BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Templates CA1 and CA5.1 – Deductions for significant investments

Reporting of deductions for significant investments in CET1 at the solo bank level

CA1 Row 500: CET1 instruments of financial sector entities where the institution has a significant investment

The calculation of this deduction is different to those items where CRR transitional provisions apply. The deduction for these holdings where they are in excess of the 10% threshold set out in CRR Article 48(1)(b) should be calculated based only on the portion of the holdings that is subject to deduction treatment under the PRA's phased approach for each given year (see Chapter 2, paragraphs 2.1 and 2.2 in the Definition of Capital section of the PRA's Rulebook).[1]

For example, the relevant percentage for 2014 is 50%. Therefore the deduction treatment should not capture 100% of the relevant holdings[2] until 2019 (unless the firm chooses to apply full deduction treatment early). Investments that are subject to risk weighting (up to 50% of the relevant investments in 2014) should not be included in the calculation of the excess over the 10% threshold. (For the avoidance of doubt, the RWAs relating to the risk-weighted element of the investments should be included in the relevant rows in CA2.)

As such, there will be no transitional adjustment to apply (in Row 400 of CA5.1) specifically in respect of the phased approach to the deduction treatment[3], as the benefit of the phased approach will have been incorporated directly in the (smaller) size of the deduction.

Worked example for CA1 Row 500			
CET1 before threshold deductions		30,000	
10% threshold limit		3,000	Amount reported in CA4 Row 200
DTAs (arising from temporary differences)		1,000	
Significant investments in CET1		20,000	
o/w included in the scope of consolidated supervision		15,000	
Maximum amount subject to risk weighting (PRA phasing)	50%	7,500	Risk weighted as equities; **not** treated as a transitional adjustment to RWAs
Amount subject to deduction treatment		12,500	
CET1 deduction for DTAs exceeding 10% threshold		0	Amount reported in CA1 Row 490
CET1 deduction for significant investments exceeding 10% threshold		-9,500	Amount reported in CA1 Row 500

[1] The portion subject to deduction treatment will comprise: (i) at least 50% of holdings of CET1 instruments issued by financial sector entities included in the scope of consolidated supervision; and (ii) all holdings of CET1 instruments issued by financial sector entities outside the scope of consolidated supervision.
[2] That is, holdings of CET1 instruments issued by financial sector entities included in the scope of consolidated supervision.
[3] A transitional adjustment may arise as a result of the application of Regulation Article 470; this should be reported in CA5.1 Row 380, Column 010 (and CA1 Row 520).

CA5.1 Row 400, Column 040: Transitional adjustments to RWAs for CET1 instruments of financial sector entities where the institution has a significant investment

Consistent with the reporting of the CET1 deduction for significant investments of own funds instruments issued by financial sector entities included in the scope of consolidated supervision, investments that are subject to risk weighting due to the PRA's phased approach (ie up to 50% of the relevant investments in 2014) should not be reported as a transitional adjustment. In other words, they should be treated as 'end-point' risk-weighted averages (RWAs), included in the relevant rows in CA2, the amount of which will decline each year as more of the investments are deducted in line with the phasing.

As such, there will be no transitional adjustment to apply to RWAs specifically in respect of the phased approach to the deduction treatment[4], as total RWAs (in CA2) will need to include the additional RWAs arising from the phased approach to the investments deduction. This will ensure that reported RWAs are consistent with reported CET1.

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[4] A transitional adjustment to RWAs may arise as a result of the application of Regulation Article 470 (this would be reported in CA5.1 Row 380, Column 040, and CA2).