(2A) In the case of a *participation*, *own funds* items attributable to an *external investor* are not eligible to count towards consolidated *own funds*.

…

…

2.6 The group capital test

…

Group capital test: requirements

2.6.2 R For the purposes of *MIFIDPRU* 2.6:

(1) 'own funds instruments' means own funds as defined in *MIFIDPRU* 3, without applying the deductions referred to in ~~*MIFIDPRU* 3.3.6R(8), article 56(d), and article 66(d) of the *UK CRR*~~ *MIFIDPRU* 3.3A.27R,

MIFIDPRU 3.4A.20R and *MIFIDPRU* 3.5A.15R for any *relevant financial undertaking* in the *investment firm group*;

…

…

2.6.4 G ~~*MIFIDPRU* 3.7~~ *MIFIDPRU* 3.7A contains *rules* and *guidance* on the composition of capital for *parent undertakings* subject to the *group capital test*.

2.6.5 R Where the *FCA* has granted an application under *MIFIDPRU* 2.4.17R, a *UK parent entity* and any other *GCT parent undertakings* in the *investment firm group* must hold own funds instruments sufficient to cover the sum of the following:

(1) the sum of the full book value of their holdings, subordinated claims and instruments referred to in ~~*MIFIDPRU* 3.3.6R(8), article 56(d), and article 66(d) of the *UK CRR*~~ *MIFIDPRU* 3.3A.27R, *MIFIDPRU* 3.4A.20R and *MIFIDPRU* 3.5A.15R in *relevant financial undertakings* in the *investment firm group*; and

…

…

MIFIDPRU 3.1 (Application and purpose) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.1 ~~Application and purpose~~ [deleted]

Insert the following new section, MIFIDPRU 3.1A, after MIFIDPRU 3.1. All the text is new and is not underlined.

3.1A Application, purpose and interpretation

Application

3.1A.1 R This chapter applies to:

(1) a *MIFIDPRU investment firm*; and

(2) a *UK parent entity* that is required by *MIFIDPRU* 2.5.7R to comply with *MIFIDPRU* 3 on the basis of its *consolidated situation*.

3.1A.2 R This chapter also applies to a *parent undertaking* that is subject to the *group capital test* in accordance with *MIFIDPRU* 2.6.5R, but with the following modifications:

(1) the definitions in *MIFIDPRU* 2.6.2R apply when calculating the *own funds instruments* of the *parent undertaking* for the purposes of the *group capital test*; and

(2) *MIFIDPRU* 3.2A.4R and *MIFIDPRU* 3.2A.5R do not apply, but *MIFIDPRU* 3.7A applies instead.

3.1A.3 R For the purposes of this chapter:

(1) where this chapter applies to a *parent undertaking* that is not a *firm*, reference to a '*MIFIDPRU investment firm*' or a '*firm*' includes a reference to that *parent undertaking*; and

(2) where this chapter applies on the basis of the *consolidated situation* of an entity under *MIFIDPRU* 3.1A.1R(2), a reference in this chapter to a '*firm*' is a reference to the hypothetical single *MIFIDPRU investment firm* created under the *consolidated situation*.

Purpose

3.1A.4 G This chapter contains requirements for the calculation of a *MIFIDPRU investment firm's own funds*. *Own funds* is the term the *FCA* commonly uses to describe a *firm's* regulatory capital.

Principles underlying the definition of own funds

3.1A.5 G By requiring a *firm* to maintain an appropriate level of *own funds*, the *FCA* helps ensure that:

(1) a *firm* can absorb losses while continuing to operate as a going concern;

(2) a *firm* can absorb losses in *liquidation* in an orderly way that minimises harm to clients, markets and the wider financial system;

(3) *own funds* are calculated consistently and transparently, allowing the *FCA* and other stakeholders to assess a *firm's* loss-absorbing capacity; and

(4) the interests of a *firm's* owners are appropriately aligned with the long-term interests of the *firm* itself.

Interpretation

3.1A.6 R A *firm* must categorise and value its assets and off-balance sheet items in accordance with the applicable accounting framework, unless a *rule* specifies otherwise.

3.1A.7 G Every provision in the *Handbook* must be interpreted in the light of its purpose (*GEN* 2.2.1R). A *firm* must therefore look beyond the legal form of its capital arrangements and consider their economic substance. This includes considering matters not set out in the terms of a capital instrument.

Mutual societies

3.1A.8 G The *FCA* recognises that a mutual society may require modification of certain requirements in this chapter. The *FCA* will generally use the *own funds* rules for mutual societies in the *PRA rulebook* as the starting point for such modifications, but will discuss this with relevant mutual societies.

MIFIDPRU 3.2 (Composition of own funds and initial capital) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.2 ~~Composition of own funds and initial capital~~ [deleted]

Insert the following new section, MIFIDPRU 3.2A, after MIFIDPRU 3.2. All the text is new and is not underlined.

3.2A Composition of own funds and initial capital

3.2A.1 G The *FCA* divides *own funds* into categories, or tiers, reflecting differences in the extent to which the capital concerned meets the purposes set out in *MIFIDPRU* 3.1A.5G.

3.2A.2 R The *own funds* of a *firm* are the sum of its:

(1) *common equity tier 1 capital*;

(2) *additional tier 1 capital*; and

(3) *tier 2 capital*.

3.2A.3 G The *FCA* generally prefers a *firm* to hold *common equity tier 1 capital* because it provides the highest quality of loss absorption and permanence. *Common equity tier 1 capital* can be used to meet a *firm's* capital requirements without limit. Other tiers of capital are subject to limits as set out in *MIFIDPRU* 3.2A.4R.

3.2A.4 R A *firm* must, at all times, have *own funds* that satisfy all the following conditions:

(1) the *firm's common equity tier 1 capital* must be equal to or greater than 56% of the *firm's own funds requirement* under *MIFIDPRU* 4.3;

(2) the sum of the *firm's common equity tier 1 capital* and *additional tier 1 capital* must be equal to or greater than 75% of the *firm's own funds requirement* under *MIFIDPRU* 4.3; and

(3) the *firm's own funds* must be equal to or greater than 100% of the *firm's own funds requirement* under *MIFIDPRU* 4.3.

3.2A.5 R A *firm's initial capital* must be made up of *own funds*.

MIFIDPRU 3.3 (Common equity tier 1 capital) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.3 ~~Common equity tier 1 capital~~ [deleted]

Insert the following new section, MIFIDPRU 3.3A, after MIFIDPRU 3.3. All the text is new and is not underlined.

3.3A Common equity tier 1 capital

3.3A.1 G (1) *Common equity tier 1 capital* has the following core characteristics:

(a) it is able to absorb losses as they occur;

(b) it ranks below all other claims in *liquidation*;

(c) it is permanent;

(d) there is no obligation to make a *distribution*; and

(e) the level of *distributions* is not capped.

(2) The remainder of *MIFIDPRU* 3.3A contains the detailed *rules* and *guidance* for calculating *common equity tier 1 capital*.

3.3A.2 R A *firm* must calculate its *common equity tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found.

Item		Relevant rules and guidance
Common equity tier 1 items:		
(1)	*common equity tier 1 instruments*;	*MIFIDPRU* 3.3A.3R to *MIFIDPRU* 3.3A.16R
(2)	share premium accounts related to the *common equity tier 1 instruments*;	
(3)	*retained earnings*;	

(4)	interim or provisional year-end profits;	*MIFIDPRU* 3.3A.17R and *MIFIDPRU* 3.3A.18G
(5)	*accumulated other comprehensive income*;	
(6)	*other reserves*;	
Note: (3) to (6) may only be recognised as *common equity tier 1 items* if they are available to the *firm* for unrestricted and immediate use to cover risks or losses as soon as these occur.		
LESS		
Deductions from *common equity tier 1 items*:		*MIFIDPRU* 3.3A.19G
(7)	losses for the current financial year;	*MIFIDPRU* 3.3A.20R
(8)	*intangible assets*;	*MIFIDPRU* 3.3A.21R
(9)	deferred tax assets that rely on future profitability;	*MIFIDPRU* 3.3A.22R
(10)	defined benefit pension fund assets;	*MIFIDPRU* 3.3A.23R
(11)	direct, indirect and synthetic holdings of own *common equity tier 1 instruments*;	*MIFIDPRU* 3.3A.24R, *MIFIDPRU* 3.3A.30R and *MIFIDPRU* 3.3A.31G
(12)	direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*;	*MIFIDPRU* 3.3A.25R, *MIFIDPRU* 3.3A.26G, and *MIFIDPRU* 3.3A.29R to *MIFIDPRU* 3.3A.31G
(13)	direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are not held in the *trading book*;	*MIFIDPRU* 3.3A.27R to *MIFIDPRU* 3.3A.31G
(14)	any excess of alternative tier 1 deductions above the *firm's additional tier 1 capital*;	*MIFIDPRU* 3.3A.32R

(15)	foreseeable tax charges relating to *common equity tier 1 items*;	*MIFIDPRU* 3.3A.33R
(16)	*qualifying holdings* outside the financial sector;	*MIFIDPRU* 3.3A.34R and *MIFIDPRU* 3.3A.35G
(17)	(for *partnerships* or *limited liability partnerships*) excess withdrawals;	*MIFIDPRU* 3.3A.36R
ADJUSTED FOR		
Prudential filters for *common equity tier 1 capital*:		
(18)	cash flow hedges and changes in the value of own liabilities due to own credit standing; and	*MIFIDPRU* 3.3A.37R and *MIFIDPRU* 3.3A.38G
(19)	additional valuation adjustment for the *trading book*.	*MIFIDPRU* 3.3A.39R

Prior permission and notification of issuances of common equity tier 1 instruments

3.3A.3 R (1) A *firm* must not classify an issuance of a capital instrument as a *common equity tier 1 instrument* unless:

(a) it has obtained prior permission from the *FCA*; or

(b) (i) it is issuing new instruments on terms which are substantially the same as instruments for which the *firm* has already received the *FCA's* prior permission; and

(ii) it notifies the *FCA* sufficiently far in advance of classifying the new instruments as *common equity tier 1 instruments*.

(2) The *FCA* will grant the permission in (1)(a) if it is satisfied that the capital instrument meets the criteria in *MIFIDPRU* 3.3A.5R to *MIFIDPRU* 3.3A.16R.

(3) (a) A *firm* must obtain the permission in (1)(a) by completing the form in *MIFIDPRU* 3 Annex 2R and submitting it to the *FCA* using the *online notification and application system*.

(b) A *firm* must notify under (1)(b) by completing the form in *MIFIDPRU* 3 Annex 3R and submitting it to the *FCA* using the *online notification and application system*.

3.3A.4 G The *FCA* generally expects to receive a notification of a new issuance of an existing form of *common equity tier 1 instrument* under *MIFIDPRU* 3.3A.3R(1)(b)(ii) at least 20 *business days* before the *firm* intends to classify that issuance as *common equity tier 1 instruments*.

Common equity tier 1 instruments: loss absorption

3.3A.5 R (1) A *common equity tier 1 instrument* must be classified as equity within the meaning of the applicable accounting framework.

(2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

(3) The holder of the instrument must not have any right, arising from the non-payment of any sums connected to the instrument, to petition for the winding up or administration of the *firm*, or any similar procedure.

(4) The instrument must not be secured by, or subject to, a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(5) (a) The *common equity tier 1 instruments* must rank below all other claims in the event of *liquidation*, except for claims from holders of other ordinary *shares* which rank pari passu with the instruments.

(b) The *common equity tier 1 instruments* must entitle their owners to a claim on the residual assets of the *firm* which, in the event of *liquidation* and after payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap, except that a claim specified as a percentage of residual assets does not constitute a fixed or capped claim.

(c) Each *common equity tier 1 instrument* must absorb losses to the same degree as all other *common equity tier 1 instruments*, and all *common equity tier 1 instruments* must absorb losses before any other *own funds instruments* issued by the *firm*.

3.3A.6 R While the conditions in *MIFIDPRU* 3.3A.5R(5) require *common equity tier 1 instruments* to absorb losses before any other *own funds instruments*, the fact that an *additional tier 1 instrument* or *tier 2 instrument* may be permanently written down does not prevent these conditions being met.

3.3A.7 R (1) A *common equity tier 1 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as a *common equity tier 1 instrument*.

3.3A.8 G *MIFIPDRU* 3.3A.7R requires that the full amount of capital has been irrevocably received by the *firm*, is fully under the *firm's* control, and does not directly or indirectly expose the *firm* to the credit risk of the investor. This condition is stricter than the definition of 'fully paid' in the Companies Act 2006, which may be met by an undertaking to pay.

3.3A.9 R (1) A *common equity tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.3A.10 G (1) *MIFIDPRU* 3.3A.9R prevents the artificial inflation of a *firm's own funds* by prohibiting a *firm* from funding its own capital instruments, at issuance or thereafter. This includes situations where:

(a) a *firm* grants a loan or other funding to an investor that is used to purchase the *firm's* own capital instruments;

(b) a *firm* grants any funding to an existing investor in its capital instruments;

(c) a *firm* provides a guarantee, enters into a credit derivative, or enters into some other form of arrangement so that the credit risk in a capital instrument is or may be transferred to the *firm*; or

(d) the funding in (a), (b) or (c) is provided to an external investor indirectly – for example, by a member of the *firm's group* or via another intermediary.

(2) However, there is an exception for funding that is provided in the ordinary course of a *firm's* business. This covers situations where:

(a) funding is provided as part of a *firm's* normal trading or business operations;

(b) the terms are comparable to the terms the *firm* offers for third-party instruments; and

(c) the funding is not designed to support the *firm's* capital position.

(3) For example, a market maker providing standard margin lending that happens to involve the market maker's own capital instruments is likely to qualify for the exception. However, a structured arrangement specifically designed to fund purchases of the *firm's* capital instruments would not qualify.

Common equity tier 1 instruments: perpetuity

3.3A.11 R (1) A *common equity tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which complies with *MIFIDPRU* 3.6A.4R or *MIFIDPRU* 3.6A.6R.

(2) A *firm* must not do anything to create an expectation that it will or might carry out a *reduction of capital* under (1)(b) when it issues the instrument, and the statutory or contractual terms of the instrument must not contain any feature which would or might give rise to such an expectation.

3.3A.12 G (1) A *firm* generally has the right to carry out a *reduction of capital* under company law. However, *MIFIDPRU* 3.6A.4R requires that any *reduction of capital* is generally first approved by the *FCA*.

(2) The *FCA* recognises that relevant documentation may acknowledge the fact that a *firm* is able to carry out a *reduction of capital*. However, the *firm* must not create an expectation that it would or might carry out a *reduction of capital* when it issues the relevant instrument.

(3) An expectation that a *firm* would or might carry out a *reduction of capital* may be created by:

(a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time;

(b) a term which suggests that a *reduction of capital* may be carried out at a particular point in time, or at the initiative of any *person* other than the *firm*, even if this is conditional upon the approval of the *firm's management body* and the *FCA*; or

(c) any other contractual or non-contractual indication that the *firm* would or might carry out a *reduction of capital* on a particular date, or in particular circumstances.

Common equity tier 1 instruments: perpetuity, partnerships and limited liability partnerships

3.3A.13 R (1) This *rule* applies to:

(a) a *partner's* account in a *firm* that is a *partnership*; and

(b) a member's account in a *firm* that is a *limited liability partnership*.

(2) References to a *partner* or a *partnership* in this *rule* include a member and a *limited liability partnership* respectively.

(3) A *partner's* account satisfies the conditions in *MIFIDPRU* 3.3A.11R if:

(a) capital contributed by *partners* is paid into the account; and

(b) the terms of the partnership agreement ensure that (otherwise than with prior *FCA* consent under *MIFIDPRU* 3.6A.4R or in the circumstances set out in *MIFIDPRU* 3.6A.6R) capital may only be withdrawn from the account by a *partner* ('A') if:

(i) A ceases to be a *partner* and an equal amount is contributed to another *partner's* account by A's former *partners* or any *person* replacing A as their *partner*;

(ii) any reduction in the capital credited to A's account is immediately offset by an equal contribution to other *partner* accounts by one or more of A's *partners* (including any *person* becoming a *partner* of A at the time that the additional contribution is made);

(iii) the *partnership* is wound up or dissolved; or

(iv) the *firm* ceases to be *authorised* or no longer has a *Part 4A permission*.

Common equity tier 1 instruments: distributions

3.3A.14 R A *common equity tier 1 instrument* must meet the following conditions regarding *distributions* (subject to *MIFIDPRU* 3.3A.16R):

(1) the instrument must not provide or allow for the payment of preferential *distributions* over other *common equity tier 1 instruments* or any other capital instruments;

(2) the instrument must not include a cap on *distributions* or any other restriction on the maximum amount payable;

(3) the level of *distributions* must not be linked to the amount for which the instrument was purchased at issuance;

(4) there must be no circumstances in which *distributions* are obligatory, including where non-payment triggers some other obligation (for example, to make payments in kind); and

(5) failure to make *distributions* must not constitute an event of default.

3.3A.15 G (1) *MIFIDPRU* 3.3A.14R(1) prohibits differentiated levels of *distributions*, or preferences in factors such as the order or timing of *distributions*, subject to the exception for instruments with fewer or no voting rights in *MIFIDPRU* 3.3A.16R.

(2) *MIFIDPRU* 3.3A.14R(5) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Common equity tier 1 instruments: dividend multiples on instruments with fewer or no voting rights

3.3A.16 R A *common equity tier 1 instrument* may pay a dividend multiple relative to another *common equity tier 1 instrument* if:

(1) the higher dividend multiple applies to *common equity tier 1 instruments* with fewer or no voting rights;

(2) the dividend multiple is set contractually or under the *firm's* constitution;

(3) the dividend multiple is not revisable;

(4) the same dividend multiple applies to all instruments with a dividend multiple;

(5) the dividend multiple is no more than 125% of the *distribution* on one voting *common equity tier 1 instrument*; and

(6) the total amount of *distributions* paid on all *common equity tier 1 instruments* during a 1-year period does not exceed 105% of the amount that would have been paid if instruments with fewer or no voting rights received the same *distributions* as voting instruments.

Inclusion of interim profits or provisional year-end profits in common equity tier 1 capital

3.3A.17 R (1) A *firm* must not include interim profits or year-end profits in its *common equity tier 1 capital* before its formal decision confirming final profit or loss for the year, unless:

(a) those profits have been verified by a *person* who is independent of the *firm* and is responsible for the auditing of the accounts of that *firm*;

(b) the verification provides an adequate level of assurance that those profits have been evaluated in accordance with the principles set out in the applicable accounting framework;

(c) the *firm* is satisfied that any foreseeable charge or dividend has been deducted from the amount of those profits on a prudent and conservative basis; and

(d) the *firm* notifies the *FCA* as soon as reasonably practicable after including the profits in its *common equity tier 1 capital*.

(2) A *firm* must make the notification in (1)(d) by completing the form in *MIFIDPRU* 3 Annex 1R and submit it to the *FCA* using the *online notification and application system*.

3.3A.18 G (1) When deducting foreseeable dividends under *MIFIDPRU* 3.3A.17R(1)(c), a *firm* should consider:

(a) any formal decisions about dividends that have been taken by the *firm's management body*;

(b) the upper end of any dividend policy;

(c) the ratio of dividends to income paid out in previous years; and

(d) any other factors that might reasonably affect the *firm's* approach to *distributions* for the relevant period.

(2) When deducting foreseeable charges under *MIFIDPRU* 3.3A.17R(1)(c), a *firm* should consider:

(a) any tax charges attributable to the profits being verified;

(b) any other charges that are attributable to the relevant period but have not yet been reflected in the *firm's common equity tier 1 capital* calculation; and

(c) any other factors that might reasonably be expected to affect the final profit or loss figure for the period.

Deductions and filters for common equity tier 1 capital

3.3A.19 G (1) Deductions and filters help to ensure that a *firm* measures its *own funds* in a way that reflects its ability to absorb losses in stressed conditions or *liquidation*.

(2) They achieve this by adjusting accounting values – for example, because those values:

(a) are subject to significant valuation uncertainty;

(b) may not reflect realisable values in stressed conditions;

(c) include unrealised or market-value gains and losses that may reverse with changing market conditions; or

(d) are only realisable if the *firm* continues to operate as a going concern.

Deduction of losses for the current financial year

3.3A.20 R (1) A *firm* must deduct losses for the current financial year, save where the losses have already resulted in a reduction in its *common equity tier 1 items*.

(2) For the purposes of (1), a *firm* must:

(a) apply the same accounting policies and standards as used for the year-end financial report;

(b) prudently estimate and assign income and expenses to the interim period in which they are incurred;

(c) recognise material or non-recurrent events in full and without delay in the interim period during which they arise; and

(d) determine profits, gains and losses, and deduct any resulting losses, as they arise.

Deduction of intangible assets

3.3A.21 R (1) A *firm* must deduct *intangible assets*.

(2) For the purposes of (1):

(a) a *firm* must also deduct any *intangible assets* included in the valuation of its *qualifying holdings*;

(b) where the *qualifying holding* in (2)(a) is not wholly owned or controlled by the *firm*, the *firm* must only deduct the portion of *intangible assets* corresponding to its percentage of ownership or control; and

(c) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities that would be extinguished if the *intangible assets* became impaired or were derecognised, under the applicable accounting framework.

Deduction of deferred tax assets that rely on future profitability

3.3A.22 R (1) A *firm* must deduct deferred tax assets that rely on future profitability.

(2) For the purposes of (1):

(a) a *firm* may offset deferred tax liabilities against associated deferred tax assets if:

(i) the *firm* has a legally enforceable right to set off those current tax assets against current tax liabilities;

(ii) the deferred tax assets and the deferred tax liabilities arise from the same tax authority and for the same taxable entity; and

(iii) the deferred tax liabilities do not reduce the amount of *intangible assets* or defined pension fund assets deductible under *MIFIDPRU* 3.3A.21R or *MIFIDPRU* 3.3A.23R; and

(b) for the calculation of deferred tax assets and liabilities at consolidated level, a taxable entity includes any number of entities which are members of the same tax group, fiscal consolidation, fiscal unity or consolidated tax return.

Deduction of defined benefit pension fund assets on the firm's balance sheet

3.3A.23 R (1) A *firm* must deduct the value of any defined benefit pension fund assets on its balance sheet.

(2) For the purposes of (1):

(a) a *firm* must net off pension fund assets against its obligations under the fund; and

(b) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities which would be extinguished if the assets became impaired or were derecognised, under the applicable accounting framework.

Deduction of holdings of own common equity tier 1 instruments

3.3A.24 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *common equity tier 1 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase its own *common equity tier 1 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside the *trading book*.

Deduction of holdings of common equity tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.3A.25 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* that is designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must deduct holdings based on its gross long position.

3.3A.26 G The following factors indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially:

(1) the cross-holding does not serve a genuine business purpose;

(2) the timing and circumstances of the cross-holding suggest an intention to boost regulatory capital; or

(3) other connections between relevant entities which might indicate coordinated capital management.

Deduction of holdings of common equity tier 1 or comparable instruments of financial sector entities

3.3A.27 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *MIFIDPRU* 3.3A.28R applies.

(2) A *firm* must calculate holdings based on its gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long position where:

(a) (i) the maturity date of the short position is the same as, or longer than, the maturity date of the long position; or

(ii) the residual maturity of the short position is at least one year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of common equity tier 1 instruments issued by a financial sector entity within an investment firm group

3.3A.28 R A *firm* is not required to deduct holdings of *common equity tier 1 instruments* of a *financial sector entity* under *MIFIDPRU* 3.3A.27R if all of the following conditions are met:

(1) the *financial sector entity* forms part of the same *investment firm group* as the *firm*;

(2) there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the *financial sector entity*;

(3) the *investment firm group* is subject to prudential consolidation under *MIFIDPRU* 2.5; and

(4) the risk evaluation, measurement and control procedures of the *parent undertaking* include the *financial sector entity*.

Common equity tier 1 or comparable instruments

3.3A.29 R A *common equity tier 1 or comparable instrument* means:

(1) (for an entity subject to *MIFIDPRU*) a *common equity tier 1 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) 'Tier 1 own funds' as defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*, the inclusion of which is not restricted by Own Funds (Solvency II Firms) 4A.3 in the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that ranks below all other claims in *liquidation*.

Identifying and valuing indirect and synthetic holdings

3.3A.30 R For the purposes of *MIFIDPRU* 3.3A.24R, *MIFIDPRU* 3.3A.25R and *MIFIDPRU* 3.3A.27R:

(1) An indirect holding means an economic exposure through an intermediate entity such as a holding company or special purpose vehicle.

(2) A *firm* must calculate the amount to be deducted for indirect holdings by:

(a) identifying any intermediate entities or structures through which it may be exposed to a deductible *common equity tier 1 instrument*;

(b) making a prudent estimate of the full economic exposure of the intermediate entities or structures to deductible instruments; and

(c) deducting the proportion of economic exposure that is attributable to the *firm*.

(3) A *firm* is not required to treat a holding in a *fund* as an indirect holding.

(4) A synthetic holding means an economic exposure through a derivative instrument, guarantee, credit protection or other similar arrangement.

(5) A *firm* must calculate the amount to be deducted for synthetic holdings by determining the maximum potential loss that would arise if the underlying deductible *common equity tier 1 instrument* or equivalent economic exposure had zero value, taking into account:

(a) all contractual obligations relating to the position; and

(b) any other features that could increase the *firm's* economic exposure.

3.3A.31 G (1) *MIFIDPRU* 3.3A.30R explains how a *firm* should identify and value any indirect or synthetic holdings for the purposes of *MIFIDPRU* 3.3A.24R, *MIFIDPRU* 3.3A.25R and *MIFIDPRU* 3.3A.27R.

(2) The *FCA* generally considers it disproportionate to require a *firm* to look through a *fund* for these purposes, given the limited exposures to a *firm's* own capital instruments and those of other *financial sector entities* that are likely to arise through most *funds*.

(3) However, *MIFIDPRU* 3.1A.7G reminds *firms* to consider the economic substance of its capital arrangements. The *FCA* does not expect to see *firms* entering into arrangements intended to arbitrage this or other such concessions. Where a *fund* has a purpose or mandate to invest mainly in the capital instruments of *financial sector entities*, a *firm* should apply the relevant capital deductions accordingly.

Deduction of excess AT1 deductions

3.3A.32 R A *firm* must deduct from *common equity tier 1 items* the amount by which any items required to be deducted from *additional tier 1 capital* under *MIFIDPRU* 3.4A.2R exceed *additional tier 1 items*.

Deduction of foreseeable tax charges relating to common equity tier 1 items

3.3A.33 R (1) This deduction applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.

(2) Where this deduction applies, a *firm* must:

(a) deduct any foreseeable current and deferred tax charges relating to *common equity tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;

(b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and

(c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

Deduction of qualifying holdings outside the financial sector

3.3A.34 R (1) A *firm* must deduct the higher of:

(a) the sum of the amounts by which any *qualifying holdings* in *non-financial sector entities* each exceed 15% of the *firm's own funds*; or

(b) the amount by which all its *qualifying holdings* in *non-financial sector entities* exceed 60% of the *firm's own funds*.

(2) The *own funds* limits in (1)(a) and (1)(b) must be calculated before applying this deduction.

(3) When calculating the amounts in (1), a *firm* must treat a *fund* as a *non-financial sector entity*.

(4) When calculating the amounts in (1), a *firm* must exclude:

(a) shares held in the name of the *firm* on behalf of others;

(b) shares held in the *trading book*; and

(c) shares which are not financial fixed assets as defined in paragraph 94 of Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/401).

3.3A.35 G (1) The following examples illustrate how to apply the deduction in *MIFIDPRU* 3.3A.34R.

(2) Firm Z has *own funds* of £100m before applying this deduction. Firm Z has *qualifying holdings* in *non-financial sector entities* of £20m, £25m and £30m.

(3) Firm Z must deduct the higher of the amounts calculated under *MIFIDPRU* 3.3A.34R(1)(a) or (b).

(4) Firm Z calculates the amount in *MIFIDPRU* 3.3A.34R(1)(a) as (£20m – £15m) + (£25m – £15m) + (£30m – £15m) = £30m.

(5) Firm Z calculates the amount in *MIFIDPRU* 3.3A.34R(1)(b) as (£20m + £25m + £30m) – £60m = £15m.

(6) £30m is the higher amount and Firm Z therefore deducts £30m.

Deduction of excess partnership withdrawals

3.3A.36 R A *firm* that is a *partnership* or a *limited liability partnership* must deduct the amount by which the aggregate of any amounts withdrawn by its *partners* or members exceeds the profits of the *firm*, except to the extent that the amount:

(1) has already been deducted from the *firm's own funds* as a loss under *MIFIDPRU* 3.3A.20R;

(2) was repaid in accordance with *MIFIDPRU* 3.3A.13R(3); or

(3) is already reflected in a reduction of the *firm's own funds* that was permitted under *MIFIDPRU* 3.6A.4R or *MIFIDPRU* 3.6A.6R.

Adjustment for cash flow hedges and changes in the value of own liabilities

3.3A.37 R A *firm* must exclude the following from its *common equity tier 1 items*:

(1) any unrealised gain or loss on cash flow hedges of financial instruments that are not measured at fair value, except where:

(a) the hedged item itself is measured at fair value; or

(b) the unrealised gain or loss represents effective net investment hedges of foreign operations; and

(2) any gain or loss arising from changes in the value of its liabilities that are due to changes in the *firm's* own credit standing.

3.3A.38 G (1) *MIFIDPRU* 3.3A.37R(1) prevents unrealised gains or losses that arise from cash flow hedges from being included in *common equity tier 1 capital* where the hedged financial instruments are not measured at fair value. This filter is necessary because these hedge-related gains or losses may reverse over time, while not being matched by corresponding changes in the value of the hedged item in the regulatory capital calculation.

(2) *MIFIDPRU* 3.3A.37R(2) ensures that a deterioration in a *firm's* own creditworthiness does not increase its *common equity tier 1 capital*. For example, if a *firm's* creditworthiness deteriorates, this could result in the fair value of its liabilities decreasing, resulting in an accounting gain. This gain is counterproductive from a prudential perspective because the *firm's* financial condition is actually worsening. *MIFIDPRU* 3.3A.37R(2) filters this out to ensure capital reflects true loss-absorbing capacity.

Additional value adjustment for the trading book

3.3A.39 R (1) A *firm* with a *trading book* must deduct the additional valuation adjustment in (2) from its *common equity tier 1 items*.

(2) A *firm* must calculate the additional valuation adjustment as 0.1% of the base value of positions in the *trading book*.

(3) The base value of positions in the *trading book* is the sum of the absolute value of fair-valued assets and liabilities stated in its financial statements under the applicable accounting framework, except that:

(a) exactly matching offsetting fair-valued assets and liabilities must be excluded;

(b) where a change in the accounting valuation of fair-valued assets and liabilities would only partially be reflected in *common equity tier 1 capital*, the value of those assets or liabilities must only be included in proportion to the impact of the relevant valuation change on *common equity tier 1 capital*; and

(c) where a change in the accounting valuation of fair-valued assets and liabilities would have no impact on *common equity tier 1 capital*, the value of those assets or liabilities must be excluded.

3.3A.40 G *MIFIDPRU* 4.11 (Trading book and dealing on own account: general provisions) contains additional requirements for managing and valuing positions in the *trading book*.

MIFIDPRU 3.4 (Additional Tier 1 capital) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.4 ~~Additional Tier 1 capital~~ [deleted]

Insert the following new section, MIFIDPRU 3.4A, after MIFIDPRU 3.4. All the text is new and is not underlined.

3.4A Additional tier 1 capital

3.4A.1 G (1) *Additional tier 1 capital* has the following core characteristics:

(a) it converts into *common equity tier 1 capital*, or is written down, upon the occurrence of one or more trigger events;

(b) it has no fixed maturity;

(c) there is no inescapable obligation to make a *distribution*; and

(d) *distributions* do not accelerate when the *firm* experiences stress.

(2) The remainder of *MIFIDPRU* 3.4A contains the detailed *rules* and *guidance* for calculating *additional tier 1 capital*.

3.4A.2 R A *firm* must calculate its *additional tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found.

Item		**Relevant rules and guidance**
Additional tier 1 items:		
(1)	*additional tier 1 instruments*;	*MIFIDPRU* 3.4A.3R to *MIFIDPRU* 3.4A.16G
(2)	share premium accounts related to the *additional tier 1 instruments*;	
LESS		
Deductions from *additional tier 1 items*:		
(3)	direct, indirect and synthetic holdings of own *additional tier 1 instruments*;	*MIFIDPRU* 3.4A.17R and *MIFIDPRU* 3.4A.23R
(4)	direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*;	*MIFIDPRU* 3.4A.18R, *MIFIDPRU* 3.4A.19G, *MIFIDPRU* 3.4A.22R and *MIFIDPRU* 3.4A.23R
(5)	direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are not held in the *trading book*;	*MIFIDPRU* 3.4A.20R to *MIFIDPRU* 3.4A.23R
(6)	any excess of tier 2 deductions above the *firm's tier 2 capital*; and	*MIFIDPRU* 3.4A.24R
(7)	foreseeable tax charges relating to *additional tier 1 items*.	*MIFIDPRU* 3.4A.25R

Additional tier 1 instruments: loss absorption

3.4A.3 R (1) If one or more trigger events occur, the full principal amount of the *additional tier 1 instrument* must be written down on a permanent or temporary basis, or the instrument converted into a *common equity tier*

1 instrument, in accordance with the requirements of *MIFIDPRU* 3.4A.9R to *MIFIDPRU* 3.4A.12R.

(2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

(3) An *additional tier 1 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(4) The instrument must rank below any *tier 2 instrument* in *liquidation*.

(5) The instrument must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.

(6) The provisions governing the instrument must not include any feature that could hinder the recapitalisation of the *firm*.

3.4A.4 G For the purposes of *MIFIDPRU* 3.4A.3R(6), a feature that could hinder the recapitalisation of the *firm* includes:

(1) a provision that requires the *firm* to compensate existing holders of capital instruments where a new capital instrument is issued; and

(2) other terms that could discourage the *firm* from issuing new capital instruments for recapitalisation.

3.4A.5 R (1) An *additional tier 1 instrument* must be fully paid and the proceeds of issue must be immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as an *additional tier 1 instrument*.

3.4A.6 G *MIFIDPRU* 3.3A.8G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

3.4A.7 R (1) An *additional tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.4A.8 G *MIFIDPRU* 3.3A.10G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

Additional tier 1 instruments: trigger events

3.4A.9 R (1) A *firm* must specify one or more trigger events in the terms of an *additional tier 1 instrument*.

(2) The trigger events specified under (1) must include a trigger event that occurs where the *common equity tier 1 capital* of the *firm* falls below a level specified by the *firm* that is no lower than 64% of the *firm's own funds requirement*.

(3) The full principal amount of an *additional tier 1 instrument* must be written down or converted when a trigger event occurs.

(4) The amount recognised for *additional tier 1 instruments* and any associated share premium accounts must not exceed the amount of *common equity tier 1 items* that would be generated if there was a write down or conversion.

(5) Where a trigger event occurs, a *firm* must:

(a) convene the *management body* or other *relevant body* without delay to determine that a trigger event has occurred;

(b) immediately inform the *FCA*;

(c) inform the holders of the *additional tier 1 instruments*; and

(d) write down or convert the instruments without delay, and within 1 *month*.

3.4A.10 G (1) *MIFIDPRU* 3.4A.9R requires that the principal amount of an *additional tier 1 instrument* converts into *common equity tier 1 instruments* or is written down if the *firm's common equity tier capital* falls below a specified level.

(2) This level must be set at no lower than 64% of the *firm's own funds requirement*, but a *firm* may set the relevant trigger at a higher level (such as 70% of its *own funds requirement*) if it wishes.

(3) A *firm* may also specify additional trigger events alongside the required trigger event in *MIFIDPRU* 3.4A.9R(2).

Additional tier 1 instruments: write down

3.4A.11 R Where a *firm* issues *additional tier 1 instruments* that write down:

(1) the write-down must extinguish:

(a) the claim of the holder in *liquidation*;

(b) any amount required to be paid in the event of call or redemption of the instrument; and

(c) any *distribution* on the instrument;

(2) the write-down must apply to all holders of *additional tier 1 instruments* that include the same trigger; and

(3) in the case of a write-up after temporary write-down:

(a) any write-up must be based on profits after the *firm* has taken a formal decision confirming the final profits;

(b) any write-up must be at the full discretion of the *firm* (subject to (c) to (e) below), and there must be no obligation on the *firm* to operate or accelerate a write-up under specific circumstances;

(c) write-up must be operated on a pro rata basis among *additional tier 1 instruments* with the same trigger that was subject to write-down;

(d) the maximum amount that can be written up must be calculated using the formula:

$$M = P * A/T$$

where:

- M = the maximum amount that can be written up;
- P = the profit of the *firm*;
- A = the aggregate nominal value (before write-down) of all *additional tier 1 instruments* that were subject to a write-down; and
- T = the sum of the *common equity tier 1 capital* and *additional tier 1 capital* of the *firm*; and

(e) any write-up amount must be treated as a payment that reduces the *firm's common equity tier 1 capital*.

Additional tier 1 instruments: conversion into common equity tier 1

3.4A.12 R Where a *firm* issues *additional tier 1 instruments* that convert into *common equity tier 1 instruments*, it must:

(1) specify in the provisions governing the *additional tier 1 instruments* either:

(a) the rate of such conversion; or

(b) a range within which the instruments will convert into *common equity tier 1 instruments*;

(2) retain all necessary authorisations for converting all of its *additional tier 1 instruments* into *common equity tier 1 instruments*; and

(3) ensure there are no procedural impediments to conversion under its constitutional or contractual arrangements.

Additional tier 1 instruments: perpetuity

3.4A.13 R (1) An *additional tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which:

(i) complies with *MIFIDPRU* 3.6A.4R or *MIFIDPRU* 3.6A.6R; and

(ii) does not take place before 5 years after the date of issuance, unless the conditions in *MIFIDPRU* 3.6A.6R(1) or (2) are met.

(2) The *additional tier 1 instrument* must not include any incentive for the *firm* to carry out a *reduction of capital*.

(3) A *firm* must not explicitly or implicitly indicate that the *additional tier 1 instrument* would be redeemed or repaid other than in *liquidation*, and the terms of the instrument must not provide such an indication.

(4) Where the *additional tier 1 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

(5) A *firm* must not indicate explicitly or implicitly that the *FCA* would consent to a *reduction of capital*.

3.4A.14 G (1) An incentive to carry out a *reduction of capital* in *MIFIDPRU* 3.4A.13R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed.

(2) Examples of (1) include:

(a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time; and

(b) marketing of the instrument in a way which suggests to investors that the instrument will be called.

Additional tier 1 instruments: distributions

3.4A.15 R An *additional tier 1 instrument* must meet the following conditions regarding *distributions*:

(1) the *firm* must at all times have full discretion to cancel *distributions* on the instruments for an unlimited period and on a non-cumulative basis;

(2) the *firm* must be able to use cancelled *distributions* to meet its obligations as they fall due, without restriction;

(3) failure to make *distributions* must not constitute an event of default;

(4) the *additional tier 1 instrument* must not include a requirement:

(a) to make a *distribution* in the event of a *distribution* being made on another instrument that ranks the same or more junior;

(b) that, if a *distribution* is not made on that instrument, a *distribution* cannot be made on another capital instrument; or

(c) substituting the obligation to make a *distribution* with any other obligation to make payment in any other form; and

(5) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

3.4A.16 G *MIFIDPRU* 3.4A.15R(3) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Deduction of holdings of own additional tier 1 instruments

3.4A.17 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *additional tier 1 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase the *additional tier 1 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of additional tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.4A.18 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *additional tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.4A.19 G The factors in *MIFIDPRU* 3.3A.26G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of additional tier 1 or comparable instruments of financial sector entities

3.4A.20 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *MIFIDPRU* 3.4A.21R applies.

(2) A *firm* must calculate holdings based on its gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long position where:

(a) (i) the maturity date of the short position is the same or later than the maturity date of the long position; or

(ii) the residual maturity of the short position is at least 1 year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of additional tier 1 instruments issued by a financial sector entity within an investment firm group

3.4A.21 R A *firm* is not required to deduct holdings of *additional tier 1 instruments* of a *financial sector entity* under *MIFIDPRU* 3.4A.20R if all of the following conditions are met:

(1) the *financial sector entity* forms part of the same *investment firm group* as the *firm*;

(2) there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the *financial sector entity*;

(3) the *investment firm group* is subject to prudential consolidation under *MIFIDPRU* 2.5; and

(4) the risk evaluation, measurement and control procedures of the *parent undertaking* include the *financial sector entity*.

Additional tier 1 or comparable instruments

3.4A.22 R An *additional tier 1 or comparable instrument* means:

(1) (for an entity subject to *MIFIDPRU*) an *additional tier 1 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) 'Tier 1 own funds' as defined in the Own Funds (Solvency II) part of the *PRA Rulebook*, the inclusion of which is restricted by Own Funds (Solvency II Firms) 4A.3 in the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that does not rank below all other claims in *liquidation* but absorbs losses on a going concern basis.

Identifying and valuing indirect and synthetic holdings

3.4A.23 R *MIFIDPRU* 3.3A.30R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *additional tier 1 instruments* as it applies to holdings of *common equity tier 1 instruments*.

Deduction of excess tier 2 deductions

3.4A.24 R A *firm* must deduct from *additional tier 1 items* the amount by which any items required to be deducted from *tier 2 items* under *MIFIDPRU* 3.5A.2R exceed *tier 2 items*.

Deduction of foreseeable tax charges relating to additional tier 1 items

3.4A.25 R (1) This deduction applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.

(2) Where this deduction applies, a *firm* must:

(a) deduct any current and deferred tax charges relating to *additional tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;

(b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and

(c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

MIFIDPRU 3.5 (Tier 2 capital) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.5 ~~Tier 2 capital~~ [deleted]

Insert the following new section, MIFIDPRU 3.5A, after MIFIDPRU 3.5. All the text is new and is not underlined.

3.5A Tier 2 capital

3.5A.1 G (1) *Tier 2 capital* has the following core characteristics:

(a) it ranks below ordinary creditors in *liquidation*;

(b) it has an original maturity of at least 5 years;

(c) it amortises over the final 5 years; and

(d) *distributions* do not accelerate when the *firm* experiences stress.

(2) The remainder of *MIFIDPRU* 3.5A contains detailed *rules* and *guidance* for calculating *tier 2 capital*.

3.5A.2 R A *firm* must calculate its *tier 2 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found.

Item		**Relevant rules and guidance**
Tier 2 items:		
(1)	*Tier 2 instruments*;	*MIFIDPRU* 3.5A.3R to *MIFIDPRU* 3.5A.11R
(2)	share premium accounts related to the *tier 2 instruments*;	
LESS		
Deductions from *tier 2 items*:		
(3)	direct, indirect and synthetic holdings of own *tier 2 instruments*;	*MIFIDPRU* 3.5A.12R and *MIFIDPRU* 3.5A.18R
(4)	direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*; and	*MIFIDPRU* 3.5A.13R, *MIFIDPRU* 3.5A.14G, *MIFIDPRU* 3.5A.17R and *MIFIDPRU* 3.5A.18R

(5)	direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* which are not held in the *trading book*.	*MIFIDPRU* 3.5A.15R to *MIFIDPRU* 3.5A.18R

Tier 2 instruments: loss absorption

3.5A.3 R (1) The claim on the principal amount of a *tier 2 instrument* must be wholly subordinated to the claims of all non-subordinated creditors.

(2) A *tier 2 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(3) A *tier 2 instrument* must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.

3.5A.4 R (1) A *tier 2 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as a *tier 2 instrument*.

3.5A.5 G *MIFIDPRU* 3.3A.8G applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

3.5A.6 R (1) A *tier 2 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.5A.7 G *MIFIDPRU* 3.3A.10G applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

Tier 2 instruments: duration

3.5A.8 R (1) A *tier 2 instrument* must have an original maturity of at least 5 years, with a *reduction of capital* prior to maturity only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which:

(i) has been approved by the *FCA* under *MIFIDPRU* 3.6A.4R; and

(ii) does not take place before 5 years after the date of issuance, unless the conditions in *MIFIDPRU* 3.6A.6R(1) or (2) are met.

(2) A *tier 2 instrument* must not include any incentive for the principal amount to be redeemed or repaid prior to maturity, or a right to accelerate early redemption or repayment.

(3) A *firm* must not explicitly or implicitly indicate that the *tier 2 instrument* would be redeemed or repaid prior to maturity other than in *liquidation*, and the terms of the instrument must not provide such an indication.

(4) Where the *tier 2 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

3.5A.9 G (1) An incentive for the principal amount to be redeemed or repaid in *MIFIDPRU* 3.5A.8R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed before its stated maturity date.

(2) Examples of an incentive under (1) include:

(a) a term which creates an economic incentive for the *firm* to reduce or repay the principal before maturity; and

(b) marketing of the instrument in a way which suggests to investors that the instrument will be called before maturity.

Tier 2 instruments: amortisation

3.5A.10 R Where a *tier 2 instrument* has a residual maturity of 5 years or less, the proportion of the instrument which qualifies as a *tier 2 item* must be calculated by multiplying A and B, where:

- A is the notional amount of the instrument on the first day of the final 5-year period of its contractual maturity divided by the number of *days* in that period; and
- B is the number of remaining *days* of contractual maturity of the instrument.

Tier 2 instruments: distributions

3.5A.11 R A *tier 2 instrument* must meet the following conditions regarding *distributions*:

(1) the holder of the instrument must have no right to accelerate the future scheduled payment of *distributions*, other than in *liquidation*; and

(2) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

Deduction of holdings of own tier 2 instruments

3.5A.12 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *tier 2 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase the *tier 2 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of tier 2 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.5A.13 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *tier 2 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.5A.14 G The factors in *MIFIDPRU* 3.3A.26G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of tier 2 or comparable instruments of financial sector entities

3.5A.15 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *MIFIDPRU* 3.5A.16R applies.

(2) A *firm* must calculate holdings based on its the gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long positions where:

(a) (i) the maturity date of the short position is the same or later than the maturity date of the long position; or

(ii) the residual maturity of the short position is at least 1 year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of tier 2 instruments issued by a financial sector entity within an investment firm group

3.5A.16 R A *firm* is not required to deduct holdings of *tier 2 instruments* of a *financial sector entity* under *MIFIDPRU* 3.5A.15R if all of the following conditions are met:

(1) the *financial sector entity* forms part of the same *investment firm group* as the *firm*;

(2) there is no current or foreseen material, practical or legal impediment to the prompt transfer of capital or repayment of liabilities by the *financial sector entity*;

(3) the *investment firm group* is subject to prudential consolidation under *MIFIDPRU* 2.5; and

(4) the risk evaluation, measurement and control procedures of the *parent undertaking* include the *financial sector entity*.

Tier 2 or comparable instruments

3.5A.17 R A *tier 2 or comparable instrument* means:

(1) (for an entity subject to *MIFIDPRU*) a *tier 2 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*):

(a) ‘Tier 2 basic own funds’ as defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

(b) ‘Tier 3 own funds’ that are ‘basic own funds’ as those terms are defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any subordinated instrument that does not absorb losses on a going-concern basis.

Identifying and valuing indirect and synthetic holdings

3.5A.18 R *MIFIDPRU* 3.3A.30R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *tier 2 instruments* as it applies to holdings of *common equity tier 1 instruments*.

MIFIDPRU 3.6 (General requirements for own funds instruments) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.6 ~~General requirements for own funds instruments~~ [deleted]

Insert the following new section, MIFIDPRU 3.6A, after MIFIDPRU 3.6. All the text is new and is not underlined.

3.6A General requirements for own funds instruments

3.6A.1 R An *own funds instrument* must not provide or allow for the payment of *distributions* in a form other than cash or *own funds instruments*.

3.6A.2 R For the purposes of the deductions in *MIFIDPRU* 3.3A.24R, *MIFIDPRU* 3.3A.27R, *MIFIDPRU* 3.4A.17R, *MIFIDPRU* 3.4A.20R, *MIFIDPRU* 3.5A.12R and *MIFIDPRU* 3.5A.15R, a *firm* may reduce the amount of a long position in a capital instrument by the portion of a short position in an index that is made up of the same underlying exposure, provided that:

(1) the positions are either both held in the *trading book*, or are both held outside of the *trading book*; and

(2) the positions are held at fair value on the *firm's* balance sheet.

3.6A.3 R An *own funds instrument* and any associated share premium account immediately ceases to count towards *own funds* if it ceases to meet any applicable requirement in *MIFIDPRU* 3.

Reduction of own funds instruments

3.6A.4 R Save in the circumstances set out in *MIFIDPRU* 3.6A.6R, a *firm* must obtain the prior permission of the *FCA* to:

(1) carry out a *reduction of capital* in relation to any of its *common equity tier 1 instruments*;

(2) reduce, distribute or reclassify as another *own funds* item the share premium accounts related to any of its *own funds instruments*;

(3) carry out a *reduction of capital* in relation to an *additional tier 1 instrument*, whether on a call date or otherwise; or

(4) carry out a *reduction of capital* in relation to a *tier 2 instrument* prior to maturity.

3.6A.5 R (1) To obtain the permission in *MIFIDPRU* 3.6A.4R, a *firm* must complete the form in *MIFIDPRU* 3 Annex 4R and submit it to the *FCA* using the *online notification and application system*.

(2) The *FCA* will grant the permission in (1) if it is satisfied that the *firm* will continue to exceed its *own funds threshold requirement* by a margin sufficient to ensure adequate financial resilience for the foreseeable future.

3.6A.6 R A *firm* is not required to obtain the permission in *MIFIDPRU* 3.6A.4R if:

(1) the instrument is being repurchased for market making purposes; or

(2) all of the following conditions are met:

(a) either of the conditions in *MIFIDPRU* 3.6A.7R are met;

(b) at least 20 *business days* before the *day* on which the *reduction of capital* is proposed to occur, the *firm* has notified the *FCA* of:

(i) the proposed *reduction of capital*; and

(ii) the basis on which the *firm* has concluded that either condition in (a) is satisfied;

(c) the notification in (2)(b) is made using the form in *MIFIDPRU* 3 Annex 5R and submitted using the *online notification and application system*; and

(d) the *FCA* has not notified the *firm* of any objection to the proposal before the *day* on which the *reduction of capital* is proposed to occur.

3.6A.7 R The conditions referred to in *MIFIDPRU* 3.6A.6R(2)(a) are that:

(1) before or at the same time as the *reduction of capital*, the *firm* replaces the relevant *own funds instruments* with *own funds instruments* of equal or higher quality on terms that are sustainable for the income capacity of the *firm*, so that:

(a) the profitability of the *firm* will continue to be sound and will not see any negative change in the foreseeable future after the replacement of the original *own funds instruments* with *own funds instruments* of equal or higher quality; and

(b) the assessment of profitability in the foreseeable future in (1)(a) takes into account the *firm's* profitability in stressed situations; or

(2) the *firm* is redeeming *additional tier 1 instruments* or *tier 2 instruments* within 5 years of their date of issue and either:

(a) there is a change in the regulatory classification of the instruments that is likely to result in their exclusion from *own funds* or reclassification as a lower quality form of *own funds*, and both the following conditions are met:

(i) there are reasonable grounds to conclude that the change is sufficiently certain; and

(ii) the regulatory reclassification of the instruments was not reasonably foreseeable at the time of their issuance; or

(b) there is a change in the applicable tax treatment of those instruments which is material and was not reasonably foreseeable at the time of their issuance.

Notification of issuance of additional tier 1 and tier 2 instruments

3.6A.8 R (1) A *firm* must notify the *FCA* at least 20 *business days* before the intended issuance date of the *firm's* intention to issue:

(a) *additional tier 1 instruments*; or

(b) *tier 2 instruments*.

(2) The notification requirement in (1) does not apply if:

(a) the *firm* has previously notified the *FCA* of an issuance of the same class of *additional tier 1 instruments* or *tier 2 instruments*; and

(b) the terms of the new instruments are identical in all material respects to the terms of the instruments in the issuance previously notified to the *FCA*.

(3) The notification under (1) must:

(a) be submitted to the *FCA* through the *online notification and application system* using the form in *MIFIDPRU* 3 Annex 6R; and

(b) include the following:

(i) confirmation of whether the instruments are intended to be classified as *additional tier 1 instruments* or *tier 2 instruments*;

(ii) confirmation of whether the instruments are intended to be issued to external investors or only to other members of the *firm's group* or connected parties;

(iii) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;

(iv) confirmation from a member of the *firm's senior management* or *governing body* who has oversight of the intended issuance that the instrument meets the conditions in *MIFIDPRU* 3.4A or *MIFIDPRU* 3.5A (as applicable) to be classified as *additional tier 1 instruments* or *tier 2 instruments*; and

(v) a properly reasoned legal opinion from an appropriately qualified *individual*, confirming that the capital instruments meet the conditions in (iv).

3.6A.9 G *Firms* that are proposing to classify an issuance of capital instruments as *common equity tier 1 capital* should refer to the obligations and *guidance* in *MIFIDPRU* 3.3A.3R and *MIFIDPRU* 3.3A.4G. In particular, *firms* must obtain the *FCA's* prior permission for the first issuance of a class of instruments that is intended to comprise *common equity tier 1 capital*.

3.6A.10 G Submitting a notification in accordance with *MIFIDPRU* 3.6A.8R does not guarantee that the relevant instruments meet the required conditions in *MIFIDPRU* 3.4A or *MIFIDPRU* 3.5A to qualify as *own funds*. The *firm* or *parent undertaking* must ensure that an instrument continues to meet the conditions to be counted as *own funds*, including if its terms are varied on a later date.

MIFIDPRU 3.7 (Composition of capital for parent undertakings subject to the group capital test) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

3.7 ~~Composition of capital for parent undertakings subject to the group capital test~~ [deleted]

Insert the following new section, MIFIDPRU 3.7A, after MIFIDPRU 3.7. All the text is new and is not underlined.

3.7A Composition of capital for parent undertakings subject to the group capital test

3.7A.1 R This section applies to a *parent undertaking* in accordance with *MIFIDPRU* 3.1A.2R.

3.7A.2 R A *parent undertaking* must, at all times, have *own funds instruments* that satisfy the following conditions:

(1) the *parent undertaking's common equity tier 1 capital* must be at least equal to:

(a) the sum of the book value of the *parent undertaking's* holdings of the *common equity tier 1 capital* of the *relevant financial undertakings* under *MIFIDPRU* 2.6.5R; plus

(b) the total amount of all the *parent undertaking's* contingent liabilities in favour of the *relevant financial undertakings* under *MIFIDPRU* 2.6.5R;

(2) the sum of *common equity tier 1 capital* and *additional tier 1 capital* of the *parent undertaking* must be at least equal to the sum of:

(a) the amounts in (1)(a) and (1)(b); plus

(b) the sum of the book value of the *parent undertaking's* holdings in the *additional tier 1 capital* of the *relevant financial undertakings* under *MIFIDPRU* 2.6.5R; and

(3) the sum of the *parent undertaking's own funds instruments* must be at least equal to the total requirement under *MIFIDPRU* 2.6.5R.

3.7A.3 G As explained in *MIFIDPRU* 2.6.6G, the *group capital test* effectively applies to each intermediate *parent undertaking*, as well as to the ultimate *parent undertaking* of the *investment firm group*.

3.7A.4 R (1) This *rule* applies where a *responsible UK parent* applies the approach in *MIFIDPRU* 2.6.7R(2)(a) in relation to an *undertaking* established in a *third country*.

(2) Where this *rule* applies, a *responsible UK parent* must comply with *MIFIDPRU* 3.3A.3R or *MIFIDPRU* 3.6A.8R in relation to any issuance of own funds instruments by the *undertaking* established in a *third country*.

Amend the following as shown.

3 Annex 1R ~~Application under MIFIDPRU 3.3.2R - permission~~ Notification under MIFIDPRU 3.3A.17R to include interim or year-end profits as CET1

~~[*Editor's note*: The form can be found at this address:]~~ This annex consists of a form which can be found at the following link:

[*Editor's note*: insert link]

MIFIDPRU 3 Annex 1R

~~Application under MIFIDPRU 3.3.2R for permission~~ Notification under MIFIDPRU 3.3A.17R to include interim or year-end profits as common equity tier 1 (CET1) capital ~~before the firm has taken a formal decision confirming the final profit and loss for the year~~

Details of Senior Manager responsible for this ~~application~~ notification:

If the ~~application~~ notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which of the following the ~~applicant firm~~ notifying entity is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

If the ~~application~~ notification concerns more than one firm in the investment firm group, please submit separate ~~applications~~ notifications for each firm.

For ~~applications~~ notifications on consolidated basis, references to firm~~/institution~~ should be interpreted as to a consolidated situation of the UK parent.

2. Please confirm whether the following apply and if so, provide supporting evidence:

   a. The profits have been verified by persons independent of your ~~institution~~ firm, who are responsible for auditing the accounts of that ~~institution~~ firm:

Yes/No

   b. Any foreseeable charge or dividend has been deducted from the amount of those profits and the basis of this calculation:

Yes/No/Not applicable

☐ Supporting evidence attached (e.g. an independent auditor's letter confirming the above)

3. Please provide the following:

a. The start of your financial year:

DD/MM/YYYY

b. The period in which the interim/year-end profits were earned:

c. Profits as verified by auditors:

£

d. Foreseeable charges/deductions (e.g. dividends):

£

e. Amount ~~to be~~ included as profit:

£

~~f.~~ ~~Firm's total CET1 after the inclusion of any amounts to which this application relates (please complete for all that apply):~~

~~MIFIDPRU investment firm (solo CET1)~~	~~£~~
~~Consolidating UK parent undertaking basis (consolidated CET1)~~	~~£~~

~~g~~ f. If you have calculated expected dividend pay-out by using a pay-out range instead of a fixed value, please confirm that you have used the upper end of that range:

Yes/No

~~h~~ g. If you have calculated expected dividend pay-out as a range, please confirm whether you ~~wish to exclude~~ excluded any exceptional dividends paid during the period covered by that range:

Yes/No

If you have responded "Yes", please attach further information~~, and note that this will require a separate conversation with the FCA~~:

☐ Further information attached

~~i~~ h. Auditor’s details (name, address, contact details):

4. Please confirm that the inclusion of the interim or year-end profits to which this ~~application~~ notification relates complies with the applicable material ~~in the UK CRR and~~ in MIFIDPRU.

☐ Yes

3 Annex 2R **Application under ~~MIFIDPRU 3.3.3R(1)~~ MIFIDPRU 3.3A.3R(1)(a) - permission to classify capital instruments as CET1**

~~[*Editor's note*: The form can be found at this address:]~~ This annex consists of a form which can be found at the following link:

[*Editor's note*: insert link]

Application under ~~MIFIDPRU 3.3.3R~~ MIFIDPRU 3.3A.3R(1)(a) for permission to classify an issuance of capital instruments as common equity tier 1 (CET1) capital

1. Please confirm which of the following the applicant firm is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. MIFIDPRU investment firm that is a GCT parent undertaking ☐

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) ☐

   If the application concerns more than one firm in the investment firm group, please submit separate applications for each firm.

   For applications on consolidated basis, references to firm~~/institution~~ should be interpreted as to a consolidated situation of the UK parent.

2. For the instrument you would like to classify as CET1 capital, please provide the following information:

   a. Type of instrument (e.g. ordinary shares, partnership capital):

   b. If there is more than one class of the instrument, please list the different instrument classes:

   c. Total number of shares/units of instrument that have been issued or will be issued:

   d. Nominal value per share/unit of instrument:

£

e. Share premium per share, if applicable:

£

f. Total amount of capital being raised:

£

g. Proposed date to be issued:

h. Total expected CET 1 after the inclusion of the amounts to which this application relates (please complete for all that apply):

MIFIDPRU investment firm (solo CET1)	£
GCT parent undertaking (expected value of own funds instruments as specified in MIFIDPRU 2.6.2R(1))	£
Consolidating UK parent undertaking basis (consolidated CET1)	£

~~3. For capital instruments to qualify as CET 1 instruments, the following conditions must be met (see article 28 of the UK CRR). Please confirm whether these conditions are met:~~

~~a. The instruments are issued directly by your institution, with prior approval of the owners or, if permitted by national law, the management body of the institution:~~

~~Yes/No~~

~~b. The instruments are paid up and their purchase is not funded directly or indirectly by your institution (indirect funding is defined in MIFIDPRU 3 Annex 7.20R):~~

~~Yes/No~~

~~c. The instruments meet all of the following conditions as regards their classification:~~

~~i. they qualify as capital within the meaning of Art 28(1)(c)(i) of the UK CRR:~~

~~*Yes/No*~~

~~ii. they are classified as equity within the meaning of the applicable accounting framework:~~

~~*Yes/No*~~

~~iii. they are classified as equity capital for the purposes of determining balance sheet insolvency, where applicable under national insolvency law:~~

~~*Yes/No*~~

~~d. The instruments are clearly and separately disclosed on the balance sheet in the financial statements of your institution:~~

~~*Yes/No*~~

~~e. The instruments are perpetual:~~

~~*Yes/No*~~

~~f. The principal amount of the instruments may not be reduced or repaid except in the following cases:~~

~~i. the liquidation of your institution; or~~

~~ii. discretionary repurchases of the instruments or other discretionary means of reducing capital (e.g. call, redemption or repayment), where your institution has been granted prior permission of the competent authority under article 77 of the UK CRR:~~

~~*Yes/No*~~

~~g. The provisions governing the instruments do not indicate expressly or implicitly that the principal amount of the instruments would or might be reduced or repaid other than in the liquidation of your institution, and your institution does not otherwise provide such an indication prior to or at issuance of the instruments:~~

~~*Yes/No*~~

~~h. The instruments meet the following conditions regarding distributions:~~

~~i. there is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions:~~

~~*Yes/No*~~

~~ii. distributions to holders of the instruments may be paid only out of distributable items:~~

~~*Yes/No*~~

~~iii. the conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions:~~

~~*Yes/No*~~

~~iv. the level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance:~~

~~*Yes/No*~~

~~v. the conditions governing the instruments do not include any obligation for your institution to make distributions to their holders and your institution is not otherwise subject to such an obligation:~~

~~*Yes/No*~~

~~vi. non-payment of distributions does not constitute an event of default of your institution:~~

~~*Yes/No*~~

~~vii. the cancellation of distributions imposes no restrictions on your institution:~~

~~*Yes/No*~~

~~i. Compared to all the capital instruments issued by your institution, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments:~~

~~*Yes/No*~~

~~j. The instruments rank below all other claims in the event of insolvency or liquidation of your institution:~~

~~*Yes/No*~~

~~k. The instruments entitle their owners to a claim on the residual assets of your institution, which, in the event of its liquidation and after the~~

~~payment of all senior claims, is proportionate to the amount of the instruments issued and is not fixed or subject to a cap:~~

~~*Yes/No*~~

~~l. The instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following: (Answer yes if the instruments are not secured in this way)~~

~~i. your institution or its subsidiaries:~~

~~ii. the parent undertaking of your institution or its subsidiaries:~~

~~iii. the parent financial holding company or its subsidiaries:~~

~~iv. the mixed activity holding company or its subsidiaries:~~

~~v. the mixed financial holding company and its subsidiaries:~~

~~vi. any undertaking that has close links with the entities referred to in points i. to v.:~~

~~*Yes/No*~~

~~m. The instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation: (Answer "yes" if the instruments are not subject to any arrangement in this way)~~

~~*Yes/No*~~

3. For capital instruments to qualify as CET 1 instruments, all of the conditions in MIFIDPRU 3.3A.5R to MIFIDPRU 3.3A.16R must be met. Please confirm that the following conditions are met by answering 'yes' to confirm that the condition is met:

a. The instruments meet all of the following conditions as regards their classification:

i. The instruments are classified as equity within the meaning of the applicable accounting framework;

Yes/No

ii. The firm's obligations under the instruments do not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

Yes/No

iii. The owners of the instruments have no right arising from the non-payment of any sums connected to the instrument to petition for winding up, administration or any similar procedure.

Yes/No

iv. The instruments are not secured by, or subject to, a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

Yes/No

v. The instruments rank below all other claims in the event of liquidation, except for claims from holders of other ordinary shares which rank pari passu with the instruments.

Yes/No

vi. The instruments entitle their owners to a claim on the residual assets of the firm which, in the event of liquidation and after payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap, except that a claim specified as a percentage of residual assets does not constitute a fixed or capped claim.

Yes/No

vii. Each instrument absorbs losses to the same degree as all other common equity tier 1 instruments, and all common equity tier 1 instruments absorb losses before any other own funds instruments issued by the firm.

Yes/No

b. The instruments are fully paid and the proceeds of issue are immediately and fully available to the firm (relevant guidance is provided in MIFIDPRU 3.3A.8G).

Yes/No

c. The instruments are not funded directly or indirectly by the firm, unless funding is provided in the ordinary course of business (relevant guidance is provided in MIFIDPRU 3.3A.10G):

Yes/No

d. The instruments are perpetual:

Yes/No

e. The principal amount of the instruments may not be reduced or repaid except:

i. in liquidation; or

ii. in a reduction of capital which complies with MIFIDPRU 3.6A.4R or MIFIDPRU 3.6A.6R.

Yes/No

f. The firm has not done anything to create an expectation that it will or might reduce or repay the principal amount, and the statutory or contractual terms of the instrument do not contain any feature which would or might give rise to such an expectation (relevant guidance is provided in MIFIDPRU 3.3A.12G):

Yes/No

g. The instruments meet the following conditions regarding distributions:

i. the instruments do not provide or allow for the payment of preferential distributions over other common equity tier 1 instruments or any other capital instruments (relevant guidance is provided in MIFIDPRU 3.3A.15G(1)):

Yes/No

ii. the conditions governing the instruments do not include a cap or other restriction on the maximum amount payable:

Yes/No

iii. the level of distributions is not linked to the amount for which the instruments were purchased at issuance:

Yes/No

iv. there are no circumstances in which distributions are obligatory, including where non-payment triggers some other obligation (for example, to make payments in kind):

Yes/No

v. failure to make distributions does not constitute an event of default (relevant guidance is provided in MIFIDPRU 3.3A.15G(2)):

Yes/No

4. Partnership capital (this section should only be completed by partnerships).

Is the capital contributed in accordance with ~~MIFIDPRU 3.3.16R or MIFIDPRU 3.3.17R~~ MIFIDPRU 3.3A.13R?

Yes/No

~~Material on how UK CRR article 28(1)(e) and (f) may be complied with can be found in MIFIDPRU 3.3.16R and 3.3.17R.~~

5. Please confirm whether the capital issuance to which this application relates meets the criteria required by ~~the UK CRR (as applied by~~ MIFIDPRU 3~~), including any relevant requirements in MIFIDPRU 3 Annex 7R~~.

Yes/No

Please note that the FCA may request a copy of the terms of the instrument, or further information.

3 Annex 3R **Notification under ~~MIFIDPRU 3.3.3R(2)~~ MIFIDPRU 3.3A.3R(1)(b) - issuance of additional capital instruments that have already been approved as CET1 instruments**

~~[*Editor's note*: The form can be found at this address:]~~ This annex consists of a form which can be found at the following link:

[*Editor's note*: insert link]

MIFIDPRU 3 Annex 3R

Notification under ~~MIFIDPRU 3.3.3R(2)~~ MIFIDPRU 3.3A.3R(1)(b) of issuance of additional capital instruments that have already been approved as CET1 instruments

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which of the following the notifying entity is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. MIFIDPRU investment firm that is a GCT parent undertaking ☐

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) ☐

2. Please provide the following details in respect of the proposed issuance:

   a. Type of instrument (e.g. ordinary shares, partnership capital):

   b. Name of instrument:

   c. Date FCA permitted previous issuance to be treated as CET1:

DD/MM/YYYY

d. Amount of additional instruments to be issued:

£

e. Proposed date on which the instruments will be classified as CET1 (*this should be at least 20 business days after this notification is sent to the FCA)*:

DD/MM/YYYY

3. Please confirm that the provisions governing the proposed issuance to which this notification relates are substantially the same as the provisions governing the issuance for which the firm has already received permission, and that you can provide supporting evidence if requested.

Yes

3 Annex 4R **Application under ~~MIFIDPRU 3.6.2R~~ MIFIDPRU 3.6A.4R - permission to reduce own funds instruments when neither condition in ~~MIFIDPRU 3.6.4R~~ MIFIDPRU 3.6A.7R applies**

~~[*Editor's note*: The form can be found at this address:]~~ This annex consists of a form which can be found at the following link:

[*Editor's note*: insert link]

MIFIDPRU 3 Annex 4R

Application under ~~MIFIDPRU 3.6.2R~~ MIFIDPRU 3.6A.4R for permission to reduce own funds instruments where neither condition in ~~MIFIDPRU 3.6.4R~~ MIFIDPRU 3.6A.7R applies

Details of Senior Manager responsible for this application:

If the application is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which of the following the applicant firm is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. MIFIDPRU investment firm that is a GCT parent undertaking ☐

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) ☐

   If the application concerns more than one firm in the investment firm group, please submit separate applications for each firm.

   For applications on consolidated basis, references to firm should be interpreted as to a consolidated situation of the UK parent.

2. Please confirm to which of the following the application relates:

   a. ~~Permission to reduce, redeem or repurchase any of its CET1 instruments~~ Carry out a reduction of capital in relation to any of its common equity tier 1 instruments ☐

   b. ~~Permission to reduce~~ Reduce, distribute or reclassify as another own funds item the share premium accounts related to any of its own funds instruments ☐

   c. ~~Permission to effect the call, redemption, repayment or repurchase of its additional tier 1 instruments or tier 2 instruments prior to the date of their contractual maturity~~ Carry out a reduction of capital in ☐

relation to an additional tier 1 instrument, whether on a call date or otherwise

d. Carry out a reduction of capital in relation to a tier 2 instrument prior to maturity ☐

3. Please provide the date of the intended capital reduction:

DD/MM/YYYY

4. Please confirm the amount of the intended reduction:

£

5. Please explain, in detail, the rationale for the reduction of own funds.

6. Please explain, and provide supporting calculations to demonstrate, how the firm ~~meets the conditions in Article 78 of the UK CRR~~ will continue to exceed its own funds threshold requirement by a margin sufficient to ensure adequate financial resilience for the foreseeable future, and in particular:

   a. will have sufficient capital resources to meet its capital resources requirement immediately after the capital reduction;

   b. will have sufficient financial resources to meet its own funds threshold requirement immediately after the capital reduction; and

   c. will be able to meet the requirements in (a) and (b) above at all times (including in stress scenarios), for a minimum of three years.

☐ Supporting calculations attached

3 Annex 5R **Notification under ~~MIFIDPRU 3.6.3R~~ MIFIDPRU 3.6A.6R(2) - intended reduction in own funds instruments where a condition in ~~MIFIDPRU 3.6.4R~~ MIFIDPRU 3.6A.7R applies**

~~[*Editor's note*: The form can be found at this address:]~~ This annex consists of a form which can be found at the following link:

[*Editor's note*: insert link]

MIFIDPRU 3 Annex 5R

Notification under ~~MIFIDPRU 3.6.3R~~ MIFIDPRU 3.6A.6R(2) of the intended reduction in own funds instruments where a condition in ~~MIFIDPRU 3.6.4R~~ MIFIDPRU 3.6A.7R applies

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which of the following the notifying entity is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. MIFIDPRU investment firm that is a GCT parent undertaking ☐

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) ☐

   If the notification concerns more than one firm in the consolidated group, please submit separate notifications for each firm.

2. Please confirm to which of the following the application relates:

   a. ~~Permission to reduce, redeem or repurchase any of its CET1 instruments~~ Carry out a reduction of capital in relation to any of its common equity tier 1 instruments; ☐

   b. ~~Permission to reduce~~ Reduce, distribute or reclassify as another own funds item the share premium accounts related to any of its own funds instruments; ~~or~~ ☐

   c. ~~Permission to effect the call, redemption, repayment or repurchase of its additional tier 1 instruments or tier 2 instruments prior to the date of their contractual maturity.~~ Carry out a reduction of capital in relation to an additional tier 1 instrument, whether on a call date or otherwise; or ☐

   d. Carry out a reduction of capital in relation to a tier 2 instrument prior ☐

to maturity.

3. Date of the intended capital reduction:

DD/MM/YYYY

The intended reduction must not take place until at least 20 business days after this notification is made.

4. The amount of the intended reduction:

£

5. A firm may only make use of this notification procedure if one of the conditions in ~~MIFIDPRU 3.6.4R~~ MIFIDPRU 3.6A.7R are met, otherwise it must apply for permission under ~~MIFIDPRU 3.6.2R~~ MIFIDPRU 3.6A.4R. Please explain the basis on which the firm has concluded that one of the conditions in ~~MIFIDPRU 3.6.4R~~ MIFIDPRU 3.6A.7R applies.

3 Annex 6R **Notification under ~~MIFIDPRU 3.6.5R~~ MIFIDPRU 3.6A.8R of issuance of additional tier 1 or tier 2 instruments**

~~[*Editor's note*: The form can be found at this address:]~~ This annex consists of a form which can be found at the following link:

[*Editor's note*: insert link]

MIFIDPRU 3 Annex 6R

Notification under ~~MIFIDPRU 3.6.5R~~ MIFIDPRU 3.6A.8R of the intended issuance of AT1 or T2 instruments

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which of the following the notifying entity is:

   a. MIFIDPRU investment firm that is not a consolidating UK parent entity or a GCT parent undertaking ☐

   b. MIFIDPRU investment firm that is a consolidating UK parent entity ☐

   c. MIFIDPRU investment firm that is a GCT parent undertaking ☐

   d. Consolidating UK parent entity (other than a MIFIDPRU investment firm) ☐

   e. GCT parent undertaking (other than a MIFIDPRU investment firm) ☐

2. Please confirm which of the following categories of instruments the notification relates to:

   a. Additional tier 1 instruments ☐

   b. Tier 2 instruments ☐

3. Please provide the following details of the intended issuance:

a. Type of instrument	
b. Name of instrument	
c. Amount of instruments to be issued	*£*
d. Proposed issuance date (*this must be at least 20 business days after this notification is sent to the FCA)*	*DD/MM/YYYY*

4. Please confirm whether the instruments are intended to be issued to external

investors or only to other members of the firm's group and connected parties:

a.	only to other members of the firm's group and connected parties	*Yes/No*
b.	to other members of the firm's group and connected parties, as well as external investors	*Yes/No*
c.	external parties only	*Yes/No*

5. Please attach a copy of the term sheet and provide details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the firm or widely available in the market.

☐ Term sheet attached

6. Please confirm that the firm's senior management or governing body who has oversight of the intended issuance ~~are~~ is satisfied that the instrument meets the conditions in ~~MIFIDPRU 3.4 or MIFIDPRU 3.5 (as applicable, and including any conditions in the UK CRR applied by those sections)~~ MIFIDPRU 3.4A or MIFIDPRU 3.5A (as applicable) to be classified as AT1 or T2 instruments.

Yes/No

7. Please attach a legal opinion from an appropriately qualified individual, confirming that the capital instruments meet the conditions in ~~MIFIDPRU 3.4 or MIFIDPRU 3.5 (as applicable, and including any conditions in the UK CRR applied by those sections)~~ MIFIDPRU 3.4A or MIFIDPRU 3.5A (as applicable).

☐ Legal opinion attached

MIFIDPRU 3 Annex 7R (Additional provisions relating to own funds) and MIFIDPRU 3 Annex 8R (Prudent valuation and additional valuation adjustments) are deleted in their entirety. The deleted text is not shown but the Annexes are marked [deleted] as shown below.

3 Annex 7R **~~Additional provisions relating to own funds~~ [deleted]**

3 Annex 8R **~~Prudent valuation and additional valuation adjustments~~ [deleted]**

Amend the following as shown.

4 Own funds requirements

…

4.5 Fixed overheads requirement

…

4.5.3 R …

(2) The items that a *firm* may deduct from its total expenditure are:

…

(j) payments related to contract-based profit and loss transfer agreements according to which the *firm* is obliged to transfer its annual profit to the *parent undertaking* following the preparation of the *firm's annual financial statements*; and

(k) ~~payments into a fund for general banking risk in accordance with article 26(1)(f) of the *UK CRR*, as applied by *MIFIDPRU* 3.3.1R; and~~ [deleted]

(l) other expenses, to the extent that their value has already been reflected in a deduction from *own funds* under ~~*MIFIDPRU* 3.3.6R~~ *MIFIDPRU* 3.

…

8 Disclosure

…

8 Annex 1R **Disclosure template for information required under MIFIDPRU 8.4.1R in respect of own funds**

This annex consists of a template which can be found at the following link:

[*Editor's note*: insert link]

…
Own funds: main features of own instruments issued by the firm
…
Examples
…
Write-down features
Position in capital structure
Description of any equal ranking arrangements with other instruments
Loss absorption mechanics where equal ranking exists
Proportion of residual assets claimed
How losses are shared between equally ranked instruments (where applicable)
Link to the terms and conditions of the instrument
…

…

9 Reporting

…

9 Annex 1R Data items for MIFIDPRU 9

This annex consists of a template which can be found at the following link: [*Editor's note*: insert link]

Data items for MIFIDPRU 9 Annex 1R

MIF001 – Own funds

…

Own funds held

3	CET1 own funds held (net of deductions - see ~~MIFIDPRU 3.3~~ MIFIDPRU 3.3A)	
4	AT1 own funds held (net of deductions - see ~~MIFIDPRU 3.4~~ MIFIDPRU 3.4A)	
5	T2 own funds held (net of deductions - see ~~MIFIDPRU 3.5~~ MIFIDPRU 3.5A)	

…

MIF007 – ICARA questionnaire

…

Part B: Assessing and monitoring the adequacy of own funds

Own funds held as at ICARA process reference date

7	CET1 own funds held (net of deductions - see ~~MIFIDPRU 3.3~~ MIFIDPRU 3.3A)	*number*
8	AT1 own funds held (net of deductions - see ~~MIFIDPRU 3.4~~ MIFIDPRU 3.4A)	*number*
9	T2 own funds held (net of deductions - see ~~MIFIDPRU 3.5~~ MIFIDPRU 3.5A)	*number*
…		

9 Annex 2G **Guidance notes on data items in MIFIDPRU 9 Annex 1R**

This annex consists of guidance which can be found through the following link: [*Editor's note*: insert link]

Guidance notes on data items in MIFIDPRU 9 Annex 1R

MIF001 – Adequate financial resources (Own funds)

…

Own funds held

…

3A – Common Equity Tier 1 capital

FCA investment firms should enter the amount of CET1 capital they hold for their own funds. CET1 capital should be calculated in accordance with ~~Article 50 of the UK CRR as applied and modified by Section 3.3 of MIFIDPRU~~ MIFIDPRU 3.3A – Common equity tier 1 capital.

4A – Additional Tier 1 capital

FCA investment firms should enter the amount of AT1 capital they hold for their own funds. AT1 capital should be calculated in accordance with ~~Article 61 of the UK CRR as applied and modified by Section 3.4 of MIFIDPRU~~ MIFIDPRU 3.4A – Additional tier 1 capital.

…

5A – Tier 2 capital

FCA investment firms should enter the amount of T2 capital they hold for their own funds. T2 capital should be calculated in accordance with ~~Article 71 of the UK CRR as applied and modified by Section 3.5 of MIFIDPRU~~ MIFIDPRU 3.5A – Tier 2 capital.

…

MIF007 – ICARA Questionnaire

…

Own funds held as at the ICARA accounting reference date

7A – Common Equity Tier 1 capital

FCA investment firms should enter the amount of CET1 capital they hold for their own funds. CET1 capital should be calculated in accordance with ~~Article 50 of the UK CRR as applied and modified by Section 3.3 of MIFIDPRU~~ MIFIDPRU 3.3A – Common equity tier 1 capital.

8A – Additional Tier 1 capital

FCA investment firms should enter the amount of AT1 capital they hold for their own funds. AT1 capital should be calculated in accordance with ~~Article 61 of the UK CRR as applied and modified by Section 3.4 of MIFIDPRU~~ MIFIDPRU 3.4A – Additional tier 1 capital.

…

9A – Tier 2 capital

FCA investment firms should enter the amount of T2 capital they hold for their own funds. T2 capital should be calculated in accordance with ~~Article 71 of the UK CRR as applied and modified by Section 3.5 of MIFIDPRU~~ MIFIDPRU 3.5A – Tier 2 capital.

…

…

TP 1 Own funds transitional provisions

…		
	Continuing application of certain UK CRR permissions	
…		
1.6	R	This table belongs to *MIFIDPRU* TP 1.5R.

(A) **UK CRR permission granted before 1 January 2022**	**(B)** **Deemed basis for permission on or after 1 January 2022**
Article 26(2) *UK CRR*: inclusion of interim or year-end profits in *common equity tier 1 capital* before the *firm* has taken a formal decision confirming the final profit or loss for the year	~~*MIFIDPRU* 3.3.2R~~ <u>*MIFIDPRU* 3.3A.17R</u>
Article 26(3) *UK CRR*: classification of an issuance of capital instruments as *common equity tier 1 capital*	~~*MIFIDPRU* 3.3.3R~~ <u>*MIFIDPRU* 3.3A.3R</u>

1.7	G	The effect of *MIFIDPRU* TP 1.5 and *MIFIDPRU* TP 1.6 is that a permission that was initially granted under article 26(2) or 26(3) of the *UK CRR* will continue to produce an equivalent effect under the corresponding provisions in ~~*MIFIDPRU* 3.3~~ <u>*MIFIDPRU* 3.3A</u>. The duration of the original permission is not affected. For example, a permission granted on 1 June 2021 for a one-year duration will be treated from 1 January 2022 as if it had been granted under ~~*MIFIDPRU* 3.3~~ <u>*MIFIDPRU* 3.3A</u>, but will still expire on 1 June 2022.		
	Additional tier 1 capital instruments issued before 1 January 2022			
1.8	R	…		
		(2)	Where this *rule* applies, by no later than 1 February 2022, a *MIFIDPRU investment firm* must:	
			(a)	notify the *FCA* using the form in *MIFIDPRU* TP 1 Annex 1R, submitted via the *online notification and application* system, to confirm whether:

				(i)	the relevant instruments satisfy the conditions in ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A to be classified as *additional tier 1 instruments*; or
				(ii)	the relevant instruments do not satisfy the relevant conditions in ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A and the *firm* has therefore ceased to recognise them as part of its *additional tier 1 capital* or has otherwise redeemed or replaced them; or
			(b)	apply to the *FCA* under section 138A of the *Act* for a modification of the relevant provisions in ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A to continue to allow the *firm* to classify the instruments as *additional tier 1 instruments* for the purposes of *MIFIDPRU*.	
1.9	G	…			
		(2)	Although ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A contains provisions for the classification of instruments under *MIFIDPRU* as *additional tier 1 instruments* which are broadly equivalent to those in the *UK CRR*, the trigger event under article 54(1)(a) of the *UK CRR* does not apply under *MIFIDPRU*. This is because the *own funds requirement* under *MIFIDPRU* is calculated on a different basis and therefore the trigger event for conversion of *additional tier 1 instruments* under *MIFIDPRU* is defined by reference to different criteria.		
1.10	G	An *additional tier 1 instrument* issued before 1 January 2022 under the *UK CRR* may satisfy the conditions in ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A so that it can be classified as an *additional tier 1 instrument* for the purposes of *MIFIDPRU*. This may depend upon how the trigger events were defined in the terms of the relevant instrument and whether additional trigger events (i.e. over and above the mandatory *UK CRR* trigger event that was applicable at the time of issuance) were also included.			
1.11	G	(1)	A *firm* may apply to the *FCA* under section 138A of the *Act* to modify the provisions of ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A for existing *additional tier 1 instruments* issued under the *UK CRR* before 1 January 2022, to allow those instruments to be recognised as *additional tier 1 instruments* under *MIFIDPRU*.		
		…			
	Continuing validity of IFPRU own funds notifications				

…		
1.13	R	The table belongs to *MIFIDPRU* TP 1.12R.

(A) **IFPRU notification submitted before 1 January 2022**	**(B)** **Deemed notification for the purposes of MIFIDPRU on or after 1 January 2022**
IFPRU 3.2.10R: notification of issuance of own funds instruments	~~*MIFIDPRU* 3.6.5R(1)~~ <u>*MIFIDPRU* 3.6A.8R(1)</u> (for a *MIFIDPRU investment firm*~~)~~ ~~*MIFIDPRU* 3.6.8R(1)(b) (for~~<u>,</u> a *UK parent entity* to which consolidation under *MIFIDPRU* 2.5.7R applies~~)~~ ~~*MIFIDPRU* 3.7.4R(1)(b) (for~~ <u>or</u> a *parent undertaking* to which the *group capital test* applies)
IFPRU 3.2.13R: notification of issuance of ordinary *shares* or debt instruments under a debt securities programme	~~*MIFIDPRU* 3.6.5R(1)~~ <u>*MIFIDPRU* 3.6A.8R(1)</u> (for a *MIFIDPRU investment firm*~~)~~ ~~*MIFIDPRU* 3.6.8R(1)(b) (for~~<u>,</u> a *UK parent entity* to which consolidation under *MIFIDPRU* 2.5.7R applies~~)~~ ~~*MIFIDPRU* 3.7.4R(1)(b) (for~~ <u>or</u> a *parent undertaking* to which the *group capital test* applies)

1.14	G	The effect of *MIFIDPRU* TP 1.12R and 1.13R is that a notification that was validly submitted for the purposes of the *rules* relating to the issuance of own funds in *IFPRU* is valid for the purposes of the notification requirements relating to the issuance of *own funds* in ~~*MIFIDPRU* 3.6 or 3.7~~ <u>*MIFIDPRU* 3.6A</u>. This means that:	
		…	
		(2)	where the *MIFIDPRU investment firm* or *parent undertaking* issues the same class of instruments on or after 1 January 2022, it can rely on the exemption from the notification requirement in ~~*MIFIDPRU* 3.6.5R(2)~~ <u>*MIFIDPRU* 3.6A.8R(2)</u>, provided that the instruments are identical in all material respects to the previous issuance notified to the *FCA* under *IFPRU*.

…			

…

TP 7 Transitional provision for own funds instruments without UK CRR approvals before 1 January 2022

…

…				
	Eligibility of pre-MIFIDPRU capital resources meeting requirements in MIFIDPRU 3 to qualify as own funds under MIFIDPRU without a separate permission or notification			
7.4	R	…		
		(3)	A deemed permission or notification under (2) ceases to apply in relation to a capital instrument if the terms of the instrument are varied on or after 1 January 2022 and the instrument ceases to meet:	
			(a)	in relation to an instrument being treated as *common equity tier 1 capital*, the conditions in ~~*MIFIDPRU* 3.3~~ <u>*MIFIDPRU* 3.3A</u> (other than the condition for prior *FCA* permission to classify the instrument as *common equity tier 1 capital*);
			(b)	in relation to an instrument being treated as *additional tier 1 capital*, the conditions in ~~*MIFIDPRU* 3.4~~ <u>*MIFIDPRU* 3.4A</u>; and
			(c)	in relation to an instrument being treated as *tier 2 capital*, the conditions in ~~*MIFIDPRU* 3.5~~ <u>*MIFIDPRU* 3.5A</u>.
7.5	R	This table belongs to *MIFIDPRU* TP 7.4R.		

(A)	(B)
Requirement for permission or notification with which the *firm*, *UK parent entity* or *parent undertaking* is deemed to have complied	**Conditions for deemed compliance to apply**
Individual *MIFIDPRU investment firms*	

~~Article 26(3) *UK CRR* (as applied and modified by *MIFIDPRU* 3.3.1R) and *MIFIDPRU* 3.3.3R~~ <u>*MIFIDPRU* 3.3A.3R</u>: Requirement for prior *FCA* permission to classify an issuance of capital instruments by a *firm* as *common equity tier 1 capital*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *common equity tier 1 capital* in ~~*MIFIDPRU* 3.3~~ <u>*MIFIDPRU* 3.3A</u>, except for the requirement for prior *FCA permission* under ~~article 26(3) of the *UK CRR* and *MIFIDPRU* 3.3.3R~~ <u>*MIFIDPRU* 3.3A.3R</u>
~~*MIFIDPRU* 3.6.5R(1)(a)~~ <u>*MIFIDPRU* 3.6A.8R(1)(a)</u>: Requirement to notify the *FCA* of the intention to issue *additional tier 1 instruments*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *additional tier 1 capital* in ~~*MIFIDPRU* 3.4~~ <u>*MIFIDPRU* 3.4A</u>
~~*MIFIDPRU* 3.6.5R(1)(b)~~ <u>*MIFIDPRU* 3.6A.8R(1)(b)</u>: Requirement to notify the *FCA* of the intention to issue *tier 2 instruments*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *tier 2 capital* in ~~*MIFIDPRU* 3.5~~ <u>*MIFIDPRU* 3.5A</u>
UK parent entities to which consolidation under *MIFIDPRU* 2.5.7R applies	
~~Article 26(3) *UK CRR* (as applied and modified by *MIFIDPRU* 3.3.1R) and *MIFIDPRU* 3.6.8R, as they apply~~ <u>*MIFIDPRU* 3.3A.3R as it applies</u> on a *consolidated basis* under *MIFIDPRU* 2.5.7R(1): Requirement for prior *FCA* permission to classify an issuance of capital instruments by a *UK parent entity* as *common equity tier 1 capital*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *common equity tier 1 capital* in ~~*MIFIDPRU* 3.3~~ <u>*MIFIDPRU* 3.3A</u> (as it applies on a consolidated basis), except for the requirement for prior *FCA* permission under ~~article 26(3) of the *UK CRR* and~~

	~~*MIFIDPRU* 3.3.3R~~ *MIFIDPRU* 3.3A.3R
~~*MIFIDPRU* 3.6.5R(1)(a), as modified by *MIFIDPRU* 3.6.8R~~ *MIFIDPRU* 3.6A.8R(1)(a) as it applies on a *consolidated basis* under *MIFIDPRU* 2.5.7R(1): Requirement to notify the *FCA* of the intention to issue *additional tier 1 instruments*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *additional tier 1 capital* in ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A (as it applies on a consolidated basis)
~~*MIFIDPRU* 3.6.5R(1)(b), as modified by *MIFIDPRU* 3.6.8R~~ *MIFIDPRU* 3.6A.8R(1)(b) as it applies on a *consolidated basis* under *MIFIDPRU* 2.5.7R(1): Requirement to notify the *FCA* of the intention to issue *tier 2 instruments*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *tier 2 capital* in ~~*MIFIDPRU* 3.5~~ *MIFIDPRU* 3.5A (as it applies on a *consolidated basis*)
Parent undertakings to which the *group capital test* applies	
~~Article 26(3) *UK CRR* (as applied and modified by *MIFIDPRU* 3.3.1R) and *MIFIDPRU* 3.3.3R, as they apply~~ *MIFIDPRU* 3.3A.3R as it applies to a parent undertaking under ~~*MIFIDPRU* 3.7.4R(1)(a)~~ *MIFIDPRU* 3.7A: Requirement for prior *FCA* permission to classify an issuance of capital instruments by a *parent undertaking* as *common equity tier 1 capital*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *common equity tier 1 capital* in ~~*MIFIDPRU* 3.3~~ *MIFIDPRU* 3.3A, except for the requirement for prior *FCA* permission under ~~article 26(3) of the *UK CRR* and *MIFIDPRU* 3.3.3R~~ *MIFIDPRU* 3.3A.3R
~~*MIFIDPRU* 3.6.5R(1)(a), as modified by *MIFIDPRU* 3.7.4R(1)(b)~~ *MIFIDPRU* 3.6A.8R(1)(a) as it applies to a parent undertaking under *MIFIDPRU* 3.7A:	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *additional tier 1 capital* in ~~*MIFIDPRU* 3.4~~ *MIFIDPRU* 3.4A

Requirement to notify the *FCA* of the intention to issue *additional tier 1 instruments*	
~~*MIFIDPRU* 3.6.5R(1)(b), as modified by *MIFIDPRU* 3.7.4R(1)(b)~~ *MIFIDPRU* 3.6A.8R(1)(b) as it applies to a parent undertaking under *MIFIDPRU* 3.7A: Requirement to notify the *FCA* of the intention to issue *tier 2 instruments*	Immediately before *MIFIDPRU* began to apply or, if later, on the date on which the notification in *MIFIDPRU* TP 7.4R(2)(b) was made, the capital instruments met the conditions to be classified as *tier 2 capital* in ~~*MIFIDPRU* 3.5~~ *MIFIDPRU* 3.5A

7.6	G	Where a *firm*, *UK parent entity* or *parent undertaking* is deemed under *MIFIDPRU* TP 7.3R and 7.4R to have notified the *FCA* of its intention to issue *additional tier 1 instruments* or *tier 2 instruments*, ~~*MIFIDPRU* 3.6.5R(2)(a)~~ *MIFIDPRU* 3.6A.8R(2)(a) will apply to a subsequent issuance of the same class of instruments. In practice, this means that provided that the subsequent issuance of the same class is on terms that are identical in all material respects to the existing class of those instruments, a notification to the *FCA* under ~~*MIFIDPRU* 3.6.5R(1)~~ *MIFIDPRU* 3.6A.8R(1) is not required.

…

Insert the following new transitional provision, MIFIDPRU TP 13, after MIFIDPRU TP 12 (Disclosure requirements: transitional provisions). All the text is new and is not underlined.

TP 13 Definition of capital: transitional provisions

TP 13.1 R (1) This *rule* applies where:

(a) a permission was granted under a *rule* in *MIFIDPRU* 3 as it applied immediately before 1 January 2026 (the 'predecessor rule'); and

(b) the permission is substantively the same as a permission or notification under a *rule* contained in *MIFIDPRU* 3 as it applies after 1 January 2026 (the 'successor rule').

(2) Where this *rule* applies, the permission given in relation to the predecessor rule is treated as a permission or notification given in relation to the successor rule, until the permission ceases to have effect, or is revoked, whichever is the earlier.

TP 13.2 R (1) This *rule* applies where:

(a) a *rule* contained in *MIFIDPRU* 3 as it applied immediately before 1 January 2026 (the 'predecessor rule') has been waived or modified in accordance with section 138A of the *Act* in a way that has continuing effect; and

(b) the predecessor rule is substantively the same as a *rule* contained in *MIFIDPRU* 3 as it applies after 1 January 2026 (the 'successor rule').

(2) Where this *rule* applies, the successor rule must be read as if subject to the waiver or modification of the predecessor rule, until the waiver or modification ceases to have effect, or is revoked, whichever is the earlier.

TP 13.3 R The references to '*MIFIDPRU* 3' in *MIFIDPRU* TP 13.1R(1)(a) and *MIFIDPRU* TP 13.2R(1)(a) include the *UK CRR* as applied by *MIFIDPRU* 3.

Amend the following as shown.

…

Sch 2 Notification requirements

Sch 2.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant notification requirements in *MIFIDPRU*.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	**Subject of notification**	**Trigger events**	**Time allowed**
…			
~~*MIFIDPRU* 3.3.3R(2)~~ <u>*MIFIDPRU* 3.3A.3R(1)(b)</u>	Notification of subsequent issuance of capital instruments qualifying as *common equity tier 1 capital*	Proposed issuance of capital instruments of an existing class of *common equity tier 1 capital*	No fewer than 20 *business days* before the issuance
<u>*MIFIDPRU* 3.3A.17R</u>	<u>Notification of inclusion of interim profits or year-end</u>	<u>Inclusion of such profits in *common equity tier 1 capital* before formal</u>	<u>As soon as reasonably practicable after inclusion</u>

	profits in *common equity tier 1 capital*	decision confirming final profit or loss for the year	
~~*MIFIDPRU* 3.6.3R~~ *MIFIDPRU* 3.6A.6R(2)	Notification of proposed ~~reduction, repurchase, call or redemption of *own funds instruments*~~ *reduction of capital* where conditions in ~~*MIFIDPRU* 3.6.4R~~ *MIFIDPRU* 3.6A.7R are met	Proposed ~~redemption of *own funds instruments*~~ *reduction of capital* where conditions in ~~*MIFIDPRU* 3.6.4R~~ *MIFIDPRU* 3.6A.7R are met	No later than the 20th *business day* before the *day* on which the ~~reduction, repurchase, call or redemption~~ *reduction of capital* will occur
~~*MIFIDPRU* 3.6.5R~~ *MIFIDPRU* 3.6A.8R	Notification of proposed issuance of *additional tier 1 instruments* or *tier 2 instruments*	Proposed issuance of *additional tier 1 instruments* or *tier 2 instruments*	At least 20 *business days* before the intended issuance date
…			

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