



澳門金融管理局  
AUTORIDADE MONETÁRIA DE MACAU

Circular No. 010/B/2023-DSB/AMCM  
(Effective Date: 01/11/2023)

## **Guideline on Composition of Own Funds**

The Monetary Authority of Macao (AMCM), under the powers conferred by Article 9 of the Charter approved by Decree-Law No.14/96/M of 11<sup>th</sup> March and by Article 8 of Law No.13/2023 (the Financial System Act), establishes the following:

### **I. INTRODUCTION**

1. As an integral and important part of the Basel III framework, the Basel Committee on Banking Supervision introduced a new definition of regulatory capital (hereinafter referred to as “own funds”), including specific classification criteria for the component of own funds, the respective entry criteria for capital instruments within each component and the general approach for regulatory adjustments applied in its calculation, which aims to strengthen the quality of own funds and thus promote a more stable and resilient financial system.
2. Based on the Basel III framework, this Guideline sets out the requirements in relation to the composition of own funds for determination of the capital adequacy ratio (CAR) and for calculation of the prudential limits in accordance with the Financial System Act. This Guideline applies to all credit institutions incorporated in Macao.

### **II. GENERAL REQUIREMENTS**

3. A credit institution should obtain the AMCM’s approval prior to the issuance of capital instruments for inclusion in its own funds. The AMCM will assess the eligibility of such instruments to qualify as own funds based on their entry criteria. Where deemed necessary by the AMCM, a credit institution should provide an independent expert opinion from an external party, in order to confirm that an instrument is eligible for inclusion in its own funds.
4. A credit institution should ensure that the calculation of its own funds is complete and accurate, with any component included in its own funds satisfying, in both form and substance, all applicable requirements in this Guideline for the particular category of own funds in which it is included.

### **III. COMPOSITION OF OWN FUNDS**

5. A credit institution’s own funds should consist of the sum of the followings:
  - (a) **Tier 1 capital**, which comprises:
    - i. **Common Equity Tier 1 (CET1) capital;**



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ii. **Additional Tier 1 (AT1) capital.**

(b) **Tier 2 capital.**

6. A credit institution's Tier 2 capital should only be considered up to a value equal to its Tier 1 capital.

**CET1 capital**

7. A credit institution's CET1 capital should consist of the sum of the followings:
- (a) **Common shares** issued by the credit institution that meet the criteria for classification as common shares for regulatory purposes as set out in *Annex I*;
  - (b) **Share premium** resulting from the issue of common shares;
  - (c) **Retained earnings**;

For inclusion as CET1 capital, retained earnings include profits and losses brought forward from previous years except for any profits (positive figures) without an external audit. The current year's interim profit may also be included provided the following conditions have been satisfied:

- (i) The interim financial statements are prepared using the same accounting policies and practices applied in the preparation of the annual financial statements, unless the change in the accounting policy or practice is in accordance with any statutory requirement;
- (ii) The interim financial statements are audited or reviewed in a timely manner by an external auditor in accordance with the relevant laws, regulations or applicable standards;
- (iii) The external auditor of the credit institution has not expressed any qualified opinion or adverse conclusion on the interim financial statements; and
- (iv) The interim profit is net of any interim dividend or other appropriations.

For the current year's interim loss incurred, it should be immediately included even in the absence of an external audit.

(d) **Accumulated other comprehensive income (OCI) and other disclosed reserves;**

For inclusion as CET1 capital, accumulated OCI includes OCI brought forward from previous years except for any positive OCI without an external audit. The current year's positive interim OCI may also be included provided the applicable conditions set out in item (c) of this paragraph have been satisfied while the current year's



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negative interim OCI incurred should be immediately included even in the absence of an external audit.

- (e) **Minority interests** arising from the issue of common shares by consolidated banking subsidiaries<sup>1</sup> of the credit institution and held by third parties that meet the criteria for inclusion in CET1 capital<sup>2</sup>; and
- (f) **Regulatory adjustments** applied in the calculation of CET1 capital as determined in paragraph 8.

**Regulatory adjustments applied to CET1 capital**

8. A credit institution should deduct the following items in the calculation of CET1 capital<sup>3</sup>:
- (a) Goodwill<sup>4</sup>, net of any associated deferred tax liabilities (DTLs);
  - (b) Other intangible assets, net of any associated DTLs;
  - (c) Defined benefit pension fund assets (except those of such assets to which the credit institution can demonstrate to the satisfaction of the AMCM that it has unrestricted and unfettered access), net of the amount of obligations under the fund or plan and any associated DTLs;
  - (d) Deferred tax assets (DTAs), net of any associated DTLs<sup>5</sup>(excluding those associated with and already net against the deduction of the amounts in relation to items (a), (b) and (c) of this paragraph);
  - (e) Cash flow hedge reserve<sup>4</sup>;
  - (f) Increase in equity capital resulting from securitization transactions;
  - (g) Cumulative gains or losses on liabilities of the credit institution that are fair-valued and result from changes in the credit institution's own credit risk<sup>4</sup>;
  - (h) Cumulative unrealised gains arising from the revaluation of land and buildings;

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<sup>1</sup> A consolidated banking subsidiary means a subsidiary of the credit institution that is (i) a bank or any other entity that is subject to substantial similar regulation and supervision as a bank; and (ii) is subject to regulatory consolidation under the requirement of the AMCM.

<sup>2</sup> This item should be included for the calculation of CET1 capital on a consolidated basis only. For inclusion in consolidated CET1 capital, the issued common shares giving rise to the minority interests should, if issued by the credit institution, meet all of the criteria for classification as common shares. Where the instruments have been issued out of an SPV, none of these capital instruments can be included as consolidated CET1 capital.

<sup>3</sup> Assets deducted from own funds should be excluded in RWA for computing a credit institution's CAR.

<sup>4</sup> Positive amounts should be deducted while negative amounts should be added back in the calculation of CET1 capital.

<sup>5</sup> DTAs may be netted with any associated DTLs prior to being deducted in the calculation of CET1 capital only if offsetting is permitted by the relevant taxation authority.



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- (i) Regulatory reserves (including general and specific regulatory reserves) established according to Notice no.012/2021-AMCM;
- (j) Holdings in own CET1 capital instruments;
- (k) Reciprocal cross-holdings in CET1 capital instruments of financial institutions;
- (l) Insignificant investments in CET1 capital instruments of financial institutions<sup>6,7</sup> that are outside the scope of regulatory consolidation, subject to a 10% threshold;

For the calculation of this deduction, a credit institution should first compare “the total of all such holdings in aggregate” to “10% of the credit institution’s CET1 capital after applying all other regulatory adjustments for item (a) to (k) of this paragraph”. Any excess amount over the 10% threshold should be multiplied by the proportion of the holdings in CET1 capital over the gross holdings of all such insignificant investments in the financial institutions<sup>8</sup>.

- (m) Significant investments in CET1 capital instruments of financial institutions<sup>7,9</sup> that are outside the scope of regulatory consolidation, subject to a 10% threshold;

For the calculation of this deduction, a credit institution should first compare “the total of all such holdings in aggregate” to “10% of the credit institution’s CET1 capital after applying all other regulatory adjustments for item (a) to (l) of this paragraph”. Any excess amount over the 10% threshold should be multiplied by the proportion of the holdings in CET1 capital over the gross holdings of all such significant investments in the financial institutions<sup>8</sup>.

- (n) Any other items specified or required by the AMCM due to regulatory needs or under any other guidelines.

### **AT1 capital**

9. A credit institution’s AT1 capital should consist of the sum of the followings:

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<sup>6</sup> An insignificant investment in a financial institution refers to an investment of no more than 10% of the issued common share capital of a financial institution.

<sup>7</sup> For capital instruments, it is the net long position that is to be included (i.e. the gross long position net of short position in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year). Underwriting position held for longer than five working days should also be included. In addition, guarantees or other capital enhancements provided by a credit institution to financial institutions are treated as capital invested in those financial institutions based on the maximum amount that the credit institution could be required to pay out under such arrangement.

<sup>8</sup> This is based on the “corresponding deduction approach”, which means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the credit institution itself. If the capital instrument of the financial institution in which the credit institution has invested does not meet the criteria for CET1, AT1 or Tier 2 capital of the credit institution, the capital is to be considered common shares for the purpose of this deduction.

<sup>9</sup> A significant investment in a financial institution refers to an investment of more than 10% of the issued common share capital of a financial institution.



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- (a) **Instruments issued by the credit institution** that meet the criteria for classification as AT1 capital as set out Annex 2 and are not included in CET1 capital;
- (b) **Share premium** resulting from the issue of instruments included in AT1 capital;
- (c) **Instruments issued by consolidated banking subsidiaries of the credit institution and held by third parties** that meet the criteria for inclusion in AT1 capital and are not included in CET1 capital<sup>10</sup>; and
- (d) **Regulatory adjustments** applied in the calculation of AT1 capital as set out in paragraph 10.

**Regulatory adjustments applied to AT1 capital**

10. A credit institution should deduct the following items in the calculation of AT1 capital<sup>3</sup>:

- (a) Holdings in own AT1 capital instruments;
- (b) Reciprocal cross-holdings in AT1 capital instruments of financial institutions;
- (c) Insignificant investments in AT1 capital instruments of financial institutions<sup>6,7</sup> that are outside the scope of regulatory consolidation, subject to a 10% threshold;

For the calculation of this deduction, a credit institution should first compare “the total of all such holdings in aggregate” to “10% of the credit institution’s CET1 capital after applying all other regulatory adjustments for item (a) to (k) of paragraph 8”. Any excess amount over the 10% threshold should be multiplied by the proportion of the holdings in AT1 capital over the gross holdings of all such insignificant investments in the financial institutions<sup>8</sup>.

- (d) Significant investments in AT1 capital instruments of financial institutions<sup>7,9</sup> that are outside the scope of regulatory consolidation, subject to a 10% threshold;

For the calculation of this deduction, a credit institution should first compare “the total of all such holdings in aggregate” to “10% of the credit institution’s CET1 capital after applying all other regulatory adjustments for item (a) to (l) of paragraph 8”. Any excess amount over the 10% threshold should be multiplied by the proportion of the holdings in AT1 capital over the gross holdings of all such significant investments in the financial institutions<sup>8</sup>.

- (e) Any other items specified or required by the AMCM due to regulatory needs or under any other guidelines.

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<sup>10</sup> This item should be included for the calculation of AT1 capital on a consolidated basis only. For inclusion as consolidated AT1 capital, the issued instruments should, if issued by the credit institution, meet all of the criteria for classification as AT1 capital and are not included in CET1 capital.



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11. If a credit institution is required to make a deduction from AT1 capital and it does not have enough AT1 capital to satisfy the deduction, the shortfall should be deducted from CET1 capital.

**Tier 2 capital**

12. A credit institution's Tier 2 capital should consist of the sum of the followings:
- (a) **Instruments issued by the credit institution** that meet the criteria for classification as Tier 2 capital set out Annex 3 and are not included in Tier 1 capital;
  - (b) **Share premium** resulting from the issue of instruments included in Tier 2 capital;
  - (c) **Instruments issued by consolidated banking subsidiaries of the credit institution and held by third parties** that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital<sup>11</sup>;
  - (d) **Accumulated provisions for expected credit losses (ECL) in stage 1 or 2** made in accordance with relevant accounting standards, together with **general regulatory reserves (if any)** required by the AMCM, which are held against future, presently unidentified losses and are freely available to meet losses which subsequently materialise, subject to a maximum of 1.25% of credit RWA calculated under the standardised approach required by the AMCM;
  - (e) **Cumulative unrealised gains arising from revaluation of land and buildings** that is owned by the credit institution except those mortgaged to the credit institution to secure a debt, subject to the following conditions:
    - i. The land and buildings are occupied for business operation of the credit institution;
    - ii. The credit institution has a clearly documented policy on the frequency and method of revaluation of its holdings of land and buildings that is satisfactory to the AMCM. The credit institution should not depart from that policy except after consultation with the AMCM;
    - iii. The credit institution must ensure that the value of its land and buildings are reflective of market values and on this basis, they must be valued prudently at least once every three years or where there is evidence that the value of the land and buildings is likely to be substantially impaired;
    - iv. The revaluation of land and buildings is undertaken by an independent professional valuer;

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<sup>11</sup> This item should be included for the calculation of Tier 2 capital on a consolidated basis only. For inclusion as consolidated Tier 2 capital, the issued instruments should, if issued by the credit institution, meet all of the criteria for classification as Tier 2 capital and are not included in Tier 1 capital.



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- v. The revaluation is approved by the external auditor of the credit institution and explicitly recognised and reported in the audited accounts of the credit institution in accordance with applicable accounting standards;
  - vi. Only up to 45% of the cumulative unrealised gains arising from land and buildings will be eligible for inclusion in Tier 2 capital, subject to the approval of the AMCM.
- (f) **Regulatory adjustments** applied in the calculation of Tier 2 capital as set out in paragraph 13.

**Regulatory adjustments applied to Tier 2 capital**

13. A credit institution should deduct the following items in the calculation of Tier 2 capital<sup>3</sup>:

- (a) Holdings in own Tier 2 capital instruments;
- (b) Reciprocal cross-holdings in Tier 2 capital instruments of financial institutions;
- (c) Insignificant investments in Tier 2 capital instruments of financial institutions<sup>6,7</sup> that are outside the scope of regulatory consolidation, subject to a 10% threshold;

For the calculation of this deduction, a credit institution should first compare “the total of all such holdings in aggregate” to “10% of the credit institution’s CET1 capital after applying all other regulatory adjustments for item (a) to (k) of paragraph 8”. Any excess amount over the 10% threshold should be multiplied by the proportion of the holdings in Tier 2 capital over the gross holdings of all such insignificant investments in the financial institutions<sup>8</sup>.

- (d) Significant investments in Tier 2 capital instruments of financial institutions<sup>7,9</sup> that are outside the scope of regulatory consolidation, subject to a 10% threshold;

For the calculation of this deduction, a credit institution should first compare “the total of all such holdings in aggregate” to “10% of the credit institution’s CET1 capital after applying all other regulatory adjustments for item (a) to (l) of paragraph 8”. Any excess amount over the 10% threshold should be multiplied by the proportion of the holdings in Tier 2 capital over the gross holdings of all such significant investments in the financial institutions<sup>8</sup>.

- (e) Any other items specified or required by the AMCM due to regulatory needs or under any other guidelines.

14. If a credit institution is required to make a deduction from Tier 2 capital and it does not have enough Tier 2 capital to satisfy the deduction, the shortfall should be deducted from AT1 capital. If AT1 capital is insufficient to cover the amount of the deductions required, the remaining amount should be further deducted from CET1 capital.



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**IV. SUPERVISORY REVIEW**

15. A credit institution should maintain the corresponding documents and records in relation to the calculation of its own funds available for the review of the AMCM.
16. The AMCM through its off-site review and on-site examinations will seek to ensure the completeness and the accuracy in relation to the calculation of a credit institution's own funds and the eligibility of any components included in its own funds in accordance with this Guideline.
17. The AMCM may require a credit institution to exclude from its own funds any component that in the opinion of the AMCM does not fully satisfy the entry criteria or does not represent a genuine contribution to the financial strength of the credit institution.
18. A credit institution should submit to the AMCM the calculation of its own funds quarterly according to the requirements set out in this Guideline, within a period of 15 days from the last day of March, June, September and December, unless otherwise advised by the AMCM.



### **Annex 1 - Criteria for Classification as Common Shares**

An instrument classified as common shares should satisfy **ALL** of the following criteria:

- (a) The instrument represents the most subordinated claim in liquidation of the credit institution;
- (b) The instrument is perpetual<sup>12</sup> and is never repaid outside of liquidation;
- (c) The paid-in amount of the instrument is neither secured nor covered by a guarantee of the credit institution or any of its related entities<sup>13</sup> or subject to any other arrangement that legally or economically enhances the seniority of the claim;
- (d) The holder of the instrument is entitled to a claim on the residual assets that is proportional to its share of issued capital, after all senior claims have been repaid in liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim);
- (e) The credit institution does not create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation;
- (f) For distributions to the holders of the instrument:
  - i. Distributions are paid out of distributable items (including retained earnings);
  - ii. The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that the credit institution is unable to pay distributions that exceed the level of distributable items);
  - iii. There are no circumstances under which distributions are obligatory. Non-payment of distributions is not an event of default. Among other things, this requirement prohibits features that require the credit institution to make payments in kind; and
  - iv. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.
- (g) The instrument takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and *pari passu* with all the others;

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<sup>12</sup> It has no maturity date. Instruments with maturity dates and automatic rollover features should not be treated as perpetual.

<sup>13</sup> A related entity includes a parent company, a sister company, a subsidiary or any other affiliate. A holding company is a related entity irrespective of whether it forms part of the consolidated group.



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- (h) The instrument is directly issued and paid-in with cash, or subject to the prior approval of the AMCM, by other means instead of cash. The credit institution cannot directly or indirectly have funded the purchase of the instrument;
- (i) The instrument is only issued with the approval of the owners of the credit institution, either given directly by the owners or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorized by the owners;
- (j) The instrument is clearly and separately disclosed on the balance sheet of the credit institution;
- (k) The paid-in amount of the instrument is recognised as equity capital (i.e. not recognised as a liability) for determining balance sheet insolvency; and
- (l) The paid-in amount of the instrument is classified as equity under the applicable accounting standards.

In instances where a credit institution issues different classes of common shares with different levels of voting rights (including non-voting shares), all classes of common shares should be identical in all respects except the level of voting rights in order to qualify as CET1 capital.



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**Annex 2 - Criteria for Classification as AT1 Capital**

An instrument classified as AT1 capital should satisfy **ALL** of the following criteria:

- (a) The instrument is subordinated to depositors, general creditors and holders of subordinated debt of the credit institution;
- (b) The instrument is perpetual<sup>14</sup> and there are no step-ups or other incentives to redeem;
- (c) The paid-in amount of the instrument is neither secured nor covered by a guarantee of the credit institution or any of its related entities or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis the creditors;
- (d) The instrument may only be callable at the initiative of the credit institution only after a minimum of five years from the issue date, subject to the following requirements<sup>15</sup>:
  - i. A call option can be exercised only with the prior approval of the AMCM;
  - ii. The credit institution should not create an expectation that the call option will be exercised; and
  - iii. The credit institution must not exercise a call option unless:
    - (1) The credit institution replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the credit institution<sup>16</sup>; or
    - (2) The credit institution demonstrates to the satisfaction of the AMCM that its capital position is well above the minimum capital requirement prescribed by the AMCM after the call option is exercised.
- (e) Any repayment of principal (e.g. through repurchase or redemption) can only be made with the prior approval of the AMCM and the credit institution must not assume or create market expectations that the approval will be given;
- (f) The dividends or coupons on the instrument must be paid out of distributable items and such distributions must meet the following conditions:

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<sup>14</sup> An instrument may be treated as perpetual if it will mandatorily convert to common shares at a pre-defined date and has no original maturity date prior to conversion. Instruments with maturity dates and automatic rollover features should not be treated as perpetual.

<sup>15</sup> The use of tax and regulatory event calls are permitted within the first five years of the instrument, provided that the credit institution was not in a position to anticipate such an event at the time of issuance and subject to the prior approval of the AMCM.

<sup>16</sup> Replacement issues can be concurrent with but not after the instrument is called.



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- i. The credit institution must have full discretion at all times to cancel distributions/payments<sup>17</sup>;
  - ii. Cancellation of discretionary payments must not be an event of default<sup>18</sup>;
  - iii. The credit institution must have full access to cancelled payments to meet obligations as they fall due; and
  - iv. Cancellation of distributions/payments must not impose restrictions on the credit institution except in relation to distributions to common shareholders.
- (g) The instrument cannot have a credit sensitive dividend feature, that is, a dividend or coupon that is reset periodically based in whole or in part on the credit standing of the credit institution or the group or any other member of the group to which it belongs;
- (h) The instrument is issued and fully paid-in with cash, or subject to the prior approval of the AMCM, by other means instead of cash;
- (i) Neither the credit institution nor a related party over which the credit institution exercises control or significant influence can have purchased the instrument, nor can the credit institution directly or indirectly have funded the purchase of the instrument;
- (j) The instrument cannot have any features that hinder recapitalisation, such as provisions that require the credit institution to compensate investors if a new instrument is issued at a lower price during a specified time frame;
- (k) Where the instrument is classified as a liability for accounting purposes, it must have a principal loss absorption mechanism through either:
- i. Conversion to common shares at an objective pre-specified trigger point of at least 5.125% for CET1 capital ratio; or
  - ii. A write-down mechanism which allocates losses to the instrument at a pre-specified trigger point of at least 5.125% for CET1 capital ratio<sup>19</sup>. The write-down should have the following effects<sup>20</sup>:
    - (1) Reduce the claim of the instrument in liquidation;

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<sup>17</sup> A consequence of full discretion at all times to cancel distributions/payments is that “dividend pushers” are prohibited. An instrument with a dividend pusher obliges the issuing credit institution to make a dividend or coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share, which is inconsistent with the requirement for full discretion at all times. Furthermore, the term “cancel distributions/payments” means extinguish these payments. It does not permit features that require the credit institution to make distributions/payments in kind. Any waived distributions are non-cumulative.

<sup>18</sup> Holders of the instruments must have no right to apply for the winding-up or administration of the credit institution, or cause a receiver and manager, to be appointed in respect of the credit institution on the grounds that the credit institution fails to make, or is or may become unable to make, a distribution on the instruments.

<sup>19</sup> The instrument should be written down or converted into common shares when the CET1 capital ratio of the credit institution falls to 5.125% or below.

<sup>20</sup> The write-down or conversion should not constitute an event of default for the capital instrument.



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- (2) Reduce the amount repaid when a call option is exercised; and
- (3) Reduce coupon/dividend payments on the instrument.

The aggregate amount to be written down or converted for all instruments classified as liabilities for accounting purposes on breaching the trigger level must be at least the amount needed to immediately return the credit institution's CET1 capital ratio to the trigger level or, if this is not possible, the full principal value of the instruments;

- (l) The terms and conditions of the instrument must include a provision that requires the instrument to either be written off or converted into common shares at the option of the AMCM, upon the occurrence of a trigger event and, in this regard, the credit institution ensures that:
  - i. Any compensation paid to instrument holders as a result of a write-off should be paid immediately in the form of common shares of the credit institution (including any successor in resolution) and should be paid prior to any public sector injection of capital;
  - ii. The credit institution should maintain at all times all prior authorisation necessary to immediately issue the relevant number of common shares specified in the instrument's terms and conditions should the trigger event occur.
  - iii. The trigger event should be the earlier of:
    - (1) A decision that a write-off, without which the credit institution would become non-viable, is necessary, as determined by the AMCM; and
    - (2) A decision to make a public sector injection of capital, or equivalent support, without which the credit institution would have become non-viable, as determined by the AMCM.
- (m) If the instrument is issued out of an SPV, proceeds must be immediately available without limitation to the credit institution in a form which meets all of the other criteria for inclusion in AT1 capital.



**Annex 3 - Criteria for Classification as Tier 2 Capital**

An instrument classified as Tier 2 capital should satisfy **ALL** of the following criteria:

- (a) The instrument is subordinated to depositors and general creditors of the credit institution;
- (b) The instrument must have a minimum original maturity of at least five years and there are no step-ups or other incentives to redeem;
- (c) The paid-in amount of the instrument is neither secured nor covered by a guarantee of the credit institution or any of its related entities or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the credit institution;
- (d) The instrument may be callable at the initiative of the credit institution only after a minimum of five years from the issue date, subject to the following requirements<sup>15</sup>:
  - i. A call option can be exercised only with the prior approval of the AMCM;
  - ii. The credit institution must not do anything which creates an expectation that the call will be exercised; and
  - iii. The credit institution must not exercise a call option unless:
    - (1) The credit institution replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the credit institution<sup>16</sup>; or
    - (2) The credit institution demonstrates to the satisfaction of the AMCM that its capital position is well above the minimum capital requirements prescribed by the AMCM after the call option is exercised.
- (e) The instrument must confer no rights on holders to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;
- (f) The instrument cannot have a credit sensitive dividend feature, that is a dividend or coupon that is reset periodically based in whole or in part on the credit standing of the credit institution or the group or any other member of the group to which it belongs;
- (g) The instrument is issued and fully paid-in with cash, or subject to the prior approval of the AMCM, with others instead of cash;
- (h) Neither the credit institution nor a related party over which the credit institution exercises control or significant influence can have purchased the instrument, nor can the credit institution directly or indirectly have funded the purchase of the instrument;



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- (i) The terms and conditions of the instrument must include a provision that requires the instrument to either be written off or converted into common shares at the option of the AMCM, upon the occurrence of a trigger event and, in this regard, the credit institution ensures that:
- i. Any compensation paid to instrument holders as a result of a write-off should be paid immediately in the form of common shares of the credit institution (including any successor in resolution) and should be paid prior to any public sector injection of capital;
  - ii. The credit institution should maintain at all times all prior authorisation necessary to immediately issue the relevant number of common shares specified in the instrument's terms and conditions should the trigger event occur.
  - iii. The trigger event should be the earlier of:
    - (1) A decision that a write-off or conversion is necessary, without which the credit institution would become non-viable, as determined by the AMCM; and
    - (2) A decision to make a public sector injection of capital, or equivalent support, without which the credit institution would have become non-viable, as determined by the AMCM.
- (j) The amount of the instrument that will be eligible for inclusion in Tier 2 capital shall be amortised on a straight-line basis as follows:

<b>Years to Maturity (Y)</b>	<b>Amount Eligible for Inclusion in Tier 2 Capital</b>
$Y > 4$	100%
$3 < Y \leq 4$	80%
$2 < Y \leq 3$	60%
$1 < Y \leq 2$	40%
$Y \leq 1$	20%

- (k) If the instrument is issued out of an SPV, proceeds must be immediately available without limitation to the credit institution in a form which meets all of the other criteria for inclusion in Tier 2 capital.