NEWSFLASH

DNB news on (in)direct financing of CET1

RegCounsel Financial Services

Background

On 29 September 2025, the Dutch Central Bank *(De Nederlandsche Bank*, "**DNB**") published a news item on the detected practice of **direct financing** of Common Equity Tier 1 ("**CET1**") instruments by investment firms and fund managers. Whilst not uncommon as it turns out, (in)direct financing of capital instruments makes those ineligible as CET1. Consequently, such practice may have an adverse effect on the institution's solvency.

In this Newsflash, we explain what (in)direct financing of CET1 instruments involves, why it is prohibited and how it can be detected and solved if present.

What is (in)direct financing?

CET1 instruments must be fully **paid-up** (art. 28(1)(b) CRR). This means that CET1 shares cannot be partly paid-up, e.g., only 20%, and still be counted 100% towards CET1 capital. Only the part of the CET1 capital that is actually paid up is eligible as CET1 (so 20% in our example).

The same applies to the (in)direct financing of CET1 shares (art. 28(1)(b) CRR). This comprises situations where an institution that issues the CET1 shares directly, or indirectly, pays for the CET1 shares itself. This is a **holistic assessment**, i.e., covering and (in)direct funding by the financial institution in whatever form (see also art. 8(2) and 9 of Delegated Regulation (EU) 241/2014 ("**Own Funds RTS**")).

Thus, the regulation specifically prohibits the direct funding of CET1 capital, and any attempts to evade such prohibition.

What are the consequences of (in)direct funding?

CET1 shares that have been directly funded, are ineligible as CET1. The reason for this is that if CET1 capital is funded by the institution (or related parties), then the **loss relief function** it is designed to provide for disappears.

Consequently, in addition to the shares themselves, all share premium accounts related to such shares are also ineligible as CET1. Consequently, the direct funding of CET1 shares can have the effect that for many firms the majority of their regulatory capital is disqualified.

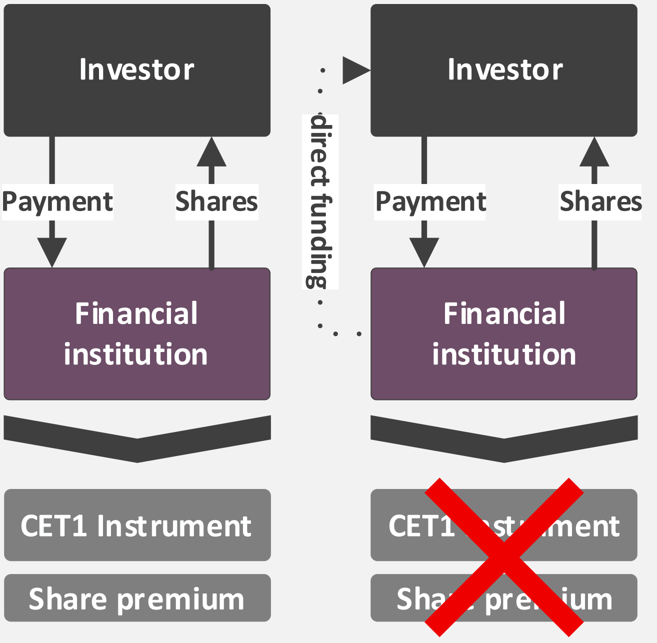
What is CET1 capital?

All financial institutions subject to prudential capital requirements in the EU, must meet most of such requirements with CET1 capital.

CET1 capital can be any of the following capital items:

- (**a**) Certain capital instruments;
- (**b**) Share premium accounts related to those capital instruments;
- (**c**) Retained earnings;
- (**d**) Accumulated OCI;
- (**e**) Other reserves;
- (**f**) Funds for general banking risk.

Nevertheless, the 'fundament' of CET1 capital is generally a class of ordinary shares without any preference whatsoever.



Funding for other purposes than share acquisition

DNB notes that not only financing to shareholders for the purpose of the acquisition of the ownership of the CET1 shares is in scope of the (in)direct financing prohibition. According to art. 8(3) and 9(2a)(b) Own Funds RTS, all financing to related parties or holders of qualified holdings, for any reason, may lead to the disqualification of CET1 shares for reasons of direct financing where:

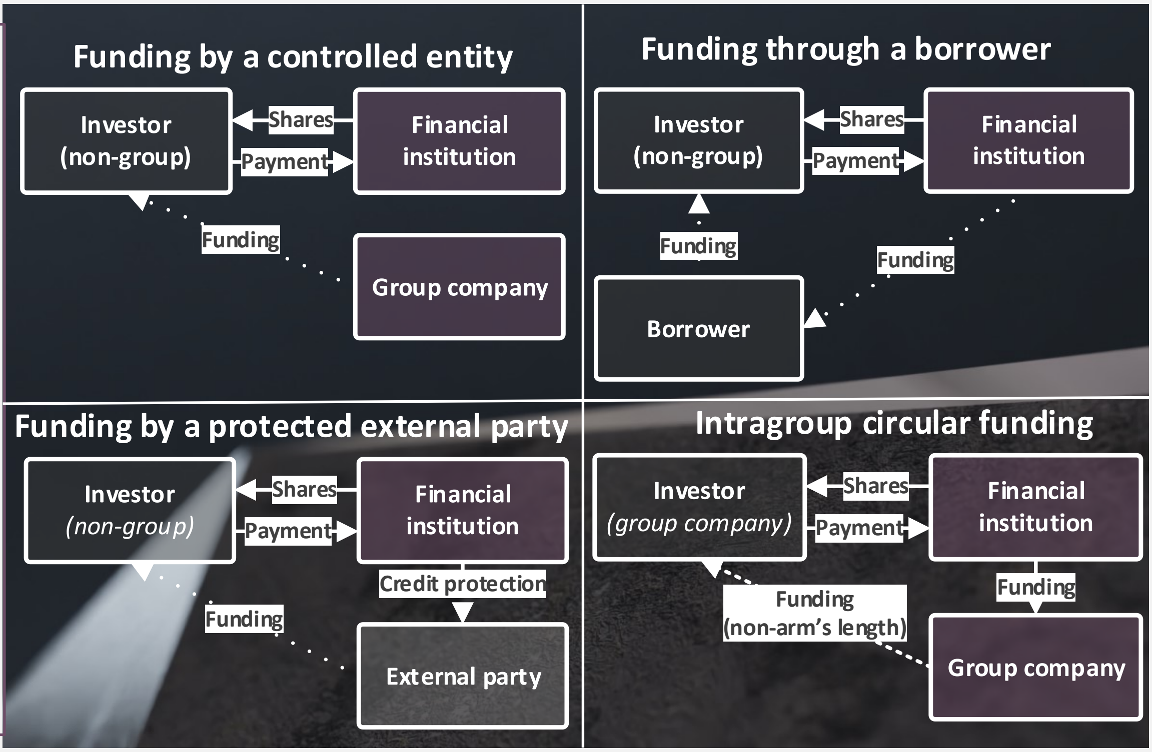
(i) the transaction is realised at similar conditions as other transactions with third parties; and

(ii) the shareholder does not have to rely on the distributions or on the sale of the capital instruments or liabilities held to support the payment of interest and the repayment of the funding.

Examples of indirect funding

Whereas direct funding is fairly straight-forward, indirect funding can be more complex to identify.

In the diagrams to the right, we set out some scenarios that comprise indirect funding.



What does DNB expect?

DNB expects financial institutions to make an inventory of their shareholder receivables (e.g., loans and current accounts, issued for whatever purpose) and assess whether these point towards direct financing of CET1 capital. DNB indicates that it will pay additional attention to this subject in 2026.

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