THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

May 2008

Our ref: ICAEW Rep 64/08

Your ref:

Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

By email dp07_06@fsa.gov.uk

Dear Sirs

DISCUSSION PAPER 07/6 – DEFINITION OF CAPITAL

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on *Definition of Capital.*

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Iain Coke
Head of Financial Services Faculty

ICAEW Representation

ICAEW REP 64/08

FSA – DEFINITION OF CAPITAL

Memorandum of comment submitted in April 2008 by The Institute of Chartered Accountants in England and Wales in response to the FSA discussion paper 07/6.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Discussion Paper *Definition of Capital,* issued by the Financial Services Authority in December 2007.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

Principles-based approach

Significant additional work is required to make the principles-based approach (which we support) resistant to dilution once implemented, and appropriate as a basis for international convergence.

4. The FSA appears keen to roll back the rulebook in the area of definition of capital, believing that this is the only way for substance to take priority over form, and for the regime to be robust to continuing technical change.

5. While we are sympathetic to these points, we note that the present regime has not come about by accident. Instead it reflects a demand, both from firms and regulators, for greater clarity on what is allowed as capital, and competitive pressure for convergence with other countries. In response a plethora of rules, designed to address these issues, has emerged.

6. To guard against this happening again, the FSA needs to explore in more detail how a principles-based approach can remain sufficiently flexible to adapt to market developments, while being sufficiently precise to ensure that the regime in each major country remains similar in most material respects. Unless this issue is addressed it is unlikely to be possible to produce a durable principles-based approach to the definition of capital in the UK.

Basel process

7. The FSA may also need to explain at greater length how this paper fits in not only with the Basel process, into which this is an input, but also the EU exercise to bring about greater convergence in hybrid capital instruments, both between banks in different countries and between banks and insurance

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companies, and work in the US on the best approach to measuring capital for accounting purposes.

'Lock-in' feature

8. Finally, we note that the public announcement of a 'lock-in' of a capital instrument may cause considerable disquiet among a firm's creditors, in the same way that borrowing from a 'lender of last resort' may on occasion be counter-productive. These issues of 'stigma' need to be reflected on. They may suggest more of a role for long-dated or undated instruments, and less of a role for supervisor-triggered blocks on repayment, than would otherwise be the case.

SPECIFIC QUESTIONS

9. Our answers to the specific questions raised by the FSA are set out below.

ANSWERS TO DETAILED QUESTIONS

Chapter 2 – Why are changes necessary?

Question 1: What are your views on possible grandfathering arrangements? Do you agree with the approach suggested above?

10 One issue not explicitly addressed in the paper is the speed with which grandfathered instruments are disallowed: is this on a straight-line basis over the 30 years or is some other assumption used?

11 Separately, if previously-allowed instruments fail the new standards by some margin there is an argument for a shorter period of grandfathering than if the failure is more marginal, when the sort of lengthy period proposed here appears more appropriate. In the case of current innovative Tier one capital, as the paper acknowledges, there is a case for linking the grandfathering period with the period to the call date. However, we agree that it is important to bear in mind the objectives of grandfathering: to avoid market disruption, allow firms flexibility over capital management and avoid artificial pressures for redemption, arguments which at this point appear compelling.

Chapter 4 – Characteristics of capital: going concern

Question 2: Do you agree with this interpretation of going concern?

12 The first definition proposed (ie not the one proposed by the FSA) seems to us the most appropriate definition for 'going concern', but should be made more explicitly forward-looking. 'Over the next 12 months' would tie in with the accounting literature.

13 If the FSA wishes to set a higher hurdle for the purposes of defining Tier 1 capital, it could be argued that this is for it to decide. However, the definition proposed is too subjective in nature. In particular the third definition ('retaining the confidence of the regulators') may not give a regulated firm the confidence it needs that decisions will not be taken on an arbitrary basis. Moreover, since the FSA's confidence in firms will vary over time, there is a risk that this could help accelerate a firm's collapse.

14 Separately, it is a very stringent definition of 'going concern' that disallows capital that is permanent, loss absorbing and with coupon flexibility, even if it is judged to be in a form that discourages recapitalisation.

Question 3: Do you agree with our analysis of the characteristics of capital? Are there other characteristics that we should consider?

15 Subject to the rider above, we agree. In addition, we note that m uch of this analysis reflects an implicit assumption that net assets will be less in a 'gone' concern. While this may often be a reasonable assumption, if it is not it is less clear that capital which 'protects' depositors by enabling the firm to continue as a going concern is of a higher standard than that which does not.

Chapter 5 – Going concern: loss absorbency

Question 4: Do you agree with our analysis of loss absorbency?

16 See earlier comments. It might be considered that there are certain elements even of common equity (for example, expectation of dividend growth as a buttress to confidence; need for shareholder approval of new equity injection) that hinder recapitalisation. The last bullet of paragraph 5.7 refers to recapitalisation in terms of new shares, but it is possible that further hybrid capital could be raised. More generally, investors (of any type) look at the risk/reward profile in making their investment decisions, so the existence of hybrid capital of itself may not in practice be a serious hindrance.

Question 5: At what point do you consider hybrid capital should absorb losses, other than from coupon cancellation?

17 To the extent it is senior to common equity one would expect hybrid capital to absorb losses after equity, and as the analysis makes clear the principal does so. The issue is whether in that case it should be eligible for Tier 1 treatment. The present situation – that it should be but only up to a given limit – is not self-evidently wrong, though we agree that (arbitrary) limits do not assist with the objectives of simplifying the requirements and being principles based.

Question 6: Do you agree with our analysis of equity conversion and that such conversion would enhance going concern loss absorbency?

18 As preference shares are perpetual, they are almost as loss-absorbing as equity shares. While they have their dividends paid before equity dividends, if these are not cumulative, they are not an additional burden on the entity. We therefore see little benefit from conversion features (i.e. into common equity) on preference shares. In the situation of a debt issuance, a conversion feature could enhance loss absorbency. It would, however, change the treatment of the instrument within the entity's financial statements, requiring a split between liabilities and equity, which firms may wish to avoid. Points to consider include:

- If the trigger for conversion is considered remote on issue, would it be part of the substance of the contractual arrangements?
- Unless conversion on a mandatorily convertible instrument is for a variable amount of shares to a fixed amount in the issuer's functional currency, would there be an equity component in an otherwise debt instrument?

- If tax relief is lost after conversion, less capital will be available to absorb losses.

Question 7: Can you identify any practical issues relating to write-down features?

19 With the permanent principal write-down, the holders of the debt instrument appear to become the first to lose their capital, whereas in the normal order of events, the equity investors are expected to be the primary losers. This, seems counter-intuitive and will increase the costs to issuers, and needs to be subject to rigorous analysis as to whether this is justified by benefits of reordering the normal sequence of events. The write-down with write-up provisions does not resolve all of these issues. It may temporarily change classification, but the entity has no more additional capital as a result. Tax and valuation considerations also need to be investigated, and a decision on whether this represents an embedded derivative that would require separation in the financial statements. The instruments could be either debt or accounted for as equity depending on the terms. If debt accounted and if the write-down met the derecognition conditions in *IAS 39 Financial Instruments: Recognition and Measurement*, the question then arises as to whether any subsequent write-up is a new liability or is there a contingent liability? In order to qualify for derecognition the debt will have to be legally forgiven. Can it be legally forgiven with an obligation to reinstate it in proportion to future profits? If so, what type of financial instrument is an obligation to reinstate in proportion to future profits? Is it a liability contingent on making the future profits (there are capital rules for contingent liabilities unless remote), or some class of derivative with an underlying based on return to equity (which would be fair valued through income)? Such accounting consequences may have unforeseen regulatory capital implications. If the instrument is accounted for as an equity instrument, there would just be a transfer back and forth between two classes of equity.

Question 8: Do you agree with our analysis of write-down features?

20 See earlier comments.

Question 9: What do you regard as the most important factors in designing a trigger for a loss absorbency mechanism? Which of the options do you support?

21 The premise behind the question is that hybrid Tier 1 should absorb losses before common equity is exhausted and that writing off hybrid Tier 1 will be a critical factor in decisions to invest in new common shares. Unless this is so, the complications are probably not worth the effort, and suggest that a ‘zero equity’ trigger be used. Alternatively, if a more compelling case for such an approach is made; ie that hybrid Tier 1 should share in the losses before all common equity is exhausted, we doubt if a trigger as low as 2% is a satisfactory compromise. In any event an instrument with uncertain terms must lead to greater costs.

Question 10: Are there any issues of international consistency that you consider are important to our suggestions regarding loss absorbency on a going concern?

22 Yes – see opening remarks.

Question 11: What practical implications might arise in relation to equity conversion or principal write-down mechanisms?

23 In addition to potential tax and accounting implications, conversion to equity at a time of stress for the bank could affect investor confidence.

Question 12: How would you consider that the loss absorbency mechanisms described here would function from a legal, accounting and rating agency perspective?

24 There may be tax implications and not just at the time of conversion but as a result of the holder's returns changing from interest to dividends. If the write-back is followed, consideration would be needed of the value applicable to the conversion back, including the interaction with the capital gains tax regime. The accounting could be complex and may not reflect the intended regulatory consequences. Different jurisdictions are likely to have legal and tax regimes that make it more or less attractive to issue instruments with the features suggested. This could raise level playing field issues.

Chapter 6 – Going concern: coupon flexibility

Question 13: Do you agree that coupon deferral helps to conserve financial resources in a period of financial stress?

25 Yes, but as an aid to liquidity rather than capital.

Question 14: Do you agree that coupon deferral could be seen as a disincentive to new equity investment and thus may hinder recapitalisation?

26 To some extent yes but it is a matter of degree. It may not hinder new hybrid instruments that rank *pari passu* particularly as deferred coupon is likely to be small relative to the capital and the coupon liability is just one consideration for investors.

Question 15: Do you agree that stock settlement mechanisms should ensure that coupons are settled immediately and do not accumulate?

27 Presumably the question means 'if the instrument is going to be included as Tier 1 capital'? See answer to Question 9 - the underlying issue is whether Tier 1 must be in a form that does not in any way discourage inflows of new capital. In our view the argument for this needs to be better developed before decisions on detailed items such as stock settlement mechanisms can be reached.

Question 16: Do you agree that unless shares are issued directly to investors, ACSM may cause recapitalisation issues?

28 See answer to Question 15.

Question 17: Do you agree that an instrument with cash cumulative coupons is not loss absorbent on a going concern basis?

29 Yes.

Question 18: Do you agree with the reasoning behind our current policy on dividend pushers?

30 We have no strong views on this issue.

Question 19: Do you agree that dividend stoppers might hinder a firm's ability to recapitalise in a stress situation?

31 Yes, but see our earlier remarks. Moreover, while it might hinder new equity issues, it does not seem to have an impact on new hybrid issues.

Question 20: Have we identified the issues relevant to mandatory coupon cancellation?

32 The key issue is the signal that coupon cancellation provides, given its essentially public nature, and given the need to retain the confidence of creditors, according to the FSA's own definition of 'going concern'. (This point is covered, rather tentatively, in the paper). To the extent optional cancellation is not possible for these reasons, it is also debatable how far mandatory cancellation, at levels set by the regulator, would mitigate rather than augment the panic.

33 Separately what should these trigger points be? This point is crucial in as much as the cancellation of the dividend would make it public that the firm was at one of these points. This is a point of great significance from the standpoint of financial stability and confidence in the financial system.

Question 21: Should mandatory coupon cancellation at trigger points be combined with discretion at other times?

34 We are not clear why not.

Question 22: Should dividend pushers be acceptable if a policy of mandatory coupon cancellation were to be adopted?

35 If there is an overriding ability to cancel in times of stress, 'pushers' maybe acceptable but if one is sceptical about mandatory cancellation because of the signal this provides to the market (which is a wider issue, as set out previously), this point falls away. More generally, specifying such detail seems inconsistent with a principles-based approach. The principle would seem to be the outright ability to cancel in times of stress in a way that does not signal a serious problem to the market. If this overrides the dividend pusher, it would be in keeping with the principle.

Question 23: What are your views on trigger points for mandatory coupon cancellation? Is our analysis of options complete? As an issuer, what circumstances would prompt you to cancel coupon payments? As an investor, under what circumstances would you expect coupon cancellation to occur?

36 See answer to Question 20. The later the trigger, the more likely that it would be ineffective as a means of preserving capital and the more likely that its announcement would cause a run on the firm. There are downsides to all of the proposals, and whatever method is determined needs to be resistant to

manipulation and not result in confidential information being made available inappropriately. For example, if a holder of an instrument knows it is subject to a coupon cancellation clause, it will want information on the current position compared to the trigger, not least since without information on the trigger, this will make the instrument more difficult to value.

Chapter 7 – Going concern: availability or permanence of capital

Question 24: Are there other factors relevant to the subject of contingent capital?

37 Contingent capital would need to be instantly and unambiguously available in case of need, and not be subject to legal doubt, counterparty risk (including risk to a fellow group company) or administrative delay. Capital that met these standards could be eligible. We share the FSA's doubts as to whether it exists at present. However, a principles-based approach should allow for that possibility in the future. In particular it should be allowed for Pillar 2 purposes, in order that it can act as a form of risk mitigant against a perceived high impact low probability risk.

Question 25: Could dated capital that cannot be repaid in times of stress satisfy the principle of being available when needed to the same degree as undated capital instruments?

38 In principle yes. The issue is how far it would be possible to block repayment in response to prospective problems. It would be unfortunate if a firm was perceived to be getting into difficulties but at the time of maturity was above all its relevant triggers, with repayment in consequence allowed, whereas a week later had fallen below the triggers. While similar issues already apply in the case of share repurchases, the question is whether the two cases are sufficiently different, despite their similarities, to require more safeguards for a capital instrument than reliance only on a regulatory lock-in. One such possibility would be to amortise dated capital, though this is a very rough-and-ready way to address the issue.

39 There are also issues about transparency and disclosure if such a repayment was blocked by the FSA and this became publicly known, as would be likely, since this might trigger a run on the firm.

40 Finally, it would be helpful if the FSA reflected on the position of a UK subsidiary in an international group – for example, if the FSA blocked the repayment to a US parent of an instrument that provided capital to a UK subsidiary – and how this might complicate supervision of the group as a whole. The problems with an EU parent might prove even more intractable.

Question 26: Are there mechanisms other than 'lock-ins' that could also achieve the same objectives of being available when needed?

41 See answer to Question 24.

Question 27: What are the practical implications of permitting going concern capital to be dated? What would be the market implications, for example on standard maturities and pricing?

42 We have no comments.

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Question 28: Should there be a minimum maturity, or minimum period to a call, for going concern capital?

43 The answer depends on the view taken of the points discussed in paragraph 38. Some might argue that in logic there should be no minimum maturity. However, we would be concerned at the scope that this might provide for window-dressing (for example, by issue of two-day capital over a year-end). While this in itself could be remedied by greater disclosure, we would prefer a minimum maturity of at least a year, and probably significantly more.

Chapter 8 – Characteristics of capital: gone concern

Question 29: Do you agree that the primary purpose of tier 2 capital is to absorb losses in liquidation? Or should tier 2 capital also help to prevent the insolvency of a firm? If so, how could it achieve this?

44 If ‘prevent insolvency’ means ‘continue as a going concern’, as we believe it does in this context, we note that Question 32 perceives that there is a role for Tier 2 capital. Deferral of a coupon is helpful for liquidity purposes when there is a going concern issue for an entity. Similarly, regardless of regulatory capital, it must be of benefit to have enough long-dated or undated capital instruments.

Question 30: What benefit do firms gain from issuing regulatory tier 2 capital other than to meet regulatory requirements? Can you suggest a more efficient way of achieving the same objective? Should tier 2 capital be replaced by going concern capital in order to enhance going concern loss absorbency?

45 Tier 2 capital is typically of long maturity and is, therefore, potentially helpful from a liquidity standpoint. It is also an indicator of long-term support (especially since it is subordinated) – indeed there is a US-based literature that sees a role for subordinated issues as an indicator of the financial strength of a bank and as a force for market discipline.

Question 31: Are there circumstances in which gone concern capital needs to have coupon deferral features?

46 No, but see next answer. There may also need to be a principle that coupons are ‘reasonable’, to ensure that what is called a coupon payment is not in economic terms a repayment of principal during a period of stress.

Question 32: Do you agree that requiring gone concern capital to have a lock-in in times of stress could help the firm to continue as a going concern? What would be the practical consequences of requiring such a feature?

47 It is not clear to us that in these circumstances it would have a material effect on the position of the firm as a going concern as customarily defined, though we accept that if the alternative definition proposed in this paper is adopted, it might have such an effect.

48 A lock-in is essential for 'gone concern' purposes, for otherwise the capital may be withdrawn precisely when it is needed to protect depositors. It may be simplest for the lock-ins to be set at the same level as for Tier 1 capital.

Question 33: Do you agree that it would be helpful to have greater flexibility in determining the maturity of gone concern capital? If yes, what safeguards should be introduced to ensure that the capital is available when needed?

49 We refer to our answers to Questions 25 and 28. While we see that on some views all that is required for such capital is a robust lock-in arrangement, we suspect that this puts too much weight on this one feature. We would therefore set a minimum maturity for such capital. We can similarly see a case for this being rather shorter than for Tier 1 capital, again for the reasons set out in the answer to Question 25 but again with a minimum maturity of at least a year.

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Question 34: Is it helpful to distinguish between different sub-tiers of gone concern capital? Do the additional features currently required for upper tier 2 justify the higher cost of issuance?

50 We suspect that the distinction could be removed as part of the simplification exercise.

Question 35: Is there a distinctive role for tier 3 capital even if gone concern capital more generally was required to have lock-ins and more flexible maturity features? Does capital used to meet market risk requirements need to have any unique features to achieve its purpose?

51 Our understanding is that Tier 3 capital is a historic accident, relating to the UK experience with security house capital, which was required to be flexible to allow firms to carry out, for example, large underwritings.

52 At that time market risk firms tended to know their capital position instantaneously (not least because there was a liquid market in most of the instruments in the trading book of the time). By contrast, provisioning for credit risk on banking books in the 1990's tended to be more subjective. Both of these factors made it simpler to reach a judgment on lock-ins and repayment when it related to risks in the trading book. Moreover, capital requirements for trading were often more volatile, meaning there was more pressure to allow capital 'in' and 'out' on a more flexible basis than for a banking business.

53 The changes over the past 15 years have brought market and credit risk closer together. In our view if greater reliance was placed on 'lock ins' and less on maturity for Tier 2, there would not be a need for a separate Tier 3 regime.

Chapter 9 – Limits

Question 36: Do you agree that there should be a minimum proportion of going concern capital in Pillar 1? And if so, do you agree that a minimum of 50% of a firm's capital requirements should be in the form of going concern capital?

54 It would of course be possible to make the regime more complicated than this, but we agree with both points as posed. That said, consideration should also be given to requirements in other countries and sectors: for instance Article 97 of the draft *Solvency II Framework Directive* requires at least 1/3 to be Tier 1 capital.

Question 37: Do you agree that common equity and reserves should make up the bulk of tier 1 capital requirements? In your view, what proportion of tier 1 requirements should be met with common equity and reserves? Should a higher proportion of hybrid capital instruments be permitted to count as capital held above the minimum capital requirements?

55 We agree that the bulk of Tier 1 should be in the form of common equity and reserves: given the proposed tightening of the definitions it is unclear whether there will be many other instruments that are eligible to meet these standards.

56 We would set the limit only in terms of the Tier 1 capital requirement (ie not total Tier 1 issued). An upper limit of 10-20% of 'non common equity' would seem about right but should be subject to cost/benefit analysis especially in so far as preference shares and PIBS (see Question 53) are concerned.

Question 38: Do you agree that the same proportion of going concern capital is needed for market risk requirements as for credit and operational risk?

57 On balance yes, for the reasons set out in answer to Question 35.

Question 39: Do you agree that quality of capital should be assessed under Pillar 2?

58 Yes, and by setting rules on Tiers 1 and 2 some account is also taken of these matters within Pillar 1.

Question 40: Is there a need to have sub-tiers within gone concern capital?

59 No, for the reasons set out in answer to Questions 34 and 35.

Question 41: Do you agree that limits would be better expressed as minimum rather than maximum requirements? What disclosure issues are raised by permitting firms to issue more capital (not subject to limits) to improve capital ratios?

60 The firm should face a minimum requirement for common equity and reserves and Tier 1 capital. There should be no further limits. Firms should be required to publish their Tier 1 capital whenever they publish a total capital figure.

Chapter 10 – Deductions

Question 42: Do you agree with the rationale put forward for our current deductions? Do you think other matters are relevant, and if so for which deductions?

61 In our view the case for deductions is strongest in the following cases:

- Where it reflects a loss to (equity-type) capital
- Where set out in Basel 2 (many of whose rules do reflect such losses)
- Where there is double counting of (equity-type) capital.
- Where there is doubt not just over valuation but over whether the asset has ANY value.
- Where it is an alternative to an outright ban (for example, for LE purposes).

62 We are less persuaded that deduction is the correct solution where:

- It reflects a liquidity issue (thus reflecting historic factors for investment firms)
- It is used as a response to a 'too difficult' decision.

63 From this it follows that the two areas that might best reward study are the treatment of intangible assets, and qualifying (ie industrial) holdings. In both cases it might be possible to obtain a better measure of the underlying risk. Note however that in the latter case the equity investment may be used as a proxy for the risk to the firm. In the absence of any other meaningful measure, it may still be necessary to fall back on deduction as the treatment of last resort and for intangibles there is a risk that they are not readily convertible to 'real' assets in stress positions. Finally, it is worth considering if the regulatory surplus value of regulated subsidiaries caught as 'material holdings' should be included in the capital of the parent, to reduce the competitive disadvantage in this area for UK banks.

Question 43: Do you think the options of risk weighting or full deduction deliver a prudent response to the risks posed by these holdings?

64 See previous answer.

Question 44: Do you think we should change where certain deductions are made to reflect the ability of the capital to absorb losses?

65 Such a proposal seems logical but should be subject to cost/benefit analysis.

Question 45: Do you agree with our analysis of the current policy on deductions, and for specific deductions, as set out above? What alternative proposals would you make for our policy on deductions? Are there other items that you think should be deducted?

66 See answer to Question 42.

Question 46: Do you think that our current approach to any of these deductions is disproportionate? If so, how could we make it more proportionate?

67 See answer to Question 42.

Question 47: Do you agree that we should apply certain deductions to specific categories of firm?

68 We wonder how far these distinctions are still valid given the extent to which 'banks' undertake 'investment firm' activities currently. We also note that the position of insurance companies is relevant here, for the reasons set out in paragraph 1.7 of the paper.

Chapter 11 – Reserves

Question 48: Do you agree with this approach to share premium and other types of capital reserve?

69 Yes, we agree.

Question 49: Do you agree that reserves should all be considered as part of going concern capital? Have you specific comments relating to the options suggested in the table?

70 We agree: it removes the need to sell assets for which there is a revaluation reserve to generate Tier 1 capital.

Question 50: Do you agree that there is scope for simplifying the prudential filters regime?

71 Yes, and in the way suggested but subject to full consultation.

Question 51: Do you support our continued emphasis on the substance of the capital item rather than its accounting classification? What are your views on applying a consistent valuation basis for all capital instruments and the relative merits of cost and fair value?

72 Yes to the first question. The second question relates to measurement basis issues that are currently under debate and discussion by financial reporting standard setters. It would be premature to attempt to predict the outcome of those discussions. However, regulatory classification is based on the key characteristics of what regulators require of capital. That being the case, a cost basis is likely to be preferable to fair value since it is unlikely that regulators would wish to fair value common shares ie that whatever the accounting answer, it may not be suitable for regulatory purposes.

Question 52: Do you believe that there is scope for greater management responsibility in the area of interim profits?

73 We believe there is such scope, but that management will need to have robust controls in place to ensure the accuracy of the data that they report. In a principles-based regime, there are a variety of ways by which assurance can be achieved.

Chapter 12 – Capital for building societies, partnerships and LLPs

Question 53: Do you agree that PIBS should be subject to the same principles as hybrid capital instruments issued by banks?

74 See answer to Question 37.

Question 54: Do you agree that the same principles, especially going concern, loss absorbency, should apply to partnerships and LLP capital, as they do to limited companies?

75 Yes.

Question 55: Do you agree that the analysis of going concern and gone concern capital in Chapters 4 and 8 should apply, as far as relevant, to mutual institutions, partnerships and LLPs?

76 See answer to Question 54.

Question 56: Are there any special features, not addressed above, that we should take into account in the definition of capital for mutual institutions, partnerships and LLPs?

77 Not to our knowledge.

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