

# Required level of own funds part

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Near Final Draft

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## **1 Application and definitions**

1.1 This Part applies to a JIB.

1.2 In this Part, the following definitions shall apply:

### **CET 1 Ratio**

As defined in Section 3, item 61, unless:

- › the JIB has a variance from the JFSC permitting use of the internal ratings based approach and
- › the JFSC has not granted an output floor variance in accordance with the Risk-Based Capital Requirements Part, in which case it is defined in Section 4.

### **Tier 1 Capital Ratio**

As defined in Section 3, item 62, unless:

- › the JIB has a variance from the JFSC permitting use of the internal ratings based approach and
- › the JFSC has not granted an output floor variance in accordance with the Risk-Based Capital Requirements Part, in which case it is defined in Section 4.

### **Total Capital Ratio**

As defined in Section 3, Article 63, unless:

- › the JIB has a variance from the JFSC permitting use of the internal ratings based approach and
- › the JFSC has not granted an output floor variance in accordance with the Risk-Based Capital Requirements Part, in which case it is defined in Section 4.

## **2 Level of application**

2.1 A JIB must comply with this Part on the basis of its consolidated position, unless the JFSC has agreed a variance in accordance with the Risk-based capital requirements part,

## **3 Capital ratios – total RWAs and ratio calculation**

### **3.1 Item 60: Total risk weighted assets**

3.1.1 The sum of all risk weighted assets (RWAs), including those arising from credit risk (including counterparty credit risk), operational risk and market risk. Calculated as the sum of:

- (1) Item 60a: of which: 250% risk weighted items
- (2) Item 60b: of which: 1250% risk weighted items
- (3) Item 60c: of which: credit risk
- (4) Item 60d: of which: operational risk
- (5) Item 60e: of which: market risk
- (6) Item 60f: of which: Pillar 2 risks

### **3.2 Item 60a: of which: 250% risk weighted items**

3.2.1 The amount of RWAs that relates to items that would be deducted from CET 1 capital but where a threshold applies; report here the amount below the threshold multiplied by 250%.

3.2.2 Calculated as:

- (1) 250% multiplied by Item 83: 250% risk weighted items, calculated in accordance with the Own funds part

### 3.3 **Item 60b: of which: 1250% risk weighted items**

3.3.1 The amount of RWAs that relates to items afforded a risk weight of 1250% (In all cases report any relevant amount multiplied by 1250%):

- (1) any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income resulting in a gain-on-sale that is recognised in regulatory capital
- (2) banks using advanced approaches only, for which deduction is mandated
- (3) deductions from capital arising from settlement risk; and
- (4) significant (minority and/or majority) investments in commercial entities (those which exceed materiality levels)
- (5) any deduction for securitisation exposures

3.3.2 Calculated as:

- (1) 12.5 multiplied by the sum of:
  - › Item 84: 1250% risk weighted items, calculated in accordance with the Own funds part
  - plus
  - › Any securitisation exposures where the treatment in the Securitisation (CRR) part is a determined to be a capital charge
  - › Any IRB exposures where the JIB cannot determine a risk weight, in accordance with the Internal ratings based approach (CRR) part, Article 153 (8)

### 3.4 **Item 60c: of which: credit risk**

3.4.1 The amount of RWAs that relates credit risk, inclusive of counterparty credit risk, across both the banking and any trading book.

3.4.2 Calculated as the sum of:

- (1) RWAs calculated in accordance with the Credit risk: standardised approach (CRR) part
- (2) RWAs calculated in accordance with the Credit risk: internal ratings based approach (CRR) part, calculated by multiplying the capital requirement by 12.5.
- (3) RWAs calculated in accordance with the Counterparty credit risk part

### 3.5 **Item 60d: of which: operational risk**

- 3.5.1 The amount of RWAs that relates operational risk.
- 3.5.2 The RWAs calculated in accordance with the Operational risk part
- 3.6 **Item 60e: of which: market risk**
- 3.6.1 The amount of RWAs that relates market risk.
- 3.6.2 Calculated as the RWAs calculated in accordance with the Market risk part
- 3.7 **Item 60f: of which: Pillar 2 risks**
- 3.7.1 The amount of RWAs that relate to risks identified through the Pillar 2 process.

3.8 **Item 61: CET1 Ratio**

- 3.8.1 Calculated as:
- (1) Item 29: Common Equity Tier 1 Capital, calculated in accordance with the Own funds part  
divided by
  - (2) Item 60: Total risk weighted assets

3.9 **Item 62: Tier 1 Capital Ratio**

- 3.9.1 Calculated as:
- (3) Item 45: Tier 1 Capital, calculated in accordance with the Own funds part  
divided by
  - (4) Item 60: Total risk weighted assets

3.10 **Item 63: Total Capital Ratio**

- 3.10.1 Calculated as:
- (1) Item 59: Total Capital, calculated in accordance with the Own funds part  
divided by
  - (2) Item 60: Total risk weighted assets

**4 Capital ratios under the output floor**

- 4.1 Where:
- 4.1.1 a JIB has a variance from the JFSC permitting use of the internal ratings based approach  
and
  - 4.1.2 the JFSC has not granted an output floor variance in accordance with the Risk-Based Capital Requirements Part,  
its capital ratios must be calculated in accordance with this section.
- 4.2 The total risk exposure amount must be calculated as follows:
- (1) TREA = the higher of:
    - › U-TREA
    - ›  $x \cdot S\text{-TREA} + \text{OF-ADJ}$

where:

- › TREA = the total risk exposure amount of the entity
- › U-TREA = the un-floored total risk exposure amount of the entity calculated in accordance with paragraph 4.3
- › S-TREA = the standardised total risk exposure amount of the entity calculated in accordance with paragraph 4.4
- ›  $x = 72.5\%$

### Output Floor Adjustments

- ›  $OF-ADJ = 12.5$  multiplied by  $(IRB T2 - IRB CET1 - GCRA + SA T2)$ ;

### IRB Adjustments

- › *IRB T2* = amounts included in capital owing to provisions exceeding expected losses
- › *IRB CET 1* = amounts deducted from capital owing to excess of expected losses over general provisions

### Components of Net SA GP Adjustment (up to cap)

- › GCRA = amount of general provisions that would be eligible for inclusion in capital in accordance with paragraph 4.4
- › SAT2 = amounts of provisions actually included in Tier 2 capital.
- ›

4.3 The un-floored total risk exposure amount shall equal Item 60: Total risk weighted assets.

4.4 The standardised total risk exposure amount shall be calculated in accordance with Item 60: Total risk weighted assets:

4.4.1 after having taken into account paragraphs 4 and 4A; and

4.4.2 calculated without using any of the following approaches or as if permission to use the following approaches has not been granted:

- (1) the IRB Approach provided for in the Credit Risk: Internal Ratings Based Approach (CRR) Part except that, where permission to use the Internal Ratings Based Approach has been given, exposures for which a credit assessment by a nominated ECAI is not available and are not covered by paragraph 11 of Credit Risk: Standardised Approach (CRR) Part Article 122 may be assigned the risk weights set out in points (a) or (b), as applicable, of paragraph 8 of Credit Risk: Standardised Approach (CRR) Part Article 122;
- (2) the Securitisation Internal Ratings Based Approach set out in Securitisation (CRR) Part Articles 258 to 260A and the Internal Assessment Approach set out in Securitisation (CRR) Part Article 265

4.5 When calculating TREA for the purposes of paragraph 4.2, a JIB may apply the following factor  $x$  during the periods specified below:

4.5.1 60% during the period from 1 January 2027 to 31 December 2027;

4.5.2 65% during the period from 1 January 2028 to 31 December 2028;

4.5.3 70% during the period from 1 January 2029 to 31 December 2029.

4.6 **CET1 Ratio**

4.6.1 Calculated as:

(1) Item 29: Common Equity Tier 1 Capital, calculated in accordance with the Own funds part

divided by

(2) TREA

#### 4.7 **Tier 1 Capital Ratio**

4.7.1 Calculated as:

(1) Item 45: Tier 1 Capital, calculated in accordance with the Own funds part

divided by

(2) TREA

#### 4.8 **Total Capital Ratio**

4.8.1 Calculated as:

(1) Item 59: Total Capital, calculated in accordance with the Own funds part

divided by

(2) TREA

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