

Capital buffering



The design of capital buffers



Key decisions

- Size of conservation buffer & CCyB
 - Assessing the appropriate usability of capital buffers
- Dividend restrictions & supervisory actions
 - How gradualist should we be?
- Transition period
 - Longer transition for small banks?

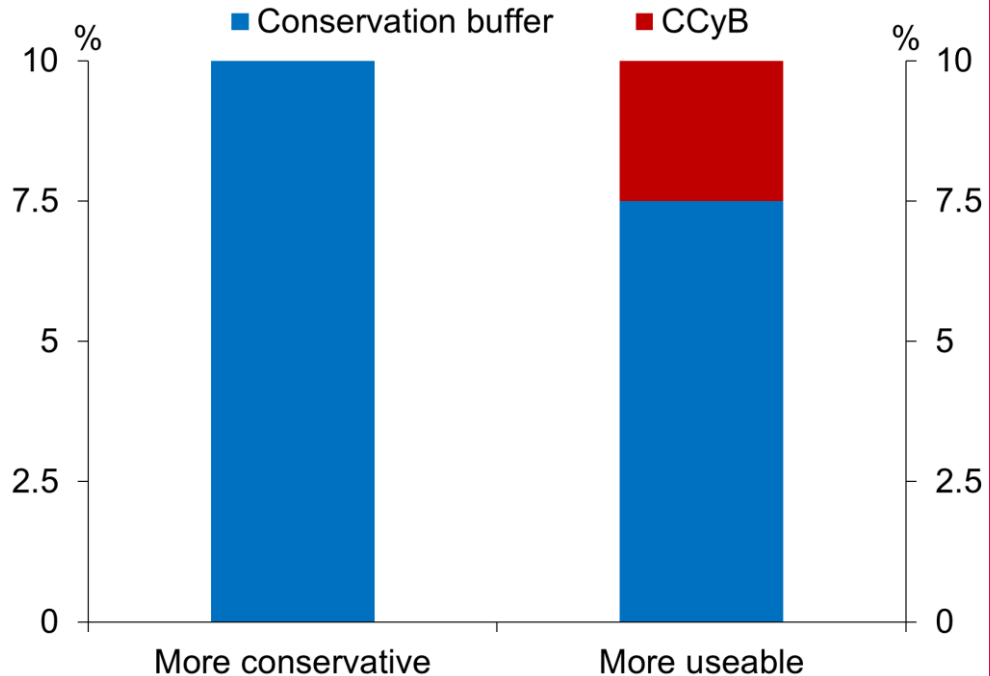


Composition of the capital buffer

- 16% Tier 1 capital ratio
- Normal buffer = 10%

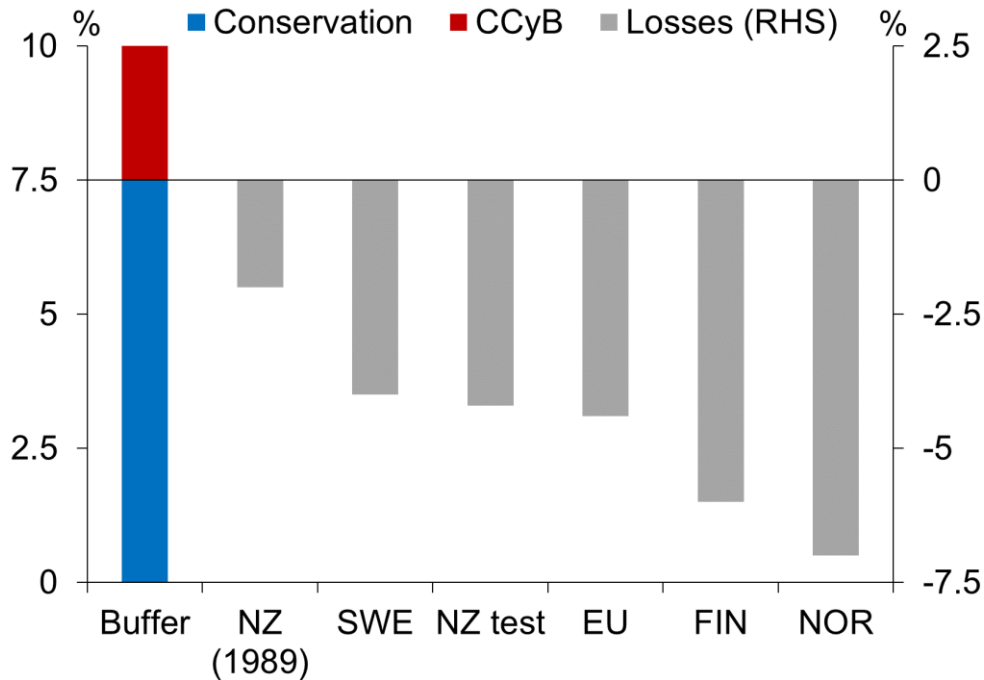
Options

- More conservative
 - More certainty buffer will be there when needed
- More useable
 - More likely to support lending in crisis



Degree of conservatism

- CCyB = 2.5% on average
 - Cut to 0% in crisis
 - Risk of cutting too early or face sequence of shocks
- Conservation = 7.5%
 - Minimum + conservation buffer = 13.5% T1 capital
 - 1/100 crisis probability





Degree of lending support

- In theory, could support up to 15% more lending
 - Based on leverage ratio (\$10.50 of lending for every \$1 of capital) and assumes linear relationship between capital and lending
- In practice, may be closer to 2%
 - Around \$1 capital for \$1 of lending
 - Based on empirical study of the impact of changes in BoE Pillar 2 reqs
 - Likely to be an underestimate



Dividend restrictions & supervisory actions

Supervisory actions

Dividend restrictions (% of earnings that can be paid out)

		Option A (graduated)	Option B (current)	Option C (hard)
None	7.5%+	80%	60%	0%
Require capital plan	5 - 7.5%	40%	40%	0%
Supervisory actions*	2.5 - 5%	0%	20%	0%
Make directions / prepare for OBR or stat manager	0 - 2.5%	0%	0%	0%

* For example, issue instructions to a bank's board, change CoRs to strengthen other risk buffers.



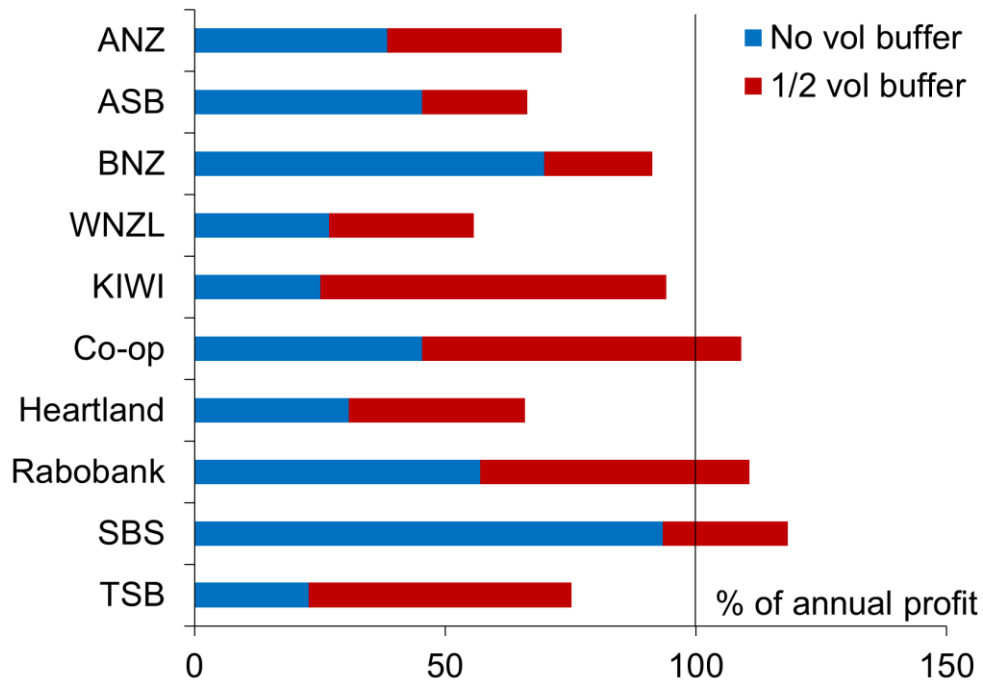
Transition period

- 5 year transition period

Year	Conservation	CCyB
2019	2.5	0
2020	4	0
2021	5.5	0
2022	7	0
2023	7.5	1
2024	7.5	2.5



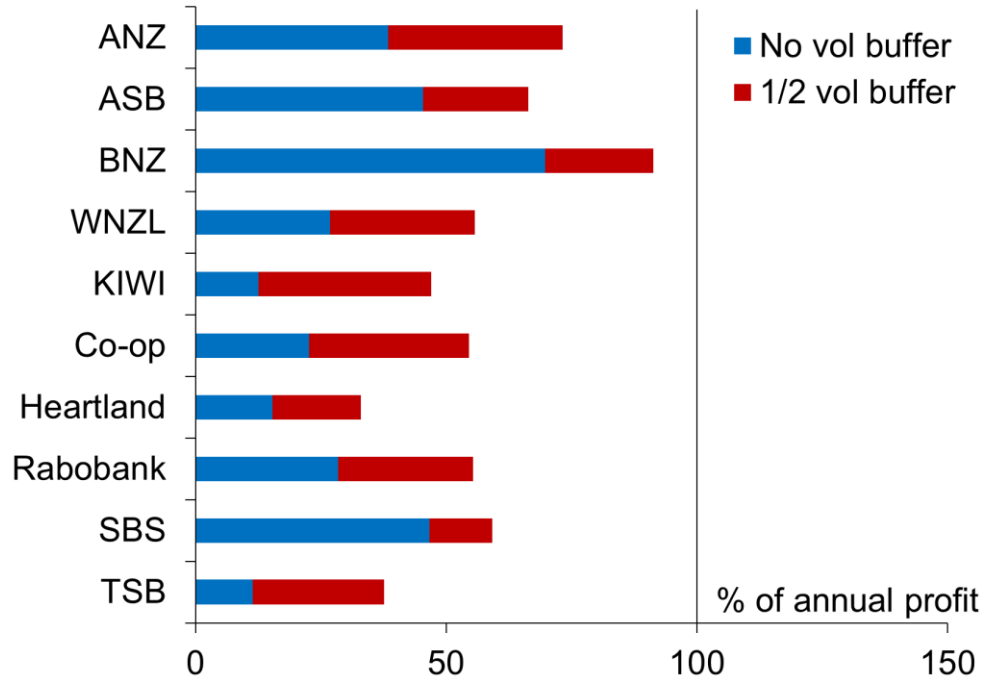
Transition period – impact on profit



* Includes capital impact of risk weight changes for IRB banks



If 10yr transition for small banks



* Includes capital impact of risk weight changes for IRB banks