

MAXIMUM DISTRIBUTABLE AMOUNT

MDA — the automatic brake for dividends, bonuses and AT1 coupons the moment a bank hit its capital buffers.

BANKING METRIC SERIES

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The Buffers Sit On Top of the Minimums

Before meeting the minimum capital, the buffer zone above it has rules.

A bank's CET1 is used in a strict order. First it covers the hard minimums — Pillar 1 and the Pillar 2 Requirement. Only the CET1 left after that counts toward the buffers stacked on top: the Combined Buffer Requirement (CBR).

P1 + P2R

THE MINIMUM

The hard floor. Pillar 1 (8% of RWA, of which 4.5% is CET1) plus the bank-specific Pillar 2 Requirement. Falling below this is a serious solvency event.

CBR

THE BUFFERS

The Combined Buffer Requirement. Only CET1 capital is allowed to build those buffers: the capital conservation buffer (2.5%), the countercyclical buffer, and the systemic buffers (G-SII / O-SII / systemic risk).

MDA

THE TRIGGER

When the ratio hits the CBR, before hitting the minimum, an automatic cap on distributions switches on. No supervisory decision is needed.

Why the brake is automatic

Before 2008, restricting payouts depended on supervisors acting in time, and they often did not. The rule was made mechanical: breach the buffer, and the limit applies by law immediately, and the same way for every bank.

KEY TAKEAWAY

The minimums keep a bank solvent. The buffers sit above them, all in CET1. Hitting those buffers triggers the MDA automatically, long before the bank is anywhere near its hard floor.

The MDA is proportional to the consumed buffer

The Combined Buffer Requirement is split into four equal quarters, and where CET1 lands sets the cap.

The cap in one line

Once a bank breaches its buffer, the MDA is the most it may distribute that year: its eligible profit multiplied by a factor. Eligible profit is:

- the interim realized profit, net of tax
- the year-end profit not yet counted in CET1, net of tax.

The factor depends only on how far CET1 has fallen into the buffer.

$$\text{MDA} = \text{eligible profit} \times \text{factor} \quad (0.6 \cdot 0.4 \cdot 0.2 \cdot 0)$$

What each quarter of the buffer allows (example taken supposing the buffer is 4%):

Eaten into the buffer	Buffer still left	Quarter	Factor	Max payout
0-1%	3-4%	fourth (top)	0.6	up to 60% of eligible profit
1-2%	2-3%	third	0.4	up to 40%
2-3%	1-2%	second	0.2	up to 20%
3-4%	0-1%	first (bottom)	0	nothing (no dividend, no AT1 coupon, no bonus)

KEY TAKEAWAY

The further CET1 falls into the buffer, the smaller the slice of profit a bank may distribute — until, in the lowest quarter, it may distribute nothing.

Why AT1 Investors Watch the MDA

The MDA can also switch off AT1 coupons too, which the market tracks.

The AT1 coupon is the sharp end

Shareholders expect dividends to flex with results. AT1 investors often treat their coupons as bond-like income, yet the same cap can switch them off.

A bank that breaches the buffer must also submit a capital conservation plan to its supervisor, setting out how it will rebuild, and this might include AT1 conversion.

The MDA turns a buffer breach into an automatic, graduated limit on payouts: one CET1 level in, one maximum distribution out. Without a supervisor's judgement call.

This is Episode 12 of the Banking Metrics Series. Each episode takes one key metric that banks disclose under Basel III, breaks it down from first principles, and illustrates it with real data.