Regulatory Capital - Recognition of Additional Tier 1 instruments

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CLIFFORD CHANCE

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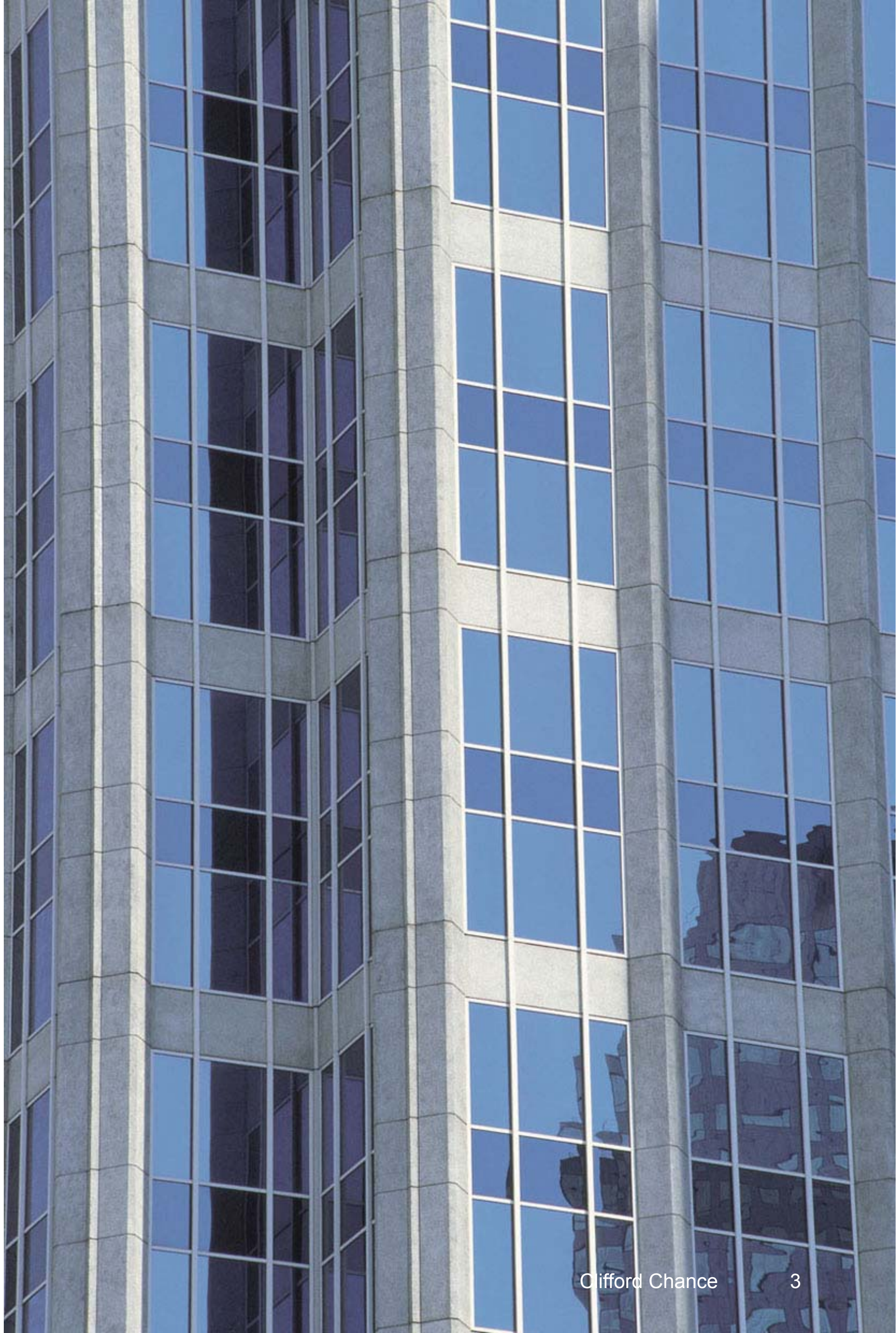
- Recognition of Additional Tier 1 instruments under the Capital Requirements Regulation (CRR)
- Issues on recognition of Additional Tier 1 instruments
- Possible solutions

Recognition of Additional Tier 1 instruments under the CRR

- Loss absorbency on a going concern basis:
  - write-down
  - conversion into Common Equity Tier 1 instruments
- CRR specifies the accounting consequences in the case of write-down or conversion



Recognition of Additional Tier 1 instruments under the CRR

- Article 54 of the CRR
  - "*Write down or conversion of an Additional Tier 1 instrument shall, under the applicable accounting framework, generate items that qualify as Common Equity Tier 1 items*“
  - "*The amount of Additional Tier 1 instruments recognised in Additional Tier 1 items is limited to the minimum amount Common Equity Tier 1 items that would be generated if the principal amount of the Additional Tier 1 instruments were fully written down or converted into Common Equity Tier 1 instruments*"

Issues on recognition of Additional Tier 1 instruments

- Risk of limited recognition for Additional Tier 1 instruments

- The application of the 27.5% corporation tax on the amount of the write-down/conversion erodes the recognisable amount

Possible solutions

- "Regulatory approach": the French solution

- Intervening on the Italian tax framework:
  - Clarifying interpretation on equity accounted instruments
  - Change in law: the UK solution?

Contacts

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