

Question ID	2013_21
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	52
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	N/A
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Deferral of Tier 2 coupons
Question	Can Tier 2 instruments include terms according to which coupons would be mandatorily deferred or cancelled if coupons were not paid on Additional Tier 1 instruments?
Background on the question	Some existing Tier 2 instruments include such terms. Institutions may therefore raise the issue of consistent treatment. In addition, coupons deferral for Tier 2 instruments may become more common for ratings purposes as certain rating agencies may give more equity credit for Tier 2 instruments with coupons deferral.
Final answer	If Tier 2 instruments include such terms, this would undermine coupon flexibility on Additional Tier 1 instruments (as a decision to cancel Additional Tier 1 coupons would automatically lead to the deferral or cancellation of coupons on Tier 2 instruments). The criterion referred to in Article 52 (1) (l) (v) of Regulation (EU) No 575/2013 (CRR), which requires that "the cancellation of distributions imposes no restrictions on the institution" would then not be met by outstanding Additional Tier 1 instruments of the institution. Those instruments would then have to be disqualified from regulatory Tier 1 capital, although Tier 2 instruments including the above

	mentioned terms would themselves be eligible as regulatory Tier 2 capital.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_21

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