

Glossary

<p><i>ABCP internal assessment approach</i></p> <p>FCA PRA</p>	<p>the method for calculating the <i>risk weighted exposure amount</i> for a <i>securitisation position</i> in relation to an <i>asset backed commercial paper programme</i> as set out in ■ BIPRU 9.12.20 R.</p>
<p><i>ABCP programme</i></p> <p>FCA PRA</p>	<p>(for the purposes of ■ BIPRU 9 (Securitisation)) an <i>asset backed commercial paper programme</i>.</p>
<p><i>above-threshold non-EEA AIFM</i></p> <p>FCA</p>	<p>a <i>non-EEA AIFM</i> that is not a <i>small AIFM</i>.</p>
<p><i>accepted channel for dissemination of information</i></p> <p>FCA PRA</p>	<p>(in relation to any <i>prescribed market</i>) an approved channel of communication by which information concerning <i>investments</i> traded on the market is formally disseminated to other market users on a structured and equitable basis.</p>
<p><i>accepted market practice</i></p> <p>FCA PRA</p>	<p>(as defined in section 130A(3) of the <i>Act</i>) practices that are reasonably expected in the financial market or markets in question and are accepted by the <i>FCA</i> or, in the case of a market situated in another <i>EEA State</i>, the competent authority of that <i>EEA State</i> within the meaning of the <i>Market Abuse Directive</i>.</p>
<p><i>accepting deposits</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 5 of the <i>Regulated Activities Order</i> (Accepting deposits), which is in summary: accepting <i>deposits</i> if:</p> <ul style="list-style-type: none"> (a) money received by way of <i>deposit</i> is lent to others; or (b) any other activity of the <i>person</i> accepting the <i>deposit</i> is financed, wholly or to a material extent, out of the capital of or interest on money received by way of <i>deposit</i>.
<p><i>accident</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) the <i>class of contract of insurance</i>, specified in paragraph 1 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of general insurance), providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of the <i>person</i> insured or, in the case of a contract made under section 140, 140A or 140B of the Local Government Act 1972 (or, in Scotland, section 86(1) of the Local Government (Scotland) Act 1973), a <i>person</i> for whose benefit the contract is made:</p> <ul style="list-style-type: none"> (a) sustaining injury as the result of an accident or of an accident of a specified class; or (b) dying as a result of an accident or an accident of a specified class; or (c) becoming incapacitated in consequence of disease or of disease of a specified class; <p>including contracts relating to industrial injury and occupational disease but excluding contracts within paragraph 2 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Sickness) and contracts within paragraph IV of Part II of that Schedule (Permanent health).</p>

account

FCA PRA

(in relation to a *dormant account*) has the meaning given in section 9 of the Dormant Bank and Building Society Accounts Act 2008, which is in summary:

- (a) an account which has at all times consisted only of *money* and is provided by a *bank* or *building society* as part of its activity of *accepting deposits*; and
- (b) in relation to a *building society*, it includes an *account* representing *shares* in the *society*, other than:
 - (i) preferential *shares*; or
 - (ii) deferred *shares* within the meaning given in section 119(1) of the Building Societies Act 1986.

accountable functions

FCA PRA

(1) (in the *FCA Handbook* and in relation to an *approved person*) the functions described in ■ APER 1.1A.2 P, which are in summary:

- (a) *FCA controlled functions*;
- (b) *PRA controlled functions*; and
- (c) any other functions in relation to the carrying on of a *regulated activity*;

in relation to the *authorised persons* in relation to which that *person* is an *approved person*.

(2) (in the *PRA Handbook* and in relation to an *approved person*) the functions described in ■ APER 1.1B.2 P, which are in summary:

- (a) *PRA controlled functions*;
- (b) *FCA controlled functions* that are *significant-influence functions*; and
- (c) any other *significant-influence functions*;

in relation to the *PRA-authorised persons* in relation to which that *person* is an *approved person*.

accountable significant-influence function

FCA PRA

(in the *FCA Handbook*) any *accountable function* that is a *significant-influence function*.

accounting reference date

FCA PRA

(1) (except in *COLL*):

- (a) (in relation to a *company* incorporated in the *United Kingdom* under the Companies Acts) the accounting reference date of that *company* determined in accordance with section 391 of the Companies Act 2006;
- (b) (in relation to any other body) the last *day* of its financial year.

(2) (in *COLL*): the date stipulated in the *prospectus* on which the *annual accounting period* of an *authorised fund* ends.

accredited body

FCA PRA

(A) In the *PRA Handbook*

any of the following bodies recognised by the *FCA* the purpose of providing the independent verification required under ■ TC 2.1.27 R

- (a) CFA Society of the UK;
- (b) The Chartered Insurance Institute;
- (c) The Institute of Financial Planning;

- (d) The Chartered Institute for Securities and Investment;
- (e) The Chartered Institute of Bankers in Scotland;
- (f) The ifs School of Finance; [Note: The ifs School of Finance acts through its Institute of Financial Services]
- (g) The Institute of Chartered Accountants in England and Wales;
- (h) The Pensions Management Institute.

(B) In the FCA Handbook

any of the following bodies recognised by the *FCA* the purpose of providing the independent verification required under ■ TC 2.1.27 R

- (a) CFA Society of the UK;
- (b) The Chartered Insurance Institute;
- (c) The Institute of Financial Planning;
- (d) The Chartered Institute for Securities and Investment;
- (e) The Chartered Institute of Bankers in Scotland;
- (f) The ifs University College; [Note: The ifs University College acts through its Institute of Financial Services]
- (g) The Institute of Chartered Accountants in England and Wales;
- (h) The Pensions Management Institute.

accumulating with-profits policy

FCA PRA

a *with-profits insurance contract* which has a readily identifiable current benefit, whether or not this benefit is currently realisable, which is adjusted by an amount explicitly related to the amount of any *premium* payment and to which additional benefits are added in respect of participation in profits by additions directly related to the current benefit or a policy with similar characteristics.

accumulation unit

FCA PRA

a *unit* in respect of which income is credited periodically to *capital property* under ■ COLL 6.8.3 R (Income allocation and distribution).

ACD

FCA PRA

authorised corporate director.

ACS

FCA PRA

an *authorised contractual scheme.*

Act

FCA PRA

the Financial Services and Markets Act 2000.

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acting as the depositary of an authorised contractual scheme

FCA

the *regulated activity*, specified in article 51(1)(bb) of the *Regulated Activities Order* (Establishing etc. a collective investment scheme), of acting as the *depositary* of an *authorised contractual scheme.*

acting as the depositary or sole director of an open-ended investment company

FCA **PRA**

the *regulated activity*, specified in article 51(1)(c) of the *Regulated Activities Order* (Establishing etc a collective investment scheme), of acting as the depositary or sole director of an *open-ended investment company*.

acting as trustee of an authorised unit trust scheme

FCA **PRA**

the *regulated activity*, specified in article 51(1)(b) of the *Regulated Activities Order* (Establishing etc a collective investment scheme), of acting as a *trustee* of an *authorised unit trust scheme*.

acting as trustee or depositary of a UCITS

FCA **PRA**

the *regulated activity*, specified in article 51ZB of the *Regulated Activities Order* which is, in summary, acting as:

- (a) a trustee of an *authorised unit trust scheme*; or
- (b) a depositary of an *open-ended investment company*; or
- (c) a depositary of an *authorised contractual scheme*;

where that company or *scheme* is a UCITS.

acting as trustee or depositary of an AIF

FCA **PRA**

the *regulated activity*, specified in article 51ZD of the *Regulated Activities Order*, which is, in summary, acting as:

- (a) a depositary of an AIF falling within article 51ZD(2) of the *Regulated Activities Order*;
- (b) the *trustee* of an *authorised unit trust* which is an AIF that does not fall within article 51ZD(2) of the *Regulated Activities Order*;
- (c) the depositary of an *open-ended investment company* or of an *authorised contractual scheme* which is an AIF that does not fall within article 51ZD(2) of the *Regulated Activities Order*.

actuarial body

FCA **PRA**

the Institute of Actuaries or the Faculty of Actuaries.

actuarial function

FCA **PRA**

(in the *PRA Handbook*) *PRA controlled function* CF12 in the *table of PRA controlled functions*, described more fully in ■ SUP 4.3.13 R and ■ SUP 10B.8.1 R

actuarial health insurance

FCA **PRA**

(in the context of the *rules* in ■ INSPRU 1.1 concerning the calculation of the *general insurance capital requirement*), health insurance which meets all the conditions set out in ■ INSPRU 1.1.72 R.

actuarial investigation

FCA **PRA**

an investigation to which ■ IPRU-INS rule 9.4 applies.

actuarial valuation date

the date as at which the *mathematical reserves* are calculated.

FCA PRA

actuary

FCA PRA

a fellow of an *actuarial body* or (in connection with *general insurance business*) a Fellow of the Casualty Actuarial Society who is a member of an *actuarial body*.

actuating purpose

FCA PRA

a purpose which motivates or incites a *person* to act.

additional tier 1 capital

FCA

as defined in article 61 of the *EU CRR*.

additional tier 1 instrument

FCA

a capital instrument that qualifies as an additional tier 1 capital instrument under article 52 of the *EU CRR*.

adequate public disclosure

FCA PRA

(as defined in Article 2 of the *Buy-back and Stabilisation Regulation*) disclosure made in accordance with the procedure laid down in Articles 102(1) and 103 of the *Consolidated Admissions and Reporting Directive*.

administering a home finance transaction

FCA PRA

any of the *regulated activities* of *administering a regulated mortgage contract*, *administering a home purchase plan*, *administering a home reversion plan* or *administering a regulated sale and rent back agreement*.

administering a home purchase plan

FCA PRA

the *regulated activity*, specified in article 63F(2) of the *Regulated Activities Order*, which is in summary: administering a *home purchase plan* where the plan was entered into by way of business on or after 6 April 2007.

administering a home reversion plan

FCA PRA

the *regulated activity*, specified in article 63B(2) of the *Regulated Activities Order*, which is in summary: administering a *home reversion plan* where the plan was entered into on or after 6 April 2007.

administering a regulated lifetime mortgage contract

FCA PRA

the *regulated activity*, specified in article 61(2) of the *Regulated Activities Order*, which is in summary: administering a *regulated mortgage contract* (which is a *lifetime mortgage*) where the contract was entered into on or after 31 October 2004.

administering a regulated

the *regulated activity*, specified in article 61(2) of the *Regulated Activities Order*, which is in summary: administering a *regulated mortgage contract* where the contract was entered into on or after 31 October 2004.

mortgage contract

FCA PRA

administering a regulated sale and rent back agreement

FCA PRA

the *regulated activity*, specified in article 63J(2) of the *Regulated Activities Order*, which is in summary any of the following:

- (a) notifying the agreement seller of changes in payment due under a *regulated sale and rent back agreement* or of other matters of which that *agreement* requires him to be notified;
- (b) taking any necessary steps for the purpose of making payments to the agreement seller under that *agreement*; and
- (c) taking any necessary steps for the purposes of collecting or recovering payments due under that *agreement* from the agreement seller;

but a *person* is not to be treated as administering a *regulated sale and rent back agreement* because he has, or exercises, a right to take action for the purposes of enforcing that *agreement* (or to require that such action is or is not taken);

and in relation to a *person* who acquires obligations or rights under a *regulated sale and rent back agreement*, an activity is a specified kind of activity for the purposes of this definition only if the *agreement* was entered into by the agreement provider (rather than the obligations or rights acquired) on or after 1 July 2009.

administering a specified benchmark

FCA

The *regulated activity*, specified in article 63O(1)(b) of the *Regulated Activities Order*, which means:

- (1) administering the arrangements for determining a *specified benchmark*, or
- (2) collecting, analysing or processing information or expressions of opinion for the purpose of determining a *specified benchmark*, or
- (3) determining a *specified benchmark* through the application of a formula or other method of calculation to the information or expressions of opinion provided for that purpose.

administrative expenses

FCA PRA

has the meaning set out in the *insurance accounts rules*.

administrative functions

FCA PRA

- (a) (in relation to managing *investments*):
 - (i) arranging settlement;
 - (ii) monitoring and processing corporate actions;
 - (iii) *client* account administration, liaison and reporting, including valuation and performance measurement;
 - (iv) *ISA* or *CTF* administration;
 - (v) *investment trust savings scheme* administration;
- (b) (in relation to *effecting* or carrying out *life policies*):
 - (i) new business administration;
 - (ii) *policy* alterations including surrenders and *policy* loans;
 - (iii) preparing *projections*;

<p>(iv) processing claims including pension payments;</p> <p>(v) fund switching;</p> <p>(c) (in relation to the operation of a <i>stakeholder pension scheme</i>):</p> <p>(i) new business administration;</p> <p>(ii) receipt of or alteration to contributions;</p> <p>(iii) preparing <i>projections</i> and annual statements;</p> <p>(iv) administration of transfers;</p> <p>(v) handling claims, including pension payments;</p> <p>(vi) fund allocation and switching.</p>	<p>(1) (for the purpose of the <i>rules</i> in <i>GENPRU</i> and <i>INSPRU</i> as they apply to <i>members</i> of the <i>Society</i> of Lloyd's, the <i>Society</i> and <i>managing agents</i>) an asset that , subject to paragraphs (2) and (3) of ■ <i>GENPRU 2 Annex 7 R</i>, falls into one or more categories in paragraph (1) of ■ <i>GENPRU 2 Annex 7 R</i> as modified by ■ <i>GENPRU 2.3.34 R</i>.</p> <p>(2) otherwise:</p> <p>(a) (in relation to an <i>insurer</i> which is not a <i>pure reinsurer</i>) an asset that, subject to paragraphs (2) and (3) of ■ <i>GENPRU 2 Annex 7 R</i>, falls into one or more categories in paragraph (1) of ■ <i>GENPRU 2 Annex 7 R</i> ; or</p> <p>(b) (in relation to a <i>pure reinsurer</i>) an asset the holding of which is consistent with compliance by the <i>firm</i> with ■ <i>INSPRU 3.1.61A R</i>.</p>
<p><i>admissible asset</i></p> <p>■ FCA ■ PRA</p>	<p>(in <i>LR</i>) <i>admission of securities</i> to the <i>official list</i>.</p>
<p><i>admission or admission to listing</i></p> <p>■ FCA ■ PRA</p>	<p>(1) (in <i>LR</i>) admission of <i>securities</i> to trading on an <i>RIE</i>'s market for <i>listed securities</i>.</p> <p>(2) (in <i>PR</i> and <i>DTR</i>) admission to trading on a <i>regulated market</i>.</p> <p>(3) (elsewhere in the <i>Handbook</i>)(in relation to an <i>investment</i> and an exchange) the process by which the exchange permits members of the exchange to enter into transactions in that <i>investment</i> under and subject to the rules of the exchange.</p>
<p><i>admission to trading</i></p> <p>■ FCA ■ PRA</p>	<p>one of the following:</p> <p>(a) (in relation to the <i>sovereign, institutional and corporate IRB exposure class</i>) the approach under the <i>IRB approach</i> under which a <i>firm</i> supplies its own estimates of <i>LGD</i> and <i>conversion factors</i>;</p> <p>(b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ <i>BIPRU 8</i> (Group risk - consolidation); or</p> <p>(c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.</p>
<p><i>advanced IRB approach</i></p> <p>■ FCA ■ PRA</p>	<p>one of the following:</p> <p>(a) the adjusted method of calculating the <i>operational risk capital requirement</i> set out in ■ <i>BIPRU 6.5</i> (Operational risk: advanced measurement approaches);</p>
<p><i>advanced measurement approach</i></p>	

PRA

advanced prudential calculation approach

FCA PRA

(b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ BIPRU 8 (Group risk - consolidation); or

(c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

one of the following:

- (a) the *IRB approach*; or
- (b) the *advanced measurement approach*; or
- (c) the *VaR model approach*; or
- (d) the *CAD 1 model approach*; or
- (e) the *master netting agreement internal models approach*; or
- (f) the *CCR internal model method*;

including, in each case, whatever corresponds to that approach under the rules of or administered by a *regulatory body* other than the *appropriate regulator*.

advanced prudential calculation approach permission

FCA

one of the following:

- (a) an *IRB permission*; or
- (b) an *AMA permission*; or
- (c) a *VaR model permission*; or
- (d) a *CAD 1 model waiver*; or
- (e) a *master netting agreement internal models approach permission*; or
- (f) a *CCR internal model method permission*.

advertisement

FCA PRA

(in PR and ■ LR 4) (as defined in the *PD Regulation*) announcements:

- (a) relating to a specific offer to the public of securities or to an admission to trading on a regulated market; and
- (b) aiming to specifically promote the potential subscription or acquisition of securities.

adviser

FCA PRA

(1) (except in *IPRU(INV)* 13) an individual who is: a *representative*, an *appointed representative* or a *tied agent*

(2) (in *IPRU(INV)* 13) a *financial adviser*.

adviser charge

FCA PRA

any form of charge payable by or on behalf of a *retail client* to a *firm* in relation to the provision of a *personal recommendation* by the *firm* in respect of a *retail investment product* (or any related service provided by the *firm*) which:

- (a) is agreed between that *firm* and the *retail client* in accordance with the *rules* on adviser charging and remuneration (■ COBS 6.1A); and
- (b) is not a *consultancy charge*.

advising on a home finance transaction

FCA PRA

any of the *regulated activities* of *advising on regulated mortgage contracts*, *advising on a home purchase plan*, *advising on a home reversion plan* or *advising on a regulated sale and rent back agreement*.

advising on a
home purchase
plan

FCA PRA

the *regulated activity*, specified in article 53C of the *Regulated Activities Order*, which is in summary: advising a *person* if the advice:

- (a) is given to him in his capacity as a *home purchaser* or potential *home purchaser*; and
- (b) is advice on the merits of his:
 - (i) entering into a particular *home purchase plan*; or
 - (ii) varying the terms of a *home purchase plan* entered into by him on or after 6 April 2007 in such a way as to vary his obligations under that plan.

advising on a
home reversion
plan

FCA PRA

the *regulated activity*, specified in article 53B of the *Regulated Activities Order*, which is in summary: advising a *person* if the advice:

- (a) is given to him in his capacity as *reversion occupier* or plan provider or potential *reversion occupier* or potential plan provider; and
- (b) is advice on the merits of his:
 - (i) entering into a particular *home reversion plan*; or
 - (ii) varying the terms of a *home reversion plan* entered into by him on or after 6 April 2007 in such a way as to vary his obligations under that plan.

advising on a
regulated sale
and rent back
agreement

FCA PRA

the *regulated activity*, specified in article 53D of the *Regulated Activities Order*, which is in summary advising a *person* if the advice:

- (a) is given to a *person* in his capacity as:
 - (i) an agreement seller or potential agreement seller; or
 - (ii) an agreement provider or potential agreement provider; and
- (b) is advice on the merits of his doing either of the following:
 - (i) entering into a particular *regulated sale and rent back agreement*; or
 - (ii) varying the terms of a *regulated sale and rent back agreement* entered into on or after 1 July 2009 by him as agreement seller or agreement provider, in such a way as to vary his obligations under that *agreement* and in relation to a *person* who acquires obligations or rights under a *regulated sale and rent back agreement*, an activity is a specified kind of activity for the purposes of this part of the definition only if the *agreement* was entered into by the agreement provider (rather than the obligations or rights acquired) on or after 1 July 2009.

advising on
investments

FCA PRA

(1) (except in ■ SUP 10A (Approved Persons) and APER) the *regulated activity*, specified in article 53 of the *Regulated Activities Order* (Advising on investments), which is in summary: advising a *person* if the advice is:

- (a) given to the *person* in his capacity as an investor or potential investor, or in his capacity as agent for an investor or a potential investor; and
- (b) advice on the merits of his doing any of the following (whether as principal or agent):
 - (i) *buying, selling*, subscribing for or underwriting a particular *investment* which is a *security* or *relevant investment* (that is, any *designated investment, funeral plan contract, pure protection contract, general insurance contract* or right to or interests in a *funeral plan contract*); or

<p><i>advising on investments (except pension transfers and pension opt-outs)</i></p> <p>FCA PRA</p>	<p>(ii) exercising any right conferred by such an <i>investment to buy, sell</i>, subscribe for or underwrite such an <i>investment</i>.</p> <p>(2) (in ■ SUP 10A (Approved Persons) and APER) the <i>regulated activity</i> specified in article 53 (Advising on investments) of the <i>Regulated Activities Order</i>. For these purposes, <i>advising on investments</i> includes any activities that would be included but for the exclusion in article 72AA (Managers of UCITS and AIFs) of the <i>Regulated Activities Order</i>.</p> <p><i>advising on investments</i> except in respect of <i>pension transfers</i> and <i>pension opt-outs</i>.</p>
<p><i>advising on pension transfers and pension opt-outs</i></p> <p>FCA PRA</p>	<p>advising on <i>investments</i> in respect of <i>pension transfers</i> and <i>pension opt-outs</i>.</p>
<p><i>advising on regulated mortgage contracts</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 53A of the <i>Regulated Activities Order</i>, which is in summary: advising a <i>person</i> if the advice:</p> <p>(a) is given to the <i>person</i> in his capacity as a borrower or potential borrower; and</p> <p>(b) is advice on the merits of his:</p> <p>(i) entering into a particular <i>regulated mortgage contract</i>; or</p> <p>(ii) varying the terms of a <i>regulated mortgage contract</i> entered into by him on or after 31 October 2004 in such a way as to vary his obligations under that contract.</p>
<p><i>advising on syndicate participation at Lloyd's</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 56 of the <i>Regulated Activities Order</i> (Advice on syndicate participation at Lloyd's), of advising a <i>person</i> to become, or continue or cease to be, a member of a particular Lloyd's <i>syndicate</i>.</p>
<p><i>affected person</i></p> <p>FCA</p>	<p>(in COLL):</p> <p>(a) (in relation to an ICVC):</p> <p>(i) the ICVC;</p> <p>(ii) its <i>depository</i>;</p> <p>(iii) a <i>director</i> of the ICVC;</p> <p>(iv) any <i>investment adviser</i> of the ICVC;</p> <p>(v) any <i>associate</i> of any <i>person</i> in (a)(i), (ii), (iii) or (iv);</p> <p>(vi) the auditor of the <i>scheme</i>;</p> <p>(b) (in relation to an AUT):</p>

- (i) the *manager*;
- (ii) the *trustee*;
- (iii) any *investment adviser* of the *manager*;
- (iv) any *associate* of any *person* in (b)(i), (ii) or (iii);
- (v) the auditor of the *scheme*.

(c) (in relation to an *ACS*):

- (i) the *authorised fund manager*;
- (ii) the *depository*;
- (iii) any *investment adviser* of the *authorised fund manager*;
- (iv) any *associate* of any *person* in (c)(i), (ii) or (iii);
- (v) the auditor of the *scheme*;
- (vi) the *nominated partner*.

affiliated company

FCA PRA

(in relation to a *person*) an *undertaking* in the same *group* as that *person*.

AFM

FCA PRA

authorised fund manager.

agent

FCA PRA

(in relation to *payment services* or *electronic money*) a *person* who acts on behalf of a *payment institution* or an *electronic money institution* in providing *payment services*.

[Note: article 4(22) of the *Payment Services Directive*]

agreeing to carry on a regulated activity

FCA PRA

the *regulated activity*, specified in article 64 of the *Regulated Activities Order* (Agreeing to carry on specified kinds of activity), of agreeing to carry on an activity specified in Part II of that Order other than:

- (a) *accepting deposits*;
- (aa) *issuing electronic money*;
- (b) *effecting contracts of insurance*;
- (c) *carrying out contracts of insurance*;
- (d) *establishing, operating or winding up a collective investment scheme*;
- (e) *acting as trustee of an authorised unit trust scheme*;
- (f) *acting as the depository or sole director of an open-ended investment company*;
- (ff) *acting as the depository of an authorised contractual scheme*;
- (g) *establishing, operating or winding up a stakeholder pension scheme*;
- (h) *establishing, operating or winding up a personal pension scheme*.

AIF

FCA PRA

alternative investment fund.

AIF custodial assets

FCA

financial instruments of an *AIF* that can be:

(a) registered in a *financial instruments* account opened in the *depository's* books; or

(b) physically delivered to the *depository*.

[Note: recital 100 and articles 88 (Financial instruments to be held in custody) and 89(3) (Safekeeping duties with regard to assets held in custody) of the *AIFMD level 2 regulation*.]

AIFM

FCA PRA

alternative investment fund manager.

AIFM investment firm

FCA PRA

a *firm* which:

(a) is:

(i) a *full-scope UK AIFM*; or

(ii) an *incoming EEA AIFM branch*; and

(b) has a *Part 4A permission* (or an equivalent permission from its *Home State regulator*) for *managing investments* where:

(i) the *investments* managed include one or more *financial instruments*; and

(ii) the *permission* is limited to the activities permitted by article 6(4) of *AIFMD*.

AIFM investment management functions

FCA

investment management functions of an *AIFM* as set out in 1(a) (portfolio management) or (b) (risk management) of Annex I to *AIFMD*.

AIFM management functions

FCA PRA

the management functions of an *AIFM* listed in Annex I to *AIFMD*.

AIFM qualifier

FCA PRA

an *EEA AIFM* which is *marketing*, or has *marketed*, an *AIF* in the *UK* by:

(a) exercising its *EEA* right to *market* under Schedule 3 of the *Act* (*EEA Passport Rights*); and

(b) is not exercising a right to manage a *UK AIF* under Schedule 3 of the *Act*.

AIFM Remuneration Code

FCA

as set out in ■ SYSC 19B (*AIFM Remuneration Code*).

AIFM Remuneration Code staff

FCA

(for an *AIFM*) has the meaning given in ■ SYSC 19B.1.3 R.

AIFM remuneration principles

FCA

the principles set out in ■ SYSC 19B.1.5 R to ■ SYSC 19B.1.24 R.

AIFMD

FCA PRA

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010
(<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:174:0001:0073:EN:PDF>)

AIFMD host state requirements

FCA PRA

Handbook rules transposing articles 12 and 14 of *AIFMD* and which fall under the responsibility of the *Host State* to supervise where an *AIFM* manages or markets an *AIF* through a *branch* in that *EEA State*, namely:

- (a) ■ FUND 3.8;
- (b) ■ SYSC 4.1.2C R;
- (c) ■ SYSC 10.1.22 R to ■ SYSC 10.1.26 R; and
- (d) ■ COBS 2.1.4 R.

AIFMD level 2 regulation

FCA PRA

Commission delegated regulation (EU) No 231/2013 supplementing Directive 2011/16/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision
(<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:083:0001:0095:en:PDF>)

AIFMD UK regulation

FCA PRA

(A) In the PRA Handbook:
the Alternative Investment Fund Managers Regulations 2013 (SI 2013/....)
(B) In the FCA Handbook:
the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773)

aircraft

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 5 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), upon aircraft or upon the machinery, tackle, furniture or equipment of aircraft.

aircraft liability

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 11 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against damage arising out of or in connection with the use of aircraft, including third-party risks and carrier's liability.

all price risk measure

FCA PRA

(in ■ BIPRU 7.10 (Use of a Value at Risk Model)) has the meaning in ■ BIPRU 7.10.116A R (Capital calculations for VaR models), which is, in relation to a *business day*, the *all price risk measure* required under the provisions in ■ BIPRU 7.10 about *specific risk* for the *correlation trading portfolio*.

allocation period

FCA PRA

a single 24-hour period or, with the agreement of each *professional client* concerned, a period spanning five consecutive *business days*, during which an aggregated *series of transactions* may be *executed*.

allotment

FCA PRA

(as defined in Article 2 of the *Buy-back and Stabilisation Regulation*) the process or processes by which the number of *relevant securities* to be received by investors who have previously subscribed or applied for them is determined.

alternative debenture

FCA **PRA**

the *investment* specified in article 77A of the *Regulated Activities Order* (Alternative finance investment bonds).

alternative investment fund

FCA **PRA**

(in accordance with article 4(1)(a) of *AIFMD*) a collective investment undertaking, including investment compartments thereof, which:

(a) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and

(b) does not require authorisation pursuant to article 5 of the *UCITS Directive*.

alternative investment fund manager

FCA **PRA**

(1) (in **■ GENPRU 3.1**) a manager of alternative investment funds within the meaning of Article 4(1)(b), (l) and (ab) of Directive 2011/61/EU or an *undertaking* which is outside the *EEA* and which would require authorisation in accordance with Directive 2011/61/EU if it had its registered office within the *EEA*.

(2) (except in **■ GENPRU 3.1** and in accordance with article 4(1)(b) of *AIFMD*) a legal person whose regular business is performing *AIFM investment management functions* for one or more *AIF*.

alternative projection

FCA **PRA**

(in *COBS*) a *projection* calculated on the basis described in paragraph 1.5R of the *projection rules* (**■ COBS 13 Annex 2**), rather than in accordance with the remainder of those *rules*.

alternative standardised approach

FCA **PRA**

one of the following:

(a) a version of the *standardised approach to operational risk* under which a *firm* uses different indicators for certain business lines as referred to in **■ BIPRU 6.4.19 R** (The alternative standardised approach);

(b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with **■ BIPRU 8** (Group risk - consolidation); or

(c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

AMA

FCA **PRA**

the *advanced measurement approach*.

AMA permission

PRA

an *Article 129 implementing measure*, a *requirement* or a *waiver* that requires a *BIPRU firm* or a *CAD investment firm* to use the *advanced measurement approach to operational risk* on a solo basis or, if the context requires, a consolidated basis.

ancillary activity

FCA **PRA**

an activity which is not a *regulated activity* but which is:

(a) carried on in connection with a *regulated activity*; or

(b) held out as being for the purposes of a *regulated activity*.

ancillary
insurance
services
undertaking

FCA PRA

(in relation to any *undertaking* in a *consolidation group*, *sub-group* or other group of *persons*) an *undertaking* complying with the following conditions:

- (a) its principal activity consists of:
 - (i) owning or managing property; or
 - (ii) managing data-processing services; or
 - (iii) any other similar activity;
- (b) the activity in (a) is ancillary to the principal activity of one or more *insurance undertakings*; and
- (c) those *insurance undertakings* are also members of that *consolidation group*, *sub-group* or other group of *persons*.

ancillary risk

FCA PRA

(in relation to an *insurer* with *permission* under the *Act* to insure a principal risk belonging to one *class* (as defined for the purposes of *INSPRU* and *SUP*) of *general insurance business*) a risk included in another such class which is:

- (a) connected with the principal risk,
- (b) concerned with the object which is covered against the principal risk, and
- (c) the subject of the same contract insuring the principal risk.

However, the risks included in *classes* 14, 15 and 17 may not be treated as risks ancillary to other classes, except that the risk included in *class* 17 (legal expenses insurance) may be regarded as an ancillary risk of *class* 18 where:

- (d) the conditions laid down in (a) to (c) are fulfilled, and
- (e) the principal risk relates solely to assistance provided for *persons* who fall into difficulties while travelling, while away from home or while away from their permanent residence or where it concerns disputes or risks arising out of, or in connection with, the use of sea-going vessels.

ancillary
service

FCA PRA

any of the services listed in Section B of Annex I to *MiFID*, that is:

- (a) safekeeping and administration of *financial instruments* for the account of *clients*, including custodianship and related services such as cash/collateral management;
- (b) granting credits or loans to an investor to allow him to carry out a transaction in one or more *financial instruments*, where the firm granting the credit or loan is involved in the transaction;
- (c) advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
- (d) foreign exchange services where these are connected to the provision of *investment services*;
- (e) *investment research* and financial analysis or other forms of general recommendation relating to transactions in *financial instruments*;
- (f) services related to underwriting; and
- (g) *investment services and activities* as well as ancillary services within (a) to (f), above, related to the underlying of the *derivatives* included under Section C - 5, 6, 7 and 10, that is (in accordance with that Annex and Recital 21 to, and Article 39 of, the *MiFID Regulation*):
 - (i) commodities;
 - (ii) climatic variables;
 - (iii) freight rates;

ancillary
services
undertaking

FCA PRA

- (iv) emission allowances;
- (v) inflation rates or other official economic statistics;
- (vi) telecommunications bandwidth;
- (vii) commodity storage capacity;
- (viii) transmission or transportation capacity relating to commodities, where cable, pipeline or other means;
- (ix) an allowance, credit, permit, right or similar asset which is directly linked to the supply, distribution or consumption of energy derived from renewable resources;
- (x) a geological, environmental or other physical variable;
- (xi) any other asset or right of a fungible nature, other than a right to receive a service, that is capable of being transferred;
- (xii) an index or measure related to the price or value of, or volume of transactions in any asset, right, service or obligation;

where these are connected to the provision of *investment services* or ancillary services.

[Note: article 4(1)(3) of *MiFID*]

(A) In the PRA Handbook

(1) (in accordance with Article 4(21) of the *Banking Consolidation Directive* (Definitions) and subject to (2)) and in relation to an *undertaking* in a *consolidation group*, *sub-group* or another group of *persons*) an *undertaking* complying with the following conditions:

- (a) its principal activity consists of:
 - (i) owning or managing property; or
 - (ii) managing data-processing services; or
 - (iii) any other similar activity;
- (b) the activity in (a) is ancillary to the principal activity of one or more *credit institutions* or *investment firms*; and
- (c) those *credit institutions* or *investment firms* are also members of that *consolidation group*, *sub-group* or *group*.

(2) (for the purpose of ■ GENPRU 1.3 (Valuation) and ■ INSPRU 6.1 (Group Risk: Insurance Groups) an *undertaking* in (1) and an .

(B) In the FCA Handbook

(1) (in accordance with Article 4(21) of the *Banking Consolidation Directive* (Definitions) for the purpose of *GENPRU* (except in ■ GENPRU 3) and *BIPRU* (except in ■ BIPRU 12) and subject to (2)) and in relation to an *undertaking* in a *consolidation group*, *sub-group* or another group of *persons*) an *undertaking* complying with the following conditions:

- (a) its principal activity consists of:
 - (i) owning or managing property; or
 - (ii) managing data-processing services; or
 - (iii) any other similar activity;
- (b) the activity in (a) is ancillary to the principal activity of one or more *credit institutions* or *investment firms*; and

<p><i>ancillary stabilisation</i></p> <p>FCA</p>	<p>(c) those <i>credit institutions</i> or <i>investment firms</i> are also members of that <i>consolidation group</i>, <i>sub-group</i> or <i>group</i>.</p> <p>2) (for the purpose of ■ GENPRU 1.3 (Valuation) and ■ INSPRU 6.1 (Group Risk: Insurance Groups) an <i>undertaking</i> in (1) and an .</p> <p>(3) (except in (1)) has the meaning in article 4(1)(18) of the <i>EU CRR</i>.</p>
<p><i>announceable information</i></p> <p>FCA PRA</p>	<p>(as defined in Article 2 of the <i>Buy-back and Stabilisation Regulation</i>) the exercise of an <i>overallotment facility</i> or of a <i>greenshoe option</i> by <i>investment firms</i> or <i>credit institutions</i>, in the context of a <i>significant distribution</i> of <i>relevant securities</i>, exclusively for facilitating <i>stabilisation</i> activity.</p> <p>information which is usually the subject of a public announcement, although not subject to any formal disclosure requirement.</p>
<p><i>annual accounting period</i></p> <p>FCA PRA</p>	<p>(1) [deleted]</p> <p>(2) (in <i>COLL</i>): the period determined in accordance with ■ COLL 6.8.2 R (3) to ■ COLL 6.8.2 R (7) (Accounting periods).</p>
<p><i>Annual Accounts</i></p> <p>FCA PRA</p>	<p>(1) the Council Directive of 19 December 1991 concerning the annual accounts and consolidated accounts of <i>insurance undertakings</i> (No. 91/674/EEC).</p> <p>(2) (in <i>UPRU</i>) accounts prepared to comply with :</p> <p style="margin-left: 20px;">(a) the Companies Acts 1985 to 1989, and their equivalent in Northern Ireland, where these provisions are applicable; or</p> <p style="margin-left: 20px;">(b) the Companies Act 2006; or</p> <p style="margin-left: 20px;">(c) other statutory obligations.</p>
<p><i>annual audited fixed expenditure</i></p> <p>FCA PRA</p>	<p>(in <i>UPRU</i>) has the meaning given in ■ UPRU 2.1.3 R (Annual audited fixed expenditure).</p>
<p><i>annual bonus</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>with-profits insurance contract</i>) a discretionary addition to <i>policy</i> benefits under a <i>with-profits insurance contract</i> made by a <i>long-term insurer</i> as a result of the annual <i>actuarial investigation</i>.</p>
<p><i>annual budget</i></p> <p>FCA PRA</p>	<p>the annual budgeted costs of operating the <i>Financial Ombudsman Service</i>.</p>
<p><i>annual eligible income</i></p> <p>FCA PRA</p>	<p>(in <i>FEES</i>) (in relation to a <i>firm</i> and a <i>class</i>) the annual income (as described in ■ FEES 6 Annex 3 R) for the <i>firm's</i> last financial year ended in the year to 31 December preceding the date for submission of the information under ■ FEES 6.5.13 R attributable to that <i>class</i>. A <i>firm</i> must calculate <i>annual eligible income</i> from such annual income in one of the following ways:</p> <p style="margin-left: 20px;">(a) only include such annual income if it is attributable to business conducted with or for the benefit of <i>eligible claimants</i> and is otherwise attributable to compensatable business; or</p> <p style="margin-left: 20px;">(b) include all such annual income.</p>

annual financial statements

FCA PRA

the financial statements in respect of the year ending on the *firm's* annual accounting reference date, which is the date to which a corporate *firm's* accounts are prepared for the purposes of the Companies Acts, or, where the *firm* is not subject to the Companies Acts, the equivalent date chosen by the *firm* and notified to the FCA or PRA as the case may be .

annual income

FCA PRA

(in MIPRU)

the income referred to in ■ MIPRU 4.3

annual income allocation date

FCA PRA

the date in any year stated in the most recently published *prospectus* as the date on or before which, in respect of each *annual accounting period*, an allocation of income is to be made.

annual percentage rate

FCA PRA

the annual percentage rate of charge for a contract as calculated in accordance with ■ MCOB 10 (Annual percentage rate).

annual report and accounts

FCA PRA

(a) (in relation to a *company* incorporated in the *United Kingdom*) an annual report and annual accounts as those terms are defined in:

(i) section 262(1) of the Companies Act 1985, together with an auditor's report prepared in relation to those accounts under section 235 of the same Act where these provisions are applicable; or

(ii) section 471 of the Companies Act 2006 together with an auditor's report prepared in relation to those accounts under sections 495 to 497 of the same Act;

(b) (in relation to any other body) any similar or analogous *documents* which it is required to prepare whether by its constitution or by the law under which it is established.

annual statement provisions

FCA PRA

(in MCOB) in relation to a:

(a) *regulated mortgage contract*, ■ MCOB 7.5;

(b) *home purchase plan*, ■ MCOB 7.8.3 R to ■ MCOB 7.8.6 R; and

(c) *instalment reversion plan*, ■ MCOB 9.9.1 R to ■ MCOB 9.9.3 R (2)(c).

annualised net written premiums

FCA PRA

(for the purposes of ■ INSPRU 1.4) in relation to a *financial year*, the *net written premiums* received during that *financial year*, except that in relation to a *financial year* that has been validly extended beyond, or shortened from, a period of 12 months, the amount of *net written premiums* is the amount determined in accordance with the formula: $NWP \times 365/D$ where:

(1) NWP is the amount of *net written premiums* received in the financial year; and

(2) D is the number of days in that *financial year*.

APER

FCA PRA

the part of the *Handbook* in High Level Standards which has the title Statements of Principle and Code of Practice for Approved Persons.

applicable asset

FCA

(a) in relation to *MiFID business*, a *financial instrument*; or

applicable provisions

FCA PRA

(b) in relation to *safeguarding and administering investments* that is not *MiFID business, acting as trustee or depositary of a UCITS*, and/or *acting as trustee or depositary of an AIF, a designated investment*.

the *Host State* rules with which:

(a) an *incoming EEA firm* is required to comply when carrying on a *permitted activity* through a *branch* or by providing services (as applicable) in the *United Kingdom*, as defined in paragraphs 13(4) and 14(4) of Part II of Schedule 3 to the *Act* (Exercise of passport rights by EEA firms); or

(b) a *UK firm* is required to comply when conducting business through a *branch* (in accordance with paragraph 19(13) of Part III of Schedule 3 to the *Act* (Exercise of passport rights by UK firms)) or by providing services (as applicable) in another *EEA State*.

applicable sectoral consolidation rules

FCA PRA

(in respect of a *financial sector* and in accordance with paragraph 6.9 of ■ GENPRU 3 Annex 1 R (Applicable sectoral consolidation rules)) the *appropriate regulator's sectoral rules* about capital adequacy and solvency on a consolidated basis applicable to that *financial sector* under the table in paragraph 6.10 of

■ GENPRU 3 Annex 1 R.

applicable sectoral rules

FCA PRA

(in respect of a *financial sector*) *applicable sectoral consolidation rules* for that *financial sector* and the *appropriate regulator's sectoral rules* about capital adequacy and solvency for:

(a) the *banking and investment services sector* as set out in paragraph 6.2 of ■ GENPRU 3 Annex 1 R; or

(b) *insurance undertakings*;

which of those sets of *rules* apply for the purpose of a particular calculation depends on the nature of that calculation.

applicant

FCA PRA

(1) (in *LR*) an *issuer* which is applying for *admission of securities*.

(2) (in *PR*) an applicant for approval of a *prospectus* or *supplementary prospectus* relating to *transferable securities*.

appointed representative

FCA PRA

(in accordance with section 39 of the *Act* (other than an *authorised person*) who:

(a) is a party to a contract with an *authorised person* (his *principal*) which:

(i) permits or requires him to carry on business of a description prescribed in the *Appointed Representatives Regulations*; and

(ii) complies with such requirements as are prescribed in those *Regulations*; and

(b) is someone for whose activities in carrying on the whole or part of that business his *principal* has accepted responsibility in writing;

and who is therefore an *exempt person* in relation to any *regulated activity* comprised in the carrying on of that business for which his *principal* has accepted responsibility.

Appointed Representatives Regulations

FCA PRA

the Financial Services and Markets Act 2000 (Appointed Representatives) Regulations 2001 (SI 2001/1217).

apportionment and oversight function

FCA **PRA**

FCA controlled function CF8 in Parts 1 and Part 2 of the *table of FCA controlled functions*, described more fully in **■ SUP 10A.7.1 R** .

appropriate actuary

FCA **PRA**

an *actuary* appointed under **■ SUP 4.4.1 R** (Appointment of an appropriate actuary).

appropriate charges information

FCA **PRA**

(in COBS) information about charges which is calculated and presented in accordance with the *charges rules* in **■ COBS 13.4.1 R** and **■ COBS 13 Annexes 3** or **■ 4**.

appropriate position risk adjustment

FCA **PRA**

- (1) (in relation to a *position* treated under **■ BIPRU 7.6** (Option PRR)) the percentage figure applicable to that *position* under the table in **■ BIPRU 7.6.8 R** (Appropriate Position Risk Adjustment);
- (2) (for any other purpose and in relation to a *position*) the *position risk adjustment* applicable to that position under BIPRU 7 (Market risk).

appropriate regulator

FCA **PRA**

- (1) in the *FCA Handbook*, the *FCA*; and in the *PRA Handbook*, the *PRA*;
- (2)
 - (a) in **■ SUP 11** "appropriate regulator" has the meaning given in section 178 of the *Act*, and
 - (b) in **■ SUP 18** "appropriate regulator" has the meaning given in section 103A of the *Act*.

appropriate UK regulator

FCA **PRA**

- (1) in relation to an *EEA firm* (in accordance with Schedule 3 paragraph 13(4) and 14(4) to the *Act*), whichever of the *FCA* or *PRA* is the *competent authority* for the purposes of the relevant *Single Market Directive*;
- (2) in relation to a *UK firm* (in accordance with Schedule 3 paragraph 18A to the *Act*),
 - (a) the *PRA*, where the *firm* is a *PRA-authorised person*; and
 - (b) in any other case, the *FCA*.
- (3) in relation to a *Treaty firm* (in accordance with section 35(2A) of the *Act*),
 - (a) in the case of a *PRA-authorised person*, the *PRA*; and
 - (b) in any other case, the *FCA*.

appropriate valuer

FCA **PRA**

(in *COLL*) a *person* who complies with the *requirements* of **■ COLL 5.6.18 R** (7) (Investment in property) or **■ COLL 8.4.11 R** (4) (Investment in property) .

approve

FCA **PRA**

(in relation to a *financial promotion*) approve the content of the *financial promotion* for the purposes of section 21 of the *Act* (Restrictions on financial promotion).

approved bank

FCA PRA

(except in *COLL*) (in relation to a *bank* account opened by a firm):

- (a) if the account is opened at a branch in the *United Kingdom*:
 - (i) the Bank of England; or
 - (ii) the central bank of a member state of the *OECD*; or
 - (iii) a *bank*; or
 - (iv) a *building society* ; or
 - (v) a bank which is supervised by the central bank or other banking regulator of a member state of the *OECD*; or
- (b) if the account is opened elsewhere:
 - (i) a bank in (a); or
 - (ii) a *credit institution* established in an *EEA State* other than the *United Kingdom* and duly authorised by the relevant *Home State* regulator; or
 - (iii) a bank which is regulated in the Isle of Man or the Channel Islands; or
- (c) a bank supervised by the South African Reserve Bank; or
- (d) any other bank that:
 - (i) is subject to regulation by a national banking regulator;
 - (ii) is required to provide audited accounts;
 - (iii) has minimum net assets of £5 million (or its equivalent in any other currency at the relevant time) and has a surplus revenue over expenditure for the last two financial years; and
 - (iv) has an annual audit report which is not materially qualified.

(in *COLL*) any person falling within (a-c).*approved collateral*

FCA PRA

any form of security for the discharge of any liability arising from a *contingent liability investment* (other than a guarantee) which:

- (a) (in relation to an *on-exchange* transaction) is acceptable under the rules of the relevant exchange or *clearing house*; and
- (b) (in relation to an *OTC* transaction) would be acceptable for a similar transaction to the relevant exchange or *clearing house*.

approved counterparty

FCA PRA

any of the following:

- (a) an *approved credit institution*; or
- (b) a *firm* whose *permission* includes *dealing in investments as principal* with respect to *derivatives* which are not *listed*; or
- (c) a *MiFID investment firm* whose authorisation (as referred to in article 5 of *MiFID*) authorises it to carry on activities of the kind referred to in (b); or
- (d) in respect of a transaction involving a new issue of *securities* which are to be *listed*, the *issuer* or a *MiFID investment firm* acting on behalf of the *issuer*.

approved credit institution

FCA PRA

(A) In the PRA Handbook:

a *credit institution* recognised or permitted under the law of an *EEA State* to carry on any of the activities set out in Annex 1 to the *CRD*.

(B) In the FCA Handbook:

*approved
depository*

FCA **PRA**

a *credit institution* recognised or permitted under the law of an *EEA State* to carry on any of the activities set out in Annex 1 to the *CRD*.

any *depository*:

- (a) which is subject to regulation by a national *regulatory body* in connection with its custody services;
- (b) which is required to prepare audited accounts;
- (c) whose latest annual audit report is not materially qualified; and
- (d) which
 - (i) has minimum net assets of £5 million (or its equivalent in any other currency at the relevant time) and has surplus revenue over expenditure for the last two financial years; or
 - (ii) if not, nevertheless has adequate financial resources for its business.

*approved
derivative*

FCA **PRA**

(1) (in *COLL*) a derivative which is traded or *dealt* in on an eligible derivatives market.

(2) (in *INSPRU*) a *derivative* in respect of which the conditions in **■** *INSPRU 3.2.5 R* are met.

*approved
financial
institution*

FCA **PRA**

any of the following:

- (a) the European Central Bank;
- (b) the central bank of an *EEA State*;
- (c) the International Bank for Reconstruction and Development;
- (d) the European Bank for Reconstruction and Development;
- (e) the International Finance Corporation;
- (f) the International Monetary Fund;
- (g) the Inter-American Development Bank;
- (h) the African Development Bank;
- (i) the Asian Development Bank;
- (j) the Caribbean Development Bank;
- (k) the European Investment Bank;
- (l) the *EU*; and
- (m) the European Atomic Energy Community.

approved index

FCA **PRA**

in relation to *permitted links*:

- (a) an index that is:
 - (i) calculated independently;
 - (ii) published at least once every week;
 - (iii) based on constituents that are *permitted links*; and
 - (iv) calculated on a basis that is made available to the public, and that includes both the rules for including and excluding constituents and the rules for valuation which must use an arithmetic average of the value of the constituents; or

<p><i>approved money-market instrument</i></p> <p>FCA PRA</p>	<p>(b) a national index of retail prices published by or under the authority of a government, or by a body recognised under the national legislation, of a <i>Zone A country</i>; or</p> <p>(c) an index that is:</p> <p style="padding-left: 20px;">(i) based on constituents that are <i>permitted links</i>; and</p> <p style="padding-left: 20px;">(ii) in respect of which a <i>derivative</i> contract is <i>listed</i> ; or</p> <p>(d) the average earnings index when used for the purposes of orders made under section 148 of the Social Security Administration Act 1992 by the Department for Work and Pensions.</p>
<p><i>approved person</i></p> <p>FCA PRA</p>	<p>(in accordance with ■ COLL 5.2.7F R) a money-market instrument which is normally dealt in on the money market, is liquid and has a value which can be accurately determined at any time.</p> <p>a <i>person</i> in relation to whom the <i>FCA</i> or the <i>PRA</i> has given its approval under section 59 of the <i>Act</i> (Approval for particular arrangements) for the performance of a <i>controlled function</i>.</p>
<p><i>approved quasi-derivative</i></p> <p>FCA PRA</p>	<p>a <i>quasi-derivative</i> in respect of which the conditions in ■ INSPRU 3.2.5 R are met.</p>
<p><i>approved reinsurance to close</i></p> <p>FCA PRA</p>	<p>(a) a <i>reinsurance to close</i> effected before 1 January 2005; or</p> <p>(b) an agreement under which <i>members</i> of a <i>syndicate</i> in one <i>syndicate year</i> ("the reinsured <i>members</i>") agree with the <i>members</i> of that <i>syndicate</i> in a later <i>syndicate year</i> or the <i>members</i> of one other <i>syndicate</i> ("the reinsuring <i>members</i>") that the reinsuring <i>members</i> will discharge, or procure the discharge of, or indemnify the reinsured <i>members</i> against, all known and unknown <i>insurance business</i> liabilities of the reinsured <i>members</i> arising out of the <i>insurance business</i> carried on by the reinsured <i>members</i> in that <i>syndicate year</i> that is:</p> <p style="padding-left: 20px;">(i) effected after 1 January 2005; and</p> <p style="padding-left: 20px;">(ii) not a balance transfer between two <i>syndicate years</i> where the <i>syndicate</i> has only one <i>member</i> and the <i>member</i> is the same in each of those years ; or</p> <p>(c) an agreement under which <i>members</i> of a <i>syndicate</i> in one <i>syndicate year</i> ("the reinsured <i>members</i>") agree with a <i>subsidiary</i> of the <i>Society</i> that that <i>subsidiary</i> will discharge, or procure the discharge of, or indemnify the reinsured <i>members</i> against, all known and unknown <i>insurance business</i> liabilities of the reinsured <i>members</i> arising out of the <i>insurance business</i> carried on by the reinsured <i>members</i> in that <i>syndicate year</i> ("the reinsured liabilities") and where:</p> <p style="padding-left: 20px;">(i) that <i>subsidiary</i> is wholly owned by the <i>Society</i> and if from time to time the <i>subsidiary</i> has an <i>asset</i> or cash flow deficiency such that the <i>subsidiary</i> is unable to meet any of the liabilities which it has reinsured, the <i>Society</i> is legally obliged to pay to the <i>subsidiary</i> a sum equal to that deficiency; and</p> <p style="padding-left: 20px;">(ii) at the effective date of the agreement, the relevant <i>syndicate year</i> has been open for at least two years after the date at which it would normally have been closed in accordance with the policies and practices in relation to the <i>syndicate</i> concerned.</p>

approved reporting mechanism

FCA **PRA**

a trade-matching or reporting system approved by the *FCA* in accordance with Section 412A of the *Act*.

approved security

FCA **PRA**

(1) (in *COLL*) a *transferable security* that is admitted to *official listing* in an *EEA State* or is traded on or under the rules of an *eligible securities* market (otherwise than by the specific permission of the market authority).

(2) (in *INSPRU*) any of the following:

(a) any *security* issued or guaranteed by, or the repayment of the principal of which, or the interest on which, is guaranteed by, and any loans to or deposits with, any government, public or local authority or nationalised industry or undertaking, which belongs to a *Zone A country*;

(b) any loan to, or deposit with, an *approved financial institution*;

(c) any *debenture* issued before 31 December 1994 by the Agricultural Mortgage Corporation Limited or the Scottish Agricultural Securities Corporation Limited.

(3) (in *COBS*) any of the following:

(a) any *security* issued or guaranteed by, or the repayment of the principal of which, or the interest on which is guaranteed by, and any loan to or deposit with, any government, public or local authority or nationalised industry or undertaking that belongs to *Zone A* as defined in the *Banking Consolidation Directive*; or

(b) any loan to, or deposit with, an *approved financial institution*; or

(c) debentures issued before 31 December 1994 by the Agricultural Mortgage Corporation Ltd or the Scottish Agricultural Securities Corporation Ltd.

approved stock lending transaction

FCA **PRA**

a *stock lending* transaction in respect of which the conditions in ■ *INSPRU 3.2.36 R* have been met.

APR

FCA **PRA**

annual percentage rate.

APR rules

FCA **PRA**

■ *MCOB 10*.

arrangement

FCA **PRA**

(as defined in section 59(10) of the *Act* (Approval for particular arrangements)) any kind of arrangement for the performance of a function of an *authorised person* ("A") which is entered into by A or any contractor of his with another *person*, including, in particular, that other *person's* appointment to an office, his becoming a partner, or his employment (whether under a contract of service or otherwise).

arranging

FCA **PRA**

(a) (except in relation to a *home finance transaction*) *arranging* (bringing about) *deals in investments*, making arrangements with a view to *transactions in investments* or agreeing to carry on either of those regulated activities.

arranging
(bringing
about) a home
finance
transaction

FCA PRA

- (b) (in relation to a *regulated mortgage contract*) *arranging (bringing about) regulated mortgage contracts, making arrangements with a view to regulated mortgage contracts or agreeing to carry on either of those regulated activities;*
- (c) (in relation to a *home purchase plan*) *arranging (bringing about) a home purchase plan, making arrangements with a view to a home purchase plan or agreeing to carry on either of those regulated activities.*
- (d) (in relation to a *home reversion plan*) *arranging (bringing about) a home reversion plan, making arrangements with a view to a home reversion plan or agreeing to carry on either of those regulated activities.*

any of the *regulated activities* of *arranging (bringing about) a regulated mortgage contract, arranging (bringing about) a home purchase plan, arranging (bringing about) a home reversion plan or arranging (bringing about) a regulated sale and rent back agreement.*

arranging
(bringing
about) a home
purchase plan

FCA PRA

the *regulated activity*, specified in article 25C(1) of the *Regulated Activities Order*, which is in summary: making arrangements for another person to:

- (a) enter into a *home purchase plan* as *home purchaser*; or
- (b) vary the terms of a *home purchase plan* entered into by him as *home purchaser* on or after 6 April 2007.

arranging
(bringing
about) a home
reversion plan

FCA PRA

the *regulated activity*, specified in article 25B(1) of the *Regulated Activities Order*, which is in summary: making arrangements for another *person* to:

- (a) enter into a *home reversion plan* as *reversion occupier* or as plan provider; or
- (b) vary the terms of a *home reversion plan* entered into by him as *reversion occupier* or as plan provider on or after 6 April 2007.

arranging
(bringing
about) a
regulated sale
and rent back
agreement

FCA PRA

the *regulated activity*, specified in article 25E(1) of the *Regulated Activities Order*, which is in summary making arrangements:

- (a) for another *person* to enter into a *regulated sale and rent back agreement* as an agreement seller or as an agreement provider; or
- (b) for another *person* to vary the terms of a *regulated sale and rent back agreement*, entered into on or after 1 July 2009 by him as agreement seller or agreement provider, in such a way so as to vary his obligations under that *agreement* and in relation to a *person* who acquires obligations or rights under a *regulated sale and rent back agreement*, an activity is a specified kind of activity for the purposes of this part of the definition only if the *agreement* was entered into by the agreement provider (rather than the obligations or rights acquired) on or after 1 July 2009;

including making arrangements with a view to a *person* who participates in the arrangements
entering into a regulated sale and rent back agreement as agreement seller or agreement provider.

arranging
(bringing
about) deals in
investments

FCA PRA

the *regulated activity*, specified in article 25(1) of the *Regulated Activities Order*, which is in summary: making arrangements for another *person* (whether as *principal* or agent) to *buy, sell, subscribe for or underwrite a particular investment* which is:

- (a) a *designated investment*; or
- (b) a *funeral plan contract*; or

<p><i>arranging (bringing about) regulated mortgage contracts</i></p> <p>FCA PRA</p>	<p>(c) the <i>underwriting capacity of a Lloyd's syndicate</i>; or</p> <p>(d) <i>membership of a Lloyd's syndicate</i>; or</p> <p>(da) a <i>pure protection contract</i>; or</p> <p>(db) a <i>general insurance contract</i>; or</p> <p>(e) <i>rights to or interests in investments</i> in (b), (c) or (d).</p> <p>the <i>regulated activity</i>, specified in article 25A(1) of the <i>Regulated Activities Order</i>, which is in summary: making arrangements for another <i>person</i> to:</p> <p>(a) enter into a <i>regulated mortgage contract</i> as borrower; or</p> <p>(b) vary the terms of a <i>regulated mortgage contract</i> entered into by him as borrower on or after 31 October 2004.</p> <p>(see also <i>arranging</i> (in relation to <i>regulated mortgage contracts</i>) and <i>making arrangements with a view to regulated mortgage contracts</i>.)</p>
<p><i>arranging deals in contracts of insurance written at Lloyd's</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 58 of the <i>Regulated Activities Order</i> (Arranging deals in contracts of insurance written at Lloyd's), carried on by the <i>Society of Lloyd's</i> of arranging deals in <i>contracts of insurance</i> written at Lloyd's.</p>
<p><i>arranging qualifying credit</i></p> <p>FCA PRA</p>	<p>the <i>controlled activity</i>, specified in paragraph 10A of Schedule 1 to the <i>Financial Promotion Order</i>, of making arrangements:</p> <p>(a) for another <i>person</i> to enter as borrower into an agreement for the provision of <i>qualifying credit</i>; or</p> <p>(b) for a borrower under a <i>regulated mortgage contract</i>, entered into on or after 31 October 2004, to vary the terms of that contract.</p>
<p><i>arranging safeguarding and administration of assets</i></p> <p>FCA PRA</p>	<p>that part of <i>safeguarding and administering investments</i> which consists solely of arranging for one or more other <i>persons</i> to carry on both:</p> <p>(a) the safeguarding of assets belonging to another; and</p> <p>(b) the administration of those assets.</p>
<p><i>arrears</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>regulated mortgage contract</i> or a <i>home purchase plan</i>) either:</p> <p>(a) a shortfall (equivalent to two or more regular payments) in the accumulated total payments actually made by the <i>customer</i> measured against the accumulated total amount of payments due to be received from the <i>customer</i>; or</p> <p>(b) remaining in breach, for more than one month, of an agreed borrowing limit or of an obligation to pay or repay where the loan or <i>home purchase plan</i> does not have a regular payment or repayment plan.</p>
<p><i>article 12(1) relationship</i></p> <p>PRA</p>	<p>(A) (in the PRA Handbook):</p> <p>means a relationship where <i>undertakings</i> are linked by a relationship within the meaning of article 12(1) of Directive 83/349 EEC.</p>

Article 129
implementing
measure

FCA PRA

any:

- (a) measure taken by the *appropriate regulator* under regulations 7-9 of the *Capital Requirements Regulations 2006*; or
- (b) corresponding measure taken by another *competent authority* to apply an *Article 129 permission* as referred to in the last paragraph of Article 129(2) of the *Banking Consolidation Directive*.

Article 129
permission

FCA PRA

a permission of the type referred to in Article 129(2) of the *Banking Consolidation Directive* (permission to apply the *IRB approach*, the *AMA approach* or the *CCR internal model method* on a consolidated basis) or Article 37(2) of the *Capital Adequacy Directive* (permission to apply the *VaR model approach* on a consolidated basis) excluding an *Article 129 implementing measure*.

Article 129
procedure

FCA PRA

the procedure described in Article 129(2) of the *Banking Consolidation Directive* (permission to apply the *IRB approach*, the *AMA approach* or the *CCR internal model method* on a consolidated basis) or that applies under Article 37(2) of the *Capital Adequacy Directive* (permission to apply the *VaR model approach* on a consolidated basis) for the purpose of applying for and granting or refusing an *Article 129 permission* or the procedure for varying or revoking an *Article 129 permission* in accordance with the *Banking Consolidation Directive* or the *Capital Adequacy Directive*.

Article 134
relationship

FCA PRA

(in accordance with Article 134 of the *Banking Consolidation Directive*) a relationship of one of the following kinds:

- (a) where a *person* exercises a significant influence over one or more *persons*, but without holding a *participation* or other capital ties in these *persons* and without being a *parent undertaking* of these *persons*; or
- (b) where two or more *persons* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.

article 18(5)
relationship

FCA PRA

(A) (in the PRA Handbook)

the relationship where there are participations or capital ties other than those referred to in article 18(1) and (2) of the *EU CRR* (Methods for prudential consolidation).

(B) (in the FCA Handbook)

the relationship where there are participations or capital ties other than those referred to in article 18(1) and (4) of the *EU CRR* (Methods for prudential consolidation).

article 18(6)
relationship

FCA

(in accordance with article 18 of the *EU CRR* (Methods for prudential consolidation)) a relationship of one of the following kinds:

- (a) where an *institution* exercises a significant influence over one or more *institutions* or *financial institutions*, but without holding a *participation* or other capital ties in these *institutions*; or
- (b) where two or more *institutions* or *financial institutions* are placed under single management other than under a contract or clauses of their memoranda or articles of association.

article 9
default

FCA PRA

(as defined in article 2(2) of the *compensation transitionals order*) any of the following:

- (a) the passing of a resolution for the voluntary winding up of an authorised insurance company within the meaning of section 3 of the Policyholders Protection Act 1975 in circumstances falling within section 5(1)(a) of that Act;

	<p>(b) the making by the court of an order for the winding up of such a company in accordance with section 5(1)(b) of that Act;</p> <p>(c) the appointment of a provisional liquidator in the circumstances falling within section 15 of that Act in respect of such a company;</p> <p>(d) such a company becoming a company in financial difficulties within the meaning of section 16 of that Act;</p> <p>(e) a <i>participating deposit-taker</i> becoming insolvent for the purposes of Part II of the Banking Act 1987;</p> <p>(f) a <i>participating institution</i> becoming insolvent within the meaning of section 25A of the Building Societies Act 1986;</p> <p>(g) the beginning of a dissolution or transfer of engagements of a <i>member society</i> in accordance with rule 9(2) of the Rules of the Friendly Societies Protection Scheme.</p>
<p><i>assessable mutual</i></p> <p>FCA PRA</p>	<p>(for the purposes of ■ INSPRU 1.4) a <i>mutual</i> where the <i>insurance business</i> carried on by the <i>mutual</i> is limited to the provision of <i>insurance business</i> to its members and whose articles of association, rules or bye-laws provide for the calling of additional contributions from members to meet <i>claims</i>.</p>
<p><i>asset</i></p> <p>FCA PRA</p>	<p>(in <i>RCB</i>) (as defined in Regulation 1(2) of the <i>RCB Regulations</i>) any property, right, entitlement or interest.</p>
<p><i>asset backed commercial paper programme</i></p> <p>FCA PRA</p>	<p>(for the purposes of ■ BIPRU 9 (Securitisation) and in accordance with Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)) a programme of <i>securitisations</i> (within the meaning of paragraph (2) of the definition of securitisation) the securities issued by which predominantly take the form of commercial paper with an original maturity of one year or less.</p>
<p><i>asset backed security</i></p> <p>FCA PRA</p>	<p>(as defined in the <i>PD Regulation</i>) <i>securities</i> which:</p> <p>(a) represent an interest in assets, including any rights intended to assure servicing, or the receipt or timeliness of receipts by holders of assets of amounts payable thereunder; or</p> <p>(b) are secured by assets and the terms of which provide for payments which relate to payments or reasonable projections of payments calculated by reference to identified or identifiable assets.</p>
<p><i>asset identification rules</i></p> <p>FCA PRA</p>	<p><i>rules</i> made by the <i>appropriate regulator</i> which require an <i>authorised person</i> who has <i>permission</i> to <i>effecting</i> or <i>carry out contracts of insurance</i> to identify assets which belong to him and which are maintained in respect of a particular aspect of his business.</p>
<p><i>asset management company</i></p> <p>FCA PRA</p>	<p>a management company within the meaning of Article 2(1)(b) of the <i>UCITS Directive</i>, as well as an <i>undertaking</i> the registered office of which is outside the <i>EEA</i> and which would require authorisation in accordance with Article 6(1) of the <i>UCITS Directive</i> if it had its registered office within the <i>EEA</i>.</p>
<p><i>asset pool</i></p> <p>FCA PRA</p>	<p>(in <i>RCB</i>) (as defined in Regulation 1(2) of the <i>RCB Regulations</i>) an asset pool within the meaning of Regulation 3 of the <i>RCB Regulations</i>.</p>

asset pool monitor

FCA **PRA**

a *person* appointed under regulation 17A of the *RCB Regulations*.

asset-related capital requirement

FCA **PRA**

a component of the calculation of the *ECR* for a *firm* carrying on *general insurance business* as set out in *INSPRU 2.2* .

assistance

FCA **PRA**

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 18 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), providing either or both of the following benefits:

- (a) assistance (whether in cash or in kind) for *persons* who get into difficulties while travelling, while away from home or while away from their permanent residence;
- (b) assistance (whether in cash or in kind) for *persons* who get into difficulties otherwise than as in (a).

assisting in the administration and performance of a contract of insurance

FCA **PRA**

the *regulated activity*, specified in article 39A of the *Regulated Activities Order* (Assisting in the administration and performance of a contract of insurance) of assisting in the administration and performance of a contract of insurance.

associate

FCA **PRA**

(1) (in *LR*) (in relation to a *director*, *substantial shareholder*, or *person exercising significant influence*, who is an individual):

- (a) that individual's spouse, civil partner or child (together "the individual's family");
- (b) the trustees (acting as such) of any trust of which the individual or any of the individual's family is a beneficiary or discretionary object (other than a trust which is either an *occupational pension scheme* or an *employees' share scheme* which does not, in either case, have the effect of conferring benefits on persons all or most of whom are related parties;
- (c) any *company* in whose *equity securities* the individual or any member or members (taken together) of the individual's family or the individual and any such member or members (taken together) are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) so that they are (or would on the fulfilment of the condition or the occurrence of the contingency be) able:
 - (i) to exercise or control the exercise of 30% or more of the votes able to be cast at general meetings on all, or substantially all, matters; or
 - (ii) to appoint or remove *directors* holding a majority of voting rights at board meetings on all, or substantially all, matters;
- (d) any partnership whether a limited partnership or *limited liability partnership* in which the individual or any member or members (taken together) of the individual's family are directly or indirectly interested

(or have a conditional or contingent entitlement to become interested) so that they hold or control or would on the fulfilment of the condition or the occurrence of the contingency be able to hold or control:

- (i) a voting interest greater than 30% in the partnership; or
- (ii) at least 30% of the partnership.

For the purpose of paragraph (c), if more than one *director* of the *listed company*, its *parent undertaking* or any of its *subsidiary undertakings* is interested in the *equity securities* of another *company*, then the interests of those *directors* and their *associates* will be aggregated when determining whether that *company* is an associate of the *director*.

(2) (in LR) (in relation to a *substantial shareholder* or *person exercising significant influence*, which is a *company*):

- (a) any other *company* which is its *subsidiary undertaking* or *parent undertaking* or fellow *subsidiary undertaking* of the *parent undertaking*;
- (b) any *company* whose *directors* are accustomed to act in accordance with the *substantial shareholder's* or *person exercising significant influence's*, directions or instructions ;
- (c) any *company* in the capital of which the *substantial shareholder* or *person exercising significant influence* and any other *company* under paragraph (1) or (2) taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) able to exercise power of the type described in paragraph (1)(c)(i) or (ii) of this definition.

(3) (except in LR) (in relation to a *person* ("A")):

- (a) an *affiliated company* of A;
- (b) an *appointed representative* of A, or a *tied agent* of A, or of any *affiliated company* of A;
- (c) any other *person* whose business or domestic relationship with A or his *associate* might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties.

associated call option

FCA PRA

a right to acquire a particular amount of the *relevant security* or of any *associated security* at a future date at a particular *price*.

associated instrument

FCA PRA

(as defined in Article 2 of the *Buy-back and Stabilisation Regulation*) any of the following *financial instruments* (including those which are not admitted to trading on a *regulated market*, or for which a request for admission to trading on such a market has not been made, provided that the relevant competent authorities have agreed to standards of transparency for transactions in such *financial instruments*):

- (a) contracts or rights to subscribe for, acquire or dispose of *relevant securities*;
- (b) financial derivatives on *relevant securities*;
- (c) where the *relevant securities* are convertible or exchangeable debt instruments, the securities into which such convertible or exchangeable debt instruments may be converted or exchanged;

(d) instruments which are issued or guaranteed by the *issuer* or guarantor of the *relevant securities* and whose market price is likely to materially influence the price of the *relevant securities*, or vice versa; and

(e) where the *relevant securities* are *securities* equivalent to *shares*, the *shares* represented by those *securities* (and any other *securities* equivalent to those *shares*).

at the money

FCA PRA

(for the purposes of ■ BIPRU 7 (Market risk) and in relation to an *option* or *warrant*) the strike price of that *option* or *warrant* being equal to the current market value of the underlying instrument.

attached shares

FCA PRA

(in CREDS) means any shares in the *credit union* (other than any *deferred shares*):

(a) (in relation to a *Great Britain credit union*) the withdrawal of which is not permitted by section 7(5) of the Credit Unions Act 1979 or (in relation to a *Northern Ireland credit union*) the withdrawal of which is not permitted by article 23(4) of the Credit Unions (Northern Ireland) Order 1985; or

(b) (in relation to a *Great Britain credit union*) the withdrawal of which is not permitted by the terms of a loan made to a member; or

(c) the withdrawal of which is not permitted without seeking and obtaining the permission of the committee of management of the *credit union*.

In relation to a *Great Britain credit union*, paragraph (c) is relevant only where the *credit union* made a loan to the holder of the shares before the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 came into force.

auction platform

FCA

a platform on which auctions of *emissions allowances* are held in accordance with the *auction regulation*.

auction regulation

FCA

Commission Regulation (EU) No 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community.

auction regulation bidding

FCA PRA

the *regulated activity of bidding in emissions auctions* where it is carried on by:

(a) a *firm* that is exempt from *MiFID* under article 2(1)(i); or

(b) a *MiFID investment firm* (other than a *UCITS investment firm*) on behalf of its *clients* in relation to a *two-day emissions spot*.

Audit Directive

FCA PRA

Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

AUT

FCA PRA

an *authorised unit trust scheme*.

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authorisation

FCA PRA

authorisation as an *authorised person* for the purposes of the *Act*.

authorisation order

an order made by the *FCA* :

(a) in relation to an *AUT* under section 243 of the *Act* (Authorisation orders);

FCA PRA

(b) in relation to an *ICVC* under regulation 14 of the *OEIC Regulations* (Authorisation);

(c) in relation to an *ACS* under section 261D of the *Act* (Authorisation orders);

as a result of which the *AUT* or *ACS* becomes authorised or the body becomes incorporated as an *ICVC* under regulation 3 of the *OEIC Regulations* (Open-ended investment company).

authorised AIF

FCA PRA

an *AIF* which is an *authorised fund*.

authorised
central
counterparty

a *CCP* authorised or recognised under *EMIR*.

authorised
contractual
scheme

FCA PRA

a *co-ownership scheme* or a *limited partnership scheme*.

authorised
contractual
scheme
manager

FCA

a *firm*, including, if relevant, an *EEA UCITS management company* or *incoming EEA AIFM*, which is the *authorised fund manager* of the *ACS* in accordance with the *contractual scheme deed*.

authorised
corporate
director

FCA PRA

the director of an *ICVC* who is the *authorised corporate director* of the *ICVC* in accordance with ■ [COLL 6.5.3 R](#) (Appointment of an ACD) including, if relevant, an *EEA UCITS management company* or *incoming EEA AIFM*.

authorised
electronic
money
institution

FCA PRA

(in accordance with regulation 2(1) of the *Electronic Money Regulations*):

(a) a *person* included by the *FCA* in the *Financial Services Register* as an *authorised electronic money institution* pursuant to regulation 4(1)(a) of the *Electronic Money Regulations*; or

(b) a *person* deemed to have been granted authorisation by virtue of regulation 74 of the *Electronic Money Regulations*.

authorised
fund

FCA PRA

an *ICVC*, *ACS* or an *AUT*.

authorised
fund manager

FCA PRA

an *ACD*, an *authorised contractual scheme manager* or an *authorised unit trust manager*.

authorised
insurance
company

(In *COMP*) (in accordance with the *compensation transitionals order*) a *person* who was, at any time before *commencement*, authorised under section

FCA PRA

3 or 4 of the Insurance Companies Act 1982 to carry on insurance business of any class in the *United Kingdom*.

authorised payment institution

(in accordance with regulation 2(1) of the *Payment Services Regulations*) a *person* included by the *FCA* in the *Financial Services Register* as an authorised payment institution pursuant to regulation 4(1)(a), or a *person* deemed to have been granted authorisation by virtue of regulation 121 of the *Payment Services Regulations*.

FCA PRA

authorised person

(in accordance with section 31 of the *Act* (Authorised persons)) one of the following:

FCA PRA

- (a) a *person* who has a *Part 4A permission* to carry on one or more *regulated activities*;
- (b) an *incoming EEA firm*;
- (c) an *incoming Treaty firm*;
- (d) a *UCITS qualifier*;
- (e) an *ICVC*;
- (f) the *Society of Lloyd's*.

(see also ■ GEN 2.2.18 R for the position of an *authorised partnership* or unincorporated association which is dissolved.)

authorised primary dealer

(as defined in article 2(1)(n) of the *short selling regulation*) a natural or legal person who has signed an agreement with a *sovereign issuer* or who has been formally recognised as a primary dealer by or on behalf of a *sovereign issuer* and who, in accordance with that agreement or recognition, has committed to dealing as principal in connection with primary and secondary market operations relating to debt issued by that *sovereign issuer*.

FCA PRA

authorised primary dealer exemption

an exemption from articles 7, 13 and 14 of the *short selling regulation* for the activities of an *authorised primary dealer* pursuant to article 17 of the *short selling regulation*.

FCA PRA

authorised professional firm

a *professional firm* which is an *authorised person*.

FCA PRA

authorised UK representative

(in relation to a *firm*) a *person* resident in the *United Kingdom* who is authorised to act generally, and to accept service of any *document*, on behalf of the *firm*.

FCA PRA

authorised unit trust manager

a *manager* of an *AUT*.

FCA PRA

authorised unit trust scheme

(as defined in section 237(3) of the *Act* (Other definitions)) a *unit trust scheme* which is authorised for the purposes of the *Act* by an *authorisation order*.

FCA PRA

*authorised
Voluntary
Jurisdiction
participant*

FCA PRA

a participant in the *Voluntary Jurisdiction* who is an *authorised person*.

*automatic
enrolment
scheme*

FCA PRA

a scheme that meets the conditions in Part 1 of the Pensions Act 2008. In summary this is a qualifying *occupational pension scheme* or qualifying *personal pension scheme* that enables automatic enrolment arrangements to take place.

AVC

FCA PRA

a voluntary contribution arrangement paid by a member of an *occupational pension scheme* under the terms of the scheme or of a separate contract.

*average
outstanding
electronic
money*

FCA PRA

(in accordance with regulation 2(1) of the *Electronic Money Regulations*) the average total amount of financial liabilities related to *electronic money* in issue at the end of each calendar day over the preceding six calendar months, calculated on the first calendar day of each calendar month and applied for that calendar month.

<p><i>backtesting exception</i> FCA PRA</p>	<p>(in ■ BIPRU 7.10 (Use of a value at risk model)) an exception (excluding a <i>specific risk backtesting exception</i>) arising out of backtesting a <i>VaR model</i> as more fully defined in ■ BIPRU 7.10.103 R.</p>
<p><i>backwardation</i> FCA PRA</p>	<p>a situation in which <i>futures</i> prices are lower than cash prices.</p>
<p><i>balance</i> FCA PRA</p>	<p>(in relation to a <i>person's account</i>) has the meaning given in section 8 of the Dormant Bank and Building Society Accounts Act 2008, which is in summary the amount owing to the <i>person</i> in respect of the <i>account</i> at any particular time, after the appropriate adjustments have been made for such things as interest due and fees and charges payable. In relation to a time after a transfer of the <i>balance</i> to a <i>dormant account fund operator</i>, the adjustments include those that would fall to be made but for the transfer or transfers.</p>
<p><i>balancing amount</i> FCA PRA</p>	<p>in respect of a <i>syndicate</i>, any part of the <i>capital resources</i> that:</p> <ul style="list-style-type: none"> (a) the <i>managing agent</i> of the <i>syndicate</i> has assessed to be necessary to support the <i>insurance business</i> carried on by the <i>members</i> of the <i>syndicate</i> through the <i>syndicate</i>, including those <i>capital resources</i> required to support the risks arising at <i>syndicate</i> level that affect that business; but (b) are not managed by or at the direction of the <i>managing agent</i> of the <i>syndicate</i>.
<p><i>Balancing and Settlement Code</i> FCA PRA</p>	<p>the document designated by the Secretary of State and adopted by the National Grid Company plc as the Balancing and Settlement Code as modified from time to time in accordance with the terms of the transmission licence granted under section 6(1)(b) of the Electricity Act 1989 in respect of England and Wales, or any subsequent similar instrument or arrangements.</p>
<p><i>bank</i> FCA PRA</p>	<p>(a) a <i>firm</i> with a <i>Part 4A permission</i> which includes <i>accepting deposits</i>, and:</p> <ul style="list-style-type: none"> (i) which is a <i>credit institution</i>; or (ii) whose <i>Part 4A permission</i> includes a <i>requirement</i> that it comply with the rules in <i>GENPRU</i> and <i>BIPRU</i> relating to <i>banks</i> ; <p>but which is not a <i>building society</i>, a <i>friendly society</i> or a <i>credit union</i>;</p> <p>(b) an <i>EEA bank</i> which is a <i>full credit institution</i>.</p>
<p><i>Bank Accounts Directive</i> FCA PRA</p>	<p>Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions.</p>
<p><i>banking and investment group</i> FCA PRA</p>	<p>a group of <i>persons</i> (at least one of which is an <i>EEA regulated entity</i> that is a <i>credit institution</i> or an <i>investment firm</i>) who:</p> <ul style="list-style-type: none"> (a) form a group in respect of which the consolidated capital adequacy requirements for the <i>banking sector</i> or the <i>investment services sector</i> under: <ul style="list-style-type: none"> (i) the <i>appropriate regulator's sectoral rules</i>; or (ii) the <i>sectoral rules</i> of another <i>competent authority</i>; apply; or (b) would form such a group if the scope of those <i>sectoral rules</i> were amended as described in paragraph 3.1 of ■ GENPRU 3 Annex 2 R (removing restrictions relating to place of incorporation or head office of members of those <i>financial sectors</i>).

banking and investment services conglomerate

FCA PRA

a *financial conglomerate* that is identified in paragraph 4.3 of ■ GENPRU 3 Annex 1 R (Types of financial conglomerate) as a *banking and investment services conglomerate*.

banking and investment services sector

FCA PRA

(in relation to a *financial sector* in a *consolidation group* or a *financial conglomerate* and in accordance with ■ GENPRU 3.1 (Cross sector groups)), the *investment services sector* and the *banking sector* taken together.

Banking Consolidation Directive

FCA PRA

the Directive of the European Parliament and the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (No 2006/48/EC).

banking customer

FCA PRA

(in BCOBS):

- (a) a *consumer*;
- (b) a *micro-enterprise*; or
- (c) a *charity* which has an annual income of less than £1 million.

A natural person acting in a capacity as a trustee is a *banking customer* if he is acting for purposes outside his trade, business or profession.

Banking Ombudsman scheme

FCA PRA

the *former scheme* set up, on a voluntary basis, to handle complaints against those banks which subscribed to it.

banking sector

FCA PRA

a sector composed of one or more of the following entities:

- (a) a *credit institution*;
- (b) a *financial institution*; and
- (c) an *ancillary services undertaking* that is not an *ancillary insurance services undertaking*.

base capital resources requirement

FCA PRA

(A) In the PRA Handbook

- (1) (except in ■ IPRU(INV)) an amount of *capital resources* that an *insurer* must hold as set out in ■ GENPRU 2.1.30 R (Table: Base capital resources requirement for an insurer) or a *BIPRU firm* must hold under ■ GENPRU 2.1.41 R (Base capital resources requirement for a BIPRU firm) and ■ GENPRU 2.1.48 R (Table: Base capital resources requirement for a BIPRU firm) or, as the case may be, ■ GENPRU 2.1.60 R (Calculation of the base capital resources requirement for banks authorised before 1993).
- (2) (in ■ IPRU(INV)) an amount of *own funds* that a *collective portfolio management firm* must hold in line with ■ IPRU(INV) 11.3.1R (Base capital resources requirement).

(B) In the FCA Handbook

- (1) an amount of *capital resources* that an *insurer* must hold as set out in ■ GENPRU 2.1.30 R (Table: Base capital resources requirement for an insurer) or a *BIPRU firm* must hold under ■ GENPRU 2.1.41 R (Base capital

	resources requirement for a BIPRU firm) and ■ GENPRU 2.1.48 R (Table: Base capital resources requirement for a BIPRU firm).
	(2) [deleted]
<i>base costs</i>	<i>management expenses</i> which are not attributable to any particular <i>class</i> .
FCA PRA	
<i>base costs levy</i>	a levy, forming part of the <i>management expenses levy</i> , to meet the <i>base costs</i> in the financial year of the <i>compensation scheme</i> to which the levy relates, each <i>participant firm's</i> share being calculated in accordance with ■ FEES 6.4.5 R .
FCA PRA	
<i>base currency</i>	(1) (in <i>COLL</i>) the currency specified:
FCA PRA	
	(a) in the <i>instrument of incorporation</i> of an <i>ICVC</i> as the currency in which its accounts are to be prepared; or
	(b) in the <i>trust deed</i> of an <i>AUT</i> as the base currency of the <i>AUT</i> .; or
	(c) in the <i>contractual scheme deed</i> of an <i>ACS</i> as the base currency of the <i>ACS</i> .
	(2) (in <i>GENPRU</i> and <i>BIPRU</i>) (in relation to a <i>firm</i>) the currency in which that <i>firm's</i> books of account are drawn up.
<i>base own funds requirement</i>	(1) (for the purpose of <i>IFPRU</i>) an amount of <i>own funds</i> that an <i>IFPRU investment firm</i> must hold as set out in ■ IFPRU 3.1.6 R (Own funds: main requirement).
FCA	
	(2) (for the purposes of ■ IPRU(INV) 11) an amount of <i>own funds</i> that a <i>collective portfolio management firm</i> or a <i>collective portfolio management investment firm</i> must hold as set out in ■ IPRU(INV) 11.3.1R (Base own funds requirement).
<i>base prospectus</i>	(in <i>Part 6 rules</i>) a base prospectus referred to in ■ PR 2.2.7 R.
FCA PRA	
<i>basic advice</i>	the <i>regulated activity</i> , specified in article 52B of the <i>Regulated Activities Order</i> (Providing basic advice on stakeholder products) which is, in summary, providing advice on <i>stakeholder products</i> using a process that involves putting pre-scripted questions to a <i>retail client</i> .
FCA PRA	
<i>basic indicator approach</i>	the approach to calculating the <i>ORCR</i> set out in ■ BIPRU 6.3 (Operational risk: Basic indicator approach).
FCA PRA	
<i>basis risk</i>	the risk that the relationship between two financial variables will change, particularly between two sorts of interest rate or between a hedge and the position it ostensibly hedges.
FCA PRA	
<i>BCD</i>	<i>Banking Consolidation Directive</i> .
FCA PRA	
<i>BCOBS</i>	the Banking: Conduct of Business sourcebook.
FCA PRA	

bearer certificate

FCA **PRA**

(in *COLL*) a certificate or other documentary evidence of title, for which provision is made in the *instrument constituting the scheme*, which indicates that:

- (a) the *holder* of the document is entitled to the *units* specified in it; and
- (b) no entry will be made on the *register* identifying the *holder* of those *units*.

bearer form

FCA **PRA**

(in relation to a *client's* certificate, *share* transfer or other *document*) in a form signed by the *client* so that it enables a *designated investment* or *deposit* to which it relates to be sold, transferred, surrendered or dealt with in any other way without the need to obtain further written instructions and allows the *firm* access to the sale proceeds.

behaviour

FCA **PRA**

any kind of conduct, including action or inaction.

BENCH

FCA

Guide for Benchmark Activities (BENCH)

benchmark administration function

FCA

FCA-controlled function CF50 in the *table of FCA-controlled functions* which is the function of acting in the capacity of a *person* who is responsible for oversight of a *firm's* compliance with **■ MAR 8.3** (requirements for *benchmark administrators*).

benchmark administrator

FCA

A person carrying out the *regulated activity* of *administering a specified benchmark*.

benchmark submission

FCA

The information or expression of opinion provided to a *benchmark administrator* for the purpose of determining a *specified benchmark* as defined in article 63O(2)(a) of the *Regulated Activities Order*

benchmark submission function

FCA

FCA-controlled function CF40 in the *table of FCA-controlled functions* which is the function of acting in the capacity of a *person* who is responsible for oversight of a *firm's* compliance with **■ MAR 8.2** (benchmark manager).

benchmark submitter

FCA

A person carrying out the *regulated activity* of *providing information in relation to a specified benchmark*.

bid price

FCA **PRA**

the price at which a *person* could sell a *unit* in a *dual-priced authorised fund* or a *security*.

bidding in emissions auctions

FCA **PRA**

the *regulated activity*, specified in article 24A of the *Regulated Activities Order* (Bidding in emissions auctions), which is in summary the reception, transmission or submission of a bid at an auction of an *emissions auction product* conducted on an *auction platform*.

biofuel

FCA PRA

liquid or gaseous fuel produced from *biomass*.*biofuel collective investment scheme*

FCA PRA

a *collective investment scheme*, the property of which consists only of property which is *biofuel* or a *biofuel investment* or cash awaiting investment.*biofuel investment*

FCA PRA

any of the following:

- (a) a *unit* in a *biofuel collective investment scheme*;
- (b) an *option* to acquire or dispose of a *biofuel investment*;
- (c) a *future* where the *commodity* in question is *biofuel*;
- (d) a *contract for differences* where the property in question is *biofuel* or a *biofuel investment* or the index or other factor in question is linked to or otherwise dependent upon fluctuations in the value or price of *biofuel* or any *biofuel investments*;
- (e) *rights to or interests in investments* in (a) to (d).

biomass

FCA PRA

the biodegradable fraction of products, waste and residues from agricultural (including vegetal and animal substances), forestry and related industries, as well as the biodegradable fraction of industrial and municipal waste.

biomass collective investment scheme

FCA PRA

a *collective investment scheme*, the property of which consists only of property which is *biomass* or a *biomass investment* or cash awaiting investment.*biomass investment*

FCA PRA

any of the following:

- (a) a *unit* in a *biomass collective investment scheme*;
- (b) an *option* to acquire or dispose of a *biomass investment*;
- (c) a *future* where the *commodity* in question is *biomass*;
- (d) a *contract for differences* where the property in question is *biomass* or a *biomass investment* or the index or other factor in question is linked to or otherwise dependent upon fluctuations in the value or price of *biomass* or any *biomass investments*;
- (e) *rights to or interests in investments* in (a) to (d).

BIPRU

FCA PRA

the Prudential sourcebook for Banks, Building Societies and Investment Firms.

PAGE
B5*BIPRU 125K firm*

PRA

has the meaning in ■ BIPRU 1.1.19 R (Types of investment firm: BIPRU 125K firm) which in summary is a *BIPRU investment firm* that satisfies the following conditions:

- (1) it does not *deal on own account* or underwrite issues of *financial instruments* on a firm commitment basis;

BIPRU 50K
firm

PRA

- (2) it holds clients' money or securities in relation to *investment services* it provides or is authorised to do so;
- (3) it offers one or more of certain specified services;
- (4) it is not a *collective portfolio management investment firm*; and
- (5) it does not operate a *multilateral trading facility*.

has the meaning in ■ BIPRU 1.1.20 R (Types of investment firm: BIPRU 50K firm) which in summary is a *BIPRU investment firm* that satisfies the following conditions:

- (a) it satisfies the conditions in ■ BIPRU 1.1.19 R (1) (does not *deal on own account* or underwrite issues of *financial instruments* on a firm commitment basis) and ■ BIPRU 1.1.19 R (3) (offers one or more of certain specified services);
- (b) it does not hold clients' money or securities in relation to *investment services* it provides and it is not authorised to do so;
- (c) it is not a *collective portfolio management investment firm*; and
- (d) it does not operate a *multilateral trading facility*.

BIPRU 730K
firm

PRA

has the meaning in ■ BIPRU 1.1.21 R (Types of investment firm: BIPRU 730K firm) which in summary is a *BIPRU investment firm* that is not a *collective portfolio management investment firm*, a *BIPRU 50K firm* or a *BIPRU 125K firm*.

BIPRU firm

FCA PRA

(A) In the PRA Handbook:

has the meaning set out ■ BIPRU 1.1.6 R (The definition of a BIPRU firm), which in summary a *firm* that is:

- (a) a *building society*; or
- (b) a *bank*; or
- (c) a *full scope BIPRU investment firm*; or
- (d) a *BIPRU limited licence firm*; or
- (e) a *BIPRU limited activity firm*;

but excluding *firms* of the type listed in ■ BIPRU 1.1.7 R (Exclusion of certain types of *firm* from the definition of *BIPRU firm*).

(B) In the FCA Handbook:

a *firm*, as defined in article 4(1)(2)(c) of the *EU CRR* that satisfies the following conditions:

- (a) it is authorised to provide one or more the following *investment services*:
 - (i) execution of orders on behalf of *clients*;
 - (ii) *portfolio management*; and
- (b) it may provide one or more of the following *investment services*:
 - (i) reception and transmission of orders in relation to one or more *financial instruments*;
 - (ii) investment advice;

but excluding *firms* of the type listed in ■ BIPRU 1.1.7 R (Exclusion of certain types of *firm* from the definition of *BIPRU firm*).

BIPRU investment firm

PRA

has the meaning set out in **■ BIPRU 1.1.8 R** (Definition of a BIPRU investment firm), which is in summary one of the following types of *BIPRU firm*:

- (a) a *full scope BIPRU investment firm*; or
- (b) a *BIPRU limited licence firm*; or
- (c) a *BIPRU limited activity firm*;

including a *collective portfolio management investment firm* that is not excluded under **■ BIPRU 1.1.7 R** (Exclusion of certain types of *firm* from the definition of *BIPRU firm*).

BIPRU limited activity firm

PRA

has the meaning in **■ BIPRU 1.1.17 R** (Types of BIPRU investment firm), which is in summary a *limited activity firm* that meets the following conditions:

- (a) it is a *firm*; and
- (b) its head office is in the *United Kingdom* and it is not otherwise excluded from the definition of *BIPRU firm* under **■ BIPRU 1.1.7 R** (Exclusion of certain types of *firm* from the definition of *BIPRU firm*).

BIPRU limited licence firm

PRA

has the meaning in **■ BIPRU 1.1.17 R** (Types of BIPRU investment firm), which is in summary a *limited licence firm* that meets the following conditions:

- (a) it is a *firm*; and
- (b) its head office is in the *United Kingdom* and it is not otherwise excluded from the definition of *BIPRU firm* under **■ BIPRU 1.1.7 R** (Exclusion of certain types of *firm* from the definition of *BIPRU firm*).

BIPRU Remuneration Code

FCA

■ SYSC 19C (BIPRU Remuneration Code).

BIPRU Remuneration Code staff

FCA

for a *BIPRU firm* and a *third country BIPRU firm*, has the meaning given in **■ SYSC 19C.3.4 R**.

BIPRU remuneration principles proportionality rule

FCA

(in **■ SYSC 19C**) has the meaning given in **■ SYSC 19C.3.3 R**.

body corporate

FCA PRA

(in accordance with section 417(1) of the *Act* (Definitions)) any body corporate, including a body corporate constituted under the law of a country or territory outside the *United Kingdom*.

bonded investment

FCA PRA

a *designated investment* not held by a trustee when acting as a trustee:

- (a) which, except in the case of a *unit*, is one of the following:
 - (i) a *readily realisable security* held for a *customer*, whether or not held under a discretionary arrangement; or
 - (ii) a *designated investment in bearer form*; or

<p>(iii) a <i>designated investment</i> held by a <i>nominee company</i> under the control of the <i>firm</i> or a <i>person</i> whom the <i>firm</i> controls; or</p> <p>(iv) a <i>designated investment</i> to which the title is recorded in electronic form;</p> <p>(b) which the <i>firm</i> may <i>sell</i> or procure the sale of without the signature or other action of the <i>customer</i> or an independent third party; and</p> <p>(c) where the proceeds of such a sale are or could be payable to the <i>firm</i> or its <i>associate</i>.</p>	<p>(iii) a <i>designated investment</i> held by a <i>nominee company</i> under the control of the <i>firm</i> or a <i>person</i> whom the <i>firm</i> controls; or</p> <p>(iv) a <i>designated investment</i> to which the title is recorded in electronic form;</p> <p>(b) which the <i>firm</i> may <i>sell</i> or procure the sale of without the signature or other action of the <i>customer</i> or an independent third party; and</p> <p>(c) where the proceeds of such a sale are or could be payable to the <i>firm</i> or its <i>associate</i>.</p>
<p><i>book value of property</i></p> <p>FCA PRA</p>	<p>(in <i>LR</i>) (in relation to a <i>property company</i>) the value of a <i>property</i> (which is not classified as a net current asset) before the deduction of mortgages or borrowings as shown in the <i>company's</i> latest annual report and accounts.</p>
<p><i>borrow back</i></p> <p>FCA PRA</p>	<p>a feature of a <i>regulated mortgage contract</i> under which the <i>customer</i> has the ability to re-borrow monies paid by him.</p>
<p><i>branch</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>(a) (in relation to a <i>credit institution</i>):</p> <p>(i) a place of business which forms a legally dependent part of a <i>credit institution</i> and which carries out directly all or some of the transactions inherent in the business of <i>credit institutions</i>;</p> <p>(ii) for the purposes of the <i>CRD</i> and in accordance with article 38 of the <i>CRD</i>, any number of places of business set up in the same <i>EEA State</i> by a <i>credit institution</i> with headquarters in another <i>EEA State</i> are to be regarded as a single <i>branch</i>;</p> <p>(b) (in relation to an <i>investment firm</i>):</p> <p>(i) a place of business other than the head office which is a part of an <i>investment firm</i>, which has no legal personality and which provides <i>investment services and/or activities</i> and which may also perform <i>ancillary services</i> for which the <i>firm</i> has been authorized;</p> <p>(ii) all the places of business set up in the same <i>EEA State</i> by an <i>investment firm</i> with headquarters in another <i>EEA State</i> are regarded as a single branch;</p> <p>[Note: article 4(1)(26) of <i>MiFID</i>]</p> <p>(c) (in relation to an <i>insurance undertaking</i>) any permanent presence of the <i>insurance undertaking</i> in an <i>EEA State</i> other than that in which it has its head office is to be regarded as a single <i>branch</i>, whether that presence consists of a single office which, or two or more offices each of which:</p> <p>(i) is managed by the <i>insurance undertaking's</i> own staff; or</p> <p>(ii) is an agency of the <i>insurance undertaking</i>; or</p> <p>(iii) is managed by a <i>person</i> who is independent of the <i>insurance undertaking</i>, but has permanent authority to act for the <i>insurance undertaking</i> as an agency would.</p> <p>(d) (in relation to an <i>IMD insurance intermediary</i>):</p>

(i) a place of business which is a part of an *IMD insurance intermediary*, not being the principal place of business, which has no separate legal personality and which provides insurance mediation for which the *IMD insurance intermediary* has been registered;

(ii) for the purposes of the *Insurance Mediation Directive*, all the places of business set up in the same *EEA State* by an *IMD insurance intermediary* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(e) (in relation to an *IMD reinsurance intermediary*):

(i) a place of business which is a part of an *IMD reinsurance intermediary*, not being the principal place of business, which has no separate legal personality and which provides *reinsurance mediation* for which the *IMD reinsurance intermediary* has been registered;

(ii) for the purposes of the *Insurance Mediation Directive*, all the places of business set up in the same *EEA State* by an *IMD reinsurance intermediary* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(f) (in relation to an *EEA UCITS management company*):

(i) a place of business which is a part of an *EEA UCITS management company*, which has no separate legal personality and which provides the services for which the *EEA UCITS management company* has been authorised;

(ii) for the purposes of the *UCITS Directive*, all the places of business set up in the same *EEA State* by an *EEA UCITS management company* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(g) (in accordance with regulation 2(1) of the *Payment Services Regulations*) (in relation to a *payment institution*) a place of business of a *payment institution*, other than its head office, which forms a legally dependent part of the institution and which carries out directly all or some of the transactions inherent in its business. For the purposes of the *Payment Services Regulations*, all places of business set up in the same *EEA State* other than the *United Kingdom* by an *authorised payment institution* are to be regarded as a single *branch*.

[Note: article 4(29) of the *Payment Services Directive*]

(h) (in relation to a person carrying on *auction regulation bidding*) a branch.

(i) (in relation to an *AIFM*)

(i) a place of business which is a part of an *AIFM* that has no legal personality and provides the services for which the *AIFM* has been authorised;

(ii) for the purpose of (i), all places of business established in the same *EEA State* by an *AIFM* with its registered office in another *EEA State* shall be regarded as a single *branch*.

[Note: article 4(1)(c) of *AIFMD*]

(B) In the FCA Handbook:

(a) (in relation to a *credit institution*):

(i) a place of business which forms a legally dependent part of a *credit institution* and which carries out directly

all or some of the transactions inherent in the business of *credit institutions*;

(ii) for the purposes of the *CRD* and in accordance with article 38 of the *CRD*, any number of places of business set up in the same *EEA State* by a *credit institution* with headquarters in another *EEA State* are to be regarded as a single *branch*;

(b) (in relation to an *investment firm*):

(i) a place of business other than the head office which is a part of an *investment firm*, which has no legal personality and which provides *investment services and/or activities* and which may also perform *ancillary services* for which the *firm* has been authorized;

(ii) all the places of business set up in the same *EEA State* by an *investment firm* with headquarters in another *EEA State* are regarded as a single branch;

[Note: article 4(1)(26) of *MiFID*]

(c) (in relation to an *insurance undertaking*) any permanent presence of the *insurance undertaking* in an *EEA State* other than that in which it has its head office is to be regarded as a single *branch*, whether that presence consists of a single office which, or two or more offices each of which:

(i) is managed by the *insurance undertaking's* own staff; or

(ii) is an agency of the *insurance undertaking*; or

(iii) is managed by a *person* who is independent of the *insurance undertaking*, but has permanent authority to act for the *insurance undertaking* as an agency would.

(d) (in relation to an *IMD insurance intermediary*):

(i) a place of business which is a part of an *IMD insurance intermediary*, not being the principal place of business, which has no separate legal personality and which provides insurance mediation for which the *IMD insurance intermediary* has been registered;

(ii) for the purposes of the *Insurance Mediation Directive*, all the places of business set up in the same *EEA State* by an *IMD insurance intermediary* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(e) (in relation to an *IMD reinsurance intermediary*):

(i) a place of business which is a part of an *IMD reinsurance intermediary*, not being the principal place of business, which has no separate legal personality and which provides *reinsurance mediation* for which the *IMD reinsurance intermediary* has been registered;

(ii) for the purposes of the *Insurance Mediation Directive*, all the places of business set up in the same *EEA State* by an *IMD reinsurance intermediary* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(f) (in relation to an *EEA UCITS management company*):

(i) a place of business which is a part of an *EEA UCITS management company*, which has no separate legal personality and which provides the services for which the *EEA UCITS management company* has been authorised;

(ii) for the purposes of the *UCITS Directive*, all the places of business set up in the same *EEA State* by an *EEA UCITS management company* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(g) (in accordance with regulation 2(1) of the *Payment Services Regulations*) (in relation to a *payment institution*) a place of business of a *payment institution*, other than its head office, which forms a legally dependent part of the institution and which carries out directly all or some of the transactions inherent in its business. For the purposes of the *Payment Services Regulations*, all places of business set up in the same *EEA State* other than the *United Kingdom* by an *authorised payment institution* are to be regarded as a single *branch*.

[Note: article 4(29) of the *Payment Services Directive*]

(h) (in relation to a person carrying on *auction regulation bidding*) a branch.

(i) (in relation to an *AIFM*)

(i) a place of business which is a part of an *AIFM* that has no legal personality and provides the services for which the *AIFM* has been authorised;

(ii) for the purpose of (i), all places of business established in the same *EEA State* by an *AIFM* with its registered office in another *EEA State* shall be regarded as a single *branch*.

[Note: article 4(1)(c) of *AIFMD*]

breach

FCA **PRA**

in *DEPP*:

(1) misconduct in respect of which the *FCA* is empowered to take action pursuant to section 66 (Disciplinary powers) of the *Act*; or

(2) a contravention in respect of which the *FCA* is empowered to impose a penalty pursuant to section 91 (Penalties for breach of listing rules) of the *Act*; or

(3) a contravention for the purposes of Part XIV (Disciplinary Measures); or

(4) behaviour amounting to *market abuse*, or to *requiring or encouraging market abuse*, in respect of which the *FCA* takes action pursuant to section 123 (Power to impose penalties in cases of market abuse) of the *Act* ;

(5) a contravention of any directly applicable *EU* regulation made under *MiFID*;

(6) a contravention in respect of which the *FCA* is empowered to take action pursuant to section 131G (Breach of short selling regulation: Power to impose penalty or issue censure) of the *Act*;

(7) a contravention in respect of which the *FCA* is empowered to take action pursuant to section 88A (Disciplinary powers: contravention of s.88(3)(c) or (e)) of the *Act*;

(8) a contravention in respect of which the *FCA* is empowered to take action pursuant to section 89Q (Disciplinary powers: contravention of s.89P(4)(b) or (d)) of the *Act*;

<p><i>break fee arrangement</i></p> <p>FCA PRA</p>	<p>(9) a contravention in respect of which the <i>FCA</i> is empowered to take action pursuant to section 192K (Power to impose penalty or issue censure) of the <i>Act</i>;</p> <p>(10) a contravention in respect of which the <i>FCA</i> is empowered to take action pursuant to section 249 (Disciplinary measures) of the <i>Act</i>;</p> <p>(11) a contravention in respect of which the <i>FCA</i> is empowered to take action pursuant to section 312E (Public censure) or section 312F (Financial penalties) of the <i>Act</i>; or</p> <p>(12) a contravention in respect of which the <i>FCA</i> is empowered to take action pursuant to section 345 (Disciplinary measures: <i>FCA</i>) of the <i>Act</i>.</p> <p>(in <i>LR</i>) an arrangement falling within the definition in ■ LR 10.2.6A R.</p>
<p><i>broker</i></p> <p>FCA PRA</p>	<p>(in <i>MAR</i> , <i>SYSC</i> and <i>INSPRU</i>) any person when dealing as agent.</p>
<p><i>broker fund</i></p> <p>FCA PRA</p>	<p>(in relation to a fund for which the <i>firm</i> is or will be a <i>broker fund adviser</i>):</p> <p>(a) an actual or notional fund of a <i>long-term insurer</i> or <i>overseas long-term insurer</i>, which contains or will contain contributions made or to be made by a <i>client</i> or <i>clients</i> of a <i>firm</i> in connection with a <i>life policy</i> or <i>policies</i>;</p> <p>(b) a fund of a <i>collective investment scheme</i>, which contains or will contain cash contributions made or to be made by a <i>client</i> or <i>clients</i> of a <i>firm</i> in connection with the purchase of <i>units</i> in the <i>scheme</i>.</p>
<p><i>broker fund adviser</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> which has, or whose <i>associate</i> being an <i>authorised person</i> has, an arrangement with a <i>long-term insurer</i>, <i>overseas long-term insurer</i> or <i>operator</i> of a <i>regulated collective investment scheme</i>, under which it is to be expected that the <i>long-term insurer</i>, <i>overseas long-term insurer</i> or <i>operator</i> will take into account the advice of that <i>firm</i> or its <i>associate</i>:</p> <p>(a) in the case of a <i>long-term insurer</i> or <i>overseas long-term insurer</i>, on any matter likely to influence the performance of any of the <i>long-term insurer's</i> or <i>overseas long-term insurer's</i> funds or of any <i>investment</i> issued by the <i>long-term insurer</i> or <i>overseas long-term insurer</i> into which cash contributions of that <i>firm's customers</i> have been made;</p> <p>(b) in the case of an <i>operator</i>, on the composition of the property of the <i>collective investment scheme</i> into which cash contributions of that <i>firm's customers</i> have been made;</p> <p>in this definition <i>associate</i> includes any <i>authorised person</i> in respect of whose services the first <i>firm</i> receives any benefit or reward, either directly or indirectly, in connection with advice of the kind described in (a) and (b) given to a <i>long-term insurer</i> or <i>overseas long-term insurer</i> or to a <i>collective investment scheme operator</i>.</p>
<p><i>brought forward amount</i></p> <p>FCA PRA</p>	<p>an amount, as defined in ■ <i>INSPRU</i> 1.1.51 R, used in the calculation of the <i>general insurance capital requirement</i>.</p>
<p><i>BSOCS</i></p> <p>FCA PRA</p>	<p>the Building Societies sourcebook.</p>

<p><i>buffer securities restriction</i></p> <p>FCA PRA</p>	<p>BIPRU 12.6.16R.</p>
<p><i>building block</i></p> <p>FCA PRA</p>	<p>(in <i>PR</i> and <i>LR</i>) (as defined in the <i>PD Regulation</i>) a list of additional information requirements, not included in one of the schedules, to be added to one or more schedules, as the case may be, depending on the type of instrument and/or transaction for which a prospectus or base prospectus is drawn up.</p>
<p><i>Building Societies Ombudsman scheme</i></p> <p>FCA PRA</p>	<p>the <i>former scheme</i> set up and recognised under the Building Societies Act 1986 to handle complaints about <i>building societies</i>.</p>
<p><i>building society</i></p> <p>FCA PRA</p>	<p>(as defined in section 119(1) of the Building Societies Act 1986) a building society incorporated (or deemed to be incorporated) under that Act.</p>
<p><i>business day</i></p> <p>FCA PRA</p>	<p>(1) (in relation to anything done or to be done in (including to be submitted to a place in) any part of the <i>United Kingdom</i>):</p> <p style="padding-left: 40px;">(a) (except in <i>REC</i>) any <i>day</i> which is not a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in that part of the <i>United Kingdom</i>;</p> <p style="padding-left: 40px;">(b) (in <i>REC</i>) (as defined in section 167 of the Companies Act 1989) any <i>day</i> which is not a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in any part of the <i>United Kingdom</i>.</p> <p>(2) (in relation to anything done or to be done by reference to a market outside the <i>United Kingdom</i>) any <i>day</i> on which that market is normally open for business.</p>
<p><i>business illustration</i></p> <p>FCA PRA</p>	<p>an <i>illustration</i> for a <i>regulated mortgage contract</i> that is for a business purpose.</p>
<p><i>business offer document</i></p> <p>FCA PRA</p>	<p>an <i>offer document</i> for a <i>regulated mortgage contract</i> that is for a business purpose.</p>
<p><i>Business Order</i></p> <p>FCA PRA</p>	<p>the Financial Services and Markets Act 2000 (Carrying on Regulated Activities by Way of Business Order) 2001 (SI 2001/1177).</p>
<p><i>Buy-back and Stabilisation Regulation</i></p> <p>FCA PRA</p>	<p>Commission Regulation (EC) of 22 December 2003 implementing the <i>Market Abuse Directive</i> as regards exemptions for buy-back programmes and stabilisation of financial instruments (No 2273/2003).</p>
<p><i>buy-back programme</i></p>	<p>(as defined in Article 2 of the <i>Buy-back and Stabilisation Regulation</i>) trading in own shares in accordance with Articles 19 to 24 of the <i>PLC Safeguards Directive</i>.</p>

FCA PRA

buying

FCA PRA

(in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation)) any form of buying, including acquiring for valuable consideration.

byelaw

FCA PRA

any Byelaw, direction, regulation, or other instrument made using the powers of the *Council* under section 6 of Lloyd's Act 1982 (including any regulation ratified by the *Council* by special resolution) and any condition or requirement made under any such Byelaw, direction, regulation or other instrument.

<p>CAD FCA PRA</p>	<p><i>Capital Adequacy Directive.</i></p>
<p>CAD 1 model FCA PRA</p>	<p>a risk management model of the type described in ■ BIPRU 7.9 (Use of a CAD 1 model).</p>
<p>CAD 1 model approach FCA PRA</p>	<p>one of the following</p> <ul style="list-style-type: none"> (a) the approach to calculating part of the <i>market risk capital requirement</i> set out in ■ BIPRU 7.9 (Use of a CAD 1 model); (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ BIPRU 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<p>CAD 1 model waiver FCA PRA</p>	<p>a <i>waiver</i> that requires a <i>firm</i> to use the <i>CAD 1 model approach</i> on a solo basis or, if the context requires, a consolidated basis.</p>
<p>CAD Article 22 group FCA PRA</p>	<p>a <i>UK consolidation group</i> or <i>non-EEA sub-group</i> that meets the conditions in ■ BIPRU 8.4.9 R (Definition of a CAD Article 22 group).</p>
<p>CAD full scope firm PRA</p>	<p>has the meaning set out ■ BIPRU 1.1.13 R (Types of investment firm: CAD full scope firm), which in summary is a <i>CAD investment firm</i> that is not a <i>limited activity firm</i> or a <i>limited licence firm</i>.</p>
<p>CAD investment firm FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>has the meaning set out ■ BIPRU 1.1.14 R (Types of investment firm: CAD investment firm), which in summary is an <i>investment firm</i> that is subject to the requirements imposed by <i>MiFID</i> (or which would be subject to that Directive if its head office were in an <i>EEA State</i>) but excluding a <i>bank</i>, a <i>building society</i>, a <i>credit institution</i>, a <i>local</i> and an <i>exempt CAD firm</i>.</p> <p>(B) In the FCA Handbook</p> <p>a <i>firm</i> that is subject to the requirements imposed by <i>MiFID</i> (or which would be subject to that Directive if its head office were in an <i>EEA State</i>) but excluding a <i>bank</i>, a <i>building society</i>, a <i>credit institution</i>, a <i>local</i> and an <i>exempt CAD firm</i> that meets the following conditions:</p> <ul style="list-style-type: none"> (a) it is a <i>firm</i> as defined in article 4(1)(2)(c) of the <i>EU CRR</i>; (b) it is authorised to provide one or more the following <i>investment services</i>: <ul style="list-style-type: none"> (i) (execution of orders on behalf of <i>clients</i>); (ii) <i>portfolio management</i>; and (c) it may provide one or more of the following <i>investment services</i>: <ul style="list-style-type: none"> (i) reception and transmission of orders in relation to one or more <i>financial instruments</i>; (ii) investment advice.

<i>callable contribution</i> FCA PRA	<p>amounts that <i>members</i> are liable to pay to the <i>Society</i> (or may by resolution of the <i>Society</i> be liable to pay) as contributions to the <i>Central Fund</i>.</p>
<i>cancellation</i> FCA	<p>(in <i>COLL</i>) (in relation to <i>units</i>) a cancellation of a <i>unit</i> by:</p> <ul style="list-style-type: none"> (a) an <i>ICVC</i>; or (b) the <i>trustee</i> of an <i>AUT</i>; or (c) the <i>depository</i> of an <i>ACS</i>.
<i>cancellation price</i> FCA PRA	<p>(in <i>COLL</i>) (in relation to the <i>cancellation</i> of <i>units</i> in a <i>dual-priced authorised fund</i>) the <i>price</i> for each <i>unit</i> payable by the <i>depository</i> to the <i>authorised fund manager</i> on that <i>cancellation</i>.</p>
<i>candidate</i> FCA PRA	<p>a <i>person</i> in respect of whom an application is made for approval under section 59 of the <i>Act</i> (Approval for particular arrangements) of the performance of an <i>FCA controlled function</i> or a <i>PRA controlled function</i>.</p>
<i>capacity transfer market</i> FCA PRA	<p>any method of transferring capacity in <i>syndicates</i>, including capacity auctions, bilateral arrangements, capacity offers, minority buy-outs and conversion schemes.</p>
<i>capital account</i> FCA PRA	<p>(in <i>COLL</i>) an account relating to the <i>capital property</i> of an <i>authorised fund</i>.</p>
<i>Capital Adequacy Directive</i> FCA PRA	<p>the Directive of the European Parliament and the Council of 14 June 2006 on capital adequacy of investment firms and credit institutions (No 2006/49/EC).</p>
<i>capital instrument</i> FCA PRA	<p>(in <i>GENPRU</i>, <i>BIPRU</i> and ■ <i>INSPRU 6</i> and in relation to an <i>undertaking</i>) any <i>security</i> issued by or loan made to that <i>undertaking</i> or any other investment in, or external contribution to the capital of, that <i>undertaking</i>.</p>
<i>capital market-driven transaction</i> FCA PRA	<p>(in accordance with point 2 of Part 1 of Annex VIII of the <i>Banking Consolidation Directive</i> (Eligible forms of credit risk mitigation)) any transaction giving rise to an <i>exposure</i> secured by collateral which includes a provision conferring upon the <i>person</i> with the <i>exposure</i> the right to receive margin frequently.</p>
<i>capital planning buffer</i> FCA PRA	<p>(A) In the PRA Handbook: (in ■ <i>BIPRU 2.2</i>) the amount and quality of capital resources that a <i>firm</i> should hold at a given time in accordance with the <i>general stress and scenario testing rule</i>, so that the <i>firm</i> is able to continue to meet the <i>overall financial adequacy rule</i> throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions.</p> <p>(B) In the FCA Handbook: (in ■ <i>BIPRU 2.2</i> or <i>IFPRU 2</i>) the amount and quality of capital resources that a <i>firm</i> should hold at a given time in accordance with the <i>general stress and scenario testing rule</i>, so that the <i>firm</i> is able to continue to meet the <i>overall</i></p>

capital property

FCA PRA

financial adequacy rule throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions.

(in COLL) the *scheme property*, other than *income property* and any amount for the time being standing to the credit of the *distribution account*.

capital redemption

FCA PRA

(in relation to a *class of contract of insurance*) capital redemption contracts where effected or carried out by a *person* who does not carry on a banking business, and otherwise carries on the *regulated activity* of *effecting* or *carrying out contracts of insurance*, as specified in paragraph VI of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance).

Capital Requirements Regulations 2006

FCA PRA

the Capital Requirements Regulations 2006 (SI 2006/3221).

capital resources

FCA PRA

(A) In the PRA Handbook:

(1) in relation to a *BIPRU firm* or an *insurer*, the *firm's* capital resources as calculated in accordance with the *capital resources table*, including, in relation to a *BIPRU firm*, as that calculation is adjusted under ■ BIPRU 10.5 for the purposes of ■ BIPRU 10 (Large exposures requirements); or

(2) (in relation to an *institution* that is an *EEA firm* and not a *BIPRU firm* and which is required to meet the capital resources requirements of the *CRD implementation measures* for its *EEA State* on an individual basis) capital resources calculated under those *CRD implementation measures*; or

(3) (for the purposes of *GENPRU* and *BIPRU*, in relation to an undertaking not falling within (1) or (2) and subject to (4)), capital resources calculated in accordance with (1) on the assumption that:

(a) it is a *BIPRU firm* with a *Part 4A permission*; and

(b) it carries on all its business in the *United Kingdom* and has obtained whatever *permissions* for doing so are required under the *Act*; or

(4) (for the purposes of *GENPRU* and *BIPRU* and in relation to any *undertaking* not falling within (1) or (2) for which the methodology in (3) does not give an answer whose *capital resources* a *BIPRU firm* (the "relevant firm") is required to calculate under a *Handbook rule*) capital resources calculated under (1) on the assumption that it is a *BIPRU firm* of the same category as the relevant firm.

(B) In the FCA Handbook:

(1) in relation to a *BIPRU firm* or an *insurer*, the *firm's* capital resources as calculated in accordance with the *capital resources table*; or

(2) (in relation to a *CAD investment firm* that is an *EEA firm* and not a *BIPRU firm* and which is required to meet the capital resources requirements of the *CRD implementation measures* for its *EEA State* on an individual basis) capital resources calculated under those *CRD implementation measures*; or

(3) (for the purposes of *GENPRU* and *BIPRU* (except ■ BIPRU 12), in relation to an undertaking not falling within (1) or (2) and subject to (4)), capital resources calculated in accordance with (1) on the assumption that:

(a) it is a *BIPRU firm* with a *Part 4A permission*; and

capital resources gearing rules

FCA **PRA**

(b) it carries on all its business in the *United Kingdom* and has obtained whatever *permissions* for doing so are required under the *Act*; or

(4) (for the purposes of *GENPRU* and *BIPRU* (except **■** *BIPRU* 12) and in relation to any *undertaking* not falling within (1) or (2) for which the methodology in (3) does not give an answer whose *capital resources* a *BIPRU firm* (the "relevant firm") is required to calculate under a *Handbook rule*) capital resources calculated under (1) on the assumption that it is a *BIPRU firm* of the same category as the relevant firm.

(A) In the PRA Handbook:

(1) (in relation to an *insurer*) **■** *GENPRU* 2.2.29 R, **■** *GENPRU* 2.2.30 R and **■** *GENPRU* 2.2.32 R to **■** *GENPRU* 2.2.41 R.

(2) [deleted]

(3) [deleted]

(B) In the FCA Handbook:

(1) (in relation to an *insurer*) **■** *GENPRU* 2.2.29 R, **■** *GENPRU* 2.2.30 R and **■** *GENPRU* 2.2.32 R to **■** *GENPRU* 2.2.41 R.

(2) [deleted]

(3) (in relation to a *BIPRU firm*) **■** *GENPRU* 2.2.30 R, **■** *GENPRU* 2.2.46 R and **■** *GENPRU* 2.2.49 R and **■** *GENPRU* 2.2.50 R.

an amount of *capital resources* that:

(1) a *BIPRU firm* must hold as set out in the *main BIPRU firm Pillar 1 rules*; or

(2) an *insurer* must hold as set out in **■** *GENPRU* 2.1.17 R to **■** *GENPRU* 2.1.23 R.

(A) In the PRA Handbook:

(1) (in the case of an *insurer*) **■** *GENPRU* 2 Annex 1 R.

(2) [deleted]

(3) [deleted]

(4) [deleted]

(B) In the FCA Handbook:

(1) (in the case of an *insurer*) **■** *GENPRU* 2 Annex 1 R; and

(2) [deleted]

(3) [deleted]

(4) (in relation to a *BIPRU firm*) whichever of the tables in **■** *GENPRU* 2 Annex 4 R, **■** *GENPRU* 2 Annex 5 R or **■** *GENPRU* 2 Annex 6 R applies to the *firm* under **■** *GENPRU* 2.2.19 R.

capital resources requirement

FCA **PRA**

capital resources table

FCA **PRA**

captives reinsurer

FCA **PRA**

a *pure reinsurer* owned by:

(a) a financial *undertaking* other than an *insurance undertaking* or a *reinsurance undertaking*; or

(b) a group of *insurance undertakings* or *reinsurance undertakings* to which the *Insurance Groups Directive* applies; or

(c) a non-financial *undertaking*,

<p>CARD FCA PRA</p>	<p><i>carried interest</i> FCA</p>	<p><i>carrying out contracts of insurance</i> FCA PRA</p>	<p><i>cash assimilated instrument</i> FCA</p>	<p><i>cash component</i> FCA PRA</p>	<p><i>cash deposit CTF</i> FCA PRA</p>	<p><i>cash deposit ISA</i> FCA PRA</p>	<p><i>cashback</i> FCA PRA</p>	<p>CASS FCA PRA</p>	<p><i>CASS large firm</i> FCA PRA</p>	<p><i>CASS medium firm</i> FCA PRA</p>	<p>the purpose of which is to provide <i>reinsurance</i> cover exclusively for the risks of the <i>undertaking</i> or <i>undertakings</i> to which it belongs or of an <i>undertaking</i> or <i>undertakings</i> of the <i>group</i> of which that <i>pure reinsurer</i> is a member.</p> <p><i>Consolidated Admissions and Reporting Directive.</i></p> <p>a share in the profits of the <i>AIF</i> accrued to the <i>AIFM</i> as compensation for the management of the <i>AIF</i>, and excluding any share in the profits of the <i>AIF</i> accrued to the <i>AIFM</i> as a return on any investment by the <i>AIFM</i> into the <i>AIF</i>.</p> <p>the <i>regulated activity</i>, specified in article 10(2) of the <i>Regulated Activities Order</i> (Effecting and carrying out contracts of insurance), of carrying out a <i>contract of insurance</i> as principal.</p> <p>(in accordance with Article 4(35) of the <i>Banking Consolidation Directive</i> (Definitions)) a certificate of deposit or other similar instrument issued by a <i>lending firm</i>.</p> <p>a <i>qualifying investment</i> prescribed in paragraph 8 of the <i>ISA Regulations</i> (Qualifying investments for a cash component).</p> <p>a <i>deposit</i> account held within a <i>CTF</i>.</p> <p>a <i>cash component</i> of an <i>ISA</i> which does not include the <i>qualifying investments</i> prescribed in paragraphs 8(2)(c), (d), (e) or (f) of the <i>ISA Regulations</i>.</p> <p>(in <i>MCOB</i>) a cash amount paid by a <i>mortgage lender</i> to a <i>customer</i> (typically at the beginning of a contract) as an inducement to enter into a <i>regulated mortgage contract</i> with the <i>mortgage lender</i>.</p> <p>the Client Assets sourcebook.</p> <p>has the meaning in ■ CASS 1A.2.7 R (CASS firm types).</p> <p>has the meaning in ■ CASS 1A.2.7 R (CASS firm types).</p>
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CASS
operational
oversight
function

FCA PRA

(in the *FCA Handbook*) *FCA controlled function* CF10a in Parts 1 and 2 of the *table of FCA controlled functions*, described more fully in ■ SUP 10A.7.9 R

CASS
resolution pack

FCA PRA

those documents and records which are specified in ■ CASS 10.2 and ■ CASS 10.3.

CASS *small
firm*

FCA PRA

has the meaning in ■ CASS 1A.2.7 R (CASS firm types).

CAT standards

FCA PRA

the CAT standards for ISAs prescribed by the Treasury on 22 December 1998.

category B firm

FCA PRA

a *personal investment firm*, other than an *exempt CAD firm*.

category B1
firm

FCA PRA

a *category B firm* whose *permission* includes *dealing in investments as principal*.

category B2
firm

FCA PRA

a *category B firm* whose *permission* does not include *dealing as principal*; and is not subject to a *requirement* preventing the holding or controlling of *client money* or *custody assets*.

category B3
firm

FCA PRA

a *category B firm*:

(a) whose *permission* includes only *insurance mediation activity* in relation to *non-investment insurance contracts*, *home finance mediation activity*, *assisting in the administration and performance of a contracts of insurances*, *arranging transactions in life policies* and other insurance contracts, *advising on investments* and receiving and transmitting, on behalf of investors, orders in relation to *securities* and *units in collective investment schemes*; and

(b) which is subject to a *requirement* not to hold or control *client money* or *custody assets*.

causing
dematerialised
instructions to
be sent

FCA PRA

the *regulated activity*, specified in article 45(2) of the *Regulated Activities Order*, which is in summary: causing dematerialised instructions relating to a *security* to be sent by means of a relevant system in respect of which an operator is approved under the 1995 Regulations where the *person* causing them to be sent is a system-participant; in this definition:

(a) "the 1995 Regulations" means the Uncertificated Securities Regulations 1995 (SI 1995/3272);

(b) "dematerialised instruction", "operator" and "system-participant" have the meaning given by regulation 3 of the 1995 Regulations.

CCP

as defined in article 2(1) of *EMIR*.

CCR

FCA PRA

counterparty credit risk

CCR internal model method

FCA PRA

one of the following:

- (a) the method of calculating the amount of an *exposure* set out in ■ BIPRU 13.6 (CCR internal model method);
- (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ BIPRU 8 (Group risk - consolidation); or
- (c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

CCR internal model method permission

FCA PRA

(A) In the PRA Handbook:

an *Article 129 implementing measure*, *Article 129 permission*, a *requirement* or a *waiver* that requires a *BIPRU firm* or a *CAD investment firm* to use the *CCR internal model method*

(B) In the FCA Handbook:

an *Article 129 implementing measure*, *Article 129 permission*, a *requirement* or a *waiver* that requires a *BIPRU firm* or a *CAD investment firm* to use the *CCR internal model method*

CCR mark to market method

FCA PRA

the method of calculating the amount of an *exposure* set out in ■ BIPRU 13.4 (CCR mark to market method).

CCR standardised method

FCA PRA

the method of calculating the amount of an *exposure* set out in ■ BIPRU 13.5 (CCR standardised method).

ceding insurer's waiver

FCA PRA

(in *FEES*) a *waiver* granted on the application of an *insurer* that waives or modifies its obligations under any one or more of ■ GENPRU 2 Annex 7 R, ■ INSPRU 1.1.92A R and ■ INSPRU 1.2.28 R in order to enable it to:

- (a) treat amounts recoverable from an *ISPV* as:
 - (i) an *admissible asset*; or
 - (ii) *reinsurance* for the purposes of calculating its *mathematical reserves*; or
 - (iii) *reinsurance* reducing its *MCR*; or
- (b) otherwise ascribe a value to such amounts.

central assets

FCA PRA

the *Society's* own assets that are available at its discretion to meet a *member's* liabilities in respect of *insurance business*.

central bank

FCA PRA

(A) In the PRA Handbook:

(in accordance with Article 4(23) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *GENPRU* and *BIPRU*) includes the European Central Bank unless otherwise indicated.

<p><i>central counterparty</i> FCA PRA</p>	<p>(B) In the FCA Handbook:</p> <p>(1) (in accordance with Article 4(23) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>GENPRU</i> (except ■ <i>GENPRU</i> 3) and <i>BIPRU</i> (except ■ <i>BIPRU</i> 12)) includes the European Central Bank unless otherwise indicated.</p> <p>(2) (except in (1)) has the meaning in article 4(1)(46) of the <i>EU CRR</i>.</p> <p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of ■ <i>BIPRU</i> 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) an entity that legally interposes itself between counterparties to contracts traded within one or more financial markets, becoming the buyer to every seller and the seller to every buyer.</p>
<p><i>Central Fund</i> FCA PRA</p>	<p>the Central Fund established under Lloyd's Central Fund Byelaw (No 4 of 1986) and the New Central Fund established under Lloyd's New Central Fund Byelaw (No 23 of 1996).</p>
<p><i>certificate representing certain securities</i> FCA PRA</p>	<p>the <i>investment</i> specified in article 80 of the <i>Regulated Activities Order</i> (Certificates representing certain securities), which is in summary: a certificate or other instrument which confers contractual or property rights (other than rights consisting of <i>options</i>):</p> <p>(a) in respect of any <i>share</i>, <i>debenture</i>, <i>alternative debenture</i>, <i>government and public security</i> or <i>warrant</i> held by a <i>person</i> other than the <i>person</i> on whom the rights are conferred by the certificate or instrument; and</p> <p>(b) the transfer of which may be effected without requiring the consent of that <i>person</i>;</p> <p>but excluding any certificate or other instrument which confers rights in respect of two or more <i>investments</i> issued by different <i>persons</i> or in respect of two or more different <i>government and public securities</i> issued by the same <i>person</i>.</p>
<p><i>certificate representing debt securities</i> FCA PRA</p>	<p>(in <i>LR</i>) a <i>certificate representing certain securities</i> where the certificate or other instrument confers rights in respect of <i>debentures</i>, <i>alternative debentures</i>, or <i>government and public securities</i>.</p>
<p><i>certificate representing equity securities</i> FCA PRA</p>	<p>(in <i>LR</i>) a <i>certificate representing certain securities</i> where the certificate or other instrument confers rights in respect of <i>equity securities</i>.</p>
<p><i>certificate representing shares</i> FCA PRA</p>	<p>(in <i>LR</i>) a <i>certificate representing certain securities</i> where the certificate or other instrument confers rights in respect of <i>equity shares</i>.</p>
<p><i>certified high net worth investor</i> FCA</p>	<p>a <i>person</i> who meets the requirements set out in article 21 of the <i>Promotion of Collective Investment Schemes Order</i>, in article 48 of the <i>Financial Promotions Order</i> or in ■ <i>COBS</i> 4.12.6 R.</p>

certified sophisticated investor

FCA

a *person* who meets the requirements set out in article 23 of the *Promotion of Collective Investment Schemes Order*, in article 50 of the *Financial Promotions Order* or in ■ COBS 4.12.7 R.

CESR's guidelines on a common definition of European money market funds

FCA PRA

the Committee of European Securities Regulators' guidelines on a common definition of European money market funds: 19 May 2010 (CESR/10-049). These are available at www.esma.europa.eu

CESR's UCITS eligible assets guidelines

FCA PRA

The Committee of European Securities Regulators' guidelines concerning eligible assets for investment by undertakings for collective investment in transferable securities (CESR/07-044). These are available at http://www.fsa.gov.uk/pages/Library/Other_publications/EU/eu_docs/index.shtml

CF Arch cru payment scheme

the requirements included in the *permissions* of Capita Financial Managers Limited, BNY Mellon Trust & Depository (UK) Limited and HSBC Bank plc at their request under section 44 of the *Act* on 31 August 2011.

CFD

FCA PRA

contract for differences.

CFEB

FCA PRA

the consumer financial education body originally established by the *FSA* under section 6A(1) of the *Act* (Enhancing public understanding of financial matters etc) (as it had effect before the passing of the *Financial Services Act 2012*) and having the name Money Advice Service.

CFEB levy

FCA PRA

the levy payable to the *FCA* pursuant to ■ FEES 7.2.1 R by the *persons* listed in ■ FEES 1.1.2R(5).

CFPPFM

FCA PRA

the consumer-friendly version of a *firm's PPFM*, which must be produced pursuant to ■ COBS 20.4.5 R .

CFTC

FCA PRA

the Commodity Futures Trading Commission.

charge

FCA PRA

(1) (In *LR*) (in relation to *securitised derivatives*) means any payment identified under the terms and conditions of the *securitised derivatives*

(2) (except in *LR*) any *fee* or charge made to:

(a) a *client* in connection with *designated investment business*; or

(b) a *customer* in connection with any *insurance mediation activities* in respect of a *non-investment insurance contract*;

whether levied by the *firm* or any other *person*, including a *mark-up* or *mark-down*.

<p><i>chargeable case</i> FCA PRA</p>	<p>any <i>complaint</i> referred to the <i>Financial Ombudsman Service</i>, except where:</p> <p>(a) the <i>Ombudsman</i> considers it apparent from the <i>complaint</i>, when it is received, and from any <i>final response</i> or <i>redress determination</i> which has been issued by the <i>firm</i> or <i>licensee</i>, that the <i>complaint</i> should not proceed because:</p> <p style="padding-left: 20px;">(i) the complainant is not an <i>eligible complainant</i> in accordance with ■ DISP 2; or</p> <p style="padding-left: 20px;">(ii) the <i>complaint</i> does not fall within the jurisdiction of the <i>Financial Ombudsman Service</i> (as described in ■ DISP 2); or</p> <p style="padding-left: 20px;">(iii) the <i>Ombudsman</i> considers that the <i>complaint</i> should be dismissed without consideration of its merits under ■ DISP 3.3 (Dismissal of complaints without consideration of the merits and test cases); or</p> <p>(b) the <i>Ombudsman</i> considers, at any stage, that the <i>complaint</i> should be dismissed under DISP 3.3.4R(2) on the grounds that it is frivolous or vexatious.</p>
<p><i>chargeable case (general)</i> FCA</p>	<p>a <i>chargeable case</i> that is not a <i>chargeable case (PPI)</i>.</p>
<p><i>chargeable case (PPI)</i> FCA</p>	<p>a <i>chargeable case</i> that, in the <i>Ombudsman's</i> opinion, falls wholly or partly within the scope of ■ DISP App 3 (Handling Payment Protection Insurance Complaints).</p>
<p><i>charging group</i> FCA</p>	<p>as defined in ■ FEES 5 Annex 3R Part 3.</p>
<p><i>charity</i> FCA PRA</p>	<p>(in <i>BCOBS</i> and <i>BIPRU</i>) includes:</p> <p>(a) in England and Wales, a charity as defined by section 1(1) of the Charities Act 2006;</p> <p>(b) in Scotland, a charity as defined by section 106 of the Charities and Trustee Investment (Scotland) Act 2005; or</p> <p>(c) in Northern Ireland, a charity as defined by section 1(1) of the Charities Act (Northern Ireland) 2008 or, until that section comes into force, a body which is recognised as a charity for tax purposes by Her Majesty's Revenue and Customs.</p>
<p><i>charity AIF</i> FCA</p>	<p>an <i>AIF</i> constituted under:</p> <p>(a) the Church Funds Investment Measure 1958; or</p> <p>(b) section 96 of the Charities Act 2011; or</p> <p>(c) section 25 of the Charities Act (Northern Ireland) 1964; or</p> <p>(d) section 100 of the Charities Act 2011.</p>
<p><i>chief executive</i> FCA PRA</p>	<p>(1) (in relation to an undertaking whose principal place of business is within the <i>United Kingdom</i>) the <i>person</i> who, alone or jointly with one or more others, is responsible under the immediate authority of the <i>directors</i> for the conduct of the whole of its business.</p> <p>(2) (in relation to an undertaking whose principal place of business is outside the <i>United Kingdom</i>) the <i>person</i> who, alone or jointly with one</p>

<p>or more others, is responsible for the conduct of its business within the <i>United Kingdom</i>.</p>	
<p><i>chief executive function</i> FCA PRA</p>	<p>(1) (in the <i>FCA Handbook</i>) <i>FCA controlled function</i> CF3 in Part 1 of the <i>table of FCA controlled functions</i>, described more fully in ■ SUP 10A.6.17 R.</p> <p>(2) (in the <i>PRA Handbook</i>) <i>PRA controlled function</i> CF3 in the <i>table of PRA controlled functions</i>, described more fully in ■ SUP 10B.6.7 R.</p>
<p><i>Chinese wall</i> FCA PRA</p>	<p>an arrangement that requires information held by a <i>person</i> in the course of carrying on one part of its business to be withheld from, or not to be used for, <i>persons</i> with or for whom it acts in the course of carrying on another part of its business.</p>
<p><i>circular</i> FCA PRA</p>	<p>(in <i>LR</i>) any document issued to holders of <i>listed securities</i> including notices of meetings but excluding <i>prospectuses</i>, <i>listing particulars</i>, annual reports and accounts, interim reports, proxy cards and dividend or interest vouchers.</p>
<p><i>CIS administrator</i> FCA PRA</p>	<p>(in relation to <i>firm type</i> in ■ SUP 16.10 (Confirmation of <i>standing data</i>)) a <i>person</i> responsible for the <i>administrative functions</i> of a <i>collective investment scheme</i>.</p>
<p><i>CIS stakeholder product</i> FCA PRA</p>	<p>the <i>stakeholder product</i> specified by regulations 5 (units in certain collective investment schemes) and 7 of the <i>Stakeholder Regulations</i>.</p>
<p><i>CIS trustee</i> FCA PRA</p>	<p>(in relation to <i>firm type</i> in ■ SUP 16.10 (Confirmation of <i>standing data</i>)) a <i>person</i> holding the property of a <i>collective investment scheme</i> on trust for the participants in the <i>collective investment scheme</i>.</p>
<p><i>CIU</i> FCA PRA</p>	<p>(A) In the <i>PRA Handbook</i>: collective investment undertaking.</p> <p>(B) In the <i>FCA Handbook</i>:</p> <p>(1) (except in <i>IFPRU</i>) collective investment undertaking.</p> <p>(2) (in <i>IFPRU</i>) has the meaning in article 4(1)(7) of the <i>EU CRR</i>.</p>
<p><i>CIU look through method</i> FCA PRA</p>	<p>one of the <i>standard CIU look through method</i> or the <i>modified CIU look through method</i>.</p>
<p><i>CIU PRR</i> FCA PRA</p>	<p>the <i>collective investment undertaking PRR</i>.</p>
<p><i>claim</i> FCA PRA</p>	<p>(1) (in <i>COMP</i>) a valid claim made in respect of a civil liability owed by a <i>relevant person</i> to the claimant.</p> <p>(2) (in <i>INSPRU</i> and <i>SUP</i>) a claim under a <i>contract of insurance</i>.</p>
<p><i>claims amount</i> FCA PRA</p>	<p>an amount, as defined in ■ <i>INSPRU</i> 1.1.47 R, used in the calculation of the <i>general insurance capital requirement</i>.</p>

class

FCA PRA

(A) In the FCA Handbook:

(1) (in *GENPRU*, *INSPRU* and *SUP*) (in relation to a *contract of insurance*) any class of *contract of insurance* listed in Schedule 1 to the *Regulated Activities Order* (Contracts of insurance) and references to:

(a) *general insurance business class* 1, 2, 3, etc. are references to *contracts of insurance* of the kind mentioned in the corresponding numbered paragraph in Part I of Schedule 1 to that Order or, as the context may require, to the *effecting or carrying out of contracts of insurance* of that kind; and

(b) *long-term insurance business class* I, II, III, etc. are references to *contracts of insurance* of the kind mentioned in the corresponding numbered paragraph in Part II of Schedule 1 to that Order, as the context may require, to the *effecting or carrying out of contracts of insurance* of that kind.

(2) (in *COLL*):

(a) a particular class of *units* of an *authorised fund*; or

(b) all of the *units* relating to a single *sub-fund*; or

(c) a particular class of *units* relating to a single *sub-fund*; or

(d) in relation to an *EEA UCITS scheme*, any arrangement equivalent to (a), (b) or (c).

(3) (in *COBS*) a particular category or type of *packaged product*.

(4) (in *LR*) *securities* the rights attaching to which are or will be identical and which form a single issue or issues.

(5) (in *FEES*) one of the broad classes to which *FSCS* allocates levies as described in ■ *FEES 6.4.7A R*, ■ *FEES 6.5.6A R* and ■ *FEES 6 Annex 3AR*.

(B) In the PRA Handbook:

(1) (in *GENPRU*, *INSPRU* and *SUP*) (in relation to a *contract of insurance*) any class of *contract of insurance* listed in Schedule 1 to the *Regulated Activities Order* (Contracts of insurance) and references to:

(a) *general insurance business class* 1, 2, 3, etc. are references to *contracts of insurance* of the kind mentioned in the corresponding numbered paragraph in Part I of Schedule 1 to that Order or, as the context may require, to the *effecting or carrying out of contracts of insurance* of that kind; and

(b) *long-term insurance business class* I, II, III, etc. are references to *contracts of insurance* of the kind mentioned in the corresponding numbered paragraph in Part II of Schedule 1 to that Order or, as the context may require, to the *effecting or carrying out of contracts of insurance* of that kind.

(2) (in *COLL*):

(a) a particular class of *units* of an *authorised fund*; or

(b) all of the *units* relating to a single *sub-fund*; or

(c) a particular class of *units* relating to a single *sub-fund*; or

(d) in relation to an *EEA UCITS scheme*, any arrangement equivalent to (a), (b) or (c).

(3) (in *COBS*) a particular category or type of *packaged product*.

(4) (in *LR*) *securities* the rights attaching to which are or will be identical and which form a single issue or issues.

	(5) (in <i>FEES</i>) one of the classes to which <i>FSCS</i> allocates levies as described in ■ <i>FEES</i> 6.5.7 R.
<i>class 1 acquisition</i> FCA PRA	(in <i>LR</i>) a <i>class 1 transaction</i> that involves an acquisition by the relevant <i>listed company</i> or its <i>subsidiary undertaking</i> .
<i>class 1 circular</i> FCA PRA	(in <i>LR</i>) a <i>circular</i> relating to a <i>class 1 transaction</i> .
<i>class 1 disposal</i> FCA PRA	(in <i>LR</i>) a <i>class 1 transaction</i> that consists of a disposal by the relevant <i>listed company</i> or its <i>subsidiary undertaking</i> .
<i>class 1 transaction</i> FCA PRA	(in <i>LR</i> and <i>FEES</i>) a transaction classified as a class 1 transaction under ■ <i>LR</i> 10.
<i>class 2 transaction</i> FCA PRA	(in <i>LR</i>) a transaction classified as a class 2 transaction under ■ <i>LR</i> 10.
<i>class meeting</i> FCA PRA	(in <i>COLL</i>) a separate meeting of <i>holders</i> of a <i>class</i> of <i>units</i> .
<i>class tests</i> FCA PRA	(in <i>LR</i>) the tests set out in ■ <i>LR</i> 10 Annex 1 G (and for certain specialist companies, those tests as modified by ■ <i>LR</i> 10.7), which are used to determine how a transaction is to be classified for the purposes of the <i>listing rules</i> .
<i>clean-up call option</i> FCA PRA	(for the purposes of ■ <i>BIPRU</i> 9 (Securitisation), in relation to a securitisation (within the meaning of paragraph (2) of the definition of securitisation) and in accordance with Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)) a contractual option for the <i>originator</i> to repurchase or extinguish the <i>securitisation positions</i> before all of the underlying <i>exposures</i> have been repaid, when the amount of outstanding <i>exposures</i> falls below a specified level.
<i>clearing facilitation service</i> FCA PRA	(in relation to a <i>RIE</i>) any <i>regulated activity</i> carried on by an <i>RIE</i> for the purposes of, or in connection with, the provision by the <i>RIE</i> of services designed to facilitate the provision of clearing services by another person.
<i>clearing firm</i> FCA PRA	a <i>firm</i> which assumes primary responsibility (including legal liability) for the execution and settlement of transactions for <i>clients</i> .
<i>clearing house</i> FCA PRA	a clearing house through which transactions may be cleared and for the purposes of ■ <i>CASS</i> 7 and ■ <i>CASS</i> 7A, includes an <i>authorised central counterparty</i> .
<i>clearing member</i>	in relation to an <i>authorised central counterparty</i> , as defined in article 2(14) of <i>EMIR</i> .

FCA

client

FCA PRA

(1) (except in *PROF* and except in relation to a *home finance transaction*) has the meaning given in ■ COBS 3.2, that is (in summary and without prejudice to the detailed effect of ■ COBS 3.2) a *person* to whom a *firm* provides, intends to provide or has provided a service in the course of carrying on a *regulated activity*, or in the case of *MiFID* or *equivalent third country business*, an *ancillary service*;

(a) every client is a *customer* or an *eligible counterparty* ;

(b) "client" includes:

(i) a potential client;

(ii) a client of an *appointed representative* of a *firm* with or for whom the *appointed representative* acts or intends to act in the course of business for which the *firm* has accepted responsibility under section 39 of the *Act* (Exemption of appointed representatives) or, where applicable, a client of a *tiered agent* of a *firm*;

(iii) a *fund* even if it does not have separate legal personality;

(iiiA) any *person* to whom *collective portfolio management* services are provided, irrespective of whether or not it is *authorised*;

(iv) if a *person* ("C1"), with or for whom the *firm* is conducting or intends to conduct *designated investment business*, is acting as agent for another *person* ("C2"), either C1 or C2 in accordance with the *rule* on agent as client ■ COBS 2.4.3 R;

(v) for a *firm* that is *establishing, operating or winding up a personal pension scheme*, a member or beneficiary of that scheme;

(c) "client" does not include:

(i) a trust beneficiary not in (b)(v) ;

(ii) a *corporate finance contact*;

(iii) a *venture capital contact*.

(2) [deleted]

(3) (in *PROF*) (as defined in section 328(8) of the *Act* (Directions in relation to the general prohibition)) (in relation to *members* of a profession providing financial services under Part XX of the *Act* (Provision of Financial Services by Members of the Professions)):

(a) a *person* who uses, has used or may be contemplating using, any of the services provided by the *member* of a profession in the course of carrying on *exempt regulated activities* (including, where the *member* of the profession is acting in his capacity as a trustee, a *person* who is, has been or may be a beneficiary of the trust); or

(b) a *person* who has rights or interests which are derived from, or otherwise attributable to, the use of any such services by other *persons*; or

(c) a *person* who has rights or interests which may be adversely affected by the use of any such services by *persons* acting on his behalf or in a fiduciary capacity in relation to him.

(4) (in relation to a *regulated mortgage contract*, except in *PROF*) the individual or trustee who is the borrower or potential borrower under that contract.

(5) (in relation to a *home purchase plan*, except in *PROF*) the *home purchaser* or potential *home purchaser*.

(6) (in relation to a *home reversion plan*, except in *PROF*):

(a) the *reversion occupier* or potential *reversion occupier*; or

(b) an individual who is an *unauthorised reversion provider* and who is not, or would not, be required to have *permission to enter into a home reversion plan*.

(7) (in relation to a *dormant account* transferred to a *dormant account fund operator*) a *person* entitled to the *balance* in the *dormant account* held with a *bank* or *building society* which was transferred to a *dormant account fund operator*.

(8) (in relation to a *regulated sale and rent back agreement*, except in *PROF*):

(a) the individual or trustee who is the *SRB agreement seller* or potential *SRB agreement seller*; or

(b) an individual who is an *unauthorised SRB agreement provider* or potential *unauthorised SRB agreement provider* and who does not have, or would not be required to have, *permission to enter into a regulated sale and rent back agreement*.

client asset rules

FCA PRA

CASS.

client bank account

FCA PRA

(1) (other than in ■ CASS 7 and ■ CASS 7A and principally in ■ CASS 5):

(a) an account at a bank which:

(i) holds the *money* of one or more *clients*;

(ii) is in the name of the *firm*;

(iii) includes in its title an appropriate description to distinguish the *money* in the account from the *firm's money*; and

(iv) is a current or a deposit account; or

(b) a money market deposit of *client money* which is identified as being *client money*.

(2) (in ■ CASS 7 and ■ CASS 7A)

(a) an account at a bank which:

(i) holds the money of one or more *clients*;

(ii) is in the name of the *firm*; and

(iii) is a current or a deposit account; or

(b) a money market deposit account of *client money* which is identified as being *client money*.

client equity balance

FCA PRA

the amount which a *firm* would be liable (ignoring any non-cash *collateral* held) to pay to a *client* (or the *client* to the *firm*) in respect of his *marginised transactions* if each of his open positions was liquidated at the closing or settlement prices published by the relevant exchange or other appropriate pricing source and his account closed. This refers to cash values and does not include non-cash *collateral* or other *designated investments* held in respect of a *marginised transaction*.

client money

FCA PRA

- (A) In the PRA Handbook:
- (1) [deleted]
 - (2) (in ■ CASS 5) subject to the *client money rules*, money of any currency which, in the course of carrying on *insurance mediation activity*, a *firm* holds on behalf of a or which a *firm* treats as *client money* in accordance with the *client money rules*.
 - (2A) in CASS6, CASS 7, CASS 7A and CASS 10 and, in so far as it relates to matters covered by CASS 6, CASS 7, COBS, GENPRU or IPRU (INV) 11) subject to the *client money rules*, money of any currency:
 - (a) that a *firm* receives or holds for, or on behalf of, a client in the course of, or in connection with, its *MiFID business*; and/or
 - (b) which, in the course of carrying on *designated investment business* that is not *MiFID business*, a *firm* holds in respect of any *investment agreement* entered into, or to be entered into, with or for a *client*, or which a *firm* treats as *client money* in accordance with the *client money rules*.
 - (3) (in MIPRU):
 - (a) in relation to an *insurance intermediary* when acting as such, money which is *client money* in (2);
 - (b) in relation to a *home finance intermediary* when acting as such, money of any currency which in the course of carrying on *home finance mediation activity*, the *firm* holds on behalf of a *client*, either in a bank account or in the form of cash.
 - (4)
- (B) In the FCA Handbook:
- (1) [deleted]
 - (2) (in CASS 5) subject to the *client money rules*, money of any currency which, in the course of carrying on *insurance mediation activity*, a *firm* holds on behalf of a or which a *firm* treats as *client money* in accordance with the *client money rules*.
 - (2A) in CASS6, CASS 7, CASS 7A and CASS 10 and, in so far as it relates to matters covered by CASS 6, CASS 7, COBS or GENPRU) subject to the *client money rules*, money of any currency:
 - (a) that a *firm* receives or holds for, or on behalf of, a client in the course of, or in connection with, its *MiFID business*; and/or
 - (b) which, in the course of carrying on *designated investment business* that is not *MiFID business*, a *firm* holds in respect of any *investment agreement* entered into, or to be entered into, with or for a *client*, or which a *firm* treats as *client money* in accordance with the *client money rules*.
 - (3) (in MIPRU):
 - (a) in relation to an *insurance intermediary* when acting as such, money which is *client money* in (2);
 - (b) in relation to a *home finance intermediary* when acting as such, money of any currency which in the course of carrying on *home finance mediation activity*, the *firm* holds on behalf of a *client*, either in a bank account or in the form of cash.
 - (4) (in UPRU and COMP) client money for the purposes of the relevant *client money rules*.

client money (insurance) distribution rules

FCA **PRA**

the rules in ■ CASS 5.6 (Client money distribution).

client money chapter

FCA **PRA**

■ CASS 7.

client money distribution rules

FCA **PRA**

■ CASS 7A.

client money rules

FCA **PRA**

(1) [deleted]

(2) (in ■ CASS 5) ■ CASS 5.1 to ■ CASS 5.5 .

(3) (in ■ CASS 3, ■ CASS 6, ■ CASS 7, ■ CASS 7A, UPRU and COBS) ■ CASS 7.1 to ■ 7.8 .

client money segregation requirements

FCA **PRA**

■ CASS 7.4.1 R and ■ CASS 7.4.11 R.

client transaction account

FCA **PRA**

(in relation to a *firm* and an exchange, *clearing house* or *intermediate broker*) an account maintained by the exchange, *clearing house* or *intermediate broker*, as the case may be, in respect of transactions in contingent liability investments undertaken by the *firm* with or for its *clients*.

client's best interests rule

FCA **PRA**

■ COBS 2.1.1 R.

close links

FCA **PRA**

(1) (in relation to *MiFID business* or in *FUND*) a situation in which two or more persons are linked by:

(a) participation which means the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking;

(b) control which means the relationship between a parent undertaking and a subsidiary, in all the cases referred to in Article 1(1) and (2) of Directive 83/349/EEC, or a similar relationship between any person and an undertaking, any subsidiary undertaking of a subsidiary undertaking also being considered a subsidiary of the parent undertaking which is at the head of those undertakings.

A situation in which two or more persons are permanently linked to one and the same person by a control relationship is also to be regarded as constituting a close link between such persons.

[Note: article 4(1)(31) of *MIFID* and article 4(1)(e) of *AIFMD*]

<p><i>close matching rules</i> FCA PRA</p>	<p>(2) (except where (1) applies and except in ■ SUP 3 (Auditors) and ■ SUP 4 (Actuaries)) (in accordance with paragraph 3(2) in Schedule 6 to the <i>Act</i> (Close links)) the relationship between a <i>person</i> ("A") and another <i>person</i> ("CL") which exists if:</p> <p style="margin-left: 40px;">(a) CL is a <i>parent undertaking</i> of A; or</p> <p style="margin-left: 40px;">(b) CL is a <i>subsidiary undertaking</i> of A; or</p> <p style="margin-left: 40px;">(c) CL is a <i>parent undertaking</i> of a <i>subsidiary undertaking</i> of A; or</p> <p style="margin-left: 40px;">(d) CL is a <i>subsidiary undertaking</i> of a <i>parent undertaking</i> of A; or</p> <p style="margin-left: 40px;">(e) CL owns or controls 20% or more of the voting rights or capital of A; or</p> <p style="margin-left: 40px;">(f) A owns or controls 20% or more of the voting rights or capital of CL.</p> <p>(3) (in ■ SUP 3 (Auditors) and ■ SUP 4 (Actuaries)) (in accordance with section 343(8) of the <i>Act</i> (Information given by auditor or actuary to a regulator : persons with close links)) the relationship in (2), disregarding (e) and (f).</p>
<p><i>close out</i> FCA PRA</p>	<p>for the purposes of <i>permitted links</i>, the <i>rules</i> in ■ INSPRU 1.1.34 R, ■ INSPRU 3.1.57 R, ■ INSPRU 3.1.58 R, and ■ INSPRU 3.1.59 G.</p>
<p><i>close period</i> FCA PRA</p>	<p>(in <i>COLL</i>) enter into a further transaction under which the obligation to deliver or receive which arises or may, at the option of the other party to the transaction, arise under the original transaction is offset by an equivalent and opposite obligation or right to receive or deliver.</p>
<p><i>close relative</i> FCA PRA</p>	<p>(in <i>LR</i>) as defined in paragraph 1(a) of the <i>Model Code</i>.</p>
<p><i>close relative</i> FCA PRA</p>	<p>(as defined in article 3(1) of the <i>Regulated Activities Order</i> and article 2(1) of the <i>Financial Promotion Order</i>) (in relation to any <i>person</i>):</p> <p style="margin-left: 40px;">(a) his spouse or civil partner</p> <p style="margin-left: 40px;">(b) his children and step-children, his parents and step-parents, his brothers and sisters and his step-brothers and step-sisters; and</p> <p style="margin-left: 40px;">(c) the spouse or civil partner of any <i>person</i> within (b).</p>
<p><i>closed</i> FCA PRA</p>	<p>(in relation to a <i>syndicate year</i>) closed by <i>reinsurance to close</i> in accordance with <i>byelaws</i>, either into another <i>syndicate year</i> or into an <i>insurer</i> approved by the <i>Council</i> for the purpose.</p>
<p><i>closed-ended</i> FCA PRA</p>	<p>(in <i>LR</i>) (in relation to investment entities) an <i>investment company</i> which is not an <i>open-ended investment company</i>.</p>
<p><i>closed-ended corporate AIF</i> FCA</p>	<p>an <i>AIF</i> which is a <i>body corporate</i> and not a <i>collective investment scheme</i>.</p>

closed-ended investment fund

FCA **PRA**

(in LR) an entity:

- (a) which is an undertaking with limited liability, including a company, limited partnership, or *limited liability partnership*; and
- (b) whose primary object is investing and managing its assets (including pooled funds contributed by holders of its *listed securities*):
 - (i) in property of any description; and
 - (ii) with a view to spreading investment risk.

closely related

FCA **PRA**

(in GENPRU and BIPRU) describes a relationship between two or more *persons* under which one or more of the following applies:

- (a) the insolvency or default of one of them is likely to be associated with the insolvency or default of the others;
- (b) it would be prudent when assessing the financial condition or creditworthiness of one to consider that of the others; or
- (c) there is, or there is likely to be, a close relationship between the financial performance of those *persons*.

closing date

FCA **PRA**

the date specified in the earliest relevant *public announcement* of the *offer* as the last date for acceptance of the *offer*, or, if no such date is specified, then the date on which the *issuer* (or seller) of the *securities* offered receives any of the proceeds of the *offer*.

CMAR

FCA **PRA**

a Client Money and Asset Return, containing the information specified in ■ SUP 16 Annex 29 R.

CNCOM

[deleted]

COB

FCA **PRA**

the Conduct of Business sourcebook up to 1 November 2007.

COBS

FCA **PRA**

the Conduct of Business sourcebook from 1 November 2007.

Code of Market Conduct

FCA **PRA**

the provisions in ■ MAR 1 indicated by an "E" or "C" in the margin or heading, issued by the FCA as required by section 119 of the Act (The Code).

Code of Practice for Approved Persons

FCA **PRA**

(1) (in the *FCA Handbook*) the provisions in ■ APER 3 and ■ APER 4 indicated by an "E" in the margin or heading, the purpose of which is to help determine whether or not an *approved person's* conduct complies with the *Statements of Principle* and which are issued by the FCA under section 64(2) of the Act (Conduct: statements and codes).

(2) (in the *PRA Handbook*) the provisions in ■ APER 3 and ■ APER 4 indicated by an "E" in the margin or heading, the purpose of which is to help determine whether or not an *approved person's* conduct complies with the and which are issued by the PRA under section 64(2) of the Act (Conduct: statements and codes).

The provisions of ■ APER 1 marked with an "E" in the margin also form part of the *Code of Practice for Approved Persons*.

cold call

FCA PRA

a *financial promotion* made in the course of a personal visit, telephone conversation or other interactive dialogue:

(a) which:

(i) was not initiated by the recipient of the *financial promotion*; and

(ii) does not take place in response to an express request from the recipient of the *financial promotion*; or

(b) in relation to which it was not clear from all the circumstances when the call, visit or dialogue was initiated or requested, that during the course of the call, visit or dialogue, communications would be made concerning the kind of *controlled activities* and *controlled investments* to which the communications in fact made relate.

In this definition:

(c) a *person* is not to be treated as expressly requesting a call, visit or dialogue:

(i) because he omits to indicate that he does not wish to receive any or any further visits or calls or to engage in any or any further dialogue; or

(ii) because he agrees to standard terms that state that such visits, calls or dialogue will take place, unless he has signified clearly that, in addition to agreeing to the terms, he is willing for them to take place;

(d) if a call, visit or dialogue is initiated or requested by a recipient (R), it is treated as also having been initiated or requested by any other *person* to whom it is made at the same time as it is made to R if that other recipient is a *close relative* of R or expected to *engage in any investment activity* jointly with R.

[Note: article 8 of the *Financial Promotion Order*]

COLL

FCA PRA

the Collective Investment Schemes sourcebook.

collateral

FCA PRA

(1) (in *COLL* and *FUND*) any form of security, guarantee or indemnity provided by way of security for the discharge of any liability arising from a transaction.

(2) (in *COBS* and *CASS*) any of the following:

(a) an *investment* specified in articles 76 to 81 of the *Regulated Activities Order*; that is:

(i) *shares* (article 76);

(ii) *debentures* (article 77);

(iia) an *alternative debenture* (article 77A);

(iii) *government and public securities* (article 78);

(iv) *warrants* (article 79);

(v) *certificates representing certain securities* (article 80);

(vi) *units* (article 81); or

(b) *money*; or

(c) a *commodity* warrant (however title is recorded or evidenced);

which belongs to a *client* and which is held or controlled by the *firm* under the terms of a deposit, pledge, charge or other security arrangement.

(3) (in *INSPRU* and *SYSC*):

(a) (in relation to any transaction) a mortgage, charge, pledge or other security interest or, as the context may require, an asset that is subject to a mortgage, charge, pledge or other security interest; and

(b) (in relation to a *stock lending*, *repo* or *derivative* transaction only):

(i) a transfer of assets (other than by way of sale) subject to a right of the transferor to have transferred back to it the same, or equivalent, assets or, as the context may require, the assets so transferred by the original transferor; or

(ii) a letter of credit;

where the assets are transferred, or the letter of credit is issued, to secure the performance of the obligations of one of the parties to that transaction.

collateral rules

FCA PRA

■ CASS 3.

collective insurance

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph VIII of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance), of a kind referred to in article 2(2)(e) of the *Consolidated Life Directive* ("the operations carried out by insurance companies such as those referred to in Chapter 1, Title 4 of Book IV of the French "Code des assurances"").

collective investment scheme

FCA PRA

a collective investment scheme, as defined in section 235 of the *Act* (Collective Investment Schemes), which is in summary:

(a) any arrangements with respect to property of any description, including money, the purpose or effect of which is to enable *persons* taking part in the arrangements (whether by becoming owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income; and

(c) which are not excluded by the Financial Services and Markets Act (Collective Investment Schemes) Order 2001 (SI 2001/1062).

collective investment undertaking other than the closed-end type

FCA PRA

(in *PR*) (as defined in Article 2.1(o) of the *prospectus directive*) unit trusts and investment companies:

(a) the object of which is the collective investment of capital provided by the public, and which operate on the principle of risk-spreading;

(b) the units of which are, at the holder's request, repurchased or redeemed, directly or indirectly, out of the assets of these undertakings.

collective investment undertaking PRR

FCA PRA

the part of the *market risk capital requirement* calculated in accordance with ■ BIPRU 7.7.5 R (Calculation of the collective investment undertaking PRR).

collective portfolio management

FCA **PRA**

in relation to a *management company*, the activity of management of *UCITS schemes*, *EEA UCITS schemes* or other collective investment undertakings not covered by the *UCITS Directive* that the *firm* is permitted to carry on in accordance with article 6(2) of the *UCITS Directive*. This includes the functions mentioned in Annex II to that directive.

collective portfolio management firm

FCA **PRA**

a *firm* which:

(a)

(i) is a *full-scope UK AIFM*; and

(ii) does not have a *Part 4A permission* to carry on any *regulated activities* other than those in connection with, or for the purpose of, managing collective investment undertakings; or

(b) is a *UCITS firm* that has a *Part 4A permission* for *managing a UCITS*.

collective portfolio management investment firm

FCA **PRA**

a *firm* which has a *Part 4A permission* for *managing investments* and which is:

(a) an *AIFM investment firm*; or

(b) a *UCITS investment firm*.

COLLG

FCA **PRA**

the Collective Investment Scheme Information Guide.

Combined Code

FCA **PRA**

(in *LR* and *DTR*) in relation to an *issuer* the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council.

combined initial disclosure document

FCA **PRA**

information about the breadth of advice, *scope of advice* or *scope of basic advice* and the nature and costs of the services offered by a *firm* in relation to two or more of the following:

(a) *packaged products* or, for *basic advice*, *stakeholder products* that are not a *group personal pension scheme* or a *group stakeholder pension scheme* (but only if a *consultancy charge* will be made);

(b) *non-investment insurance contracts*;

(c) *regulated mortgage contracts* other than *lifetime mortgages*;

(d) *home purchase plans*;

(e) *equity release transactions*;

which contains the keyfacts logo, headings and text in the order shown in, and in accordance with the notes in, **COBS 6 Annex 2**.

commencement

FCA **PRA**

the beginning of the *commencement day*.

commencement day

FCA **PRA**

the *day* on which section 19 of the *Act* (The general prohibition) comes into force, being 1 December 2001.

commercial customer

FCA PRA

(in ICOBS and ■ CASS 5) a *customer* who is not a *consumer*.

commission

FCA PRA

any form of *commission* or remuneration, including a benefit of any kind, offered or given in connection with:

(a) *designated investment business* (other than *commission equivalent*);

(b) *insurance mediation activity* in connection with a *non-investment insurance contract*; or

(c) the sale of a *packaged product*, that is offered or given by the *product provider*.

commission equivalent

FCA PRA

the cash payments, benefits and services listed in ■ COBS 6 Annex 6 E which satisfy the criteria in ■ COBS 6.4.3 R.

commitment

FCA PRA

a *commitment* represented by *insurance business* of any of the *classes* (as defined for the purposes of *INSPRU* and *SUP*) of *long-term insurance business*.

commodity

FCA PRA

(1) (except for (2) and (3)) a physical asset (other than a financial instrument or cash) which is capable of delivery.

(2) (for the purpose of calculating *position risk requirements*) any of the following (but excluding gold):

(a) a commodity within the meaning of paragraph (1); and

(b) any:

(i) physical or energy product; or

(ii) of the items referred to in paragraph 10 of Section C of Annex I of the *MIFID* as an underlying with respect to the *derivatives* mentioned in that paragraph;

which is, or can be, traded on a secondary market.

(3) (in relation to the *MiFID Regulation*, including the definitions of a *financial instrument* and an *ancillary service*) any goods of a fungible nature that are capable of being delivered, including metals and their ores and alloys, agricultural products, and energy such as electricity, not including services or other items that are not goods, such as currencies or rights in real estate, or that are entirely intangible.

[Note: article 2(1) of the *MiFID Regulation*]

commodity extended maturity ladder approach

FCA PRA

the method of calculating the *commodity PRR* in ■ BIPRU 7.4.32 R (Extended maturity ladder approach).

commodity future

FCA PRA

a *future* relating to a *commodity*.

commodity maturity ladder approach

FCA PRA

the method of calculating the *commodity PRR* in ■ BIPRU 7.4.25 R (Maturity ladder approach).

commodity option

FCA PRA

an *option* relating to a *commodity*.

commodity PRR

FCA PRA

the part of the *market risk capital requirement* calculated in accordance with ■ BIPRU 7.4 (Commodity PRR) or, in relation to a particular *position*, the portion of the overall *commodity PRR* attributable to that *position*.

commodity simplified approach

FCA PRA

the method of calculating the *commodity PRR* in ■ BIPRU 7.4.24 R (Simplified approach).

common equity tier 1 capital

FCA

as defined in article 50 of the *EU CRR*.

common equity tier 1 instrument

FCA

a capital instrument that qualifies as a common equity tier 1 instrument under article 26 of the *EU CRR*.

common platform firm

FCA PRA

(A) In the PRA Handbook:

(a) a *BIPRU firm*; or

(aa) a *bank*; or

(ab) a *building society*; or

(ac) a *designated investment firm*; or

(ad) an *IFPRU investment firm*; or

(b) an *exempt CAD firm*; or

(c) a UK *MiFID investment firm* which falls within the definition of 'local firm' in Article 3.1P of the *Capital Adequacy Directive*

(d) a *dormant account fund operator*.

(B) In the FCA Handbook:

(a) a *BIPRU firm*; or

(aa) a *bank*; or

(ab) a *building society*; or

(ac) a *designated investment firm*; or

(ad) an *IFPRU investment firm*; or

(b) an *exempt CAD firm*; or

common platform organisational requirements

FCA PRA

(c) a UK *MiFID investment firm* which falls within the definition of 'local firm' in Article 3.1P of the *Capital Adequacy Directive*

(d) a *dormant account fund operator*.

■ SYSC 4 to ■ SYSC 9.

common platform outsourcing rules

FCA PRA

■ SYSC 8.1.1 R to ■ SYSC 8.1.12 G.

common platform record-keeping requirements

FCA PRA

the record-keeping requirements applicable to *common platform firms* set out in ■ SYSC 9.

common platform requirements

FCA PRA

■ SYSC 4 to ■ SYSC 10.

common platform requirements on financial crime

FCA PRA

the requirements on *financial crime* applicable to *common platform firms* set out in ■ SYSC 6.3.

communicate

FCA PRA

(in relation to a *financial promotion*) to communicate in any way, including causing a communication to be made or directed.

[Note: section 21(13) of the *Act* (Restrictions on financial promotion) and article 6(d) of the *Financial Promotion Order* (Interpretation: communications)]

communicated to a person inside the United Kingdom

FCA PRA

communicated other than *communicated to a person outside the United Kingdom*.

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communicated to a person outside the United Kingdom

- (a) *made to a person* who receives it outside the *United Kingdom*; or
- (b) *directed only at persons* outside the *United Kingdom*.

FCA PRA

In this definition:

(c) If the conditions set out in (f)(i), (ii), (iii) and (iv) are met, a *financial promotion* directed from a place inside the *United Kingdom* will be regarded as *directed only at persons* outside the *United Kingdom*.

(d) If the conditions set out in (f)(iii) and (iv) are met, a *financial promotion* directed from a place outside the *United Kingdom* will be regarded as *directed only at persons* outside the *United Kingdom*.

(e) In any other case in which one or more of the conditions in (f)(i) to (v) is met, that fact will be taken into account in determining whether a *financial promotion* is *directed only at persons* outside the *United Kingdom* (but a *financial promotion* may still be regarded as *directed only at persons* outside the *United Kingdom* even if none of these conditions is met).

(f) The conditions are that:

(i) the *financial promotion* is accompanied by an indication that it is *directed only at persons* outside the *United Kingdom*;

(ii) the *financial promotion* is accompanied by an indication that it must not be acted upon by *persons* in the *United Kingdom*;

(iii) the *financial promotion* is not referred to in, or directly accessible from, any other *financial promotion* which is *made to a person* or *directed at persons* in the *United Kingdom* by the same communicator;

(iv) there are in place proper systems and procedures to prevent recipients in the *United Kingdom* (other than those to whom the *financial promotion* might otherwise lawfully have been made) engaging in the investment activity to which the *financial promotion* relates with the *person* directing the *financial promotion*, a *close relative* of his or a member of the same *group*;

(v) the *financial promotion* is included in:

(A) a website, newspaper, journal, magazine or periodical publication which is principally accessed in or intended for a market outside the *United Kingdom*;

(B) a radio or television broadcast or teletext service transmitted principally for reception outside the *United Kingdom*.

Community
Co-Insurance
Directive

FCA PRA

the Council Directive of 30 May 1978 on the coordination of laws, regulations and administrative provisions relating to Community co-insurance (No 78/473/EEC).

community
co-insurance
operation

FCA PRA

an operation to which the *Community Co-Insurance Directive* applies, as modified by article 26 of the *Second Non-Life Directive*.

COMP

FCA PRA

the Compensation sourcebook.

company

FCA PRA

any *body corporate*.

Company Announcements Office

FCA **PRA**

the Company Announcements Office of the London Stock Exchange, the information dissemination provider approved by the UKLA.

compensation costs

FCA **PRA**

the costs incurred:

- (a) in paying compensation; or
- (b) as a result of making the arrangements contemplated in ■ COMP 3.3.1 R or taking the measures contemplated in ■ COMP 3.3.3 R; or
- (c) in making payments or giving indemnities under ■ COMP 11.2.3 R; or
- (d) under section 214B or section 214D of the *Act*; or
- (e) by virtue of section 61 (Sources of compensation) of the Banking Act 2009;

(including the costs of paying interest, principal and other costs of borrowing to pay such costs).

compensation costs levy

FCA **PRA**

a levy imposed by the FSCS on *participant firms* to meet *compensation costs*, each *participant firm's* share being calculated in accordance with ■ FEES 6.5

compensation fund

FCA **PRA**

any *policyholder* compensation scheme in any *EEA State*.

compensation scheme

FCA **PRA**

the Financial Services Compensation Scheme established under section 213 of the *Act* (The compensation scheme) for compensating *persons* in cases where *authorised persons* and *appointed representatives*, or, where applicable, a *tiered agent* of a firm, are unable, or are likely to be unable, to satisfy *claims* against them.

compensation transitionals order

FCA **PRA**

the Financial Services and Markets Act 2000 (Transitional Provisions, Repeals and Savings) (Financial Services Compensation Scheme) Order 2001 (SI 2001/2967).

competent authority

FCA **PRA**

(A) In the PRA Handbook:

- (1) (in relation to the functions referred to in Part VI of the *Act*)
 - (a) the *FCA*, or the functions referred to in Part VI of the *Act* under the laws of
 - (b) an authority exercising functions corresponding to the functions referred to in Part VI of the *Act* under the laws of another *EEA State*.
- (2) (in relation to the exercise of an *EEA right* and the exercise of the *overseas financial stability information power*) a competent authority for the purposes of the relevant *Single Market Directive* or the *auction regulation*.
- (3) (in relation to a group, and for the purposes of ■ SYSC 12 (Group risk systems and controls requirement), *GENPRU*, *BIPRU* and *INSPRU*, any national authority of an *EEA State* which is empowered by law or regulation to supervise *regulated entities*, whether on an individual or group-wide basis.

(4) the authority, designated by each *EEA State* in accordance with Article 48 of *MiFID*, unless otherwise specified in *MiFID*.

[Note: article 4(1)(22) of *MiFID*]

(5) (in *REC*) in relation to an *investment firm* or *credit institution*, means the competent authority in relation to that firm or institution for the purposes of *MiFID*.

(6) (in ■ COBS 13.4) the authority designated by each *EEA State* in accordance with Article 11 of the *Market Abuse Directive*.

[Note: article 1(7) of the *Market Abuse Directive*]

(7) the authority designated by each *EEA State* in accordance with article 32 of the *short selling regulation*.

(8) (for an *AIF*) the national authorities of an *EEA State* which are empowered by law or regulation to supervise *AIFs*.

(9) (for an *AIFM*) a national authority in an *EEA State* which is empowered by law or regulation to supervise *AIFMs*.

[Note: This definition is based on the definition contained in the CRD (Consequential Amendments) Instrument 2006 which was consulted on in the consultation paper Strengthening Capital Standards 2 (CP 06/3)]

(B) In the FCA Handbook:

(1) (in relation to the functions referred to in Part VI of the *Act*)

(a) the *FCA*, or the functions referred to in Part VI of the *Act* under the laws of

(b) an authority exercising functions corresponding to the functions referred to in Part VI of the *Act* under the laws of another *EEA State*.

(2) (in relation to the exercise of an *EEA right* and the exercise of the *overseas financial stability information power*) a competent authority for the purposes of the relevant *Single Market Directive* or the *auction regulation*.

(3) (in relation to a group, and for the purposes of ■ SYSC 12 (Group risk systems and controls requirement), *GENPRU*, *BIPRU* and *INSPRU*, any national authority of an *EEA State* which is empowered by law or regulation to supervise *regulated entities*, whether on an individual or group-wide basis.

(4) the authority, designated by each *EEA State* in accordance with Article 48 of *MiFID*, unless otherwise specified in *MiFID*.

[Note: article 4(1)(22) of *MiFID*]

(5) (in *REC*) in relation to an *investment firm* or *credit institution*, means the competent authority in relation to that firm or institution for the purposes of *MiFID*.

(6) (in ■ COBS 13.4) the authority designated by each *EEA State* in accordance with Article 11 of the *Market Abuse Directive*.

[Note: article 1(7) of the *Market Abuse Directive*]

(7) the authority designated by each *EEA State* in accordance with article 32 of the *short selling regulation*.

(8) (for an *AIF*) the national authorities of an *EEA State* which are empowered by law or regulation to supervise *AIFs*.

(9) (for an *AIFM*) a national authority in an *EEA State* which is empowered by law or regulation to supervise *AIFMs*.

(10) (for the purposes of *IFPRU*) has the meaning in article 4(1)(40) of the *EU CRR*.

[Note: This definition is based on the definition contained in the CRD (Consequential Amendments) Instrument 2006 which was consulted on in the consultation paper Strengthening Capital Standards 2 (CP 06/3)]

competent employees rule

FCA PRA

- (a) for a *firm* which is not a *common platform firm*, ■ SYSC 3.1.6 R.
- (b) for a *common platform firm*, ■ SYSC 5.1.1 R.

complaint

FCA PRA

- (1) [deleted]
- (2) (in ■ SUP 10 and *DISP*, except ■ DISP 1.1 and the *complaints handling rules* and the *complaints record rule* in relation to *MiFID business*, and in ■ CREDS 9) any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a *person* about the provision of, or failure to provide, a financial service or a *redress determination*, which:
 - (a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience; and
 - (b) relates to an activity of that *respondent*, or of any other *respondent* with whom that *respondent* has some connection in marketing or providing financial services or products, which comes under the jurisdiction of the *Financial Ombudsman Service*.
- (3) (in ■ DISP 1.1 , the complaints awareness rules only in relation to *collective portfolio management* and the *complaints handling rules* and the *complaints record rule* only in relation to *MiFID business* and *collective portfolio management*) any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a *person* about the provision of, or failure to provide, a financial service or a *redress determination*, which alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience.
- (4) (in *DISP*) reference to a *complaint* includes:
 - (a) under all jurisdictions, part of a *complaint*; and
 - (b) under the *Compulsory Jurisdiction*, all or part of a *relevant complaint*.

complaints data publication rules

FCA PRA

■ DISP 1.10A.

complaints handling rules

FCA PRA

■ DISP 1.3.

complaints investigator

FCA PRA

- (1) (in relation to a *UK RIE*) the independent *person* appointed under arrangements referred to in paragraph 9(3) of the Schedule to the *Recognition Requirements Regulations* to investigate a complaint and to report on the result of his investigation to that *RIE* and to the complainant.
- (2) (in relation to a *UK RCH*) the independent *person* appointed under arrangements referred to in paragraph 23(3) of the Schedule to the

<p><i>complaints record rule</i></p> <p>FCA PRA</p>	<p><i>Recognition Requirements Regulations</i> to investigate a complaint and to report on the result of his investigation to that <i>RCH</i> and to the complainant.</p> <p>(3) (in relation to an <i>RAP</i>) the independent <i>person</i> appointed under arrangements referred to in regulations 22 and 23 of the <i>RAP regulations</i> to investigate a complaint and to report on the result of his investigation to that <i>RAP</i> and to the complainant.</p> <p>■ DISP 1.9.</p>
<p><i>complaints reporting rules</i></p> <p>FCA PRA</p>	<p>■ DISP 1.10.</p>
<p><i>complaints resolution rules</i></p> <p>FCA PRA</p>	<p>■ DISP 1.4.</p>
<p><i>complaints time barring rule</i></p> <p>FCA PRA</p>	<p>■ DISP 1.8.</p>
<p><i>complaints time limits rules</i></p> <p>FCA PRA</p>	<p>■ DISP 1.6.</p>
<p><i>compliance oversight function</i></p> <p>FCA PRA</p>	<p>(in the <i>FCA Handbook</i>) <i>FCA controlled function</i> CF10 in Parts 1 and 2 of the <i>table of FCA controlled functions</i>, described more fully in ■ SUP 10A.7.8 R.</p>
<p><i>composite firm</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> that carries on both <i>long-term insurance business</i> and <i>general insurance business</i>.</p>
<p><i>composite insurer</i></p> <p>FCA PRA</p>	<p>(in relation to <i>firm type</i> in ■ SUP 16.10 (Confirmation of <i>standing data</i>)) an <i>insurer</i> with permission to effect or carry out both <i>long-term insurance contracts</i> and <i>general insurance</i>.</p>
<p><i>Compulsory Jurisdiction</i></p> <p>FCA PRA</p>	<p>the jurisdiction of the <i>Financial Ombudsman Service</i> to which <i>firms</i>, <i>payment service providers</i> and <i>electronic money issuers</i> (and certain other <i>persons</i> as a result of the <i>Ombudsman Transitional Order</i> or section 226(2)(b) and (c) of the <i>Act</i>) are compulsorily subject.</p>

<i>concentration risk capital component</i>	[deleted]
COND FCA PRA	the part of the <i>Handbook</i> in High Level Standards which has the title Threshold Conditions.
<i>conflicts of interest policy</i> FCA PRA	(1) the policy established and maintained in accordance with ■ SYSC 10.1.10 R; and (2) (in ■ MAR 8) the policy established and maintained in accordance with ■ MAR 8.2.8 G which identifies circumstances that constitute, or may give rise to, a conflict of interest arising from <i>benchmark submissions</i> and the process of gathering information in order to make <i>benchmark submissions</i> , and sets out the process to manage such conflicts.
<i>conglomerate capital resources</i> FCA PRA	(in relation to a <i>financial conglomerate</i> with respect to which ■ GENPRU 3.1.29 R (Application of method 1 or 2 from Annex I of the <i>Financial Groups Directive</i>) applies) capital resources as defined in whichever of paragraphs 1.1 or 2.1 of ■ GENPRU 3 Annex 1 R (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i> .
<i>conglomerate capital resources requirement</i> FCA PRA	(in relation to a <i>financial conglomerate</i> with respect to which ■ GENPRU 3.1.29 RR (Application of method 1 or 2 from Annex I of the <i>Financial Groups Directive</i>) applies) the capital resources requirement defined in whichever of paragraphs 1.3 or 2.4 of ■ GENPRU 3 Annex 1 R (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i> .
<i>connected client</i> FCA PRA	(in LR) in relation to a <i>sponsor</i> or securities house, any client of the <i>sponsor</i> or securities house who is: (a) a partner, <i>director</i> , employee or controller (as defined in section 422 of the <i>Act</i>) of the <i>sponsor</i> or securities house or of an undertaking described in paragraph (d); or (b) the spouse, civil partner or child of any individual described in paragraph (a); or (c) a <i>person</i> in his capacity as a trustee of a private trust (other than a pension scheme or an <i>employees' share scheme</i>) the beneficiaries of which include any <i>person</i> described in paragraph (a) or (b); or (d) an undertaking which in relation to the <i>sponsor</i> or securities house is a group undertaking.
<i>connected contract</i> FCA PRA	a <i>non-investment insurance contract</i> which: (a) is not a contract of long-term insurance (as defined by article 3 of the <i>Regulated Activities Order</i>); (b) has a total duration (including <i>renewals</i>) of five years or less; (c) has an annual <i>premium</i> (or the equivalent of annual <i>premium</i>) of €500 or less; (d) covers the risk of: (i) breakdown, loss of, or damage to, non-motor goods supplied by the provider; or

(ii) damage to, or loss of, baggage and other risks linked to the travel booked with the provider ("travel risks"); in circumstances where:

(A) the travel booked with the provider relates to attendance at an event organised or managed by that provider and the party seeking insurance is not an individual (acting in his private capacity) or a small business; or

(B) the travel booked with the provider is only the hire of an aircraft, vehicle or vessel which does not provide sleeping accommodation;

(e) does not cover any liability risks (except, in the case of a contract which covers travel risks, where the cover is ancillary to the main cover provided by the contract);

(f) is complementary to the non-motor goods being supplied or service being provided by the provider; and

(g) is of such a nature that the only information that a person requires in order to carry on one of the *insurance mediation activities* is the cover provided by the contract.

In this definition:

(h) the transfer of possession of an aircraft, vehicle or vessel under an agreement for hire which is not:

(i) a hire-purchase agreement within the meaning of section 189(1) of the Consumer Credit Act 1974; or

(ii) any other agreement which contemplates that the property in those goods will also pass at some time in the future;

is the provision of a service related to travel, not a supply of goods;

(i) "small business" means a sole trader, *body corporate*, *partnership* or an unincorporated association which had a turnover in the last financial year of less than £1,000,000 (but where the small business is a member of a group within the meaning of section 262(1) of the Companies Act 1985 (and after the repeal of that section, within the meaning of section 474(1) of the Companies Act 2006), reference to its turnover means the combined turnover of the group);

(j) "turnover" means the amounts derived from the provision of goods and services falling within the business's ordinary activities, after deduction of trade discounts, value added tax and any other taxes based on the amounts so derived.

[deleted]

*connected
lending of a
capital nature*

*connected
person*

FCA **PRA**

(1) (in relation to the *FCA* or *PRA*'s consideration of an application for, or of whether to vary or cancel, a *Part 4A permission*) (in accordance with section 55R of the *Act* (Persons connected with an applicant)) any *person* appearing to the regulator concerned to be, or likely to be, in a relationship with the applicant or *person* given *permission*, which is relevant.

(2) (in relation to the *FCA* or *PRA*'s power to gather information under section 165 of the *Act* (Regulators' power to require information)) (in accordance with section 165(11) of the *Act*) a *person* who has, or has at any relevant time had, the following relationship with another person ("A"):

- (a) he is a member of A's *group*;
- (b) he is a *controller* of A;
- (c) he is a member of a *partnership* of which A is a member;
- (d) he is or has been an employee of A;
- (e) if A is a *body corporate*, he is or has been an *officer*, or *manager* or agent of A or of a *parent undertaking* of A;
- (f) if A is a *partnership*, he is or has been a member, *manager* or agent of A;
- (g) if A is an unincorporated association of *persons* which is neither a *partnership* nor an unincorporated *friendly society*, he is or has been an *officer*, *manager*, or agent of A;
- (h) if A is a *friendly society*, he is or has been an officer or manager of A ("officer" and "manager" having the same meaning as in section 119(1) of the Friendly Societies Act 1992);
- (i) if A is a *building society*, he is or has been an officer of A ("officer" having the same meaning as in section 119(1) of the Building Societies Act 1986);
- (j) if A is an individual, he is or has been an agent of A.

(3) (in relation to the *FCA* or *PRA*'s powers of investigation under sections 171 and 172 of the *Act* (Powers of persons appointed under section 167; Additional power of persons appointed as a result of section 168(1) or (4))) (in accordance with section 171(4) of the *Act*) a *person* who has, or has at any relevant time had, the following relationship with a *person* under investigation ("P"):

- (a) he has the relationship specified in any of paragraphs (2) (a), (b) or (d) to (j) to P (where references in those paragraphs to A are taken to be references to P);
- (b) it is a *partnership* of which P is a member;
- (c) he is the partner, *manager*, employee, agent, *appointed representative*, or, where applicable, *tied agent*, banker, auditor, actuary or solicitor of:
 - (i) P; or
 - (ii) a *parent undertaking* of P; or
 - (iii) a *subsidiary undertaking* of P; or
 - (iv) a *subsidiary undertaking* of a *parent undertaking* of P; or
 - (v) a *parent undertaking* of a *subsidiary undertaking* of P.

(4) to follow

(5) (in *DTR* and *LR* in relation to a *person discharging managerial responsibilities* within an *issuer*) has the same meaning as in section 96B(2) of the *Act*.

- (a) [deleted]
- (b) [deleted]
- (c) [deleted]

a *non-investment insurance contract* which covers the risk of damage to, or loss of, baggage and other risks linked to the travel booked with the provider but

insurance contract

FCA **PRA**

does not otherwise meet the conditions in paragraph (d)(ii) of the definition of *connected contract*.

connected travel insurance intermediary

FCA **PRA**

an *insurance intermediary* whose *permission* includes a *requirement* that it must not conduct any *regulated activity* other than *insurance mediation activity* in relation to a *connected travel insurance contract*.

consent notice

FCA **PRA**

a notice given by the *FCA* or *PRA* as the case may be to a *Host State regulator* under :

(a) paragraph 19(4) (Establishment) of Part III of Schedule 3 to the *Act* (Exercise of Passport Rights by UK firms); or

(b) paragraph 20(3A) (Services) of Part III of Schedule 3 to the *Act* (Exercise of Passport Rights by UK firms).

Consolidated Admissions and Reporting Directive

FCA **PRA**

Directive of the European Parliament and of the Council on the admission of securities to official stock exchange listing and on information to be published on those securities (No 2001/34/EC).

consolidated basis

FCA

has the meaning in article 4(1)(48) of the *EU CRR*.

consolidated capital resources

FCA **PRA**

(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) that group's capital resources calculated in accordance with ■ *BIPRU 8.6* (Consolidated capital resources).

consolidated capital resources requirement

FCA **PRA**

(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) an amount of *consolidated capital resources* that that group must hold in accordance with ■ *BIPRU 8.7* (Consolidated capital resources requirement).

consolidated credit risk requirement

FCA **PRA**

(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) has the meaning in ■ *BIPRU 8.7* (Consolidated capital resources requirements) which is in summary the part of that group's *consolidated capital resources requirement* relating to credit risk calculated in accordance with ■ *BIPRU 8.7.11 R* (Calculation of the consolidated requirement components) and as adjusted under ■ *BIPRU 8.7*.

consolidated fixed overheads requirement

FCA **PRA**

(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in *GENPRU* and *BIPRU*) has the meaning in ■ *BIPRU 8.7* (Consolidated capital resources requirements) which is in summary the part of that group's *consolidated capital resources requirement* relating to the *fixed overheads requirement* (as referred to Article 21 of the *Capital Adequacy Directive* and the definition of *fixed overheads requirement*) calculated in accordance with

consolidated indirectly issued capital

FCA **PRA**

■ BIPRU 8.7.11 R (Calculation of the consolidated requirement components) and as adjusted under ■ BIPRU 8.7.

has the meaning in ■ BIPRU 8.6.12 R (Indirectly issued capital and group capital resources), which is in summary any *capital instrument* issued by a member of a *UK consolidation group* or *non-EEA sub-group* where the conditions in ■ BIPRU 8.6.12 R are met.

Consolidated Life Directive

FCA **PRA**

the Council Directive of 5 November 2002 on the taking-up and pursuit of the business of life assurance (No 2002/83/EC), which consolidates the provisions of the *First*, *Second* and *Third Life Directives*.

Consolidated Life Directive information

FCA **PRA**

(in COBS) the Consolidated Life Directive information (■ COBS 13 Annex 1 R).

consolidated market risk requirement

FCA **PRA**

(in relation to a *UK consolidation group* or a *non-EEA sub-group* and in GENPRU and BIPRU) has the meaning in ■ BIPRU 8.7 (Consolidated capital resources requirement) which is in summary the part of that group's *consolidated capital resources requirement* relating to *market risk* calculated in accordance with ■ BIPRU 8.7.11 R (Calculation of the consolidated requirement components) and as adjusted under ■ BIPRU 8.7.

Consolidated Motor Insurance Directive

FCA **PRA**

the European Parliament and Council Directive of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability (No 2009/103/EC). This Directive codifies Council Directives 72/166/EEC, 84/5/EEC, 90/232/EEC, 2000/26/EC and 2005/14/EC.

consolidated operational risk requirement

[deleted]

consolidated requirement component

FCA

has the meaning in ■ BIPRU 8.7.11 R (Calculation of the consolidated requirement components), which in summary is one of the following:

- (a) the *consolidated credit risk requirement*; or
- (b) the *consolidated fixed overheads requirement*; or
- (c) the *consolidated market risk requirement*; or
- (d) [deleted]

consolidated situation

FCA **PRA**

(A) (in the *PRA Handbook*)

the situation that results from applying the requirements of the *EU CRR* in accordance with Part One, Title II, Chapter 2 of the *EU CRR* to an *institution* as if that *institution* formed, together with one or more other *institutions*, a single *institution*.

(B) (in the *FCA Handbook*)

has the meaning in article 4(1)(47) of the *EU CRR*.

consolidating supervisor

FCA

has the meaning in article 4(1)(41) of the *EU CRR*.

consolidation Article 12(1) relationship

FCA PRA

a relationship between one *undertaking* (the first undertaking) and one or more other *undertakings* satisfying the conditions set out in Article 12(1) of the *Seventh Company Law Directive*, which in summary are as follows:

- (a) those *undertakings* are not connected, as described in article 1(1) or (2) of that Directive; and
- (b) one of the following conditions is satisfied:
 - (i) they are managed on a unified basis pursuant to a contract concluded with the first undertaking or provisions in the memorandum or articles of association of those *undertakings*; or
 - (ii) the administrative, management or supervisory bodies of those *undertakings* consist, for the major part, of the same *persons* in office during the financial year in respect of which it is being decided whether such a relationship exists.

consolidation group

FCA PRA

(A) In the PRA Handbook:

- (1) the following:
 - (a) a *conventional group*; or
 - (b) *undertakings* linked by a *consolidation Article 12(1) relationship* or (for the purposes of BIPRU) an *Article 134 relationship*.

If a *parent undertaking* or *subsidiary undertaking* in a *conventional group* (the first person) has a *consolidation Article 12(1) relationship* or (for the purposes of BIPRU) an *Article 134 relationship* with another *person* (the second person), the second person (and any *subsidiary undertaking* of the second person) is also a member of the same *consolidation group*.

(2) (in SYSC) the *undertakings* included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the *EU CRR* and ■ IFPRU 8.1.3 R to ■ IFPRU 8.1.4 R (Prudential consolidation) for which the FCA is the *consolidating supervisor* under [article 111 of the CRD].

(3) For the purposes of ■ SUP 16, the *group of undertakings* which are included in the *consolidated situation* of a *parent institution in a Member State*, an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* (including any *undertaking* which is included in that consolidation because of an *Article 12(1) relationship*, *Article 18(5) relationship* or *Article 18 relationship*).

(B) In the FCA Handbook:

- (1) the following:
 - (a) a *conventional group*; or
 - (b) *undertakings* linked by a *consolidation Article 12(1) relationship* or (for the purposes of BIPRU) an *Article 134 relationship*.

If a *parent undertaking* or *subsidiary undertaking* in a *conventional group* (the first person) has a *consolidation Article 12(1) relationship* or (for the purposes of BIPRU) an *Article 134*

	<p><i>relationship</i> with another <i>person</i> (the second person), the second person (and any <i>subsidiary undertaking</i> of the second person) is also a member of the same <i>consolidation group</i>.</p> <p>(2) (for the purposes of ■ SUP 16) the <i>undertakings</i> included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the <i>EU CRR</i> and ■ IFPRU 8.1.3 R to ■ IFPRU 8.1.4 R (Prudential consolidation) for which the <i>FCA</i> is the <i>consolidating supervisor</i> under article 111 of the <i>CRD</i>.</p>
<i>consolidation UK integrated group</i>	[deleted]
<i>consolidation wider integrated group</i>	[deleted]
<i>constable</i> FCA PRA	a police officer in the <i>United Kingdom</i> or a <i>person</i> commissioned by the Commissioners for HM Revenue and Customs.
<i>constitution</i> FCA PRA	(in <i>LR</i>) memorandum and articles of association or equivalent constitutional document.
<i>consultancy charge</i> FCA PRA	any charge payable by or on behalf of an employee to a <i>firm</i> or other intermediary (whether or not that intermediary is an <i>employee benefit consultant</i>) in respect of advice given, or services provided, by the <i>firm</i> or intermediary to the employer or employee in connection with a <i>group personal pension scheme</i> or <i>group stakeholder pension scheme</i> , where those charges have been agreed between the <i>firm</i> or intermediary and the employer in accordance with the <i>rules</i> on consultancy charging and remuneration (■ COBS 6.1C).
<i>consumer</i> FCA PRA	<p>(A) In the PRA Handbook:</p> <p>(1) (except as specified in this definition) any natural person acting for purposes outside his trade, business or profession.</p> <p>[Note: article 2 of the <i>Distance Marketing Directive</i>, article 2 of the <i>Unfair Terms in Consumer Contracts Directive</i> (93/13/EEC), article 2 of the <i>E-Commerce Directive</i>, and article 4(11) of the <i>Payment Services Directive</i>].</p> <p>(2) (as further defined in section 1G of the <i>Act</i>) (in relation to the discharge of the <i>FCA</i>'s general functions (sections 1B to 1E of the <i>Act</i>), the application of the regulatory principles by the regulators in section 3B of the <i>Act</i> and references by scheme operators or regulated persons (section 234D of the <i>Act</i>)) a <i>person</i>:</p> <p>(a) who uses, has used, or may use:</p> <p>(i) regulated financial services; or</p> <p>(ii) services that are provided by other than <i>authorised persons</i> but are provided in carrying on <i>regulated activities</i>; or</p> <p>(b) who has relevant rights or interests in relation to any of those services; or</p>

(c) who has invested, or may invest, in financial instruments; or

(ca) who has relevant rights or interests in relation to financial instruments; or

(d) (in relation to the *FCA's* power to make general *rules* (section 137A of the *Act* (The *FCA's* general rules)) a *person* within the extended definition of consumer in article 7 of the Financial Services Act 2012 (Transitional Provisions) (Miscellaneous Provisions) Order 2013 (SI 442/2013 Definition of "consumer");

(e) [deleted]

(2A) (as further defined in section 425A of the *Act*) (in relation to the issue of statements or codes under section 64 of the *Act*), general exemptions to consultation by the *FCA* (section 138L of the *Act*) in the publication of notices (section 391 of the *Act*) and the exercise of *Treaty rights* (Schedule 4 to the *Act*) a *person* who uses, has used, may have used, or has relevant rights or interests in relation to any services provided by:

(a) *authorised persons* in carrying on regulated activities;

(b) *authorised persons* who are investment *firms*, or credit institutions, in providing relevant ancillary services; or

(c) *persons* acting as appointed representatives.

for the purposes of this definition:

(A) if a *person* is providing a service within (2)(a) or (2A) as a trustee, the *persons* who are, have been or may be beneficiaries of the trust are to be treated as *persons* who use, have used or may use the service;

(AA) a *person* has a "relevant right or interest" in relation to any services within (2)(a) or (2A) if that *person* has a right or interest:

(i) which is derived from, or is otherwise attributable to, the use of the services by others; or

(ii) which may be adversely affected by the use of the services by persons acting on that *person's* behalf or in a fiduciary capacity in relation to that *person*;

(B) a *person* who deals with another person ("A") in the course of A providing a service within (2)(a) or (2A) is to be treated as using the service;

(C) a *person* has a "relevant right or interest" in relation to any financial instrument within (2)(ca) if that person has a right or interest:

(i) which is derived from, or is otherwise attributable to, investment in the instrument by others; or

(ii) which may be adversely affected by the investment in the instrument by persons acting on that *person's* behalf or in a fiduciary capacity in relation to that *person*;

(D) (for the purposes of (2A)(b)):

(a) "credit institution" means:

(i) a credit institution authorised under the *CRD* ; or

(ii) an institution which would satisfy the requirements for authorisation as a credit institution under that directive if it had its registered office (or if it does not have one, its head office) in an EEA State;

(b) "relevant ancillary service" means any service of a kind mentioned in Section B of Annex I to *MiFID* the provision of which does not involve the carrying on of a *regulated activity*.

(3) [deleted]

(4) (as further defined in section 425A and 425B of the *Act*) (in relation to the establishment and maintenance of the Consumer Panel (section 1Q of the *Act* (The Consumer Panel))) (as defined in section 1Q of the *Act*), complaints by consumer bodies (section 234C of the *Act*):

(a) a *person* within (2A), other than an *authorised person*; and

(b) (in relation to *regulated activities* carried on otherwise than by *authorised persons*) a *person*, other than an *authorised person*, who would have been a "consumer" within (2A) if the activities were carried on by an *authorised person*.

(5) [deleted]

(5A) (as further defined in sections 425A and 425B of the *Act*) until 31 March 2014, with respect to the publication of information in relation to activities carried on by *Northern Ireland credit unions* (section 391 of the *Act* and article 5 of the Financial Services and Markets Act 2000 (Permissions, Transitional Provisions and Consequential Amendments) (Northern Ireland Credit Unions) Order 2011 (SI 2832/2011) a *person* within (4)(b).

(6) [deleted]

(B) In the FCA Handbook:

(1) (except as specified in this definition) any natural person acting for purposes outside his trade, business or profession.

[Note: article 2 of the *Distance Marketing Directive*, article 2 of the *Unfair Terms in Consumer Contracts Directive* (93/13/EEC), article 2 of the *E-Commerce Directive*, article 4(11) of the *Payment Services Directive* and article 3 of the *Consumer Credit Directive*.]

(2) (as further defined in section 1G of the *Act*) (in relation to the discharge of the *FCA*'s general functions (sections 1B to 1E of the *Act*), the application of the regulatory principles by the regulators in section 3B of the *Act* and references by scheme operators or regulated persons (section 234D of the *Act*)) a *person*:

(a) who uses, has used, or may use:

(i) regulated financial services; or

(ii) services that are provided by other than *authorised persons* but are provided in carrying on *regulated activities*; or

(b) who has relevant rights or interests in relation to any of those services; or

(c) who has invested, or may invest, in financial instruments; or

(ca) who has relevant rights or interests in relation to financial instruments; or

(d) (in relation to the *FCA's* power to make general *rules* (section 137A of the *Act* (The *FCA's* general rules)) a *person* within the extended definition of consumer in article 7 of the Financial Services Act 2012 (Transitional Provisions) (Miscellaneous Provisions) Order 2013 (SI 442/2013 Definition of "consumer");

(e) [deleted]

(2A) (as further defined in section 425A of the *Act*) (in relation to the issue of statements or codes under section 64 of the *Act*), general exemptions to consultation by the *FCA* (section 138L of the *Act*) in the publication of notices (section 391 of the *Act*) and the exercise of *Treaty rights* (Schedule 4 to the *Act*) a *person* who uses, has used, may have used, or has relevant rights or interests in relation to any services provided by:

(a) *authorised persons* in carrying on regulated activities;

(b) *authorised persons* who are investment *firms*, or credit institutions, in providing relevant ancillary services; or

(c) *persons* acting as appointed representatives.

for the purposes of this definition:

(A) if a *person* is providing a service within (2)(a) or (2A) as a trustee, the *persons* who are, have been or may be beneficiaries of the trust are to be treated as *persons* who use, have used or may use the service;

(AA) a *person* has a "relevant right or interest" in relation to any services within (2)(a) or (2A) if that *person* has a right or interest:

(i) which is derived from, or is otherwise attributable to, the use of the services by others; or

(ii) which may be adversely affected by the use of the services by persons acting on that *person's* behalf or in a fiduciary capacity in relation to that *person*;

(B) a *person* who deals with another person ("A") in the course of A providing a service within (2)(a) or (2A) is to be treated as using the service;

(C) a *person* has a "relevant right or interest" in relation to any financial instrument within (2)(ca) if that person has a right or interest:

(i) which is derived from, or is otherwise attributable to, investment in the instrument by others; or

(ii) which may be adversely affected by the investment in the instrument by persons acting on that *person's* behalf or in a fiduciary capacity in relation to that *person*;

(D) (for the purposes of (2A)(b)):

(a) "credit institution" means:

(i) a credit institution authorised under the *CRD*; or

(ii) an institution which would satisfy the requirements for authorisation as a credit institution under that directive if it had its registered office (or if it does not have one, its head office) in an EEA State;

(b) "relevant ancillary service" means any service of a kind mentioned in Section B of Annex I to *MiFID* the provision of which does not involve the carrying on of a *regulated activity*.

(3) [deleted]

(4) (as further defined in section 425A and 425B of the *Act*) (in relation to the establishment and maintenance of the Consumer Panel (section 1Q of the *Act* (The Consumer Panel))) (as defined in section 1Q of the *Act*), complaints by consumer bodies (section 234C of the *Act*):

(a) a *person* within (2A), other than an *authorised person*; and

(b) (in relation to *regulated activities* carried on otherwise than by *authorised persons*) a *person*, other than an *authorised person*, who would have been a "consumer" within (2A) if the activities were carried on by an *authorised person*.

(5) [deleted]

(5A) (as further defined in sections 425A and 425B of the *Act*) until 31 March 2014, with respect to the publication of information in relation to activities carried on by *Northern Ireland credit unions* (section 391 of the *Act* and article 5 of the Financial Services and Markets Act 2000 (Permissions, Transitional Provisions and Consequential Amendments) (Northern Ireland Credit Unions) Order 2011 (SI 2832/2011) a *person* within (4)(b).

(6) [deleted]

■ DISP 1.2

consumer awareness rules

FCA PRA

consumer credit activity

FCA

any one of the following activities carried on by a *licensee*, *firm*, *payment service provider* or *electronic money issuer*:

(a) providing credit or otherwise being a creditor under a *regulated consumer credit agreement*;

(b) the bailment or (in Scotland) the hiring of goods or otherwise being an owner under a *regulated consumer hire agreement*;

(c) credit brokerage in so far as it is the effecting of introductions of:

(i) individuals desiring to obtain credit to persons carrying on a consumer credit business; or

(ii) individuals desiring to obtain goods on hire to persons carrying on a consumer hire business;

(d) in so far as they relate to *regulated consumer credit agreements* or *regulated consumer hire agreements*:

- (i) debt-adjusting;
- (ii) debt-counselling;
- (iii) debt-collecting; or
- (iv) debt administration;
- (e) the provision of credit information services; or
- (f) the operation of a credit reference agency;

where at the time of the act or omission complained of:

(g) the *licensee*, *firm*, *payment service provider* or *electronic money issuer* was:

- (i) covered by a standard licence under the Consumer Credit Act 1974 (as amended); or
- (ii) authorised to carry on an activity by virtue of section 34(A) of that Act; or
- (iii) in accordance with regulation 26(2) of the *Payment Services Regulations* or regulation 31 of the *Electronic Money Regulations*, was not required to hold a licence for consumer credit business under section 21 of the Consumer Credit Act 1974; and
- (h) the activity was carried on in the course of a business of a type specified in accordance with section 226A(2)(e) of the *Act*:

and expressions used in the Consumer Credit Act 1974 (as amended) have the same meaning in this definition as they have in that Act.

the jurisdiction of the *Financial Ombudsman Service* resulting from section 226A of the *Act* which applies to *licensees*.

Consumer
Credit
Jurisdiction

FCA PRA

consumer
credit
prohibition

FCA PRA

(as defined in section 203(3) of the *Act* (Power to prohibit the carrying on of Consumer Credit Act business)) a prohibition on carrying on, or purporting to carry on, in the *United Kingdom* any Consumer Credit Act business which consists of or includes carrying on one or more *listed activities* or *investment services*.

Consumer
Panel

FCA PRA

the panel of *persons* which section 1Q of the *Act* (The Consumer Panel) requires the *FCA* to establish and maintain, as part of its arrangements for consultation under section 1M, to represent the interests of *consumers*.

consumer
redress scheme

FCA PRA

a scheme imposed:

- (a) by *rules* on *authorised persons*, *payment service providers* or *electronic money issuers* under section 404 (Consumer redress schemes) of the *Act*; or
- (b) on a particular *firm* by a *requirement* imposed on its *permission*, or on a particular *payment service provider* or *electronic money issuer* by a *requirement* imposed on its *authorisation*, as envisaged by section 404F(7) of the *Act* but only to the extent that section 404B of the *Act* is engaged by the scheme.

contingency
funding plan

FCA PRA

(1) (in ■ SYSC 11) a plan for taking action to ensure that a *firm* has adequately liquid financial resources to meet its liabilities as they fall due, prepared under ■ SYSC 11.1.24 E.

contingent
liability
investment

FCA PRA

(2) (in ■ BIPRU 12 and BSOCS) a plan for dealing with liquidity crises as required by ■ BIPRU 12.4.10 R.

a *derivative* under the terms of which the *client* will or may be liable to make further payments (other than *charges*, and whether or not secured by *margin*) when the transaction fails to be completed or upon the earlier *closing out* of his position.

contract for
differences

FCA PRA

the *investment*, specified in article 85 of the *Regulated Activities Order* (Contracts for differences etc), which is in summary rights under:

- (a) a contract for differences; or
- (b) any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in:
 - (i) the value or price of property of any description; or
 - (ii) an index or other factor designated for that purpose in the contract ; or
- (c) a derivative instrument for the transfer of credit risk to which article 85(3) of the *Regulated Activities Order* applies.

[Note: paragraph 8 of Section C of Annex 1 to *MiFID*]

contract of
insurance

FCA PRA

(1) (in relation to a *specified investment*) the *investment*, specified in article 75 of the *Regulated Activities Order* (Contracts of insurance), which is rights under a contract of insurance in (2).

(2) (in relation to a contract) (in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation)) any contract of insurance which is a *long-term insurance contract* or a *general insurance contract*, including:

- (a) fidelity bonds, performance bonds, administration bonds, bail bonds, customs bonds or similar contracts of guarantee, where these are:
 - (i) effected or carried out by a *person* not carrying on a banking business;
 - (ii) not effected merely incidentally to some other business carried on by the *person* effecting them; and
 - (iii) effected in return for the payment of one or more premiums;
- (b) *tontines*;
- (c) *capital redemption* contracts or *pension fund management* contracts, where these are effected or carried out by a *person* who:
 - (i) does not carry on a banking business; and
 - (ii) otherwise carries on the *regulated activity* of *effecting* or *carrying out contracts of insurance*;
- (d) contracts to pay annuities on human life;
- (e) contracts of a kind referred to in article 2(2)(e) of the *Consolidated Life Directive* (Collective insurance etc); and
- (f) contracts of a kind referred to in article 2(3) of the *Consolidated Life Directive* (Social insurance);

but not including a *funeral plan contract* (or a contract which would be a *funeral plan contract* but for the exclusion in article 60 of the *Regulated Activities Order* (Plans covered by insurance or trust arrangements)); in this definition, "annuities

contract of significance

FCA **PRA**

on human life" does not include superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of *persons* engaged, or who have been engaged, in any particular profession, trade or employment, or of the dependants of such *persons*.

(in *LR*) a contract which represents in amount or value (or annual amount or value) a sum equal to 1% or more, calculated on a *group* basis where relevant, of:

(a) in the case of a capital transaction or a transaction of which the principal purpose or effect is the granting of credit, the aggregate of the *group's* share capital and reserves; or

(b) in other cases, the total annual purchases, sales, payments or receipts, as the case may be, of the *group*.

contracts of large risks

FCA **PRA**

(in *ICOB*) *contracts of insurance* covering risks within the following categories, in accordance with article 5(d) of the *First Non-Life Directive*:

(a) *railway rolling stock, aircraft, ships* (sea, lake, river and canal vessels), *goods in transit, aircraft liability* and *liability of ships* (sea, lake, river and canal vessels);

(b) *credit* and *suretyship*, where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity;

(c) *land vehicles* (other than *railway rolling stock*), *fire and natural forces*, other *damage to property, motor vehicle liability, general liability*, and *miscellaneous financial loss*, in so far as the *policyholder* exceeds the limits of at least two of the following three criteria:

(i) balance sheet total: €6.2 million;

(ii) net turnover: €12.8 million;

(iii) average number of *employees* during the financial year: 250.

contractual cross product netting agreement

FCA **PRA**

(for the purpose of ■ BIPRU 13.7 (Contractual netting)) has the meaning set out in ■ BIPRU 13.7.2 R, which is in summary a written bilateral agreement between a *firm* and a *counterparty* which creates a single legal obligation covering all included bilateral master agreements and transactions belonging to different product categories.

contractual scheme deed

FCA

(in *COLL*) the deed referred to in ■ COLL 3.2.3A R (The contractual scheme deed for ACSs), together with any deed expressed to be supplemental to it, made between the *authorised fund manager* and:

(a) the *depository*, in the case of a *co-ownership scheme*; or

(b) the *nominated partner*, in the case of a *limited partnership scheme*.

Contractual Scheme Regulations

FCA

the Collective Investment in Transferable Securities (Contractual Scheme) Regulations 2013 (SI 2013/1388).

contractual scheme rules

FCA

rules in *COLL* made by the *FCA* under section 261I of the *Act* (Contractual scheme rules) in relation to:

(a) the constitution, management and operation of ACSs;

(b) the powers, duties, rights, and liabilities of the *authorised fund manager* and *depository* of any such *scheme*;

contractually
based
investment

FCA PRA

control

FCA PRA

- (c) the rights and duties of the *participants* in any such *scheme*; and
- (d) the winding up of any such *scheme*.

(in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation)):

- (a) a *life policy* (except a *long-term care insurance* contract which is not a qualifying *contract of insurance*);
- (b) an *option, future, contract for differences* or *funeral plan contract*;
- (c) *rights to or interests in an investment* falling within (a) or (b).

(1) (except in (2) and (2A)) (in relation to the acquisition, increase or reduction of control of a *firm*) the relationship between a *person* and the *firm* or other *undertaking* of which the *person* is a controller.

(2) (in ■ SYSC 8 and ■ SYSC 10) control as defined in Article 1 of the Seventh Council Directive 83/349/EEC (The Seventh Company Law Directive) .

[Note: article 4 (1)(30) of *MiFID*]

(2A) (in relation to a *management company* carrying on *collective portfolio management* or an *AIFM*) control as defined in articles 1 and 2 of the Seventh Council Directive 83/349/EEC (The Seventh Company Law Directive).

(3) (except in (2) and (2A)) (in accordance with section 182 of the *Act*) a *controller* ("A") (whether acting alone or in concert) increases control over a *firm* ("B") when:

(a) the percentage of *shares* A holds in B or a *parent undertaking* ("P") of B increases by any of the following steps:

- (i) from less than 20% to 20% or more;
- (ii) from less than 30% to 30% or more;
- (iii) from less than 50% to 50% or more;

(b) the percentage of *voting power* A holds in B or P increases by any of the steps mentioned above; or

(c) A becomes a *parent undertaking* of B.

(4) (except in (2) and (2A)) (in accordance with section 183 of the *Act*) a *controller* ("A") (whether alone or acting in concert) reduces control over a *firm* ("B") whenever:

(a) the percentage of *shares* which A holds in B or a *parent undertaking* ("P") of B decreases by any of the following steps:

- (i) from 50% or more to less than 50%;
- (ii) from 30% or more to less than 30%;
- (iii) from 20% or more to less than 20%;

(b) the percentage of *voting power* which A holds in B or P decreases by any of the steps mentioned above; or

(c) A ceases to be a *parent undertaking* of B.

(5) (except in (2) and (2A)) (in accordance with section 183 of the *Act*) a *controller* ("A") (whether acting alone or in concert) ceases to have control over a *firm* ("B") if A ceases to hold any of the following:

- (a) 10% or more of the *shares* in B or a *parent undertaking* ("P") of B;
- (b) 10% or more of the *voting power* in B or P;

controlled activity

FCA PRA

(c) shares or *voting power* in B or in P as a result of which A is able to exercise significant influence over the management of B.

(6) (for the purposes of the calculations in (3) to (5)) the holding of *shares* or *voting power* by a *person* ("A1") includes any *shares* or *voting power* held by another ("A2") if A1 and A2 are acting in concert.

(in accordance with section 21(9) of the *Act* (The classes of activity and investment)) any of the following activities specified in Part 1 of Schedule 1 to the Financial Promotions Order (Controlled Activities):

- (a) *accepting deposits* (paragraph 1)
- (b) *effecting contracts of insurance* (paragraph 2(1));
- (c) *carrying out contracts of insurance* (paragraph 2(2));
- (d) dealing in securities and contractually based investments as principal or agent (paragraph 3(1));
- (e) *arranging (bringing about) deals in investments* (paragraph 4(1));
- (f) *making arrangements with a view to transactions in investments* (paragraph 4(2));
- (fa) operating a *multilateral trading facility* (paragraph 4A);
- (g) *managing investments* (paragraph 5);
- (h) *safeguarding and administering investments* (paragraph 6);
- (i) *advising on investments* (paragraph 7);
- (j) *advising on syndicate participation at Lloyd's* (paragraph 8);
- (k) providing funeral plan contracts (paragraph 9);
- (l) providing qualifying credit (paragraph 10);
- (m) arranging qualifying credit etc. (paragraph 10A);
- (n) advising on qualifying credit etc. (paragraph 10B);
- (o) *entering into a home purchase plan* (paragraph 10C);
- (p) *making arrangements with a view to a home purchase plan* (paragraph 10D);
- (q) *advising on a home purchase plan* (paragraph 10E);
- (r) *entering into a home reversion plan* (paragraph 10F);
- (s) *making arrangements with a view to a home reversion plan* (paragraph 10G);
- (t) *advising on a home reversion plan* (paragraph 10H); or
- (u) agreeing to carry on specified kinds of activity (paragraph 11) which are specified in paragraphs 3 to 10 H (other than paragraph 4A) of Part 1 of Schedule 1 to the *Financial Promotion Order* .

(as defined in section 30 of the *Act* (Enforceability of agreements resulting from unlawful communications)) an agreement the making or performance of which by either party constitutes a *controlled activity*.

controlled agreement

FCA PRA

controlled function

FCA PRA

a function, relating to the carrying on of a *regulated activity* by a *firm*, which is specified by either the *FCA* (in the *table of FCA controlled functions*) or the *PRA* (in the *table of PRA controlled functions*), under section 59 of the *Act* (Approval for particular arrangements) .

controlled investment

FCA PRA

(in accordance with section 21(10) of the *Act* (Restrictions on financial promotion) and article 4 of the *Financial Promotion Order* (Definitions of controlled activities and controlled investments)) an *investment* specified in Part II of Schedule 1 to the *Financial Promotion Order* (Controlled investments).

controlled undertaking

FCA PRA

any subsidiary undertaking within the meaning of the *Act* other than one falling within section 1162(4)(b) of the Companies Act 2006 or section 420(2)(b) of the *Act*.

controller

FCA PRA

(1) (in relation to a *firm* or other *undertaking* ("B"), other than a *non-directive firm*) a *person* ("A") who (whether acting alone or in concert):

(a) holds 10% or more of the *shares* in B or in a *parent undertaking* ("P") of B;

(b) holds 10% or more of the *voting power* in B or in P; or

(c) holds *shares* or *voting power* in B or P as a result of which A is able to exercise significant influence over the management of B.

(2) (in relation to a *non-directive firm* ("B")) a *person* ("A") who (whether acting alone or in concert):

(a) holds 20% or more of the *shares* in B or in a *parent undertaking* ("P") of B;

(b) holds 20% or more of the *voting power* in B or in P; or

(c) holds *shares* or *voting power* in B or P as a result of which A is able to exercise significant influence over the management of B.

(3) for the purposes of calculations relating to (1) and (2), the holding of *shares* or *voting power* by a *person* ("A1") includes any *shares* or *voting power* held by another ("A2") if A1 and A2 are acting in concert.

(4) *shares* and *voting power* that a *person* holds in a *firm* ("B") or in a *parent undertaking* of B ("P") are disregarded for the purposes of determining *control* in the following circumstances:

(a) *shares* held for the sole purposes of clearing and settling within a short settlement cycle;

(b) *shares* held by a *custodian* or its nominee in its custodian capacity are disregarded, provided that the *custodian* or nominee is only able to exercise *voting power* attached to the *shares* in accordance with instructions given in writing;

(c) *shares* representing no more than 5% of the total voting power in B or P held by an *investment firm*, provided that:

(i) it holds the *shares* in the capacity of a *market maker* (as defined in article 4.1(8) of MIFID);

(ii) it is authorised by its *Home State regulator* under MIFID; and

(iii) it does not intervene in the management of B or P nor exerts any influence on B or P to buy the *shares* or back the share price;

(d) *shares* held by a *credit institution* or *investment firm* in its *trading book* are disregarded, provided that:

(i) the *shares* represent no more than 5% of the total *voting power* in B or P; and

- (ii) the *credit institution* or *investment firm* ensures that the *voting power* is not used to intervene in the management of B or P;
- (e) *shares* held by a *credit institution* or an *investment firm* are disregarded, provided that:
- (i) the *shares* are held as a result of performing the *investment services* and activities of:
 - (A) underwriting share issues; or
 - (B) placing shares on a firm commitment basis in accordance with Annex I, section A.6 of MIFID; and
 - (ii) the *credit institution* or *investment firm*:
 - (A) does not exercise *voting power* represented by the *shares* or otherwise intervene in the management of the issuer; and
 - (B) retains the holding for a period of less than one year;
- (f) where a *management company* and its *parent undertaking* both hold *shares* or *voting power*, each may disregard holdings of the other, provided that each exercises its *voting power* independently of the other;
- (g) but (f) does not apply if the *management company*:
- (i) manages holdings for its *parent undertaking* or an *undertaking* in respect of which the *parent undertaking* is a *controller*;
 - (ii) has no discretion to exercise the *voting power* attached to such holdings; and
 - (iii) may only exercise the *voting power* in relation to such holdings under direct or indirect instruction from:
 - (A) its *parent undertaking*; or
 - (B) an *undertaking* in respect of which of the *parent undertaking* is a *controller*;
- (h) where an *investment firm* and its *parent undertaking* both hold *shares* or *voting power*, the *parent undertaking* may disregard holdings managed by the *investment firm* on a client by client basis and the *investment firm* may disregard holdings of the *parent undertaking*, provided that the *investment firm*:
- (i) has permission to provide *portfolio management*;
 - (ii) exercises its *voting power* independently from the *parent undertaking*; and
 - (iii) may only exercise the *voting power* under instructions given in writing, or has appropriate mechanisms in place for ensuring that individual portfolio management services are conducted independently of any other services.

conventional group

FCA PRA

a group of *undertakings* that consists of a *parent undertaking* and the rest of its *sub-group*.

conversion factor

FCA

(A) In the PRA Handbook:

(in accordance with Article 4(28) of the *Banking Consolidation Directive* (Definitions)) the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment; the extent of the commitment is determined by the advised limit, unless the unadvised limit is higher.

(B) In the FCA Handbook:

(in accordance with Article 4(28) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment; the extent of the commitment is determined by the advised limit, unless the unadvised limit is higher.

convertible

FCA PRA

(A) In the PRA Handbook:

(for the purposes of *BIPRU*) a *security* which gives the investor the right to convert the *security* into a *share* at an agreed price or on an agreed basis.

(B) In the FCA Handbook:

(for the purposes of *BIPRU* and *IFPRU*) a *security* which gives the investor the right to convert the *security* into a *share* at an agreed price or on an agreed basis.

convertible securities

FCA PRA

(in *LR* and *FEES*) a *security* which is:

- (a) convertible into, or exchangeable for, other *securities*; or
- (b) accompanied by a *warrant* or *option* to subscribe for or purchase other *securities*.

coordinator

FCA PRA

(in relation to a *financial conglomerate*) the *competent authority* which has been appointed, in accordance with Article 10 of the *Financial Groups Directive* (Competent authority responsible for exercising supplementary supervision (the coordinator)), as the competent authority which is responsible for the co-ordination and exercise of supplementary supervision of that *financial conglomerate*.

co-ownership scheme

FCA PRA

(as defined in section 235A(2) of the *Act* (Contractual schemes)) a *collective investment scheme* which satisfies the conditions in section 235A(3) and which is authorised for the purposes of the *Act* by an *authorisation order*.

core concentration risk group counterparty

FCA

(in relation to a *firm*) a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking*, provided that (in each case) both the counterparty and the *firm* are:

- (a) included within the scope of consolidation on a full basis with respect to the same *UK consolidation group*; and
- (b) (where relevant) held by one or more intermediate *parent undertaking* or *financial holding company*, all of which are incorporated in the *United Kingdom*.

core market participant

FCA PRA

an entity of a type listed in ■ *BIPRU* 5.4.64 R (The financial collateral comprehensive method: Conditions for applying a 0% volatility adjustment).

core provision

FCA PRA

(as defined in section 316(3) of the *Act* (Direction by a regulator)) a provision of the *Act* mentioned in section 317 of the *Act* (The core provisions) which

<p><i>core tier one capital</i></p> <p>FCA PRA</p>	<p>applies to the carrying on of an insurance market activity by a <i>member</i>, or the <i>members</i> of the <i>Society</i> taken together, if the <i>appropriate regulator</i> so directs.</p>
<p><i>core UK group</i></p> <p>FCA PRA</p>	<p>an item of capital that is stated in stage A of the <i>capital resources table</i> (Core tier one capital) to be core tier one capital.</p>
<p><i>core UK group eligible capital</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook: has the meaning given in the <i>PRA Rulebook: Large Exposures rules</i>.</p> <p>(B) In the FCA Handbook: (1) (in relation to a <i>BIPRU firm</i>) all <i>undertakings</i> which, in relation to the <i>firm</i>, satisfy the conditions set out in ■ BIPRU 3.2.25 R (Zero risk-weighting for intra-group exposures: core UK group). (2) (in relation to an <i>IFPRU investment firm</i>) all counterparties which: (a) are listed in the <i>firm's core UK group permission</i>; (b) satisfy the conditions in article 113(6) of the <i>EU CRR</i> (Calculation of risk-weighted exposure amounts: intragroup); and (c) (unless it is an <i>IFPRU limited-activity firm</i> or <i>IFPRU limited-licence firm</i>, or an <i>exempt IFPRU commodities firm</i> to which article 493(1) of the <i>EU CRR</i> (Transitional provision for large exposures) apply) for which <i>exposures</i> are exempted, under article 400(1)(f) of the <i>EU CRR</i> (Large exposures: exemptions), from the application of article 395(1) of the <i>EU CRR</i> (Limits to large exposures).</p>
<p><i>core UK group permission</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook has the meaning given in the <i>PRA Rulebook: Large Exposure rules</i>.</p> <p>(B) In the FCA Handbook means the eligible capital in the <i>core UK group</i> calculated in line with ■ IFPRU 8.2.7 R.</p>
<p><i>core UK group waiver</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook: a <i>waiver</i> that has the result of requiring a <i>firm</i> to apply: (a) (in relation to the <i>credit risk capital requirement</i>) ■ BIPRU 3.2.25 R (Zero risk-weighting for intra-group exposures: core UK group), which in summary allows a <i>firm</i> to assign a <i>risk weight</i> of 0% to <i>exposures</i> to members of its <i>core UK group</i> instead of complying with ■ BIPRU 3.2.20 R (Calculation of risk-weighted exposure amounts under the standardised approach); or (b) (in relation to <i>large exposures</i>) ■ BIPRU 10.8A (Intra-group exposures: core UK group), which in summary exempts all <i>exposures</i> between members of a <i>core UK group</i> from the limits described in ■ BIPRU 10.5 (Limits on exposures).</p>

(B) In the FCA Handbook:

(in BIPRU) a *waiver* that has the result of requiring a *firm* to apply:

(a) (in relation to the *credit risk capital requirement*) ■ BIPRU 3.2.25 R (Zero risk-weighting for intra-group exposures: core UK group), which in summary allows a *firm* to assign a *risk weight* of 0% to *exposures* to members of its *core UK group* instead of complying with ■ BIPRU 3.2.20 R (Calculation of risk-weighted exposure amounts under the standardised approach); or

(b) [deleted]

(in relation to the *IRB approach* or the *standardised approach* to credit risk) a *person* an *exposure* to whom is a *corporate exposure*.

corporate

FCA PRA

corporate
exposure

FCA PRA

(1) (in relation to the *IRB approach*) an *exposure* falling into ■ BIPRU 4.3.2 R (3) (IRB exposure classes).

(2) (in relation to the *standardised approach* to credit risk) an *exposure* falling into ■ BIPRU 3.2.9 R (7) (Standardised approach to credit risk exposure classes).

corporate
finance
advisory firm

FCA PRA

a *firm* whose permission includes a *requirement* that the *firm* must not conduct *designated investment business* other than *corporate finance business*.

corporate
finance
business

FCA PRA

(a) *designated investment business* carried on by a *firm* with or for:

(i) any *issuer*, holder or owner of *designated investments*, if that business relates to the *offer*, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, those *investments*, or any related matter;

(ii) any *eligible counterparty* or *professional client*, or other *body corporate*, *partnership* or supranational organisation, if that business relates to the manner in which, or the terms on which, or the *persons* by whom, any business, activities or undertakings relating to it, or any *associate*, are to be financed, structured, managed, controlled, regulated or reported upon;

(iii) any *person* in connection with:

(A) a proposed or actual *takeover or related operation* by or on behalf of that *person*, or involving *investments* issued by that *person* (being a *body corporate*), its *holding company*, *subsidiary* or *associate*; or

(B) a merger, de-merger, reorganisation or reconstruction involving any *investments* issued by that *person* (being a *body corporate*), its holding company, subsidiary or *associate*;

(iv) any shareholder or prospective shareholder of a *body corporate* established or to be established for the purpose of effecting a *takeover or related operation*, where that business is in connection with that *takeover or related operation*;

(v) any *person* who, acting as a *principal* for his own account:

(A) is involved in negotiations or decisions relating to the commercial, financial or strategic intentions or requirements of a business or prospective business; or

(B) (provided he is acting otherwise than solely in his capacity as an investor) assists the interests of another *person* with or for whom the *firm*, or another *authorised person* or *overseas person*, is undertaking business as specified in (a)(i), (ii), (iii) or (iv), by himself undertaking all or part of any transactions involved in such business;

(vi) any *person* undertaking business with or for a *person* as specified in (a)(i), (ii), (iii), (iv) or (v) in respect of activities described in those sub-paragraphs;

(b) *designated investment business* carried on by a *firm* as a *principal* for its own account where such business:

(i) is in the course of, or arises out of, activities undertaken in accordance with (a); and

(ii) does not involve transactions with or for, or *advice on investments* to, any other *person* who is a *retail client* in respect of such business;

(c) *designated investment business* carried on by a *firm* as *principal* for its own account if such business:

(i) is in the course of, or arises out of:

(A) the *offer*, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, *shares*, share warrants, *debentures* or debenture warrants issued by the *firm*, or any related matter; or

(B) a proposed or actual *takeover or related operation* by or on behalf of the *firm*, or involving *shares*, share warrants, *debentures* or debenture warrants issued by the *firm*; or

(C) a merger, de-merger, reorganisation or reconstruction involving any *shares*, share warrants, *debentures* or debenture warrants issued by the *firm*; and

(ii) does not involve *advice on investments* to any *person* who is a *retail client* ;

in this definition, "share warrants" and "debenture warrants" mean any *warrants* which relate to *shares* in the *firm* concerned or, as the case may be, *debentures* issued by the *firm*.

(when a *firm* carries on *regulated activities* with or for a *person* in the course of or as a result of either carrying on *corporate finance business* with or for a *client*, or carrying on *corporate finance business* for the *firm's* own account) that *person* in connection with that *regulated activity* if:

(a) the *firm* does not behave in a way towards that *person* which might reasonably be expected to lead that *person* to believe that he is being treated as a *client*; and

(b) the *firm* clearly indicates to that *person* that it:

(i) is not acting for him; and

(ii) will not be responsible to him for providing protections afforded to *clients* of the *firm* or be advising him on the relevant transaction.

corporate
finance contact

FCA PRA

corporate governance rules

FCA **PRA**

(in accordance with sections 73A(1) and 89O(1) of the *Act*) *rules* for the purpose of implementing, enabling the implementation of or dealing with matters arising out of or related to, any *EU* law obligation relating to the corporate governance of *issuers* who have requested or approved *admission to trading* of their securities and about corporate governance in relation to such *issuers* for the purpose of implementing, or dealing with matters arising out of or related to, any *EU* law obligation. The *corporate governance rules* are located in chapters 1B, 4 and 7 of *DTR*.

corporate member

FCA **PRA**

a *member* that is a *body corporate* or a Scottish Limited partnership.

correlation trading portfolio

FCA **PRA**

(in **■** BIPRU 7) a portfolio consisting of *securitisation positions* and nth-to-default credit derivatives that meet the criteria set out at **■** BIPRU 7.2.42A R, or other *positions* which may be included in accordance with **■** BIPRU 7.2.42B R.

Council

FCA **PRA**

the *governing body* of the *Society* constituted by section 3 of Lloyd's Act 1982.

counterparty

FCA **PRA**

(1) (in *UPRU*) any *person* with or for whom a firm carries on *designated investment business* or an *ancillary activity*.

(2) (for the purposes of the rules relating to insurers in *GENPRU* and *INSPRU*) (in relation to an *insurer*, the *Society*, a *syndicate* or *member* ('A')):

- (a) any one individual; or
- (b) any one unincorporated body of *persons*; or
- (c) any *company* which is not a member of a *group*; or
- (d) any *group* of *companies* excluding:
 - (i) (for the purposes of **■** INSPRU 2.1) any *companies* within the *group* which are *subsidiary undertakings* of A and which fall within **■** GENPRU 1.3.43 R; and
 - (ii) (for all other purposes) any *companies* within the *group* which are *subsidiary undertakings* of A; or
- (e) any government of a State together with all the public bodies, local authorities or nationalised industries of that State,

in which A, or any of its *subsidiary undertakings*, has made *investments* or against whom, or in respect of whom, it, or any of its *subsidiary undertakings*, has rights or obligations under a contract entered into by A or any of its *subsidiary undertakings*.

(3) (for the purposes of the *rules* relating to *BIPRU firms* in *GENPRU* and *BIPRU* and in relation to an *exposure* of a *person* ('A')) the counterparty with respect to that *exposure* or, if the context requires, another *person* in respect of whom, under that *exposure*, A is exposed to credit risk or the risk of loss if that *person* fails to meet its obligations, such as the issuer of the underlying *security* in relation to a *derivative* held by A.

(A) In the PRA Handbook:

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) the risk that

counterparty credit risk

FCA **PRA**

<p><i>counterparty risk</i> FCA</p>	<p>the counterparty to a transaction could default before the final settlement of the transaction's cash flows.</p> <p>(2) (other than in (1)) has the meaning as used in the <i>EU CRR</i>.</p> <p>(B) In the FCA Handbook:</p> <p>(1) (in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>BIPRU</i>) the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.</p> <p>(2) (other than in (1)) has the meaning as used in the <i>EU CRR</i>.</p> <p>(in <i>COLL</i> and <i>FUND</i>) the risk of loss for a <i>UCITS</i> or an <i>AIF</i> resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow.</p>
<p><i>counterparty risk capital component</i> FCA PRA</p>	<p>the part of the <i>credit risk capital requirement</i> calculated in accordance with ■ <i>BIPRU</i> 14.2.1 R (Calculation of the counterparty risk capital component).</p>
<p><i>country of origin</i> FCA PRA</p>	<p>in relation to an <i>electronic commerce activity</i>, the <i>EEA State</i> in which the <i>establishment</i> from which the service in question is provided is situated.</p>
<p><i>coupon</i> FCA PRA</p>	<p>a dividend, interest payment or any similar payment.</p>
<p><i>covered bond</i> FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>(1) (in accordance with Article 52(4) of the <i>UCITS Directive</i> and except for the purposes of the <i>IRB approach</i> or the <i>standardised approach</i> to credit risk) a bond that is issued by a <i>credit institution</i> which has its registered office in an <i>EEA State</i> and is subject by law to special public supervision designed to protect bondholders and in particular protection under which sums deriving from the issue of the bond must be invested in conformity with the law in assets which, during the whole period of validity of the bond, are capable of covering claims attaching to the bond and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.</p> <p>(2) (in accordance with point 68 of Part 1 of Annex VI of the <i>Banking Consolidation Directive</i> (Exposures in the form of covered bonds) and for the purposes of the <i>IRB approach</i> or the <i>standardised approach</i> to credit risk in <i>BIPRU</i>) a covered bond as defined in (1) collateralised in accordance with ■ <i>BIPRU</i> 3.4.107 R (Exposures in the form of covered bonds).</p> <p>(3) (in <i>RCB</i>) (as defined in Regulation 1(2) of the <i>RCB Regulations</i>) a bond in relation to which the claims attaching to that bond are guaranteed to be paid by an <i>owner</i> from an <i>asset pool</i> it owns.</p> <p>(4) (in accordance with Article 22(4) of the <i>Third Non-Life Directive</i> and Article 24(4) of the <i>Consolidated Life Directive</i> and</p>

for the purposes of ■ INSPRU 2.1) a *debenture* that is issued by a *credit institution* which:

- (a) has its head office in an *EEA State*; and
- (b) is subject by law to special official supervision designed to protect the holders of the *debenture*; in particular, sums deriving from the issue of the *debenture* must be invested in accordance with the law in assets which, during the whole period of validity of the *debenture*, are capable of covering claims attaching to the *debenture* and which, in the event of failure of the *issuer*, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

(B) In the FCA Handbook:

(1) (in accordance with Article 52(4) of the *UCITS Directive* and except for the purposes of the *IRB approach* or the *standardised approach* to credit risk) a bond that is issued by a *credit institution* which has its registered office in an *EEA State* and is subject by law to special public supervision designed to protect bondholders and in particular protection under which sums deriving from the issue of the bond must be invested in conformity with the law in assets which, during the whole period of validity of the bond, are capable of covering claims attaching to the bond and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

(2) (in accordance with point 68 of Part 1 of Annex VI of the *Banking Consolidation Directive* (Exposures in the form of covered bonds) and for the purposes of the *IRB approach* or the *standardised approach* to credit risk in *BIPRU*) a covered bond as defined in (1) collateralised in accordance with ■ BIPRU 3.4.107 R (Exposures in the form of covered bonds).

(3) (in *RCB*) (as defined in Regulation 1(2) of the *RCB Regulations*) a bond in relation to which the claims attaching to that bond are guaranteed to be paid by an *owner* from an *asset pool* it owns.

(4) (in accordance with Article 22(4) of the *Third Non-Life Directive* and Article 24(4) of the *Consolidated Life Directive* and for the purposes of ■ INSPRU 2.1) a *debenture* that is issued by a *credit institution* which:

- (a) has its head office in an *EEA State*; and
- (b) is subject by law to special official supervision designed to protect the holders of the *debenture*; in particular, sums deriving from the issue of the *debenture* must be invested in accordance with the law in assets which, during the whole period of validity of the *debenture*, are capable of covering claims attaching to the *debenture* and which, in the event of failure of the *issuer*, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

the Consumer Prices Index.

(A) In the PRA Handbook:

the *Capital Adequacy Directive* and the *Banking Consolidation Directive*.

PAGE
C55

CPI

FCA

CRD

FCA

PRA

CRD bank

FCA PRA

(B) In the FCA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU* 3) and *BIPRU* (except ■ *BIPRU* 12)) the *Capital Adequacy Directive* and the *Banking Consolidation Directive*.

(2) (except in (1)) the Directive of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (No 2013/36/EU) and amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

(A) In the PRA Handbook:

a *bank* which uses the *EU CRR* to measure the capital requirement on its trading book.

(B) In the FCA Handbook:

a *bank* which uses the *EU CRR* to measure the capital requirement on its trading book.*CRD credit institution*

FCA PRA

(A) In the PRA Handbook:

a *credit institution* that has its registered office (or, if it has no registered office, its head office) in an *EEA State*, excluding an *institution* to which the *CRD* does not apply under article 2 of the *CRD* (see also *full CRD credit institution*).

(B) In the FCA Handbook:

a *credit institution* that has its registered office (or, if it has no registered office, its head office) in an *EEA State*, excluding an *institution* to which the *CRD* does not apply under article 2 of the *CRD* (see also *full CRD credit institution*).*CRD financial instrument*

FCA PRA

has the meaning set out in ■ *BIPRU* 1.2.7 R to ■ *BIPRU* 1.2.8 R (*CRD* financial instruments), which is in summary any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.*CRD full-scope firm*

FCA

an investment firm as defined in article 4(1)(2) of the *EU CRR* that is subject to the requirements imposed by *MiFID* (or which would be subject to that Directive if its head office were in an *EEA State*) and that is not a *limited activity firm* or a *limited licence firm*.*CRD implementation measure*

FCA PRA

(A) In the PRA Handbook:

(in relation to an *person* and for the purposes of *GENPRU* and *BIPRU* (except in ■ *GENPRU* 3)), a provision of the *Banking Consolidation Directive* or the *Capital Adequacy Directive* and an *EEA State* other than the *United Kingdom*) a measure implementing that provision of that Directive for that type of *person* in that *EEA State*.

(B) In the FCA Handbook:

(in relation to an *person* and for the purposes of *GENPRU* and *BIPRU* (except in ■ *GENPRU* 3 and ■ *BIPRU* 12)), a provision of the *Banking Consolidation Directive* or the *Capital Adequacy Directive* and an *EEA State* other than the *United Kingdom*) a measure implementing that provision of that Directive for that type of *person* in that *EEA State*.*CRED*

FCA PRA

the Credit Unions sourcebook.

credit

FCA PRA

(1) (except in relation to a *class of contract of insurance*) any kind of loan, deferment of repayment of any loan or of interest on any loan, guarantee or indemnity, and any other kind of accommodation or facility in the nature of credit.

(2) (in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 14 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against risks of loss to the *persons* insured arising from the insolvency of debtors of theirs or from the failure (otherwise than through insolvency) of debtors of theirs to pay their debts when due.

credit enhancement

FCA

(in accordance with Article 4(43) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) a contractual arrangement whereby the credit quality of a *position* in a *securitisation* (within the meaning of paragraph (2) of the definition of *securitisation*) is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior *tranches* in the *securitisation* and other types of credit protection.

credit equalisation provision

FCA PRA

the provision required to be established by INSPRU 1.4.43R.

credit institution

FCA PRA

(A) In the PRA Handbook:

(1) (except in *REC*)

- (a) has the meaning in article 4(1)(1) of the *EU CRR*; or
- (b) [deleted]
- (c) [deleted]
- (d) [deleted]

(2) (in *REC* and in *SUP* 11 (Controllers and close links) and *SUP* 16 (Reporting requirements)):

- (a) a credit institution authorised under the *CRD*; or
- (b) an institution which would satisfy the requirements for authorisation as a credit institution under the *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*.

(3) (in relation to the definition of *electronic money issuer*) a credit institution as defined by (1)(a) and includes a branch of the credit institution within the meaning of article 4(1)(17) of the *EU CRR* which is situated within the *EEA* and which has its head office in a territory outside the *EEA* in accordance with article 47 of the *CRD*.

(B) In the FCA Handbook:

(1) (except in *REC*):

- (a) has the meaning in article 4(1)(1) of the *EU CRR*; or
- (b) [deleted]
- (c) [deleted]
- (d) [deleted]

(2) (in *REC* and in *SUP* 11 (Controllers and close links) and *SUP* 16 (Reporting requirements)):

credit quality
assessment
scale

FCA PRA

credit quality
step

FCA PRA

credit risk
capital
component

FCA PRA

credit risk
capital
requirement

FCA PRA

credit risk
mitigation

FCA PRA

- (a) a credit institution authorised under the *CRD*; or
- (b) an institution which would satisfy the requirements for authorisation as a credit institution under the *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*.

(3) (in relation to the definition of *electronic money issuer*) a credit institution as defined by (1)(a) and includes a branch of the credit institution within the meaning of article 4(1)(17) of the *EU CRR* which is situated within the *EEA* and which has its head office in a territory outside the *EEA* in accordance with article 47 of the *CRD*.

the credit quality assessment scale:

- (1) onto which the credit assessments of an export credit agency are mapped under the table in ■ [BIPRU 3.4.9 R](#) (Exposure for which a credit assessment by an export credit agency is recognised); or
- (2) published by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* which determine:
 - (a) (in relation to an *eligible ECAI* whose recognition is for *risk weighting* purposes other than those in (2)(b)) with which of the *credit quality steps* set out in ■ [BIPRU 3.4](#) (Risk weights under the standardised approach to credit risk) the relevant credit assessments of an *eligible ECAI* are to be associated; or
 - (b) (in relation to an *eligible ECAI* whose recognition is for *securitisation risk-weighting* purposes) with which of the *credit quality steps* set out in ■ [BIPRU 9](#) (Securitisation) the relevant credit assessments of the *eligible ECAI* are to be associated.

a credit quality step in a *credit quality assessment scale* as set out in ■ [BIPRU 3.4](#) (Risk weights under the standardised approach to credit risk) and ■ [BIPRU 9](#) (Securitisation).

the part of the *credit risk capital requirement* calculated in accordance with ■ [BIPRU 3.1.5 R](#) (Calculation of the credit risk capital component).

the part of the *capital resources requirement* of a *BIPRU firm* in respect of credit risk, calculated in accordance with ■ [GENPRU 2.1.51 R](#) (Calculation of the credit risk capital requirement).

(A) In the PRA Handbook:

(in accordance with Article 4(30) of the *Banking Consolidation Directive* (Definitions)) a technique used by an *undertaking* to reduce the credit risk associated with an *exposure* or *exposures* which the *undertaking* continues to hold.

(B) In the FCA Handbook:

- (1) (in *GENPRU* (except in ■ [GENPRU 3](#)) and *BIPRU* (except in ■ [BIPRU 12](#))) (in accordance with Article 4(30) of the *Banking Consolidation Directive* (Definitions)) a technique used by an *undertaking* to reduce the credit risk associated with an *exposure* or *exposures* which the *undertaking* continues to hold.

<p><i>credit union</i> FCA PRA</p>	<p>(2) (except in (1)) has the meaning in article 4(1)(58) of the <i>EU CRR</i>.</p> <p>a body corporate registered under the Industrial and Provident Societies Act 1965 as a credit union in accordance with the Credit Unions Act which is an <i>authorised person</i> or a body corporate registered under the Credit Unions (Northern Ireland) Order 1985 which is an <i>authorised person</i> or a body corporate registered under the Industrial and Provident Societies Act (Northern Ireland) 1969 as a credit union which is an <i>authorised person</i>.</p>
<p><i>credit unions day</i> FCA PRA</p>	<p>(in relation to a <i>Great Britain credit union</i>) 1 July 2002 or (in relation to a <i>Northern Ireland credit union</i>) 31 March 2012.</p>
<p><i>credit valuation adjustment</i> FCA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>BIPRU</i>) an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty; and so that this adjustment:</p> <p>(a) reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty; and</p> <p>(b) may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the <i>firm</i> and the counterparty.</p>
<p><i>CREDS</i> FCA PRA</p>	<p>the Credit Unions sourcebook.</p>
<p><i>CREST</i> FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>the computer-based system which enables securities to be held and transferred in uncertificated form and which is operated by CRESTCo Limited.</p> <p>(B) In the FCA Handbook:</p> <p>the computer-based system which enables securities to be held and transferred in uncertificated form and which is operated by Euroclear UK & Ireland Limited.</p>
<p><i>CRM eligibility conditions</i> FCA PRA</p>	<p>(1) (in relation to the <i>standardised approach</i> to credit risk), ■ BIPRU 5.3.1 R-■ BIPRU 5.3.2 R, ■ BIPRU 5.4.1 R-■ BIPRU 5.4.8 R, ■ BIPRU 5.5.1 R, ■ BIPRU 5.5.4 R, ■ BIPRU 5.5.8 R, ■ BIPRU 5.6.1 R and ■ BIPRU 5.7.1 R-■ BIPRU 5.7.4 R; or</p> <p>(2) (in relation to the <i>IRB approach</i>), the provisions in (1) and ■ BIPRU 4.4.83 R, ■ BIPRU 4.10-■ BIPRU 4.10.7 R, ■ BIPRU 4.10.9 R, ■ BIPRU 4.10.10 R-■ BIPRU 4.10.12 R, ■ BIPRU 4.10.14 R, ■ BIPRU 4.10.16 R, ■ BIPRU 4.10.19 R, and ■ BIPRU 4.10.38 R-■ BIPRU 4.10.39 R.</p>
<p><i>CRM minimum requirements</i> FCA PRA</p>	<p>(1) in relation to the <i>standardised approach</i> to credit risk); ■ BIPRU 5.2.9 R-■ BIPRU 5.2.10 R, ■ BIPRU 5.3.3 R, ■ BIPRU 5.4.9 R-■ BIPRU 5.4.13 R, ■ BIPRU 5.5.2 R, ■ BIPRU 5.5.5 R-■ BIPRU 5.5.6 R, ■ BIPRU 5.6.2 R-■ BIPRU 5.6.3 R, ■ BIPRU 5.7.6 R-■ BIPRU 5.7.14 R; or</p> <p>(2) (in relation to the <i>IRB approach</i>), the provisions in (1) and ■ BIPRU 4.4.85 R, ■ BIPRU 4.10.13 R, ■ BIPRU 4.10.15 R, and ■ BIPRU 4.10.18 R-■ BIPRU 4.10.19 R.</p>
<p><i>cross border services</i> FCA PRA</p>	<p>(1) (in relation to a <i>UK firm</i>) services provided within an <i>EEA State</i> other than the <i>United Kingdom</i> under the freedom to provide services.</p> <p>(2) (in relation to an <i>incoming EEA firm</i> or an <i>incoming Treaty firm</i>) services provided within the <i>United Kingdom</i> under the freedom to provide services.</p>

<p><i>cross product netting</i></p> <p>FCA PRA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the inclusion of transactions of different product categories within the same <i>netting set</i> pursuant to the <i>rules</i> about cross-product netting set out in ■ BIPRU 13.</p>
<p><i>Cross-Border Payments in Euro Regulations</i></p> <p>FCA PRA</p>	<p>the Cross-Border Payments in Euro Regulations 2010 (SI 2010/89).</p>
<p><i>cross-border UCITS merger</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i> and in accordance with article 2(1)(q) of the <i>UCITS Directive</i>) a <i>UCITS merger</i> of two or more <i>UCITS</i>:</p> <p style="margin-left: 20px;">(a) at least two of which are established in different <i>EEA States</i>; or</p> <p style="margin-left: 20px;">(b) established in the same <i>EEA State</i> into a newly constituted <i>UCITS</i> established in another <i>EEA State</i>;</p> <p>but at least one of which is established in the <i>United Kingdom</i>.</p>
<p><i>cross-transaction</i></p> <p>FCA PRA</p>	<p>(a) a transaction by which a <i>person</i> matches, at the same price and on the same terms, the <i>buy</i> and <i>sell</i> orders of two or more <i>persons</i> for whom he is acting as agent;</p> <p>(b) a transaction to which only one <i>person</i> is a party, by which he purports to <i>sell</i> to and <i>buy</i> from himself.</p>
<p><i>CRR</i></p> <p>FCA PRA</p>	<p><i>capital resources requirement</i>.</p>
<p><i>CRR firm</i></p> <p>FCA PRA</p>	<p>(A) (in the PRA Handbook):</p> <p>for the purposes of SYSC means <i>UK banks, buildings society</i> and <i>investment firms</i> that are subject to the <i>EU CRR</i>.</p> <p>(B) (in the FCA Handbook)</p> <p>(for the purposes of SYSC) a <i>UK bank, building society</i> and an <i>investment firm</i> that is subject to the <i>EU CRR</i>.</p>
<p><i>CTF</i></p> <p>FCA PRA</p>	<p>(as defined in section 1(2) of the Child Trust Funds Act 2004) a child trust fund, that is, an account which:</p> <p style="margin-left: 20px;">(1) is held by a child who is or has been an eligible child (as defined in section 2 of that Act);</p> <p style="margin-left: 20px;">(2) satisfies the requirements imposed by or under the Child Trust Funds Act 2004; and</p> <p style="margin-left: 20px;">(3) has been opened in accordance with the Child Trust Funds Act 2004.</p>
<p><i>CTF bank account</i></p> <p>FCA PRA</p>	<p>a bank account which fulfils the requirements of Regulation 11(5) of the <i>CTF Regulations</i>.</p>
<p><i>CTF provider</i></p> <p>FCA PRA</p>	<p>(in accordance with section 3(1) of the Child Trust Funds Act 2004) a <i>person</i> approved by HM Revenue and Customs in accordance with the <i>CTF Regulations</i>.</p>

CTF
Regulations

FCA PRA

the Child Trust Funds Regulations 2004 (SI 2004/1450) .

CTF transfer

FCA PRA

a transaction resulting from a decision by a *customer*, made with or without advice from a *firm*, to transfer the *investments* (or their value) held in an existing CTF into another CTF whether or not provided by the same CTF provider.

currency class
unit

FCA PRA

(in COLL) a class of *unit* denominated in a currency that is not the *base currency* of the *authorised fund*, or if permitted, by ■ COLL 3.3.4 R (1) (Currency class units: requirements).

current
approved
person
approval

FCA PRA

(in relation to an *approved person* in relation to a particular *firm* and *controlled function* as at any particular time) an approval under section 59 of the Act (Approval for particular arrangements) given by the FCA or the PRA in relation to that *person* for the performance of that *controlled function* in relation to that *firm* that is in force at that time.

current
customer order

FCA PRA

- (a) a *customer order* to be *executed* immediately;
- (b) a *customer order* which is to be *executed* only on fulfilment of a condition, after the condition has been fulfilled.

current
exposure

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the larger of zero, or the market value of a transaction or portfolio of transactions within a *netting set* with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy.

current FCA
approved
person
approval

FCA PRA

a *current approved person approval* given by the FCA.

current market
value

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13.5 (CCR standardised method)) the net market value of the portfolio of transactions within the *netting set* with the counterparty; both positive and negative market values are used in computing *current market value*.

current PRA
approved
person
approval

FCA PRA

a *current approved person approval* given by the PRA.

custodian

FCA PRA

- (a) an *approved bank*;
- (b) an *approved depositary*;

<p><i>custody</i> FCA PRA</p>	<p>(c) a <i>member of a recognised investment exchange or designated investment exchange</i>;</p> <p>(d) a <i>firm whose permitted activities include safeguarding and administering investments</i>;</p> <p>(e) a regulated <i>clearing firm</i>;</p> <p>(f) where it is not feasible to use a <i>custodian</i> in (a) to (e), and there are reasonable grounds to show that a <i>person</i> outside the <i>United Kingdom</i>, whose business includes the provision of custodial services, is able to provide such services which are appropriate to the <i>client</i> and in the <i>client's</i> best interest to use, that <i>person</i>.</p> <p>(in relation to <i>clients' assets</i>) <i>safeguarding and administering investments</i>.</p>
<p><i>custody asset</i> FCA PRA</p>	<p>(A) (in the <i>FCA Handbook</i>)</p> <p>(1) other than when <i>acting as trustee or depositary of an AIF</i>:</p> <p style="padding-left: 40px;">(a) a <i>designated investment</i> held for or on behalf of a <i>client</i>;</p> <p style="padding-left: 40px;">(b) any other asset which is or may be held with a <i>designated investment</i> held for, or on behalf of, a <i>client</i>.</p> <p>(2) in relation to <i>acting as trustee or depositary of an AIF</i> in ■ CASS 6:</p> <p style="padding-left: 40px;">(a) an <i>AIF custodial asset</i> held by a <i>depositary</i> in line with ■ FUND 3.11.21 R (Depositary functions: safekeeping of financial instruments); or</p> <p style="padding-left: 40px;">(b) any other asset of an <i>AIF</i> in respect of which a <i>depositary</i> exercises safe-keeping functions in line with ■ FUND 3.11.23 R (Depositary functions: safekeeping of other assets).</p> <p>(B) (in the <i>PRA Handbook</i>)</p> <p style="padding-left: 40px;">(a) a <i>designated investment</i> held for or on behalf of a <i>client</i>;</p> <p style="padding-left: 40px;">(b) any other asset which is or may be held with a <i>designated investment</i> held for, or on behalf of, a <i>client</i>.</p> <p>■ CASS 6.</p>
<p><i>custody chapter</i> FCA PRA</p>	<p>■ CASS 6.</p>
<p><i>custody rules</i> FCA PRA</p>	<p>■ CASS 6.</p>
<p><i>customer</i> FCA PRA</p>	<p>(1) (except in relation to <i>ICOBS</i>, ■ MCOB 3 and ■ CASS 5) a <i>client</i> who is not an <i>eligible counterparty</i> for the relevant purposes .</p> <p>(2) (in relation to ■ MCOB 3) a <i>person</i> in (1) or a <i>person</i> who would be such a <i>person</i> if he were a <i>client</i>.</p> <p>(3) (in relation to <i>ICOBS</i>) a <i>person</i> who is a <i>policyholder</i>, or a prospective <i>policyholder</i> but (except in ■ ICOBS 2 (general matters), and (in respect of that chapter) ■ ICOBS 1 (application)) excluding a</p>

policyholder or prospective *policyholder* who does not make the arrangements preparatory to him concluding the *contract of insurance* .

(4) (in relation to ■ CASS 5) a *client*.

customer function

FCA PRA

(in the *FCA Handbook*) *FCA controlled function* CF30 in Parts 1 and 2 of the table of *FCA controlled functions*, described more fully in ■ SUP 10A.10.7 R.

customer order

FCA PRA

(a) an order to a *firm* from a *customer* to *execute* a transaction as agent;

(b) any other order to a *firm* from a *customer* to *execute* a transaction in circumstances giving rise to duties similar to those arising on an order to *execute* a transaction as agent;

(c) a decision by a *firm* in the exercise of discretion to *execute* a transaction with or for a *customer*.

customer-dealing function

FCA PRA

(in accordance with section 59(7A) of the *Act* (Approval for particular arrangements) in relation to the carrying on of a *regulated activity* by an *authorised person* ("A") a function that will involve the *person* performing it in dealing with:

(a) customers of A; or

(b) property of customers of A;

in a manner substantially connected with the carrying on of the activity.

Definitions

damage to property

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 9 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against loss of or damage to property (other than property to which paragraphs 3 to 7 of that Schedule (L and vehicles, Railway rolling stock, Aircraft, Ships and Goods in transit) relate) due to hail or frost or any other event (such as theft) other than those mentioned in paragraph 8 of that Schedule (Fire and natural forces).

data element

FCA PRA

A discrete fact or individual piece of information relating to a particular field within a *data item* required to be submitted to the *appropriate regulator* by a *firm* or other regulated entity.

data item

FCA PRA

One or more related *data elements* that are grouped together into a prescribed format and required to be submitted by a *firm* or other regulated entity under ■ SUP 16 or provisions referred to in ■ SUP 16.

data set

FCA PRA

One or more *data items* relating to the same *regulated activity*.

date of allotment

FCA PRA

the date on which amounts of the *relevant security* are allotted to subscribers or purchasers and, where there is an initial or preliminary allotment subject to confirmation, the date of that initial or preliminary allotment.

day

FCA PRA

a period of 24 hours beginning at midnight.

deal

FCA PRA

a *dealing* transaction.

deal on own account

FCA PRA

(A) In the PRA Handbook:

(for the purposes of *GENPRU* and *BIPRU*) has the meaning in ■ BIPRU 1.1.23 R (Meaning of dealing on own account) which is in summary the service referred to in point 3 of Section A Annex I to *MiFID*, subject to the adjustments in ■ BIPRU 1.1.23 R (2) and ■ BIPRU 1.1.23 R (3) (Implementation of Article 5(2) of the *Capital Adequacy Directive*).

(B) In the FCA Handbook:

(1) (for the purposes of *GENPRU* and *BIPRU*) has the meaning in ■ BIPRU 1.1.23 R (Meaning of dealing on own account) which is in summary the service referred to in point 3 of Section A Annex I to *MiFID*, subject to the adjustments in ■ BIPRU 1.1.23 R (2) and ■ BIPRU 1.1.23 R (3) (Implementation of Article 5(2) of the *Capital Adequacy Directive*).

(2) (for the purposes of *IFPRU*) has the meaning in ■ IFPRU 1.1.12 R (Meaning of dealing on own account) which is, in summary, the service referred to in point 3 of Section A of Annex I to *MiFID*, subject to the adjustments in ■ IFPRU 1.1.12 R (2) and ■ IFPRU 1.1.12 R (3) (Implementation of article 29(2) of *CRD*).

dealing

FCA PRA

(1) (other than in ■ MAR 1 (The Code of Market Conduct)) (in accordance with paragraph 2 of Schedule 2 to the *Act* (*Regulated activities*) buying, selling, subscribing for or underwriting *investments* or offering or agreeing to do so, either as a *principal* or as an agent, including, in the case of an *investment* which is a *contract of insurance*, carrying out the contract.

<p>(2) (in ■ MAR 1) (as defined as in section 130A(3) of the <i>Act</i>), in relation to an investment, means acquiring or disposing of the investment whether as principal or agent or directly or indirectly, and includes agreeing to acquire or dispose of the investment, and entering into and bringing to an end a contract creating it.</p>	
<p><i>dealing day</i> FCA PRA</p>	<p>(in <i>COLL</i>) the period in a <i>business day</i> (in accordance with provisions of the <i>prospectus</i>) during which the <i>ACD</i> or the <i>operator</i> is open for business.</p>
<p><i>dealing in investments as agent</i> FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 21 of the <i>Regulated Activities Order</i> (Dealing in investments as agent), which is in summary: <i>buying, selling, subscribing for or underwriting designated investments, pure protection contracts</i> or <i>general insurance contracts</i> as agent.</p>
<p><i>dealing in investments as principal</i> FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 14 of the <i>Regulated Activities Order</i> (Dealing in investments as principal), which is in summary: <i>buying, selling, subscribing for or underwriting designated investments</i> as principal.</p>
<p><i>dealing on own account</i> FCA PRA</p>	<p>trading against proprietary capital resulting in the conclusion of transactions in one or more <i>financial instruments</i>.</p> <p>[Note: article 4(1)(6) of <i>MIFID</i>]</p>
<p><i>dealing period</i> FCA PRA</p>	<p>(in <i>COLL</i>) the period between one <i>valuation point</i> and the next.</p>
<p><i>debenture</i> FCA PRA</p>	<p>the <i>investment</i>, specified in article 77 of the <i>Regulated Activities Order</i> (Instruments creating or acknowledging indebtedness), which is in summary: any of the following which are not <i>government and public securities</i>:</p> <ul style="list-style-type: none"> (a) debentures; (b) debenture stock; (c) loan stock; (d) bonds; (e) certificates of deposit; (f) any other instrument creating or acknowledging indebtedness.
<p><i>debt capital</i> FCA PRA</p>	<p>(in <i>IPRU(INV)</i> 13) a <i>security</i> of indeterminate duration or other instrument the debt agreement for which provides that:</p> <ul style="list-style-type: none"> (a) it may not be reimbursed on the holder's initiative; (b) the borrower has the option of deferring the payment of interest on the debt; (c) the lender's claims on the borrower must be wholly subordinated to those of all non-subordinated creditors; (d) debt and unpaid interest should be such as to absorb losses, whilst leaving the borrower in a position to continue trading; <p>and which is fully paid-up.</p>

debt security

FCA PRA

(1) (in ■ DTR 2, ■ DTR 3 and LR) *debentures, alternative debentures*, debenture stock, loan stock, bonds, certificates of deposit or any other instrument creating or acknowledging indebtedness.

(2) (in ■ DTR 4, ■ DTR 5 and ■ DTR 6) (in accordance with article 2.1(b) of the *Transparency Directive*) bonds or other forms of transferable securitised debts, with the exception of securities which are equivalent to *shares* in companies or which, if converted or if the rights conferred by them are exercised, give rise to a right to acquire *shares* or securities equivalent to *shares*.

(3) (except in DTR and LR) any of the following:

(a) a *debenture*;

(aa) an *alternative debenture*;

(b) a *government and public security*;

(c) a *warrant* which confers a right in respect of an *investment* in (a) or (b).

decision notice

FCA PRA

a notice issued by the *appropriate regulator* in accordance with section 388 of the *Act* (Decision notices).

dedicated

FCA PRA

(in relation to *investments* of an *authorised fund*) intended that the holders should participate in or receive:

(a) profits or income arising from the acquisition, holding, management or disposal of *investments* of the relevant description; or

(b) sums paid out of profits or income in (a); or

(c) other benefits where expressly permitted by a provision in *COLL*.

deductions plan

FCA PRA

(in *COBS*) a plan that describes the deductions from asset share that a *firm* expects to make for the cost of guarantees and the use of capital (■ *COBS* 20.2.8 R).

default

FCA

(in relation to the *IRB approach* and for the purposes of *BIPRU*) has the meaning in ■ *BIPRU* 4.3 (The *IRB approach*: Provisions common to different exposure classes).

default rules

FCA PRA

(1) (in relation to a *UK RIE*) the default rules which it is required to have under paragraph 10 of the Schedule to the *Recognition Requirements Regulations*.

(2) (in relation to a *UK RCH*) the default rules which it is required to have under paragraph 24 of the Schedule to the *Recognition Requirements Regulations*.

deferred acquisition costs

FCA PRA

deferred acquisition costs as defined in the *insurance accounts rules*.

deferred bonus

FCA PRA

(in LR) any arrangement pursuant to the terms of which an *employee* or *director* may receive a bonus (including cash or any security) in respect of service and/or performance in a period not exceeding the length of the relevant financial year notwithstanding that the bonus may, subject only to the *person* remaining a

	<i>director</i> or <i>employee</i> of the group, be receivable by the <i>person</i> after the end of the period to which the award relates.
<i>deferred share</i> FCA PRA	(1) (other than in <i>CREDS</i> and <i>COMP</i>) in relation to a <i>building society</i> , a deferred share as defined in the Building Societies (Deferred Shares) Order 1991. (2) (in <i>CREDS</i> and ■ <i>COMP</i> 5.3.1 R (2)(cA)) in relation to a <i>Great Britain credit union</i> , means any share of a class defined as a deferred share by section 31A of the Credit Unions Act 1979.
<i>deficit reduction amount</i> FCA PRA	in respect of a <i>defined benefit occupational pension scheme</i> , the sum, determined by a <i>firm</i> in conjunction with the <i>defined benefit occupational pension scheme's</i> actuaries or trustees (or both), of the additional funding (net of tax) that will be required to be paid into that scheme by the <i>firm</i> over the following five year period for the purpose of reducing the <i>firm's defined benefit liability</i> .
<i>defined benefit asset</i> FCA PRA	the excess of the value of the assets in a <i>defined benefit occupational pension scheme</i> over the present value of the scheme liabilities, to the extent that a <i>firm</i> , as employer, in accordance with the accounting principles applicable to it, should recognise that excess as an asset in its balance sheet.
<i>defined benefit liability</i> FCA PRA	the shortfall of the value of the assets in a <i>defined benefit occupational pension scheme</i> below the present value of the scheme liabilities, to the extent that a <i>firm</i> , as employer, in accordance with the accounting principles applicable to it, should recognise that shortfall as a liability in its balance sheet.
<i>defined benefit occupational pension scheme</i> FCA PRA	an <i>occupational pension scheme</i> which is not a <i>defined contribution occupational pension scheme</i> .
<i>defined benefit scheme</i> FCA PRA	in relation to a <i>director</i> , means a pension scheme which is not a <i>money purchase scheme</i> .
<i>defined benefits pension scheme</i> FCA PRA	a <i>pension policy</i> or <i>pension contract</i> under which the only <i>money-purchase benefits</i> are benefits ancillary to other benefits which are not <i>money-purchase benefits</i> .
<i>defined contribution occupational pension scheme</i> FCA PRA	an <i>occupational pension scheme</i> into which a <i>firm</i> , as employer, pays regular fixed contributions and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
<i>defined liquidity group</i> FCA PRA	a <i>DLG by default</i> or <i>DLG by modification</i> .
<i>delivery by value</i>	a transaction type, described as "delivery by value", used to deliver and receive <i>securities</i> within <i>CREST</i> .

FCA PRA

deposit

FCA PRA

(1) (except in *COMP*) the *investment*, specified in article 74 and defined in articles 5(2) and 5(3) of the *Regulated Activities Order*, which is in summary: a sum of money (other than one excluded by any of articles 6 to 9 AB of the *Regulated Activities Order*) paid on terms:

(a) under which it will be repaid, with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the *person* making the payment and the *person* receiving it; and

(b) which are not referable to the provision of property (other than currency) or services or the giving of security; in this definition, money is paid on terms which are referable to the provision of property or services or the giving of security if, and only if:

(i) it is paid by way of advance or part payment under a contract for the sale, hire or other provision of property or services, and is repayable only in the event that the property or services is or are not in fact sold, hired or otherwise provided; or

(ii) it is paid by way of security for the performance of a contract or by way of security in respect of loss which may result from the non-performance of a contract; or

(iii) without prejudice to (ii), it is paid by way of security for the delivery up or return of any property, whether in a particular state of repair or otherwise.

(2) (in *COMP*) the *investment* within (1), but including a sum of money that would otherwise be excluded:

(a) by article 6(1)(a)(ii) of the *Regulated Activities Order*, where the *person* making the payment is a *credit union* (unless the *person* receiving the payment is also a *credit union*); or

(b) by article 6(1)(d) of the *Regulated Activities Order*, where the *person* receiving it is a *credit union*; or

(c) by article 6 of the *Regulated Activities Order*, where the *person* paying it is an *eligible claimant*.

deposit back arrangement

FCA PRA

(in relation to any contract of *reinsurance*) an arrangement whereby an amount is deposited by the *reinsurer* with the cedant.

Deposit Guarantee Directive

FCA PRA

the Council Directive of 13 May 1994 on deposit-guarantee schemes (No 94/19/EC).

depository

FCA PRA

(1) (except in *LR*):

(a) (in relation to an *ICVC*) the *person* to whom is entrusted the safekeeping of all of the *scheme property* of the *ICVC* and who has been appointed for this purpose in accordance with regulation 5 (Safekeeping of scheme property by depository) of and Schedule 1 (Depositaries) to the *OEIC Regulations*;

(b) (in relation to an *AUT*) the *trustee*;

<p>(c) (in relation to any other <i>unit trust scheme</i> other than an <i>AIF</i> specified in (e)) the <i>person</i> holding the property of the <i>scheme</i> on trust for the <i>participants</i>;</p> <p>(ca) (in relation to an <i>EEA UCITS scheme</i>) the <i>person</i> fulfilling the function of a depositary in accordance with article 2(1)(a) of the <i>UCITS Directive</i>;</p> <p>(cb) (in relation to an <i>ACS</i> which is a <i>co-ownership scheme</i>) the <i>person</i> who holds the property subject to the <i>scheme</i> or to whose order that property is held, as required by section 235A(3)(d) of the <i>Act</i> (Contractual schemes);</p> <p>(cc) (in relation to an <i>ACS</i> which is a <i>limited partnership scheme</i>) the <i>person</i> who holds the property subject to the <i>scheme</i> or to whose order that property is held, and who has been appointed to be the <i>person</i> to whom the <i>property</i> subject to the <i>scheme</i> is entrusted for safekeeping, as required by section 235A(6)(e)(i) of the <i>Act</i> (Contractual schemes);</p> <p>(d) (in relation to any other <i>fund</i> other than an <i>AIF</i> specified in (e)) any <i>person</i> to whom the <i>fund</i> property is entrusted for safekeeping.</p> <p>(e) (for an <i>AIF</i> managed by a <i>full-scope UK AIFM</i> or a <i>full-scope EEA AIFM</i> (other than an <i>AIF</i> which is an <i>ICVC</i>, an <i>AUT</i> or an <i>ACS</i>)) the <i>person</i> fulfilling:</p> <p style="padding-left: 40px;">(i) the function of a depositary in accordance with article 21(1) of <i>AIFMD</i>; or</p> <p style="padding-left: 40px;">(ii) one or more of the functions of cash monitoring, safekeeping or oversight for a <i>non-EEA AIF</i>, in line with ■ FUND 3.11.33 R (1)(a) (<i>AIFM</i> of a <i>non-EEA AIF</i>).</p> <p>(2) (in <i>LR</i>) a <i>person</i> that issues <i>certificates representing certain securities</i> that have been <i>admitted to listing</i> or are the subject of an application for <i>admission to listing</i> .</p>	<p>the <i>stakeholder product</i> specified by regulation 4 (certain deposit accounts) of the <i>Stakeholder Regulations</i>;</p>
<p><i>deposit-based stakeholder product</i></p> <p>FCA PRA</p>	
<p><i>deposit-taking firm</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> which is a <i>bank</i>, <i>building society</i> or <i>credit union</i>.</p>
<p><i>DEPP</i></p> <p>FCA PRA</p>	<p>the Decision Procedure and Penalties manual.</p>
<p><i>derivative</i></p> <p>FCA PRA</p>	<p>a <i>contract for differences</i>, a <i>future</i> or an <i>option</i>.(see also <i>securitised derivative</i>.)</p>
<p><i>designated clearing house</i></p> <p>FCA PRA</p>	<p>one of the following <i>clearing houses</i>:</p> <p>(a) ASX Settlement and Transfer Corporation Pty Ltd (ASTC);</p> <p>(b) Austrian Kontroll Bank (OKB);</p> <p>(c) Board of Trade Clearing Corporation;</p>

- (d) Cassa di Compensazione e Garanzia S.p.A (CCG);
- (e) Commodity Clearing Corporation;
- (f) Emerging Markets Clearing Corporation;
- (g) FUTOP Clearing Centre (FUTOP Clearing Centralen A/S);
- (h) Hong Kong Futures Exchange Clearing Corporation Ltd;
- (i) Hong Kong Securities Clearing Company Ltd;
- (j) Kansas City Board of Trade Clearing Corporation;
- (k) Norwegian Futures & Options Clearing House (Norsk Opsjonsentral A.S. (NOS));
- (l) N.V. Nederlandse Liquidatiekas (NLKKAS);
- (m) OM Stockholm Exchange;
- (n) Options Clearing Corporation;
- (o) Options Clearing House Pty Ltd (OCH);
- (p) Sydney Futures Exchange Clearing House (SFECH Ltd); and
- (q) TNS Clearing Pty Ltd (TNSC).

*designated
client bank
account*

FCA PRA

a *client bank account* with the following characteristics:

- (a) the account holds the money of one or more *clients*;
- (b) the account includes in its title the word "designated";
- (c) the *clients* whose *money* is in the account have each consented in writing to the use of the bank with which the *client money* is to be held; and
- (d) in the event of the *failure* of that bank, the account is not pooled with any other type of account unless a *primary pooling event* occurs.

*designated
client fund
account*

FCA PRA

a *client bank account* with the following characteristics:

- (a) the account holds at least part of the *client money* of one or more *clients*, each of whom has consented to that *money* being held in the same *client bank* accounts at the same banks (the *client money* of such *clients* constituting a designated fund);
- (b) the account includes in its title the words "designated fund"; and
- (c) in the event of the *failure* of a bank with which part of a designated fund is held, each *designated client fund account* held with the failed bank will form a pool with any other *designated client fund account* containing part of that same designated fund unless a *primary pooling event* occurs.

*designated
committee*

FCA PRA

(in relation to a firm) a management body of the *firm* with delegated authority from the *firm's governing body* for approving either:

- (a) (in relation to a *firm* that uses the *IRB approach*) all material aspects of the *firm's rating systems* and material changes to the *firm's rating systems*; or
- (b) (in relation to a *firm* that uses the *advanced measurement approach*) all material aspects of the *advanced measurement approach* as carried out by the *firm* and material changes to the *firm's advanced measurement approach*; and
- (c) a policy statement defining the *firm's* overall approach to material aspects of rating and estimation processes for all *rating systems* including non-material *rating systems* in relation to the *IRB approach*, or its overall approach to the *advanced measurement approach*, as relevant;

designated investment

FCA **PRA**

at least one of whose members is a member of the *firm's governing body*.

a *security* or a contractually-based investment (other than a *funeral plan contract* and a right to or interest in a *funeral plan contract*), that is, any of the following *investments*, specified in Part III of the *Regulated Activities Order* (Specified Investments), and a *long-term care insurance contract* which is a *pure protection contract*:

- (a) *life policy* (subset of article 75 (Contracts of insurance));
- (b) *share* (article 76);
- (c) *debenture* (article 77);
- (ca) *alternative debenture* (article 77A);
- (d) *government and public security* (article 78);
- (e) *warrant* (article 79);
- (f) *certificate representing certain securities* (article 80);
- (g) *unit* (article 81);
- (h) *stakeholder pension scheme* (article 82(1));
- (ha) *personal pension scheme* (article 82(2));
- (hb) *emissions auction product* (article 82A) where it is a *financial instrument*.
- (i) *option* (article 83); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *option* (excluding a *commodity option* and an *option* on a *commodity future*);
 - (ii) *commodity option* and *option* on a *commodity future*;
- (j) *future* (article 84); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *future* (excluding a *commodity future* and a *rolling spot forex contract*);
 - (ii) *commodity future*;
 - (iii) *rolling spot forex contract*;
- (k) *contract for differences* (article 85); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *contract for differences* (excluding a *spread bet* and a *rolling spot forex contract*);
 - (ii) *spread bet*;
 - (iii) *rolling spot forex contract*;
- (l) *rights to or interests in investments* in (a) to (k) (article 89) but not including rights to or interests in rights under a *long-term care insurance contract* which is a *pure protection contract*.

designated investment business

FCA **PRA**

any of the following activities, specified in Part II of the *Regulated Activities Order* (Specified Activities), which is carried on by way of business:

- (a) *dealing in investments as principal* (article 14), but disregarding the exclusion in article 15 (Absence of holding out etc);
- (b) *dealing in investments as agent* (article 21) but only in relation to *designated investments*;

- (ba) *MiFID business bidding* (part of *bidding in emissions auctions*) (article 24A);
- (c) *arranging (bringing about) deals in investments* (article 25(1)), but only in relation to *designated investments*;
- (d) *making arrangements with a view to transactions in investments* (article 25(2)), but only in relation to *designated investments*;
- (da) *operating a multilateral trading facility* (article 25D);
- (e) *managing investments* (article 37), but only if the assets consist of or include (or may consist of or include) *designated investments*;
- (ea) assisting in the administration and performance of a *contract of insurance*, but only if the *contract of insurance* is a *designated investment*.
- (f) *safeguarding and administering investments* (article 40), but only if the assets consist of or include (or may consist of or include) *designated investments*; for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *safeguarding and administration of assets (without arranging)*;
 - (ii) *arranging safeguarding and administration of assets*;
- (g) *sending dematerialised instructions* (article 45(1));
- (h) *causing dematerialised instructions to be sent* (article 45(2));
- (i) *establishing, operating or winding up a collective investment scheme* (article 51(1)(a)); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *establishing, operating or winding up a regulated collective investment scheme*;
 - (ii) *establishing, operating or winding up an unregulated collective investment scheme*;
- (j) *acting as trustee of an authorised unit trust scheme* (article 51(1)(b));
- (k) *acting as the depositary or sole director of an open-ended investment company* (article 51(1)(c));
- (ka) *acting as the depositary of an authorised contractual scheme* (article 51(1)(bb));
- (l) *establishing, operating or winding up a stakeholder pension scheme* (article 52 (a));
- (la) *establishing, operating or winding up a personal pension scheme* (article 52(b));
- (lb) *providing basic advice on a stakeholder product* (article 52B);
- (m) *advising on investments* (article 53), but only in relation to *designated investments*; for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *advising on investments (except pension transfers and pension opt-outs)*;
 - (ii) *advising on pension transfers and pension opt-outs*;
- (n) *agreeing to carry on a regulated activity* in (a) to (h) and (m) (article 64).
- (o) [deleted]
- (p) *managing a UCITS*;
- (q) *acting as trustee or depositary of a UCITS*;

*designated
investment
exchange*

FCA **PRA**

- (r) *managing an AIF;*
- (s) *acting as trustee or depositary of an AIF;*
- (t) *establishing, operating or winding up a collective investment scheme.*

Any of the following investment exchanges:

American Stock Exchange
 Australian Stock Exchange
 Bermuda Stock Exchange
 Bolsa Mexicana de Valores
 Bourse de Montreal Inc
 Channel Islands Stock Exchange
 Chicago Board of Trade
 Chicago Board Options Exchange
 Chicago Stock Exchange
 Coffee, Sugar and Cocoa Exchange, Inc
 Euronext Amsterdam Commodities Market
 Hong Kong Exchanges and Clearing Limited
 International Securities Market Association
 Johannesburg Stock Exchange
 Kansas City Board of Trade
 Korea Stock Exchange
 Mid-America Commodity Exchange
 Minneapolis Grain Exchange
 New York Cotton Exchange
 New York Futures Exchange
 New York Stock Exchange
 New Zealand Stock Exchange
 Osaka Securities Exchange
 Pacific Exchange
 Philadelphia Stock Exchange
 Singapore Exchange
 South African Futures Exchange
 Tokyo International Financial Futures Exchange
 Tokyo Stock Exchange
 Toronto Stock Exchange

(A) (In the *PRA Handbook*)

an *authorised person* that has been designated by the *PRA* under article 3 of the *PRA-regulated Activities Order*.

(B) (In the *FCA Handbook*)

*designated
investment
firm*

FCA **PRA**

*designated
money market
fund*

FCA **PRA**

an authorised person that has been designated by the *PRA* under article 3 of the *PRA-regulated Activities Order*.

(in **■** BIPRU 12 and *BSOCS*) a *collective investment scheme* authorised under the *UCITS Directive* or which is subject to supervision and, if applicable, authorised by an authority under the national law of an *EEA State*, and which satisfies the following conditions:

- (a) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;
- (b) it must, with a view to achieving that primary investment objective, invest exclusively in either or both assets (i) of the kind mentioned in BIPRU 12.7.2R(1) and (2), or (ii) sight deposits with *credit institutions* that are at all times fully secured against assets of the kind mentioned in BIPRU 12.7.2R(1) and (2);
- (c) it must, for the purpose of condition (b), only count assets with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than 60 days;
- (d) it must, for the purpose of condition (b), ensure that if it invests in sight deposits with *credit institutions* of the kind mentioned in (b)(ii), no more than 20% of those deposits are held with any one body; and
- (e) it must provide liquidity through same day settlement in respect of any request for redemption made at or before 1200 hours GMT or, as the case may be, BST.

*designated
multilateral
development
bank*

FCA **PRA**

Any of the following:

- (a) African Development Bank;
- (b) Asian Development Bank;
- (c) Council of Europe Development Bank;
- (d) European Bank for Reconstruction and Development;
- (e) European Investment Bank;
- (f) Inter-American Development Bank;
- (g) International Bank for Reconstruction and Development;
- (h) International Finance Corporation;
- (i) Islamic Development Bank; and
- (j) Nordic Investment Bank.

*designated
non-member*

FCA **PRA**

(in *REC*) (in relation to a *UK RIE*) a *person* in respect of whom action may be taken under the *default rules* of the *RIE* but who is not a *member* of the *RIE*.

*designated
professional
body*

FCA **PRA**

a professional body designated by the Treasury under section 326 of the *Act* (Designation of professional bodies) for the purposes of Part XX of the *Act* (Provision of Financial Services by Members of the Professions); the following professional bodies have been designated in the Financial Services and Markets Act 2000 (Designated Professional Bodies) Order 2001 (SI 2001/1226), the Financial Services and Markets Act 2000 (Designated Professional Bodies) (Amendment) Order 2004 (SI 2004/3352) and the Financial Services and Markets Act 2000 (Designated Professional Bodies) (Amendment) Order 2006 (SI 2006/58):

<p>(a) The Law Society of England & Wales;</p> <p>(b) The Law Society of Scotland;</p> <p>(c) The Law Society of Northern Ireland;</p> <p>(d) The Institute of Chartered Accountants in England and Wales;</p> <p>(e) The Institute of Chartered Accountants of Scotland;</p> <p>(f) The Institute of Chartered Accountants in Ireland;</p> <p>(g) The Association of Chartered Certified Accountants;</p> <p>(h) The Institute of Actuaries;</p> <p>(i) The Council for Licensed Conveyancers; and</p> <p>(j) The Royal Institution of Chartered Surveyors.</p>	
<p><i>designated State or territory</i></p> <p>FCA PRA</p>	<p>any <i>EEA State</i> (other than the <i>United Kingdom</i>), Australia, Canada or a province of Canada, Hong Kong, Singapore, South Africa, Switzerland, a State in the United States of America, the District of Columbia or Puerto Rico.</p>
<p><i>DGD claim</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p style="padding-left: 40px;">a <i>claim</i>, in relation to a <i>protected deposit</i>, against a <i>CRD credit institution</i>, whether established in the <i>United Kingdom</i> or in another <i>EEA State</i>.</p> <p>(B) In the FCA Handbook:</p> <p style="padding-left: 40px;">a <i>claim</i>, in relation to a <i>protected deposit</i>, against a <i>CRD credit institution</i>, whether established in the <i>United Kingdom</i> or in another <i>EEA State</i>.</p>
<p><i>dilution</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i>) the amount of <i>dealing costs</i> incurred, or expected to be incurred, by or for the account of a <i>single-priced authorised fund</i> to the extent that these costs may reasonably be expected to result, or have resulted, from the acquisition or disposal of <i>investments</i> by or for the account of the <i>single-priced authorised fund</i> as a consequence (whether or not immediate) of the increase or decrease in the cash resources of the <i>single-priced authorised fund</i> resulting from the <i>issue</i> or <i>cancellation</i> of <i>units</i> over a period;</p> <p>for the purposes of this definition, <i>dealing costs</i> include both the costs of <i>dealing</i> in an <i>investment</i>, professional fees incurred, or expected to be incurred, in relation to the acquisition or disposal of an immovable and, where there is a spread between the <i>buying</i> and <i>selling</i> prices of the <i>investment</i>, the indirect cost resulting from the differences between those prices .</p>
<p><i>dilution adjustment</i></p> <p>FCA PRA</p>	<p>an adjustment to the <i>price</i> of a <i>unit</i> determined by the <i>authorised fund manager</i> of a <i>single-priced authorised fund</i> , under ■ <i>COLL 6.3.8 R</i> (Dilution) for the purpose of reducing <i>dilution</i>.</p>
<p><i>dilution levy</i></p> <p>FCA PRA</p>	<p>a charge of such amount or at such rate as is determined by the <i>authorised fund manager</i> of a <i>single-priced authorised fund</i> to be made for the purpose of reducing the effect of <i>dilution</i>.</p>
<p><i>dilution risk</i></p> <p>FCA PRA</p>	<p>(in accordance with Article 4(24) of the <i>Banking Consolidation Directive</i> (Definitions)) the risk that an amount receivable is reduced through cash or non-cash credits to the obligor.</p>

Diploma Directives

FCA PRA

the First and Second Diploma Directives, that is:

(a) the Council Directive of 21 December 1988 on a general system for the recognition of higher-education diplomas, awarded on completion of professional education and training of at least three years' duration (No 89/48/EEC);

(b) the Council Directive of 18 June 1992 on a second general system for the recognition of professional education and training to supplement Directive 89/48/EEC (No 92/51/EEC).

direct offer financial promotion

FCA PRA

a *financial promotion* that contains:

(a) an offer by the *firm* or another *person* to enter into a *controlled agreement* with any *person* who responds to the communication; or

(b) an invitation to any *person* who responds to the communication to make an offer to the *firm* or another *person* to enter into a *controlled agreement*;

and which specifies the manner of response or includes a form by which any response may be made.

In relation to *MiFID* or *equivalent third country business* "controlled agreement" includes an agreement to carry on an *ancillary service*.

directed at

FCA PRA

a *financial promotion* is directed at *persons* if it is addressed to *persons* generally (for example where it is contained in a television broadcast or web site).

directed only at

FCA PRA

(a) If all the conditions set out in (c) are met, a communication is to be regarded as "directed only at" a certain *group* of *persons*.

(b) In any other case in which one or more of those conditions are met, that fact is to be taken into account in determining whether the communication is "directed only at" a certain *group* of *persons* (but a communication may still be regarded as so directed even if none of the conditions in (c) are met).

(c) The conditions are that:

(i) the communication includes an indication of the description of *persons* to whom it is directed and an indication of the fact that the *investment* or service to which it relates is available only to such *persons*;

(ii) the communication includes an indication that *persons* of any other description should not rely upon it;

(iii) there are in place proper systems and procedures to prevent recipients other than *persons* to whom it is directed engaging in the investment activity, or participating in the *collective investment scheme*, to which the communication relates with the *person* directing the communication, a *close relative* of his or a member of the same *group*.

directive friendly society

FCA PRA

a *friendly society* other than a *non-directive friendly society*.

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D13

director

FCA PRA

(1) (except in *COLL*, *DTR*, *LR* and *PR*) (in relation to any of the following (whether constituted in the *United Kingdom* or under the law of a country or territory outside it)):

(a) an unincorporated association;

(b) a *body corporate*;

<p><i>director function</i> FCA PRA</p>	<p>(c) (in SYSC, ■ MIPRU 2 (Insurance mediation activity: responsibility, knowledge, ability and good repute) and ■ SUP 10 (Approved persons)) a <i>partnership</i>;</p> <p>(d) (in SYSC and ■ SUP 10 (Approved persons)) a <i>sole trader</i>;</p> <p>any <i>person</i> appointed to direct its affairs, including a <i>person</i> who is a member of its <i>governing body</i> and (in accordance with section 417(1) of the <i>Act</i>):</p> <p>(i) a <i>person</i> occupying in relation to it the position of a director (by whatever name called); and</p> <p>(ii) a <i>person</i> in accordance with whose directions or instructions (not being advice given in a professional capacity) the directors of that body are accustomed to <i>act</i>.</p> <p>(2) (in <i>COLL</i>) a director of an <i>ICVC</i>, including (in accordance with regulation 2(1) of the <i>OEIC Regulations</i>) a <i>person</i> occupying in relation to the <i>ICVC</i> the position of director, by whatever name called.</p> <p>(3) (in <i>DTR</i>, <i>LR</i> and <i>PR</i>) (in accordance with section 417(1)(a) of the <i>Act</i>) a <i>person</i> occupying in relation to it the position of a director (by whatever name called) and, in relation to an <i>issuer</i> which is not a <i>body corporate</i>, a <i>person</i> with corresponding powers and duties.</p> <p>(1) (in the <i>FCA Handbook</i>) <i>FCA controlled functions</i> CF1 in Part 1 of the <i>table of FCA controlled functions</i>, described more fully in ■ SUP 10A.6.7 R and ■ SUP 10A.6.8 R.</p> <p>(2) (in the <i>PRA Handbook</i>) <i>PRA controlled function</i> CF1 in the <i>table of PRA controlled functions</i>, described more fully in ■ SUP 10B.6.1 R and ■ SUP 10B.6.2 R.</p>
<p><i>director of unincorporated association function</i> FCA PRA</p>	<p>(1) (in the <i>FCA Handbook</i>) <i>FCA controlled function</i> CF5 in Part 1 of the <i>table of FCA controlled functions</i>, described more fully in ■ SUP 10A.6.29 R.</p> <p>(2) (in the <i>PRA Handbook</i>) <i>PRA controlled function</i> CF5 in the <i>table of PRA controlled functions</i>, described more fully in ■ SUP 10B.6.15 R.</p>
<p><i>Disciplinary Tribunal</i> FCA PRA</p>	<p>a Tribunal appointed under Schedule 2 to Lloyd's Disciplinary Committees Byelaw (No 31 of 1996).</p>
<p><i>disclosable information</i> FCA PRA</p>	<p>any information which has to be disclosed in the market in accordance with any legal or regulatory requirement.</p>
<p><i>disclosure obligations</i> FCA PRA</p>	<p>(in <i>REC</i>) the initial, ongoing and ad hoc disclosure requirements contained in the <i>relevant articles</i> and given effect:</p> <p>(1) in the <i>United Kingdom</i> by Part 6 of the <i>Act</i> and Part 6 rules (within the meaning of section 73A of the <i>Act</i>); or</p> <p>(2) in another <i>EEA State</i> by legislation transposing the <i>relevant articles</i> in that State.</p>
<p><i>disclosure rules</i> FCA PRA</p>	<p>(in accordance with sections 73A(1) and 73A(3) of the <i>Act</i>) <i>rules</i> relating to the disclosure of information in respect of <i>financial instruments</i> which have been admitted to trading on a <i>regulated market</i> or for which a request for <i>admission to trading</i> on such a market has been made.</p>

discounting

FCA PRA

discounting or deductions to take account of investment income as set out in paragraph 48 of the *insurance accounts rules*.

discretionary investment manager

FCA PRA

(in COBS and (in relation to *firm type*) in ■ SUP 16.10 (Confirmation of standing data)) a *person* who, acting only on behalf of a *client*, manages *designated investments* in an account or portfolio on a discretionary basis under the terms of a discretionary management agreement.

discretionary pension benefit

FCA PRA

(A) In the PRA Handbook:

(in ■ SYSC 19A) enhanced pension benefits granted on a discretionary basis by a *firm* to an *employee* as part of that *employee's* variable *remuneration* package, but excluding accrued benefits granted to an *employee* under the terms of his company pension scheme.

[Note: article 4(49) of the *Banking Consolidation Directive*]

(B) In the FCA Handbook:

(1) (in ■ SYSC 19C) enhanced pension benefits granted on a discretionary basis by a *firm* to an *employee* as part of that *employee's* variable *remuneration* package, but excluding accrued benefits granted to an *employee* under the terms of his company pension scheme.

[Note: article 4(49) of the *Banking Consolidation Directive*]

(2) (in IFPRU and ■ SYSC 19A) has the meaning in article 4(1)(73) of the *EU CRR*.

DISP

FCA PRA

Dispute Resolution: the Complaints sourcebook.

distance contract

FCA PRA

any contract concerning financial services concluded between a *supplier* and a *consumer* under an organised distance sales or service provision scheme run by the *supplier* which, for the purpose of that contract, makes exclusive use (directly or through an intermediary) of one or more means of distance communication (that is, any means which, without the simultaneous physical presence of the *supplier* or intermediary and the *consumer*, may be used for the distance marketing of a service between those parties) up to and including the time at which the contract is concluded.

A contract is not a distance contract if:

(a) making, performing or marketing it does not constitute or form part of a *regulated activity*; or

(b) it is entered into on a strictly occasional basis outside a commercial structure dedicated to the conclusion of distance contracts; or

(c) a *consumer*, and an intermediary acting for a product provider, are simultaneously physically present at some stage before the conclusion of the contract; or

(d) it is entered into to comply with the requirement in Part 1 of the Pensions Act 2008 to automatically enrol or re-enrol employees into an *automatic enrolment scheme*.

[Note: recitals 15 and 18 to, and articles 2(a) and (e) of, the *Distance Marketing Directive*]

distance home purchase mediation contract

FCA **PRA**

a *distance contract*, the making or performance of which constitutes, or is part of:

- (a) *advising on a home purchase plan*;
- (b) *arranging (bringing about) a home purchase plan*;
- (c) *making arrangements with a view to a home purchase plan*; or
- (d) *agreeing to carry on a regulated activity* in (a) to (c).

Distance Marketing Directive

FCA **PRA**

The Directive of the Council and Parliament of 23 September 2002 on distance marketing of consumer financial services (No 2002/65/EC).

Distance Marketing Regulations

FCA **PRA**

The Financial Services (Distance Marketing) Regulations 2004 (SI 2004/2095).

distance mortgage mediation contract

FCA **PRA**

a *distance contract*, the making or performance of which constitutes, or is part of:

- (a) *advising on regulated mortgage contracts*; or
- (b) *arranging (bringing about) regulated mortgage contracts*; or
- (c) *making arrangements with a view to regulated mortgage contracts*; or
- (d) *agreeing to carry on a regulated mortgage activity* in (a) to (c).

distance regulated sale and rent back mediation contract

FCA **PRA**

a *distance contract*, the making or performance of which constitutes, or is part of:

- (a) *advising on a regulated sale and rent back agreement*; or
- (b) *arranging (bringing about) a regulated sale and rent back agreement*; or
- (c) *making arrangements with a view to a regulated sale and rent back agreement*; or
- (d) *agreeing to carry on a regulated sale and rent back mediation activity* in (a) to (c).

distance selling contract

FCA **PRA**

(in *BCOBS*) has the same meaning as "distance contract" in the Consumer Protection (Distance Selling) Regulations 2000 (SI 2000/2334).

distribution account

FCA **PRA**

(in *COLL*) the account to which the amount of income of an *authorised fund* allocated to *classes of units* that distribute income must be transferred as at the end of each *annual accounting period* under ■ *COLL 6.8.3 R* (Income allocation and distribution) or ■ *COLL 8.5.15 R* (Income) .

distribution channels

FCA **PRA**

a channel through which information is, or is likely to become, publicly available. Information which is "likely to become publicly available" means information to which a large number of *persons* have access.

[Note: article 2(1) of the *MiFID implementing Directive*]

distribution of exposures

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of **■ BIPRU 13** (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the forecast of the probability distribution of market values that is generated by setting forecast instances of negative net market values equal to zero.

distribution of market values

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of **■ BIPRU 13** (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the forecast of the probability distribution of net market values of transactions within a *netting set* for some future date (the forecasting horizon), given the realised market value of those transactions up to the present time.

DLG by default

FCA **PRA**

(A) In the PRA Handbook:

(in relation to a *UK ILAS BIPRU firm* (a *group liquidity reporting firm*) and any reporting period under **■ SUP 16** (Reporting requirements)) the *firm* and each *person* identified in accordance with the following:

(a) (in a case in which the *firm* is the only *UK ILAS BIPRU firm* in its *group*) that *person* meets any of the following conditions for any part of that period:

(i) that *person* provides material support to the *firm* against *liquidity risk*; or

(ii) that *person* is committed to provide such support or would be committed to do so if that *person* were able to provide it; or

(iii) the *firm* has reasonable grounds to believe that that *person* would supply such support if asked or would do so if it were able to provide it; or

(iv) the *firm* provides material support to that *person* against *liquidity risk*; or

(v) the *firm* is committed to provide such support to that *person* or would be committed to do so if the *firm* were able to provide it; or

(vi) the *firm* has reasonable grounds to believe that that *person* would expect the *firm* to supply such support if asked or that the *firm* would do so if it were able to provide it; or

(b) (in a case in which the *firm* is not the only *UK ILAS BIPRU firm* in its *group*):

(i) each of those other *UK ILAS BIPRU firms*; and

(ii) each *person* identified by applying the tests in (a) separately to the *firm* and to each of those other *UK ILAS BIPRU firms*, so that applying (b) to the *firm* and to each of those *UK ILAS BIPRU firms* results in their having the same *defined liquidity group*;

(iii) no *DLG by default* exists where the group consists only of *UK ILAS BIPRU firms*.

The following provisions also apply for the purpose of this definition.

(c) A *person* is not a member of a firm's *DLG by default* unless it also satisfies one of the following conditions:

(i) it is a member of the *firm's group*; or

(ii) it is a *securitisation special purpose entity* or a *special purpose vehicle*; or

(iii) it is an *undertaking* whose main purpose is to raise funds for the *firm* or for a *group* to which that *firm* belongs.

(ca) In the case of a *group liquidity reporting firm* that is within paragraph (a) of the definition of *UK lead regulated firm* (it is not part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* or any other *regulatory body*), paragraph (c)(i) of the definition of *DLG by default* is amended so that it only includes a member of the *firm's group* that falls into one of the following categories:

(i) it is a *credit institution*; or

(ii) it is an *investment firm* or *third country investment firm* authorised to *deal on own account*.

For these purposes:

(iii) *credit institution* has the meaning used in ■ SUP 16 (Reporting requirements), namely either of the following:

(A) a credit institution authorised under the *CRD*; or

(B) an institution which would satisfy the requirements for authorisation as a credit institution under the *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*; and

(iv) a *person* is authorised to *deal on own account* if:

(A) it is a *firm* and its *permission* includes that activity; or

(B) it is an *EEA firm* and it is authorised by its *Home State regulator* to do that activity; or

(C) (if the carrying on of that activity is prohibited in a state or territory without an authorisation in that state or territory) that *person* has such an authorisation.

(d) *Group* has the meaning in paragraph (1) of the definition in the *Glossary* (the definition in section 421 of the *Act*).

(e) The conditions in (a) are satisfied even if the *firm* or *person* in question provides or is committed or expected to provide support for only part of the period. (f) In deciding for the purpose

(f) In deciding for the purpose of (a) or (b) whether the *firm* is the only *UK ILAS BIPRU firm* in its *group* and identifying which are the other *UK ILAS BIPRU firms* in its *group*, any *group* member that is a member of the *group* through no more than a *participation* is ignored.

(g) A *firm* has a *DLG by default* for a period even if it only has one during part of that period.

(h) Liquidity support may be supplied by or to the *firm* directly or indirectly.

(i) Support is material if it is material either by reference to the *person* giving it or by reference to the *person* receiving it.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in ■ SUP 16 Annex 26 G (*Guidance on designated liquidity groups in* ■ SUP 16.12).)

(B) In the FCA Handbook:

(in relation to a *UK ILAS BIPRU firm* (a *group liquidity reporting firm*) and any reporting period under ■ SUP 16 (Reporting requirements)) the *firm* and each *person* identified in accordance with the following:

(a) (in a case in which the *firm* is the only *UK ILAS BIPRU firm* in its *group*) that *person* meets any of the following conditions for any part of that period:

(i) that *person* provides material support to the *firm* against *liquidity risk*; or

(ii) that *person* is committed to provide such support or would be committed to do so if that *person* were able to provide it; or

(iii) the *firm* has reasonable grounds to believe that that *person* would supply such support if asked or would do so if it were able to provide it; or

(iv) the *firm* provides material support to that *person* against *liquidity risk*; or

(v) the *firm* is committed to provide such support to that *person* or would be committed to do so if the *firm* were able to provide it; or

(vi) the *firm* has reasonable grounds to believe that that *person* would expect the *firm* to supply such support if asked or that the *firm* would do so if it were able to provide it; or

(b) (in a case in which the *firm* is not the only *UK ILAS BIPRU firm* in its *group*):

- (i) each of those other *UK ILAS BIPRU firms*; and
- (ii) each *person* identified by applying the tests in (a) separately to the *firm* and to each of those other *UK ILAS BIPRU firms*, so that applying (b) to the *firm* and to each of those *UK ILAS BIPRU firms* results in their having the same *defined liquidity group*;
- (iii) no *DLG by default* exists where the group consists only of *UK ILAS BIPRU firms*.

The following provisions also apply for the purpose of this definition.

(c) A *person* is not a member of a firm's *DLG by default* unless it also satisfies one of the following conditions:

- (i) it is a member of the *firm's group*; or
- (ii) it is a *securitisation special purpose entity* or a *special purpose vehicle*; or
- (iii) it is an *undertaking* whose main purpose is to raise funds for the *firm* or for a *group* to which that *firm* belongs.

(ca) In the case of a *group liquidity reporting firm* that is within paragraph (a) of the definition of *UK lead regulated firm* (it is not part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* or any other *regulatory body*), paragraph (c)(i) of the definition of *DLG by default* is amended so that it only includes a member of the *firm's group* that falls into one of the following categories:

- (i) it is a *credit institution*; or
- (ii) it is an *investment firm* or *third country investment firm* authorised to *deal on own account*.

For these purposes:

- (iii) *credit institution* has the meaning used in ■ SUP 16 (Reporting requirements), namely either of the following:
 - (A) a credit institution authorised under the *CRD* or
 - (B) an institution which would satisfy the requirements for authorisation as a credit institution under the *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*; and
- (iv) a *person* is authorised to *deal on own account* if:

(A) it is a *firm* and its *permission* includes that activity; or

(B) it is an *EEA firm* and it is authorised by its *Home State regulator* to do that activity; or

(C) (if the carrying on of that activity is prohibited in a state or territory without an authorisation in that state or territory) that *person* has such an authorisation.

(d) *Group* has the meaning in paragraph (1) of the definition in the *Glossary* (the definition in section 421 of the *Act*).

(e) The conditions in (a) are satisfied even if the *firm* or *person* in question provides or is committed or expected to provide support for only part of the period. (f) In deciding for the purpose

(f) In deciding for the purpose of (a) or (b) whether the *firm* is the only *UK ILAS BIPRU firm* in its *group* and identifying which are the other *UK ILAS BIPRU firms* in its *group*, any *group* member that is a member of the group through no more than a *participation* is ignored.

(g) A *firm* has a *DLG by default* for a period even if it only has one during part of that period.

(h) Liquidity support may be supplied by or to the *firm* directly or indirectly.

(i) Support is material if it is material either by reference to the *person* giving it or by reference to the *person* receiving it.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in ■ SUP 16 Annex 26 G (Guidance on designated liquidity groups in ■ SUP 16.12).)

DLG by
modification

FCA PRA

either of the following:

(a) a *DLG by modification (firm level)*; or

(b) a *non-UK DLG by modification (DLG level)*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in ■ SUP 16 Annex 26 G (Guidance on designated liquidity groups in ■ SUP 16.12).)

DLG by
modification
(firm level)

FCA PRA

(in relation to any reporting period under ■ SUP 16 (Reporting requirements) and a *UK ILAS BIPRU firm* that has an *intra-group liquidity modification* during any part of that period (a *group liquidity reporting firm*)) the *firm* and each *person* on whose liquidity support the *firm* can rely, under that *intra-group liquidity modification*, for any part of that period for the purpose of the *overall liquidity adequacy rule* (as the *overall liquidity adequacy rule* applies to the *firm* on a solo basis). A *firm* has a 'DLG by modification (firm level)' for a period even if it only has one during part of that period.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in ■ SUP 16 Annex 26 G (Guidance on designated liquidity groups in ■ SUP 16.12).)

document

FCA PRA

any piece of recorded information, including (in accordance with section 417(1) of the *Act* (Interpretation)) information recorded in any form; in relation to

<p><i>document evidencing title</i></p> <p>FCA PRA</p>	<p>information recorded otherwise than in legible form, references to its production include references to producing a copy of the information in legible form.</p> <p>any means of evidencing title whether in documentary form or otherwise.</p>
<p><i>document viewing facility</i></p> <p>FCA PRA</p>	<p>(in <i>LR</i>) a location identified on the <i>FCA</i> website where the public can inspect documents referred to in the <i>listing rules</i> as being documents to be made available at the document viewing facility.</p>
<p><i>domestic UCITS merger</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i> and in accordance with article 2(1)(r) of the <i>UCITS Directive</i>) a <i>UCITS merger</i> between two or more <i>UCITS schemes</i> in relation to which a <i>UCITS marketing notification</i> has been made in respect of at least one of the relevant <i>schemes</i>.</p>
<p><i>dormant account</i></p> <p>FCA PRA</p>	<p>has the meaning given in section 10 of the Dormant Bank and Building Society Accounts Act 2008, which is in summary an <i>account</i> that at a particular point in time:</p> <ul style="list-style-type: none"> (a) has been open throughout the period of 15 years ending at that time; and (b) during that period no transactions have been carried out in relation to the <i>account</i> by or on the instructions of the holder of the <i>account</i>.
<p><i>dormant account fund operator</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> with <i>permission</i> for operating a <i>dormant account fund</i>.</p>
<p><i>dormant account funds</i></p> <p>FCA PRA</p>	<p>has the meaning given in section 5(6) of the Dormant Bank and Building Society Accounts Act 2008, which is <i>money</i> paid to a <i>dormant account fund operator</i> by a <i>bank</i> or <i>building society</i> in respect of a <i>dormant account</i>.</p>
<p><i>drawdown mortgage</i></p> <p>FCA PRA</p>	<p>a <i>lifetime mortgage</i> contract where:</p> <ul style="list-style-type: none"> (a) the amount borrowed is paid by the <i>mortgage lender</i> to the <i>customer</i> in instalments during the life of the mortgage; and (b) the size and frequency of the instalments are: <ul style="list-style-type: none"> (1) agreed between the <i>mortgage lender</i> and the <i>customer</i>; or (2) set by reference to an index or interest rate (such as the Official Bank Rate).
<p><i>drawdown pension</i></p> <p>FCA PRA</p>	<p>(as defined in paragraph 4 of Schedule 28 to the Finance Act 2004):</p> <ul style="list-style-type: none"> (a) a <i>short-term annuity</i>; or (b) an <i>income withdrawal</i>.
<p><i>drawn down capital</i></p> <p>FCA PRA</p>	<p>(in ■ SUP 16, in the case of an <i>investment management firm</i> carrying out <i>venture capital business</i>) the total current value of contributions committed by investors under contractual agreement which has been invested by the <i>firm</i>.</p>

DTR

FCA PRA

(A) In the PRA Handbook:

the Disclosure Rules and Transparency Rules sourcebook containing the *disclosure rules*, *transparency rules*, *corporate governance rules* and the *rules* relating to *primary information providers*.

(B) In the FCA Handbook:

the Disclosure Rules and Transparency Rules sourcebook containing the *disclosure rules*, *transparency rules*, *corporate governance rules* and the *rules* relating to *primary information providers*.

*dual-priced
authorised
fund*

FCA PRA

an *authorised fund* or, in the case of an *umbrella*, a *sub-fund* (if it were a separate *fund*), that is not a *single-priced authorised fund*.

*durable
medium*

FCA PRA

(a) paper; or

(b) any instrument which enables the recipient to store information addressed personally to him in a way accessible for future reference for a period of time adequate for the purposes of the information and which allows the unchanged reproduction of the information stored. In particular, *durable medium* covers floppy disks, CD-ROMs, DVDs and hard drives of personal computers on which electronic mail is stored, but it excludes Internet sites, unless such sites meet the criteria specified in the first sentence of this paragraph.

(in relation to *MiFID* or equivalent *third country business* or *collective portfolio management*, if the relevant *rule* implements the *MiFID implementing Directive*, the *UCITS Directive*, the *UCITS implementing Directive* or the *UCITS implementing Directive No 2*) the instrument used must be:

(i) appropriate to the context in which the business is to be carried on; and

(ii) specifically chosen by the recipient when offered the choice between that instrument and paper.

For the purposes of this definition, the provision of information by means of electronic communications shall be treated as appropriate to the context in which the business between the *firm* and the *client* is, or is to be, carried on if there is evidence that the *client* has regular access to the internet. The provision by the *client* of an e-mail address for the purposes of the carrying on of that business is sufficient.

[Note: article 2(f) and Recital 20 of the *Distance Marketing Directive*, article 2(12) of the *Insurance Mediation Directive*, articles 2(2), 3(1) and 3(3) of the *MiFID implementing Directive*, articles 75(2) and 81(1) of the *UCITS Directive*, article 20(3) of the *UCITS implementing Directive* and article 7 of the *UCITS implementing Directive No 2*]

early
amortisation
provision

FCA PRA

(A) In the PRA Handbook:

(in accordance with Article 100 of the *Banking Consolidation Directive* (Securitisation of revolving exposures) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation) a contractual clause which requires, on the occurrence of defined events, investors' positions to be redeemed prior to the originally stated maturity of the securities issued.

(B) In the FCA Handbook:

(1) (in *BIPRU*) (in accordance with Article 100 of the *Banking Consolidation Directive* (Securitisation of revolving exposures) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation) a contractual clause which requires, on the occurrence of defined events, investors' positions to be redeemed prior to the originally stated maturity of the securities issued.

(2) (except in (1)) has the meaning in article 242(14) of the *EU CRR*.

early
repayment
charge

FCA PRA

(in *MCOB* and *BSOCS*) a charge levied by the *mortgage lender* on the *customer* in the event that the amount of the loan is repaid in full or in part before a date specified in the contract.

ECA recipient

FCA PRA

a *person* who is a user of an *electronic commerce activity*.

ECAI

FCA PRA

(A) In the PRA Handbook:

an external credit assessment institution.

(B) In the FCA Handbook:

an external credit assessment institution, as defined in article 4(1)(98) of the *EU CRR*.

ECD
Regulations

FCA PRA

the Electronic Commerce Directive (Financial Services and Markets) Regulations 2002 (SI 2002/1775).

E-Commerce
Directive

FCA PRA

the Council Directive of 8 June 2002 on legal aspects of *information society services*, in particular electronic commerce, in the Internal Market (No 2000/31/EC).

ECR

FCA PRA

enhanced capital requirement.

EE

FCA PRA

expected exposure.

EEA

FCA PRA

the *European Economic Area* (see also *EEA State*.)

EEA AIF

FCA PRA

an AIF, other than a UK AIF, which:

- (a) is authorised or registered in an EEA State under the applicable national law; or
- (b) is not authorised or registered in an EEA State but has its registered office or head office in an EEA State.

EEA AIFM

FCA PRA

an AIFM which has its registered office in an EEA State other than the UK.

EEA approved incoming information society service

FCA

an incoming *information society service* that has its *establishment* in an EEA State other than the United Kingdom which has been approved in that state as meeting the standards set out in article 21 of the TD and article 12 of the TD implementing Directive.

EEA authorisation

FCA PRA

(in accordance with paragraph 6 of Schedule 3 to the Act (EEA Passport Rights)):

- (a) in relation to an *IMD insurance intermediary* or an *IMD reinsurance intermediary*, registration with its *Home State regulator* under article 3 of the *Insurance Mediation Directive*;
- (b) in relation to any other *EEA firm*, authorisation granted to an *EEA firm* by its *Home State regulator* for the purpose of the relevant *Single Market Directive* or the *auction regulation*.

EEA authorised electronic money institution

FCA PRA

(in accordance with regulation 2(1) of the *Electronic Money Regulations*) a *person* authorised in an EEA State other than the United Kingdom to issue *electronic money* and provide *payment services* in accordance with the *Electronic Money Directive*.

EEA authorised payment institution

FCA PRA

(a) (in accordance with regulation 2(1) of the *Payment Services Regulations*) a *person* authorised in an EEA State other than the United Kingdom to provide *payment services* in accordance with the *Payment Services Directive*; and

(b) (in accordance with paragraph 1 of Schedule 7 to the *Payment Services Regulations*) a firm which has its head office in Gibraltar, is authorised in Gibraltar to provide *payment services*, and has an entitlement corresponding to its passport right deriving from the *Payment Services Directive*, to establish a *branch* or provide services in the United Kingdom.

EEA bank

FCA PRA

(A) In the PRA Handbook:

an *incoming EEA firm* which is a *CRD credit institution*.

(B) In the FCA Handbook:

an *incoming EEA firm* which is a *CRD credit institution*.

EEA banking and investment group

PRA

a *banking and investment group* that satisfies one or more of the following conditions:

- (a) it is headed by:
 - (i) an *investment firm* or *credit institution* that is authorised and incorporated in an EEA State; or

<p>EEA branch of an authorised electronic money institution</p> <p>FCA PRA</p>	<p>(ii) a <i>financial holding company</i> that has its head office in an <i>EEA State</i>; or</p> <p>(b) it has as a member an <i>investment firm</i> or <i>credit institution</i> that:</p> <p>(i) is authorised and incorporated in an <i>EEA State</i>; and</p> <p>(ii) is linked with another member that is in the <i>banking sector</i> or the <i>investment services sector</i> by a <i>consolidation Article 12(1) relationship</i>; or</p> <p>(c) it is otherwise required by <i>EEA prudential sectoral legislation</i> for the <i>banking sector</i> or the <i>investment services sector</i> (except Article 143 of the <i>Banking Consolidation Directive</i> (Third-country parent undertakings)) to be subject to consolidated supervision by a <i>competent authority</i>.</p>
<p>EEA commodities market</p> <p>FCA PRA</p>	<p>(in accordance with regulation 2(1) of the <i>Electronic Money Regulations</i>) a branch established by an <i>authorised electronic money institution</i>, in the exercise of its <i>passport rights</i>, to issue <i>electronic money</i>, provide <i>payment services</i>, distribute or redeem <i>electronic money</i> or carry out other activities in accordance with the <i>Electronic Money Regulations</i> in an <i>EEA State</i> other than the <i>United Kingdom</i>.</p> <p>a market that facilitates trading in <i>derivatives</i> relating to <i>commodities</i> (other than a market operated by an <i>RIE</i>) and which is operated by an entity that has its head office situated in the <i>EEA</i> and that is regulated as an exchange.</p>
<p>EEA financial conglomerate</p> <p>FCA PRA</p>	<p>a <i>financial conglomerate</i> that is of a type that falls under Article 5(2) of the <i>Financial Groups Directive</i> (Scope of supplementary supervision of <i>regulated entities</i> referred to in Article 1 of that Directive) which in summary means a <i>financial conglomerate</i>:</p> <p>(a) that is headed by an <i>EEA regulated entity</i>; or</p> <p>(b) in which the <i>parent undertaking</i> of an <i>EEA regulated entity</i> is a <i>mixed financial holding company</i> which has its head office in the <i>EEA</i>; or</p> <p>(c) in which an <i>EEA regulated entity</i> is linked with a member of the <i>financial conglomerate</i> in the <i>overall financial sector</i> by a <i>consolidation Article 12(1) relationship</i>.</p>
<p>EEA firm</p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>(in accordance with paragraph 5 of Schedule 3 to the <i>Act</i> (EEA Passport Rights)) any of the following, if it does not have its relevant office in the <i>United Kingdom</i>:</p> <p>(a) an investment firm (as defined in article 4(1) of <i>MiFID</i>) which is authorised (within the meaning of article 5) by its <i>Home State regulator</i>;</p> <p>(b) a <i>credit institution</i> (as defined in article 4(1)(1) of the <i>EU CRR</i>)</p> <p>(c) a financial institution (as defined in article 4(1)(26) of the <i>EU CRR</i>) which is a subsidiary of the kind mentioned in article 34 of the <i>CRD</i> and which fulfils the conditions in articles 33 and 34;</p> <p>(d) an undertaking pursuing the activity of direct insurance (within the meaning of article 2 of the <i>Consolidated Life Directive</i> (No. 2002/83/EC) or of Article 1 of the <i>First Non-Life Directive</i> (No.</p>

73/239/EEC)) which has received authorisation under Article 4 of the Consolidated Life Directive or Article 6 of the First Non-Life Directive from its *Home State regulator*;

(e) an *IMD insurance intermediary* or *IMD reinsurance intermediary* (as defined in article 2 of the *IMD*) which has registered under article 3 of that directive with its *Home State regulator*;

(f) (from 1 July 2011) a *management company*;

(g) an *undertaking* pursuing the activity of reinsurance (within the meaning of article 1 of the *Reinsurance Directive*) which has received authorisation under article 3 of the *Reinsurance Directive* from its *Home State Regulator*;

(h) a *person* who has received authorisation under article 18 of the *auction regulation*;

(hh) an *AIFM* which is authorised (under article 6 of *AIFMD*) by its *Home State regulator*;

in this definition, relevant office means:

(i) in relation to a *firm* falling within sub-paragraph (e), which has a registered office, its registered office;

(ii) in relation to any other *firm* falling within any other paragraph, its head office.

(B) In the FCA Handbook:

(in accordance with paragraph 5 of Schedule 3 to the *Act* (EEA Passport Rights)) any of the following, if it does not have its relevant office in the *United Kingdom*:

(a) an investment firm (as defined in article 4(1) of *MiFID*) which is authorised (within the meaning of article 5) by its *Home State regulator*;

(b) a *credit institution* (as defined in article 4(1)(1) of the *EU CRR*)

(c) a financial institution (as defined in article 41(26) of the *EU CRR*) which is a subsidiary of the kind mentioned in article 34 of the *CRD* and which fulfils the conditions in articles 33 and 34;

(d) an undertaking pursuing the activity of direct insurance (within the meaning of article 2 of the Consolidated Life Directive (No. 2002/83/EC) or of Article 1 of the *First Non-Life Directive* (No. 73/239/EEC)) which has received authorisation under Article 4 of the Consolidated Life Directive or Article 6 of the First Non-Life Directive from its *Home State regulator*;

(e) an *IMD insurance intermediary* or *IMD reinsurance intermediary* (as defined in article 2 of the *IMD*) which has registered under article 3 of that directive with its *Home State regulator*;

(f) (from 1 July 2011) a *management company*;

(g) an *undertaking* pursuing the activity of reinsurance (within the meaning of article 1 of the *Reinsurance Directive*) which has received authorisation under

<p>EEA insurance parent undertaking</p> <p>FCA PRA</p>	<p>article 3 of the <i>Reinsurance Directive</i> from its <i>Home State Regulator</i>;</p> <p>(h) a <i>person</i> who has received authorisation under article 18 of the <i>auction regulation</i>;</p> <p>(hh) an <i>AIFM</i> which is authorised (under article 6 of <i>AIFMD</i>) by its <i>Home State regulator</i>;</p> <p>in this definition, relevant office means:</p> <p>(i) in relation to a <i>firm</i> falling within sub-paragraph (e), which has a registered office, its registered office;</p> <p>(ii) in relation to any other <i>firm</i> falling within any other paragraph, its head office.</p>
<p>EEA insurer</p> <p>FCA PRA</p>	<p>an <i>insurer</i>, other than a <i>pure reinsurer</i> or a <i>non-directive insurer</i>, whose head office is in any <i>EEA State</i> except the <i>United Kingdom</i> and which has received <i>authorisation</i> under article 6 of the <i>First Life Directive</i> or article 4 of the <i>Consolidated Life Directive</i> or article 6 of the <i>First Non-Life Directive</i> from its <i>Home State Regulator</i>.</p>
<p>EEA ISPV</p> <p>FCA PRA</p>	<p>an <i>ISPV</i> (including a <i>UK ISPV</i>) whose head office is in any <i>EEA State</i> and which has received <i>authorisation</i> pursuant to article 46 of the <i>Reinsurance Directive</i> from its <i>Home State Regulator</i>.</p>
<p>EEA key investor information document</p> <p>FCA PRA</p>	<p>a <i>document</i> that:</p> <p>(a) relates to an <i>EEA UCITS scheme</i>;</p> <p>(b) complies with the requirements of the <i>KII Regulation</i>; and</p> <p>(c) is provided in a language stipulated by article 94(1)(b) of the <i>UCITS Directive</i>.</p>
<p>EEA market operator</p> <p>FCA PRA</p>	<p>(in <i>REC</i>) a <i>person</i> who is a <i>market operator</i> whose <i>home state</i> is an <i>EEA State</i> other than the <i>United Kingdom</i>.</p>
<p>EEA MCR</p> <p>FCA PRA</p>	<p>the <i>MCR</i> in relation to business carried on in all <i>EEA States</i>, taken together, calculated by a <i>UK-deposit insurer</i> in accordance with <i>INSPRU 1.5.46R</i>.</p>
<p>EEA MiFID investment firm</p> <p>FCA PRA</p>	<p>a <i>MiFID investment firm</i> whose <i>Home State</i> is not the <i>United Kingdom</i>.</p>
<p>EEA parent financial holding company</p> <p>FCA PRA</p>	<p>(A) In the <i>PRA Handbook</i>:</p> <p>(in accordance with Article 4(17) of the <i>Banking Consolidation Directive</i> (Definitions) and Article 3 of the <i>Capital Adequacy Directive</i> (Definitions)) a <i>parent financial holding company in a Member State</i> which is not a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in any <i>EEA State</i> or of another <i>financial</i></p>

holding company or *mixed financial holding company* established in any EEA State.

(B) In the FCA Handbook:

(1) (in accordance with Article 4(17) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions)) for the purpose of GENPRU (except ■ GENPRU 3) and BIPRU (except in ■ BIPRU 12) a *parent financial holding company in a Member State* which is not a *subsidiary undertaking* of an *institution* authorised in any EEA State or of another *financial holding company* or *mixed financial holding company* established in any EEA State.

(2) (except in (1)) has the meaning as given to EU parent financial holding company in article 4(1)(31) of the EU CRR.

EEA parent institution

FCA PRA

(A) In the PRA Handbook:

(in accordance with Article 4(16) of the *Banking Consolidation Directive* and Article 2 of the *Capital Adequacy Directive* (Definitions)) a *parent institution in a Member State* which is not a *subsidiary undertaking* of another *institution* authorised in any EEA State, or of a *financial holding company* or *mixed financial holding company* established in any EEA State.

(B) In the FCA Handbook:

(1) (in accordance with Article 4(16) of the *Banking Consolidation Directive* and Article 2 of the *Capital Adequacy Directive* (Definitions)) for the purpose of BIPRU (except ■ BIPRU 12) a *parent institution in a Member State* which is not a *subsidiary undertaking* of another *institution* authorised in any EEA State, or of a *financial holding company* or *mixed financial holding company* established in any EEA State.

(2) (except in (1)) has the meaning as given to EU parent mixed financial holding company in article 4(1)(33) of the EU CRR.

EEA parent mixed financial holding company

FCA PRA

(A) In the PRA Handbook:

(in accordance with Article 4(17a) of the *Banking Consolidation Directive* (Definitions)) a *parent mixed financial holding company in a Member State* which is not a *subsidiary undertaking* of an *institution* authorised in any EEA State or of another *financial holding company* or *mixed financial holding company* established in any EEA State.

(B) In the FCA Handbook:

(1) (in accordance with Article 4(17a) of the *Banking Consolidation Directive* (Definitions)) for the purpose of GENPRU (except ■ GENPRU 3) and BIPRU (except in ■ BIPRU 12) a *parent mixed financial holding company in a Member State* which is not a *subsidiary undertaking* of an *institution* authorised in any EEA State or of another *financial holding company* or *mixed financial holding company* established in any EEA State.

(2) (except in (1)) has the meaning as given to EU parent mixed financial holding company in article 4(1)(33) of the EU CRR.

EEA Passport Rights Regulations

FCA PRA

the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001 (SI 2001/2511).

EEA
prudential
sectoral
legislation

FCA PRA

(A) In the PRA Handbook:

(in relation to a *financial sector*) requirements applicable to *persons* in that *financial sector* in accordance with EEA legislation about prudential supervision of *regulated entities* in that *financial sector* and so that:

(a) (in relation to the *banking sector* and the *investment services sector*) in particular this includes the requirements laid down in the *Banking Consolidation Directive* and the *Capital Adequacy Directive*; and

(b) (in relation to the *insurance sector*) in particular this includes requirements laid down in the *First Non-Life Directive*, the *Consolidated Life Directive* and the *Insurance Groups Directive*.

(B) In the FCA Handbook:

(in relation to a *financial sector*) requirements applicable to *persons* in that *financial sector* in accordance with EEA legislation about prudential supervision of *regulated entities* in that *financial sector* and so that:

(a) (in relation to the *banking sector* and the *investment services sector*) in particular this includes the requirements laid down in the *EU CRR* and (in relation to a *CAD investment firm*) the *Banking Consolidation Directive* and the *Capital Adequacy Directive*; and

(b) (in relation to the *insurance sector*) in particular this includes requirements laid down in the *First Non-Life Directive*, the *Consolidated Life Directive* and the *Insurance Groups Directive*.

EEA pure
reinsurer

FCA PRA

a *reinsurance undertaking* (other than an *ISPV*) whose head office is in any *EEA State* except the *United Kingdom* and which has received (or is deemed to have received) authorisation under article 3 of the *Reinsurance Directive* from its *Home State Regulator*.

EEA registered
tied agent

FCA PRA

a *tied agent* of a *UK MiFID investment firm* that is not an *appointed representative* and would have been an *FCA registered tied agent* but for the fact that it does business in an *EEA State* that permits *investment firms* authorised by the *competent authority* of that state to appoint *tied agents*.

EEA regulated
entity

FCA PRA

a *regulated entity* that is an *EEA firm* or a *UK firm*.

EEA regulator

FCA PRA

(1) a *competent authority* for the purposes of any of the *Single Market Directives* or the *auction regulation*.

(2) (in ■ DEPP 7) (as defined in section 131FA of the *Act*) the *competent authority* of an *EEA State* other than the *United Kingdom* for the purposes of the *short selling regulation*.

EEA right

FCA PRA

(in accordance with paragraph 7 of Schedule 3 to the *Act* (EEA Passport Rights)) the entitlement of a *person* to establish a *branch* or provide services in an *EEA State* other than that in which he has his relevant office:

(a) in accordance with the *Treaty* as applied in the *European Economic Area*; and

(b) subject to the conditions of the relevant *Single Market Directive* or the *auction regulation*.

in this definition, relevant office means:

(i) in relation to a *person* who has a registered office and whose entitlement is subject to the conditions of the *Insurance Mediation Directive*, his registered office; and

<p><i>EEA simplified prospectus</i></p> <p>FCA PRA</p>	<p>(ii) in relation to any other <i>person</i>, his head office.</p> <p>a marketing <i>document</i> which meets the requirements of Article 28 of the UCITS Directive (No 85/611/EEC) (as at 30 June 2011).</p>
<p><i>EEA simplified prospectus scheme</i></p> <p>FCA PRA</p>	<p>an <i>EEA UCITS scheme</i> which is a <i>recognised scheme</i> under section 264 of the <i>Act</i> (Schemes constituted in other EEA States) and which is permitted by the laws and regulations of its <i>Home State</i> to market its <i>units</i> on the basis of an <i>EEA simplified prospectus</i>.</p>
<p><i>EEA State</i></p> <p>FCA PRA</p>	<p>(in accordance with Schedule 1 to the Interpretation Act 1978), in relation to any time -</p> <p>(a) a state which at that time is a member State; or</p> <p>(b) any other state which is at that time a party to the EEA agreement.</p> <p>[Note: Current non-member State parties to the EEA agreement are Norway, Iceland and Lichtenstein. Where the context requires, references to an <i>EEA State</i> include references to Gibraltar as appropriate].</p>
<p><i>EEA territorial scope rule</i></p> <p>FCA PRA</p>	<p>■ COBS 1 Annex 1, Part 2 paragraph 1(1) (which provides that the territorial scope of COBS is modified to the extent necessary to be compatible with European law).</p>
<p><i>EEA tied agent</i></p> <p>FCA PRA</p>	<p>a <i>tied agent</i> who is an <i>FCA registered tied agent</i> or an <i>EEA registered tied agent</i>.</p>
<p><i>EEA UCITS management company</i></p> <p>FCA PRA</p>	<p>any <i>incoming EEA firm</i> that is a <i>management company</i>.</p>
<p><i>EEA UCITS scheme</i></p> <p>FCA PRA</p>	<p>a <i>collective investment scheme</i> established in accordance with the <i>UCITS Directive</i> in an <i>EEA State</i> other than the <i>United Kingdom</i>.</p>
<p><i>EEA-deposit insurer</i></p> <p>FCA PRA</p>	<p>a <i>non-EEA insurer</i> that has made a deposit in an <i>EEA State</i> (other than the <i>United Kingdom</i>) under article 23 of the <i>First Non-Life Directive</i> (as amended) in accordance with article 26 of that Directive or under article 51 of the <i>Consolidated Life Directive</i> in accordance with article 56 of that Directive.</p>
<p><i>effecting contracts of insurance</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 10(1) of the <i>Regulated Activities Order</i> (Effecting and carrying out contracts of insurance), of effecting a <i>contract of insurance</i> as principal.</p>
<p><i>effective EE</i></p> <p>FCA PRA</p>	<p><i>effective expected exposure</i>.</p>

effective EPE

FCA PRA

effective expected positive exposure.

effective expected exposure

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions) and as at a specific date) the maximum *expected exposure* that occurs at that date or any prior date; alternatively, it may be defined for a specific date as the greater of the *expected exposure* at that date, or the effective *exposure* at the previous date.

effective expected positive exposure

FCA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13) the weighted average over time of *effective expected exposure* over the first year, or, if all the contracts within the *netting set* mature before one year, over the time period of the longest maturity contract in the *netting set*, where the weights are the proportion that an individual *expected exposure* represents of the entire time interval.

effective maturity

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions), for the purpose of the *CCR internal model method* and with respect to a *netting set* with maturity greater than one year) the ratio of the sum of *expected exposure* over the life of the transactions in the *netting set* discounted at the risk-free rate of return divided by the sum of *expected exposure* over one year in a *netting set* discounted at the risk-free rate; this effective maturity may be adjusted to reflect *rollover risk* by replacing *expected exposure* with *effective expected exposure* for forecasting horizons under one year.

efficient portfolio management

FCA PRA

(in *COLL* and in accordance with article 11 of the *UCITS eligible assets Directive*) techniques and instruments which relate to *transferable securities* and *approved money-market instruments* and which fulfil the following criteria:

- (a) they are economically appropriate in that they are realised in a cost effective way;
- (b) they are entered into for one or more of the following specific aims:
 - (i) reduction of risk;
 - (ii) reduction of cost;
 - (iii) generation of additional capital or income for the *scheme* with a risk level which is consistent with the risk profile of the *scheme* and the risk diversification rules laid down in *COLL*.

EG

FCA PRA

the Enforcement Guide.

EIS

FCA PRA

Enterprise Investment Scheme.

EIS fund

FCA PRA

an arrangement, specified in paragraph 2 of the Schedule to the Financial Services and Markets Act 2000 (Collective Investment Schemes) Order 2001 (SI 2001/1062), which is in summary: an arrangement in relation to *EIS shares* that would have been a *collective investment scheme* if the scheme arrangements had not provided that:

- (a) the *operator* will, so far as practicable, make investments which, subject to each participant's individual circumstances, qualify for relief under Chapter III of Part VII of the Income and Corporation Taxes Act 1988; and

	(b) the minimum subscription to the arrangements by each participant must be not less than £2,000.
<i>EIS managed portfolio</i> FCA PRA	a managed portfolio which is, or is to be, invested wholly or mainly in <i>EIS shares</i> .
<i>EIS manager</i> FCA PRA	(a) (in relation to an <i>EIS managed portfolio</i>) the investment manager; (b) (in relation to an <i>EIS fund</i>) the manager of the fund.
<i>EIS particulars</i> FCA PRA	a <i>document</i> containing particulars of an <i>Enterprise Investment Scheme</i> .
<i>EIS share</i> FCA PRA	a <i>share</i> in respect of which the beneficial owner may, subject to his individual circumstances, be qualified, or has been qualified, for relief under Chapter III of Part VII of the Income and Corporation Taxes Act 1988.
<i>EIS subscription</i> FCA PRA	any <i>money</i> which is subscribed: (a) in the case of an <i>EIS managed portfolio</i> , by the <i>client</i> of the <i>EIS manager</i> whose portfolio it is; (b) in the case of an <i>EIS fund</i> , by the participants in the <i>EIS</i> .
<i>EL</i> FCA PRA	<i>expected loss</i> .
<i>Electing Participants Order</i> FCA PRA	the Financial Services and Markets Act 2000 (Compensation Scheme: Electing Participants) Regulations 2001 (SI 2001/1783).
<i>Electing Participants Regulations</i> FCA PRA	the Financial Services and Markets Act 2000 (Compensation Scheme: Electing Participants) Regulations 2001 (SI 2001/1783).
<i>elective eligible counterparty</i> FCA PRA	a <i>client</i> categorised as an elective eligible counterparty in accordance with ■ COBS 3.6 (Eligible counterparties).
<i>elective professional client</i> FCA PRA	a <i>client</i> categorised as an elective professional client in accordance with ■ COBS 3.5 (Professional clients).
<i>electricity</i> FCA PRA	(a) electricity in any form, including electricity as deliverable through the <i>Balancing and Settlement Code</i> ;

electronic commerce activity

FCA **PRA**

(b) any right that relates to electricity, for example the right under a contract or otherwise to require a person to take any action in relation to electricity, including:

- (i) supplying electricity to any person or accepting supply of electricity; or
- (ii) providing any information or notice in relation to electricity; or
- (iii) making any payment in relation to the supply or nonsupply, or acceptance or non-acceptance of supply, of electricity.

an activity which:

- (a) consists of the provision of an *information society service* from an *establishment* in an *EEA State*; and
- (b) is, or but for article 72A (Information society services) of the *Regulated Activities Order* (Information society services) (and irrespective of the effect of article 72 of that Order (Overseas persons)) would be, a *regulated activity*.

electronic commerce activity direction

FCA **PRA**

a direction made, or proposed to be made, by the *FCA* under regulation 6 of the *ECD Regulations*.

electronic commerce communication

FCA **PRA**

(in accordance with article 6 of the *Financial Promotion Order*) a communication, the making of which constitutes the provision of an *information society service*.

electronic communication

FCA **PRA**

has the meaning given in section 15(1) of the Electronic Communications Act 2000.

electronic means

FCA **PRA**

are means of electronic equipment for the processing (including digital compression), storage and transmission of data, employing wires, radio optical technologies, or any other electromagnetic means.

electronic money

FCA **PRA**

electronically (including magnetically) stored monetary value as represented by a claim on the *electronic money issuer* which is:

- (a) issued on receipt of funds for the purpose of making payment transactions as defined in Article 4(5) of the *Payment Services Directive*; and
- (b) accepted by a *person* other than the *electronic money issuer*;

but does not include:

- (c) monetary value stored on instruments that can be used to acquire goods or services only:
 - (i) in or on the *electronic money issuer's* premises; or
 - (ii) under a commercial agreement with the *electronic money issuer*, either within a limited network of service providers or for a limited range of goods or services; or

Electronic Money Directive

FCA **PRA**

electronic money institution

FCA **PRA**

electronic money issuer

FCA **PRA**

Electronic Money Regulations

FCA **PRA**

electronic SCV rules

(d) monetary value that is used to make payment transactions executed by means of any telecommunication, digital or IT device, where the goods or services purchased are delivered to and are to be used through a telecommunication, digital or IT device, provided that the telecommunication, digital or IT operator does not act only as an intermediary between the payment service user and the supplier of the goods and services.

Directive 2009/110/EC of the European Parliament and of the Council of 16th September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions, amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC.

(in accordance with regulation 2(1) of the *Electronic Money Regulations*) an *authorised electronic money institution* or a *small electronic money institution*.

(1) (except in *DISP*) any of the following *persons* when they issue *electronic money*:

- (a) *authorised electronic money institutions*;
- (b) *small electronic money institutions*;
- (c) *EEA authorised electronic money institutions*;
- (d) *credit institutions*;
- (e) the Post Office Limited;
- (f) the Bank of England, the European Central Bank and the national central banks of *EEA States* other than the United Kingdom, when not acting in their capacity as a monetary authority or other public authority;
- (g) government departments and local authorities when acting in their capacity as public authorities;
- (h) *credit unions*;
- (i) municipal banks;
- (j) the National Savings Bank.

[Note: article 2(3) of the *Electronic Money Directive*]

(2) (in *DISP* and **■ FEES 5.5A**) as in (1) but:

- (a) excluding *credit institutions*, *credit unions* and municipal banks; and
- (b) including a *person* who meets the conditions set out in regulation 75(1) or regulation 76(1) of the *Electronic Money Regulations*.

the *Electronic Money Regulations 2011* (SI 2011/99).

(in *COMP*) **■ COMP 17.2.1 R(2)**, **■ COMP 17.2.3 R(3)** and **■ COMP 17.2.5 R**, the application of which is determined by **■ COMP 17.1** and **■ COMP 17.2.7 R**.

FCA PRA

eligible

FCA PRA

(in COLL) (in relation to a *securities* or a *derivatives* market) a market that satisfies the requirements in ■ COLL 5.2.10 R (Eligible markets: requirements) in relation to schemes falling under ■ COLL 5 .

eligible capital

FCA

has the meaning in article 4(1)(71) of the *EU CRR*.

eligible claimant

FCA PRA

a *person* who is eligible to bring a *claim* for compensation under ■ COMP 4.2.1 R.

eligible complainant

FCA PRA

a *person* eligible to have a *complaint* considered under the *Financial Ombudsman Service*, as defined in ■ DISP 2.7 (Is the complainant eligible?).

eligible counterparty

FCA PRA

(1) (for the purposes other than those set out in (2)) (in accordance with ■ COBS 3.6.1 R) a *client* that is either a *per se eligible counterparty* or an *elective eligible counterparty*.

(2) (for the purposes of PRIN, in relation to activities other than *designated investment business*) a *client* categorised as an *eligible counterparty* in accordance with ■ PRIN 1 Annex 1 R.

eligible counterparty business

FCA PRA

the following services and activities carried on by a *firm*:

(a) *dealing on own account, execution of orders on behalf of clients* or reception and transmission of orders; or

(b) any *ancillary service* directly related to a service or activity referred to in (a); or

(c) *arranging* in relation to business which is not *MiFID* or *equivalent third country firm business*;

but only to the extent that the service or activity is carried on with or for an *eligible counterparty*.

eligible ECAI

FCA PRA

(A) In the PRA Handbook:

an *ECAI*:

(a) (for *exposure risk weighting* purposes other than those in (b)) recognised by the *appropriate regulator* under regulation 22 of the *Capital Requirements Regulations 2006* (Recognition for exposure risk-weighting purposes); or

(b) (for *securitisation risk weighting* purposes) recognised by the *appropriate regulator* under regulation 23 of the *Capital Requirements Regulations 2006* (Recognition for securitisation risk-weighting purposes).

(B) In the FCA Handbook:

an *ECAI*:

(a) (for *exposure risk weighting* purposes other than those in (b)) recognised by the *appropriate regulator* under regulation 22 of the *Capital Requirements Regulations 2006* (Recognition for exposure risk-weighting purposes); or

eligible institution

FCA

eligible LLP members' capital

FCA PRA

eligible partnership capital

FCA PRA

EMIR

FCA PRA

EMIR L2 Regulation

FCA

EMIR requirements

FCA

EMIR technical standards on OTC derivatives

FCA

emissions allowance

FCA PRA

emissions auction product

FCA PRA

(b) (for *securitisation risk weighting* purposes) recognised by the *appropriate regulator* under regulation 23 of the *Capital Requirements Regulations 2006* (Recognition for securitisation risk-weighting purposes).

(c) (in ■ BIPRU 12) that is listed in the first row in the table set out in BIPRU 12 Annex 1R.

(in COLL):

(a) a *CRD credit institution* authorised by its *Home State regulator*;

(b) an *MiFID investment firm* authorised by its *Home State regulator*.

members' capital of a *limited liability partnership* that meets the conditions in IPRU(INV) Annex A or, for a *BIPRU firm*, the requirements of ■ GENPRU 2.2.94 R (Core tier one capital: Eligible LLP members' capital).

(in relation to a *BIPRU firm*) has the meaning in ■ GENPRU 2.2.93 R.

Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories, sometimes referred to as the "European Markets Infrastructure Regulation".

Commission Delegated Regulation (EU) No 149/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on indirect clearing arrangements, the clearing obligation, the public register, access to a trading venue, non-financial counterparties, and risk mitigation techniques for OTC derivatives contracts not cleared by a CCP.

requirements imposed under *EMIR* and any regulation made under it.

means "Commission Delegated Regulation (EU) 149/2013 of 19 December 2012 supplementing *EMIR* with regard to regulatory technical standards on indirect clearing arrangements, the clearing obligation, the public register, access to a trading venue, non-financial counterparties, and risk mitigation techniques for OTC derivatives contracts not cleared by a central counterparty".

an 'allowance', within the meaning of article 3(a) of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

the *investment* specified in article 82A of the *Regulated Activities Order* (Greenhouse gas *emissions allowances*), which is in summary an *emissions allowance* offered for sale on an *auction platform* as a *financial instrument* or a *two-day emissions spot*.

employee

FCA PRA

(1) (for all purposes except those in (2)) an individual:

(a) who is employed or appointed by a *person* in connection with that *person's* business, whether under a contract of service or for services or otherwise; or(b) whose services, under an arrangement between that *person* and a third party, are placed at the disposal and under the control of that *person*;but excluding an *appointed representative* or a *tied agent* of that *person*.

(2) (for the purposes of:

(a) ■ COBS 11.7 (Personal account dealing);

(aa) ■ GEN 4 (Statutory status disclosure);

(ab) ■ GEN 6.1 (Payment of financial penalties);

(b) ■ SUP 12 (Appointed representatives); and

(c) *TC*)

an individual:

(i) within (1); or

(ii) who is:

(A) an *appointed representative* or, where applicable, a *tied agent* of the *person* referred to in (1); or(B) employed or appointed by an *appointed representative* or, where applicable, a *tied agent* of that *person*, whether under a contract of service or for services or otherwise, in connection with the business of the *appointed representative* or *tied agent* for which that *person* has accepted responsibility.a *person* that gives advice, or provides services to, an employer in connection with a *group personal pension scheme* or *group stakeholder pension scheme* provided, or to be provided, by the employer for the benefit of its employees.*employee benefit consultant*

FCA PRA

has the same meaning as in section 1166 of the Companies Act 2006.

employees' share scheme

FCA PRA

employers' liability insurance

FCA PRA

a *contract of insurance* against risks of the *persons* insured incurring liabilities to their employees.PAGE
E15*EMPS*

FCA PRA

the Handbook Guide for energy market participants.

endowment assurance

FCA PRA

a *life policy* which pays a sum of *money* on the survival of the life assured to a specific date or on his earlier death.

energy

FCA PRA

coal, *electricity*, *natural gas* (or any by-product or form of any of them) , *oil* or *biofuel*.

energy collective investment scheme

FCA PRA

a *collective investment scheme*, the property of which consists only of *energy*, energy investments, *emissions allowances* , *tradable renewable energy credits* or cash awaiting investment.

energy investment

FCA PRA

any of the following:

- (a) a *unit* in an *energy collective investment scheme*;
- (b) an *option* to acquire or dispose of an *energy investment*;
- (c) a *future* or a *contract for differences* where the commodity or property of any other description in question is:
 - (i) *energy*; or
 - (ii) an *energy investment*; or
 - (iii) an *emissions allowance* ; or
 - (iv) a *tradable renewable energy credit*;
- (d) a *contract for differences* where the index or other factor in question is linked to or otherwise dependent upon fluctuations in the value or price of any of (c)(i) to (iv) (including any prices or charges in respect of imbalances under the *Network Code* or the *Balancing and Settlement Code*);
- (e) a *weather derivative*;
- (f) an *emissions allowance*, if it is a *specified investment*;
- (g) a *tradable renewable energy credit*, if it is a *specified investment*;
- (h) *rights to or interests in investments* in (a)-(g).

energy market activity

FCA PRA

(a) any *regulated activity* other than *bidding in emissions auctions* in relation to an *energy investment* or to *energy* , or in relation to a *biomass investment* or *biomass* that is ancillary to activities related to *energy investments* or *energy*, which:

- (i) is the *executing of own account transactions* on any *recognised investment exchange* or *designated investment exchange*; or
 - (ii) if it is not the *executing of transactions* on such exchanges, is performed in connection with or for persons who are not *retail clients* ;
- (b) *establishing, operating or winding up a collective investment scheme* which is an *energy collective investment scheme* in which *retail clients* do not participate.

energy market participant

FCA PRA

(A) In the PRA Handbook:

a firm:

(a) whose permission:

(i) includes a *requirement* that the firm must not carry on any *designated investment business* other than *energy market activity*;

(ii) does not include a *requirement* that it comply with ■ IPRUINV link 5 (Investment management firms) or 13 (Personal investment firms); and

(b) which is not an *authorised professional firm, bank, BIPRU firm* (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society, credit union, friendly society, ICVC, insurer, MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU commodities firm*), *media firm, oil market participant, service company, insurance intermediary, home finance administrator, home finance provider, incoming EEA firm* (without a *top-up permission*), or *incoming Treaty firm* (without a *top-up permission*).

(B) In the FCA Handbook:

a firm:

(a) whose permission:

(i) includes a *requirement* that the firm must not carry on any *designated investment business* other than *energy market activity*;

(ii) does not include a *requirement* that it comply with ■ IPRUINV link 5 (Investment management firms) or 13 (Personal investment firms); and

(b) which is not an *authorised professional firm, bank, BIPRU firm* (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society, credit union, friendly society, ICVC, insurer, MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU commodities firm*), *media firm, oil market participant, service company, insurance intermediary, home finance administrator, home finance provider, incoming EEA firm* (without a *top-up permission*), or *incoming Treaty firm* (without a *top-up permission*).

(as defined in section 21(8) of the *Act*) (Restrictions on financial promotion)):

(a) enter or offer to enter into an agreement the making or performance of which by either party constitutes a *controlled activity*; or

(b) exercise any rights conferred by a *controlled investment* to acquire, dispose of, underwrite or convert a *controlled investment*.

(1) (in relation to a *firm* carrying on *general insurance business*) the amount calculated in accordance with INSPRU 1.1.72CR.

engage in investment activity

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E17

FCA PRA

enhanced capital requirement

FCA PRA

entering as provider into a funeral plan contract

(2) (in relation to a *firm* carrying on *long-term insurance business*) an amount of *capital resources* that a *firm* must hold as set out in GENPRU 2.1.38R.

the *regulated activity*, specified in article 59 of the *Regulated Activities Order* (Funeral plan contracts) which comes into force on 1 January 2002, of entering as provider into a *funeral plan contract*.

FCA PRA

entering into a home finance transaction

any of the *regulated activities* of *entering into a regulated mortgage contract*, *entering into a home purchase plan*, *entering into a home reversion plan* or *entering into a regulated sale and rent back agreement*.

FCA PRA

entering into a home purchase plan

the *regulated activity*, specified in article 63F(1) of the *Regulated Activities Order*, which is in summary: entering into a *home purchase plan* as provider.

FCA PRA

entering into a home reversion plan

the *regulated activity*, specified in article 63B(1) of the *Regulated Activities Order*, which is in summary: entering into a *home reversion plan* as provider, or acquiring any obligations or rights (including his interest in land) of the plan provider under a *home reversion plan* entered into by him on or after 6 April 2007.

FCA PRA

entering into a regulated mortgage contract

the *regulated activity*, specified in article 61(1) of the *Regulated Activities Order*, which is in summary: entering into a *regulated mortgage contract* as lender.

FCA PRA

entering into a regulated sale and rent back agreement

the *regulated activity*, specified in article 63J(1) of the *Regulated Activities Order*, which is in summary entering into a *regulated sale and rent back agreement* as an agreement provider, including acquiring any obligations or rights of the agreement provider, including the agreement provider's interest in land or interests under one or more such *agreements*.

FCA PRA

Enterprise Investment Scheme

an arrangement which is an *EIS managed portfolio* or an *EIS fund*.

FCA PRA

Enterprise Zone Property Unit Trust

an *unregulated collective investment scheme* of which the underlying assets are industrial and commercial buildings in an Enterprise Zone in accordance with section 749(2) of the Finance Act 1980.

FCA PRA

EPE

expected positive exposure.

FCA PRA

equalisation provision

FCA PRA

a provision required to be established under the *rules* in INSPRU 1.4 .

equity

FCA PRA

(A) In the PRA Handbook:
(for the purposes of ■ BIPRU 7) a *share*.
(B) In the FCA Handbook:
(for the purposes of ■ BIPRU 7 and ■ IFPRU 6) a *share*.

equity exposure

FCA PRA

(in relation to the *IRB approach*) an exposure falling into the *IRB exposure class* referred to in ■ BIPRU 4.3.2 R (5) (equity exposures).

equity market adjustment ratio

FCA PRA

(1) (in relation to the *resilience capital requirement*) has the meaning set out in INSPRU 3.1.19R.
(2) (in relation to the *market risk* scenario for the *risk capital margin* of a *with-profits fund*) has the meaning set out in INSPRU 1.3.71R.

equity PRR

FCA PRA

the part of the *market risk capital requirement* calculated in accordance with ■ BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives) but so that:

- (a) the *equity PRR* excludes the part of the *market risk capital requirement* calculated under ■ BIPRU 7.3.45 R (Basic interest rate PRR for equity derivatives); and
- (b) in relation to a particular *position*, it means the portion of the overall *equity PRR* attributable to that *position*.

equity release activity

FCA PRA

any *regulated mortgage activity* carried on in relation to a *lifetime mortgage*, or a *reversion activity*.

equity release adviser

FCA PRA

a *firm* with *permission* (or which ought to have *permission*) for:
(a) *advising on regulated mortgage contracts* (when carried on in relation to a *lifetime mortgage*); or
(b) *advising on a home reversion plan*.

equity release arranger

FCA PRA

a *firm* with *permission* (or which ought to have *permission*) for *arranging* a:
(a) *regulated mortgage contract* (when carried on in relation to a *lifetime mortgage*); or
(b) *home reversion plan*.

equity release intermediary

FCA PRA

a *firm* with *permission* (or which ought to have *permission*) to carry on *equity release mediation activity*.

equity release mediation activity

any of the *regulated activities* of:
(a) *arranging a regulated mortgage contract* (when carried on in relation to a *lifetime mortgage*) or a *home reversion plan*;

FCA PRA

equity release provider

FCA PRA

equity release transaction

FCA PRA

equity security

FCA PRA

equity share

FCA PRA

equity share capital

FCA PRA

equity stake

FCA PRA

equivalent

FCA PRA

equivalent business of a third country investment firm

FCA PRA

equivalent document

FCA PRA

ESMA

(b) *advising on a regulated mortgage contract* (when carried on in relation to a *lifetime mortgage*) or a *home reversion plan*; or

(c) *agreeing to carry on a regulated activity* in (a) or (b).

a *firm with permission* (or which ought to have *permission*) for:

(a) *entering into a regulated mortgage contract* (when carried on in relation to a *lifetime mortgage*); or

(b) *entering into a home reversion plan*.

a *lifetime mortgage* or a *home reversion plan*.

(1) (in *LR*) *equity shares* and *securities* convertible into *equity shares*; and

(2) (in *PR*) (as defined in Article 2.1(b) of the *prospectus directive*) shares and other transferable securities equivalent to shares in companies, as well as any other type of transferable securities giving the right to acquire any of the aforementioned securities as a consequence of their being converted or the rights conferred by them being exercised, provided that securities of the latter type are issued by the issuer of the underlying shares or by an entity belonging to the group of the said issuer.

shares comprised in a *company's equity share capital*.

(for a *company*), its issued share capital excluding any part of that capital which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution.

(in relation to a *company*) any kind of equity stake in that *company*, including *shares* in it (including non-voting and non-equity *shares*, *debt securities* that are convertible or exchangeable into such *shares*, a call *option* on such *shares* or an in-the-money put *option* on such *shares*, but excluding a *contract for differences* or other *investment* that provides merely an economic exposure to movement in the price of the company's shares).

see *commission equivalent*.

the business of a *third country investment firm* carried on from an establishment in the *United Kingdom* that would be *MiFID business* if that firm were a *MiFID investment firm*.

(in *LR* and *FEES*) a document containing information equivalent to a *prospectus* for the purposes of ■ PR 1.2.2 R (2) or ■ (3) or ■ PR 1.2.3 R (3) or ■ (4).

European Securities and Markets Authority.

FCA **PRA**

ESMA AIFMD key concepts guidelines

ESMA's guidelines on key concepts of the AIFMD.

FCA

ESMA recommendations

the recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses No 809/2004 published by the European Securities and Markets Authority (ESMA/2011/81).

established

(in accordance with article 4(1)(j) *AIFMD*):

FCA **PRA**

- (a) for *AIFMs*, 'having its registered office in';
- (b) for *AIFs*, 'being authorised or registered in' or, if the *AIF* is not authorised or registered, 'having its registered office in'; or
- (c) for *depositories*, 'having its registered office or branch in'.

established surplus

has the meaning in ■ IPRU-INS 3.3(4).

FCA **PRA**

establishing, operating or winding up a collective investment scheme

the *regulated activity*, specified in article 51(1)(a) or 51ZE of the *Regulated Activities Order* (Establishing etc a collective investment scheme), of establishing, operating or winding up a *collective investment scheme*.

FCA **PRA**

establishing, operating or winding up a personal pension scheme

the *regulated activity*, specified in article 52(b) of the *Regulated Activities Order* (Establishing etc. a pension scheme), of establishing, operating or winding up a *personal pension scheme*.

FCA **PRA**

establishing, operating or winding up a regulated collective investment scheme

establishing, operating or winding up a collective investment scheme if the *scheme* is a *regulated collective investment scheme*.

FCA **PRA**

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establishing, operating or winding up a stakeholder pension scheme

the *regulated activity*, specified in article 52 (a) of the *Regulated Activities Order* (Establishing etc. a pension scheme), of establishing, operating or winding up a *stakeholder pension scheme*.

FCA PRA

establishing, operating or winding up an unregulated collective investment scheme

establishing, operating or winding up a collective investment scheme if the scheme is an unregulated collective investment scheme.

FCA PRA

establishment

FCA PRA

(in relation to an *information society service*) the place at which the provider of the service effectively pursues an economic activity for an indefinite period; in this definition:

(a) the presence or use in a particular place of equipment or other technical means of providing an *information society service* does not, of itself, constitute that place as an establishment; and

(b) where it is unclear from which of a number of establishments a particular *information society service* is provided, that service is to be regarded as provided from the establishment where the provider has the centre of his activities relating to the service.

establishment conditions

FCA PRA

(in relation to the establishment of a *branch* in the *United Kingdom*) the conditions specified in paragraph 13 of Schedule 3 to the *Act* (EEA Passport Rights), which are that:

(a) if the *firm* falls within paragraph (a), (b), (c), (d) or (f) in the definition of "*EEA firm*":

(i)...

(b) if the *firm* falls within paragraph (e) in the definition of "*EEA firm*":

(i) the *EEA firm* has given its *Home State regulator* notice of its intention to establish a *branch* in the *United Kingdom*;

(ii) the *FCA* or *PRA* (as the case may be) has received notice ("a regulator's notice") from the firm's Home State regulator that the firm intends to establish a *branch* in the *United Kingdom*;

(iii) the *EEA firm's* Home State regulator has informed it that the regulator's notice has been sent to the *FCA* or *PRA* (as the case may be) ; and

(iv) one *month* has elapsed beginning with the date on which the *EEA firm's* Home State regulator informed the *firm* that it had sent the regulator's notice to the *FCA* or *PRA* (as the case may be) .

(c) the *EEA firm* has been informed of the *applicable provisions* or two *months* have elapsed beginning with the date when the *FCA* or *PRA* (as the case may be) received the consent notice.

(1) (in ■ FEES 6) the costs of establishing the *compensation scheme*.

(2) (in ■ FEES 5) the costs of establishing the *Financial Ombudsman Service*.

establishment costs

FCA PRA

EU

FCA PRA

the European Union, being the Union established by the Treaty on European Union signed at Maastricht on 7 February 1992 (as amended).

EU Cross-Border Regulation

FCA **PRA**

Regulation (EC) No. 924/2009 of the European Parliament and of the Council on cross-border payments in the European Community.

EU CRR

FCA **PRA**

(A) (In the PRA Handbook)

Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012.

(B) (In the FCA Handbook)

Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012.

European Economic Area

FCA **PRA**

the area established by the agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being and which consists of the *EEA States*.

EuSEF manager

FCA

the manager of a qualifying social entrepreneurship fund (as defined in the *EuSEF Regulation*) that is registered in accordance with article 15 of the *EuSEF Regulation*.

EuSEF regulation

FCA

Regulation (EU) No 346/2013 of the European Parliament and the Council of 17 April 2013 on European social entrepreneurship funds.

EuVECA manager

FCA

the manager of a qualifying venture capital fund (as defined in the *EuVECA Regulation*) that is registered in accordance with article 14 of the *EuVECA Regulation*.

EuVECA regulation

FCA

Regulation (EU) No 345/2013 of the European Parliament and the Council of 17 April 2013 on European venture capital funds.

evidential provision

FCA **PRA**

a *rule*, contravention of which does not give rise to any of the consequences provided for by other provisions of the *Act*; and which provides, in accordance with section 138C of the *Act*, that:

- (a) contravention may be relied on as tending to establish contravention of such other *rule* as may be specified; or
- (b) compliance may be relied on as tending to establish compliance with such other *rule* as may be specified; or
- (c) both (a) and (b).

excepted contract

FCA **PRA**

(in *BCOBS*) has the same meaning as in the Consumer Protection (Distance Selling) Regulations 2000 (SI 2000/2334).

excess LLP members' drawings

FCA **PRA**

the amount by which the aggregate of the amounts withdrawn by a *limited liability partnership's* members exceeds the profits of that *firm*, as calculated in accordance with IPRU(INV) Annex A 2.5R (Limited liability partnership excess drawings).

excess spread

FCA **PRA**

(for the purposes of ■ BIPRU 9 (Securitisation), in relation to a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) and in accordance with Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)) finance charge collections and other fee income received in respect of the *securitised exposures* net of costs and expenses.

excess surplus

FCA **PRA**

a *firm* will have an excess surplus in a *with-profits fund* if, and to the extent that:

- (a) the *regulatory surplus* (or, in the case of a *realistic basis life firm*, the excess of *realistic value of assets* over *realistic value of liabilities*) in that *with-profits fund*; and
- (b) any other financial resources applied to, or expected to be applied to, that *with-profits fund*;

exceed:

- (c) the amount required to meet the higher of any regulatory capital requirement or the *firm's individual capital assessment* (at the *firm's* own risk appetite) for existing business; and
- (d) any further amount necessary to support the new business plans of that *with-profits fund*.

excess trading book position

FCA **PRA**

has the meaning in ■ GENPRU 2.2.264 R (Deductions from total capital: Excess trading book position).

exchange traded

FCA **PRA**

(in IPRU(INV) 13) listed or traded on a *recognised* or *designated investment exchange*.

exchange traded fund

FCA **PRA**

a fund:

- (a) which is an *open-ended investment company*; and
- (b) the *units* of which are traded on a *regulated market* or *designated investment exchange*.

exchange traded product

FCA

any of the following *investments*:

- (a) a *unit* or *share* in an *open-ended investment company*, a *debt security* or a *contract for differences* which meets all of the following criteria:
 - (i) it is admitted to trading on a *regulated market* or a market operated by a *ROIE*;
 - (ii) it is created and redeemed in response to demand from investors or arbitrage opportunities arising from the difference in price from the *unit*, *share*, *debt security* or *contract for differences* and the price of the underlying asset(s) it seeks to track;
 - (iii) it aims to closely simulate the performance of a specified index or other benchmark (relating to any assets such as *shares*, *debentures*, *commodities* or currencies), whether or not the

simulated performance is delta 1, inverse, leveraged, achieved by physical replication or synthetically through *derivatives*.

(b) a senior, unsubordinated *debt security* traded on a *regulated market* or a market operated by a *ROIE* featuring no periodic coupon payments and whose return tracks the performance of a specific index or other benchmark (relating to any assets such as *shares*, *debentures*, *commodities* or currencies), minus applicable fees, whether or not featuring delta 1, inverse or leveraged exposure to the index or other benchmark being tracked.

excluded
communication

FCA PRA

the following types of *financial promotion* (a *firm* may rely on more than one of the paragraphs in relation to the same *financial promotion*):

(a) a *financial promotion* that would benefit from an exemption in the *Financial Promotion Order* if it were *communicated* by an *unauthorised person*, or which originates outside the *United Kingdom* and is not capable of having an effect in the *United Kingdom* (within the meaning of s.21(3) of the *Act*);

(b) a *financial promotion* from outside the *United Kingdom* that would be exempt under articles 30, 31, 32 or 33 of the *Financial Promotion Order* (Overseas communicators) if the office from which the *financial promotion* is *communicated* were a separate *unauthorised person*;

(c) a *financial promotion* that is subject to, or exempted from, the *Takeover Code* or to the requirements relating to takeovers or related operations in another *EEA State*;

(d) a personal quotation or illustration form;

(e) a "one-off" *financial promotion* that is not a *cold call*. If the conditions set out in (i) to (iii), below, are satisfied, a *financial promotion* is "one-off". If not, the fact that any one or more of these conditions is met is to be taken into account in determining if a *financial promotion* is "one-off". However, a *financial promotion* may be regarded as "one-off" even if none of the conditions are met. The conditions are that:

(i) the *financial promotion* is *communicated* only to one recipient or only to one group of recipients in the expectation that they would engage in any investment activity jointly;

(ii) the identity of the product or service to which the *financial promotion* relates has been determined having regard to the particular circumstances of the recipient;

(iii) the *financial promotion* is not part of an organised marketing campaign; or

(f) a communication that is exempted by the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001.

excluded
material

FCA PRA

(in relation to access to *appropriate regulator* material) (as defined in section 394(7) of the *Act* (Access to FCA or PRA material)) material which:

(a) has been intercepted in obedience to a warrant issued under any enactment relating to the interception of communications; or

(b) indicates that such a warrant has been issued or that material has been intercepted in obedience to such a warrant; or

(c) is a *protected item*.

excluded
security

FCA

any of the following *investments*:

(a) a *security* whereby the issuer's ability to fulfil its payment obligations to the investor, or the *investment* returns received in connection with the *security*, are wholly or predominantly linked to, contingent on, highly

execute

FCA PRA

sensitive to or dependent on, the performance of or changes in the value of *shares*, *debentures* or *government and public securities*, whether or not such performance or changes in value are measured directly or via a market index or indices, and provided the relevant *shares* and *debentures* are not themselves issued by *special purpose vehicles*;

(b) a *covered bond*;

(c) a *security* issued by an *investment trust*;

(d) a *share* in a *company* resident outside the *EEA*, where that *company* would qualify for approval as an *investment trust* by the Commissioners for HM Revenue and Customs under sections 1158 and 1159 of the Corporation Tax Act 2010 if resident in the *United Kingdom*;

(e) a *share* in a *venture capital trust*;

(f) a *share* in a *company* to which Part 12 of the Corporation Tax Act 2010 (Real Estate Investment Trusts) applies or a member of a group to which that Part applies;

(g) an *exchange traded product*.;

(h) a *security* issued by a *regulated collective investment scheme* other than a *qualified investor scheme*.

(in relation to a transaction) carry into effect or perform the transaction, whether as *principal* or as agent, including instructing another *person* to execute the transaction.

execution criteria

FCA PRA

the criteria set out in ■ COBS 11.2.6 R, that is:

(a) the characteristics of the *client* including the categorisation of the *client* as retail or professional;

(b) the characteristics of the *client* order;

(c) the characteristics of *financial instruments* that are the subject of that order;

(d) the characteristics of the *execution venues* to which that order can be directed; and

(e) for a *management company*, the objectives, investment policy and risks specific to the *UCITS scheme* or *EEA UCITS scheme*, as indicated in its *prospectus* or *instrument constituting the scheme*.

execution factors

FCA PRA

price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.

execution of orders on behalf of clients

FCA PRA

acting to conclude agreements to buy or sell one or more *financial instruments* on behalf of *clients*.

[Note: article 4 (1)(5) of MiFID]

execution venue

FCA PRA

for the purposes of the provisions relating to best execution in ■ COBS 11.2 and in *COLL*, execution venue means a *regulated market*, an *MTF*, a *systematic internaliser*, or a *market maker* or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing.

[Note: article 44(1) of the *MiFID implementing Directive*]

execution-only transaction

FCA **PRA**

a transaction *executed* by a *firm* upon the specific instructions of a *client* where the *firm* does not give *advice on investments* relating to the merits of the transaction and in relation to which the *rules* on assessment of appropriateness (■ COBS 10) do not apply .

executive procedures

FCA **PRA**

the procedures relating to the giving of warning notices, decision notices and *supervisory notices* that are described in ■ DEPP 4 (Decisions by *FCA* staff under executive procedures) .

exempt activity

FCA **PRA**

(in relation to a *recognised body*) any *regulated activity* in respect of which the body is exempt from the *general prohibition* as a result of section 285(2) or (3) of the *Act* (Exemption for recognised investment exchanges and clearing houses).

exempt BIPRU commodities firm

FCA **PRA**

a *BIPRU firm* to which the exemption in ■ BIPRU TP 15.6R (Exemption for a BIPRU firm whose main business relates to commodities) applies.

exempt CAD firm

FCA **PRA**

(A) In the PRA Handbook:

(1) (except in *SYSC* and *IPRU(INV)*) has the meaning set out ■ BIPRU 1.1.16 R (Types of investment firm: exempt CAD firm) which is in summary an *investment firm* that satisfies certain specified conditions.

(2) (in *SYSC* and *IPRU(INV)*) a *firm* in (1) whose head office (or, if it has a registered office, that office) is in the United Kingdom.

(B) In the FCA Handbook:

(1) (except in *SYSC* and *IPRU(INV)*) a firm as defined in article 4(1)(2)(c) of the *EU CRR* that is authorised to provide only one or more the following *investment services*:

(a) investment advice;

(b) receive and transmit orders from investors as referred to in Section A of Annex I of *MiFID*).

(2) (in *SYSC* and *IPRU(INV)*) a *firm* in (1) whose head office (or, if it has a registered office, that office) is in the United Kingdom.

exempt full scope BIPRU investment firm

PRA

a *full scope BIPRU investment firm* falling into BIPRU 12.1.4R.

exempt full scope IFPRU investment firm

FCA

a *full-scope IFPRU investment firm* falling into BIPRU 12.1.4R.

exempt IFPRU commodities firm

FCA

an *IFPRU investment firm* which falls within the meaning in articles 493(1) and 498(1) of the *EU CRR*.

exempt insurance intermediary

FCA PRA

an *insurance intermediary*:

- (a) whose *Part 4A permission* is limited to or includes *insurance mediation activity*;
- (b) which, in relation to *insurance mediation activity* (but disregarding *money* or other assets held in relation to other activities) either:
 - (i) does not hold any *client money* or other *client* assets in any form; or
 - (ii) holds *client money* as trustee under a statutory trust imposed by ■ CASS 5.3 (statutory trust) but does not otherwise hold *client money*; and
- (c) which (when aggregating the amount calculated in accordance with ■ CASS 5.5.65 R) does not in relation to *insurance mediation activity* hold *client money* in excess of £30,000 at any time during a *financial year*.

exempt person

FCA PRA

(1) (as defined in section 417(1) of the *Act* (Definitions)) (in relation to a *regulated activity*) a *person* who is exempt from the *general prohibition* in respect of that activity as a result of:

- (a) the *Exemption Order*; or
- (b) being an *appointed representative*; or
- (c) section 285(2) or (3) of the *Act* (Exemption for recognised investment exchanges and clearing houses) ;

and

(2) a *person* who is exempt from the general prohibition as a result of section 312A(2) of the *Act*.

a *person* to whom, under section 327 of the *Act*, the *general prohibition* does not apply; guidance is given in ■ PROF 2.1 (Exempt *regulated activities*).

exempt professional firm

FCA PRA

exempt regulated activity

FCA PRA

(as defined in section 325(2) of the *Act* (FCA's general duty)) a *regulated activity* which may, as a result of Part XX of the *Act* (Provision of Financial Services by Members of the Professions), be carried on by *members* of a profession which is supervised and regulated by a *designated professional body* without breaching the *general prohibition*.

Exemption Order

FCA PRA

the Financial Services and Markets Act 2000 (Exemption) Order 2001 (SI 2001/1201).

exercise notice

FCA PRA

(in *LR*) (in relation to *securitised derivatives*), a document that notifies the *issuer* of a holder's intention to exercise its rights under the *securitised derivative*.

exercise price

FCA PRA

(in *LR*) (in relation to *securitised derivatives*), the price stipulated by the *issuer* at which the holder can buy or sell the *underlying instrument* from or to the *issuer*.

exercise time

FCA PRA

(in *LR*) (in relation to *securitised derivatives*), the time stipulated by the *issuer* by which the holder must exercise their rights.

expected exposure

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of **■ BIPRU 13** (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the average of the distribution of *exposures* at any particular future date before the longest maturity transaction in the *netting set* matures.

expected loss

FCA **PRA**

(in accordance with Article 4(29) of the *Banking Consolidation Directive* (Definitions) and for the purposes of the *IRB approach* and the *standardised approach* to credit risk) the ratio of the amount expected to be lost on an *exposure* from a potential *default* of a counterparty or dilution over a one year period to the amount outstanding at default.

expected positive exposure

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of **■ BIPRU 13** (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the weighted average over time of *expected exposures* where the weights are the proportion that an individual *expected exposures* represents of the entire time interval; when calculating the minimum capital requirement, the average is taken over the first year or, if all the contracts within the *netting set* mature before one year, over the time period of the longest-maturity contract in the *netting set*.

expiration date

FCA **PRA**

(in *LR*) (in relation to *securitised derivatives*), the date stipulated by the *issuer* on which the holder's rights in respect of the *securitised derivative* ends.

exposure

FCA **PRA**

(A) In the PRA Handbook:

(1) (in relation to a *firm* but subject to (2) and (3)) the maximum loss which the firm might suffer if:

(a) a counterparty or a group of connected counterparties fail to meet their obligations; or

(b) it realises assets or off-balance sheet positions

(2) (in accordance with Article 77 of the *Banking Consolidation Directive* and for the purposes of the calculation of the *credit risk capital component* and the *counterparty risk capital component* (including **■ BIPRU 3** (Standardised credit risk), **■ BIPRU 4** (The IRB approach), **■ BIPRU 5** (Credit risk mitigation) and **■ BIPRU 9** (Securitisation)) an asset or off-balance sheet item.

(3) (for the purposes of **■ BIPRU 10** (Large exposures requirements)) has the meaning in **■ BIPRU 10.2** (Identification of exposures and recognition of credit risk mitigation).

(B) In the FCA Handbook:

(1) (in relation to a *firm* but subject to (2) and (3)) the maximum loss which the firm might suffer if:

(a) a counterparty or a group of connected counterparties fail to meet their obligations; or

(b) it realises assets or off-balance sheet positions

(2) (in accordance with Article 77 of the *Banking Consolidation Directive* and for the purposes of the calculation of the *credit risk capital component* and the *counterparty risk capital component* (including **■ BIPRU 3** (Standardised credit risk), **■ BIPRU 4** (The IRB approach), **■ BIPRU 5** (Credit risk mitigation) and **■ BIPRU 9** (Securitisation)) an asset or off-balance sheet item.

(3) [delete]

<p>(4) (in <i>IFPRU</i> and to calculate <i>own funds requirements</i> under Part Three Title II (credit risk and counterparty credit risk)) has the meaning in article 5(1) of the <i>EU CRR</i>.</p>	
<p>(5) (in ■ <i>IFPRU</i> 8.2 (Large exposures) for the purpose of Part Four ((Large exposures) of the <i>EU CRR</i>) has the meaning in article 389 of the <i>EU CRR</i> (Large exposures: definitions).</p>	
<p><i>ex-section 43 firm</i> FCA PRA</p>	<p>a <i>firm</i> that was a listed institution, as defined in section 43 of the Financial Services Act 1986, immediately before <i>commencement</i>.</p>
<p><i>ex-section 43 lead regulated firm</i> FCA PRA</p>	<p>an <i>ex-section 43 firm</i> for which the <i>FSA</i> (in its capacity as the regulatory body under section 43 of the Financial Services Act 1986) was lead regulator for financial supervision purposes, and that was subject to the <i>section 43 capital requirements</i>, immediately before <i>commencement</i>.</p>
<p><i>external AIFM</i> FCA</p>	<p>(in accordance with regulation 4(3)(a) of the <i>AIFMD UK regulation</i>) an <i>AIFM</i> appointed by, or on behalf of, an <i>AIF</i> and which, through that appointment, is responsible for managing the <i>AIF</i>.</p>
<p><i>external management company</i> FCA PRA</p>	<p>(in <i>LR</i> and <i>PR</i>) has the meaning in ■ <i>PR</i> 5.5.3A R.</p>
<p><i>external valuer</i> FCA</p>	<p>a person who performs the valuation function described in article 19 of the <i>AIFMD</i> in respect of an <i>AIF</i> managed by a <i>full-scope UK AIFM</i>, and is not the <i>AIFM</i> of that <i>AIF</i>.</p>
<p><i>extraction</i> FCA PRA</p>	<p>(in relation to <i>mineral companies</i>), includes mining, production, quarrying or similar activities and the reworking of mine tailings or waste dumps.</p>
<p><i>extraordinary resolution</i> FCA PRA</p>	<p>(in <i>COLL</i>) a resolution passed by a majority of not less than three-quarters of the votes validly cast (whether on a show of hands or on a poll) for and against the resolution at a general meeting or (as the case may be) <i>class meeting</i> of holders, of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given.</p>
<p><i>EZPUT</i> FCA PRA</p>	<p><i>Enterprise Zone Property Unit Trust</i>.</p>

facilities

FCA PRA

(in relation to a *recognised body*) the facilities and services which it provides in the course of carrying on *exempt activities*. References to the use of the facilities of an *RIE* or *RAP* are to be construed as follows:

(a) dealings or transactions on an *RIE* or *RAP* are references to dealings or transactions which are effected by means of the *RIE*'s or *RAP*'s facilities or which are governed by the rules of the *RIE* or *RAP*;

(b) references to the use of the facilities of an *RIE* or *RAP* include use which consists of any such dealings or entering into any such transactions.

facility grade

FCA PRA

(in relation to the *advanced IRB approach* and the *sovereign, institutional and corporate IRB exposure class* and in accordance with ■ BIPRU 4.4.49 R) a risk category within a *rating system*'s facility scale to which *exposures* are assigned on the basis of a specified and distinct set of rating criteria from which own estimates of *LGDs* are derived.

FAIF

FCA PRA

fund of alternative investment funds.

failure

FCA PRA

the appointment of a liquidator, receiver or administrator, or trustee in bankruptcy, or any equivalent procedure in any relevant jurisdiction.

fair, clear and not misleading rule

FCA PRA

■ COBS 4.2.1 R.

FC

FCA PRA

Financial crime: a guide for firms

FCA

FCA PRA

Financial Conduct Authority

FCA candidate

FCA PRA

a *person* in respect of whom an application is made for approval under section 59 of the *Act* (Approval for particular arrangements) of the performance of an *FCA controlled function*.

FCA consolidation group

FCA

the *undertakings* included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the *EU CRR* and ■ IFPRU 8.1.3 R to ■ IFPRU 8.1.4 R (Prudential consolidation) for which the *FCA* is the *consolidating supervisor* under article 111 of the *CRD*.

FCA controlled function

FCA PRA

a *controlled function* which is specified by the *FCA* under section 59 of the *Act* (Approval for particular arrangements) in the *table of FCA controlled functions*.

PAGE
F1*FCA governing functions*

FCA PRA

any of the *FCA controlled functions* 1 to 6 in Part 1 of the *table of FCA controlled functions*.

<p><i>FCA Handbook</i> FCA PRA</p>	the <i>FCA's Handbook</i> of rules and guidance
<p><i>FCA provider contribution class</i> FCA</p>	a <i>class</i> to which the <i>FSCS</i> may only allocate a <i>compensation costs levy</i> or <i>specific costs levy</i> allocated to the <i>retail pool</i> , as described in ■ FEES 6.5A, namely: the deposit acceptor's contribution class; the insurers - life contribution <i>class</i> ; the insurers - general contribution <i>class</i> ; or the home finance providers and administrators' contribution <i>class</i> .
<p><i>FCA registered tied agent</i> FCA PRA</p>	a <i>tied agent</i> who is an <i>agent</i> for the purposes of section 39A of the <i>Act</i> .
<p><i>FCA required functions</i> FCA PRA</p>	any of the <i>FCA controlled functions</i> 8 to 11 in Part 1 or Part 2 of the <i>table of FCA controlled functions</i> .
<p><i>FCA short name</i> FCA</p>	the abbreviated name allocated to an <i>issuer</i> or organisation by the <i>FCA</i> .
<p><i>FCA significant-influence functions</i> FCA PRA</p>	any of the <i>FCA controlled functions</i> 1 to 29 in Part 1 or Part 2 of the <i>table of FCA controlled functions</i> .
<p><i>FCA-approved person</i> FCA PRA</p>	an <i>approved person</i> in relation to whom the <i>FCA</i> has given its approval under section 59 of the <i>Act</i> (Approval for particular arrangements) for the performance of an <i>FCA controlled function</i> .
<p><i>FCA-authorised person</i> FCA PRA</p>	an <i>authorised person</i> who is not a <i>PRA-authorised person</i> .
<p><i>fee</i> FCA PRA</p>	any payment or remuneration offered or made by a <i>client</i> to a <i>firm</i> in connection with <i>designated investment business</i> or with any other business of the <i>firm</i> , including (where applicable) any <i>mark-up</i> or <i>mark-down</i> .
<p><i>fee year</i> FCA PRA</p>	<p>(1) in relation to the <i>PRA</i>:</p> <p style="margin-left: 40px;">(a) before 1 March 2014: from and including 1 April 2013 to 28 February 2014 inclusive;</p> <p style="margin-left: 40px;">(b) from and including 1 March 2014: 1 March to 28 February inclusive;</p> <p>(2) in relation to the <i>FCA</i>, 1 April to 31 March inclusive.</p>

feeder AIF

FCA

(in accordance with article 4(1)(m) of AIFMD) an AIF which:

- (a) invests at least 85% of its assets in *units* or *shares* of another AIF (the '*master AIF*'); or
- (b) invests at least 85 % of its assets in two or more AIFs where those AIFs (the '*master AIFs*') have identical investment strategies; or
- (c) otherwise has an exposure of at least 85% of its assets to such a *master AIF*.

feeder fund

FCA

an AUT or ACS that is a *relevant pension scheme* and *dedicated* to *units* in a single *regulated collective investment scheme* .*feeder NURS*

FCA PRA

a *non-UCITS retail scheme* which:

- (a) does not operate as:
 - (i) a FAIF; or
 - (ii) a *feeder fund*; or
 - (iii) a *scheme dedicated* to *units* in a single *property authorised investment fund*; and
- (b) is *dedicated* to *units* in either:
 - (i) a single *qualifying master scheme*; or
 - (ii) a single *sub-fund* of a *qualifying master scheme* that is an *umbrella*; and
 which, in the case of either (i) or (ii), is:
 - (A) a UCITS; or
 - (B) a *non-UCITS retail scheme*; or
 - (C) a *recognised scheme*.

feeder UCITS

FCA PRA

(in accordance with article 58(1) of the UCITS Directive):

- (a) a UCITS scheme or a *sub-fund* of a UCITS scheme which has been approved by the FCA; or
- (b) an EEA UCITS scheme or a *sub-fund* of an EEA UCITS scheme which has been approved by the *competent authority* of the UCITS Home State;

to invest at least 85% of its assets in the *units* of a single *master UCITS*.*fee-paying electronic money issuer*

FCA PRA

(A) In the PRA Handbook:

any of the following when they issue *electronic money*:

- (a) an *authorised electronic money institution*;
- (b) a *small electronic money institution*;
- (c) an EEA *authorised electronic money institution*;
- (d) a *full credit institution*, including a branch of the *full credit institution* within the meaning of article 4(17) of the EU CRR which is situated within the EEA and which has its head office in a territory outside the EEA in accordance with article 47 of the EU CRR;
- (e) the Post Office Limited;

(f) the Bank of England, when not acting in its capacity as a monetary authority or carrying out functions of a public nature;

(g) government departments and local authorities, when carrying out functions of a public nature;

(h) a *credit union*;

(i) a municipal bank; and

(j) the National Savings Bank.

A *full credit institution* that is an *EEA firm* is only a *fee-paying electronic money issuer* if it is exercising an *EEA right* in accordance with Part II of Schedule 3 to the *Act* (Exercise of passport rights by EEA firms) to issue *electronic money* in the *United Kingdom*. An *EEA authorised electronic money institution* is only a *fee-paying electronic money issuer* if it is exercising a right under Article 3 of the *Electronic Money Directive* to issue *electronic money* in the *United Kingdom*.

(B) In the FCA Handbook:

any of the following when they issue *electronic money*:

(a) an *authorised electronic money institution*;

(b) a *small electronic money institution*;

(c) an *EEA authorised electronic money institution*;

(d) a *full credit institution*, including a branch of the *full credit institution* within the meaning of article 4(17) of the *EU CRR* which is situated within the *EEA* and which has its head office in a territory outside the *EEA* in accordance with article 47 of the *EU CRR*;

(e) the Post Office Limited;

(f) the Bank of England, when not acting in its capacity as a monetary authority or carrying out functions of a public nature;

(g) government departments and local authorities, when carrying out functions of a public nature;

(h) a *credit union*;

(i) a municipal bank; and

(j) the National Savings Bank.

A *full credit institution* that is an *EEA firm* is only a *fee-paying electronic money issuer* if it is exercising an *EEA right* in accordance with Part II of Schedule 3 to the *Act* (Exercise of passport rights by EEA firms) to issue *electronic money* in the *United Kingdom*. An *EEA authorised electronic money institution* is only a *fee-paying electronic money issuer* if it is exercising a right under Article 3 of the *Electronic Money Directive* to issue *electronic money* in the *United Kingdom*.

any of the following when they provide *payment services*:

(a) a *payment institution*;

(b) a *full credit institution*;

(c) an *electronic money issuer* (except where it is an *electronic money issuer* whose only *payment service* activities are those relating to the

*fee-paying
payment
service
provider*

FCA PRA

issuance of *electronic money* by itself or if it is a *credit union*, a municipal bank or the National Savings Bank);

(d) the Post Office Limited;

(e) the Bank of England, other than when acting in its capacity as a monetary authority or carrying out functions of a public nature; and

(f) government departments and local authorities, other than when carrying out functions of a public nature.

A *full credit institution* that is an *EEA firm* is only a *fee-paying payment service provider* if it is exercising an *EEA right* in accordance with Part 2 of Schedule 3 to the *Act* (exercise of passport rights) to provide *payment services* in the *United Kingdom*. An *EEA authorised payment institution* or an *EEA authorised electronic money institution* is only a *fee-paying payment service provider* if it is exercising a right under Article 25 of the *Payment Services Directive* or Article 3 of the *Electronic Money Directive* to provide *payment services* in the *United Kingdom*.

FEES

FCA PRA

the *FEES* manual.

FICOD 1

FCA PRA

the European Parliament and Council Directive amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC regarding the supplementary supervision of financial entities in a financial conglomerate (No 2011/89/EU).

field
representative

FCA PRA

an *appointed representative* or, where applicable, a *tied agent*, or an *employee* of the *firm* (or of its *appointed representative* or, where applicable, its *tied agent*), whose normal fixed place of business is not a business address of the *firm* which appears on the *firm's* stationery.

final bonus

FCA PRA

(in relation to a *with-profits insurance contract*) a discretionary payment which might be made by a *long-term insurer*, in addition to the guaranteed benefits, when the benefits under the *with-profits insurance contract* become payable.

final notice

FCA PRA

a notice given by the *appropriate regulator* under section 390 of the *Act* (Final notices).

final response

FCA PRA

(1) (in ■ CREDS 9) a written response from the *firm* which:

(a) accepts the complaint, and, where appropriate, offers redress; or

(b) offers redress without accepting the complaint; or

(c) rejects the complaint and gives reasons for doing so;

and which informs the complainant that, if he remains dissatisfied with the *firm's* response, he may now refer his complaint to the *Financial Ombudsman Service* and must do so within six months.

(2)

[deleted]

(3) (in *DISP*) has the meaning given in ■ DISP 1.6.2 R (1).

final terms

FCA PRA

(in *LR*) the document containing the final terms of each issue which is intended to be *listed*.

Financial Action Task Force

FCA **PRA**

the inter-governmental body responsible for developing and promoting policies, both nationally and internationally, to combat money laundering.

financial analyst

FCA **PRA**

a *relevant person* who produces the substance of *investment research*.

[Note: article 2(4) of the *MiFID implementing Directive*]

financial collateral comprehensive method

FCA **PRA**

the method for calculating the effects of credit risk mitigation described in those parts of ■ BIPRU 5.4 (Financial collateral) that are expressed to apply to that method.

Financial Collateral Directive

FCA **PRA**

the Council Directive of 6 June 2002 relating to financial collateral arrangements (No. 2002/47/EC).

financial collateral simple method

FCA **PRA**

the method for calculating the effects of credit risk mitigation described in those parts of ■ BIPRU 5.4 (Financial collateral) that are expressed to apply to that method.

financial conglomerate

FCA **PRA**

(in accordance with Article 2(14) of the *Financial Groups Directive* (Definitions)) a *consolidation group* that is identified as a *financial conglomerate* by the *financial conglomerate definition decision tree*.

financial conglomerate definition decision tree

FCA **PRA**

the decision tree in GENPRU 3 Ann 4R.

financial crime

FCA **PRA**

(in accordance with section 1H of the *Act*) any kind of criminal conduct relating to money or to financial services or markets, including any offence involving:

- (a) fraud or dishonesty; or
- (b) misconduct in, or misuse of information relating to, a financial market; or
- (c) handling the proceeds of crime; or
- (d) the financing of terrorism;

in this definition, "offence" includes an act or omission which would be an offence if it had taken place in the *United Kingdom*.

financial derivative instrument

FCA

(for the purposes of *BIPRU*) has the meaning in ■ [BIPRU 13.3.3 R](#) (Definition of a financial derivative instrument); the definition is adjusted for the purposes of the definition of *counterparty risk capital component* in accordance with ■ [BIPRU 14.2.3 R](#) (Credit derivatives).

Financial Groups Directive

FCA PRA

Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

Financial Groups Directive Regulations

FCA PRA

the Financial Conglomerates and Other Financial Groups Regulations 2004 (SI 2004/1862).

financial holding company

FCA PRA

(A) In the PRA Handbook:

a *financial institution* that fulfils the following conditions:

- (a) its *subsidiary undertakings* are either exclusively or mainly *credit institutions, investment firms or financial institutions*;
- (b) at least one of those *subsidiary undertakings* is a *credit institution* or an *investment firm*; and
- (c) it is not a *mixed financial holding company*.

(B) In the FCA Handbook:

a *financial institution* that fulfils the following conditions:

- (1) (except in (2)) has the meaning in article 4(1)(20) of the *EU CRR*.
- (2) (in *GENPRU* (except ■ [GENPRU 3](#)) and *BIPRU* (except ■ [BIPRU 12](#)) a *financial institution* that fulfils the following conditions:
 - (a) its *subsidiary undertakings* are exclusively or mainly *CAD investment firms or financial institutions*;
 - (b) at least one of those *subsidiary undertakings* is a *CAD investment firm*; and
 - (c) it is not a *mixed financial holding company*.

financial information table

FCA PRA

(in *LR*) financial information presented in tabular form that covers the reporting period set out in ■ [LR 13.5.13 R](#) in relation to the entities set out in ■ [LR 13.5.14 R](#), and to the extent relevant ■ [LR 13.5.17A R](#).

financial institution

FCA PRA

(A) In the PRA Handbook:

- (1) (in accordance with paragraph 5(c) of Schedule 3 to the Act (EEA Passport Rights: EEA firm) and article 4 (5) of the *Banking Consolidation Directive* (Definitions)), but not for the purposes of *GENPRU*, *BIPRU* and *INSPRU*), an undertaking, other than a *credit institution*, the principal activity of which is to acquire holdings or to carry on one or more of the listed activities listed in points 2 to 12 and 15 of Annex I to the *BCD*, which is a subsidiary of the kind mentioned in article 24 of the *BCD* and which fulfils the conditions in that article

(2) for the purposes of *GENPRU*, *BIPRU* and *INSPRU* and in accordance with Articles 1(3) (Scope) and 4(5) (Definitions) of the *Banking Consolidation Directive* the following :

(a) an *undertaking*, other than a *credit institution*, the principal activity of which is to acquire holdings or to carry on one or more of the *listed activities* listed in points 2 to 12 and 15 of Annex I to the *Banking Consolidation Directive* including the services and activities provided for in Sections A and B of Annex I of the *MIFID* when referring to the financial instruments provided for in Section C of Annex I of that Directive

(b) (for the purposes of consolidated requirements) those institutions permanently excluded by Article 2 of the *Banking Consolidation Directive* (Scope), with the exception of the *central banks* of *EEA States*

(B) In the FCA Handbook:

(1) (in accordance with paragraph 5(c) of Schedule 3 to the Act (EEA Passport Rights: EEA firm) and article 3 (22) of the *CRD* (Definitions)), but not for the purposes of *GENPRU*, *BIPRU*, *IFPRU* and *INSPRU*), an undertaking, other than a *credit institution*, the principal activity of which is to acquire holdings or to carry on one or more of the listed activities listed in points 2 to 12 and 15 of Annex I to the *CRD*, which is a subsidiary of the kind mentioned in article 34 of the *CRD* and which fulfils the conditions in that article

(2) for the purposes of *GENPRU* (except ■ *GENPRU* 3), *BIPRU* (except in ■ *BIPRU* 12) and in accordance with Articles 1(3) (Scope) and 4(5) (Definitions) of the *Banking Consolidation Directive*):

(a) an *undertaking*, other than a *credit institution* or an *investment firm*, the principal activity of which is to acquire holdings or to carry on one or more of the *listed activities* listed in points 2 to 12 and 15 of Annex I to the *Banking Consolidation Directive* including the services and activities provided for in Sections A and B of Annex I of the *MIFID* when referring to the financial instruments provided for in Section C of Annex I of that Directive

(b) (for the purposes of consolidated requirements) those institutions permanently excluded by Article 2 of the *Banking Consolidation Directive* (Scope), with the exception of the *central banks* of *EEA States*

(3) (except in (1) and (2) and subject to (4)) has the meaning in article 4(1)(26) of the *EU CRR*.

(4) (for the purposes of consolidated requirements in *IFPRU* and in accordance with article 2(6) of *CRD*) the following:

(a) financial institutions within the meaning in article 4(1)(26) of the *EU CRR*; and

(b) those institutions permanently excluded by article 2(5) of *CRD* (Scope) with the exception of the ESCB central banks as defined in article 4(1)(45) of the *EU CRR*.

(A) In the PRA Handbook:

(1) (other than in (2)) instruments specified in Section C of Annex I of *MiFID*, that is:

(a) *transferable securities*;

(b) *money-market instruments*;

(c) units in collective investment undertakings;

financial
instrument

FCA PRA

PAGE
F8

(d) options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;

(e) options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);

(f) options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a *regulated market* and/or an *MTF*;

(g) options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in (f) and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls (see articles 38(1), (2) and (4) of the *MiFID Regulation*);

(h) derivative instruments for the transfer of credit risk;

(i) financial contracts for differences; and

(j) options, futures, swaps, forward rate agreements and any other derivative contracts relating to

(i) climatic variables;

(ii) freight rates;

(iii) emission allowances;

(iv) inflation rates or other official economic statistics;

(v) telecommunications bandwidth;

(vi) commodity storage capacity;

(vii) transmission or transportation capacity relating to commodities, whether cable, pipeline or other means;

(viii) an allowance, credit, permit, right or similar asset which is directly linked to the supply, distribution or consumption of energy derived from renewable resources;

(ix) a geological, environmental or other physical variable;

(x) any other asset or right of a fungible nature, other than a right to receive a service, that is capable of being transferred;

(xi) an index or measure related to the price or value of, or volume of transactions in any asset, right, service or obligation;

where the conditions in Articles 38(3) and (4) of the *MiFID Regulation* are met.

[Note: article 4(1)(17) and section C of Annex I to *MiFID* and articles 38 and 39 of the *MiFID Regulation*]

(2) (in ■ MAR 1 and ■ MAR 2, ■ DTR 1, ■ 2 and ■ 3 and otherwise where used in relation to the *Market Abuse Directive*) (as defined in Article 5 of the *Prescribed Markets and Qualifying Investments Order* and Article 1(3) of the *Market Abuse Directive*, and which consequently carries the same meaning in the *Buy-back and Stabilisation Regulation*):

(B) In the FCA Handbook:

(1) (other than in (2) and (3)) instruments specified in Section C of Annex I of *MiFID*, that is:

(a) *transferable securities*;

(b) *money-market instruments*;

(c) units in collective investment undertakings;

(d) options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;

(e) options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);

(f) options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a *regulated market* and/or an *MTF*;

(g) options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in (f) and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls (see articles 38(1), (2) and (4) of the *MiFID Regulation*);

(i) financial contracts for differences; and

(j) options, futures, swaps, forward rate agreements and any other derivative contracts relating to

(i) climatic variables;

(ii) freight rates;

(iii) emission allowances;

(iv) inflation rates or other official economic statistics;

(v) telecommunications bandwidth;

(vi) commodity storage capacity;

(vii) transmission or transportation capacity relating to commodities, whether cable, pipeline or other means;

(viii) an allowance, credit, permit, right or similar asset which is directly linked to the supply, distribution or consumption of energy derived from renewable resources;

(ix) a geological, environmental or other physical variable;

(x) any other asset or right of a fungible nature, other than a right to receive a service, that is capable of being transferred;

(xi) an index or measure related to the price or value of, or volume of transactions in any asset, right, service or obligation;

<p>Financial Ombudsman Service FCA PRA</p>	<p>where the conditions in Articles 38(3) and (4) of the <i>MiFID Regulation</i> are met.</p> <p>[Note: article 4(1)(17) and section C of Annex I to <i>MiFID</i> and articles 38 and 39 of the <i>MiFID Regulation</i>]</p> <p>(2) (in ■ MAR 1 and ■ MAR 2, ■ DTR 1, ■ 2 and ■ 3 and otherwise where used in relation to the <i>Market Abuse Directive</i>) (as defined in Article 5 of the <i>Prescribed Markets and Qualifying Investments Order</i> and Article 1(3) of the <i>Market Abuse Directive</i>, and which consequently carries the same meaning in the <i>Buy-back and Stabilisation Regulation</i>):</p> <p>(3) (in <i>IFPRU</i>) has the meaning in article 4(50) of the <i>EU CRR</i>.</p> <p>the scheme provided under Part XVI of the <i>Act</i> (The Ombudsman Scheme) under which certain disputes may be resolved quickly and with minimum formality by an independent <i>person</i>.</p>
<p>Financial Ombudsman Service Limited FCA PRA</p>	<p>the <i>body corporate</i> established by the <i>FSA</i> under paragraph 2(1) of Schedule 17 to the <i>Act</i> (The Scheme Operator) (as originally enacted) to administer the <i>Financial Ombudsman Service</i>.</p>
<p>financial promotion FCA PRA</p>	<p>(1) an invitation or inducement to <i>engage in investment activity</i> that is communicated in the course of business;</p> <p>[Note: section 21 of the <i>Act</i> (Restrictions on financial promotion)]</p> <p>(2) (in relation to ■ COBS 3.2.1 R (3), ■ COBS 4.3.1 R, ■ COBS 4.5.8 R and ■ COBS 4.7.1 R) (in addition to (1)) a marketing communication within the meaning of <i>MiFID</i> made by a <i>firm</i> in connection with its <i>MiFID or equivalent third country business</i>.</p>
<p>Financial Promotion Order FCA PRA</p>	<p>the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (SI 2005/1529).</p>
<p>financial promotion rules FCA PRA</p>	<p>(1) (in relation to <i>COBS</i>) any or all of the <i>rules</i> in ■ COBS 4 that impose requirements in relation to a <i>financial promotion</i> but only to the extent that they apply to a <i>financial promotion</i>.</p> <p>(2) (in relation to <i>ICOBS</i>) ■ ICOBS 2.2 .</p> <p>(3) (in relation to <i>MCOB</i>) ■ MCOB 3.</p> <p>(4) (in relation to <i>BCOBS</i>) all or any of the <i>rules</i> in ■ BCOBS 2 that impose requirements in relation to a <i>financial promotion</i> but only to the extent that they apply to a <i>financial promotion</i>.</p>
<p>financial resources FCA PRA</p>	<p>(in <i>UPRU</i>) the financial resources calculated in accordance with ■ UPRU 2.2.1 R (Financial resources) that a <i>UCITS firm</i> needs to meet its <i>financial resources requirement</i>.</p>
<p>financial resources requirement</p>	<p>(in <i>UPRU</i>) has the meaning given in ■ UPRU 2.1.2 R.</p>

FCA PRA

financial return (in UPRU) means *annual financial return*, *quarterly financial return* or *monthly financial return* as the case may be.

FCA PRA

financial sector (1) (subject to (2)) one of the *banking sector*, the *insurance sector* or the *investment services sector*.

FCA PRA

(2) (for the purposes of the definition of *financial conglomerate* and for any other provision of GENPRU 3 that treats the *banking sector* and the *investment services sector* as one) one of the *banking and investment services sector* or the *insurance sector*.

financial sector entity has the meaning in article 4(1)(27) of the EU CRR.

FCA

Financial Services Compensation Scheme Limited the *body corporate* established by the FSA under section 212 of the Act (The scheme manager) (as originally enacted) to administer the *compensation scheme*.

FCA PRA

Financial Services Register the public record, as required by section 347 of the Act (The public record), regulation 4 of the *Payment Services Regulations* (The register of certain payment service providers) and regulation 4 of the *Electronic Money Regulations*, of every:

FCA PRA

- (a) *authorised person*
- (aa) *authorised payment institution* and its EEA branches;
- (ab) *small payment institution*;
- (ac) *agent* of an *authorised payment institution* or *small payment institution*;
- (aca) *authorised electronic money institution* and an EEA branch of an *authorised electronic money institution*;
- (acb) *small electronic money institution*;
- (acc) *agent* of an *authorised electronic money institution* or *small electronic money institution*;
- (ad) *credit union*, municipal bank and the National Savings Bank where such *persons* provide a *payment service*; or issue *electronic money*;
- (b) AUT;
- (c) ICVC;
- (ca) ACS;
- (d) *recognised scheme*;
- (e) *recognised investment exchange*;
- (f) [deleted]
- (g) individual to whom a *prohibition order* relates;

financial stability information power

FCA **PRA**

(h) *approved person*; and

(i) *person* within such other class (if any) as the *FCA* may determine; except as provided by any transitional provisions.

the *PRA's* power under section 165A of the *Act* (*PRA's* power to require information: financial stability) which, in summary, is a power to require a *person* to provide information or documents relevant to the stability of one or more aspects of the *UK financial system*.

financial stability information requirement

FCA **PRA**

a requirement imposed on a *person* by the *PRA* using the *financial stability information power* or the *overseas financial stability information power*.

financial year

FCA **PRA**

(1) (in *DISP* and **■ FEES 5**) the 12 *months* ending with 31 March.

(3) (in *GENPRU* and *INSPRU*) the period at the end of which the balance of the accounts of the *insurer* is struck, or, if no balance is struck, the calendar year.

financial year in question

FCA **PRA**

(for the purposes of *INSPRU* 1.1 and of the definition of *non-directive insurer*) the last *financial year* to end before the date on which the latest accounts of the *insurer* are required to be deposited with the *appropriate regulator* ; the preceding *financial year* and previous *financial years* are construed accordingly.

financing cost amount

FCA **PRA**

(in relation to a *share*, *debenture* or other investment in, or external contribution to the capital of, a *firm*) an amount that represents a reasonable estimate of the part of the *coupon* on that instrument that reflects the cost of financing generally but excludes costs reflecting factors relating to the issuer, guarantor or other person to whom the instrument creates an exposure.

FINMAR

FCA **PRA**

the Financial Stability and Market Confidence sourcebook.

FINREP firm

FCA **PRA**

(A) (In the *PRA Handbook*)

a *credit institution* or *investment firm* subject to the *EU CRR* that is also subject to article 4 of Regulation (EC) No 1606/2002; or

a *credit institution* other than one referred to in Article 4 of Regulation (EC) No 1606/2002 that prepares its consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in article 6(2) of that Regulation.

[Note: article 99 of the *EU CRR*]

(B) in the *FCA Handbook*)

(a) a *credit institution* or *investment firm* subject to the *EU CRR* that is also subject to article 4 of Regulation (EC) No 1606/2002; or

(b) a *credit institution* other than one referred to in article 4 of Regulation (EC) No 1606/2002 that prepares its consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in article 6(2) of that Regulation.

[Note: article 99 of the *EU CRR*]

fire and natural forces

FCA **PRA**

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 8 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against loss of or damage to property (other than property to which paragraphs 3 to 7 of Part I of Schedule 1 to the *Regulated Activities Order* (Land vehicles; railway rolling stock; aircraft; ships; goods in transit) relate) due to fire, explosion, storm, natural forces other than storm, nuclear energy or land subsidence.

firm

FCA **PRA**

(1) in the *FCA Handbook*, an *authorised person*, but not a *professional firm* unless it is an *authorised professional firm* (see also **■ GEN 2.2.18 R** for the position of an authorised partnership or unincorporated association which is dissolved).

(1A) in the *PRA Handbook*, a *PRA-authorised person*.

(2) (in **■ DISP 2** and **■ 3**) includes, in accordance with the *Ombudsman Transitional Order*, *unauthorised persons* subject to the *Compulsory Jurisdiction* in relation to *relevant existing complaints* and *relevant new complaints*.

(3) (in **■ DISP 2** and **■ 3**) includes, in accordance with the *Mortgage and General Insurance Complaints Transitional Order*, former *firms* subject to the *Compulsory Jurisdiction* in relation to *relevant transitional complaints*.

(4) (in **■ DISP 2** and **■ 3**) includes, as a result of the *insurance market direction* given in **■ DISP 2.1.7 D** under section 316 of the *Act* (Direction by a regulator), *members* of the *Society of Lloyd's*.

(5) (in **■ FEES 3**, **■ FEES 4**, **■ FEES 5** and **■ FEES 7**) includes a *fee-paying payment service provider* and a *fee-paying electronic money issuer* in accordance with **■ FEES 3.1.1A R**, **■ FEES 4.1.1A R**, **■ FEES 5.1.1A R** and **■ FEES 7.1.1 R**.

(6) (in *CONRED*):

(a) an *authorised person*; or

(b) a *person* who was an *authorised person* when the relevant activity took place but has since ceased to be one.

firm in run-off

FCA **PRA**

a *firm* whose *Part 4A permission* has been varied so as to remove the *regulated activity* of *effecting contracts of insurance*.

firm type

FCA **PRA**

one of a list of firm types set out in **■ SUP 16 Annex 17 G** used for the purposes of checking and correcting *standing data* under **■ SUP 16.10.4 R**.

firm-specific liquidity stress

FCA **PRA**

(in relation to a *firm* and any reporting obligations under **■ SUP 16** (Reporting requirements)):

(a) (in the case of reporting obligations on a solo basis (including on the basis of the *firm's UK branch*) the *firm* failing to meet, not complying with or being in breach of:

(i) the liquidity resources requirement calculated by that *firm* as adequate in its current *Individual Liquidity Adequacy Assessment* or *Individual Liquidity Systems Assessment*; or

(ii) the level of its liquid assets buffer advised in any current *individual liquidity guidance* that the *firm* has accepted; or

(iii) its funding profile advised in any current *individual liquidity guidance* that the *firm* has accepted; or

- (iv) the *overall liquidity adequacy rule*; or
- (v) BIPRU 12.2.8R (*ILAS BIPRU firm* adequate buffer of high quality, unencumbered assets) or BIPRU 12.2.11R (liquid assets buffer is at least equal to the *simplified buffer requirement*); or
- (vi) the *simplified buffer requirement* (taking into account ■ BIPRU TP 29 (Liquid assets buffer scalar: simplified ILAS BIPRU firms) unless this has been superseded by *individual liquidity guidance* that it has accepted; or
- (vii) any requirement imposed by or under the *regulatory system* under which the *firm* must hold a specified level of liquidity resources; or it being likely that the *firm* will do so;

(b) (in the case of reporting obligations with respect to the *firm* and a group of other *persons*) has the same meaning as in (a) except that references to any *rule* or other requirement, *Individual Liquidity Adequacy Assessment*, *Individual Liquidity Systems Assessment* or *individual liquidity guidance* are to any such thing so far as it applies to the *firm* and that group considered together.

First Life Directive

FCA PRA

the Council Directive of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance (No 79/267/EEC).

First Non-Life Directive

FCA PRA

the Council Directive of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct insurance other than life insurance (No 73/239/EEC).

FIT

FCA PRA

the part of the *Handbook* in High Level Standards which has the title the Fit and Proper test for Approved Persons.

fixed overheads requirement

FCA PRA

(A) In the PRA Handbook:

- (1) (except in ■ IPRU(INV)) and for the purposes of *GENPRU* (except in ■ *GENPRU* 3) and *BIPRU* (except in ■ *BIPRU* 12)) the part of the *capital resources requirement* calculated in accordance with ■ *GENPRU* 2.1.53 R (Calculation of the fixed overheads requirement).
- (2) (in ■ *IPRU(INV)*) the part of the *own funds* requirement calculated in accordance with ■ *IPRU(INV)* 11.3.3R (Fixed overheads requirement).

(B) In the FCA Handbook:

- (1) (except in ■ *IPRU(INV)* and for the purposes of *GENPRU* (except ■ *GENPRU* 3 and *BIPRU* (except ■ *BIPRU* 12)) the part of the *capital resources requirement* calculated in accordance with ■ *GENPRU* 2.1.53 R (Calculation of the fixed overheads requirement).
- (2) (in ■ *IPRU(INV)*) the part of the *own funds* requirement calculated in accordance with ■ *IPRU(INV)* 11.3.3R (Fixed overheads requirement).

fixed-sum credit

FCA

(in accordance with section 10(1)(b) of the Consumer Credit Act 1974) any facility under a contract, other than *running-account credit*, by which the *customer* is enabled to receive credit (whether in one amount or by instalments).

*flat rate
benefits
business
friendly society*

FCA **PRA**

a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of members are determined on a flat rate basis.

*foreign
currency*

FCA **PRA**

(in *GENPRU* and *BIPRU*) (in relation to a *firm*) any currency other than the *base currency*.

*foreign
currency PRR*

FCA **PRA**

the part of the *market risk capital requirement* calculated in accordance with **■ BIPRU 7.5** (Foreign currency PRR) or, in relation to a particular position, the portion of the overall *foreign currency PRR* attributable to that *position*.

*foreign law
contract*

FCA **PRA**

any contract other than a contract:

- (a) governed by the laws of any part of the *United Kingdom*; and
- (b) whose parties agree to the exclusive jurisdiction of the courts of any part of the *United Kingdom*.

former member

FCA **PRA**

a *person* who has ceased to be a *member*, whether by resignation or otherwise, in accordance with Lloyd's Act 1982 and any *byelaw* made under it.

*former
Ombudsman*

FCA **PRA**

an ombudsman, arbitrator or independent investigator appointed under a *former scheme*.

former scheme

FCA **PRA**

(1) (except in relation to a *relevant transitional complaint*) any of the following:

- (a) the *Banking Ombudsman scheme*;
- (b) the *Building Societies Ombudsman scheme*;
- (c) the *FSA scheme*;
- (d) the *IMRO scheme*;
- (e) the *Insurance Ombudsman scheme*;
- (f) the *Personal Insurance Arbitration Service*;
- (g) the *PIA Ombudsman scheme*;
- (h) the *SFA scheme*;

(2) (in relation to a *relevant transitional complaint*)

- (a) the *GISC facility*; or
- (b) the *MCAS scheme*.

*former
underwriting
member*

FCA **PRA**

(as defined in section 324(1) of the *Act* (Interpretation of Part XIX: Lloyd's)) a *person* ceasing to be an *underwriting member* on, or at any time after, 24 December 1996.

<p><i>forward</i> FCA PRA</p>	<p>a contract to buy or sell where the date for settlement has been agreed as a particular date in the future but excluding a <i>future</i>.</p>
<p><i>forward price</i> FCA PRA</p>	<p>(in relation to <i>units</i>) a <i>price</i> calculated by reference to the <i>valuation point</i> next following the <i>authorised fund manager's</i> agreement to <i>sell</i> or, as the case may be, to redeem the <i>units</i> in question.</p>
<p><i>forward rate agreement</i> FCA PRA</p>	<p>an agreement under which one party agrees to pay another an amount of interest based on an agreed interest rate for a specified period from a specified settlement date applied to an agreed principal amount but under which no commitment is made by either party to lend or borrow the principal amount.</p>
<p>FOS Ltd FCA PRA</p>	<p><i>Financial Ombudsman Service Limited.</i></p>
<p><i>foundation IRB approach</i> FCA PRA</p>	<p>one of the following:</p> <ul style="list-style-type: none"> (a) (in relation to the <i>sovereign, institutional and corporate IRB exposure class</i>) the approach under the <i>IRB approach</i>, described in ■ BIPRU 4.4 (The IRB approach: Exposures to corporates, institutions and sovereigns) under which a <i>firm</i> uses the values for <i>LGD</i> and <i>conversion factors</i> set out in ■ BIPRU 4.4 rather than supplying its own estimates; (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ BIPRU 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<p><i>Fourth Company Law Directive</i> FCA PRA</p>	<p>Council Directive 78/660/EEC on the annual accounts of certain types of companies as amended by, amongst other instruments, Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006.</p>
<p>FRA FCA PRA</p>	<p><i>forward rate agreement.</i></p>
<p><i>framework contract</i> FCA PRA</p>	<p>(in accordance with regulation 2(1) of the <i>Payment Services Regulations</i>) a contract for <i>payment services</i> which governs the future execution of individual and successive payment transactions and which may contain the obligation and conditions for setting up a payment account.</p> <p>[Note: article 4(12) of the <i>Payment Services Directive</i>]</p>
<p><i>free delivery</i> FCA</p>	<p>(for the purposes of <i>BIPRU</i>) a transaction of the type set out in ■ BIPRU 14.4.2 R (Requirement to hold capital resources with respect to free deliveries) which, in summary, is a transaction under which a <i>person</i>:</p> <ul style="list-style-type: none"> (a) has paid for <i>securities, foreign currencies</i> or <i>commodities</i> before receiving them or it has delivered <i>securities, foreign currencies</i> or <i>commodities</i> before receiving payment for them; and (b) in the case of cross-border transactions, one day or more has elapsed since it made that payment or delivery.
<p><i>friendly society</i></p>	<p>an <i>incorporated friendly society</i> or a <i>registered friendly society</i>.</p>

FCA PRA

front end loaded

(in relation to an *investment*) one where deductions for *charges* and expenses are loaded disproportionately on the early years.

FCA PRA

FSA

the Financial Services Authority.

FCA PRA

FSA scheme

the *former scheme* operated by the *FSA* under paragraph 4 of Schedule 7 to the Financial Services Act 1986 for the investigation of complaints arising out of the conduct of investment business.

FCA PRA

FSAVC

an arrangement which allows a member of an *occupational pension scheme* to make *AVCs* to a private *pension policy* or *pension contract*, where the policy or contract is separate from, but associated with, an *occupational pension scheme* which is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

FCA PRA

FSB Compensation Standards

the Implementation Standards for Principles for Sound Compensation Practices issued by the Financial Stability Board on 25 September 2009.

FCA PRA

FSCS

Financial Services Compensation Scheme Limited.

FCA PRA

full CRD credit institution

(A) In the PRA Handbook

a *CRD credit institution* that falls within paragraph (1)(a) of the definition of *credit institution*

FCA PRA

(B) In the FCA Handbook

an *undertaking* whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account and that has its registered office (or, if it has no registered office, its head office) in an *EEA state*, excluding an institution to which *CRD* does not apply under article 2 of *CRD*.

full credit institution

a *credit institution* that falls within paragraph (1) (a) of the definition of *credit institution*.

FCA PRA

full scope BIPRU investment firm

has the meaning in BIPRU ■ BIPRU 1.1.17 R (Types of BIPRU investment firm) which is in summary a *CAD full scope firm* that satisfies the following conditions:

PRA

(a) it is a *firm*; and

(b) its head office is in the *United Kingdom* and it is not otherwise excluded from the definition of *BIPRU firm* under ■ BIPRU 1.1.17 R (Exclusion of certain types of firm from the definition of BIPRU firm).

full-scope EEA AIFM an EEA AIFM which is authorised by its *Home State* in accordance with article 6(1) of AIFMD.

FCA

full-scope IFPRU investment firm a CRD *full-scope firm* that is an IFPRU *investment firm*.

FCA

full-scope UK AIFM a UK AIFM which:
 (a) is not a *small AIFM*; or
 (b) is a *small AIFM* but has opted in to AIFMD in accordance with article 3(4) of AIFMD.

FCA PRA

fund an AIF or a *collective investment scheme*.

FCA PRA

fund application rules (in COLL and SUP) the rules set out in ■ COLL 12.3.5 R (COLL fund rules under the management company passport: the fund application rules) that relate to the constitution and functioning of a UCITS *scheme* and that an EEA UCITS *management company* must comply with when acting as the *operator* of the UCITS *scheme*, whether from a *branch* in the United Kingdom or under the freedom to provide *cross border services*, as required by article 19(3) of the UCITS Directive.

FCA PRA

fund of alternative investment funds a *non-UCITS retail scheme*, or a *sub-fund* of a *non-UCITS retail scheme* which is an *umbrella* whose *authorised fund manager* operates, or proposes to operate, it in accordance with the investment and borrowing powers in ■ COLL 5.7 (Investment powers and borrowing limits for NURS operating as FAIFs).

FCA PRA

funded credit protection (in accordance with Article 4(31) of the *Banking Consolidation Directive* (Definitions) and for the purposes of BIPRU) a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an undertaking derives from the right of the *undertaking*, in the event of the default of the counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the *exposure* to, or to replace it with, the amount of the difference between the amount of the *exposure* and the amount of a claim on the *undertaking*.

FCA

funds at Lloyd's assets (not being *syndicate assets*) provided by or on behalf of a *member* to meet the liabilities arising from the *member's insurance business* at Lloyd's which are held in a *Lloyd's trust fund* and managed by the *Society* as trustee.

FCA PRA

funds under management (A) In the PRA Handbook:
 (1) (in UPRU)
 (a) *collective investment schemes* other than OEICs managed by the *firm* including *schemes* where it has delegated the management function but excluding *schemes* that it is *managing* as delegate; and

FCA PRA

(b) OEICs for which the *firm* is the designated management company.

(2) (in ■ IPRU(INV) and GENPRU) *funds* managed by the *firm*, calculated as the sum of the absolute value of all assets of all *funds* managed by the *firm*, including assets acquired through the use of leverage and, for such purpose, derivative instruments shall be converted into their equivalent positions in the underlying assets using the conversion methodologies in article 10 of the AIFMD level 2 regulation and valued on the basis of that equivalent position. This includes *funds* where the *firm* has delegated the management function but excludes *funds* that it is managing as a delegate.

(B) In the FCA Handbook:

(1) (in UPRU)

(a) *collective investment schemes* other than OEICs managed by the *firm* including *schemes* where it has delegated the management function but excluding *schemes* that it is *managing* as delegate; and

(b) OEICs for which the *firm* is the designated management company.

(2) (in ■ IPRU(INV)) *funds* managed by the *firm*, calculated as the sum of the absolute value of all assets of all *funds* managed by the *firm*, including assets acquired through the use of leverage and, for such purpose, derivative instruments shall be converted into their equivalent positions in the underlying assets using the conversion methodologies in article 10 of the AIFMD level 2 regulation and valued on the basis of that equivalent position. This includes *funds* where the *firm* has delegated the management function but excludes *funds* that it is managing as a delegate.

funds under management requirement

FCA

(1) (in ■ IPRU(INV) 11) an amount of *own funds* that a *collective portfolio management firm* must hold under ■ IPRU(INV) 11.3.2R (Funds under management requirement).

[deleted]

funeral plan contract

FCA PRA

the *investment*, specified in articles 59(2), 60 and 87 of the *Regulated Activities Order* which come into force on 1 January 2002, which is in summary: rights under a contract under which:

(a) a *person* ("the customer") makes one or more payments to another *person* ("the provider"); and

(b) the provider undertakes to provide, or secure that another *person* provides, a funeral in the *United Kingdom* for the customer (or some other *person* who is living at the date when the contract is entered into) on his death;

unless, at the time of entering into the contract, the customer and the provider intend or expect the funeral to occur within one month; but excluding certain contracts under which sums paid will be applied towards a *contract of insurance* or will be held on trust.

future

FCA PRA

the *investment*, specified in article 84 of the *Regulated Activities Order* (Futures), which is in summary: rights under a contract for the sale of a commodity or property of any other description under which delivery is to be made at a future date and at a price agreed on when the contract is made.

*future
policy-related
liabilities*

FCA PRA

(in relation to a *with-profits fund*) the future policy-related liabilities of the *with-profits fund* calculated in accordance with the *rules* in ■ PRU 7.4.137 R to ■ PRU 7.4.189 G.

general rule-making powers

FCA **PRA**

- (1) In the *FCA Handbook* section 137A of the *Act*.
- (2) In the *PRA Handbook* section 137G of the *Act*.

general stress and scenario testing rule

FCA **PRA**

- (A) In the *PRA Handbook*:
 - GENPRU 1.2.42 R (Stress and scenario tests).
- (B) In the *FCA Handbook*:
 - (1) (in *GENPRU*, *BIPRU* and *INSPRU*) ■ GENPRU 1.2.42 R (Stress and scenario tests).
 - (2) (for the purpose of *IFPRU*) IFPRU 2.2.37R (Stress and scenario tests).

general wrong-way risk

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the risk that arises when the probability of default of counterparties is positively correlated with general market risk factors.

generic key features illustration

FCA **PRA**

(in *COBS*) a *key features illustration* which reflects the terms of a contract which is representative of the type of business normally undertaken by the *firm*, or the type of business it is promoting, rather than the terms of a particular contract with, or that will be offered to, a particular *client*.

generic projection

FCA **PRA**

(in *COBS*) a projection which reflects the terms of a contract which is representative of the type of business normally undertaken by the *firm*, or the type of business it is promoting, rather than the terms of a particular contract with, or that will be offered to, a particular *client*.

GENPRU

FCA **PRA**

the General Prudential sourcebook.

Gibraltar Order

FCA **PRA**

the Financial Services and Markets Act 2000 (Gibraltar) Order 2001 (SI 2001/3084).

GICR

FCA **PRA**

general insurance capital requirement.

GISC facility

FCA **PRA**

The Dispute Resolution Facility established by the General Insurance Standards Council.

global account

FCA **PRA**

the aggregate accounts produced by the *Council* in accordance with Regulation 8(1) of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.

Glossary

FCA **PRA**

the Glossary giving the meanings of the defined expressions used in the *Handbook*.

<p><i>goods in transit</i> FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) the <i>class of contract of insurance</i>, specified in paragraph 7 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of general insurance), against loss of or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.</p>
<p><i>governing body</i> FCA PRA</p>	<p>the board of <i>directors</i>, committee of management or other governing body of a <i>firm</i> or <i>recognised body</i>, including, in relation to a <i>sole trader</i>, the <i>sole trader</i>.</p>
<p><i>government and public security</i> FCA PRA</p>	<p>the <i>investment</i>, specified in article 78 of the <i>Regulated Activities Order</i> (Government and public securities), which is in summary: a loan stock, bond or other instrument creating or acknowledging indebtedness, issued by or on behalf of:</p> <ul style="list-style-type: none"> (a) the government of the <i>United Kingdom</i>; or (b) the Scottish Administration; or (c) the Executive Committee of the Northern Ireland Assembly; or (d) the National Assembly of Wales; or (e) the government of any country or territory outside the <i>United Kingdom</i>; or (f) a local authority in the <i>United Kingdom</i> or elsewhere; or (g) a body the members of which comprise: <ul style="list-style-type: none"> (i) States including the <i>United Kingdom</i> or another <i>EEA State</i>; or (ii) bodies whose members comprise States including the <i>United Kingdom</i> or another <i>EEA State</i>; but excluding: <ul style="list-style-type: none"> (A) the instruments specified in article 77(2)(a) to (d) of the <i>Regulated Activities Order</i>; (B) any instrument creating or acknowledging indebtedness in respect of: <ul style="list-style-type: none"> (I) money received by the Director of Savings as <i>deposits</i> or otherwise in connection with the business of the National Savings Bank; or (II) money raised under the National Loans Act 1968 under the auspices of the Director of Savings or treated as so raised under section 11(3) of the National Debt Act 1972.
<p><i>Great Britain credit union</i> FCA PRA</p>	<p>a body corporate registered under the Industrial and Provident Societies Act 1965 as a <i>credit union</i> in accordance with the Credit Unions Act which is an <i>authorised person</i>.</p>
<p><i>greenshoe option</i> FCA</p>	<p>(as defined in Article 2 of the <i>Buy-back and Stabilisation Regulation</i>) an option granted by the <i>offeror</i> in favour of the <i>investment firm(s)</i> or <i>credit institution(s)</i> involved in the <i>offer</i> for the purpose of covering <i>overallotments</i>, under the terms of which such firm(s) or institution(s) may purchase up to a certain amount of <i>relevant securities</i> at the offer price for a certain period of time after the <i>offer</i> of the relevant securities.</p>
<p><i>gross adjusted claims amount</i></p>	<p>(for the purposes of INSPRU 1.1) an amount, as defined in INSPRU 1.1.60R to INSPRU 1.1.65G, used in calculating the <i>claims amount</i>.</p>

FCA PRA

gross adjusted
premiums
amount

(for the purposes of INSPRU 1.1) an amount as defined in INSPRU 1.1.56R to INSPRU 1.1.59G, used in calculating the *premiums amount*.

FCA PRA

gross earned
premiums

(in relation to a *financial year*) such proportion of *gross written premiums* as is attributable to risk borne by the *insurer* during that *financial year*.

FCA PRA

gross leverage

the ratio of total assets to total equity.

FCA PRA

gross written
premiums

the amounts required by the *insurance accounts rules* to be shown in the profit and loss account of an *insurer* :

FCA PRA

- (a) (for *general insurance business*) at general business technical account item I.1.(a); and
- (b) (for *long-term insurance business*) at long term business technical account item II.1.(a).

group

(A) In the PRA Handbook:

FCA PRA

(1) (except in relation to an *ICVC* and except for the purposes of ■ SYSC 12 (Group risk systems and controls requirement) and *LR*) as defined in section 421 of the *Act* (Group) (in relation to a *person* ("A")) A and any *person* who is:

- (a) a *parent undertaking* of A;
- (b) a *subsidiary undertaking* of A;
- (c) a *subsidiary undertaking* of a *parent undertaking* of A;
- (d) a *parent undertaking* of a *subsidiary undertaking* of A;
- (e) an *undertaking* in which A or an *undertaking* in (a) to (d) has a participating interest;
- (f) if A or an *undertaking* in (a) or (d) is a *building society*, an associated undertaking of that *building society*;
- (g) if A or an *undertaking* in (a) or (d) is an *incorporated friendly society*, a *body corporate* of which that *friendly society* has joint control (as defined in section 13(9)(c) or (cc) of the Friendly Societies Act 1992); in this definition:

(i) "participating interest" has the same meaning as in:

(A) Part VII of the Companies Act 1985 or Part VIII of the Companies (Northern Ireland) Order 1986, where these provisions are applicable; or

(B) paragraph 11(1) of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports)

Regulations 2008 (SI 2008/410) where applicable; or

(C) paragraph 8 of Schedule 7 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) where applicable; or

(D) paragraph 8 of Schedule 4 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913) where applicable; or

(E) paragraph 8 of Schedule 5 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1912) where applicable;

In (A) to (E), the meaning also includes an interest held by an individual which would be a participating interest for the purposes of those provisions if he were an *undertaking*.

(ii) "associated undertaking" has the meaning given in section 119(1) of the Building Societies Act 1986.

(2) (in relation to an *ICVC*) a group as in (1) but (in *SYSC*) including also the *ICVC's authorised corporate director* (if any). (see also *immediate group*)

(3) (for the purposes of ■ *SYSC 12* (Group risk systems and controls requirement), ■ *SYSC 20* (Reverse stress testing) and ■ *GENPRU 1.2* (Adequacy of financial resources) and in relation to a *person "A"*) A and any *person*:

(a) who falls into (1);

(b) who is a member of the same *financial conglomerate* as A;

(c) who has a *consolidation Article 12(1) relationship* with A;

(d) who has a *consolidation Article 12(1) relationship* with any *person* in (3)(a);

(e) who is a *subsidiary undertaking* of a person in (3)(c) or (3)(d); or

(f) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (3)(a)-(3)(e) or an assessment of the financial resources available to such *persons* would be misleading.

(4) (in *LR*):

(a) (except in ■ *LR 6.1.19 R* and *LR 8.7.8R (10)*) an *issuer* and its *subsidiary undertakings* (if any); and

(b) in ■ *LR 6.1.19 R* and *LR 8.7.8R (10)*, as defined in section 421 of the Act.

(5) (in relation to a *common platform firm*) means the group of which that *firm* forms a part, consisting of a parent undertaking, its subsidiaries and the entities in which the parent undertaking or its subsidiaries hold a participation, as well as undertakings

linked to each other by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC on consolidated accounts.

[Note: article 2(5) of the *MiFID implementing Directive*]

(B) In the FCA Handbook:

(1) (except in relation to an *ICVC* and except for the purposes of ■ SYSC 12 (Group risk systems and controls requirement) and *LR*) as defined in section 421 of the *Act* (Group) (in relation to a *person* ("A")) A and any *person* who is:

- (a) a *parent undertaking* of A;
- (b) a *subsidiary undertaking* of A;
- (c) a *subsidiary undertaking* of a *parent undertaking* of A;
- (d) a *parent undertaking* of a *subsidiary undertaking* of A;
- (e) an *undertaking* in which A or an *undertaking* in (a) to (d) has a participating interest;
- (f) if A or an *undertaking* in (a) or (d) is a *building society*, an associated undertaking of that *building society*;
- (g) if A or an *undertaking* in (a) or (d) is an *incorporated friendly society*, a *body corporate* of which that *friendly society* has joint control (as defined in section 13(9)(c) or (cc) of the Friendly Societies Act 1992); in this definition:

(i) "participating interest" has the same meaning as in:

(A) Part VII of the Companies Act 1985 or Part VIII of the Companies (Northern Ireland) Order 1986, where these provisions are applicable; or

(B) paragraph 11(1) of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) where applicable; or

(C) paragraph 8 of Schedule 7 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) where applicable; or

(D) paragraph 8 of Schedule 4 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913) where applicable; or

(E) paragraph 8 of Schedule 5 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1912) where applicable;

In (A) to (E), the meaning also includes an interest held by an individual which would be a participating interest for the purposes of those provisions if he were an *undertaking*.

(ii) "associated undertaking" has the meaning given in section 119(1) of the Building Societies Act 1986.

(2) (in relation to an *ICVC*) a group as in (1) but (in *SYSC*) including also the *ICVC's authorised corporate director* (if any). (see also *immediate group*)

(3) (for the purposes of ■ *SYSC 12* (Group risk systems and controls requirement), ■ *SYSC 20* (Reverse stress testing) and ■ *GENPRU 1.2* (Adequacy of financial resources) as applicable to a *BIPRU firm* and in relation to a *person "A"*) A and any *person*:

(a) who falls into (1);

(b) who is a member of the same *financial conglomerate* as A;

(c) who has a *consolidation Article 12(1) relationship* with A;

(d) who has a *consolidation Article 12(1) relationship* with any *person* in (3)(a);

(e) who is a *subsidiary undertaking* of a person in (3)(c) or (3)(d); or

(f) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (3)(a)-(3)(e) or an assessment of the financial resources available to such *persons* would be misleading.

(3A) (for the purposes of ■ *SYSC 12* (Group risk systems and controls requirement) and ■ *SYSC 20* (Reverse stress testing), as applicable to an *IFPRU investment firm* and *IFPRU*) and in relation to a *person "A"*, A and any *person*:

(a) who falls into (1);

(b) who is a member of the same *financial conglomerate* as A;

(c) who has a *consolidation Article 12(1) relationship* with A;

(d) who has a *consolidation Article 12(1) relationship* with any *person* in (a);

(e) who is a *subsidiary* of a *person* in (c) or (d);

(f) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (a) to (e) or an assessment of the financial resources available to such *persons* would be misleading.

(4) (in *LR*):

(a) (except in ■ *LR 6.1.19 R* and *LR 8.7.8R (10)*) an *issuer* and its *subsidiary undertakings* (if any); and

(b) in ■ *LR 6.1.19 R* and *LR 8.7.8R (10)*, as defined in section 421 of the Act.

(5) (in relation to a *common platform firm*) means the group of which that *firm* forms a part, consisting of a parent undertaking, its subsidiaries and the entities in which the parent undertaking or its subsidiaries hold a participation, as well as undertakings linked to each other by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC on consolidated accounts.

[Note: article 2(5) of the *MiFID implementing Directive*]

group capital resources

FCA PRA

in relation to an *undertaking* in INSPRU 6.1.17R , that *undertaking's* group capital resources as calculated in accordance with INSPRU 6.1.36R.

group capital resources requirement

FCA PRA

in relation to an *undertaking* in INSPRU 6.1.17R , that *undertaking's* group capital resources requirement as calculated in accordance with INSPRU 6.1.33R .

group ISA

FCA

an *individual savings account* of which the *plan manager* is the *authorised fund manager*, or in the same *group* as the *authorised fund manager*, of the *authorised fund* by reference to *units* in which the *plan register* is being, or is proposed to be, maintained.

group liquidity low frequency reporting conditions

FCA PRA

(in relation to a *group liquidity reporting firm* and its *defined liquidity group*) the *defined liquidity group* meets the group liquidity low frequency reporting conditions if the *defined liquidity group* meets the following conditions:

- (a) the *firm* or any other member is a *low frequency liquidity reporting firm*; and
- (b) no member of that group is a *standard frequency liquidity reporting firm*.

For the purpose of deciding whether these conditions are met in relation to a *DLG by default*, any group member (other than the *group liquidity reporting firm* itself) that is a member of the group through no more than a *participation* is ignored.

group liquidity reporting firm

FCA PRA

see the definitions of *DLG by default*, *DLG by modification (firm level)*, and *non-UK DLG by modification (DLG level)*.

(*Guidance* about this definition, and its inter-relation with other related definitions, is set out in ■ SUP 16 Annex 26 G (*Guidance on designated liquidity groups* in ■ SUP 16.12).)

group liquidity standard frequency reporting conditions

FCA PRA

(in relation to a *group liquidity reporting firm* and its *defined liquidity group*) the *defined liquidity group* meets the group liquidity standard frequency reporting conditions if the group does not meet the *group liquidity low frequency reporting conditions*.

group of connected clients

[deleted]

group personal pension scheme

FCA PRA

a *personal pension scheme* (including a *group SIPP*) which is available to employees of the same employer or of employers within a *group*.

group plan

FCA

a *group ISA* or a *group savings plan*.

group policy

FCA PRA

a *non-investment insurance contract* which a *person* enters into as legal holder of the *policy* on his own behalf and for other persons who are or will become *policyholders* and:

- (a) those other *persons* are or become *policyholders* by virtue of a common employment, occupation or activity which has arisen independently of the *contract of insurance*;
- (b) the common employment, occupation or activity is not brought about, in relation to the *contract of insurance*, by
 - (i) the *insurance undertaking* which *effects* it or carries it out; or
 - (ii) any activity which if carried on by a firm would be an *insurance mediation activity*; and
- (c) the risks insured under the *policy* are related to the common employment, occupation or activity of the *policyholders*.

group respondents

FCA

all *respondents* identified as part of the relevant *charging group* as defined in ■ FEES 5 Annex 3R Part 3.

group savings plan

FCA

a savings plan:

- (a) of which the *plan manager* is the *authorised fund manager*, or in the same *group* as the *authorised fund manager*, of the *authorised fund* by reference to *units* in which the *plan register* is being, or is proposed to be, maintained;
- (b) under which *investments* are periodically acquired and held by a nominee for the absolute benefit of the respective subscribers to the savings plan; and
- (c) under which all the *investments* are *units* in one or more *authorised funds* managed by (or, in the case of an *ICVC*, whose *ACD* is) the *plan manager*, or a *body corporate* in the same *group* as the *plan manager*.

group stakeholder pension scheme

FCA PRA

a *stakeholder pension scheme* which is available to employees of the same employer or of employers within a *group*.

guarantee

FCA PRA

(1) (in *LR*) (in relation to *securitised derivatives*), either:

- (a) a guarantee given in accordance with ■ LR 19.2.2 R (3) (if any); or
- (b) any other guarantee of the issue of *securitised derivatives*.

(2) (in *PR*) (as defined in the *PD Regulation*) any arrangement intended to ensure that any obligation material to the issue will be duly serviced, whether in the form of guarantee, surety, keep well agreement, mono-line insurance policy or other equivalent commitment.

guarantee fund

FCA PRA

(1)

(a) subject to (1)(b), in relation to a *firm* carrying on *general insurance business*, the higher of one third of the *general insurance capital requirement* and the *base capital resources requirement* applicable to that *firm*;

(b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under ■ INSPRU 1.5, for the purposes of that section in

(1)(a) the reference to the *general insurance capital requirement* is replaced by *UK MCR* or *EEA MCR*, as appropriate, and the reference to the *base capital resources requirement* is replaced by the amount which is one half of the *base capital resources requirement* applicable to the *firm* set out in ■ GENPRU 2.1.30 R.

(2)

(a) subject to (2)(b), in relation to a *firm* carrying on *long-term insurance business*, the higher of one third of the *long-term insurance capital requirement* and the *base capital resources requirement* applicable to that *firm*;

(b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under INSPRU 1.5 , for the purposes of that section in (2)(a) the reference to the *long-term insurance capital requirement* is replaced by *UK MCR* or *EEA MCR*, as appropriate , and the reference to the *base capital resources requirement* is replaced by the amount which is one half of the *base capital resources requirement* applicable to the *firm* set out in ■ GENPRU 2.1.30 R .

guarantor

FCA PRA

(in *PR*) a *person* that provides a *guarantee*.

guidance

FCA PRA

guidance given :

(a) in the *FCA Handbook*, by the *FCA* under the *Act*; or

(b) in the *PRA Handbook*, by the *PRA*.

habitual residence

FCA PRA

(a) if the *policyholder* is an individual, the address given by the *policyholder* as his residence if it reasonably appears to be a residential address and there is no evidence to the contrary;

(b) if the *policyholder* is not an individual or a *group* of individuals, the State in which the *policyholder* has its place of establishment, or, if it has more than one, its relevant place of establishment;

(c) in respect of the variation of a *life policy*, or the purchase of a *pension annuity* related to a *life policy*, unless there is evidence to the contrary, the habitual residence of the *policyholder* at the date on which the *policyholder* signed the proposal for the *life policy*.

half-yearly accounting period

FCA PRA

(in COLL) a period determined in accordance with ■ COLL 6.8.2 R (2) (Accounting periods).

Handbook

FCA PRA

the *FCA Handbook* or the *PRA Handbook* as appropriate.

headline information

FCA

the headline codes and headline categories for use with the announcement of *regulated information* that are listed in ■ DTR 8 Annex 2.

hedging set

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a group of *risk positions* from the transactions within a single *netting set* for which only their balance is relevant for determining the *exposure* value under the *CCR standardised method*.

high earner

FCA PRA

(in SYSC and SUP) an *employee* whose total annual *remuneration* is EUR 1 million or more per year or its equivalent in another currency determined by reference to the conversion rate applicable to the corresponding High Earners Report under ■ SUP 16.

higher lending charge

FCA PRA

a fee charged by a *mortgage lender* (under a *regulated mortgage contract*) where the amount borrowed exceeds a given percentage of the value of the property.

higher rate of return

FCA PRA

(in COBS) the higher rate of return described in paragraph 2.3 of the projection rules (■ COBS 13 Annex 2).

higher stage of capital

FCA PRA

(with respect to a particular item of capital in the capital resources table) a stage in the *capital resources table* above that in which that item of capital appears.

higher volatility fund

FCA PRA

(a) a *regulated collective investment scheme* which is:

(i) a *scheme* where the investment policies which the *operator* adopts, or proposes to adopt, mean that, as a result of making investments in *warrants* or *derivatives*, or through borrowing that is not

<p><i>historic price</i> FCA PRA</p>	<p>temporary in nature, movements in the <i>price</i> of <i>units</i> are likely to be significantly amplified; or</p> <p>(ii) an <i>umbrella</i> with a <i>sub-fund</i> that would fall within (i) if that sub-fund were a separate <i>scheme</i>; or</p> <p>(b) an <i>authorised fund dedicated to units</i> in:</p> <p>(i) a number of <i>regulated collective investment schemes</i>; or</p> <p>(ii) <i>sub-funds</i> of one or more <i>umbrellas</i> that are <i>regulated collective investment schemes</i>;</p> <p>any one of which falls within (a).</p>
<p><i>HMRC allocated CTF</i> FCA PRA</p>	<p>a <i>price</i> calculated by reference to the <i>valuation point</i> immediately preceding the <i>authorised fund manager's</i> agreement to <i>sell</i> or, as the case may be, to redeem the <i>units</i> in question.</p>
<p><i>holder</i> FCA PRA</p>	<p>a CTF opened in accordance with regulation 6 of the <i>CTF Regulations</i>.</p>
<p><i>holding company</i> FCA PRA</p>	<p>(a) (in relation to a <i>unit</i> in an <i>authorised fund</i>):</p> <p>(i) the <i>shareholder</i>; or</p> <p>(ii) the <i>unitholder</i>;</p> <p>(b) (in relation to a <i>unit</i> in any other <i>collective investment scheme</i>):</p> <p>(i) the <i>person</i> who is entered in the <i>register</i> of the <i>scheme</i> as the <i>holder</i> of that <i>unit</i>; or</p> <p>(ii) the bearer of a <i>bearer certificate</i> representing that <i>unit</i>.</p>
<p><i>Holloway policy special application conditions</i> FCA PRA</p>	<p>(as defined in section 1159(1) of the Companies Act 2006 (Meaning of "subsidiary" etc) (in relation to another <i>body corporate</i> ("S")) a <i>body corporate</i> which:</p> <p>(a) holds a majority of the voting rights in S; or</p> <p>(b) is a member of S and has the right to appoint or remove a majority of its board of directors; or</p> <p>(c) is a member of S and controls alone, under an agreement with other shareholders and members, a majority of the voting rights in S.</p> <p>conditions that will be met by a <i>firm</i> where:</p> <p>(a) in the case of a <i>firm</i> which underwrites <i>Holloway sickness policies</i>:</p> <p>(i) all of the <i>Holloway sickness policies</i> of a particular type underwritten by the <i>firm</i> show a projected maturity value of not more than 20% of accumulated <i>premiums</i> at the mid-rate projection in the <i>key features illustrations</i> prepared for the purposes of ■ COBS 13.1.1 R (2); except that no more than 5% of the relevant <i>Holloway sickness policies</i> underwritten by the <i>firm</i> may show a projected maturity value of between 20% and 25% of accumulated <i>premiums</i> at the mid-rate projection in the <i>key features illustrations</i> prepared for the purposes of ■ COBS 13.1.1 R (2);</p> <p>(ii) the <i>firm</i> conducts a regular assessment to determine whether the relevant <i>Holloway sickness policies</i> meet the conditions in (i) and, if such an assessment indicates that the conditions in (i) may no longer be met, takes any steps necessary to ensure that the</p>

<p><i>Holloway sickness policy</i></p> <p>FCA PRA</p>	<p>relevant <i>Holloway sickness policies</i> will meet the conditions in (i) within three months of the relevant assessment having been carried out; and</p> <p>(iii) the assessment in (ii) is carried out at least annually and on a more frequent basis if a change is made to the projection rates or pricing of the relevant <i>Holloway sickness policies</i>;</p> <p>(b) in the case of an intermediary who makes a <i>personal recommendation</i> to a <i>retail client</i> in relation to a <i>Holloway sickness policy</i>, the intermediary has received a written notification from the <i>firm</i> which underwrites the policy confirming that the conditions in (a) have been met.</p>
<p><i>home finance activity</i></p> <p>FCA PRA</p>	<p>a <i>long-term insurance contract</i> offered or effected by a <i>friendly society</i> under the Holloway system, providing <i>permanent health</i> benefits and, in addition, investment benefits, where the investment benefits:</p> <p>(a) are derived from surpluses accrued by the <i>friendly society</i> and apportioned to <i>policyholders</i>; and</p> <p>(b) are payable to <i>policyholders</i> at maturity, on retirement, on death, or as otherwise specified by contractual provisions or individual society rules.</p>
<p><i>home finance administration</i></p> <p>FCA PRA</p>	<p>any <i>home finance mediation activity</i>, <i>home finance providing activity</i> or <i>administering a home finance transaction</i>.</p>
<p><i>home finance administrator</i></p> <p>FCA PRA</p>	<p>any of the <i>regulated activities</i> of:</p> <p>(a) <i>administering a regulated mortgage contract</i>;</p> <p>(b) <i>administering a home purchase plan</i>;</p> <p>(c) <i>administering a home reversion plan</i>;</p> <p>(cc) <i>administering a regulated sale and rent back agreement</i>; or</p> <p>(d) <i>agreeing to carry on a regulated activity</i> in (a) to (cc).</p>
<p><i>home finance adviser</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> with <i>permission</i> (or which ought to have <i>permission</i>) for <i>administering a home finance transaction</i>.</p>
<p><i>home finance arranger</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> with <i>permission</i> (or which ought to have <i>permission</i>) for <i>advising on a home finance transaction</i>.</p>
<p><i>home finance intermediary</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> with <i>permission</i> (or which ought to have <i>permission</i>) for <i>arranging a home finance transaction</i>.</p>
<p><i>home finance mediation activity</i></p>	<p>a <i>firm</i> with <i>permission</i> (or which ought to have <i>permission</i>) to carry on a <i>home finance mediation activity</i>.</p>
<p><i>home finance mediation activity</i></p>	<p>any <i>mortgage mediation activity</i>, <i>home purchase mediation activity</i>, <i>reversion mediation activity</i> or <i>regulated sale and rent back mediation activity</i>.</p>

FCA PRA

*home finance provider*a firm with *permission* (or which ought to have *permission*) for *entering into a home finance transaction*.

FCA PRA

*home finance providing activity*any of the *regulated activities* of:

- (a) *entering into a regulated mortgage contract*;
- (aa) *entering into a regulated sale and rent back agreement*;
- (b) *entering into a home purchase plan*;
- (c) *entering into a home reversion plan*; or
- (d) *agreeing to carry on a regulated activity* in (a) to (c).

FCA PRA

*home finance transaction*a *regulated mortgage contract*, *home purchase plan*, *home reversion plan* or *regulated sale and rent back agreement*.

FCA PRA

*home financing*any *home finance providing activity*.

FCA PRA

Home Member State(in DTR; PR and LR) *Home State*.

FCA PRA

*home purchase activity*any of the *regulated activities* of:

- (a) *arranging (bringing about) a home purchase plan* (article 25C(1));
- (b) *making arrangements with a view to a home purchase plan* (article 25C(2));
- (c) *advising on a home purchase plan* (article 53C);
- (d) *entering into a home purchase plan* (article 63F(1));
- (e) *administering a home purchase plan* (article 63F(2)); or
- (f) *agreeing to carry on a regulated activity* in (a) to (e) (article 64).

FCA PRA

*home purchase administrator*a firm with *permission* (or which ought to have *permission*) for *administering a home purchase plan*.

FCA PRA

*home purchase adviser*a firm with *permission* (or which ought to have *permission*) for *advising on a home purchase plan*.

FCA PRA

*home purchase arranger*a firm with *permission* (or which ought to have *permission*) for *arranging a home purchase plan*.

FCA PRA

home purchase intermediary

FCA **PRA**

a *firm* with *permission* (or which ought to have *permission*) to carry on a *home purchase mediation activity*.

home purchase mediation activity

FCA **PRA**

any of the following *regulated activities*:

- (a) *arranging (bringing about) a home purchase plan* (article 25C(1));
- (b) *making arrangements with a view to a home purchase plan* (article 25C(2));
- (c) *advising on a home purchase plan* (article 53C); or
- (d) *agreeing to carry on a regulated activity* in (a) to (c) (article 64).

home purchase plan

FCA **PRA**

(in accordance with article 63F(3) of the *Regulated Activities Order*) an arrangement comprised in one or more instruments or agreements which meets the following conditions at the time it is entered into:

- (a) the arrangement is one under which a *person* (the 'home purchase provider') buys a *qualifying interest in land* or an undivided share of a *qualifying interest in land*;
- (b) where an undivided share of a *qualifying interest in land* is bought, the interest is held on trust for the home purchase provider and the individual or trustees in (c) as beneficial tenants in common;
- (c) the arrangement provides for the obligation of an individual or trustees (the *home purchaser*) to buy the interest bought by the home purchase provider during the course of or at the end of a specified period; and
- (d) the *home purchaser* (if he is an individual) or an individual who is a beneficiary of the trust (if the *home purchaser* is a trustee), or a related person, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling during that period and intends to do so;

in this definition "related person" means:

- (A) that *person's* spouse or civil partner;
- (B) a *person* (whether or not of the opposite sex) whose relationship with that *person* has the characteristics of the relationship between husband and wife; or
- (C) that *person's* parent, brother, sister, child, grandparent or grandchild.

home purchase provider

FCA **PRA**

a *firm* with *permission* (or which ought to have *permission*) for *entering into a home purchase plan*.

home purchaser

FCA **PRA**

the individual (or trustees), specified in article 63F(3) of the *Regulated Activities Order*, who in summary:

- (a) is (or are) obliged under a *home purchase plan* to buy the interest in land bought by the home purchase provider (as defined in article 63F(3) of the *Regulated Activities Order*) over the course of or at the end of a specified period; and
- (b)
 - (i) in the case of an individual, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling and intends to do so; or

home reversion plan

FCA PRA

(ii) in the case of trustees, are trustees of a trust a beneficiary of which is an individual described in (i).

(in accordance with article 63B(3) of the *Regulated Activities Order*) an arrangement comprised in one or more instruments or agreements which meets the following conditions at the time it is entered into:

(a) the arrangement is one under which a *person* (the *reversion provider*) buys all or part of a *qualifying interest in land* from an individual or trustees (the *reversion occupier*);

(b) the *reversion occupier* (if he is an individual) or an individual who is a beneficiary of the trust (if the *reversion occupier* is a trustee), or a related person, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling and intends to do so; and

(c) the arrangement specifies that the entitlement to occupy will end on the occurrence of one or more of:

(i) a *person* in (b) becoming a resident of a care home;

(ii) a *person* in (b) dying; or

(iii) the end of a specified period of at least twenty years from the date the *reversion occupier* entered into the arrangement;

in this definition "related person" means:

(A) that *person's* spouse or civil partner;

(B) a *person* (whether or not of the opposite sex) whose relationship with that *person* has the characteristics of the relationship between husband and wife; or

(C) that *person's* parent, brother, sister, child, grandparent or grandchild.

Home State

FCA PRA

(A) In the PRA Handbook:

(1) (in relation to a *credit institution*) the *EEA State* in which the *credit institution* has been authorised in accordance with the CRD.

(2) (in relation to an *investment firm*):

(a) if the *investment firm* is a natural *person*, the *EEA State* in which his head office is situated;

(b) if the *investment firm* is a legal *person*, the *EEA State* in which its registered office is situated; or

(c) if the *investment firm* has, under its national law, no registered office, the *EEA State* in which its head office is situated.

[Note: article 4(1)(20) of *MiFID*]

(3) (in relation to a *UCITS management company*) the *EEA State* in which the management company's registered office is situated;

(4) (in relation to an *insurance undertaking* with an *EEA right*) the *EEA State* in which the registered office of the *insurance undertaking* is situated.

(5) (in relation to an *IMD insurance intermediary* or an *IMD reinsurance intermediary*):

(a) where the *insurance intermediary* is a natural person, the *EEA State* in which his residence is situated and in which he carries on business;

(b) where the *insurance intermediary* is a legal person, the *EEA State* in which its registered office is situated or, if under its national law it has no registered office, the *EEA State* in which its head office is situated.

(6) (except in *REC*) (in relation to a market) the *EEA State* in which the registered office of the body which provides training facilities is situated or, if under its national law it has no registered office, the *EEA State* in which that body's head office is situated.

(7) (in relation to a *Treaty firm*) the *EEA State* in which its head office is situated, in accordance with paragraph 1 of Schedule 4 to the *Act* (Treaty Rights).

(8) (in *LR* and *PR*) (as defined in section 102C of the *Act*) in relation to an issuer of *transferable securities*, the *EEA State* which is the "home Member State" for the purposes of the *prospectus directive* (which is to be determined in accordance with Article 2.1(m) of that directive).

(9) (in *DTR*)

(a) in the case of an *issuer* of debt *securities* the denomination per unit of which is less than EUR 1 000 or an *issuer* of *shares*:

(i) where the *issuer* is incorporated in the *EEA*, the *EEA State* in which it has its registered office;

(ii) where the *issuer* is incorporated in a third country, the *EEA State* referred to in point (iii) of article 2(1)(m) of Directive 2003/71/EC.

The definition of *Home State* shall be applicable to debt securities in a currency other than Euro, provided that the value of such denomination per unit is, at the date of the issue, less than EUR 1 000, unless it is nearly equivalent to EUR 1 000;

(b) for an *issuer* not covered by (a), the *EEA State* chosen by the *issuer* from among the *EEA States* in which the *issuer* has its registered office and those *EEA States* which have admitted its securities to trading on a *regulated market* on their territory. The issuer may choose only one *EEA State* as its *Home Member State*. Its choice shall remain valid for at least three years unless its securities are no longer admitted to trading on any *regulated market* in the *EEA*;

(10) (in relation to a *UCITS*) the *EEA State* in which the unit trust, common fund or investment company is established and authorised under article 5 of the *UCITS Directive*.

(11) (in *REC*) in relation to an *EEA market operator*, the *EEA State* in which it has its registered office, or if it has no registered office, its head office.

(12) (in relation to a person who has received authorisation under article 18 of the *auction regulation*) the *EEA state* in which the person is established and authorised under the *auction regulation*.

(13) (for an *AIF*) the *EEA State* in which:

(a) the *AIF* is authorised or registered under applicable national law; or

(b) if the *AIF* is neither authorised nor registered in an *EEA State*, the *EEA State* in which the *AIF* has its registered office and/or head office.

[Note: article 4(1)(p) of *AIFMD*]

(14) (for an *AIFM*) the *EEA State* in which the *AIFM* has its registered office.

[Note: article 4(1)(q) of *AIFMD*]

(B) In the FCA Handbook:

(1) (in relation to a *credit institution*) the *EEA State* in which the *credit institution* has been authorised in accordance with the *CRD*.

(2) (in relation to an *investment firm*):

(a) if the *investment firm* is a natural *person*, the *EEA State* in which his head office is situated;

(b) if the *investment firm* is a legal *person*, the *EEA State* in which its registered office is situated; or

(c) if the *investment firm* has, under its national law, no registered office, the *EEA State* in which its head office is situated.

[Note: article 4(1)(20) of *MiFID*]

(3) (in relation to a *UCITS management company*) the *EEA State* in which the management company's registered office is situated;

(4) (in relation to an *insurance undertaking* with an *EEA right*) the *EEA State* in which the registered office of the *insurance undertaking* is situated.

(5) (in relation to an *IMD insurance intermediary* or an *IMD reinsurance intermediary*):

(a) where the *insurance intermediary* is a natural person, the *EEA State* in which his residence is situated and in which he carries on business;

(b) where the *insurance intermediary* is a legal person, the *EEA State* in which its registered office is situated or, if under its national law it has no registered office, the *EEA State* in which its head office is situated.

(6) (except in *REC*) (in relation to a market) the *EEA State* in which the registered office of the body which provides training facilities is situated or, if under its national law it has no registered office, the *EEA State* in which that body's head office is situated.

(7) (in relation to a *Treaty firm*) the *EEA State* in which its head office is situated, in accordance with paragraph 1 of Schedule 4 to the *Act* (Treaty Rights).

(8) (in *LR* and *PR*) (as defined in section 102C of the *Act*) in relation to an issuer of *transferable securities*, the *EEA State* which is the "home Member State" for the purposes of the *prospectus directive* (which is to be determined in accordance with Article 2.1(m) of that directive).

(9) (in *DTR*)

(a) in the case of an *issuer* of debt *securities* the denomination per unit of which is less than EUR 1 000 or an *issuer* of *shares*:

(i) where the *issuer* is incorporated in the *EEA*, the *EEA State* in which it has its registered office;

(ii) where the *issuer* is incorporated in a third country, the *EEA State* referred to in point (iii) of article 2(1)(m) of Directive 2003/71/EC.

The definition of *Home State* shall be applicable to debt securities in a currency other than Euro, provided that the value of such denomination per unit is, at the date of the issue, less than EUR 1 000, unless it is nearly equivalent to EUR 1 000;

(b) for an *issuer* not covered by (a), the *EEA State* chosen by the *issuer* from among the *EEA States* in which the *issuer* has its registered office and those *EEA States* which have admitted its securities to trading on a *regulated market* on their territory. The issuer may choose only one *EEA State* as its *Home Member State*. Its choice shall remain valid for at least three years unless its securities are no longer admitted to trading on any *regulated market* in the *EEA*;

(10) (in relation to a *UCITS*) the *EEA State* in which the unit trust, common fund or investment company is established and authorised under article 5 of the *UCITS Directive*.

(11) (in *REC*) in relation to an *EEA market operator*, the *EEA State* in which it has its registered office, or if it has no registered office, its head office.

(12) (in relation to a person who has received authorisation under article 18 of the *auction regulation*) the *EEA state* in which the person is established and authorised under the *auction regulation*.

(13) (for an *AIF*) the *EEA State* in which:

(a) the *AIF* is authorised or registered under applicable national law; or

(b) if the *AIF* is neither authorised nor registered in an *EEA State*, the *EEA State* in which the *AIF* has its registered office and/or head office.

[Note: article 4(1)(p) of *AIFMD*]

(14) (for an *AIFM*) the *EEA State* in which the *AIFM* has its registered office.

[Note: article 4(1)(q) of *AIFMD*]

(as defined in paragraph 3(1)(a) of Schedule 4 to the *Act* (Treaty Rights)) authorisation of a *firm* under the law of its *Home State* to carry on a *regulated activity*.

Home State
authorisation

FCA PRA

Home State
regulator

FCA PRA

(1) (in relation to an *EEA firm*) (as defined in paragraph 9 of Schedule 3 to the *Act* (EEA Passport Rights)) the *competent authority* (under the relevant *Single Market Directive* or the *auction regulation*) of an *EEA State* (other than the *United Kingdom*) in relation to the *EEA firm* concerned.

(2) (in relation to a *UK firm* or *UCITS scheme*) the *FCA* or *PRA* as the case may be.

<p><i>home territory</i></p> <p>FCA PRA</p>	<p>(3) (in relation to a <i>Treaty firm</i>) (as defined in paragraph 1 of Schedule 4 to the <i>Act</i> (Treaty Rights)) the competent authority of the <i>firm's Home State</i> for the purpose of its <i>Home State authorisation</i>.</p> <p>(4) (in <i>REC</i>) the competent authority (within the meaning of Article (4)(1)(22) of <i>MiFID</i>) of the <i>EEA State</i> which is the <i>Home State</i> in relation to the <i>EEA market operator</i> concerned.</p> <p>(5) (in relation to an <i>EEA UCITS scheme</i>) the <i>competent authority</i> of the <i>EEA State</i> in which the <i>scheme</i> is authorised.</p>
<p><i>Host Member State</i></p> <p>FCA PRA</p>	<p>(in relation to an <i>overseas investment exchange</i>) the country or territory in which its head office is situated.</p> <p>(in <i>PR</i> and <i>LR</i>) <i>Host State</i>.</p>
<p><i>Host State</i></p> <p>FCA PRA</p>	<p>(1) (in <i>LR</i> and <i>PR</i>) as defined in Article 2.1(n) of the <i>Prospectus Directive</i>) the <i>EEA State</i> where an offer to the public is made or <i>admission to trading</i> is sought, when different from the <i>Home State</i>.</p> <p>(2) (except in <i>LR</i> and <i>PR</i> and except in relation to <i>MiFID</i>) the <i>EEA State</i> in which an <i>EEA firm</i>, a <i>UK firm</i>, or a <i>Treaty firm</i> is exercising an <i>EEA right</i> or <i>Treaty right</i> to establish a <i>branch</i> or provide <i>cross border services</i>.</p> <p>(3) (in relation to <i>MiFID</i>) the <i>EEA State</i>, other than the <i>Home State</i>, in which an <i>investment firm</i> has a branch or performs <i>investment services and/or activities</i> or the <i>EEA State</i> in which a <i>regulated market</i> provides appropriate arrangements so as to facilitate access to trading on its system by remote members or participants established in that same <i>EEA State</i>.</p> <p>(4) (in relation to the <i>UCITS Directive</i>) the <i>EEA State</i>, other than the <i>UCITS Home State</i>, in which <i>units</i> of a <i>UCITS</i> are marketed in accordance with a notification made under article 93 of that directive.</p> <p>(5) (for an <i>AIFM</i>) means:</p> <p style="padding-left: 40px;">(a) an <i>EEA state</i>, other than the <i>Home State</i>, in which an <i>EEA AIFM</i> or <i>UK AIFM</i> manages <i>EEA AIFs</i> or <i>UK AIFs</i>; or</p> <p style="padding-left: 40px;">(b) an <i>EEA state</i>, other than the <i>Home State</i>, in which an <i>EEA AIFM</i> or <i>UK AIFM</i> markets <i>units</i> or <i>shares</i> of an <i>EEA AIF</i> or <i>UK AIF</i>;</p> <p>[Note: article 4(1)(r) of <i>AIFMD</i>]</p> <p>[Note: article 4(1)(21) of <i>MiFID</i>]</p>
<p><i>Host State regulator</i></p> <p>FCA PRA</p>	<p>(1) (in relation to an <i>EEA firm</i> or a <i>Treaty firm</i> exercising an <i>EEA right</i> or <i>Treaty right</i> in the <i>United Kingdom</i>) the <i>FCA</i> or <i>PRA</i> as the case may be.</p> <p>(2) (in relation to a <i>UK firm</i>) (as defined in paragraph 11 of Schedule 3 to the <i>Act</i> (EEA Passport Rights)) the <i>competent authority</i> (under the relevant <i>Single Market Directive</i> or the <i>auction regulation</i>) of an <i>EEA State</i> (other than the <i>United Kingdom</i>) in relation to a <i>UK firm's</i> exercise of <i>EEA rights</i> there.</p> <p>(3) (in <i>REC</i> in relation to a <i>UK RIE</i>) the competent authority (within the meaning of Article (4)(1)(22) of <i>MiFID</i>) of the <i>EEA State</i> in which the <i>UK RIE</i> intends to make, or has made, arrangements to facilitate access to, or use of, a <i>regulated market</i> or a <i>multilateral trading facility</i> operated by the <i>UK RIE</i>.</p>

(4) (in relation to an *EEA UCITS scheme* which is a *recognised scheme*) the *FCA*.

(5) (in relation to a *UCITS* that is the subject of a notification in accordance with article 93 of the *UCITS Directive*) the *competent authority* of an *EEA State* (other than the *United Kingdom*) in which *units* of the *UCITS* may be marketed to the public.

hybrid capital

FCA **PRA**

an item of capital that is stated in ■ [GENPRU 2.2](#) as eligible for inclusion at stage B1, B2 or C of the calculation in the *capital resources table*.

*hypothetical
profit and loss
figure*

FCA **PRA**

(in ■ [BIPRU 7.10](#) (Use of a value at risk model) and in relation to a *business day*) the *profit and loss figure* that would have occurred for that *business day* if the portfolio on which the *VaR number* for that *business day* is based remained unchanged, as more fully defined in ■ [BIPRU 7.10.111 R](#) (Backtesting: Hypothetical profit and loss).

IAS

FCA PRA

(in LR) *International Accounting Standards*.

IBNR

FCA PRA

(in relation to *claims* (as defined for the purposes of *INSPRU*, *SUP* and *TC*)) *claims* that have been incurred but not reported arising out of events that have occurred by the balance sheet date but have not been reported to the *insurance undertaking* at that date.

ICA

FCA PRA

individual capital assessment.

ICAAP

FCA PRA

the *internal capital adequacy assessment process*.

ICAAP rules

FCA PRA

(A) In the PRA Handbook:

the *rules* in ■ GENPRU 1.2.30 R to ■ GENPRU 1.2.39 R (Systems, strategies, processes and reviews), ■ GENPRU 1.2.42 R (Main Requirements: Stress and scenario tests) and ■ GENPRU 1.2.60 R to ■ GENPRU 1.2.61 R (Documentation of risk assessments) as they apply on a solo level and on a consolidated level.

(B) In the FCA Handbook:

(1) (in *GENPRU*) the *rules* in ■ GENPRU 1.2.30 R to ■ GENPRU 1.2.39 R (Systems, strategies, processes and reviews), ■ GENPRU 1.2.42 R (Main Requirements: Stress and scenario tests) and ■ GENPRU 1.2.60 R to ■ GENPRU 1.2.61 R (Documentation of risk assessments) as they apply on a solo level and on a consolidated level.

(2) (for the purpose of *IFPRU*) the *rules* in IFPRU 2.2.2R to IFPRU 2.2.7R (Strategies, processes and systems) to IFPRU 2.2.16R, IFPRU 2.2.37G (Stress and scenario tests) in relation to a *significant IFPRU firm* and IFPRU 2.2.43R to IFPRU 2.2.44R (Documentation of risk assessments) as they apply on a individual basis and on a *consolidated basis*.

ICD claim

FCA PRA

a *claim*:

(a) against a *MiFID investment firm* (including a *credit institution* which is a *MiFID investment firm*), whether established in the *United Kingdom* or in another *EEA State*; and

(b) in relation to:

(i) any *investment services and activities* other than the making of a *personal recommendation*;

(ii) the *ancillary service* of safekeeping and administration of *financial instruments* for the account of *clients*, including custodianship and related services such as cash/collateral management;

(iii) the firm's inability to repay money owed to or belonging to investors and held on their behalf or the firm's inability to return to investors any instruments belonging to them and held, administered or managed on their behalf, in each case, in connection with the *investment service* of the making of a *personal recommendation* relating to a *financial instrument* in accordance with the legal and contractual conditions applicable.

[Note: Article 2(2) of the *Investor Compensation Directive*]

ICG

FCA PRA

individual capital guidance.

ICOBS

FCA PRA

the Insurance: New Conduct of Business sourcebook.

ICVC

FCA PRA

*investment company with variable capital.*IFA pensions
review claim

FCA PRA

a claim arising from the sale of a personal pension scheme by a former member of PIA which was an independent financial adviser; in this definition:

(a) a "personal pension scheme" includes:

(i) a personal pension scheme that was approved under Chapter IV Part XIV of ICTA 88 (when that chapter was in force) ;

(ii) a 'section 32' buy-out policy that was approved under Section 32 of the Finance Act 1981 (when that Act was in force); and

(iii) in relation to opt-outs and non-joiners, a retirement annuity contract that was approved under Chapter III Part XIV of ICTA 88 (when sections 618 to 628 of that Chapter were in force); and

(b) "ICTA 88" means the Income and Corporation Taxes Act 1988.

IFPRU

FCA

the Prudential sourcebook for Investment Firms

IFPRU 125K
firm

FCA

has the meaning in ■ IFPRU 1.1.9 R (Types of investment firm: IFPRU 125K firm), which in summary is an *IFPRU investment firm* that satisfies the following conditions:(a) it does not *deal on own account* or underwrite issues of *financial instruments* on a firm commitment basis;(b) it holds clients' money or securities in relation to *investment services* it provides or is authorised to do so;

(c) it offers one or more of certain specified services;

(d) it is not a *collective portfolio management investment firm*; and(e) it does not operate a *multilateral trading facility*.IFPRU 50K
firm

FCA

has the meaning in ■ IFPRU 1.1.10 R (Types of investment firm: IFPRU 50K firm) which in summary is an *IFPRU investment firm* that satisfies the following conditions:(a) it satisfies the conditions in ■ IFPRU 1.1.9 R (1) (does not deal on own account or underwrite issues of *financial instruments* on a firm commitment basis) and ■ IFPRU 1.1.9 R (3) (offers one or more of certain specified services);(b) it does not hold clients' money or securities in relation to *investment services* it provides and it is not authorised to do so;(c) it is not a *collective portfolio management investment firm*; and(d) it does not operate a *multilateral trading facility*.

IFPRU 730K
firm

FCA

has the meaning in ■ IFPRU 1.1.11 R (Types of investment firm: IFPRU 730K firm) which in summary is an *IFPRU investment firm* that is not a *collective portfolio management investment firm*, a *BIPRU 50K firm* or a *BIPRU 125K firm*.

IFPRU
investment
firm

FCA PRA

(A) (In the PRA Handbook):

an *investment firm*, as defined in article 4(1)(2) of the *EU CRR* (including a *collective portfolio management investment firm*), that satisfies the following conditions:

- (a) it is a *FCA-authorized firm*;
- (b) its head office is in the *UK* and
- (c) it is not:
 - (i) an *incoming EEA firm*;
 - (ii) an *incoming Treaty firm*;
 - (iii) any other *overseas firm*;
 - (iv) a *designated investment firm*;
 - (v) an *insurer*; or
 - (vi) an *ICVC*.

(B) (In the FCA Handbook):

an *investment firm*, as defined in article 4(1)(2) of the *EU CRR* (including a *collective portfolio management investment firm*), that satisfies the following conditions:

- (a) it is a *firm*;
- (b) its head office is in the *UK* and it is not otherwise excluded under ■ IFPRU 1.1.5 R; and
- (c) it is not a *designated investment firm*;

that is not excluded under ■ IFPRU 1.1.5 R (Exclusion of certain types of firms).

IFPRU
limited-activity
firm

FCA PRA

(A) (In the the PRA Handbook):

a *limited activity firm* that meets the following conditions:

- (a) it is a *FCA-authorized firm*;
- (b) its head office is in the *UK* and .
- (c) it is not:
 - (i) an *incoming EEA firm*;
 - (ii) an *incoming Treaty firm*;
 - (iii) any other *overseas firm*;
 - (iv) a *designated investment firm*;
 - (v) an *insurer*; or

(B) (In the FCA Handbook):

a *limited activity firm* that meets the following conditions:

- (a) it is a *firm*; and
- (b) its head office is in the *UK* and it is not otherwise excluded under ■ IFPRU 1.1.5 R.

IFPRU
limited-licence
firm

FCA PRA

(A) (In the PRA Handbook):
a *limited activity firm* that meets the following conditions:

- (a) it is a *FCA-authorized firm*;
- (b) its head office is in the *UK* and .
- (c) it is not:
 - (i) an *incoming EEA firm*;
 - (ii) an *incoming Treaty firm*;
 - (iii) any other *overseas firm*;
 - (iv) a *designated investment firm*;
 - (v) an *insurer*; or
 - (vi) an *incoming EEA firm*

(B) (In the FCA Handbook):
a *limited licence firm* that meets the following conditions:

- (a) it is a *firm*; and
- (b) its head office is in the *UK* and it is not otherwise excluded under
■ IFPRU 1.1.5 R.

IFRS

FCA PRA

International Financial Reporting Standards.

ILAA

FCA PRA

Individual Liquidity Adequacy Assessment.

ILAS

FCA PRA

Individual Liquidity Adequacy Standards.

ILAS BIPRU
firm

FCA PRA

- (A) In the PRA Handbook:
- (a) an *exempt full scope BIPRU investment firm*; or
 - (b) a *BIPRU limited licence firm*; or
 - (c) a *BIPRU limited activity firm*; or
 - (d) an *exempt BIPRU commodities firm*.

- (B) In the FCA Handbook:
a *firm* falling into ■ BIPRU 12.1.1 R, but excluding a *firm* that is:
- (a) an *full-scope IFPRU investment firm*; or
 - (b) an *IFPRU limited-licence firm*; or
 - (c) an *IFPRU limited-activity firm*; or
 - (d) an *exempt BIPRU commodities firm*; or
 - (e) an *exempt IFPRU commodities firm*; or
 - (f) a *BIPRU firm*.

illiquid asset

has the meaning in ■ GENPRU 2.2.260 R (Deductions from total capital: Illiquid assets).

FCA PRA

illustration

FCA PRA

(in MCOB) the illustration of the costs and features of a *regulated mortgage contract* or *home reversion plan* which is required to be provided by ■ MCOB 5 (Pre-application disclosure), ■ MCOB 6 (Disclosure at the offer stage), ■ MCOB 7 (Disclosure at start of contract and after sale) and ■ MCOB 9 (Equity release : product disclosure) and the template for which is set out:

- (a) for a *regulated mortgage contract* other than a *lifetime mortgage*, at ■ MCOB 5 Annex 1 R;
- (b) for a *lifetime mortgage*, at ■ MCOB 9 Annex 1 R; and
- (c) for a *home reversion plan*, at ■ MCOB 9 Annex 2 R.

ILSA

FCA PRA

Individual Liquidity Systems Assessment.

IMA SORP

FCA PRA

the Statement of Recommended Practice for financial statements of *authorised funds* issued by the Investment Management Association in October 2010.

image
advertising

FCA PRA

a communication that consists only of one or more of the following:

- (a) the name of the *firm*;
- (b) a logo or other image associated with the *firm*;
- (c) a contact point; and
- (d) a reference to the types of *regulated activities* provided by the *firm*, or to its fees or commissions.

IMD insurance
intermediary

FCA PRA

(as defined in article 2(5) of the *IMD*) any natural or legal person who, for remuneration, takes up or pursues *insurance mediation*.

IMD insurance
undertaking

FCA PRA

(as defined in article 2(1) of the *Insurance Mediation Directive*) an undertaking which has received official authorisation in accordance with article 6 of the *Consolidated Life Directive* or article 6 of the *First Non-Life Directive*.

IMD
reinsurance
intermediary

FCA PRA

(as defined in article 2(6) of the *Insurance Mediation Directive*) any natural or legal person who, for remuneration, takes up or pursues *reinsurance mediation*.

IMD
reinsurance
undertaking

FCA PRA

(as defined in article 2(2) of the *Insurance Mediation Directive*) an undertaking, other than an *IMD insurance undertaking* or a non-member-country *insurance undertaking*, the main business of which consists in accepting risks ceded by an *IMD insurance undertaking*, a non-member country *insurance undertaking* or other *IMD reinsurance undertaking*.

immediate
group

FCA PRA

(1) (in relation to a person ("A")) (as defined in section 421ZA of the *Act* (Immediate group)):

- (a) A ;

	(b) a <i>parent undertaking</i> of A ;
	(c) a <i>subsidiary undertaking</i> of A ;
	(d) a <i>subsidiary undertaking</i> of a <i>parent undertaking</i> of A ;
	(e) a <i>parent undertaking</i> of a <i>subsidiary undertaking</i> of A .
	(2) (in <i>BIPRU</i> and in relation to any <i>person</i>) has the same meaning as in paragraph (1), with the omission of (1)(e).
<i>implicit items</i>	(in relation to <i>long-term insurance business</i>) economic reserves arising in respect of future profits, <i>zillmerising</i> or hidden reserves as more fully described in ■ GENPRU 2 Annex 8 G .
FCA PRA	
<i>IMRO</i>	the Investment Management Regulatory Organisation Limited.
FCA PRA	
<i>IMRO scheme</i>	the <i>former scheme</i> set up by <i>IMRO</i> under the Financial Services Act 1986 and the <i>Investment Ombudsman</i> Memorandum to handle complaints against members of <i>IMRO</i> .
FCA PRA	
<i>in default</i>	the status of being in default following a determination made under ■ COMP 6.3.1 R.
FCA PRA	
<i>in the money</i>	(1) (in <i>LR</i>) (in relation to <i>securitised derivatives</i>):
FCA PRA	
	(a) where the holder has the right to buy the <i>underlying instrument</i> or instruments from the <i>issuer</i> , when the <i>settlement price</i> is greater than the <i>exercise price</i> ; or
	(b) where the holder has the right to sell the <i>underlying instrument</i> or instruments to the <i>issuer</i> , when the <i>exercise price</i> is greater than the <i>settlement price</i> ;
	(2) (for the purposes of <i>BIPRU</i> 7 (Market risk) and in relation to an <i>option</i> or <i>warrant</i>) the strike price of that <i>option</i> or <i>warrant</i> being less than the current market value of the underlying instrument (in the case of a call <i>option</i> or <i>warrant</i>) or vice versa (for a put <i>option</i>).
<i>in the money percentage</i>	(for the purposes of ■ <i>BIPRU</i> 7 (Market risk) and in relation to an <i>option</i> or <i>warrant</i>) the percentage calculated under ■ <i>BIPRU</i> 7.6.6 R (The in the money percentage).
FCA PRA	
<i>inception</i>	in relation to <i>permitted links</i> , refers to the time when the liability of the <i>insurer</i> under a <i>linked long-term</i> contract of insurance commenced.
FCA PRA	
<i>income account</i>	(in <i>COLL</i>) an account relating to the <i>income property</i> of an <i>authorised fund</i> .
FCA PRA	
<i>income equalisation</i>	(in relation to a <i>scheme</i>) a capital sum which, in accordance with a power contained in the <i>instrument constituting the scheme</i> , is included in an allocation of income for a <i>unit</i> issued , sold or converted during the accounting period in respect of which that income allocation is made.
FCA PRA	

income property

FCA PRA

the amount available for income allocations calculated in accordance with ■ COLL 6.8.3 R (3A) and not including any amount for the time being standing to the credit of the *distribution account*.

income unit

FCA PRA

a *unit* in an *AUT* which is not an *accumulation unit*.

income withdrawals

FCA PRA

(a) (as defined in paragraph 7 of Schedule 28 to the Finance Act 2004) in relation to a member of a pension scheme, amounts (other than an annuity) which the member is entitled to be paid from the member's drawdown pension fund (as defined in paragraph 8 of that Schedule) in respect of an arrangement; or

(b) payments made under interim arrangements in accordance with section 28A of the Pension Schemes Act 1993;

in respect of an election to make income withdrawals, a reference to a *retail client*, an investor or a *policyholder* includes, after that *person's* death, his surviving spouse, his surviving civil partner or anyone who is, at that time, his dependant, or both.

incoming ECA provider

FCA PRA

a *person*, other than an *exempt person*, who:

(a) provides an *electronic commerce activity*, from an *establishment* in an *EEA State* other than the *United Kingdom*, with or for an *ECA recipient* present in the *United Kingdom*; and

(b) is a national of an *EEA State* or a company or firm mentioned in article 54 of the *Treaty*.

incoming EEA AIFM

FCA PRA

an *incoming EEA firm* which is an *AIFM* and exercising its rights under *AIFMD*.

incoming EEA AIFM branch

FCA PRA

an *incoming EEA firm* which is an *AIFM* and exercising its right to establish a *branch* under *AIFMD*.

incoming EEA firm

FCA PRA

(in accordance with section 193(1)(a) of the *Act* (Interpretation of this Part)) an *EEA firm* which is exercising, or has exercised, its right to carry on a *regulated activity* in the *United Kingdom* in accordance with Schedule 3 to the *Act* (*EEA Passport Rights*).

incoming electronic commerce activity

FCA PRA

(in accordance with regulation 2(1) of the *ECD Regulations*) an activity:

(a) which consists of the provision of an *information society service* from an *establishment* in an *EEA State* other than the *United Kingdom* to a *person* or *persons* in the *United Kingdom*; and

(b) which would, but for article 72A of the *Regulated Activities Order* (*Information society services*) (and irrespective of the effect of article 72 of that Order (*Overseas Persons*)), be a *regulated activity*.

incoming firm

FCA PRA

(in accordance with section 193(1) of the *Act* (Interpretation of this Part)) an *incoming EEA firm* or an *incoming Treaty firm*.

*incoming
Treaty firm*

FCA **PRA**

(in accordance with section 193(1)(b) of the *Act* (Interpretation of this Part)) a *Treaty firm* which is exercising, or has exercised, its right to carry on a *regulated activity* in the *United Kingdom* in accordance with Schedule 4 to the *Act* (Treaty rights).

*incorporated
friendly society*

FCA **PRA**

a society incorporated under the Friendly Societies Act 1992.

*incremental
risk charge*

FCA **PRA**

(in **■** BIPRU 7.10 (Use of a value at risk model)) has the meaning in **■** BIPRU 7.10.116 R (Capital calculations for VaR models), which is in summary, in relation to a *business day*, the incremental risk charge required under the provisions in **■** BIPRU 7.10 about *specific risk*, in respect of the previous *business day's* close-of-business *positions* with respect to which those provisions apply.

*independent
advice*

FCA **PRA**

a *personal recommendation* to a *retail client* in relation to a *retail investment product* where the *personal recommendation* provided meets the requirements of the *rule* on independent advice (**■** COBS 6.2A.3 R).

*independent
expert*

FCA **PRA**

(in **■** SUP 18) the person approved or nominated by the *appropriate regulator* to make the *scheme report* for an *insurance business transfer scheme*.

*Independent
Investigator*

FCA **PRA**

the *former Ombudsman* under the *FSA scheme*.

*index-linked
assets*

FCA **PRA**

in relation to *permitted links*, the assets held by an *insurer* for the purposes of matching *index-linked liabilities*.

*index-linked
benefits*

FCA **PRA**

benefits:

- (a) provided for under a *linked long-term contract of insurance*; and
- (b) determined by reference to an index of the value of property of any description (whether specified in the contract or not).

*index-linked
contract*

FCA **PRA**

a *linked long-term contract* conferring *index-linked benefits*.

*index-linked
liabilities*

FCA **PRA**

insurance liabilities in respect of *index-linked benefits*.

*index-linked
security*

FCA **PRA**

(in *COLL*) a *debt security* for which the cash flows are determined by reference to an index of consumer prices.

indicative adviser charge
FCA PRA
 a cash figure which is indicative of the cost to the *pure protection contract insurer* of the services associated with making a *personal recommendation* in relation to a *pure protection contract*.

indirect client
FCA
 as defined in article (1)(a) of the *EMIR L2 Regulation*.

individual capital assessment
FCA PRA
 (in *INSPRU* and **■ COBS 20.2**) an assessment by a *firm* of the adequacy of its capital resources undertaken as part of an assessment of the adequacy of the *firm's* overall financial resources carried out in accordance with **■ GENPRU 1.2**.

individual capital guidance
FCA PRA
guidance given to a *firm* about the amount and quality of capital resources that the *appropriate regulator* thinks the *firm* should hold at all times under the *overall financial adequacy rule* as it applies on a solo level or a consolidated level.

individual capital resources requirement
FCA PRA
 has the meaning in **■ INSPRU 6.1.34 R**.

individual client account
FCA
 an account maintained by a *firm* at an *authorised central counterparty* for a *client* of the *firm* in respect of which the *authorised central counterparty* has agreed with the *firm* to provide *individual client segregation*.

individual client segregation
FCA PRA
 as defined in article 39(3) of *EMIR*.

individual CNCOM
 [deleted]

individual counterparty CNCOM

Individual Liquidity Adequacy Assessment
FCA PRA
 a *standard ILAS BIPRU firm's* assessment of the adequacy of its liquidity resources and systems and controls as required by the *rules* in BIPRU 12.5.

Individual Liquidity
 the regime of liquidity assessment set out in the *rules* and *guidance* in BIPRU 12.5.

Adequacy Standards

FCA PRA

individual liquidity guidance

FCA PRA

guidance given to a *firm* about the amount, quality and funding profile of liquidity resources that the *appropriate regulator* has asked the *firm* to maintain.

Individual Liquidity Systems Assessment

FCA PRA

a *simplified ILAS BIPRU firm's* assessment of the adequacy of its systems and controls as required by the *rules* in BIPRU 12.6.

individual member

FCA PRA

a *member*, or *former member*, who is a natural *person*.

individual pension account

FCA PRA

an account for the holding of *IPA eligible investments*, which satisfies the conditions described in regulation 2(2) of the Stamp Duty and Stamp Duty Reserve Tax (Definition of Unit Trust Scheme and Open-ended Investment Company) Regulations 2001 (SI 2001/964).

individual pension contract

FCA PRA

a *pension policy* or *pension contract* under which contributions are paid to:

- (a) a *personal pension scheme*; or
- (b) a retirement benefits scheme for the provision of relevant benefits by means of an annuity contract made with an insurance company of the employee's choice where that contract:
 - (i) was approved under section 591(2)(g) of the Income and Corporation Taxes Act 1988 (when that section was in force); or
 - (ii) is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

individual savings account

FCA PRA

an account which is a scheme of investment satisfying the conditions prescribed in the *ISA Regulations*.

industrial and provident society

FCA PRA

a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969.

industrial assurance policy

FCA PRA

a *contract of insurance* on human life, premiums in respect of which are received by means of collectors, but excluding:

- (a) a *contract of insurance*, the premiums in respect of which are payable at intervals of two *months* or more;

(b) a *contract of insurance*, effected whether before or after the passing of the Industrial Assurance Act 1923 by a society or company established before the date of the passing of that Act which at that date had no *contracts of insurance* outstanding the premiums on which were payable at intervals of less than one *month* so long as the society or company continues not to effect any such contracts;

(c) a *contract of insurance* effected before the passing of the Industrial Assurance Act 1923, premiums in respect of which are payable at intervals of one *month* or more, and which have up to the passing of that Act been treated as part of the business transacted by a branch other than the industrial branch of the society or company; and

(d) a *contract of insurance* for £25 or more effected after the passing of the Industrial Assurance Act 1923, premiums in respect of which are payable at intervals of one *month* or more, and which are treated as part of the business transacted by a branch other than the industrial branch of the society or company, in cases where the relevant authority certified prior to 1 December 2001 under section 1(2)(d) of that Act that the terms and conditions of the contract is on the whole not less favourable to the assured than those imposed by that Act;

in this definition:

(i) "collector" includes every *person*, however remunerated, who, by himself or by any deputy or substitute, makes house to house visits for the purpose of receiving premiums payable on policies of insurance on human life, or holds any interest in a collecting book, and includes such a deputy or substitute;

(ii) "collecting book" includes any book or document held by a collector in which payments of premiums are recorded.

industry block

FCA PRA

(in *FEES*) a grouping of *firms* by common business activity for the purposes of calculating the *general levy*.

information centre

FCA PRA

a centre established by an *EEA State* to meet its obligations under article 23 of the *Consolidated Motor Insurance Directive* (Information Centres).

information society service

FCA PRA

an information society service, as defined by article 2(a) of the *E-Commerce Directive* and article 1(2) of the Technical Standards and Regulations Directive (98/34/EC), which is in summary any service normally provided for remuneration, at a distance, by means of electronic equipment for the processing (including the digital compression) and storage of data at the individual request of a service recipient.

inherited estate

FCA PRA

an amount representing the fair market value of the *with-profits assets* less the *realistic value of liabilities* of a with-profits fund .

initial capital

FCA PRA

(A) In the PRA Handbook:

(1) [deleted]

(2) [deleted]

(3) (in *UPRU*) capital calculated in accordance with ■ *UPRU Table 2.2.1 R* (Method of calculation of financial resources) composed of the specified items set out in that Table.

(3A) (in ■ IPRU(INV) 11) capital calculated in line with ■ IPRU(INV) Table 11.4 (Method of calculating initial capital and own funds) composed of the specified items in that Table.

(4) (in the case of a *BIPRU firm*) *capital resources* included in stage A (Core tier one capital) of the *capital resources table* plus *capital resources* included in stage B of the *capital resources table* (Perpetual non-cumulative preference shares);

(5) (in the case of an *institution* that is an *EEA firm*) capital resources calculated in accordance with the *CRD implementation measures* of its *Home State* for Article 4 of the *Capital Adequacy Directive* (Definition of initial capital) or Article 9 of the *Banking Consolidation Directive* (Initial capital requirements);

(6) (for the purposes of the definition of *dealing on own account* and in the case of an *undertaking* not falling within (3) or (4)) *capital resources* calculated in accordance with (3) and paragraphs (3) and (4) of the definition of *capital resources*

(7) (in *IPRU(INV)* 13) the initial capital of a *firm* calculated in accordance with *IPRU(INV)* 13.1A.6R.

(B) In the FCA Handbook:

(1) [deleted]

(2) [deleted]

(3) (in *UPRU* and in accordance with article 28(1) of the *CRD*) the amount of own funds referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in accordance with Part Two of those Regulations (Own funds)

(3A) (in ■ *IPRU(INV)* 11 and in accordance with article 28(1) of the *CRD*) the amount of *own funds* referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in line with Part Two of those Regulations (Own funds)

(4) (in the case of a *BIPRU firm*) *capital resources* included in stage A (Core tier one capital) of the *capital resources table* plus *capital resources* included in stage B of the *capital resources table* (Perpetual non-cumulative preference shares);

(5) (in the case of an *institution* that is an *EEA firm*) capital resources calculated in accordance with the *CRD implementation measures* of its *Home State* for Article 4 of the *Capital Adequacy Directive* (Definition of initial capital) or Article 9 of the *Banking Consolidation Directive* (Initial capital requirements);

(6) (for the purposes of the definition of *dealing on own account* in *BIPRU* and in the case of an *undertaking* not falling within (3) or (4)) *capital resources* calculated in accordance with (3) and paragraphs (3) and (4) of the definition of *capital resources*

(7) (in *IPRU(INV)* 13) the initial capital of a *firm* calculated in accordance with *IPRU(INV)* 13.1A.6R.

(8) (for an *IFPRU investment firm* and in accordance with article 28(1) of *CRD*) the amount of *own funds* referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in accordance with Part Two of those Regulations (Own funds).

(9) (for the purpose of the definition of *dealing on own account* in *IFPRU*) the amount of *own funds* referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in accordance with Part Two of those Regulations (Own funds).

<p><i>initial commitment</i> FCA PRA</p>	<p>(for the purposes of <i>BIPRU</i> and in relation to <i>underwriting</i>) the date specified in ■ BIPRU 7.8.13 R (Time of initial commitment).</p>
<p><i>initial coupon rate</i> FCA PRA</p>	<p>(in relation to a <i>tier one instrument</i>) the <i>coupon</i> rate of the instrument at the time it is issued.</p>
<p><i>initial disclosure document</i> FCA PRA</p>	<p>information about the <i>scope of advice</i> and the nature of the services offered by a <i>firm</i> in relation to:</p> <ul style="list-style-type: none"> (a) a <i>regulated mortgage contract</i> other than a <i>lifetime mortgage</i> as required by ■ MCOB 4.4.1 R (1) and set out in ■ MCOB 4 Annex 1 R; (b) an <i>equity release transaction</i> as required by ■ MCOB 4.4.1 R (1) and set out in ■ MCOB 8 Annex 1 R; (c) a <i>home purchase plan</i> as required by ■ MCOB 4.10.2 R and set out in ■ MCOB 4 Annex 1 R; or (d) a <i>non-investment insurance contract</i> in accordance with ■ ICOBS 4.5.1 G and set out in ■ ICOBS 4 Annex 1 G.
<p><i>initial fund</i> FCA PRA</p>	<p>the items of capital which are available to a <i>mutual</i> at <i>authorisation</i>.</p>
<p><i>initial offer</i> FCA PRA</p>	<p>(in <i>COLL</i>) an offer for sale of <i>units</i> in an <i>authorised fund</i> or in a <i>sub-fund</i> (otherwise than in accordance with <i>arrangements</i> of the type described in ■ COLL 5.5.9 R (3) (b) (iii) (Guarantees and indemnities)), where all or part of the consideration paid for the account of the <i>authorised fund</i> for the <i>units</i> is to be used to acquire the initial <i>scheme property</i> of the <i>authorised fund</i> or the initial <i>scheme property</i> attributable to the <i>sub-fund</i>.</p>
<p><i>initial outlay</i> FCA PRA</p>	<p>(in relation to an <i>authorised fund</i>) the amount which the <i>authorised fund</i> is required to provide in order to obtain rights under a transaction in <i>derivatives</i>, excluding any payment or transfer on exercise of rights.</p>
<p><i>initial price</i> FCA PRA</p>	<p>(in <i>COLL</i>) in relation to a <i>unit</i> of any <i>class</i>:</p> <ul style="list-style-type: none"> (a) in a <i>single-priced authorised fund</i>, the <i>price</i> to be paid; or (b) in a <i>dual-priced authorised fund</i>, the amount agreed by the <i>depository</i> and <i>authorised fund manager</i> as being the maximum <i>price</i> , inclusive of any <i>preliminary charge</i>, that may be paid to the <i>authorised fund manager</i>; during the period of the <i>initial offer</i> under COLL 6.2.3 R (Initial offer).
<p><i>injunction</i> FCA PRA</p>	<p>a court order made by the High Court that prohibits a <i>person</i> from doing or continuing to do a certain act or requires a <i>person</i> to carry out a certain act.</p>
<p><i>injured party</i> FCA PRA</p>	<p>(in <i>ICOBS</i>) a resident of the <i>EEA</i> entitled to compensation in respect of any loss or injury caused by <i>vehicles</i>. [Note: article 1(2) of Directive 72/166/EC (First Motor Insurance Directive)]</p>
<p><i>innovative tier one capital</i> FCA PRA</p>	<p>an item of capital that is stated in ■ GENPRU 2.2(Capital resources) to be innovative tier one capital.</p>

innovative tier one capital resources

FCA PRA

the amount of *capital resources* at stage C of the *capital resources table* (Innovation tier one capital) .

innovative tier one instrument

FCA PRA

a *potential tier one instrument* that is stated in ■ GENPRU 2.2(Capital resources) to be an innovative instrument.

inside information

FCA PRA

(as defined in section 118C of the Act):

(a) in relation to *qualifying investments*, or *related investments*, which are not commodity derivatives, *inside information* is information of a precise nature which:

(i) is not generally available,

(ii) relates, directly or indirectly, to one or more issuers of the *qualifying investments* or to one or more of the *qualifying investments*, and

(iii) would, if generally available, be likely to have a significant effect on the price of the *qualifying investments* or on the price of *related investments*.

(b) in relation to *qualifying investments*, or *related investments*, which are commodity derivatives, *inside information* is information of a precise nature which:

(i) is not generally available,

(ii) relates, directly or indirectly, to one or more such derivatives, and

(iii) users of markets in which the derivatives are traded would expect to receive in accordance with *accepted market practices* on those markets.

(c) in relation to a person charged with the execution of orders concerning any *qualifying investments* or *related investments*, *inside information* includes information conveyed by a client and related to the client's pending orders which:

(i) is of a precise nature;

(ii) is not generally available;

(iii) relates, directly or indirectly, to one or more issuers of *qualifying investments* or to one or more *qualifying investments*; and

(iv) would, if generally available, be likely to have a significant effect on the price of those *qualifying investments* or the price of *related investments*;

(d) information is precise if it:

(i) indicates circumstances that exist or may reasonably be expected to come into existence or an event that has occurred or may reasonably be expected to occur; and

(ii) is specific enough to enable a conclusion to be drawn as to the possible effect of those circumstances or that event on the price of *qualifying investments* or *related investments*;

- (e) information would be likely to have a significant effect on price if and only if it is information of that kind which a reasonable investor would be likely to use as part of the basis of his investment decisions;
- (f) for the purposes of (b)(iii), users of markets on which investments in commodity derivatives are traded are to be treated as expecting to receive information relating directly or indirectly to one or more such derivatives in accordance with any *accepted market practices*, which is:
- (i) routinely made available to the users of those markets; or
 - (ii) required to be disclosed in accordance with any statutory provision, market rules, or contracts or customs on the relevant underlying commodity market or commodity derivatives market;
- (g) information which can be obtained by research or analysis conducted by, or on behalf of, users of a market is to be regarded, for the purposes of *market abuse*, as being generally available to them.

insider

FCA **PRA**

(as defined in section 118B of the *Act*) a *person* who has *inside information*:

- (a) as a result of his membership of the administrative, management or supervisory bodies of an *issuer* of *qualifying investments*;
- (b) as a result of his holding in the capital of an *issuer* of *qualifying investments*;
- (c) as a result of having access to the information through the exercise of his employment, profession or duties;
- (d) as a result of his criminal activities; or
- (e) which he has obtained by other means and which he knows, or could reasonably be expected to know, is *inside information*.

insider dealing

FCA **PRA**

the activity described in section 52 of the Criminal Justice Act 1993, which is in summary:

- (a) the offence of which an individual is guilty if he has information as an insider and:
 - (i) in the circumstances described in (b), he deals in securities that are price-affected securities in relation to the information;
 - (ii)
 - (A) he encourages another *person* to deal in securities that are (whether or not that other knows it) price-affected securities in relation to the information, knowing or having reasonable cause to believe that the dealing would take place in the circumstances mentioned in (b); or
 - (B) he discloses the information, otherwise than in the proper performance of the functions of his employment, office or profession, to another *person*;
- (b) the circumstances referred to in (a) are that the acquisition or disposal in question occurs on a regulated market (identified in an Order made by the Treasury), or that the *person* dealing relies on a professional intermediary or is himself acting as a professional intermediary.

a list, as required by **■** DTR 2.8.1 R, of *persons* with access to *inside information*.

insider list

FCA **PRA**

insolvency order

an administration order, compulsory winding up order, bankruptcy order, or sequestration order.

FCA PRA

INSPRU

FCA PRA

*instalment
reversion plan*

FCA PRA

institution

FCA PRA

*institutional
linked
policyholders*

FCA PRA

*instrument
constituting the
fund*

FCA PRA

*instrument of
incorporation*

FCA PRA

*insurance
accounts rules*

FCA PRA

*insurance
business*

FCA PRA

the Prudential sourcebook for Insurers.

a home reversion plan under which more than one payment is made to the *customer* during the life of the plan.

(A) In the PRA Handbook:

(1) has the meaning in article 4(1)(3) of the *EU CRR*).(2) (for the purposes of *GENPRU* and *BIPRU*) includes a *CAD investment firm*.

(B) In the FCA Handbook:

(1) has the meaning in article 4(1)(3) of the *EU CRR*).(2) (for the purposes of *GENPRU* and *BIPRU*) includes a *CAD investment firm*.in relation to *permitted links*, *linked policyholders* who are trustees of a *defined benefit occupational pension scheme*.(a) (in relation to an *ICVC*) the *instrument of incorporation*;(b) (in relation to an *AUT*) the *trust deed*;(ba) (in relation to an *EEA UCITS scheme*) the fund rules or instrument of incorporation of such a *scheme*;(bb) (in relation to an *ACS*) the *contractual scheme deed*;(bc) (for an *AIF* other than an *ICVC*, an *AUT* or an *ACS*) the fund rules, instrument of incorporation or other constituting documents of such an *AIF*;(c) (in relation to a *collective investment scheme* other than an *AIF* or a *UCITS*) any instrument to which the *operator* is a party setting out any arrangements with any other *person* relating to any aspect of the operation or management of the *scheme*.the instrument of incorporation of an *ICVC* (as from time to time amended) initially provided to the *FCA* in accordance with regulation 14(1)(c) of the *OEIC regulations*.

Schedule 9A to the Companies Act 1985 (Form and content of accounts of insurance companies) and Schedule 9A to the Companies Act (Northern Ireland) Order 1986 where these provisions are applicable, otherwise Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

the business of *effecting* or *carrying out contracts of insurance*.

<p><i>insurance business grouping</i></p> <p>FCA PRA</p>	<p>a grouping comprising descriptions of <i>general insurance business</i> determined in accordance with ■ INSPRU 1.4.12 R.</p>
<p><i>insurance business transfer</i></p> <p>FCA PRA</p>	<p>a transfer in accordance with an <i>insurance business transfer scheme</i>.</p>
<p><i>insurance business transfer scheme</i></p> <p>FCA PRA</p>	<p>(a) a scheme, defined in section 105 of the <i>Act</i>, which is in summary: a scheme to transfer the whole or part of the business of an <i>insurer</i> (other than a <i>friendly society</i>) to another body;</p> <p>(b) a similar scheme to transfer the whole or part of the business carried on by one or more <i>members</i> of the <i>Society</i> or <i>former underwriting members</i> that meets the conditions of article 4 of the Financial Services and Markets Act 2000 (Control of Transfers of Business Done at Lloyd's) Order 2001 (SI 2001/3626).</p>
<p><i>insurance client money chapter</i></p> <p>FCA PRA</p>	<p>■ CASS 5.</p>
<p><i>insurance component</i></p> <p>FCA PRA</p>	<p>a <i>qualifying investment</i> prescribed in regulation 9 of the <i>ISA Regulations</i>.</p>
<p><i>insurance conglomerate</i></p> <p>FCA PRA</p>	<p>a <i>financial conglomerate</i> that is identified in paragraph 4.3 of ■ GENPRU 3 Annex 1 R (Types of financial conglomerate) as an insurance conglomerate.</p>
<p><i>insurance death risk capital component</i></p> <p>FCA PRA</p>	<p>one of the components of the <i>long-term insurance capital requirement</i> as set out in ■ INSPRU 1.1.81 R to ■ INSPRU 1.1.83 R.</p>
<p><i>Insurance Directives</i></p> <p>FCA PRA</p>	<p>the <i>Consolidated Life Directive</i> and the <i>First Non-Life Directive</i>, <i>Second Non-Life Directive</i> and <i>Third Non-Life Directive</i>.</p>
<p><i>insurance expense risk capital component</i></p> <p>FCA PRA</p>	<p>one of the components of the <i>long-term insurance capital requirement</i> as set out in ■ INSPRU 1.1.88 R.</p>
<p><i>insurance group</i></p>	<p>(1) an <i>insurance parent undertaking</i> and its <i>related undertakings</i>; or</p>

FCA PRA

Insurance
Groups
Directive

FCA PRA

insurance
health risk and
life protection
reinsurance
capital
component

FCA PRA

insurance
holding
company

FCA PRA

Insurance
Intermediaries
Order

FCA PRA

insurance
intermediary

FCA PRA

Insurance
market activity

FCA PRA

(2) a *participating insurance undertaking* (not within (1)) and its *related undertakings*.

Directive of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group (1998/78/EC).

one of the components of the *long-term insurance capital requirement* as set out in ■ INSPRU 1.1.85 R to ■ INSPRU 1.1.86 R .

(1) a *parent undertaking*, other than an *insurance undertaking*, the main business of which is to acquire and hold participations in *subsidiary undertakings* and which fulfils the following conditions:

(a) its *subsidiary undertakings* are either exclusively or mainly *insurance undertakings*; and

(b) at least one of those *subsidiary undertakings* is an *insurer* or an *EEA firm* that is a *regulated insurance entity* or a *reinsurance undertaking*;

a *parent undertaking*, other than an *insurance undertaking*, that fulfils the conditions in paragraphs (1) (a) and (b) of this definition is not an *insurance holding company* if:

(c) it is a *mixed financial holding company*; and

(d) notice has been given in accordance with Article 4(2) of the *Financial Groups Directive* that the *financial conglomerate* of which it is a *mixed financial holding company* is a *financial conglomerate*.

(2) For the purposes of:

(a) the definition of the *insurance sector*;

(b) [deleted]

(c) the definition of *material insurance holding*; paragraph (1)(b) of this definition does not apply.

the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) (Insurance Intermediaries) Order 2003 (SI 2003/1476).

a *firm* carrying on *insurance mediation activity* other than an *insurer*.

means a *regulated activity* relating to *contracts of insurance* written at Lloyd's.

Insurance market direction

FCA **PRA**

a direction made by the *appropriate regulator* under section 316(1) of the *Act* (Direction by a regulator).

insurance market risk capital component

FCA **PRA**

one of the components of the *long-term insurance capital requirement* as set out in ■ INSPRU 1.1.89 R.

insurance mediation

FCA **PRA**

(as defined in article 2(3) of the *IMD*) the activities of introducing, proposing or carrying out other work preparatory to the conclusion of contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim. These activities when undertaken by an *IMD insurance undertaking* or an employee of an *IMD insurance undertaking* who is acting under the responsibility of the *IMD insurance undertaking* shall not be considered as *insurance mediation*. The provision of information on an incidental basis in the context of another professional activity provided that the purpose of that activity is not to assist the customer in concluding or performing an insurance contract, the management of claims of an *IMD insurance undertaking* on a professional basis, and loss adjusting and expert appraisal of claims shall also not be considered as *insurance mediation*.

insurance mediation activity

FCA **PRA**

any of the following *regulated activities* carried on in relation to a *contract of insurance* or rights to or interests in a life policy:

- (a) *dealing in investments as agent* (article 21);
- (b) *arranging (bringing about) deals in investments* (article 25(1));
- (c) *making arrangements with a view to transactions in investments* (article 25(2));
- (d) *assisting in the administration and performance of a contract of insurance* (article 39A);
- (e) *advising on investments* (article 53);
- (f) *agreeing to carry on a regulated activity* in (a) to (e) (article 64).

Insurance Mediation Directive

FCA **PRA**

the European Parliament and Council Directive of 9 December 2002 on insurance mediation (No 2002/92/EC).

Insurance Ombudsman scheme

FCA **PRA**

the former scheme set up, on a voluntary basis, to handle complaints against those insurance companies which subscribed to it.

insurance parent undertaking

FCA **PRA**

a *parent undertaking* which is:

- (a) a *participating insurance undertaking* which has a *subsidiary undertaking* that is an *insurance undertaking*; or
- (b) an *insurance holding company* which has a *subsidiary undertaking* which is an *insurer*; or

insurance sector

FCA **PRA**

(c) an *insurance undertaking* (not within (a)) which has a *subsidiary undertaking* which is an *insurer*.

a sector composed of one or more of the following entities:

- (a) an *insurance undertaking*;
- (b) an *insurance holding company*; and
- (c) (in the circumstances described in ■ GENPRU 3.1.39 R (The financial sectors: Asset management companies and alternative investment fund managers)) an *asset management company* or an *alternative investment fund manager*.

insurance special purpose vehicle

FCA **PRA**

an *undertaking*, other than an *insurance undertaking* or *reinsurance undertaking* which has received an official authorisation in accordance with article 6 of the *First Non-Life Directive*, article 4 of the *Consolidated Life Directive* or article 3 of the *Reinsurance Directive*:

- (a) which assumes risks from such *insurance undertakings* or *reinsurance undertakings*; and
- (b) which fully funds its exposures to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the *undertaking's reinsurance obligations*.

insurance undertaking

FCA **PRA**

(1) (except in COBS) an undertaking, or (in ■ CASS 5 and COMP) a *member*, whether or not an *insurer*, which carries on *insurance business*.

(2) (in COBS) an undertaking or a *member* which carries on *insurance business*.

insurance-related capital requirement

FCA **PRA**

a component of the calculation of the *ECR* for a *firm* carrying on *general insurance business* as set out in ■ INSPRU 1.1.76 R to ■ INSPRU 1.1.79 R .

insurer

FCA **PRA**

a *firm* with *permission* to *effect* or *carry out contracts of insurance* (other than a *UK ISPV*).

interdict

FCA **PRA**

a Scottish court order made by the Court of Session that prohibits a *person* from doing or continuing to do a certain act or requires a *person* to carry out a certain act.

interest rate duration method

FCA **PRA**

the method of calculating the part of the *interest rate PRR* that relates to *general market risk* set out in ■ BIPRU 7.2.63 R (General market risk calculation: Duration method).

interest rate maturity method

FCA **PRA**

the method of calculating the part of the *interest rate PRR* that relates to *general market risk* set out in ■ BIPRU 7.2.59 R (General market risk calculation: The maturity method).

interest rate PRR

FCA **PRA**

the part of the *market risk capital requirement* calculated in accordance with ■ BIPRU 7.2 (Interest rate PRR) or ■ BIPRU 7.3.45 R (Basic interest rate PRR)

<i>interest rate simplified maturity method</i> FCA PRA	<p>for equity derivatives) or, in relation to a particular <i>position</i>, the portion of the overall <i>interest rate PRR</i> attributable to that <i>position</i>.</p> <p>the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in ■ BIPRU 7.2.56 R (General market risk calculation: Simplified maturity method).</p>
<i>interested party</i> FCA PRA	<p>(in relation to an application made under section 60 of the <i>Act</i> (Applications for approval)):</p> <p>(a) the <i>firm</i> making the application;</p> <p>(b) the <i>person</i> in respect of whom the application is being made ("A"); and</p> <p>(c) the <i>person</i> by whom A's services are to be retained, if not the <i>firm</i> making the application.</p>
<i>interest-only mortgage</i> FCA PRA	<p>a <i>regulated mortgage contract</i> other than a <i>repayment mortgage</i>.</p>
<i>interest-rate contract</i> FCA	<p>interest-rate contracts listed in paragraph 1 of Annex II to the <i>EU CRR</i>.</p>
<i>interim accounting period</i> FCA PRA	<p>(in <i>COLL</i>) a period within an <i>annual accounting period</i> in respect of which an allocation of income is to be made.</p>
<i>interim income allocation date</i> FCA PRA	<p>any date specified in the <i>prospectus</i> of an <i>authorised fund</i> as the date on or before which an allocation of income will be made.</p>
<i>intermediaries offer</i> FCA PRA	<p>(1) (in <i>LR</i>) a marketing of <i>securities</i> already or not yet in issue, by means of an offer by, or on behalf of, the <i>issuer</i> to intermediaries for them to allocate to their own clients.</p> <p>(2) (for the purposes of the <i>Code of Market Conduct</i> (■ MAR 1)) a marketing of <i>securities</i> not yet in issue, by means of an <i>offer</i> by, or on behalf of, the <i>issuer</i> to intermediaries for them to allocate to their own clients.</p>
<i>intermediate broker</i> FCA PRA	<p>(in relation to a transaction in a <i>contingent liability investment</i>) any <i>person</i> acting in the capacity of an intermediary through whom the <i>firm</i> undertakes that transaction.</p>
FCA PRA <i>intermediate customer</i> FCA PRA	<p>(for the purposes only of ■ COBS TP 1 (Transitional Provisions in relation to Client Categorisation)):</p> <p>(1) (except in ■ COB 3) a <i>client</i> who is not a <i>market counterparty</i> and who is:</p> <p>(a) a local authority or public authority;</p>

(b) a *body corporate* whose *shares* have been *listed* or admitted to trading on any *EEA* exchange;

(c) a *body corporate* whose *shares* have been *listed* or admitted to trading on the primary board of any *IOSCO* member country official exchange;

(d) a *body corporate* (including a *limited liability partnership*) which has (or any of whose *holding companies* or *subsidiaries* has) (or has had at any time during the previous two years) called up share capital or net assets of at least £5 million (or its equivalent in any other currency at the relevant time);

(e) a *special purpose vehicle*;

(f) a *partnership* or unincorporated association which has (or has had at any time during the previous two years) net assets of at least £5 million (or its equivalent in any other currency at the relevant time) and calculated in the case of a *limited partnership* without deducting loans owing to any of the *partners*;

(g) a trustee of a trust (other than an *occupational pension scheme*, *SSAS*, *personal pension scheme* or *stakeholder pension scheme*) which has (or has had at any time during the previous two years) assets of at least £10 million (or its equivalent in any other currency at the relevant time) calculated by aggregating the value of the cash and *designated investments* forming part of the trust's assets, but before deducting its liabilities;

(h) a trustee of an *occupational pension scheme* or *SSAS*, or a trustee or *operator* of a *personal pension scheme* or *stakeholder pension scheme* where the scheme has (or has had at any time during the previous two years):

(i) at least 50 members; and

(ii) assets under management of at least £10 million (or its equivalent in any other currency at the relevant time);

(i) another *firm*, or an *overseas financial services institution*, when, in relation to *designated investment business*, or related *ancillary activities*, conducted with or for that *firm* or institution, that *firm* or institution is an *intermediate customer* in accordance with ■ COB 4.1.7 R (Classification of another firm or an overseas financial services institution);

(j) *collective investment scheme*;

(k) a *client* when he is classified as an *intermediate customer* in accordance with ■ COB 4.1.9 R (Expert *private customer* classified as intermediate customer);

(l) a *recognised investment exchange*, *designated investment exchange*, *regulated market* or *clearing house*, except when it is classified as a *market counterparty* in accordance with ■ COB 4.1.8A R (Classification of an exchange or clearing house);

but excluding:

(i) [deleted]

(ii) a *client* who would otherwise be an *intermediate customer*, when he is classified in accordance with:

(A) ■ COB 4.1.12 R (Large intermediate customer classified as market counterparty); or

<p style="text-align: right;">(B) (except for the purposes of <i>DISP</i>) ■ COB 4.1.14 R (Client classified as <i>private customer</i>).</p> <p>(2) (in ■ COB 3) a <i>person</i> in (1) or a <i>person</i> who would be such a <i>person</i> if he were a <i>client</i>.</p>	<p><i>intermediate holding vehicle</i> FCA PRA</p>	<p>a <i>company</i>, trust or partnership but not a <i>collective investment scheme</i>, whose purpose is to enable the holding of overseas immovables on behalf of a <i>non-UCITS retail scheme</i> or a <i>qualified investor scheme</i>.</p>
<p>(in COBS) the intermediate rate of return described in paragraph 2.3 of the <i>projection rules</i> (■ COBS 13 Annex 2).</p>	<p><i>intermediate rate of return</i> FCA PRA</p>	<p>a <i>firm</i> whose name is entered in the <i>register</i> of a <i>non-UCITS retail scheme</i> or a <i>UCITS scheme</i>, or which holds <i>units</i> in a <i>non-UCITS retail scheme</i> or a <i>UCITS scheme</i> indirectly through a third party acting as a nominee, and which is not the beneficial owner of the relevant <i>unit</i>, and:</p> <p>(a) does not <i>manage investments</i> on behalf of the relevant beneficial owner of the <i>unit</i>; or</p> <p>(b) does not act as a <i>depository</i> of a <i>collective investment scheme</i> or on behalf of such a <i>depository</i> in connection with its role in holding property subject to the <i>scheme</i>.</p> <p>For the purposes of this definition, "register" has the meaning set out in paragraph (3) of the <i>Glossary</i> definition of "register".</p>
<p>a <i>firm</i> whose name is entered in the <i>register</i> of a <i>qualified investor scheme</i>, or which holds <i>units</i> in a <i>qualified investor scheme</i> indirectly through a third party acting as a nominee, and is not the beneficial owner of the relevant <i>unit</i>, and:</p> <p>(a) does not <i>manage investments</i> on behalf of the relevant beneficial owner of the <i>unit</i>; or</p> <p>(b) does not act as a <i>depository</i> of a <i>collective investment scheme</i> or on behalf of such a <i>depository</i> in connection with its role in holding property subject to the <i>scheme</i>.</p> <p>For the purposes of this definition, "register" has the meaning set out in paragraph (3) of the <i>Glossary</i> definition of "register".</p>	<p><i>intermediate unitholder in a qualified investor scheme</i> FCA</p>	<p>one or more of the following, as referred to in the <i>EU CRR</i>:</p> <p>(a) the Internal Ratings Based Approach in article 143(1);</p> <p>(b) the Internal Models Approach in article 221;</p> <p>(c) the own estimates approach in article 225;</p> <p>(d) the Advanced Measurement Approaches in article 312(2);</p> <p>(e) the Internal Model Method and internal models in articles 283 and 363; and</p> <p>(f) the internal assessment approach in article 259(3).</p>
<p>a <i>firm's</i> assessment of the adequacy of its capital and financial resources, as required by the <i>ICAAP rules</i>.</p>	<p><i>internal approaches</i> FCA</p>	<p>a <i>firm's</i> assessment of the adequacy of its capital and financial resources, as required by the <i>ICAAP rules</i>.</p>
<p>a <i>firm's</i> assessment of the adequacy of its capital and financial resources, as required by the <i>ICAAP rules</i>.</p>	<p><i>internal capital adequacy assessment process</i> FCA PRA</p>	<p>a <i>firm's</i> assessment of the adequacy of its capital and financial resources, as required by the <i>ICAAP rules</i>.</p>

internal controls

FCA **PRA**

the whole system of controls, financial or otherwise, established by the management of a *firm* in order to:

- (a) carry on the business of the *firm* in an orderly and efficient manner;
- (b) ensure adherence to management policies;
- (c) safeguard the assets of the *firm* and other assets for which the *firm* is responsible; and
- (d) secure as far as possible the completeness and accuracy of the *firm's* records (including those necessary to ensure continuous compliance with the requirements or standards under the *regulatory system* relating to the adequacy of the *firm's* financial resources).

internally managed AIF

FCA

(in accordance with regulation 4(3)(b) of the *AIFMD UK regulation*) an *AIF* where the legal form permits internal management and where the *AIF's* governing body chooses not to appoint an *external AIFM*.

internally managed corporate AIF

FCA

a *closed-ended corporate AIF* which is an *internally managed AIF*.

international accounting standards

FCA **PRA**

means the international accounting standards, within the meaning of EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation.

International Financial Reporting Standards

FCA **PRA**

international financial accounting standards within the meaning of EC Regulation No 1606/2002 of the European Parliament and of the Council of 19 July 2002 as adopted from time to time by the European Commission in accordance with that Regulation.

international organisation

FCA **PRA**

(for the purposes of *GENPRU* and *BIPRU*) an organisation referred to in ■ *BIPRU* 3.4.30 R (Exposures to international organisations).

International Securities Identification Number (ISIN)

FCA **PRA**

a 12-character, alphanumeric code which uniquely identifies a *financial instrument* and provides for the uniform identification of *securities* at trading and settlement.

inter-professional business

FCA **PRA**

the business of a *firm*:

- (a) when it carries on:
 - (i) *regulated activities*; or
 - (ii) related *ancillary activities*;

to the extent that the *regulated activity* that the *firm* is carrying on is:

(A) *dealing in investments as principal*; or

- (B) dealing in investments as agent; or
- (C) acting as an *arranger*; or
- (D) giving *transaction-specific advice* or agreeing to do so;

but only if that activity is:

- (I) in or in respect of an *inter-professional investment*;
- (II) undertaken with or for a *eligible counterparty*; and
- (III) carried on from an establishment maintained by the *firm* in the *United Kingdom*;

(b) but excluding the carrying on of the following activities:

- (i) the *approval* by a *firm* of a *financial promotion*;
- (ii) activities carried on between *operators*, or between *operators* and *depositories*, of the same *collective investment scheme* (when acting in that capacity);
- (iii) *corporate finance business*;
- (iv) *safeguarding and administering investments* and agreeing to carry on that regulated activity;
- (v) concluding a *distance contract* with a *consumer*;
- (vi) activities relating to *life policies*;

in this definition, the exclusion in article 15 of the *Regulated Activities Order* (Absence of holding out etc) is to be disregarded in determining whether dealing in investments as *principal* or agreeing to do so) is a *regulated activity*.

inter-professional investment

FCA PRA

any of the following *investments* specified in Part III of the *Regulated Activities Order* (Specified Investments) or, in the case of *units* in an *exchange traded fund*, defined in the *Glossary* :

- (a) *share* (article 76);
- (b) *debenture* (article 77);
- (ba) *alternative debenture* (article 77A);
- (c) *government and public security* (article 78);
- (d) *warrant* (article 79);
- (e) *certificate representing certain securities* (article 80);
- (f) *option* (article 83); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *option* (excluding a *commodity option* and an *option* on a *commodity future*);
 - (ii) *commodity option* and *option* on a *commodity future*;
- (g) *future* (article 84); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *future* (excluding a *commodity future* and a *rolling spot forex contract*);
 - (ii) *commodity future*;
 - (iii) *rolling spot forex contract*;
- (h) *contract for differences* (article 85); for the purposes of the *permission* regime, this is sub-divided into:

	<p>(i) <i>contract for differences</i> (excluding a <i>spread bet</i> and a <i>rolling spot forex contract</i>);</p> <p>(ii) <i>spread bet</i>;</p> <p>(iii) <i>rolling spot forex contract</i>;</p> <p>(i) <i>rights to or interests in investments</i> in (a) to (h) (article 89) ;</p> <p>(j) <i>units</i> in an <i>exchange traded fund</i>.</p>
<p><i>inter-syndicate reinsurance</i></p> <p>FCA PRA</p>	<p>reinsurance between one <i>syndicate year</i> and another, not being <i>reinsurance to close</i>.</p>
<p><i>intra-group liquidity modification</i></p> <p>FCA PRA</p>	<p>a modification to the <i>overall liquidity adequacy rule</i> of the kind described in BIPRU 12.8.7G.</p>
<p><i>intra-group transactions</i></p> <p>FCA PRA</p>	<p>(in accordance with Article 2(18) of the <i>Financial Groups Directive</i> (Definitions)) all transactions by which <i>regulated entities</i> within a <i>financial conglomerate</i> rely either directly or indirectly upon other <i>undertakings</i> within the same <i>financial conglomerate</i> or upon any <i>person</i> linked to the <i>undertakings</i> within that <i>financial conglomerate</i> by <i>close links</i>, for the fulfilment of an obligation whether or not contractual, and whether or not for payment.</p>
<p><i>introducer</i></p> <p>FCA PRA</p>	<p>an individual appointed by a <i>firm</i>, an <i>appointed representative</i> or, where applicable, a <i>tied agent</i> , to carry out in the course of <i>designated investment business</i> either or both of the following activities:</p> <p>(a) effecting introductions;</p> <p>(b) distributing <i>non-real time financial promotions</i>.</p>
<p><i>introducer appointed representative</i></p> <p>FCA PRA</p>	<p>an <i>appointed representative</i> appointed by a <i>firm</i> whose scope of appointment is limited to:</p> <p>(a) effecting introductions; and</p> <p>(b) distributing <i>non-real time financial promotions</i>.</p>
<p><i>introducing broker</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> which introduces transactions relating to <i>designated investments arranged</i> (brought about) for its <i>clients</i> to a <i>clearing firm</i>.</p>
<p><i>investment</i></p> <p>FCA PRA</p>	<p>(in accordance with sections 22(4) of the <i>Act</i> (Regulated activities) and section 93(2) of the <i>Financial Services Act 2012</i>) any investment, including any asset, right or interest.</p>
<p><i>investment adviser</i></p> <p>FCA</p>	<p>(in relation to an <i>authorised fund</i>) a <i>person</i> who is retained by an <i>ICVC</i>, its <i>directors</i> or its <i>ACD</i> or by a <i>manager</i> of an <i>AUT</i> or by an <i>authorised contractual scheme manager</i> of an <i>ACS</i> under a commercial arrangement which is not a contract of service:</p> <p>(a) to supply any of them with advice in relation to the <i>authorised fund</i> as to the merits of investment opportunities or information relevant to the making of judgements about the merits of investment opportunities; or</p>

<p><i>investment agreement</i> FCA PRA</p>	<p>(b) to exercise for any of them any function concerning the management of the <i>scheme property</i>.</p> <p>any agreement the making or performance of which by either party constitutes a <i>regulated activity</i>, but disregarding the exclusions in Part II of the <i>Regulated Activities Order</i>.</p>
<p><i>investment business compensation scheme</i> FCA PRA</p>	<p>(as defined in article 2(2) of the <i>compensation transitionals order</i>) any of the following:</p> <p>(a) the scheme established under section 54 of the Financial Services Act 1986 and known as the Investors Compensation Scheme;</p> <p>(b) the scheme established under section 22j of the Grey Paper published by the FSA on 26 September 1998 and known as the Section 43 Compensation Scheme;</p> <p>(c) the scheme established by chapter II of part L:VIII of the <i>PIA</i> rule book and known as the <i>PIA Indemnity Scheme</i>;</p> <p>(d) the scheme resulting from an agreement dated 1 February 1999 between the Association of British Insurers and the Investors Compensation Scheme Limited for the making of payments by way of compensation to widows, widowers and dependants of persons (since deceased), in connection with advice given to such persons in relation to pensions, or the arranging of pensions for such persons, and known as the <i>ABI/ICS scheme</i>.</p>
<p><i>investment company with variable capital</i> FCA PRA</p>	<p>a body incorporated under the <i>OEIC Regulations</i>.</p>
<p><i>investment entity</i> FCA PRA</p>	<p>(in <i>LR</i>) an entity whose primary object is investing and managing its assets with a view to spreading or otherwise managing investment risk.</p>
<p><i>investment firm</i> FCA PRA</p>	<p>(A) In the <i>PRA Handbook</i>:</p> <p>(1) any person whose regular occupation or business is the provision of one or more <i>investment services</i> to third parties and/or the performance of one or more investment activities on a professional basis.</p> <p>[Note: article 4(1)(1) of <i>MiFID</i>]</p> <p>(2) (in <i>REC</i>) a <i>MiFID investment firm</i>, or a person who would be a <i>MiFID investment firm</i> if it had its head office in the <i>EEA</i>.</p> <p>(5) (in ■ <i>SYSC 19A</i>) a <i>firm</i> in (3) except for a <i>BIPRU firm</i></p> <p>(B) In the <i>FCA Handbook</i>:</p> <p>(1) any person whose regular occupation or business is the provision of one or more <i>investment services</i> to third parties and/or the performance of one or more investment activities on a professional basis.</p> <p>[Note: article 4(1)(1) of <i>MiFID</i>]</p> <p>(2) (in <i>REC</i>) a <i>MiFID investment firm</i>, or a person who would be a <i>MiFID investment firm</i> if it had its head office in the <i>EEA</i>.</p>

*investment
firm
consolidation
waiver*

FCA **PRA**

*investment
management
firm*

FCA **PRA**

(3) (in *IFPRU*, ■ GENPRU 3 and ■ BIPRU 12) has the meaning in article 4(1)(2) of the *EU CRR*.

(4) (in *GENPRU* (except ■ GENPRU 3) and *BIPRU* (except ■ BIPRU 12) any of the following:

(a) a *firm* in (3); and

(b) a *BIPRU firm*.

(5) (in ■ SYSC 19A) a *firm* in (3).

(A) In the PRA Handbook:

a *waiver* (described in ■ BIPRU 8.4 (CAD Article 22 groups and investment firm consolidation waiver)) that disapplies certain requirements so far as they apply on a consolidated basis with respect to a *CAD Article 22 group*.

(B) In the FCA Handbook:

(in relation to a *BIPRU firm*) a *waiver* (described in ■ BIPRU 8.4 (CAD Article 22 groups and investment firm consolidation waiver)) that disapplies certain requirements so far as they apply on a consolidated basis with respect to a *CAD Article 22 group*.

(A) In the PRA Handbook:

(a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *IFPRU investment firm*, *BIPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *energy market participant*, *friendly society*, *ICVC*, *insurer*, *media firm*, *oil market participant*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*), or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with ■ IPRU-INV 3 or ■ IPRU-INV 13 (Personal investment firms) and which is within (a), (b) or (c):

(a) a *firm*:

(i) which was a member of *IMRO* immediately before *commencement*; and

(ii) which was not, immediately before *commencement*, subject to the financial supervision requirements of the *FSA* (under section 43 of the Financial Services Act 1986), or *PIA* or *SFA* (under lead regulation arrangements);

(b) a *firm* whose *permission* includes a *requirement* that it comply with ■ IPRU-INV 5 (Investment management firms);

(c) a *firm*:

(i) which was given a *Part 4A permission* on or after *commencement*, or which was authorised under section 25 of the Financial Services Act 1986 immediately before *commencement* and was not a member of *IMRO*, *PIA* or the *SFA*; and

(ii) for which the most substantial part of its gross income (including *commissions*) from the *designated investment business* included in its *Part 4A permission* is derived from one or more of the following activities (based, for a *firm* given a *Part 4A permission* after *commencement*, on the business plan submitted as part of the *firm's* application for *permission* or, for a *firm* authorised under section 25 of the Financial Services Act 1986, on the *firm's* financial year preceding its *authorisation* under the *Act*):

(A) *managing investments* other than for *retail clients* or where the assets managed are primarily *derivatives*;

(B) *OPS activity*;

(C) acting as the *manager* or *trustee* of an *AUT*;

(Ca) *managing an AIF*;

(D) acting as the *ACD* or *depository* of an *ICVC*;

(Da) acting as the *authorised contractual scheme manager* or *depository* of an *ACS*;

(Db) *acting as trustee or depository of an AIF*;

(Dc) *acting as trustee or depository of a UCITS*;

(E) *establishing, operating or winding up a collective investment scheme* (other than an *AUT*, *ICVC* or *ACS*);

(Ea) *establishing, operating or winding up a personal pension scheme*; and

(F) *safeguarding and administering investments*.

(B) In the FCA Handbook:

a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *IFPRU investment firm*, *BIPRU firm*, *collective portfolio management firm*, *credit union*, *energy market participant*, *friendly society*, *ICVC*, *insurer*, *media firm*, *oil market participant*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*), or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with ■ [IPRU-INV 3](#) or ■ [IPRU-INV 13](#) (Personal investment firms) and which is within (a), (b) or (c):

(a) a *firm*:

(i) which was a member of *IMRO* immediately before *commencement*; and

(ii) which was not, immediately before *commencement*, subject to the financial supervision requirements of the *FSA* (under section 43 of the Financial Services

Act 1986), or PIA or SFA (under lead regulation arrangements);

(b) a *firm* whose *permission* includes a *requirement* that it comply with ■ IPRU-INV 5 (Investment management firms);

(c) a *firm*:

(i) which was given a *Part 4A permission* on or after *commencement*, or which was authorised under section 25 of the Financial Services Act 1986 immediately before *commencement* and was not a member of IMRO, PIA or the SFA; and

(ii) for which the most substantial part of its gross income (including *commissions*) from the *designated investment business* included in its *Part 4A permission* is derived from one or more of the following activities (based, for a *firm* given a *Part 4A permission* after *commencement*, on the business plan submitted as part of the *firm's* application for *permission* or, for a *firm* authorised under section 25 of the Financial Services Act 1986, on the *firm's* financial year preceding its *authorisation* under the Act):

(A) *managing investments* other than for *retail clients* or where the assets managed are primarily *derivatives*;

(B) *OPS activity*;

(C) acting as the *manager* or *trustee* of an AUT;

(Ca) *managing an AIF*;

(D) acting as the ACD or *depository* of an ICVC;

(Da) acting as the *authorised contractual scheme manager* or *depository* of an ACS;

(Db) *acting as trustee or depository of an AIF*;

(Dc) *acting as trustee or depository of a UCITS*;

(E) *establishing, operating or winding up a collective investment scheme* (other than an AUT, ICVC or ACS);

(Ea) *establishing, operating or winding up a personal pension scheme*; and

(F) *safeguarding and administering investments*.

investment manager

FCA PRA

- (1) (except in *LR*) a *person* who, acting only on behalf of a *client*:
- (a) manages *designated investments* in an account or portfolio on a discretionary basis under the terms of a discretionary management agreement; or
 - (b) manages *designated investments* in an account or portfolio on a non-discretionary basis under the terms of a non-discretionary management agreement.
- (2) (in *LR*) a *person* who, on behalf of a *client*, manages *investments* and is not a wholly-owned *subsidiary* of the *client*.

Investment Ombudsman

FCA PRA

the *former Ombudsman* under the *IMRO scheme*.

investment professional

FCA PRA

(in accordance with article 19(5) of the *Financial Promotion Order*) (in relation to a *financial promotion*):

- (a) an *authorised person*;
- (b) an *exempt person* when the *financial promotion* relates to a *controlled activity* which is a *regulated activity* in relation to which the *person* is exempt;
- (c) any other *person*:
 - (i) whose ordinary activities involve him in carrying on the *controlled activity* to which the *financial promotion* relates for the purposes of a business carried on by him; or
 - (ii) who it is reasonable to expect will carry on that activity for the purposes of a business carried on by him;
- (d) a government, a local authority (whether in the *United Kingdom* or elsewhere) or an international organisation;
- (e) a *person* ("A") who is a *director, officer* or employee of a *person* ("B") falling within any of (a) to (d) where the *financial promotion* is made to A in that capacity and where A's responsibilities when acting in that capacity involve him in the carrying on by B of *controlled activities*.

investment research

FCA PRA

research or other information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several *financial instruments* or the issuers of *financial instruments*, including any opinion as to the present or future value or price of such instruments, intended for *distribution channels* or for the public, and in relation to which the following conditions are met:

- (a) it is labelled or described as investment research or in similar terms, or is otherwise presented as an objective or independent explanation of the matters contained in the recommendation;
- (b) if the recommendation in question were to be made by an *investment firm* to a *client*, it would not constitute the provision of a *personal recommendation*.

[Note: article 24(1) of the *MiFID implementing Directive*]

investment service

FCA PRA

any of the following involving the provision of a service in relation to a *financial instrument*:

- (a) reception and transmission of orders in relation to one or more *financial instruments*;
- (b) execution of orders on behalf of *clients*;
- (c) *dealing on own account*;

investment services and/or activities

FCA **PRA**

- (d) *portfolio management*;
- (e) the making of a *personal recommendation*;
- (f) underwriting of *financial instruments* and/or placing of *financial instruments* on a firm commitment basis;
- (g) placing of *financial instruments* without a firm commitment basis;
- (h) operation of *multilateral trading facilities*.

[Note: article 4(1)(2) of, and section A of Annex 1 to, *MiFID* and article 6(5) of the *auction regulation*]

any of the services and activities listed in Section A of Annex I to *MiFID* relating to any *financial instrument* , that is:

- (a) reception and transmission of orders in relation to one or more *financial instruments*;
- (b) execution of orders on behalf of *clients*;
- (c) *dealing on own account*;
- (d) *portfolio management*;
- (e) the making of a *personal recommendation*;
- (f) underwriting of *financial instruments* and/or placing of *financial instruments* on a firm commitment basis;
- (g) placing of *financial instruments* without a firm commitment basis;
- (h) operation of *multilateral trading facilities*.

[Note: article 4(1)(2) of, and section A of Annex 1 to, *MiFID* and article 6(5) of the *auction regulation*]

Investment Services Directive

FCA **PRA**

the Council Directive of 10 May 1993 on investment services in the securities field (No 93/22/EEC).

investment services or activities

FCA **PRA**

any of the services and activities listed in Section A of Annex I to *MiFID* relating to any *financial instrument* , that is:

- (a) reception and transmission of orders in relation to one or more *financial instruments*;
- (b) execution of orders on behalf of *clients*;
- (c) *dealing on own account*;
- (d) *portfolio management*;
- (e) the making of a *personal recommendation*;
- (f) underwriting of *financial instruments* and/or placing of *financial instruments* on a firm commitment basis;
- (g) placing of *financial instruments* without a firm commitment basis;
- (h) operation of *multilateral trading facilities*.

[Note: article 4(1)(2) of, and section A of Annex 1 to, *MiFID* and article 6(5) of the *auction regulation*]

investment services sector

FCA **PRA**

(A) In the PRA Handbook:

a sector composed of one or more of the following entities:

- (a) an *investment firm*;
- (b) a *financial institution*; and
- (c) (in the circumstances described in ■ GENPRU 3.1.39 R (The financial sectors: Asset management companies and alternative investment fund managers)) an *asset management company* or an *alternative investment fund manager*.

(B) In the FCA Handbook:

(1) a sector composed of one or more of the following entities:

- (a) an *investment firm*;
- (b) a *financial institution*; and
- (c) (in the circumstances described in ■ GENPRU 3.1.39 R (The financial sectors: Asset management companies and alternative investment fund managers)) an *asset management company* or an *alternative investment fund manager*.

(2) (in BIPRU (except in ■ BIPRU 12) a sector comprised of one or more of the following entities:

- (a) the entities in (1); and
- (b) a *CAD investment firm*.

a transaction to *buy, sell, subscribe for or underwrite a security or contractually based investment*.

investment transaction

FCA **PRA**

investment trust

FCA **PRA**

(A) In the PRA Handbook:

a *company listed* in the *United Kingdom* or another *EEA State* which:

- (a) is approved by the Commissioners for HM Revenue and Customs under sections 1158 and 1159 of the Corporation Tax Act 2010 (or, in the case of a newly formed *company*, has declared its intention to conduct its affairs so as to obtain such approval); or
- (b) is resident in an *EEA State* other than the *United Kingdom* and would qualify for such approval if resident and *listed* in the *United Kingdom*.

(B) In the FCA Handbook:

a *company* which:

- (a) is approved by the Commissioners for HM Revenue and Customs under sections 1158 and 1159 of the Corporation Tax Act 2010 (or, in the case of a newly formed *company*, has declared its intention to conduct its affairs so as to obtain such approval); or
- (b) is resident in an *EEA State* other than the *United Kingdom* and would qualify for such approval if resident in the *United Kingdom*.

(a) a *dealing service* (whether or not held within a *pension contract*) dedicated to the *securities* of one or more *investment trusts*;

(b) *securities* to be acquired through an investment trust savings scheme in (a).

investment trust savings scheme

FCA **PRA**

<p><i>Investor Compensation Directive</i> FCA PRA</p>	<p>the Council Directive of 3 March 1997 on investor compensation schemes (No 97/9/EC).</p>
<p>IOSCO FCA PRA</p>	<p>the International Organisation of Securities Commissions.</p>
<p>IPA FCA PRA</p>	<p>individual pension account.</p>
<p><i>IPA eligible investment</i> FCA PRA</p>	<p>a type of investment specified in regulation 2(2) (condition 5) of the Stamp Duty and Stamp Duty Reserve Tax (Definition of Unit Trust Scheme and Open-ended Investment Company) Regulations 2001 (SI 2001/964) .</p>
<p>IPRU FCA PRA</p>	<p>the Interim Prudential sourcebook, comprising ■ IPRU(BANK), ■ IPRU(BSOC), ■ IPRU(FSOC), ■ IPRU(INS) and ■ IPRU(INV), or according to the context one of these Interim Prudential sourcebooks.</p>
<p>IPRU(BANK) FCA PRA</p>	<p>the Interim Prudential sourcebook for Banks.</p>
<p>IPRU(BSOC) FCA PRA</p>	<p>the Interim Prudential sourcebook for Building Societies.</p>
<p>IPRU(FSOC) FCA PRA</p>	<p>the Interim Prudential sourcebook for Friendly Societies.</p>
<p>IPRU(INS) FCA PRA</p>	<p>the Interim Prudential Sourcebook for Insurers.</p>
<p>IPRU(INV) FCA PRA</p>	<p>the Interim Prudential sourcebook for Investment Businesses.</p>
<p><i>IRB approach</i> FCA PRA</p>	<p>one of the following:</p> <ul style="list-style-type: none"> (a) the adjusted method of calculating the <i>credit risk capital component</i> set out in ■ BIPRU 4 (IRB approach) and ■ BIPRU 9.12 (Calculation of risk weighted exposure amounts under the internal ratings based approach), including that approach as applied under ■ BIPRU 14 (Capital requirements for settlement and counterparty risk); (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ BIPRU 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

<p><i>IRB exposure class</i></p> <p>FCA PRA</p>	<p>(in relation to the <i>IRB approach</i>) one of the classes of <i>exposure</i> set out in ■ BIPRU 4.3.2 R (exposure classes).</p>
<p><i>IRB permission</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook: an <i>Article 129 implementing measure</i>, a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or an <i>institution</i> to use the <i>IRB approach</i>.</p> <p>(B) In the FCA Handbook: an <i>Article 129 implementing measure</i>, a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or a <i>CAD investment firm</i> to use the <i>IRB approach</i>.</p>
<p><i>ISA</i></p> <p>FCA PRA</p>	<p>an <i>individual savings account</i>.</p>
<p><i>ISA manager</i></p> <p>FCA PRA</p>	<p>a <i>person</i> who is approved by HM Revenue and Customs for the purposes of the <i>ISA Regulations</i> as an account manager.</p>
<p><i>ISA Regulations</i></p> <p>FCA PRA</p>	<p>the Individual Savings Account Regulations 1998 (SI 1998/1870).</p>
<p><i>ISA transfer</i></p> <p>FCA PRA</p>	<p>a transaction resulting from a decision, made with or without advice from a <i>firm</i>, by a <i>customer</i> who is an individual, to transfer the <i>investments</i> (or their value) held in his existing <i>ISA</i> in favour of another <i>ISA</i> which may or may not be managed by the same <i>ISA manager</i>.</p>
<p><i>ISD</i></p> <p>FCA PRA</p>	<p><i>Investment Services Directive</i>.</p>
<p><i>ISPV</i></p> <p>FCA PRA</p>	<p>an <i>insurance special purpose vehicle</i>.</p>
<p><i>issue</i></p> <p>FCA PRA</p>	<p>(in relation to <i>units</i>):</p> <p>(1) (except in ■ EG 14) the issue of new <i>units</i> by the <i>trustee</i> of an <i>AUT</i>, the <i>depository</i> of an <i>ACS</i> or by an <i>ICVC</i>;</p> <p>(2) (in ■ EG 14):</p> <p>(a) an issue in accordance with (1); and</p> <p>(b) the sale of <i>units</i>.</p>
<p><i>issue price</i></p> <p>FCA PRA</p>	<p>(in relation to the <i>issue</i> of <i>units</i> of a <i>dual-priced authorised fund</i>) the <i>price</i> for each <i>unit</i> payable by the <i>authorised fund manager</i> to the <i>depository</i> on that <i>issue</i>.</p>
<p><i>issuer</i></p> <p>FCA PRA</p>	<p>(1) (except as otherwise provided for below) :</p> <p>(a) (in relation to any <i>security</i>) (other than a <i>unit</i> in a <i>collective investment scheme</i>) the <i>person</i> by whom it is or is to be issued;</p>

- (b) (in relation to a *unit* in a *collective investment scheme*) the *operator* of the *scheme*;
- (c) (in relation to an interest in a limited *partnership* except for a *limited partnership scheme*) the *partnership*;
- (d) (in relation to *certificates representing certain securities*) the *person* who issued or is to issue the *security* to which the certificate or other instrument relates ; or
- (e) an entity which issues *transferable securities* and, where appropriate, other *financial instruments*.

[Note: article 2(2) of the *MiFID Regulation*]

(2) (in chapters 1, 2 and 3 of *DTR* and *FEES* in relation to *DTR*) any *company* or other legal person or undertaking (including a *public sector issuer*), any class of whose *financial instruments*:

- (a) have been *admitted to trading* on a *regulated market*; or
- (b) are the subject of an application for *admission to trading* on a *regulated market*;

other than *issuers* who have not requested or approved admission of their *financial instruments* to trading on a *regulated market*.

(2A) (in chapters 1A, 1B, 4, 6 and 7 of *DTR*) a legal entity governed by private or public law, including a State, whose securities are admitted to trading on a *regulated market*, the issuer being, in the case of depository receipts representing securities, the issuer of the securities represented;

(2B) (in chapter 5 of *DTR*) :

- (a) a legal entity governed by private or public law, including a State whose *shares* are admitted to trading on a *regulated market*, the issuer being in the case of depository receipts representing securities, the issuer of the *shares* represented; or
- (b) a public company within the meaning of section 4(2) of the Companies Act 2006 and any other body corporate incorporated in and having a principal place of business in the *United Kingdom*, whose *shares* are admitted to trading on a market which (not being a *regulated market*) is a *prescribed market*.

(3) (in *LR* and *FEES* in relation to *LR*) any *company* or other legal person or undertaking (including a *public sector issuer*), any *class* of whose *securities* has been *admitted to listing* or is the subject of an application for *admission to listing*.

(4) (in *PR* and *FEES* in relation to *PR*) (as defined in section 102A of the *Act*) a legal person who issues or proposes to issue the *transferable securities* in question.

(5) (in *RCB* and ■ *FEES* 1 to ■ *FEES* 4, where applicable) (as defined in Regulation 1(2) of the *RCB Regulations*) a person which issues a *covered bond*.

(6) (in *FUND*) means an issuer within the meaning of article 2(1)(d) of the *Transparency Directive* where that issuer has its registered office in the *EEA* and where its shares are admitted to trading on a *regulated market*.

the activity specified in article 9B of the *Regulated Activities Order* (Issuing electronic money), which is the activity of issuing *electronic money* by:

- (a) a *credit institution*, a *credit union* or a municipal bank; or

issuing
electronic
money



(b) a person who is deemed to have been granted authorisation under regulation 74 of the *Electronic Money Regulations* or who falls within regulation 76(1) of the *Electronic Money Regulations*.

<p><i>land vehicles</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) the <i>class of contract of insurance</i>, specified in paragraph 3 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of general insurance), against loss of or damage to vehicles used on land, including motor vehicles but excluding railway rolling stock.</p>
<p><i>large ACS investor</i></p> <p>FCA</p>	<p>in relation to an ACS, a <i>person</i> who in exchange for <i>units</i> in the <i>scheme</i>:</p> <p>(a) makes a payment of not less than £1,000,000; or</p> <p>(b) contributes property with a value of not less than £1,000,000.</p>
<p><i>large business customer</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>regulated mortgage contract</i> or <i>qualifying credit</i>, and in relation to an activity to be carried on by a <i>firm</i>) a <i>client</i>, if the credit is for the purposes of a business which has a group annual turnover of £1 million or more.</p>
<p><i>large company</i></p> <p>FCA PRA</p>	<p>a <i>body corporate</i> which does not qualify as a small company under section 247 of the Companies Act 1985, or section 382 of the Companies Act 2006 as applicable.</p>
<p><i>large deal</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i>) a transaction (or <i>series of transactions</i>) in one <i>dealing period</i> by any <i>person</i> to <i>buy, sell</i> or exchange <i>units</i> in an <i>authorised fund</i>, of any value as set out in the <i>prospectus</i>, for the purposes of:</p> <p>(a) an <i>SDRT provision</i>;</p> <p>(b) a <i>dilution levy</i>;</p> <p>(c) a <i>dilution adjustment</i>; or</p> <p>(d) calculating the <i>prices</i>, for a <i>dual-priced authorised fund</i>, at which <i>units</i> may be <i>sold</i> or <i>redeemed</i>.</p>
<p><i>large exposure</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p style="padding-left: 20px;">has the meaning given in the <i>PRA Rulebook: Large Exposures</i> rules.</p> <p>(B) In the FCA Handbook:</p> <p style="padding-left: 20px;">(1) (in <i>BIPRU</i>) the <i>exposure</i> of a <i>firm</i> to a <i>counterparty</i>, or a <i>group of connected clients</i>, whether in the <i>firm's non-trading book</i> or <i>trading book</i> or both, which in aggregate equals or exceeds 10% of the <i>firm's capital resources</i>.</p> <p style="padding-left: 20px;">(2) (except in (1)) has the meaning in article 392 of the <i>EU CRR</i> (Definition of a large exposure).</p>
<p><i>large mutual association</i></p> <p>FCA PRA</p>	<p>(A) (in the <i>PRA Handbook</i>):</p> <p style="padding-left: 20px;">(1) (in <i>COMP</i>), an unincorporated mutual association or an unincorporated association (which is not a mutual association) with net assets of more than £1.4 million (or its equivalent in any currency at the relevant time).</p> <p style="padding-left: 20px;">(2) (except in <i>COMP</i>), a mutual association or unincorporated association with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).</p> <p>(B) (in the <i>FCA Handbook</i>):</p> <p style="padding-left: 20px;">(1) (in <i>COMP</i>) an unincorporated mutual association or unincorporated association (which is not a mutual association) with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).</p>

large
partnership

FCA PRA

(2) (except in *COMP*), a mutual association or unincorporated association with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

(A) (in the *PRA Handbook*):

(1) (in *COMP*), a *partnership* with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

(2) (except in *COMP*), a *partnership* or unincorporated association with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

(B) (in the *FCA Handbook*):

(1) (in *COMP*), a with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

(2) (except in *COMP*), a or unincorporated association with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

larger
denomination
share

FCA PRA

any *share* that is not a *smaller denomination share*.

lead regulated
firm

FCA PRA

a *firm* which is the subject of the financial supervision requirements of an *overseas regulator* in accordance with an agreement between the *appropriate regulator* and that regulator relating to the financial supervision of *firms* whose head office is within the country of that regulator.

This definition is not related to the defined terms *UK lead regulated firm* or *non UK lead regulated firm*.

leading insurer

FCA PRA

(in relation to a *community co-insurance operation*) has the same meaning as in the *Community Co-Insurance Directive*.

legal expenses

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 17 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against risks of loss to the *persons* insured attributable to their incurring legal expenses (including costs of litigation).

lending firm

FCA

(in accordance with Article 90 of the *Banking Consolidation Directive* (Credit risk mitigation) and for the purposes of *rules* in *BIPRU* about *credit risk mitigation*) a *firm* that has an *exposure*, whether or not deriving from a loan.

leverage

FCA PRA

(in accordance with article 4(1)(v) of *AIFMD*) any method by which an *AIFM* increases the exposure of an *AIF* it manages whether through borrowing of cash or *securities*, or leverage embedded in *derivative* positions or by any other means.

levy limit

FCA PRA

(A) In the *FCA Handbook*:

(in *FEES*) the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular *class* in one financial year as set out in ■ *FEES 6 Annex 2 R*, whether directly or (where relevant to that *class*) through the *retail pool*. *FCA provider contribution classes* do not have a *levy limit*: they have a *retail pool* levy limit: see ■ *FEES 6 Annex 5R*.

(B) In the PRA Handbook:

(in *FEES*) the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular *class* in one financial year as set out in ■ FEES 6 Annex 2 R.

loss given default.

LGD

FCA PRA

liability of ships

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 12 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against damage arising out of or in connection with the use of vessels on the sea or on inland water, including third party risks and carrier's liability.

liability subject to compulsory insurance

FCA PRA

any liability required under any of the following enactments to be covered by insurance or (as the case may be) by insurance or by some other provisions for securing its discharge:

(a) section 1(4A)(d) of the Riding Establishments Act 1964 (or any corresponding enactment for the time being in force in Northern Ireland);

(b) section 1 of the Employers' Liability (Compulsory Insurance) Act 1969 or Article 5 of the Employers' Liability Order (Defective Equipment and Compulsory Insurance) (Northern Ireland) Order 1972;

(c) Part VI of the Road Traffic Act 1988 or Part VIII of the Road Traffic (Northern Ireland) Order 1981;

(d) section 19 of the Nuclear Installations Act 1965.

liability to a policyholder

FCA PRA

(in relation to a firm carrying out contracts of insurance) any liability or obligation of that *firm* to, or in respect of, a *policyholder*, including any liability or obligation arising:

(a) from the requirement to treat *customers* fairly under *Principle 6*, including with respect to *policyholders'* reasonable expectations; or

(b) from a determination of liability by an *Ombudsman*; or

(c) from any requirement to pay compensation under the *regulatory system*.

licensee

FCA PRA

(1) (in ■ DISP 2 - ■ 4 and ■ FEES 5) a *person* who is not a *firm* but who is:

(a) covered by a standard licence under the Consumer Credit Act 1974 (as amended); or

(b) authorised to carry on an activity by virtue of section 34(A) of that Act.

(2) (in ■ DISP 1) a person within (1)(a) above ;

and expressions in that Act have the same meaning in this definition.

life and annuity

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph I of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance), on human life or a contract to pay annuities on human life, but excluding (in each case) contracts within paragraph III of Part II of that Schedule (Linked long-term).

(1) (in accordance with the definition of 'qualifying contract of insurance' in article 3(1) of the *Regulated Activities Order*) a *long-term insurance contract* (other than a reinsurance contract and a *pure protection contract*); and

(a) a *long-term care insurance contract*; and

life policy

FCA PRA

life protection
reinsurance
business

FCA PRA

lifetime
mortgage

FCA PRA

(b) (in COBS) a *pension policy*;

unless (2) or (3) apply.

(2) In *PERG* (other than in relation to a *firm's permission* - see Note 5B to Table 1 in Annex 2, ■ *PERG* 2) and for the purposes of the *financial promotion rules* in ■ *COBS* 4, life policy does not include a *long-term care insurance contract*.

(3) In relation to a *firm's permission*:

(a) (in accordance with the definition of 'qualifying contract of insurance' in article 3(1) of the *Regulated Activities Order*) a *long-term insurance contract* (other than a reinsurance contract and a *pure protection contract*);

(b) a *long-term care insurance contract* which is a *pure protection contract*; and

(c) a *pension term assurance policy*.

reinsurance acceptances which are *contracts of insurance*:

(a) falling within *long-term insurance business class I*; or

(b) falling within *long-term insurance business class III* and providing *index-linked benefits*;

that are not:

(c) *with-profits insurance contracts*; or

(d) *whole life assurances*; or

(e) contracts to pay annuities on human life; or

(f) contracts which pay a sum of money on the survival of the life assured to a specific date or on his earlier death.

a *regulated mortgage contract* under which:

(a) entry into the mortgage is restricted to older *customers* above a specified age;

and

(b) the *mortgage lender* may or may not specify a mortgage term, but will not seek full repayment of the loan (including interest, if any, outstanding) until the occurrence of one or more of the following:

(i) the death of the *customer*; or

(ii) the *customer* leaves the mortgaged land to live elsewhere and has no reasonable prospect of returning (for example by moving into residential care); or

(iii) the *customer* acquires another dwelling for use as his main residence; or

(iv) the *customer* sells the mortgaged land; or

(v) the *mortgage lender* exercises its legal right to take possession of the mortgaged land under the terms of the contract.

and

(c) while the *customer* continues to occupy the mortgaged land as his main residence:

(i) no instalment repayments of the capital and no payment of interest on the capital (other than interest charged when all or

part of the capital is repaid voluntarily by the *customer*), are due or capable of becoming due; or

(ii) although interest payments may become due, no full or partial repayment of the capital is due or capable of becoming due; or

(iii) although interest payments and partial repayment of the capital may become due, no full repayment of the capital is due or capable of becoming due.

the London International Financial Futures and Options Exchange.

LIFFE

FCA PRA

limit of indemnity

FCA PRA

(in ■ MIPRU 3 (Professional indemnity insurance)) the sum available to indemnify a *firm* in respect of each claim made under its professional indemnity insurance.

limit order

FCA PRA

an order to buy or sell a *financial instrument* at its specified price limit or better and for a specified size.

[Note: article 4(1)(16) of *MiFID*]

limitation

FCA PRA

a limitation incorporated in a *Part 4A permission* under section 55E(5) of the *Act* (Giving permission: the FCA), section 55F(4) of the *Act* (Giving permission: the PRA) or section 55J(10) of the *Act* (Variation or cancellation on initiative of regulator).

limited activity firm

FCA PRA

(A) In the PRA Handbook:

has the meaning set out ■ BIPRU 1.1.11 R (Types of investment firm: Limited activity firms).

(B) In the FCA Handbook:

has the meaning in article 96(1) of the *EU CRR*.

limited assurance engagement

FCA PRA

a 'limited assurance engagement' as described in the Glossary of terms in the Auditing Practices Board Standards and Guidance for Auditors issued in 2010.

limited liability partnership

FCA PRA

(a) a *body corporate* incorporated under the Limited Liability Partnerships Act 2000;

(b) a *body corporate* incorporated under legislation having the equivalent effect to the Limited Liability Partnerships Act 2000.

limited licence firm

FCA PRA

(A) In the PRA Handbook:

has the meaning set out ■ BIPRU 1.1.12 R (Types of investment firm: Limited licence firms).

(B) In the FCA Handbook:

has the meaning in article 95(1) of the *EU CRR*.

limited partner

FCA

in relation to a *limited partnership scheme*, a *participant* in the *scheme* (other than the *nominated partner*).

limited price indexation

FCA

in relation to transfer value analysis, benefits which increase in line with a recognised index but subject to a minimum and/or maximum rate.

limited redemption arrangements

FCA PRA

the arrangements operated by an *authorised fund manager* for the *redemption* of *units* in an *authorised fund* where the *authorised fund manager* holds himself out to redeem units in that *scheme* less frequently than twice in a calendar *month* in accordance with ■ COLL 6.2.19 R (Limited redemption).

linked assets

FCA PRA

index-linked assets or *property-linked assets*.

linked benefit

FCA PRA

(1) (in ■ COBS 21 (Permitted Links)) *property-linked benefits* or *index-linked benefits*.

(2) (other than in ■ COBS 21) a benefit payable under a *life policy* or a *regulated collective investment scheme* the amount of which is determined by reference to:

- (a) the value of the property of any description (whether specified or not); or
- (b) fluctuations in the value of any such property; or
- (c) income from such property; or
- (d) fluctuations in an index of the value of such property.

linked borrowing

FCA PRA

additional credit facilities (which may be secured, unsecured, or both) that are integral to a *regulated mortgage contract* but which may be the subject of a separate contract.

linked deposits

FCA PRA

additional facilities (which may be a current account, a savings account, or both) that are linked to a *regulated mortgage contract* but which may be the subject of a separate contract.

linked fund

FCA PRA

a real or notional account to which an *insurer* appropriates *linked assets* for the purposes of their being *permitted links*, and which may be subdivided into units, the value of each of which is determined by the *insurer* by reference to the value of those *linked assets*.

linked liabilities

FCA PRA

property-linked liabilities or *index-linked liabilities*.

linked life stakeholder product

FCA PRA

the *stakeholder product* specified by regulations 6 and 7 (rights under certain linked long-term contracts) of the *Stakeholder Regulations*;

linked long-term

FCA PRA

(in relation to a *contract of insurance*) a *long-term insurance contract* where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

linked policyholders

FCA **PRA**

policyholders under a *linked long-term* contract.

liquidity facility

FCA **PRA**

(for the purposes of ■ BIPRU 9 (Securitisation), in relation to a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) and in accordance with Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions)) the *securitisation position* arising from a contractual agreement to provide funding to ensure timeliness of cash-flows to investors.

liquidity risk

FCA **PRA**

(1) (in *COLL* and in accordance with article 3(8) of the *UCITS implementing Directive*) the risk that a position in a *UCITS*' portfolio cannot be sold, liquidated or closed out at limited cost in an adequately short timeframe and that the ability of the *scheme* to comply at any time with ■ COLL 6.2.16 R (Sale and redemption) or, in the case of an *EEA UCITS scheme*, article 84(1) of the *UCITS Directive* is thereby compromised.

(2) (except in *COLL*) the risk that a *firm*, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

list of primary information providers

FCA

the list of *primary information providers* maintained by the *FCA* in accordance with section 89P(4)(a) of the *Act*.

list of sponsors

FCA **PRA**

(in *LR*) the list of sponsors maintained by the *FCA* in accordance with section 88(3)(a) of the *Act*.

listed

FCA **PRA**

(1) (except in *LR*, *INSPRU* and *IPRU(INS)*) included in an *official list*.

(2) (in *INSPRU* and *IPRU(INS)*):

(a) included in an *official list*; or

(b) in respect of which facilities for *dealing* on a *regulated market* have been granted.

(3) (in *LR*) admitted to the *official list* maintained by the *FCA* in accordance with section 74 of the *Act*.

listed activity

FCA **PRA**

(A) In the *PRA Handbook*:

an activity listed in Annex 1 to the *CRD*.

(B) In the *FCA Handbook*:

an activity listed in Annex 1 to the *CRD*.

listed company

FCA **PRA**

(in *LR* and *DEPP*) a *company* that has any *class* of its *securities listed*.

PAGE
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listed security

FCA **PRA**

any *security* that is admitted to an *official list*.

listing particulars

FCA **PRA**

(in *LR*) (in accordance with section 79(2) of the *Act*), a document in such form and containing such information as may be specified in *listing rules*.

<i>listing rules</i> FCA PRA	(in accordance with sections 73A(1) and 73A(2) of the <i>Act</i>) <i>rules</i> relating to admission to the <i>official list</i> .
<i>Lloyd's actuary</i> FCA PRA	the <i>actuary</i> appointed by the <i>Society</i> under ■ SUP 4.6.1 R .
<i>Lloyd's actuary function</i> FCA PRA	(in the <i>PRA Handbook</i>) <i>PRA controlled functions</i> CF12B in the <i>table of PRA controlled functions</i> , described more fully in ■ SUP 10B.8.3 R.
<i>Lloyd's Arbitration Scheme</i> FCA PRA	the Lloyd's Arbitration Scheme (Members and Underwriting Agents Arbitration Scheme) established under Lloyd's Arbitration Scheme (Members and Underwriting Agents Scheme) Byelaw (No 15 of 1992).
<i>Lloyd's complaint procedures</i> FCA PRA	the procedures maintained by the <i>Society</i> under ■ DISP 1.11.1 R.
<i>Lloyd's complaint rules</i> FCA PRA	■ DISP 1.7.
<i>Lloyd's market activities</i> FCA PRA	<p>(a) <i>advising on syndicate participation at Lloyd's</i>, including <i>advising</i> on a transaction in the <i>capacity transfer market</i>;</p> <p>(b) <i>managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's</i>;</p> <p>(c) agreeing to carry on the <i>regulated activities</i> in (a) and (b);</p> <p>(d) carrying on <i>designated investment business</i> which is not <i>MiFID business</i> in relation to <i>funds at Lloyd's</i>; or</p> <p>(e) <i>communicating</i> or <i>approving a financial promotion</i> in relation to:</p> <ul style="list-style-type: none"> (i) the <i>underwriting capacity of a Lloyd's syndicate</i>; or (ii) <i>membership of a Lloyd's syndicate</i>; or (iii) <i>life policies</i> written at Lloyd's; or (iv) any of the activities specified in (a) or (d).
<i>Lloyd's member's contribution</i> FCA PRA	<p>assets:</p> <p>(a) provided to a <i>managing agent</i> in response to a cash call; or</p> <p>(b) held by the <i>Society</i> as funds at Lloyds.</p>
<i>Lloyd's Members' Ombudsman</i> FCA PRA	the office of Ombudsman established under Lloyd's Members' Ombudsman Scheme Byelaw (No 13 of 1987).

<p><i>Lloyd's Return</i> FCA PRA</p>	<p>the financial report that the <i>Society</i> is required to submit to the <i>PRA</i> under IPRU(INS) 9.48(1) .</p>
<p><i>Lloyd's trust deed</i> FCA PRA</p>	<p>a trust deed in the form prescribed by the <i>Society</i> and notified to the <i>PRA</i>, for execution by a <i>member</i> in respect of his <i>insurance business</i>.</p>
<p><i>Lloyd's trust fund</i> FCA PRA</p>	<p>a fund held on the terms of a <i>Lloyd's trust deed</i>.</p>
<p><i>local</i> FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>(1) (except in ■ BIPRU 1.1 (Application and purpose)) a <i>firm</i> which is a member of a <i>futures</i> and <i>options</i> exchange and whose <i>permission</i> includes a <i>requirement</i> that:</p> <p>(a) the <i>firm</i> will not conduct <i>designated investment business</i> other than:</p> <ul style="list-style-type: none"> (i) <i>dealing</i> for its own account on that <i>futures</i> or <i>options</i> exchange; or (ii) <i>dealing</i> for the accounts of other members of the same <i>futures</i> and <i>options</i> exchange; or (iii) making a price to other members of the same <i>futures</i> and <i>options</i> exchange; and (iv) <i>dealing</i> for its own account in financial <i>futures</i> and <i>options</i> or other <i>derivatives</i> in the capacity of a customer; and <p>(b) the performance of the <i>firm's</i> contracts must be guaranteed by and must be the responsibility of one or more of the clearing members of the same <i>futures</i> and <i>options</i> exchange.</p> <p>(2) (in ■ BIPRU 1.1 (Application and purpose) and in accordance with article 3(1)(p) of the <i>Capital Adequacy Directive</i> (Definitions)) an <i>undertaking</i> dealing for its own account on markets in financial-futures or options or other derivatives and on cash markets for the sole purpose of hedging <i>positions</i> on derivatives markets or which deals for the accounts of other members of those markets and which are guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such an <i>undertaking</i> is assumed by clearing members of the same markets; for these purposes a clearing member means a member of the exchange or the clearing house which has a direct contractual relationship with the central counterparty (market guarantor).</p>
<p>PAGE L9</p>	<p>(B) In the FCA Handbook:</p> <p>(1) (except in ■ IFPRU 1.1 (Application and purpose)) a <i>firm</i> which is a member of a <i>futures</i> and <i>options</i> exchange and whose <i>permission</i> includes a <i>requirement</i> that:</p> <p>(a) the <i>firm</i> will not conduct <i>designated investment business</i> other than:</p>

<p>(i) <i>dealing</i> for its own account on that <i>futures</i> or <i>options</i> exchange; or</p> <p>(ii) <i>dealing</i> for the accounts of other members of the same <i>futures</i> and <i>options</i> exchange; or</p> <p>(iii) making a price to other members of the same <i>futures</i> and <i>options</i> exchange; and</p> <p>(iv) <i>dealing</i> for its own account in financial <i>futures</i> and <i>options</i> or other <i>derivatives</i> in the capacity of a customer; and</p> <p>(b) the performance of the <i>firm's</i> contracts must be guaranteed by and must be the responsibility of one or more of the clearing members of the same <i>futures</i> and <i>options</i> exchange.</p> <p>(2) [deleted]</p> <p>(3) (in ■ IFPRU 1.1 (Application and purpose) has the meaning given to the definition of "local firm" in article 4(1)(4) of the <i>EU CRR</i>.</p>	<p><i>local authority</i> FCA</p>	<p>(a) in England and Wales, a local authority within the meaning of the Local Government Act 1972, the Greater London Authority, the Common Council of the City of London or the Council of the Isles of Scilly;</p> <p>(b) in Scotland, a local authority within the meaning of the Local Government (Scotland) Act 1973;</p> <p>(c) in Northern Ireland, a district council within the meaning of the Local Government Act (Northern Ireland) 1972.</p>
<p><i>local firm</i> FCA PRA</p>	<p>a <i>firm</i> which falls within the definition of "local firm" in Article 3.1P of <i>CAD</i>, that is a firm dealing for its own account on markets in financial futures or options or other derivatives and on cash markets for the sole purpose of hedging positions on derivatives markets, or dealing for the accounts of other members of those markets and being guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such a firm is assumed by clearing members of the same markets.</p>	<p>(in <i>LR</i>) London Stock Exchange Plc.</p>
<p><i>London Stock Exchange</i> FCA PRA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)) a transaction where a counterparty undertakes to deliver a security, a <i>commodity</i>, or a <i>foreign currency</i> amount against cash, other <i>CRD financial instruments</i>, or <i>commodities</i>, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of the market standard for this particular transaction and five <i>business days</i> after the date on which the <i>person</i> enters into the transaction.</p>	<p>a <i>long-term insurance asset</i> which is an <i>admissible asset</i>.</p>
<p><i>long-term admissible asset</i> FCA PRA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)) a transaction where a counterparty undertakes to deliver a security, a <i>commodity</i>, or a <i>foreign currency</i> amount against cash, other <i>CRD financial instruments</i>, or <i>commodities</i>, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of the market standard for this particular transaction and five <i>business days</i> after the date on which the <i>person</i> enters into the transaction.</p>	<p>a <i>long-term insurance asset</i> which is an <i>admissible asset</i>.</p>

long-term care insurance contract

FCA PRA

a *long-term insurance contract*:

(a) which provides, would provide at the *policyholder's* option, or is sold or held out as providing, benefits that are payable or provided if the *policyholder's* health deteriorates to the extent that he cannot live independently without assistance and that is not expected to change; and

(b) under which the benefits are capable of being paid for periodically for all or part of the period that the *policyholder* cannot live without assistance;

where 'benefits' are services, accommodation or goods necessary or desirable for the continuing care of the *policyholder* because he cannot live independently without assistance.

long-term incentive scheme

FCA

(in *LR*) any arrangement (other than a retirement benefit plan, a deferred bonus or any other arrangement that is an element of an executive *director's* remuneration package) which may involve the receipt of any asset (including cash or any security) by a *director* or *employee* of the *group*:

(a) which includes one or more conditions in respect of service and/or performance to be satisfied over more than one financial year; and

(b) pursuant to which the *group* may incur (other than in relation to the establishment and administration of the arrangement) either cost or a liability, whether actual or contingent.

long-term insurance asset

FCA PRA

has the meaning set out in INSPRU 1.5.21R.

long-term insurance business

FCA PRA

the business of *effecting* or *carrying out long-term insurance contracts*.

long-term insurance business syndicate

FCA PRA

a *syndicate* in which *members* carry on *long-term insurance business*.

long-term insurance capital requirement

FCA PRA

(in relation to a *firm* carrying on *long-term insurance business*) an amount of *capital resources* that the *firm* must hold calculated in accordance with GENPRU 2.1.36R.

long-term insurance contract

FCA PRA

(in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation: general)) any *contract of insurance* within Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance), namely:

(a) *life and annuity* (paragraph I);

(b) *marriage or the formation of a civil partnership and birth* (paragraph II);

(c) *linked long-term* (paragraph III);

(d) *permanent health* (paragraph IV);

long-term insurance fund

FCA **PRA**

- (e) *tontines* (paragraph V);
- (f) *capital redemption* (paragraph VI);
- (g) *pension fund management* (paragraph VII);
- (g) *collective insurance* etc (paragraph VIII);
- (h) *social insurance* (paragraph IX).

has the meaning set out in INSPRU 1.5.22R .

long-term insurance liabilities

FCA **PRA**

liabilities arising from *long-term insurance business*.

long-term insurer

FCA **PRA**

an *insurer* with *permission* to effect or carry out long-term insurance contracts.

loss

FCA **PRA**

(in accordance with Article 4(26) of the *Banking Consolidation Directive* (Definitions) and for the purposes of the *IRB approach*, the *standardised approach* to credit risk and ■ BIPRU 5 (Credit risk mitigation)) economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

(A) In the PRA Handbook:

(in accordance with Article 4(26) of the *Banking Consolidation Directive* (Definitions) and for the purposes of the *IRB approach*, the *standardised approach* to credit risk and ■ BIPRU 5 (Credit risk mitigation)) economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

(B) In the FCA Handbook:

(1) (in *BIPRU* and in accordance with Article 4(26) of the *Banking Consolidation Directive* (Definitions) and for the purposes of the *IRB approach*, the *standardised approach* to credit risk and ■ BIPRU 5 (Credit risk mitigation)) economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

(2) (except in (2)) has the meaning in article 5(1) of the *EU CRR*.

loss given default

FCA **PRA**

(in accordance with Article 4(27) of the *Banking Consolidation Directive* (Definitions) and in relation to the *IRB approach*) the ratio of the *loss* on an *exposure* due to the *default* of a counterparty to the amount outstanding at *default*.

low frequency liquidity reporting firm

FCA **PRA**

any of the following:

- (a) a *simplified ILAS BIPRU firm*; or
- (b) a *standard ILAS BIPRU firm* whose most recent *annual report and accounts* show balance sheet assets of less than £5 billion (or its

equivalent in foreign currency translated into sterling at the balance sheet date); or

(c) a *standard ILAS BIPRU firm* that meets the following conditions:

- (i) it does not have any *annual report and accounts* and it has been too recently established to be required to have produced any;
- (ii) it has submitted a projected balance sheet to the *FCA* or *PRA* (as the case may be) as part of an application for a *Part 4A permission* or a variation of one; and
- (iii) the most recent such balance sheet shows that the *firm* will meet the size condition set out in (b) in all periods covered by those projections.

In respect of an *incoming EEA firm* or *third country BIPRU firm* that is also a *standard ILAS BIPRU firm* and which reports on the basis of its branch operation in the *United Kingdom*, if the balance sheet assets attributable to the *UK branch* can be determined from the *firm's* most recent *annual report and accounts* (or, if applicable, the projected balance sheet) or any *data item* submitted by the *firm*, then paragraphs (b) and (c) apply at the level of the *branch* rather than of the *firm*.

lower rate of return

FCA **PRA**

(in *COBS*) the lower rate of return described in paragraph 2.3 of the projection rules (■ *COBS 13 Annex 2*).

lower stage of capital

FCA **PRA**

(with respect to a particular item of capital in the *capital resources table*) a stage in the *capital resources table* below that in which that item of capital appears.

lower tier three capital

FCA **PRA**

an item of capital that is specified in stage P of the *capital resources table* (Lower tier three).

lower tier three capital resources

FCA **PRA**

the sum calculated at stage P of the *capital resources table* (Lower tier three).

lower tier two capital

FCA **PRA**

- (1) [deleted]
- (2) (in *BIPRU*, *GENPRU* and *INSPRU*) an item of capital that is specified in stage H of the *capital resources table* (Lower tier two capital) .

lower tier two capital resources

FCA **PRA**

the sum calculated at stage H of the calculation in the *capital resources table* (Lower tier two capital) .

lower tier two instrument

FCA **PRA**

an item of capital that meets the conditions in *GENPRU 2.2.194R* (Lower tier two capital) and is eligible to form part of a *firm's lower tier two capital resources*.

LR

FCA PRA

the Listing Rules sourcebook.

LTICR

FCA PRA

long-term insurance capital requirement.

MAD

FCA PRA

(in LR) the *Market Abuse Directive*.

MAD

Investment Recommendations Directive

FCA PRA

The Commission Directive of 22 December 2003 implementing the *Market Abuse Directive* as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest (No. 2003/125/EC).*made to; made only to; to whom it is made*

FCA PRA

a *financial promotion* is made to a *person* if it is addressed, whether orally or in legible form, to a particular *person* or *persons* (for example where it is contained in a telephone call or letter).*main BIPRU firm Pillar 1 rules*

FCA PRA

(A) In the PRA Handbook:

- GENPRU 2.1.40 R (Variable capital requirement for *BIPRU firms*),
- GENPRU 2.1.41 R (*Base capital resources requirement for BIPRU firms*), ■ GENPRU 2.1.48 R (Table: Base capital resources requirement for a BIPRU firm).

(B) In the FCA Handbook:

- GENPRU 2.1.40 R (Variable capital requirement for *BIPRU firms*),
- GENPRU 2.1.41 R (*Base capital resources requirement for BIPRU firms*), ■ GENPRU 2.1.48 R (Table: Base capital resources requirement for a BIPRU firm).

major subsidiary undertaking

FCA PRA

(in LR) a *subsidiary undertaking* that represents 25% or more of the aggregate of the gross assets or profits (after deducting all charges except taxation) of the *group*.*making arrangements with a view to a home finance transaction*

FCA PRA

any of the *regulated activities* of *making arrangements with a view to a regulated mortgage contract*, *making arrangements with a view to a home reversion plan*, *making arrangements with a view to a home purchase plan* or *making arrangements with a view to a regulated sale and rent back agreement*.*making arrangements with a view to a home purchase plan*

FCA PRA

the *regulated activity*, specified in article 25C(2) of the *Regulated Activities Order*, which is in summary: making arrangements with a view to a person who participates in the arrangements entering into a *home purchase plan* as *home purchaser*.*making arrangements with a view to a home reversion plan*the *regulated activity*, specified in article 25B(2) of the *Regulated Activities Order*, which is in summary: making arrangements with a view to a *person* who participates in the arrangements *entering into a home reversion plan* as *reversion occupier* or as *plan provider*.

FCA PRA

making arrangements with a view to a regulated sale and rent back agreement

the *regulated activity*, specified in article 25E(2) of the *Regulated Activities Order*, which is in summary making arrangements with a view to a *person* who participates in the arrangements entering into a *regulated sale and rent back agreement* as agreement seller or agreement provider.

FCA PRA

making arrangements with a view to regulated mortgage contracts

the *regulated activity*, specified in article 25A(2) of the *Regulated Activities Order*, which is in summary: making arrangements with a view to a *person* who participates in the arrangements entering into a *regulated mortgage contract* as borrower. (see also *arranging* (in relation to *regulated mortgage contracts*) and *arranging (bringing about) regulated mortgage contracts*.)

FCA PRA

making arrangements with a view to transactions in investments

the *regulated activity*, specified in article 25(2) of the *Regulated Activities Order* (Arranging deals in investments), which is in summary: making arrangements with a view to a *person* who participates in the arrangements *buying, selling, subscribing for or underwriting* any of the following *investments* (whether as *principal* or agent):

FCA PRA

- (a) a *designated investment*; or
- (b) a *funeral plan contract*; or
- (c) the *underwriting capacity of a Lloyd's syndicate*; or
- (d) *membership of a Lloyd's syndicate*; or
- (e) *rights to or interests in investments* in (b), (c) or (d); or
- (f) a *pure protection contract*; or
- (g) a *general insurance contract*.

management accounts

(in relation to a *UK recognised body*) accounts showing the actual and budgeted income and expenditure of that body over any period.

FCA PRA

management body

(A) (In the PRA Handbook):

(in accordance with article 3(7) of CRD) the *governing body* and *senior personnel* of a *CRR firm* who are empowered to set the *firm's* strategy, objectives and overall direction, and which oversee and monitor management decision-making.

FCA PRA

(B) (In the FCA Handbook):

(in accordance with article 3(7) of CRD) the *governing body* and *senior personnel* of a *CRR firm* who are empowered to set the *firm's* strategy, objectives and overall direction, and which oversee and monitor management decision-making.

management body in its supervisory function

(A) (In the PRA Handbook):

the *management body* acting in its role of overseeing and monitoring management decision-making.

FCA PRA

(B) (In the FCA Handbook):

the *management body* acting in its role of overseeing and monitoring management decision-making.

management company

FCA PRA

(in accordance with article 2(1)(b) of the *UCITS Directive*) a company, the regular business of which is the management of *UCITS* in the form of unit trusts, common funds (including *authorised contractual schemes*) or investment companies (*collective portfolio management*), including, where permitted by its *Home State regulator*, the additional services referred to in article 6(3) of that directive.

management expenses

FCA PRA

(1) (except in *INSPRU*) (in accordance with section 223 of the *Act* (Management expenses)) expenses incurred or expected to be incurred by the *FSCS* in connection with its function under the *Act*, other than *compensation costs* and costs incurred under Part 15A of the *Act*; for the purposes of ■ FEES 6 these are subdivided into *base costs*, *specific costs* and *establishment costs*.

(2) (in *INSPRU*) in relation to *long-term insurance business*, means all expenses, other than *commission*, incurred in the administration of an *insurer* or its business.

management expenses levy

FCA PRA

a levy imposed by the *FSCS* on *participant firms* to meet the *management expenses* and which is made up of one or more of a base cost levy and a *specific costs levy*, each *participant firm's* share being calculated in accordance with ■ FEES 6.4.

manager

FCA PRA

(1) (in relation to an *AUT*) the *firm*, including, if relevant, an *EEA UCITS management company* or *incoming EEA AIFM*, which is the manager of the *AUT* in accordance with the *trust deed*.

(1A) (in relation to an *OEIC* which is an undertaking for collective investment in transferable securities within the meaning of the *UCITS Directive* or which is an *AIF*, and which has appointed a *person* to manage the scheme) the *person* appointed to manage the scheme.

(2) (as defined in section 423(1) and (2) of the *Act* (Manager)) (except in relation to a *unit trust scheme* or an undertaking for collective investment in transferable securities within the meaning of the *UCITS Directive* (other than a unit trust scheme) or a *registered friendly society*):

(a) an employee who:

(i) under the immediate authority of his employer, is responsible, either alone or jointly with one or more other individuals, for the conduct of his employer's business; or

(ii) under the immediate authority of his employer or of a *person* who is a manager in accordance with (i) exercises managerial functions or is responsible for maintaining accounts or other records of his employer;

(b) if the employer is not an individual, references in (a) to the authority of the employer are references to the authority:

(i) in the case of a *body corporate*, of the directors;

(ii) in the case of a *partnership*, of the partners; and

(iii) in the case of an unincorporated association, of its officers or the members of its governing body.

(3) (as defined in section 423(3) of the *Act* (Manager)) (in relation to a *body corporate* other than one covered at (1A) above):

<p><i>manager of the relevant scheme</i></p> <p>FCA PRA</p>	<p>(a) a <i>person</i> (other than an employee of the body) who is appointed by the body to manage any part of its business, including an employee of the <i>body corporate</i> (other than the <i>chief executive</i>) who under the immediate authority of a director or <i>chief executive</i> of the <i>body corporate</i> exercises managerial functions or is responsible for maintaining accounts or other records of the <i>body corporate</i>;</p> <p>(b) for the purposes of (a) and in relation to a <i>body corporate</i> whose principal place of business is within the <i>United Kingdom</i>, the <i>chief executive</i> includes only a <i>person</i> who is an employee of the <i>body corporate</i> in accordance with section 417(1) of the <i>Act</i> (Definitions).</p>
<p><i>managing a UCITS</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 51ZA of the <i>Regulated Activities Order</i> of carrying on collective portfolio management within the meaning of the <i>UCITS Directive</i>, in relation to a <i>UCITS</i>.</p>
<p><i>managing agent</i></p> <p>FCA PRA</p>	<p>(as defined in article 3(1) of the <i>Regulated Activities Order</i>) a <i>person</i> who is permitted by the <i>Council</i> in the conduct of his business as an <i>underwriting agent</i> to perform for a <i>member</i> one or more of the following functions:</p> <ul style="list-style-type: none"> (a) underwriting <i>contracts of insurance</i> at Lloyd's; (b) reinsuring such contracts in whole or in part; (c) paying claims on such contracts.
<p><i>managing agent's agreement</i></p> <p>FCA PRA</p>	<p>an agreement in the form prescribed by the <i>Society</i>, between a <i>managing agent</i> and a <i>member</i>, under which the <i>managing agent</i> manages the <i>insurance business</i> of that <i>member</i>.</p>
<p><i>managing an AIF</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 51ZC of the <i>Regulated Activities Order</i>, which is, in summary, performing at least risk management or portfolio management for an <i>AIF</i>.</p>
<p><i>managing dormant account funds (including the investment of such funds)</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 63N(1)(b) of the <i>Regulated Activities Order</i>, which is the acceptance of a transfer by a <i>bank</i> or <i>building society</i> of the <i>balance</i> of a <i>dormant account</i>, or a proportion of such a balance, and the management of those funds (including the investment of such funds) in such a way as to enable the <i>dormant account fund operator</i> to meet whatever <i>repayment claims</i> it is prudent to anticipate.</p>
<p><i>managing investments</i></p> <p>FCA PRA</p>	<p>the <i>regulated activity</i>, specified in article 37 of the <i>Regulated Activities Order</i> (Managing investments), which is in summary: managing assets belonging to another <i>person</i> in circumstances which involve the exercise of discretion, if:</p> <ul style="list-style-type: none"> (a) the assets consist of or include any <i>security</i> or <i>contractually based investment</i> (that is, any <i>designated investment</i>, <i>funeral plan contract</i> or right to or interest in a <i>funeral plan contract</i>); or

<p><i>managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's</i></p> <p>FCA PRA</p>	<p>(b) the arrangements for their management are such that the assets may consist of or include such <i>investments</i>, and either the assets have at any time since 29 April 1988 done so, or the arrangements have at any time (whether before or after that date) been held out as arrangements under which the assets would do so.</p> <p>the <i>regulated activity</i>, specified in article 57 of the <i>Regulated Activities Order</i> (Managing the underwriting capacity of a Lloyd's syndicate), of managing the <i>underwriting capacity of a Lloyd's syndicate</i> as a <i>managing agent</i> at Lloyd's.</p>
<p><i>mandate</i></p> <p>FCA PRA</p>	<p>any means that give a <i>firm</i> the ability to control a <i>client's</i> assets or liabilities, which meet the conditions in ■ CASS 8.2.1 R.</p>
<p><i>mandate rules</i></p> <p>FCA PRA</p>	<p>■ CASS 8.</p>
<p>MAR</p> <p>FCA PRA</p>	<p>the Market Conduct sourcebook.</p>
<p><i>margin</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i>) cash or other property paid, transferred or deposited under the terms of a <i>derivative</i>; for these purposes cash or property will be treated as having been paid, transferred or deposited if it must be paid, transferred or deposited in order to comply with a requirement imposed by the market on which the contract is made or traded.</p>
<p><i>margin agreement</i></p> <p>FCA PRA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a contractual agreement or provisions to an agreement under which one counterparty must supply collateral to a second counterparty when an <i>exposure</i> of that second counterparty to the first counterparty exceeds a specified level.</p>
<p><i>margin lending transaction</i></p> <p>FCA PRA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) transactions in which a <i>person</i> extends credit in connection with the purchase, sale, carrying or trading of securities; the definition does not include other loans that happen to be secured by securities collateral.</p>
<p><i>margin period of risk</i></p> <p>FCA PRA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the time period from the last exchange of collateral covering a <i>netting set</i> of transactions with a defaulting counterpart until that counterpart is closed out and the resulting market risk is re-hedged.</p>
<p><i>margin threshold</i></p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty</p>

FCA PRA

risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the largest amount of an *exposure* that remains outstanding until one party has the right to call for collateral.

marginéd contract

(in *COLL* , ■ *CASS 4* and ■ *CASS 7*) any contract in *derivatives*.

FCA PRA

marginéd transaction

FCA PRA

(1) (except in ■ *CASS 4* and ■ *CASS 7*) a transaction *executed* by a *firm* with or for a *client* relating to a *future*, *option* or *contract for differences* (or any right to or any interest in such an *investment*) under the terms of which the *client* will or may be liable to provide cash or *collateral* to secure performance of obligations which he may have to perform when the transaction falls to be completed or upon the earlier *closing out* of his position.

(2) (in ■ *CASS 4* and ■ *CASS 7*):

(a) a transaction within (1); or

(b) an *option* purchased by a *client*, the terms of which provide that the maximum liability of the *client* in respect of the transaction will be limited to the amount payable as premium.

market abuse

FCA PRA

(1) (in accordance with section 118 of the *Act* (Market abuse)) *behaviour* (whether by one *person* alone or by two or more *persons* jointly or in concert) which:

(a) occurs in relation to *qualifying investments* traded or admitted to trading on a *prescribed market* or in respect of which a request for admission to trading on such a market has been made; and

(b) falls within any one or more of the types of *behaviour* set out in section 118(2) to (8) of the *Act*.

(2) (in accordance with section 118 of the *Act* (Market abuse) as modified by the *RAP Regulations*) *behaviour* (whether by one *person* alone or by two or more *persons* jointly or in concert) which:

(a) occurs in relation to *qualifying investments* which are offered for sale on a *prescribed auction platform*; and

(b) falls within any one or more of the types of *behaviour* set out in subsections 118(2) to (8A) of the *Act*.

market abuse (dissemination)

FCA PRA

the *behaviour* described in section 118(7) of the *Act*, which is the dissemination of information by any means which gives, or is likely to give, a false or misleading impression as to a *qualifying investment* by a *person* who knew or could reasonably be expected to have known that the information was false or misleading.

market abuse (distortion)

FCA PRA

(1) (in accordance with section 118(8) of the *Act* (Market abuse)) the *behaviour* described in section 118(8) of the *Act* which satisfies the condition in section 118(8)(b) and is *behaviour* (not falling within sections 118(5), (6) or (7)) which:

(a) would be, or would be likely to be, regarded by a *regular user* of the market as behaviour that would distort, or would be likely to distort, the market in a *qualifying investment*; and

(b) is likely to be regarded by a *regular user* of the market as a failure on the part of the *person* concerned to observe the standard of *behaviour* reasonably expected of a *person* in his position in relation to the market.

*market abuse
(improper
disclosure)*

FCA **PRA**

(2) (in accordance with section 118(8) of the *Act* (Market abuse) as modified by the *RAP Regulations*) the *behaviour* described in section 118(8) of the *Act* as modified by the *RAP Regulations* which satisfies the condition in section 118(8)(b) and is *behaviour* (not falling within sections 118(5), (6) or (7)) which:

(a) would be, or would be likely to be, regarded by a *regular user* of the auction platform as *behaviour* that would distort, or would be likely to distort, the auction of such an investment,

(b) and is likely to be regarded by a *regular user* of the auction platform as a failure on the part of the *person* concerned to observe the standard of *behaviour* reasonably expected of a *person* in his position in relation to the market.

the *behaviour* described in section 118(3) of the *Act*, which is an *insider* disclosing *inside information* to another *person* otherwise than in the proper course of the exercise of employment, profession or duties.

*market abuse
(insider
dealing)*

FCA **PRA**

the *behaviour* described in section 118(2) of the *Act*, which is an *insider dealing*, or attempting to *deal*, in a *qualifying investment* or *related investment* on the basis of *inside information* relating to the *investment* in question.

*market abuse
(manipulating
devices)*

FCA **PRA**

(1) (in accordance with section 118(6) of the *Act* (Market abuse)) the *behaviour* described in section 118(6) of the *Act*, which is effecting transactions or orders to trade which employ fictitious devices or any other form of deception or contrivance.

(2) (in accordance with section 118(6) of the *Act* (Market abuse) as modified by the *RAP Regulations*) the *behaviour* described in section 118(6) of the *Act*, which is effecting transactions, bids or orders to trade which employ fictitious devices or any other form of deception or contrivance.

*market abuse
(manipulating
transactions)*

FCA **PRA**

(1) (in accordance with section 118(5) of the *Act* (Market abuse)) the *behaviour* described in section 118(5) of the *Act*, which is *behaviour* effecting transactions or orders to trade (otherwise than for legitimate reasons and in conformity with *accepted market practices* on the relevant market) which:

(a) give, or are likely to give a false or misleading impression as to the supply of, or demand for, or as to the price of, one or more *qualifying investments*; or

(b) secure the price of one or more such investments at an abnormal or artificial level.

(2) (in accordance with section 118(5) of the *Act* (Market abuse) as modified by the *RAP Regulations*) the *behaviour* described in section 118(5) of the *Act* as modified by the *RAP Regulations*, which is *behaviour* effecting transactions, bids or orders to trade (otherwise than for legitimate reasons and in conformity with *accepted market practices* on the relevant auction platform) which:

(a) give, or are likely to give a false or misleading impression as to the supply of, or demand for, or as to the price of, one or more *qualifying investments*; or

(b) secure the price of one or more such investments at an abnormal or artificial level.

*market abuse
(misleading
behaviour)*

FCA **PRA**

(1) (in accordance with section 118(8) of the *Act* (Market abuse)) the *behaviour* described in section 118(8) of the *Act* which satisfies the condition in section 118(8)(a) and is *behaviour* (not falling within sections 118(5), (6) or (7)) which:

(a) is likely to give a *regular user* of the market a false or misleading impression as to the supply of, demand for or price or value of, *qualifying investments*, and

(b) is likely to be regarded by a *regular user* of the market as a failure on the part of the *person* concerned to observe the standard of *behaviour* reasonably expected of a *person* in his position in relation to the market.

(2) (in accordance with section 118(8) of the *Act* (Market abuse) as modified by the *RAP Regulations*) the *behaviour* described in section 118(8) of the *Act* which satisfies the condition in section 118(8)(a) and is *behaviour* (not falling within sections 118(5), (6) or (7)) which:

(a) is likely to give a *regular user* of the auction platform a false or misleading impression as to the supply of, demand for or price or value of, *qualifying investments*, or

(b) and is likely to be regarded by a *regular user* of the auction platform as a failure on the part of the *person* concerned to observe the standard of *behaviour* reasonably expected of a *person* in his position in relation to the market.

*market abuse
(misuse of
information)*

FCA **PRA**

(1) (in accordance with section 118(4) of the *Act* (Market abuse)) the *behaviour* described in section 118(4) of the *Act*, which is *behaviour* (not falling within sections 118 (2) or (3) of the *Act*):

(a) based on information which is not generally available to those using the market but which, if available to a *regular user* of the market, would be, or would be likely to be, regarded by him as relevant when deciding the terms on which transactions in *qualifying investments* should be effected; and

(b) likely to be regarded by a *regular user* of the market as a failure on the part of the *person* concerned to observe the standard of *behaviour* reasonably expected of a *person* in his position in relation to the market

(2) (in accordance with section 118(4) of the *Act* (Market abuse) as modified by the *RAP Regulations*) the *behaviour* described in section 118(4) of the *Act* as modified by the *RAP Regulations*, which is *behaviour* (not falling within sections 118 (2) or (3) of the *Act*):

(a) based on information which is not generally available to those using the auction platform but which, if available to a *regular user* of the auction platform, would be, or would be likely to be, regarded by him as relevant when deciding the terms on which transactions in *qualifying investments* should be effected, and

(b) is likely to be regarded by a *regular user* of the auction platform as a failure on the part of the *person* concerned to observe the standard of *behaviour* reasonably expected of a *person* in his position in relation to the auction platform.

*Market Abuse
Directive*

FCA **PRA**

Directive of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse) (No 2003/6/EC).

*market abuse
regime*

the regime established under the provisions of Part VIII of the *Act* (Penalties for market abuse).

FCA PRA

market
contract

FCA PRA

a market contract as described in section 155(2)(a) of the Companies Act 1989 or article 80(2)(a) of the Companies (No2) (Northern Ireland) Order 1990 which is in summary a contract entered into by a *member* or *designated non-member* of an *RIE* with a person other than the *RIE* which is either:

- (a) a contract made on the exchange or an exchange to whose undertaking the exchange has succeeded; or
- (b) a contract in the making of which the member or *designated non-member* was subject to the rules of the exchange or of an exchange to whose undertaking the exchange has succeeded.

market
counterparty

FCA PRA

(for the purposes only of ■ COBS TP 1 (Transitional Provisions in relation to Client Categorisation));

(1) (except in ■ COB 3) a *client* who is:

- (a) a properly constituted government (including a quasi-governmental body or a government agency) of any country or territory;
- (b) a central bank or other national monetary authority of any country or territory;
- (c) a supranational whose members are either countries or central banks or national monetary authorities;
- (d) a State investment body, or a body charged with, or intervening in, the management of the public debt;
- (e) another *firm*, or an *overseas financial services institution*, except in relation to *designated investment business*, and related *ancillary activities*, conducted with or for that *firm* or institution, when that *firm* or institution is an *intermediate customer* in accordance with ■ COB 4.1.7 R (Classification of another firm or an overseas financial services institution);
- (f) any *associate* of a *firm* (except an *OPS firm*), or of an *overseas financial services institution*, if the *firm* or institution consents;
- (g) a *client* when he is classified as a *market counterparty* in accordance with ■ COB 4.1.12 R (Large intermediate customer classified as a market counterparty);
- (h) a *recognised investment exchange*, *designated investment exchange*, *regulated market* or *clearing house* when it is classified as a *market counterparty* in accordance with ■ COB 4.1.8A R (Classification of an exchange or *clearing house*);

but excluding:

- (A) a *regulated collective investment scheme*; and
- (B) (except for the purposes of *DISP*) a *client*, who would otherwise be a *market counterparty*, when he is classified as a *private customer* in accordance with ■ COB 4.1.14 R (Client classified as *private customer*).

(2) (in ■ COB 3) a *person* in (1) and a *person* who would be such a *person* if he were a *client*.

market
liquidity stress

FCA PRA

(in relation to a *firm* and any reporting obligations under ■ SUP 16 (Reporting requirements));

- (a) (in the case of reporting obligations on a solo basis) any market that is of material significance to the *firm* being materially adversely affected by

<p>crystallised <i>liquidity risk</i> or a substantial number of participants in any such market being materially adversely affected by crystallised <i>liquidity risk</i>, whether or not the <i>firm</i> itself is so affected;</p> <p>(b) (in the case of reporting obligations with respect to the <i>firm</i> and a group of other persons) has the same meaning as in (a) except that references to the <i>firm</i> are to the <i>firm</i> and that group considered together;</p> <p>(c) (in the case of reporting obligations with respect to a <i>firm's UK branch</i>) has the same meaning as in (a) except that references to the <i>firm</i> are to that <i>branch</i>.</p>	
<p><i>market maker</i></p> <p>FCA PRA</p>	<p>(1) (except in <i>COBS</i> and <i>DTR</i>) (in relation to an <i>investment</i>) a <i>person</i> who (otherwise than in his capacity as the <i>operator</i> of a <i>regulated collective investment scheme</i>) holds himself out as able and willing to enter into transactions of sale and purchase in <i>investments</i> of that description at prices determined by him generally and continuously rather than in respect of each particular transaction.</p> <p>(2) (in <i>COBS</i> and <i>DTR</i>) a <i>person</i> who holds himself out on the financial markets on a continuous basis as being willing to deal on own account by buying and selling <i>financial instruments</i> against his proprietary capital at prices defined by him.</p> <p>[Note: article 4 (1)(8) of <i>MiFID</i>]</p> <p>(3) [deleted]</p>
<p><i>market maker exemption</i></p> <p>FCA PRA</p>	<p>an exemption from articles 5, 6, 7, 12, 13 and 14 of the <i>short selling regulation</i> for transactions performed due to <i>market making activities</i> pursuant to article 17 of the <i>short selling regulation</i>.</p>
<p><i>market making activities</i></p> <p>FCA PRA</p>	<p>(as defined in article 2(1)(k) of the <i>short selling regulation</i>) the activities of an <i>investment firm</i>, a <i>credit institution</i>, a third-country entity, or a firm as referred to in point (l) of article 2(1) of <i>MiFID</i>, which is a member of a <i>trading venue</i> or of a market in a third country, the legal and supervisory framework of which has been declared equivalent by the European Commission pursuant to article 17(2) of the <i>short selling regulation</i> where it deals as principal in a <i>financial instrument</i>, whether traded on or outside a <i>trading venue</i>, in any of the following capacities:</p> <p>(a) by posting firm, simultaneous two-way quotes of comparable size and at competitive prices, with the result of providing liquidity on a regular and ongoing basis to the market; or</p> <p>(b) as part of its usual business, by fulfilling orders initiated by clients or in response to clients' requests to trade; or</p> <p>(c) by hedging positions arising from the fulfilment of tasks under points (a) and (b).</p>
<p><i>market operator</i></p> <p>FCA PRA</p>	<p>a <i>person</i> who manages and/or operates the business of a <i>regulated market</i>. The <i>market operator</i> may be the <i>regulated market</i> itself.</p> <p>[Note: article 4(1)(13) of <i>MiFID</i>]</p>
<p><i>market risk</i></p> <p>FCA PRA</p>	<p>(1) (in <i>COLL</i> and <i>FUND</i>) the risk of loss for a <i>UCITS</i> or <i>AIF</i> resulting from fluctuation in the market value of positions in the <i>fund's</i> portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.</p>

<p><i>market risk capital requirement</i></p> <p>FCA PRA</p>	<p>(2) (except in <i>COLL</i> and <i>FUND</i>) (in relation to a <i>firm</i>) the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.</p>
<p><i>market value</i></p> <p>FCA PRA</p>	<p>the market value as determined in accordance with generally accepted accounting practice.</p>
<p><i>marketable investment</i></p> <p>FCA PRA</p>	<p>(a) an <i>investment</i> which is traded on or under the rules of an exchange;</p> <p>(b) a debt instrument which may be transferred without the consent of the <i>issuer</i> or any other <i>person</i> (including a collateralised mortgage obligation);</p> <p>(c) a <i>commodity</i>;</p> <p>(d) a <i>warrant, option, future</i> or other instrument which entitles the holder to subscribe for or acquire:</p> <p style="padding-left: 20px;">(i) an <i>investment</i> or <i>commodity</i> in (a) to (c); or</p> <p style="padding-left: 20px;">(ii) any currency; or</p> <p style="padding-left: 20px;">(iii) any combination of (i) and (ii);</p> <p>(e) a <i>contract for differences</i> (including interest rate and currency swaps) relating to fluctuations in:</p> <p style="padding-left: 20px;">(i) the value or price of an <i>investment</i> or <i>commodity</i> in (a) to (d); or</p> <p style="padding-left: 20px;">(ii) any currency; or</p> <p style="padding-left: 20px;">(iii) the rate of interest in any currency or any index of such rates; or</p> <p style="padding-left: 20px;">(iv) the level of any index which is derived from the prices of an <i>investment</i> or <i>commodity</i> in (a) to (c); or</p> <p style="padding-left: 20px;">(v) any combination of (i) to (iv);</p> <p>(f) <i>warrants, options, futures</i> or other instruments entitling the holder to obtain the rights of those contracts in (d) or (e);</p> <p>(g) a <i>unit</i> in a <i>regulated collective investment scheme</i>.</p>
<p><i>marketing</i></p> <p>FCA</p>	<p>(1) (in <i>COLL</i>) (in relation to marketing <i>units</i> in a <i>regulated collective investment scheme</i> in a particular country or territory):</p> <p style="padding-left: 20px;">(a) <i>communicating</i> to a <i>person</i> in that country or territory an invitation or inducement to become, or offer to become, a <i>holder</i> in that <i>regulated collective investment scheme</i>;</p> <p style="padding-left: 20px;">(b) giving <i>advice on investments</i> to, or arranging (bringing about) a deal in an investment for a <i>person</i> in that country or territory to become a <i>holder</i> in that <i>regulated collective investment scheme</i></p> <p>(2) (except in <i>COLL</i>) a direct or indirect offering or placement, at the initiative of the <i>AIFM</i> or on behalf of the <i>AIFM</i> of <i>units</i> or <i>shares</i> of an <i>AIF</i> it manages, to or with investors domiciled or with a registered office in the <i>EEA</i>.</p> <p>[Note: article 4(1)(x) of <i>AIFMD</i>]</p>

marketing group

FCA PRA

a group of *persons* who:

(a) are allied together (either formally or informally) for the purposes of marketing *packaged products* of the *marketing group*; and

(b) each of whom, if it holds itself out in the *United Kingdom* as marketing *packaged products* to *private customers*, does so only as an *investment manager* or in relation to *packaged products* of the *marketing group*.

marketing group associate

FCA PRA

a *firm* other than a *product provider* which is a member of a *marketing group*.

mark-up or mark-down

FCA PRA

(a) (when a *firm* receives a *customer order* and takes a *principal* position in the relevant *investment* in order to fulfil that *customer order* (that is, when the *firm* takes a *principal* position in the relevant *investment* which it would not otherwise take, except to fulfil that *customer order*)) the difference, if any, between:

(i) the price at which the *firm* takes a *principal* position in the relevant *investment* in order to fulfil that *customer order*; and

(ii) the *price* at which the firm executes the transaction with its *customer*;

(b) (when a firm executes a *customer order* against its own book and owes a duty of best execution) the difference between:

(i) the *price* at which best execution would be achieved; and

(ii) the *price* at which the firm executes the transaction with its *customer*.

marriage or the formation of a civil partnership and birth

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph II of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance), to provide a sum on marriage or the formation of a civil partnership or on the birth of a child, being contracts expressed to be in effect for a period of more than one year.

master AIF

FCA

(in accordance with article 4(1)(y) of *AIFMD*) an *AIF* in which another *AIF* (a *feeder AIF*) invests or has an exposure in accordance with the definition of '*feeder AIF*'.

master netting agreement internal models approach

FCA

one of the following:

(a) the method of calculating the effect of *credit risk mitigation* described in ■ BIPRU 5.6.16 R to ■ BIPRU 5.6.28 G;

(b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with ■ BIPRU 8 (Group risk - consolidation); or

(c) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

master netting agreement internal models approach permission

(A) In the PRA Handbook:

requirement or a *waiver* that requires a *firm* to use the *master netting agreement internal models approach* on a solo basis or, if the context requires, a consolidated basis.

FCA

(B) In the FCA Handbook:

requirement or a *waiver* that requires a *BIPRU firm* to use the *master netting agreement internal models approach* on a solo basis or, if the context requires, a consolidated basis.

master UCITS

FCA PRA

(in accordance with article 58(3) of the *UCITS Directive*) a *UCITS scheme*, an *EEA UCITS scheme* or a *sub-fund* of such a *scheme* where:

- (a) at least one of its *unitholders* is a *feeder UCITS*;
- (b) it is not itself a *feeder UCITS*; and
- (c) it does not hold *units* of a *feeder UCITS*.

master-feeder agreement

FCA PRA

(in *COLL*) a written agreement between the *management company* of a *master UCITS* and the *management company* of a *feeder UCITS* in accordance with ■ *COLL 11.3.2 R (1)* (Master-feeder agreement and internal conduct of business rules).

matched principal exemption conditions

FCA

(for the purposes of *BIPRU*) the conditions set out in ■ *BIPRU 1.1.23 R (2)* (Meaning of dealing on own account).

material currency

FCA PRA

(a) *Material currencies*, in respect of a *firm* at any time, are currencies determined in accordance with the following.

(b) First, the amount of its assets and the amount of its liabilities in each currency (ignoring the sign) are separately calculated. The figures are as shown in the most recent *data item* FSA054 submitted to the *appropriate regulator*.

(c) Then, each such amount is converted into the reporting currency for the *data item* referred to in (b).

(d) Each currency (which may include the reporting currency) that represents 20% or more of the total asset figure or 20% or more of the total liabilities figure is a *material currency*.

(e) A currency is also a *material currency* if it is identified by the *firm's* current:

- (i) *Individual Liquidity Adequacy Assessment*; or
- (ii) *Individual Liquidity Systems Assessment*; or
- (iii) *ILG* that has been accepted by the *firm*;

as being significant in the context of cross-currency *liquidity risk* (as referred to in *BIPRU 12.5* (Individual Liquidity Adequacy Standards)).

(f) The conversion rate for a currency into the reporting currency is the exchange rate on the date as of which the calculation is being made.

(g) The reporting currency means the currency in which the most recent *data item* FSA054 (as referred to in (b)) is reported.

(h) A currency is a *material currency* in relation to a *firm's branch* or a *defined liquidity group* of which it is a *group liquidity reporting firm* if it is identified as such in accordance with the procedures in the previous paragraphs of this definition except that the identification is carried out by reference to that *branch* or *defined liquidity group*. For these purposes, *data item* FSA054 for the *reporting level* concerned is used.

<p><i>material current year losses</i></p> <p>FCA PRA</p>	<p>(i) If the <i>firm</i> has not delivered <i>data item</i> FSA054 to the <i>appropriate regulator</i> at the <i>reporting level</i> concerned or is currently not required to do so at the <i>reporting level</i> concerned, the calculation is carried out using the methods for drawing up <i>data item</i> FSA054.</p> <p>(in <i>IPRU(INV)</i> 13) losses of an amount equal to 10 per cent or more of the amount by which the <i>own funds</i> of an <i>undertaking</i> exceed the <i>own funds</i> needed to meet financial resources test 1 as prescribed in chapter 13.</p>
<p><i>material holding</i></p> <p>FCA PRA</p>	<p>(1) [deleted]</p> <p>(2) (for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in ■ <i>GENPRU 2.2.209 R</i> (Deductions from tiers one and two: Material holdings (<i>BIPRU</i> firm only)).</p>
<p><i>material insurance holding</i></p> <p>FCA PRA</p>	<p>has the meaning in <i>GENPRU 2.2.212R</i> (Material holdings) or, for an <i>exempt CAD firm</i> which is an <i>investment management firm</i>, in <i>IPRU(INV)</i> Table 5.2.2(1).</p>
<p><i>material interest</i></p> <p>FCA PRA</p>	<p>(in <i>COBS</i>) (in relation to a transaction) any interest of a material nature, other than:</p> <p>(a) disclosable <i>commission</i> on the transaction;</p> <p>(b) goods or services which can reasonably be expected to assist in carrying on <i>designated investment business</i> with or for <i>clients</i> and which are provided or to be provided in compliance with ■ <i>COBS 11.6.3 R</i>.</p>
<p><i>material outsourcing</i></p> <p>FCA PRA</p>	<p><i>outsourcing</i> services of such importance that weakness, or failure, of the services would cast serious doubt upon the <i>firm's</i> continuing satisfaction of the <i>threshold conditions</i> or compliance with the <i>Principles</i>.</p>
<p><i>mathematical reserves</i></p> <p>FCA PRA</p>	<p>the provision made by an <i>insurer</i> to cover liabilities (excluding liabilities which have fallen due and liabilities arising from <i>deposit back arrangements</i>) arising under or in connection with <i>long-term insurance contracts</i>.</p>
<p><i>maxi-ISA</i></p> <p>FCA PRA</p>	<p>an <i>ISA</i> which includes a <i>stocks and shares component</i> and may also include other <i>qualifying investments</i> such as:</p> <p>(a) a <i>cash component</i>;</p> <p>(b) an <i>insurance component</i>;</p> <p>as prescribed in paragraphs 7, 8 and 9 respectively of the <i>ISA Regulations</i>.</p>
<p><i>MCAS scheme</i></p> <p>FCA PRA</p>	<p>Mortgage Code Arbitration Scheme.</p>
<p><i>MCOB</i></p> <p>FCA PRA</p>	<p>the Mortgages and Home Finance: Conduct of Business sourcebook.</p>
<p><i>MCR</i></p> <p>FCA PRA</p>	<p><i>minimum capital requirement</i>.</p>

media firm

FCA PRA

a *firm* whose only *permitted activities* are *advising on investments* and *agreeing to carry on that regulated activity*, and whose *Part 4A permission* includes *requirements* to the effect that the *firm* must advise:

- (a) only through the media; and
- (b) without conveying the impression that the advice is particularly suitable for any *person*, except when it is given in response to a specific request for advice from that *person*;

in this definition, "media" means:

- (i) newspapers, journals, magazines or other periodical publications;
- (ii) services comprising regularly updated news or information;
- (iii) services consisting of the broadcast or transmission of television or radio programmes.

media operator

FCA

a news vendor that receives *regulated information* from a *regulatory information service* and then disseminates that information to the public as soon as possible.

meeting of repayment claims

FCA PRA

the *regulated activity*, specified in article 63N(1)(a) of the *Regulated Activities Order*, which is the meeting of *repayment claims* by a *dormant account fund operator*.

member

FCA PRA

(1) (except in *PROF, LR, ■ EG 16* and *REC*) a *person* admitted to membership of the *Society* or any *person* by law entitled or bound to administer his affairs.

(2) (in *PROF, LR* and *■ EG 16*) (as defined in section 325(2) of the *Act* (*FCA's* general duty)) (in relation to a profession) a *person* who is entitled to practise that profession and, in practising it, is subject to the rules of the relevant *designated professional body*, whether or not he is a member of that body.

(3) (in *REC*) (in relation to a *recognised body*) a *person* who is entitled, under an arrangement or agreement between him and that body, to use that body's *facilities*.

member contribution

FCA PRA

any paid up contribution by a member of a *mutual* where the members' accounts meet the following criteria:

- (a) the memorandum and articles of association or other constitutional documents must stipulate that payments may be made from these accounts to members only in so far as this does not cause the *firm's capital resources* to fall below the required level, or, if after dissolution of the *firm*, all the *firm's* other debts have been settled;
- (b) the memorandum and articles of association or other constitutional documents must stipulate, with respect to the payments referred to in (a) made for reasons other than the individual termination of membership, that the *appropriate regulator* must be notified at least one month in advance of the intended date of such payments; and
- (c) the *appropriate regulator* must be notified of any amendment to the relevant provisions of the memorandum and articles of association or other constitutional documents.

member society

FCA PRA

(as defined in article 2(2) of the *compensation transitionals order*) a person who at any time before *commencement* was a member society within the rules of the Friendly Societies Protection Scheme established in accordance with section 141 of the Financial Services Act 1986.

<p><i>members' adviser</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> whose <i>permission</i> includes <i>advising on syndicate participation at Lloyd's</i>, but which is not an <i>underwriting agent</i>.</p>
<p><i>members' agent</i></p> <p>FCA PRA</p>	<p>an <i>underwriting agent</i> who carries on the <i>regulated activity of advising on syndicate participation at Lloyd's</i>.</p>
<p><i>membership of a Lloyd's syndicate</i></p> <p>FCA PRA</p>	<p>the <i>investment</i>, specified in article 86(2) of the <i>Regulated Activities Order</i>, which is a <i>person's</i> membership (or prospective membership) of a <i>Lloyd's syndicate</i>.</p>
<p><i>merging UCITS</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i>) in relation to a <i>UCITS merger</i>, the <i>UCITS scheme</i>, <i>EEA UCITS scheme</i> or <i>sub-fund</i> of such a <i>scheme</i>, that under the proposed arrangements will be transferring all its assets and liabilities to the <i>receiving UCITS</i>.</p>
<p><i>MERS levy</i></p> <p>FCA PRA</p>	<p>a levy (management expenses in respect of relevant schemes levy) imposed by the <i>FSCS</i> on <i>participant firms</i> to meet the management expenses incurred by the <i>FSCS</i> in connection with acting on behalf of the <i>manager of the relevant scheme</i> in accordance with Part 15A of the <i>Act</i>.</p>
<p><i>mesothelioma regulations</i></p> <p>FCA PRA</p>	<p>The Compensation Act 2006 (Contribution for Mesothelioma Claims) Regulations 2006 (SI 2006/3259).</p>
<p><i>mesothelioma victim</i></p> <p>FCA PRA</p>	<p>(in accordance with section 3 (1) of the Compensation Act 2006) a <i>person</i> who has contracted mesothelioma as a result of exposure to asbestos by a <i>responsible person</i>.</p>
<p><i>mezzanine securitisation positions</i></p> <p>FCA PRA</p>	<p>for the purposes of ■ BIPRU 9.3.7 R, ■ BIPRU 9.4.11 R and ■ BIPRU 9.5.1 R (6), <i>securitisation positions</i> to which a <i>risk weight</i> lower than 1250% applies and which are more junior than the most senior position in the relevant <i>securitisation</i> and more junior than any <i>securitisation</i> position in the relevant <i>securitisation</i> to which:</p> <p style="margin-left: 20px;">(a) in the case of a <i>securitisation position</i> subject to the <i>standardised approach</i> to <i>securitisation</i> set out in ■ BIPRU 9.11.1 R and ■ BIPRU 9.11.2 R, a <i>credit quality step</i> 1 is assigned; or</p> <p style="margin-left: 20px;">(b) in the case of a <i>securitisation position</i> subject to the <i>IRB approach</i> to <i>securitisation</i> set out in ■ BIPRU 9.12.10 R and ■ BIPRU 9.12.11 R, a <i>credit quality step</i> 1 or 2 is assigned under ■ BIPRU 9.7.2 R, ■ BIPRU 9.8.2 R to ■ BIPRU 9.8.7 R and regulation 23 of the <i>Capital Requirements Regulations 2006</i>.</p> <p>[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1b]</p>
<p><i>MFHC conglomerate</i></p> <p>FCA PRA</p>	<p>a <i>financial conglomerate</i> which is headed by a <i>mixed financial holding company</i>.</p>

micro-enterprise

FCA PRA

an enterprise which:

- (a) employs fewer than 10 *persons*; and
- (b) has a turnover or annual balance sheet that does not exceed €2 million.

In this definition, "enterprise" means any *person* engaged in an economic activity, irrespective of legal form and includes, in particular, self-employed *persons* and family businesses engaged in craft or other activities, and *partnerships* or associations regularly engaged in an economic activity.

[Note: article 4(26) of the *Payment Services Directive* and the Annex to the *Micro-enterprise Recommendation*]

Micro-enterprise Recommendation

FCA PRA

Recommendation 2003/361/EC of the Commission of 6th May 2003 concerning the definition of micro, small and medium-sized enterprises.

MiFID

FCA PRA

The European Parliament and Council Directive on markets in financial instruments (No. 2004/39/EC).

See also *MiFID Regulation* and *MiFID implementing Directive*.

MiFID business

FCA PRA

investment services and activities and, where relevant, *ancillary services* carried on by a *MiFID investment firm*.

MiFID business bidding

FCA PRA

the *regulated activity of bidding in emissions auctions* where it is carried on by a *MiFID investment firm* (other than a *UCITS investment firm*) in relation to a *financial instrument*.

MiFID client money (minimum implementing) rules

FCA PRA

■ CASS 7.3.1 R, ■ CASS 7.3.2 R, ■ CASS 7.4.1 R, ■ CASS 7.4.5 R, ■ CASS 7.4.7 R, ■ CASS 7.4.8 R, ■ CASS 7.4.11 R, ■ CASS 7.6.1 R, ■ CASS 7.6.2 R and ■ CASS 7.6.9 R.

MiFID implementing Directive

FCA PRA

Commission Directive No. 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

MiFID implementing requirement

FCA PRA

(1) (in relation to a *UK RIE*) any of the requirements applicable to that body under the *MiFID Regulation*.

(2) (in relation to a body applying for recognition as a *UK RIE*) any of the requirements under the *MiFID Regulation* which, if its application were successful, would apply to it.

MiFID investment firm

FCA PRA

(A) In the PRA Handbook:

(in summary) a *firm* to which *MiFID* applies including, for some purposes only, a *credit institution* and *collective portfolio management investment firm*.

(in full) a *firm* which is:

(1) an *investment firm* with its head office in the *EEA* (or, if it has a registered office, that office);

(2) a *CRD credit institution* (only when providing an *investment service or activity* in relation to the *rules* implementing the Articles referred to in Article 1(2) of *MiFID*);

(3) a *collective portfolio management investment firm* (only when providing the services referred to in article 6(4) *AIFMD* or Article 6(3) of the *UCITS Directive* in relation to the *rules* implementing the articles of *MiFID* referred to in article 6(6) of *AIFMD* or Article 20 6(4) of the *UCITS Directive* and for a *full-scope UK AIFM* the *rules* implementing article 12(2)(b) of *AIFMD*);

unless, and to the extent that, *MiFID* does not apply to it as a result of Article 2 (Exemptions) or Article 3 (Optional exemptions) of *MiFID*.

(B) In the FCA Handbook:

(in summary) a *firm* to which *MiFID* applies including, for some purposes only, a *credit institution* and *collective portfolio management investment firm*.

(in full) a *firm* which is:

(1) an *investment firm* with its head office in the *EEA* (or, if it has a registered office, that office);

(2) a *CRD credit institution* (only when providing an *investment service or activity* in relation to the *rules* implementing the Articles referred to in Article 1(2) of *MiFID*);

(3) a *collective portfolio management investment firm* (only when providing the services referred to in article 6(4) *AIFMD* or Article 6(3) of the *UCITS Directive* in relation to the *rules* implementing the articles of *MiFID* referred to in article 6(6) of *AIFMD* or Article 20 6(4) of the *UCITS Directive* and for a *full-scope UK AIFM* the *rules* implementing article 12(2)(b) of *AIFMD*);

unless, and to the extent that, *MiFID* does not apply to it as a result of Article 2 (Exemptions) or Article 3 (Optional exemptions) of *MiFID*.

MiFID business or the *equivalent business of a third country investment firm*.

MiFID or equivalent third country business

FCA PRA

MiFID outsourcing rules

FCA PRA

MiFID Regulation

■ SYSC 8.1.1 R to ■ SYSC 8.1.11 R.

Commission Regulation (EC) 1287/2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational

<p>FCA PRA</p>	<p>requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.</p>
<p>MIIC FCA PRA</p>	<p>the <i>Motor Insurers' Information Centre</i>.</p>
<p>mineral company FCA PRA</p>	<p>(in LR) a <i>company</i> or <i>group</i>, whose principal activity is, or is planned to be, the <i>extraction of mineral resources</i> (which may or may not include exploration for <i>mineral resources</i>).</p>
<p>mineral expert's report FCA</p>	<p>(in LR) a report prepared in accordance with the <i>ESMA recommendations</i>.</p>
<p>mineral resources FCA PRA</p>	<p>(in LR) include metallic and non-metallic ores, mineral concentrates, industrial minerals, construction aggregates, mineral oils, natural gases, hydrocarbons and solid fuels including coal.</p>
<p>mini-ISA FCA PRA</p>	<p>an <i>ISA</i> which contains only one of the following <i>qualifying investments</i>:</p> <ul style="list-style-type: none"> (a) a <i>stocks and shares component</i>; (b) a <i>cash component</i>; (c) an <i>insurance component</i>; <p>as prescribed in paragraph 7, 8 or 9 respectively of the <i>ISA Regulations</i>.</p>
<p>minimum capital requirement FCA PRA</p>	<p>an amount of capital resources that a <i>firm</i> must hold as set out in ■ GENPRU 2.1.24 R and ■ GENPRU 2.1.25 R.</p>
<p>minimum IRB standards FCA PRA</p>	<p>(in relation to the IRB approach) ■ BIPRU 4.3.9 R, ■ BIPRU 4.3.11 R-■ BIPRU 4.3.29 R, ■ BIPRU 4.3.33 R-■ BIPRU 4.3.40 R, ■ BIPRU 4.3.43 R-■ BIPRU 4.3.44 R, ■ BIPRU 4.3.46 R-■ BIPRU 4.3.48 R, ■ BIPRU 4.3.50 R-■ BIPRU 4.3.51 R, ■ BIPRU 4.3.54 R, ■ BIPRU 4.3.56 R-■ BIPRU 4.3.57 R, ■ BIPRU 4.3.63 R, ■ BIPRU 4.3.70 R-■ BIPRU 4.3.71 R, ■ BIPRU 4.3.73 R-■ BIPRU 4.3.74 R, ■ BIPRU 4.3.83 R-■ BIPRU 4.3.85 R, ■ BIPRU 4.3.88 R, ■ BIPRU 4.3.90 R-■ BIPRU 4.3.92 R, ■ BIPRU 4.3.94 R, ■ BIPRU 4.3.99 R, ■ BIPRU 4.3.103 R, ■ BIPRU 4.3.116 R-■ BIPRU 4.3.123 R, ■ BIPRU 4.3.125 R-■ BIPRU 4.3.131 R ■ BIPRU 4.4.6 R-■ BIPRU 4.4.9 R, ■ BIPRU 4.4.11 R-■ BIPRU 4.4.13 R, ■ BIPRU 4.4.15 R-■ BIPRU 4.4.18 R, ■ BIPRU 4.4.21 R-■ BIPRU 4.4.22 R, ■ BIPRU 4.4.24 R-■ BIPRU 4.4.25 R, ■ BIPRU 4.4.27 R-■ BIPRU 4.4.28 R, ■ BIPRU 4.4.30 R-■ BIPRU 4.4.31 R, ■ BIPRU 4.4.48 R-■ BIPRU 4.4.51 R, ■ BIPRU 4.4.53 R, ■ BIPRU 4.4.54 R, ■ BIPRU 4.5.5 R, ■ BIPRU 4.6.6 R-■ BIPRU 4.6.9 R, ■ BIPRU 4.6.11 R-■ BIPRU 4.6.12 R, ■ BIPRU 4.6.14 R, ■ BIPRU 4.6.18 R, ■ BIPRU 4.6.20 R-■ BIPRU 4.6.21 R, ■ BIPRU 4.6.24 R-■ BIPRU 4.6.34 R, ■ BIPRU 4.6.37 R-■ BIPRU 4.6.39 R, ■ BIPRU 4.7.19 R, ■ BIPRU 4.7.27 R-■ BIPRU 4.7.35 R, ■ BIPRU 4.8.5 R-■ BIPRU 4.8.9 R, ■ BIPRU 4.8.11 R-■ BIPRU 4.8.15 R, ■ BIPRU 4.10.40 R-■ BIPRU 4.10.48 R.</p>
<p>minimum levy FCA PRA</p>	<p>(in <i>FEES</i>) the fixed minimum <i>general levy</i> payable by a <i>firm</i>.</p>

minimum multiplication factor

FCA PRA

(in ■ BIPRU 7.10 (Use of a value at risk model)) has the meaning in ■ BIPRU 7.10.119 R (Capital calculations: Multiplication factors), which is in summary the number three or any higher amount the *VaR model permission* defines it as.

MIPRU

FCA PRA

the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries

miscellaneous financial loss

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 16 of Part I of Schedule 1 to the *Regulated Activities Order* (General *contracts of insurance*), against any of the following risks:

- (a) risks of loss to the *persons* insured attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on;
- (b) risks of loss to the *persons* insured attributable to their incurring unforeseen expense (other than loss such as is covered by contracts within paragraph 18 of Part I of Schedule 1 to the *Regulated Activities Order* (Assistance));
- (c) risks which do not fall within paragraphs (a) or (b) and which are not of such a kind that *contracts of insurance* against them fall within any other provision of Schedule 1 to the *Regulated Activities Order*.

miscellaneous securities

FCA PRA

(in LR) *securities* which are not:

- (a) *shares*; or
- (b) *debt securities*; or
- (c) *asset backed securities*; or
- (d) *certificate representing debt securities*; or
- (e) *convertible securities* which convert to *debt securities*; or
- (f) *convertible securities* which convert to *equity securities*; or
- (g) *convertible securities* which are exchangeable for *securities* of another *company*; or
- (h) *certificate representing certain securities*; or
- (i) *securitised derivatives*.

misleading statements and practices offence

[deleted]

mixed financial holding company

FCA PRA

(in accordance with Article 2(15) of the *Financial Groups Directive* (Definitions)) a *parent undertaking*, other than a *regulated entity*, which meets the following conditions:

- (a) it, together with its *subsidiary undertakings*, at least one of which is an *EEA regulated entity*, and other entities, constitutes a *financial conglomerate*;
- (b) it has been notified by its *coordinator* that its group is a *financial conglomerate* in accordance with Article 4(2) of the *Financial Groups Directive*; and

(c) it has not been notified that its *coordinator* and other *relevant competent authorities* have agreed not to treat the group as a *financial conglomerate* in accordance with Article 3(3) or Article 3(3a) of the *Financial Groups Directive*.

mixed insurer

FCA PRA

an *insurer* (other than a *pure reinsurer*) which carries on *reinsurance* business and where one or more of the following conditions is met in respect of its *reinsurance* acceptances:

(a) the *premiums* collected in respect of those acceptances during the previous *financial year* exceeded 10% of its total *premiums* collected during that year;

(b) the *premiums* collected in respect of those acceptances during the previous *financial year* exceeded €50 million; and

(c) the *technical provisions* in respect of those acceptances at the end of the previous *financial year* exceeded 10% of its total *technical provisions* at the end of that year.

mixed remittance

FCA PRA

a remittance that is part *client money* and part other *money*.

mixed-activity holding company

FCA PRA

(A) In the PRA Handbook:

has the meaning given to the definition of "mixed activity holding company" in article 4(1)(22) of the *EU CRR*.

(B) In the FCA Handbook:

has the meaning given to the definition of "mixed activity holding company" in article 4(1)(22) of the *EU CRR*.

mixed-activity insurance holding company

FCA PRA

(in accordance with Article 1(j) of the *Insurance Groups Directive* (Definitions)) a *parent undertaking*, other than an *insurance undertaking*, an *insurance holding company* or a *mixed financial holding company*, the *subsidiary undertakings* of which include at least one *insurance undertaking*.

MLAR

FCA PRA

(in *SUP*) a Mortgage Lending and Administration Return containing data specified in ■ SUP 16 Annex 19A R and relevant to the *firm's* type and *regulated activities*.

MLRO

FCA PRA

money laundering reporting officer.

Model Code

FCA PRA

The Model Code on directors' dealings in securities set out in ■ LR 9 Annex 1 R.

model PRR

FCA PRA

the part of the *market risk capital requirement* calculated under a *VaR model permission* as more fully defined in ■ BIPRU 7.10 (Use of a Value at Risk Model).

model risk

FCA

the potential loss an *institution* may incur, as a consequence of decisions that could be principally based on the output of internal models used under any of the internal approaches, due to errors in the development, implementation or use of such models.

*modified CIU
look through
method*

FCA **PRA**

the method for calculating PRR for a *CIU* set out in ■ BIPRU 7.7.4 R, ■ BIPRU 7.7.7 R to ■ BIPRU 7.7.8 R and ■ BIPRU 7.7.11 R to ■ BIPRU 7.7.12 R

*modified
report*

FCA **PRA**

(in *LR*) an accountant's or auditor's report:

- (a) in which the opinion is modified; or
- (b) which contains an emphasis-of-matter paragraph.

money

FCA **PRA**

any form of money, including cheques and other payable orders.

*Money Advice
Service*

FCA **PRA**

the consumer financial education body (*CFEB*) originally established by the *FSA* under section 6A(1) of the *Act* (Enhancing public understanding of financial matters etc) (as it had effect before the passing of the Financial Services Act 2012) .

*money
laundering*

FCA **PRA**

any act which:

- (a) constitutes an offence under section 18 (Money laundering) of the Terrorism Act 2000; or
- (b) constitutes an offence under section 327 (Concealing etc), section 328 (Arrangements) or section 329 (Acquisition, use and possession) of the Proceeds of Crime Act 2002; or
- (c) constitutes an attempt, conspiracy or incitement to commit an offence specified in paragraph (b); or
- (d) constitutes aiding, abetting, counselling or procuring the commission of an offence specified in paragraph (b); or
- (e) would constitute an offence specified in paragraph (b), (c), or (d) if done in the *United Kingdom*.

*Money
Laundering
Directive*

FCA **PRA**

the Council Directive of 10 June 1991 on the prevention of the use of the financial system for the purpose of money laundering (91/308/EEC) as amended by the Council Directive of 4 December 2001 (2001/97/EEC).

*Money
Laundering
Regulations*

FCA **PRA**

the Money Laundering Regulations 2007 (SI 2007/2157).

*money
laundering
reporting
function*

FCA **PRA**

(in the *FCA Handbook*) *FCA controlled function* CF11 in Parts 1 and 2 of the *table of FCA controlled functions*, described more fully in ■ SUP 10A.7.10 R.

*money
laundering*

the individual appointed by a *firm* in accordance with ■ SYSC 3.2.6I R or ■ SYSC 6.3.9 R.

reporting
officer

FCA PRA

money market
fund

FCA PRA

money market
instrument
activity

FCA PRA

an *authorised fund* or, in the case of an *umbrella*, a *sub-fund* (if it were a separate fund) which satisfies the conditions in ■ COLL 5.9.5 R (Investment conditions: money market funds) and is not a *qualifying money market fund*.

an activity in respect of a transaction:

(a) which involves any of the following *investments* and is not regulated by the rules of a *recognised investment exchange*:

(i) a *debenture* which is issued on terms requiring repayment not later than five years from the date of issue;

(ii) any *government and public security* which is issued on terms requiring repayment not later than one year or, if issued by a local authority in the *United Kingdom*, five years from the date of issue; or

(iii) a *warrant* which entitles the holder to subscribe for an *investment* within (a)(i) or (a)(ii);

(b) which involves any of the following *investments* and is not made on a *recognised investment exchange* or expressed to be so made:

(i) a *certificate representing certain securities* or rights to or interests in *investments* relating, in either case, to an *investment* within (a)(i) or (a)(ii);

(ii) an *option* relating to:

(A) an instrument in (a)(i) or (a)(ii); or

(B) currency of the *United Kingdom* or of any other country or territory; or

(C) gold or silver;

(iii) a *future* for the sale of:

(A) an instrument in (a)(i) or (a)(ii); or

(B) currency of the *United Kingdom* or of any other country or territory; or

(C) gold or silver;

(iv) a *contract for differences* by reference to fluctuations in:

(A) the value or price of any instrument within any of (a)(i) to (a)(iii) or (b)(i) to (b)(iii); or

(B) currency of the *United Kingdom* or of any other country or territory; or

(C) the rate of interest on loans in any such currency or any index of such rates; or

(v) an *option* to acquire or dispose of an instrument within (b)(ii), (b)(iii) or (b)(iv); or

(c) where one of the parties agrees to sell or transfer a *debenture* or *government and public security* and by the same or a collateral agreement that party agrees, or acquires an option, to buy back or re-acquire that

money
purchase
scheme

FCA PRA

investment or an equivalent amount of a similar *investment* within twelve *months* of the sale or transfer.

For the purposes of (c) *investments* are regarded as similar if they entitle their holders to the same rights against the same *persons* as to capital and interest and the same remedies for the enforcement of those rights.

in relation to a *director*, means a pension scheme under which all of the benefits that may become payable to or in respect of the *director* are money purchase benefits.

money
remittance

FCA PRA

(in accordance with regulation 2(1) of the *Payment Service Regulations*) a service for the transmission of money (or any representation of monetary value), without any payment accounts being created in the name of the payer or the payee, where:

- (a) funds are received from a payer for the sole purpose of transferring a corresponding amount to a payee or to another *payment service provider* acting on behalf of the payee; or
- (b) funds are received on behalf of, and made available to, the payee.

[Note: article 4(13) of the *Payment Services Directive*]

money service
business

FCA PRA

carrying on by way of business the activity of:

- (a) operating a bureau de change; or
- (b) transmitting money, or any representation of monetary value, by any means; or
- (c) cashing cheques which are made payable to customers.

money service
operator

FCA PRA

a *person* who carries on *money service business* other than a *firm*, a *BCD credit institution* or a *financial institution*.

money-market
instrument

FCA PRA

(1) any of the following *investments*:

- (a) a *debenture* which is issued on terms requiring repayment not later than five years from the date of issue;
- (b) any *government and public security* which is issued on terms requiring repayment not later than one year or, if issued by a local authority in the *United Kingdom*, five years from the date of issue;
- (c) a *warrant* which entitles the holder to subscribe for an *investment* within (a) or (b);
- (d) a *certificate representing certain securities or rights to or interests in investments* relating, in either case, to an *investment* within (a) or (b);
- (e) an *option* relating to:
 - (i) an instrument in (a) or (b); or
 - (ii) currency of the *United Kingdom* or of any other country or territory; or
 - (iii) gold or silver;
- (f) a *future* for the sale of:
 - (i) an instrument in (a) or (b); or

(ii) currency of the *United Kingdom* or of any other country or territory; or

(iii) gold or silver;

(g) a *contract for differences* by reference to fluctuations in:

(i) the value or price of any instrument within any of (a) to (f); or

(ii) currency of the *United Kingdom* or of any other country or territory; or

(iii) the rate of interest on loans in any such currency or any index of such rates;

(h) an *option* to acquire or dispose of an instrument within (e), (f) or (g).

(2) those classes of *financial instruments* which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment.

[Note: article 4(1)(19) of *MiFID*]

money-market instruments

FCA PRA

those classes of *financial instruments* which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment.

[Note: article 4(1)(19) of *MiFID*]

money-purchase benefits

FCA PRA

(1) (except in *COMP*) (in relation to an *occupational pension scheme*) benefits the rate or amount of which are calculated by reference to a payment or payments made by a member of the scheme.

(2) (in *COMP*) in relation to a member of a *personal pension scheme* or an *occupational pension scheme* or the widow or widower or surviving civil partner of a member of such a scheme, means benefits the rate or amount of which is calculated by reference to a payment or payments made by the member or by any other *person* in respect of the member and which are not average salary benefits.

money-purchase occupational scheme

FCA PRA

an *occupational pension scheme* which provides *money-purchase benefits*.

month

FCA PRA

(in accordance with the Interpretation Act 1978) a calendar month.

monthly financial return

FCA PRA

(in *UPRU*) means the return referred to in *SUP*.

mortgage administrator

FCA PRA

a *firm* with *permission* (or which ought to have *permission*) for *administering a regulated mortgage contract*.

mortgage adviser

FCA PRA

a *firm* with *permission* (or which ought to have *permission*) for *advising on regulated mortgage contracts*.

Mortgage and General Insurance Complaints Transitional Order

FCA **PRA**

The Financial Services and Markets Act 2000 (Transitional Provisions) (Complaints Relating to General Insurance and Mortgages) Order 2004 (SI 2004/454).

mortgage arranger

FCA **PRA**

a *firm* with *permission* (or which ought to have *permission*) for *arranging* (see also *arranging (bringing about) regulated mortgage contracts* and *making arrangements with a view to regulated mortgage contracts*).

mortgage credit card

FCA **PRA**

a *plastic card* which is a credit card issued under a *regulated mortgage contract* and not regulated by the Consumer Credit Act 1974.

mortgage intermediary

FCA **PRA**

a *firm* with *permission* (or which ought to have *permission*) to carry on *mortgage mediation activity*.

mortgage lender

FCA **PRA**

a *firm* with *permission* (or which ought to have *permission*) for *entering into a regulated mortgage contract*.

mortgage mediation activity

FCA **PRA**

(as defined in article 26 of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 1) Order 2003 (SI 2003/1475)) any of the following *regulated activities*:

(a) *arranging (bringing about) regulated mortgage contracts* (article 25A(1));

(b) *making arrangements with a view to regulated mortgage contracts* (article 25A(2));

(c) *advising on regulated mortgage contracts* (article 53A);

(d) *agreeing to carry on a regulated activity* in (a) to (c) (article 64).

most important financial sector

FCA **PRA**

(in relation to a financial sector in a *consolidation group* or a *financial conglomerate* and in accordance with ■ GENPRU 3.1 (Cross sector groups)) the *financial sector* with the largest average referred to in the box titled Threshold Test 2 in the *financial conglomerate definition decision tree* (10% ratio of balance sheet size and solvency requirements); and so that the investment services sector and the banking sector are treated as one for the purpose of the definition of *financial conglomerate* and for any other purpose that GENPRU 3.1 (Cross sector groups) says they are.

Motor Insurers' Information Centre

FCA **PRA**

the information centre appointed to meet the *United Kingdom's* obligations under article 23 of the *Consolidated Motor Insurance Directive* (Information Centres).

motor vehicle liability

FCA **PRA**

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 10 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), against damage arising out of or in connection with the use of motor vehicles on land, including third-party risks and carrier's liability.

motor vehicle liability insurance business

FCA **PRA**

general insurance business of class 10, other than:

- (a) carrier's liability;
- (b) pure reinsurance of that class.

motor vehicle liability insurer

FCA **PRA**

- (a) a *firm* with *permission* to carry on *motor vehicle liability insurance business*;
- (b) any *person* carrying on the *regulated activity* of managing the *underwriting capacity of a Lloyd's syndicate* in respect of *members* whose insurance business at Lloyd's includes *motor vehicle liability insurance business*.

MTF

FCA **PRA**

a *multilateral trading facility*.

MTF transaction

FCA **PRA**

a transaction concluded by a *firm* under the rules governing an *MTF* with another member or participant of that *MTF*.

multilateral development bank

FCA **PRA**

- (A) In the PRA Handbook:
 - (a) any of the following:
 - (i) African Development Bank;
 - (ii) Asian Development Bank;
 - (iii) Caribbean Development Bank;
 - (iv) Council of Europe Development Bank;
 - (v) European Bank for Reconstruction & Development;
 - (vi) European Investment Bank;
 - (vii) European Investment Fund;
 - (viii) Inter-American Development Bank;
 - (ix) International Bank for Reconstruction 91 and 91 Development;
 - (x) International Finance Corporation;
 - (xa) International Finance Facility for Immunisation;
 - (xb) Islamic Development Bank;
 - (xi) Multilateral Investment Guarantee Agency; and
 - (xii) Nordic Investment Bank;

(b) [deleted]

(B) In the FCA Handbook:

- (a) any of the following:
 - (i) African Development Bank;

- (ii) Asian Development Bank;
- (iii) Caribbean Development Bank;
- (iv) Council of Europe Development Bank;
- (v) European Bank for Reconstruction & Development;
- (vi) European Investment Bank;
- (vii) European Investment Fund;
- (viii) Inter-American Development Bank;
- (ix) International Bank for Reconstruction 91 and 91 Development;
- (x) International Finance Corporation;
- (xa) International Finance Facility for Immunisation;
- (xb) Islamic Development Bank;
- (xi) Multilateral Investment Guarantee Agency; and
- (xii) Nordic Investment Bank;

(b) (in *BIPRU*) for the purposes of the *standardised approach* to credit risk the following are considered to be a multilateral development bank;

- (i) the Inter-American Investment Corporation;
- (ii) the Black Sea Trade and Development Bank; and
- (iii) the Central American Bank for Economic Integration

multilateral trading facility

FCA **PRA**

a multilateral system, operated by an *investment firm* or a *market operator*, which brings together multiple third-party buying and selling interests in *financial instruments* - in the system and in accordance with non-discretionary rules - in a way that results in a contract in accordance with the provisions of Title II of *MiFID*.

[Note: article 4(1)(15) of *MiFID*]

multiplication factor

FCA **PRA**

(in ■ *BIPRU* 7.10 (Use of a value at risk model)) a multiplication factor applied to a *VaR measure* for the purpose of calculating the *model PRR* made up of the *minimum multiplication factor* as increased by the *plus factor*, all as more fully defined in ■ *BIPRU* 7.10.118 R (Capital calculations: Multiplication factors).

mutual

FCA **PRA**

an *insurer* which:

- (a) if it is a *body corporate* has no *share capital* (except a wholly owned *subsidiary* with no *share capital* but limited by guarantee); or
- (b) is a *registered friendly society* or *incorporated friendly society*; or
- (c) is a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies (Northern Ireland) Act 1969.

name-passing broker

FCA **PRA**

a *person* who arranges (brings about) *deals* between counterparties at mutually acceptable terms and passes their names to each of them to facilitate the conclusion of a transaction.

national bureau

FCA **PRA**

(in relation to an *EEA State*) a professional organisation which:

(a) has been constituted in that State in accordance with Recommendation No 5 adopted on 25 January 1949 by the Road Transport Sub-committee of the Inland Transport Committee of the United Nations Economic Commission for Europe; and

(b) groups together *insurance undertakings* which in that State are authorised to conduct the business of motor vehicle liability insurance.

national guarantee fund

FCA **PRA**

(in relation to an *EEA State*) a body which:

(a) has been set up or authorised in that State in accordance with article 1(4) of Council Directive (84/5/EEC); and

(b) provides compensation for damages to property or personal injuries caused by unidentified vehicles for which the insurance obligation provided for in article 1(1) of that Directive has not been satisfied.

natural gas

FCA **PRA**

(a) natural gas in any form, including natural gas as deliverable through the *Network Code*; and

(b) any right that relates to natural gas, for example the right under a contract or otherwise to require a person to take any action in relation to natural gas, including:

(i) delivering natural gas to any person or taking delivery of natural gas; or

(ii) providing any information or notice in relation to natural gas; or

(iii) making any payment in relation to the delivery or non-delivery, or the taking or non-taking of delivery, of natural gas.

NCIS

FCA **PRA**

National Criminal Intelligence Service.

NCLEG
non-trading book permission

PRA

(A) (in the PRA Handbook):

has the meaning given in the *PRA Rulebook*: Large Exposures rules.

NCLEG
trading book permission

PRA

(A) (in the PRA Handbook):

has the meaning given in the *PRA Rulebook*: Large Exposures rules.

PAGE
N1

near cash

FCA **PRA**

money, deposits or investments which, in each case, fall within any of the following:

(a) *money* which is deposited with an *eligible institution* or an *approved bank* in:

(i) a current account; or

<p><i>net annual rent</i></p> <p>FCA PRA</p>	<p>(ii) a <i>deposit</i> account, if the <i>money</i> can be withdrawn immediately and without payment of a penalty exceeding seven days' interest calculated at ordinary commercial rates;</p> <p>(b) certificates of <i>deposit</i> issued by an <i>eligible institution</i> or an <i>approved bank</i> if immediately redeemable at the option of the holder;</p> <p>(c) <i>government and public securities</i> , if redeemable at the option of the holder or bound to be redeemed within two years;</p> <p>(d) bills of exchange which are <i>government and public securities</i>;</p> <p>(e) <i>deposits</i> with a <i>local</i> authority of a kind which fall within paragraph 9 of Part II of the First Schedule to the <i>Trustee Investments Act 1961</i>, and equivalent <i>deposits</i> with any <i>local</i> authority in another <i>EEA State</i> , if the <i>money</i> can be withdrawn immediately and without payment of a penalty as described in (a).</p>
<p><i>net earned premiums</i></p> <p>FCA PRA</p>	<p>(in <i>LR</i>) (in relation to a <i>property</i>) the current income or income estimated by the valuer:</p> <p>(a) ignoring any special receipts or deductions arising from the <i>property</i>;</p> <p>(b) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and</p> <p>(c) after making deductions for superior rents (but not for amortisation) and any disbursements including, if appropriate, expenses of managing the <i>property</i> and allowances to maintain it in a condition to command its rent.</p>
<p><i>net leverage</i></p> <p>FCA PRA</p>	<p><i>gross earned premiums</i>, less reinsurance premiums earned.</p>
<p><i>net liability</i></p> <p>FCA PRA</p>	<p>the ratio of total assets, less those bought under reverse <i>repo</i> arrangements, to total equity.</p>
<p><i>net long position</i></p> <p>FCA PRA</p>	<p>(in <i>CREDS</i>) means the outstanding balance of any loan made to the borrower and any interest on that loan that is due but unpaid, less any <i>attached shares</i> held by the borrower.</p>
<p><i>net open foreign currency position</i></p> <p>FCA PRA</p>	<p>the situation in which a <i>firm</i> holds or will hold more <i>units</i> in an <i>investment</i> than it has contracted to <i>sell</i> or, in respect of <i>options</i>, where it has bought rights which exceed rights sold.</p>
<p><i>net premium</i></p> <p>FCA PRA</p>	<p>(in <i>IPRU(INV) 13</i>) a <i>firm's net long position</i> or <i>net short position</i>, whichever is the higher, in a currency other than that in which the <i>firm's</i> books of account are maintained.</p>
<p><i>net premium</i></p> <p>FCA PRA</p>	<p>the <i>premium</i> that is calculated to provide the basic sum assured under a <i>with-profits insurance contract</i> taking into consideration only the mortality and interest rate risks and using the same assumptions as used in the calculation of the <i>mathematical reserves</i>.</p>

net short position

FCA **PRA**

(1) (except in *IPRU(INV)* 13) a net short position which gives rise to an economic exposure to the issued *share* capital of a company.

Any calculation of whether a *person* has a short position must take account of any form of economic interest in the *shares* of the company.

(2) (in *IPRU(INV)* 13) the situation in which a *firm* has contracted to *sell* more of an *investment* than it holds or will hold or, in respect of *options*, where it has sold rights which exceed the rights bought.

(3) [deleted]

net underwriting exposure

FCA **PRA**

has the meaning in BIPRU 7.8.34R (Large exposure risk from underwriting securities: Calculating the net underwriting exposure) which is in summary the amount calculated by applying the reduction factors in the table in BIPRU 7.8.35R to the *net underwriting position*.

net underwriting position

FCA **PRA**

the net underwriting position calculated under BIPRU 7.8.17R (Calculating the net underwriting position).

net written premiums

FCA **PRA**

gross written premiums, less *reinsurance* premiums payable under *reinsurance* ceded.

netting

FCA **PRA**

a process by which the claims and obligations between two counterparties are offset against each other to leave a single net sum.

netting set

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised under ■ BIPRU 13.7 (Contractual netting), ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (The IRB approach: Credit risk mitigation); each transaction that is not subject to a legally enforceable bilateral netting arrangement, which is recognised under ■ BIPRU 13.7 must be interpreted as its own *netting set* for the purpose of ■ BIPRU 13. Under the method set out at ■ BIPRU 13.6, all *netting sets* with a single counterparty may be treated as a single *netting set* if negative simulated market values of the individual sets are set to zero in the estimation of *expected exposure (EE)*.

[Note: *BCD*, Annex III, Part 1, point 5]

network

FCA **PRA**

a *firm*:

(a) which has five or more *appointed representatives* (not counting *introducer appointed representatives*) ; or

(b) whose *appointed representatives* , not counting *introducer appointed representatives* (and being fewer than five) have, between them, 26 or more *representatives*;

but not:

(i) a *product provider*; or

	<p>(ii) a <i>firm</i> which markets the <i>packaged products</i> of a <i>product provider</i> which is in the same <i>group</i> as the <i>firm</i> and which does so other than by selecting products from the whole market; or</p> <p>(iii) an <i>insurer</i> in relation to a <i>non-investment insurance contract</i>; or</p> <p>(iv) a <i>mortgage lender</i>.</p>
<p>Network Code FCA PRA</p>	<p>the network code prepared by Transco plc in accordance with condition 7 of the public gas transporter licence granted or treated as granted to Transco plc under section 7(2) of the Gas Act 1986, as in force from time to time, or any subsequent similar instrument or arrangement.</p>
<p>new applicant FCA PRA</p>	<p>(in LR) an <i>applicant</i> that does not have any <i>class</i> of its <i>securities</i> already listed.</p>
<p>nominated ECAI FCA PRA</p>	<p>(a) (in the case of an eligible ECAI within paragraph (a) of the definition of that term (Recognition for exposure risk-weighting purposes)) an <i>eligible ECAI</i> nominated by a <i>firm</i> in accordance with ■ BIPRU 3.6 (Use of rating agencies' credit assessments for the determination of risk weights under the standardised approach to credit risk) for the purpose of calculating its <i>risk weighted exposure amounts</i> under the <i>standardised approach</i> to credit risk except under (b);</p> <p>(b) (in the case of an eligible ECAI within paragraph (b) of the definition of that term (Recognition <i>securitisation risk-weighting</i> purposes)) an <i>eligible ECAI</i> nominated by a <i>firm</i> in accordance with ■ BIPRU 9.8 (Use of ECAI credit assessments for the determination of applicable risk weights) for the purpose of calculating its <i>securitisation risk weighted exposure amounts</i>.</p>
<p>nominated partner FCA</p>	<p>the <i>person</i> nominated by the <i>operator</i> of a proposed <i>limited partnership scheme</i> to be the only limited partner (but not a <i>participant</i>) of the <i>scheme</i> on its formation.</p>
<p>nominee company FCA PRA</p>	<p>a <i>body corporate</i> whose business consists solely of acting as a nominee holder of <i>investments</i> or other property.</p>
<p>non credit-obligation asset FCA PRA</p>	<p>(in relation to the <i>IRB approach</i>) an <i>exposure</i> in the form of a non credit-obligation asset or falling under BIPRU 4.9.5R (Non credit-obligation assets).</p>
<p>non UK lead regulated firm FCA PRA</p>	<p>a <i>firm</i> that is not a <i>UK lead regulated firm</i>. This definition is not related to the defined term <i>lead regulated firm</i>.</p>
<p>non-authorised counterparty FCA</p>	<p>in EG, in relation to EMIR :</p> <p>(a) a financial counterparty which is not an <i>authorised person</i>; or</p> <p>(b) a non-financial counterparty; or</p> <p>(c) a third country entity referred to in article 4(1)(a)(v) of EMIR.</p>

*non-authorised
Voluntary
Jurisdiction
participant*

FCA **PRA**

a participant in the *Voluntary Jurisdiction* who is not a *firm*.

*non-core
concentration
risk group
counterparty*

FCA

(in accordance with Article 113(4)(c) of the *Banking Consolidation Directive*) has the meaning in **■ BIPRU 10.9A.4 R** (Definition of non-core concentration risk group counterparty), which is in summary (in relation to a *firm*) each counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking*, provided that (in each case) both the counterparty and the *firm* satisfy the conditions in **■ BIPRU 10.9A.4 R** (Definition of non-core concentration risk group counterparty).

*non-core large
exposures
group*

FCA **PRA**

(A) In the PRA Handbook:

has the meaning given in the *PRA Rulebook: Large Exposures rules*.

(B) In the FCA Handbook:

(in relation to a *firm*) all counterparties which:

(1) are listed in the *firm's non-core large exposures group permission*;

(2) satisfy the conditions in **■ IFPRU 8.2.6 R** (Intra-group exposures: non-core large exposures group); and

(3) for which *exposures* are exempted, under article 400(2)(c) of the *EU CRR* (Exemptions), from the application of article 395(1) of the *EU CRR* (Limits to large exposures).

*non-core large
exposures
group
exemption*

FCA

the exemption in **■ IFPRU 8.2.6 R** (Intra-group exposures: non-core large exposures group).

*non-core large
exposures
group
permission*

FCA

a permission referred to in **■ IFPRU 8.2.6 R** given by the *FCA* for the purpose of article 400(2)(c) of the *EU CRR* (Large exposures: exemptions).

*non-core large
exposures
group waiver*

PRA

a *waiver* that has the result of requiring a *firm* to apply **■ BIPRU 10.9A** (Intra-group exposures: non-core large exposures), which in summary exempts partially or fully exposures between members of the *core UK group* and members of the *non-core large exposures group* from the limits described in **■ BIPRU 10.5** (Limits on exposures).

*non-credit
equalisation
provision*

FCA **PRA**

the provision required to be established under *INSPRU 1.4.17R*.

*non-directive
firm*

FCA PRA

(in SUP 11 (Controllers and close links) and SUP 16 (Reporting requirements)) (in accordance with the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)) a *UK domestic firm* other than:

- (a) a *credit institution* authorised under the *Banking Consolidation Directive*;
- (b) an *investment firm* authorised under *MIFID*;
- (c) a *management company* as defined in article 2(1)(b) of the *UCITS Directive*, authorised under that directive;
- (d) an *undertaking* pursuing the activity of direct insurance within the meaning of:
 - (i) article 2 of the *Consolidated Life Directive*, authorised under that directive; or
 - (ii) article 1 of the *First Non-Life Directive*, authorised under that directive;
- (e) an *undertaking* pursuing the activity of *reinsurance* within the meaning of article 2.1 (a) of the *Reinsurance Directive*, authorised under that directive.

*non-directive
friendly society*

FCA PRA

- (a) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis;
- (b) a *friendly society* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed *persons* belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves);
- (c) a *friendly society* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;
- (d) a *friendly society* (carrying on *long-term insurance business*):
 - (i) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other *persons* who have undertaken to provide it; and
 - (ii) whose annual gross premium income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the three preceding financial years;
- (e) a *friendly society* (carrying on *general insurance business*):
 - (i) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits;
 - (ii) whose gross premium income (other than from contracts of reinsurance) for the preceding financial year did not exceed 5 million Euro; and
 - (iii) whose members provided at least half of that gross premium income;
- (f)
 - (i) a *friendly society* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*); and

non-directive
insurer

FCA PRA

(ii) the *mutuals* providing the *reinsurance* or the *guarantee* are subject to the rules of the *First Non-Life Directive*;

and in each case whose *insurance business* is limited to that described in any of (a) to (f).

(a) an *insurer* which is a provident or mutual benefit institution whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions are determined on a flat-rate basis; or

(b) an *insurer* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an *undertaking* or group of *undertakings*, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves); or

(c) an *insurer* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind; or

(d) a *mutual* (carrying on *long-term insurance business*) whose:

(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and

(ii) annual gross *premium* income (other than from contracts of *reinsurance*) has not exceeded 5 million Euro for each of the *financial year* in question and the two previous *financial years*; or

(e) a *mutual* (carrying on *general insurance business*) whose:

(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits;

(ii) business does not cover liability risks, other than *ancillary risks*, or credit or suretyship risks;

(iii) gross *premium* income (other than from contracts of *reinsurance*) for the *financial year in question* did not exceed 5 million Euro; and

(iv) members provided at least half of that gross *premium* income; or

(f) an *insurer* whose *insurance business* (other than *reinsurance*) is:

(i) restricted to the provision of assistance for persons who get into difficulties while travelling, while away from home or while away from their permanent residence;

(ii) carried out exclusively on a local basis and consists only of benefits in kind; and

(iii) such that the gross *premium* income from the provision of assistance in the *financial year in question* did not exceed 200,000 Euro; or

(g)

(i) a *mutual* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*); and

(ii) the *mutuals* providing the *reinsurance* or the *guarantee* are subject to the rules of the *First Non-Life Directive*.

<p><i>non-directive mutual</i></p> <p>FCA PRA</p>	<p>a <i>mutual</i> that falls into (d), (e) or (g) of the definition of a <i>non-directive insurer</i>.</p>
<p><i>non-discretionary investment manager</i></p> <p>FCA PRA</p>	<p>(in relation to <i>firm type</i> in ■ SUP 16.10 (Confirmation of standing data)) a <i>person</i> who, acting only on behalf of a <i>client</i> , manages <i>designated investments</i> in an account or portfolio on a non-discretionary basis under the terms of a non-discretionary management agreement.</p>
<p><i>non-discretionary management agreement</i></p> <p>FCA PRA</p>	<p>an agreement for the non-discretionary management of <i>investments</i>:</p> <p>(a) under which the <i>firm</i> agrees to conduct a regular review of the suitability of the <i>client's</i> account or portfolio, based on an assessment of the <i>client's</i> requirements; and</p> <p>(b) that sets out the <i>client's</i> investment objectives, investment strategy, and attitude to risk, the intervals at which the portfolio will be reviewed, and the arrangements for consulting the <i>client</i> about proposed investment decisions.</p>
<p><i>non-EEA AIF</i></p> <p>FCA PRA</p>	<p>an <i>AIF</i> which is not a <i>UK AIF</i> or an <i>EEA AIF</i>.</p>
<p><i>non-EEA AIFM</i></p> <p>FCA</p>	<p>an <i>AIFM</i> which is not a <i>UK AIFM</i> or an <i>EEA AIFM</i>.</p>
<p><i>non-EEA bank</i></p> <p>FCA PRA</p>	<p>a <i>bank</i> which is a <i>body corporate</i> or <i>partnership</i> formed under the law of any country or territory outside the <i>EEA</i>.</p>
<p><i>non-EEA direct insurer</i></p> <p>FCA PRA</p>	<p>an <i>insurer</i>, other than a <i>pure reinsurer</i>, whose head office is not in an <i>EEA State</i>.</p>
<p><i>non-EEA firm</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> that has its registered office (or, if it has no registered office, its head office) in a <i>non-EEA state</i>.</p>
<p><i>non-EEA insurer</i></p> <p>FCA PRA</p>	<p>an <i>insurer</i> whose head office is not in an <i>EEA State</i>.</p>
<p><i>non-EEA state</i></p> <p>FCA PRA</p>	<p>a country or state that is not an <i>EEA State</i>.</p>
<p><i>non-EEA sub-group</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>a group of <i>undertakings</i> identified as a <i>non-EEA sub-group</i> in BIPRU 8.3.1R (Main consolidation rule for non-EEA sub-groups); however where the provision in question refers to a <i>non-EEA sub-group</i> in another <i>EEA State</i> it means a group of <i>undertakings</i> identified in Article 73(2) of the <i>Banking Consolidation Directive</i></p>

(Non-EEA sub-groups) required to be supervised on a consolidated basis under Article 73(2) of the *Banking Consolidation Directive* by a competent authority in that *EEA State*.

(B) In the FCA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU* 3) and *BIPRU* (except ■ *BIPRU* 12)) a group of *undertakings* identified as a *non-EEA sub-group* in *BIPRU* 8.3.1R (Main consolidation rule for non-EEA sub-groups); however where the provision in question refers to a *non-EEA sub-group* in another *EEA State* it means a group of *undertakings* identified in Article 73(2) of the *Banking Consolidation Directive* (Non-EEA sub-groups) required to be supervised on a consolidated basis under Article 73(2) of the *Banking Consolidation Directive* by a competent authority in that *EEA State*.

(2) (except in (1)) a group of *undertakings* identified in article 22 of the *EU CRR* (Sub-consolidation in cases of entities in third countries).

non-equity transferable securities

FCA PRA

(in *PR*) (as defined in section 102A of the *Act*) all *transferable securities* that are not equity securities.

non-executive director

FCA PRA

a *director* who has no responsibility for implementing the decisions or the policies of the *governing body* of a *firm*.

non-executive director function

FCA PRA

(1) (in the *FCA Handbook*) *FCA controlled function* CF2 in Part 1 of the *table of FCA controlled functions*, described more fully in ■ *SUP* 10A.6.12 R and ■ *SUP* 10A.6.13 R.

(2) (in the *PRA Handbook*) *PRA controlled function* CF2 in the *table of PRA controlled functions*, described more fully in ■ *SUP* 10B.6.3 R to ■ *SUP* 10B.6.5 R.

Non-Exempt Activities Order

FCA PRA

the Financial Services and Markets Act 2000 (Professions) (Non-Exempt Activities) Order 2001 (SI 2001/1227).

non-ILAS BIPRU firm

FCA PRA

a *firm* falling into *BIPRU* 12.1.1R which is not an *ILAS BIPRU firm*.

non-independent research

FCA PRA

a *research recommendation* which:

(a) relates to *financial instruments* (as specified in Section C of Annex 1 of *MiFID*, whether or not they are admitted to trading on a *regulated market*); and

(b) does not constitute *investment research*.

[Note: article 24(2) of the *MiFID implementing Directive*]

non-investment insurance contract

a *contract of insurance* which is a *general insurance contract* or a *pure protection contract* but which is not a *long-term care insurance contract*.

FCA PRA

Non-Life Directives

the *First Non-Life Directive*, the *Second Non-Life Directive* and the *Third Non-Life Directive*.

FCA PRA

non-listed company

(in accordance with article 4(1)(ac) of AIFMD) a *company* which has its registered office in the *EEA* and the *shares* of which are not *admitted to trading* on a *regulated market*.

FCA

non-mainstream pooled investment

any of the following *investments*:

- (a) a *unit* in an *unregulated collective investment scheme*;
- (b) a *unit* in a *qualified investor scheme*;
- (c) a *security* issued by a *special purpose vehicle*, other than an *excluded security*;
- (d) a *traded life policy investment*;
- (e) *rights to or interests in investments* that are any of (a) to (d).

FCA

non-mainstream regulated activity

a *regulated activity* of an *authorised professional firm* in relation to which the conditions in ■ PROF 5.2.1 R are satisfied.

FCA PRA

non-market-price transaction

a transaction where:

- (a) the *dealing rate* or price paid by the *firm* or its *client* differs from the prevailing market rate or price to a material extent; or
- (b) the *firm* or its *client* otherwise gives materially more or less in value than it receives in return.

FCA PRA

non-profit fund

a *long-term insurance fund* which is not a *with-profits fund*.

FCA PRA

non-profit insurance business

the business of *effecting* or carrying out non-profit insurance contracts.

FCA PRA

non-profit insurance contract

a *long-term insurance contract* which is not a *with-profits insurance contract*.

FCA PRA

non-proportional reinsurance treaty

see *proportional reinsurance treaty*.

FCA PRA

<p><i>non-real time financial promotion</i></p> <p>FCA PRA</p>	<p>(in accordance with article 7(2) of the <i>Financial Promotion Order</i>) a <i>financial promotion</i> that is not a <i>real time financial promotion</i>.</p>
<p><i>non-retail communication</i></p> <p>FCA PRA</p>	<p>a <i>financial promotion</i> and:</p> <p>(a) is <i>made only to recipient</i> who the <i>firm</i> reasonably believes are <i>professional clients</i> or <i>eligible counterparties</i>; or</p> <p>(b) may reasonably be regarded as <i>directed only at recipients</i> who are <i>professional clients</i> or <i>eligible counterparties</i>.</p>
<p><i>non-stakeholder CTF</i></p> <p>FCA PRA</p>	<p>a CTF that is not a <i>stakeholder CTF</i>.</p>
<p><i>non-trading book</i></p> <p>FCA PRA</p>	<p>positions, exposures, assets and liabilities that are not in the <i>trading book</i>.</p>
<p><i>non-UCITS retail scheme</i></p> <p>FCA PRA</p>	<p>an <i>authorised fund</i> which is neither a <i>UCITS scheme</i> or a <i>qualified investor scheme</i>.</p>
<p><i>non-UCITS scheme</i></p> <p>FCA PRA</p>	<p>an <i>authorised fund</i> that is not a <i>UCITS scheme</i>.</p>
<p><i>non-UK DLG by modification</i></p> <p>FCA PRA</p>	<p>either of the following:</p> <p>(a) a <i>non-UK DLG by modification (firm level)</i>; or</p> <p>(b) a <i>non-UK DLG by modification (DLG level)</i>.</p>
<p><i>non-UK DLG by modification (DLG level)</i></p> <p>FCA PRA</p>	<p>(in relation to any reporting period under ■ SUP 16 (Reporting requirements) and in relation to a <i>firm</i> that meets the following conditions (a group liquidity reporting firm):</p> <p>(a) it is a <i>UK ILAS BIPRU firm</i> with an <i>intra-group liquidity modification</i>;</p> <p>(b) it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i> created by that <i>intra-group liquidity modification</i>;</p> <p>(c) the <i>overall liquidity adequacy rule</i> applies under that <i>intra-group liquidity modification</i> to that <i>UK DLG by modification</i>; and</p> <p>(d) that <i>UK DLG by modification</i> can rely, under that <i>intra-group liquidity modification</i>, for any part of that period, on a group of other <i>persons</i> for the purpose of the <i>overall liquidity adequacy rule</i> as applied to that <i>UK DLG by modification</i>);</p> <p>means the group made up of the following:</p> <p>(e) that <i>ILAS BIPRU firm</i>;</p> <p>(f) the other members of that <i>UK DLG by modification</i>; and</p>

	(g) the group of other <i>persons</i> mentioned in (d).
	A <i>firm</i> has a 'non-UK DLG by modification (DLG level)' for a period even if it only has one during part of that period.
	(<i>Guidance</i> about this definition, and its inter-relation with other new definitions, is set out in ■ SUP 16 Annex 26 G (Guidance on designated liquidity groups in ■ SUP 16.12).)
<i>non-UK DLG by modification (firm level)</i>	(in relation to a <i>group liquidity reporting firm</i>) a <i>DLG by modification (firm level)</i> that is not a <i>UK DLG by modification</i> . A <i>firm</i> with a <i>non-UK DLG by modification (firm level)</i> cannot also have a <i>UK DLG by modification</i> .
FCA PRA	(<i>Guidance</i> about this definition, and its inter-relation with other related definitions, is set out in ■ SUP 16 Annex 26 G (Guidance on designated liquidity groups in ■ SUP 16.12).)
<i>normal trading hours</i>	(in relation to a <i>trading venue</i> or an <i>investment firm</i>) those hours which the <i>trading venue</i> or <i>investment firm</i> establishes in advance and makes public as its trading hours.
FCA PRA	[Note: article 2(5) of the <i>MiFID Regulation</i>]
<i>normally based</i>	(in <i>ICOBS</i>) (in relation to a <i>vehicle</i>):
FCA PRA	(a) the territory of the <i>EEA State</i> of which the <i>vehicle</i> bears a registration plate; or
	(b) in cases where no registration is required for the type of <i>vehicle</i> , but the <i>vehicle</i> bears an insurance plate or a distinguishing sign analogous to a registration plate, the territory of the <i>EEA State</i> in which the insurance plate or the sign is issued; or
	(c) in cases where neither registration plate nor insurance plate nor distinguishing sign is required for the type of <i>vehicle</i> , the territory of the <i>EEA State</i> in which the keeper of the <i>vehicle</i> is permanently resident.
	[Note: article 1(4) of Directive 72/166/EC (First Motor Insurance Directive)]
<i>normally resident</i>	(in <i>MCOB</i>) normally resident; for the purposes of this definition:
FCA PRA	(a) an individual (whether or not acting as trustee) is to be treated as normally resident in the country which he indicates is his country of residence, unless the <i>firm</i> has reason to doubt this; and
	(b) a <i>body corporate</i> acting as trustee is to be treated as resident in the country in which its registered office (or, if it has no registered office, its head office) is located.
<i>Northern Ireland credit union</i>	a body corporate registered under the Credit Unions (Northern Ireland) Order 1985 which is an <i>authorised person</i> or a body corporate registered under the Industrial and Provident Societies Act (Northern Ireland) 1969 as a <i>credit union</i> which is an <i>authorised person</i> .
FCA PRA	
<i>notice of discontinuance</i>	a notice given by the <i>appropriate regulator</i> in accordance with section 389 of the <i>Act</i> (Notices of discontinuance) which states that the <i>appropriate regulator</i> has decided not to take the action proposed in a <i>warning notice</i> or the action to which a <i>decision notice</i> relates.
FCA PRA	
<i>notice of intention</i>	a notice of intention (as described in ■ SUP 13.5) given by a <i>UK firm</i> to:
FCA PRA	(a) establish a <i>branch</i> in an <i>EEA State</i> under paragraph 19(2) of Part III of Schedule 3 to the <i>Act</i> (Exercise of passport rights by UK firms); or

notification
rule

FCA PRA

(b) provide services in an *EEA State* under paragraph 20(1) of Part III of Schedule 3 to the *Act* (Exercise of passport rights by UK firms)
or

(c) establish a *branch* or provide services in an *EEA state* in the exercise of its *EEA right* under the *auction regulation*.

(1) (in relation to a *firm*) a *rule* requiring a *firm* to give the *appropriate regulator* notice of, or information regarding, an event, but excluding:

(a) a *rule* requiring periodic submission of a report; and

(b) a *rule* in the *listing rules*.

(2) (in relation to a *recognised body*) a *rule* made by the *FCA* under section 293 of the *Act* (Notification requirements) or section 295 of the *Act* (Notification: overseas investment exchanges and overseas clearing houses)
:

(a) requiring a *recognised body* to give the *FCA*:

(i) notice of, and specified information regarding, specified events relating to the body;

(ii) specified information relating to the body at specified times or in respect of specified periods; and

(iii) any other information required to be given by such a *rule*; or

(b) (in relation to an *RIE*):

(i) specifying descriptions of *regulatory provision* in relation to which, or circumstances in which, the duty to notify the *FCA* of such *regulatory provision* in section 300B(1) of the *Act* does not apply or providing that the duty to notify applies only to specified descriptions of *regulatory provision* or in specified circumstances; or

(ii) making provision as to the form and contents of the notice required under (2)(b)(i), and requiring *recognised bodies* to provide specified information in connection with that notification.

notional
principal

FCA PRA

(a) (in relation to a *contract for differences* which is an index *derivative*):

(i) the current mark to market valuation of a *contract for differences* which resembles a *futures* contract; or

(ii) the exercise value of a *contract for differences* which resembles an *option* contract;

(b) (in relation to any other *contract for differences*) the notional lot size of the contract.

nuclear risks

FCA PRA

risks falling within any *class* of *general insurance business* and arising in connection with the construction and use of any nuclear reactor or nuclear installation or the carriage of any nuclear matter.

<p><i>obligor grade</i> FCA PRA</p>	<p>(in relation to the <i>IRB approach</i> and the <i>sovereign, institutional and corporate IRB exposure class</i> and in accordance with BIPRU 4.4.8R) a risk category within a <i>rating system's</i> obligor rating scale, to which obligors are assigned on the basis of a specified and distinct set of rating criteria, from which estimates of <i>PD</i> are derived.</p>
<p><i>occupational pension fund management business</i> FCA PRA</p>	<p>(in <i>COMP</i>) the business of carrying on:</p> <p>(1) <i>pension fund management</i>; or</p> <p>(2) (other than in connection with a <i>personal pension scheme</i>) <i>pension fund management</i>, written as linked long term business, for an <i>occupational pension scheme</i> or for an institution falling within article 2 of the Council Directive of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (No 2003/41/EC) but only to the extent that:</p> <p style="margin-left: 40px;">(a) there is no transfer to the <i>participant firm</i> of:</p> <p style="margin-left: 80px;">(i) investment, market, or credit risk;</p> <p style="margin-left: 80px;">(iii) mortality or expense risk prior to any annuity being effected; and</p> <p style="margin-left: 40px;">(b) any annuity options provide for the <i>participant firm</i> to change the annuity rates without prior notice.</p>
<p><i>occupational pension scheme</i> FCA PRA</p>	<p>(a) (a scheme specified in article 3(1) of the <i>Regulated Activities Order</i> (Interpretation)) which is, in summary, a pension scheme established for the purpose of providing benefits to people with service in employments of a prescribed description.</p>
<p><i>OECD</i> FCA PRA</p>	<p>Organisation for Economic Co-operation and Development.</p>
<p><i>OECD state guaranteed issuer</i> FCA PRA</p>	<p>an <i>issuer of debt securities</i> whose obligations in relation to those securities have been guaranteed by a member state of the <i>OECD</i>.</p>
<p><i>OEIC</i> FCA PRA</p>	<p><i>open-ended investment company</i>. (see also <i>ICVC</i>.)</p>
<p><i>OEIC Regulations</i> FCA PRA</p>	<p>the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228)</p>
<p><i>offer</i> FCA PRA</p>	<p>(1) (in ■ MAR 1 (Code of market conduct)) an offer as defined in the <i>Takeover Code</i>.</p> <p>(2) (in ■ MAR 2 (Buy-backs and Stabilisation)) an offer or invitation to make an offer.</p> <p>(3) (in <i>LR</i> and <i>PR</i>) an <i>offer of transferable securities to the public</i>.</p>
<p><i>offer document</i> FCA PRA</p>	<p>(in <i>MCOB</i>) a document in which the <i>home finance provider</i> offers to enter into a <i>home finance transaction</i> with a <i>customer</i>.</p>

offer for sale

FCA **PRA**

(in *LR*) an invitation to the public by, or on behalf of, a third party to purchase *securities* of the *issuer* already in issue or allotted (and may be in the form of an invitation to tender at or above a stated minimum price).

offer for subscription

FCA **PRA**

(in *LR*) an invitation to the public by, or on behalf of, an *issuer* to subscribe for *securities* of the *issuer* not yet in issue or allotted (and may be in the form of an invitation to tender at or above a stated minimum price).

offer of transferable securities to the public

FCA **PRA**

(in *PR* and *LR*) (as defined in section 102B of the *Act*), in summary:

(a) a communication to any person which presents sufficient information on:

- (i) the transferable securities to be offered, and
- (ii) the terms on which they are offered;

to enable an investor to decide to buy or subscribe for the securities in question;

- (b) which is made in any form or by any means;
- (c) including the placing of securities through a financial intermediary;
- (d) but not including a communication in connection with trading on:
 - (i) a regulated market;
 - (ii) a multilateral trading facility; or
 - (iii) any market prescribed by an order under section 130A of the *Act*.

Note: This is only a summary; to see the full text of the definition, readers should consult section 102B of the *Act*.

offer price

FCA **PRA**

the price at which a *person* could purchase a *unit* in a *dual-priced authorised fund* or a *security*.

offeree

FCA **PRA**

(in **MAR 1**) an offeree as defined in the *Takeover Code*.

offering programme

FCA **PRA**

(in *PR*) (as defined in Article 2.1(k) of the *prospectus directive*) a plan which would permit the issuance of non-equity securities, including warrants in any form, having a similar type and/or class, in a continuous or repeated manner during a specified issuing period.

offeror

FCA

(1) (in **MAR 1** (The Code of Market Conduct) and **LR 5.2.10 R**) an offeror as defined in the *Takeover Code*.

(2) (in **MAR 2** (Buy-backs and Stabilisation)) (as defined in Article 2 of the *Buy-back and Stabilisation Regulation*) the prior holders of, or the entity issuing, the *relevant securities*).

(3) (in *LR*, *PR* and *FEES* provisions in relation to *PR*) a *person* who makes an *offer of transferable securities to the public*.

off-exchange

FCA **PRA**

(in relation to a transaction in an *investment*) a transaction which is not *on-exchange*.

officer

FCA PRA

(1) (in connection with the exercise of the *appropriate regulator's* power to require information) an officer of the *appropriate regulator*, a member of the *appropriate regulator's* staff or an agent of the *appropriate regulator*.

(2) (otherwise) (in relation to a *body corporate*) (as defined in section 400(5) of the *Act* (Offences by *bodies corporate* etc)) a director, member of the committee of management, *chief executive*, *manager*, secretary, or other similar officer of the body, or a *person* purporting to *act* in that capacity or a *controller* of the body.

official list

FCA PRA

(1) (in *LR*) the list maintained by the *FCA* in accordance with section 74(1) of the *Act* for the purposes of Part VI of the *Act*.

(2) (except in *LR*):

(a) the list maintained by the *FCA* in accordance with section 74(1) of the *Act* (The official list) for the purposes of Part VI of the *Act* (Official Listing);

(b) any corresponding list maintained by a *competent authority* for listing in another *EEA State*.

oil

FCA PRA

mineral oil of any description and petroleum gases, whether in liquid or vapour form, including products and derivatives of oil.

oil collective investment scheme

FCA PRA

a *collective investment scheme*, the property of which consists only of property which is *oil* or an *oil* investment or cash awaiting investment.

oil investment

FCA PRA

any of the following:

(a) a *unit* in an *oil* collective investment scheme;

(b) an *option* to acquire or dispose of an *oil* investment;

(c) a future where the *commodity* in question is *oil*;

(d) a *contract for differences* where the property in question is *oil* or an *oil* investment or the index or other factor in question is linked to or otherwise dependent upon fluctuations in the value or price of *oil* or any *oil* investments;

(e) *rights to or interests in investments* in (a) - (d).

oil market activity

FCA PRA

(a) any *regulated activity* in relation to an *oil investment* or to *oil*, or in relation to a *biofuel investment*, *biofuel*, a *biomass investment* or *biomass* that is ancillary to activities related to *oil investments* or *oil*, which:

(i) is the *executing* of *own account transactions* on any *recognised investment exchange* or *designated investment exchange*; or

(ii) if it is not the *executing* of transactions on such exchanges, is performed in connection with or for persons who are not individuals; and

(b) *establishing, operating or winding up a collective investment scheme* which is an *oil collective investment scheme* in which individuals do not participate.

oil market participant

FCA **PRA**

(A) In the PRA Handbook:

a *firm*:

(a) whose permission:

(i) includes a *requirement* that the *firm* must not carry on any *designated investment business* other than *oil market activity*; and

(ii) does not include a *requirement* that it comply with IPRU(INV) 5 (Investment management *firms*) or 13 (Personal *investment firms*); and

(b) which is not an *authorised professional firm, bank, BIPRU firm*, (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society, credit union, friendly society, ICVC, insurer, MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU commodities firm*), *media firm, service company, insurance intermediary, home finance administrator, mortgage intermediary, home finance provider, incoming EEA firm* (without a *top-up permission*), or *incoming Treaty firm* (without a *top-up permission*).

(B) In the FCA Handbook:

a *firm*:

(a) whose permission:

(i) includes a *requirement* that the *firm* must not carry on any *designated investment business* other than *oil market activity*; and

(ii) does not include a *requirement* that it comply with IPRU(INV) 5 (Investment management *firms*) or 13 (Personal *investment firms*); and

(b) which is not an *authorised professional firm, bank, BIPRU firm*, (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society, credit union, friendly society, ICVC, insurer, MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU commodities firm*), *media firm, service company, insurance intermediary, home finance administrator, mortgage intermediary, home finance provider, incoming EEA firm* (without a *top-up permission*), or *incoming Treaty firm* (without a *top-up permission*).

Ombudsman

FCA **PRA**

a *person* appointed to the panel of *persons* maintained by the FOS Ltd to determine complaints, including the Chief Ombudsman.

Ombudsman Transitional Order

FCA **PRA**

the Financial Services and Markets Act 2000 (Transitional Provisions) (Ombudsman Scheme and Complaints Scheme) Order 2001 (SI 2001/2326).

<p><i>omnibus client account</i></p> <p>FCA</p>	<p>an account maintained by a <i>firm</i> at an <i>authorised central counterparty</i> for more than one <i>client</i> of the <i>firm</i> in respect of which the <i>authorised central counterparty</i> has agreed with the <i>firm</i> to provide <i>omnibus client segregation</i>.</p>
<p><i>omnibus client segregation</i></p> <p>FCA PRA</p>	<p>as defined in article 39(2) of <i>EMIR</i>.</p>
<p>OMPS</p> <p>FCA PRA</p>	<p>the Handbook Guide for oil market participants.</p>
<p><i>one-day VaR measure</i></p> <p>FCA PRA</p>	<p>(in BIPRU 7.10 (Use of a value at risk model)) has the meaning in BIPRU 7.10.98R (Backtesting: One day VaR measure), which is in summary and in relation to a particular <i>business day</i>, the <i>VaR number</i> for that <i>business day</i> calibrated to a one <i>business day</i> holding period and a 99% one-tailed confidence level.</p>
<p><i>one-off promotion</i></p> <p>FCA</p>	<p>a communication meeting the requirements set out in articles 15 or 15A of the <i>Promotion of Collective Investment Schemes Order</i> or in articles 28 or 28A of the <i>Financial Promotions Order</i>.</p>
<p><i>one-off transaction</i></p> <p>FCA PRA</p>	<p>any transaction other than a transaction carried out in the course of an established business relationship formed by a <i>person</i> acting in the course of relevant financial business.</p>
<p><i>one-sided credit valuation adjustment</i></p> <p>FCA</p>	<p>(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>BIPRU</i>) a <i>credit valuation adjustment</i> that reflects the market value of the credit risk of the counterparty to a <i>firm</i>, but does not reflect the market value of the credit risk of the <i>firm</i> to the counterparty.</p>
<p><i>on-exchange</i></p> <p>FCA PRA</p>	<p>(a) (in relation to a transaction in the <i>United Kingdom</i>) effected by means of the <i>facilities</i> of, or governed by the <i>rules</i> of, an <i>RIE</i> or a <i>regulated market</i>;</p> <p>(b) (in relation to any other transaction) effected by means of the <i>facilities</i> of, or governed by the <i>rules</i> of, an exchange.</p>
<p><i>ongoing basis</i></p> <p>FCA PRA</p>	<p>in ■ BIPRU 9.15, maintaining on an <i>ongoing basis</i> means that the retained positions, interest or exposures are not hedged or sold.</p> <p>[Note: <i>BCD</i>, Article 122a, paragraph 1]</p>
<p><i>open</i></p> <p>FCA PRA</p>	<p>in relation to a <i>syndicate year</i>, one which has not been <i>closed</i>.</p>
<p><i>open currency position</i></p> <p>FCA PRA</p>	<p>the amount calculated under BIPRU 7.5.19R (Open currency position) as part of the calculation of the <i>foreign currency PRR</i>.</p>

open offer

FCA **PRA**

(in *LR* and in ■ *DTR 5*) an invitation to existing *securities* holders to subscribe or purchase *securities* in proportion to their holdings, which is not made by means of a renounceable letter (or other negotiable document).

open-ended investment company

FCA **PRA**

(as defined in section 236 of the *Act* (Open-ended investment companies)) a *collective investment scheme* which satisfies both the property condition and the investment condition:

(a) the property condition is that the property belongs beneficially to, and is managed by or on behalf of, a *body corporate* ("BC") having as its purpose the investment of its funds with the aim of:

(i) spreading investment risk; and

(ii) giving its members the benefit of the results of the management of those funds by or on behalf of that body;

(b) the investment condition is that, in relation to BC, a reasonable investor would, if he were to participate in the *scheme*:

(i) expect that he would be able to realise, within a period appearing to him to be reasonable, his investment in the *scheme* (represented, at any given time, by the value of shares in, or securities of, BC held by him as a *participant* in the *scheme*); and

(ii) be satisfied that his investment would be realised on a basis calculated wholly or mainly by reference to the value of property in respect of which the *scheme* makes arrangements.

(see also *investment company with variable capital*.)

operating a dormant account fund

FCA **PRA**

any of the *regulated activities* of:

(a) *meeting of repayment claims*; or

(b) *managing dormant account funds* (including the investment of such funds).

operating a multilateral trading facility

FCA **PRA**

the *regulated activity* in article 25D of the *Regulated Activities Order*, which is, in summary, the operation of a multilateral trading facility on which MiFID instruments are traded.

In this definition "MiFID instrument" means any investment:

(a) of the kind specified by articles 76, 77, 78, 79, 80, 81, 83, 84 or 85 of the *Regulated Activities Order*; or

(b) of the kind specified by article 89 of the *Regulated Activities Order*, so far as relevant to an investment falling within (a),

that is a *financial instrument*.

operational objectives

FCA **PRA**

as defined in section 1B(3) of the *Act*.

operational risk

FCA **PRA**

(A) In the PRA Handbook:

(1) (in *COLL* and *FUND*) the risk of loss for a *UCITS* or *AIF* resulting from inadequate internal processes and failures in relation to the people and systems of the *management company* or *AIFM* or from external events, and it includes legal and documentation risk and risk resulting from the trading, settlement and valuation procedures operated on behalf of the *fund*.

(2) (in *GENPRU* (except ■ *GENPRU 3* (Cross sector groups) and *BIPRU* (except ■ *BIPRU 12* (Liquidity Standards)) (in accordance with Article 4(22) of the *Banking Consolidation Directive*) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

(3) (in ■ *GENPRU 3*, *IFPRU*, and ■ *BIPRU 12*) has the meaning in Article 4(1)(52) of the *EU CRR*.

(B) In the FCA Handbook:

(1) (in *COLL* and *FUND*) the risk of loss for a *UCITS* or *AIF* resulting from inadequate internal processes and failures in relation to the people and systems of the *management company* or *AIFM* or from external events, and it includes legal and documentation risk and risk resulting from the trading, settlement and valuation procedures operated on behalf of the *fund*.

(2) (in *GENPRU* (except ■ *GENPRU 3* (Cross sector groups) and *BIPRU* (except ■ *BIPRU 12* (Liquidity Standards)) (in accordance with Article 4(22) of the *Banking Consolidation Directive*) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

(3) (except in (1) and (2)) has the meaning in article 4(1)(52) of the *EU CRR*.

operational
risk capital
requirement

PRA

the part of the *capital resources requirement* of a *BIPRU firm* falling within *BIPRU 6.1.1R* in respect of *operational risk*, calculated in accordance with *BIPRU 6.2*.

operator

FCA PRA

(1) (except in *EG*):

(a) (in relation to an *AUT*) the *manager*;

(aa) (in relation to an *ACS*) the *authorised contractual scheme manager*;

(b) (in relation to an *ICVC*) that *company* or, if applicable, the *authorised corporate director*;

(ba) (in relation to any other *OEIC* which is an undertaking for *collective investment* in transferable securities within the meaning of the *UCITS Directive* and which has appointed a *person* to manage the *scheme*) the *manager*;

(c) (in relation to any other *collective investment scheme* that is a *unit trust scheme* with a separate *trustee*) any *person* who, under the *trust deed* establishing the *scheme*, is responsible for the management of the property held for or within the *scheme*;

(ca) (in relation to any other *collective investment scheme* that is a contractual scheme) any *person* who, under the constituent instrument, is responsible for the management of the property held for or within the *scheme*;

(d) (in relation to any other *collective investment scheme* that is an *open-ended investment company*) that *company* or, if applicable, any *person* who, under the constitution or founding arrangements of the *scheme*, is responsible for the management of the property held for or within the *scheme*;

(e) (in relation to any other *collective investment scheme*) any *person* who, under the constitution or founding arrangements of the *scheme*,

is responsible for the management of the property held for or within the *scheme*;

(f) (in relation to an *investment trust savings scheme*) any *person* appointed, by those responsible for managing the property of the *investment trust*, to manage the *investment trust savings scheme* ;

(g) (in relation to a *personal pension scheme* or *stakeholder pension scheme*) the *person* who carries on the *regulated activity* specified in article 52 of the *Regulated Activities Order* (Establishing etc. a pension scheme).

(2) (in *EG*) (in accordance with section 237(2) of the *Act* (Other definitions)):

(a) (in relation to a *unit trust scheme* with a separate *trustee*) the *manager*;

(b) (in relation to an *OEIC* which is an undertaking for collective investment in transferable securities within the meaning of the *UCITS Directive* and which has appointed a *person* to manage the *scheme*) the *manager*;

(c) (in relation to any other *OEIC*) the *company*.

OPS activity

FCA PRA

(a) *managing investments* in a case where the assets managed are:

(i) held for the purposes of an *occupational pension scheme*; or

(ii) held for the purposes of a *welfare trust* established by a *person* who is, or has been at any time during the last 12 *months*, an *associate* of the *OPS firm*; or

(iii) assets of an *OPS collective investment scheme*;

(b) any one or more of the following activities undertaken in the course of, or incidental to, the operation of an *occupational pension scheme*, *welfare trust* or *OPS collective investment scheme*:

(i) *dealing in investments as principal*;

(ii) *dealing in investments as agent*;

(iii) arranging (bringing about) deals in investments;

(iv) *making arrangements with a view to transactions in investments*;

(v) *safeguarding and administering investments*;

(vi) *advising on investments*;

(vii) receiving or holding *client money*.

OPS collective investment scheme

FCA PRA

a *collective investment scheme* the contributions to which consist entirely of assets held for an *occupational pension scheme*.

OPS firm

FCA PRA

(a) (except in *IPRU(INV)*) a *firm* which:

(i) carries on *OPS activity*; and

(ii) is one or more of the following:

(A) a trustee of the *occupational pension scheme* in question;

(B) a *company* owned by the trustees of the *occupational pension scheme* in question;

(C) a *company* which is:

(I) an employer in relation to the *occupational pension scheme* in question in respect of its employees or former employees or their dependants; or

(II) a *company* within the *group* which includes an employer within (I); or

(III) an administering authority subject to the Local Government Pension Scheme (Administration) Regulations 2008; or

(b) a *firm* which:

(i) has satisfied the requirements set out in (a) at any time during the past 12 *months*; but

(ii) is no longer able to comply with those requirements because of a change in the control or ownership of the employer referred to in (a)(i) during that period.

an *exempt CAD firm* which complies with the requirements in regulation 4C (or any successor provision) of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2007 (SI 2007/126).

*opted-in
exempt CAD
firm*

FCA PRA

(A) In the PRA Handbook:

the *investment*, specified in article 83 of the *Regulated Activities Order* (Options), which is an option to acquire or dispose of:

(a) a *designated investment* (other than an option or one to which (d) or (e) applies); or

(b) currency of the *United Kingdom* or of any other country or territory; or

(c) palladium, platinum, gold or silver; or

(d) a commodity to which article 83(2) of the *Regulated Activities Order* applies; or

(e) a *financial instrument* in paragraph 10 of Section C of Annex 1 to *MiFID* to which article 83(3) of the *Regulated Activities Order* applies; or

(f) an option to acquire or dispose of an option specified in (a), (b), (c), (d) or (e);

but so that for the purposes of calculating capital requirements for *BIPRU firms* it also includes any of the items listed in the table in ■ BIPRU 7.6.18 R (Option PRR: methods for different types of option) and any cash settled option.

(B) In the FCA Handbook:

the *investment*, specified in article 83 of the *Regulated Activities Order* (Options), which is an option to acquire or dispose of:

(a) a *designated investment* (other than an option or one to which (d) or (e) applies); or

option

FCA PRA

	<p>(b) currency of the <i>United Kingdom</i> or of any other country or territory; or</p> <p>(c) palladium, platinum, gold or silver; or</p> <p>(d) a commodity to which article 83(2) of the <i>Regulated Activities Order</i> applies; or</p> <p>(e) a <i>financial instrument</i> in paragraph 10 of Section C of Annex 1 to <i>MiFID</i> to which article 83(3) of the <i>Regulated Activities Order</i> applies; or</p> <p>(f) an option to acquire or dispose of an option specified in (a), (b), (c), (d) or (e);</p> <p>but so that for the purposes of calculating capital requirements for <i>BIPRU firms</i> it also includes any of the items listed in the table in ■ BIPRU 7.6.18 R (Option PRR: methods for different types of option) and any cash settled option.</p>
<p><i>option hedging method</i></p> <p>FCA PRA</p>	<p>the method of calculating the <i>option PRR</i> in BIPRU 7.6.24R (The hedging method).</p>
<p><i>option PRR</i></p> <p>FCA PRA</p>	<p>the part of the market risk capital requirement calculated in accordance with BIPRU 7.6 (Option PRR) or, in relation to a particular position, the portion of the overall option PRR attributable to that position.</p>
<p><i>option standard method</i></p> <p>FCA PRA</p>	<p>the method of calculating the option PRR in BIPRU 7.6.20R to BIPRU 7.6.22R (The standard method).</p>
<p>ORCR</p> <p>PRA</p>	<p>the <i>operational risk capital requirement</i>.</p>
<p><i>organisation</i></p> <p>FCA PRA</p>	<p>a <i>body corporate</i>, a <i>partnership</i>, a trust or an unincorporated association.</p>
<p><i>original financing costing amount</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>share</i>, <i>debenture</i> or other investment in, or external contribution to the capital of, a <i>firm</i> that is subject to a <i>step-up</i>) the <i>financing cost amount</i> for the instrument for a period beginning on or near the date of issue of the instrument and ending on or near the date of the first <i>step-up</i>.</p>
<p><i>originator</i></p> <p>FCA PRA</p>	<p>(A) In the <i>PRA Handbook</i>:</p> <p>(in accordance with Article 4(41) of the <i>Banking Consolidation Directive</i> (Definitions) and in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of <i>securitisation</i>) either of the following:</p> <p>(a) an entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the <i>exposures</i> being <i>securitised</i>; or</p>

(b) an entity which purchases a third party's *exposures* onto its balance sheet and then *securitises* them.

(B) In the FCA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU* 3) and *BIPRU* (except ■ *BIPRU* 12)) (in accordance with Article 4(41) of the *Banking Consolidation Directive* (Definitions) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of *securitisation*) either of the following:

(a) an entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the *exposures* being *securitised*; or

(b) an entity which purchases a third party's *exposures* onto its balance sheet and then *securitises* them.

(2) (except in (1)) has the meaning in article 4(1)(13) of the *EU CRR*.

OTC

FCA PRA

over the counter.

OTC
derivative

FCA PRA

a *derivative* traded solely *over the counter*.

OTC
derivative
transaction

FCA

a derivative financial instrument of a type listed on Annex II to the *CRR* that is traded *over the counter*.

OTC
derivatives,
CCPs and
trade
repositories
regulation

FCA

the Financial Services and Markets Act 2000 (Over the Counter Derivatives, Central Counterparties and Trade Repositories) Regulations 2013

out of the
money

FCA PRA

(for the purposes of *BIPRU* 7 (Market risk) and in relation to an *option* or *warrant*) that *option* or *warrant* being neither *at the money* nor *in the money*.

outgoing ECA
provider

FCA PRA

a *firm* which:

(a) provides an *electronic commerce activity*, from an *establishment* in the *United Kingdom*, with or for an *ECA recipient* present in an *EEA State* other than the *United Kingdom*; and

(b) is a national of an *EEA State* or a firm or company mentioned in article 54 of the *Treaty*.

outsourcing

FCA PRA

(1) (except in ■ SYSC 8 , ■ COBS 11.7 and the definition of *relevant person*) the use of a *person* to provide customised services to a *firm* other than:

- (a) a member of the *firm's* governing body acting in his capacity as such; or
- (b) an individual employed by a *firm* under a contract of service.

(2) (in ■ SYSC 8 , ■ COBS 11.7 and the definition of *relevant person*) an arrangement of any form between a *firm* and a service provider by which that service provider performs a process, a service or an activity which would otherwise be undertaken by the *firm* itself.

[Note: article 2(6) of the *MiFID implementing Directive*]

over collateralisation

FCA PRA

(in *RCB*) (as defined in Regulation 3(3) of the *RCB Regulations*) the provision of additional *assets* that assist the payment from the *relevant asset pool* of claims attaching to a *regulated covered bond* in the event of the failure of the *issuer*.

over the counter

FCA PRA

(in relation to a transaction in an *investment*) not *on-exchange*.

overall financial adequacy rule

FCA PRA

(A) In the PRA Handbook:

■ GENPRU 1.2.26A G (Requirement for certain *firms* to have adequate financial resources).

(B) In the FCA Handbook:

(1) (in *GENPRU*, *BIPRU* and *INSPRU*) ■ GENPRU 1.2.26A G (Requirement for certain *firms* to have adequate financial resources).

(2) (in *IFPRU*) IFPRU 2.2.1R (Adequacy of financial resources).

overall financial sector

FCA PRA

a sector composed of one or more the following types of entities:

- (a) members of each of the *financial sectors*; and
- (b) (except where ■ GENPRU 3.1 (Cross sector groups) or GENPRU 3 Ann 1R (Capital adequacy calculations for financial conglomerates) provide otherwise) a *mixed financial holding company*.

overall liquidity adequacy rule

FCA PRA

BIPRU 12.2.1R.

overall Pillar 2 rule

FCA PRA

(A) In the PRA Handbook:

■ GENPRU 1.2.30 R (Systems, strategies, processes and reviews for certain *firms*).

(B) In the FCA Handbook:

(1) (in *GENPRU*, *BIPRU* and *INSPRU*) ■ GENPRU 1.2.30 R (Systems, strategies, processes and reviews for certain *firms*).

(2) (in *IFPRU*) IFPRU 2.2.7R (Strategy processes and systems).

overallotment facility

(as defined in Article 2 of the *Buy-back and Stabilisation Regulation*) a clause in the underwriting agreement or lead management agreement which permits

FCA PRA

acceptance of subscriptions or offers to purchase a greater number of *relevant securities* than originally offered.

overseas

outside the *United Kingdom*.

FCA PRA

overseas
company

(in LR and PR) a *company* incorporated outside the *United Kingdom*.

FCA PRA

overseas
financial
services
institution

an institution authorised to carry on any *regulated activity* or other financial service by an *overseas regulator*.

FCA PRA

overseas
financial
stability
information
power

the PRA's power under section 169A of the *Act* (Support of overseas regulator with respect to financial stability) which, in summary, is a power exercisable at the request of an *overseas regulator* to require a *person* to provide information or documents relevant to the stability of one or more aspects of the *relevant financial system* operating in the country or territory of that regulator.

FCA PRA

overseas firm

(1) (in relation to ■ MAR 5) a *firm* which has its registered office (or, if it has no registered office, its head office) outside the *United Kingdom* excluding an *incoming EEA firm*.

FCA PRA

(2) (in any other case)
a *firm* which has its registered office (or, if it has no registered office, its head office) outside the *United Kingdom*.

overseas
introducing
broker

a *person*, who is not an *authorised person*:

- (a) who is resident outside the *United Kingdom*; and
- (b) who introduces transactions relating to designated investments arranged (brought about) for its *clients* to a *clearing firm* in the *United Kingdom*.

FCA PRA

overseas
investment
exchange

an investment exchange which has neither its head office nor its registered office in the *United Kingdom*.

FCA PRA

overseas
long-term
insurer

an *insurance undertaking* which is not an *authorised person* and which:

- (a) has its head office in an *EEA State* other than the *United Kingdom*, and is entitled to carry on *long-term insurance business* in that *EEA State*; or
- (b) has a *branch* or agency in an *EEA State* other than the *United Kingdom* and is entitled to carry on *long-term insurance business* in that *EEA State*; or
- (c) is authorised to effect or carry on *long-term insurance business* in the Bailiwick of Jersey, the Bailiwick of Guernsey, the Isle of Man, the Commonwealth of Pennsylvania or the State of Iowa;

FCA PRA

overseas
person

FCA PRA

for the purposes of (a) and (b), Gibraltar is to be regarded as if it were an *EEA State*.

(in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation)) a *person* who:

- (a) carries on any of the following *regulated activities*:
- (i) *dealing in investments as principal*;
 - (ii) *dealing in investments as agent*;
 - (iii) *arranging (bringing about) deals in investments*;
 - (iv) *arranging (bringing about) regulated mortgage contracts*;
 - (v) *making arrangements with a view to regulated mortgage contracts*;
 - (vi) *making arrangements with a view to transactions in investments*;
 - (vii) *managing investments*;
 - (viii) *safe custody and administering investments*;
 - (ix) *sending dematerialised instructions*;
 - (x) *causing dematerialised instructions to be sent*;
 - (xi) *establishing, operating or winding up a collective investment scheme*;
 - (xii) *acting as trustee of an authorised unit trust scheme*;
 - (xiii) *acting as the depositary or sole director of an open-ended investment company*;
 - (xiii a) *acting as the depositary of an authorised contractual scheme*;
 - (xiv) *establishing, operating or winding up a stakeholder pension scheme*;
 - (xiva) *establishing, operating or winding up a personal pension scheme*;
 - (xv) *advising on investments*;
 - (xvi) *advising on regulated mortgage contracts* ;
 - (xvii) *entering into a regulated mortgage contract* ;
 - (xviii) *administering a regulated mortgage contract* ;
 - (xix) *arranging (bringing about) a home reversion plan*;
 - (xx) *making arrangements with a view to a home reversion plan*;
 - (xxi) *advising on a home reversion plan*;
 - (xxii) *entering into a home reversion plan*;
 - (xxiii) *administering a home reversion plan*;
 - (xxiv) *arranging (bringing about) a home purchase plan*;
 - (xxv) *making arrangements with a view to a home purchase plan*;
 - (xxvi) *advising on a home purchase plan*;
 - (xxvii) *entering into a home purchase plan*;
 - (xxviii) *administering a home purchase plan*;

overseas regulator

FCA **PRA**

(xxix) agreeing to carry on those regulated activities , disregarding the exclusion in article 72 of the *Regulated Activities Order* (Overseas persons); but

(b) does not carry on any such activities, or offer to do so, from a permanent place of business maintained by him in the *United Kingdom*.

(1) (except in relation to the *overseas financial stability information power*) (as defined in section 195(3) of the *Act* (Exercise of power in support of overseas regulator)) an authority in a country or territory outside the *United Kingdom*:

(a) which is a *Home State regulator*; or

(b) which exercises any of the following functions:

(i) a function corresponding to any function of the *FCA* or *PRA* under the *Act*;

(ii) a function corresponding to any function exercised by the *FCA* in its capacity as *competent authority* in relation to the listing of securities;

(iii) a function corresponding to any function exercised by the Secretary of State under the Companies Acts (as defined in section 2 of the Companies Act 2006);

(iv) a function in connection with the investigation of conduct of the kind prohibited by Part V of the Criminal Justice Act 1993 (Insider Dealing), or with the enforcement of rules (whether or not having the force of law) relating to such conduct;

(v) a function prescribed by regulations made for the purposes of section 195(4) of the *Act* (Exercise of powers) which, in the opinion of the Treasury, relates to companies or financial services.

(2) (in relation to the *overseas financial stability information power*) (as defined in section 169A(2) of the *Act* (Support of overseas regulator with respect to financial stability)) an authority in a country or territory outside the *United Kingdom* which exercises functions with respect to the stability of the *relevant financial system* operating in that country or territory.

own account order

FCA **PRA**

an order which relates to an *own account transaction*.

own account trading firm

FCA **PRA**

(in relation to *firm type* in ■ SUP 16.10 (Confirmation of *standing data*)) a *firm* that only *deals* or arranges *deals* in *securities* or *contractually based investments* for its own benefit, or for the benefit of an *associate*.

own account transaction

FCA **PRA**

a transaction *executed* by the *firm* for its own benefit or for the benefit of its *associate* .

own estimates of volatility adjustments approach

FCA **PRA**

the approach to calculating volatility adjustments under the *financial collateral comprehensive method* under which the *firm* uses its own estimates of such adjustments, as more fully described in ■ BIPRU 5.4 (Financial collateral) and including that approach as applied to master netting agreements as described in BIPRU 5.6 (Master netting agreements).

own funds

FCA PRA

(A) In the PRA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU 3* (Cross sector groups) and *BIPRU* (except ■ *BIPRU 12* (Liquidity standards))) own funds as described in articles 56 to 67 of the *Banking Consolidation Directive*.

(2) [deleted]

(2A) (in ■ *IPRU(INV) 11*) the own funds of a *firm* calculated in line with ■ *IPRU(INV) Table 11.4* (Method of calculating initial capital and own funds).

(3) (in *IPRU(INV) 8*) capital, as defined in ■ *CREDS 5.2.1 R*.

(3A) (in *IPRU(INV) 13*) the own funds of a *firm* calculated in accordance with 13.1A.14R.

(4) (in *UPRU*) funds calculated in accordance with ■ *UPRU Table 2.2.1 R* (Method of calculation of financial resources) composed of the specified items set out in that Table.

(5) (except in (1) to (4)) has the meaning in article 4(1)(118) of the *EU CRR*.

(B) In the FCA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU 3* (Cross sector groups) and *BIPRU* (except ■ *BIPRU 12* (Liquidity standards))) own funds as described in articles 56 to 67 of the *Banking Consolidation Directive*.

(2) [deleted]

(2A) (in ■ *IPRU(INV) 11*) has the meaning in article 4(1)(118) of the *EU CRR*.

(3) (in *IPRU(INV) 8*) capital, as defined in ■ *CREDS 5.2.1 R*.

(3A) (in *IPRU(INV) 13*) the own funds of a *firm* calculated in accordance with 13.1A.14R.

(4) (in *UPRU*) has the meaning in article 4(1)(118) of the *EU CRR*.

(5) (except in (1) to (4)) has the meaning in article 4(1)(118) of the *CRR*.

has the meaning in article 4(1)(119) of the *EU CRR*.

own funds instruments

FCA

own funds requirements

FCA PRA

(A) (In the PRA Handbook):

as defined in article 92 (Own funds requirements) of the *EU CRR*.

(B) (In the FCA Handbook):

as defined in article 92 (Own funds requirements) of the *EU CRR*.

owner

FCA PRA

(in *RCB*) (as defined in Regulation 4 of the *RCB Regulations*) an owner which owns an *asset pool* and issues a guarantee to pay from that *asset pool* claims attaching to a *regulated covered bond* in the event of a failure of the *issuer* of that bond.

ownership share

FCA PRA

in accordance with the definition of a "share" in section 422(6) of the *Act* (Controller):

(a) (in relation to an *undertaking* with a share capital) an allotted share;

(b) (in relation to an *undertaking* with capital but no share capital) a right to share in the capital of the *undertaking* ;

(c) (in relation to an *undertaking* without capital) an interest:

- (i) conferring any right to share in the profits, or liability to contribute to the losses, of the *undertaking* ; or
- (ii) giving rise to an obligation to contribute to the debts or expenses of the *undertaking* in the event of a winding up.

own-initiative powers

FCA PRA

FCA's or the PRA's *own-initiative variation power* and *own-initiative requirement power*.

own-initiative requirement power

FCA PRA

The FCA's power under section 55L(3) of the *Act* or the PRA's power under section 55M(3) of the *Act* to impose a new *requirement* on a *firm*, to vary a *requirement* that it has imposed on the *firm* or to cancel any such *requirement* otherwise than on the application of a *firm*.

own-initiative variation power

FCA PRA

The FCA's or the PRA's power under section 55J (Variation or cancellation on initiative of regulator) to vary or cancel a *Part 4A permission* otherwise than on the application of a *firm*.

packaged bank account

FCA **PRA**

an arrangement under which a *firm* provides a *retail banking service* as part of a package which includes access to other goods or services, whether or not a fee is charged.

packaged product

FCA **PRA**

- (a) a *life policy*;
- (b) a *unit* in a *regulated collective investment scheme*;
- (c) an interest in an *investment trust savings scheme*;
- (d) a *stakeholder pension scheme*;
- (e) a *personal pension scheme*;

whether or not (in the case of (a), (b) or (c)) held within an *ISA* or a *CTF* and whether or not the *packaged product* is also a *stakeholder product*.

parent financial holding company in a Member State

FCA **PRA**

(A) In the PRA Handbook:

(1) (in *GENPRU* (except **■** *GENPRU 3* and *BIPRU* (except **■** *BIPRU 12*)) (in accordance with Article 4(15) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions)) a *financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.

(2) (except in (1)) has the meaning in article 4(1)(30) of the *EU CRR*.

(B) In the FCA Handbook:

(1) (in *GENPRU* (except **■** *GENPRU 3* and *BIPRU* (except **■** *BIPRU 12*)) (in accordance with Article 4(15) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions)) a *financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.

(2) (except in (1)) has the meaning in article 4(1)(30) of the *EU CRR*.

parent institution in a Member State

FCA **PRA**

(A) In the PRA Handbook:

(1) (in *GENPRU* (except **■** *GENPRU 3* and *BIPRU* (except **■** *BIPRU 12*)) (in accordance with Article 4(14) of the *Banking Consolidation Directive* and Article 3 of the *Capital Adequacy Directive* (Definitions)) an *institution* which has an *institution* or a *financial institution* as a *subsidiary undertaking* or which holds a *participation* in such an institution, and which is not itself a *subsidiary undertaking* of another *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.

(2) (except in (1)) has the meaning in article 4(1)(28) of the *EU CRR*.

(B) In the FCA Handbook:

(1) (in *GENPRU* (except **■** *GENPRU 3* and *BIPRU* (except **■** *BIPRU 12*)) (in accordance with Article 4(14) of the *Banking Consolidation Directive* and Article 3 of the *Capital Adequacy Directive* (Definitions)) an *institution* which has an *institution* or a *financial institution* as a *subsidiary undertaking* or which holds a *participation* in such an institution, and which is not itself a *subsidiary undertaking* of another *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.

parent mixed financial holding company in a Member State

FCA **PRA**

(2) (except in (1)) has the meaning in article 4(1)(28) of the *EU CRR*.

(A) In the PRA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU* 3 and *BIPRU* (except ■ *BIPRU* 12)) in accordance with Article 4(15a) of the *Banking Consolidation Directive* (Definitions)) a *mixed financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*

(2) (except in (1)) has the meaning in article 4(1)(32) of the *EU CRR*.

(B) In the FCA Handbook:

(1) (in *GENPRU* (except ■ *GENPRU* 3 and *BIPRU* (except ■ *BIPRU* 12)) in accordance with Article 4(15a) of the *Banking Consolidation Directive* (Definitions)) a *mixed financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*

(2) (except in (1)) has the meaning in article 4(1)(32) of the *EU CRR*.

parent undertaking

FCA **PRA**

(A) In the PRA Handbook:

(1) (in accordance with section 420 of the *Act* (Parent and subsidiary undertaking) and section 1162 of the *Companies Act 2006* (Parent and subsidiary undertakings)):

(a) (in relation to whether an *undertaking*, other than an *incorporated friendly society*, is a *parent undertaking* and except for the purposes described in (c)) an *undertaking* which has the following relationship to another *undertaking* ("S"):

- (i) it holds a majority of the voting rights in S; or
- (ii) it is a member of S and has the right to appoint or remove a majority of its board of directors; or
- (iii) it has the right to exercise a dominant influence over S through:

(A) provisions contained in S's memorandum or articles; or

(B) a control contract; or

- (iv) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or

(v)

(A) it has the power to exercise, or actually exercises, dominant influence or control over S; or

(B) it and S are managed on a unified basis; or

- (vi) it is a parent undertaking of a parent undertaking of S; or

(vii) (except in *REC* or for the purposes of the *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd's or to the *Society* or *managing agents* in respect of *members*) he is an individual and would be a *parent undertaking* if he were an *undertaking*; or

(viii) (except in *REC* or for the purposes of *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd's or to the *Society* or *managing agents* in respect of *members*) it is incorporated in or formed under the law of another *EEA State* and is a parent undertaking within the meaning of any rule of law in that State for purposes connected with implementation of the Seventh Company Law Directive;

in relation to (ii) and (iv); the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any shares in S are held by a *person* acting on behalf of the *undertaking* or any of its *subsidiary undertakings*; the provisions of Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (i) to (vi);

(b) (in relation to whether an incorporated friendly society is a parent undertaking and except for the purposes escribed in (c)) an *incorporated friendly society* which has the following relationship to a *body corporate* ("S"):

(i) it holds a majority of the voting rights in S; or

(ii) it is a member of S and has the right to appoint or remove a majority of S's board of directors; or

(iii) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or

(iv) it is the *parent undertaking* of a *body corporate* which has the relationship in (i), (ii) or (iii) to S.

(c) (for the purposes of *BIPRU* (except ■ *BIPRU* 12), *GENPRU* (except ■ *GENPRU* 3) and *INSPRU* as they apply on a consolidated basis and for the purposes of ■ *SYSC* 12 (Group risk systems and controls requirement) and ■ *SYSC* 19C (Remuneration Code for *BIPRU* firms) and in relation to whether an *undertaking* is a *parent undertaking*) an *undertaking* which has the following relationship to another *undertaking* ("S"):

(i) a relationship described in (a) other than (a)(vii); or

(ii) it effectively exercises a dominant influence over S;

and so that (a)(v) does not apply for the purpose of *BIPRU* as it applies on a consolidated basis (including *BIPRU* 8 (Group risk - consolidation)) or *BIPRU* 10.

(2) a *parent undertaking* within the meaning of (1) of a .

(3) (for the purposes of ■ *GENPRU* 3, ■ *BIPRU* 12, *IFPRU* and ■ *SYSC* 19A (Remuneration Code)) has the meaning in article 4(1)(15) of the *EU CRR* but so that (in accordance with article 2(9) of the *Financial Groups Directive*) article 4(1)(15)(b) applies for the purpose of ■ *GENPRU* 3.

(B) In the FCA Handbook:

(1) (in accordance with section 420 of the *Act* (Parent and subsidiary undertaking) and section 1162 of the Companies Act 2006 (Parent and subsidiary undertakings)):

(a) (in relation to whether an *undertaking*, other than an *incorporated friendly society*, is a *parent undertaking* and except for the purposes described in (c)) an *undertaking* which has the following relationship to another *undertaking* ("S"):

- (i) it holds a majority of the voting rights in S; or
- (ii) it is a member of S and has the right to appoint or remove a majority of its board of directors; or
- (iii) it has the right to exercise a dominant influence over S through:

(A) provisions contained in S's memorandum or articles; or

(B) a control contract; or

- (iv) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or

(v)

(A) it has the power to exercise, or actually exercises, dominant influence or control over S; or

(B) it and S are managed on a unified basis; or

- (vi) it is a parent undertaking of a parent undertaking of S; or

(vii) (except in *REC* or for the purposes of the *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd's or to the *Society* or *managing agents* in respect of *members*) he is an individual and would be a *parent undertaking* if he were an *undertaking*; or

(viii) (except in *REC* or for the purposes of *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd's or to the *Society* or *managing agents* in respect of *members*) it is incorporated in or formed under the law of another *EEA State* and is a parent undertaking within the meaning of any rule of law in that State for purposes connected with implementation of the Seventh Company Law Directive;

in relation to (ii) and (iv); the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any shares in S are held by a *person* acting on behalf of the *undertaking* or any of its *subsidiary undertakings*; the provisions of Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (i) to (vi);

(b) (in relation to whether an incorporated friendly society is a parent undertaking and except for the purposes described in (c)) an *incorporated friendly society* which has the following relationship to a *body corporate* ("S"):

- (i) it holds a majority of the voting rights in S; or
- (ii) it is a member of S and has the right to appoint or remove a majority of S's board of directors; or

(iii) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or

(iv) it is the *parent undertaking* of a *body corporate* which has the relationship in (i), (ii) or (iii) to S.

(c) (for the purposes of *BIPRU* (except ■ *BIPRU 12*), *GENPRU* (except ■ *GENPRU 3*) and *INSPRU* as they apply on a consolidated basis and for the purposes of ■ *SYSC 12* (Group risk systems and controls requirement) and ■ *SYSC 19C* (Remuneration Code for *BIPRU* firms) and in relation to whether an *undertaking* is a *parent undertaking*) an *undertaking* which has the following relationship to another *undertaking* ("S"):

(i) a relationship described in (a) other than (a)(vii); or

(ii) it effectively exercises a dominant influence over S;

and so that (a)(v) does not apply for the purpose of *BIPRU* as it applies on a consolidated basis (including *BIPRU 8* (Group risk - consolidation)) or *BIPRU 10*.

(2) a *parent undertaking* within the meaning of (1) of a .

(3) (for the purposes of ■ *GENPRU 3*, ■ *BIPRU 12*, *IFPRU* and ■ *SYSC 19A* (Remuneration Code)) has the meaning in article 4(1)(15) of the *EU CRR* but so that (in accordance with article 2(9) of the *Financial Groups Directive*) article 4(1)(15)(b) applies for the purpose of ■ *GENPRU 3*.

(as defined in section 3(9) of the Child Trust Fund Act 2004):

(a) parental responsibility within the meaning of the Children Act 1989 or the Children (Northern Ireland) Order 1995 (SI 1995/755 (N.I. 2)); or

(b) parental responsibilities within the meaning of the Children (Scotland) Act 1995.

parental
responsibility

FCA PRA

Part 30
exemption
order

FCA PRA

an order under regulation 30.10 of the General Regulations under the US Commodity Exchange Act, issued by the Commodity Futures Trading Commission on 15 May 1989, granting a *person* exemption from the registration requirement contained in Part 30 of those General Regulations.

Part 4A
permission

FCA PRA

(as defined in section 55A of the *Act* (Application for *permission*)) a *permission* given by the *FCA* or *PRA* under Part 4A of the *Act* (Permission to carry on regulated activities), or having effect as if so given.

Part 6 rules

FCA PRA

(as defined in section 73A of the *Act*) *rules* made for the purposes of Part VI of the *Act*.

Part XX
exemption

FCA PRA

the exemption from the *general prohibition* conferred on an *exempt professional firm* by section 327 of the *Act* (Exemption from the *general prohibition*).

participant

FCA PRA

(in accordance with section 235(2) of the *Act* (*Collective investment schemes*)) a *person* who participates in a *collective investment scheme*.

*participant
firm*

FCA PRA

- (1) (except in ■ FEES 1 and ■ FEES 6) a *firm* or a *member* other than:
- (a) (in accordance with section 213(10) of the *Act* (The compensation scheme) and regulation 2 of the *Electing Participants Regulations* (Persons not to be regarded as relevant persons) an *incoming EEA firm* which is:
- (i) a *credit institution* ;
 - (ii) a *MiFID investment firm* ; or
 - (iii) [deleted]
 - (iv) both (i) and (ii); or
 - (v) an *IMD insurance intermediary* or an *IMD reinsurance intermediary* which is neither (i) or (ii);
 - (vi) an *AIFM* managing an *unauthorised AIF* or providing the services in article 6(4) of *AIFMD*;
- in relation to its *passport activities*, unless it has *top-up cover*;
- (aa) (in accordance with section 213(10) of the *Act* (The compensation scheme) and regulation 2 of the *Electing Participants Regulations* (Persons not to be regarded as relevant persons) an *incoming EEA firm* which is a *management company* other than to the extent that it carries on the following activities from a *branch* in the *United Kingdom* or under the freedom to provide *cross border services*:
- (i) *collective portfolio management* for a *UCITS scheme*; or
 - (ii) *managing investments* (other than of a *collective investment scheme*), *advising on investments* or *safeguarding and administering investments* (the services referred to in article 6(3) of the *UCITS Directive*), but only if it has top-up cover;
- (b) a service company;
- (c) [deleted]
- (d) [deleted]
- (e) an *underwriting agent* , or *members' adviser* , in respect of *advising on syndicate participation at Lloyd's* or managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's;
- (f) an *authorised professional firm* that is subject to the rules of the Law Society (England and Wales) or the Law Society of Scotland and with respect to its *regulated activities* participates in the relevant society's compensation scheme;
- (g) an *ICVC*;
- (h) a *UCITS* qualifier;
- (i) [deleted]
- (j) in respect of the carrying on of *bidding in emissions auctions*, a *firm* that is exempt from *MiFID* under article 2(1)(i).
- (k) an *AIFM* *qualifier*.
- (2) (in ■ FEES 1 and ■ FEES 6) a *firm* specified in paragraph (1) above that is not a *member*.

participating deposit-taker

FCA **PRA**

(as defined in article 2(2) of the *compensation transitionals order*) a *person* who was at any time before *commencement*:

(a) a UK institution, participating institution, former UK institution or former participating institution as defined in section 52(6) of the Banking Act 1987; or

(b) a former authorised institution (as defined in section 106(1) of the Banking Act 1987 (other than a former UK institution or former participating institution as defined in section 52(6) of that Act), which was not a recognised bank or licensed institution excluded by an order under section 23(2) of the Banking Act 1979.

participating institution

FCA **PRA**

(as defined in article 2(2) of the *compensation transitionals order*) a *person* who was at any time before *commencement* a participating institution within the meaning of section 24(4) of the Building Societies Act 1986.

participating insurance undertaking

FCA **PRA**

an insurer which:

(a) has a *subsidiary undertaking* that is an *insurance undertaking*; or

(b) holds a *participation* in an *insurance undertaking*; or

(c) is linked to an *insurance undertaking* by a *consolidation Article 12(1) relationship*.

participating security

FCA **PRA**

a participating security as defined in regulation 3 of the Uncertificated Securities Regulations 1995 (SI 1995/3272), which enable title to participating securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument.

participation

FCA **PRA**

(A) In the PRA Handbook:

(for the purposes of *UPRU* and *GENPRU* (except **■** *GENPRU* 3) and for the purposes of *BIPRU* (except **■** *BIPRU* 12) and *INSPRU* as they apply on a consolidated basis):

(a) a participating interest may be defined according to:

(i) section 421A of the *Act* where applicable; or

(ii) paragraph 11(1) of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) where applicable; or

(iii) paragraph 8 of Schedule 7 to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) where applicable; or

(iv) paragraph 8 of Schedule 4 to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913) where applicable; or

(v) paragraph 8 of Schedule 5 to the Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1912) where applicable; or

(b) (otherwise) the direct or indirect ownership of 20% or more of the voting rights or capital of an *undertaking*;

but excluding the interest of a *parent undertaking* in its *subsidiary undertaking*.

(2) (except in (1) has the meaning in article 4(1)(35) of the *EU CRR*.

(B) In the *FCA Handbook*:

(1) (for the purposes of *UPRU* and *GENPRU* (except ■ *GENPRU 3*) and for the purposes of *BIPRU* (except ■ *BIPRU 12*) and *INSPRU* as they apply on a consolidated basis):

(a) a participating interest may be defined according to:

(i) section 421A of the *Act* where applicable; or

(ii) paragraph 11(1) of Schedule 10 to the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) where applicable; or

(iii) paragraph 8 of Schedule 7 to the *Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409) where applicable; or

(iv) paragraph 8 of Schedule 4 to the *Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008* (SI 2008/1913) where applicable; or

(v) paragraph 8 of Schedule 5 to the *Small Limited Liability Partnerships (Accounts) Regulations 2008* (SI 2008/1912) where applicable; or

(b) (otherwise) the direct or indirect ownership of 20% or more of the voting rights or capital of an *undertaking*;

but excluding the interest of a *parent undertaking* in its *subsidiary undertaking*.

(2) (except in (1) has the meaning in article 4(1)(35) of the *EU CRR*.

partner

FCA **PRA**

(in relation to a *firm* which is a *partnership*) any *person* appointed to direct its affairs, including:

(a) a *person* occupying the position of a partner (by whatever name called); and

(b) a *person* in accordance with whose directions or instructions (not being advice given in a professional capacity) the partners are accustomed to act.

partner function

FCA **PRA**

(1) (in the *FCA Handbook*) *FCA controlled function* CF4 in Part 1 of the *table of FCA controlled functions*, described more fully in ■ *SUP 10A.6.23 R* to ■ *SUP 10A.6.27 R*.

(2) (in the *PRA Handbook*) *PRA controlled function* CF4 in the *table of PRA controlled functions*, described more fully in ■ *SUP 10B.6.12 R* to ■ *SUP 10B.6.14 R*.

<p><i>partnership</i> FCA PRA</p>	<p>(in accordance with section 417(1) of the <i>Act</i> (Definitions)) any partnership, including a partnership constituted under the law of a country or territory outside the <i>United Kingdom</i>, but not including a <i>limited liability partnership</i>.</p>
<p><i>passport right</i> FCA PRA</p>	<p>(in accordance with regulation 2(1) of the <i>Electronic Money Regulations</i>) the entitlement of a <i>person</i> to establish a branch or provide services in an <i>EEA State</i> other than that in which they are authorised to provide <i>electronic money</i> issuance services:</p> <p style="margin-left: 20px;">(a) in accordance with the Treaty on the Functioning of the European Union as applied in the <i>EEA</i>; and</p> <p style="margin-left: 20px;">(b) subject to the conditions of the <i>Electronic Money Directive</i>.</p>
<p><i>passport activity</i> FCA PRA</p>	<p>an activity carried on by an <i>EEA firm</i>, or by a <i>UK firm</i>, under an <i>EEA right</i>.</p>
<p><i>payment holiday</i> FCA PRA</p>	<p>a feature of a <i>regulated mortgage contract</i> under which the <i>mortgage lender</i> permits the customer to make no payments for a specified period without being in <i>arrears</i>.</p>
<p><i>payment information</i> FCA PRA</p>	<p>the information described in COBS 7.3.4R, that is, the amount and nature of any payments that the <i>client</i> will have to make, directly or indirectly, for the <i>personal recommendation</i>.</p>
<p><i>payment institution</i> FCA PRA</p>	<p>an <i>authorised payment institution</i>, an <i>EEA authorised payment institution</i> or a <i>small payment institution</i>.</p> <p>[Note: articles 4(4) and 26(3) of the <i>Payment Services Directive</i>]</p>
<p><i>payment instrument</i> FCA PRA</p>	<p>(in <i>BCOBS</i>) any personalised device or personalised set of procedures agreed between the <i>banking customer</i> and the <i>firm</i> used by the <i>banking customer</i> to initiate an instruction or request by the <i>banking customer</i> to the <i>firm</i> to make a payment.</p>
<p><i>payment leg</i> FCA</p>	<p>(for the purposes of the <i>CCR standardised method</i> and as more fully defined in ■ BIPRU 13.5.2 R (Derivation of risk position: payment legs) the contractually agreed gross payments under a <i>financial derivative instrument</i>, including the notional amount of the transaction.</p>
<p><i>payment protection contract</i> FCA PRA</p>	<p>A <i>non-investment insurance contract</i> which has elements of a <i>general insurance contract</i> and the benefits of which are described as enabling a <i>policyholder</i> to protect his ability to continue to make payments due to third parties, or can reasonably be expected to be used in this way.</p>
<p><i>payment routing information</i> FCA PRA</p>	<p>a combination of letters, numbers or symbols specified by a <i>firm</i> to be provided when instructing or requesting the <i>firm</i> to make a payment from an account of a <i>banking customer</i> for the purpose of routing the payment to the correct destination and intended recipient.</p>

*payment
service*

FCA PRA

(in accordance with regulation 2(1) of, and Schedule 1 to, the *Payment Services Regulations*):

(a) Any of the following activities when carried out as a regular occupation or business activity:

(i) services enabling cash to be placed on a payment account and all of the operations required for operating a payment account;

(ii) services enabling cash withdrawals from a payment account and all of the operations required for operating a payment account;

(iii) execution of the following types of payment transaction:

(A) direct debits, including one-off direct debits;

(B) payment transactions executed through a payment card or a similar device;

(C) credit transfers, including standing orders;

(iv) execution of the following types of payment transaction where the funds are covered by a credit line for the *payment service user*:

(A) direct debits, including one-off direct debits;

(B) payment transactions executed through a payment card or a similar device;

(C) credit transfers, including standing orders;

(v) issuing payment instruments or acquiring payment transactions;

(vi) *money remittance*;

(vii) execution of payment transactions where the consent of the payer to execute the payment transaction is given by means of any telecommunication, digital or IT device and the payment is made to the telecommunication, IT system or network operator, acting only as an intermediary between the *payment service user* and the supplier of the goods or services.

(b) The following activities do not constitute payment services:

(i) payment transactions executed wholly in cash and directly between the payer and the payee, without any intermediary intervention;

(ii) payment transactions between the payer and the payee through a commercial agent authorised to negotiate or conclude the sale or purchase of goods or services on behalf of the payer or the payee;

(iii) the professional physical transport of banknotes and coins, including their collection, processing and delivery;

(iv) payment transactions consisting of non-professional cash collection and delivery as part of a not-for-profit or charitable activity;

(v) services where cash is provided by the payee to the payer as part of a payment transaction for the purchase of goods or services following an explicit request by the payer immediately before the execution of the payment transaction;

(vi) money exchange business consisting of cash-to-cash operations where the funds are not held on a payment account;

(vii) payment transactions based on any of the following documents drawn on the *payment service provider* with a view to placing funds at the disposal of the payee:

(A) paper cheques of any kind, including traveller's cheques;

(B) bankers' drafts;

(C) paper-based vouchers;

(D) paper postal orders;

(viii) payment transactions carried out within a payment or securities settlement system between *payment service providers* and settlement agents, central counterparties, clearing houses, central banks or other participants in the system;

(ix) payment transactions related to securities asset servicing, including dividends, income or other distributions, or redemption or sale, carried out by *persons* referred to in (h) or by investment firms, *full credit institutions*, collective investment undertakings, asset management companies providing investment services or by any other entities allowed to have the custody of financial instruments;

(x) services provided by technical service providers, which support the provision of *payment services*, without the provider entering at any time into possession of the funds to be transferred, including:

(A) the processing and storage of data;

(B) trust and privacy protection services;

(C) data and entity authentication;

(D) information technology;

(E) communication network provision; and

(F) the provision and maintenance of terminals and devices used for *payment services*;

(xi) services based on instruments that can be used to acquire goods or services only:

(A) in or on the issuer's premises; or

(B) under a commercial agreement with the issuer, either within a limited network of service providers or for a limited range of goods or services,

and for these purposes the "issuer" is the person who issues the instrument in question;

(xii) payment transactions executed by means of any telecommunication, digital or IT device, where the goods or services purchased are delivered to and are to be used through a telecommunication, digital or IT device, provided that the telecommunication, digital or IT operator does not act only as an intermediary between the *payment service user* and the supplier of the goods and services;

(A) payment transactions carried out between *payment service providers*, or their agents or *branches*, for their own account;

(B) payment transactions between a parent undertaking and its subsidiary or between subsidiaries of the same parent undertaking, without any intermediary intervention by a *payment service provider* other than an undertaking belonging to the same group;

(C) services by providers to withdraw cash by means of automated teller machines acting on behalf of one or more

<p><i>payment service provider</i></p> <p>FCA PRA</p>	<p>card issuers, which are not party to the <i>framework contract</i> with the customer withdrawing money from a payment account, where no other <i>payment service</i> is conducted by the provider.</p> <p>[Note: articles 3 and 4(3) of, and the Annex to, the <i>Payment Services Directive</i>]</p> <p>(1) (except in <i>DISP</i>) (in accordance with regulation 2(1) of the <i>Payment Service Regulations</i>) any of the following <i>persons</i> when they carry out a <i>payment service</i>:</p> <ul style="list-style-type: none"> (a) an <i>authorised payment institution</i>; (b) a <i>small payment institution</i>; (c) an <i>EEA authorised payment institution</i>; (d) a <i>full credit institution</i>; (e) an <i>electronic money issuer</i>; (f) the Post Office Limited; (g) the Bank of England, the European Central Bank and the national central banks of <i>EEA States</i> other than the <i>United Kingdom</i>, other than when acting in their capacity as a monetary authority or carrying out other functions of a public nature; and (h) government departments and local authorities, other than when carrying out functions of a public nature. <p>[Note: article 1(1) of the <i>Payment Services Directive</i>]</p> <p>(2) (in <i>DISP</i> and ■ FEES 5.5) as in (1) but excluding a <i>full credit institution</i>.</p>
<p><i>payment service user</i></p> <p>FCA PRA</p>	<p>(in accordance with regulation 2(1) of the <i>Payment Services Regulations</i>) a <i>person</i> when making use of a <i>payment service</i> in the capacity of either payer or payee, or both.</p> <p>[Note: article 4(10) of the <i>Payment Services Directive</i>]</p>
<p><i>Payment Services Directive</i></p> <p>FCA PRA</p>	<p>Directive 2007/64/EC of the European Parliament and of the Council of 13th November 2007 on payment services in the internal market.</p>
<p><i>Payment Services Regulations</i></p> <p>FCA PRA</p>	<p>the Payment Services Regulations 2009 (SI 2009/209).</p>
<p><i>PD</i></p> <p>FCA PRA</p>	<p>(1) (except in <i>GENPRU</i> and <i>BIPRU</i>) Prospectus Directive.</p> <p>(2) (in <i>GENPRU</i>, <i>BIPRU</i> and <i>BSOCS</i>) <i>probability of default</i>.</p>
<p><i>PD Regulation</i></p> <p>FCA PRA</p>	<p>the Prospectus Directive Regulation (No 2004/809/EC).</p>
<p><i>PD/LGD approach</i></p>	<p>the method for treating <i>equity exposures</i> under the <i>IRB approach</i> set out in ■ BIPRU 4.7.14 R-■ BIPRU 4.7.22 R.</p>

FCA PRA

peak exposure

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a high percentile of the distribution of exposures at any particular future date before the maturity date of the longest transaction in the *netting set*.

pending application

FCA PRA

(as defined in article 3(1) of the *compensation transitionals order*):

- (a) an application for compensation made under an *investment business compensation scheme* before *commencement* in relation to which a *terminating event* did not occur before *commencement*; and
- (b) an application made to the FSCS after *commencement* under an *investment business compensation scheme*, even if at the time of application that scheme had otherwise ceased to exist.

penny share

FCA PRA

a *readily realisable security* in relation to which the bid-offer spread is 10 per cent or more of the offer price, but not:

- (a) a *government and public security*; or
- (b) a *share* in a *company* quoted on The Financial Times Stock Exchange 100 Index; or
- (c) a *security* issued by a *company* which, at the time that the firm *deals* or recommends to the *client* to *deal* in the *investment*, has a market capitalisation of £100 million or more (or its equivalent in any other currency at the relevant time).

pension annuity

FCA PRA

an *investment* purchased with the sums derived from the vesting (partial or full) of a *pension policy* or *pension contract*, for the purposes of securing the beneficiary's entitlement to immediate or future benefits.

pension buy-out contract

FCA PRA

a *pension policy* bought from an *insurer* using funds from:

- (a) a scheme that was approved under Chapter 1 of Part 14 of the Income and Corporation Taxes Act 1988 when that chapter was in force; or
- (b) a scheme that is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

pension contract

FCA PRA

a contract under which rights to benefits are obtained by the making of contributions to an *occupational pension scheme* or to a *personal pension scheme*, where the contributions are paid to a *regulated collective investment scheme*.

pension fund management

FCA PRA

(in relation to a class of contract of insurance) the class of contract of insurance specified in paragraph VII of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance) namely:

- (a) pension fund management contracts; and
- (b) pension fund management contracts which are combined with *contracts of insurance* covering either conservation of capital or payment of a minimum interest;

where effected or carried out by a *person* who does not carry on a banking business, and otherwise carries on *insurance business*.

pension fund management contract

FCA PRA

(as defined in article 3(1) of the *Regulated Activities Order* (Interpretation)) a contract to manage the *investments* of pension funds (other than funds solely for the benefit of the officers or employees of the *person* effecting or carrying out the contract and their dependants or, in the case of a *company*, partly for the benefit of officers and employees of its subsidiary or holding company or a subsidiary of its holding company and their dependants; in this definition "subsidiary" and "holding company" mean either *subsidiary* and *holding company*, or *subsidiary* and *holding company* defined in accordance with article 4 of the Companies (Northern Ireland) Order 1986 (SI 1986) No 1032 (NI 6)) as amended by article 62 of the Companies (No 2) (Northern Ireland) Order 1990 (SI 1990 No 1504 (NI 10)).

pension opt-out

FCA PRA

a transaction, resulting from the decision of a *retail client* who is an individual, to:

- (a) opt out of an *occupational pension scheme*, *group personal pension scheme* or *group stakeholder pension scheme* to which his employer contributes and of which he is a member; or
- (b) decline to become a member of an *occupational pension scheme*, *group personal pension scheme* or *group stakeholder pension scheme* to which his employer contributes and of which he is eligible to join, or will be eligible to join at the end of a waiting period;

in favour of a *stakeholder pension scheme* or *personal pension scheme*.

pension policy

FCA PRA

a contract under which a right to benefits results from contributions made to an *occupational pension scheme* or to a *personal pension scheme*, where the contributions are paid to a *long-term insurer*.

pension scheme

FCA PRA

a scheme under which a right to benefits results from contributions made under a *pension contract* or *pension policy*.

pension term assurance policy

FCA PRA

a *personal pension policy* which is a *pure protection contract* and in connection with which tax relief is available under Chapter 4 of Part 4 of the Finance Act 2004.

pension transfer

FCA PRA

a transaction, resulting from the decision of a *retail client* who is an individual, to transfer deferred benefits from:

- (a) an *occupational pension scheme*;
- (b) an individual pension contract providing fixed or guaranteed benefits that replaced similar benefits under a *defined benefits pension scheme*;
- or
- (c) (in the cancellation rules (■ COBS 15)) a *stakeholder pension scheme* or *personal pension scheme*,

to:

- (d) a *stakeholder pension scheme*;
- (e) a *personal pension scheme*; or
- (f) a deferred annuity *policy*, where the eventual benefits depend on investment performance in the period up to the date when those benefits will come into payment.

pension transfer specialist

an individual appointed by a *firm* to check the suitability of a *pension transfer* or *pension opt-out* who has passed the required examinations as specified in TC.

FCA PRA

pension wrapper

(in the cancellation rules (■ COBS 15)) a *SIPP*, *pension contract* or *personal pension product*.

FCA PRA

per se eligible counterparty

a *client* categorised as a per se eligible counterparty in accordance with ■ COBS 3.6.

FCA PRA

per se professional client

a *client* categorised as a per se professional *client* in accordance with ■ COBS 3.5.

FCA PRA

percentage ratio

(in *LR*) (in relation to a transaction) the figure, expressed as a percentage, that results from applying a calculation under a *class test* to the transaction.

FCA PRA

PERG

the Perimeter Guidance manual.

FCA PRA

periodic information

the information identified in the table in ■ COBS 16 Annex 2R R, and if the *client* has not elected to receive *trade confirmation information* on a transaction by transaction basis under ■ COBS 16.3.3 R, the information identified in column 2 of ■ COBS 16 Annex 1R R.

FCA PRA

periodic statement

a report which a *firm* is required to provide to a *client* under ■ COBS 16.3 (Periodic reporting).

FCA PRA

permanent health

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph IV of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance), providing specified benefits against risks of persons becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that:

FCA PRA

- (a) are expressed to be in effect for a period of not less than five years, or until the normal retirement age of the persons concerned, or without limit of time; and
- (b) either are not expressed to be terminable by the insurer, or are expressed to be so terminable only in special circumstances mentioned in the contract.

permanent health reinsurance business

reinsurance acceptances which are *contracts of insurance* falling within *long-term insurance business class IV*.

FCA PRA

permanent interest bearing shares

FCA PRA

(A) In the PRA Handbook:

any shares of a class defined as deferred shares for the purposes of section 119 of the Building Societies Act 1986 which are issued as permanent interest-bearing shares and on terms which qualify them as own funds for the purposes of the *EU CRR*.

(B) In the FCA Handbook:

any shares of a class defined as deferred shares for the purposes of section 119 of the Building Societies Act 1986 which are issued as permanent interest-bearing shares and on terms which qualify them as own funds for the purposes of the *EU CRR*.

permanent share capital

FCA PRA

an item of capital that is stated in GENPRU 2.2.83R (Core tier one capital: permanent share capital) to be permanent share capital.

permission

FCA PRA

permission to carry on *regulated activities*; that is, any of the following:

(a) a *Part 4A permission*;

(b) the permission that an *incoming EEA firm* has, under paragraph 15(1) or paragraph 15A(1), (3) or (4) of Schedule 3 to the *Act* (EEA Passport Rights), on qualifying for *authorisation* under paragraph 12 of that Schedule;

(c) the permission that an *incoming Treaty firm* has, under paragraph 4(1) of Schedule 4 to the *Act* (Treaty Rights), on qualifying for *authorisation* under paragraph 2 of that Schedule;

(d) the permission that a *UCITS qualifier* has, under paragraph 2(1) of Schedule 5 to the *Act* (Persons concerned in Collective Investment Schemes);

(e) the permission that an *ICVC* has, under paragraph 2(2) of Schedule 5 to the *Act* (Persons concerned in Collective Investment Schemes);

(f) the permission that the Society of Lloyd's has, under section 315(2) of the *Act* (The Society: authorisation and permission), which is to be treated as a *Part IV permission* for the purposes of *Part 4A* of the *Act* (Permission to carry on regulated activities) in accordance with section 315(3) of the *Act*.

permitted activity

FCA PRA

(1) (except in ■ SUP 13A and ■ SUP 14) a *regulated activity* which a *firm* has *permission* to carry on.

(2) (in ■ SUP 13A and ■ SUP 14) an activity identified in a consent notice, a regulator's notice or, where none is required, a notice of intention.

permitted business

FCA PRA

(in *UPRU*) means *permitted activity*.

permitted deposits

FCA PRA

in relation to *permitted links, deposits* with any of the following:

(a) an *approved credit institution*; or

(b) an *approved financial institution*; or

(c) an *approved investment firm*.

permitted derivatives contract

FCA **PRA**

in relation to *permitted links*, a contract involving a *derivative* or *quasi-derivative* that satisfies ■ INSPRU 3.2.5 R to ■ INSPRU 3.2.35A G with the exception of ■ INSPRU 3.2.18 R, as applied in relation to assets covering liabilities in respect of *linked long-term* contracts of insurance.

permitted immovable

FCA **PRA**

any interest in land or buildings which falls within ■ COLL 5.6.18 R (2) and ■ COLL 5.6.18 R (6) (Investment in property) and which, being a leasehold interest or its equivalent, has an unexpired term of at least 20 years, but excluding, in relation to an *ICVC*, immovable property that is necessary for the direct pursuit of its business .

permitted land and property

FCA **PRA**

in relation to *permitted links*, any interest in land (and any buildings situated on it) provided that:

(a) it is considered by the *firm* to be located in a territory with a properly functioning market, indicated by the following criteria:

- (i) a lack of artificial barriers, including barriers to foreign ownership and repatriation of capital;
- (ii) fair and accurate valuation;
- (iii) suitably qualified and independent surveyors;
- (iv) accurate financial information;
- (v) enforceable contractual and other property rights;
- (vi) clarity of taxation;
- (vii) availability of reliable economic and property market data;
- (viii) ethical transaction standards; and

(b) it is:

- (i) owned directly by the *firm*; or
- (ii) held in a structure, or a series of structures, that do not pose a materially greater risk to *linked policyholders* than a direct holding; and

(c) it is not geared in excess of 10% of the gross asset value of the *linked fund* excluding any amounts represented by holdings in property detailed in *permitted scheme interests* (b) (i) to (iv). But this percentage restriction does not apply if the relevant *policyholder* or trustee or operator acting on behalf of an individual beneficiary requests, directly or indirectly, the *firm* to hold those investments based on the risk profile and objectives, stipulated by and specific for that individual under an investment management agreement with that individual.

permitted links

FCA **PRA**

the property in ■ COBS 21.3.1 R that an insurer may use for the purposes of determining *property-linked benefits* or *index-linked benefits* under *linked long-term* contracts of insurance.

permitted loans

FCA **PRA**

in relation to *permitted links*, a loan with any of the following:

- (a) an *approved credit institution*; or
- (b) an *approved financial institution*; or
- (c) an *approved investment firm*; or
- (d) any person, provided that the loan:
 - (i) is documented in a written agreement setting out the rate of interest and the amount of, and due dates for, repayments; and

permitted scheme interests

FCA **PRA**

(ii) is fully secured by a mortgage or charge on *permitted land and property* that, if made to someone other than a body corporate, is not used wholly or mainly for domestic purposes.

(a) in respect of a firm's business with *institutional linked policyholders* only, any of the following:

- (i) a *qualified investor scheme* or its EEA equivalent;
- (ii) any *unregulated collective investment scheme* that invests only in *permitted links* and publishes its prices regularly;
- (iii) any of the interests set out in (b)(i) to (b)(iv);

(b) in respect of a firm's business with *linked policyholders* other than those described in (a), any of the following:

- (i) an *authorised fund*;
- (ii) a *recognised scheme*;
- (iii) a scheme falling within the *UCITS Directive*;
- (iv) a *non-UCITS retail scheme*;
- (v) a *qualified investor scheme* or its EEA equivalent or any *unregulated collective investment scheme* that invests only in *permitted links* and publishes its prices regularly, provided that no more than 20% of the gross assets of the *linked fund* are so invested.

permitted stock lending

FCA **PRA**

in relation to *permitted links*, a *stock lending* transaction (including a *repo* transaction) that satisfies ■ INSPRU 3.2.36A R to ■ INSPRU 3.2.42 G (inclusive).

permitted third party

FCA **PRA**

a third party who is:

- (a) an *authorised person*; or
- (b) an *exempt person* for whom an *authorised person* is accepting responsibility; or
- (c) a *person* lawfully carrying on a *regulated activity* in another EEA State.

permitted units

FCA **PRA**

in relation to *permitted links*, units or beneficial interests in any real or notional fund that invests only in *permitted links* and is managed either:

- (a) wholly by the *insurer*; or
- (b) wholly or partly by:
 - (i) an agent on behalf of the *insurer*; or
 - (ii) a *reinsurer* in relation to a *reinsurance contract* with the *insurer*;

for whom the *insurer* retains all responsibility towards its *linked policyholders*.

permitted unlisted securities

FCA **PRA**

in relation to *permitted links*, means any investment (including a *share*, *debt security*, Treasury Bill, Tax Reserve Certificate or Certificate of Tax Deposit) that is not a *listed security*, but provided always that it is realisable in the short term.

person

FCA **PRA**

(in accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a *partnership*).

person discharging managerial responsibilities

FCA **PRA**

(in accordance with section 96B(1) of the *Act*):

(a) a *director* of an *issuer*:

(i) registered in the *United Kingdom* that has requested or approved admission of its *shares* to trading on a *regulated market*; or

(ii) not registered in the *United Kingdom* or any other *EEA State* but has requested or approved admission of its shares to trading on a *regulated market* and for whom the *United Kingdom* is its *Home Member State* ; or

(b) a senior executive of such an *issuer* who:

(i) has regular access to *inside information* relating, directly or indirectly, to the *issuer*; and

(ii) has power to make managerial decisions affecting the future development and business prospects of the *issuer*.

person exercising significant influence

FCA **PRA**

(in *LR*) in relation to a *listed company*, a *person* or entity which exercises significant influence over that *listed company* .

person with whom a relevant person has a family relationship

FCA **PRA**

any of the following:

(a) the spouse of the *relevant person* or any partner of that person considered by national law as equivalent to a spouse;

(b) a child or stepchild of the *relevant person*;

(c) any other relative of the *relevant person* who has shared the same household as that person for at least one year on the date of the personal transaction concerned.

[Note: article 2(7) of the *MiFID implementing Directive*]

Personal Insurance Arbitration Service

FCA **PRA**

the *former scheme* set up on a voluntary basis and run by the Chartered Institute of Arbitrators to handle complaints against those insurance companies which subscribed to it.

personal investment firm

FCA **PRA**

(A) In the PRA Handbook:

a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *IFPRU investment firm*, *BIPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *energy market participant*, *ICVC*, *insurer*, *media firm*, *oil market participant*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*) or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with ■ *IPRU(INV) 3* (Securities and futures firms) or 5 (Investment management firms), and which is within (a), (b) or (c):

(a) a *firm*:

(i) which was a member of PIA immediately before *commencement*; and

(ii) which was not, immediately before *commencement*, subject to the financial supervision requirements of the FSA (under section 43 of the Financial Services Act 1986), or IMRO or SFA (under lead regulation arrangements);

(b) a *firm* whose *permission* includes a *requirement* that it comply with ■ IPRU(INV) 13 (Personal investment firms);

(c) a *firm*:

(i) which was given a *Part 4A permission* after *commencement*, or which was authorised under section 25 of the Financial Services Act 1986 immediately before *commencement* and not a member of IMRO, PIA or SFA; and

(ii) for which the most substantial part of its gross income (including commissions) from the *designated investment business* included in its *Part 4A permission* is derived from one or more of the following activities (based, for a *firm* given a *Part 4A permission* after *commencement*, on the business plan submitted as part of the *firm's* application for *permission* or, for a *firm* authorised under section 25 of the Financial Services Act 1986, on the *firm's* financial year preceding its *authorisation* under the Act):

(A) *advising on investments, arranging (bringing about) deals in investments or making arrangements with a view to transactions in investments*, in relation to *packaged products*;

(B) *managing investments for retail clients*.

(B) In the FCA Handbook:

a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm, bank, IFPRU investment firm, BIPRU firm, building society, collective portfolio management firm, credit union, energy market participant, ICVC, insurer, media firm, oil market participant, service company, incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*) or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with ■ IPRU(INV) 3 (Securities and futures firms) or 5 (Investment management firms), and which is within (a), (b) or (c):

(a) a *firm*:

(i) which was a member of PIA immediately before *commencement*; and

(ii) which was not, immediately before *commencement*, subject to the financial supervision requirements of the FSA (under section 43 of the Financial Services Act 1986), or IMRO or SFA (under lead regulation arrangements);

(b) a *firm* whose *permission* includes a *requirement* that it comply with ■ IPRU(INV) 13 (Personal investment firms);

(c) a *firm*:

(i) which was given a *Part 4A permission* after *commencement*, or which was authorised under section 25 of the Financial Services Act 1986 immediately before *commencement* and not a member of IMRO, PIA or SFA; and

(ii) for which the most substantial part of its gross income (including commissions) from the *designated investment business* included in its *Part 4A permission* is derived from one or more of the following activities (based, for a *firm* given a *Part 4A permission* after *commencement*, on the business plan submitted as part of the *firm's* application for *permission* or, for a *firm* authorised under section 25 of the Financial Services Act 1986, on the *firm's* financial year preceding its *authorisation* under the *Act*):

(A) *advising on investments, arranging (bringing about) deals in investments or making arrangements with a view to transactions in investments*, in relation to *packaged products*;

(B) *managing investments for retail clients*.

personal pension contract

FCA PRA

a *pension contract* under which contributions (single or regular) are paid to a *personal pension scheme*.

personal pension deposit

FCA PRA

a contract under which rights to benefits are obtained by making contributions to a *personal pension scheme* operated by a *deposit-taking firm*.

personal pension policy

FCA PRA

a *pension policy* under which contributions (single or regular) are paid to a *personal pension scheme*.

personal pension product

a contract under which rights to benefits are obtained by making contributions to a *personal pension scheme* other than a *personal pension policy*, a *personal pension contract*, a *personal pension deposit* or a *SIPP*.

FCA PRA

personal pension scheme

FCA PRA

a scheme or arrangement which is not an *occupational pension scheme* or *stakeholder pension scheme* and which is comprised in one or more instruments or agreements having or capable of having effect so as to provide benefits to or in respect of people:

- (a) on retirement; or
- (b) on having reached a particular age; or
- (c) on termination of service in an employment.

personal projection

FCA PRA

a *projection* that reflects the terms of a particular contract with, or to be offered to, a particular *client*.

personal recommendation

FCA PRA

(except in *CONRED*) a recommendation that is *advice on investments*, or *advice on a home finance transaction* and is presented as suitable for the person to whom it is made, or is based on a consideration of the circumstances of that person.

A recommendation is not a personal recommendation if it is issued exclusively through distribution channels or to the public.

[Note: article 52 of the *MiFID implementing Directive*]

(in *CONRED*) a recommendation which is *advice on investments* and:

- (a) where given on or before 31 October 2007, was given to a specific *person*; or
- (b) where given on or after 1 November 2007, was presented as suitable for the *person* to whom the recommendation was made, or was based on a consideration of the circumstances of that *person*, other than a recommendation issued exclusively through distribution channels or to the public.

personal transaction

FCA PRA

a trade in a *designated investment* effected by or on behalf of a *relevant person*, where at least one of the following criteria are met:

- (1) that *relevant person* is acting outside the scope of the activities he carried out in that capacity;
- (2) the trade is carried out for the account of any of the following *persons*:
 - (a) the *relevant person*;
 - (b) the spouse or civil partner of the *relevant person* or any partner of that *person* considered by national law as equivalent to a spouse;
 - (c) a dependent child or stepchild of the *relevant person*;
 - (d) any other relative of the *relevant person* who has shared the same household as that *person* for at least one year on the date of the *personal transaction* concerned;
 - (e) any *person* with whom he has *close links*;
 - (f) a *person* whose relationship with the *relevant person* is such that the *relevant person* has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade.

[Note: article 2(7) and article 11 of the *MiFID implementing Directive*]

<p><i>physical commodities</i></p> <p>FCA PRA</p>	<p>a physical holding of a <i>commodity</i>, or documents evidencing title to a <i>commodity</i>.</p>
<p>PIA</p> <p>FCA PRA</p>	<p>the Personal Investment Authority Limited.</p>
<p>PIA Ombudsman scheme</p> <p>FCA PRA</p>	<p>the <i>former scheme</i> set up by PIA under the Financial Services Act 1986 and operated by the PIA Ombudsman Bureau Ltd to handle complaints against members of PIA.</p>
<p>PIBS</p> <p>FCA PRA</p>	<p><i>permanent interest bearing shares</i>.</p>
<p>PII capital requirement</p> <p>FCA</p>	<p>(1) (in ■ IPRU(INV) 11) an amount of <i>own funds</i> that a <i>collective portfolio management firm</i> must hold in relation to its professional indemnity insurance policy to cover any defined excess (as set out in article 15 of the <i>AIFMD level 2 regulation</i> (professional indemnity insurance) (as replicated in ■ IPRU(INV) 11.3.15EU)) and exclusions to that policy (see ■ IPRU(INV) 11.3.16R (Professional negligence)).</p> <p>[deleted]</p>
<p><i>placing</i></p> <p>FCA PRA</p>	<p>(in LR) a marketing of <i>securities</i> already in issue but not <i>listed</i> or not yet in issue, to specified <i>persons</i> or clients of the <i>sponsor</i> or any securities house assisting in the placing, which does not involve an offer to the public or to existing holders of the <i>issuer's securities</i> generally.</p>
<p><i>plan investor</i></p> <p>FCA PRA</p>	<p>a <i>person</i> entered in the <i>plan register</i> under ■ COLL 6.4.9 R (Plan registers) .</p>
<p><i>plan manager</i></p> <p>FCA</p>	<p>in relation to:</p> <p>(a) [deleted]</p> <p>(b) a <i>group ISA</i> , the <i>ISA manager</i> ;</p> <p>(c) a <i>group savings plan</i>, the <i>person</i> primarily responsible for that <i>group savings plan</i>.</p>
<p><i>plan register</i></p> <p>FCA</p>	<p>(1) (in relation to an <i>ICVC</i>) a record of <i>persons</i> who subscribe to a <i>group plan</i> and for whom <i>shares</i> in the <i>ICVC</i> are held for the purposes of the <i>group plan</i> by the <i>plan manager</i> or a nominee (other than a record for the establishment or maintenance of which no payments are to be made out of the <i>scheme property</i>).</p> <p>(2) (in relation to an <i>AUT</i> or <i>ACS</i>) a sub-<i>register</i> to the <i>register</i>, which sub-<i>register</i> records <i>persons</i> who subscribe to a <i>group plan</i> and for whom <i>units</i> in the <i>AUT</i> or <i>ACS</i> are held for the purposes of the plan by the <i>plan manager</i> or a nominee (other than any sub-<i>register</i> that has not been established and maintained in accordance with ■ COLL 6.4.4 R (Register: general requirements and contents) or for the establishment of which no payments are to be made out of the <i>scheme property</i>).</p>

plastic card

FCA PRA

a card, or a token with an equivalent function, which a *customer* can use to pay for goods and services, or to obtain cash or both, such as a credit card, charge card, debit card, cash card or electronic purse.

platform service

FCA PRA

a service which:

(a) involves *arranging* and *safeguarding and administering investments*; and

(b) distributes *retail investment products* which are offered to *retail clients* by more than one product provider;

but is neither:

(c) solely paid for by *adviser charges*; nor

(d) ancillary to the activity of *managing investments* for the *retail client*.

[Note: This definition applies only within the *FCA Handbook*.]

platform service provider

FCA PRA

a *firm* providing a *platform service*.

PLC Safeguards Directive

FCA PRA

the Second Council Directive of 13 December 1976 on coordination of safeguards for the protection of the interests of members and others in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent (No 77/91/EEC).

plus factor

FCA PRA

(in ■ BIPRU 7.10 (Use of a value at risk model)) an increase to the *minimum multiplication factor* based on *backtesting exceptions* as more fully defined in ■ BIPRU 7.10.124 R (Capital calculations: Multiplication factors).

policy

FCA PRA

(as defined in article 2 of the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361)) as the context requires:

(a) a *contract of insurance*, including one under which an existing liability has already accrued; or

(b) any instrument evidencing such a contract.

policy summary

FCA PRA

a summary of a *non-investment insurance contract* in the format and containing the information specified in ■ ICOBS 6 Annex 2.

policyholder

FCA PRA

(as defined in article 3 of the Financial Services and Markets Act 2000 (Meaning of "Policy and "Policyholder") Order 2001 (SI 2001/2361)) the *person* who for the time being is the legal holder of the *policy*, including any *person* to whom, under the *policy*, a sum is due, a periodic payment is payable or any other benefit is to be provided or to whom such a sum, payment or benefit is contingently due, payable or to be provided.

policyholder advocate

FCA PRA

the *person* appointed under ■ COBS 20.2.42 R to negotiate with a *firm* on its proposals for making a *retribution* of its *inherited estate*.

port

FCA PRA

means, in respect of the assets and positions recorded in a *client transaction account* that is an *individual client account* or an *omnibus client account* at an *authorised central counterparty*, action taken by that *authorised central counterparty* to transfer those assets and positions in accordance with article 48 of *EMIR* to another clearing member designated by the *individual client* (in the case of an *individual client account*) or designated by all of the *clients* for whom the account is held (in the case of an *omnibus client account*).

portfolio management

FCA PRA

managing portfolios in accordance with mandates given by *clients* on a discretionary *client-by-client* basis where such portfolios include one or more *financial instruments*.

[Note: article 4(1)(9) of *MiFID*]

portfolio trade

FCA PRA

a transaction in more than one security where those securities are grouped and traded as a single lot against a specific reference price.

[Note: article 2(6) of the *MiFID Regulation*]

POS Regulations

FCA PRA

the Public Offers of Securities Regulations 1995 (SI 1995/1537).

position

FCA PRA

(A) In the PRA Handbook:

(in accordance ■ BIPRU 1.2.4 R (Definition of the trading book: Positions)) includes proprietary positions and positions arising from client servicing and market making.

(B) In the FCA Handbook:

(1) (in accordance ■ BIPRU 1.2.4 R (Definition of the trading book: Positions)) includes proprietary positions and positions arising from client servicing and market making.

(2) (in *IFPRU*) has the meaning which it has, or is used, in the *EU CRR*.

position risk adjustment

FCA PRA

a percentage applied to a *position* as part of the process of calculating the *PRR* in relation to that *position* as set out in the tables in ■ BIPRU 7.2.44 R (Specific risk position risk adjustments), ■ BIPRU 7.2.57 R (General market risk position risk adjustments), ■ BIPRU 7.3.30 R (Simplified equity method position risk adjustments), ■ BIPRU 7.3.34 R (Position risk adjustments for specific risk under the standard equity method) and ■ BIPRU 7.6.8 R (The appropriate position risk adjustment) and also as set out in ■ BIPRU 7.2.48A R to ■ BIPRU 7.2.48L R.

position risk requirement

FCA PRA

a capital requirement applied to a position treated under ■ BIPRU 7 (Market risk) as part of the calculation of the *market risk capital requirement* or, if the relevant provision of the *Handbook* distinguishes between *general market risk* and *specific risk*, the portion of that capital requirement with respect to whichever of *general market risk* or *specific risk* is specified by that provision.

post

FCA PRA

(in relation to sending a *document* by post) sending pre-paid by a postal service which seeks to deliver *documents* by post within the *United Kingdom* no later than the next working day in all or the majority of cases, and to deliver by post outside the *United Kingdom* within such a period as is reasonable in all the circumstances.

Post-BCCI Directive

FCA PRA

the European Parliament and Council Directive of 29 June 1995 amending certain directives with a view to reinforcing prudential supervision (No 95/26/EC).

<p><i>potential tier one instrument</i></p> <p>FCA PRA</p>	<p>an item of capital that falls into GENPRU 2.2.62R (Tier one capital: General)</p> <p>.</p>
<p><i>power of intervention</i></p> <p>FCA PRA</p>	<p>the power conferred on the <i>FCA</i> or the <i>PRA</i> under section 196 of the <i>Act</i> (The Power of Intervention) to impose a requirement on an <i>incoming firm</i>.</p>
<p>PPFM</p> <p>FCA PRA</p>	<p><i>Principles and Practices of Financial Management.</i></p>
<p><i>PPFM guidance table</i></p> <p>FCA PRA</p>	<p>the table in ■ COBS 20.3.8 G (Guidance on with-profits principles and practices).</p>
<p><i>PPFM issues table</i></p> <p>FCA PRA</p>	<p>The table in ■ COBS 20.3.6 R (Issues to be covered in PPFM).</p>
<p>PR</p> <p>FCA PRA</p>	<p>the Prospectus Rules sourcebook.</p>
<p>PRA</p> <p>FCA PRA</p>	<p>Prudential Regulation Authority.</p>
<p><i>PRA chief executive function</i></p> <p>FCA PRA</p>	<p>(in the <i>FCA Handbook</i>) <i>PRA controlled function</i> CF3 in the <i>table of PRA controlled functions</i>.</p>
<p><i>PRA controlled function</i></p> <p>FCA PRA</p>	<p>a <i>controlled function</i> which is specified by the <i>PRA</i> under section 59 of the <i>Act</i> (Approval for particular arrangements) in the <i>table of PRA controlled functions</i>.</p>
<p><i>PRA director function</i></p> <p>FCA PRA</p>	<p>(in the <i>FCA Handbook</i>) <i>PRA controlled function</i> CF1 in the <i>table of PRA controlled functions</i>.</p>
<p><i>PRA governing function</i></p> <p>FCA PRA</p>	<p>any of the <i>PRA controlled functions</i> CF1 to CF6 in the <i>table of PRA controlled functions</i>.</p>
<p><i>PRA Handbook</i></p> <p>FCA PRA</p>	<p>the <i>PRA's Handbook</i> of rules and guidance.</p>

<p><i>PRA required functions</i> FCA PRA</p>	<p>any of the <i>PRA controlled functions</i> CF12 to CF12B in the <i>table of PRA controlled functions</i>.</p>
<p><i>PRA's SCV requirements</i> FCA PRA</p>	<p>(in <i>COMP</i>) the <i>PRA's</i> requirements with respect to <i>single customer view</i>.</p>
<p><i>PRA-approved person</i> FCA PRA</p>	<p>an <i>approved person</i> in relation to whom the <i>PRA</i> has given its approval under section 59 of the <i>Act</i> (Approval for particular arrangements) for the performance of a <i>PRA controlled function</i>.</p>
<p><i>PRA-authorised person</i> FCA PRA</p>	<p>as defined in section 2B(5) of the <i>Act</i>, an <i>authorised person</i> who has permission:</p> <ul style="list-style-type: none"> (a) given under Part 4A of the <i>Act</i>; or (b) resulting from any other provision of the <i>Act</i>; <p>to carry on <i>regulated activities</i> that consist of or include one or more <i>PRA-regulated activities</i>.</p>
<p><i>PRA-regulated Activities Order</i> FCA PRA</p>	<p>(A) (In the <i>PRA Handbook</i>): <u>the Financial Services and Market Act 2000 (PRA-regulated Activities) Order 2013 (SI 2013/556)</u>.</p> <p>(B) (In the <i>FCA Handbook</i>): the Financial Services and Market Act 2000 (PRA-regulated Activities) Order 2013 (SI 2013/556).</p>
<p><i>PRA-regulated activity</i> FCA PRA</p>	<p>a <i>regulated activity</i> specified in an order made under section 22A of the <i>Act</i> or specified pursuant to a power granted in such an order.</p>
<p><i>precious metals</i> FCA PRA</p>	<p>(in <i>COLL</i>) gold, silver or platinum.</p>
<p><i>predecessor scheme</i> FCA PRA</p>	<p>any of the following:</p> <ul style="list-style-type: none"> (a) The Office of the Banking Ombudsman; (b) The Office of the Building Societies Ombudsman; (c) The Insurance Ombudsman Bureau; (d) The Office of the Investment Ombudsman; (e) The Personal Investment Authority Ombudsman Bureau; (f) The Personal Insurance Arbitration Service; (g) The Securities and Futures Authority Complaints Bureau and Arbitration Service; (h) The FSA Complaints Unit and Independent Investigator.
<p><i>preference share</i> FCA PRA</p>	<p>a <i>share</i> conferring preference as to income or return of capital which does not form part of the <i>equity share capital</i> of a <i>company</i>.</p>

preliminary charge

FCA **PRA**

a *charge* upon a *sale of units* by an *authorised fund manager* whether or not acting as *principal*.

premium

FCA **PRA**

(1) (except in *ICOBS* and **■ CASS 5**) (in relation to a *general insurance contract*) the consideration payable under the contract by the *policyholder* to the *insurer*.

(2) (except in *ICOBS* and **■ CASS 5**) (in relation to a *long-term insurance contract*) the consideration payable under the contract by the *policyholder* to the *insurer*; (except in **■ SUP 16.8** (Persistency reports from insurers)) a premium is a regular premium if it is one of a series of payments under the contract:

(a)

(i) which are payable on dates that are certain or ascertainable at the time the contract is made;

(ii) which are payable over a period that exceeds one year in length; and

(iii) assuming the *policy* evidencing the contract is not surrendered or otherwise terminated before the *premiums* fall due, will fall due on those dates without either party to the contract exercising any option under the contract; or

(b) of which the first payment is an obligation under the contract, and subsequent payments, calculated according to an agreed formula, are payable over a period which exceeds one year in length under a collateral written arrangement with the *insurer* or *friendly society*.

(2A) (in *ICOBS* and **■ CASS 5**) as in (1) and (2) except that '*insurance undertaking*' is substituted for '*insurer*' (except where '*insurer*' is used in the heading to **■ SUP 16.8**).

(3) (in relation to an *option*) the total amount which the purchaser of the *option* is, or may be, required to pay in consideration for the right to exercise the *option*.

premium listing

FCA **PRA**

(a) in relation to *equity shares* (other than those of a *closed-ended investment fund* or of an *open-ended investment company*), means a *listing* where the *issuer* is required to comply with those requirements in **■ LR 6** (Additional requirements for premium listing (commercial company)) and the other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*;

(b) in relation to *equity shares* of a *closed-ended investment fund*, means a *listing* where the *issuer* is required to comply with those requirements in **■ LR 15** (Closed-Ended Investment Funds: Premium listing) and other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*;

(c) in relation to *equity shares* of an *open-ended investment company*, means a *listing* where the *issuer* is required to comply with **■ LR 16** (Open-ended investment companies: Premium listing) and other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*.

premium listing

a *premium listing* of *equity shares* (other than those of a *closed-ended investment fund* or of an *open-ended investment company*).

(commercial company)

FCA PRA

premium listing
(investment company)

FCA PRA

a *premium listing* of *equity shares* of a *closed-ended investment fund* or of an *open-ended investment company*.

premiums amount

FCA PRA

(for the purposes of INSPRU 1.1), an amount, as defined in INSPRU 1.1.45R, used in the calculation of the *general insurance capital requirement*.

prescribed asset share methodology

FCA PRA

the methodology described in ■ COBS 20.2.5 R for assessing maturity payments by reference to unsmoothed asset shares.

prescribed auction platform

FCA PRA

an auction platform which has been prescribed by the Treasury in the *Prescribed Markets and Qualifying Investments Order*.

prescribed market

FCA PRA

a market which has been prescribed by the Treasury in the *Prescribed Markets and Qualifying Investments Order*

Prescribed Markets and Qualifying Investments Order

FCA PRA

the Financial Services and Markets Act 2000 (Prescribed Markets and Qualifying Investments) Order 2001 (SI 2001/996).

prescribed pricing basis

FCA PRA

(in relation to a *derivative contract*, or *quasi-derivative contract*), the pricing basis set out in ■ IPRU(INSPRU) 4.12R(8) (Derivative contracts) as that rule was in force on 30 December 2004 .

previous regulator

FCA PRA

(1) (in relation to a *firm* which was authorised under the Banking Act 1987 immediately before *commencement* or which was a European institution (as defined in the Banking Coordination (Second Council Directive) Regulations 1992) immediately before *commencement*) the FSA.

(2) (in relation to a *firm* which was a *building society* immediately before *commencement*) the *Building Societies Commission*.

(3) (in relation to a *firm* which was a *friendly society* immediately before *commencement*) the *Friendly Societies Commission*.

(4) (in relation to a *firm* authorised under the Insurance Companies Act 1982 immediately before *commencement*) the Treasury.

(5) (in relation to an *underwriting agent* which obtained the *permission* relevant to that category under the Financial Services and Markets Act 2000 (Repeals, Transitional Provisions and Savings) Order 2001 (SI 2001/2636)) the *Society of Lloyd's*.

(6) (in relation to a *firm* which was authorised, or which was an *appointed representative*, under the Financial Services Act 1986 immediately before *commencement* or which was a European investment firm (as defined in the Investment Services Regulations 1995 (SI 1995/3275)) immediately before *commencement*) any of:

- (a) *IMRO*;
- (b) *PIA*;
- (c) *SFA*;
- (d) a *recognised professional body*; and
- (e) the *FSA*;

if the *firm* (or, if relevant, its principal for the purposes of section 44 of the Financial Services Act 1986) was subject in carrying on business to the rules, requirements, regulations or guidance of that body.

(7) (in relation to an *ex-section 43 firm*) the *FSA*.

(8) (in relation to a *firm* which was authorised under the *Act* immediately before 1 April 2013) the *FSA*.

price

FCA **PRA**

(in *COLL*)

(in relation to a *unit* in an *authorised fund*) the price of the *unit* calculated in accordance with ■ *COLL 6.3* (Valuation and pricing).

price information

FCA **PRA**

(in *MCOB*) information, in a *financial promotion*, that relates to:

- (a) any rate of charge; or
- (b) the presence or absence of any payments, fees or charges (other than the fees for advising on or *arranging a regulated mortgage contract* as required by ■ *MCOB 3.6.27 R*); or
- (c) the amount, frequency or number of any payments, repayments, fees or charges; or
- (d) any monetary amounts.

price stabilising rules

FCA **PRA**

the *rules* made under section 137Q of the *Act*, and appearing in ■ *MAR 2.1* to ■ *MAR 2.4*, together with any other provisions available for their interpretation.

primary information provider

FCA

a *person* approved by the *FCA* under section 89P of the *Act*.

primary pooling event

FCA **PRA**

(1) [deleted]

(2) (in ■ *CASS 5*) an event that occurs in the circumstances described in ■ *CASS 5.6.5 R* (Failure of the authorised firm: primary pooling event).

(3) (in ■ CASS 7 and ■ CASS 7A) an event that occurs in the circumstances described in ■ CASS 7A.2.2 R (Failure of the authorised firm: primary pooling event).

prime brokerage agreement

FCA PRA

an agreement between a *prime brokerage firm* and a *client* for *prime brokerage services*.

prime brokerage firm

FCA

a *firm* that provides *prime brokerage services* to a *client* and which may do so acting as *principal*.

(1) (except in *FUND*) a *firm* that provides *prime brokerage services* to a *client* and which may do so acting as *principal*.

(2) (in *FUND*) a *credit institution*, regulated *investment firm* or another entity subject to prudential regulation and ongoing supervision, offering services to *professional clients* primarily to finance or execute transactions in *financial instruments* as counterparty and which may also provide other services, such as clearing and settlement of trades, custodial services, *stock lending*, customised technology and operational support facilities.

[Note: article 4(1)(af) of AIFMD]

prime brokerage services

FCA

a package of services provided under a *prime brokerage agreement* which gives a *prime brokerage firm* a right to use *safe custody assets* for its own account and which comprises each of the following:

- (a) *custody* or *arranging safeguarding and administration of assets*;
- (b) clearing services; and
- (c) financing, the provision of which includes one or more of the following:
 - (i) capital introduction;
 - (ii) margin financing;
 - (iii) *stock lending*;
 - (iv) stock borrowing;
 - (v) entering into repurchase or reverse repurchase transactions;

and which, in addition, may comprise consolidated reporting and other operational support.

PRIN

FCA PRA

the part of the *Handbook* in High Level Standards that has the title Principles for Businesses.

principal

FCA PRA

(1) in relation to a *person* :

- (a) a *person* acting on his own account;
- (b) (if the *person* is an *appointed representative* or, where applicable, a *tied agent*) the *authorised person* who is party to a contract with the *appointed representative*, or who is responsible for the acts of the *tied agent*, resulting in him being exempt under section 39 of the *Act* (Exemption of appointed representatives).

(2) in relation to an *option* , *future* or forward contract:

- (a) (except in the case of an *option* on a *future*) the amount of property or the value of the property which must be delivered in order to satisfy settlement of the *option* , *future* or forward contract;

Principle

FCA PRA

(b) (in relation to an *option* on a *future*) the amount of property or the value of the property which must be delivered in order to satisfy settlement of the *future* .

one of the Principles set out in ■ PRIN 2.1.1 R (Principles for Businesses).

Principles and Practices of Financial Management

FCA PRA

the Principles and Practices of Financial Management, containing *with-profits principles* and *with-profits practices*, which a *firm* carrying on *with-profits business* must establish, maintain and record under ■ COBS 20.3 (Principles and Practices of Financial Management).

priority debt

FCA PRA

(in *BCOBS*) an obligation on the part of a *consumer* to make a payment:

(a) where the remedies for a breach of that obligation potentially include seeking possession of, or seeking to exercise a power of sale in respect of:

(i) the sole or main residence of the *consumer* (for example, an obligation to pay secured by a mortgage or charge in respect of land, an obligation to pay rent under a tenancy, or an obligation to make payment under a licence to occupy land); or

(ii) the *consumer's* essential goods or services (for example, an obligation to pay under a hire purchase, conditional sale or hire agreement that relates to, or an obligation to pay secured by a charge on, the *consumer's* cooker, refrigerator, or the means to travel to work); or

(b) where that obligation arises out of an order of the court, an Act or secondary legislation (for example, an obligation to pay council tax, child support maintenance, income tax or court fines); or

(c) where that obligation arises under a contract for the provision of utility supplies (for example, water, gas or electricity).

private customer

FCA PRA

(for the purposes only of ■ COBS TP 1 (Transitional Provisions in relation to Client Categorisation)):

(1) (except in ■ COB 3, ■ COB 4.2 and ■ COB 6.4) subject to (h), a *client* who is not a market counterparty or an *intermediate customer*, including:

(a) an individual who is not a *firm* ;

(b) an overseas individual who is not an *overseas financial services institution*;

(c) [deleted]

(d) (except for the purposes of *DISP*) a *client* when he is classified as a *private customer* in accordance with ■ COB 4.1.14 R (Client classified as a private customer);

(e) a *person* to whom a *firm* gives *basic advice* ;

(f) (in ■ COB 6.1 to ■ 6.5) where the *regulated activity* (except for a personal recommendation relating to a contribution to a *CTF*) relates to a *CTF* and there is no *registered contact* , the *person* to whom the statement must be sent in accordance with Regulation 10 of the *CTF* Regulations;

(g) (in ■ COB 6.7) where the *regulated activity* (except for a personal recommendation relating to a contribution to a *CTF*) relates to a *CTF* and there is no *registered contact*, the child, via

the person to whom the statement must be sent in accordance with Regulation 10 of the CTF Regulations;

(h) a *client* who would otherwise be excluded as a market counterparty or *intermediate customer* if the *client* is within (e), (f) or (g);

but excluding a *client*, who would otherwise be a *private customer*:

(i) when he is classified as an *intermediate customer* in accordance with ■ COB 4.1.9 R (Expert private customer classified as an intermediate customer); or

(ii) when the *regulated activity* relates to a CTF, any *person* other than (e), (f), (g) or (h).

(2) (in ■ COB 3) a *person* in (1) or a *person* excluded under (1)(h)(ii) or a *person* who would be such a *person* if he were a *client*. (in ■ COB 4.2 and 6.1 to 6.5) a *person* in (1) and, in relation to the conclusion of a *distance contract*, a *consumer*.

(3) (in ■ COB 4.2 and ■ 6.1 to ■ 6.5) a *person* in (1) and, in relation to the conclusion of a *distance contract*, a *consumer*.

private person

FCA PRA

(as defined in article 3 of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2000 (SI 2001/2256)):

(a) any individual, unless he suffers the loss in question in the course of carrying on:

(i) any *regulated activity*; or

(ii) any activity which would be a *regulated activity* apart from any exclusion made by article 72 of the *Regulated Activities Order* (Overseas persons); and

(b) any *person* who is not an individual, unless he suffers the loss in question in the course of carrying on business of any kind;

but not including a government, a local authority (in the *United Kingdom* or elsewhere) or an international organisation; for the purposes of (a), an individual who suffers loss in the course of *effecting or carrying out contracts of insurance* written at Lloyd's is not to be taken to suffer loss in the course of carrying on a *regulated activity*; in this definition:

(A) "government" means:

(I) the government of the *United Kingdom*; or

(II) the Scottish Administration; or

(III) the Executive Committee of the Northern Ireland Assembly; or

(IV) the National Assembly for Wales; or

(V) the government of any country or territory outside the *United Kingdom*;

(B) "international organisation" means any international organisation the members of which include the *United Kingdom* or any other State;

(C) "local authority", in relation to the *United Kingdom*, means:

(I) in England and Wales, a local authority as defined in the Local Government Act 1972, the Greater London Authority, the Common Council of the City of London or the Council of the Isles of Scilly;

(II) in Scotland, a local authority as defined in the Local Government (Scotland) Act 1973; and

<p><i>probability of default</i> FCA</p>	<p>(III) in Northern Ireland, a district council as defined in the Local Government Act (Northern Ireland) 1972.</p> <p>(in accordance with Article 4(25) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU</i>) the probability of default of a counterparty over a one year period; for the purposes of the <i>IRB approach</i>, default has the meaning in the definition of <i>default</i>.</p>
<p><i>probable reserves</i> FCA PRA</p>	<p>(in LR):</p> <p>(a) in respect of <i>mineral companies</i> primarily involved in the <i>extraction</i> of oil and gas resources, those reserves which are not yet <i>proven</i> but which, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced; and</p> <p>(b) in respect of <i>mineral companies</i> other than those primarily involved in the <i>extraction</i> of oil and gas resources, those measured and/or indicated mineral resources, which are not yet <i>proven</i> but of which detailed technical and economic studies have demonstrated that <i>extraction</i> can be justified at the time of the determination and under specified economic conditions.</p>
<p><i>procurement fee</i> FCA PRA</p>	<p>the total amount paid by a <i>home finance provider</i> to a <i>home finance intermediary</i>, whether directly or indirectly, in connection with providing applications from <i>customers</i> to enter into <i>home finance transactions</i> with that <i>home finance provider</i>.</p>
<p><i>product provider</i> FCA PRA</p>	<p>a <i>firm</i> which is:</p> <p>(i) a <i>long-term insurer</i>;</p> <p>(ii) a <i>friendly society</i>;</p> <p>(iii) the <i>operator</i> of a <i>regulated collective investment scheme</i> or an <i>investment trust savings scheme</i>; or</p> <p>(iv) the <i>operator</i> of a <i>personal pension scheme</i> or <i>stakeholder pension scheme</i>.</p>
<p>PROF FCA PRA</p>	<p>the Professional Firms sourcebook.</p>
<p><i>professional ACS investor</i> FCA</p>	<p>in relation to an ACS, a <i>person</i> who falls within one of the categories (1) to (4) of Section I of Annex II (professional clients for the purpose of that directive) to <i>MiFID</i>.</p>
<p><i>professional client</i> FCA PRA</p>	<p>a <i>client</i> that is either a <i>per se professional client</i> or an <i>elective professional client</i> (see ■ COBS 3.5.1 R).</p> <p>[Note: article 4(1)(12) of <i>MiFID</i>].</p>
<p><i>professional firm</i> FCA PRA</p>	<p>a <i>person</i> which is:</p> <p>(a) an individual who is entitled to practise a profession regulated by a <i>designated professional body</i> and, in practising it, is subject to its rules, whether or not he is a member of that body; or</p> <p>(b) a <i>person</i> (not being an individual) which is controlled or managed by one or more such individuals.</p>
<p><i>professional negligence</i></p>	<p>(1) (in ■ IPRU(INV) 11) an amount of <i>own funds</i> that a <i>collective portfolio management firm</i> must hold professional liability risks as set out in article</p>

<p><i>capital requirement</i> FCA</p>	<p>14 of the <i>AIFMD level 2 regulation</i> (additional own funds) (as replicated in ■ IPRU(INV) 11.3.14EU) (Professional negligence). [deleted]</p>
<p><i>profit and loss figure</i> FCA PRA</p>	<p>(in ■ BIPRU 7.10 (Use of a value at risk model) and in relation to a <i>business day</i>) a <i>firm's</i> actual profit or loss for that day in respect of the trading activities within the scope of the <i>firm's VaR model permission</i>, adjusted by stripping out specified items, as more fully defined in ■ BIPRU 7.10.100 R (Backtesting: Calculating the profit and loss).</p>
<p><i>profit estimate</i> FCA PRA</p>	<p>(in PR and LR) (as defined in the <i>PD Regulation</i>) a profit forecast for a financial period which has expired and for which results have not yet been published.</p>
<p><i>profit forecast</i> FCA PRA</p>	<p>(in PR and LR) (as defined in the <i>PD Regulation</i>) a form of words which expressly states or by implication indicates a figure or a minimum or maximum figure for the likely level of profits or losses for the current financial period and/or financial periods subsequent to that period, or contains data from which a calculation of such a figure for future profits or losses may be made, even if no particular figure is mentioned and the word "profit" is not used.</p>
<p><i>programme</i> FCA PRA</p>	<p>(in RCB) (as defined in Regulation 1(2) of the <i>RCB Regulations</i>) issues, or series of issues, of <i>covered bonds</i> which have substantially similar terms and are subject to a framework contract or contracts.</p>
<p><i>prohibited period</i> FCA PRA</p>	<p>(in LR) as defined by paragraph 1(e) of the <i>Model Code</i>.</p>
<p><i>prohibition order</i> FCA PRA</p>	<p>an order made under section 56 of the <i>Act</i> (Prohibition orders) which prohibits an individual from performing a specified function, any function falling within a specified description or any function.</p>
<p><i>projection</i> FCA PRA</p>	<p>a projection of the amount of any future benefit payable under a contract or <i>policy</i>, being a benefit the amount of which is not ascertainable under the terms of the contract or <i>policy</i> when the calculation is made.</p>
<p><i>projection date</i> FCA PRA</p>	<p>the date to which the <i>projection</i> is made.</p>
<p><i>projection period</i> FCA PRA</p>	<p>(in COBS) the period covered by a <i>standardised deterministic projection</i>, which begins on the date the investment is reasonably expected to be made and ends on the <i>projection date</i> described in paragraph 2.1 of ■ COBS 13 Annex 2.</p>
<p><i>Promotion of Collective Investment Schemes Order</i> FCA</p>	<p>the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001.</p>
<p><i>property</i> FCA PRA</p>	<p>(in LR) freehold, heritable or leasehold property.</p>

property authorised investment fund

FCA PRA

an *open-ended investment company* to which Part 4A of the Authorised Investment Funds (Tax) Regulations 2006 (SI 2006/964) applies.

property collective investment undertaking

FCA PRA

(in *PR*) (as defined in the *PD Regulation*) a collective investment undertaking whose investment objective is the participation in the holding of property in the long term.

property company

FCA PRA

(in *LR*) a *company* primarily engaged in *property* activities including:

- (a) the holding of *properties* (directly or indirectly) for letting and retention as investments;
- (b) the development of *properties* for letting and retention as investments;
- (c) the purchase and development of *properties* for subsequent sale;
- (d) the purchase of land for development *properties* for retention as investments.

property enterprise trust

FCA PRA

an *unregulated collective investment scheme* of which the underlying assets are land and buildings.

property fund

FCA PRA

- (a) a *regulated collective investment scheme* dedicated to land and interests in land;
- (b) a fund of funds of which one or more of the funds to which it is dedicated falls within (a);
- (c) a constituent part of an umbrella fund which, if it were a separate fund, would fall within (a).

property valuation report

FCA PRA

(in *LR*) a *property* valuation report prepared by an independent expert in accordance with:

- (1) for an *issuer* incorporated in the *United Kingdom*, the Channel Islands or the Isle of Man, the Appraisal and Valuation Standards (5th edition) issued by the Royal Institution of Chartered Surveyors; or
- (2) for an *issuer* incorporated in any other place, either the standards referred to in paragraph (1) or the International Valuation Standards (7th edition) issued by the International Valuation Standards Committee.

property-linked assets

FCA PRA

in relation to an *insurer*, *long-term insurance assets* that are, for the time being, identified in the records of the *insurer* as being assets by reference to the value of which *property-linked benefits* are to be determined.

property-linked benefits

FCA PRA

benefits other than *index-linked benefits* provided for under a *linked long-term contract of insurance*.

property-linked liabilities

insurance liabilities in respect of *property-linked benefits*.

FCA PRA

proportional reinsurance treaty

a reinsurance treaty under which a pre-determined proportion of each *claim* payment by the cedant under *policies* subject to the treaty is recoverable from the *reinsurer*; *non-proportional reinsurance treaty* is construed accordingly.

FCA PRA

proprietary trader

(in ■ SUP 10 (Approved Persons) and *APER*) a *person* (A) whose responsibilities include committing another *person* (B) as part of B's *proprietary trading*.

FCA PRA

proprietary trading

(in ■ SUP 10A (Approved Persons) and *APER*) *dealing in investments as principal* as part of a business of trading in *specified investments*. For these purposes *dealing in investments as principal* includes any activities that would be included but for the exclusion in Article 15 (Absence of holding out), Article 16 (Dealing in contractually based investments) or, for a *UK AIFM* or *UK UCITS management company*, article 72AA (Managers of UCITS and AIFs) of the *Regulated Activities Order*.

FCA PRA

prospectus

(1) (in *LR* and *PR*, *FEES* and ■ FUND 3 (Requirements for managers of alternative investment funds)) a *prospectus* required under the *prospectus directive*.

FCA PRA

(2) (except in *LR* and *PR*) (in relation to a *collective investment scheme*) a document containing information about the *scheme* and complying with the *requirements* in ■ COLL 4.2.5 R (Table: contents of the prospectus), ■ COLL 8.3.4 R (Table: contents of qualified investor scheme prospectus) or ■ COLL 9.3.2 R (Additional information required in the prospectus for an application under section 272) applicable to a *prospectus* of a *scheme* of the type concerned.

Prospectus Directive

the Directive of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (No 2003/71/EC).

FCA PRA

Prospectus Rules

(as defined in section 73A(4) of the *Act*) *rules* expressed to relate to *transferable securities*.

FCA PRA

protected claim

a *claim* which is covered by the *compensation scheme*, as defined in ■ COMP 5.2.1 R.

FCA PRA

protected contract of insurance

a *contract of insurance* which is covered by the *compensation scheme*, as defined in ■ COMP 5.4.1 R.

FCA PRA

protected deposit

a *deposit* which is covered by the *compensation scheme*, as defined in ■ COMP 5.3.1 R.

FCA PRA

protected dormant account

FCA **PRA**

a *dormant account* which is covered by the *compensation scheme*, as defined in COMP 5.3.2R.

protected home finance mediation

FCA **PRA**

activities in relation to *home finance transactions* which are covered by the *compensation scheme*, as defined in ■ COMP 5.6.1 R.

protected investment business

FCA **PRA**

designated investment business which is covered by the *compensation scheme*, as defined in ■ COMP 5.5.1 R.

protected items

FCA **PRA**

(as defined in section 413 of the *Act* (Protected items)) communications (and items which they enclose or refer to and which are in the possession of a *person* entitled to possession of them) between:

(a) a professional legal adviser and his client or any *person* representing his client; or

(b) a professional legal adviser, his client or any *person* representing his client and any other *person*;

where the communication or the item is made:

(i) in connection with the giving of legal advice to the client; or

(ii) in connection with, or in contemplation of, legal proceedings and for the purposes of those proceedings; and

is not held with the intention of furthering a criminal purpose.

protected non-investment insurance mediation

FCA **PRA**

insurance mediation activities which are covered by the *compensation scheme*, as defined in ■ COMP 5.7.1 R.

protection buyer

FCA

(in *BIPRU*) (in relation to a credit derivative and in accordance with paragraph 8 of Annex I of the *Capital Adequacy Directive* (Calculating capital requirements for position risk)) the *person* who transfers credit risk.

protection seller

FCA

(in *BIPRU*) (in relation to a credit derivative and in accordance with paragraph 8 of Annex I of the *Capital Adequacy Directive* (Calculating capital requirements for position risk)) the *person* who assumes the credit risk.

proven reserves

FCA **PRA**

(in *LR*):

(a) in respect of *mineral companies* primarily involved in the *extraction* of oil and gas resources, those reserves which, on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced; and

<p><i>providing information in relation to a specified benchmark</i></p> <p>FCA</p>	<p>(b) in respect of <i>mineral companies</i> other than those primarily involved in the <i>extraction</i> of oil and gas resources, those measured mineral resources of which detailed technical and economic studies have demonstrated that <i>extraction</i> can be justified at the time of the determination, and under specified economic conditions.</p> <p>The <i>regulated activity</i>, specified in article 63O(1)(a) of the <i>Regulated Activities Order</i>, which in summary means making <i>benchmark submissions</i>.</p>
<p><i>providing qualifying credit</i></p> <p>FCA PRA</p>	<p>the <i>controlled activity</i>, specified in paragraph 10 of Schedule 1 to the <i>Financial Promotion Order</i>, of providing <i>qualifying credit</i>.</p>
<p><i>proxy capital resources requirement</i></p> <p>FCA PRA</p>	<p>the <i>minimum capital requirement</i> to which an <i>undertaking</i> would have been subject if it had <i>permission</i> for each activity it carries on anywhere in the world, so far as that activity is a <i>regulated activity</i>.</p>
<p>PRR</p> <p>FCA PRA</p>	<p><i>position risk requirement</i>.</p>
<p>PRR charge</p> <p>FCA PRA</p>	<p>one of the following:</p> <ul style="list-style-type: none"> (a) the <i>interest rate PRR</i>; (b) the <i>equity PRR</i>; (c) the <i>commodity PRR</i>; (d) the <i>foreign currency PRR</i>; (e) the <i>option PRR</i>; (f) the <i>collective investment undertaking PRR</i>; and (g) (if the context requires) the <i>model PRR</i>.
<p><i>PRR identical product netting rules</i></p> <p>FCA PRA</p>	<p>the following:</p> <ul style="list-style-type: none"> (a) ■ BIPRU 7.2.37 R (Deriving the net position in each debt security: Netting positions in the same debt security); (b) ■ BIPRU 7.2.40 R (Deriving the net position in each debt security: Netting zero-specific-risk securities with different maturities); (c) ■ BIPRU 7.3.23 R (Deriving the net position in each equity); (d) ■ BIPRU 7.4.20 R and ■ BIPRU 7.4.22 R (Calculating the PRR for each commodity: General); (e) ■ BIPRU 7.5.19 R (1) (Open currency position); and (f) the obligation under ■ BIPRU 7.5.20 R (Net gold position) to calculate a separate <i>foreign exchange PRR</i> charge for gold).
<p>PRR item</p>	<p>(in BIPRU) a <i>commodity</i> or a <i>CRD financial instrument</i>.</p>

FCA

PRU

FCA PRA

*prudential
context*

FCA PRA

the Integrated Prudential Sourcebook

(A) In the PRA Handbook:

(1) For the *FCA*, in relation to activities carried on by a *firm*, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

(a) the integrity of the *UK financial system*; or

(b) the ability of the *firm* to meet either:

(i) the "fit and proper" test in *threshold condition* 2E and 3D (Suitability); or

(ii) the applicable requirements and standards under the *regulatory system* relating to the *firm's* financial resources.

(2) For the *PRA*, in relation to activities carried on by a firm, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

(a) the safety and soundness of *PRA-authorised persons*; or

(b) the ability of the *firm* to meet either:

(i) the "fit and proper" test in *threshold condition* 4E and 5E (Suitability); or

(ii) the applicable requirements and standards under the *regulatory system* relating to the *firm's* financial resources.

(B) In the FCA Handbook:

(1) For the *FCA*, in relation to activities carried on by a *firm*, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

(a) the integrity of the *UK financial system*; or

(b) the ability of the *firm* to meet either:

(i) the "fit and proper" test in *threshold condition* 2E and 3D (Suitability); or

(ii) the applicable requirements and standards under the *regulatory system* relating to the *firm's* financial resources.

(2) For the *PRA*, in relation to activities carried on by a firm, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

(a) the safety and soundness of *PRA-authorised persons*; or

<p>PSE</p> <p>FCA PRA</p>	<p>(b) the ability of the <i>firm</i> to meet either:</p> <p style="padding-left: 20px;">(i) the "fit and proper" test in <i>threshold condition 5</i> (Suitability); or</p> <p style="padding-left: 20px;">(ii) the applicable requirements and standards under the <i>regulatory system</i> relating to the <i>firm's</i> financial resources.</p> <p>a <i>public sector entity</i>.</p>
<p><i>public announcement</i></p> <p>FCA PRA</p>	<p>any communication made by or on behalf of the <i>issuer</i> or the <i>stabilising manager</i> being a communication made in circumstances in which it is likely that members of the public will become aware of the communication.</p>
<p><i>public censure</i></p> <p>FCA PRA</p>	<p>(1) a statement published under section 205 (Public censure) of the <i>Act</i>;</p> <p>(2) a statement of misconduct published under section 66 (Disciplinary powers) of the <i>Act</i>;</p> <p>(3) a statement published under section 123 (Power to impose penalties in cases of market abuse) of the <i>Act</i>;</p> <p>(4) a statement published under section 87M (Public censure of issuer) of the <i>Act</i>, under section 88A (Disciplinary powers: contravention of s88(3)(c) or (e)) of the <i>Act</i> or under section 91 (Penalties for breach of Part 6 rules) of the <i>Act</i>.</p>
<p><i>public international body</i></p> <p>FCA PRA</p>	<p>(1) (in <i>PR</i>) (as defined in the <i>PD Regulation</i>) a legal entity of public nature established by an international treaty between sovereign States and of which one or more Member States are members.</p> <p>(2) (in <i>LR</i> and <i>DTR</i>) the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the Council of Europe Development Bank, the European Atomic Energy Community, the European Bank for Reconstruction and Development, the European Company for the Financing of Railroad Stock, the <i>EU</i>, the European Investment Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Monetary Fund and the Nordic Investment Bank.</p>
<p><i>public offer</i></p> <p>FCA PRA</p>	<p>an offer of <i>securities</i> to the public and described in the <i>POS Regulations</i>.</p>
<p><i>public sector entity</i></p> <p>FCA</p>	<p>(in accordance with Article 4(18) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>BIPRU</i>) any of the following:</p> <p>(a) non-commercial administrative bodies responsible to central governments, regional governments or local authorities; or</p> <p>(b) authorities that exercise the same responsibilities as regional and local authorities; or</p> <p>(c) non commercial <i>undertakings</i> owned by central governments that have explicit guarantee arrangements; or</p> <p>(d) self administered bodies governed by law that are under public supervision.</p>

public sector issuer

FCA PRA

states and their regional and local authorities, *state monopolies*, *state finance organisations*, *public international bodies*, statutory bodies and *OECD state guaranteed issuers*.

published recommendation

FCA PRA

any publication by or on behalf of a *firm* (including publication by sound broadcasting or television or other electronic means) which contains:

- (a) the results of research into *investments*; or
- (b) analysis of factors likely to influence the future performance of *investments*; or
- (c) advice or recommendations based on those results or analysis, including any communication of which the content is common to a number of communications although worded as if it were a *personal recommendation*.

pure protection contract

FCA PRA

(1) a *long-term insurance contract* in respect of which the following conditions are met:

- (a) the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;
- (b) [deleted]
- (c) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium; and
- (d) the contract makes no provision for its conversion or extension in a manner which would result in it ceasing to comply with (a) or (c); or
- (e) [deleted]

(2) a *reinsurance contract* covering all or part of a risk to which a *person* is exposed under a *long-term insurance contract*.

pure protection service

FCA PRA

(a) making a *personal recommendation* to a *consumer* in relation to a *pure protection contract*;

(b) arranging for a *consumer* to enter into a *pure protection contract*.

pure reinsurer

FCA PRA

an *insurer* whose *insurance business* is restricted to reinsurance.

qualified investor

FCA **PRA**

(in PR) (as defined in section 86(7) of the *Act*) in relation to an *offer of transferable securities* :

(a) a *person* or entity described in points (1) to (4) of Section I of Annex II to *MiFID*, other than a *person* who, before the making of the *offer*, has agreed in writing with the relevant firm (or each of the relevant firms) to be treated as a *non-professional client* in accordance with *MiFID*; or

(b) a *person* who has made a request to one or more relevant firms to be treated as a *professional client* in accordance with Section II of Annex II to *MiFID* and has not subsequently, but before the making of the *offer*, agreed in writing with that relevant firm (or each of those relevant firms) to be treated as a *non-professional client* in accordance with the final paragraph of Section I of Annex II to *MiFID* ; or

(c) a *person* who is an *eligible counterparty* in accordance with article 24 of *MiFID* and has not, before the making of the *offer*, agreed in writing with the relevant firm (or each of the relevant firms) to be treated as a *non-professional client* in accordance with the final paragraph of Section I of Annex II of *MiFID*; or

(d) a *person* whom any relevant firm is authorised to continue to treat as a *professional client* in accordance with article 71(6) of *MiFID*.

qualified investor scheme

FCA **PRA**

an *authorised fund* whose *instrument constituting the scheme* contains the statement in **COLL 8.2.6 R 1(2)** (Table: contents of the instrument constituting the scheme) that it is a *qualified investor scheme*.

qualified valuer

FCA **PRA**

(in relation to any particular type of land in any particular area) a fellow or professional associate of the Royal Institution of Chartered Surveyors, a fellow or associate of the Incorporated Society of Valuers and Auctioneers, or a fellow or associate of the Rating and Valuation Association, who:

(a) has knowledge of and experience in the valuation of that particular type of land in that particular area; or

(b) has knowledge of and experience in the valuation of land and has taken advice from a valuer who he is satisfied has knowledge of and experience in the valuation of that particular type of land in that particular area; or

(c) immediately before 15 June 1981 was recognised as a qualified valuer by approval by the Secretary of State under the Insurance Companies (Valuation of Assets) Regulations 1976.

qualifying capital instrument

[deleted]

qualifying capital item

[deleted]

qualifying credit

FCA **PRA**

(as defined in Schedule 1 paragraph 10 (Providing qualifying credit) of the *Financial Promotion Order*) credit (including a cash loan and any other form of financial accommodation) provided in accordance with an agreement under which:

(a) the lender is a person who enters into or administers *regulated mortgage contracts*; and

(b) the obligation of the borrower to repay is secured (in whole or in part) on land.

qualifying debt security

FCA **PRA**

(1) [deleted]

(2) (for the purposes of *BIPRU*) a *debt security* that satisfies the conditions in ■ *BIPRU* 7.2.49 R (Definition of a qualifying debt security).

qualifying equity index

FCA

(in *BIPRU*) an *equity index* falling within ■ *BIPRU* 7.3.38 R (Definition of a qualifying equity index).

qualifying holding

FCA **PRA**

(1) (in *GENPRU* and *BIPRU*) has the meaning in *GENPRU* 2.2.203R (Qualifying holdings), which is in summary a direct or indirect holding of a *bank* or *building society* in a non-financial *undertaking* which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that *undertaking*.

(2) (otherwise) any direct or indirect holding in an *investment firm* which represents 10% or more of the capital or of the voting rights, as set out in Article 92 of the European Parliament and Council Directive on the admission of securities to official stock exchange listing and on information to be published on those securities (No. 2001/34/EC) or which makes it possible to exercise a significant influence over the management of the *investment firm* in which that holding subsists.

[Note: article 4(1)(27) of *MiFID*]

qualifying interest in land

FCA **PRA**

(in accordance with article 63B(4)(a) of the *Regulated Activities Order*) land (other than timeshare accommodation) in the UK which is:

(a) in relation to land in England and Wales, an estate in fee simple absolute or a term of years absolute whether subsisting at law or in equity; or

(b) in relation to land in Scotland, the interest of an owner in land or the tenant's right over or interest in a property subject to a lease; or

(c) in relation to land in Northern Ireland, any freehold estate or any leasehold estate whether subsisting at law or in equity.

qualifying investment

FCA **PRA**

an *investment* which has been prescribed by the Treasury in the *Prescribed Markets and Qualifying Investments Order*

qualifying management company holding

FCA **PRA**

(in *COLL*) a direct or indirect holding in a *management company* which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of the company in which that holding subsists; and for this purpose the voting rights referred to in articles 9 and 10 of the *Transparency Directive* must be taken into account.

qualifying master scheme

FCA **PRA**

where a *feeder NURS* is *dedicated to units* in a single *collective investment scheme*, which meets the requirements in ■ *COLL* 5.6.26 R (1), that *collective investment scheme*.

qualifying money market fund

FCA **PRA**

(1) (in *COLL*, ■ *CASS* 7 and *BSOCS*) a *collective investment scheme* authorised under the *UCITS Directive* or which is subject to supervision and, if applicable, authorised by an authority under the national law of an *EEA State*, and which satisfies the following conditions:

(a) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;

(b) it must, with a view to achieving that primary investment objective, invest exclusively in high quality money market instruments with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than 60 days. It may also achieve this objective by investing on an ancillary basis in deposits with credit institutions;

(c) it must provide liquidity through same day or next day settlement.

(2) For the purposes of (1)(b), a money market instrument is to be considered to be of high quality if it has been awarded the highest available credit rating by each competent rating agency which has rated that instrument. An instrument that is not rated by any competent rating agency is not to be considered to be of high quality.

(3) For the purposes of (2), a rating agency is to be considered to be competent if it issues credit ratings in respect of money market funds regularly and on a professional basis and is an eligible ECAI within the meaning of Article 81(1) of the *BCD*.

[Note: article 18(2) of the *MiFID implementing Directive*]

qualifying revolving retail exposure

FCA **PRA**

(in relation to the *IRB approach*) retail exposures falling into ■ BIPRU 4.6.44 R (2) (Qualifying revolving retail exposures).

qualifying social entrepreneurship fund

FCA

has the meaning given in article 3(b) of the *EuSEF regulation*.

qualifying subordinated loan

[deleted]

qualifying undertaking

FCA **PRA**

(in *UPRU*) has the meaning given in IPRU(INV) 5.2.6(3) (Qualifying undertakings).

qualifying venture capital fund

FCA

has the meaning given in article 3(b) of the *EuVECA regulation*.

PAGE Q3

quantification date

FCA **PRA**

the date as at which the liability of the relevant person in default is to be determined under ■ COMP 12.3.

*quarterly
financial return*

FCA **PRA**

(in *UPRU*) means the return referred to in *SUP*.

*quasi-derivative
contract or
quasi-derivative*

FCA **PRA**

a contract or asset having the effect of a *derivative* contract.

<p>RAG FCA PRA</p>	<p><i>regulated activity group.</i></p>
<p>railway rolling stock FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) the <i>class of contract of insurance</i>, specified in paragraph 5 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of general insurance), against loss of or damage to railway rolling stock.</p>
<p>range FCA PRA</p>	<p>see <i>range of packaged products</i> and range of stakeholder products.</p>
<p>range of packaged products, range FCA PRA</p>	<p>(in relation to a <i>firm</i>) the range of packaged products on which the <i>firm</i> gives <i>advice on investments</i> to <i>retail clients</i> (see ■ COBS 6.3) or if appropriate the list of packaged products in which the <i>firm</i> deals.</p>
<p>range of stakeholder products, range FCA PRA</p>	<p>(in relation to a <i>firm</i>) the range of <i>stakeholder products</i> on which the <i>firm</i> gives <i>advice</i> (see ■ COBS 9.6);</p> <p>References to a <i>firm's</i> range (or ranges) of <i>stakeholder products</i> include, where the context requires, a reference to the range (or ranges) of the <i>firm's appointed representatives</i>.</p>
<p>RAP FCA</p>	<p>a <i>recognised auction platform</i>.</p>
<p>RAP recognition requirements FCA</p>	<p>(1) (in relation to an <i>RAP</i>) any of the requirements applicable to an <i>RAP</i> under the <i>RAP regulations</i>, the <i>auction regulation</i> or the <i>MiFID Regulation</i>.</p> <p>(2) (in relation to a <i>UK RIE</i> applying for recognition as an <i>RAP</i>) any of the requirements under the <i>RAP regulations</i>, the <i>auction regulation</i> or the <i>MiFID Regulation</i> which, if its application were successful, would apply to it.</p>
<p>RAP regulations FCA</p>	<p>the Recognised Auction Platforms Regulations 2011 (SI 2011/2699).</p>
<p>rated position FCA PRA</p>	<p>(for the purposes of ■ BIPRU 9 (Securitisation), in accordance with Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions) and in relation to a <i>securitisation position</i>) describes a <i>securitisation position</i> which has an eligible credit assessment by an <i>eligible ECAI</i>.</p>
<p>rating system FCA PRA</p>	<p>(in relation to the <i>IRB approach</i> and in accordance with ■ BIPRU 4.3.25 R) comprises all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of <i>exposures</i> to grades or pools (rating), and the quantification of <i>default</i> and <i>loss</i> estimates for a certain type of <i>exposure</i>.</p>
<p>PAGE R1 ratings based method FCA PRA</p>	<p>(for the purposes of ■ BIPRU 9 (Securitisation) and in accordance with Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)) the method of calculating <i>risk weighted exposure amounts</i> for <i>securitisation positions</i> set out in ■ BIPRU 9.12.10 R-■ BIPRU 9.12.19 R and ■ BIPRU 9.14.2 R.</p>
<p>RCB</p>	<p>the Regulated Covered Bond sourcebook.</p>

FCA PRA

RCB
Regulations

the Regulated Covered Bonds Regulations 2008 (SI 2008/346).

FCA PRA

RCH

a *recognised clearing house*.

FCA PRA

RDC

Regulatory Decisions Committee.

FCA PRA

readily
realisable
investment

- (1)
- (a) a *packaged product*;
 - (b) a *readily realisable security*.

FCA

[deleted]

readily
realisable
security

- (a) a *government or public security* denominated in the currency of the country of its *issuer*;
- (b) any other *security* which is:
 - (i) admitted to official listing on an exchange in an *EEA State*; or
 - (ii) regularly traded on or under the rules of such an exchange; or
 - (iii) regularly traded on or under the rules of a *recognised investment exchange* or (except in relation to *unsolicited real time financial promotions*) *designated investment exchange*;
- (c) a newly issued *security* which can reasonably be expected to fall within (b) when it begins to be traded.

FCA PRA

real estate
market
adjustment
ratiohas the meaning set out, in relation to the *resilience capital requirement*, in INSPRU 3.1.21R.

FCA PRA

real time
financial
promotion(in accordance with article 7(1) of the Financial Promotion Order) a *financial promotion* made in the course of a personal visit, telephone conversation or other interactive dialogue.

FCA PRA

realistic basis
life firma *firm* to which ■ GENPRU 2.1.18 R applies (and which is therefore required to calculate a *with-profits insurance capital component* in accordance with INSPRU 1.3).

FCA PRA

realistic current
liabilities(in relation to a *with-profits fund*) the realistic current liabilities of the *with-profits fund* calculated in accordance with INSPRU 1.3.190R.

FCA PRA

<p><i>realistic excess capital</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>with-profits fund</i>) has the meaning set out in INSPRU 1.3.32R .</p>
<p><i>realistic value of assets</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>with-profits fund</i>) has the meaning set out in INSPRU 1.3.33R .</p>
<p><i>realistic value of liabilities</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>with-profits fund</i>) the sum of the <i>with-profits benefit reserve</i>, the <i>future policy related liabilities</i> and the <i>realistic current liabilities</i> for the <i>with-profits fund</i>.</p>
<p><i>reasonable assurance engagement</i></p> <p>FCA PRA</p>	<p>a 'reasonable assurance engagement' as described in the Glossary of terms in the Auditing Practices Board Standards and Guidance for Auditors issued in 2010.</p>
<p><i>retribution</i></p> <p>FCA PRA</p>	<p>the process under which a <i>firm</i> which carries on <i>with-profits business</i> seeks to redefine the rights and interests that the <i>with-profits policyholders</i> have over the <i>inherited estate</i>.</p>
<p><i>retribution expert</i></p> <p>FCA PRA</p>	<p>the expert appointed by a <i>firm</i> to satisfy its obligations under ■ COBS 20.2.47 R (Retribution expert).</p>
<p><i>rebalancing of the portfolio</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i> and in accordance with article 2(1) of the <i>UCITS implementing Directive No 2</i>) means a significant modification of the composition of the <i>scheme property</i> of a <i>UCITS scheme</i> or the portfolio of an <i>EEA UCITS scheme</i>.</p>
<p>REC</p> <p>FCA PRA</p>	<p>the Recognised Investment Exchange and Recognised Clearing House sourcebook.</p>
<p><i>receivable</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>member</i>, a period and a <i>premium</i>) a <i>premium</i> due to the <i>member</i> in respect of <i>contracts of insurance</i> effected during the period, whether or not the <i>premium</i> is received during that period.</p>
<p><i>receiving UCITS</i></p> <p>FCA PRA</p>	<p>(in <i>COLL</i>) in relation to a <i>UCITS merger</i>, the <i>UCITS scheme</i> or <i>EEA UCITS scheme</i> or <i>sub-fund</i> of that <i>scheme</i>, whether it is an existing <i>scheme</i> (or a <i>sub-fund</i> of it) or one that is being formed for the purpose of that merger, which under the proposed arrangements will be receiving the assets and liabilities of one or more <i>merging UCITS</i>.</p>
<p><i>recipient</i></p> <p>FCA PRA</p>	<p>the <i>person</i> to whom a communication is made or, in the case of a <i>non-real time financial promotion</i> which is <i>directed at persons</i> generally, any <i>person</i> who reads or hears the communication.</p>
<p><i>reciprocal cross-holding</i></p> <p>FCA PRA</p>	<p>has the meaning in GENPRU 2.2.219R (Deductions from tiers one and two: Reciprocal cross holdings) which is in summary a holding of a <i>firm</i> of <i>shares</i>, any other interest in the capital, and subordinated debt, whether in the <i>trading book</i> or <i>non-trading book</i>, in:</p>

<p><i>recognised auction platform</i> FCA</p>	<p>(a) a <i>credit institution</i>; or (b) a <i>financial institution</i>; that satisfies the conditions in GENPRU 2.2.219R.</p>
<p><i>recognised body</i> FCA PRA</p>	<p>a <i>recognised investment exchange</i> which is declared by a <i>recognition order</i> for the time being in force to be a <i>recognised auction platform</i>. an <i>RIE</i> or <i>RAP</i></p>
<p><i>recognised body requirements</i> FCA</p>	<p>(1) (in relation to an <i>RIE</i>) the <i>recognition requirements</i>; (2) (in relation to a <i>UK RIE</i>) the <i>MiFID implementing requirements</i>; (3) (in relation to an <i>RAP</i>) the <i>RAP recognition requirements</i>; and (4) (in relation to any of the bodies specified in (1) to (3)) any other obligations imposed by or under the <i>Act</i>.</p>
<p><i>recognised clearing house</i> FCA PRA</p>	<p>a <i>clearing house</i> which is declared by an order made by the Bank of England under section 290 or 292 of the <i>Act</i> and for the time being in force to be a recognised clearing house.</p>
<p><i>recognised investment exchange</i> FCA PRA</p>	<p>an investment exchange which is declared by a <i>recognition order</i> for the time being in force to be a recognised investment exchange.</p>
<p><i>recognised overseas investment exchange</i> FCA PRA</p>	<p>an <i>overseas investment exchange</i> which is declared by a <i>recognition order</i> for the time being in force to be a <i>recognised investment exchange</i>.</p>
<p><i>recognised professional body</i> FCA PRA</p>	<p>any of the following professional bodies (which were the recognised professional bodies for the purposes of the Financial Services Act 1986):</p> <ul style="list-style-type: none"> (a) The Law Society (England and Wales); (b) The Law Society of Scotland; (c) The Law Society of Northern Ireland; (d) The Institute of Chartered Accountants in England and Wales; (e) The Institute of Chartered Accountants of Scotland; (f) The Institute of Chartered Accountants in Ireland; (g) The Association of Chartered Certified Accountants; (h) The Institute of Actuaries. <p>(see also <i>designated professional body</i>.)</p>

recognised
scheme

FCA **PRA**

a *scheme* recognised under:

- (a) section 264 of the *Act* (Schemes constituted in other EEA States); or
- (b) section 270 of the *Act* (Schemes authorised in designated countries or territories); or
- (c) section 272 of the *Act* (Individually recognised overseas schemes).

recognised
third country
credit
institution

FCA **PRA**

(A) In the PRA Handbook:

a *full BCD credit institution* that satisfies the following conditions:

- (a) its head office is outside the *EEA*;
- (b) it is authorised by a *third country competent authority* in the state or territory in which the credit institution's head office is located;
- (c) that *third country competent authority* is named in Part 1 of **■ BIPRU 8 Annex 6 R** (Non-EEA banking regulators' requirements deemed CRD-equivalent for individual risks); and
- (d) there is a tick against that *third country competent authority* in each of the columns headed "Market risk", "Credit risk" and "Operational Risk" in the table referred to in (c).

(B) In the FCA Handbook:

a *full CRD credit institution* that satisfies the following conditions:

- (a) its head office is outside the *EEA*;
- (b) it is authorised by a *third country competent authority* in the state or territory in which the credit institution's head office is located; and
- (c) that *third country competent authority* applies prudential and supervisory requirements to that credit institution that are at least equivalent to those applied in the *EEA*.

(A) In the PRA Handbook:

a *CAD investment firm* that satisfies the following conditions:

- (a) its head office is outside the *EEA*;
- (b) it is authorised by a *third country competent authority* in the state or territory in which the *CAD investment firm's* head office is located;
- (c) that *third country competent authority* is named in Part 2 of **■ BIPRU 8 Annex 6 R** (Non-EEA investment firm regulators' requirements deemed CRD-equivalent for individual risks); and
- (d) that *firm* is subject to and complies with prudential rules of or administered by that *third country competent authority* that are at least as stringent as those laid down in the *Banking Consolidation Directive* and the *Capital Adequacy Directive* as applied under the third paragraph of article 95(2) of the *EU CRR*.

(B) In the FCA Handbook:

a *CAD investment firm* that satisfies the following conditions:

recognised
third country
investment
firm

FCA **PRA**

<p><i>recognition order</i> FCA PRA</p>	<p>(a) its head office is outside the <i>EEA</i>;</p> <p>(b) it is authorised by a <i>third country competent authority</i> in the state or territory in which the <i>CAD investment firm's</i> head office is located;</p> <p>(c) that <i>third country competent authority</i> is named in Part 2 of ■ BIPRU 8 Annex 6 R (Non-EEA investment firm regulators' requirements deemed CRD-equivalent for individual risks); and</p> <p>(d) that <i>investment firm</i> is subject to and complies with prudential rules of or administered by that <i>third country competent authority</i> that are at least as stringent as those laid down in the <i>Banking Consolidation Directive</i> and the <i>Capital Adequacy Directive</i> as applied under the third paragraph of article 95(2) of the <i>EU CRR</i>.</p>
<p><i>recognition requirement</i> FCA PRA</p>	<p>(in accordance with section 313 of the <i>Act</i> (Interpretation of Part XVIII)) an order made under section 290 or 292 of the <i>Act</i> which declares an investment exchange to be an <i>RIE</i> or (for <i>RAPs</i>) an order made under regulation 2 of the <i>RAP regulations</i> which declares a <i>UK RIE</i> to be an <i>RAP</i> .</p> <p>(1) (in relation to a <i>UK RIE</i>) any of the requirements applicable to that body under the Recognition Requirements Regulations.</p> <p>(2) (in relation to a body applying for recognition as a <i>UK RIE</i>) any of the requirements under the Recognition Requirements Regulations which, if its application were successful, would apply to it.</p> <p>(3) (in relation to an <i>ROIE</i> , or to an applicant for recognition as an <i>ROIE</i>) any of the requirements in section 292(3) of the <i>Act</i> (Overseas investment exchanges and overseas clearing houses).</p>
<p><i>Recognition Requirements Regulations</i> FCA PRA</p>	<p>the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 (SI 2001/995).</p>
<p><i>redemption</i> FCA PRA</p>	<p>(1) (except in ■ EG 14 (Collective investment schemes)) (in relation to <i>units</i> in an <i>authorised fund</i>) the purchase of them from their <i>holder</i> by the <i>authorised fund</i> manager acting as a <i>principal</i>.</p> <p>(in ■ EG 14 (Collective investment schemes)) redemption as in (1) but including their cancellation by:</p> <p style="padding-left: 40px;">the trustee of an <i>AUT</i>;</p> <p style="padding-left: 40px;">the <i>depository</i> of an <i>ACS</i>; or</p> <p style="padding-left: 40px;">an <i>ICVC</i>.</p>
<p><i>redemption charge</i> FCA PRA</p>	<p>an amount levied by the <i>operator</i> of a <i>scheme</i> upon the <i>redemption</i> of <i>units</i>, in the case of an <i>authorised fund</i> under COLL 6.7.7R (Charges on buying and selling units).</p>
<p><i>redemption price</i> FCA PRA</p>	<p>(in <i>COLL</i>)</p> <p>the <i>price</i> payable by the <i>authorised fund manager</i> for each <i>unit</i> it <i>redeems</i> from a unitholder, calculated in accordance with ■ COLL 6.3 (Valuation and pricing).</p>

<p><i>redress determination</i></p> <p>FCA PRA</p>	<p>a written communication from a <i>respondent</i> under a <i>consumer redress scheme</i> which:</p> <p>(a) sets out the results of the <i>respondent's</i> determination under the scheme;</p> <p>(b) encloses a copy of the <i>Financial Ombudsman Service's</i> standard explanatory leaflet; and</p> <p>(c) informs the complainant that if he is dissatisfied, he may now make a <i>complaint</i> to the <i>Financial Ombudsman Service</i> and must do so within six <i>months</i>.</p>
<p><i>reduced net underwriting position</i></p> <p>FCA PRA</p>	<p>the <i>net underwriting position</i> as adjusted under ■ BIPRU 7.8.27 R (Calculating the reduced net underwriting position).</p>
<p><i>Referral Fees Regulations</i></p> <p>FCA</p>	<p>the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (Referral Fees) Regulations 2013 (SI 2013/1635).</p>
<p><i>register</i></p> <p>FCA</p>	<p>(1) [deleted]</p> <p>(2) [deleted]</p> <p>(3) (in <i>COLL</i>) the register of <i>unitholders</i> kept under Schedule 3 to the <i>OEIC Regulations</i> or ■ COLL 6.4.4 R (Register: general requirements and contents), or ■ COLL 8.5.8 R (The register of unitholders: AUTs or ACSs) as appropriate or, in relation to a <i>collective investment scheme</i> that is not an <i>authorised fund</i>, a record of the holders (other than of <i>bearer certificates</i>) of <i>units</i> in it.</p>
<p><i>registered branch</i></p> <p>FCA PRA</p>	<p>a branch of a <i>friendly society</i> which is separately registered under the Friendly Societies Act 1974.</p>
<p><i>registered contact</i></p> <p>FCA PRA</p>	<p>(as defined in regulation 8(1)(d) of the <i>CTF Regulations</i>) the <i>person</i> who is capable of giving instructions to the <i>CTF provider</i> with respect to the management of the <i>CTF</i>.</p>
<p><i>registered friendly society</i></p> <p>FCA PRA</p>	<p>a <i>friendly society</i> registered under section 7(1)(a) of the <i>Friendly Societies Act</i> 1974 or any enactment which it replaced, including any registered branches.</p>
<p><i>registrar</i></p> <p>FCA PRA</p>	<p>the <i>person</i> who maintains a <i>register</i>.</p>
<p><i>registration date</i></p> <p>FCA PRA</p>	<p>(in <i>RCB</i>) the date of the <i>FCA</i> decision to register a <i>regulated covered bond</i>.</p>
<p><i>registration document</i></p>	<p>(in <i>Part 6 rules</i>) a registration document referred to in ■ PR 2.2.2 R.</p>

FCA PRA

regular user

FCA PRA

(1) (as defined in section 130A(3) of the *Act* (Market abuse)) a *person* who is, in relation to a particular market, a reasonable *person* who regularly deals on that market in *investments* of the kind in question.

(2) (in accordance with section 130A(3) of the *Act* (Market abuse) as modified by the *RAP Regulations*) a *person* who is, in relation to a particular auction platform, a reasonable *person* who regularly makes bids on that market for *investments* of the kind in question.

Regulated Activities Order

FCA PRA

the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).

regulated activity

FCA PRA

(A) in the *PRA Handbook*:

(in accordance with section 22 of the *Act* (Regulated activities)) any of the following activities specified in Part II of the *Regulated Activities Order* (Specified Activities):

- (a) *accepting deposits* (article 5);
- (aa) *issuing electronic money* (article 9B);
- (b) *effecting contracts of insurance* (article 10(1));
- (c) *carrying out contracts of insurance* (article 10(2));
- (d) *dealing in investments as principal* (article 14);
- (e) *dealing in investments as agent* (article 21);
- (ea) *bidding in emissions auctions* (article 24A);
- (f) *arranging (bringing about) deals in investments* (article 25(1));
- (g) *making arrangements with a view to transactions in investments* (article 25(2));
- (ga) *arranging (bringing about) regulated mortgage contracts* (article 25A(1));
- (gb) *making arrangements with a view to regulated mortgage contracts* (article 25A(2));
- (gc) *arranging (bringing about) a home reversion plan* (article 25B(1));
- (gd) *making arrangements with a view to a home reversion plan* (article 25B(2));
- (ge) *arranging (bringing about) a home purchase plan* (article 25C(1));
- (gf) *making arrangements with a view to a home purchase plan* (article 25C(2));
- (gg) *operating a multilateral trading facility* (article 25D);
- (gh) *arranging (bringing about) a regulated sale and rent back agreement* (article 25E(1));
- (gi) *making arrangements with a view to a regulated sale and rent back agreement* (article 25E(2));
- (h) *managing investments* (article 37);

- (ha) *assisting in the administration and performance of a contract of insurance* (article 39A);
- (i) *safeguarding and administering investments* (article 40); for the purposes of the *permission regime*, this is sub-divided into:
- (i) *safeguarding and administration of assets (without arranging)*;
 - (ii) *arranging safeguarding and administration of assets*;
- (j) *sending dematerialised instructions* (article 45(1));
- (k) *causing dematerialised instructions to be sent* (article 45(2));
- (l) *establishing, operating or winding up a collective investment scheme* (article 51(1)(a)); for the purposes of the *permission regime*, this is sub-divided into:
- (i) *establishing, operating or winding up a regulated collective investment scheme*;
 - (ii) *establishing, operating or winding up an unregulated collective investment scheme*;
- (m) *acting as trustee of an authorised unit trust scheme* (article 51(1)(b));
- (ma) *acting as the depositary of an authorised contractual scheme* (article 51(1)(bb));
- (n) *acting as the depositary or sole director of an open-ended investment company* (article 51(1)(c));
- (na) *managing a UCITS* (article 51ZA);
- (nb) *acting as trustee or depositary of a UCITS* (article 51ZB);
- (nc) *managing an AIF* (article 51ZC);
- (nd) *acting as trustee or depositary of an AIF* (article 51ZD);
- (ne) *establishing, operating or winding up a collective investment scheme* (51ZE).
- (o) *establishing, operating or winding up a stakeholder pension scheme* (article 52 (a));
- (oa) *providing basic advice on stakeholder products* (article 52B);
- (ob) *establishing, operating or winding up a personal pension scheme* (article 52(b));
- (p) *advising on investments* (article 53); for the purposes of the *permission regime*, this is sub-divided into:
- (i) *advising on investments* (except pension transfers and pension opt-outs);
 - (ii) *advising on pension transfers and pension opt-outs*;
- (pa) *advising on regulated mortgage contracts* (article 53A);
- (pb) *advising on a home reversion plan* (article 53B);
- (pc) *advising on a home purchase plan* (article 53C);
- (pd) *advising on a regulated sale and rent back agreement* (article 53D);
- (q) *advising on syndicate participation at Lloyd's* (article 56);
- (r) *managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's* (article 57);
- (s) *arranging deals in contracts of insurance written at Lloyd's* (article 58);

- (sa) *entering into a regulated mortgage contract* (article 61(1));
- (sb) *administering a regulated mortgage contract* (article 61(2));
- (sc) *entering into a home reversion plan* (article 63B(1));
- (sd) *administering a home reversion plan* (article 63B(2));
- (se) *entering into a home purchase plan* (article 63F(1));
- (sf) *administering a home purchase plan* (article 63F(2));
- (sg) *entering into a regulated sale and rent back agreement* (article 63J(1));
- (sh) *administering a regulated sale and rent back agreement* (article 63J(2));
- (si) *meeting of repayment claims* (article 63N(1)(a));
- (sj) *managing dormant account funds (including the investment of such funds)* (article 63N(1)(b));
- (t) *entering as provider into a funeral plan contract* (article 59);

(B) in the FCA Handbook:

as in (A) with the addition of:

- (ob) *establishing, operating or winding up a personal pension scheme* (article 52(b));
- (ta) *providing information in relation to a specified benchmark;*
- (tb) *administering a specified benchmark;*

which is carried on by way of business and, except for (ta) and (tb), relates to a *specified investment* applicable to that activity or, in the case of (l), (m), (n) and (o), is carried on in relation to property of any kind.

- (u) *agreeing to carry on a regulated activity* (article 64);

which is carried on by way of business and relates to a *specified investment* applicable to that activity or, in the case of (l), (m), (n) and (o), is carried on in relation to property of any kind.

regulated activity debt

FCA **PRA**

an obligation to pay a sum due and payable under an agreement, the making or performance of which constitutes or is part of a *regulated activity* carried on by an individual who:

- (a) is, or has been, an *authorised person*; or
- (b) is carrying on, or has carried on, a *regulated activity* in contravention of the *general prohibition*.

regulated activity group

FCA **PRA**

A set of one or more *regulated activities* (with associated *investment* types and *customer* types) referred to in ■ SUP 16 to determine a *firm's* or other regulated person's *data item submission* requirements.

regulated clearing arrangement

FCA

as the context requires, either:

- (a) an arrangement under which a *firm* directly places *client money* in a *client transaction account* that is an *individual client account* or an *omnibus client account* at an *authorised central counterparty*; or
- (b) an arrangement under which a *firm*, acting for a *client* who is also an *indirect client*, directly places *client money* of that *indirect client* in a *client transaction account* that is an *individual client account* or an *omnibus client account* at a *clearing member* for the purposes of having that *clearing*

regulated
collective
investment
scheme

FCA PRA

member clear the positions of that *indirect client* through an *authorised central counterparty*.

- (a) an *ICVC*; or
- (b) an *AUT*; or
- (ba) an *ACS*; or
- (c) a *recognised scheme*;

whether or not the *units* are held within an *ISA* or *personal pension scheme*.

regulated
consumer
credit
agreement

FCA PRA

in accordance with section 8 of the Consumer Credit Act 1974 (as amended) an agreement between an individual "the debtor" and any other person "the creditor" by which the creditor provides the debtor with credit of any amount and which is not an exempt agreement for the purposes of that Act;

and expressions used in that Act have the same meaning in this definition.

regulated
consumer hire
agreement

FCA

in accordance with section 15 of the Consumer Credit Act 1974 (as amended) an agreement made by a person with an individual "the hirer" for the bailment or (in Scotland) the hiring of goods to the hirer, being an agreement which

- (a) is not a hire-purchase agreement, and
- (b) is capable of subsisting for more than three months, and
- (c) is not an exempt agreement;

and expressions used in that Act have the same meaning in this definition.

regulated
covered bond

FCA PRA

(in *RCB*) (as defined in Regulation 1(2) of the *RCB Regulations*) a *covered bond* or *programme* of *covered bonds*, as the case may be, which is admitted to the register of *regulated covered bonds* maintained under Regulation 7(1)(b) of the *RCB Regulations*.

regulated entity

FCA PRA

one of the following:

- (a) a *credit institution*; or
- (b) a regulated insurance entity; or
- (c) an *investment firm*;

whether or not it is incorporated in, or has its head office in, an *EEA State*.

An *asset management company* is treated as a regulated entity for the purposes described in

GENPRU 3.1.39R (The financial sectors: *asset management companies*).

An *alternative investment fund manager* is treated as a regulated entity for the purposes described in ■ GENPRU 3.1.39 R (The financial sectors: alternative investment fund managers).

regulated
information

FCA PRA

all information which an *issuer*, or any other *person* who has applied for the admission of *financial instruments* to trading on a *regulated market* without the *issuer's* consent, is required to disclose under:

- (a) the *Transparency Directive*;
- (b) article 6 of the *Market Abuse Directive*; or
- (c) *LR*, and *DTR*.

Regulated
Information
Service

a Regulated Information Service that is approved by the *FCA* as meeting the Criteria for Regulated Information Services and that is on the list of Regulated Information Services maintained by the *FCA* .

PRA

regulated institution

FCA PRA

any of the following:

- (a) an *EEA insurer* or *UK insurer*; or
- (b) an *approved credit institution*; or
- (c) a *friendly society* (not within (a)) which is authorised to carry on *insurance business*; or
- (d) a *firm* whose *permission* includes dealing in investments as *principal* with respect to *derivatives* which are not *listed*; or
- (e) a *MiFID investment firm* whose authorisation (as referred to in article 5 of *MiFID*) authorises it to carry on activities of the kind referred to in (d).

regulated insurance entity

FCA PRA

an insurance undertaking within the meaning of Article 4 of the *Consolidated Life Directive*, Article 6 of the *First Non-Life Directive* or Article 1(b) of the *Insurance Groups Directive*.*regulated lifetime mortgage contract*

FCA PRA

a *regulated mortgage contract* which is a *lifetime mortgage*.*regulated market*

FCA PRA

(1) a multilateral system operated and/or managed by a *market operator*, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in *financial instruments* - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the *financial instruments* admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of *MiFID*.

[Note: article 4(1)(14) of *MiFID*]

- (2) (in addition, in *INSPRU* and *IPRU(INS)* only) a market situated outside the *EEA States* which is characterised by the fact that:
- (a) it meets comparable requirements to those set out in (1); and
 - (b) the *financial instruments* dealt in are of a quality comparable to those in a regulated market in the United Kingdom.

regulated market transaction

FCA PRA

a transaction concluded by a *firm* on a *regulated market* with another member or participant of that *regulated market*.*regulated mortgage activity*

FCA PRA

any of the following activities specified in Part II of the *Regulated Activities Order* (Specified Activities):

- (a) *arranging (bringing about) regulated mortgage contracts* (article 25A(1));
- (b) *making arrangements with a view to regulated mortgage contracts* (article 25A(2));

regulated mortgage contract

FCA PRA

- (c) *advising on regulated mortgage contracts* (article 53A);
 - (d) *entering into a regulated mortgage contract* (article 61(1));
 - (e) administering a regulated mortgage contract (article 61(2));
 - (f) *agreeing to carry on a regulated activity* in (a) to (e) (article 64).
- (a) (in relation to a contract) a contract which:
- (i) (in accordance with article 61(3) of the *Regulated Activities Order*) at the time it is entered into, meets the following conditions:
 - (A) a lender provides credit to an individual or to trustees (the 'borrower'); and
 - (B) the obligation of the borrower to repay is secured by a first legal mortgage on land (other than timeshare accommodation) in the *United Kingdom*, at least 40% of which is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a *person* who is in relation to the borrower or (in the case of credit provided to trustees) a beneficiary of the trust:
 - (I) that *person's* spouse or civil partner; or
 - (II) a *person* (whether or not of the opposite sex) whose relationship with that *person* has the characteristics of the relationship between husband and wife; or
 - (III) that *person's* parent, brother, sister, child, grandparent or grandchild ; and
 - (ii) is not a *home purchase plan*.
- (b) (in relation to a *specified investment*) the *investment*, specified in article 88 of the *Regulated Activities Order*, which is rights under a *regulated mortgage contract* within (a).

regulated related undertaking

FCA PRA

- a *related undertaking* that is any of the following:
- (a) a *regulated entity*; or
 - (b) an *insurance undertaking* which is not a *regulated insurance entity*; or
 - (c) an *asset management company*; or
 - (d) a *financial institution* which is neither a *credit institution* nor an *investment firm*; or
 - (e) a *financial holding company*; or
 - (f) an *insurance holding company* ; or
 - (g) a *mixed financial holding company*.

regulated sale and rent back activity

FCA PRA

- any of the following *regulated activities*:
- (a) *arranging (bringing about) a regulated sale and rent back agreement* (article 25E(1));
 - (b) *making arrangements with a view to a regulated sale and rent back agreement* (article 25E(2));
 - (c) *advising on a regulated sale and rent back agreement* (article 53D);

regulated sale and rent back agreement

FCA **PRA**

regulated sale and rent back firm

FCA **PRA**

regulated sale and rent back mediation activity

FCA **PRA**

regulated sale and rent back transaction

FCA **PRA**

regulatory basis only life firm

FCA **PRA**

regulatory body

FCA **PRA**

(d) *entering into a regulated sale and rent back agreement* (article 63J(1));

(e) *administering a regulated sale and rent back agreement* (article 63J(2));
or

(f) *agreeing to carry on a regulated activity* in (a) to (e) (article 64).

(in accordance with article 63J(3)(a) of the *Regulated Activities Order*) an arrangement comprised in one or more instruments or agreements, in relation to which the following conditions are met at the time it is entered into:

(a) the arrangement is one under which a *person* (an agreement provider), buys all or part of the *qualifying interest in land* in the *United Kingdom* from an individual or trustees (the "agreement seller"); and

(b) the agreement seller (if he is an individual) or an individual who is the beneficiary of the trust (if the agreement seller is a trustee), or a related person, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling, and intends to do so;

but excluding any arrangement that is a regulated *home reversion plan*.

a *firm* that carries on any *regulated sale and rent back activity*.

any of the following *regulated activities*:

(a) *arranging (bringing about) regulated sale and rent back agreements* (article 25E(1));

(b) *making arrangements with a view to regulated sale and rent back agreements* (article 25E(2));

(c) *advising on regulated sale and rent back agreements* (article 53D);

(d) *agreeing to carry on a regulated activity* in (a) to (c) (article 64).

a transaction involving a *regulated sale and rent back agreement* under which a *SRB agreement seller*, in return for the sale of a *qualifying interest in land* in whole or in part to a *SRB agreement provider*, is granted, or any member of his family is granted, a right to occupy the land in question as, or in connection with, a dwelling, and intends so to occupy it.

a *firm* carrying on *long-term insurance business* which is not a *realistic basis life firm*.

(A) In the PRA Handbook:

any authority, body or *person* having, or who has had, responsibility for the supervision or regulation of any *regulated activities* or other financial services, whether in the *United Kingdom* or overseas.

(B) In the FCA Handbook:

(1) (except in *DTR*) any authority, body or *person* having, or who has had, responsibility for the supervision or regulation of any

<p><i>regulated activities</i> or other financial services, whether in the <i>United Kingdom</i> or overseas.</p> <p>(2) (in <i>DTR</i>) an organisation listed in ■ DTR 8 Annex 1.</p>	<p><i>regulated activities</i> or other financial services, whether in the <i>United Kingdom</i> or overseas.</p> <p>(2) (in <i>DTR</i>) an organisation listed in ■ DTR 8 Annex 1.</p>
<p><i>regulatory costs</i></p> <p>FCA PRA</p>	<p>the periodic fees payable to the <i>appropriate regulator</i> by a <i>participant firm</i> in accordance with ■ FEES 4 (Periodic fees) .</p>
<p><i>regulatory current liabilities</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>with-profits fund</i>) the regulatory current liabilities of the <i>with-profits fund</i> calculated in accordance with INSPRU 1.1.30R.</p>
<p><i>Regulatory Decisions Committee</i></p> <p>FCA PRA</p>	<p>a committee of the Board of the <i>FCA</i>, described in ■ DEPP 3.1 (The nature and procedure of the RDC).</p>
<p><i>regulatory excess capital</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>with-profits fund</i>) has the meaning set out in INSPRU 1.3.32R .</p>
<p><i>regulatory function</i></p> <p>FCA PRA</p>	<p>(as defined in section 291 of the <i>Act</i> (Liability in relation to <i>recognised body's</i> regulatory functions)) any function of a <i>recognised body</i> so far as relating to, or to matters arising out of, the obligations to which the body is subject under or by virtue of the <i>Act</i> and (for an <i>RAP</i>) under the <i>RAP recognition requirements</i> .</p>
<p><i>regulatory high risk category</i></p> <p>FCA PRA</p>	<p>(for the purposes of the <i>standardised approach</i> to credit risk) an item that falls into ■ BIPRU 3.4.104 R (Items belonging to regulatory high risk categories under the standardised approach to credit risk).</p>
<p><i>regulatory information service or RIS</i></p> <p>FCA</p>	<p>(A) In the <i>PRA Handbook</i>:</p> <p>either:</p> <p>(a) a <i>Regulated Information Service</i>; or</p> <p>(b) an incoming <i>information society service</i> that has its <i>establishment</i> in an <i>EEA State</i> other than the <i>United Kingdom</i> and that disseminates <i>regulated information</i> in accordance with the minimum standards set out in [article 12 of the <i>TD implementing Directive</i>].</p> <p>(B) In the <i>FCA Handbook</i>:</p> <p>(a) a <i>primary information provider</i>; or</p> <p>(b) an incoming <i>information society service</i> that has its <i>establishment</i> in an <i>EEA State</i> other than the <i>United Kingdom</i> and that disseminates <i>regulated information</i> in accordance with the minimum standards set out in article 12 of the ; or</p> <p>(c) a <i>person</i> to whom ■ DTR TP 1.22 applies, for as long as ■ DTR TP 1.22 remains in force.</p>

<i>regulatory objectives</i>	[deleted]
<i>regulatory provisions</i> FCA PRA	any rules, guidance, arrangements or policy issued by the investment exchange in connection with its business as an investment exchange or in connection with the provision by it of <i>clearing facilitation services</i> .
<i>regulatory surplus</i> FCA PRA	(in relation to a long-term business fund, or sub-fund) the excess, if any, of the <i>regulatory value of assets</i> for the <i>with-profits fund</i> over the <i>regulatory value of liabilities</i> for that fund.
<i>regulatory surplus value</i> FCA PRA	has the meaning set out in GENPRU 1.3.48R.
<i>regulatory system</i> FCA PRA	(A) In the PRA Handbook: the arrangements for regulating a <i>firm</i> or other <i>person</i> in or under the <i>Act</i> , including the <i>threshold conditions</i> , the <i>Principles</i> and other <i>rules</i> , the <i>Statements of Principle</i> , codes and <i>guidance</i> and including any relevant directly applicable provisions of a Directive or Regulation such as those contained in the <i>MiFID implementing Directive</i> , the <i>MiFID Regulation</i> and the <i>EU CRR</i> . (B) In the FCA Handbook: the arrangements for regulating a <i>firm</i> or other <i>person</i> in or under the <i>Act</i> , including the <i>threshold conditions</i> , the <i>Principles</i> and other <i>rules</i> , the <i>Statements of Principle</i> , codes and <i>guidance</i> and including any relevant directly applicable provisions of a Directive or Regulation such as those contained in the <i>MiFID implementing Directive</i> , the <i>MiFID Regulation</i> and the <i>EU CRR</i> .
<i>regulatory value of assets</i> FCA PRA	(in relation to a <i>with-profits fund</i>) has the meaning set out in INSPRU 1.3.24R.
<i>regulatory value of liabilities</i> FCA PRA	(in relation to a <i>with-profits fund</i>) has the meaning set out in INSPRU 1.3.29R.
<i>rehabilitation exceptions orders</i> FCA PRA	the Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975, the Rehabilitation of Offenders Act 1974 (Exclusions and Exceptions) (Scotland) Order 2003 and the Rehabilitation of Offenders (Exceptions) Order (Northern Ireland) 1979.
<i>reinsurance</i> FCA PRA	includes retrocession.
<i>reinsurance contract</i>	(in ■ COBS 21, ICOBS, ■ CASS 5 and COMP) a <i>contract of insurance</i> covering all or part of a risk to which a <i>person</i> is exposed under a <i>contract of insurance</i> .

FCA PRA

Reinsurance
Directive

FCA PRA

the Directive of 16 November 2005 of the European Parliament and of the Council (No 2005/68/EC) on reinsurance and amending the *First Non-Life Directive* and the *Third Non-Life Directive* as well as the *Insurance Groups Directive* and the *Consolidated Life Directive*.

reinsurance
mediation

FCA PRA

(as defined in article 2.4 of the *Insurance Mediation Directive*) the activities of introducing, proposing or carrying out other work preparatory to the conclusion of contracts of reinsurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim. These activities when undertaken by a *IMD reinsurance undertaking* or an employee of a *IMD reinsurance undertaking* who is acting under the responsibility of the *IMD reinsurance undertaking* shall not be considered as *reinsurance mediation*. The provision of information on an incidental basis in the context of another professional activity provided that the purpose of that activity is not to assist the customer in concluding or performing a reinsurance contract, the management of claims of a *IMD reinsurance undertaking* on a professional basis, and loss adjusting and expert appraisal of claims shall also not be considered as *reinsurance mediation*.

reinsurance to
close

FCA PRA

(a) an agreement under which members of a *syndicate* in one *syndicate year* ("the reinsured members") agree with the members of that *syndicate* in a later *syndicate year* or the members of another *syndicate* ("the reinsuring members") that the reinsuring members will discharge, or procure the discharge of, or indemnify the reinsured members against, all known and unknown *insurance business* liabilities of the reinsured members arising out of the *insurance business* carried on by the reinsured members in that *syndicate year*; or

(b) a similar reinsurance agreement or arrangement that has been approved by the *Council* as a reinsurance to close.

reinsurance
undertaking

FCA PRA

an *insurance undertaking* whose *insurance business* is restricted to *reinsurance*.

reinsurer

FCA PRA

an *insurance undertaking* whose business includes *effecting* or *carrying out* contracts of *reinsurance*; includes a retrocessionaire.

related
designated
investment

FCA PRA

(in relation to a *designated investment* (the "first investment")) a *designated investment* whose value might reasonably be expected to be directly affected by:

- (a) any fluctuation in the value of the first investment; or
- (b) any *published recommendation* that concerns the first investment.

related
financial
instrument

FCA PRA

means a *financial instrument*, the price of which is closely affected by price movements in another *financial instrument* which is the subject of *investment research*, and includes a derivative on that other *financial instrument*.

[Note: article 25(2) of the *MiFID implementing Directive*]

related
investment

FCA PRA

(as defined in section 130A(3) of the *Act*) in relation to a *qualifying investment*, means an investment whose price or value depends on the price or value of the *qualifying investment*.

related party

FCA PRA

(1) (in LR) as defined in ■ LR 11.1.4 R;

(2) (in relation to an agreement seller under a *regulated sale and rent back agreement* or, where the agreement seller is a trustee, a beneficiary of the trust):(a) that *person's* spouse or civil partner; or(b) a *person* (whether or not of the opposite sex) whose relationship with that *person* has the characteristic of the relationship between husband and wife; or(c) that *person's* parent, brother, sister, child, grandparent or grandchild.*related party circular*

FCA PRA

(in LR) a *circular* relating to a *related party transaction*.*related party transaction*

FCA PRA

(in LR) as defined in ■ LR 11.1.5 R.

related undertaking

FCA PRA

in relation to an *undertaking* ("U"):(a) any *subsidiary undertaking* of U; or(b) any *undertaking* in which U or any of U's *subsidiary undertakings* holds a participation; or(c) any *undertaking* linked to U by a *consolidation Article 12(1) relationship*; or(d) any *undertaking* linked by a *consolidation Article 12(1) relationship* to an *undertaking* in (a), (b) or (c).*relevant articles*

FCA PRA

(in REC):

(1) Article 6.1 to 6.4 of the *Market Abuse Directive*;(2) Articles 3, 5, 7, 8, 10, 14 and 16 of the *Prospectus Directive*;(3) Articles 4 to 6, 14, 16 to 19 and 30 of the *Transparency Directive*; and

(4) EU legislation made under the provisions mentioned in (1) to (3).

relevant asset pool

FCA PRA

(in RCB) (as defined in Regulation 1(2) of the *RCB Regulations*) in relation to a *regulated covered bond* the *asset pool* from which the claims attaching to that bond are guaranteed to be paid by the *owner* of that pool in the event of the failure of the *issuer*.*relevant business*

FCA PRA

(1) (in DISP and FEES) that part of a *firm's* business which it conducts with *consumers* and which is subject to the jurisdiction of the *Financial Ombudsman Service* as provided for in ■ DISP 2.3 (To which activities does the Compulsory Jurisdiction apply?), ■ DISP 2.4 (To which activities does the Consumer Credit Jurisdiction apply?) and ■ DISP 2.5 (To which activities does the Voluntary Jurisdiction apply?) , measured by reference to the appropriate tariff-base for each *industry block*.(2) (in relation to information communicated to a *client* other than a *financial promotion*) *designated investment business*.(3) (in relation to a *financial promotion*) a *controlled activity*.

relevant capital sum

FCA **PRA**

for the purposes of INSPRU 1.3.34R, the sum under a *contract of insurance* which is:

(a) unless (b) applies:

- (i) for whole life assurances, the sum assured;
- (ii) for *contracts of insurance* where a sum is payable on maturity (including contracts where a sum is also payable on earlier death), the sum payable on maturity;
- (iii) for deferred annuities, the capitalised value of the annuity at the vesting date (or the cash option if it is greater);
- (iv) for *capital redemption* contracts, the sum payable at the end of the contract period; and
- (v) for linked long-term contracts of insurance, notwithstanding (i) to (iv), the lesser of:

(A) the amount for the time being payable on death; and

(B) the aggregate of the value for the time being of the units allocated to the contract (or, where entitlement is not denoted by means of units, the value for the time being of any other measure of entitlement under the contract equivalent to units) and the total amount of the *premiums* remaining to be paid during such of the term of the contract as is appropriate for *zillmerising* or, if such *premiums* are payable beyond the age of seventy-five, until that age;

but excluding in all cases any vested reversionary bonus; and

(b) for temporary assurances, the sum assured on the *actuarial valuation date*.

relevant charitable scheme

FCA **PRA**

an *authorised fund* which is:

- (a) a registered charity; or
- (b) a charitable unit trust scheme under regulation 7(2)(d) of the Income Tax (Definition of Unit Trust Scheme) Regulations 1988.

relevant collateral

FCA **PRA**

in relation to a transaction:

- (a) cash;
- (b) letters of credit and guarantees to the extent of their face value, issued by an *approved bank* which is neither a counterparty nor an *associate* of a counterparty;
- (c) gold and silver bullion and coinage;
- (d) marketable investments;
- (e) the performance guarantees issued in support of the securities lending and borrowing programmes of Euroclear and Cedel, in respect only of *exposure* arising from participation in such programmes;

subject in each case to:

- (i) the *firm* having an unconditional right to apply or realise the relevant collateral for the purpose of repaying a counterparty's obligations;
- (ii) marketable investments:

(A) being marked to market daily using the valuation principles in ■ IPRU(INV) 3.41(9)R;

<p><i>relevant commencement date</i></p> <p>FCA PRA</p>	<p>(B) not being issued by a counterparty nor by an <i>associate</i> of a counterparty.</p> <p>(as defined in article 1 of the <i>Mortgage and General Insurance Complaints Transitional Order</i>):</p> <p>(a) in relation to a complaint which relates to an activity to which, immediately before 14 January 2005, the <i>GISC facility</i> applied, the beginning of 14 January 2005;</p> <p>(b) in relation to a complaint which relates to an activity to which, immediately before 31 October 2004, the <i>MCAS scheme</i> applied, the beginning of 31 October 2004.</p>
<p><i>relevant competent authorities</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>financial conglomerate</i>) those <i>competent</i> authorities which are, or which have been appointed as, relevant <i>competent</i> authorities in relation to that <i>financial conglomerate</i> under Article 2(17) of the <i>Financial Groups Directive</i> (Definitions).</p>
<p><i>relevant competent authority</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>financial instrument</i>) means the <i>competent authority</i> of the most relevant market in terms of liquidity for that <i>financial instrument</i>.</p> <p>[Note: article 2(7) of <i>MiFID Regulation</i>]</p>
<p><i>relevant complaint</i></p> <p>FCA PRA</p>	<p>(1) (in <i>DISP</i>) a <i>relevant existing complaint</i>, a <i>relevant new complaint</i> or a <i>relevant transitional complaint</i>.</p> <p>(2) (in <i>REC</i>) (as defined in section 299(2) of the <i>Act</i> (Complaints about <i>recognised bodies</i>)) a complaint which the <i>FCA</i> considers is relevant to the question of whether a <i>recognised body</i> should remain a <i>recognised body</i>.</p>
<p><i>relevant date</i></p> <p>FCA PRA</p>	<p>(in ■ <i>MCOB 10</i> (Annual percentage rate)):</p> <p>(a) (where a date is specified in or determinable under an agreement at the date of its making as the date on which the debtor is entitled to require provision of anything which is the subject of the agreement) the earliest such date;</p> <p>(b) (in any other case) the date of making the agreement.</p>
<p><i>relevant EEA details</i></p> <p>FCA PRA</p>	<p>the details listed in regulation 14 of the <i>EEA Passport Rights Regulations</i> and set out in ■ <i>SUP 13 Annex 1 R</i> (Requisite details or relevant details: branches).</p>
<p><i>relevant existing complaint</i></p> <p>FCA PRA</p>	<p>(in accordance with the <i>Ombudsman Transitional Order</i>) a complaint which:</p> <p>(a) was referred to a <i>former scheme</i> at any time before <i>commencement</i>, by a person who was at that time entitled, under the terms of the <i>former scheme</i>, to refer such a complaint (whether described in that scheme as the making of a complaint, the referral of a dispute, the submission of a claim, or otherwise); and</p> <p>(b) has not, before <i>commencement</i>, been rejected, withdrawn, settled or determined by the former <i>Ombudsman</i> (whether by a substantive decision, or by closure of the case without a substantive decision).</p>
<p><i>relevant financial system</i></p>	<p>(in accordance with section 169A(5) of the <i>Act</i> (Support of overseas regulator with respect to financial stability)) a financial system including:</p> <p>(a) financial markets and exchanges;</p>

FCA PRA

(b) activities that would be *regulated activities* if carried on in the *United Kingdom*; and

(c) other activities connected with financial markets and exchanges.

relevant former
scheme

(as defined in article 2(2) of the *compensation transitionals order*):

FCA PRA

(a) in relation to a *pending application*, the *investment business compensation scheme* under which the application was made;

(b) in relation to an *article 9 default*, one of the following that applied to the default before *commencement*:

(i) the Policyholders Protection Scheme established by the Policyholders Protection Act 1975;

(ii) the Deposit Protection Scheme established by Part II of the Banking Act 1987;

(iii) the Building Societies Investor Protection Scheme established by Part IV of the Building Societies Act 1986;

(iv) the Friendly Societies Protection Scheme established in accordance with section 141 of the Financial Services Act 1986.

relevant
function

(in relation to a *UK recognised body*) an *exempt activity* or a *regulatory function*.

FCA PRA

relevant
general
insurance
contract

(in *COMP*) any *general insurance contract* other than:

(a) [deleted]

(b) [deleted]

(c) a contract falling within any of the following classes:

(i) *aircraft*;

(ii) *ships*;

(iii) *goods in transit*;

(iv) *aircraft liability*;

(v) *liability of ships*;

(vi) *credit*.

relevant
information

(1) (except in *REC*) (in relation to an *investment*) information which would be likely to be regarded by a *regular user* of the market or auction platform in question as relevant when deciding the terms on which transactions in that *investment* should be effected.

(2) (in *REC*) (in relation to an *investment*) information which is relevant to determining the current value of that *investment* or (in relation to *RAPs*) information on the terms of *emissions auction products* and the terms on which they will be auctioned on an *RAP*.

FCA PRA

relevant insurer

in relation to a *community co-insurance operation*, an *insurer* which is concerned in the operation but is not the *leading insurer*.

PAGE
R21

FCA PRA

relevant
investment

(1) (in ■ *COBS 12.4*, in relation to a *research recommendation* or a public appearance), a *designated investment* that is the subject of that *research recommendation* or public appearance,

FCA PRA

<p>(2) (other than in ■ COBS 4 or ■ COBS 12.4) (in accordance with article 3(1) of the <i>Regulated Activities Order</i> (Interpretation)):</p> <p style="margin-left: 40px;">(a) a <i>contractually based investment</i>;</p> <p style="margin-left: 40px;">(b) a <i>pure protection contract</i>;</p> <p style="margin-left: 40px;">(c) a <i>general insurance contract</i>;</p> <p style="margin-left: 40px;">(d) rights to or interests in an <i>investment</i> falling within (a).</p> <p>(3) (in ■ COBS 4) a <i>specified investment</i> or a <i>controlled investment</i>.</p>	<p><i>relevant issuer</i></p> <p>FCA PRA</p>	<p>(1) (in relation to a <i>designated investment</i> that is the subject of a <i>research recommendation</i> or a public appearance) the <i>issuer</i> of that <i>designated investment</i>; or</p> <p>(2) (in relation to a <i>related designated investment</i> that is the subject of a public appearance) either the <i>issuer</i> of the <i>related designated investment</i> or the <i>issuer</i> of a <i>designated investment</i> that might reasonably be expected directly to affect the value of the <i>related designated investment</i>.</p>
<p><i>relevant liquid market</i></p> <p>FCA PRA</p>	<p>a market for a share determined in accordance with paragraph 2 and 8 of Article 9 of the <i>MiFID Regulation</i>, in many cases this will be the Member State where the share or the unit was first admitted to trading on a regulated market.</p> <p>[Note: article 9 of the <i>MiFID Regulation</i>]</p>	<p>(1) (in relation to business which is not <i>occupational pension fund management business</i>) the premium income in respect of <i>protected contracts of insurance</i> of a <i>firm</i>; or</p> <p>(2) (in relation to <i>occupational pension fund management business</i>) the <i>remuneration</i> retained by a <i>firm</i> in relation to its carrying on <i>occupational pension fund management business</i></p>
<p><i>relevant net premium income</i></p> <p>FCA PRA</p>	<p>in the year preceding that in which the date for submission of the information under ■ FEES 6.5.13 R falls, net of any relevant rebates or refunds.</p>	<p>(in accordance with the <i>Ombudsman Transitional Order</i>) a complaint referred to the <i>Financial Ombudsman Service</i> after <i>commencement</i> which relates to an act or omission occurring before <i>commencement</i> if:</p> <p style="margin-left: 40px;">(a) the act or omission is that of a person who was, immediately before <i>commencement</i>, subject to a <i>former scheme</i>;</p> <p style="margin-left: 40px;">(b) the act or omission occurred in the carrying on by that person of an activity to which that <i>former scheme</i> applied; and</p> <p style="margin-left: 40px;">(c) the complainant is eligible and wishes to have the complaint dealt with under the new scheme;</p> <p>for the purposes of (c), where the complainant is not eligible in accordance with ■ DISP 2 (Jurisdiction of the Financial Ombudsman Service), an <i>Ombudsman</i> may, nonetheless, if he considers it appropriate, treat the complainant as eligible if he would have been entitled to refer an equivalent complaint to the <i>former scheme</i> in question immediately before <i>commencement</i>.</p>
<p><i>relevant new complaint</i></p> <p>FCA PRA</p>	<p>a relevant office-holder as defined in section 189 of the Companies Act 1989, which is in summary:</p> <p style="margin-left: 40px;">(a) the official receiver;</p> <p style="margin-left: 40px;">(b) (in relation to a company) any <i>person</i> acting as its liquidator, provisional liquidator, administrator or administrative receiver;</p>	<p><i>relevant office-holder</i></p> <p>FCA PRA</p>

(c) (in relation to an individual or a debtor within the Bankruptcy (Scotland) Act 1985) a trustee in bankruptcy, interim receiver of property, or permanent or interim trustee in the sequestration of an estate;

(d) any *person* acting as administrator of an insolvent estate of a deceased *person*.

a *pension scheme* or an *additional voluntary contribution*.

relevant
pension scheme

FCA PRA

(1) (in COMP) a *person* for *claims* against whom the *compensation scheme* provides cover, as defined in ■ COMP 6.2.1 R.

(2) any of the following:

(a) a *director, partner* or equivalent, manager or *appointed representative* (or where applicable, *tied agent*) of the *firm*;

(b) a *director, partner* or equivalent, or manager of any *appointed representative* (or where applicable, *tied agent*) of the *firm*;

(c) an *employee* of the *firm* or of an *appointed representative* (or where applicable, *tied agent*) of the *firm*; as well as any other natural person whose services are placed at the disposal and under the control of the *firm* or an *appointed representative* or a *tied agent* of the *firm* and who is involved in the provision by the *firm* of *regulated activities*;

(d) a natural person who is directly involved in the provision of services to the *firm* or its *appointed representative* (or where applicable, *tied agent*) under an *outsourcing* arrangement or (in the case of a *management company*) a delegation arrangement to third parties, for the purpose of the provision by the *firm* of *regulated activities* or (in the case of a *management company*) *collective portfolio management*.

[Note: article 2(3) of the *MiFID implementing Directive* and article 3(3) of the *UCITS implementing Directive*]

(1) (except in ■ FEES 6) a *collective investment scheme* managed by an *EEA UCITS management company*.

(2) (in ■ FEES 6) a scheme or arrangement (other than the *compensation scheme*) for the payment of compensation (in certain cases) to customers (including customers outside the *United Kingdom*) of *persons* (including *persons* outside the *United Kingdom*) who provide financial services (including financial services provided outside the *United Kingdom*) or carry on a business connected with the provision of such services.

(1) (in ■ MAR 2, when used with reference to the *Buy-back and Stabilisation Regulation*) (in accordance with Article 2(6) of the *Buy-back and Stabilisation Regulation*) *transferable securities* which are admitted to trading on a *regulated market* or for which a request for admission to trading on a *regulated market* has been made, and which are the subject of a *significant distribution*.

(2) (otherwise in ■ MAR 2) *transferable securities*

(3) [deleted]

(in accordance with the *Mortgage and General Insurance Complaints Transitional Order*) a complaint referred to the *Financial Ombudsman Service* after the

relevant
scheme

FCA PRA

relevant
security

FCA PRA

relevant
transitional
complaint

FCA PRA

relevant commencement date which relates to an act or omission occurring before that date if:

- (a) the act or omission is that of a *person* ("R") who, at the time of that act or omission, was subject to a *former scheme*;
- (b) R was an *authorised person* on or after the *relevant commencement date*;
- (c) the act or omission occurred in the carrying on by R of an activity to which that *former scheme* applied; and
- (d) the complainant is eligible and wishes to have the complaint dealt with under the new *scheme*.

relevant UK details

FCA PRA

the details required in regulation 15 of the *EEA Passport Rights Regulations* and set out in ■ SUP 13 Annex 2 R (Relevant UK details: branches of insurance undertakings).

remedial direction

[deleted]

remuneration

FCA PRA

(A) In the PRA Handbook:

any form of remuneration, including salaries, *discretionary pension benefits* and benefits of any kind.

[Note: article 92(2) of the *CRD*]

(B) In the FCA Handbook:

any form of remuneration, including salaries, *discretionary pension benefits* and benefits of any kind.

[Note: article 92(2) of the *CRD*]

Remuneration Code

FCA PRA

■ SYSC 19A (Remuneration Code).

Remuneration Code general requirement

FCA PRA

■ SYSC 19A.2.1 R.

Remuneration Code staff

FCA PRA

(A) In the PRA Handbook:

(for a *CRR firm* and an *overseas firm* in SYSC 19A1.1.1R(1)(f)) has the meaning given in ■ SYSC 19A.3.4 R

(B) In the FCA Handbook:

(for a *CRR firm* and an *overseas firm* in SYSC 19A1.1.1R(1)(f)) has the meaning given in ■ SYSC 19A.3.4 R

remuneration principles proportionality rule

FCA PRA

(in ■ SYSC 19A) has the meaning given in ■ SYSC 19A.3.3 R.

<p><i>renewal</i> FCA PRA</p>	<p>carrying forward a contract, at the point of expiry and as a successive or separate operation of the same nature as the preceding contract, between the same contractual parties.</p>
<p><i>repayment claim</i> FCA PRA</p>	<p>(in relation to a <i>dormant account</i>) a claim for repayment made by virtue of sections 1(2)(b) or 2(2)(b) of the Dormant Bank and Building Society Accounts Act 2008, that is, in summary, that the customer has against the <i>dormant account fund operator</i> whatever right to payment of the <i>balance</i> the customer would have against the <i>bank</i> or <i>building society</i> if the transfer (or in the case of section 2(2)(b), transfers) had not happened. In this definition, 'customer' is the <i>person</i> who held with a <i>bank</i> or <i>building society</i> the <i>balance</i> of a <i>dormant account</i> transferred to a <i>dormant account fund operator</i>.</p>
<p><i>repayment mortgage</i> FCA PRA</p>	<p>a <i>regulated mortgage contract</i> under which the <i>customer</i> is obliged to make payments of interest and capital which are designed to repay the mortgage over the stated term.</p>
<p><i>repayment vehicle</i></p>	<p>the means by which the <i>customer</i> will repay the capital due under the <i>regulated mortgage contract</i>, where all or part of that contract is an <i>interest-only</i> mortgage.</p>
<p><i>repo</i> FCA PRA</p>	<p>(a) an agreement between a seller and buyer for the sale of <i>securities</i>, under which the seller agrees to repurchase the <i>securities</i>, or equivalent <i>securities</i>, at an agreed date and, usually, at a stated price;</p> <p>(b) an agreement between a buyer and seller for the purchase of <i>securities</i>, under which the buyer agrees to resell the <i>securities</i>, or equivalent <i>securities</i>, at an agreed date and, usually, at a stated price.</p>
<p><i>reporting accountant</i> FCA PRA</p>	<p>an accountant appointed:</p> <p>(a) by the <i>appropriate regulator</i> ; or</p> <p>(b) by a <i>firm</i> , having been nominated or approved by the <i>appropriate regulator</i> under section 166 of the <i>Act</i> (Reports by skilled persons); or</p> <p>(c) by an applicant for <i>Part 4A permission</i> ;</p> <p>to report on one or more aspects of the business of a <i>firm</i> or applicant, such as its financial position, including <i>internal controls</i> and reporting returns.</p>
<p><i>reporting level</i> FCA PRA</p>	<p>(in ■ SUP 16 (Reporting requirements) and in relation to a <i>data item</i>) refers to whether that <i>data item</i> is prepared on a solo basis or on the basis of a group such as a <i>UK DLG by modification</i> and, if it is prepared on the basis of a group, refers to the type of group (such as a <i>UK DLG by modification</i> or a <i>non-UK DLG by modification (firm level)</i>).</p>
<p><i>repossess</i> FCA PRA</p>	<p>(in MCOB) take possession of the property that is the subject of a <i>regulated mortgage contract</i> or <i>home purchase plan</i> .</p>
<p><i>representative</i> FCA PRA</p>	<p>(1) an individual who:</p> <p>(a) is appointed by a <i>firm</i>, or by an <i>appointed representative</i> of a <i>firm</i>, to carry on any of the following activities:</p> <p>(i) <i>advising on investments</i>;</p> <p>(ii) <i>providing basic advice on stakeholder products</i>;</p> <p>(iii) <i>arranging (bringing about) deals in investments</i>;</p> <p>(iv) <i>dealing in investments</i>; or</p>

(b) although not appointed to do so, carries on any of the activities in (i) to (iii) on behalf of a *firm* or its *appointed representative* .

(2) (in IPRU(INV) 13 in relation to *designated investment business*) an individual appointed by a provider firm or by an *appointed representative* or *tied agent* of that *firm* to carry out either or both of the following activities:

(a) giving *advice on investments* to *customers* on the merits of *packaged products* offered by that *firm* (or any other provider firm within the same *marketing group*); or

(b) *arranging (bringing about) deals in investments* in relation to those products.

(3) In (2), a provider firm is a *firm* that is:

(a) a *product provider*; or

(b) a *marketing group associate*.

repurchase
agreement

FCA PRA

see *repurchase transaction*.

repurchase
transaction

FCA PRA

(A) In the PRA Handbook:

(in accordance with Article 3(1)(m) of the *Capital Adequacy Directive* and Article 4(33) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) any agreement in which an *undertaking* or its counterparty transfers securities or *commodities* or guaranteed rights relating to title to securities or *commodities* where that guarantee is issued by a *designated investment exchange* or *recognised investment exchange* which holds the rights to the securities or *commodities* and the agreement does not allow an *undertaking* to transfer or pledge a particular security or *commodity* to more than one counterparty at one time, subject to a commitment to repurchase them or substituted securities or *commodities* of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a *repurchase agreement* for the *undertaking* selling the securities or *commodities* and a *reverse repurchase agreement* for the *undertaking* buying them.

(B) In the FCA Handbook:

(in accordance with Article 3(1)(m) of the *Capital Adequacy Directive* and Article 4(33) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) any agreement in which an *undertaking* or its counterparty transfers securities or *commodities* or guaranteed rights relating to title to securities or *commodities* where that guarantee is issued by a *designated investment exchange* or *recognised investment exchange* which holds the rights to the securities or *commodities* and the agreement does not allow an *undertaking* to transfer or pledge a particular security or *commodity* to more than one counterparty at one time, subject to a commitment to repurchase them or substituted securities or *commodities* of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a *repurchase agreement* for the *undertaking* selling the securities or *commodities* and a *reverse repurchase agreement* for the *undertaking* buying them.

required
percentage

FCA PRA

the *required percentage* referred to in ■ COBS 20.2.17 R is, for each *with-profits fund*:

- (a) the percentage (if any) required in respect of that fund by:
 - (i) the *firm's* articles of association, registered rules or other equivalent instrument; or
 - (ii) a relevant order made by a court of competent jurisdiction;
- (b) if (a) does not apply, the percentage that reflects the *firm's* established practice, if it has one;
- (c) if (a) and (b) do not apply, not less than 90 per cent.

requirement

FCA PRA

a requirement included in a firm's *Part 4A permission* under section 55L(3) of the *Act* (Imposition of requirements by the FCA), section 55M(3) of the *Act* (Imposition of Requirements by the PRA) or section 55O of the *Act* (Imposition of requirements on acquisition of control) .

requiring or
encouraging

FCA PRA

taking or refraining from taking any action which requires or encourages another *person* to engage in *behaviour* which, if engaged in by the *person* requiring or encouraging, would amount to *market abuse*.

requisite details

FCA PRA

the details required in regulation 1 of the *EEA Passport Rights Regulations* and set out in ■ SUP 13 Annex 1 R (Requisite details: branches).

research
recommendation

FCA PRA

research or other information:

- (a) concerning one or several *financial instruments* admitted to trading on *regulated markets* , or in relation to which an application for admission to trading has been made, or *issuers* of such *financial instruments*;
- (b) intended for distribution so that it is, or is likely to become, accessible by a large number of *persons*, or for the public, but not including:
 - (i) an informal short-term investment personal recommendation expressed to *clients*, which originates from inside the sales or trading department, and which is not likely to become publicly available or available to a large number of persons; or
 - (ii) advice given by a *firm* to a *body corporate* in the context of a *takeover bid* and disclosed only as a result of compliance with a legal or regulatory obligation, including rule 3 of the *Takeover Code* or its equivalents outside the *UK*; and
- (c) which:
 - (i) explicitly or implicitly, recommends or suggests an investment strategy; or
 - (ii) directly or indirectly, expresses a particular investment recommendation; or
 - (iii) expresses an opinion as to the present or future value or price of such instruments.

In this definition, "financial instruments" means the following (as defined in Article 5 of the *Prescribed Markets and Qualifying Investments Order* and Article 1(3) of the *Market Abuse Directive*, and which consequently carries the same meaning in the *Buy-back and Stabilisation Regulation*):

- (a) *transferable securities*;
- (b) units in collective investment undertakings;

<p>(c) <i>money-market instruments</i>;</p> <p>(d) financial futures contracts, including equivalent cash-settled instruments;</p> <p>(e) forward interest-rate agreements;</p> <p>(f) interest-rate, currency and equity swaps;</p> <p>(g) options to acquire or dispose of any instrument falling into these categories, including equivalent cash-settled instruments. This category includes in particular options on currency and on interest rates;</p> <p>(h) derivatives on commodities; and</p> <p>(i) any other instrument admitted to trading on a regulated market in an <i>EEA State</i> or for which a request for admission to trading on such a market has been made.</p>	
<p><i>resecuritisation</i> FCA PRA</p>	<p>in ■ BIPRU 7 and ■ 9, a <i>securitisation</i> where the risk associated with an underlying pool of <i>exposures</i> is <i>tranché</i> and at least one of the underlying <i>exposures</i> is a <i>securitisation position</i>.</p> <p>[Note: BCD, Article 4(40a)]</p>
<p><i>resecuritisation position</i> FCA PRA</p>	<p>in ■ BIPRU 7 and ■ 9, an <i>exposure</i> to a <i>resecuritisation</i>.</p> <p>[Note: BCD, Article 4(40b)]</p>
<p><i>residual CIS operator</i> FCA</p>	<p>a <i>firm</i> with a <i>Part 4A permission</i> to carry on the activity specified in article 51ZE (Establishing etc. a collective investment scheme) of the <i>Regulated Activities Order</i>.</p>
<p><i>resilience capital requirement</i> FCA PRA</p>	<p>the capital component for <i>long-term insurance business</i> calculated in accordance with the <i>rules</i> in INSPRU 3.1.9G to INSPRU 3.1.26R.</p>
<p><i>respondent</i> FCA PRA</p>	<p>(1) (in <i>DISP</i>, ■ FEES 5 and ■ CREDS 9) a <i>firm</i> (except a <i>UCITS qualifier</i>), <i>payment service provider</i>, <i>electronic money issuer</i>, <i>licensee</i> or <i>VJ participant</i> covered by the <i>Compulsory Jurisdiction</i>, <i>Consumer Credit Jurisdiction</i> or <i>Voluntary Jurisdiction</i> of the <i>Financial Ombudsman Service</i>.</p> <p>(2) (in ■ DISP 2 and ■ 3 and ■ FEES 5) includes, as a result of sections 226 and 226A of the <i>Act</i>:</p> <p>(a) an <i>unauthorised person</i> who was formerly a <i>firm</i> in respect of a <i>complaint</i> about an act or omission which occurred at the time when the <i>firm</i> was <i>authorised</i>, provided that the compulsory jurisdiction rules were in force in relation to the activity in question;</p> <p>(b) a <i>person</i> who was formerly a <i>licensee</i> in respect of a <i>complaint</i> about an act or omission which occurred at the time when it was a <i>licensee</i>, provided the <i>complaint</i> falls within a description specified in the consumer credit rules in force at the time of the act or omission;</p> <p>(c) a <i>person</i> who was formerly a <i>payment service provider</i> in respect of a <i>complaint</i> about an act or omission which occurred at the time when it was a <i>payment service provider</i>, provided that</p>

the compulsory jurisdiction rules were in force in relation to the activity in question; and

(d) a *person* who was formerly an *electronic money issuer* in respect of a *complaint* about an act or omission which occurred at the time when it was an *electronic money issuer*, provided that the compulsory jurisdiction rules were in force in relation to the activity in question.

(3) (in ■ DISP 2 and ■ 3 and ■ FEES 5) includes, in accordance with the *Ombudsman Transitional Order*, an *unauthorised person* subject to the *Compulsory Jurisdiction* in relation to *relevant existing complaints* and *relevant new complaints*.

(4) (in ■ DISP 2 and ■ 3 and ■ FEES 5) includes, in accordance with the *Mortgage and General Insurance Complaints Transitional Order*, a former *firm* subject to the *Compulsory Jurisdiction* in relation to *relevant transitional complaints*.

responsible person

FCA PRA

(1) (except in *COMP*) (as defined in section 3(8) of the Child Trust Funds Act 2004) a *person* with *parental responsibility* in relation to a child under 16 who is not:

(a) a local authority or, in Northern Ireland, an authority within the meaning of the Children (Northern Ireland) Order 1995 (SI 1995/755 (NI 2)); or

(b) a *person* under 16.

(2) (in *COMP*) (in accordance with section 3 (1) of the Compensation Act 2006) a *person* who has negligently or in breach of statutory duty caused or permitted another *person* to be exposed to asbestos (including an *insurer* of such a *person*).

restricted advice

FCA PRA

(a) a *personal recommendation* to a *retail client* in relation to a *retail investment product* which is not *independent advice*; or

(b) *basic advice*.

restricted credit

FCA PRA

a loan for which, as a result of an existing arrangement between a supplier and a *firm*, the *customer's* application to the *firm* is submitted through the supplier and the terms of the loan require that it be paid to the supplier for goods or services supplied to the *customer*, not including loans secured by a charge over land or loans or payments by *plastic card* (other than a *store card*).

restricted-use credit agreement

FCA

(in accordance with section 11 of the Consumer Credit Act 1974) an agreement:

(a) to finance a transaction between the *customer* and the *firm*, whether forming part of that agreement or not;

(b) to finance a transaction between the *customer* and a person (the 'supplier') other than the *firm*;

(c) to refinance any existing indebtedness of the *customer's*, whether to the *firm* or another *person*.

restriction notice

FCA PRA

a notice served under sections 191B or 301J of the *Act*.

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retail (investment) customer

FCA PRA

(in relation to a *firm's permission* and the *Financial Services Register*) a *retail client*.

*retail
(non-investment
insurance)
customer*

FCA PRA

(in relation to a *firm's permission* and the *Financial Services Register*) a *consumer* or a *customer* acting in the capacity of both a *consumer* and a *commercial customer* (see ■ ICOBS 2.1.3 G).

*retail banking
service*

FCA PRA

an arrangement with a *banking customer*, under which a *firm* agrees to accept a *deposit* from a *banking customer* on terms to be held in an account for that customer, and to provide services in relation to that *deposit* including but not limited to repayment to the customer.

retail client

FCA PRA

(1) (other than in relation to the *provision of basic advice on stakeholder products*) in accordance with ■ COBS 3.4.1 R, a *client* who is neither a *professional client* or an *eligible counterparty*; or

[Note: article 4(1)(12) of MiFID]

(2) (in relation to the provision of *basic advice* on a *stakeholder product* and in accordance with article 52B of the RAO) any *person* who is advised by a *firm* on the merits of opening or buying a *stakeholder product* where the advice is given in the course of a business carried on by that *firm* and it is received by a *person* not acting in the course of a business carried on by him.

retail customer

FCA PRA

(in accordance with the meaning of 'consumer' in article 2(d) of the *Distance Marketing Directive* an individual who is acting for purposes which are outside his trade, business or profession.

retail exposure

FCA PRA

(1) (in relation to the *IRB approach* and with respect to an *exposure*) an *exposure* falling into the *IRB exposure class* listed in ■ BIPRU 4.3.2 R (4) (Retail exposures).

(2) (in relation to the *standardised approach* to credit risk and with respect to an *exposure*) an *exposure* falling into the *standardised credit risk exposure class* listed in ■ BIPRU 3.2.9 R (8) (Retail exposures).

*retail
investment*

FCA PRA

- (a) a *life policy*; or
- (b) a *unit*; or
- (c) a *stakeholder pension scheme*; or
- (ca) a *personal pension scheme*; or
- (d) an interest in an *investment trust savings scheme*; or
- (e) a *structured capital-at-risk product*.

*retail
investment
activity*

FCA PRA

- (a) *advising on investments*;
- (b) *arranging (bringing about) deals in investments*; or
- (c) *making arrangements with a view to transactions in investments*,

in relation to *retail investments*, except when carried on by a *firm* exclusively with or for *professional client* or *eligible counterparties*.

*retail
investment
adviser*

FCA PRA

an *employee* who carries on activities 2, 3, 4, 6, 12 and 13 in ■ TC Appendix 1.1.1 R (other than in relation to a *Holloway sickness policy* where the *Holloway policy special application conditions* are met).

retail
investment
firm

FCA PRA

a firm that has *permission* to carry on an activity which is a *retail investment activity*.

retail
investment
product

FCA PRA

- (a) a *life policy*; or
- (b) a *unit*; or
- (c) a *stakeholder pension scheme* (including a *group stakeholder pension scheme*); or
- (d) a *personal pension scheme* (including a *group personal pension scheme*); or
- (e) an interest in an *investment trust savings scheme*; or
- (f) a *security* in an *investment trust*; or
- (g) any other *designated investment* which offers exposure to underlying financial assets, in a packaged form which modifies that exposure when compared with a direct holding in the financial asset; or
- (h) a *structured capital-at-risk product*;

whether or not any of (a) to (h) are held within an *ISA* or a *CTF*.

[Note: Section 238 of the *Act* and ■ COBS 4.12.3 R set out restrictions on the promotion of *non-mainstream pooled investments* to *retail clients*. See also ■ COBS 9.3.5 G (Non-mainstream pooled investments).]

retail pool

the pool of *classes* to which the *FSCS* allocates levies as described in ■ FEES 6.5A [to follow].

retail
securitised
derivative

FCA PRA

a *securitised derivative* which is not a specialist securitised derivative; in this definition, a "specialist securitised derivative" is a *securitised derivative* which, in accordance with the *listing rules*, is required to be admitted to listing with a clear statement on any disclosure document that the issue is intended for a purchase by only investors who are particularly knowledgeable in investment matters.

retail SME

FCA PRA

- (1) (in relation to the *IRB approach*) a small or medium sized entity, an *exposure* to which may be treated as a *retail exposure* under ■ BIPRU 4.6.2 R (Definition of retail exposures).
- (2) (in relation to the *standardised approach* to credit risk) a small or medium sized entity, an *exposure* to which may be treated as a retail exposure under ■ BIPRU 3.2.10 R (Definition of retail exposures).

retail SME
exposure

FCA PRA

(in relation to the *IRB approach* or the *standardised approach* to credit risk) an *exposure* to a *retail SME*.

retirement
annuity

FCA PRA

an individual *pension policy* effected before 1 July 1988 by a self-employed *person* or a *person* in non-pensionable employment which was approved under Chapter III, Part XIV of the Income and Corporation Taxes Act 1988 (when sections 618 to 628 of that Chapter were in force).

retirement fund

FCA PRA

the amount which will be available, at the date on which the investor retires, for the provision of benefits.

return

FCA PRA

the documents required (taken together) to be deposited under *IPRU(INS) rule 9.6(1)*.

*reverse
repurchase
agreement*

FCA PRA

see *repurchase transaction*.

*reverse
takeover*

FCA PRA

(in *LR*) a transaction classified as a *reverse takeover* under ■ LR 5.6.

*reversion
activity*

FCA PRA

any of the *regulated activities* of:

- (a) *arranging (bringing about) a home reversion plan* (article 25B(1));
- (b) *making arrangements with a view to a home reversion plan* (article 25B(2));
- (c) *advising on a home reversion plan* (article 53B);
- (d) *entering into a home reversion plan* (article 63B(1));
- (e) *administering a home reversion plan* (article 63B(2)); or
- (f) *agreeing to carry on a regulated activity* in (a) to (e) (article 64).

*reversion
administrator*

FCA PRA

a *firm with permission* (or which ought to have *permission*) for *administering a home reversion plan*.

*reversion
adviser*

FCA PRA

a *firm with permission* (or which ought to have *permission*) for *advising on a home reversion plan*.

*reversion
arranger*

FCA PRA

a *firm with permission* (or which ought to have *permission*) for *arranging a home reversion plan*.

*reversion
intermediary*

FCA PRA

a *firm with permission* (or which ought to have *permission*) to carry on a *reversion mediation activity*.

*reversion
mediation
activity*

FCA PRA

any of the following *regulated activities*:

- (a) *arranging (bringing about) a home reversion plan* (article 25B(1));
- (b) *making arrangements with a view to a home reversion plan* (article 25B(2));
- (c) *advising on a home reversion plan* (article 53B); or
- (d) *agreeing to carry on a regulated activity* in (a) to (c) (article 64).

reversion occupier

FCA PRA

the individual (or trustees), specified in article 63B(3) of the *Regulated Activities Order*, who in summary:

(a) is (or are) the *person* (or *persons*) from whom all or part of an interest in land is bought as part of an arrangement comprising a *home reversion plan*; and

(b)

(i) in the case of an individual, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling and intends to do so; or

(ii) in the case of trustees, are trustees of a trust a beneficiary of which is an individual described in (i).

reversion provider

FCA PRA

a *firm* with *permission* (or which ought to have *permission*) for *entering into a home reversion plan*.

revolving exposure

FCA PRA

(for the purpose of ■ BIPRU 9.13 (Securitisations of revolving exposures with early amortisation provisions) and in accordance with Article 100 of the Banking Consolidation Directive (Securitisations of revolving exposures)) an *exposure* whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.

RIE

FCA PRA

recognised investment exchange.

right of set-off

FCA PRA

(in *BCOBS*) any right of a *firm*, whether under a contract for a *retail banking service* or the general law, to set off or combine:

(a) any debt due from a *consumer*; or

(b) any debit balance on an account held by a *consumer*;

against or with:

(c) any sum payable by the *firm* to the *consumer*; or

(d) any credit balance on an account held by the *consumer*;

that has the effect of reducing, discharging or extinguishing the *firm's* liability to the *consumer* or the credit balance on the account held by the *consumer*.

rights issue

FCA PRA

(in *LR* and ■ DTR 5) an offer to existing *security* holders to subscribe or purchase further *securities* in proportion to their holdings made by means of the issue of a renounceable letter (or other negotiable document) which may be traded (as "nil paid" rights) for a period before payment for the *securities* is due.

rights to or interests in investments

FCA PRA

the *investment*, specified in article 89 of the *Regulated Activities Order* (Rights to or interests in investments), which is in summary: any right to or interest in any other *specified investment*, but excluding:

(a) interests under the trusts of an *occupational pension scheme*;

(b) rights to or interests in a *contract of insurance* of the kind referred to in paragraph (1)(a) of article 60 of the *Regulated Activities Order* (Plans covered by insurance or trust arrangements), or interests under a trust of the kind referred to in paragraph 1(b) of article 60 of the *Regulated Activities Order* (Plans covered by insurance or trust arrangements);

(c) any other *specified investment*.

risk capital margin

FCA **PRA**

the risk capital margin for a *with-profits fund* calculated in accordance with the *rules* in INSPRU 1.3.43R to INSPRU 1.3.103G.

risk capital requirement

FCA

(1) (in relation to the *FCA's rules*) one of the following:

- (a) the *credit risk capital requirement*;
- (b) the *fixed overheads requirement*;
- (c) the *market risk capital requirement*; or

(2) (in relation to the rules of another *regulatory body*) whatever corresponds to the items in (1) under the rules of that *regulatory body*.

risk concentration

FCA **PRA**

(in accordance with Article 2(19) of the *Financial Groups Directive* (Definitions)) all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position in general of the *regulated entities* in the *financial conglomerate*, whether such exposures are caused by counterparty risk /credit risk, investment risk, insurance risk, market risk, other risks, or a combination or interaction of these risks.

risk control rules

FCA

■ IFPRU 2.2.58 R to ■ IFPRU 2.2.60 R.

risk factors

FCA **PRA**

(in *PR*) (as defined in the *PD Regulation*) a list of risks which are specific to the situation of the issuer and/or the securities and which are material for taking investment decisions.

risk limit system

FCA **PRA**

(in *COLL* and in accordance with article 40(2)(d) of the *UCITS implementing Directive*) a documented system of internal limits concerning the measures used by a *management company* to manage and control the relevant risks for each *UCITS* it manages, taking into account all the risks which may be material to the *UCITS*, as referred to in the second paragraph of article 38(1) of the *UCITS implementing Directive* and ensuring consistency with the *UCITS'* risk profile.

risk of excessive leverage

FCA

has the meaning in article 4(1)(94) of the *EU CRR*.

risk position

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a risk number that is assigned to a transaction under the *CCR standardised method* following a predetermined algorithm.

risk weight

FCA **PRA**

(A) In the PRA Handbook:

(in relation to an *exposure* for the purposes of *BIPRU*) a degree of risk expressed as a percentage assigned to that *exposure* in accordance with whichever is applicable of the *standardised approach* to credit risk and the *IRB approach*, including (in relation to a *securitisation position*) under ■ ■ BIPRU 9 (Securitisation).

(B) In the FCA Handbook:

risk weighted
exposure
amount

FCA PRA

(in relation to an *exposure* for the purposes of *BIPRU*) a degree of risk expressed as a percentage assigned to that *exposure* in accordance with whichever is applicable of the *standardised approach* to credit risk and the *IRB approach*, including (in relation to a *securitisation position*) under ■ ■ *BIPRU* 9 (Securitisation).

(A) In the PRA Handbook:

(in relation to an *exposure* for the purposes of *BIPRU*) the value of an *exposure* for the purposes of the calculation of the *credit risk capital component* after application of a *risk weight*.

(B) In the FCA Handbook:

(in relation to an *exposure* for the purposes of *BIPRU*) the value of an *exposure* for the purposes of the calculation of the *credit risk capital component* after application of a *risk weight*.

RMAR

FCA PRA

(in *SUP*) a Retail Mediation Activities Return, containing data specified in ■ *SUP* 16 Annex 18A R and relevant to the *firm's* type and *regulated activities*.

ROIE

FCA PRA

recognised overseas investment exchange.

rolling spot
forex contract

FCA PRA

either of the following:

(a) a *future*, other than a *future* traded or expressed to be as traded on a *recognised investment exchange*, where the property which is to be sold under the contract is foreign exchange or sterling; or

(b) a *contract for differences* where the profit is to be secured or loss avoided by reference to fluctuations in foreign exchange; and

in either case where the contract is entered into for the purpose of speculation.

rollover risk

FCA PRA

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ *BIPRU* 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the amount by which *expected positive exposure* is understated when future transactions with a counterpart are expected to be conducted on an ongoing basis; the additional *exposure* generated by those future transactions is not included in calculation of *expected positive exposure*.

roll-up of
interest
mortgage

FCA PRA

a *regulated mortgage contract* where no payment of interest on the amount borrowed (other than interest charged when all or part of the amount borrowed is repaid voluntarily by the *customer*), is due or capable of becoming due while the *customer* continues to occupy the mortgaged property as his main residence and fulfil his obligations under the *regulated mortgage contract*.

RPI

FCA

the Retail Prices Index.

RPPD

FCA PRA

the Regulatory Guide which contains a statement of the responsibilities of providers and distributors for the fair treatment of *customers*.

RSRB
permission

FCA PRA

(in *FEES*) an *authorisation* to carry on one or more *regulated sale and rent back activities*.

rule

FCA **PRA**

(in accordance with section 417(1) of the *Act* (Definitions)) a rule made by the *FCA* or the *PRA* under the *Act*, including:

- (a) a *Principle*; and
- (b) an *evidential provision*.

rule on use of dealing commission

FCA **PRA**

■ COBS 11.6.3 R.

running-account credit

FCA

(in accordance with section 10(1)(a) of the Consumer Credit Act 1974) a facility under a contract by which the *customer* is enabled to receive from time to time (whether in his own person, or by another person) from the *firm* or a third party cash, goods and services (or any of them) to an amount or value such that, taking into account payments made by or to the credit of the customer, the credit limit (if any) is not at any time exceeded.

<p>safe custody asset FCA</p>	<p>(a) in relation to <i>MiFID business</i>, a <i>financial instrument</i>; (b) in relation to <i>safeguarding and administering investments</i> that is not <i>MiFID business</i> and/or <i>acting as trustee or depositary of a UCITS</i>, a <i>safe custody investment</i> ; or (c) when <i>acting as trustee or depositary of an AIF</i>, an <i>AIF custodial asset</i>.</p>
<p>safe custody investment FCA PRA</p>	<p>a <i>designated investment</i> , which is not the property of the <i>firm</i>, but for which the <i>firm</i>, or any <i>nominee company</i> controlled by the <i>firm</i> or by its <i>associate</i>, is accountable; which has been paid for in full by the <i>client</i> ; and which ceases to be a <i>safe custody investment</i> when the <i>firm</i> has disposed of it in accordance with a valid instruction.</p>
<p>safeguarding and administering investments FCA PRA</p>	<p>the <i>regulated activity</i> , specified in article 40 of the <i>Regulated Activities Order</i> (Safeguarding and administering investments), which is in summary: the safeguarding of assets belonging to another and the administration of those assets, or arranging for one or more other <i>persons</i> to carry on that activity, where:</p> <p>(a) the assets consist of or include any <i>security</i> or <i>contractually based investment</i> (that is, any designated investment, <i>funeral plan contract</i> or right to or interest in a <i>funeral plan contract</i>); or</p> <p>(b) the arrangements for their safeguarding and administration are such that the assets may consist of or include <i>designated investments</i>, and either the assets have at any time since 1 June 1997 done so, or the arrangements have at any time (whether before or after that date) been held out as ones under which <i>designated investments</i> would be safeguarded and administered.</p>
<p>safeguarding and administration of assets (without arranging) FCA PRA</p>	<p>that part of <i>safeguarding and administering investments</i> which consists of both:</p> <p>(a) the safeguarding of assets belonging to another; and</p> <p>(b) the administration of those assets.</p>
<p>sale FCA PRA</p>	<p>(in <i>COLL</i>) (in relation to <i>units</i> in an <i>authorised fund</i>) the sale of <i>units</i> by the <i>authorised fund manager</i> as <i>principal</i>.</p>
<p>sale price FCA PRA</p>	<p>(in <i>COLL</i>) the <i>price</i> payable to the <i>authorised fund manager</i> for each <i>unit</i> it <i>sells</i> to a <i>unitholder</i>, calculated in accordance with ■ <i>COLL</i> 6.3 (Valuation and pricing).</p>
<p>sale shortfall FCA PRA</p>	<p>the outstanding amount due to the <i>home finance provider</i> , under a <i>home finance transaction</i> , following the sale of the property that is its subject.</p>
<p>same stage of capital FCA PRA</p>	<p>(with respect to a particular item of capital in the <i>capital resources table</i>) the stage in the <i>capital resources table</i> in which that item of capital appears.</p>
<p>schedule FCA PRA</p>	<p>(in <i>Part 6 rules</i>) (as defined in the <i>PD Regulation</i>) a list of minimum information requirements adapted to the particular nature of the different types of <i>issuers</i> and/or the different <i>securities</i> involved.</p>
<p>scheme</p>	<p>(1) (except in <i>COBS</i>, <i>CASS</i> and <i>SUP</i>) a <i>collective investment scheme</i>.</p>

FCA PRA

(2) (in COBS, CASS and SUP)

- (a) a *regulated collective investment scheme* ;
- (b) an *investment trust* where the relevant *shares* have been , or will be, acquired through an *investment trust savings scheme* ;
- (c) an *investment trust* , if:
 - (i) the relevant *shares* will be held in a *wrapper* or *personal pension scheme*; and
 - (ii) the trust and the *wrapper* or *personal pension scheme* will be promoted together;
- (d) (in COBS 18.5) in addition to (a), (b) and (c), an *unregulated collective investment scheme*.

scheme holding

FCA PRA

a holding of:

- (a) *units* in a *collective investment scheme* ; or
- (b) *shares* in an *investment trust savings scheme*.

scheme management activity

FCA PRA

the management by an *operator* of the property held for or within the *scheme* of which it is the *operator*, excluding the receiving and holding of *client money* and *safeguarding and administering investments*.

scheme of arrangement

FCA PRA

(in COLL) an arrangement relating to an *authorised fund* ("transferor fund") or to a *sub-fund* of a *scheme* that is an *umbrella* ("transferor *sub-fund*") under which:

- (a) either:
 - (i) all or part of the property of the transferor fund, or all or part of the property attributed to the transferor *sub-fund*, is to become the property of one or more *regulated collective investment schemes* ("transferee *schemes*"); or
 - (ii) all or part of the property attributed to the transferor *sub-fund* is to become part of the property attributed to one or more other *sub-funds* of the same *umbrella* ("transferee *sub-funds*"); and
- (b) holders of *units* in the transferor fund or transferor *sub-fund*, the property of which is being transferred or reattributed under (a), are to receive, in exchange for their respective interests in that property, either:
 - (i) *units* in the transferee *scheme* or one or more of the transferee *schemes*, to which the property is transferred; or
 - (ii) *units* in the transferee *sub-fund* or one or more of the transferee *sub-funds*, to which the property is reattributed.

This arrangement includes an arrangement that constitutes a *domestic UCITS merger* or a *cross-border UCITS merger*.

scheme of operations

FCA PRA

a scheme which:

- (a) describes the nature of the risks which the *insurer* is underwriting, or intends to underwrite, and the guiding principles which it intends to follow in reinsuring or covering those risks; and
- (b) contains the information required under ■ SUP App 2.12.1 R (Content of a scheme of operations).

<p><i>scheme particulars</i> FCA PRA</p>	<p>a <i>document</i> containing information about a <i>regulated collective investment scheme</i>.</p>
<p><i>scheme pension</i> FCA PRA</p>	<p>a scheme pension, as defined in paragraph 2 of Schedule 28 to the Finance Act 2004, which is in summary a pension payable until a pension scheme member's death, or until the later of the member's death and the end of a term not exceeding 10 years.</p>
<p><i>scheme property</i> FCA PRA</p>	<p>(a) (in relation to an <i>ICVC</i>) the property subject to the <i>collective investment scheme</i> constituted by it; (b) (in relation to an <i>AUT</i> or <i>ACS</i>) the <i>capital property</i> and the <i>income property</i>.</p>
<p><i>scheme report</i> FCA PRA</p>	<p>(in ■ SUP 18) the report on the terms of an <i>insurance business transfer scheme</i> required by section 109 of the <i>Act</i> (Scheme reports).</p>
<p><i>scientific research based company</i> FCA PRA</p>	<p>(in <i>LR</i>) a <i>company</i> primarily involved in the laboratory research and development of chemical or biological products or processes or any other similar innovative science based company.</p>
<p><i>scope of advice, scope</i> FCA PRA</p>	<p>the basis on which <i>personal recommendations</i> on <i>packaged products</i> is given by a <i>firm</i>, that is, one of the following:</p> <ol style="list-style-type: none"> (1) the whole market (or the whole of a named sector of the market); or (2) a limited number of <i>product providers</i>; or (3) a single <i>company</i> or single group of <i>companies</i>. <p>References to a <i>firm's</i> scope of <i>personal recommendations</i> of <i>packaged products</i> include, where the context requires, a reference to the scope of <i>personal recommendations</i> of the <i>firm's</i> <i>appointed representatives</i> or, where applicable, <i>tier agent</i>.</p>
<p><i>scope of basic advice</i> FCA PRA</p>	<p>the basis on which a <i>firm</i> gives <i>basic advice</i> on <i>stakeholder products</i>, that is, with reference to the <i>stakeholder products</i> of one, or more than one, <i>stakeholder product</i> provider.</p>
<p><i>SCV implementation report</i> FCA PRA</p>	<p>(in <i>COMP</i>) a report in accordance with ■ COMP 17.3.6 R explaining how the relevant <i>firm</i> has satisfied the <i>PRA's</i> <i>SCV requirements</i> .</p>
<p><i>SCV report</i> FCA PRA</p>	<p>(in <i>COMP</i>) a report in accordance with ■ COMP 17.3.9 R from the relevant <i>firm's</i> board of directors confirming that the <i>firm's</i> <i>SCV system</i> satisfies the <i>PRA's</i> <i>SCV requirements</i>.</p>
<p><i>SCV system</i> FCA PRA</p>	<p>(in <i>COMP</i>) a <i>firm's</i> system for satisfying the <i>PRA's</i> <i>SCV requirements</i> .</p>
<p><i>SDL</i> FCA PRA</p>	<p>(in <i>BSOCS</i>) the total of share and deposit liabilities, excluding amounts that qualify as <i>own funds</i> but including accrued interest not yet payable.</p>

SDRT provision

FCA **PRA**

a *charge* of such amount or at such rate as is determined by the *authorised fund manager* to be made as a provision for stamp duty reserve tax for which the ICVC may become liable under the Stamp Duty and Stamp Duty Reserve Tax (Open-Ended Investment Companies)(Amendment No.2) Regulations 2000 or the *trustee* may become liable under Schedule 19 to the Finance Act 1999 in respect of a surrender of *units* to the *authorised fund manager*.

Second Life Directive

FCA **PRA**

the Council Directive of 8 November 1990 on the coordination of laws, etc and laying down provisions relating to facilitate the effective exercise of freedom to provide services and amending Directive 79/267/EEC (No 90/619/EEC).

Second Non-Life Directive

FCA **PRA**

the Council Directive of 22 June 1988 on the coordination of laws, etc and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC (No 88/357/EEC).

secondary material

FCA **PRA**

(as more fully described in section 394 of the *Act* (Access to FCA or PRA material)) material, other than that which the *appropriate regulator* relied on in reaching its decision, which:

- (a) the *appropriate regulator* considered in reaching its decision; or
- (b) the *appropriate regulator* obtained in connection with, that is, in the investigation of, the matter in question.

secondary pooling event

FCA **PRA**

(1) [deleted]

(2) (in ■ CASS 5) an event that occurs in the circumstances described in ■ CASS 5.6.14 R (Failure of a bank, other broker or settlement agent: secondary pooling events).

(3) (in ■ CASS 7 and ■ CASS 7A) an event that occurs in the circumstances described in ■ CASS 7A.3.1R (Failure of a bank, intermediate broker, settlement agent or OTC counterparty: secondary pooling events).

section 178 notice

FCA **PRA**

(in accordance with section 178(3) of the *Act*) a notice given to the *appropriate regulator* under section 178 of the *Act*.

section 43 capital requirements

FCA **PRA**

the financial supervision requirements of the *FSA* for the purposes of the listing arrangements made under section 43 of the Financial Services Act 1986.

sectoral rules

FCA **PRA**

(A) In the PRA Handbook:

(in relation to a *financial sector*) rules and requirements relating to the prudential supervision of *regulated entities* applicable to *regulated entities* in that *financial sector* as follows:

(a) (for the purposes of ■ GENPRU 3.1.12 R (Definition of financial conglomerate: Solvency requirement)) *EEA prudential sectoral legislation* for that *financial sector* together with as appropriate the rules and requirements in (c); or

(b) (for the purpose of calculating *solo capital resources* a *solo capital resources requirement* and *regulatory surplus value*):

(i) (to the extent provided for in paragraphs 6.4 to 6.6 of ■ GENPRU 3 Annex 1R) rules and requirements that are referred to in those paragraphs; and

(ii) the rules and requirements in (c); or

(c) (for all other purposes) rules and requirements of the *appropriate regulator*

and so that:

(d) (in relation to prudential rules about consolidated supervision for any *financial sector*) those requirements include ones relating to the form and extent of consolidation;

(e) (in relation to any *financial sector*) those requirements include ones relating to the eligibility of different types of capital;

(f) (in relation to any *financial sector*) those requirements include both ones applying on a solo basis and ones applying on a consolidated basis;

(g) (in relation to the *insurance sector*) references in this definition to consolidated supervision are to supplementary supervision, similar expressions being interpreted accordingly; and

(h) references to the *appropriate regulator's sectoral rules* are to *sectoral rules* in the form of *rules*.

(B) In the FCA Handbook:

(in relation to a *financial sector*) rules and requirements relating to the prudential supervision of *regulated entities* applicable to *regulated entities* in that *financial sector* as follows:

(a) (for the purposes of ■ GENPRU 3.1.12 R (Definition of financial conglomerate: Solvency requirement)) *EEA prudential sectoral legislation* for that *financial sector* together with as appropriate the rules and requirements in (c); or

(b) (for the purpose of calculating *solo capital resources* a *solo capital resources requirement* and *regulatory surplus value*):

(i) (to the extent provided for in paragraphs 6.4 to 6.6 of ■ GENPRU 3 Annex 1R) rules and requirements that are referred to in those paragraphs; and

(ii) the rules and requirements in (c); or

(c) (for all other purposes) rules and requirements of the *appropriate regulator*

and so that:

(d) (in relation to consolidated supervision for any *financial sector*) those requirements include ones relating to the form and extent of consolidation;

<p>(e) (in relation to any <i>financial sector</i>) those requirements include ones relating to the eligibility of different types of capital;</p> <p>(f) (in relation to any <i>financial sector</i>) those requirements include both ones applying on a solo basis and ones applying on a consolidated basis;</p> <p>(g) (in relation to the <i>insurance sector</i>) references in this definition to consolidated supervision are to supplementary supervision, similar expressions being interpreted accordingly; and</p> <p>(h) references to the <i>appropriate regulator's sectoral rules</i> are to <i>sectoral rules</i> in the form of <i>rules</i> and, as applicable, the <i>EU CRR</i>.</p>	
<p><i>secured debt</i></p> <p>FCA PRA</p>	<p>a debt fully secured on:</p> <p>(a) assets whose value at least equals the amount of debt; or</p> <p>(b) a letter of credit or guarantee from an <i>approved counterparty</i>.</p>
<p><i>secured lending</i></p> <p>FCA PRA</p>	<p>lending where the <i>mortgage lender</i> takes security on land for the loan provided to the <i>customer</i>.</p>
<p><i>secured lending transaction</i></p> <p>FCA</p>	<p>(in accordance with point 2 of Part 1 of Annex VIII of the <i>Banking Consolidation Directive</i> (Eligibility of credit risk mitigation) and for the purposes of <i>BIPRU</i>) any transaction giving rise to an <i>exposure</i> secured by collateral which does not include a provision conferring upon the <i>person</i> with the <i>exposure</i> the right to receive margin frequently.</p>
<p><i>securities and futures firm</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>a <i>firm</i> whose <i>permitted activities</i> include <i>designated investment business</i> or <i>bidding in emissions auctions</i>, which is not an <i>authorised professional firm</i>, <i>bank</i>, <i>BIPRU firm</i> (unless it is an <i>exempt BIPRU commodities firm</i>), <i>IFPRU investment firm</i> (unless it is an <i>exempt IFPRU investment firm</i>), <i>building society</i>, <i>collective portfolio management firm</i>, <i>credit union</i>, <i>friendly society</i>, <i>ICVC</i>, <i>insurer</i>, <i>media firm</i>, <i>service company</i>, <i>incoming EEA firm</i> (without a <i>top-up permission</i>), <i>incoming Treaty firm</i> (without a <i>top-up permission</i>) or <i>UCITS qualifier</i> (without a <i>top-up permission</i>), whose permission does not include a <i>requirement</i> that it comply with IPRU(INV) 5 (Investment management firms) or 13 (Personal investment firms), and which is within (a), (b), (c), (d), (e), (f), (g), (ga) or (h):</p> <p>(a) a <i>firm</i> (other than one falling within (d)):</p> <p style="margin-left: 40px;">(i) which was a member of <i>SFA</i> immediately before <i>commencement</i>; and</p> <p style="margin-left: 40px;">(ii) which was not, immediately before <i>commencement</i>, subject to the financial supervision requirements of the <i>FSA</i> (under section 43 of the Financial Services Act 1986), or <i>PIA</i> or <i>IMRO</i> (under lead regulation arrangements);</p> <p>(b) a <i>firm</i> whose <i>permission</i> includes a <i>requirement</i> that it comply with IPRU(INV) 3 (Securities and futures firms);</p>

(c) a *firm*:

(i) which was given a *Part 4A permission* after *commencement*, or which was authorised under section 25 of the Financial Services Act 1986 immediately before commencement and not a member of *IMRO, PIA* or *SFA*; and

(ii) for which the most substantial part of its gross income (including commissions) from the *designated investment business* included in its *Part 4A permission* is derived from one or more of the following activities (based, for a *firm* given a *Part 4A permission* after *commencement*, on the business plan submitted as part of the *firm's* application for *permission* or, for a *firm* authorised under section 25 of the Financial Services Act 1986, on the *firm's* *financial year* preceding its *authorisation* under the *Act*):

(A) an activity carried on as a member of an exchange;

(B) making a market in *securities* or *derivatives*;

(C) *corporate finance business*;

(D) *dealing* (excluding, in the case of a *home finance provider*, *dealing as principal* in *contractually based investments* where this *activity* is carried out for risk management purposes and would have been excluded under article 16 of the *Regulated Activities Order* if the *firm* were an *unauthorised person* or under article 19 of the *Regulated Activities Order*), *arranging (bringing about) deals in investments* or *making arrangements with a view to transactions in investments*, in *securities* or *derivatives*;

(E) the provision of clearing services as a *clearing firm*;

(F) *managing investments*, where those *investments* are primarily *derivatives*;

(G) activities relating to *spread bets*;

(d) a *firm* that is:

(i) an *ex-section 43 firm* which was not authorised under the Financial Services Act 1986 immediately before *commencement*; or

(ii) an *ex-section 43 lead regulated firm*;

(e) an *energy market participant*;

(f) an *oil market participant*;

(g) an *exempt BIPRU commodities firm*;

(ga) an *exempt IFPRU commodities firm*;

(h) a *firm* that is exempt from *MiFID* under article 2(1)(i) whose *permitted activities* include *bidding in emissions auctions*.

(B) In the FCA Handbook:

a *firm* whose *permitted activities* include *designated investment business* or *bidding in emissions auctions*, which is not an *authorised professional firm*, *bank*, *BIPRU firm* (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU investment firm*), *building society*, *collective portfolio management firm*, *credit union*, *friendly society*, *ICVC*, *insurer*, *media firm*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*) or *UCITS qualifier* (without a *top-up permission*), whose permission does not include a *requirement* that it comply with ■ *IPRU(INV) 5* (Investment management firms) or 13 (Personal investment firms), and which is within (a), (b), (c), (d), (e), (f), (g), (ga) or (h):

(a) a *firm* (other than one falling within (d)):

(i) which was a member of *SFA* immediately before *commencement*; and

(ii) which was not, immediately before *commencement*, subject to the financial supervision requirements of the *FSA* (under section 43 of the Financial Services Act 1986), or *PIA* or *IMRO* (under lead regulation arrangements);

(b) a *firm* whose *permission* includes a *requirement* that it comply with ■ *IPRU(INV) 3* (Securities and futures firms);

(c) a *firm*:

(i) which was given a *Part 4A permission* after *commencement*, or which was authorised under section 25 of the Financial Services Act 1986 immediately before *commencement* and not a member of *IMRO*, *PIA* or *SFA*; and

(ii) for which the most substantial part of its gross income (including commissions) from the *designated investment business* included in its *Part 4A permission* is derived from one or more of the following activities (based, for a *firm* given a *Part 4A permission* after *commencement*, on the business plan submitted as part of the *firm's* application for *permission* or, for a *firm* authorised under section 25 of the Financial Services Act 1986, on the *firm's financial year* preceding its *authorisation* under the Act):

(A) an activity carried on as a member of an exchange;

(B) making a market in *securities* or *derivatives*;

- (C) *corporate finance business*;
- (D) *dealing* (excluding, in the case of a *home finance provider*, *dealing as principal in contractually based investments* where this activity is carried out for risk management purposes and would have been excluded under article 16 of the *Regulated Activities Order* if the firm were an *unauthorised person* or under article 19 of the *Regulated Activities Order*), *arranging (bringing about) deals in investments* or *making arrangements with a view to transactions in investments*, in *securities* or *derivatives*;
- (E) the provision of clearing services as a *clearing firm*;
- (F) *managing investments*, where those *investments* are primarily *derivatives*;
- (G) activities relating to *spread bets*;

(d) a *firm* that is:

- (i) an *ex-section 43 firm* which was not authorised under the Financial Services Act 1986 immediately before *commencement*; or
- (ii) an *ex-section 43 lead regulated firm*;

- (e) an *energy market participant*;
- (f) an *oil market participant*;
- (g) an *exempt BIPRU commodities firm*;
- (ga) an *exempt IFPRU commodities firm*;
- (h) a *firm* that is exempt from *MiFID* under article 2(1)(i) whose *permitted activities* include *bidding in emissions auctions*.

securities derivative

FCA PRA

a *derivative instrument admitted to trading on a regulated market or prescribed market*, the value of which is dependent on an underlying equity or debt instrument or index/basket of equity or debt instruments.

securities financing transaction

FCA PRA

(1) (in *COBS*, in *CASS*) an instance of stock lending or stock borrowing or the lending or borrowing of other *financial instruments*, a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction.

[Note: article 2(10) of the *MiFID Regulation*]

- (2) (in any other case) any of the following:
- (a) a *repurchase transaction*; or
 - (b) a *securities or commodities lending or borrowing transaction*; or
 - (c) a *margin lending transaction*.

securities issued in a continuous and

(in *PR*) (as defined in Article 2.1(l) of the *prospectus directive*) issues on tap or at least two separate issues of securities of a similar type and/or class over a period of 12 months.

repeated manner

FCA **PRA**

securities note

FCA **PRA**

(in *Part 6 rules*) a securities note referred to in **■ PR 2.2.2 R**.

securities or commodities borrowing

FCA **PRA**

see *securities or commodities lending or borrowing transaction*.

securities or commodities lending

FCA **PRA**

see *securities or commodities lending or borrowing transaction*.

securities or commodities lending or borrowing transaction

FCA **PRA**

(A) In the PRA Handbook:

(in accordance with Article 4(34) of the *Banking Consolidation Directive* and Article 3(1)(n) of the *Capital Adequacy Directive* (Definitions) and for the purposes of *BIPRU*) any transaction in which an *undertaking* or its counterparty transfers securities or *commodities* against appropriate collateral subject to a commitment that the borrower will return equivalent securities or *commodities* at some future date or when requested to do so by the transferor, that transaction being *securities or commodities lending* for the *undertaking* transferring the securities or *commodities* and being *securities or commodities borrowing* for the *undertaking* to which they are transferred.

(B) In the FCA Handbook:

(in accordance with Article 4(34) of the *Banking Consolidation Directive* and Article 3(1)(n) of the *Capital Adequacy Directive* (Definitions) and for the purposes of *BIPRU*) any transaction in which an *undertaking* or its counterparty transfers securities or *commodities* against appropriate collateral subject to a commitment that the borrower will return equivalent securities or *commodities* at some future date or when requested to do so by the transferor, that transaction being *securities or commodities lending* for the *undertaking* transferring the securities or *commodities* and being *securities or commodities borrowing* for the *undertaking* to which they are transferred.

securities PRR

FCA **PRA**

the *interest rate PRR*, the *equity PRR*, the *option PRR* (but only in relation to *positions* which under **■ BIPRU 7.6.5 R** (Table: Appropriate calculation for an option or warrant) may be subject to one of the other *PRR* charges listed in this definition or which would be subject to such a *PRR* charge if **■ BIPRU 7.6.5 R** did not require an *option PRR* to be calculated), the *CIU PRR* and the *PRR* calculated under **■ BIPRU 7.11** (Credit derivatives in the trading book) and so that:

(a) the *securities PRR* includes any *PRR charge* calculated under a *CAD 1 permission*; and

securitisation

FCA PRA

(b) the *securities PRR* does not include any *PRR charge* calculated under a *VaR model permission* unless the provision in question provides otherwise.

(1) (subject to (2)) a process by which assets are sold to a bankruptcy-remote *special purpose vehicle* in return for immediate cash payment and that vehicle raises the immediate cash payment through the issue of debt securities in the form of tradable notes or commercial paper.

(2) (in accordance with Article 4(36) of the *Banking Consolidation Directive* (Definitions) and in *BIPRU*) a transaction or scheme whereby the credit risk associated with an *exposure* or pool of *exposures* is *tranching* having the following characteristics:

(a) payments in the transaction or scheme are dependent upon the performance of the *exposure* or pool of *exposures*; and

(b) the subordination of *tranches* determines the distribution of *losses* during the ongoing life of the transaction or scheme.

(A) In the PRA Handbook:

(1) (subject to (2)) a process by which assets are sold to a bankruptcy-remote special purpose vehicle in return for immediate cash payment and that vehicle raises the immediate cash payment through the issue of debt securities in the form of tradable notes or commercial paper.

(2) (in accordance with Article 4(36) of the *Banking Consolidation Directive* (Definitions) and in *BIPRU*) a transaction or scheme whereby the credit risk associated with an *exposure* or pool of *exposures* is *tranching* having the following characteristics:

(a) payments in the transaction or scheme are dependent upon the performance of the *exposure* or pool of *exposures*; and

(b) the subordination of *tranches* determines the distribution of *losses* during the ongoing life of the transaction or scheme.

(B) In the FCA Handbook:

(1) (subject to (2) and (3)) a process by which assets are sold to a bankruptcy-remote special purpose vehicle in return for immediate cash payment and that vehicle raises the immediate cash payment through the issue of debt securities in the form of tradable notes or commercial paper.

(2) (in accordance with Article 4(36) of the *Banking Consolidation Directive* (Definitions) and in *BIPRU*) a transaction or scheme whereby the credit risk associated with an *exposure* or pool of *exposures* is *tranching* having the following characteristics:

(a) payments in the transaction or scheme are dependent upon the performance of the *exposure* or pool of *exposures*; and

(b) the subordination of *tranches* determines the distribution of *losses* during the ongoing life of the transaction or scheme.

(3) (in *IFPRU*) has the meaning in article 4(1)(61) of the *EU CRR*.

(A) In the PRA Handbook:

(in accordance with Article 4(40) (Definitions) and Article 96 (Securitisation) of the *Banking Consolidation Directive* and for the purposes of *BIPRU*) an *exposure* to a *securitisation* within the

securitisation
position

FCA PRA

meaning of paragraph (2) of the definition of securitisation; and so that:

(a) where there is an *exposure* to different *tranches* in a *securitisation*, the *exposure* to each *tranche* must be considered as a separate *securitisation position*;

(b) the providers of credit protection to *securitisation positions* must be considered to hold positions in the *securitisation*; and

(c) *securitisation positions* include *exposures* to a *securitisation* arising from interest rate or currency derivative contracts.

(B) In the FCA Handbook:

(1) (in *GENPRU* and *BIPRU*) (in accordance with Article 4(40) (Definitions) and Article 96 (Securitisation) of the *Banking Consolidation Directive*) an *exposure* to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation; and so that:

(a) where there is an *exposure* to different *tranches* in a *securitisation*, the *exposure* to each *tranche* must be considered as a separate *securitisation position*;

(b) the providers of credit protection to *securitisation positions* must be considered to hold positions in the *securitisation*; and

(c) *securitisation positions* include *exposures* to a *securitisation* arising from interest rate or currency derivative contracts.

(2) (in *IFPRU*) has the meaning in article 4(1)(62) of the *EU CRR*.

(A) In the PRA Handbook:

(in accordance with Article 4(44) of the *Banking Consolidation Directive* (Definitions)) a corporation, trust or other entity, other than a *credit institution*, organised for carrying on a *securitisation* or *securitisations* (within the meaning of paragraph (2) of the definition of securitisation), the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the *SSPE* from those of the *originator*, and the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.

(B) In the FCA Handbook:

(in accordance with Article 4(44) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) a corporation, trust or other entity, other than a *credit institution*, organised for carrying on a *securitisation* or *securitisations* (within the meaning of paragraph (2) of the definition of securitisation), the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the *SSPE* from those of the *originator*, and the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.

*securitisation
special purpose
entity*

FCA PRA

*securitised
derivative*

FCA PRA

an *option* or *contract for differences* which, in either case, is listed under ■ LR 19 of the listing rules (including such an *option* or *contract for differences* which is also a *debenture*).

securitised exposure

FCA **PRA**

(A) In the PRA Handbook:

(for the purposes of *BIPRU*) an *exposure* in the pool of *exposures* that has been securitised, either via a *traditional securitisation* or a *synthetic securitisation*. The cash-flows generated by the securitised exposures are used to make payments to the *securitisation positions*.

(B) In the FCA Handbook:

(for the purposes of *BIPRU*) an *exposure* in the pool of *exposures* that has been securitised, either via a *traditional securitisation* or a *synthetic securitisation*. The cash-flows generated by the securitised exposures are used to make payments to the *securitisation positions*.

security

FCA **PRA**

(1) (except in *LR*) (in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation)) any of the following *investments* specified in that Order:

- (a) *share* (article 76);
- (b) *debenture* (article 77);
- (ba) *alternative debenture* (article 77A);
- (c) *government and public security* (article 78);
- (d) *warrant* (article 79);
- (e) *certificate representing certain securities* (article 80);
- (f) *unit* (article 81);
- (g) *stakeholder pension scheme* (article 82 (1));
- (ga) *personal pension scheme* (article 82(2));
- (h) *rights to or interests in investments* in (a) to (g) (article 89).

(2) (in *LR*) (in accordance with section 102A of the *Act*) anything which has been, or may be admitted to the *official list*.

security-based CTF

FCA **PRA**

a *CTF*, other than a *stakeholder CTF*, which is not limited to *deposit* based investment.

segregated client

FCA **PRA**

a *client* whose *money* must be segregated by the *firm* under **■** CASS 4.3.3 R (Segregation).

self-certified sophisticated investor

FCA

a *person* who meets the requirements set out in article 23A of the *Promotion of Collective Investment Schemes Order*, in article 50A of the *Financial Promotions Order* or in **■** COBS 4.12.8 R.

self-invested personal pension scheme

FCA **PRA**

an arrangement which forms all or part of a *personal pension scheme*, which gives the member the power to direct how some or all of the member's contributions are invested.

sell

FCA PRA

(in accordance with article 3(1) of the *Regulated Activities Order* (Interpretation)) (in relation to any *investment*) sell in any way, including disposing of the *investment* for valuable consideration; in this definition, "disposing" includes:

- (a) (in relation to an *investment* consisting of rights under a contract):
 - (i) surrendering, assigning or converting those rights; or
 - (ii) assuming the corresponding liabilities under the contract;
- (b) (in relation to an *investment* consisting of rights under other arrangements) assuming the corresponding liabilities under the arrangements; and
- (c) (except in *COLL*) (in relation to any other *investment*) issuing or creating the *investment* or granting the rights or interests of which it consists.

sending
dematerialised
instructions

FCA PRA

the *regulated activity*, specified in article 45(1) of the *Regulated Activities Order*, of sending, on behalf of another *person*, dematerialised instructions relating to a *security*, where those instructions are sent by means of a relevant system in respect of which an operator is approved under the 2001 Regulations; in this definition:

- (a) "the 2001 Regulations" means the Uncertificated Securities Regulations 2001 (SI 2001/3755);
- (b) "dematerialised instruction" and "operator" have the meaning given by regulation 3 of the 2001 Regulations.

senior
management

FCA PRA

(A) In the PRA Handbook:

(in ■ BIPRU 7.10 (Use of a value at risk model) and in relation to a *firm*) the *firm's governing body* and those of the *firm's senior managers* and other senior management who have responsibilities relating to the measurement and control of the risks which the *firm's VaR model* is designed to measure or whose responsibilities require them to take into account those risks.

(B) In the FCA Handbook:

(1) (in ■ BIPRU 7.10 (Use of a value at risk model) and in relation to a *firm*) the *firm's governing body* and those of the *firm's senior managers* and other senior management who have responsibilities relating to the measurement and control of the risks which the *firm's VaR model* is designed to measure or whose responsibilities require them to take into account those risks.

(2) (in SYSC and IFPRU and in accordance with article 3(9) of CRD) those *persons* who are a natural person and who exercise executive functions in an *institution* and who are responsible and accountable to the *management body* for the day-to-day management of the *institution*.

senior manager

FCA PRA

an individual other than a *director*:

- (a) who is employed by:
 - (i) a *firm*; or
 - (ii) a *body corporate* within a *group* of which the *firm* is a member;
- (b) to whom the *governing body* of the *firm*, or a member of the *governing body* of the *firm*, has given responsibility, either alone or jointly with others, for management and supervision;
- (c) who, if the individual is employed by the *firm*, reports directly to:

	<ul style="list-style-type: none"> (i) the <i>governing body</i>; or (ii) a member of the <i>governing body</i>; or (iii) the <i>chief executive</i>; or (iv) the head of a significant business unit; and <p>(d) who, if the individual is employed by a <i>body corporate</i> within the <i>group</i>, reports directly to a <i>person</i> who is the equivalent of a body or <i>person</i> referred to in (c).</p>
<p><i>senior personnel</i> FCA PRA</p>	<p>(1) those <i>persons</i> who effectively direct the business of the <i>firm</i>, which could include a <i>firm's governing body</i> and other <i>persons</i> who effectively direct the business of the <i>firm</i>.</p> <p>(2) (in relation to a <i>management company</i> and in accordance with article 3(4) of the <i>UCITS implementing Directive</i>) the <i>person</i> or <i>persons</i> who effectively conduct the business of the <i>management company</i>.</p>
<p><i>senior staff committee</i> FCA PRA</p>	<p>(inDEPP and EG) a committee consisting of senior <i>FCA</i> staff members that is empowered to make <i>statutory notice decisions</i> and <i>statutory notice associated decisions by executive procedures</i>.</p>
<p><i>series of transactions</i> FCA PRA</p>	<p>a series of transactions <i>executed</i> with a view to achieving one investment decision or objective.</p>
<p>SERV FCA PRA</p>	<p>the Handbook Guide for service companies.</p>
<p><i>service company</i> FCA PRA</p>	<p>a <i>firm</i> whose only <i>permitted activities</i> are <i>making arrangements with a view to transactions in investments</i>, and <i>agreeing to carry on that regulated activity</i>, and whose <i>Part 4A permission</i> :</p> <ul style="list-style-type: none"> (a) incorporates a <i>limitation</i> substantially to the effect that the <i>firm</i> carry on <i>regulated activities</i> only with <i>market counterparties</i> or <i>intermediate customers</i>; and (b) includes <i>requirements</i> substantially to the effect that the <i>firm</i> must not: <ul style="list-style-type: none"> (i) guarantee, or otherwise accept responsibility for, the performance, by a participant in arrangements made by the <i>firm</i> in carrying on <i>regulated activities</i>, of obligations undertaken by that participant in connection with those arrangements; or (ii) <i>approve any financial promotion</i> on behalf of any other <i>person</i> or any specified class of <i>persons</i>; or (iii) in carrying on its <i>regulated activities</i>, provide services otherwise than in accordance with <i>documents</i> (of a kind specified in the <i>requirement</i>) provided by the <i>firm</i> to the <i>FCA</i>.
<p><i>service conditions</i> FCA PRA</p>	<p>(in accordance with paragraph 14 of Schedule 3 to the <i>Act</i> (EEA Passport Rights)) the conditions that:</p> <ul style="list-style-type: none"> (a) the <i>firm</i> has given its <i>Home State regulator</i> notice of its intent to provide services in the <i>United Kingdom</i>; (b) if the <i>firm</i> falls within paragraph (a), (d), (e) or (f) in the definition of "<i>EEA firm</i>", the <i>FCA</i> or the <i>PRA</i> (as the case may be) has received notice from the <i>firm's Home State regulator</i> containing such information as may be prescribed;

<p><i>services and costs disclosure document</i></p> <p>FCA PRA</p>	<p>(c) if the <i>firm</i> falls within paragraph (d) of that definition, its <i>Home State regulator</i> has informed it that the regulator's notice has been sent to the <i>FCA</i> or the <i>PRA</i> (as the case may be) ; and</p> <p>(d) if the <i>firm</i> falls within paragraph (e) of that definition, one <i>month</i> has elapsed beginning with the date on which the <i>firm's Home State regulator</i> informed the <i>firm</i> that it had sent the regulator's notice to the <i>FCA</i> or the <i>PRA</i> (as the case may be).</p>
<p><i>SETS</i></p> <p>FCA PRA</p>	<p>information about the breadth of advice or <i>scope of basic advice</i> and the nature and costs of the services offered by a <i>firm</i> as described in ■ COBS 6.3.7 G, which contains the keyfacts logo, headings and text described in ■ COBS 6 Annex 1 G.</p>
<p><i>settlement agent</i></p> <p>FCA PRA</p>	<p>the Stock Exchange Electronic Trading Service.</p>
<p><i>settlement decision makers</i></p> <p>FCA PRA</p>	<p>a <i>person</i> with or through whom the <i>firm</i> effects settlement of <i>UK</i> -settled or foreign-settled transactions.</p>
<p><i>settlement decision procedure</i></p> <p>FCA PRA</p>	<p>(in <i>DEPP</i> and <i>EG</i>) two members of the <i>FCA's</i> senior management, one of whom will be of at least director of division level (which may include an acting director) and the other of whom will be of at least head of department level, with responsibility for deciding whether to give <i>statutory notices</i> in the circumstances described in ■ <i>DEPP</i> 5. At least one of the decision makers will not be from the Enforcement and Financial Crime Division.</p>
<p><i>settlement discount scheme</i></p> <p>FCA PRA</p>	<p>(in <i>DEPP</i>) the procedure for the making of <i>statutory notice decisions</i> in the circumstances described in ■ <i>DEPP</i> 5 .</p>
<p><i>Settlement Finality Directive</i></p> <p>FCA</p>	<p>(in <i>DEPP</i> and <i>EG</i>) the scheme described in ■ <i>DEPP</i> 6.7 by which the financial penalty that might otherwise be payable, or the length of the period of suspension or restriction that might otherwise be imposed, in respect of a <i>person's</i> misconduct or contravention may be reduced to reflect the timing of any settlement agreement.</p>
<p><i>settlement price</i></p> <p>FCA PRA</p>	<p>Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems.</p>
<p><i>Seventh Company Law Directive</i></p> <p>FCA PRA</p>	<p>(in <i>LR</i>) (in relation to <i>securitised derivatives</i>), the reference price or prices of the <i>underlying instrument</i> or instruments stipulated by the <i>issuer</i> for the purposes of calculating its obligations to the holder.</p>
<p><i>Seventh Company Law Directive</i></p> <p>FCA PRA</p>	<p>the Council Directive of 13 June 1983 on consolidated accounts (No 83/349/EEC).</p>

<p>SFA FCA PRA</p>	<p>the Securities and Futures Authority Limited.</p>
<p>SFA Complaints Bureau FCA PRA</p>	<p>the first stage of the <i>SFA scheme</i>, which aimed to resolve complaints by conciliation.</p>
<p>SFA Consumer Arbitration Scheme FCA PRA</p>	<p>the second stage of the <i>SFA scheme</i>, which determined complaints by means of arbitration.</p>
<p>SFA scheme FCA PRA</p>	<p>the <i>former scheme</i> (including the <i>SFA Complaints Bureau</i> and the <i>SFA Consumer Arbitration Scheme</i>) set up by the <i>SFA</i> to handle complaints against members of the <i>SFA</i> under the Financial Services Act 1986.</p>
<p>SFT FCA PRA</p>	<p><i>securities financing transaction</i>.</p>
<p>shadow director FCA PRA</p>	<p>(in <i>LR</i>) as in sub-paragraph (b) of the definition of director in section 417(1) of the <i>Act</i>.</p>
<p>share FCA PRA</p>	<p>(1) (except in <i>COLL</i>, <i>LR</i>, <i>DTR</i>, <i>REC</i>, <i>SUP 11</i> (Controllers and close links) and <i>SUP 16</i> (Reporting requirements)) the <i>investment</i>, specified in article 76 of the <i>Regulated Activities Order</i> (Shares etc), which is in summary: a share or stock in the share capital of:</p> <ul style="list-style-type: none"> (a) any <i>body corporate</i> (wherever incorporated); (b) any unincorporated body constituted under the law of a country or territory outside the <i>United Kingdom</i>. <p>(2) (in <i>COLL</i>):</p> <ul style="list-style-type: none"> (a) (in relation to an <i>ICVC</i>) a <i>share</i> in the <i>ICVC</i> (including both <i>smaller denomination shares</i> and <i>larger denomination shares</i>); (b) (otherwise) an <i>investment</i> within (1). <p>(3) (in <i>DTR</i> and <i>LR</i>, and in <i>FEES</i> where relevant to <i>DTR</i> or <i>LR</i>) (in accordance with section 540(1) of the Companies Act 2006) a share in the share capital of a <i>company</i>, and includes:</p> <ul style="list-style-type: none"> (a) stock (except where a distinction between shares and stock is express or implied); (b) <i>preference shares</i>; and (c) in chapters 4, 5, 6 and 7 of <i>DTR</i> a convertible share. <p>(4) (in <i>REC</i>) shares admitted to trading on a <i>regulated market</i>.</p> <p>(5) (in <i>SUP 11</i> (Controllers and close links) and <i>SUP 16</i> (Reporting requirements)) (in accordance with section 422 of the <i>Act</i>):</p> <ul style="list-style-type: none"> (a) in relation to an <i>undertaking</i> with share capital, allotted shares;

<p><i>shared appreciation mortgage</i></p> <p>FCA PRA</p>	<p>(b) in relation to an <i>undertaking</i> with capital but no share capital, rights to share in the capital of the <i>undertaking</i>;</p> <p>(c) in relation to an <i>undertaking</i> without capital, interests:</p> <p style="padding-left: 40px;">(i) conferring any right to share in the profits, or liability to contribute to the losses, of the <i>undertaking</i>; or</p> <p style="padding-left: 40px;">(ii) giving rise to an obligation to contribute to the debts or expenses of the <i>undertaking</i> in the event of a winding up.</p> <p>a <i>regulated mortgage contract</i>, a condition of which is that the <i>mortgage lender</i> will receive a share in any increase in value in the mortgaged property when the <i>customer</i> either sells the property or terminates the contract including a contract where, if there is a reduction in value, the <i>customer</i> is required to pay the <i>mortgage lender</i> all or part of the shortfall.</p>
<p><i>shareholder</i></p> <p>FCA PRA</p>	<p>(1) (in relation to an <i>ICVC</i>):</p> <p style="padding-left: 40px;">(a) (in relation to a <i>share</i> that is represented by a <i>bearer certificate</i>) the <i>person</i> who holds the certificate;</p> <p style="padding-left: 40px;">(b) (in relation to a <i>share</i> that is not represented by a <i>bearer certificate</i>) the <i>person</i> whose name is entered on the <i>register</i> in relation to that <i>share</i>.</p> <p>(2) (in relation to chapters 5 [] of <i>DTR</i>) any natural person or legal entity governed by private or public law, who holds directly or indirectly:</p> <p style="padding-left: 40px;">(a) <i>shares</i> of the <i>issuer</i> in its own name and on its own account;</p> <p style="padding-left: 40px;">(b) <i>shares</i> of the <i>issuer</i> in its own name, but on behalf of another natural person or legal entity;</p> <p style="padding-left: 40px;">(c) depository receipts, in which case the holder of the depository receipt shall be considered as the shareholder of the underlying <i>shares</i> represented by the depository receipts.</p>
<p><i>ships</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) the <i>class of contract of insurance</i> , specified in paragraph 6 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of general insurance), upon vessels used on the sea or on inland water, or upon the machinery, tackle, furniture or equipment of such vessels.</p>
<p><i>short selling regulation</i></p>	<p>regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps.</p>
<p><i>shortfall</i></p> <p>FCA PRA</p>	<p>(1) (in relation to cancellation of an <i>investment agreement</i>) the amount a <i>firm</i> is entitled to charge a <i>customer</i> for the market loss in accordance with ■ COBS 15.4.3 R.</p> <p>(2) (in relation to <i>client money</i>) the amount by which the <i>client money</i> in a <i>client bank account</i> is insufficient to satisfy the claims of <i>clients</i> in respect of that <i>money</i>, or not immediately available to satisfy such claims.</p>
<p><i>short-term annuity</i></p> <p>FCA PRA</p>	<p>(as defined in paragraph 6 of Schedule 28 to the Finance Act 2004) in relation to a member of a pension scheme, an annuity payable to the member if:</p> <p style="padding-left: 40px;">(a) it is purchased by the application of sums or assets representing the whole or any part of the member's drawdown pension fund (as defined in paragraph 8 of that Schedule) in respect of an arrangement;</p> <p style="padding-left: 40px;">(b) it is payable by an insurance company;</p> <p style="padding-left: 40px;">(c) the member had an opportunity to select an insurance company;</p>

<p><i>short-term money market fund</i></p> <p>FCA PRA</p>	<p>(d) it is payable for a term which does not exceed five years ; and</p> <p>(e) it is either a level annuity, an increasing annuity or a relevant linked annuity.</p> <p>an <i>authorised fund</i> or, in the case of an <i>umbrella</i>, a <i>sub-fund</i> (if it were a separate fund) which satisfies the conditions in ■ COLL 5.9.3 R (Investment conditions: short-term money market funds) and is not a <i>qualifying money market fund</i>.</p>
<p><i>sickness</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) the <i>class of contract of insurance</i>, specified in paragraph 2 of Part I of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of general insurance), providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of loss to the <i>persons</i> insured attributable to sickness or infirmity, but excluding contracts within paragraph IV of Part II of Schedule 1 to the <i>Regulated Activities Order</i> (Permanent health).</p>
<p><i>sickness or distressed circumstances contract</i></p> <p>FCA PRA</p>	<p>any contract in accordance with which benefits are provided for the relief or maintenance of any <i>person</i> during sickness or when in distressed circumstances.</p>
<p><i>SIFA</i></p>	<p>[deleted]</p>
<p><i>significant distribution</i></p> <p>FCA PRA</p>	<p>(as defined in Article 2 of the <i>Buy-back and Stabilisation Regulation</i>) an initial or secondary <i>offer of relevant securities</i>, publicly announced and distinct from ordinary trading both in terms of the amount in value of the <i>securities</i> offered and the selling methods employed.</p>
<p><i>significant IFPRU firm</i></p> <p>FCA</p>	<p>has the meaning in ■ IFPRU 1.2 (Significant IFPRU firm).</p>
<p><i>significant management function</i></p> <p>FCA PRA</p>	<p>(in the <i>FCA Handbook</i>) <i>FCA controlled functions</i> CF29 in Parts 1 and 2 of the <i>table of FCA controlled functions</i>, described more fully in ■ SUP 10A.9.9 R.</p>
<p><i>significant-influence function</i></p> <p>FCA PRA</p>	<p>(in accordance with section 59(7B) of the <i>Act</i> and in relation to the carrying on of a <i>regulated activity</i> by an <i>authorised person</i>) a function that is likely to enable the <i>person</i> responsible for its performance to exercise a significant influence on the conduct of the <i>authorised person's</i> affairs, so far as relating to the activity.</p>
<p><i>simple capital issuer</i></p> <p>FCA</p>	<p>a <i>BIPRU firm</i> that meets the following conditions:</p> <ul style="list-style-type: none"> (a) it does not raise capital through a special purpose vehicle; (b) it only includes non-convertible and non-exchangeable <i>capital instruments</i> in its <i>capital resources</i>; (c) (if it includes <i>capital instruments</i> in its <i>capital resources</i> on which <i>coupons</i> are payable) such <i>coupons</i> are not subject to a <i>step-up</i>;

<p><i>simplified buffer requirement</i> FCA PRA</p>	<p>(d) it only includes <i>capital instruments</i> in its <i>tier one capital resources</i> consisting of ordinary <i>shares</i>, perpetual non-cumulative preference <i>shares</i> or partnership or <i>limited liability partnership</i> capital accounts;</p> <p>(e) it only includes non-redeemable <i>capital instruments</i> in its <i>tier one capital resources</i>; and</p> <p>(f) (if it includes <i>capital instruments</i> in its <i>tier one capital resources</i> on which <i>coupons</i> are payable) such coupons are non-cumulative, non-mandatory and in cash.</p> <p>BIPRU 12.6.9R.</p>
<p><i>simplified equity method</i> FCA PRA</p>	<p>the method of calculating the <i>equity PRR</i> set out in ■ BIPRU 7.3.29 R (Simplified equity method).</p>
<p><i>simplified ILAS</i> FCA PRA</p>	<p>the approach to the calculation of the liquid assets buffer of a <i>simplified ILAS BIPRU firm</i> described in BIPRU 12.6.</p>
<p><i>simplified ILAS BIPRU firm</i> FCA PRA</p>	<p>an <i>ILAS BIPRU firm</i> that, in accordance with the procedures in ■ BIPRU 12 (Liquidity), is using the <i>simplified ILAS</i>.</p>
<p><i>simplified ILAS waiver</i> FCA PRA</p>	<p>a waiver permitting an <i>ILAS BIPRU firm</i> to operate <i>simplified ILAS</i>.</p>
<p><i>simplified prospectus</i> FCA PRA</p>	<p>a marketing <i>document</i> containing information about a <i>simplified prospectus scheme</i>, which complies with COLL 4.6.2R (Production and publication of simplified prospectus) and COLL 4.6.8R (Table: Contents of the simplified prospectus).</p>
<p><i>simplified prospectus scheme</i> FCA PRA</p>	<p>a <i>key features scheme</i> in respect of which a <i>simplified prospectus</i> has been, or will be, produced instead of a <i>key features document</i> (see ■ COBS 13.1.3 R (2)).</p>
<p><i>single customer view</i> FCA PRA</p>	<p>(in COMP) a single, consistent view of an <i>eligible claimant's</i> aggregate <i>protected deposits</i> with the relevant <i>firm</i> which contains the information required by ■ COMP 17.2.4 R, but excluding from that view those accounts where the <i>eligible claimant</i> is a beneficiary rather than the account holder or if the account is not active as defined in ■ COMP 17.2.3 R (2).</p>
<p><i>Single Market Directives</i> FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p>(a) the <i>Banking Consolidation Directive</i> (to the extent it applies to <i>CAD investment firms</i>);</p>

- (aa) the *CRD*;
- (b) the Insurance Directives (within the meaning of paragraph 1 of Schedule 3 to the *Act*);
- (ba) the *Reinsurance Directive*;
- (c) *MiFID*;
- (d) the *Insurance Mediation Directive*;
- (e) the *UCITS Directive*; and
- (f) *AIFMD*.

(B) In the FCA Handbook:

- (a) the *Banking Consolidation Directive* (to the extent it applies to *CAD investment firms*);
- (aa) the *CRD*;
- (b) the Insurance Directives (within the meaning of paragraph 1 of Schedule 3 to the *Act*);
- (ba) the *Reinsurance Directive*;
- (c) *MiFID*;
- (d) the *Insurance Mediation Directive*;
- (e) the *UCITS Directive*; and
- (f) *AIFMD*.

*single-priced
AUT*

FCA **PRA**

*single-priced
authorised
fund*

FCA **PRA**

SIPP

FCA **PRA**

skilled person

FCA **PRA**

an *authorised fund* or, in the case of an *umbrella*, a *sub-fund* (if it were a separate *fund*), for the *units* of which there is only one *price* applicable by reference to a *valuation point*.

a *self-invested personal pension scheme*.

a *person* appointed to make a report required by section 166 (Reports by skilled persons) or section 166A (Appointment of skilled person to collect and update information) of the Act for provision to the *appropriate regulator* and who must be a person:

- (a) nominated, approved or appointed by the *appropriate regulator*; and
- (b) appearing to the *appropriate regulator* to have the skills necessary to make a report on the matter concerned.

the *Supervisory Liquidity Review Process*.

SLRP

FCA **PRA**

small AIFM

FCA **PRA**

an *AIFM* which meets the conditions in regulation 9 (meaning of "small AIFM") of the *AIFMD UK regulation*.

small and medium-sized enterprise

FCA **PRA**

(in *PR*) (as defined in Article 2.1(f) of the *prospectus directive*) companies, which, according to their last annual or consolidated accounts, meet at least two of the following three criteria: an average number of employees during the financial year of less than 250, a total balance sheet not exceeding €43,000,000 and an annual net turnover not exceeding €50,000,000.

small authorised UK AIFM

FCA **PRA**

a *UK AIFM* which:

(a) is a *small AIFM*; and

(b) has not opted in to *AIFMD* in accordance with article 3(4) of *AIFMD* to become a *full-scope UK AIFM*.

small business

FCA **PRA**

(in *COMP*) a *partnership, body corporate*, unincorporated association or mutual association with an annual turnover of less than £1 million (or its equivalent in any other currency at the relevant time).

small electronic money institution

FCA **PRA**

(in accordance with regulation 2(1) of the *Electronic Money Regulations*) a person included by the *FCA* in the *Financial Services Register* pursuant to regulation 4(1)(b) of the *Electronic Money Regulations*.

small friendly society function

FCA **PRA**

(1) (in the *FCA Handbook*) *FCA controlled function* CF6 in Part 1 of the *table of FCA controlled functions*, described more fully in ■ SUP 10A.6.31 R to ■ SUP 10A.6.32 R.

(2) (in the *PRA Handbook*) *PRA controlled function* CF6 in the *table of PRA controlled functions*, described more fully in ■ SUP 10B.6.16 R to ■ SUP 10B.6.17 R.

small non-EEA AIFM

FCA

a *non-EEA AIFM* that is a *small AIFM*.

small payment institution

FCA **PRA**

(in accordance with regulation 2(1) of the *Payment Services Regulations*) a person included by the *FCA* in the *Financial Services Register* pursuant to regulation 4(1)(b) of the *Payment Services Regulations*.

small personal investment firm

FCA **PRA**

a *personal investment firm*:

(a) which is not a *MiFID investment firm* ;

(b) whose *permission* does not include *establishing, operating or winding up a personal pension scheme*;

(c) which is not a *network*; and

(d) which has fewer than 26 *representatives*.

small registered UK AIFM

FCA

a *small AIFM* that is registered by the *FCA* in accordance with regulation 10 of the *AIFMD UK regulation*.

small self-administered scheme

FCA **PRA**

an *occupational pension scheme* of a kind described in article 4(4) and 4(5) of the Financial Services and Markets Act 2000 (Carrying on Regulated Activities by Way of Business) Order 2001 (SI 2001/1177).

smaller denomination share

FCA **PRA**

a *share* to which are attached rights in a smaller denomination as provided by regulation 45 of the *OEIC regulations*.

smallest financial sector

FCA **PRA**

(in relation to a *financial sector* in a *consolidation group* or a *financial conglomerate* and in accordance with ■ GENPRU 3.1 (Cross sector groups)) the *financial sector* with the smallest average referred to in the box titled Threshold Test 2 in the *financial conglomerate definition decision tree* (10% ratio of balance sheet size and solvency requirements), the *banking sector* and *investment services sector* being treated as one *financial sector* in the circumstances set out in ■ GENPRU 3.1 .

smoothed linked long term stakeholder product

FCA **PRA**

the *stakeholder product* specified by regulations 6, 7 and 8 (smoothed linked long term contracts) of the *Stakeholder Regulations*;

social housing firm

FCA **PRA**

(in ■ MIPRU 4 (Capital resources)) a wholly-owned *subsidiary* of:

- (a) a local authority; or
- (b) a registered social landlord;

which carries on non-profit *regulated activities* in connection with housing.

social insurance

FCA **PRA**

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph IX of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance), of a kind referred to in article 2(3) of the *Consolidated Life Directive* ("operations relating to the length of human life which are prescribed by or provided for in *social insurance* legislation, when they are effected or managed at their own risk by assurance undertakings in accordance with the laws of an *EEA State*").

Society

FCA **PRA**

(1) (except in *BSOCS*) the society incorporated by Lloyd's Act 1871 by the name of Lloyd's.

(2) (in *BSOCS*) a *building society*.

society

FCA **PRA**

(in *BSOCS*) a *building society*.

Society GICR

FCA **PRA**

the *general insurance capital requirement* calculated by the *Society* as if it were an *insurer* under GENPRU 2.3.13R .

Society's regulatory functions

FCA **PRA**

the *Society's* powers, duties or functions in relation to *members* or *underwriting agents* which are or may be exercised for the purposes of supervising or regulating the market at Lloyd's.

sole trader

FCA **PRA**

an individual who is a *firm*.

solicited real time financial promotion

FCA **PRA**

(in accordance with article 8 of the *Financial Promotion Order*) a *real time financial promotion* which is solicited, that is, it is made in the course of a personal visit, telephone call or other interactive dialogue if that call, visit or dialogue:

- (a) was initiated by the recipient of the *financial promotion*; or
- (b) takes place in response to an express request from the recipient of the *financial promotion*.

solo capital resources

FCA **PRA**

(A) In the PRA Handbook:

(1) (for the purposes of GENPRU 3 and INSPRU 6) capital resources that are or would be eligible as capital under the *sectoral rules* that apply for the purpose of calculating its *solo capital resources requirement*. Paragraph 6.8 of GENPRU 3 Ann 1R (Solo capital resources requirement: the insurance sector) applies for the purpose of this definition in the same way as it does for the definition of *solo capital resources requirement*.

(2) for the purpose of **■ BIPRU 10** (Large exposures requirements) the definition in (1) is adjusted in accordance with **■ BIPRU 10.8A.10 R** (Calculation of capital resources for a core UK group) so that it means *capital resources* calculated in accordance with the *rules* applicable to the category of *BIPRU firm* identified by applying the procedure in **■ BIPRU 8.6.6 R** to **■ BIPRU 8.6.9 R** (Consolidated capital resources).

(B) In the FCA Handbook:

(1) (for the purposes of GENPRU 3 and INSPRU 6) capital resources that are or would be eligible as capital under the *sectoral rules* that apply for the purpose of calculating its *solo capital resources requirement*. Paragraph 6.8 of GENPRU 3 Ann 1R (Solo capital resources requirement: the insurance sector) applies for the purpose of this definition in the same way as it does for the definition of *solo capital resources requirement*.

[deleted]

solo capital resources requirement

FCA **PRA**

(1) (for the purpose of GENPRU 3) a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of GENPRU 3 Ann 1R.

(2) (for the purposes of INSPRU 6) a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of GENPRU 3 Ann 1R as it would apply if references to *financial conglomerate* in those paragraphs were replaced with references to *insurance group*.

(3) (for the purposes of GENPRU 2.2.214R (Deductions from tiers one and two: Material holdings)) a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of GENPRU 3 Ann 1R as those paragraphs apply to the *insurance sector*.

a waiver of the type described in **■ BIPRU 2.1** (Solo consolidation).

solo consolidation waiver

FCA **PRA**

Solvency 1 Directive

FCA **PRA**

the Directive of the European Parliament and of the Council of 5 March 2002 amending Council Directive 79/267/EEC as regards the solvency margin requirements for life assurance undertakings (No. 2002/12/EC).

Solvency 2
Directive

FCA PRA

the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (No. 2009/138/EC).

solvency deficit

FCA PRA

(in GENPRU 3 Ann 1R (Capital adequacy calculations with respect to financial conglomerates) and in respect of a member of the *overall financial sector*) the amount (if any) by which its *solo capital resources* fall short of its *solo capital resources requirement*.

sovereign
issuer

(as defined in article 2(1)(d) of the *short selling regulation*) any of the following that issues debt instruments:

- (a) the EU; or
- (b) a Member State including a government department, an agency, or a special purpose vehicle of the Member State; or
- (c) in the case of a federal Member State, a member of the federation; or
- (d) a special purpose vehicle for several Member States; or
- (e) an international financial institution established by two or more Member States which has the purpose of mobilising funding and provide financial assistance to the benefit of its members that are experiencing or threatened by severe financing problems; or
- (f) the European Investment Bank.

sovereign large
exposure
waiver

PRA

a *waiver* that has the result of requiring the *firm* to apply ■ BIPRU 10.6.35 R, which in summary exempts partially or fully any of the *exposures* listed in ■ BIPRU 10.6.36 R constituting claims on *central banks* or central governments from the limits in ■ BIPRU 10.5 (Limits on exposures).

sovereign,
institution and
corporate IRB
exposure class

FCA PRA

(in relation to the *IRB approach*) an *exposure* falling into the *IRB exposure classes* referred to in ■ BIPRU 4.3.2 R (1)-■ (3) (Sovereigns, institutions and corporates).

special
adjustment

FCA PRA

(in IPRU(INV) 13) a *position* risk adjustment, counterparty risk adjustment and foreign exchange adjustment.

special purpose
vehicle

FCA PRA

- (1) (in PR) (as defined in the *PD Regulation*) an *issuer* whose objects and purposes are primarily the issue of *securities*.
- (2) (except in PR) a *body corporate*, explicitly established for the purpose of securitising assets, whose sole purpose (either generally or when acting in a particular capacity) is to carry out one or more of the following functions:
 - (a) issuing *designated investments*, other than *life policies*;
 - (b) redeeming or terminating or repurchasing (whether with a view to re-issue or to cancellation) an issue (in whole or part) of *designated investments*, other than *life policies*;
 - (c) entering into transactions or terminating transactions involving *designated investments* in connection with the *issue*, redemption, termination or re-purchase of *designated investments*, other than *life policies*;

specialised lending exposure

FCA PRA

(in relation to the *IRB approach*) an *exposure* falling into ■ BIPRU 4.5.3 R (Definition of specialised lending).

specialist investor

FCA PRA

(in *LR*) an investor who is particularly knowledgeable in investment matters.

specialist securities

FCA PRA

(in *LR* and *FEES*) *securities* which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters.

specialist securitised derivative

FCA PRA

(in *LR*) a *securitised derivative* which because of its nature is normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters.

specific costs

FCA PRA

management expenses other than *base costs* and *establishment costs*.

specific costs levy

FCA PRA

a levy, forming part of the *management expenses levy*, to meet the *specific costs* in the financial year of the *compensation scheme* to which the levy relates, each *participant firm's* share being calculated in accordance with ■ FEES 6.4.7 R .

specific non-real time financial promotion

FCA PRA

a *non-real time financial promotion* which identifies and promotes a particular *investment* or service.

specific risk

FCA PRA

(1) (in *SYSC*) unique risk that is due to the individual nature of an asset and can potentially be diversified.

(2) (in *GENPRU* and *BIPRU* and in accordance with paragraph 12 of Annex I of the *Capital Adequacy Directive*) the risk of a price change in an *investment* due to factors related to its issuer or, in the case of a *derivative*, the issuer of the underlying *investment*.

specific risk backtesting exception

FCA PRA

(in ■ BIPRU 7.10 (Use of a value at risk model) and in relation to a *firm*) an exception arising out of backtesting a *VaR model* with respect to *specific risk* as more fully defined in that *firm's VaR model permission*.

specific risk position risk adjustment

FCA

(in *BIPRU*) a *position risk adjustment* for specific risk including any such *position risk adjustment* as applied under ■ BIPRU 7.6.8 R (Table: Appropriate position risk adjustment).

*specific
wrong-way
risk*

FCA **PRA**

(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of ■ BIPRU 13 (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the risk that arises when the exposure to a particular counterparty is positively correlated with the *probability of default* of the counterparty due to the nature of the transactions with the counterparty; a *firm* is exposed to *specific wrong-way risk* if the future exposure to a specific counterparty is expected to be high when the counterparty's *probability of default* is also high.

*specified
benchmark*

FCA

a benchmark as defined in section 22(1A)(b) of the *Act* and specified in Schedule 5 to the *Regulated Activities Order* pursuant to article 63R of the *Regulated Activities Order*

*specified
investment*

FCA **PRA**

any of the following *investments* specified in Part III of the *Regulated Activities Order* (Specified Investments):

- (a) *deposit* (article 74);
- (aa) *electronic money* (article 74A);
- (b) *contract of insurance* (article 75); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *general insurance contract*;
 - (ii) *long-term insurance contract*;
 and then further sub-divided into *classes of contract of insurance*;
- (c) *share* (article 76);
- (d) *debenture* (article 77);
- (da) *alternative debenture* (article 77A);
- (e) *government and public security* (article 78);
- (f) *warrant* (article 79);
- (g) *certificate representing certain securities* (article 80);
- (h) *unit* (article 81);
- (i) *stakeholder pension scheme* (article 82(1));
- (ia) *personal pension scheme* (article 82(2));
- (j) *option* (article 83); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *option* (excluding a *commodity option* and an *option* on a *commodity future*);
 - (ii) *commodity option* and an *option* on a *commodity future*;
- (k) *future* (article 84); for the purposes of the *permission* regime, this is sub-divided into:
 - (i) *future* (excluding a *commodity future* and a *rolling spot forex contract*);
 - (ii) *commodity future*;
 - (iii) *rolling spot forex contract*;
- (l) *contract for differences* (article 85); for the purposes of the *permission* regime, this is sub-divided into:

(i) *contract for differences* (excluding a *spread bet* and a *rolling spot forex contract*);

(ii) *spread bet*;

(iii) *rolling spot forex contract*;

(m) *underwriting capacity of a Lloyd's syndicate* (article 86(1));

(n) *membership of a Lloyd's syndicate* (article 86(2));

(o) *funeral plan contract* (article 87);

(oa) *regulated mortgage contract* (article 61(3));

(ob) *home reversion plan* (article 63B(3));

(oc) *home purchase plan* (article 63F(3));

(od) *regulated sale and rent back agreement* (article 63J(3));

(oe) *emissions auction products* (article 82A);

(p) *rights to or interests in investments* (article 89).

sponsor

FCA **PRA**

(A) In the *PRA Handbook*:

(in *BIPRU*), in accordance with Article 4(42) of the *Banking Consolidation Directive* (Definitions) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of *securitisation*) an *undertaking* other than an *originator* that establishes and manages an *asset backed commercial paper programme* or other *securitisation* scheme that purchases *exposures* from third party entities.

(B) In the *FCA Handbook*:

(1) (in *LR*) approved, under section 88 of the *Act* by the *FCA*, as a sponsor.

(2) (in *BIPRU*), in accordance with Article 4(42) of the *Banking Consolidation Directive* (Definitions) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of *securitisation*) an *undertaking* other than an *originator* that establishes and manages an *asset backed commercial paper programme* or other *securitisation* scheme that purchases *exposures* from third party entities.

(3) (in *IFPRU* and *FUND*) has the meaning in article 4(1)(14) of the *EU CRR*.

sponsor service

FCA

a service relating to a matter referred to in **LR 8.2** that a *sponsor* provides or is requested or appointed to provide, including preparatory work that a *sponsor* may undertake before a decision is taken as to whether or not it will act as *sponsor* for a *listed company* or *applicant* or in relation to a particular transaction, and including all the *sponsor's* communications with the *FSA* in connection with the service. But nothing in this definition is to be taken as requiring a *sponsor* when requested to agree to act as a *sponsor* for a *company* or in relation to a transaction.

spread bet

FCA **PRA**

a *contract for differences* that is a gaming contract, whether or not section 412 of the *Act* (Gaming contracts) applies to the contract; in this definition, "gaming" has the meaning given in the Gaming Act 1968, which is in summary: the playing of a game of chance for winnings in money or money's worth, whether any *person* playing the game is at risk of losing any money or money's worth or not.

spread risk

FCA **PRA**

the risk that a spread (that is, the difference in price or yield) between two variables will change.

<p>SPV FCA PRA</p>	<p>(1) (in GENPRU 2.2 (Capital resources)) has the meaning in GENPRU 2.2.126R (Other tier one capital: innovative tier one capital: indirectly issued tier one capital).</p> <p>(2) (in ■ BIPRU 8 (Group risk - consolidation)) has the meaning in ■ BIPRU 8.6.15 R (Indirectly issued capital and group capital resources).</p>
<p>SRB administrator FCA PRA</p>	<p>a <i>firm</i> which carries on the <i>regulated activity</i> of <i>administering a regulated sale and rent back agreement</i>.</p>
<p>SRB adviser FCA PRA</p>	<p>a <i>firm</i> which carries on the <i>regulated activity</i> of <i>advising on a regulated sale and rent back agreement</i>.</p>
<p>SRB agreement provider FCA PRA</p>	<p>(in accordance with article 63J(3)(a) of the <i>Regulated Activities Order</i>) a <i>firm</i> which buys all or part of the <i>qualifying interest in land</i> in the <i>United Kingdom</i> from a <i>SRB agreement seller</i> under a <i>regulated sale and rent back agreement</i>, including a <i>firm</i> which acquires obligations or rights under a <i>regulated sale and rent back agreement</i>.</p>
<p>SRB agreement seller FCA PRA</p>	<p>(in accordance with article 63J(3)(a) of the <i>Regulated Activities Order</i>) an individual or trustees, who sells all or part of the <i>qualifying interest in land</i> in the <i>United Kingdom</i> to an agreement provider under a <i>regulated sale and rent back agreement</i>.</p>
<p>SRB arranger FCA PRA</p>	<p>a <i>firm</i> which carries on the <i>regulated activity</i> of <i>arranging (bringing about) a regulated sale and rent back agreement</i> or <i>making arrangements with a view to a regulated sale and rent back agreement</i>.</p>
<p>SRB intermediary FCA PRA</p>	<p>a <i>firm</i> with <i>permission</i> (or which ought to have <i>permission</i>) to carry on a <i>regulated sale and rent back mediation activity</i>.</p>
<p>SREP FCA PRA</p>	<p>the <i>supervisory review and evaluation process</i>.</p>
<p>SSAS FCA PRA</p>	<p><i>small self-administered scheme</i>.</p>
<p>SSPE FCA PRA</p>	<p>a <i>securitisation special purpose entity</i>.</p>
<p>stabilisation FCA PRA</p>	<p>(in ■ MAR 2) (as defined in Article 2 of the <i>Buy-back and Stabilisation Regulation</i>) any purchase or offer to purchase <i>relevant securities</i>, or any transaction in <i>associated instruments</i> equivalent thereto, by <i>investment firms</i> or <i>credit institutions</i>, which is undertaken in the context of a <i>significant distribution</i> of such <i>relevant securities</i> exclusively for supporting the market price of these <i>relevant securities</i> for a predetermined period of time, due to a selling pressure in such securities.</p>

<p><i>staff mortgage</i> FCA PRA</p>	<p>a <i>regulated mortgage contract</i> between an employer, or an <i>undertaking</i> in the same <i>group</i> as the employer, as lender and the employee (alone or with another <i>person</i>) as borrower to defray money applied for any of the following purposes:</p> <ul style="list-style-type: none"> (a) acquiring any residential land which was intended, at the time of the acquisition, for occupation by the employee as their home; (b) carrying out repairs or improvements to any residential land which was intended, at the time of taking out the loan, for occupation by the employee as their home; or (c) payments in respect of a loan (whether of interest or capital).
<p><i>stakeholder CTF</i> FCA PRA</p>	<p>a <i>CTF</i> that has the characteristics, and complies with the conditions, set out in paragraph 2 of the Schedule to the <i>CTF Regulations</i>.</p>
<p><i>stakeholder pension scheme</i> FCA PRA</p>	<p>a scheme that meets the conditions in section 1 of the Welfare Reform and Pensions Act 1999 or article 3 of the Welfare Reform and Pensions (Northern Ireland) Order 1999.</p>
<p><i>stakeholder product</i> FCA PRA</p>	<p>(as defined in article 52B(3) of the <i>Regulated Activities Order</i>):</p> <ul style="list-style-type: none"> (a) a <i>stakeholder CTF</i>; or (b) a <i>stakeholder pension scheme</i>; or (c) an investment of a kind specified in the <i>Stakeholder Regulations</i>.
<p><i>Stakeholder Regulations</i> FCA PRA</p>	<p>the Financial Services and Markets Act 2000 (Stakeholder Products) Regulations 2004 (SI 2004/2738).</p>
<p><i>standard CIU look through method</i> FCA PRA</p>	<p>the method for calculating the <i>PRR</i> for a <i>position</i> in a <i>CIU</i> set out in ■ BIPRU 7.7.4 R and ■ BIPRU 7.7.7 R to ■ BIPRU 7.7.10 R.</p>
<p><i>standard equity method</i> FCA PRA</p>	<p>the method of calculating the <i>equity PRR</i> set out in BIPRU 7.3.32R (Standard equity method).</p>
<p><i>standard frequency liquidity reporting firm</i> FCA PRA</p>	<p>a <i>standard ILAS BIPRU firm</i> that is not a <i>low frequency liquidity reporting firm</i>.</p>
<p><i>standard ILAS BIPRU firm</i> FCA PRA</p>	<p>an <i>ILAS BIPRU firm</i> that is not a <i>simplified ILAS BIPRU firm</i>.</p>
<p><i>standard listing</i></p>	<p>in relation to <i>securities</i>, means a <i>listing</i> that is not a <i>premium listing</i>.</p>

FCA PRA

standard listing (shares)

a *standard listing* of shares other than *preference shares* that are *specialist securities*.

FCA PRA

standard market risk PRR rules

(in *BIPRU*) the rules relating to the calculation of the *market risk capital requirement* excluding the *VaR model approach* and any rules modified so as to provide for the *CAD 1 model approach*.

FCA

standard method of internal client money reconciliation

■ CASS 7 Annex 1 G.

FCA PRA

standard terms

(in *DISP*) the contractual terms made under paragraph 18 of Schedule 17 to the *Act* (The Ombudsman Scheme), under which *VJ participants* participate in the *Voluntary Jurisdiction*.

FCA PRA

standardised approach

(A) In the PRA Handbook:

(for the purposes of *BIPRU*) one of the following:

(a) (where expressed to relate to credit risk) the method for calculating capital requirements for credit risk in ■ *BIPRU 3* (Credit risk) and *BIPRU 9.2.1R(1)* and *BIPRU 9.11* (Standardised approach);

(b) (where expressed to relate to *operational risk*) the method for calculating capital requirements for *operational risk* in *BIPRU 6.3* (Standardised approach);

(c) (where not expressed to relate to any risk and used in ■ *BIPRU 3*, ■ *BIPRU 4* (IRB approach), ■ *BIPRU 5* (Credit risk mitigation), ■ *BIPRU 9* (Securitisation) or ■ *BIPRU 10* (Large exposures requirements)) it has the meaning in (a);

(d) (where not expressed to relate to any risk and used in *BIPRU 6* (Operational risk)) it has the meaning in (b);

(e) (where the one of the approaches in (a) to (d) is being applied on a consolidated basis) that approach as applied on a consolidated basis in accordance with *BIPRU 8* (Group risk - consolidation); or

(f) when the reference is to the rules of or administered by a *regulatory body* other than the *appropriate regulator*, whatever corresponds to the approach in (a) to (e), as the case may be, under those rules.

(B) In the FCA Handbook:

(for the purposes of *BIPRU*) one of the following:

(a) (where expressed to relate to credit risk) the method for calculating capital requirements for credit risk in

<p><i>standardised credit risk exposure class</i></p> <p>FCA PRA</p>	<p>■ BIPRU 3 (Credit risk) and BIPRU 9.2.1R(1) and BIPRU 9.11 (Standardised approach);</p> <p>(b) (where expressed to relate to <i>operational risk</i>) the method for calculating capital requirements for <i>operational risk</i> in BIPRU 6.3 (Standardised approach);</p> <p>(c) (where not expressed to relate to any risk and used in ■ BIPRU 3, ■ BIPRU 4 (IRB approach), ■ BIPRU 5 (Credit risk mitigation), ■ BIPRU 9 (Securitisation) or ■ BIPRU 10 (Large exposures requirements)) it has the meaning in (a);</p> <p>(d) (where not expressed to relate to any risk and used in BIPRU 6 (Operational risk)) it has the meaning in (b);</p> <p>(e) (where the one of the approaches in (a) to (d) is being applied on a consolidated basis) that approach as applied on a consolidated basis in accordance with BIPRU 8 (Group risk - consolidation); or</p> <p>(f) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) to (e), as the case may be, under those rules.</p>
<p><i>standardised deterministic projection</i></p> <p>FCA PRA</p>	<p>(in relation to the <i>standardised approach</i> to credit risk) one of the classes of exposure set out in BIPRU 3.2.9R (Exposure classes).</p>
<p><i>standing data</i></p> <p>FCA PRA</p>	<p>a <i>projection</i> which is either a <i>generic projection</i> or a <i>personal projection</i> produced in accordance with the assumptions contained in ■ COBS 13 Annex 2.</p>
<p><i>standing independent valuer</i></p> <p>FCA PRA</p>	<p>the information relating to a <i>firm</i> held by the <i>appropriate regulator</i> on the matters set out in ■ SUP 16 Annex 16A R.</p>
<p><i>state finance organisation</i></p> <p>FCA PRA</p>	<p>the person appointed as such under ■ COLL 5.6.20 R (Standing independent valuer and valuation) and ■ COLL 8.4.13 R (1) (Standing independent valuer and valuation) .</p>
<p><i>state finance organisation</i></p> <p>FCA PRA</p>	<p>a legal person other than a <i>company</i>:</p> <p>(a) which is a national of an <i>EEA state</i>;</p> <p>(b) which is set up by or pursuant to a special law;</p> <p>(c) whose activities are governed by that law and consist solely of raising funds under state control through the issue of <i>debt securities</i>;</p> <p>(d) which is financed by means of the resources they have raised and resources provided by the <i>EEA state</i>; and</p> <p>(e) the <i>debt securities</i> issued by it are considered by the law of the relevant <i>EEA state</i> as securities issued or guaranteed by that state.</p>

state monopoly

FCA PRA

a *company* or other legal person which is a national of an *EEA state* and which:

- (a) in carrying on its business benefits from a monopoly right granted by an *EEA state*; and
- (b) is set up by or pursuant to a special law or whose borrowings are unconditionally and irrevocably guaranteed by an *EEA state* or one of the federated states of an *EEA state*.

State of the commitment

FCA PRA

(in accordance with paragraph 6(1) of Schedule 12 to the *Act* (Transfer schemes: certificates)) (in relation to a commitment entered into at any date):

- (a) if the *policyholder* is an individual, the State in which he had his habitual residence at that date;
- (b) if the *policyholder* is not an individual, the State in which the establishment of the *policyholder* to which the commitment relates was established at that date;

in this definition, "commitment" means (in accordance with article 2 of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (SI 2001/3625)) any contract of insurance of a kind referred to in article 2 of the *Consolidated Life Directive*.

State of the risk

FCA PRA

(in accordance with paragraph 6(3) of Schedule 12 to the *Act* (Transfer schemes: certificates)) (in relation to the *EEA State* in which a risk is situated):

- (a) if the insurance relates to a building or to a building and its contents (so far as the contents are covered by the same policy), the *EEA State* in which the building is situated;
- (b) if the insurance relates to a vehicle of any type, the *EEA State* of registration;
- (ba) if the insurance relates to a *vehicle* dispatched from one *EEA State* to another, in respect of the period of 30 days beginning with the day on which the purchaser accepts delivery, the *EEA State* of destination (and not, as provided by sub-paragraph (b), the *EEA State* of registration);

[Note: article 15(1) of the *Consolidated Motor Insurance Directive*]

- (c) in the case of *policies* of a duration of four months or less covering travel or holiday risks (whatever the class concerned), the *EEA State* in which the *policyholder* took out the *policy*;
- (d) in a case not covered by (a) to (c):
 - (i) if the *policyholder* is an individual, the *EEA State* in which he has his habitual residence at the date when the contract is entered into; and
 - (ii) otherwise, the *EEA State* in which the establishment of the *policyholder* to which the *policy* relates is situated at that date.

Statement of Principle

FCA PRA

(1) (in the *FCA Handbook*) one of the Statements of Principle issued by the FCA under section 64(1) of the *Act* (Conduct: Statements and codes) with respect to the conduct of *approved persons* and set out in ■ APER 2.1A.

The provisions of ■ APER 1.1A marked with a "P" in the margin also form part of the *Statements of Principle*.

(2) (in the *PRA Handbook*) one of the Statements of Principle issued by the PRA under section 64(1A) of the *Act* (Conduct: Statements and codes) with respect to the conduct of *approved persons* and set out in ■ APER 2.1B.

The provisions of ■ APER 1.1B marked with a "P" in the margin also form part of the *Statements of Principle*.

statutory auditor

FCA **PRA**

a statutory auditor as that term is defined in section 1210 of the Companies Act 2006.

statutory money purchase illustration

FCA **PRA**

an annual illustration of the contributions made for the benefit of, and the potential benefits due to, a member of a *personal pension scheme*, which is prepared in accordance with the Personal Pension Schemes (Disclosure of Information) Regulations 1987 (SI 1987/1110).

statutory notice

FCA **PRA**

a *warning notice*, *decision notice* or *supervisory notice*.

statutory notice associated decision

FCA **PRA**

a decision which is made by the *appropriate regulator* and which is associated with a decision to give a *statutory notice*, including a decision:

- (a) to determine or extend the period for making representations;
- (b) to determine whether a copy of the *statutory notice* needs to be given to any third party and the period for him to make representations;
- (c) to refuse access to *appropriate regulator* material .
- (d) [deleted]

statutory notice decision

FCA **PRA**

a decision by the *appropriate regulator* on whether or not to give a *statutory notice*.

statutory objectives

FCA **PRA**

- (1) for the *FCA* (as described in sections 1B, 1C, 1D and 1E of the *Act*):
 - (a) its strategic objective of ensuring that the relevant markets function well; and
 - (b) its operational objectives:
 - (i) the *consumer* protection objective (as defined in section 1C of the *Act*);
 - (ii) the integrity objective (as defined in section 1D of the *Act*); and
 - (iii) the competition objective (as defined in section 1E of the *Act*);
- (2) for the *PRA* (as described in sections 2B, 2C and 314A of the *Act*):
 - (a) its general objective of promoting the safety and soundness of *PRA-authorised persons*; and
 - (b) its insurance objective of contributing to the securing of an appropriate degree of protection for those who are or may become *policyholders*.

step-up

FCA **PRA**

(in relation to any item of capital) any change in the *coupon* rate on that item that results in an increase in the amount payable at any time, including a change already provided in the original terms governing those payments. A step-up:

- (a) includes (in the case of a fixed rate) an increase in that *coupon* rate;

<p>(b) includes (in the case of a floating rate calculated by adding a fixed amount to a fluctuating amount) an increase in that fixed amount;</p> <p>(c) includes (in the case of a floating rate) a change in the benchmark by reference to which the fluctuating element of the <i>coupon</i> is calculated that results in an increase in the absolute amount of the <i>coupon</i>; and</p> <p>(d) does not include (in the case of a floating rate) an increase in the absolute amount of the <i>coupon</i> caused by fluctuations in the fluctuating figure by reference to which the absolute amount of the <i>coupon</i> floats.</p>	
<p><i>stochastic projection</i> FCA PRA</p>	<p>a <i>projection</i> showing a summary of results from repeated simulations using an investment model, where the model uses key financial parameters which are subject to random variations and are projected into the future.</p>
<p><i>stock financing</i> FCA PRA</p>	<p>a transaction where a <i>physical commodity</i> is sold forward and the cost of funding is locked in until the date of the forward sale.</p>
<p><i>stock lending</i> FCA PRA</p>	<p>the disposal of a <i>designated investment</i> subject to an obligation or right to reacquire the same or a similar <i>designated investment</i> from the same counterparty.</p>
<p><i>stock lending activity</i> FCA PRA</p>	<p>the activity of undertaking a <i>stock lending</i> transaction.</p>
<p><i>stocks and shares component</i> FCA PRA</p>	<p>a <i>qualifying investment</i> as prescribed in paragraph 7 of the <i>ISA Regulations</i>.</p>
<p><i>store card</i> FCA PRA</p>	<p>a card restricted to paying for goods or services from a particular supplier or group of suppliers and where the price of the goods or services is paid directly to the supplier or group of suppliers by the customer or the <i>firm</i>, but excluding a <i>plastic card</i> used to pay for goods or services through a network such as Visa or MasterCard.</p>
<p><i>strategic investment</i> FCA PRA</p>	<p>an investment which:</p> <ul style="list-style-type: none"> (a) is made for a strategic purpose; (b) is made for an expected duration consistent with that purpose and is, or has the potential to be, illiquid or hard to value; and (c) is significant in value in proportion to the size of the <i>with-profits fund</i>.
<p><i>stressed VaR</i> FCA</p>	<p>(in <i>BIPRU</i>) the stressed VaR measure in respect of <i>positions</i> coming within the scope of the <i>VaR model permission</i>, calculated in accordance with the <i>VaR model</i>, ■ <i>BIPRU 7.10</i> (Use of a Value at Risk Model) and any methodology set out in the <i>VaR model permission</i> based on a stressed historical period.</p>
<p><i>structured capital-at-risk product</i> FCA PRA</p>	<p>a product, other than a <i>derivative</i>, which provides an agreed level of income or growth over a specified investment period and displays the following characteristics:</p> <ul style="list-style-type: none"> (a) the <i>customer</i> is exposed to a range of outcomes in respect of the return of initial capital invested;

structured deposit

FCA PRA

(b) the return of initial capital invested at the end of the investment period is linked by a pre-set formula to the performance of an index, a combination of indices, a 'basket' of selected stocks (typically from an index or indices), or other factor or combination of factors; and

(c) if the performance in (b) is within specified limits, repayment of initial capital invested occurs but if not, the *customer* could lose some or all of the initial capital invested.

a *deposit* paid on terms under which any interest or premium will be paid, or is at risk, according to a formula which involves the performance of:

- (a) an index (or combination of indices) (other than money market indices);
- (b) a stock (or combination of stocks); or
- (c) a commodity (or combination of commodities).

sub-consolidated basis

FCA

has the meaning in article 4(1)(49) of the *EU CRR*.

sub-fund

FCA PRA

(a) (in relation to an *authorised fund* that is an *umbrella*) a separate part of the *scheme property* of that *scheme* that is pooled separately;

(aa) (in relation to an *EEA UCITS scheme*) any part of that *scheme* that constitutes an investment compartment for the purposes of the *UCITS Directive*;

(b) (in relation to a *fund* that is not an *authorised fund* or an *EEA UCITS scheme*) any part of that *scheme* that is equivalent to (a) .

sub-group

FCA PRA

(in relation to a *person*):

- (a) that *person*; and
- (b) any *person* that is either:
 - (i) a *subsidiary undertaking* of that *person*; or
 - (ii) an *undertaking* in which that *person* or a *subsidiary undertaking* of that *person* holds a *participation*.

subsidiary

FCA PRA

(A) In the PRA Handbook:

(1) (except in relation to *MiFID business*) (as defined in section 1159(1) of the Companies Act 2006 (Meaning of "subsidiary", etc)) (in relation to another *body corporate* ("H")) a *body corporate* of which H is a *holding company*.

(2) (in relation to *MiFID business*) a subsidiary undertaking as defined in Articles 1 and 2 of Seventh Council Directive on consolidated accounts (No. 83/349/EEC), including any subsidiary of a subsidiary undertaking of an ultimate *parent undertaking*.

[Note: article 4 (1)(29) of *MiFID*]

(B) In the FCA Handbook:

(1) (except in relation to *MiFID business*) (as defined in section 1159(1) of the Companies Act 2006 (Meaning of "subsidiary", etc)) (in relation to another *body corporate* ("H")) a *body corporate* of which H is a *holding company*.

(2) (in relation to *MiFID business*) a subsidiary undertaking as defined in Articles 1 and 2 of Seventh Council Directive on

subsidiary undertaking

FCA **PRA**

consolidated accounts (No. 83/349/EEC), including any subsidiary of a subsidiary undertaking of an ultimate *parent undertaking*.

(3) (for the purpose of *IFPRU*) has the meaning in article 4(1)(16) of the *EU CRR*.

[Note: article 4 (1)(29) of *MiFID*]

(1) (except for the purposes of determining whether a *person* has *close links* with another *person*) an *undertaking* of which another *undertaking* is its *parent undertaking*.

(2) (for the purposes of determining whether a *person* has *close links* with another *person*) (in accordance with section 343(8) of the *Act* (Information given by auditor or actuary to a regulator) and paragraph 3(3) of Schedule 6 to the *Act* (Threshold conditions)):

(a) an *undertaking* in (1);

(b) an *undertaking* ("S") if:

(i) another *undertaking* (its parent) is a member of S;

(ii) a majority of S's board of directors who have held office during the financial year and during the preceding financial year have been appointed solely as a result of the exercise of the parent's voting rights; and

(iii) no one else is the parent undertaking of S under any of (a) (i) to (iii) or b(i) or (ii) in the definition of *parent undertaking*.

(3) (in *LR* and *BSOCS*) as defined in section 1162 of the Companies Act 2006.

subsistence balance

FCA **PRA**

(in *BCOBS*) any sum of money payable by a *firm* to a *consumer* or standing to the credit of the *consumer* in an account with the *firm* where that sum is needed by the *consumer* to meet essential living expenses or *priority debts* (whether owed to the *firm* or a third party).

substantial shareholder

FCA **PRA**

as defined in ■ LR 11.1.4A R.

suitability report

FCA **PRA**

a report which a *firm* must provide to its *client* under ■ COBS 9.4 (Suitability reports) which, among other things, explains why the *firm* has concluded that a recommended transaction is suitable for the *client*.

summary

FCA **PRA**

(in relation to a *prospectus*) the summary included in the *prospectus*.

SUP

FCA **PRA**

the Supervision manual.

supervisory authority

FCA

(1) (in accordance with article 4(1)(al) of *AIFMD*) (for a *non-EEA AIF*) the national authority or authorities of the *non-EEA State* empowered by law or regulation to supervise *AIFs* in that *non-EEA State*.

<p><i>supervisory formula method</i></p> <p>FCA PRA</p>	<p>(2) (in accordance with article 4(1)(am) of AIFMD) (for a <i>non-EEA AIFM</i>) the national authority or authorities of the <i>non-EEA State</i> empowered by law or regulation to supervise <i>AIFMs</i> in that <i>non-EEA State</i>.</p> <p>(for the purposes of BIPRU 9 (Securitisation), in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of securitisation and in accordance with Part 1 of Annex IX of the <i>Banking Consolidation Directive</i> (Securitisation definitions)) the method of calculating <i>risk weighted exposure amounts</i> for <i>securitisation positions</i> set out in BIPRU 9.12.21R-BIPRU 9.12.23R and BIPRU 9.14.3R.</p>
<p><i>supervisory function</i></p> <p>FCA PRA</p>	<p>(1) any function within a <i>common platform firm</i> that is responsible for the supervision of its <i>senior personnel</i>.</p> <p>(2) (in relation to a <i>management company</i> and in accordance with article 3(6) of the <i>UCITS implementing Directive</i>) the <i>relevant persons</i> or body or bodies responsible for the supervision of its <i>senior personnel</i> and for the assessment and periodic review of the adequacy and effectiveness of the risk management process and of the policies, arrangements and procedures put in place to comply with its obligations under the <i>UCITS Directive</i>.</p>
<p><i>Supervisory Liquidity Review Process</i></p> <p>FCA PRA</p>	<p>the <i>appropriate regulator's</i> assessment of the adequacy of certain <i>firms'</i> liquidity resources as described in BIPRU 12.2 and BIPRU 12.5.</p>
<p><i>supervisory notice</i></p> <p>FCA PRA</p>	<p>(as defined in section 395(13) of the <i>Act</i> (The FCA's and PRA's procedures)) a notice given by the <i>appropriate regulator</i> in accordance with section 55Y(4), (7) or (8)(b); 78(2) or (5); 197(3), (6) or (7)(b); 259(3), (8) or (9)(b); 268(3), (7)(a) or (9)(a) (as a result of subsection (8)(b)); 282(3), (6) or (7)(b); or 321(2) or (5).</p>
<p><i>supervisory review and evaluation process</i></p> <p>FCA PRA</p>	<p>(A) In the PRA Handbook:</p> <p style="padding-left: 20px;">the <i>appropriate regulator's</i> assessment of the adequacy of certain <i>firms'</i> capital, as more fully described in ■ BIPRU 2.2.9 G and ■ INSPRU 7.1.91 G to ■ INSPRU 7.1.99 G.</p> <p>(B) In the FCA Handbook:</p> <p style="padding-left: 20px;">(1) the <i>appropriate regulator's</i> assessment of the adequacy of certain <i>firms'</i> capital, as more fully described in ■ BIPRU 2.2.9 G (<i>BIPRU firms</i>) and ■ INSPRU 7.1.91 G to ■ INSPRU 7.1.99 G (<i>insurers</i>).</p> <p style="padding-left: 20px;">(2) the FCA's assessment of the adequacy of an <i>IFPRU investment firm's</i> capital, as more fully described in IFPRU 2.3 (Supervisory review and evaluation process).</p>
<p><i>supervisory volatility adjustments approach</i></p> <p>FCA PRA</p>	<p>the approach to calculating volatility adjustments under the <i>financial collateral comprehensive method</i> under which the <i>firm</i> uses the adjustments specified in ■ BIPRU 5.4 (Financial collateral) rather than in its own estimates, as more fully described in ■ BIPRU 5.4 and including that approach as applied to master netting agreements as described in BIPRU 5.6 (Master netting agreements).</p>
<p><i>supplementary listing particulars</i></p> <p>FCA PRA</p>	<p>(in LR) (in accordance with section 81(1) of the <i>Act</i>), supplementary listing particulars containing details of the change or new matter.</p>

supplementary prospectus

FCA PRA

(in *Part 6 rules*) a supplementary prospectus containing details of a new factor, mistake or inaccuracy.

suretyship

FCA PRA

(in relation to a *class of contract of insurance*) the *class of contract of insurance*, specified in paragraph 15 of Part I of Schedule 1 to the *Regulated Activities Order* (Contracts of general insurance), namely:

- (a) a *contract of insurance* against the risks of loss to the *person* insured arising from their having to perform contracts of guarantee entered into by them;
- (b) fidelity bonds, performance bonds, administration bonds, bail bonds or customs bonds or similar contracts of guarantee where these are:
 - (i) effected or carried out by a *person* not carrying on a banking business;
 - (ii) not effected merely incidentally to some other business carried on by the *person* effecting them; and
 - (iii) effected in return for the payment of one or more premiums.

surrender value

FCA PRA

- (a) where the contract is a contract of life assurance or a contract for an annuity, the amount (including a nil amount) payable by the *firm* or other body issuing the contract on surrender of the *policy*;
- (b) where the contract is a *personal pension scheme* or *stakeholder pension scheme*, the amount payable on the transfer of the investor's accrued rights under that contract to another *personal pension scheme* or *stakeholder pension scheme*;
- (c) where the contract is a *Holloway sickness policy*, the amount payable by the *firm* on surrender on or before the *projection date* for the *policy*;
- (d) where the contract is for any other matter, the amount payable by the *firm* on the surrender of the *policy*.

swap

FCA PRA

a transaction in which two counterparties agree to exchange streams of payments over time according to a predetermined basis or a *contract for differences*.

Swiss general insurance company

FCA PRA

(in accordance with article 1(2) of the Financial Services and Markets Act 2000 (Variation of Threshold Conditions) Order 2001 (SI 201/2507)) a *person*:

- (a) whose head office is in Switzerland;
- (b) who is authorised by the supervisory authority in Switzerland as mentioned in article 7.1 of the *Swiss Treaty Agreement*; and
- (c) who is seeking to carry on, or is carrying on, from a branch in the *United Kingdom*, a *regulated activity* consisting of the *effecting* or *carrying out* of *contracts of insurance* of a kind which is subject to that agreement.

Swiss general insurer

FCA PRA

a *Swiss general insurance company* which has *permission* to effect or carry out *contracts of insurance* of a kind which is subject to the *Swiss Treaty Agreement*.

Swiss Treaty Agreement

FCA PRA

the agreement of 10 October 1989 between the European Economic Community and the Swiss Confederation on direct insurance other than life insurance, approved on behalf of the European Economic Community by the Council Decision of 20 June 1999 (No 91/370/EEC).

<p><i>syndicate</i> FCA PRA</p>	<p>one or more <i>persons</i>, to whom a particular syndicate number has been assigned by or under the authority of the <i>Council</i>, <i>carrying out</i> or <i>effecting contracts of insurance</i> written at Lloyd's.</p>
<p><i>syndicate actuary</i> FCA PRA</p>	<p>an <i>actuary</i> appointed to a <i>syndicate</i> as required by ■ SUP 4.6.9 R (1).</p>
<p><i>syndicate assets</i> FCA PRA</p>	<p>assets managed by or at the direction of a <i>managing agent</i> in respect of <i>insurance business</i> carried on through a <i>syndicate</i> and overseas business regulatory deposits funded from those assets.</p>
<p><i>syndicate ICA</i> FCA PRA</p>	<p>the capital assessment performed by a <i>managing agent</i> under the <i>overall Pillar 2 rule</i>, GENPRU 1.5.1R(1), INSPRU 7.1 and INSPRU 1.1.57R(1) in respect of each <i>syndicate</i> managed by it.</p>
<p><i>syndicate year</i> FCA PRA</p>	<p>a year of account of a <i>syndicate</i>.</p>
<p><i>synthetic cash</i> FCA PRA</p>	<p>a position in a <i>derivative</i> that offsets an exposure in property to the point where that exposure has effectively been neutralised, and the effect of the combined holding of both property and the position in the <i>derivative</i> is the same as if the <i>authorised fund</i> had received or stood to receive the value of the property in cash.</p>
<p><i>synthetic future</i> FCA PRA</p>	<p>(a) a synthetic bought future, that is, a bought call <i>option</i> coupled with a written put <i>option</i>; or</p> <p>(b) a synthetic sold future, that is, a bought put <i>option</i> coupled with a written call <i>option</i>;</p> <p>provided that in either case the two <i>options</i>:</p> <ul style="list-style-type: none"> (i) are bought and written, whether simultaneously or not, on a single <i>eligible derivatives</i> market; (ii) relate to the same underlying <i>security</i> or other asset; (iii) give the purchasers of the <i>options</i> the same rights of exercise (whether at the same price or not); and (iv) will expire together, if not exercised.
<p><i>synthetic risk and reward indicator</i> FCA PRA</p>	<p>(in <i>COLL</i> and in accordance with article 2(2) of the <i>UCITS implementing Directive No 2</i>) a synthetic indicator within the meaning of article 8 of the <i>KII Regulation</i>.</p>
<p><i>synthetic securitisation</i> FCA</p>	<p>(in accordance with Article 4(38) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU</i>) a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of securitisation) where the <i>tranching</i> is achieved by the use of credit derivatives or guarantees, and the pool of <i>exposures</i> is not removed from the balance sheet of the <i>originator</i>.</p>
<p>SYSC FCA PRA</p>	<p>the part of the <i>Handbook</i> in High Level Standards which has the title Senior Management Arrangements, Systems and Controls.</p>

systematic internaliser

FCA **PRA**

investment firm which, on an organised, frequent and systematic basis, *deals on own account* by executing *client* orders outside a *regulated market* or an *MTF*.

[Note: article 4(1)(7) of *MiFID*]

systemic risk

FCA

a risk of disruption in the financial system with the potential to have serious negative consequences for the financial system and the real economy.

systemically important institution

FCA

(in accordance with article 3(30) of *CRD*) an *EEA parent institution*, an *EEA parent financial holding company*, an *EEA parent mixed financial holding company* or an *institution* the failure or malfunction of which could lead to systemic risk.

systems and controls function

FCA **PRA**

(1) (in the *FCA Handbook*) *FCA controlled function* CF28 in Part 1 of the *table of FCA controlled functions*, described more fully in ■ SUP 10A.8.1 R.

(2) (in the *PRA Handbook*) *PRA controlled function* CF28 in the *table of PRA controlled functions*, described more fully in ■ SUP 10B.9.1 R.

<i>table of FCA controlled functions</i> FCA PRA	the table of <i>controlled functions</i> in ■ SUP 10A.4.4 RS.
<i>table of PRA controlled functions</i> FCA PRA	the table of <i>controlled functions</i> in ■ SUP 10B.4.3 R.
<i>takeover bid</i> FCA PRA	an offer, as the term is used in the <i>Takeover Code</i> , or any other similar conduct governed by that code.
<i>Takeover Code</i> FCA PRA	the City Code on Takeovers and Mergers issued by the <i>Takeover Panel</i> .
<i>takeover or related operation</i> FCA PRA	<ul style="list-style-type: none"> (a) any transaction falling within paragraph 3(b) (Companies, Transactions and Persons subject to the Code) of the introduction to the <i>Takeover Code</i> and, for this purpose, an offer for non-voting, non-equity share capital is to be regarded as falling within the <i>Takeover Code</i> even if not required by rule 15 of that Code; (b) any transaction which would have fallen within (a) were it not for the fact that the company which is the subject of the transaction does not satisfy the tests set out in paragraph 3(a) (Companies, Transactions and Persons subject to the Code) of the introduction to the <i>Takeover Code</i>; (c) any offer, transaction or arrangement relating to the purchase of <i>securities</i> with a view to establishing or increasing a strategic holding of a <i>person</i>, or of a <i>person</i> together with his <i>associates</i>, in the <i>securities</i> concerned; (d) any transaction or arrangement entered into in contemplation or furtherance of any offer, transaction or arrangement falling within (a) to (c) ; and (e) any transaction or arrangement entered into by way of defence or protection against any offer, transaction or arrangement falling within (a) to (d) which has taken place or which is contemplated.
<i>Takeover Panel</i> FCA PRA	the Panel on Takeovers and Mergers.
<i>target</i> FCA PRA	(in LR) the subject of a <i>class 1 transaction</i> or <i>reverse takeover</i> .
<i>tariff of charges</i> FCA PRA	a list of all the charges (including amounts) that are payable on a <i>home finance transaction</i> , including the reason for, and amount of, each charge.
<i>tax exempt policy</i> FCA PRA	any contract of assurance, offered or issued by a <i>friendly society</i> , which is tax exempt life or endowment business as defined in section 466 (2) of the Income and Corporation Taxes Act 1988.

TC

FCA PRA

the Training and Competence sourcebook.

TD

implementing Directive

FCA PRA

Commission Directive implementing Directive 2004/109/EC of the European Parliament and of the Council laying down rules for the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (No.2007/14/EC).

technical provision

FCA PRA

a technical provision established:

(a) for *general insurance business*, in accordance with INSPRU 1.1.12R; and

(b) for *long-term insurance business*, in accordance with INSPRU 1.1.16R .

tender offer

FCA PRA

(in *LR*) an offer by a *company* to purchase all or some of a *class* of its *listed equity securities* at a maximum or fixed price (that may be established by means of a formula) that is:

(a) communicated to all holders of that *class* by means of a *circular* or advertisement in two national newspapers;

(b) open to all holders of that *class* on the same terms for at least seven days; and

(c) open for acceptance by all holders of that *class* pro rata to their existing holdings.

terminating event

FCA PRA

(as defined in article 2(1) of the *compensation transitionals order*) in relation to applications made under an *investment business compensation scheme*, the withdrawal, discontinuance or rejection of the application, or its determination by a final payment of compensation to the applicant.

terms of business

FCA PRA

a statement in a *durable medium* of the terms and conditions on which a *firm* will carry on a *regulated activity* with or for a *client* or *consumer*.

terms of reference

FCA PRA

the terms of reference of a *firm's with-profits committee*, or the terms of appointment of the person or persons acting as the *with-profits advisory arrangement*, satisfying the requirements set out in ■ COBS 20.5.3 R.

third country

FCA

a territory or country which is not an *EEA State*.*third country BIPRU 730k firm*

PRA

an *overseas firm* that:

(a) is not an *EEA firm*;

(b) has its head office outside the *EEA*; and

(c) would be a *BIPRU 730k firm* if it had been a *UK domestic firm*, had carried on all its business in the *United Kingdom* and had obtained whatever authorisations for doing so as are required under the *Act*.

*third country
BIPRU firm*

FCA **PRA**

(A) In the PRA Handbook:

(1) (in *BIPRU* (except in ■ *BIPRU* 12) and ■ *SYSC* 19C) an *overseas firm* that:

(a) is not an *EEA firm*;

(b) has its head office outside the *EEA*; and

(c) would be a *BIPRU firm* if it had been a *UK domestic firm*, it had carried on all its business in the *United Kingdom* and had obtained whatever authorisations for doing so are required under the *Act*.

(2) (in ■ *BIPRU* 12) an *overseas firm* that:

(a) is a *bank*;

(b) is not an *EEA firm*; and

(c) has its head office outside the *EEA*.

(B) In the FCA Handbook:

(1) (in *BIPRU* (except in ■ *BIPRU* 12) and ■ *SYSC* 19C) an *overseas firm* that:

(a) is not an *EEA firm*;

(b) has its head office outside the *EEA*; and

(c) would be a *BIPRU firm* if it had been a *UK domestic firm*, it had carried on all its business in the *United Kingdom* and had obtained whatever authorisations for doing so are required under the *Act*.

(2) (in ■ *BIPRU* 12) an *overseas firm* that:

(a) is a *bank*;

(b) is not an *EEA firm*; and

(c) has its head office outside the *EEA*.

*third country
competent
authority*

FCA **PRA**

a *regulatory body* of a state or territory that is not an *EEA State*.

*third country
IFPRU 730K
firm*

FCA

an *overseas firm* that:

(a) is not an *EEA firm*;

(b) has its head office outside the *EEA*; and

(c) would be an *IFPRU 730k firm* if it had been a *UK domestic firm*, had carried on all its business in the *United Kingdom* and had obtained whatever authorisations for doing so as are required under the *Act*.

*third country
investment
firm*

FCA **PRA**

a *firm* which would be a *MiFID investment firm* if it had its head office in the *EEA*.

third country investment services undertaking

FCA PRA

(A) In the PRA Handbook:

(in BIPRU) an *institution*, a *financial institution* or an *asset management company* in a *non-EEA state*.

(B) In the FCA Handbook:

(in BIPRU) a *CAD investment firm*, a *financial institution* or an *asset management company* in a *non-EEA state*.

third country issuer

FCA PRA

an issuer which does not have its registered office in the *EEA*.

[Note: article 2(4) of the *MiFID Regulation*]

Third Life Directive

FCA PRA

the Council Directive of 10 November 1992 on the coordination of laws, etc, and amending Directives 79/267/EEC and 90/619/EEC (No 92/96/EEC).

Third Non-Life Directive

FCA PRA

the Council Directive of 18 June 1992 on the coordination of laws, etc, and amending Directives 73/239/EEC and 88/357/EEC (No 92/49/EEC).

third party processor

FCA PRA

(1) A *firm* ("Firm A") which carries on *home finance activities* or *insurance mediation activities* other than *advising on life policies*, or both, for another *firm* (or an *appointed representative*) ("Firm B") under a properly documented *outsourcing* agreement, the terms of which provide that when Firm A carries on any of these activities ("the outsourced activities") for Firm B:

(a) Firm A acts only on the instructions of Firm B;

(b) in any communication with a *customer*, Firm A represents itself as Firm B;

(c) Firm A undertakes to co-operate fully with Firm B in relation to any complaints arising from Firm A's performance of the outsourced activities, even if the complaint is made after Firm A has ceased to carry on the outsourced activities for Firm B; and

(d) Firm B accepts full responsibility for the acts and omissions of Firm A when carrying on the outsourced activities and must pay any redress due to the *customer*;

or an *appointed representative* ("Firm A") which carries on such activities for its *principal* ("Firm B") under such an agreement.

(2) A *firm* ("Firm C") which carries on *home finance activities* or *insurance mediation activities* other than *advising on life policies*, or both, for a *third party processor* within (1) ("Firm A"), where:

(a) the *outsourcing* agreement between Firm A and the *firm* for which Firm A is carrying on outsourced activities ("Firm B") authorises Firm A to outsource some or all of those activities to third parties which are *firms*, and identifies Firm C by name as one of those third parties;

(b) under the *outsourcing* agreement between Firm A and Firm B, Firm B accepts full responsibility for the acts and omissions of Firm C when carrying on the activities which are outsourced to it by Firm A; and

(c) there is a properly documented *outsourcing* agreement between Firm C and Firm A the terms of which provide that when Firm C carries on any of the outsourced activities:

- (i) Firm C acts only on the instructions of Firm A;
- (ii) in any communication with a customer, Firm C represents itself as Firm B; and
- (iii) Firm C undertakes to co-operate fully with Firm A and Firm B in relation to any complaints arising from Firm C's performance of the outsourced activities, even if the complaint is made after Firm C has ceased to carry on the outsourced activities for Firm A.

third party prospectus

FCA PRA

a communication made by a *firm* if the communication is a prospectus that has been drawn up and published in accordance with the *Prospectus Directive* and the *firm* is not responsible under that directive for the information given in the prospectus.

[Note: recital 52 to the *MiFID implementing Directive*]

third-country banking and investment group

FCA PRA

a *banking and investment group* that meets the following conditions:

- (a) it is headed by:
 - (i) a *credit institution*; or
 - (ii) an *asset management company*; or
 - (iii) an *investment firm*; or
 - (iv) a *financial holding company*;

that has its head office outside the *EEA*; and

- (b) it is not part of a wider *EEA banking and investment group*.

third-country competent authority

FCA PRA

the authority of a country or territory which is not an *EEA State* that is empowered by law or regulation to supervise (whether on an individual or group-wide basis) *regulated entities*.

third-country financial conglomerate

FCA PRA

a *financial conglomerate* that is of a type that falls under Article 5(3) of the *Financial Groups Directive*, which in summary is a *financial conglomerate* headed by a *regulated entity* or a *mixed financial holding company* that has its head office outside the *EEA*.

third-country group

FCA PRA

a *third-country financial conglomerate* or a *third-country banking and investment group*.

threshold condition

FCA PRA

(in relation to a *regulated activity*) any of the conditions set out in or under Schedule 6 to the *Act* (Threshold conditions), including the additional conditions in the Financial Services and Markets Act 2000 (Variation of Threshold Conditions) Order 2001 (SI 2001/2507) (see *COND*).

tied agent

FCA PRA

a *person* who, under the full and unconditional responsibility of only one *MiFID investment firm* or *third country investment firm* on whose behalf it acts, promotes *investment services* and/or *ancillary services* to *clients* or prospective *clients*, receives and transmits instructions or orders from the *client* in respect of *investment services* or *financial instruments*, places *financial instruments*

	and/or provides advice to <i>clients</i> or prospective <i>clients</i> in respect of those <i>financial instruments</i> or <i>investment services</i> .
	[Note: article 4(1)(25) of <i>MiFID</i>]
<i>tied product</i> FCA PRA	a product, other than <i>linked borrowing</i> or a <i>linked deposit</i> , that a <i>customer</i> is obliged to purchase through a <i>mortgage lender</i> or <i>reversion provider</i> as a condition of taking out a <i>regulated mortgage contract</i> or <i>home reversion plan</i> with that <i>firm</i> .
<i>tier 2 capital</i> FCA	as defined in article 71 of the <i>EU CRR</i> .
<i>tier 2 instruments</i> FCA PRA	(A) (In the PRA Handbook): a capital instrument that qualify as tier 2 instruments under article 62 of the <i>EU CRR</i> . (B) (In the FCA Handbook): a capital instrument that qualify as tier 2 instruments under article 62 of the <i>EU CRR</i> .
<i>tier one capital</i> FCA PRA	(1) [deleted] (2) (in <i>BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stages A(Core tier one capital), , B (Perpetual non-cumulative preference shares) or C (Innovative tier one capital) of the <i>capital resources table</i> .
<i>tier one capital resources</i> FCA PRA	the sum calculated at stage F of the calculation in the <i>capital resources table</i> (Total tier one capital after deductions) .
<i>tier one instrument</i> FCA PRA	an item of capital that falls into GENPRU 2.2.62R (Tier one capital: General) and is eligible to form part of a <i>firm's tier one capital resources</i> .
<i>tier three capital</i> FCA PRA	an item of capital that is <i>upper tier three capital</i> or <i>lower tier three capital</i> .
<i>tier three capital resources</i> FCA PRA	the sum calculated at stage Q of the <i>capital resources table</i> (Total tier three capital).
<i>tier three instrument</i> FCA PRA	an item of capital that falls into GENPRU 2.2.242R (Tier three capital: upper tier three capital resources) and is eligible to form part of a <i>firm's upper tier three capital resources</i> .
<i>tier two capital</i> FCA PRA	(1) [deleted] (2) (in <i>BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stages G (Upper tier two capital) or H (Lower tier two capital) of the <i>capital resources table</i> .

<p><i>tier two capital resources</i></p> <p>FCA PRA</p>	<p>the sum calculated at stage I (Total tier two capital) of the calculation in the <i>capital resources table</i>.</p>
<p><i>tier two instrument</i></p> <p>FCA PRA</p>	<p>a <i>capital instrument</i> that meets the conditions in GENPRU 2.2.159R (General conditions for eligibility as tier two capital instruments) or GENPRU 2.2.177R (Upper tier two capital: General) and is eligible to form part of a <i>firm's tier two capital resources</i>.</p>
<p><i>time-scheduled buy-back programme</i></p> <p>FCA PRA</p>	<p>(as defined in Article 2 of the <i>Buy-back and Stabilisation Regulation</i>) a <i>buy-back programme</i> where the dates and quantities of <i>securities</i> to be traded during the time period of the programme are set out at the time of the public disclosure of the <i>buy-back programme</i>.</p>
<p><i>tontines</i></p> <p>FCA PRA</p>	<p>(in relation to a <i>class of contract of insurance</i>) tontines as specified in paragraph V of Part II of Schedule 1 to the <i>Regulated Activities Order</i> (Contracts of long-term insurance).</p>
<p><i>top-up cover</i></p> <p>FCA PRA</p>	<p>cover provided by the <i>compensation scheme</i> for <i>claims</i> against an <i>incoming EEA firm</i> (which is a <i>credit institution</i>, an <i>IMD insurance intermediary</i>, an <i>IMD reinsurance intermediary</i>, a <i>MiFID investment firm</i>, a <i>UCITS management company</i> or an <i>AIFM</i>) in relation to the <i>firm's passported activities</i> and in addition to, or due to the absence of, the cover provided by the <i>firm's Home State</i> compensation scheme (see COMP 14 (Participation by EEA firms)).</p>
<p><i>top-up permission</i></p> <p>FCA PRA</p>	<p>a <i>Part 4A permission</i> given to an <i>incoming EEA firm</i>, an <i>incoming Treaty firm</i> or a <i>UCITS qualifier</i>.</p>
<p><i>total amount payable</i></p> <p>FCA PRA</p>	<p>the <i>total charge for credit</i> plus the total amount of credit advanced.</p>
<p><i>total charge for credit</i></p> <p>FCA</p>	<p>the total of the charges (determined as at the date of making the contract) specified in as applying in relation to the <i>secured lending</i> but excluding the charges specified in .</p>
<p><i>total exposure</i></p>	<p>[deleted]</p>
<p><i>total group tier one capital</i></p> <p>FCA PRA</p>	<p>the sum calculated at stage A of the calculation in INSPRU 6.1.43R.</p>
<p><i>total group tier two capital</i></p> <p>FCA PRA</p>	<p>the sum calculated at stage B of the calculation in INSPRU 6.1.43R.</p>
<p><i>total non-deferred shares</i></p>	<p>(in <i>CREDS</i>) means the total of members' share balances in a <i>credit union</i> shown in the most recent annual return to have been sent to the <i>appropriate regulator</i></p>

FCA PRA

total relevant liabilities

FCA PRA

under ■ SUP 16.7.62 R or ■ SUP 16.12.5 R (see ■ CREDS 8.2.3 G), excluding any *deferred shares* in the *credit union*.

(in *CREDS*) means the sum of:

- (a) *unattached shares* in the *credit union*, and *deposits* by persons too young to be members of the *credit union*; and
- (b) liabilities (other than liabilities for shares) with an original or remaining maturity of less than three *months* (including overdrafts and instalments of loans).

TPF rules

FCA PRA

the rules and guidance in ■ COBS 20.2.1 G to ■ COBS 20.2.39 R and ■ COBS 20.2.51 R to ■ COBS 20.2.57 G.

tradable renewable energy credit

FCA PRA

an allowance, licence, permit, right, note, unit, credit, asset, certificate or instrument (the "credit") where:

- (a) the credit confers or may result in a benefit or advantage to its holder or someone else; and
- (b) the credit, or the benefit or advantage in (a), is linked to the supply, distribution or consumption of energy derived from renewable sources by the holder of the credit or someone else.

trade confirmation information

FCA PRA

the information identified in column 1 of the table in ■ COBS 16 Annex 1R R.

traded life policy

FCA PRA

a *life policy* which is to be or has been assigned for value by the *policyholder* to another *person*.

traded life policy investment

FCA

an *investment* in relation to which one of the following conditions applies:

- (a) it is a *traded life policy* other than an *endowment assurance policy*;
- (b) its underlying assets are wholly or predominately *traded life policies* other than *endowment assurance policies*;
- (c) its investment returns, or the issuer's payment obligations, are linked to, contingent on, or highly sensitive to, the performance of *traded life policies* other than *endowment assurance policies*.

trading book

FCA PRA

(A) In the PRA Handbook:

(1) (in *UPRU*) in relation to a *firm's* business or *exposures*, means:

- (a) its proprietary positions in financial instruments:
 - (i) which are held for resale and/or are taken on by the firm with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices or from other price or interest-rate variations;
 - (ii) arising from matched principal broking;

(iii) taken in order to hedge other elements of the trading book;

(b) *exposures* due to unsettled securities transactions, free deliveries, *OTC derivative* instruments, repurchase agreements and securities lending transactions based on securities included in (a)(i) to (iii) above, reverse repurchase agreements and securities borrowing transactions based on securities included in (a)(i) to (iii) above; and

(c) fees, commission, interest and dividends, and margin on exchange-traded derivatives which are directly related to the items included in (a) and (b) above.

(2) (in *BIPRU* and *GENPRU* in relation to a *BIPRU firm*) has the meaning in ■ *BIPRU 1.2* (Definition of the trading book) which is in summary, all that *firm's positions* in *CRD financial instruments* and *commodities* held either with trading intent or in order to hedge other elements of the *trading book*, and which are either free of any restrictive covenants on their tradability or able to be hedged.

(3) (in *BIPRU* and *GENPRU* and in relation to a *person* other than a *BIPRU firm*) has the meaning in (2) with references to a *firm* replaced by ones to a *person*.

(4) (in *IFPRU* and in relation to an *IFPRU investment firm*) has the meaning in article 4(1)(86) of the *EU CRR*.

(B) In the FCA Handbook:

(1) (in *UPRU*) in relation to a *firm's* business or *exposures*, means:

(a) its proprietary positions in financial instruments:

(i) which are held for resale and/or are taken on by the firm with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices or from other price or interest-rate variations;

(ii) arising from matched principal broking;

(iii) taken in order to hedge other elements of the trading book;

(b) *exposures* due to unsettled securities transactions, free deliveries, *OTC derivative* instruments, repurchase agreements and securities lending transactions based on securities included in (a)(i) to (iii) above, reverse repurchase agreements and securities borrowing transactions based on securities included in (a)(i) to (iii) above; and

(c) fees, commission, interest and dividends, and margin on exchange-traded derivatives which are directly related to the items included in (a) and (b) above.

(2) (in *BIPRU* and *GENPRU* in relation to a *BIPRU firm*) has the meaning in ■ *BIPRU 1.2* (Definition of the trading book) which is in summary, all that *firm's positions* in *CRD financial instruments* and *commodities* held either with trading intent or in order to hedge other elements of the *trading book*, and which are either free of any restrictive covenants on their tradability or able to be hedged.

trading book concentration risk excess

[deleted]

(3) (in *BIPRU* and *GENPRU* and in relation to a *person* other than a *BIPRU firm*) has the meaning in (2) with references to a *firm* replaced by ones to a *person*.

(4) (in *IFPRU* and in relation to an *IFPRU investment firm*) has the meaning in article 4(1)(86) of the *EU CRR*.

trading book policy statement

FCA **PRA**

(A) In the PRA Handbook:

has the meaning in BIPRU 1.2.29R (Trading book policy statements) which is in summary a single document of a *person* recording the policies and procedures referred to in BIPRU 1.2.26R and BIPRU 1.2.27R.

(B) In the FCA Handbook:

(1) (in *BIPRU*) has the meaning in BIPRU 1.2.29R (Trading book policy statements) which is in summary a single document of a *person* recording the policies and procedures referred to in BIPRU 1.2.26R and BIPRU 1.2.27R.

(2) (in *IFPRU*) the statement of policies and procedures relating to the *trading book*.

trading book systems and controls rules

FCA **PRA**

GENPRU 1.3.13R(2) to (3) (General requirements: Methods of valuation and systems and controls), GENPRU 1.3.14R to GENPRU 1.3.16R (Marking to market), GENPRU 1.3.17R to GENPRU 1.3.25R (Marking to model), GENPRU 1.3.26R to GENPRU 1.3.28R (Independent price verification), GENPRU 1.3.30R to GENPRU 1.3.33R (Valuation adjustments or reserves), GENPRU 2.2.86R (Core tier one capital: profit and loss account and other reserves: Losses arising from valuation adjustments) and GENPRU 2.2.248R to GENPRU 2.2.249R (Tier three capital: lower tier three capital resources).

trading day

FCA **PRA**

(1) (in **MAR 7** (Disclosure of information on certain trades undertaken outside a regulated market or MTF) and **SUP 17** (Transaction reporting)) in relation to post-trade information to be made public about a share under **MAR 7.2.10 EU**, any day of normal trading in a share on a *trading venue* in the *relevant liquid market* for this share.

[Note: article 4(2) of the *MiFID Regulation*]

(2) other than in (1) or (3), a day included in the calendar of trading days published by the *appropriate regulator* at [web address tbc]

(3) (in *FINMAR*) as defined in article 2(1)(p) of the *short selling regulation*, a trading day as referred to in article 4 of Regulation (EC) No 1287/2006.

trading information

FCA **PRA**

information of the following kinds:

(1) that *investments* of a particular kind have been or are to be acquired or disposed of, or that their acquisition or disposal is under consideration or the subject of negotiation; or

(2) that *investments* of a particular kind have not been or are not to be acquired or disposed of; or

(3) the quantity of *investments* acquired or disposed of or to be acquired or disposed of or whose acquisition or disposal is under consideration or the subject of negotiation; or

(4) the price (or range of prices) at which *investments* have been or are to be acquired or disposed of or the price (or range of prices) at which

<p><i>investments</i> whose acquisition or disposal is under consideration or the subject of negotiation may be acquired or disposed of; or</p> <p>(5) the identity of the <i>persons</i> involved or likely to be involved in any capacity in an acquisition or disposal.</p>	
<p><i>trading plan</i></p> <p>FCA PRA</p>	<p>(in <i>LR</i>) a written plan between a restricted person and an independent third party which sets out a strategy for the acquisition and/or disposal of <i>securities</i> by a specified person and:</p> <p>(a) specifies the amount of <i>securities</i> to be dealt in and the price at which and the date on which the <i>securities</i> are to be dealt in; or</p> <p>(b) gives discretion to that independent third party to make trading decisions about the amount of <i>securities</i> to be dealt in and the price at which and the date on which the <i>securities</i> are to be dealt in; or</p> <p>(c) includes a written formula or algorithm, or computer program, for determining the amount of <i>securities</i> to be dealt in and the price at which and the date on which the <i>securities</i> are to be dealt in.</p>
<p><i>trading venue</i></p> <p>FCA PRA</p>	<p>(1) (except in <i>FINMAR</i>) a <i>regulated market</i>, <i>MTF</i> or <i>systematic internaliser</i> acting in its capacity as such, and, where appropriate, a system outside the <i>EU</i> with similar functions to a <i>regulated market</i> or <i>MTF</i>.</p> <p>[Note: article 2(8) of the <i>MIFID Regulation</i>]</p> <p>(2) (in <i>FINMAR</i>) (as defined in article 2(1)(l) of the <i>short selling regulation</i>) a <i>regulated market</i> or an <i>MTF</i>.</p>
<p><i>traditional securitisation</i></p> <p>FCA</p>	<p>(in accordance with Article 4(37) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU</i>) a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of securitisation) involving the economic transfer of the <i>exposures</i> being <i>securitised</i> to a <i>securitisation special purpose entity</i> which issues securities; and so that:</p> <p>(a) this must be accomplished by the transfer of ownership of the <i>securitised exposures</i> from the <i>originator</i> or through sub-participation; and</p> <p>(b) the securities issued do not represent payment obligations of the <i>originator</i>.</p>
<p><i>tranche</i></p> <p>FCA</p>	<p>(in accordance with Article 4(39) of the <i>Banking Consolidation Directive</i> (Definitions) and in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of securitisation and for the purposes of <i>BIPRU</i>) a contractually established segment of the credit risk associated with an <i>exposure</i> or number of <i>exposures</i>, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.</p>
<p><i>transaction</i></p> <p>FCA PRA</p>	<p>only the purchase and sale of a <i>financial instrument</i>. For the purposes of the <i>MiFID Regulation</i>, excluding Chapter II, this does not include:</p> <p>(a) <i>securities financing transactions</i>; or</p> <p>(b) the exercise of options or covered warrants; or</p> <p>(c) primary market transactions (such as issuance allotment or subscription) in <i>financial instruments</i> falling within Article 4(1)(18)(a) and (b) of <i>MiFID</i>.</p> <p>[Note: article 5 of the <i>MiFID Regulation</i>]</p>
<p><i>transaction report</i></p> <p>FCA PRA</p>	<p>a report of a transaction which meets the requirements of ■ SUP 17.4.1 EU.1 R and ■ SUP 17.4.2 R (Information to appear in transaction reports).</p>

transaction-specific advice

FCA **PRA**

advice on investments:

- (a) given in connection with :
- (i) *dealing in investments as principal*; or
 - (ii) *dealing in investments as agent*; or
 - (iii) acting as an *arranger*; or

(b) with a view to carrying on any such activities;

with or for the *eligible counterparty* to whom the advice is given.

transferable security

FCA **PRA**

(1) (in *PR* and *LR*) (as defined in section 102A of the *Act*) anything which is a transferable security for the purposes of *MiFID* , other than money-market instruments for the purposes of that directive which have a maturity of less than 12 months.

(2) (in *COLL*) an *investment* within ■ **COLL 5.2.7 R** (Transferable securities) in relation to *schemes* falling under ■ **COLL 5**.

(3) those classes of securities which are negotiable on the capital market, with the exception of instruments of payment, such as:

(a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;

(b) bonds or other forms of securitised debt, including depositary receipts in respect of such securities; and

(c) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, *commodities* or other indices or measures.

[Note: article 4(1)(18) of *MiFID*]

Transparency Directive

FCA **PRA**

the European Parliament and Council Directive on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market or through a comparable mechanism for the disclosure of information under national requirements of a Member State concerning the dissemination of information (No. 2004/109/EC).

transparency rules

FCA **PRA**

(in accordance with sections 73A(1) and 89A of the *Act*) *rules* relating to the notification and dissemination of information in respect of *issuers* of *transferable securities* and relating to major shareholdings.

treasury shares

FCA **PRA**

shares which meet the conditions set out in paragraphs (a) and (b) of subsection 724(5) of the Companies Act 2006.

Treaty

FCA **PRA**

the Treaty on the Functioning of the European Union.

Treaty activity

FCA **PRA**

(as defined in section 417(1) of the *Act* (Definitions)) an activity carried on under a *permission* obtained in accordance with Schedule 4 to the *Act* (Treaty Rights).

<p><i>Treaty firm</i> FCA PRA</p>	<p>(as defined in paragraph 1 of Schedule 4 to the <i>Act</i> (Treaty Rights)) a <i>person</i>:</p> <p>(a) whose head office is situated in an <i>EEA State</i> (its "<i>Home State</i>") other than the <i>United Kingdom</i>; and</p> <p>(b) which is recognised under the law of that State as its national.</p>
<p><i>Treaty right</i> FCA PRA</p>	<p>the entitlement of a <i>Treaty firm</i> to qualify for <i>authorisation</i> under Schedule 4 to the <i>Act</i> (Treaty Rights).2001/7</p>
<p><i>Tribunal</i> FCA PRA</p>	<p>the Upper Tribunal, namely the Tribunal established under section 3 of the Tribunals, Courts and Enforcement Act 2007, and to which the functions of the Financial Services and Markets Tribunal were transferred on 6 April 2010 by the Transfer of Tribunal Functions Order 2010.</p>
<p><i>trust deed</i> FCA PRA</p>	<p>(1) (in <i>LR</i>) a trust deed or equivalent document securing or constituting <i>debt securities</i>.</p> <p>(2) (in <i>COLL</i>) the deed referred to in ■ <i>COLL 3.2.3 R</i> (The trust deed for AUTs) , together with any deed expressed to be supplemental to it, made between the <i>manager</i> and the <i>trustee</i> (or, in the case of a <i>recognised scheme</i> that is a <i>unit trust scheme</i> , the <i>instrument constituting the scheme</i> as amended from time to time).</p>
<p><i>trust scheme rules</i> FCA PRA</p>	<p>rules in <i>COLL</i> made by the <i>FCA</i> under section 247(1) of the <i>Act</i> (Trust scheme rules) in relation to:</p> <p>(a) the constitution, management and operation of <i>AUTs</i>;</p> <p>(b) the powers, duties, rights and liabilities of the <i>manager</i> and <i>trustee</i> of any such <i>scheme</i>;</p> <p>(c) the rights and duties of the <i>participants</i> in any such <i>scheme</i>; and</p> <p>(d) the winding up of any such <i>scheme</i>.</p>
<p><i>trustee</i> FCA PRA</p>	<p>(in accordance with section 237(2) of the <i>Act</i> (Other definitions)) (in relation to a <i>unit trust scheme</i>) the <i>person</i> holding the property in question on trust for the <i>participants</i>.</p>
<p><i>trustee firm</i> FCA PRA</p>	<p>a <i>firm</i> which is not an <i>OPS firm</i> and which is acting as a:</p> <p>(a) trustee; or</p> <p>(b) personal representative.</p>
<p><i>turnover</i> FCA PRA</p>	<p>(in relation to a <i>financial instrument</i>) means the sum of the results of multiplying the number of units of that instrument exchanged between buyers and sellers in a defined period of time, pursuant to <i>transactions</i> taking place on a <i>trading venue</i> or otherwise, by the unit price applicable to each such <i>transaction</i>.</p> <p>[Note: article 2(9) of the <i>MiFID Regulation</i>]</p>
<p><i>two-day emissions spot</i> FCA PRA</p>	<p>an <i>emissions allowance</i> where delivery is to be made at an agreed date no later than the second trading day from the day of an auction on an <i>auction platform</i> (within the meaning of article 3(3) of the <i>auction regulation</i>).</p>
<p><i>Type P projection</i> FCA PRA</p>	<p>(in relation to a <i>pension scheme</i> or a <i>stakeholder pension scheme</i>) a <i>projection</i> in real value terms based on prices where the period to the <i>projection date</i> is one year or more.</p>

Type Q
projection

FCA PRA

(in relation to *pension scheme* or a *stakeholder pension scheme*) a *projection* in real value terms based on earnings where the period to the *projection date* is one year or more.

UCITS

FCA PRA

undertakings for collective investment in transferable securities that are established in accordance with the *UCITS Directive*.

UCITS Directive

FCA PRA

the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 2009/65/EC), as amended.

UCITS eligible assets Directive

FCA PRA

Commission Directive 2007/16/EC implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

UCITS firm

FCA PRA

a *firm* which:

- (a) is a *management company*, including where in addition the *firm* is also an *AIFM*; and
- (b) does not have a *Part 4A permission* (or an equivalent permission from its *Home State regulator*) to carry on any *regulated activities* other than those which are in connection with, or for the purpose of, managing collective investment undertakings.

UCITS Home State

FCA PRA

the *Home State* of a *UCITS scheme* or *EEA UCITS scheme*.

UCITS implementing Directive

FCA PRA

Commission Directive (2010/43/EU) of the European Parliament and of the Council implementing Directive 2009/65/EC (UCITS IV) as regards certain provisions concerning organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a *depository* and a *management company*.

UCITS implementing Directive No 2

FCA PRA

Commission Directive (2010/44/EU) of the European Parliament and of the Council implementing Directive 2009/65/EC (UCITS IV) as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure.

UCITS investment firm

FCA PRA

a *firm* which:

- (a) is a *management company* (whether or not it is also the operator of other *collective investment schemes*); and
- (b) has a *Part 4A permission* (or an equivalent permission from its *Home State regulator*) to manage *investments* where:
 - (i) the *investments* managed include one or more of the instruments listed in Section C of Annex 1 to *MiFID*; and
 - (ii) the *permission* extends to activities permitted by article 6(3) of the *UCITS Directive* as well as those permitted by article 6(2).

UCITS management company

FCA PRA

(1) (except in relation to *MiFID business*) a *firm* which is either:

- (a) a *UCITS firm*; or
- (b) a *UCITS investment firm*.

(2) (in relation to *MiFID business*) a *management company* as defined in the *UCITS Directive*.

UCITS
marketing
notification

FCA PRA

[Note: article 4 (1)(24) of *MiFID*]

(in *COLL*) a notification in respect of a *UCITS scheme*, for the purpose of *marketing units* in another *EEA State*, pursuant to:

- (a) paragraph 20B(5) (Notice of intention to market) of Schedule 3 (EEA Passport Rights) to the *Act*; or
- (b) article 46 of the Council Directive of 20 December 1985 on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 85/611/EEC).

UCITS merger

FCA PRA

(in *COLL* and in accordance with article 2(1)(p) of the *UCITS Directive*) a merger between one or more *UCITS schemes* or between one or more *UCITS schemes* and *EEA UCITS schemes* being an operation whereby:

- (a) one or more *merging UCITS*, on being dissolved without going into liquidation, transfers all of its assets and liabilities to an existing *receiving UCITS*, in exchange for the issue to its *unitholders of units* of the *receiving UCITS* and, if applicable, a cash payment not exceeding 10% of the net asset value of those *units* (a "merger by absorption"); or
- (b) two or more *merging UCITS*, on being dissolved without going into liquidation, transfer all of its assets and liabilities to a *receiving UCITS* which they form, in exchange for the issue to their *unitholders of units* of the *receiving UCITS* and, if applicable, a cash payment not exceeding 10% of the net asset value of those *units* (a "merger by formation of a new *UCITS*"); or
- (c) one or more *merging UCITS*, which continue to exist until the liabilities have been discharged, transfer its net assets to another *receiving UCITS*, and for this purpose the *merging UCITS* and the *receiving UCITS* may be *sub-funds* of the same *UCITS* (a "merger by *scheme of arrangement*");

but at least one of which is established in the *United Kingdom*.

UCITS
qualifier

FCA PRA

a *firm* (other than an *EEA UCITS management company*) which:

- (a) for the time being is an *operator, trustee or depositary* of a *scheme* which is a *recognised scheme* under section 264 of the *Act*; and
- (b) is an *authorised person* as a result of paragraph 1(1) of Schedule 5 to the *Act* (Persons Concerned in Collective Investment Schemes);

a reference to a *firm* as a *UCITS qualifier* applies in relation to the carrying on by the *firm* of activities for which it has *permission* in that capacity.

UCITS
Regulations
2011

FCA PRA

the Undertaking for Collective Investment in Transferable Securities Regulations 2011 (SI 2011/1613).

UCITS scheme

FCA PRA

(a) an *authorised fund* authorised by the *FCA* in accordance with the *UCITS Directive*:

- (i) with the sole object of collective investment in *transferable securities* or in other liquid financial instruments permitted by ■ *COLL 5.2* (General investment powers and limits for UCITS schemes) of capital raised from the public and which operates on the principle of risk-spreading; and
- (ii) with *units* which are, at the request of *unitholders*, repurchased or *redeemed*, directly or indirectly, out of the *scheme's* assets; and for this purpose action taken by or on behalf of a *scheme* to ensure

that the stock exchange value of its *units* does not significantly vary from their net asset value is to be regarded as equivalent to that repurchase or *redemption*; or

(b) an umbrella, each of whose *sub-funds* would be a *UCITS scheme* if it had a separate *authorisation order*;

unless:

(c) [deleted]

(d) the *scheme's units* under its *instrument constituting the scheme*, may be sold only to the public in non-EEA States; or

(e) the *scheme* (other than a *master UCITS* which has at least two *feeder UCITS* as *unitholders*) raises capital without promoting the *sale* of its *units* to the public within the *EEA* or any part of it.

[Note: article 1 of the *UCITS Directive*]

UK

FCA PRA

United Kingdom.

UK AIF

FCA

an *AIF* that is:

(a) an *authorised fund*; or

(b) not an *authorised fund* but has its registered office or head office in the UK;

UK AIFM

an *AIFM* established in the UK and with a *Part 4A permission* to carry on the regulated activity of managing an *AIF*.

UK bank

FCA PRA

a *bank* which is a *body corporate* or *partnership* formed under the law of any part of the *United Kingdom*.

UK

consolidation group

FCA PRA

(A) In the PRA Handbook:

The *group of undertakings* which are included in the *consolidated situation* of a *parent institution in a Member State*, an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* (including any *undertaking* which is included in that consolidation because of an *Article 12(1) relationship*, *Article 18(5) relationship* or *Article 18 relationship*).

(B) In the FCA Handbook:

(1) (for the purposes of SYSC as it applies to a *CRR firm*) the *group of undertakings* which are included in the *consolidated situation* of a *parent institution in a Member State*, an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* (including any *undertaking* which is included in that consolidation because of a *consolidation article 12(1) relationship*, *article 18(5) relationship* or *article 18(6) relationship*).

(2) (for the purposes of BIPRU and SYSC as it applies to a *BIPRU firm*) has the meaning in ■ BIPRU 8.2.4 R (Definition of UK consolidation group), which is in summary the group that is identified as a *UK consolidation group* in accordance with the decision tree in ■ BIPRU 8 Annex 1 R (Decision tree identifying a UK consolidation group); in each case only *persons* included under ■ BIPRU 8.5 (Basis of consolidation) are included in the *UK consolidation group*.

<p><i>UK Corporate Governance Code</i></p> <p>FCA PRA</p>	<p>the UK Corporate Governance Code published in May 2010 by the Financial Reporting Council.</p>
<p><i>UK depositary</i></p> <p>FCA</p>	<p>a <i>depositary established</i> in the UK.</p>
<p><i>UK designated investment firm</i></p> <p>FCA PRA</p>	<p>(A) (In the PRA Handbook): (in ■ BIPRU 12 and ■ SUP 16) a <i>designated investment firm</i> which is a <i>body corporate</i> or <i>partnership</i> formed under the law of any part of the UK.</p> <p>(B) (In the FCA Handbook): (in ■ BIPRU 12) a <i>designated investment firm</i> which is a <i>body corporate</i> or <i>partnership</i> formed under the law of any part of the UK.</p>
<p><i>UK DLG by modification</i></p> <p>FCA PRA</p>	<p>a <i>DLG by modification (firm level)</i> in which each member is a <i>UK ILAS BIPRU firm</i>. A <i>firm</i> with a <i>UK DLG by modification</i> cannot also have a <i>non-UK DLG by modification (firm level)</i>.</p>
<p><i>UK domestic firm</i></p> <p>FCA PRA</p>	<p>a <i>firm</i> that has its registered office (or, if it has no registered office, its head office) in the <i>United Kingdom</i>.</p>
<p><i>UK financial sector company</i></p> <p>FCA PRA</p>	<p>a company that is a:</p> <ul style="list-style-type: none"> (a) <i>UK bank</i>; or (b) <i>UK insurer</i>; or (c) <i>UK incorporated parent undertaking</i> of a company referred to in (a) or (b) where the main business of the <i>group</i> to which the <i>parent undertaking</i> and the company belong is financial services .
<p><i>UK financial system</i></p> <p>FCA PRA</p>	<p>(as defined in section 11 of the <i>Act</i> (Meaning of "the UK financial system")) the financial system operating in the <i>United Kingdom</i> including:</p> <ul style="list-style-type: none"> (a) financial markets and exchanges; (b) <i>regulated activities</i>; and (c) other activities connected with financial markets and exchanges.
<p><i>UK firm</i></p> <p>FCA PRA</p>	<p>(1) (except in <i>REC</i>) (as defined in paragraph 10 of Schedule 3 to the <i>Act</i> (EEA Passport Rights)) a <i>person</i> whose head office is in the <i>United Kingdom</i> and who has an <i>EEA right</i> to carry on activity in an <i>EEA State</i> other than the <i>United Kingdom</i>.</p> <p>(2) (in <i>REC</i>) means an <i>investment firm</i> or <i>credit institution</i> which has a <i>Part 4A permission</i> to carry on one or more <i>regulated activities</i>.</p>
<p><i>UK ILAS BIPRU firm</i></p> <p>FCA PRA</p>	<p>an <i>ILAS BIPRU firm</i> which has its registered office (or, if it does not have a registered office, its head office) in the <i>United Kingdom</i>.</p>
<p><i>UK insurance intermediary</i></p>	<p>a <i>UK domestic firm</i> which has <i>Part 4A permission</i> to carry on <i>insurance mediation activity</i> but no other <i>regulated activity</i>.</p>

FCA PRA

UK insurer

FCA PRA

an *insurer*, other than a *pure reinsurer* or a *non-directive insurer*, whose head office is in the *United Kingdom*.

UK ISPV

FCA PRA

an *ISPV* with a *Part 4A permission* to *effect* or *carry out contracts of insurance*.

UK lead regulated firm

FCA PRA

(A) In the PRA Handbook:

a *UK firm* that:

(a) is not part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* or any other *regulatory body*; or

(b) is part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* and that group is not part of a wider group that is subject to consolidated supervision by a *regulatory body* other than the *FCA* or the *PRA* .

For the purposes of this definition:

(c) Consolidated supervision of a group of *persons* means supervision of the adequacy of financial and other resources of that group on a *consolidated basis*. For example, this includes supervision under ■ BIPRU 8 (Group risk consolidation).

(d) It is not relevant whether or not any supervision by another *regulatory body* has been assessed as equivalent under the *CRD* and *EU CRR* or the *Financial Groups Directive*.

(e) If the group is a *UK consolidation group* or *financial conglomerate* of which the *FCA* or the *PRA* is lead regulator that is headed by an *undertaking* that is not itself the *subsidiary undertaking* of another *undertaking* the *firm* is a 'UK lead regulated firm'.

This definition is not related to the defined term *lead regulated firm*.

(B) In the FCA Handbook:

a *UK firm* that:

(a) is not part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* or any other *regulatory body*; or

(b) is part of a group that is subject to consolidated supervision by the *FCA* or the *PRA* and that group is not part of a wider group that is subject to consolidated supervision by a *regulatory body* other than the *FCA* or the *PRA* .

For the purposes of this definition:

(c) Consolidated supervision of a group of persons means supervision of the adequacy of financial and other resources of that group on a *consolidated basis*.

	(d) It is not relevant whether or not any supervision by another <i>regulatory body</i> has been assessed as equivalent under the <i>CRD</i> and <i>EU CRR</i> or the <i>Financial Groups Directive</i> .
	(e) If the group is a <i>consolidation group</i> or <i>financial conglomerate</i> of which the <i>FCA</i> or the <i>PRA</i> is lead regulator that is headed by an <i>undertaking</i> that is not itself the <i>subsidiary undertaking</i> of another <i>undertaking</i> the <i>firm</i> is a 'UK lead regulated firm'.
	This definition is not related to the defined term <i>lead regulated firm</i> .
UK MCR FCA PRA	the MCR calculated in accordance with INSPRU 1.5.44R by a <i>non-EEA direct insurer</i> (except a <i>UK-deposit insurer</i> , an <i>EEA-deposit insurer</i> or a <i>Swiss general insurer</i>) in relation to business carried on by the <i>firm</i> in the <i>United Kingdom</i> .
UK MiFID investment firm FCA PRA	a <i>MiFID investment firm</i> whose <i>Home State</i> is the <i>United Kingdom</i> (this may include a natural <i>person</i> provided the conditions set out in Article 4(1)(1) of <i>MiFID</i> are satisfied).
UK parent financial holding company in a Member State FCA PRA	a <i>parent financial holding company</i> in a <i>Member State</i> where the <i>EEA State</i> in question is the <i>United Kingdom</i> .
UK parent mixed financial holding company in a Member State FCA	a <i>parent mixed financial holding company</i> in a <i>Member State</i> where the <i>EEA State</i> in question is the <i>UK</i> .
UK pure reinsurer FCA PRA	a <i>pure reinsurer</i> whose head office is in the <i>United Kingdom</i> .
UK RCH FCA PRA	a <i>clearing house</i> which is declared by an order made by the Bank of England under section 290 of the <i>Act</i> and for the time being in force to be a recognised clearing house.
UK recognised body FCA PRA	a <i>UK RIE</i> or <i>RAP</i> .
UK regulated EEA financial conglomerate FCA PRA	a <i>financial conglomerate</i> (other than a <i>third-country financial conglomerate</i>) that satisfies one of the following conditions: (a) ■ GENPRU 3.1.29 R (Capital adequacy calculations for <i>financial conglomerates</i>) applies with respect to it; or

(b) a *firm* that is a member of that *financial conglomerate* is subject to obligations imposed through its *Part 4A permission* to ensure that *financial conglomerate* meets levels of capital adequacy based or stated to be based on Annex I of the *Financial Groups Directive*.

UK RIE

FCA PRA

an RIE that is not an ROIE.

UK UCITS
management
company

FCA PRA

a *management company* that is established in the *United Kingdom* and is *authorised* and regulated by the FCA .

UK-deposit
insurer

FCA PRA

a *non-EEA insurer* that has made a deposit in the *United Kingdom* under article 23 of the *First Non-Life Directive* in accordance with article 26 of that Directive or under article 51 of the *Consolidated Life Directive* in accordance with article 56 of that Directive.

UKLA

FCA PRA

the FCA acting in its capacity as the *competent authority* for the purposes of Part VI of the *Act* (Official Listing).

ultimate EEA
insurance
parent
undertaking

FCA PRA

an *EEA insurance parent undertaking* that is not itself the *subsidiary undertaking* of another *EEA insurance parent undertaking*.

ultimate EEA
mixed financial
holding
company

FCA PRA

a *mixed financial holding company* which has its head office in an *EEA State* and which is not itself the *subsidiary undertaking* of another *mixed financial holding company*, *insurance parent undertaking* or *financial holding company* which has its head office in an *EEA State*.

ultimate
insurance
parent
undertaking

FCA PRA

an *insurance parent undertaking* that is not itself the *subsidiary undertaking* of another *insurance parent undertaking*.

ultimate mixed
financial
holding
company

FCA PRA

a *mixed financial holding company* which is not itself the *subsidiary undertaking* of another *mixed financial holding company*, *insurance parent undertaking*, or *financial holding company*.

ultimate parent
undertaking

FCA PRA

(in relation to an *insurer*) a *parent undertaking* of the *insurer* that is not itself the *subsidiary undertaking* of another *undertaking*.

umbrella

FCA PRA

(in *FEES*, *COLL* and *COBS*) a *collective investment scheme* whose *instrument constituting the scheme* provides for such pooling as is mentioned in section 235(3)(a) of the *Act* (Collective investment schemes) in relation to separate parts of the *scheme property* and whose *unitholders* are entitled to exchange rights in one part for rights in another.

*umbrella
collective
investment
scheme*

FCA PRA

(in *PR*) (as defined in the *PD Regulation*) a collective investment undertaking invested in one or more collective investment undertakings, the asset of which is composed of separate class(es) or designation(s) of securities.

*unattached
shares*

FCA PRA

(in *CREDS*) means the total shares in the *credit union* other than any *attached shares* or *deferred shares*.

*unauthorised
AIF*

FCA PRA

an *AIF* which is not an *authorised fund*.

*unauthorised
AIFM*

FCA

a person who is not an *authorised person* but who is:

- (a) a *small registered UK AIFM*; or
- (b) a small registered EEA AIFM, i.e. an *EEA AIFM* that is a *small AIFM* that has not opted in to become a *full-scope EEA AIFM*; or
- (c) a *full-scope EEA AIFM* that is entitled to *market* an *AIF* in the *United Kingdom* following a notification under regulation 57 of the *AIFMD UK regulation*; or
- (d) an *small non-EEA AIFM* that is entitled to *market* an *AIF* in the *United Kingdom* following a notification under regulation 58 of the *AIFMD UK regulation*; or
- (e) an *above-threshold non-EEA AIFM* to which the requirement at regulation 59(3) of the *AIFMD UK regulation* applies; or
- (f) a *full-scope EEA AIFM* that is exercising a right to *market* an *AIF* in the *United Kingdom* arising out of the *EuSEF regulation* or the *EuVECA regulation*.

*unauthorised
fund*

FCA PRA

a *fund* which is not an *authorised fund*.

*unauthorised
person*

FCA PRA

a *person* who is not an *authorised person*.

*unauthorised
reversion
provider*

FCA PRA

a *person* who carries on, or proposes to carry on, the activity specified in article 63B(1) of the *Regulated Activities Order* which is entering into a *home reversion plan* as plan provider, and who does not have *permission* for, and is not an *exempt person* in relation to, *entering into a home reversion plan*.

unauthorised SRB agreement provider

FCA PRA

a *person* who carries on, or proposes to carry on, the activity specified in article 63J(1) of the *Regulated Activities Order* which is entering into a *regulated sale and rent back agreement* as agreement provider, and who does not have *permission* for, and is not an *exempt person* in relation to, *entering into a regulated sale and rent back agreement*; and in this definition references to an agreement provider include a *person* who acquires obligations or rights under a *regulated sale and rent back agreement*.

underlying instrument

FCA PRA

(in LR) (in relation to *securitised derivatives*) means either:

- (a) if the *securitised derivative* is an *option* or *debt security* with the characteristics of an *option*, any of the underlying investments listed in article 83 of the *Regulated Activities Order*; or
- (b) if the *securitised derivative* is a *contract for differences* or *debt security* with the characteristics of a *contract for differences*, any factor by reference to which a profit or loss under article 85 of the *Regulated Activities Order* can be calculated.

undertaking

FCA PRA

(as defined in section 1161(1) of the Companies Act 2006 (Meaning of "undertaking" and related expressions)):

- (a) a *body corporate* or *partnership*; or
- (b) an unincorporated association carrying on a trade or business, with or without a view to profit.

underwrite

FCA PRA

(for the purposes of ■ BIPRU 7 (Market risk)) to undertake a firm commitment to buy a specified quantity of new *securities* on a given date and at a given price if no other has purchased or acquired them; and so that:

- (a) new is defined in BIPRU 7.8.12R (New securities);
- (b) a *firm* still underwrites *securities* at a time before the exact quantity of *securities* being underwritten or their price has been determined if it is committed at that time to underwrite them when the quantity and price is fixed;
- (c) (in the case of provisions of the *Handbook* that distinguish between *underwriting* and sub-*underwriting*) *underwriting* does not include sub-*underwriting*; and
- (d) (in any other case) *underwriting* includes sub-*underwriting*.

underwriting agent

FCA PRA

a *firm* permitted by the *Council* to act as an underwriting agent at Lloyd's.

underwriting capacity of a Lloyd's syndicate

FCA PRA

the *investment*, specified in article 86(1) of the *Regulated Activities Order*, which is the underwriting capacity of a *syndicate*.

underwriting member

FCA PRA

a *person* admitted to the *Society* as an underwriting member.

unearned premium

FCA PRA

the amount set aside by a *firm* at the end of its *financial year* out of *premiums* in respect of risks to be borne by the *firm* after the end of the *financial year* under *contracts of insurance* entered into before the end of that year.

Unfair Terms Regulations

FCA PRA

the Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended by SI 2001/1186 and SI 2001/3649.

UNFCOG

FCA PRA

the Unfair Contract Terms Regulatory Guide.

unfunded credit protection

FCA

(1) (in *BIPRU* and in accordance with Article 4(32) of the *Banking Consolidation Directive* (Definitions)) a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an undertaking derives from the *undertaking* of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified events.

(2) (in *IFPRU*) has the meaning in article 4(1)(59) of the *EU CRR*.

unit

FCA PRA

(1) (in relation to a *collective investment scheme*) the investment, specified in article 81 of the *Regulated Activities Order* (Units in a collective investment scheme) and defined in section 237(2) of the *Act* (Other definitions)), which is the right or interest (however described) of the *participants* in a *collective investment scheme*; this includes:

(a) (in relation to an *AUT*) a unit representing the rights or interests of the *unitholders* in the *AUT*;

(aa) (in relation to an *ACS*) a unit representing the rights or interests of the *unitholders* in the *ACS*; and

(b) (in relation to an *ICVC*) a *share* in the *ICVC*.; and

(2) (in relation to an *alternative investment fund*) the right or interest (however described) of an investor in an *alternative investment fund*.

unit trust scheme

FCA PRA

(as defined in section 237(1) of the *Act* (Other definitions)) a *collective investment scheme* under which the property in question is held on trust for the *participants*, except that it does not include an *authorised contractual scheme*.

United Kingdom

FCA PRA

England and Wales, Scotland and Northern Ireland (but not the Channel Islands or the Isle of Man).

unitholder

FCA PRA

(a) (in relation to an *ICVC*, *ACS* or an *AUT* as appropriate, and subject to ■ COLL 4.4.4 R (Special meaning of unitholder in ■ COLL 4.4)):

(i) (in relation a *unit* which is represented by a *bearer certificate*) the *person* who holds that certificate; or(ii) (in relation to a *unit* that is not represented by a *bearer certificate*) the *person* whose name is entered on the *register* in relation to that *unit*; or

(b) (in relation to a *unit* in *collective investment scheme* not within (a)):

(i) the holder of the *bearer certificate* representing that *unit*; or

(ii) the *person* who entered on the *register* of the *scheme* as the holder of that *unit*.

unitisation

FCA

arrangements for a newly formed *AUT* or *ACS* under which:

(a) the whole or part of the property of a *body corporate* (or a *collective investment scheme*) becomes the first *scheme property* of the *AUT* or *ACS*; and

(b) the *holders* of:

(i) *shares* in the *body corporate* being wound up; or

(ii) *units* in the *collective investment scheme*, the property of which is being transferred;

become the first *participants* in the *AUT* or *ACS*.

units of a collective investment scheme

FCA PRA

(in *PR*) (as defined in Article 2.1(p) of the *prospectus directive*) securities issued by a collective investment undertaking as representing the rights of the participants in such an undertaking over its assets.

unpaid initial fund

FCA PRA

part of the *initial fund* of a *mutual* which the *mutual* is prevented from including in its *tier one capital resources* as *permanent share capital* by reason of GENPRU 2.2.64R because it is not fully paid.

unrated position

FCA PRA

(for the purposes of BIPRU 9 (Securitisation), in accordance with Part 1 of Annex IX of the *Banking Consolidation Directive* (Securitisation definitions) and in relation to a *securitisation position*) describes a *securitisation position* which does not have an eligible credit assessment by an *eligible ECAI*.

unrecognised scheme

FCA

(in *LR*) a *collective investment scheme* which is neither a *recognised scheme* nor a scheme that is constituted as an *authorised unit trust scheme* or *authorised contractual scheme*.

unregulated activity

FCA PRA

an activity which is not a *regulated activity*.

unregulated collective investment scheme

FCA PRA

a *collective investment scheme* which is not a *regulated collective investment scheme*.

unsecured debt

FCA PRA

debt that does not fall within the definition of *secured debt*.

unsecured lending

FCA PRA

lending where the *mortgage lender* does not take a mortgage or other form of security in respect of the credit provided to the *customer*.

<p><i>unsolicited real time financial promotion</i></p> <p>FCA PRA</p>	<p>(in accordance with article 8 of the <i>Financial Promotion Order</i>) a <i>real time financial promotion</i> which is not a <i>solicited real time financial promotion</i>.</p>
<p><i>upper tier three capital</i></p> <p>FCA PRA</p>	<p>an item of capital that is specified in stage O of the <i>capital resources table</i> (Upper tier three).</p>
<p><i>upper tier three capital resources</i></p> <p>FCA PRA</p>	<p>the sum calculated at stage O of the <i>capital resources table</i> (Upper tier three).</p>
<p><i>upper tier three instrument</i></p> <p>FCA PRA</p>	<p>an item of capital that meets the conditions in GENPRU 2.2.242R (Tier three capital: upper tier three capital resources) and is eligible to form part of a <i>firm's upper tier three capital resources</i>.</p>
<p><i>upper tier two capital</i></p> <p>FCA PRA</p>	<p>(1) [deleted]</p> <p>(2) (in <i>BIPRU</i>, <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stage G of the <i>capital resources table</i> (Upper tier two capital) .</p>
<p><i>upper tier two capital resources</i></p> <p>FCA PRA</p>	<p>the sum calculated at stage G of the calculation in the <i>capital resources table</i> (Upper tier two capital) .</p>
<p><i>upper tier two instrument</i></p> <p>FCA PRA</p>	<p>a <i>capital instrument</i> that meets the conditions in ■ GENPRU 2.2.177 R (Upper tier two capital: General) and is eligible to form part of a <i>firm's upper tier two capital resources</i>.</p>
<p>UPRU</p> <p>FCA PRA</p>	<p>the Prudential sourcebook for UCITS Firms.</p>

<p><i>valuation point</i> FCA PRA</p>	<p>(in COLL) a <i>valuation point</i> fixed by the <i>authorised fund manager</i> for the purpose of ■ COLL 6.3.4 R (Valuation points) or ■ COLL 8.5.9 R (Valuation, pricing and dealing) .</p>
<p><i>value at risk</i> FCA</p>	<p>(in relation to risk modelling or estimation for the purposes of BIPRU) the measure of risk described in ■ BIPRU 7.10.146 R (Requirement to use value at risk methodology).</p>
<p><i>VaR</i> FCA PRA</p>	<p><i>value at risk</i></p>
<p><i>VaR measure</i> FCA</p>	<p>(in BIPRU) an estimate by a <i>VaR model</i> of the worst expected loss on a portfolio resulting from market movements over a period of time with a given confidence level.</p>
<p><i>VaR model</i> FCA PRA</p>	<p>a value at risk model as described in BIPRU 7.10 (Use of a Value at Risk Model).</p>
<p><i>VaR model approach</i> FCA PRA</p>	<p>one of the following:</p> <ul style="list-style-type: none"> (a) the approach to calculating part of the <i>market risk capital requirement</i> set out in BIPRU 7.10 (Use of a value at risk model); (b) (where the approach in (a) is being applied on a consolidated basis) the method in (a) as applied on a consolidated basis in accordance with BIPRU 8 (Group risk - consolidation); or (c) when the reference is to the rules of or administered by a <i>regulatory body</i> other than the <i>appropriate regulator</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<p><i>VaR model permission</i> FCA PRA</p>	<p>(A) In the PRA Handbook: an <i>Article 129 implementing measure</i>, a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or an <i>institution</i> to use the <i>VaR model approach</i> on a solo basis or, if the context requires, a consolidated basis.</p> <p>(B) In the FCA Handbook: an <i>Article 129 implementing measure</i>, a <i>requirement</i> or a <i>waiver</i> that requires a <i>BIPRU firm</i> or a <i>CAD investment firm</i> to use the <i>VaR model approach</i> on a solo basis or, if the context requires, a consolidated basis.</p>
<p><i>VaR number</i> FCA PRA</p>	<p>has the meaning in BIPRU 7.10.115R (Capital calculations: General) which in summary is (in relation to a <i>business day</i> and a <i>VaR model</i>) the <i>VaR measure</i>, in respect of the previous <i>business day</i>'s close-of-business <i>positions</i> in products coming within the scope of the <i>VaR model permission</i>, calculated by the <i>VaR model</i> and in accordance with BIPRU 7.10 (Use of a Value at Risk Model) and any methodology set out in the <i>VaR model permission</i>.</p>
<p><i>VaR specific risk minimum requirements</i> FCA PRA</p>	<p>BIPRU 7.10.46R to BIPRU 7.10.52R (Model standards: Risk factors: Specific risk) and BIPRU 7.10.107R (Backtesting: Specific risk backtesting).</p>

vehicle

FCA PRA

any motor vehicle intended for travel on land and propelled by mechanical power, but not running on rails, and any trailer whether or not coupled.

[Note: article 1(1) of Council Directive 72/166/EEC (First Motor Insurance Directive)]

*vendor
consideration
placing*

FCA PRA

(in LR) a marketing, by or on behalf of vendors, of *securities* that have been allotted as consideration for an acquisition.

*venture capital
business*

FCA PRA

the business of carrying on any of:

(a) investing in, *advising on investments* which are, *managing investments* which are, *arranging* (bringing about) *transactions* in, or *making arrangements with a view to transactions in venture capital investments*;

(b) *advising on investments* or *managing investments* in relation to portfolios, or *establishing, operating or winding up collective investment schemes*, where the portfolios or *collective investment schemes* (apart from funds awaiting investment) invest only in *venture capital investments*;

(c) any *custody* activities provided in connection with the activities in (a) and (b);

(d) any related *ancillary activities*.

*venture capital
contact*

FCA PRA

(when a *firm* carries on *regulated activities* with or for a *person* in the course of or as a result of carrying on *venture capital business*) that *person* in connection with that *regulated activity* if:

(a) the *firm* does not behave in a way towards that *person* which might reasonably be expected to lead that *person* to believe that he is being treated as a *client*; and

(b) the *firm* clearly indicates to that *person* that the *firm*:

(i) is not acting for him; and

(ii) will not be responsible to him for providing protections afforded to *clients* of the *firm* or be advising him on the relevant transaction.

*venture capital
firm*

FCA PRA

a *firm* whose *permission* includes a *requirement* that it must not conduct *designated investment business* other than *venture capital business*.

*venture capital
investment*

FCA PRA

a *designated investment* which, at the time the investment is made, is:

(a) in a new or developing *company* or venture; or

(b) in a management buy-out or buy-in; or

(c) made as a means of financing the investee *company* or venture and accompanied by a right of consultation, or rights to information, or board representation, or management rights; or

(d) acquired with a view to, or in order to, facilitate a transaction falling within (a) to (c).

*venture capital
trust*

FCA PRA

(in LR) a *company* which is, or which is seeking to become, approved as a venture capital trust under section 842AA of the Income and Corporation Taxes Act 1988.

verified

FCA PRA

(in *IPRU(INV)* 13) where interim net profits are to be included in a *firm's* capital resources, checked by an external auditor who has undertaken at least to:

- (a) satisfy himself that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records;
- (b) review the accounting policies used in calculating the interim profits so as to obtain comfort that they are consistent with those normally adopted by the *firm* in drawing up its *annual financial statements* and are in accordance with the accounting principles set out in *IPRU(INV)* 13;
- (c) perform analytical procedures on the result to date, including comparisons of actual performance to date with budget and with the results of prior period(s);
- (d) discuss with management the overall performance and financial *position* of the *firm*;
- (e) obtain adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities and provisioning for bad and doubtful debts have been properly taken into account in arriving at the interim profits; and
- (f) follow up problem areas of which he is already aware in the course of auditing the *firm's* financial statements, a copy of whose report asserting that the interim net profits are reasonably stated has been submitted to the *FCA* (although this does not apply to *exempt CAD firms*).

version 1 credit union

FCA PRA

a *credit union* whose *Part 4A permission* includes a *requirement* (whether for all or for particular purposes) that it must not lend more than £15,000, or such lesser amount as may be specified, in excess of a member's shareholding;

in this definition a "member's shareholding" means any shares held by a member of the *credit union*

in accordance with section 5 and 7 of the Credit Unions Act 1979 or articles 14 and 23 of the Credit Unions (Northern Ireland) Order 1985 (as appropriate).

version 2 credit union

FCA PRA

a *credit union* which is not a *version 1 credit union*.

VJ participant

FCA PRA

a *person* subject to the *Voluntary Jurisdiction* by contract.

volatility risk

FCA PRA

the potential loss due to fluctuations in implied *option* volatilities.

Voluntary Jurisdiction

FCA PRA

the jurisdiction of the *Financial Ombudsman Service* in which *persons* (whether *authorised* or *unauthorised*) participate by contract.

voting power

FCA PRA

(in *SUP* 11 (Controllers and close links) and *SUP* 16 (Reporting requirements) (in accordance with section 422 of the *Act*):

- (a) includes, in relation to a *person* ("H"):
 - (i) voting power held by a third party with whom H has concluded an agreement, which obliges H and the third party to adopt, by concerted exercise of the voting power they hold, a lasting common policy towards the management of the *undertaking* in question;

- (ii) voting power held by a third party under an agreement concluded with H providing for the temporary transfer for consideration of the voting power in question;
 - (iii) voting power attaching to *shares* which are lodged as collateral with H, provided that H controls the voting power and declares an intention to exercise it;
 - (iv) voting power attaching to *shares* in which H has a life interest;
 - (v) voting power which is held, or may be exercised within the meaning of subparagraphs (i) to (iv), by a subsidiary *undertaking* of H;
 - (vi) voting power attaching to *shares* deposited with H which H has discretion to exercise in the absence of specific instructions from the shareholders;
 - (vii) voting power held in the name of a third party on behalf of H;
 - (viii) voting power which H may exercise as a proxy where H has discretion about the exercise of the voting power in the absence of specific instructions from the shareholders; and
- (b) in relation to an *undertaking* which does not have general meetings at which matters are decided by the exercise of voting rights, the right under the constitution of the *undertaking* to direct the overall policy of the *undertaking* or alter the terms of its constitution.

Principles for Businesses

negative effect on confidence in the *UK financial system*. In considering whether to take regulatory action under these *Principles* in relation to activities carried on outside the *United Kingdom*, the *appropriate regulator* will take into account the standards expected in the market in which the *firm* is operating. *Principle 11* (Relations with regulators) applies to world-wide activities; in considering whether to take regulatory action under *Principle 11* in relation to cooperation with an overseas regulator, the *appropriate regulator* will have regard to the extent of, and limits to, the duties owed by the *firm* to that regulator. (*Principle 4* (Financial prudence) also applies to world-wide activities.)

1.1.6A

FCA PRA

G

■ PRIN 4 (Principles : MiFID Business) provides *guidance* on the application of the *Principles* to *MiFID business*.

Consequences of breaching the Principles

1.1.7

FCA PRA

G

Breaching a *Principle* makes a *firm* liable to disciplinary sanctions. In determining whether a *Principle* has been breached it is necessary to look to the standard of conduct required by the *Principle* in question. Under each of the *Principles* the onus will be on the *appropriate regulator* to show that a *firm* has been at fault in some way. What constitutes "fault" varies between different *Principles*. Under *Principle 1* (Integrity), for example, the *appropriate regulator* would need to demonstrate a lack of integrity in the conduct of a *firm's* business. Under *Principle 2* (Skill, care and diligence) a *firm* would be in breach if it was shown to have failed to act with due skill, care and diligence in the conduct of its business. Similarly, under *Principle 3* (Management and control) a *firm* would not be in breach simply because it failed to control or prevent unforeseeable risks; but a breach would occur if the *firm* had failed to take reasonable care to organise and control its affairs responsibly or effectively.

1.1.8

FCA

G

The *Principles* are also relevant to the *FCA's* powers of information-gathering, to vary a *firm's Part 4A permission*, and of investigation and intervention, and provide a basis on which the *FCA* may apply to a court for an *injunction* or restitution order or require a *firm* to make restitution. However, the *Principles* do not give rise to actions for damages by a *private person* (see ■ PRIN 3.4.4 R).

1.1.8A

PRA

G

The *Principles* are also relevant to the *PRA's* powers of information-gathering, to vary a *firm's Part 4A permission*, and of investigation and intervention, and provide a basis on which the *PRA* may apply to a court for an *injunction* or restitution order or require a *firm* to make restitution.

1.1.9

FCA PRA

G

Some of the other *rules* and *guidance* in the *Handbook* deal with the bearing of the *Principles* upon particular circumstances. However, since the *Principles* are also designed as a general statement of regulatory requirements applicable in new or unforeseen situations, and in situations in which there is no need for *guidance*, the *appropriate regulator's* other *rules* and *guidance* should not be viewed as exhausting the implications of the *Principles* themselves.

Responsibilities of providers and distributors under the Principles

1.1.10

FCA

G

RPPD contains *guidance* on the responsibilities of providers and distributors for the fair treatment of *customers* under the *Principles*.

1.2 Clients and the Principles

Characteristics of the client

1.2.1

FCA PRA

G

Principles 6 (Customers' interests), *7* (Communications with clients), *8* (Conflicts of interest), *9* (Customers: relationships of trust) and *10* (Clients' assets) impose requirements on *firms* expressly in relation to their *clients* or *customers*. These requirements depend, in part, on the characteristics of the *client* or *customer* concerned. This is because what is "due regard" (in *Principles 6* and *7*), "fairly" (in *Principles 6* and *8*), "clear, fair and not misleading" (in *Principle 7*), "reasonable care" (in *Principle 9*) or "adequate" (in *Principle 10*) will, of course, depend on those characteristics. For example, the information needs of a general insurance broker will be different from those of a retail general insurance *policyholder*.

Approach to client categorisation

1.2.2

FCA

G

Principles 6, *8* and *9* and parts of *Principle 7*, as qualified by ■ PRIN 3.4.1 R, apply only in relation to *customers* (that is, *clients* which are not *eligible counterparties*). The approach that a *firm* needs to take regarding categorisation of *clients* into *customers* and *eligible counterparties* will depend on whether the *firm* is carrying on *designated investment business* or other activities, as described in ■ PRIN 1.2.3 G .

1.2.3

FCA

G

- (1) In relation to the carrying on of *designated investment business*, a *firm's* categorisation of a *client* under the COBS *client* categorisation chapter (■ COBS 3) will be applicable for the purposes of *Principles 6*, *7*, *8* and *9*.
- (2) The *person* to whom a *firm* gives *basic advice* on a *stakeholder product* will be a *retail client* for all purposes, including the purposes of *Principles 6*, *7*, *8* and *9*.
- (3) In relation to carrying on activities other than *designated investment business* (for example, *general insurance business* or *accepting deposits*) the *firm* may choose to comply with *Principles 6*, *7*, *8* and *9* as if all its *clients* were *customers*. Alternatively, it may choose to distinguish between *eligible counterparties* and *customers* in complying with those *Principles*. If it chooses to make such a distinction, it must comply with ■ PRIN 1 Annex 1 R in determining whether that *client* is an *eligible counterparty* (see ■ PRIN 3.4.2 R). In doing so, the requirements in SYSC will apply, including the requirement to make and retain adequate records.
- (4) In relation to carrying on activities that fall within both (1) and (3) (for example, mixed *designated investment business* and *accepting deposits*), a

Chapter 3

Rules about application

3.1 Who?

3.1.1

FCA PRA

R

PRIN applies to every *firm*, except that:

- (1) for an *incoming EEA firm* or an *incoming Treaty firm*, the *Principles* apply only in so far as responsibility for the matter in question is not reserved by an *EU instrument* to the *firm's Home State regulator*;
- (2) for an *incoming EEA firm* which is a *CRD credit institution* without a *top-up permission*, *Principle 4* applies only in relation to the liquidity of a *branch* established in the *United Kingdom*;
- (3) for an *incoming EEA firm* which has *permission* only for *cross border services* and which does not carry on *regulated activities* in the *United Kingdom*, the *Principles* do not apply;
- (4) for a *UCITS qualifier* and *AIFM qualifier*, only *Principles 1, 2, 3, 7 and 9* apply, and only with respect to the activities in ■ PRIN 3.2.2 R (Communication and approval of financial promotions) ;
- (5) *PRIN* does not apply to an *incoming ECA provider* acting as such ; and
- (6) *PRIN* does not apply to a *firm* in relation to its carrying on of *auction regulation bidding*.

3.1.2

FCA PRA

G

■ COBS 1 Annex 1 and the territorial *guidance* in ■ PERG 13.6 all contain *guidance* that is relevant to the reservation of responsibility to a *Home State regulator* referred to in ■ PRIN 3.1.1 R (1).

3.1.3

FCA PRA

G

■ PRIN 3.1.1 R (2) reflects article 156 of the *CRD* which provides that the *Host State regulator* retains responsibility in cooperation with the *Home State regulator* for the supervision of the liquidity of a *branch* of a *CRD credit institution*.

Senior Management Arrangements, Systems and Controls

Part 2		Application of the common platform requirements (SYSC 4 to 10)
2.15	R	The <i>common platform requirements</i> , except the <i>common platform record-keeping requirements</i> , apply to a <i>firm</i> in relation to activities carried on by it from an establishment in the <i>United Kingdom</i> .
[FCA]		
[PRA]		
2.16	R	The <i>common platform requirements</i> , except the <i>common platform requirements on financial crime</i> and the <i>common platform record-keeping requirements</i> , apply to a <i>firm</i> that is not a <i>UK UCITS management company</i> in relation to <i>passport activities</i> carried on by it from a <i>branch</i> in another <i>EEA State</i> .
[FCA]		
[PRA]		
2.16A	R	(1) The <i>common platform requirements</i> referred to in Column A+ of Part 3 (below) apply to a <i>UK UCITS management company</i> in relation to <i>passport activities</i> carried on by it from a <i>branch</i> in another <i>EEA State</i> .
[FCA]		
		(2) Any other <i>common platform requirement</i> applies to a <i>UK UCITS management company</i> in relation to <i>passport activities</i> carried on by it from a <i>branch</i> in another <i>EEA State</i> to the extent that the requirement addresses matters within the scope of article 12 of the <i>UCITS Directive</i> .
2.16B	G	The matters referred to in paragraph 2.16AR of this Annex may also be subject to the rules of the <i>UK UCITS management company's Host State regulator</i> .
[FCA]		
2.16C	R	The <i>common platform requirements</i> apply to a <i>full-scope UK AIFM</i> in respect of its management of an <i>AIF</i> where carried on from an establishment in the <i>UK</i> .
[FCA]		
2.16D	R	The <i>common platform requirements</i> , except those which are <i>AIFMD host state requirements</i> , apply to a <i>full-scope UK AIFM</i> in respect of its management of an <i>EEA AIF</i> from a <i>branch</i> in another <i>EEA State</i> .
[FCA]		
2.16E	R	The <i>common platform requirements</i> apply to an <i>AIFM investment firm</i> which is a <i>full-scope UK AIFM</i> in respect of its <i>MiFID business</i> where carried on from an establishment in the <i>UK</i> .
[FCA]		
2.16F	R	The <i>common platform requirements</i> , except the <i>common platform requirements on financial crime</i> and the <i>common platform record-keeping requirements</i> , apply to an <i>AIFM investment firm</i> in respect of its <i>MiFID business</i> where carried on from a <i>branch</i> in another <i>EEA State</i> .
[FCA]		
2.17	R	The <i>common platform record-keeping requirements</i> apply to activities carried on by a <i>firm</i> from an establishment maintained in the <i>United Kingdom</i> , unless another applicable <i>rule</i> which is relevant to the activity has a wider territorial scope, in which case the <i>common platform record-keeping requirements</i> apply with that wider scope in relation to the activity described in that <i>rule</i> .
[FCA]		
[PRA]		
		[Note: article 13(9) of <i>MiFID</i>]
2.18	R	The <i>common platform organisational requirements</i> , except the <i>common platform requirements on financial crime</i> , also apply in a <i>prudential context</i>

Part 2 Application of the common platform requirements (SYSC 4 to 10)

[FCA]
[PRA] to a *UK domestic firm* and to an *overseas firm* (other than an *incoming EEA firm* or an *Incoming Treaty firm*) with respect to activities wherever they are carried on.

Actions for damages

2.19 R A contravention of a rule in the *common platform requirements* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those rules is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

[FCA]

Part 3 Tables summarising the application of the common platform requirements to different types of firm

3.1 G The *common platform requirements* apply in the following four ways (subject to the provisions in Part 2 of this Annex).

[FCA]
[PRA]

3.2 G For a *common platform firm*, they apply in accordance with Column A in the table below.

[FCA]
[PRA]

3.2A G For a *management company*, they apply in accordance with Column A+ in the table below.

[FCA]

3.2B R For a *full-scope UK AIFM* of an *authorised AIF*, they apply in line with Column A++ in the table below.

[FCA]

[PRA]

3.3 G For all other *firms* apart from *insurers, managing agents, the Society* and *full-scope UK AIFMs* of *unauthorised AIFs*, they apply in accordance with Column B in the table below. For these *firms*, where a rule is shown modified in Column B as 'Guidance', it should be read as *guidance* (as if "should" appeared in that rule instead of "must") and should be applied in a proportionate manner, taking into account the nature, scale and complexity of the firm's business.

[FCA]
[PRA]

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.1.1 R	Rule	Rule	Rule	Rule
[FCA]				
[PRA]				
SYSC 4.1.1A R	Not applicable	Not applicable	Rule	Not applicable
[FCA]				
[PRA]				
SYSC 4.1.1B R	Not applicable	Not applicable	Rule	Not applicable
[FCA]				
SYSC 4.1.1C R	Rule for a <i>BIPRU firm</i>	Rule for a <i>BIPRU firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
[FCA]				
SYSC 4.1.2 R	Rule	Rule for a <i>UCITS investment firm</i> ; otherwise guidance	Rule	Guidance
[FCA]				
[PRA]				
SYSC 4.1.2A G	Not applicable	Guidance for a <i>UCITS firm</i> ; not applicable to a <i>UCITS investment firm</i>	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 4.1.2AA R	Rule for a <i>BIPRU firm</i>	Rule for a <i>BIPRU firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
[FCA]				
SYSC 4.1.2B R	Not applicable	Rule	Rule	Not applicable
[FCA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.1.2C R	Not applicable		Rule	Not applicable
[FCA]				
SYSC 4.1.2D R	Not applicable	Not applicable	Rule	Not applicable
[FCA]				
[PRA]				
SYSC 4.1.3 R	[deleted]	[deleted]	[deleted]	[deleted]
[FCA]				
[PRA]				
SYSC 4.1.4 R	Rule	Rule	Not applicable	(1) and (3) Guidance (2) Rule
[FCA] [PRA]				
SYSC 4.1.4A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 4.1.5 R	Rule applies only to a <i>MiFID investment firm</i>	Rule	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.1.6 R	Rule	Rule for a <i>UCITS investment firm</i> ; otherwise guidance	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 4.1.7 R	Rule	Rule	Not applicable	Guidance
[FCA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
[PRA]				
SYSC 4.1.7A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 4.1.8 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 4.1.9 R	Rule	Rule	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.1.10 R	Rule	Rule	Not applicable	Guidance - except reference to SYSC 4.1.9 R which does not apply to these <i>firms</i>
[FCA]				
[PRA]				
SYSC 4.1.10A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 4.1.11 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 4.1.13 G	Guidance	Guidance	Guidance	Guidance
[FCA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
[PRA]				
SYSC 4.1.14 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 4.2.1 R	Rule	Rule	Rule	- UK branch of <i>non-EEA bank</i> - rule applies.
[FCA]				
[PRA]				- Other <i>firms</i> - Guidance
SYSC 4.2.1A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 4.2.2 R	Rule	Rule	Rule	- UK branch of a <i>non-EEA bank</i> - Rule applies
[FCA]				
[PRA]				- Other <i>firms</i> - this provision does not apply
SYSC 4.2.3 G - 4.2.5 G	Guidance	Guidance	Guidance	- UK branch of a <i>non-EEA bank</i> - Guidance
[FCA]				
[PRA]				- Other <i>firms</i> - these provisions do not apply

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.2.6 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	- UK branch of a <i>non-EEA bank</i> - Rule applies - Other <i>firms</i> - this provision does not apply
SYSC 4.2.7 R [FCA] [PRA]	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.2.8 G [FCA] [PRA]	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.2.9G [FCA] [PRA]	Not applicable	Not applicable	Guidance	Not applicable
SYSC 4.3.1 R [FCA] [PRA]	Rule	Rule	Not applicable	Rule (but not applicable to <i>incoming EEA firms, incoming Treaty firms</i> or <i>UCITS qualifiers</i>)
SYSC 4.3.2 R [FCA] [PRA]	Rule	Rule	Not applicable	Guidance (but not applicable to <i>incoming EEA firms, incoming Treaty firms</i> or <i>UCITS qualifiers</i>)

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.3.2A G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	Guidance (but not applicable to <i>incoming EEA firms, incoming Treaty firms or UCITS qualifiers</i>)
SYSC 4.3.3 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance (but not applicable to <i>incoming EEA firms, incoming Treaty firms or UCITS qualifiers</i>)
SYSC 4.3A.1 R [FCA]	Rule applicable to <i>CRR firms</i>	Rule for a <i>CRR firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
SYSC 4.3A.1 R [FCA] [PRA]	Rule applicable to <i>CRR firms</i>	Rule for a <i>CRR firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
SYSC 4.3A.2 R [FCA] [PRA]	Rule applicable to <i>CRR firms</i>	Rule for a <i>CRR firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
SYSC 4.3A.3 R [FCA] [PRA]	Rule applicable to <i>CRR firms</i>	Rule for a <i>CRR firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
SYSC 4.3A.4 R [FCA]	Rule applicable to <i>CRR firms</i>	Rule for a <i>CRR firm</i> that is a	Not applicable	Not applicable

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
[PRA]		<i>UCITS investment firm</i>		
SYSC 4.3A.5 R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.3A.7 R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.3A.8 R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.3A.9 R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.3A.10 R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 4.3A.11 R	Rule applicable to CRR firms	Rule for a CRR firm that is a UCITS investment firm	Not applicable	Not applicable
[FCA]				
[PRA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.4.1 R	Not applicable	Not applicable	Not applicable	<p>Rule applies this section only to:</p> <p>(1) an <i>authorised professional firm</i> in respect of its <i>non-mainstream regulated activities</i> unless the <i>firm</i> is also conducting other <i>regulated activities</i> and has appointed <i>approved persons</i> to perform the <i>governing functions</i> with equivalent responsibilities for the <i>firm's non-mainstream regulated activities</i> and other <i>regulated activities</i>;</p> <p>2) activities carried on by a <i>firm</i> whose principal purpose is to carry on activities other than <i>regulated activities</i> and which is:</p> <p>(a) an <i>oil market participant</i>;</p>
[FCA]				
[PRA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	<p>Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs</p> <p>(b) a <i>service company</i>;</p> <p>(c) an <i>energy market participant</i>;</p> <p>(d) a wholly-owned subsidiary of:</p> <p>(i) a local authority;</p> <p>(ii) a registered social landlord;</p> <p>(e) a <i>firm with permission to carry on insurance mediation activity in relation to non-investment insurance contracts but no other regulated activity</i>;</p> <p>3) an <i>incoming Treaty firm, an incoming EEA firm and a UCITS qualifier, (but only SYSC 4.4.5 R (2) applies for these firms)</i>; and</p> <p>(4) a <i>sole trader, but only if he em-</i></p>

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 4	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.4.2 G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	<p>employs any <i>person</i> who is required to be approved under section 59 of the <i>Act</i> (Approval for particular arrangements).</p> <p>Guidance only applying to the <i>firms</i> specified in SYSC 4.4.1 R</p>
SYSC 4.4.3 R [FCA] [PRA]	Not applicable	Not applicable	Not applicable	<p>Rule only applying to the <i>firms</i> specified in SYSC 4.4.1 R</p>
SYSC 4.4.4 G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	<p>Guidance only applying to the <i>firms</i> specified in SYSC 4.4.1 R</p>
SYSC 4.4.5 R [FCA] [PRA]	Not applicable	Not applicable	Not applicable	<p>Rule only applying to the <i>firms</i> specified in SYSC 4.4.1 R</p>
SYSC 4.4.6 G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	<p>Guidance only applying to the <i>firms</i> specified in SYSC 4.4.1 R</p>

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 5	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 5.1.1 R	Rule	Rule	Not applicable	Rule
[FCA]				
[PRA]				
SYSC 5.1.2 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.3 G	Guidance	Guidance	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 5.1.4 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 5.1.4A G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.5 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.5A G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.6 R	Rule	Rule	Guidance	Guidance

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 5	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
[FCA]				
[PRA]				
SYSC 5.1.7 R	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.7A G	Not applicable	Not applicable to a <i>UCITS investment firm</i>; otherwise guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.8 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.9 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.10 G	Guidance	Guidance	Guidance, but not applicable for the segregation of risk management functions	Guidance
[FCA]				
[PRA]				
SYSC 5.1.11 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
[PRA]				
SYSC 5.1.12 R	Rule	Rule	Not applicable	Guidance

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 5	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents the Society, and full-scope UK AIFMs of unauthorised AIFs
[FCA]				
[PRA]				
SYSC 5.1.12A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 5.1.13 R	Rule	Rule	Not applicable	Rule
[FCA]				
[PRA]				
SYSC 5.1.14 R	Rule	Rule	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 5.1.15 G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 6	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs
SYSC 6.1.1 R [FCA] [PRA]	Rule	Rule	Rule but only regarding the obligation to establish, implement and maintain adequate policies and procedures for countering the risk that the <i>firm</i> (including its managers and employees) might be used to further <i>financial crime</i>	Rule
SYSC 6.1.1A G [FCA] [PRA]	Guidance	Guidance	Guidance	Guidance
SYSC 6.1.2 R [FCA] [PRA]	Rule	Rule	Not applicable	Guidance
SYSC 6.1.2A G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	Guidance
SYSC 6.1.3 R [FCA] [PRA]	Rule	Rule	Not applicable	- Guidance This provision shall be read with the following additional sentence at the start. "Depending on the nature,

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 6	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs
				scale and complexity of its business, it may be appropriate for a <i>firm</i> to have a separate compliance function. Where a <i>firm</i> has a separate compliance function, the <i>firm</i> should also take into account 6.1.3 R and 6.1.4 R as guidance."
SYSC 6.1.3A G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	Guidance
SYSC 6.1.4 R [FCA] [PRA]	Rule	Rule	Not applicable	(1) (3) and (4) Guidance (2) - Rule for <i>firms</i> which carry on <i>designated investment business</i> with or for <i>retail clients</i> or <i>professional clients</i> . - Guidance for all other <i>firms</i> .
SYSC 6.1.4A G [FCA] [PRA]	Not applicable	Not applicable	Rule	Guidance
SYSC 6.1.4BG [FCA]	Not applicable	Not applicable	Guidance	Not applicable
SYSC 6.1.4A R [FCA]	Not applicable	Not applicable	Not applicable	Rule for <i>firms</i> which carry on <i>designated invest-</i>

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 6	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs
SYSC 6.1.5 R			Not applicable	<i>ment business with or for retail clients or professional clients.</i> - Guidance
[FCA]				- " <i>investment services and activities</i> " shall be read as " <i>financial services and activities</i> "
[PRA]				
SYSC 6.1.6 R	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 6.1.7 R[FCA]	Rule	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	Guidance
SYSC 6.2.1 R	Rule	Rule	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 6.2.1A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA]				
[PRA]				
SYSC 6.2.2 G	Guidance	Guidance	Not applicable	Guidance
[FCA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 6	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs
[PRA]				
SYSC 6.3.1 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 6.3.2 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 6.3.3 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 6.3.4 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 6.3.5 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 6.3.6 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 6.3.7 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 6.3.8 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 6.3.9 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 6.3.10 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 6.3.11 G	Guidance	Guidance	Guidance	Guidance

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 6	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs

[FCA]

[PRA]

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 7	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs

SYSC 7.1.1 G **Guidance** **Guidance** **Not applicable** **Guidance**

[FCA] [PRA]

SYSC 7.1.2 R **Rule** **Rule for a *UCITS investment firm*; otherwise guidance** **Not applicable** **Guidance**

[FCA] [PRA]

SYSC 7.1.2A G **Not applicable** **Not applicable to a *UCITS investment firm*; otherwise guidance** **Not applicable** **Guidance**

[FCA] [PRA]

SYSC 7.1.2B G **Not applicable** **Guidance** **Not applicable** **Not applicable**

[FCA] [PRA]

SYSC 7.1.3 R **Rule** **Rule for a *UCITS investment firm*; otherwise guidance** **Not applicable** **Guidance**

[FCA] [PRA]

SYSC 7.1.4 R **Rule** **Rule for a *UCITS investment firm*; otherwise guidance** **Not applicable** **Guidance**

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 7	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.4A G	Not applicable	Rule for a <i>UCITS investment firm</i> ;	Not applicable	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.4B G	Not applicable	Rule for a <i>UCITS investment firm</i> ;	Not applicable	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.5 R	Rule	Rule for a <i>UCITS investment firm</i> ;	Not applicable	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.6 R	Rule	Rule for a <i>UCITS investment firm</i> ;	Not applicable	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.7 R	Rule	Rule for a <i>UCITS investment firm</i> ;	Not applicable	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.7A G	Not applicable	Rule for a <i>UCITS investment firm</i> ;	Not applicable	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.7B G	Guidance applies only to a <i>BIPRU firm</i>	Rule for a <i>UCITS investment firm</i> ;	Guidance	Guidance
[FCA] [PRA]		otherwise guidance		
SYSC 7.1.7BA G	Not applicable	Not applicable	Guidance	Not applicable
[FCA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 7	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 7.1.7BB G [FCA]	Guidance applies only to a <i>BIPRU firm</i>	Guidance applies only to a <i>BIPRU firm</i> that is a <i>UCITS investment firm</i>	Not applicable	Not applicable
SYSC 7.1.7C G [FCA] [PRA]	Guidance	Guidance	Guidance	Guidance
SYSC 7.1.8 G [FCA] [PRA]	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.9 R [FCA] [PRA]	Rule applies to a <i>BIPRU firm</i>	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.10 R [FCA] [PRA]	Rule applies to a <i>BIPRU firm</i>	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.11 R [FCA] [PRA]	Rule applies to a <i>BIPRU firm</i>	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.12 G [FCA] [PRA]	Guidance applies to a <i>BIPRU firm</i>	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.13 R - 7.1.16 R [FCA] [PRA]	Rule applies to a <i>BIPRU firm</i>	Rule for a <i>UCITS investment firm</i> ; otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.16A G	Guidance applies to a <i>BIPRU firm</i>	Guidance for a <i>UCITS investment</i>	Not applicable	Not applicable

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 7	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
[FCA]		<i>firm otherwise not applicable</i>		
SYSC 7.1.16B G	Guidance applies to a BIPRU firm	Guidance for a UCITS investment firm otherwise not applicable	Not applicable	Not applicable
[FCA]				
SYSC 7.1.16C R	Rule applies to a CRR firm	Not applicable	Not applicable	Not applicable
[FCA]				
SYSC 7.1.17 R	Rule applies to a CRR firm	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 7.1.18 R	Rule applies to a CRR firm	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable	Not applicable	Not applicable
[FCA]				
[PRA]				
SYSC 7.1.18A G	Guide applies to a CRR firm	Guidance for a UCITS investment firm that is a CRR firm, otherwise not applicable	Not applicable	Not applicable
[FCA]				
SYSC 7.1.18B R	Rule applies to a CRR firm	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable	Not applicable	Not applicable
[FCA]				
SYSC 7.1.19 R	Rule applies to a CRR firm	Rule for a UCITS investment firm that is a CRR firm, otherwise not applicable	Not applicable	Not applicable
[FCA]				
[PRA]				

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 7	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 7.1.20 R [FCA] [PRA]	Rule applies to a <i>CRR firm</i>	Rule for a <i>UCITS investment firm</i> that is a <i>CRR firm</i> , otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.21 R [FCA] [PRA]	Rule applies to a <i>CRR firm</i>	Rule for a <i>UCITS investment firm</i> that is a <i>CRR firm</i> , otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.22 R [FCA] [PRA]	Rule applies to a <i>CRR firm</i>	Rule for a <i>UCITS investment firm</i> that is a <i>CRR firm</i> , otherwise not applicable	Not applicable	Not applicable
Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 8	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 8.1.1 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i> ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.1A G [FCA] [PRA]	Not applicable	Not applicable to a <i>UCITS investment firm</i> ; otherwise guidance	Not applicable	Guidance

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 8	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 8.1.2 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance
SYSC 8.1.3 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance
SYSC 8.1.4 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.5 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.5A G [FCA] [PRA]	Not applicable	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.6 R [FCA] [PRA]	Rule	Rule	Not applicable	Rule
SYSC 8.1.7 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.8 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.9 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 8	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 8.1.10 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.11 R [FCA] [PRA]	Rule	Rule for a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.11A G [FCA] [PRA]	Not applicable	Not applicable to a <i>UCITS investment firm</i>; otherwise guidance	Not applicable	Guidance
SYSC 8.1.12 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance
SYSC 8.1.13 R [FCA]	Not applicable	Rule	Not applicable	Not applicable
SYSC 8.1.14 G [FCA]	Not applicable	Guidance	Not applicable	Not applicable
SYSC 8.2 [FCA]	<i>MiFID investment firms only</i>	<i>UCITS investment firms only</i>	Not applicable	Not applicable
SYSC 8.3 [FCA]	<i>MiFID investment firms only</i>	<i>UCITS investment firms only</i>	Not applicable	Not applicable

Provision	COLUMN A	COLUMN A+	COLUMN A++	COLUMN B
SYSC 9	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 9.1.1 R [FCA] [PRA]	Rule	Rule	Rule but only for the requirement to arrange for orderly records to be kept of its business and internal organisation which do not relate to portfolio transactions and subscription and redemptions orders	Rule
SYSC 9.1.2 R [FCA] [PRA]	Rule applies only in relation to <i>Mi-FID business</i>	Rule applies only in relation to <i>Mi-FID business</i> of a <i>UCITS investment firm</i>	Rule but only for records specified by the modified application of SYSC 9.1.1 R	Not applicable
SYSC 9.1.3 R [FCA] [PRA]	Rule applies only in relation to <i>Mi-FID business</i>	Rule applies only in relation to <i>Mi-FID business</i> of a <i>UCITS investment firm</i>	Not applicable	Not applicable
SYSC 9.1.4 G [FCA] [PRA]	Guidance	Guidance	Guidance	Guidance
SYSC 9.1.5 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance
SYSC 9.1.6 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance
SYSC 9.1.7 G [FCA] [PRA]	Guidance applies only in relation to <i>MiFID business</i>	Guidance applies only in relation to <i>MiFID business</i> of a <i>UCITS investment firm</i>	Not applicable	Not applicable

Provision	Column A	COLUMN A+	COLUMN A++	Column B
SYSC 10	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 10.1.1 R	Rule	Rule	Not applicable	Rule
[FCA] [PRA]				
SYSC 10.1.1AR[FCA]	Not applicable	Not applicable	Rule	Not applicable
SYSC 10.1.2 G	Guidance	Guidance	Not applicable	Guidance
[FCA] [PRA]				
SYSC 10.1.3 R	Rule	Rule	Not applicable	Rule
[FCA] [PRA]				
SYSC 10.1.4 R	Rule	Rule	Not applicable	Guidance - but applies as a rule in relation to the production or arrangement of investment research in accordance with COBS 12.2, or the production or dissemination of non-independent research in accordance with COBS 12.3
[FCA] [PRA]				
SYSC 10.1.4A G	Not applicable	Not applicable	Not applicable	Guidance
[FCA] [PRA]				
SYSC 10.1.5 G	Guidance	Guidance	Not applicable	Guidance
[FCA] [PRA]				
SYSC 10.1.6 R	Rule	Rule	Not applicable	Guidance - but applies as a rule in relation to the production or arrangement of in-
[FCA] [PRA]				

Provision	Column A	COLUMN A+	COLUMN A++	Column B
SYSC 10	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
				vestment research in accordance with COBS 12.2, or the production or dissemination of non-independent research in accordance with COBS 12.3
SYSC 10.1.6A G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	Guidance
SYSC 10.1.7 R [FCA] [PRA]	Rule	Rule	Not applicable	Rule
SYSC 10.1.8 R [FCA] [PRA]	Rule	Rule	Not applicable	Rule
SYSC 10.1.8A R [FCA] [PRA]	Rule	Rule	Not applicable	Rule
SYSC 10.1.9 G [FCA] [PRA]	Guidance	Guidance	Not applicable	Guidance
SYSC 10.1.10 R [FCA] [PRA]	Rule	Rule	Not applicable	Guidance - but applies as a rule in relation to the production or arrangement of investment research in accordance with COBS 12.2, or the production or dissemination of non-independent re-

Provision	Column A	COLUMN A+	COLUMN A++	Column B
SYSC 10	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 10.1.11 R [FCA] [PRA]	Rule	Rule	Not applicable	search in accordance with COBS 12.3 Guidance - but applies as a rule in relation to the production or arrangement of investment research in accordance with COBS 12.2, or the production or dissemination of non-independent research in accordance with COBS 12.3
SYSC 10.1.11A G [FCA] [PRA]	Not applicable	Not applicable	Not applicable	Guidance
SYSC 10.1.12 G - SYSC 10.1.15 G [FCA] [PRA]	Guidance	Guidance for SYSC 10.1.12 G; not applicable for SYSC 10.1.13 G - SYSC 10.1.15 G	Guidance for SYSC 10.1.12 G; not applicable for SYSC 10.1.13 G to SYSC 10.1.15 G	Guidance
SYSC 10.1.16 R [FCA]	Not applicable	Not applicable	Not applicable	Rule
SYSC 10.1.17 R [FCA]	Not applicable	Rule	Not applicable	Not applicable
SYSC 10.1.18 G [FCA]	Not applicable	Guidance	Not applicable	Not applicable
SYSC 10.1.19 R	Not applicable	Rule	Not applicable	Not applicable

Provision	Column A	COLUMN A+	COLUMN A++	Column B
SYSC 10	Application to a common platform firm other than to a UCITS investment firm	Application to a UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
[FCA]				
SYSC 10.1.20 R	Not applicable	Rule	Not applicable	Not applicable
[FCA]				
SYSC 10.1.21 R	Not applicable	Rule	Not applicable	Not applicable
[FCA]				
SYSC 10.1.22 R	Not applicable	Rule	Rule	Not applicable
[FCA] [PRA]				
SYSC 10.1.23 R to SYSC 10.1.26 R	Not applicable	Not applicable	Rule	Not applicable
[FCA] [PRA]				
SYSC 10.2.1 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 10.2.2 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 10.2.3 G	Guidance	Guidance	Guidance	Guidance
[FCA]				
SYSC 10.2.4 R	Rule	Rule	Rule	Rule
[FCA]				
SYSC 10.2.5 G	Guidance	Guidance	Guidance	Guidance
[FCA]				

Chapter 4

General organisational requirements



4.1 General requirements

[Note: ESMA has also issued guidelines under article 16(3) of the ESMA Regulation covering certain aspects of the MiFID compliance function requirements. See <http://www.esma.europa.eu/content/Guidelines-certain-aspects-MiFID-compliance-function-requirements>.]

4.1.1 **R**
FCA PRA

(1) A *firm* must have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.

(2) [deleted]

[Note: article 74 (1) of *CRD* , article 13(5) second paragraph of *MiFID* , article 12(1)(a) of the *UCITS Directive*, and article 18(1) of *AIFMD*]

4.1.1A **R**
FCA

A *full-scope UK AIFM* must comply with the *AIFM Remuneration Code*.

[Note: article 13(1) of *AIFMD*]

4.1.1B **R**
FCA

A *full-scope UK AIFM* must, in particular:

- (1) have rules for personal transactions by its *employees* or for the holding or management of investments it invests on its own account;
- (2) ensure that each transaction involving the *AIFs* may be reconstructed according to its origin, the parties to it, its nature, and the time and place at which it was effected; and
- (3) ensure that the assets of the *AIFs* managed by the *AIFM* are invested in accordance with the *instrument constituting the fund* and the legal provisions in force.

[Note: article 18(1) second paragraph of *AIFMD*]

- 4.1.1C** **R** A *BIPRU firm* and a *third country BIPRU firm* must comply with the *BIPRU Remuneration Code*.
FCA
- 4.1.2** **R** For a *common platform firm*, the arrangements, processes and mechanisms referred to in **■ SYSC 4.1.1 R** must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm's* activities and must take into account the specific technical criteria described in **■ SYSC 4.1.7 R**, **■ SYSC 5.1.7 R**, **■ SYSC 7** and (for a *firm* to which **■ SYSC 19A** applies) **■ SYSC 19A**.
FCA PRA
- [Note: article 74 (2) of *CRD*]
- 4.1.2A** **G** Other *firms* should take account of the comprehensiveness and proportionality *rule* (**■ SYSC 4.1.2 R**) as if it were *guidance* (and as if "should" appeared in that rule instead of "must") as explained in **■ SYSC 1 Annex 1.3.3 G** .
FCA PRA
- 4.1.2AA** **R** Where **■ SYSC 4.1.2 R** applies to a *BIPRU firm*, it must take into account the specific technical criteria described in **■ SYSC 19C**.
FCA
- 4.1.2B** **R** For a *management company* or a *full-scope UK AIFM* , the arrangements, processes and mechanisms referred to in **■ SYSC 4.1.1 R** and **■ SYSC 4.1.1A R** must also take account of the *UCITS schemes* and *EEA UCITS schemes* managed by the *management company* or the *AIFs* managed by the *full-scope UK AIFM*.
FCA
- [Note: article 12(1) second paragraph of the *UCITS Directive* and article 18(1) second paragraph of *AIFMD*]
- Resources for management companies and AIFMs**
- 4.1.2C** **R** A *management company*, a *full-scope UK AIFM* and an *incoming EEA AIFM branch* must have, and employ effectively, the resources and procedures that are necessary for the proper performance of its business activities.
FCA
- [Note: articles 12(1)(a) and 14(1)(c) of the *UCITS Directive* and article 12(1)(c) of *AIFMD*]
- 4.1.2D** **R** A *full-scope UK AIFM* must use, at all times, adequate and appropriate human and technical resources that are necessary for the proper management of *AIFs*.
FCA
- [Note: article 18(1) first paragraph of *AIFMD*]
- Subordinate measures relating to provisions implementing article 12(1) of AIFMD**
- 4.1.2E** **G** Articles 16 to 29 of the *AIFMD level 2 regulation* provide detailed rules supplementing the provisions of article 12(1) of *AIFMD*, articles 57 to 66 of the *AIFMD level 2 regulation* provide detailed rules supplementing articles 12 and 18 of *AIFMD*.
FCA

Mechanisms and procedures for a firm

4.1.3 **R**

[deleted]

4.1.4 **R**

FCA PRA

A *firm* (with the exception of a *sole trader* who does not employ any *person* who is required to be approved under section 59 of the *Act* (Approval for particular arrangements)) must, taking into account the nature, scale and complexity of the business of the *firm*, and the nature and range of the financial services and activities undertaken in the course of that business:

- (1) (if it is a *common platform firm* or a *management company*) establish, implement and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;
- (2) establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the *firm*;
- (3) (if it is a *common platform firm*) establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the *firm*; and
- (4) (if it is a *management company*) establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the *management company* as well as effective information flows with any third party involved.

[Note: articles 5(1) final paragraph, 5(1)(a), 5(1)(c) and 5(1)(e) of the *MiFID implementing Directive* and articles 4(1) final paragraph, 4(1)(a), 4(1)(c) and 4(1)(d) of the *UCITS implementing Directive*]

4.1.4A **G**

FCA PRA

A *firm* that is not a *common platform firm* or a *management company* should take into account the decision-making procedures and effective internal reporting *rules* (■ SYSC 4.1.4R (1), ■ (3) and ■ (4)) as if they were *guidance* (and as if "should" appeared in those rules instead of "must") as explained in ■ SYSC 1 Annex 1.3.3 G.

4.1.5 **R**

FCA PRA

A *MiFID investment firm* and a *management company* must establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.

[Note: article 5(2) of the *MiFID implementing Directive* and article 4(2) of the *UCITS implementing Directive*]

Business continuity

4.1.6

FCA PRA

R

A *common platform firm* must take reasonable steps to ensure continuity and regularity in the performance of its *regulated activities*. To this end the *common platform firm* must employ appropriate and proportionate systems, resources and procedures.

[Note: article 13(4) of *MiFID*]

4.1.7

FCA PRA

R

A *common platform firm* and a *management company* must establish, implement and maintain an adequate business continuity policy aimed at ensuring, in the case of an interruption to its systems and procedures, that any losses are limited, the preservation of essential data and functions, and the maintenance of its *regulated activities*, or, in the case of a *management company*, its *collective portfolio management* activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of those activities.

[Note: article 5(3) of the *MiFID implementing Directive* , annex V paragraph 13 of the *Banking Consolidation Directive*, article 4(3) of the *UCITS implementing Directive* and article 85(2) of the *CRD*]

4.1.7A

FCA PRA

G

Other *firms* should take account of the business continuity *rules* (■ SYSC 4.1.6 R and ■ 4.1.7 R) as if they were *guidance* (and as if "should" appeared in those rules instead of "must") as explained in ■ SYSC 1 Annex 1.3.3 G.

4.1.8

FCA PRA

G

The matters dealt with in a business continuity policy should include:

- (1) resource requirements such as people, systems and other assets, and arrangements for obtaining these resources;
- (2) the recovery priorities for the *firm's* operations;
- (3) communication arrangements for internal and external concerned parties (including the *appropriate regulator*, *clients* and the press);
- (4) escalation and invocation plans that outline the processes for implementing the business continuity plans, together with relevant contact information;
- (5) processes to validate the integrity of information affected by the disruption; and
- (6) regular testing of the business continuity policy in an appropriate and proportionate manner in accordance with ■ SYSC 4.1.10 R.

Accounting policies

4.1.9

FCA PRA

R

A *common platform firm* and a *management company* must establish, implement and maintain accounting policies and procedures that enable it, at the request of the *appropriate regulator*, to deliver in a timely manner to the *appropriate regulator* financial reports which reflect a true and fair

view of its financial position and which comply with all applicable accounting standards and rules.

[Note: article 5(4) of the *MiFID implementing Directive* and article 4(4) of the *UCITS implementing Directive*]

Regular monitoring

4.1.10
FCA PRA

R

A *common platform firm* and a *management company* must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with ■ SYSC 4.1.4 R to ■ SYSC 4.1.9 R and take appropriate measures to address any deficiencies.

[Note: article 5(5) of the *MiFID implementing Directive* and article 4(5) of the *UCITS implementing Directive*]

4.1.10A
FCA PRA

G

Other *firms* should take account of the regular monitoring *rule* (■ SYSC 4.1.10 R) as if it were *guidance* (and as if "should" appeared in that rule instead of "must") as explained in ■ SYSC 1 Annex 1.3.3 G, but ignoring the cross-reference to ■ SYSC 4.1.5 R and ■ 4.1.9 R.

Audit committee

4.1.11
FCA PRA

G

Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to form an audit committee. An audit committee could typically examine management's process for ensuring the appropriateness and effectiveness of systems and controls, examine the arrangements made by management to ensure compliance with requirements and standards under the *regulatory system*, oversee the functioning of the internal audit function (if applicable) and provide an interface between management and external auditors. It should have an appropriate number of *non-executive directors* and it should have formal terms of reference.

4.1.12

G

[deleted]

Risk control: additional guidance

4.1.13
FCA PRA

G

Firms should also consider the additional *guidance* on risk-centric governance arrangements for effective risk management contained in ■ SYSC 21.

Apportionment of responsibilities: the role of the non-executive director

4.1.14
FCA PRA

G

The role undertaken by a *non-executive director* will vary from one *firm* to another. Where a *non-executive director* is an *approved person*, for example where the *firm* is a *body corporate*, his responsibility and therefore liability will be limited by the role that he undertakes.

4.1.15
FCA PRA

R

(1) A firm must have in place appropriate procedures for its employees to report breaches internally through a specific, independent and autonomous channel.

(2) The channel in (1) may be provided through arrangements provided for by social partners.

[Note: article 71 (3) of *CRD*]



4.2 Persons who effectively direct the business

4.2.1
FCA PRA

R

The *senior personnel* of a *common platform firm*, a *management company* a *full-scope UK AIFM*, or of the *UK branch* of a *non-EEA bank* must be of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the *firm*.

[Note: article 9(1) of *MiFID*, article 7(1)(b) of the *UCITS Directive* article 8(1)(c) of *AIFMD*, article 11(1) second paragraph of the *Banking Consolidation Directive* and article 13(1) of the *CRD*]

4.2.1A
FCA PRA

G

Other *firms* should take account of the *senior personnel rule* (■ SYSC 4.2.1 R) as if it were *guidance* (and as if "should" appeared in that rule instead of "must") as explained in ■ SYSC 1 Annex 1.3.3 G.

Responsibility of senior personnel of an AIFM

4.2.1B
FCA

R

For a *full-scope UK AIFM*, the *senior personnel* must, in complying with ■ SYSC 4.2.1 R, be sufficiently experienced in relation to the investment strategies pursued by the *AIFs* it manages.

[Note: article 8(1)(c) of *AIFMD*]

4.2.2
FCA PRA

R

A *common platform firm*, a *management company*, a *full-scope UK AIFM* and the *UK branch* of a *non-EEA bank* must ensure that its management is undertaken by at least two persons meeting the requirements laid down in ■ SYSC 4.2.1 R and, for a *full-scope UK AIFM*, ■ SYSC 4.2.7 R .

[Note: article 9(4) first paragraph of *MiFID*, article 7(1)(b) of the *UCITS Directive*, article 8(1)(c) of *AIFMD* and article 13(1) of *CRD*]

4.2.3
FCA PRA

G

In the case of a *body corporate*, the persons referred to in SYSC 4.2.2 R should either be executive *directors* or persons granted executive powers by, and reporting immediately to, the *governing body*. In the case of a *partnership*, they should be active *partners*.

4.2.4
FCA PRA

G

At least two independent minds should be applied to the formulation and implementation of the policies of a *common platform firm*, a *management company*, a *full-scope UK AIFM* and the *UK branch* of a *non-EEA bank* . Where a *firm* nominates

just two individuals to direct its business, the *appropriate regulator* will not regard them as both effectively directing the business where one of them makes some, albeit significant, decisions relating to only a few aspects of the business. Each should play a part in the decision-making process on all significant decisions. Both should demonstrate the qualities and application to influence strategy, day-to-day policy and its implementation. This does not require their day-to-day involvement in the execution and implementation of policy. It does, however, require involvement in strategy and general direction, as well as knowledge of, and influence on, the way in which strategy is being implemented through day-to-day policy.

4.2.5

FCA PRA

G

Where there are more than two individuals directing the business of a *common platform firm*, a *management company*, a *full-scope UK AIFM* or the UK branch of a *non-EEA bank*, the *appropriate regulator* does not regard it as necessary for all of these individuals to be involved in all decisions relating to the determination of strategy and general direction. However, at least two individuals should be involved in all such decisions. Both individuals' judgement should be engaged so that major errors leading to difficulties for the *firm* are less likely to occur. Similarly, each individual should have sufficient experience and knowledge of the business and the necessary personal qualities and skills to detect and resist any imprudence, dishonesty or other irregularities by the other individual. Where a single individual, whether a chief executive, managing *director* or otherwise, is particularly dominant in such a *firm* this will raise doubts about whether SYSC 4.2.2 R is met.

4.2.6

FCA PRA

R

If a *common platform firm*, (other than a *credit institution* or *AIFM investment firm*) or the UK branch of a *non-EEA bank*, is:

- (1) a natural person; or
- (2) a legal person managed by a single natural person;

it must have alternative arrangements in place which ensure sound and prudent management of the *firm*.

[Note: article 9(4) second paragraph of *MiFID*]

4.2.7

FCA

R

A *full-scope UK AIFM* must notify the *FCA* of the names of the *senior personnel* of the *firm* and of every person succeeding them in office.

[Note: article 8(1)(c) of *AIFMD*]

4.2.8

FCA

G

Where the *senior personnel* of a *full-scope UK AIFM* will carry out a *FCA governing function* and the *firm* has applied for the *FCA*'s approval under section 59 of the *Act*, this will be considered sufficient to comply with ■ SYSC 4.2.7 R.



4.3 Responsibility of senior personnel

4.3.1

FCA PRA

R

A *firm* (with the exception of a *sole trader* who does not employ any *person* who is required to be approved under section 59 of the *Act* (Approval for particular arrangements)), when allocating functions internally, must ensure that *senior personnel* and, where appropriate, the *supervisory function*, are responsible for ensuring that the *firm* complies with its obligations under the *regulatory system*. In particular, *senior personnel* and, where appropriate, the *supervisory function* must assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the *firm's* obligations under the *regulatory system* and take appropriate measures to address any deficiencies.

[Note: article 9(1) of the *MiFID implementing Directive* and articles 9(1) and 9(3) of the *UCITS implementing Directive*]

4.3.2

FCA PRA

R

A *common platform firm* (with the exception of a *sole trader* who does not employ any *person* who is required to be approved under section 59 of the *Act* (Approval for particular arrangements)) and a *management company*, must ensure that :

- (1) its *senior personnel* receive on a frequent basis, and at least annually, written reports on the matters covered by
 - SYSC 6.1.2 R to ■ SYSC 6.1.5 R, ■ SYSC 6.2.1 R and ■ SYSC 7.1.2 R, ■ SYSC 7.1.3 R and ■ SYSC 7.1.5 R to ■ SYSC 7.1.7 R, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies; and
- (2) the *supervisory function*, if any, receives on a regular basis written reports on the same matters.

[Note: article 9(2) and article 9(3) of the *MiFID implementing Directive* and articles 9(4) and 9(6) of the *UCITS implementing Directive*]

4.3.2A

FCA PRA

G

Other *firms* should take account of the written reports *rule* (■ SYSC 4.3.2 R) as if it were *guidance* (and as if "should" appeared in that rule instead of "must") as explained in ■ SYSC 1 Annex 1.3.3 G.

4.3.3

FCA **PRA**

G

The *supervisory function* does not include a general meeting of the shareholders of a *firm*, or equivalent bodies, but could involve, for example, a separate supervisory board within a two-tier board structure or the establishment of a non-executive committee of a single-tier board structure.

4.3.4

G

[deleted]



4.3A CRR firms

Management body

4.3A.-1

FCA

R

In ■ SYSC 4.3A.6 R and ■ SYSC 4.3A.8 R a '*CRR firm that is significant*' means a *significant IFPRU firm*.

4.3A.1

FCA PRA

R

A *CRR firm* must ensure that the *management body* defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the *firm*, including the segregation of duties in the organisation and the prevention of conflicts of interest. The *firm* must ensure that the *management body*:

- (1) has overall responsibility for the *firm*;
- (2) approves and oversees implementation of the *firm's* strategic objectives, risk strategy and internal governance;
- (3) ensures the integrity of the *firm's* accounting and financial reporting systems, including financial and operational controls and compliance with the *regulatory system*.
- (4) oversees the process of disclosure and communications;
- (5) has responsibility for providing effective oversight of *senior management*.
- (6) monitors and periodically assesses the effectiveness of the *firm's* governance arrangements and takes appropriate steps to address any deficiencies.

[Note: article 88(1) of *CRD*]

4.3A.2

FCA PRA

R

A *CRR firm* must ensure that the chairman of the *firm's management body* does not exercise simultaneously the *chief executive function* within the same *firm*, unless justified by the *firm* and authorised by the *appropriate regulator*.

[Note: article 88(1)(e) of *CRD*]

4.3A.3

FCA PRA

R

A *CRR firm* must ensure that the members of the *management body* of the *firm*:

- (1) are of sufficiently good repute;
- (2) possess sufficient knowledge, skills and experience to perform their duties;
- (3) possess adequate collective knowledge, skills and experience to understand the *firm's* activities, including the main risks;
- (4) reflect an adequately broad range of experiences;
- (5) commit sufficient time to perform their functions in the *firm*; and
- (6) act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of *senior management* where necessary and to effectively oversee and monitor management decision-making.

[Note: article 91(1)-(2) and (7)-(8) of the *CRD*]

4.3A.4

FCA PRA

R

A *CRR firm* must devote adequate human and financial resources to the induction and training of members of the *management body*.

[Note: article 91(3) of the *CRD*]

4.3A.5

FCA PRA

R

A *CRR firm* must ensure that the members of the *management body* of the *firm* do not hold more directorships than is appropriate taking into account individual circumstances and the nature, scale and complexity of the *firm's* activities.

[Note: article 91(3) of the *CRD*]

4.3A.6

FCA

R

[to follow]

4.3A.7

FCA PRA

R

For the purposes of ■ SYSC 4.3A.5 R and ■ SYSC 4.3A.6 R:

- (1) directorships in organisations which do not pursue predominantly commercial objectives shall not count; and
- (2) the following shall count as a single directorship:
 - (a) executive or non-executive directorships held within the same *group*; or
 - (b) executive or non-executive directorships held within:
 - (i) *firms* that are members of the same institutional protection scheme provided that the conditions set out in Article 113(7) of the *CRR* are fulfilled; or

- (ii) *undertakings* (including non-financial entities) in which the *firm* holds a *qualifying holding*.

[Note: article 91(4) and (5) of the *CRD*]

Nomination Committee

4.3A.8

FCA PRA

R

A *CRR firm* that is *significant* must:

- (1) establish a nomination committee composed of members of the *management body* who do not perform any executive function in the *firm*;
- (2) ensure that the nomination committee is able to use any forms of resources the nomination committee deems appropriate, including external advice; and
- (3) ensure that the nomination committee receives appropriate funding.

[Note: article 88(2) of the *CRD*]

4.3A.8A

PRA

G

In ■ SYSC 4.3A.8 R a '*CRR firm* that is *significant*' means a deposit-taker or designated investment firm whose size, interconnectedness, complexity and business type gives it the capacity to cause some disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying on its business in an unsafe manner.

4.3A.9

FCA PRA

R

A *CRR firm* that has a nomination committee must ensure that the nomination committee:

- (1) engage a broad set of qualities and competences when recruiting members to the *management body* and for that purpose puts in place a policy promoting diversity on the *management body*;
- (2) identifies and recommends for approval, by the *management body* or by general meeting, candidates to fill *management body* vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the *management body*;
- (3) prepares a description of the roles and capabilities for a particular appointment, and assesses the time commitment required;
- (4) decides on a target for the representation of the underrepresented gender in the *management body* and prepares a policy on how to increase the number of the underrepresented gender in the *management body* in order to meet that target;

- (5) periodically, and at least annually, assesses the structure, size, composition and performance of the *management body* and makes recommendations to the *management body* with regard to any changes;
- (6) periodically, and at least annually, assesses the knowledge, skills and experience of individual members of the *management body* and of the *management body* collectively, and reports this to the *management body*;
- (7) periodically reviews the policy of the *management body* for selection and appointment of *senior management* and makes recommendations to the *management body*; and
- (8) in performing its duties, and to the extent possible, on an ongoing basis, takes account of the need to ensure that the *management body's* decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the *firm* as a whole;

[Note: article 88(2) and article 91(10) of the *CRD*]

4.3A.10

FCA PRA

R

A *CRR firm* that does not have a nomination committee must engage a broad set of qualities and competences when recruiting members to the *management body*. For that purpose a *CRR firm* that does not have a nomination committee must put in place a policy promoting diversity on the *management body*.

[Note: article 91(10) of the *CRD*]

Website

4.3A.11

FCA PRA

R

A *CRR firm* that maintains a website must explain on the website how it complies with the requirements of ■ SYSC 4.3A.1 R to ■ SYSC 4.3A.3 R and ■ SYSC 4.3A.4 R to ■ SYSC 4.3A.11 R.

[Note: article 96 of the *CRD*]



4.4 Apportionment of responsibilities

Application

4.4.1

FCA PRA

R

This section applies to:

- (1) an *authorised professional firm* in respect of its *non-mainstream regulated activities* unless the *firm* is also conducting other *regulated activities* and has appointed *approved persons* to perform the *governing functions* with equivalent responsibilities for the *firm's non-mainstream regulated activities* and other *regulated activities*;
- (2) activities carried on by a *firm* whose principal purpose is to carry on activities other than *regulated activities* and which is:
 - (a) an *oil market participant*; or
 - (b) a *service company*; or
 - (c) an *energy market participant*; or
 - (d) a wholly-owned subsidiary of:
 - (i) a local authority; or
 - (ii) a registered social landlord; or
 - (e) a *firm* with *permission* to carry on *insurance mediation activity* in relation to *non-investment insurance contracts* but no other *regulated activity*;
- (3) [deleted]
- (4) [deleted]
- (5) [deleted]
 - (a) [deleted]
 - (b) [deleted]
- (6) [deleted]

(7) an *incoming Treaty firm*, an *incoming EEA firm* or a *UCITS qualifier* (but only ■ SYSC 4.4.5R (2) applies for these *firms*); and

(8) a *sole trader*, but only if he employs any *person* who is required to be approved under section 59 of the *Act* (Approval for particular arrangements).

4.4.1A **R** [deleted]

4.4.2 **G** This section does not apply to a *common platform firm*.

FCA **PRA**

Maintaining a clear and appropriate apportionment

4.4.3 **R** A *firm* must take reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its *directors* and *senior managers* in such a way that:

FCA **PRA**

(1) it is clear who has which of those responsibilities; and

(2) the business and affairs of the *firm* can be adequately monitored and controlled by the *directors*, relevant *senior managers* and *governing body* of the *firm*.

4.4.4 **G** [deleted]

Allocating functions of apportionment and oversight

4.4.5 **R** A *firm* must appropriately allocate to one or more individuals, in accordance with the following table, the functions of:

FCA **PRA**

(1) dealing with the apportionment of responsibilities under ■ SYSC 4.4.3 R; and

(2) overseeing the establishment and maintenance of systems and controls under ■ SYSC 4.1.1 R.

1: Firm type	2: Allocation of both functions must be to the following individual, if any (see Note):	3: Allocation to one or more individuals selected from this column is compulsory if there is no allocation to an individual in column 2, but is otherwise optional and additional:
<p>(1) A <i>firm</i> which is a <i>body corporate</i> and is a member of a <i>group</i>, other than a <i>firm</i> in row (2)</p>	<p>(1) the <i>firm's chief executive</i> (and all of them jointly, if more than one); or</p> <p>(2) a <i>director or senior manager</i> responsible for the overall management of:</p> <p>(a) the <i>group</i>; or</p> <p>(b) a <i>group</i> division within which some or all of the <i>firm's regulated activities</i> fall</p>	<p>the <i>firm's</i> and its <i>group's</i>:</p> <p>(1) <i>directors</i>; and</p> <p>(2) <i>senior managers</i></p>
<p>(2) An <i>incoming EEA firm</i> or <i>incoming Treaty firm</i> (note: only the functions in SYSC 4.4.5R (2) must be allocated)</p>	<p>(not applicable)</p>	<p>the <i>firm's</i> and its <i>group's</i>:</p> <p>(1) <i>directors</i>; and</p> <p>(2) <i>senior managers</i></p>
<p>(3) Any other <i>firm</i></p>	<p>the <i>firm's chief executive</i> (and all of them jointly, if more than one)</p>	<p>the <i>firm's</i> and its <i>group's</i>:</p> <p>(1) <i>directors</i>; and</p> <p>(2) <i>senior managers</i></p>
<p>Note: Column 2 does not require the involvement of the <i>chief executive</i> or other executive <i>director</i> or <i>senior manager</i> in an aspect of corporate governance if that would be contrary to generally accepted principles of good corporate governance.</p>		

4.4.6

FCA PRA

G

Frequently asked questions about allocation of functions in ■ SYSC 4.4.5 R

Question	Answer
1 Does an individual to whom a function is allocated under SYSC 4.4.5 R need to be an <i>approved person</i> ?	An individual to whom a function is allocated under SYSC 4.4.5 R will be performing the <i>apportionment and oversight function</i> (CF 8, see SUP 10A.7.1 R) and an application must be made under section 59 of the <i>Act</i> for approval of the individual before the function is performed. There are exceptions from this in SUP 10A.1 (Approved persons - Application).
2 If the allocation is to more than one individual, can they perform the functions, or aspects of the functions, separately?	If the functions are allocated to joint <i>chief executives</i> under SYSC 4.4.5 R, column 2, they are expected to act jointly. If the functions are allocated to an individual under SYSC 4.4.5 R, column 2, in addition to individuals under SYSC 4.4.5 R, column 3, the former may normally be expected to perform a leading role in relation to the functions that reflects his position. Otherwise, yes.
3 What is meant by "appropriately allocate" in this context?	The allocation of functions should be compatible with delivering compliance with <i>Principle 3</i> , SYSC 4.4.3 R and SYSC 4.1.1 R. The <i>appropriate regulator</i> considers that allocation to one or two individuals is likely to be appropriate for most <i>firms</i> .
4 If a committee of management governs a <i>firm</i> or <i>group</i> , can the functions be allocated to every member of that committee?	Yes, as long as the allocation remains appropriate (see Question 3). If the <i>firm</i> also has an individual as <i>chief executive</i> , then the functions must be allocated to that individual as well under SYSC 4.4.5 R, column 2 (see Question 7).
5 Does the definition of <i>chief executive</i> include the possessor of equivalent responsibilities with another title, such as a managing <i>director</i> or managing <i>partner</i> ?	Yes.
6 Is it possible for a <i>firm</i> to have more than one individual as its <i>chief executive</i> ?	Although unusual, some <i>firms</i> may wish the responsibility of a <i>chief executive</i> to be held jointly by more than one individual. In that case, each of them will be a <i>chief executive</i> and the functions must be allocated to all of them under SYSC 4.4.5 R, column 2 (see also Questions 2 and 7).
7 If a <i>firm</i> has an individual as <i>chief executive</i> , must the functions be allocated to that individual?	Normally, yes, under SYSC 4.4.5 R, column 2. But if the <i>firm</i> is a <i>body corporate</i> and a member of a <i>group</i> , the functions may, instead of being allocated to the <i>firm's chief executive</i> , be allocated to a <i>director</i> or <i>senior manager</i> from the <i>group</i> responsible for the overall management of the <i>group</i> or of a relevant <i>group</i> division, so long as this is appropriate (see Question 3). Such individuals may

4

Question	Answer
	<p>nevertheless require approval under section 59 (see Question 1).</p> <p>If the <i>firm</i> chooses to allocate the functions to a <i>director</i> or <i>senior manager</i> responsible for the overall management of a relevant <i>group</i> division, the <i>FSA</i> would expect that individual to be of a seniority equivalent to or greater than a <i>chief executive</i> of the <i>firm</i> for the allocation to be appropriate.</p> <p>See also Question 14.</p>
<p>8 If a <i>firm</i> has a <i>chief executive</i>, can the functions be allocated to other individuals in addition to the <i>chief executive</i>?</p>	<p>Yes. SYSC 4.4.5 R, column 3, permits a <i>firm</i> to allocate the functions, additionally, to the <i>firm's</i> (or where applicable the <i>group's</i>) <i>directors</i> and <i>senior managers</i> as long as this is appropriate (see Question 3).</p>
<p>9 What if a <i>firm</i> does not have a <i>chief executive</i>?</p>	<p>Normally, the functions must be allocated to one or more individuals selected from the <i>firm's</i> (or where applicable the <i>group's</i>) <i>directors</i> and <i>senior managers</i> under SYSC 4.4.5 R, column 3.</p> <p>But if the <i>firm</i>:</p> <p>(1) is a <i>body corporate</i> and a member of a <i>group</i>; and</p> <p>(2) the <i>group</i> has a <i>director</i> or <i>senior manager</i> responsible for the overall management of the <i>group</i> or of a relevant <i>group</i> division;</p> <p>then the functions must be allocated to that individual (together, optionally, with individuals from column 3 if appropriate) under SYSC 4.4.5 R, column 2.</p>
<p>10 What do you mean by "<i>group</i> division within which some or all of the <i>firm's regulated activities</i> fall"?</p>	<p>A "division" in this context should be interpreted by reference to geographical operations, product lines or any other method by which the <i>group's</i> business is divided.</p> <p>If the <i>firm's regulated activities</i> fall within more than one division and the <i>firm</i> does not wish to allocate the functions to its <i>chief executive</i>, the allocation must, under SYSC 4.4.5 R, be to:</p> <p>(1) a <i>director</i> or <i>senior manager</i> responsible for the overall management of the <i>group</i>; or (2) a <i>director</i> or <i>senior manager</i></p>

Question	Answer
<p>11 How does the requirement to allocate the functions in SYSC 4.4.5 R apply to an <i>overseas firm</i> which is not an <i>incoming EEA firm</i>, <i>incoming Treaty firm</i> or <i>UCITS qualifier</i>?</p>	<p>responsible for the overall management of one of those divisions;</p> <p>together, optionally, with individuals from column 3 if appropriate. (See also Questions 7 and 9.)</p> <p>The <i>firm</i> must appropriately allocate those functions to one or more individuals, in accordance with SYSC 4.4.5 R, but:</p> <p>(1) The responsibilities that must be apportioned and the systems and controls that must be overseen are those relating to activities carried on from a <i>UK</i> establishment with certain exceptions (see SYSC 1 Annex 1.1.8R). Note that SYSC 1 Annex 1.1.10R does not extend the territorial scope of SYSC 4.4 for an <i>overseas firm</i>.</p> <p>(2) The <i>chief executive</i> of an <i>overseas firm</i> is the <i>person</i> responsible for the conduct of the <i>firm's</i> business within the <i>United Kingdom</i> (see the definition of "<i>chief executive</i>"). This might, for example, be the manager of the <i>firm's UK</i> establishment, or it might be the <i>chief executive</i> of the <i>firm</i> as a whole, if he has that responsibility.</p> <p>The <i>apportionment and oversight function</i> applies to such a <i>firm</i>, unless it falls within a particular exception from the <i>approved persons</i> regime (see Question 1).</p>
<p>12 How does the requirement to allocate the functions in SYSC 4.4.5 R apply to an <i>incoming EEA firm</i> or <i>incoming Treaty firm</i>?</p>	<p>SYSC 1 Annex 1.1.1R(2) and SYSC 1 Annex 1.1.8R restrict the application of SYSC 4.4.5 R for such a <i>firm</i>. Accordingly:</p> <p>(1) Such a <i>firm</i> is not required to allocate the function of dealing with apportionment in SYSC 4.4.5R (1).</p> <p>(2) Such a <i>firm</i> is required to allocate the function of oversight in SYSC 4.4.5R (2). However, the systems and controls that must be overseen are those relating to matters which the <i>appropriate regulator</i>, as <i>Host State regulator</i>, is entitled to regulate (there is <i>guidance</i> on this in SUP 13A Annex 2 G). Those are primarily, but not exclusively, the systems and controls relating to the conduct of the <i>firm's</i> activities carried on from its <i>UK branch</i>.</p>

Question	Answer
	<p>(3) Such a <i>firm</i> need not allocate the function of oversight to its <i>chief executive</i>; it must allocate it to one or more <i>directors</i> and <i>senior managers</i> of the <i>firm</i> or the <i>firm's group</i> under SYSC 4.4.5 R, row (2).</p> <p>(4) An <i>incoming EEA firm</i> which has provision only for <i>cross border services</i> is not required to allocate either function if it does not carry on <i>regulated activities</i> in the <i>United Kingdom</i>; for example if they fall within the overseas persons exclusions in article 72 of the <i>Regulated Activities Order</i>.</p> <p>See also Questions 1 and 15.</p>
<p>13 What about a <i>firm</i> that is a <i>partnership</i> or a <i>limited liability partnership</i>?</p>	<p>The <i>appropriate regulator</i> envisages that most if not all <i>partners</i> or members will be either <i>directors</i> or <i>senior managers</i>, but this will depend on the constitution of the <i>partnership</i> (particularly in the case of a <i>limited partnership</i>) or <i>limited liability partnership</i>. A <i>partnership</i> or <i>limited liability partnership</i> may also have a <i>chief executive</i> (see Question 5). A <i>limited liability partnership</i> is a <i>body corporate</i> and, if a member of a <i>group</i>, will fall within SYSC 4.4.5 R, row (1) or (2).</p>
<p>14 What if generally accepted principles of good corporate governance recommend that the <i>chief executive</i> should not be involved in an aspect of corporate governance?</p>	<p>The Note to SYSC 4.4.5 R provides that the <i>chief executive</i> or other executive director or <i>senior manager</i> need not be involved in such circumstances. For example, the <i>UK Corporate Governance Code</i> recommends that the board of a listed company should establish an audit committee of non-executive directors to be responsible for oversight of the audit. That aspect of the oversight function may therefore be allocated to the members of such a committee without involving the <i>chief executive</i>. Such individuals may require approval under section 59 in relation to that function (see Question 1).</p>
<p>15 What about <i>incoming electronic commerce activities</i> carried on from an <i>establishment</i> in another <i>EEA State</i> with or for a <i>person</i> in the <i>United Kingdom</i>?</p>	<p>SYSC does not apply to an <i>incoming ECA provider</i> acting as such.</p>

Segregation of functions

5.1.6

FCA PRA

R

A *common platform firm* and a *management company* must ensure that the performance of multiple functions by its *relevant persons* does not and is not likely to prevent those persons from discharging any particular functions soundly, honestly and professionally.

[Note: article 5(1)(g) of the *MiFID implementing Directive* and article 5(3) of the *UCITS implementing Directive*]

5.1.7

FCA PRA

R

The *senior personnel* of a *common platform firm* must define arrangements concerning the segregation of duties within the *firm* and the prevention of conflicts of interest.

[Note: article 88 of the *CRD* and annex V paragraph 1 of the *Banking Consolidation Directive*]

5.1.7A

FCA PRA

G

Other *firms* should take account of the segregation of functions *rules* (■ SYSC 5.1.6 R and ■ SYSC 5.1.7 R) as if they were *guidance* (and as if should appeared in those rules instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.

5.1.8

FCA PRA

G

The effective segregation of duties is an important element in the *internal controls* of a *firm* in the *prudential context*. In particular, it helps to ensure that no one individual is completely free to commit a *firm's* assets or incur liabilities on its behalf. Segregation can also help to ensure that a *firm's governing body* receives objective and accurate information on financial performance, the risks faced by the *firm* and the adequacy of its systems.

5.1.9

FCA PRA

G

A *firm* should normally ensure that no single individual has unrestricted authority to do all of the following:

- (1) initiate a transaction;
- (2) bind the *firm*;
- (3) make payments; and
- (4) account for it.

5.1.10

FCA PRA

G

Where a *firm* is unable to ensure the complete segregation of duties (for example, because it has a limited number of staff), it should ensure that there are adequate compensating controls in place (for example, frequent review of an area by relevant *senior managers*).

5.1.11

FCA PRA

G

Where a *common platform firm* outsources its internal audit function, it should take reasonable steps to ensure that every individual involved in the performance of this service is independent from the individuals who perform its external audit. This should not prevent services from being undertaken by a *firm's* external auditors provided that:

- (1) the work is carried out under the supervision and management of the *firm's* own internal staff; and

- (2) potential conflicts of interest between the provision of external audit services and the provision of internal audit are properly managed.

Awareness of procedures

5.1.12

FCA PRA

R

A common platform firm and a management company must ensure that its relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities.

[Note: article 5(1)(b) of the *MiFID implementing Directive* and article 4(1)(b) of the *UCITS implementing Directive*]

5.1.12A

FCA PRA

G

Other *firms* should take account of the *rule* concerning awareness of procedures (■ SYSC 5.1.12 R) as if it were *guidance* (and as if should appeared in that rule instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.

General

5.1.13

FCA PRA

R

The systems, internal control mechanisms and arrangements established by a *firm* in accordance with this chapter must take into account the nature, scale and complexity of its business and the nature and range of financial services and activities undertaken in the course of that business.

[Note: article 5(1) final paragraph of the *MiFID implementing Directive* and articles 4(1) final paragraph and 5(4) of the *UCITS implementing Directive*]

5.1.14

FCA PRA

R

A common platform firm and a management company must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with this chapter, and take appropriate measures to address any deficiencies.

[Note: article 5(5) of the *MiFID implementing Directive* and articles 4(5) of the *UCITS implementing Directive*]

5.1.15

FCA PRA

G

Other *firms* should take account of the *rule* requiring monitoring and evaluation of the adequacy and effectiveness of systems (■ SYSC 5.1.14 R) as if it were *guidance* (and as if should appeared in that rule instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.

6.1.3

FCA PRA

R

A *common platform firm* and a *management company* must maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

- (1) to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place in accordance with ■ SYSC 6.1.2 R, and the actions taken to address any deficiencies in the *firm's* compliance with its obligations; and
- (2) to advise and assist the *relevant persons* responsible for carrying out *regulated activities* to comply with the *firm's* obligations under the *regulatory system*.

[Note: article 6(2) of the *MiFID implementing Directive* and article 10(2) of the *UCITS implementing Directive*]

6.1.3A

FCA PRA

G

- (1) Other *firms* should take account of the compliance function *rule* (■ SYSC 6.1.3 R) as if it were *guidance* (and as if should appeared in that rule instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.
- (2) Notwithstanding ■ SYSC 6.1.3 R, as it applies under (1), depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to have a separate compliance function. Where a *firm* has a separate compliance function the *firm* should also take into account ■ SYSC 6.1.3 R and ■ SYSC 6.1.4 R as guidance.

6.1.4

FCA PRA

R

In order to enable the compliance function to discharge its responsibilities properly and independently, a *common platform firm* and a *management company* must ensure that the following conditions are satisfied:

- (1) the compliance function must have the necessary authority, resources, expertise and access to all relevant information;
- (2) a compliance officer must be appointed and must be responsible for the compliance function and for any reporting as to compliance required by ■ SYSC 4.3.2 R;
- (3) the *relevant persons* involved in the compliance functions must not be involved in the performance of services or activities they monitor;
- (4) the method of determining the remuneration of the *relevant persons* involved in the compliance function must not compromise their objectivity and must not be likely to do so.

[Note: article 6(3) first paragraph of the *MiFID implementing Directive* and article 10(3) of the *UCITS implementing Directive*]

6.1.4-A
FCA PRA

G

In setting the method of determining the *remuneration of relevant persons* involved in the compliance function:

- (1) *firms* that ■ SYSC 19A applies to will also need to comply with the *Remuneration Code*; and
- (2) *BIPRU firms* will also need to comply with the *BIPRU Remuneration Code*.

6.1.4A
FCA

R

(1) A *firm* which is not a *common platform firm* or *management company* and which carries on *designated investment business* with or for retail clients or professional clients must allocate to a *director* or *senior manager* the function of:

- (a) having responsibility for oversight of the *firm's* compliance; and
- (b) reporting to the *governing body* in respect of that responsibility.

(2) In ■ SYSC 6.1.4A R (1) compliance means compliance with the rules in:

- (a) *COBS* (Conduct of Business sourcebook);
- (b) *COLL* (Collective Investment Schemes sourcebook);
- (c) *CASS* (Client Assets sourcebook) ; and
- (d) *ICOBS* (Insurance: Conduct of Business sourcebook).

6.1.4-B
FCA

G

In setting the method of determining the *remuneration of relevant persons* involved in the compliance function, *full-scope UK AIFMs* will need to comply with the *AIFM Remuneration Code*.

6.1.5
FCA PRA

R

A *common platform firm* and a *management company* need not comply with ■ SYSC 6.1.4 R (3) or ■ SYSC 6.1.4 R (4) if it is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of financial services and activities, the requirements under those *rules* are not proportionate and that its compliance function continues to be effective.

[Note: article 6(3) second paragraph of the *MiFID implementing Directive* and article 10(3) second paragraph of the *UCITS implementing Directive*]

6.1.6
FCA PRA

G

Other *firms* should take account of the proportionality rule (■ SYSC 6.1.5 R) as if it were *guidance* (and as if should appeared in that rule instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.

6.1.7

FCA PRA

R

- (1) This rule applies to a *common platform firm* conducting *investment services and activities* from a *branch* in another *EEA State*.
- (2) References to the *regulatory system* in ■ SYSC 6.1.1R, ■ SYSC 6.1.2 R and ■ SYSC 6.1.3 R apply in respect of a *firm's branch* as if *regulatory system* includes a *Host State's* requirements under *MiFID* and the *MiFID implementing Directive* which are applicable to the *investment services and activities* conducted from the *firm's branch*.

[Note: article 13(2) of *MiFID*]

6



6.2 Internal audit

6.2.1

FCA PRA

R

A *common platform firm* and a *management company* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of its financial services and activities, undertaken in the course of that business, establish and maintain an internal audit function which is separate and independent from the other functions and activities of the *firm* and which has the following responsibilities:

- (1) to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the *firm's* systems, internal control mechanisms and arrangements;
- (2) to issue recommendations based on the result of work carried out in accordance with (1);
- (3) to verify compliance with those recommendations;
- (4) to report in relation to internal audit matters in accordance with ■ SYSC 4.3.2 R.

[Note: article 8 of the *MiFID implementing Directive* and article 11 of the *UCITS implementing Directive*]

6.2.1A

FCA PRA

G

Other *firms* should take account of the internal audit *rule* (■ SYSC 6.2.1 R) as if it were *guidance* (and as if should appeared in that rule instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.

6.2.2

FCA PRA

G

The term 'internal audit function' in ■ SYSC 6.2.1 R (and ■ SYSC 4.1.11 G) refers to the generally understood concept of internal audit within a *firm*, that is, the function of assessing adherence to and the effectiveness of internal systems and controls, procedures and policies. The internal audit function is not a *controlled function* itself, but is part of the *systems and controls function* (CF28).

Chapter 7

Risk control

7.1 Risk control

[Note: ESMA has also issued guidelines under article 16(3) of the ESMA Regulation covering certain aspects of the MiFID compliance function requirements. See <http://www.esma.europa.eu/content/Guidelines-certain-aspects-MiFID-compliance-function-requirements>.]

7.1.1 FCA PRA G ■ SYSC 4.1.1 R requires a *firm* to have effective processes to identify, manage, monitor and report the risks it is or might be exposed to.

7.1.2 FCA PRA R *A common platform firm* must establish, implement and maintain adequate risk management policies and procedures, including effective procedures for risk assessment, which identify the risks relating to the *firm's* activities, processes and systems, and where appropriate, set the level of risk tolerated by the *firm*.

[Note: article 7(1)(a) of the *MiFID implementing Directive*, article 13(5) second paragraph of *MiFID*]

7.1.2A FCA PRA G Other *firms* should take account of the risk management policies and procedures *rule* (■ SYSC 7.1.2 R) as if it were *guidance* (and as if should appear in that rule instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.

7.1.2B FCA G A *management company* should be aware that ■ COLL 6.11 contains requirements implementing article 12 of the *UCITS implementing Directive* in relation to risk control and internal reporting that will apply to it.

7.1.2C FCA G *Full-scope UK AIFMs* should be aware that ■ FUND 3.7 and articles 38 to 47 of the *AIFMD level 2 regulation* contain further requirements in relation to risk management.

7.1.3 FCA PRA R *A common platform firm* must adopt effective arrangements, processes and mechanisms to manage the risk relating to the *firm's* activities, processes and systems, in light of that level of risk tolerance.

[Note: article 7(1)(b) of the *MiFID implementing Directive*]

7.1.4 FCA PRA R The *management body* of a *common platform firm* must approve and periodically review the strategies and policies for taking up, managing,

monitoring and mitigating the risks the *firm* is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.

[Note: article 76(1) of CRD]

7.1.4A

FCA PRA

G

For a *common platform firm* included within the scope of ■ SYSC 20 (Reverse stress testing), the strategies, policies and procedures for identifying, taking up, managing, monitoring and mitigating the risks to which the *firm* is or might be exposed include conducting reverse stress testing in accordance with ■ SYSC 20. A *common platform firm* which falls outside the scope of ■ SYSC 20 should consider conducting reverse stress tests on its business plan as well. This would further *senior personnels* understanding of the *firm's* vulnerabilities and would help them design measures to prevent or mitigate the risk of business failure.

7.1.4B

FCA PRA

G

Other *firms* should take account of the risk management *rules* (■ SYSC 7.1.3 R and ■ SYSC 7.1.4 R) as if they were *guidance* (and as if "should" appeared in those rules instead of "must") as explained in ■ SYSC 1 Annex 1.3.3 G.

7.1.5

FCA PRA

R

A *common platform firm* must monitor the following:

- (1) the adequacy and effectiveness of the *firm's* risk management policies and procedures;
- (2) the level of compliance by the *firm* and its *relevant persons* with the arrangements, processes and mechanisms adopted in accordance with ■ SYSC 7.1.3 R;
- (3) the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the *relevant persons* to comply with such arrangements or processes and mechanisms or follow such policies and procedures.

[Note: article 7(1)(c) of the *MiFID implementing Directive*]

7.1.6

FCA PRA

R

A *common platform firm* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of the *investment services and activities* undertaken in the course of that business, establish and maintain a risk management function that operates independently and carries out the following tasks:

- (1) implementation of the policies and procedures referred to in ■ SYSC 7.1.2 R to ■ SYSC 7.1.5 R; and
- (2) provision of reports and advice to *senior personnel* in accordance with ■ SYSC 4.3.2 R.

[Note: *MiFID implementing Directive* Article 7(2) first paragraph]

<p>7.1.7 FCA PRA</p>	<p>R</p>	<p>Where a <i>common platform firm</i> is not required under ■ SYSC 7.1.6 R to maintain a risk management function that functions independently, it must nevertheless be able to demonstrate that the policies and procedures which it has adopted in accordance with ■ SYSC 7.1.2 R to ■ SYSC 7.1.5 R satisfy the requirements of those <i>rules</i> and are consistently effective.</p> <p>[Note: article 7(2) second paragraph of the <i>MiFID implementing Directive</i>]</p>
<p>7.1.7A FCA PRA</p>	<p>G</p>	<p>Other <i>firms</i> should take account of the risk management <i>rules</i> (■ SYSC 7.1.5 R to ■ SYSC 7.1.7 R) as if they were <i>guidance</i> (and as if should appeared in those rules instead of must) as explained in ■ SYSC 1 Annex 1.3.3 G.</p>
<p>7.1.7B FCA PRA</p>	<p>G</p>	<p>In setting the method of determining the <i>remuneration</i> of <i>employees</i> involved in the risk management function, <i>firms</i> that ■ SYSC 19A applies to will also need to comply with the <i>Remuneration Code</i>.</p>
<p>7.1.7BA FCA</p>	<p>G</p>	<p>In setting the method of determining the <i>remuneration</i> of <i>employees</i> involved in the risk management function <i>full-scope UK AIFMs</i> will need to comply with the <i>AIFM Remuneration Code</i>.</p>
<p>7.1.7BB FCA</p>	<p>G</p>	<p>In setting the method of determining the <i>remuneration</i> of <i>employees</i> involved in the risk management function, <i>BIPRU firms</i> will also need to comply with the <i>BIPRU Remuneration Code</i>.</p>
<p>7.1.7C FCA PRA</p>	<p>G</p>	<p><i>Firms</i> should also consider the additional <i>guidance</i> on risk-centric governance arrangements for effective risk management contained in ■ SYSC 21.</p>
<p>7.1.8 FCA PRA</p>	<p>G</p>	<p>(1) [deleted]</p> <p>(2) The term 'risk management function' in ■ SYSC 7.1.6 R and ■ SYSC 7.1.7 R refers to the generally understood concept of risk assessment within a <i>firm</i>, that is, the function of setting and controlling risk exposure. The risk management function is not a <i>controlled function</i> itself, but is part of the <i>systems and controls function</i> (CF28).</p>
<p>7.1.9 FCA</p>	<p>R</p>	<p>A <i>firm</i> must base credit-granting on sound and well-defined criteria and clearly establish the process for approving, amending, renewing, and re-financing credits.</p>
<p>7.1.10 FCA</p>	<p>R</p>	<p>A <i>BIPRU firm</i> must operate through effective systems the ongoing administration and monitoring of its various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions.</p>
<p>7.1.11 FCA</p>	<p>R</p>	<p>A <i>BIPRU firm</i> must adequately diversify credit portfolios given its target market and overall credit strategy.</p>

7.1.12 **G** The documentation maintained by a *BIPRU firm* under should include its policy for credit risk, including its risk appetite and provisioning policy and should describe how it measures, monitors and controls that risk. This should include descriptions of the systems used to ensure that the policy is correctly implemented.
FCA

7.1.13 **R** A *BIPRU firm* must address and control by means of written policies and procedures the risk that recognised credit risk mitigation techniques used by it prove less effective than expected.
FCA

7.1.14 **R** A *BIPRU firm* must implement policies and processes for the measurement and management of all material sources and effects of market risks.
FCA

7.1.15 **R** A *BIPRU firm* must implement systems to evaluate and manage the risk arising from potential changes in interest rates as they affect a *BIPRU firm's* non-trading activities.
FCA

7.1.16 **R** A *BIPRU firm* must implement policies and processes to evaluate and manage the exposure to operational risk, including to low-frequency high severity events. Without prejudice to the definition of *operational risk*, *BIPRU firms* must articulate what constitutes operational risk for the purposes of those policies and procedures.
FCA

7.1.16A **G** [deleted]

7.1.16B **G** [deleted]

Additional rules for CRR firms

7.1.16C **R** In ■ SYSC 7.1.18 R a '*CRR firm that is significant*' means a *significant IFPRU firm*.
FCA

- 7.1.17** **R**
- (1) The *management body* of a *CRR firm* has overall responsibility for risk management. It must devote sufficient time to the consideration of risk issues.
 - (2) The *management body* of a *CRR firm* must be actively involved in and ensure that adequate resources are allocated to the management of all material risks addressed in the rules implementing the *CRD* and in the *EU CRR* as well as in the valuation of assets, the use of external ratings and internal models related to those risks.
 - (3) A *CRR firm* must establish reporting lines to the *management body* that cover all material risks and risk management policies and changes thereof.
- FCA PRA**

[Note: article 76(2) of *CRD*]

7.1.18

FCA PRA

R

- (1) A *CRR firm* that is significant must establish a risk committee composed of members of the *management body* who do not perform any executive function in the firm. Members of the risk committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the *firm*.
- (2) The risk committee must advise the *management body* on the institution's overall current and future risk appetite and assist the *management body* in overseeing the implementation of that strategy by *senior management*.
- (3) The risk committee must review whether prices of liabilities and assets offered to clients take fully into account the *firm's* business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee must present a remedy plan to the *management body*.

[Note: article 76(3) of CRD]

7.1.18A

PRA

G

In ■ SYSC 7.1.18 R a '*CRR firm* that is *significant*' means a deposit-taker or designated investment firm whose size, interconnectedness, complexity and business type gives it the capacity to cause some disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying on its business in an unsafe manner.

7.1.18AA

FCA

G

A *CRR firm* which is not a *significant IFPRU firm* may combine the risk committee with the audit committee.

[Note: article 76(3) of CRD]

7.1.18B

FCA

R

Members of the combined risk and audit committee must have the knowledge, skills and expertise required for both committees.

[Note: article 76(3) of CRD]

7.1.19

FCA PRA

R

- (1) A *CRR firm* must ensure that the *management body* in its supervisory function and, where a risk committee has been established, the risk committee have adequate access to information on the risk profile of the *firm* and, if necessary and appropriate, to the risk management function and to external expert advice.
- (2) The *management body* in its supervisory function and, where one has been established, the risk committee must determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive.

[Note: article 76(4) of CRD]

7.1.20

FCA PRA

R

In order to assist in the establishment of sound remuneration policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

[Note: article 76(4) of CRD]

7.1.21

FCA PRA

R

- (1) A *CRR firm's* risk management function (■ SYSC 7.1.6 R) must be independent from the operational functions and have sufficient authority, stature, resources and access to the *management body*.
- (2) The risk management function must ensure that all material risks are identified, measured and properly reported. It must be actively involved in elaborating the *firm's* risk strategy and in all material risk management decisions and it must be able to deliver a complete view of the whole range of risks of the *firm*.
- (3) A *CRR firm* must ensure that the risk management function is able to report directly to the *management body* in its supervisory function, independent from *senior management* and that it can raise concerns and warn the *management body*, where appropriate, where specific risk developments affect or may affect the *firm*, without prejudice to the responsibilities of the *management body* in its supervisory and/or managerial functions pursuant to the CRD and the CRR.

[Note: article 76(5) of CRD]

7.1.22

FCA PRA

R

The head of the risk management function must be an independent senior manager with distinct responsibility for the risk management function. Where the nature, scale and complexity of the activities of the *CRR firm* do not justify a specially appointed person, another senior person within the *firm* may fulfil that function, provided there is no conflict of interest. The head of the risk management function must not be removed without prior approval of the *management body* and must be able to have direct access to the *management body* where necessary.

[Note: article 76(5) of CRD]

activity, where a conflict of interest may arise in relation to those activities;

- (iv) measures to prevent or limit any *person* from exercising inappropriate influence over the way in which a *relevant person* carries out services or activities; and
- (v) measures to prevent or control the simultaneous or sequential involvement of a *relevant person* in separate services or activities where such involvement may impair the proper management of conflicts of interest.

- (3) If the adoption or the practice of one or more of those measures and procedures does not ensure the requisite level of independence, a *common platform firm* and a *management company* must adopt such alternative or additional measures and procedures as are necessary and appropriate for the purposes of paragraph (1)(b).

[Note: article 22(2) and (3) of *MiFID implementing Directive* and articles 18(2), 19(1) and 19(2) of the *UCITS implementing Directive*]

10.1.11A

FCA

G

Other *firms* should take account of the *rules* relating to *conflicts of interest policies* (see ■ SYSC 10.1.10 R and ■ SYSC 10.1.11 R) as if they were *guidance* (and as if "should" appeared in those rules instead of "must", as explained in ■ SYSC 1 Annex 1.3.3 G), except when they produce or arrange the production of *investment research* in accordance with ■ COBS 12.2, or produce or disseminate *non-independent research* in accordance with ■ COBS 12.3 (see ■ SYSC 10.1.16 R).

10.1.11B

PRA

G

Other *firms* should take account of the *rules* relating to *conflicts of interest policies* (see ■ SYSC 10.1.10 R and ■ SYSC 10.1.11 R) as if they were *guidance* (and as if "should" appeared in those rules instead of "must", as explained in ■ SYSC 1 Annex 1.3.3 G).

10.1.12

FCA PRA

G

In drawing up a *conflicts of interest policy* which identifies circumstances which constitute or may give rise to a conflict of interest, a *firm* should pay special attention to the activities of investment research and advice, proprietary trading, portfolio management and corporate finance business, including underwriting or selling in an offering of securities and advising on mergers and acquisitions. In particular, such special attention is appropriate where the *firm* or a *person* directly or indirectly linked by *control* to the *firm* performs a combination of two or more of those activities.

[Note: recital 26 of *MiFID implementing Directive*]

Corporate finance

10.1.13

FCA

G

This section is relevant to the management of a *securities* offering by any *firm*.

10.1.14

FCA

G

A *firm* will wish to note that when carrying on a mandate to manage an offering of *securities*, the *firm's* duty for that business is to its corporate finance *client* (in many cases, the corporate issuer or seller of the relevant *securities*), but that its responsibilities to provide services to its investment *clients* are unchanged.

10.1.15

FCA

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Measures that a *firm* might wish to consider in drawing up its *conflicts of interest policy* in relation to the management of an offering of *securities* include:

- (1) at an early stage agreeing with its corporate finance *client* relevant aspects of the offering process such as the process the *firm* proposes to follow in order to determine what recommendations it will make about allocations for the offering; how the target investor group will be identified; how recommendations on allocation and pricing will be prepared; and whether the *firm* might place *securities* with its investment *clients* or with its own proprietary book, or with an associate, and how conflicts arising might be managed; and
- (2) agreeing allocation and pricing objectives with the corporate finance *client*; inviting the corporate finance *client* to participate actively in the allocation process; making the initial recommendation for allocation to *retail clients* of the *firm* as a single block and not on a named basis; having internal arrangements under which senior personnel responsible for providing services to *retail clients* make the initial allocation recommendations for allocation to *retail clients* of the *firm*; and disclosing to the *issuer* details of the allocations actually made.

[Note: The provisions in ■ SYSC 10.1 also implement articles 74(1) and 88 of the CRD and as applied under the discretion in the third paragraph of article 95(2) of the EU CRR, BCD Article 22 and BCD Annex V paragraph 1]

Application of conflicts of interest rules to non-common platform firms when producing investment research or non-independent research

10.1.16

FCA

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The *rules* relating to:

- (1) types of conflict (see ■ SYSC 10.1.4 R);
- (2) records of conflicts (see ■ SYSC 10.1.6 R); and
- (3) *conflicts of interest policies* (see ■ SYSC 10.1.10 R and ■ SYSC 10.1.11 R);

also apply to a *firm* which is not a *common platform firm* when it produces, or arranges for the production of, *investment research* that is intended or likely to be subsequently disseminated to *clients* of the *firm* or to the public in accordance with ■ COBS 12.2, and when it produces or disseminates *non-independent research* in accordance with ■ COBS 12.3.

Additional requirements for a management company

10.1.17

FCA

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A *management company*, when identifying the types of conflict of interests for the purposes of ■ SYSC 10.1.4 R, must take into account:

- (1) the interests of the *firm*, including those deriving from its belonging to a *group* or from the performance of services and activities, the interests of the *clients* and the duty of the *firm*

towards the *UCITS scheme* or *EEA UCITS scheme* it manages; and

- (2) where it manages two or more *UCITS schemes* or *EEA UCITS schemes*, the interests of all of them.

[Note: article 17(2) of the *UCITS implementing Directive*]

10.1.18

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FCA

For a *management company*, references to client in ■ SYSC 10.1.4 R and in the other *rules* in this section should be construed as referring to any *UCITS scheme* or *EEA UCITS scheme* managed by that *firm* or which it intends to manage, and with or for the benefit of which the relevant activity is to be carried on.

Structure and organisation of a management company

10.1.19

R

FCA

A *management company* must be structured and organised in such a way as to minimise the risk of a *UCITS scheme's*, *EEA UCITS scheme's* or *client's* interests being prejudiced by conflicts of interest between the *management company* and its *clients*, between two of its *clients*, between one of its *clients* and a *UCITS scheme* or an *EEA UCITS scheme*, or between two such *schemes*.

[Note: articles 12(1)(b) and 14(1)(d) of the *UCITS Directive*]

Avoidance of conflicts of interest for a management company

10.1.20

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FCA

A *management company* must try to avoid conflicts of interest and, when they cannot be avoided, ensure that the *UCITS schemes* and *EEA UCITS schemes* it manages are fairly treated.

[Note: articles 12(1)(b) and 14(1)(d) of the *UCITS Directive*]

Disclosure of conflicts of interest for a management company

10.1.21

R

FCA

- (1) Where the organisational or administrative arrangements made by a *management company* for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the *UCITS scheme* or *EEA UCITS scheme* it manages or of its *unitholders* will be prevented, the *senior personnel* or other competent internal body of the *firm* must be promptly informed in order for them to take any necessary decision to ensure that in all cases the *firm* acts in the best interests of the *scheme* and of its *unitholders*.

- (2) A *management company* must report situations referred to in (1) to the *unitholders* of the *UCITS scheme* or *EEA UCITS scheme* it manages by any appropriate *durable medium* and give reasons for its decision.

[Note: articles 20(2) and 20(3) of the *UCITS implementing Directive*]

10.1.22

FCA

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Collective portfolio management investment firms

A *collective portfolio management investment firm* which manages investments other than for an *AIF* or *UCITS* for which it has been appointed as manager, must obtain approval from its *client* before it invests all or part of the *client's* portfolio in *units* or *shares* of an *AIF* or *UCITS* it manages.

[Note: article 12(2)(a) of the *UCITS Directive* and article 12(2)(a) of *AIFMD*]

Additional requirements for an AIFM

10.1.23

FCA

R

An *AIFM* must take all reasonable steps to identify conflicts of interest that arise, in the course of managing *AIFs*, between:

- (1) the *AIFM*, including its managers, *employees* or any person directly or indirectly linked to the *AIFM* by *control*, and an *AIF* managed by the *AIFM* or the investors in that *AIF*; or
- (2) an *AIF* or the investors in that *AIF*, and another *AIF* or the investors in that *AIF*; or
- (3) an *AIF* or the investors in that *AIF*, and another *client* of the *AIFM*; or
- (4) an *AIF* or the investors in that *AIF*, and a *UCITS* managed by the *AIFM* or the investors in that *UCITS*; or
- (5) two *clients* of the *AIFM*.

[Note: article 14(1) first paragraph of *AIFMD*]

10.1.24

FCA

R

An *AIFM* must take all reasonable steps to avoid conflicts of interest and, when they cannot be avoided, manage, monitor and (where applicable) disclose those conflicts of interest in order to prevent them from adversely affecting the interests of the *AIFs* and their investors, and to ensure that the *AIFs* it manages are fairly treated.

[Note: article 12(1)d of *AIFMD*]

10.1.25

FCA

R

An *AIFM* must:

- (1) maintain and operate effective organisational and administrative arrangements, with a view to taking all reasonable steps designed to identify, prevent, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the *AIFs* and their investors;
- (2) segregate, within its own operating environment, tasks and responsibilities which may be regarded as incompatible with each other or which may potentially generate systematic conflicts of interest; and

- (3) assess whether its operating conditions may involve any other material conflicts of interest and disclose them to the *AIF*'s investors.

[Note: article 14(1) second and third paragraphs of *AIFMD*]

10.1.26

FCA

R

If the organisational arrangements made by the *AIFM* to identify, prevent, manage and monitor conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to investors' interests will be prevented, the *AIFM* must:

- (1) clearly disclose the general nature or sources of conflicts of interest to the investors before undertaking business on their behalf; and
- (2) develop appropriate policies and procedures.

[Note: article 14(2) of *AIFMD*]

Subordinate measures for alternative investment fund managers

10.1.27

FCA

G

Articles 30 to 37 of the *AIFMD level 2 regulation* provide detailed rules supplementing the provisions of article 14 of *AIFMD*.

10.2 Chinese walls

Application

10.2.1

FCA PRA

R

This section applies to any *firm*.

Control of information

10.2.2

FCA PRA

R

(1) When a *firm* establishes and maintains a *Chinese wall* (that is, an arrangement that requires information held by a *person* in the course of carrying on one part of the business to be withheld from, or not to be used for, *persons* with or for whom it acts in the course of carrying on another part of its business) it may:

- (a) withhold or not use the information held; and
- (b) for that purpose, permit *persons* employed in the first part of its business to withhold the information held from those employed in that other part of the business;

but only to the extent that the business of one of those parts involves the carrying on of *regulated activities*, *ancillary activities* or, in the case of *MiFID business*, the provision of *ancillary services*.

- (2) Information may also be withheld or not used by a *firm* when this is required by an established arrangement maintained between different parts of the business (of any kind) in the same *group*. This provision does not affect any requirement to transmit or use information that may arise apart from the *rules* in *COBS*.
- (3) For the purpose of this *rule*, "maintains" includes taking reasonable steps to ensure that the arrangements remain effective and are adequately monitored, and must be interpreted accordingly.
- (4) For the purposes of section 118A(5)(a) of the *Act*, behaviour conforming with paragraph (1) does not amount to market abuse.

Financial conglomerates

12.1.11

FCA PRA

R

Where this section applies with respect to a *financial conglomerate*, the risk management processes referred to in ■ SYSC 12.1.8 R (2) must include:

- (1) sound governance and management processes, which must include the approval and periodic review by the appropriate managing bodies within the *financial conglomerate* of the strategies and policies of the *financial conglomerate* in respect of all the risks assumed by the *financial conglomerate*, such review and approval being carried out at the level of the *financial conglomerate*;
- (2) adequate capital adequacy policies at the level of the *financial conglomerate*, one of the purposes of which must be to anticipate the impact of the business strategy of the *financial conglomerate* on its risk profile and on the capital adequacy requirements to which it and its members are subject;
- (3) adequate procedures for the purpose of ensuring that the risk monitoring systems of the *financial conglomerate* and its members are well integrated into their organisation;
- (4) adequate procedures for the purpose of ensuring that the systems and controls of the members of the *financial conglomerate* are consistent and that the risks can be measured, monitored and controlled at the level of the *financial conglomerate* ; and
- (5) arrangements in place to contribute to and develop, if required, adequate recovery and resolution arrangements and plans; a *firm* must update these arrangements regularly.

[Note: article 9(2) of the *Financial Groups Directive*]

12.1.12

FCA PRA

R

Where this section applies with respect to a *financial conglomerate*, the internal control mechanisms referred to in ■ SYSC 12.1.8 R (2) must include:

- (1) mechanisms that are adequate to identify and measure all material risks incurred by members of the *financial conglomerate* and appropriately relate capital in the *financial conglomerate* to risks; and
- (2) sound reporting and accounting procedures for the purpose of identifying, measuring, monitoring and controlling *intra-group transactions* and *risk concentrations*.

12.1.13

FCA PRA

R

CRR firms and non-CRR firms that are parent financial holding companies in a Member State

If this *rule* applies under ■ SYSC 12.1.14 R to a *firm*, the *firm* must:

- (1) comply with ■ SYSC 12.1.8 R (2) in relation to any *UK consolidation group* or *non-EEA sub-group* of which it is a member, as well as in relation to its *group*; and
- (2) ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* or *non-EEA sub-group* of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:
 - (a) ■ SYSC 4.1.1 R and ■ SYSC 4.1.2 R ;
 - (b) ■ SYSC 4.1.7 R ;
 - (bA) ■ SYSC 4.3A;
 - (c) ■ SYSC 5.1.7 R ;
 - (d) ■ SYSC 7;
 - (dA) the *Remuneration Code*;
 - (e) ■ BIPRU 12.3.4 R, ■ BIPRU 12.3.5 R, ■ BIPRU 12.3.7A R, ■ BIPRU 12.3.8 R , ■ BIPRU 12.3.22A R, ■ BIPRU 12.3.22B R, ■ BIPRU 12.3.27 R, ■ BIPRU 12.4.-2 R, ■ BIPRU 12.4.-1 R, ■ BIPRU 12.4.5A R, ■ BIPRU 12.4.10 R , ■ BIPRU 12.4.11 R and ■ BIPRU 12.4.11A R;
 - (f) [deleted];
 - (g) [deleted];
 - (h) [deleted];

[Note:
article 109(2) of *CRD*]

- (3) ensure that compliance with the obligations in (2) enables the *consolidation group* or the *non-EEA sub-group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: article 109(2) of *CRD*]

12.1.14

FCA PRA

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■ SYSC 12.1.13 R applies to a *firm* that is:

- (1) [deleted]

- (2) a *CRR firm*; or
- (3) a *non-CRR firm* that is a *parent financial holding company in a Member State* and is a member of a *UK consolidation group*.

12.1.15 **R**
FCA PRA

In the case of a *firm* that:

- (1) is a *CRR firm*; and
- (2) has a *mixed-activity holding company* as a *parent undertaking*; the risk management processes and internal control mechanisms referred to in **SYSC 12.1.8 R** must include sound reporting and accounting procedures and other mechanisms that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity holding company* and any of the *mixed-activity holding company's subsidiary undertakings*.

12.1.15A **R**
FCA

SYSC 12.1.13 R applies to a *BIPRU firm* as if it were a *CRR firm* but the reference to *Remuneration Code* is to the *BIPRU Remuneration Code*.

Insurance undertakings

12.1.16 **R**
PRA

In the case of an *insurer* that has a *mixed-activity insurance holding company* as a *parent undertaking*, the risk management processes and internal control mechanisms referred to in **SYSC 12.1.8 R** must include sound reporting and accounting procedures and other mechanisms that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity insurance holding company* and any of the *mixed-activity insurance holding company's subsidiary undertakings*.

12.1.17 **G**
PRA

SYSC 12.1.16 R cannot apply to a *building society* as it cannot have a *mixed-activity holding company* as a *parent undertaking*. **SYSC 12.1.16 R** cannot apply to a *friendly society* as it cannot have a *mixed-activity insurance holding company* as a *parent undertaking*.

Nature and extent of requirements and allocation of responsibilities within the group

12.1.18 **G**
FCA PRA

Assessment of the adequacy of a *group's* systems and controls required by this section will form part of the *appropriate regulator's* risk management process.

12.1.19 **G**
FCA PRA

The nature and extent of the systems and controls necessary under **SYSC 12.1.8 R** (1) to address *group* risk will vary according to the materiality of those risks to the *firm* and the position of the *firm* within the *group*.

12.1.20 **G**
FCA PRA

In some cases the management of the systems and controls used to address the risks described in **SYSC 12.1.8 R** (1) may be organised on a *group-wide* basis. If the *firm* is not carrying out those functions itself, it should delegate them to the *group* members that are

carrying them out. However, this does not relieve the *firm* of responsibility for complying with its obligations under ■ SYSC 12.1.8 R (1). A *firm* cannot absolve itself of such a responsibility by claiming that any breach of that *rule* is caused by the actions of another member of the *group* to whom the *firm* has delegated tasks. The risk management arrangements are still those of the *firm*, even though personnel elsewhere in the *firm's group* are carrying out these functions on its behalf.

12.1.21

FCA PRA

G

■ SYSC 12.1.8 R (1) deals with the systems and controls that a *firm* should have in respect of the exposure it has to the rest of the *group*. On the other hand, the purpose of ■ SYSC 12.1.8 R (2) and the *rules* in this section that amplify it is to require *groups* to have adequate systems and controls. However a *group* is not a single legal entity on which obligations can be imposed. Therefore the obligations have to be placed on individual *firms*. The purpose of imposing the obligations on each *firm* in the *group* is to make sure that the *appropriate regulator* can take supervisory action against any *firm* in a *group* whose systems and controls do not meet the standards in this section. Thus responsibility for compliance with the *rules* for *group* systems and controls is a joint one.

12.1.22

FCA PRA

G

If both a *firm* and its *parent undertaking* are subject to ■ SYSC 12.1.8 R (2), the *appropriate regulator* would not expect systems and controls to be duplicated. In this case, the *firm* should assess whether and to what extent it can rely on its parent's *group* risk systems and controls.

Chapter 19A

Remuneration Code

19A.1 General application and purpose

Who? What? Where?

19A.1.1

FCA PRA

R

- (1) The *Remuneration Code* applies to :
- (a) a *building society*;
 - (b) a *bank*;
 - (c) an *investment firm*;
 - (d) an *overseas firm* that;
 - (i) is not an *EEA firm*;
 - (ii) has its head office outside the *EEA*; and
 - (iii) would be a *firm* referred to in (a), (b) or (c) if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the Act.
- (2) In relation to a *firm* that falls under (1)(d), the *Remuneration Code* applies only in relation to activities carried on from an establishment in the *United Kingdom*.
- (3) Otherwise, the *Remuneration Code* applies to a *firm* within (1) in the same way as ■ SYSC 4.1.1 R (General Requirements).

19A.1.1A

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[deleted]

19A.1.2

FCA PRA

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Part 2 of ■ SYSC 1 Annex 1 provides for the application of ■ SYSC 4.1.1 R (General Requirements). In particular, and subject to the provisions on group risk systems and controls requirements in ■ SYSC 12, this means that:

- (1) in relation to what the *Remuneration Code* applies to, it:
- (a) applies in relation to *regulated activities*, activities that constitute *dealing in investments as principal* (disregarding the exclusion in article 15 of the *Regulated Activities Order* (Absence of holding out etc)), *ancillary activities* and (in relation to *MiFID business*) *ancillary services*;

- (b) applies with respect to the carrying on of *unregulated activities* in a *prudential context*; and
 - (c) takes into account activities of other *group* members; and
- (2) in relation to where the *Remuneration Code* applies, it applies in relation to:
- (a) a *firm's UK* activities;
 - (b) a *firm's passported activities* carried on from a *branch* in another *EEA State*; and
 - (c) a *UK domestic firm's* activities wherever they are carried on, in a *prudential context*.

When?

19A.1.3

R

FCA PRA

- (1) A *firm* must apply the *remuneration* requirements in ■ SYSC 19A.3 other than ■ SYSC 19A.3.44 R (3) and ■ SYSC 19A.3.44 R in relation to:
- (a) *remuneration* awarded, whether pursuant to a contract or otherwise, on or after 1 January 2011;
 - (b) *remuneration* due on the basis of contracts concluded before 1 January 2011 which is awarded or paid on or after 1 January 2011; and
 - (c) *remuneration* awarded, but not yet paid, before 1 January 2011, for services provided in 2010.

[Note: article 3(2) of the Third Capital Requirements Directive (Directive 2010/76/EU)]

- (2) A *firm* must apply the *remuneration* requirements in SYSC 19A.3.44R(3) and SYSC 19.3.44AR in relation to *remuneration* awarded for services provided or performance from the year 2014 onwards, whether due on the basis of contracts concluded before, on or after 31 December 2013.

[Note: article 162(3) of CRD]

19A.1.4

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FCA PRA

Subject to the requirements of ■ SYSC 19A.1.5 R, in the *appropriate regulator's* view ■ SYSC 19A.1.3 R does not require a *firm* to breach requirements of applicable contract or employment law.

[Note: recital 14 of the Third Capital Requirements Directive (Directive 2010/76/EU)]

19A.1.5

R

FCA PRA

- (1) This *rule* applies to a *firm* that is unable to comply with the *Remuneration Code* because of an obligation it owes to a *Remuneration Code staff member* under a provision of an agreement made on or before 29 July 2010 (the "*provision*").

- (2) A *firm* must take reasonable steps to amend or terminate the provision referred to in (1) in a way that enables it to comply with the *Remuneration Code* at the earliest opportunity.
- (3) Until the provision referred to in (1) ceases to prevent the *firm* from complying with the *Remuneration Code*, the *firm* must adopt specific and effective arrangements, processes and mechanisms to manage the risks raised by the provision.

Purpose

19A.1.6

FCA PRA

G

- (1) The aim of the *Remuneration Code* is to ensure that *firms* have risk-focused *remuneration* policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in ■ SYSC 4.
- (2) The *Remuneration Code* implements the main provisions of the *CRD* which relate to *remuneration*. The Committee of European Banking Supervisors published Guidelines on Remuneration Policies and Practices on 10 December 2010. Provisions of the Capital Requirements (Amendment) Regulations 2012 (SI 2012/917) together with the European Banking Authority's Guidelines to article 22(3) and (5) of the *Banking Consolidation Directive* relating to the collection of *remuneration* benchmarking information and *high earners* information have been implemented through SUP 16 Annex 33AR and SUP 16 Annex 34AR. The Guidelines can be found at <http://www.eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-04--GL-4-on-remuneration-benchmarking-exercise-.pdf> and <http://www.eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-05--GL-5-on-remuneration-data-collection-exercise-.pdf>.
- (3) [deleted]

Notifications to the appropriate regulator

19A.1.7

FCA PRA

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- (1) The *Remuneration Code* does not contain specific notification requirements. However, general circumstances in which the *appropriate regulator* expects to be notified by *firms* of matters relating to their compliance with requirements under the *regulatory system* are set out in ■ SUP 15.3 (General notification requirements).
- (2) In particular, in relation to *remuneration* matters such circumstances should take into account *unregulated activities* as well as *regulated activities* and the activities of other members of a *group* and would include each of the following:
 - (a) significant breaches of the *Remuneration Code*, including any breach of a *rule* to which the detailed provisions on voiding and recovery in ■ SYSC 19A Annex 1 apply;
 - (b) any proposed *remuneration* policies, procedures or practices which could:
 - (i) have a significant adverse impact on the *firms* reputation; or

- (ii) affect the *firms* ability to continue to provide adequate services to its *customers* and which could result in serious detriment to a *customer* of the *firm*; or
 - (iii) result in serious financial consequences to the *financial system* or to other *firms*;
- (c) any proposed changes to *remuneration* policies, practices or procedures which could have a significant impact on the *firms* risk profile or resources;
- (d) fraud, errors and other irregularities described in ■ SUP 15.3.17 R which may suggest weaknesses in, or be motivated by, the *firms remuneration* policies, procedures or practices.
- (3) Such notifications should be made immediately the *firm* becomes aware, or has information which reasonably suggests such circumstances have occurred, may have occurred or may occur in the foreseeable future.

Individual guidance

19A.1.8

FCA

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The *FCA*'s policy on individual *guidance* is set out in ■ SUP 9. *Firms* should in particular note the policy on what the *FCA* considers to be a reasonable request for *guidance* (see ■ SUP 9.2.5 G). For example, where a *firm* is seeking *guidance* on a proposed *remuneration* structure the *FCA* will expect the *firm* to provide a detailed analysis of how the structure complies with the *Remuneration Code*, including the general requirement for *remuneration* policies, procedures and practices to be consistent with and promote sound and effective risk management.

19A.2 General requirement

Remuneration policies must promote effective risk management

19A.2.1

FCA PRA

R

A *firm* must establish, implement and maintain *remuneration* policies, procedures and practices that are consistent with and promote sound and effective risk management.

[Note: article 74(1) of CRD]

19A.2.2

FCA PRA

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- (1) If a *firm's remuneration* policy is not aligned with effective risk management it is likely that *employees* will have incentives to act in ways that might undermine effective risk management.
- (2) The *Remuneration Code* covers all aspects of *remuneration* that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the *Remuneration Code*, a *firm* should have regard to applicable good practice on *remuneration* and corporate governance, such as guidelines on executive contracts and severance produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its *remuneration* policies, a *firm* will also need to take into account its statutory duties in relation to equal pay and non-discrimination.
- (3) As with other aspects of a *firm's* systems and controls, in accordance with ■ SYSC 4.1.2 R *remuneration* policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the *common platform firm's* activities. What a *firm* must do in order to comply with the *Remuneration Code* will therefore vary. For example, while the *Remuneration Code* refers to a *firm's remuneration* committee and risk management function, it may be appropriate for the *governing body* of a smaller *firm* to act as the *remuneration* committee, and for the *firm* not to have a separate risk management function.
- (4) The principles in the *Remuneration Code* are used by the *appropriate regulator* to assess the quality of a *firm's remuneration* policies and whether they encourage excessive risk-taking by a *firm's employees*.
- (5) The *appropriate regulator* may also ask *remuneration* committees to provide the *appropriate regulator* with evidence of how well the *firm's remuneration* policies meet the *Remuneration Code's* principles, together with plans for improvement where there is a shortfall. The *appropriate regulator* also expects relevant *firms* to use the principles in assessing their exposure to

risks arising from their *remuneration* policies as part of the *internal capital adequacy assessment process (ICAAP)*.

- (6) The *Remuneration Code* is principally concerned with the risks created by the way *remuneration* arrangements are structured, not with the absolute amount of *remuneration*, which is generally a matter for *firms'* *remuneration* committees.

19A.2.3

FCA PRA

G

- (1) The specific *remuneration* requirements in this chapter may apply only in relation to certain categories of *employee*. But the *appropriate regulator* would expect *firms*, in complying with the *Remuneration Code general requirement*, to apply certain principles on a *firm-wide* basis.
- (2) In particular, the *appropriate regulator* considers that *firms* should apply the principle relating to guaranteed variable *remuneration* on a *firm-wide* basis (Remuneration Principle 12(c); ■ SYSC 19A.3.40 R to ■ SYSC 19A.3.43 G).
- (3) The *appropriate regulator* would also expect *firms* to apply at least the principles relating to risk management and risk tolerance (Remuneration Principle 1); supporting business strategy, objectives, values and long-term interests of the firm (Remuneration Principle 2); conflicts of interest (Remuneration Principle 3); governance (Remuneration Principle 4); risk adjustment (Remuneration Principle 8); pension policy (Remuneration Principle 9); personal investment strategies (Remuneration Principle 10); payments related to early termination (Remuneration Principle 12(e)) and deferral (Remuneration Principle 12(g)) on a *firm-wide* basis.

Record-keeping

19A.2.4

FCA PRA

G

In line with the record-keeping requirements in ■ SYSC 9, a *firm* should ensure that its *remuneration* policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions.

Interpretation of references to remuneration

19A.2.5

FCA PRA

R

- (1) In this chapter references to *remuneration* include *remuneration* paid, provided or awarded by any *person* to the extent that it is paid, provided or awarded in connection with *employment* by a *firm*.
- (2) Paragraph (1) is without prejudice to the meaning of *remuneration* elsewhere in the *Handbook*.

19A.2.6

FCA PRA

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Remuneration includes, for example, payments made by a seconding organisation which is not subject to the *Remuneration Code* to a secondee in respect of their *employment* by a *firm* which is subject to the *Remuneration Code*.

19A.3 Remuneration principles for banks, building societies and investment firms

Application: groups

19A.3.1

FCA PRA

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- (1) A *firm* must apply the requirements of this section at *group*, *parent undertaking* and *subsidiary undertaking* levels, including those *subsidiaries* established in a country or territory which is not an *EEA State*.
- (2) Paragraph (1) does not limit ■ SYSC 12.1.13 R (2)(dA) (which relates to the application of the *Remuneration Code* within *UK consolidation groups* and *non-EEA sub-groups*).

[Note: article 92(1) of *CRD*]

19A.3.2

FCA PRA

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■ SYSC 12.1.13 R (2)(dA) requires the *firm* to ensure that the risk management processes and internal control mechanisms at the level of any *UK consolidation group* or *non-EEA sub-group* of which a *firm* is a member comply with the obligations set out in this section on a consolidated (or sub-consolidated) basis. In the *appropriate regulator's* view, the requirement to apply this section at *group*, *parent undertaking* and *subsidiary undertaking* levels (as provided for in ■ SYSC 19A.3.1 R (1)) is in line with the requirements in article 109(2) of *CRD* concerning the application of systems and controls requirements to *groups* (as implemented in ■ SYSC 12.1.13 R).

Application: categories of staff and proportionality

19A.3.3

FCA PRA

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- (1) This section applies in relation to *Remuneration Code staff*, except as set out in (3).
- (2) When establishing and applying the total *remuneration* policies for *Remuneration Code staff*, a *firm* must comply with this section in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities (the *remuneration principles proportionality rule*).
- (3) Paragraphs (1) and (2) do not apply to the requirement for significant *firms* to have a *remuneration* committee (■ SYSC 19A.3.12 R).

[Note: article 92(2) of *CRD*]

[Note: In addition to the *guidance* in this section which relates to the *remuneration principles proportionality rule*, the *FSA* gave guidance on the division of *firms* into categories for the purpose of providing a framework for the operation of the *remuneration principles proportionality rule*. This *guidance* has been adopted by the *FCA* and is available in the *FCA* website at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

[Note: In addition to the *guidance* in this section which relates to the *remuneration principles proportionality rule*, the *FSA* gave guidance on the division of *firms* into categories for the purpose of providing a framework for the operation of the *remuneration principles proportionality rule*. This *guidance* has been adopted by the *FCA* and is available in the *FCA* website at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

19A.3.4

FCA PRA

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Remuneration Code staff comprises categories of staff including senior management, risk takers, staff engaged in control functions and any *employee* receiving total remuneration that takes them into the same *remuneration* bracket as senior management and risk takers, whose professional activities have a material impact on the *firm's* risk profile.

[Note: article 92(2) of *CRD*]

19A.3.5

FCA PRA

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A *firm* must:

- (1) maintain a record of its *Remuneration Code staff* in accordance with the general record-keeping requirements (■ SYSC 9); and
- (2) take reasonable steps to ensure that its *Remuneration Code staff* understand the implications of their status as such, including the potential for *remuneration* which does not comply with certain requirements of the *Remuneration Code* to be rendered void and recoverable by the *firm*.

19A.3.6

FCA PRA

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- (1) In the *appropriate regulator's* view:
 - (a) a *firm's* staff includes its *employees*;
 - (b) a *person* who performs a *significant influence function* for, or is a *senior manager* of, a *firm* would normally be expected to be part of the *firm's* *Remuneration Code staff*;
 - (c) the table in (2) provides a non-exhaustive list of examples of key positions that should, subject to (d), be within a *firm's* definition of staff who are risk takers;
 - (d) *firms* should consider how the examples in the table in (2) apply in relation to their own organisational structure (as the description of suggested business lines in the first row may be most appropriate to a *firm* which *deals on its own account* to a significant extent);
 - (e) *firms* may find it useful to set their own metrics to identify their risk takers based, for example, on trading limits; and
 - (f) a *firm* should treat a *person* as being *Remuneration Code staff* in relation to *remuneration* in respect of a given performance year if they were *Remuneration Code staff* for any part of that year.

[Note: The *FSA* gave *guidance* on the application of particular rules on *remuneration* structures in relation to individuals who are *Remuneration Code*

staff for only part of a given performance year. This guidance has been adopted by the FCA and is available in the FCA website at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

(2)

High-level category	Suggested business lines
Heads of significant business lines (including regional heads) and any individuals or groups within their control who have a material impact on the <i>firm's</i> risk profile	Fixed income
	Foreign exchange
	Commodities
	Securitisation
	Sales areas
	Investment banking (including mergers and acquisitions advisory)
	Commercial banking
	Equities
	Structured finance
	Lending quality
	Trading areas
	Research
	Heads of support and control functions and other individuals within their control who have a material impact on the <i>firm's</i> risk profile
Legal	
Treasury controls	
Human resources	
Compliance	
	Internal audit

Remuneration Principle 1: Risk management and risk tolerance

19A.3.7
FCA PRA

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A *firm* must ensure that its *remuneration* policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the *firm*.

[Note: article 92(2)(a) of *CRD*]

Remuneration Principle 2: Supporting business strategy, objectives, values and long-term interests of the firm19A.3.8
FCA PRA**R** A *firm* must ensure that its *remuneration* policy is in line with the business strategy, objectives, values and long-term interests of the *firm*.[Note: article 92(2)(b) of *CRD*]**Remuneration Principle 3: Avoiding conflicts of interest**19A.3.9
FCA PRA**R** A *firm* must ensure that its *remuneration* policy includes measures to avoid conflicts of interest.[Note: article 92(2)(b) of *CRD*]**Remuneration Principle 4: Governance**19A.3.10
FCA PRA**R** A *firm* must ensure that its *management body* in its *supervisory function* adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for overseeing its implementation.[Note: article 92(2)(c) of *CRD* and Standard 1 of the *FSB Compensation Standards*]19A.3.11
FCA PRA**R** A *firm* must ensure that the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the *management body* in its *supervisory function*.[Note: article 92(2)(d) of *CRD* and Standard 1 of the *FSB Compensation Standards*]19A.3.12
FCA PRA

- R**
- (1) A *CRR firm* that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration* committee.
 - (2) The *remuneration* committee must be constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices and the incentives created for managing risk, capital and liquidity.
 - (3) The chairman and the members of the *remuneration* committee must be members of the *management body* who do not perform any executive function in the *firm*.
 - (4) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *firm* and which are to be taken by the *management body*.
 - (5) When preparing such decisions, the *remuneration* committee must take into account the long-term interests of shareholders, investors and other stakeholders in the *firm* and the public interest.

[Note: article 95 of *CRD* and Standard 1 of the *FSB Compensation Standards*]

19A.3.12A
FCA PRA

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[Note: The *guidance* referred to in the Note to ■ SYSC 19A.3.3 R also gives *guidance* on proportionality in relation to *remuneration* committees.]

A *firm* that maintains a website must explain on the website how it complies with the *Remuneration Code*.

[Note: article 96 of *CRD*]

19A.3.12B
FCA

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In ■ SYSC 19A.3.12 R a '*CRR firm that is significant*' means a *significant IFPRU firm*.

19A.3.13
FCA PRA

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- (1) A *firm* should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which *remuneration* is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the *governing body* or *remuneration* committee (or both) should work closely with the *firm's* risk function in evaluating the incentives created by its *remuneration* system.
- (2) The *governing body* and any *remuneration* committee are responsible for ensuring that the *firm's* *remuneration* policy complies with the *Remuneration Code* and where relevant should take into account relevant guidance, such as that issued by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO).
- (3) The periodic review of the implementation of the *remuneration* policy should assess compliance with the *Remuneration Code*.
- (4) Guidance on what the *supervisory function* might involve is set out in ■ SYSC 4.3.3 G.

Remuneration Principle 5: Control functions

19A.3.14
FCA PRA

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A *firm* must ensure that *employees* engaged in control functions:

- (1) are independent from the business units they oversee;
- (2) have appropriate authority; and
- (3) are *remunerated*:
 - (a) adequately to attract qualified and experienced staff; and
 - (b) in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

[Note: article 92(2)(e) of *CRD* and Standard 2 of the *FSB Compensation Standards*]

19A.3.15
FCA PRA

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- (1) A *firm's* risk management and compliance functions should have appropriate input into setting the *remuneration* policy for other business areas. The procedures for setting *remuneration* should allow risk and compliance functions to have significant

input into the setting of individual *remuneration* awards where those functions have concerns about the behaviour of the individuals concerned or the riskiness of the business undertaken.

- (2) Contravention of (1) may be relied on as tending to establish contravention of the *rule* on *employees* engaged in control functions having appropriate authority (■ SYSC 19A.3.14 R (2)).

19A.3.16

FCA PRA

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A firm must ensure that the *remuneration* of the senior officers in risk management and compliance functions is directly overseen by the *remuneration* committee referred to in ■ SYSC 19A.3.12 R, or, if such a committee has not been established, by the *governing body* in its *supervisory function*.

[Note: article 92(2)(f) of CRD]

19A.3.17

FCA PRA

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- (1) This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the *remuneration* of *employees* within control functions. Conflicts of interest can easily arise when *employees* are involved in the determination of *remuneration* for their own business area. Where these could arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a *firm's* human resources function when setting *remuneration* for other business areas.
- (2) The need to avoid undue influence is particularly important where *employees* from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process.
- (3) The *appropriate regulator* would generally expect the ratio of the potential variable component of *remuneration* to the fixed component of *remuneration* to be significantly lower for *employees* in risk management and compliance functions than for *employees* in other business areas whose potential bonus is a significant proportion of their *remuneration*. *Firms* should nevertheless ensure that the total *remuneration* package offered to those *employees* is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the *remuneration* of *relevant persons* involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see ■ SYSC 6.1.4 R (4)).

Remuneration Principle 6: Remuneration and capital

19A.3.18

FCA PRA

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A firm must ensure that total variable *remuneration* does not limit the firm's ability to strengthen its capital base.

[Note: article 94(1)(c) of CRD and Standard 3 of the FSB Compensation Standards]

19A.3.19

FCA PRA

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This Remuneration Principle underlines the link between a *firm's* variable *remuneration* costs and the need to manage its capital base, including forward-looking capital planning measures. Where a *firm* needs to strengthen its capital base, its variable *remuneration* arrangements should be sufficiently flexible to allow it to direct the necessary resources towards capital building.

19A.3.20
FCA PRA

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Remuneration Principle 7: Exceptional government intervention

A *firm* that benefits from exceptional government intervention must ensure that:

- (1) variable *remuneration* is strictly limited as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base and timely exit from government support;
- (2) it restructures *remuneration* in a manner aligned with sound risk management and long-term growth, including when appropriate establishing limits to the *remuneration* of members of its *management body*; and
- (3) no variable *remuneration* is paid to members of its *management body* unless this is justified.

[Note: article 93 of *CRD* and Standard 10 of the *FSB Compensation Standards*]

19A.3.21
FCA PRA

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The *appropriate regulator* would normally expect it to be appropriate for the ban on paying variable *remuneration* to members of the *management body* of a *firm* that benefits from exceptional government intervention to apply only in relation to members of the *management body* who were in office at the time that the intervention was required.

Remuneration Principle 8: Profit-based measurement and risk adjustment19A.3.22
FCA PRA

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- (1) A *firm* must ensure that any measurement of performance used to calculate variable *remuneration* components or pools of variable *remuneration* components:
 - (a) includes adjustments for all types of current and future risks and takes into account the cost and quantity of the capital and the liquidity required; and
 - (b) takes into account the need for consistency with the timing and likelihood of the firm receiving potential future revenues incorporated into current earnings.
- (2) A *firm* must ensure that the allocation of variable *remuneration* components within the *firm* also takes into account all types of current and future risks.

[Note: article 94(1)(j), (k) of *CRD* and Standard 4 of the *FSB Compensation Standards*]

19A.3.23
FCA PRA

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- (1) This Remuneration Principle stresses the importance of risk adjustment in measuring performance, and the importance within that process of applying judgment and common sense. A *firm* should ask the risk management function to validate and assess risk-adjustment techniques, and to attend a meeting of the *governing body* or *remuneration* committee for this purpose.
- (2) A number of risk-adjustment techniques and measures are available, and a *firm* should choose those most appropriate to its circumstances. Common measures include those based on economic profit or economic capital.

Whichever technique is chosen, the full range of future risks should be covered. The *appropriate regulator* expects a *firm* to be able to provide it with details of all adjustments that the *firm* has made under a formulaic approach.

- (3) The *appropriate regulator* expects that a *firm* will apply qualitative judgments and common sense in the final decision about the performance-related components of variable *remuneration* pools.
- (4) A *firm's governing body* (or *remuneration* committee where appropriate) should take the lead in determining the measures to be used. It should offer the appropriate checks and balances to prevent inappropriate manipulation of the measures used. It should consult closely and frequently with the *firm's* risk management functions, in particular those relating to operational, market, credit and liquidity risk.

19A.3.24

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FCA PRA

- (1) Long-term incentive plans should be treated as pools of variable *remuneration*. Many common measures of performance for long-term incentive plans, such as earnings per *share* (EPS), are not adjusted for longer-term risk factors. Total shareholder return (TSR), another common measure, includes in its measurement dividend distributions, which can also be based on unadjusted earnings data. If incentive plans mature within a two to four year period and are based on EPS or TSR, strategies can be devised to boost EPS or TSR during the life of the plan, to the detriment of the true longer-term health of a *firm*. For example, increasing leverage is a technique which can be used to boost EPS and TSR. *Firms* should take account of these factors when developing risk-adjustment methods.
- (2) *Firms* that have long-term incentive plans should structure them with vesting subject to appropriate performance conditions, and at least half of the award vesting after not less than five years and the remainder after not less than three years.
- (3) Long-term incentive plan awards may be included in the calculation of the deferred portion of variable *remuneration* only if upside incentives are adequately balanced by downside adjustments. The valuation of the award should be based on its value when the award is granted, and determined using an appropriate technique.

19A.3.25

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FCA PRA

Assessments of financial performance used to calculate variable *remuneration* components or pools of variable *remuneration* components must be based principally on profits.

19A.3.26

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FCA PRA

- (1) Performance measures based primarily on revenues or turnover are unlikely to pay sufficient regard to the quality of business undertaken or services provided. Profits are a better measure provided they are adjusted for risk, including future risks not adequately captured by accounting profits.
- (2) Management accounts should provide profit data at such levels within the *firm's* structure as to enable a *firm* to see as accurate a picture of contributions of relevant staff to a *firm's* performance as is reasonably practicable. If revenue or turnover is used as a component in performance assessment, processes should be in place to ensure that the quality of business undertaken or services provided and their appropriateness for *clients* are taken into account.

19A.3.27 **R**
FCA PRA

A *firm* must ensure that its total variable *remuneration* is generally considerably contracted where subdued or negative financial performance of the *firm* occurs, taking into account both current *remuneration* and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

[Note: article 94(1)(n) of *CRD* and Standard 5 of the *FSB Compensation Standards*]

19A.3.28 **G**
FCA PRA

Where a *firm* makes a loss the *appropriate regulator* would generally expect no variable *remuneration* to be awarded. Variable *remuneration* may nevertheless be justified, for example, to incentivise *employees* involved in new business ventures which could be loss-making in their early stages.

Remuneration Principle 9: Pension policy

19A.3.29 **R**
FCA PRA

A *firm* must ensure that:

- (1) its pension policy is in line with its business strategy, objectives, values and long-term interests;
- (2) when an *employee* leaves the *firm* before retirement, any *discretionary pension benefits* are held by the *firm* for a period of five years in the form of instruments referred to in
 - SYSC 19A.3.47 R (1); and
- (3) when an *employee* reaches retirement, *discretionary pension benefits* are paid to the *employee* in the form of instruments referred to in ■ SYSC 19A.3.47 R (1) and subject to a five-year retention period.

[Note: article 94(1)(o) of *CRD*]

Remuneration Principle 10: Personal investment strategies

19A.3.30 **R**
FCA PRA

- (1) A *firm* must ensure that its *employees* undertake not to use personal hedging strategies or *remuneration-* or liability-related *contracts of insurance* to undermine the risk alignment effects embedded in their *remuneration* arrangements.
- (2) A *firm* must maintain effective arrangements designed to ensure that *employees* comply with their undertaking.

[Note: article 94(1)(p) of *CRD* and Standard 14 of the *FSB Compensation Standards*]

19A.3.31 **G**
FCA PRA

In the *appropriate regulator's* view, circumstances in which a *person* will be using a personal hedging strategy include entering into an arrangement with a third party under which the third party will make payments, directly or indirectly, to that *person* that are linked to or commensurate with the amounts by which the *person's remuneration* is subject to reductions.

19A.3.32
FCA PRA

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Remuneration Principle 11: Non-compliance with the Remuneration Code

A *firm* must ensure that variable *remuneration* is not paid through vehicles or methods that facilitate non-compliance with the *Remuneration Code*.

[Note: article 94(1)(q) of *CRD*]

19A.3.33
FCA PRA

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Remuneration Principle 12: Remuneration structures - introduction

Remuneration Principle 12 consists of a series of *rules*, *evidential provisions* and *guidance* relating to *remuneration* structures.

19A.3.34
FCA PRA

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- (1) Taking account of the *remuneration principles proportionality rule*, the *appropriate regulator* does not generally consider it necessary for a *firm* to apply the *rules* referred to in (2) where, in relation to an individual ("X"), both the following conditions are satisfied:
 - (a) Condition 1 is that Xs variable *remuneration* is no more than 33% of total *remuneration*; and
 - (b) Condition 2 is that Xs total *remuneration* is no more than 500,000.
- (2) The *rules* referred to in (1) are those relating to:
 - (a) guaranteed variable *remuneration* (■ SYSC 19A.3.40 R);
 - (b) retained *shares* or other instruments (■ SYSC 19A.3.47 R);
 - (c) deferral (■ SYSC 19A.3.49 R); and
 - (d) performance adjustment (■ SYSC 19A.3.51 R).

[Note: The *FSA* also gave *guidance* on the application of certain *rules* on *remuneration* structures in relation to individuals who are *Remuneration Code staff* for only part of a given performance year. This guidance has been adopted by the FCA and is available in the FCA website at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

Remuneration Principle 12(a): Remuneration structures - general requirement19A.3.35
FCA PRA

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A *firm* must ensure that the structure of an *employee's remuneration* is consistent with and promotes effective risk management.

19A.3.35A
FCA PRA

R

A *firm* must ensure that the *remuneration* policy makes a clear distinction between criteria for setting:

- (1) basic fixed *remuneration* that primarily reflects an *employee's* professional experience and organisational responsibility as set out in the *employee's* job description and terms of employment; and
- (2) variable *remuneration* that reflects performance in excess of that required to fulfil the *employee's* job description and terms of employment and that is subject to performance adjustment in accordance with the *Remuneration Code*.

19A.3.35B **R**
FCA

[Note: article 92(2)(g) of CRD]

A *firm* must ensure that the *remuneration* policy makes a clear distinction between criteria for setting:

- (1) basic fixed *remuneration* that primarily reflects an *employee's* professional experience and organisational responsibility as set out in the *employee's* job description and terms of employment; and
- (2) variable *remuneration* that reflects performance in excess of that required to fulfil the *employee's* job description and terms of employment and that is subject to performance adjustment in accordance with the *Remuneration Code*.

[Note: article 92(2)(g) of CRD]

Remuneration Principle 12(b): Remuneration structures - assessment of performance

19A.3.36 **R**
FCA PRA

A *firm* must ensure that where *remuneration* is performance-related:

- (1) the total amount of *remuneration* is based on a combination of the assessment of the performance of:
 - (a) the individual;
 - (b) the business unit concerned; and
 - (c) the overall results of the *firm*; and
- (2) when assessing individual performance, financial as well as non-financial criteria are taken into account.

[Note: article 94(1)(a) of CRD and Standard 6 of the FSB Compensation Standards]

19A.3.37 **G**
FCA PRA

Non-financial performance metrics should form a significant part of the performance assessment process and should include adherence to effective risk management and compliance with the *regulatory system* and with relevant overseas regulatory requirements. Poor performance as assessed by non-financial metrics such as poor risk management or other behaviours contrary to *firm* values can pose significant risks for a *firm* and should, as appropriate, override metrics of financial performance. The performance assessment process and the importance of non-financial assessment factors in the process should be clearly explained to relevant *employees* and implemented. A balanced scorecard can be a good technique.

19A.3.38 **R**
FCA PRA

A *firm* must ensure that the assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of *remuneration* is spread over a period which takes account of the underlying business cycle of the *firm* and its business risks.

[Note: article 94(1)(b) of CRD]

19A.3.39

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FCA PRA

The requirement for assessment of performance to be in a multi-year framework reflects the fact that profits from a *firm's* activities can be volatile and subject to cycles. The financial performance of *firms* and individual *employees* can be exaggerated as a result. Performance assessment on a moving average of results can be a good way of meeting this requirement. However, other techniques such as good quality risk adjustment and deferral of a sufficiently large proportion of *remuneration* may also be useful.

Remuneration Principle 12(c): Remuneration structures - guaranteed variable remuneration

19A.3.40

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FCA PRA

A *firm* must ensure that guaranteed variable *remuneration* is not part of prospective *remuneration* plans. A *firm* must not award, pay or provide guaranteed variable *remuneration* unless :

- (1) it is exceptional;
- (2) it occurs in the context of hiring new *Remuneration Code* staff;
- (3) the *firm* has a sound and strong capital base; and
- (4) it is limited to the first year of service.

[Note: article 94(1)(d) and (e) of CRD and Standard 11 of the *FSB Compensation Standards*]

19A.3.40A

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FCA PRA

A *firm* must ensure that *remuneration* packages relating to compensation for, or buy out from, an *employee's* contracts in previous employment align with the long term interests of the *firm* and are subject to appropriate retention, deferral and performance and clawback arrangements.

[Note: article 94(1)(i) of CRD]

19A.3.41

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FCA PRA

- (1) A *firm* should not award, pay or provide guaranteed variable *remuneration* in the context of hiring new *Remuneration Code* staff (X) unless:
 - (a) it has taken reasonable steps to ensure that the *remuneration* is not more generous in either its amount or terms (including any deferral or retention periods) than the variable *remuneration* awarded or offered by Xs previous employer; and
 - (b) it is subject to appropriate performance adjustment requirements.

- (2) Contravention of (1) may be relied on as tending to establish contravention of the *rule* on guaranteed variable *remuneration* (
 - SYSC 19A.3.40 R).

19A.3.42

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FCA PRA

Guaranteed variable *remuneration* should be subject to the same deferral criteria as other forms of variable *remuneration* awarded by the *firm*.

19A.3.43
FCA PRA

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In the *appropriate regulator's* view, variable *remuneration* can be awarded to *Remuneration Code staff* in the form of retention awards where it is compatible with the *Remuneration Code general requirement* to do so. The *appropriate regulator* considers this is likely to be the case only where a *firm* is undergoing a major restructuring and a good case can be made for retention of particular key staff members on prudential grounds. Proposals to give retention awards should form part of any notice of the restructuring proposals required in accordance with *Principle 11* and the general notification requirements in ■ SUP 15.3.

Remuneration Principle 12(d): Remuneration structures - ratios between fixed and variable components of total remuneration

19A.3.44
FCA PRA

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A *firm* must set appropriate ratios between the fixed and variable components of total *remuneration* and ensure that:

- (1) fixed and variable components of total *remuneration* are appropriately balanced;
- (2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component ; and
- (3) subject to ■ SYSC 19A.3.44A R, the ratio of the variable component of total *remuneration* to the fixed component does not exceed 1:1.

[Note: Paragraph 23(l) of Annex V to the *Banking Consolidation Directive*]

19A.3.44A
FCA PRA

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A *firm* may set a ratio between the fixed and the variable components of total *remuneration* that exceeds 1:1 provided the ratio:

- (1) does not exceed 1:2; and
- (2) is approved by the shareholders or owners or members of the *firm* in accordance with ■ SYSC 19A.3.44B R.

[Note: article 94(1)(g)(ii) of *CRD*]

19A.3.44B
FCA PRA

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A *firm* must ensure that any approval by the shareholders or owners or members of the *firm* of a ratio that exceeds 1:1 is carried out in accordance with the following procedure:

- (1) the *firm* must give reasonable notice to all shareholders or owners or members of the *firm* that the *firm* intends to seek approval of a ratio that exceeds 1:1;
- (2) the *firm* must make a detailed recommendation to all shareholders or owners or members of the *firm* giving the reasons for, and the scope of, the approval sought, including

the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base;

- (3) the *firm* must, without delay, inform the *appropriate regulator* of the recommendation to its shareholders or owners or members, including the proposed ratio and the reasons therefor and must demonstrate to the *appropriate regulator* that the proposed higher ratio does not conflict with the *firm's* obligations under the *CRD* and the *CRR*, having regard in particular to the *firm's own funds* obligations;
- (4) the *firm* must ensure that *employees* who have an interest in the proposed higher ratio are not allowed to exercise, directly or indirectly, any voting rights they may have as shareholders or owners or members of the *firm* in respect of the approval sought; and
- (5) the higher ratio is approved by a majority of:
 - (a) at least 66% of shareholders or owners or members of the *firm*, provided that at least 50% of the shareholders or owners or members are represented; or
 - (b) at least 75% of shareholders or owners or members of the *firm* if less than 50% of the shareholders, members or owners are represented.

[Note: article 94(1)(g)(ii) of *CRD*]

19A.3.44C

FCA PRA

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A *firm* must notify without delay the *appropriate regulator* of the decisions taken by its shareholders or members or owners including any approved higher maximum ratio.

[Note: article 94(1)(g)(ii) of *CRD*]

19A.3.44D

FCA PRA

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A *firm* may apply a discount rate to a maximum of 25% of an *employee's* total variable remuneration provided it is paid in instruments that are deferred for a period of not less than five years.

[Note: article 94(1)(g)(iii) of *CRD*]

Remuneration Principle 12(e): Remuneration structures - payments related to early termination

19A.3.45

FCA PRA

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A *firm* must ensure that payments relating to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure or misconduct.

[Note: article 94(1)(h) of *CRD* and Standard 12 of the *FSB Compensation Standards*]

19A.3.46

FCA PRA

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Firms should review existing contractual payments related to termination of employment with a view to ensuring that these are payable only where there is a clear basis for concluding that they are consistent with the *Remuneration Code general requirement*.

[Note: Standard 12 of the *FSB Compensation Standards*]

Remuneration Principle 12(f): Remuneration structures - retained shares or other instruments

19A.3.47 **R**
FCA PRA

- (1) A *firm* must ensure that a substantial portion, which is at least 50%, of any variable *remuneration* consists of an appropriate balance of:
 - (a) *shares* or equivalent ownership interests, subject to the legal structure of the *firm* concerned, or *share*-linked instruments or equivalent non-cash instruments in the case of a non-listed *firm*; and
 - (b) where possible other instruments which are eligible as Additional Tier 1 instruments or are eligible as Tier 2 instruments or other instruments that can be fully converted to Common Equity Tier 1 instruments or written down, that in each case adequately reflect the credit quality of the *firm* as a going concern and are appropriate for use as variable remuneration.
- (2) The instruments in (1) must be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the *firm*.
- (3) This *rule* applies to both the portion of the variable *remuneration* component deferred in accordance with ■ SYSC 19A.3.49 R and the portion not deferred.

[Note: article 94(1)(l) of *CRD* and Standard 8 of the *FSB Compensation Standards*]

19A.3.48 **G**
FCA PRA

- (1) The Committee of European Banking Supervisors has given guidance on the interpretation of the Directive provision transposed by ■ SYSC 19A.3.47 R (3). Its Guidelines provide that this requirement means that the 50% minimum threshold for instruments must be applied equally to the non-deferred and the deferred components; in other words, *firms* must apply the same chosen ratio between instruments and cash for their total variable *remuneration* to both the upfront and deferred components. (Guidelines on Remuneration Policies and Practices, 10 December 2010, paragraph 133.)
- (2) This simplified example illustrates the operation of (1). The variable remuneration of a material risk taker (X) is 100, and by ■ SYSC 19A.3.49 R (3) X is required to defer 60%. Xs upfront component is 40 and Xs deferred component is 60. At least 20 of Xs upfront component, and at least 30 of Xs deferred component, must be in instruments referred to in ■ SYSC 19A.3.47 R (1).

Remuneration Principle 12(g): Remuneration structures - deferral

19A.3.49 **R**
FCA PRA

- (1) A *firm* must not award, pay or provide a variable *remuneration* component unless a substantial portion of it, which is at least

40%, is deferred over a period which is not less than three to five years.

- (2) *Remuneration* under (1) must vest no faster than on a pro-rata basis.
- (3) In the case of a variable *remuneration* component:
 - (a) of a particularly high amount, or
 - (b) payable to a *director* of a *firm* that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities;

at least 60% of the amount must be deferred.
- (4) Paragraph (3)(b) does not apply to a *non-executive director*.
- (5) The length of the deferral period must be established in accordance with the business cycle, the nature of the business, its risks and the activities of the *employee* in question.

[Note: article 94(1)(m) of *CRD* and Standards 6 and 7 of the *FSB Compensation Standards*]

- (6) 500,000 is a particularly high amount for the purpose of (3)(a).
- (7) Paragraph (6) is without prejudice to the possibility of lower sums being considered a particularly high amount.

19A.3.50

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FCA PRA

- (1) Deferred *remuneration* paid in *shares* or *share*-linked instruments should be made under a scheme which meets appropriate criteria, including risk adjustment of the performance measure used to determine the initial allocation of shares. Deferred *remuneration* paid in cash should also be subject to performance criteria.
- (2) The *appropriate regulator* would generally expect a *firm* to have a *firm*-wide policy (and *group*-wide policy, where appropriate) on deferral. The proportion deferred should generally rise with the ratio of variable *remuneration* to fixed *remuneration* and with the amount of variable *remuneration*. While any variable *remuneration* component of 500,000 or more paid to *Remuneration Code staff* must be subject to 60% deferral, *firms* should also consider whether lesser amounts should be considered to be 'particularly high' taking account, for example, of whether there are significant differences within *Remuneration Code staff* in the levels of variable *remuneration* paid.

Remuneration Principle 12(h): Remuneration structures - performance adjustment, etc.

A *firm* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified on the basis of the performance of the *firm*, the business unit and the individual concerned.

19A.3.51

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FCA PRA

19A.3.51A

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FCA PRA

[Note: article 94(1)(n) of *CRD* and Standards 6 and 9 of the *FSB Compensation Standards*]A *firm* must:

- (1) ensure that any of the total variable *remuneration* is subject to malus or clawback arrangements;
- (2) set specific criteria for the application of malus and clawback; and
- (3) ensure that the criteria for the application of malus and clawback in particular cover situations where the *employee*:
 - (a) participated in or was responsible for conduct which resulted in significant losses to the *firm*;
 - (b) failed to meet appropriate standards of fitness and propriety.

[Note: article 94(1)(n) of *CRD*]

19A.3.52

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FCA PRA

- (1) A *firm* should reduce unvested deferred variable *remuneration* when, as a minimum:
 - (a) there is reasonable evidence of *employee* misbehaviour or material error; or
 - (b) the *firm* or the relevant business unit suffers a material downturn in its financial performance; or
 - (c) the *firm* or the relevant business unit suffers a material failure of risk management.
- (2) For performance adjustment purposes, awards of deferred variable *remuneration* made in *shares* or other non-cash instruments should provide the ability for the *firm* to reduce the number of *shares* or other non-cash instruments.
- (3) Contravention of (1) or (2) may be relied on as tending to establish contravention of the *rule* on performance adjustment (■ SYSC 19A.3.51 R).

19A.3.53

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FCA PRA

- (1) Variable *remuneration* may be justified, for example, to incentivise *employees* involved in new business ventures which could be loss-making in their early stages.
- (2) The *governing body* (or, where appropriate, the *remuneration* committee) should approve performance adjustment policies, including the triggers under which adjustment would take place. The *appropriate regulator* may ask *firms* to provide a copy of their policies and expects *firms* to make adequate records of material decisions to operate the adjustments.

Effect of breaches of the Remuneration Principles

19A.3.53A

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■ SYSC 19A Annex 1 makes provision about voiding and recovery.

FCA PRA

19A.3.54

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(1) Subject to (1A) to (3), the *rules* in ■ SYSC 19A Annex 1.1R to 1.4R apply in relation to the prohibitions on *Remuneration Code staff* being *remunerated* in the ways specified in:

- (a) ■ SYSC 19A.3.40 R (guaranteed variable *remuneration*);
- (b) ■ SYSC 19A.3.49 R (non-deferred variable *remuneration*); and
- (c) ■ SYSC 19A Annex 1.7R (replacing payments recovered or property transferred).

(1A) Paragraph (1) applies only to those prohibitions as they apply in relation to a *firm* that satisfies at least one of the conditions set out in (1B) and (1D).

(1B) Condition 1 is that the *firm* is a *UK bank*, a *building society*, a *designated investment firm*, or a relevant *IFPRU 730k firm* that has relevant total assets exceeding £50 billion.

(1C) [deleted]

(1D) Condition 2 is that the *firm*:

- (a) is a *full credit institution*, a *designated investment firm*, a relevant *IFPRU 730k firm* or a relevant *third country IFPRU 730k firm*; and
- (b) is part of a *group* containing a *firm* that has relevant total assets exceeding £50 billion and that is a *UK bank*, a *building society*, a *designated investment firm* or a relevant *IFPRU 730k firm*.

(1E) In this rule:

- (a) a "relevant *IFPRU 730k firm*" is any *IFPRU 730k firm* that is not a *limited activity firm* or a *limited licence firm*;
- (b) a "relevant *third country IFPRU 730k firm*" is any *third country IFPRU 730k firm* that is not a *limited activity firm* or a *limited licence firm*; and
- (c) "relevant total assets" means the arithmetic mean of the *firm's* total assets as set out in its balance sheet on its last three *accounting reference dates*.

(2) This *rule* does not apply in relation to the prohibition on *Remuneration Code staff* being *remunerated* in the way specified

in ■ SYSC 19A.3.40 R (guaranteed variable *remuneration*) if both the conditions in paragraphs (2) and (3) of that *rule* are met.

- (3) This *rule* does not apply in relation to *Remuneration Code staff* (X) in respect of whom both the following conditions are satisfied:
- (a) Condition 1 is that Xs variable *remuneration* is no more than 33% of total *remuneration*; and
 - (b) Condition 2 is that Xs total *remuneration* is no more than 500,000.
- (4) In relation to (3):
- (a) references to *remuneration* are to *remuneration* awarded or paid in respect of the relevant performance year;
 - (b) the amount of any *remuneration* is:
 - (i) if it is money, its amount when awarded;
 - (ii) otherwise, whichever of the following is greatest: its value to the recipient when awarded; its market value when awarded; and the cost of providing it;
 - (c) where *remuneration* is, when awarded, subject to any condition, restriction or other similar provision which causes the amount of the *remuneration* to be less than it otherwise would be, that condition, restriction or provision is to be ignored in arriving at its value; and
 - (d) it is to be assumed that the member of *Remuneration Code staff* will remain so for the duration of the relevant performance year.

19A.3.55 G
FCA PRA

- (1) Sections 137H and 137I of the *Act* enables the *appropriate regulator* to make *rules* that render void any provision of an agreement that contravenes specified prohibitions in the *Remuneration Code*, and that provide for the recovery of any payment made, or other property transferred, in pursuance of such a provision. ■ SYSC 19A.3.53A R and ■ SYSC 19A.3.54 R (together with ■ SYSC 19A Annex 1) are such *rules* and render void provisions of an agreement that contravene the specified prohibitions on guaranteed variable *remuneration*, non-deferred variable *remuneration* and replacing payments recovered or property transferred. This is an exception to the general position set out in section 138E(2) of the *Act* that a contravention of a *rule* does not make any transaction void or unenforceable.
- (2) [deleted]

Chapter 19B

AIFM Remuneration Code

19B.1 Application

19B.1.1 **R** The *AIFM Remuneration Code* applies to a *full-scope UK AIFM* of:
FCA

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*.

19B.1.1A **G**
FCA (1) *Full-scope UK AIFMs* are advised that *ESMA* published Guidelines on sound remuneration policies under the *AIFMD* on 3 July 2013, which *full-scope UK AIFMs* should comply with in applying the *rules* in this section. The Guidelines can be found at: http://www.esma.europa.eu/system/files/2013-232_aifmd_guidelines_on_remuneration_-_en.pdf

- (2) The *FCA* has provided additional *guidance* on the application of principles of proportionality to remuneration policies of *AIFM*. The *guidance* also addresses several other aspects of the *AIFM Remuneration Code* and the Guidelines. The *guidance* can be found at: [...]

Remuneration policies and practices

19B.1.2 **R** An *AIFM* must establish, implement and maintain *remuneration* policies and practices for *AIFM Remuneration Code staff* that are consistent with, and promote, sound and effective risk management and do not encourage risk-taking which is inconsistent with the risk profile of the *instrument constituting the fund* of the *AIFs* it manages.
FCA

[Note: article 13(1) of *AIFMD*]

19B.1.3 **R** *AIFM Remuneration Code staff* comprise those categories of staff whose professional activities have a material impact on the risk profiles of the *AIFMs* or of the *AIFs* the *AIFM* manages. This includes senior management, risk takers, control functions, and any *employees* receiving total *remuneration* that takes them into the same *remuneration* bracket as senior management and risk takers.
FCA

[Note: article 13(1) of *AIFMD*]

19B.1.4

FCA

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- (1) When establishing and applying the total *remuneration* policies for *AIFM Remuneration Code staff* (inclusive of salaries and discretionary pension benefits), an *AIFM* must comply with the *AIFM remuneration principles* in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.
- (2) Paragraph (1) does not apply to the requirement for significant *AIFMs* to have a *remuneration* committee (■ SYSC 19B.1.9 R).
- (3) The *AIFM remuneration principles* apply to remuneration of any type paid by the *AIFM*, to any amount paid directly by the *AIF* itself, including *carried interest*, and to any transfer of *units* or *shares* of the *AIF* made to the benefits of *AIFM Remuneration Code staff*.

[Note: paragraph 1 and 2 of Annex II of *AIFMD*]

AIFM Remuneration Principle 1: Risk management

19B.1.5

FCA

R

An *AIFM* must ensure that its *remuneration* policy is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles of the *instrument constituting the fund* of the *AIFs* it manages.

[Note: paragraph 1(a) of Annex II of *AIFMD*]

AIFM Remuneration Principle 2: Supporting business strategy, objectives, values and interests, and avoiding conflicts of interest

19B.1.6

FCA

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An *AIFM* must ensure that its *remuneration* policy is in line with the business strategy, objectives, values and interests of the *AIFM* and the *AIFs* it manages or the investors of such *AIFs*, and includes measures to avoid conflicts of interest.

[Note: paragraph 1(b) of Annex II of *AIFMD*]

AIFM Remuneration Principle 3: Governance

19B.1.7

FCA

R

An *AIFM* must ensure that the *governing body* of the *AIFM*, in its supervisory function, adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for its implementation.

[Note: paragraph 1(c) of Annex II of *AIFMD*]

19B.1.8

FCA

R

An *AIFM* must ensure the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the *governing body* in its supervisory function.

[Note: paragraph 1(d) of Annex II of *AIFMD*]

19B.1.9

FCA

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- (1) An *AIFM* that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration* committee.
- (2) The *remuneration* committee must be constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices, and the incentives created for managing risk.
- (3) The chairman and the members of the *remuneration* committee must be members of the *governing body* who do not perform any executive function in the *AIFM*.
- (4) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *AIFM* or the *AIF* concerned and which are taken by the *governing body* in its supervisory function.

[Note: paragraph 3 of Annex II of *AIFMD*]

AIFM Remuneration Principle 4: Control functions

19B.1.10

FCA

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An *AIFM* must ensure that *employees* engaged in control functions are compensated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

[Note: paragraph 1(e) of Annex II of *AIFMD*]

19B.1.11

FCA

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An *AIFM* must ensure the *remuneration* of the senior officers in the risk management and compliance functions is directly overseen by the *remuneration* committee, or, if such a committee has not been established, by the *governing body* in its supervisory function.

[Note: paragraph 1(f) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(a): Remuneration structures - assessment of performance

19B.1.12

FCA

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An *AIFM* must ensure that, where *remuneration* is performance related, the total amount of *remuneration* is based on a combination of the assessment of the performance of the individual and of the business unit or *AIF* concerned and of the overall results of the *AIFM*. When assessing individual performance, financial and non-financial criteria are taken into account.

[Note: paragraph 1(g) of Annex II of *AIFMD*]

19B.1.13

FCA

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An *AIFM* must ensure that the assessment of performance is set in a multi-year framework appropriate to the life-cycle of the *AIFs* managed by the *AIFM* to ensure that:

- (1) the assessment process is based on longer term performance; and
- (2) the actual payment of performance-based components of remuneration is spread over a period which takes account of the redemption policy of the *AIFs* it manages and their investment risks.

[Note: paragraph 1(h) of Annex II of *AIFMD*]

19B.1.13A

FCA

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- (1) Taking account of the remuneration principles proportionality *rule* in ■ SYSC 19B.1.4 R, the *FCA* does not generally consider it necessary for a *firm* to apply the *rules* referred to in (2) where, in relation to an individual ("X"), both of the following conditions are satisfied:
 - (a) Condition 1 is that X's variable *remuneration* is no more than 33% of total *remuneration*; and
 - (b) Condition 2 is that X's total *remuneration* is no more than £500,000.
- (2) The *rules* referred to in (1) are those relating to:
 - (a) guaranteed variable *remuneration* (■ SYSC 19B.1.14 R);
 - (b) retained *units, shares* or other instruments (■ SYSC 19B.1.17 R);
 - (c) deferral (■ SYSC 19B.1.18 R); and
 - (d) performance adjustment (■ SYSC 19B.1.19 R).

AIFM Remuneration Principle 5(b): Remuneration structures - guaranteed variable remuneration

19B.1.14

FCA

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An *AIFM* must not award, pay or provide guaranteed variable remuneration unless it;

- (1) is exceptional;
- (2) occurs only in the context of hiring new staff; and
- (3) is limited to the first year of service.

[Note: paragraph 1(i) of Annex II of *AIFMD*]

19B.1.15

FCA

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AIFM Remuneration Principle 5(c): Remuneration structures - ratios between fixed and variable components of total remuneration

An *AIFM* must set appropriate ratios between the fixed and variable components of total *remuneration* and ensure that:

- (1) fixed and variable components of total *remuneration* are appropriately balanced; and
- (2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component.

[Note: paragraph 1(j) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(d): Remuneration structures - payments related to early termination

19B.1.16

FCA

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An *AIFM* must ensure that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.

[Note: paragraph 1(k) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(e): Remuneration structures - retained units, shares or other instruments

19B.1.17

FCA

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- (1) Subject to the legal structure of the *AIF* and the *instrument constituting the fund*, an *AIFM* must ensure that a substantial portion, and in any event at least 50% of any variable *remuneration*, consists of *units* or *shares* of the *AIF* concerned, or equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments. However, if the management of *AIFs* accounts for less than 50% of the total portfolio managed by the *AIFM*, the minimum of 50 % does not apply.
- (2) The instruments in (1) must be subject to an appropriate retention policy designed to align incentives with the long-term interests of the *AIFM* and the *AIFs* it manages and the investors of such *AIFs*.
- (3) This *rule* applies to the portion of the variable *remuneration* component deferred in line with ■ SYSC 19B.1.18R (1) and the portion not deferred.

[Note: paragraph 1(m) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(f): Remuneration structures - deferral

19B.1.18

FCA

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- (1) An *AIFM* must not award, pay or provide a variable *remuneration* component unless a substantial portion, and in any event at least 40%, of the variable *remuneration* component, is deferred over a period which is appropriate in view of the life

cycle and redemption policy of the *AIF* concerned and is correctly aligned with the nature of the risks of the *AIF* in question

- (2) The period referred to in (1) must be at least three to five years, unless the life cycle of the *AIF* concerned is shorter.
- (3) *Remuneration* payable under (1) must vest no faster than on a pro-rata basis.
- (4) In the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount must be deferred.

[Note: paragraph 1(n) of Annex II of *AIFMD*]

19B.1.18A

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FCA

- (1) £500,000 is a particularly high amount for the purpose of ■ SYSC 19B.1.18 R (4).
- (2) Paragraph (1) is without prejudice to the possibility of lower sums being considered a particularly high amount.
- (3) Whilst any variable *remuneration* component of £500,000 or more paid to *AIFM Remuneration Code staff* should be subject to 60% deferral, *firms* should also consider whether lesser amounts should be considered to be 'particularly high', taking account, for example, of whether there are significant differences within *AIFM Remuneration Code staff* in the levels of variable *remuneration* paid.

AIFM Remuneration Principle 5(g): Remuneration structures - performance adjustment, etc.

19B.1.19

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FCA

An *AIFM* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *AIFM* as a whole and justified according to the performance of the *AIF*, the business unit and the individual concerned.

[Note: paragraph 1(o) first sub-paragraph of Annex II of *AIFMD*]

19B.1.20

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FCA

The total variable *remuneration* should generally be considerably contracted where subdued or negative financial performance of the *AIFM* or of the *AIF* concerned occurs, taking into account both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

[Note: paragraph 1(o) second sub-paragraph of Annex II of *AIFMD*]

AIFM Remuneration Principle 6: Measurement of performance

19B.1.21

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FCA

An *AIFM* must ensure the measurement of performance used to calculate variable *remuneration* components, or pools of variable *remuneration* components, includes a comprehensive adjustment mechanism to integrate all relevant types of current and future risks.

[Note: paragraph 1(l) of Annex II of *AIFMD*]

19B.1.22

FCA

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AIFM Remuneration Principle 7: Pension policy

An *AIFM* must ensure that:

- (1) its pension policy is in line with its business strategy, objectives, values and long-term interests of the *AIFs* it manages;
- (2) when an *employee* leaves the *firm* before retirement, any *discretionary pension benefits* are held by the *firm* for a period of five years in the form of instruments in ■ SYSC 19B.1.17R (1); and
- (3) in the case of an *employee* reaching retirement, *discretionary pension benefits* are paid to the *employee* in the form of instruments referred to in ■ SYSC 19B.1.17R (1) and subject to a five-year retention period.

[Note: paragraph 1(p) of Annex II of *AIFMD*]

19B.1.23

FCA

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AIFM Remuneration Principle 8: Personal investment strategies

An *AIFM* must ensure that its *employees* undertake not to use personal hedging strategies or *remuneration-* and liability-related insurance to undermine the risk alignment effects embedded in their *remuneration* arrangements.

[Note: paragraph 1(q) of Annex II of *AIFMD*]

19B.1.24

FCA

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AIFM Remuneration Principle 9: Avoidance of the remuneration code

An *AIFM* must ensure that variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the requirements of the *AIFM Remuneration Code*.

[Note: paragraph 1(r) of Annex II of *AIFMD*]

Chapter 19C

BIPRU Remuneration Code

19C.1 General application and purpose

Who? What? Where?

19C.1.1

FCA

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- (1) The *BIPRU Remuneration Code* applies to a *BIPRU firm* and a *third country BIPRU firm*.
- (2) In relation to a *third country BIPRU firm*, the *BIPRU Remuneration Code* applies only in relation to activities carried on from an establishment in the *United Kingdom*.

19C.1.2

FCA

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Part 2 of ■ SYSC 1 Annex 1 provides for the application of ■ SYSC 4.1.1 R and ■ SYSC 4.1.1C R (General Requirements). In particular, and subject to the provisions on group risk systems and controls requirements in ■ SYSC 12, this means that:

- (1) the *BIPRU Remuneration Code*:
 - (a) applies to *regulated activities*, *ancillary activities* and applicable *ancillary services*;
 - (b) applies to the carrying on of *unregulated activities* in a *prudential context*; and
 - (c) takes into account activities of other *group* members; and
- (2) where the *BIPRU Remuneration Code* applies, it applies to:
 - (a) a *firm's UK* activities;
 - (b) a *firm's passported activities* carried on from a *branch* in another *EEA State*; and
 - (c) a *UK domestic firm's* activities wherever they are carried on, in a *prudential context*.

When?

19C.1.3

FCA

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A *firm* must apply the *remuneration* requirements in ■ SYSC 19C.3 to:

- (1) *remuneration* awarded, whether under a contract or otherwise, on or after 1 January 2014;

- (2) *remuneration* due on the basis of contracts concluded before 1 January 2014 which is awarded or paid on or after 1 January 2014; and
- (3) *remuneration* awarded, but not yet paid, before 1 January 2014, for services provided in 2013.

19C.1.4

FCA

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Subject to the requirements of ■ SYSC 19C.1.5 R, in the FCA's view ■ SYSC 19C.1.3 R does not require a *firm* to breach requirements of applicable contract or employment law.

19C.1.5

FCA

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- (1) This *rule* applies to a *firm* that is unable to comply with the *BIPRU Remuneration Code* because of an obligation it owes to a *BIPRU Remuneration Code staff member* under a provision of an agreement made on or before 29 July 2010.
- (2) A *firm* must take reasonable steps to amend or terminate the provision in (1) in a way that enables it to comply with the *BIPRU Remuneration Code* at the earliest opportunity.
- (3) Until the provision in (1) ceases to prevent the *firm* from complying with the *BIPRU Remuneration Code*, the *firm* must adopt specific and effective arrangements, processes and mechanisms to manage the risks raised by the provision.

Purpose

19C.1.6

FCA

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The aim of the *BIPRU Remuneration Code* is to ensure that *firms* have risk-focused *remuneration* policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in ■ SYSC 4.

Notifications to the FCA

19C.1.7

FCA

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- (1) The *BIPRU Remuneration Code* does not contain specific notification requirements. However, general circumstances in which the FCA expects to be notified by *firms* of matters relating to their compliance with requirements under the *regulatory system* are set out in ■ SUP 15.3 (General notification requirements).
- (2) In particular, in relation to *remuneration* matters, such circumstances should take into account *unregulated activities* as well as *regulated activities* and the activities of other members of a *group* and would include each of the following:
 - (a) significant breaches of the *BIPRU Remuneration Code*;
 - (b) any proposed *remuneration* policies, procedures or practices which could:
 - (i) have a significant adverse impact on the *firm's* reputation; or
 - (ii) affect the *firm's* ability to continue to provide adequate services to its *customers* and which could result in serious detriment to a *customer* of the *firm*; or
 - (iii) result in serious financial consequences to the *financial system* or to other *firms*;

- (c) any proposed changes to *remuneration* policies, practices or procedures which could have a significant impact on the *firm's* risk profile or resources; and
 - (d) fraud, errors and other irregularities described in ■ SUP 15.3.17 R which may suggest weaknesses in, or be motivated by, the *firm's* *remuneration* policies, procedures or practices.
- (3) Such notifications should be made immediately the *firm* becomes aware of those circumstances, or has information which reasonably suggests that those circumstances have, or may have, occurred or may occur in the foreseeable future.

Individual guidance

19C.1.8

FCA

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The FCA's policy on individual *guidance* is set out in ■ SUP 9. *Firms* should particularly note the policy on what the FCA considers to be a reasonable request for *guidance* (see ■ SUP 9.2.5 G). For example, where a *firm* is seeking *guidance* on a proposed *remuneration* structure, the FCA will expect the *firm* to provide a detailed analysis of how the structure complies with the *BIPRU Remuneration Code*, including the general requirement for *remuneration* policies, procedures and practices to be consistent with and promote sound and effective risk management.

19C.2 General requirement

Remuneration policies must promote effective risk management

19C.2.1

FCA

R

A *firm* must establish, implement and maintain *remuneration* policies, procedures and practices that are consistent with and promote sound and effective risk management.

19C.2.2

FCA

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- (1) If a *firm's remuneration* policy is not aligned with effective risk management, it is likely that *employees* will have incentives to act in ways that might undermine effective risk management.
- (2) The *BIPRU Remuneration Code* covers all aspects of *remuneration* that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the *BIPRU Remuneration Code*, a *firm* should have regard to applicable good practice on *remuneration* and corporate governance, such as guidelines on executive contracts and severance produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its *remuneration* policies, a *firm* will also need to take into account its statutory duties in relation to equal pay and non-discrimination.
- (3) As with other aspects of a *firm's* systems and controls, in line with ■ SYSC 4.1.2 R and SYSC 4.1.2ABR, *remuneration* policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the *common platform firm's* activities. Therefore, what a *firm* must do to comply with the *BIPRU Remuneration Code* will vary. For example, while the *BIPRU Remuneration Code* refers to a *firm's remuneration* committee and risk management function, it may be appropriate for the *governing body* of a smaller *firm* to act as the *remuneration* committee, and for the *firm* not to have a separate risk management function.
- (4) The principles in the *BIPRU Remuneration Code* are used by the FCA to assess the quality of a *firm's remuneration* policies and whether they encourage excessive risk-taking by a *firm's employees*.
- (5) The FCA may also ask *remuneration* committees to provide the FCA with evidence of how well the *firm's remuneration* policies meet the *BIPRU Remuneration Code's* principles, together with plans for improvement where there is a shortfall. The FCA also expects relevant *firms* to use the principles in assessing their exposure to risks arising from their *remuneration* policies as part of the *internal capital adequacy assessment process (ICAAP)*.

19C.2.3

FCA

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(6) The *BIPRU Remuneration Code* is principally concerned with the risks created by the way *remuneration* arrangements are structured, not with the absolute amount of *remuneration*, which is generally a matter for *firms'* *remuneration* committees.

(1) The specific *remuneration* requirements in this chapter may apply only to certain categories of *employee*. However, the *FCA* expects *firms*, in complying with the *BIPRU Remuneration Code general requirement*, to apply certain principles on a *firm-wide* basis.

(2) In particular, the *FCA* considers that *firms* should apply the principle relating to guaranteed variable *remuneration* on a *firm-wide* basis (Remuneration Principle 12(c); ■ SYSC 19C.3.40 R to ■ SYSC 19C.3.43 G.

(3) The *FCA* also expects *firms* to apply, as a minimum, the principles relating to risk management and risk tolerance (Remuneration Principle 1); supporting business strategy, objectives, values and long-term interests of the firm (Remuneration Principle 2); conflicts of interest (Remuneration Principle 3); governance (Remuneration Principle 4); risk adjustment (Remuneration Principle 8); pension policy (Remuneration Principle 9); personal investment strategies (Remuneration Principle 10); payments related to early termination (Remuneration Principle 12(e)) and deferral (Remuneration Principle 12(g)) on a *firm-wide* basis.

Record-keeping

19C.2.4

FCA

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In line with the record-keeping requirements in ■ SYSC 9, a *firm* should ensure that its *remuneration* policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions.

Interpretation of references to remuneration

19C.2.5

FCA

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(1) In this chapter, references to *remuneration* include *remuneration* paid, provided or awarded by any *person* to the extent that it is paid, provided or awarded in connection with *employment* by a *firm*.

(2) Paragraph (1) is without prejudice to the meaning of *remuneration* elsewhere in the *Handbook*.

19C.2.6

FCA

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Remuneration includes, for example, payments made by a seconding organisation which is not subject to the *BIPRU Remuneration Code* to a secondee in respect of their *employment* by a *firm* which is subject to the *BIPRU Remuneration Code*.

19C.3 Remuneration principles

Application: groups

19C.3.1

FCA

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- (1) A *firm* must apply the requirements of this section at *group, parent undertaking* and *subsidiary undertaking* levels, including those *subsidiaries* established in a country or territory which is not an *EEA State*.
- (2) Paragraph (1) does not limit ■ SYSC 12.1.13 R and ■ SYSC 12.1.15 R (which relate to the application of the *BIPRU Remuneration Code* within *UK consolidation groups* and *non-EEA sub-groups*).

19C.3.2

FCA

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The effect of ■ SYSC 12.1.13 R (2)(dA) and ■ SYSC 12.1.15 R is that the *firm* is required to ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* or *non-EEA sub-group* of which a *firm* is a member comply with the obligations set out in this section on a consolidated (or sub-consolidated) basis.

Application: categories of staff and proportionality

19C.3.3

FCA

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- (1) This section applies to *BIPRU Remuneration Code staff*, except as set out in (3).
- (2) When establishing and applying the total *remuneration* policies for *BIPRU Remuneration Code staff*, a *firm* must comply with this section in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities (the *BIPRU remuneration principles proportionality rule*).
- (3) Paragraphs (1) and (2) do not apply to the requirement for significant *firms* to have a *remuneration* committee (■ SYSC 19C.3.12 R).

[Note: In addition to the *guidance* in this section which relates to the *BIPRU remuneration principles proportionality rule*, the *FCA* has published *guidance* on the operation of the *BIPRU remuneration principles proportionality rule*. This *guidance* is available at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

19C.3.4

FCA

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BIPRU Remuneration Code staff comprises categories of staff including senior management, risk-takers, staff engaged in control functions and any

employee receiving total remuneration that takes them into the same *remuneration* bracket as senior management and risk-takers, whose professional activities have a material impact on the *firm's* risk profile.

19C.3.5

FCA

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A *firm* must:

- (1) maintain a record of its *BIPRU Remuneration Code staff* in line with the general record-keeping requirements (■ SYSC 9); and
- (2) take reasonable steps to ensure that its *BIPRU Remuneration Code staff* understand the implications of their status, including the potential for *remuneration* which does not comply with certain requirements of the *BIPRU Remuneration Code* to be rendered void and recoverable by the *firm*.

19C.3.6

FCA

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- (1) In the *FCA's* view:
 - (a) a *firm's* staff includes its *employees*;
 - (b) a *person* who performs a *significant influence function* for, or is a *senior manager* of, a *firm* would normally be expected to be part of the *firm's BIPRU Remuneration Code staff*;
 - (c) the table in (2) provides a non-exhaustive list of examples of key positions that should, subject to (d), be within a *firm's* definition of staff who are risk takers;
 - (d) *firms* should consider how the examples in the table in (2) apply to their own organisational structure (as the description of suggested business lines in the first row may be most appropriate to a *firm* which *deals on its own account* to a significant extent);
 - (e) *firms* may find it useful to set their own metrics to identify their risk takers based, for example, on trading limits; and
 - (f) a *firm* should treat a *person* as being *BIPRU Remuneration Code staff* in relation to *remuneration* in respect of a given performance year if they were *BIPRU Remuneration Code staff* for any part of that year.

[**Note:** The *FCA* has published *guidance* on the application of particular rules on *remuneration* structures in relation to individuals who are *BIPRU Remuneration Code staff* for only part of a given performance year. This *guidance* is available at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

(2)

High-level category	Suggested business lines
Heads of significant business lines (including regional heads) and any individuals or groups within their control who have a material impact on the <i>firm's</i> risk profile	Fixed income
	Foreign exchange
	Commodities
	Securitisation
	Sales areas
	Investment banking (including mergers and acquisitions advisory)
	Commercial banking
	Equities
	Structured finance
	Lending quality
Heads of support and control functions and other individuals within their control who have a material impact on the <i>firm's</i> risk profile	Trading areas
	Research
	Credit/market/operational risk
	Legal
	Treasury controls
	Human resources
	Compliance
	Internal audit

Remuneration Principle 1: Risk management and risk tolerance

19C.3.7

FCA

R

A *firm* must ensure that its *remuneration* policy is consistent with and promotes sound and effective risk management, and does not encourage risk-taking that exceeds the level of tolerated risk of the *firm*.

Remuneration Principle 2: Supporting business strategy, objectives, values and long-term interests of the firm

19C.3.8

FCA

R

A *firm* must ensure that its *remuneration* policy is in line with the business strategy, objectives, values and long-term interests of the *firm*.

19C.3.9

FCA

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Remuneration Principle 3: Avoiding conflicts of interest

A *firm* must ensure that its *remuneration* policy includes measures to avoid conflicts of interest.

Remuneration Principle 4: Governance

19C.3.10

FCA

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A *firm* must ensure that its *governing body*, in its *supervisory function*, adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for its implementation.

19C.3.11

FCA

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A *firm* must ensure that the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the *governing body* in its *supervisory function*.

19C.3.12

FCA

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- (1) A *firm* that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities must establish a *remuneration* committee.
- (2) The *remuneration* committee must be constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices and the incentives created for managing risk, capital and liquidity.
- (3) The chairman and the members of the *remuneration* committee must be members of the *governing body* who do not perform any executive function in the *firm*.
- (4) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *firm* and which are to be taken by the *governing body* in its *supervisory function*.
- (5) When preparing such decisions, the *remuneration* committee must take into account the long-term interests of shareholders, investors and other stakeholders in the *firm*.

[Note: The *guidance* referred to in the note to ■ SYSC 19C.3.3 R also gives *guidance* on proportionality in relation to *remuneration* committees]

19C.3.13

FCA

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- (1) A *firm* should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which *remuneration* is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the *governing body* or *remuneration* committee (or both) should work closely with the *firm's* risk function in evaluating the incentives created by its *remuneration* system.
- (2) The *governing body* and any *remuneration* committee are responsible for ensuring that the *firm's* *remuneration* policy complies with the BIPRU *Remuneration Code* and, where relevant, should take into account relevant

guidance, such as that issued by the International Organization of Securities Commissions (IOSCO).

- (3) The periodic review of the implementation of the *remuneration* policy should assess compliance with the *BIPRU Remuneration Code*.
- (4) Guidance on what the *supervisory function* might involve is set out in ■ SYSC 4.3.3 G.

Remuneration Principle 5: Control functions

19C.3.14

FCA

R

A firm must ensure that employees engaged in control functions:

- (1) are independent from the business units they oversee;
- (2) have appropriate authority; and
- (3) are *remunerated*:
 - (a) adequately to attract qualified and experienced staff; and
 - (b) in line with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

19C.3.15

FCA

A

- (1) A firm's risk management and compliance functions should have appropriate input into setting the *remuneration* policy for other business areas. The procedures for setting *remuneration* should allow risk and compliance functions to have significant input into the setting of individual *remuneration* awards where those functions have concerns about the behaviour of the individuals concerned or the riskiness of the business undertaken.
- (2) Contravention of (1) may be relied on as tending to establish contravention of the *rule* on employees engaged in control functions having appropriate authority (■ SYSC 19C.3.14 R (2)).

19C.3.16

FCA

R

A firm must ensure that the remuneration of the senior officers in risk management and compliance functions is directly overseen by the remuneration committee referred to in ■ SYSC 19C.3.12 R, or, if such a committee has not been established, by the governing body in its supervisory function.

19C.3.17

FCA

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- (1) This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the *remuneration* of employees within control functions. Conflicts of interest can easily arise when employees are involved in the determination of *remuneration* for their own business area. Where these do arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a firm's human resources function when setting *remuneration* for other business areas.

- (2) The need to avoid undue influence is particularly important where *employees* from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process.
- (3) The FCA generally expects the ratio of the potential variable component of *remuneration* to the fixed component of *remuneration* to be significantly lower for *employees* in risk management and compliance functions than for *employees* in other business areas whose potential bonus is a significant proportion of their *remuneration*. Firms should nevertheless ensure that the total *remuneration* package offered to those *employees* is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the *remuneration* of *relevant persons* involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see ■ SYSC 6.1.4 R (4)).

Remuneration Principle 6: Remuneration and capital

19C.3.18 **R** A *firm* must ensure that total variable *remuneration* does not limit the
FCA *firm's* ability to strengthen its capital base.

19C.3.19 **G** This Remuneration Principle underlines the link between a *firm's* variable *remuneration*
FCA costs and the need to manage its capital base, including forward-looking capital planning measures. Where a *firm* needs to strengthen its capital base, its variable *remuneration* arrangements should be sufficiently flexible to allow it to direct the necessary resources towards capital building.

Remuneration Principle 7: Exceptional government intervention

19C.3.20 **R** A *firm* that benefits from exceptional government intervention must
FCA ensure that:

- (1) variable *remuneration* is strictly limited as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base and timely exit from government support;
- (2) it restructures *remuneration* in alignment with sound risk management and long-term growth, including when appropriate establishing limits to the *remuneration* of *senior personnel*; and
- (3) no variable *remuneration* is paid to its *senior personnel* unless justified.

19C.3.21 **G** The FCA would normally expect it to be appropriate for the ban on paying variable
FCA *remuneration* to *senior personnel* of a *firm* that benefits from exceptional government intervention to apply only in relation to *senior personnel* who were in office at the time that the intervention was required.

Remuneration Principle 8: Profit-based measurement and risk adjustment

19C.3.22 **R** (1) A *firm* must ensure that any measurement of performance used
FCA to calculate variable *remuneration* components or pools of variable *remuneration* components:

- (a) includes adjustments for all types of current and future risks, taking into account the cost and quantity of the capital and the liquidity required; and
- (b) takes into account the need for consistency with the timing and likelihood of the firm receiving potential future revenues incorporated into current earnings.

(2) A *firm* must ensure that the allocation of variable *remuneration* components within the *firm* also takes into account all types of current and future risks.

19C.3.23

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FCA

- (1) This Remuneration Principle stresses the importance of risk adjustment in measuring performance, and the importance of applying judgment and common sense. A *firm* should ask the risk management function to validate and assess risk-adjustment techniques and to attend a meeting of the *governing body* or *remuneration* committee for this purpose.
- (2) A number of risk-adjustment techniques and measures are available, and a *firm* should choose those that are most appropriate to its circumstances. Common measures include those that are based on economic profit or economic capital. Whichever technique is chosen, the full range of future risks should be covered. The *FCA* expects a *firm* to be able to provide it with details of all adjustments that the *firm* has made under a formulaic approach.
- (3) The *FCA* expects a *firm* to apply qualitative judgments and common sense in the final decision about the performance-related components of variable *remuneration* pools.
- (4) A *firm's governing body* (or *remuneration* committee, where appropriate) should take the lead in determining the measures to be used. It should offer the appropriate checks and balances to prevent inappropriate manipulation of the measures used. It should consult closely and frequently with the *firm's* risk management functions, in particular those relating to operational, market, credit and liquidity risk.

19C.3.24

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FCA

- (1) Long-term incentive plans should be treated as pools of variable *remuneration*. Many common measures of performance for long-term incentive plans, such as earnings per *share* (EPS), are not adjusted for longer-term risk factors. Total shareholder return (TSR) includes dividend distributions in its measurement, which can also be based on unadjusted earnings data. If incentive plans mature within a two- to four-year period and are based on EPS or TSR, strategies can be devised to boost EPS or TSR during the life of the plan, to the detriment of the longer-term health of a *firm*. For example, increasing leverage is a technique which can be used to boost EPS and TSR. *Firms* should take account of these factors when developing risk-adjustment methods.
- (2) *Firms* that have long-term incentive plans should structure them with vesting, subject to appropriate performance conditions, and at least half of the award vesting after not less than five years and the remainder after not less than three years.
- (3) Long-term incentive plan awards may be included in the calculation of the deferred portion of variable *remuneration* only if upside incentives are adequately

balanced by downside adjustments. The valuation of the award should be based on its value when the award is granted, and determined using an appropriate technique.

19C.3.25

FCA

R

Assessments of financial performance used to calculate variable remuneration components or pools of variable remuneration components must be based principally on profits.

19C.3.26

FCA

G

- (1) Performance measures based primarily on revenues or turnover are unlikely to pay sufficient regard to the quality of business undertaken or services provided. Profits are a better measure provided they are adjusted for risk, including future risks not adequately captured by accounting profits.
- (2) Management accounts should provide profit data at such levels within the *firm's* structure as to enable a *firm* to see as accurate a picture of contributions of relevant staff to a *firm's* performance, as reasonably practicable. If revenue or turnover is used as a component in performance assessment, processes should be in place to ensure that the quality of business undertaken or services provided and their appropriateness for *clients* are taken into account.

19C.3.27

FCA

R

A *firm* must ensure that its total variable remuneration is generally considerably contracted where subdued or negative financial performance of the *firm* occurs, taking into account both current remuneration and reductions in payouts of amounts previously earned.

[Note: Standard 5 of the *FSB Compensation Standards*]

19C.3.28

FCA

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Where a *firm* makes a loss, the *FCA* generally expects no variable remuneration to be awarded. Variable remuneration may nevertheless be justified, for example to incentivise *employees* involved in new business ventures which could be loss-making in their early stages.

Remuneration Principle 9: Pension policy

19C.3.29

FCA

R

A *firm* must ensure that:

- (1) its pension policy is in line with its business strategy, objectives, values and long-term interests;
- (2) when an *employee* leaves the *firm* before retirement, any *discretionary pension benefits* are held by the *firm* for a period of five years in the form of instruments referred to in
 - SYSC 19C.3.47 R (1); and
- (3) when *employees* reach retirement, *discretionary pension benefits* are paid to the *employee* in the form of instruments in
 - SYSC 19C.3.47 R (1) and subject to a five-year retention period.

Remuneration Principle 10: Personal investment strategies

19C.3.30

R

FCA

(1) A *firm* must ensure that its *employees* undertake not to use personal hedging strategies or *remuneration-* or liability-related *contracts of insurance* to undermine the risk-alignment effects embedded in their *remuneration* arrangements.

(2) A *firm* must maintain effective arrangements designed to ensure that *employees* comply with their undertaking.

19C.3.31

G

FCA

Circumstances in which a *person* will be using a personal hedging strategy include entering into an arrangement with a third party under which the third party will make payments, directly or indirectly, to that *person* linked to, or commensurate with, the amounts by which the *person's remuneration* is subject to reductions.

Remuneration Principle 11: Avoidance of the Remuneration Code

19C.3.32

R

FCA

A *firm* must ensure that *variable remuneration* is not paid through vehicles or methods that facilitate the avoidance of the *BIPRU Remuneration Code*.

Remuneration Principle 12: Remuneration structures - introduction

19C.3.33

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FCA

This Remuneration Principle consists of a series of *rules, evidential provisions* and *guidance* relating to *remuneration* structures.

19C.3.34

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FCA

(1) Taking account of the *BIPRU remuneration principles proportionality rule*, the *FCA* does not generally consider it necessary for a *firm* to apply the *rules* in (2) where, in relation to an individual ("X"), both the following conditions are satisfied:

- (a) condition 1 requires that X's *variable remuneration* is no more than 33% of total *remuneration*; and
- (b) condition 2 requires that X's total *remuneration* is no more than 500,000.

(2) The *rules* referred to in (1) relate to:

- (a) guaranteed *variable remuneration* (■ SYSC 19C.3.40 R);
- (b) retained *shares* or other instruments (■ SYSC 19C.3.47 R);
- (c) deferral (■ SYSC 19C.3.49 R); and
- (d) performance adjustment (■ SYSC 19C.3.51 R).

[Note: The *FCA* has published *guidance* on the application of certain *rules* on *remuneration* structures in relation to individuals who are *BIPRU Remuneration Code* staff for only part of a given performance year. This *guidance* is available at <http://www.fca.org.uk/firms/markets/international-markets/remuneration-code>.]

Remuneration Principle 12(a): Remuneration structures - general requirement

19C.3.35

R

FCA

A *firm* must ensure that the structure of an *employee's remuneration* is consistent with, and promotes, effective risk management.

Remuneration Principle 12(b): Remuneration structures - assessment of performance

19C.3.36

FCA

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A *firm* must ensure that where *remuneration* is performance-related:

- (1) the total amount of *remuneration* is based on a combination of the assessment of the performance of:
 - (a) the individual;
 - (b) the business unit concerned; and
 - (c) the overall results of the *firm*; and
- (2) when assessing individual performance, financial as well as non-financial criteria are taken into account.

19C.3.37

FCA

G

Non-financial performance metrics should form a significant part of the performance assessment process and should include adherence to effective risk management and compliance with the *regulatory system* and with relevant overseas regulatory requirements. Poor performance as assessed by non-financial metrics, such as poor risk management or other behaviours contrary to *firm* values, can pose significant risks for a *firm* and should, as appropriate, override metrics of financial performance. The performance assessment process and the importance of non-financial assessment factors in the process should be clearly explained to relevant *employees* and implemented. A balanced scorecard can be a good technique.

19C.3.38

FCA

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A *firm* must ensure that the assessment of performance is set in a multi-year framework, to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of *remuneration* is spread over a period which takes account of the underlying business cycle of the *firm* and its business risks.

19C.3.39

FCA

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The requirement for assessment of performance to be in a multi-year framework reflects the fact that profits from a *firm's* activities can be volatile and subject to cycles. The financial performance of *firms* and individual *employees* can be exaggerated as a result. Performance assessment on a moving average of results can be a good way of meeting this requirement. However, other techniques, such as good quality risk adjustment and deferral of a sufficiently large proportion of *remuneration*, may also be useful.

Remuneration Principle 12(c): Remuneration structures - guaranteed variable remuneration

19C.3.40

FCA

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A *firm* must not award, pay or provide guaranteed variable *remuneration* unless it:

- (1) is exceptional;
- (2) occurs in the context of hiring new *BIPRU Remuneration Code staff*; and
- (3) is limited to the first year of service.

- 19C.3.41** **FCA** **A** (1) A *firm* should not award, pay or provide guaranteed variable remuneration in hiring new *BIPRU Remuneration Code staff* (X) unless:
- (a) it has taken reasonable steps to ensure that the *remuneration* is not more generous in its amount or terms (including any deferral or retention periods) than the variable *remuneration* awarded or offered by X's previous employer; and
 - (b) it is subject to appropriate performance adjustment requirements.
- (2) Contravention of (1) may be relied on as tending to establish contravention of the *rule* on guaranteed variable *remuneration* (**■** SYSC 19C.3.40 R).

19C.3.42 **FCA** **G** Guaranteed variable *remuneration* should be subject to the same deferral criteria as other forms of variable *remuneration* awarded by the *firm*.

19C.3.43 **FCA** **G** Variable *remuneration* can be awarded to *BIPRU Remuneration Code staff* in the form of retention awards where it is compatible with the *BIPRU Remuneration Code general requirement* to do so. The *FCA* considers this is likely to be the case only where a *firm* is undergoing a major restructuring and a good case can be made for retention of particular key staff members on prudential grounds. Proposals to give retention awards should form part of any notice of the restructuring proposals required in accordance with *Principle 11* and the general notification requirements in **■** SUP 15.3.

Remuneration Principle 12(d): Remuneration structures - ratios between fixed and variable components of total remuneration

19C.3.44 **FCA** **R** A *firm* must set appropriate ratios between the fixed and variable components of total *remuneration* and ensure that:

- (1) fixed and variable components of total *remuneration* are appropriately balanced; and
- (2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component.

Remuneration Principle 12(e): Remuneration structures - payments related to early termination

19C.3.45 **FCA** **R** A *firm* must ensure that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.

19C.3.46 **FCA** **G** *Firms* should review existing contractual payments related to termination of employment with a view to ensuring that these are payable only where there is a clear basis for concluding that they are consistent with the *BIPRU Remuneration Code general requirement*.

[Note: Standard 12 of the *FSB Compensation Standards*]

Remuneration Principle 12(f): Remuneration structures - retained shares or other instruments

19C.3.47

FCA

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- (1) A *firm* must ensure that a substantial portion, at least 50%, of any variable *remuneration* consists of an appropriate balance of:
 - (a) *shares* or equivalent ownership interests, subject to the legal structure of the *firm* concerned, or *share-linked* instruments or equivalent non-cash instruments for a non-listed *firm*; and
 - (b) where appropriate, *capital instruments* which are eligible for inclusion at stage B1 of the calculation in the *capital resources table*, where applicable, adequately reflect the credit quality of the *firm* as a going concern.
- (2) The instruments in (1) must be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the *firm*.
- (3) This *rule* applies to the portion of the variable *remuneration* component deferred, and not deferred, in line with
 - SYSC 19C.3.49 R.

[Note: Standard 8 of the *FSB Compensation Standards*]

19C.3.48

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- (1) Regarding ■ SYSC 19C.3.47 R (3), the 50% minimum threshold for instruments must be applied equally to the non-deferred and the deferred components; in other words, *firms* must apply the same chosen ratio between instruments and cash for their total variable *remuneration* to both the upfront and deferred components.
- (2) This simplified example illustrates the operation of (1). The variable remuneration of a material risk taker (X) is 100, and by ■ SYSC 19C.3.49 R (3) X is required to defer 60%. X's upfront component is 40 and X's deferred component is 60. At least 20 of X's upfront component, and at least 30 of X's deferred component, must be in instruments referred to in
 - SYSC 19C.3.47 R (1).

Remuneration Principle 12(g): Remuneration structures - deferral

19C.3.49

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- (1) A *firm* must not award, pay or provide a variable *remuneration* component unless a substantial portion of it, which is at least 40%, is deferred over a period of not less than three to five years.
- (2) *Remuneration* under (1) must vest no faster than on a pro-rata basis.
- (3) In the case of a variable *remuneration* component:

- (a) of a particularly high amount; or
- (b) payable to a *director* of a *firm* that is significant in its size, internal organisation and the nature, scope and complexity of its activities; at least 60% of the amount must be deferred.

- (4) Paragraph (3)(b) does not apply to a *non-executive director*.
- (5) The length of the deferral period must be established in line with the business cycle, the nature of the business, its risks and the activities of the *employee* in question.

[Note: Standards 6 and 7 of the *FSB Compensation Standards*]

- (6) 500,000 is a particularly high amount for the purpose of (3)(a).
- (7) Paragraph (6) is without prejudice to the possibility of lower sums being considered a particularly high amount.

19C.3.50

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- (1) Deferred *remuneration* paid in *shares* or *share*-linked instruments should be made under a scheme which meets appropriate criteria, including risk adjustment of the performance measure used to determine the initial allocation of shares. Deferred *remuneration* paid in cash should also be subject to performance criteria.
- (2) The *FCA* generally expects a *firm* to have a *firm*-wide policy (and group-wide policy, where appropriate) on deferral. The proportion deferred should generally rise with the ratio of variable *remuneration* to fixed *remuneration* and with the amount of variable *remuneration*. While any variable *remuneration* component of 500,000 or more paid to *BIPRU Remuneration Code staff* must be subject to 60% deferral, *firms* should also consider whether lesser amounts should be considered to be 'particularly high' taking account, for example, of whether there are significant differences within *BIPRU Remuneration Code staff* in the levels of variable *remuneration* paid.

Remuneration Principle 12(h): Remuneration structures - performance adjustment, etc.

19C.3.51

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A *firm* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified according to the performance of the *firm*, the business unit and the individual concerned.

[Note: Standards 6 and 9 of the *FSB Compensation Standards*]

19C.3.52

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- (1) A *firm* should reduce unvested deferred variable *remuneration* when, as a minimum:
 - (a) there is reasonable evidence of *employee* misbehaviour or material error; or
 - (b) the *firm* or the relevant business unit suffers a material downturn in its financial performance; or

19C.3.53

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- (c) the *firm* or the relevant business unit suffers a material failure of risk management.
- (2) For performance adjustment purposes, awards of deferred variable *remuneration* made in *shares* or other non-cash instruments should provide the ability for the *firm* to reduce the number of *shares* or other non-cash instruments.
- (3) Contravention of (1) or (2) may be relied on as tending to establish contravention of the *rule* on performance adjustment (■ SYSC 19C.3.51 R).
- (1) Variable *remuneration* may be justified, for example, to incentivise *employees* involved in new business ventures which could be loss-making in their early stages.
- (2) The *governing body* (or, where appropriate, the *remuneration* committee) should approve performance adjustment policies, including the triggers under which adjustment would take place. The *FCA* may ask *firms* to provide a copy of their policies and expects *firms* to make adequate records of material decisions to operate the adjustments.

Chapter 20

Reverse stress testing

20.1 Application and purpose

Application

- (1) ■ SYSC 20 applies to:
- (a) a which is:
 - (i) a *bank*; or
 - (ii) a *building society*; or
 - (iii) a *BIPRU investment firm* which meets any of the criteria set out in (2) on an individual basis, or in (3) on a consolidated basis; and
 - (b) an *insurer* unless it is:
 - (i) a *non-directive friendly society*; or
 - (ii) a *Swiss general insurer*; or
 - (iii) an *EEA-deposit insurer*; or
 - (iv) an *incoming EEA firm*; or
 - (v) an *incoming Treaty firm*.
- (2) Subject to (4), ■ SYSC 20 applies to a if:
- (a) it has assets under management or administration of at least £10 billion (or the equivalent amount in foreign currency); or
 - (b) the total annual *fee* and *commission* income arising from its *regulated activities* is at least £250 million (or the equivalent amount in foreign currency); or
 - (c) it has assets or liabilities of at least £2 billion (or the equivalent amount in foreign currency).
- (3) Subject to (4), where all of the *BIPRU investment firms* within the same *UK consolidation group* or *non-EEA sub-group*, taken together as if they were one *firm*, meet any of the criteria in (2),

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- SYSC 20 applies to each of those *BIPRU investment firms* as if it individually met the inclusion criteria in (2).
- (4) Any *BIPRU investment firm* which is included within the scope of ■ SYSC 20 in accordance with (2) or (3) in any given year will continue to be subject to ■ SYSC 20 for the following two years irrespective of whether or not it continues to meet the inclusion criteria in any of those subsequent years.
- (1) ■ SYSC 20 applies to:
- an *IFPRU investment firm*; and
 - a *BIPRU firm* which meets any of the criteria in (2) on an individual basis, or in (3) on a consolidated basis.
- (2) Subject to (4), ■ SYSC 20 applies to a *BIPRU firm* if:
- it has assets under management or administration of at least £10 billion (or the equivalent amount in foreign currency); or
 - the total annual fee and commission arising from regulated activities is at least £250 million (or the equivalent amount in foreign currency); or
 - it has assets or liabilities of at least £2 billion (or the equivalent amount in foreign currency).
- (3) Subject to (4), where all of the *BIPRU firms* within the same *UK consolidation group* or *non-EEA sub-group*, taken together, as if they were one *firm*, meet any of the criteria in (2), ■ SYSC 20 applies to each of those *BIPRU firms* as if it individually met the criteria in (2).
- (4) Any *BIPRU firm* which is included within the scope of ■ SYSC 20 in accordance with (2) or (3) in any given year will continue to be subject to ■ SYSC 20 for the following two years, irrespective of whether or not it continues to meet the inclusion criteria in any of those subsequent years.

Purpose

This chapter amplifies *Principle 2*, under which a *firm* must conduct its business with due skill, care and diligence, and *Principle 3*, under which a *firm* must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

20.1.2

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3

20.1.3

FCA PRA

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This chapter contains *rules* on reverse stress testing, which require a *firm* to identify and assess events and circumstances that would cause its business model to become unviable. This chapter also requires the *firm's* senior management or *governing body* to review and approve the results of the reverse stress testing exercise. This should help the *firm's* senior

management to identify the *firm's* vulnerabilities and design a strategy to prevent or mitigate the risk of business failure.

20.1.4

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The reverse stress testing requirements are an integral component of a *firm's* business planning and risk management under SYSC. For *BIPRU firms* as referred to in ■ SYSC 20.1.1R (1)(a), this chapter amplifies ■ SYSC 7.1.1 G to ■ SYSC 7.1.8 G on risk control. For *insurers* as referred to in ■ SYSC 20.1.1R (1)(b), this chapter amplifies ■ SYSC 14.1.17 G to ■ SYSC 14.1.25 G on business planning and risk management.

20.1.4A

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The reverse stress testing requirements are an integral component of a *firms* business planning and risk management under SYSC. For *firms* as referred to in ■ SYSC 20.1.1 R (1)(a) and *IFPRU investment firms* as referred to in ■ SYSC 20.1.1 R (1)(a), this chapter amplifies ■ SYSC 7.1.1 G to ■ SYSC 7.1.8 G on risk control.

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20.2 Reverse stress testing requirements

20.2.1

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As part of its business planning and risk management obligations under SYSC, a *firm* must reverse stress test its business plan; that is, it must carry out stress tests and scenario analyses that test its business plan to failure. To that end, the *firm* must:

- (1) identify a range of adverse circumstances which would cause its business plan to become unviable and assess the likelihood that such events could crystallise; and
- (2) where those tests reveal a risk of business failure that is unacceptably high when considered against the *firm's* risk appetite or tolerance, adopt effective arrangements, processes, systems or other measures to prevent or mitigate that risk.

20.2.2

FCA PRA

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Where the *firm* is a member of:

- (1) an *insurance group*, in respect of which it is required to maintain group capital;
- (2) a *UK consolidation group*; or
- (3) a *non-EEA sub-group*;

it must conduct the reverse stress test on a solo basis as well as on a consolidated basis in relation to the *insurance group*, the *UK consolidation group* or the *non-EEA sub-group*, as the case may be.

20.2.3

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The design and results of a *firm's* reverse stress test must be documented and reviewed and approved at least annually by the *firm's* senior management or *governing body*. A *firm* must update its reverse stress test more frequently if it is appropriate to do so in the light of substantial changes in the market or in macroeconomic conditions.

20.2.4

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- (1) Business plan failure in the context of reverse stress testing should be understood as the point at which the market loses confidence in a *firm* and this results in the *firm* no longer being able to carry out its business activities. Examples of this would be the point at which all or a substantial portion of the *firm's* counterparties are unwilling to continue transacting with it or seek to terminate their contracts, or the point at which the *firm's* existing shareholders are

unwilling to provide new capital. Such a point may be reached well before the *firm's* financial resources are exhausted.

- (2) The *appropriate regulator* may request a *firm* to quantify the level of financial resources which, in the *firm's* view, would place it in a situation of business failure should the identified adverse circumstances crystallise.
- (3) In carrying out the stress tests and scenario analyses required by
 - SYSC 20.2.1 R, a *firm* should at least take into account each of the sources of risk identified in accordance with ■ GENPRU 1.2.30 R (2).

20.2.5

FCA PRA

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Reverse stress testing should be appropriate to the nature, size and complexity of the *firm's* business and of the risks it bears. Where reverse stress testing reveals that a *firm's* risk of business failure is unacceptably high, the *firm* should devise realistic measures to prevent or mitigate the risk of business failure, taking into account the time that the *firm* would have to react to these events and implement those measures. As part of these measures, a *firm* should consider if changes to its business plan are appropriate. These measures, including any changes to the *firm's* business plan, should be documented as part of the results referred to in ■ SYSC 20.2.3 R.

20.2.6

FCA PRA

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In carrying out its reverse stress testing, a *firm* should consider scenarios in which the failure of one or more of its major counterparties or a significant market disruption arising from the failure of a major market participant, whether or not combined, would cause the *firm's* business to fail.

20.2.7

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- (1) The *appropriate regulator* may request a *firm* to submit the design and results of its reverse stress tests and any subsequent updates as part of its risk assessment.
- (2) In the light of the results of a *firm's* reverse stress tests, the *appropriate regulator* may require the *firm* to implement specific measures to prevent or mitigate the risk of business failure where that risk is not sufficiently mitigated by the measures adopted by the *firm* in accordance with ■ SYSC 20.2.1 R, and the *firm's* potential failure poses an unacceptable risk to the *appropriate regulator's* statutory objectives.
- (3) The *appropriate regulator* recognises that not every business failure is driven by lack of financial resources and will take this into account when reviewing a *firm's* reverse stress test design and results.

Chapter 21

Risk control: additional guidance



21.1 Risk control: guidance on governance arrangements

Additional guidance on governance arrangements

21.1.1

FCA PRA

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(1) This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in ■ SYSC 2, ■ SYSC 3, ■ SYSC 4, ■ SYSC 7 and ■ FUND 3.7, and so applies to the same extent as ■ SYSC 3.1.1 R (for *insurers, managing agents* and the *Society*), ■ SYSC 4.1.1 R (for every other *firm*) and ■ FUND 3.7 (for a *full-scope UK AIFM* of an *authorised AIF*).

(2) *Firms* should, taking account of their size, nature and complexity, consider whether in order to fulfil the general organisational requirements in ■ SYSC 2, ■ SYSC 3, ■ SYSC 4, ■ SYSC 7 and (for a *full-scope UK AIFM* of an *authorised AIF*) ■ FUND 3.7 their risk control arrangements should include:

- (a) appointing a Chief Risk Officer; and
- (b) establishing a *governing body* risk committee.

The functions of a Chief Risk Officer and *governing body* risk committee are explained further in this section.

(3) The *appropriate regulator* considers that *banks* and *insurers* that are included in the FTSE 100 Index are examples of the types of *firm* that should structure their risk control arrangements in this way. However, this *guidance* will also be relevant to some similar sized *firms* (whether or not *listed*) and some smaller *firms*, by virtue of their risk profile or complexity.

Chief Risk Officer

21.1.2

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(1) A Chief Risk Officer should:

- (a) be accountable to the *firm's governing body* for oversight of *firm-wide* risk management;
- (b) be fully independent of a *firm's* individual business units;
- (c) have sufficient authority, stature and resources for the effective execution of his responsibilities;
- (d) have unfettered access to any parts of the *firm's* business capable of having an impact on the *firm's* risk profile;
- (e) ensure that the data used by the *firm* to assess its risks are fit for purpose in terms of quality, quantity and breadth;

- (f) provide oversight and challenge of the *firm's* systems and controls in respect of risk management;
 - (g) provide oversight and validation of the *firm's* external reporting of risk;
 - (h) ensure the adequacy of risk information, risk analysis and risk training provided to members of the *firm's governing body*;
 - (i) report to the *firm's governing body* on the *firm's* risk exposures relative to its risk appetite and tolerance, and the extent to which the risks inherent in any proposed business strategy and plans are consistent with the *governing body's* risk appetite and tolerance. The Chief Risk Officer should also alert the *firm's governing body* to and provide challenge on, any business strategy or plans that exceed the *firm's* risk appetite and tolerance;
 - (j) provide risk-focused advice and information into the setting and individual application of the *firm's remuneration* policy (Where the *Remuneration Code* applies, see in particular ■ SYSC 19A.3.15 E. Where the *BIPRU Remuneration Code* applies, see in particular ■ SYSC 19C.3.15 E).
- (2) *Firms* will need to seek the *appropriate regulator's* approval for a Chief Risk Officer to perform the *systems and controls function* (see ■ SUP 10 (Approved persons)).
 - (3) The *appropriate regulator* expects that where a *firm* is part of a *group* it will structure its arrangements so that a Chief Risk Officer at an appropriate level within the *group* will exercise functions in (1) taking into account *group-wide* risks.

Reporting lines of Chief Risk Officer

21.1.3

FCA PRA

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- (1) The Chief Risk Officer should be accountable to a *firm's governing body*.
- (2) The *appropriate regulator* recognises that in addition to the Chief Risk Officers primary accountability to the *governing body*, an executive reporting line will be necessary for operational purposes. Accordingly, to the extent necessary for effective operational management, the Chief Risk Officer should report into a very senior executive level in the *firm*. In practice, the *appropriate regulator* expects this will be to the *chief executive*, the chief finance officer or to another executive *director*.

Appointment of Chief Risk Officer

21.1.4

FCA PRA

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- (1) *Firms* should ensure that a Chief Risk Officers *remuneration* is subject to approval by the *firm's governing body*, or an appropriate sub-committee.
- (2) *Firms* should also ensure that the Chief Risk Officer may not be removed from that role without the approval of the *firm's governing body*.

Governing body risk committee

21.1.5

FCA PRA

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- (1) The *appropriate regulator* considers that, while the *firm's governing body* is ultimately responsible for risk governance throughout the business, *firms* should consider establishing a *governing body* risk committee to provide focused support and advice on risk governance.

- (2) Where a *firm* has established a *governing body* risk committee, its responsibilities will typically include:
 - (a) providing advice to the *firm's governing body* on risk strategy, including the oversight of current risk exposures of the *firm*, with particular, but not exclusive, emphasis on prudential risks;
 - (b) development of proposals for consideration by the *governing body* in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the *firm's* risk management performance;
 - (c) oversight and challenge of the design and execution of stress and scenario testing;
 - (d) oversight and challenge of the day-to-day risk management and oversight arrangements of the executive;
 - (e) oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the *governing body*;
 - (f) provide advice to the *firm's remuneration committee* on risk weightings to be applied to performance objectives incorporated in the incentive structure for the executive;
 - (g) providing advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the *firm*.

- (3) Where a *governing body* risk committee is established, its chairman should be a *non-executive director*, and while its membership should predominantly be non-executive it may be appropriate to include senior executives such as the chief finance officer.

21.1.6

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In carrying out their risk governance responsibilities, a *firm's governing body* and *governing body* risk committee should have regard to any relevant advice from its audit committee or internal audit function concerning the effectiveness of its current control framework. In addition, they should remain alert to the possible need for expert advice and support on any risk issue, taking action to ensure that they receive such advice and support as may be necessary to meet their responsibilities effectively.

Training and Competence

Qualification provider	Qualification	Activity Number(s)	Key
ACI The Financial Markets Association	ACI Diploma (provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)	2, 3, 12, 13	a
	ACI Dealing Certificate when combined with Chartered Institute of Securities and Investment (CISI) Introduction to Securities and Investments and one of the Regulatory units of the Investment Operations Certificate (IOC)	15, 17	4
	ACI Operations Certificate when combined with Chartered Institute of Securities and Investment (CISI) Introduction to Securities and Investments and one of the Regulatory units of the Investment Operations Certificate (IOC)		
Association of Accounting Technicians	Member	15, 16, 17, 18, 19	4
Association of Certified International Investment Analysts (ACIIA)	CIIA qualification (provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)	2, 3, 12, 13	a
	Certified International Investment Analyst (CIIA)	14 and 10	2
Association of Chartered Certified Accountants	Member or Affiliate	8	1
	Fellow or Associate	15, 16, 17, 18, 19	4
Association of Corporate Treasurers	Fellow or Associate	15, 16, 17, 18, 19	4
Association of International Wealth Management (AIWM)	Certified International Wealth Manager Diploma (CIWM)	2, 3, 12, 13	a
		14 and 10	1
Blackburn College - University Centre	Foundation Degree Award in Financial Services	4 and 6	a
Bournemouth University	BA in Financial Services (1995 to 2001)	4 and 6	b

Qualification provider	Qualification	Activity Number(s)	Key
Calibrand / Scottish Qualifications Authority	MA in Financial Services (1995 to 2001)		
	Post Graduate in Financial Services (1995 to 2001)		
Calibrand / Scottish Qualifications Authority	Diploma in Professional Financial Advice	4 and 6	a
	Diploma in Professional Financial Advice (NMBA - Alternative Assessment method)		
Canadian Securities Institute	Canadian Securities Course (CSC) and Conduct and Practices Handbook Course (CPH) - must include a pass in both modules (provided it is accompanied by appropriate qualifications in Regulation and Ethics and Personal Taxation) - both courses must be completed	2, 12	b
	Canadian Securities Course (CSC), Conduct and Practices Handbook (CPH), the Futures Licensing Course (FLC), the Derivatives Fundamentals Course (DCF) and the Options Licensing Course (OLC) - must include a pass in all modules (provided it is accompanied by appropriate qualifications in Regulation and Ethics and Personal Taxation) - all courses must be completed	3, 13	b
	Canadian Securities Course (CSC), Conduct and Practices Handbook (CPH), the Futures Licensing Course (FLC) and the Derivatives Fundamentals and Options Licensing Course (DFOL) - must include a pass in all modules (provided it is accompanied by appropriate qualifications in Regulation and Ethics and Personal Taxation) - all courses must be completed		
CASS Business School	MSC in Banking and International Finance (provided it is accompanied by appropriate qualifications	2, 3, 12, 13	a

Qualification provider	Qualification	Activity Number(s)	Key
CFA Institute and the CFA Society of the UK	in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)		
	MSC in Investment Management pre 2003 syllabus (provided it is accompanied by appropriate qualifications in Regulation and Ethics and Personal Taxation)	2, 3, 12, 13	b
	Level 1 of CFA Program plus Investment Management Certificate (Level 4)		
	Completion of CFA Program plus Investment Management Certificate Unit 1: The investment environment (Level 4)	2, 3, 12, 13	a
	Holder of Associate qualification (associate member)		
	Level 1 of CFA Program plus Investment Management Certificate (Level 3)		
	Completion of CFA Program plus Investment Management Certificate Unit 1: UK Regulation and Markets (level 3)	2, 3, 12, 13	b
	Holder of Associate qualification (Fellow)		
	CFA Program (Level 1)	14 and 10	2
	Fellow or Associate by examination	8 14 and 10	1
CFA Society of UK (Formerly the UK Society of Investment Professionals/ Institute of Invest-	Investment Management Asset Allocation Qualification	15, 16, 17, 18, 19 14 and 10	4 2
	Investment Regulation and Practice Paper of the Associate Examination	15, 16, 17	5
	Investment Management Certificate (Level 4) plus other qualifications that meet specialist standards for advising on securities	2, 12	a

Qualification provider	Qualification	Activity Number(s)	Key	
Investment Management and Research (IIMR))	Investment Management Certificate (Level 4) plus other qualifications that meet specialist standards for advising on packaged products	4 and 6		
	Investment Management Certificate (Level 4) plus other qualifications that meet specialist standards for advising on derivatives	3, 13		
	Investment Management Certificate (Level 3 or 4)		8	1
			15, 16, 17, 18, 19	4
			15, 16, 17	5
		14 and 10	1	
	Investment Practice Paper (Unit 2) of Investment Management Certificate (Level 3 or 4)		14 and 10	2
			8	2
	Investment Management Certificate Unit 1: UK Regulation and Markets (Level 3) or Investment Management Certificate Unit 1: The Investment Environment (Level 4)		8	3
			15, 16, 17, 19	5
		18	6	
	14 and 10	3		
Chartered Alternative Investment Analysis Association (CAIA)	CAIA Level 1 (provided it is accompanied by appropriate qualifications in Regulation and Ethics and Personal Taxation)	2, 12	b	
Chartered Institute of Bankers in Ireland	Fellow or Associate	15, 16, 17, 18, 19	4	
Chartered Institute of Bankers in Scotland	Diploma in Investment Planning (Existing Adviser) Post 2010 examination standards			
	Diploma in Investment Planning (New Adviser) Post 2010 examination standards	4 and 6	a	
	Diploma in Investment Planning (Retail Banking) (New Adviser) Post 2010 examination standards			

Qualification provider	Qualification	Activity Number(s)	Key
	Diploma in Investment Planning (Retail Banking) (Existing Adviser) Post 2010 examination standards		
	Diploma in investment planning (work based assessment)		
	Associate (March 1992 to July 1994 syllabus (including top-up test))		
	Associate (post August 1994 syllabus)		
	Certificate in Investment Planning (Pre 17/09/2004)	4 and 6	b
	Chartered Banker (where candidates hold UK Financial Services and Investment modules)		
	Diploma in Investment Planning (current)		
	Associateship - (must include a pass in the Investment Paper)	2, 3, 12, 13	b
	Certificate in Investment Planning - Paper 1	15, 16, 18, 19 15, 16, 17, 18, 19	4 5
	Certificate in Investment Planning	17	4
	Member or Associate	15, 16, 17, 18, 19	4
	Mortgage Advice and Practice Certificate	20	1
	Certificate in Mortgage Advice and Practice (MAPC) (Pre 16/09/2004)	20, 21, 22	1
	MAPC bridge paper plus entry requirements (Pre 31/10/2004)	20	1
	Certificate in Investment Planning - Paper 1 (Pre 16/09/2004)	20, 21, 22	3
	MAPC - Paper 1 (Pre 16/09/2004)	20	3
	Mortgage Advice and Practice Certificate - Paper 1 (Post 17/09/2004)	20, 21	3

Qualification provider	Qualification	Activity Number(s)	Key
	Equity Release Mortgage Advice and Practice Certificate (ERMAPC)		
	Lifetime Mortgage Advice and Practice Certificate	21, 22	1
	MAPC Bridge paper plus entry requirements (Pre 16/09/2004)		
	Certificate in Mortgage Advice and Practice (MAPC) (Pre 16/09/2004) - Paper 1	21, 22	3
	Equity Release Mortgage Advice and Practice Certificate (ERMAPC)	23	4
		23	5
		23	6
Chartered Institute of Management Accountants	Fellow or Associate	15, 16, 17, 18, 19	4
Chartered Institute of Public Finance and Accountancy	Fellow or Associate	15, 16, 17, 18, 19	4
Chartered Institute for Securities and Investment (CISI) - (Formerly the Securities and Investment Institute (SII); formerly The Securities Association)	Investment Advice Diploma (where candidate holds 3 modules including the private client advice module)	4 and 6	
	Investment Advice Diploma (where candidate holds 3 modules including the derivatives module)	3, 13	a
	Investment Advice Diploma (where candidate holds 3 modules including the securities module)	2, 12	
	Masters in Wealth Management (Post 2010 examination standards)	2, 3, 4 and 6, 12, 13	
	Certificate in Private Client Investment Advice and Management	2, 3, 4 and 6, 12, 13 14 and 10	b 1
	Certificate in Private Client Investment Advice and Management (attained through a CISI competency interview and presentation only)	2, 3, 4 and 6, 12, 13 14 and 10	b 1

Qualification provider	Qualification	Activity Number(s)	Key
	Diploma (where candidate holds 3 modules as recommended by the firm)	2, 3, 4 and 6, 12, 13	b
	Investment Advice Certificate	2, 3, 4 and 6, 12, 13	b
	Masters in Wealth Management (Pre 2010 examination standards)	2, 3, 4 and 6, 12, 13	b
	Member of the Securities Institute (MSI Dip) (where candidate holds 3 modules as recommended by the firm)	2, 3, 4 and 6, 12, 13	b
	Certificate in Corporate Finance	8	1
		15, 16, 17, 18, 19	4
	Certificate in Derivatives - Paper 2	15, 16, 17, 18, 19	4
	Certificate in Investment and Financial Advice - Paper 1	21, 22	3
	Certificate in Investment Management (Level 3, pre 31 December 2013)	8	1
		15, 16, 17, 19	4
		15, 16, 17	5
		14 and 10	1
	Certificate in Investment Management (Level 4)	14 and 10	1
	Certificate in Investment Management - Paper 2	8	2
		14 and 10	
	Certificate in Securities	8	1
	Certificate in Securities - Paper 2	15, 16, 17, 18, 19	4
	Certificate in Securities and Derivatives - Paper 2	19	4
	Certificate in Securities and Financial Derivatives	8	1
	Certificate in Securities and Financial Derivatives - Paper 2	15, 16, 17, 18	4
	Client Services Qualification	15, 16, 17, 18, 19	4
	Diploma	15, 16, 17, 18, 19	4
	Diploma - Corporate Finance Paper	8	2

Qualification provider	Qualification	Activity Number(s)	Key
	Diploma - Global Operations Management Module	15, 16, 17, 18, 19	4
		15, 16, 17	5
			6
	Diploma - International Operations Management Module	15	4
		15, 16	5
			6
			4
		17	5
			6
	Diploma - International Operations Module	16, 18, 19	4
	Diploma - Operations Management Module	15, 16, 17, 18, 19	4
		15, 17	5
		15, 16, 17	6
	Diploma - Regulation and Compliance Module	8	3
		14 and 10	3
		15, 16, 17, 18, 19	5
	Diploma (must include a pass in Regulation and Compliance Paper)	8	1
	Diploma (where candidate holds 3 modules as recommended by the firm)	14 and 10	1
	Diploma in Corporate Finance (awarded jointly with The Institute of Chartered Accountants in England and Wales)	8	1
	Investment Administration Qualification - Asset Servicing Module	15, 16, 17	6
	Investment Administration Qualification - Basics of CREST Module	15, 16, 17	6
	Investment Administration Qualification - Bond Settlement Module	15, 16, 17	6
	Investment Administration Qualification - Collective Investment Schemes Administration Module	15, 16, 17	6

Qualification provider	Qualification	Activity Number(s)	Key
	Investment Administration Qualification - CREST Settlement Module	15, 16, 17	6
	Investment Administration Qualification - Derivatives Operations Module	15, 16, 17	6
	Investment Administration Qualification - Exchange - Traded Derivative Administration Module	15, 16, 17	6
	Investment Administration Qualification - FSA Regulatory Environment Module	15, 16, 17	5
	Investment Administration Qualification - Global Custody Module	15, 16, 17	6
	Investment Administration Qualification - Global Securities Operations Module	16, 17	6
	Investment Administration Qualification - Global Settlement Module	15, 16, 17	6
	Investment Administration Qualification - IMRO Regulatory Environment Module	8 14 and 10 15, 16, 17, 18, 19	3 5
	Investment Administration Qualification - Introduction to Securities and Investment Module	15, 16, 17, 18, 19	4
	Investment Administration Qualification - ISA Administration Module	15, 16, 17	6
	Investment Administration Qualification - ISA and CTF Administration Module	17	6
	Investment Administration Qualification - ISA and PEP Administration Module	15, 16, 17	6
	Investment Administration Qualification - Life Policy Administration Module	18	6

Qualification provider	Qualification	Activity Number(s)	Key
	Investment Administration Qualification - OEIC Administration Module	15, 16, 17	6
	Investment Administration Qualification - Operational Risk Module	15, 16, 17	6
	Investment Administration Qualification - OTC Derivatives Administration Module	15, 16	6
	Investment Administration Qualification - Pensions Administration Module	19	6
	Investment Administration Qualification - PEP Administration Module	15, 16, 17	6
	Investment Administration Qualification - Portfolio Performance Measurement Module	15, 16	6
	Investment Administration Qualification - Private Client Administration Module	15, 16, 17	6
	Investment Administration Qualification - SFA Regulatory Environment Module	8 14 and 10 15, 16, 17, 18	3 5
	Investment Administration Qualification - Unit 2 FSA Regulatory Environment - (Formerly the Investment Administration Qualification - Regulatory Environment Module)	8 14 and 10 18, 19	3 5
	Investment Administration Qualification - Unit Trust Administration Module	15, 16, 17	6
	Investment Advice Certificate	14 and 10	1
	Investment Advice Certificate - Paper 1	15, 16, 17, 18, 19	4 5
	Investment Advice Certificate - Paper 1 (No new registrations)	20, 21, 22	3
	Investment Advice Certificate - Paper 2	18, 19	6

Qualification provider	Qualification	Activity Number(s)	Key
	Investment Advice Diploma (where candidates hold technical modules as recommended by the firm)	14 and 10	1
	Investment Operations Certificate - Asset Servicing Module	15, 16, 17	6
	Investment Operations Certificate - Collective Investment Schemes Administration Module	15, 16, 17	6
	Investment Operations Certificate - CREST Settlement Module	15, 16, 17	6
	Investment Operations Certificate - Exchange - Traded Derivative Administration Module	15, 16, 17	6
	Investment Operations Certificate - UK Financial Regulation Module	8 14 and 10	3
	Investment Operations Certificate - Global Securities Module	15, 16, 17, 18, 19	5
	Investment Operations Certificate - Global Securities Module	17	6
	Investment Operations Certificate - Global Securities Operation Module	16	6
	Investment Operations Certificate - Introduction to Securities and Investment Module	15, 16, 17, 18, 19	4
	Investment Operations Certificate - ISA Administration Module	15, 16, 17	6
	Investment Operations Certificate - Operational Risk Module	15, 16, 17	6
	Investment Operations Certificate - OTC Derivatives Administration Module	15, 16	6
	Investment Operations Certificate - Administration of Settlement & Investments Module (previously known as the Private Client Administration Module)	15, 16, 17	6
	Level 3 Certificate in Investments (Derivatives) - Unit 3	15, 16, 17, 18, 19	4

Qualification provider	Qualification	Activity Number(s)	Key
	Level 3 Certificate in Investments (Investment Management)	14 and 10 15, 16, 17, 18, 19 15, 16, 17	1 4 5
	Level 3 Certificate in Investments (Investment Management) - Unit 5	8 14 and 10	2
	Level 3 Certificate in Investments (Securities and Financial Derivatives)	8 15, 16, 17, 18, 19	1 4
	Level 3 Certificate in Investments (Securities)	8	1
	Level 3 Certificate in Investments (Securities) - Unit 2	15, 16, 17, 18, 19	4
	Level 6 Diploma in Wealth Management	14 and 10	1
	Masters in Wealth Management	14 and 10	1
	Member of the Securities Institute by examination	15, 17, 19	4
	Principles of UK Financial Regulation	8 18, 19	3 5
	SFA Corporate Finance Representative Examination	8 15, 16, 17, 18, 19	1 4
	SFA Futures and Options Representative Examination	15, 16, 17, 18, 19 15, 16, 17	4 5
	SFA Registered Persons Examination - Section 1 (Regulation)	8 14 and 10 15, 16, 17, 18, 19	3 3 5
	SFA Securities and Financial Derivatives Representative Examination	8 15, 16, 17, 18, 19 15, 16, 17	1 4 5
	SFA Securities Representative Examination	8 15, 16, 17, 18, 19 16, 17	1 4 5
	TSA Registered Representative Examinations	8 15, 16, 17, 18, 19	1 4

Qualification provider	Qualification	Activity Number(s)	Key
		15, 16	5
	Unit 1 - Financial Regulation	14 and 10	3
	Unit 1 Financial Regulation (Formerly the Securities Institute Regulatory Paper)	8	3
		15, 16, 17, 18, 19	5
	Unit 6 - Principles of UK Financial Regulation	14 and 10	3
		15, 16, 17	5
Chartered Insurance Institute	Certificate in Securities Advice and Dealing	2, 12	a
	Diploma in Regulated Financial Planning		
	Diploma in Regulated Financial Planning (attained through a CII alternative assessment day)	4 and 6	a
	Fellow or Associate (life and pensions route only)	2, 3, 12, 13	b
	Advanced Financial Planning Certificate	2, 3, 4 and 6, 12, 13	b
	Diploma in Financial Planning		
	Fellow (FCII) (where candidates hold appropriate life and pensions modules)		
	Fellow (FLIA Dip)		
	Advanced Diploma in Financial Planning	4 and 6	b
	Associate (ACII) (where candidate holds appropriate life and pension modules)		
	Associate (ALIA Dip)		
	Diploma in Financial Planning plus a pass in J12: Securities advice and dealing	2, 12	a
	Certificate in Financial Planning plus the Award in Long Term Care Insurance		
	G80 paper of Advanced Financial Planning Certificate (October 2004) plus appropriate exam requirements for TC 2.1.4R(1)(f)	7	1

Qualification provider	Qualification	Activity Number(s)	Key
	G70 Paper of the Advanced Financial Planning Certificate	8	1
	Award in London Market Insurance	9	1
	Fellow or Associate including three pensions-related subjects as confirmed by the examining body		
	G60 paper of Advanced Financial Planning Certificate	11	1
	Unit AF3 of the Advanced Diploma in Financial Planning		
	Certificate of Insurance Practice	18	4
	Certificate of Insurance Practice (life or pensions route)		
	FA1 - Life office administration		
	Fellow or Associate (life and pensions route only)	18	6
	Life assurance paper (735) from the Associateship		
	Certificate of Insurance Practice (Pensions route)	19	6
	Fellow or Associate (Pensions route)		
	Certificate in Mortgage Advice	20	1
	Certificate in Equity Release (Formerly known as Certificate in Financial Planning and Lifetime Mortgages)	21	1
	Certificate in Equity Release	22	1
		23	4
		23	5
		23	6
	Advanced Financial Planning Certificate (must include a pass in G70 paper)	14 and 10	1
	Certificate in Discretionary Investment Management		
	Fellow or Associate	15, 16, 17, 18, 19	4

Qualification provider	Qualification	Activity Number(s)	Key
	Financial Planning Certificate - Paper 1	15, 16, 17, 18, 19	4
		15, 16, 17, 18, 19	5
	CF1 - UK financial services, regulation and ethics	15, 16, 17, 18, 19	4
		15, 16, 17, 18, 19	5
	RO1 Paper: Regulation and Ethics	15, 16, 17, 18, 19	4
		15, 16, 17, 18, 19	5
	FA2 - Pensions administration paper		
	Financial Planning Certificate - Paper 2	18, 19	6
	Pensions law, taxation and administration paper (740) from the Associateship		
	Certificate in Investment Operations: Collective Investment Scheme Administration paper (FA4)	15, 16, 17	6
	Certificate in Investment Operations: Individual Savings Account Administration paper (FA5)	15, 16, 17	6
	Certificate in Investment Operations: Investment Client Servicing paper (FA6)	15, 16, 17	6
	Certificate in Mortgage Advice - Paper 1	20, 21	3
	Mortgage Advice Qualification (MAQ) plus entry requirements	20, 21, 22	1
	Financial Planning Certificate - Paper 1 (No new registrations after 17/12/2004)	20, 21, 22	3
Deutsche Boerse AG	Certified Securities Trader (provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)	2, 12	b
Deutsche Boerse AG	Certified Derivatives Trader (provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)	2, 12 3, 13	b a

Qualification provider	Qualification	Activity Number(s)	Key
EFFAS Societies with accredited examinations	Certified European Financial Analyst	14 and 10	2
Faculty or Institute of Actuaries	Fellow or Associate or where the individual has passed all of the following modules CT1, CT2, CT4, CT5, CT6, CT7 and CT8	2, 3, 4 and 6, 12, 13	a
		14 and 10	1
	Associate - achieved by examination passed before 1 December 2001 (must include a pass in Subject 301 - Investment and Asset Management (syllabus in force from 1998))	14 and 10	1
	Associate - achieved by examination passed after 1 December 2001 (must include a pass in subject 301 - Investment and Asset Management (syllabus in force from 1998))	14 and 10	2
	Fellow - achieved by examination (must include a pass in subjects 301 and 401 Investment and Asset Management (syllabus in force from 1998))	14 and 10	1
	Fellow or Associate	11	1
		16, 17, 18, 19	4
		18, 19	6
Fellow or Associate by examination (must include Investment Paper E (Syllabus in force until 1998))	14 and 10	1	
Fellow or where the individual has passed all of the following modules CA1 and SA2	18	4	
Financial Industry Regulatory Authority (FINRA) - Formerly the National Association of Securities Dealers (NASD)	Series 7 - General Securities Representatives Examination (provided it is accompanied by appropriate qualifications in Regulation and Ethics and Personal Taxation)	2, 3, 12, 13	b

Qualification provider	Qualification	Activity Number(s)	Key
Financial & Legal Skills Partnership (formerly the Financial Skills Partnership/Financial Services Skills Council (FSP/ FSSC))	FLSP Advanced /Modern Apprenticeship in Advising on Financial Products (Long Term Care Insurance Pathway)	7	1
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (Investment Administration or Operations Pathway including either Asset Servicing / CREST Settlement / Global Securities or ISA and CTF Administration)	17	6
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (Investment Administration or Operations Pathway including FSA Regulatory Environment or Principles of Financial Regulation)	17	5
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (investment Administration or Operations Pathway including the Introduction to Securities and Investment module)	17	4
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (Long Term Insurance or Life, Pensions and Investments or Pensions Administration Pathway including CF1)	18	4
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (Long Term Insurance or Life, Pensions and Investments or Pensions Administration Pathway including CF1)	18	5
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (Long Term Insurance or Life, Pensions and Investments or Pensions Adminis-	18	6

Qualification provider	Qualification	Activity Number(s)	Key
	tration Pathway including CF1 and either FA1 or FA2)		
	FLSP Level 3 Advanced /Modern Apprenticeship in Retail or Providing Financial Services (Long Term Insurance or Life, Pensions and Investments or Pensions Administration Pathway including CF1 and FA2)	19	1
	FLSP Level 3 Advanced Apprenticeship in Advising on Financial Products (Mortgage Advice Pathway) or Level 3 Advanced Apprenticeship in Providing Mortgage Advice	20	1
ICMA Centre/ University of Reading (Formerly ISMA Centre/ University of Reading)	Diploma in Capital Markets, Regulation and Compliance	17	5
	Operations Certificate Programme (OCP)	16, 17	6
ifs University College(formerly the ifs School of Finance/Chartered Institute of Bankers)	Diploma for Financial Advisers (post 2010 examination standards)		
	Professional Certificate in Banking (PCertB) (where candidate has passed the Practice of Financial Advice module)	4 and 6	a
	Associateship - (must include a pass in the Investment / Investment Management Paper)	2, 3, 4 and 6, 12, 13	b
	Diploma for Financial Advisers (pre 2010 examination standards)	4 and 6	b
	Professional Investment Certificate		
	Certificate for Financial Advisers and Certificate in Long-term Care Insurance	7	1
	Pensions paper of Professional Investment Certificate	11	1
	Certificate for Financial Advisers - Paper 1	15	5
	Fellow or Associate	15, 16, 17, 18, 19	4

Qualification provider	Qualification	Activity Number(s)	Key
	Certificate for Financial Advisers - Paper 1 (Pre 31/10/2004)	15, 16, 17, 18, 19	4 5
		20, 21, 22	3
	Certificate for Financial Advisers - Paper 1 (Post 01/11/2004)	18, 19	4 5
	Certificate for Financial Advisers - Paper 2 (Pre 31/10/2004)	18, 19	6
	CeMAP Bridge paper plus entry requirements	20	1
	Certificate in Mortgage Advice and Practice (Post 01/11/2004)	20	1
	Diploma for Mortgage Advice and Practice DipMAP (plus entry requirements)	20	1
	CeMAP bridge paper plus entry requirements (Pre 31/10/2004)	21, 22	1
	Certificate in Mortgage Advice and Practice (CeMAP) (Pre 31/10/2004) - Paper 1	20, 21	3
	Certificate in Mortgage Advice and Practice (Post 01/11/2004) - Paper 1	20, 21	3
	Certificate in Mortgage Advice and Practice (CeMAP) (Pre 31/10/2004)	20, 21, 22	1
	Certificate in Regulated Equity Release (Formerly known as Certificate in Lifetime Mortgages)	21, 22 23 23 23	1 4 5 6
Institute of Chartered Accountants in England and Wales	Fellow or Associate	8	1
		15, 16, 17, 18, 19	4
	Initial Test of Competence	18, 19	6
	Diploma in Corporate Finance (awarded jointly with The Institute of Chartered Accountants in England and Wales)	8	2

Qualification provider	Qualification	Activity Number(s)	Key
Institute of Chartered Accountants in Ireland	Fellow or Associate	8	1
		15, 16, 17, 18, 19	4
	Initial Test of Competence	19	6
Institute of Chartered Accountants in Scotland	Member	8	1
		15, 16, 17, 18, 19	4
	Initial Test of Competence	19	6
Institute of Chartered Secretaries and Administrators	Certificate in Collective Investment Scheme Administration	15, 16, 17, 18	4
			5
		15, 16	6
		19	4
	Certificate in Company Secretarial Practice and Share Registration Practice (including the Regulatory module within the examination)		4
		15, 16, 17	5
		6	
	Fellow or Associate	15, 16, 17, 18, 19	4
Institute of Financial Planning	Certified Financial Planner	4 and 6	b
	Fellowship		
Insurance Sector Education and Training Authority	National Diploma: Financial Services Long-Term Risk Assessment	7	2
Investment Management Association	Investment Administration Management Award	15, 16, 17	6
Investment Property Forum	IPF Certificate in Property Investment	14 and 10	2
Japanese Bankers Association	Registered Representative of Public Securities Examination (pre-April 1990)	8	2
Japanese Securities Dealers Association	Representative of Public Securities Qualification - Type 1 (provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)	2, 3, 12, 13	b
		8	2

Qualification provider	Qualification	Activity Number(s)	Key
	Representative of Public Securities Qualification - Type 1		
Law Society of England and Wales	Module B(ii), Securities and Portfolio Management	8	2
	Module B(i), Retail Branded/ Packaged Products	18, 19	6
Law Society of England and Wales/ Law Society of Northern Ireland	Solicitor	15	4
Law Society of England and Wales/ Law Society of Scotland/ Law Society of Northern Ireland	Solicitor	17, 18, 19	4
Lloyd's	Lloyd's and London Market Introductory Test (Formerly the Lloyd's Introductory Test)	9	1
Lloyd's/ Chartered Insurance Institute	Lloyd's Market Certificate	9	1
London Stock Exchange (records are now kept by The Chartered Institute for Securities and Investment (CISI); Formerly the Securities and Investment Institute (SII); formerly The Securities Association)	London Stock Exchange Full Membership Exams (and other regional stock exchanges as merged with London Stock Exchange) - where candidate holds three or four papers or holds both the Stock Exchange Practice and Techniques of Investment papers	2, 3, 4 and 6, 12, 13 14 and 10	b 1
	Stock Exchange Registered Representative Examination	8 15, 16, 17, 18, 19 15, 16	1 4 5
Manchester Metropolitan University	BA (Hons) Financial Services, Planning and Management	2, 3, 4 and 6, 12, 13	a
N/A	In-house module (only where the firm can demonstrate that none of the listed examinations are appropriate)	15, 16, 17, 18, 19	6
NIBE SVV the Dutch Institute for	Examination	8	2

Qualification provider	Qualification	Activity Number(s)	Key
the Banking, Insurance and Stock-broking Industry			
Pensions Management Institute	Diploma in Regulated Retirement Advice	4 and 6	a
		11	1
	Fellow or Associate by examination	11	1
	Module 201: Providing for Retirement		4
			5
			6
	Fellow or Associate	15, 16, 17, 18, 19	4
Diploma in Member-Directed Pension Scheme Administration	18	6	
Fellow or Associate by examination	18, 19	6	
Sheffield Hallam University	BA in Financial Services (1995 to 2001)		
	MA in Financial Services (1995 to 2001)	4 and 6	b
	Post Graduate in Financial Services (1995 to 2001)		
SIX Swiss Exchange	Certified Securities Trader the Swiss Markets Insight course (provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)	2, 12	b
Society of Investment Analysts in Ireland	Certificate in Investment Management (at least 3 papers passed by examination)	14 and 10	2
South African Institute of Financial Markets	Ordinary and Senior Certificates	8, 14 and 10	2
Swiss Finance Institute	Dual degree Executive MBA in Asset and Wealth Management	14 and 10	2
The Securities Analysts Association of Japan (SAAJ)	CMA Level 2 (for individuals advising before 30 June 2009)	2, 3, 12, 13	b

Qualification provider	Qualification	Activity Number(s)	Key
University of Stirling	CMA Level 2 (for individuals not advising before 30 June 2009 - provided it is accompanied by appropriate qualifications in Regulation and Ethics, Investment Principles and Risk and Personal Taxation)		
	CMA Level 2	8	2
	Secondary Examination		
	Chartered Member	14 and 10	2
	BA in Finance	2, 4 and 6, 12	b
	BA in Finance and Accounting	2, 3, 4 and 6, 12, 13	b
	MSc in Finance	2, 3, 12, 13	b
	MSc in international Accounting and Finance (where candidates hold modules as recommended by the firm)	2, 3, 12, 13 8 14 and 10	b 2 1
	MSc in Investment Analysis	2, 3, 12, 13 14 and 10	b 1
University of the West of England	BA in Financial Services (1995 to 2001)		
	MA in Financial Services (1995 to 2001)	4 and 6	b
	Post Graduate in Financial Services (1995 to 2001)		

General Provisions

concerning the territorial scope of *EU* law should therefore be read as extending throughout the *EEA* where the context requires.

Treaty of Lisbon

2.2.22

FCA PRA

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As a result of the Treaty of Lisbon, the European Union has replaced and succeeded the European Community. References in the *Handbook* to the European Community should therefore be interpreted as references to the European Union, where the context requires. In particular, references which are copied out directly from *EU* or *UK* legislation may contain references to the Community which should be read in conjunction with section 3 of the European Union (Amendment) Act 2008.

Application of provisions made by both the FCA and the PRA

2.2.23

FCA PRA

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- (1) This *rule* applies to *Handbook* provisions made by both the *FCA* and the *PRA*. It may affect their application by the *FCA* to *PRA-authorised persons* and *PRA approved persons*, and may affect their application by the *PRA* to any *authorised person* or *approved person*.
- (2) Where a *Handbook* provision (or part of one) goes beyond the *FCA's* or *PRA's* powers or regulatory responsibilities, it is to be interpreted as applied by that regulator to the extent of that regulator's powers and regulatory responsibilities only.
- (3) The extent of a *Handbook* provision is to be interpreted as cut back under ■ GEN 2.2.23R (2) by the minimum degree necessary.

2.2.24

FCA PRA

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The published Memorandum of Understanding between the *FCA* and the *PRA* describes their regulatory responsibilities.

2.2.25

FCA PRA

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Examples of rules being interpreted as cut back by ■ GEN 2.2.23 R include the following:

- (1) [deleted]
- (2) ■ SYSC 6.1.1 R requires a *firm* to maintain adequate policies and procedures to ensure compliance with its obligations under the *regulatory system*; ■ SYSC 6.1.1 R should be interpreted:
 - (a) as applied by the *FCA* in respect of a *PRA-authorised person's* compliance with regulatory obligations that are the responsibility of the *FCA* (for example, in respect of a *bank* maintaining policies and procedures to ensure compliance with banking conduct requirements in *BCOBS*); and,
 - (b) as applied by the *PRA* in respect of a *PRA-authorised person's* compliance with those regulatory obligations that are the responsibility of the *PRA* (for example, in respect of a *bank* maintaining policies and procedures to ensure compliance with financial resources requirements in the *PRA* Rulebook and the *EU CRR*).
- (3) ■ COMP 5.2.1 R sets out types of *protected claims* to be covered by the *FSCS*. The powers of the *FCA* and the *PRA* to make this type of *rule* are set out in the order made under section 213(1A) of the *Act*. The *rule* must be read as applying

only to the extent of those powers. For example, the *PRA* has no power to make ■ COMP 5.2.1 R (3) creating *protected claims* in connection with *protected investment business*, and the *FCA* has no power to make ■ COMP 5.2.1 R (1) as creating *protected claims* for a *protected deposit*. As such, those provisions are to be interpreted as not applied by the *PRA* and *FCA*, respectively.

Fees Manual

card (Visa/Mastercard only). Any payment by a permitted credit card must include an additional 2% of the sum paid.

3.2.4

FCA

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The FCA expects that a *person* seeking to become a *recognised body* or a *designated professional body* or to be added to the list of *designated investment exchanges* or *accredited bodies* will generally pay their respective fees by electronic credit transfer.

3.2.5

FCA PRA

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- (1) The appropriate authorisation or registration fee is an integral part of an application for, or an application for a variation of, a *Part 4A permission*, authorisation, registration or variation under the *Payment Services Regulations* or the *Electronic Money Regulations*, or notification or registration under the *AIFMD UK regulation*. Any application or notification received by the *appropriate regulator* without the accompanying appropriate fee, in full and without deduction (see **■ FEES 3.2.1 R**), will not be treated as an application or notification made, incomplete or otherwise, in accordance with section 55U(4), or section 55H or 55I (as the case may be), of the *Act* or regulation 5(3) or 12(3) of the *Payment Services Regulations* or regulation 5 or 12 of the *Electronic Money Regulations* or regulation 11(1) and 60(a) of the *AIFMD UK regulation*. Where this is the case, the *appropriate regulator* will contact the applicant to point out that the application cannot be progressed until the appropriate fee has been received. In the event that the appropriate authorisation fee, in full and without deduction, is not forthcoming, the application will be returned to the applicant and no application will have been made.
- (2) With the exception of *persons* seeking to become a *designated professional body*, all applications, notifications, requests for vetting or admission approval will be treated as incomplete until the relevant fee is fully paid and the *appropriate regulator* will not consider an application, notification, request for vetting or admission approval until the relevant fee is fully paid. *Persons* seeking to become a *designated professional body* have 30 days after the designation order is made to pay the relevant fee.

3.2.6

FCA PRA

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Fees paid under this chapter are not refundable.

3.2.7

FCA

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Table of application, notification and vetting fees payable to the FCA

(1) Fee payer	(2) Fee payable	Due date
(a) Any applicant for <i>Part 4A permission</i> (including an <i>incoming firm</i> applying for <i>top-up permission</i>) whose fee is not payable pursuant to	(1) Unless (2) applies, in respect of a particular application, the highest of the tariffs set out in FEES 3 Annex 1 R part 1 which apply to that application (2) In respect of a particular application which is:	On or before the application is made

(1) Fee payer	(2) Fee payable	Due date
<p>sub- paragraph (ga) of this table</p>	<p>(i) a straightforward or moderately complex case for the purposes of FEES 3 Annex 1 R part 1, and</p> <p>(ii) only involves a simple change of legal status as set out in FEES 3 Annex 1 R part 6,</p> <p>the fee payable is 50% of the tariff that would otherwise be payable in FEES 3 Annex 1 R part 1</p>	
<p>(b) Any <i>Treaty firm</i> that wishes to exercise a <i>Treaty right</i> to qualify for <i>authorisation</i> under Schedule 4 to the <i>Act</i> (Treaty rights) in respect of <i>regulated activities</i> for which it does not have an <i>EEA right</i>, except for a firm providing <i>cross border services</i> only</p>	<p>(1) Where no certificate has been issued under paragraph 3(4) of Schedule 4 to the <i>Act</i> the fee payable is, in respect of a particular exercise, set out in FEES 3 Annex 1 R, part 4</p> <p>(2) Where a certificate in (i) has been issued no fee is payable</p>	<p>On or before the notice of exercise is given</p>
<p>(c) Any applicant for a certificate under article 54 of the Regulated Activities Order</p>	<p>2,000</p>	<p>On or before the application is made</p>
<p>(d) Applicants for an <i>authorisation order</i> for, or recognition under section 272 of the <i>Act</i> of, a <i>collective investment scheme</i></p>	<p>FEES 3 Annex 2 R, part 2</p>	<p>On or before the application is made</p>
<p>(e) The <i>management company</i> of a scheme making a notification under section 264 of the <i>Act</i></p>	<p>FEES 3 Annex 2 R, part 3</p>	<p>On or before the date the application is made</p>
<p>(ea)</p>	<p>FEES 3 Annex 2 R, part 4</p>	<p>On or before the date the notification is made</p>

(1) Fee payer	(2) Fee payable	Due date
<p>(i) An <i>AIFM</i> (other than a <i>UK AIFM</i> or an <i>EEA AIFM</i> with a <i>branch</i> in the <i>UK</i>) notifying the <i>FCA</i> of its intention to market an <i>AIF</i> in the <i>UK</i> under regulation 57 of the <i>AIFMD UK regulation</i></p>		
<p>(ii) An <i>AIFM</i> notifying the <i>FCA</i> of its intention to market an <i>AIF</i> in the <i>UK</i> under regulation 58 or 59 of the <i>AIFMD UK regulation</i></p>		
<p>(eb) An applicant for registration on the register of <i>small registered UK AIFM</i> which the <i>FCA</i> is required to maintain under regulation 10 of the <i>AIFMD UK regulation</i></p>	<p>£750</p>	<p>On or before the date the application is made</p>
<p>(f) Any person seeking an order under section 326(1) of the <i>Act</i> to become a <i>designated professional body</i>.</p>	<p>10,000</p>	<p>30 days after the order is granted</p>
<p>(g) Any applicant for recognition as a <i>UK recognised body</i> :</p> <p>(i) under section 287 of the <i>Act</i>; or</p> <p>(ii) under regulation 2(1) of the <i>RAP regulations</i></p>	<p>FEES 3 Annex 3 R, part 1</p>	<p>On or before the date the application is made</p>
<p>(ga) Any applicant for:</p> <p>(i) a <i>Part 4A permission</i> to carry out the regulated activity of <i>administer-</i></p>	<p>FEES 3 Annex 3 R, part 1</p>	<p>On or before the date the application is made</p>

(1) Fee payer	(2) Fee payable	Due date
<i>ing a specified benchmark; or</i>		
(ii) varying its <i>Part 4A permission</i> to carry out the <i>regulated activity</i> of administering a <i>specified benchmark</i>		
(h) Any applicant for recognition as an <i>ROIE</i> under section 287 or section 292 of the <i>Act</i>	FEES 3 Annex 3 R, part 2	On or before the date the application is made
(i) An applicant for <i>listing</i> (under the <i>listing rules</i>)	FEES 3 Annex 4 R, part 1	On or before the date the application is made
(j) Applicant for approval as <i>sponsor</i> (under the <i>listing rules</i>)	FEES 3 Annex 4 R, part 2	On or before the date the application is made
(k) Issuers of tranches from debt issuance programmes and <i>securitised derivative</i> tranches	FEES 3 Annex 4 R, part 1	An upfront fee is required per tranche for draw downs in the following 12 <i>months</i>
(l) Under the <i>listing rules</i> , an <i>issuer</i> involved in specific events or transactions during the year where documentation is subject to a transaction vetting	FEES 3 Annex 5 R, part 1, unless the transaction would come within the definition of significant transaction under category (v) or super transaction under category (q) in this table, in which case the fee payable under that category.	On or before the date that relevant documentation is first submitted to the <i>FCA</i>
(m) Under the <i>prospectus rules</i> , an <i>issuer</i> or <i>person</i> requesting approval or vetting of the documents arising in relation to specific events or transactions that it might be involved in during the year	FEES 3 Annex 5 R, part 2, unless the transaction would come within the definition of significant transaction under category (v) or super transaction under category (q) in this table, in which case the fee payable under that category.	On or before the date that relevant documentation is first submitted to the <i>FCA</i>

(1) Fee payer	(2) Fee payable	Due date
(n) Applicants to be added to the list of <i>designated investment exchanges</i>	50,000	On or before the date the application is made
(o) In relation to a <i>BIPRU firm</i> , either:	(1) Unless (2) applies, FEES 3 Annex 6 R .	Where the firm has made an application directly to the <i>FCA</i> , on or before the date the application is made, other-
(i) a <i>firm</i> applying to the <i>FCA</i> for permission to use one of the <i>advanced prudential calculation approaches</i> listed in FEES 3 Annex 6 R (or <i>guidance</i> on its availability), including any future proposed amendments to those approaches or (in the case of any application being made for such permission to the <i>FCA</i> as <i>EEA</i> consolidated supervisor under the (transposing parts of the <i>BCD</i> and <i>CAD</i> , as applicable under article 95(2) of the <i>EU CRR</i>)) any <i>firm</i> making such an application ; or	(2) (a) Unless (b) applies a <i>firm</i> submitting a second application for the permission or <i>guidance</i> described in column (1) within 12 months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under FEES 3 Annex 6 R , but only in respect of that second application (b) No fee is payable by a <i>firm</i> in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for <i>guidance</i> in accordance with prescribed submission requirements.	wise within 30 days after the <i>FCA</i> notifies the <i>firm</i> that its <i>EEA</i> parent's <i>Home State regulator</i> has requested assistance.
(ii) in the case of an application to a <i>Home State regulator</i> other than the <i>FCA</i> for the use of the Internal Ratings Based approach and the <i>Home State regulator</i> requesting the <i>FCA</i> 's assistance in accordance with the <i>Capital Requirements Regulations 2006</i> (transposing parts of the <i>BCD</i> and <i>CAD</i> , as applicable under article 95(2) of the <i>EU CRR</i>), any <i>firm</i> to which the <i>FCA</i> would have to apply any	(c) No fee is payable where the <i>Home State regulator</i> has requested the assistance described in paragraph (o)(ii) of column 1 except in the cases specified in FEES 3 Annex 6 R .	

(1) Fee payer	(2) Fee payable	Due date
<p>decision to permit the use of that approach.</p> <p>(oa) Either:</p> <p>(i) a <i>firm</i> applying to the <i>appropriate regulator</i> for permission to use one of the internal approaches listed in FEES 3 Annex 6A (or <i>guidance</i> on its availability), including any future proposed amendments to those approaches or (in the case of any application being made for such permission to the <i>appropriate regulator</i> as consolidating supervisor under the <i>EU CRR</i>) any <i>firm</i> making such an application; or</p> <p>(ii) in the case of an application to the consolidating supervisor other than the <i>appropriate regulator</i> for the use of the IRB approach and the consolidating supervisor requesting the <i>appropriate regulator's</i> assistance in accordance with the <i>EU CRR</i>, any <i>firm</i> to which the <i>appropriate regulator</i> would have to apply any decision to permit the use of that approach.</p>	<p>(1) Unless (2) applies, FEES 3 Annex 6A.</p> <p>(2) (a) Unless (b) applies a <i>firm</i> submitting a second application for the permission or <i>guidance</i> described in column (1) within 12 months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under FEES 3 Annex 6A, but only in respect of that second application.</p> <p>(b) No fee is payable by a <i>firm</i> in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for <i>guidance</i> in accordance with prescribed submission requirements.</p> <p>(c) No fee is payable where the consolidating supervisor has requested the assistance described in paragraph (oa)(ii) of column 1 except in the cases specified in FEES 3 Annex 6A.</p>	<p>Where the <i>firm</i> has made an application directly to the <i>appropriate regulator</i>, on or before the date the application is made, otherwise within 30 days after the <i>appropriate regulator</i> notifies the <i>firm</i> that its <i>EEA</i> parent's consolidating supervisor has requested assistance.</p>
<p>(p) A <i>firm</i> applying for a variation of its <i>Part 4A permission</i> whose fee is not payable pur-</p>	<p>(1) Unless (2) or (3) applies, if the proposed new business of the <i>firm</i> would fall within</p>	<p>On or before the date the application is made</p>

(1) Fee payer	(2) Fee payable	Due date
<p>suant to sub- paragraph (ga) of this table</p>	<p>one or more activity groups specified in Part 1 of FEES 4 Annex 1A R or Part 1 of FEES 4 Annex 1B R not applicable before the application , the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 1 R which apply to that application</p> <p>(2) If the only change is that the A.12 activity group tariff applied to the <i>firm's</i> business before the variation and the A.13 activity group will apply after variation, no fee is payable</p> <p>(3) If the <i>firm</i> is in the A.1 fee-block at the date of the application and the variation involves adding any of the <i>regulated activities of meeting of repayment claims or managing dormant account funds (including the investment of such funds)</i>, the fee is 50% of the fee in FEES 3 Annex 1 R that applies to that application</p> <p>(4) In all other cases, other than applications by <i>credit unions</i>, the fee payable is 250 for <i>firms</i> which are not, or are not seeking to become, a <i>PRA-authorized person</i>, and 125 for <i>firms</i> which are, or are seeking to become, a <i>PRA-authorized person</i>, unless the</p>	

(1) Fee payer	(2) Fee payable	Due date
<p>(q) A super transaction, being one where:</p> <p>(i) the <i>issuer</i> has a market capitalisation in excess of 1.5 billion and it is a new applicant for a <i>premium listing</i> under the <i>listing rules</i>, or involved in a reverse or hostile takeover or a significant restructuring; or</p> <p>(ii) the <i>issuer</i> has a market capitalisation in excess of 5 billion and is involved in a <i>class 1 transaction</i>, a transaction requiring vetting of an equity <i>prospectus</i> or <i>equivalent document</i> or a <i>transaction</i> requiring vetting of a <i>prospectus</i> or <i>listing particulars</i> in relation to a Depositary Receipt.</p>	<p>variation involves only the reduction (and no other increases) in the scope of a <i>Part 4A permission</i> in which case no fee is payable.</p> <p>50,000</p>	<p>On or before the date that the relevant documentation is first submitted to the <i>FCA</i>.</p>
<p>(r) Providers of reporting or trade matching systems applying for recognition under <i>Mi-FID</i> as an Approved Reporting Mechanism.</p>	<p>100,000</p>	<p>Having received its application, within 30 days after the <i>FCA</i> has notified the applicant that it is to commence testing of the applicants systems.</p>
<p>(s) In the case of an <i>insurance business transfer scheme</i>, a transferor.</p>	<p>Either (1) or (2) as set out below:</p> <p>(1) In the case of an <i>insurance business trans-</i></p>	<p>On or before any application is made to the</p>

(1) Fee payer	(2) Fee payable	Due date
<p>Note - for the purpose of this paragraph an <i>insurance business transfer scheme</i> consists of a single transferor and a single transferee. Where however such a scheme is part of a single larger scheme, that larger scheme is treated as a single <i>insurance business transfer scheme</i>. If an <i>insurance business transfer scheme</i> includes more than one transferor in accordance with this paragraph, the transferors are liable to pay the fee under column (2) jointly.</p>	<p><i>fer scheme</i> involving <i>long term insurance business</i>, 9,250 to the <i>PRA</i> and 9,250 to the <i>FCA</i>; or</p> <p>(2) in the case of an <i>insurance business transfer scheme</i> not involving <i>long term insurance business</i>, 5,000 to the <i>PRA</i> and 5,000 is payable to the <i>FCA</i>.</p> <p>The amount payable to the <i>PRA</i> above is collected by the <i>FCA</i> as agent of the <i>PRA</i>.</p>	<p><i>PRA</i> for the appointment of a person as an <i>independent expert</i>.</p>
<p>(t) A <i>firm</i>, a third party acting on a <i>firm's</i> behalf, an operator of a <i>regulated market</i> or an operator of an <i>MTF</i> applying to the <i>FCA</i> to report <i>transaction reports</i> directly to the <i>FCA</i> .</p>	<p>100,000</p>	<p>Having received its application, within 30 days after the <i>FCA</i> has notified the applicant that it is to commence testing of the applicants systems.</p>
<p>(u) Any of the following:</p> <p>(i) an operator of an <i>approved reporting mechanism</i>;</p> <p>(ii) a <i>firm</i>;</p> <p>(iii) a third party acting on behalf of a <i>firm</i>;</p> <p>(iv) a <i>market operator</i>;</p> <p>or</p> <p>(v) an <i>MTF</i> operator;</p> <p>that satisfies the following conditions:</p>	<p>As set out in FEES 3 Annex 7.</p>	<p>Within 30 <i>days</i> of the date of the invoice.</p>

(1) Fee payer	(2) Fee payable	Due date
<p>(1) it provides <i>transaction reports</i> directly to the <i>FCA</i>; and</p> <p>(2) having made changes to its reporting systems, it asks the <i>FCA</i> to support the testing of the compatibility of its systems with the <i>FCA</i>'s systems.</p> <p>(v) A significant transaction, being one where:</p> <p>(i) the <i>issuer</i> has a market capitalisation in excess of 500 million and is producing an <i>equity prospectus</i> or <i>equivalent document</i>, a <i>prospectus</i> or <i>listing particulars</i> in relation to a <i>Depository Receipt</i> or a document in relation to a <i>class 1 transaction</i>; or</p> <p>(ii) the <i>issuer</i> is producing a document for vetting in relation to a <i>reverse takeover</i>, a hostile takeover or a significant restructuring.</p> <p>A significant transaction does not include a super transaction.</p> <p>(w) A listed <i>issuer</i> that requests or whose representative requests the <i>FCA</i> to amend the <i>Official List</i>, or any records held by the <i>FCA</i> in relation to the <i>Official List</i>,</p>	<p>20,000</p> <p>FEES 3 Annex 4 part 3</p>	<p>On or before the date that the relevant documentation is first submitted to the <i>FCA</i>.</p> <p>On or before the date the request is made.</p>

(1) Fee payer	(2) Fee payable	Due date
<p>otherwise than pursuant to an application for listing.</p> <p>(x)</p> <p>(i) An <i>issuer or person</i> who:</p> <p>(1) is a fee payer under one or more of the categories set out in (ii); and</p> <p>(2) requests the <i>FCA's</i> approval or vetting of a document that includes a mineral expert's report.</p> <p>(ii) The categories are (1), (m) (q), and (v) of this table.</p> <p>(iii) A fee under this category is payable in addition to any fee payable under the categories set out in (ii).</p> <p>(y) An applicant for authorisation as an <i>authorised payment institution</i> under regulation 5 of the <i>Payment Services Regulations</i></p> <p>(z) An application by a <i>small payment institution</i> for authorisation as an <i>authorised payment institution</i> because regula-</p>	<p>5,000</p> <p>The highest of the tariffs set out in FEES 3 Annex 8 which apply to that application.</p> <p>Where an application only involves a simple change of legal status as set out in FEES 3 Annex 1 R Part 6, the fee payable is 50% of the tariff that would otherwise be payable in FEES 3 Annex 8R</p> <p>The highest of the tariffs set out in FEES 3 Annex 8R which apply to that application.</p>	<p>On or before the date the relevant documentation is first submitted to the <i>FCA</i>.</p> <p>On or before the date the application is made.</p> <p>On or before the date the application is made.</p>

(1) Fee payer	(2) Fee payable	Due date
<p>tion 15 of the <i>Payment Services Regulations</i> applies</p> <p>(za) An applicant for registration as a <i>small payment institution</i> under regulation 12 of the <i>Payment Services Regulations</i></p> <p>(zb) An <i>authorised payment institution</i> applying to vary its authorisation under regulation 8 of the <i>Payment Services Regulations</i>.</p>	<p>FEES 3 Annex 8R, paragraph (1). Where an application only involves a simple change of legal status as set out in FEES 3 Annex 1 R Part 6, the fee payable is 50% of the tariff that would otherwise be payable in FEES 3 Annex 8R.</p> <p>(1) If the <i>payment services</i> carried on by the <i>authorised payment institution</i> prior to the variation only fall within paragraph (f) or (g) of Part 1 of Schedule 1 to the <i>Payment Services Regulations</i> and any of the <i>payment services</i> in paragraphs (a) to (e) of that Schedule will apply after variation, the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 8R which apply to that application.</p> <p>(2) Where the <i>authorised payment institution</i>:</p> <p>(i) already has authorisation to provide <i>payment services</i> within any one or more of paragraphs (a) to (e) of Part 1 of Schedule 1 to the <i>Payment Services Regulations</i> and wishes</p>	<p>On or before the date the application is made.</p> <p>On or before the date the application is made.</p>

(1) Fee payer	(2) Fee payable	Due date
<p>(zc) A <i>small payment institution</i> applying to vary its registration under regulation 12 of the <i>Payment Services Regulations</i></p>	<p>to add one or more other services in (a) to (g); or</p> <p>(ii) has authorisation to provide <i>payment services</i> in either paragraph (f) or (g) of Part 1 of Schedule 1 to the <i>Payment Services Regulations</i> and wishes to extend its authorisation to include the other paragraph ((f) or (g));</p> <p>the fee payable is 250 irrespective of the number of <i>agents</i> it has.</p> <p>(3) In cases where the variation involves only the reduction (and no increases) of the types of <i>payment services</i> to be carried on after the variation, no fee is payable.</p> <p>(1) If the <i>payment services</i> carried on by the <i>small payment institution</i> prior to the variation only fall within paragraph (f) or (g) of Part 1 of Schedule 1 to the <i>Payment Services Regulations</i> and any of the <i>payment services</i> in paragraphs (a) to (e) of that Schedule will apply after variation, the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 8R which apply to that application.</p>	<p>On or before the date the application is made.</p>

(1) Fee payer	(2) Fee payable	Due date
	<p>(2) Where the <i>small payment institution</i>:</p> <p>(i) is already registered to provide <i>payment services</i> within any one or more of paragraphs (a) to (e) of Part 1 of Schedule 1 to the <i>Payment Services Regulations</i> and wishes to add one or more other of the services in (a) to (g); or</p> <p>(ii) is registered to provide <i>payment services</i> in either paragraph (f) or (g) of Part 1 of Schedule 1 to the <i>Payment Services Regulations</i> and wishes to extend its registration to include the other paragraph ((f) or (g)); the fee payable is 250 irrespective of the number of <i>agents</i> it has.</p> <p>(3) In cases where the variation involves only the reduction (and no increases) of the types of <i>payment services</i> to be carried on after the variation, no fee is payable.</p>	
<p>(zd) A financial institution notifying the <i>FCA</i> in accordance with regulation 121(2)(a) of the <i>Payment Services Regulations</i>.</p>	<p>50% of the highest of the tariffs set out in FEES 3 Annex 8R, paragraphs (2) to (5) which apply to that application.</p>	<p>On or before the date the application is made.</p>
<p>(ze) Any person to which the Special</p>	<p>Special Project Fee for</p>	<p>30 days of the date of the invoice.</p>

(1) Fee payer	(2) Fee payable	Due date
<p>Project Fee for restructuring applies under FEES 3 Annex 9.</p>	<p>dance with FEES 3 Annex 9 .</p>	
<p>(zf) [deleted]</p>		
<p>(zg) An applicant for authorisation as an <i>authorised electronic money institution</i> under regulation 5 of the <i>Electronic Money Regulations</i>.</p>	<p>The amount set out in FEES 3 Annex 10 R. Where an application only involves a simple change of legal status as set out in FEES 3 Annex 1 R Part 6, the fee payable is 50% of the tariff that would otherwise be payable in FEES 3 Annex 10 R.</p>	<p>On or before the date the application is made.</p>
<p>(zh) An applicant for registration as a <i>small electronic money institution</i> under regulation 12 of the <i>Electronic Money Regulations</i>.</p>	<p>The amount set out in FEES 3 Annex 10 R. Where an application only involves a simple change of legal status as set out in FEES 3 Annex 1 R Part 6, the fee payable is 50% of the tariff that would otherwise be payable in FEES 3 Annex 10 R.</p>	<p>On or before the date the application is made.</p>
<p>(zi) An application by a <i>small electronic money institution</i> for authorisation as an <i>authorised electronic money institution</i> because regulation 16 of the <i>Electronic Money Regulations</i> applies.</p>	<p>The amount set out in FEES 3 Annex 10 R.</p>	<p>On or before the date the application is made.</p>
<p>(zj) An <i>authorised electronic money institution</i> applying to vary its authorisation under regulation 8 of the <i>Electronic Money Regulations</i>.</p>	<p>The amount set out in FEES 3 Annex 10 R.</p>	<p>On or before the date the application is made.</p>
<p>(zk) A <i>small electronic money institution</i> applying to vary its registration under regulation 12</p>	<p>The amount set out in FEES 3 Annex 10 R.</p>	<p>On or before the date the application is made.</p>

(1) Fee payer	(2) Fee payable	Due date
of the <i>Electronic Money Regulations</i> .		
(zl) An applicant for recognition as an <i>accredited body</i> .	2,500	On or before the date the application is made.
(zm) An <i>issuer</i> applying for registration of a <i>regulated covered bond</i> .	(1) Unless (2) applies, 45,000. (2) In the case of a proposed <i>covered bond</i> or <i>programme</i> where the assets in the <i>asset pool</i> will consist primarily of UK residential mortgages, 25,000.	On or before the date the application is made.
(zn) An <i>issuer</i> who proposes to make a material change to the contractual terms of a <i>regulated covered bond</i> under RCB 3.5.4 D.	6,500	On or before the date the notification under RCB 3.5.4 D is made.
(zo) In the case of <i>persons</i> in respect of which the <i>FCA</i> has given notice of its intention to take, or appoint a competent person to take, any steps under CONRED 2.5.12R, either:	An amount equal to: (1) a sum determined by the number of hours, or part of an hour, taken by the <i>FCA</i> in relation to work conducted in taking steps under CONRED 2.5.12R recorded on the <i>FCA's</i> systems, multiplied by the rate in FEES 3 Annex 9 (11)R; or	Within 30 <i>days</i> of the date of the invoice.
(i) a <i>Firm</i> (as defined in CONRED 2.1.1R(1)); or (ii) a <i>person</i> falling within CONRED 2.1.2R(1).	(2) any amount invoiced to the <i>FCA</i> by a competent person in relation to any work carried out by that competent person in connection with its appointment by the <i>FCA</i>	

(1) Fee payer	(2) Fee payable	Due date
	under CONRED 2.5.12R.	
(zp) A <i>person</i> in respect of which the <i>appropriate regulator</i> has given notice of its intention to itself appoint a <i>skilled person</i> to provide it with a report pursuant to section 166(3)(b) of the <i>Act</i> and SUP 5.2.	Any amount invoiced to the <i>appropriate regulator</i> by a <i>skilled person</i> in relation to any work carried out by that <i>skilled person</i> in connection with its appointment by the <i>appropriate regulator</i> pursuant to section 166(3)(b) of the <i>Act</i> .	Within 30 <i>days</i> of the date of the invoice.
(zq) A <i>person</i> in respect of which the <i>appropriate regulator</i> has given notice of its intention to itself appoint a <i>skilled person</i> to collect or update information pursuant to section 166A(2)(b) of the <i>Act</i> .	Any amount invoiced to the <i>appropriate regulator</i> by a <i>skilled person</i> in relation to any work carried out by that <i>skilled person</i> in connection with its appointment by the <i>appropriate regulator</i> pursuant to section 166A(2)(b) of the <i>Act</i> .	Within 30 <i>days</i> of the date of the invoice.
(zr) An applicant for approval as a <i>primary information provider</i> .	1,500	On or before the application for approval is made.

[Note: *Guidance* on how a *firm* liable to pay a fee under both rows (s) and (ze) of this table for the same transaction should expect to be treated is set out in ■ FEES 3 Annex 11 G.]

3.2.7A

PRA

R

Table Table of application, notification and vetting fees payable to the PRA

(1) Fee payer	(2) Fee payable	Due date
(a) Any applicant for <i>Part 4A permission</i> (including an <i>incoming firm</i> applying for <i>top-up permission</i>) which includes a <i>PRA-regulated activity</i>	(1) Unless (2) applies, in respect of a particular application, the highest of the tariffs set out in FEES 3 Annex 1 R part 1 which apply to that application. (2) In respect of a particular application which is: (i) a straightforward or moderately complex	On or before the application is made

	<p>case for the purposes of FEES 3 Annex 1 R part 1, and</p> <p>(ii) only involves a simple change of legal status as set out in FEES 3 Annex 1 R part 6, the fee payable is 50% of the tariff that would otherwise be payable in FEES 3 Annex 1 R part 1.</p>	
<p>(b) Any <i>Treaty firm</i> that wishes to exercise a <i>Treaty right</i> to qualify for <i>authorisation</i> under Schedule 4 to the <i>Act</i> (Treaty rights) in respect of <i>regulated activities</i> for which it does not have an <i>EEA right</i>, except for a <i>firm</i> providing <i>cross border services</i> only</p>	<p>(1) Where no certificate has been issued under paragraph 3(4) of Schedule 4 to the <i>Act</i> the fee payable is, in respect of a particular exercise, set out in FEES 3 Annex 1 R, part 4. (2) Where a certificate in (1) has been issued no fee is payable.</p>	<p>On or before the notice of exercise is given</p>
<p>(c) A <i>firm</i> applying for a variation of its <i>Part 4A permission</i> or an <i>FCA-authorised person</i> applying to carry on a <i>PRA-regulated activity</i></p>	<p>(1) Unless (2) or (3) applies, if the proposed new business of the <i>firm</i> would fall within one or more activity groups specified in Part 1 of FEES 4 Annex 1A R or Part 1 of FEES 4 Annex 1B R not applicable before the application, the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 1 R which apply to that application.</p> <p>(2) If the only change is that the A.12 activity group tariff applied to the <i>firm's</i> business before the variation and the A.13 activity group</p>	<p>On or before the date the application is made</p>

will apply after variation, no fee is payable.

(3) If the *firm* is in the A.1 fee-block at the date of the application and the variation involves adding any of the *regulated activities of meeting of repayment claims or managing dormant account funds (including the investment of such funds)*, the fee is 50% of the fee in **FEES 3 Annex 1 R** that applies to that application.

(4) In all other cases, other than applications by *credit unions*, the fee payable is 125, unless the variation involves only the reduction (and no other increases) in the scope of a *Part 4A permission* in which case no fee is payable.

(d) Any *person* to which the Special Project Fee for restructuring applies under **FEES 3 Annex 9**. Special Project Fee for restructuring in accordance with **FEES 3 Annex 9**. 30 *days* of the date of the invoice.

(e) In the case of an *insurance business transfer scheme*, a transferor. Either (1) or (2) as set out below: On or before any application is made to the *PRA* for the appointment of a person as an *independent expert*.

Note - for the purpose of this paragraph an *insurance business transfer scheme* consists of a single transferor and a single transferee. Where however such a scheme is part of a single larger scheme, that larger scheme is treated as a single *insurance business*

(1) In the case of an *insurance business transfer scheme* involving *long term insurance business*, 9,250 is payable to the *PRA*; or

(2) in the case of an *insurance business transfer scheme* not involving *long term insurance business*, 5,000 is payable to the *PRA*.

<p><i>transfer scheme. If an insurance business transfer scheme includes more than one transferor in accordance with this paragraph, the transferors are liable to pay the fee under column (2) jointly.</i></p>	<p>The amount payable to the <i>PRA</i> above is collected by the <i>FCA</i> as agent of the <i>PRA</i>.</p>	
<p>(f) Either:</p> <p>(i) a <i>firm</i> applying to the <i>appropriate regulator</i> for permission to use one of the internal approaches listed in FEES 3 Annex 6B (or guidance on its availability), including any future proposed amendments to those approaches or (in the case of any application being made for such permission to the <i>appropriate regulator</i> as consolidating supervisor under the <i>EU CRR</i>) any <i>firm</i> making such an application; or</p> <p>(ii) in the case of an application to the consolidating supervisor other than the <i>appropriate regulator</i> for the use of the IRB approach and the consolidating supervisor requesting the <i>appropriate regulator's</i> assistance in accordance with the <i>EU CRR</i>, any <i>firm</i> to which the <i>appropriate regulator</i> would have to apply any decision to permit the use of that approach.</p>	<p>(a) Unless (2) applies, FEES 3 Annex 6B. (2) (a) Unless (b) applies a <i>firm</i> submitting a second application for the permission or <i>guidance</i> described in column (1) within 12 months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under FEES 3 Annex 6B, but only in respect of that second application.</p> <p>(b) No fee is payable by a <i>firm</i> in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for <i>guidance</i> in accordance with prescribed submission requirements.</p> <p>(c) No fee is payable where the consolidating supervisor has requested the assistance described in paragraph (f)(ii) of column 1 except in the cases specified in FEES 3 Annex 6B .</p>	<p>Where the <i>firm</i> has made an application directly to the <i>appropriate regulator</i>, on or before the date the application is made, otherwise within 30 days after the <i>appropriate regulator</i> notifies the <i>firm</i> that its <i>EEA</i> parent's consolidating supervisor has requested assistance.</p>

(g) An applicant for a <i>ceding insurer's waiver</i> .	20,000	On or before the date the application is made.
(h) A <i>person</i> in respect of which the <i>appropriate regulator</i> has given notice of its intention to itself appoint a <i>skilled person</i> to provide it with a report pursuant to section 166(3)(b) of the <i>Act</i> and SUP 5.2.	Any amount invoiced to the <i>appropriate regulator</i> by a <i>skilled person</i> in relation to any work carried out by that <i>skilled person</i> in connection with its appointment by the <i>appropriate regulator</i> pursuant to section 166(3)(b) of the <i>Act</i> .	Within 30 <i>days</i> of the date of the invoice.
(i) A <i>person</i> in respect of which the <i>appropriate regulator</i> has given notice of its intention to itself appoint a <i>skilled person</i> to collect or update information pursuant to section 166A(2)(b) of the <i>Act</i> .	Any amount invoiced to the <i>appropriate regulator</i> by a <i>skilled person</i> in relation to any work carried out by that <i>skilled person</i> in connection with its appointment by the <i>appropriate regulator</i> pursuant to section 166A(2)(b) of the <i>Act</i> .	Within 30 <i>days</i> of the date of the invoice.

Fees payable by a BIPRU firm for a permission or guidance on its availability in connection with the BCD and/or CAD

FCA

Part 1

In relation to a *BIPRU firm*, fees payable other than in relation to the counterparty credit risk internal model method.

(1) Paragraphs (2) and (3) deal with an application made to the *FCA* rather than a request for assistance under the *Capital Requirements Regulations 2006* (transposing parts of the *BCD* and *CAD*, as applicable under article 95(2) of the *EU CRR*).

(2) For *firms* falling into a group (Group 1) in which there are five or more significant overseas entities to which the application relates and the application is for permission to use one of the *advanced prudential calculation approaches* listed in Tables 1 or 2 or *guidance* on the availability of such a permission the fees in Table 1 are applicable.

(3) For all other *firms* the fees in Table 2 are applicable.

(4)

[deleted]

(5) If the application or request for assistance under the *Capital Requirements Regulations 2006* (transposing parts of the *BCD* and *CAD*, as applicable under article 95(2) of the *EU CRR*) is in relation to the use of the *advanced IRB approach* and the *FCA* (in the case of (2) or (3)) or the relevant *Home State regulator* (in the case of (4)) has already granted permission for the use of the *foundation IRB approach* at the time of the application then Table 3 applies.

(6) All fees are shown in £.

Table 1

Application group	Description of group	Application fee		
		Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 1	Five or more significant overseas entities as described in more detail in the definition of	268	232	181

Application group	Description of group	Application fee		
		Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)

Group 1 in the introduction to Part 1 of this Annex

Table 2

Application group	Description of group		Application fee		
	Modified eligible liabilities (m)	Number of traders as at the 31 December prior to the FCA's fee year in which the fee is payable	Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 2	>40,000	>200	232	198	146
Group 3	>5,000 - 40,000	26 - 200	94	72	51
Group 4	0 - 5,000	0 - 25	42	30	24

- (1) [Deleted]
- (2) For the purposes of Table 2, a *firm's* A.1 or A10 tariff data for the relevant period will be used to provide the value of modified eligible liabilities or number of traders.

Table 3 (Advanced IRB approach where the FCA or Home State regulator has already given permission to use the foundation IRB approach)

Application group	Advanced IRB Application fee ()
Group 1	67,000
Group 2	58,000
Group 3	23,500
Group 4	10,500

The four application groups have the same meaning as they do in Tables 1 and 2.

Part 2

Fees payable in relation to the counterparty credit risk internal model method.

54,000

Fees payable for a permission or guidance on its availability in connection with the EU CRR

FCA

Part 1

Fees payable in relation to *internal approaches* that require permission under Part Three of the *EU CRR* other than the internal model method for counterparty credit risk.

(1) Subject to (3), for applications made to the *appropriate regulator* to authorise a new *internal approach*:

(i) where the application relates to *CRR firms* and to five or more significant overseas entities within the same group (Group 1) and the application is for a permission to use one of the internal approaches in Tables 1 or 2 or guidance on the availability of such a permission, the fees in Table 1 are applicable; and

(ii) for all other *CRR firms* the fees in Table 2 are applicable.

(2) Subject to (3), for applications made to the consolidating supervisor other than the *appropriate regulator* for a joint decision under article 20 of the *EU CRR* on the use of one of the internal approaches in Tables 1 or 2 and where the *appropriate regulator* is requested to assist the consolidating supervisor, the fees in Table 1 and Table 2 are applicable if the *CRR firm* concerned meets the following conditions:

(i) it is a *CRD credit institution*; and

(ii) the *firm* does not fall within Group 4 as defined in Table 2

(3) If however the application or request for assistance is in relation to the use of the Advanced IRB approach and the *appropriate regulator* (in the case of (1)) or the relevant consolidating supervisor (in the case of (2)) has already granted permission for the use of the Foundation IRB approach then table 3 applies.

(4) References to the *internal approaches* in Tables 1, 2 and 3 are to be construed as follows:

(i) Foundation IRB means the internal approach for credit risk referred to in article 143(1) of the *EU CRR*;

(ii) Advanced IRB means the internal approach for credit risk referred to in article 151(4) and (9) of the *EU CRR*; and

(iii) AMA means the internal approach for operational risk referred to in article 312(2) of the *EU CRR*.

(5) All fees are shown in £.

Table 1

Application group	Description of group	Application fee		
		Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 1	Five or more significant overseas entities as described in more detail in the definition of Group 1 in the introduction to Part 1 of this Annex	268	232	181

Table 2

Application group	Description of Group		Application fee		
	Modified eligible liabilities (m)	Number of traders as at 31 December prior to the <i>appropriate regulator's</i> fee year in which the fee is payable	Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 2	>40,000	>200	232	198	146
Group 3	>5,000 - 40,000	26 - 200	94	72	51
Group 4	0-5,000	0 - 25	42	30	24

(1) For the purposes of Table 2, a *firm's* A.1 or A10 tariff data for the relevant period will be used to provide the value of modified eligible liabilities or number of traders.

Table 3 (Advanced IRB approach where the *appropriate regulator* or consolidating supervisor has already given permission to use Foundation IRB)

Application group	Advanced IRB Application fee
Group 1	67,000
Group 2	58,000
Group 3	23,500
Group 4	10,500

The four application groups have the same meaning as they do in Tables 1 and 2.

PRA

Part 2

Fees payable in relation to the application for a permission to use the internal model method for counterparty credit risk under article 283 of the *EU CRR*: 54,000

Part 1

PRA

Fees payable in relation to internal approaches that require permission under Part Three of the *EU CRR* other than internal model method for counterparty credit risk:

(1) Subject to (3), for applications made to the *appropriate regulator* to authorise a new internal approach:

(i) where the application relates to *CRD credit institutions* or *designated investment firms* and to five or more significant overseas entities within the same group (Group 1) and the application is for a permission to use one of the internal approaches in Tables 1 or 2 or guidance on the availability of such a permission, the fees in Table 1 are applicable.

(ii) for all other *CRD credit institutions* or *designated investment firms* the fees in Table 2 are applicable.

(2) Subject to (3), for applications made to the consolidating supervisor other than the *appropriate regulator* for a joint decision under Article 20 of the *EU CRR* on the use of one of the internal approaches in Tables 1 or 2 and where the *appropriate regulator* is requested to assist the consolidating supervisor, the fees in Table 1 and Table 2 are applicable if the *firm* concerned meets the following conditions:

(i) it is a *CRD credit institutions*; and

(ii) the *firm* does not fall within Group 4 as defined in Table 2.

(3) If however the application or request for assistance is in relation to the use of the Advanced IRB approach and the *appropriate regulator* (in the case of (1)) or the relevant consolidating supervisor (in the case of (2)) has already granted permission for the use of the Foundation IRB approach then table 3 applies.

(4) References to the internal approaches in Tables 1, 2 and 3 shall be construed as follows:

(i) Foundation IRB means the *internal approach* for credit risk referred to in Article 143(1) of the *EU CRR*;

(ii) Advanced IRB means the internal approach for credit risk referred to in Article 151(4) and (9) of the *EU CRR*; and

(iii) AMA means the internal approach for operational risk referred to in 312(2) of the *EU CRR*.

(5) All fees are shown in £.

Table 1

Application group	Description of group	Application fee		
		Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 1	Five or more significant overseas entities as described in more detail in the definition of Group 1 in the introduction to Part 1 of this Annex	268	232	181

Table 2

Application group	Description of Group		Application fee		
	Modified eligible liabilities	Number of traders as at 31 December prior to the <i>PRA's</i> fee year in which the fee is payable	Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 2	>40,000	>200	232	198	146
Group 3	>5,000 - 40,000	26 - 200	94	72	51
Group 4	0-5,000	0 - 25	42	30	24

(1) For the purposes of Table 2, a *firm's* A.1 or A10 tariff data for the relevant period will be used to provide the value of modified eligible liabilities or number of traders.

Table 3 (Advanced IRB approach where the *appropriate regulator* or the consolidating supervisor has already given permission to use Foundation IRB)

Application group	Advanced IRB Application fee
Group 1	67,000
Group 2	58,000
Group 3	23,500
Group 4	10,500

The four application groups have the same meaning as they do in Tables 1 and 2

Part 2

Fees payable in relation to the application for a permission to use the internal model method for counterparty credit risk under Article 283 of the *EU CRR*: 54,000

<i>Accepting deposits (quarterly reporting firms)</i>	MELs	December 2009	December 2009.
<i>Entering into a home finance transaction</i>	Number of mortgages, home purchase plans or home reversion plans entered into	12 months ending 31 December 2009 - so projected valuations will be used	1 November to 31 December 2009.
<i>Effecting contracts of insurance</i> (Insurers - general)	Gross premium income and gross technical liabilities	31 March 2009 - so projected valuations will be used	1 November to 31 December 2009.

4.2.7D
FCA

R If an *issuer* of a *regulated covered bond* becomes registered after 31 December its valuation date will be calculated in the manner described in **1 R Part 4**.

4.2.8
FCA PRA

R In relation to an *incoming EEA firm* or an *incoming Treaty firm* the modification provisions of **FEES 4.2.7 R** apply only in relation to the relevant *regulated activities* of the *firm*, which are *passport activities* or *Treaty activities* and which are carried on in the *United Kingdom*, and which are not provided on a *cross border services* basis. For *payment services* and *electronic money* issuance, the adjustment only applies to the business to which the calculation made in **FEES 4.3.12A R** relates.

Fee payers ceasing to hold relevant status or reducing the scope of their permission after start of relevant period

4.2.9
FCA PRA

G The *appropriate regulator* will not refund periodic fees if, after the start of the period to which they relate:

- (1) a fee payer ceases to have the status set out in column (1) of the table in **FEES 4.2.11 R** or **FEES 4.2.11AR**; or
- (2) a *firm* reduces its *permission* or *payment services* activities so that it then falls out of the fee-block previously applied to it ;

(but see **FEES 2.3** (Relieving Provisions) and **FEES 4.3.13 R** (Firms Applying to Cancel or Vary Permission Before Start of Period)).

Extension of Time

4.2.10
FCA PRA

R A *person* need not pay a periodic fee on the date on which it is due under the relevant provision in **FEES 4.2.1 R**, if:

- (1) that date falls during a period during which circumstances of the sort set out in **GEN 1.3.2 R** (Emergencies) exist, and that *person* has reasonable grounds to believe that those circumstances impair its ability to pay the fee, in which case he must pay it on or before the fifth *business day* after the end of that period; or

(2) unless ■ FEES 4.3.6 R (3) , ■ FEES 4.3.6 R (4) or ■ FEES 4.3.6 R (4A) (Time and method for payment) applies, that date would otherwise fall on or before the 30th *day* after the date on which the *FCA* (in its own capacity or in its capacity as agent for the *PRA*) has sent written notification to that *person* of the fee payable on that date, in which case he must pay on or before the 30th *day* after the date on which the *FCA* sends the notification.

4.2.11

FCA

R

Table of periodic fees payable to the *FCA*

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified periodic fee
Any <i>firm</i> (except an <i>AIFM</i> qualifier, <i>ICVC</i> or a <i>UCITS</i> qualifier)	As specified in FEES 4.3.1 R in relation to FEES 4 Annex 2AR and FEES 4 Annex 11 R	(1) Unless (2) or (3) apply , on or before the relevant dates specified in FEES 4.3.6 R. (2) Unless (3) applies, if an event specified in column 4 occurs during the course of a <i>fee year</i> , 30 <i>days</i> after the occurrence of that event, or if later the dates specified in FEES 4.3.6 R. (3) Where the <i>permission</i> is for operating a <i>multi-lateral trading facility</i> , the date specified in FEES 4 Annex 10 (Periodic fees for MTF operators).	<i>Firm</i> receives <i>permission</i> , or becomes authorised or registered under the <i>Payment Services Regulations</i> or the <i>Electronic Money Regulations</i> ; or <i>firm</i> extends <i>permission</i> or its <i>payment service</i> activities
<i>Persons</i> who hold a certificate is-	£1,000	(1) Unless (2) applies, on or be-	Certificate issued to <i>person</i> by <i>FCA</i>

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified periodic fee
sued by the <i>FCA</i> under article 54 of the <i>Regulated Activities Order</i> (Advice given in newspapers etc.)		fore 1 August or, if later, within 30 days of the date of the invoice	under Article 54 RAO
Any <i>manager of an AUT</i> ;	In relation to each unit trust the amount specified in part 1 of FEES 4 Annex 4 R	(2) If an event in column 4 occurs during the course of a <i>fee year</i> , 30 days after the occurrence of that event	<i>Authorisation order</i> is made in relation to the relevant <i>scheme</i>
Any <i>authorised fund manager of an authorised contractual scheme</i> ;	In relation to each <i>authorised contractual scheme</i> the amount specified in part 1 of FEES 4 Annex 4 R		
Any <i>ACD of an ICVC</i> ; and	In relation to each <i>ICVC</i> , the amount specified in part 1 of FEES 4 Annex 4 R		
<i>Persons who, under the constitution or founding arrangements of a recognised scheme, is responsible for the management of the property held for or within the scheme</i> ;	In relation to each <i>recognised scheme</i> the amount specified in part 1 of FEES 4 Annex 4 R	The relevant <i>scheme</i> becomes a <i>recognised scheme</i>	
<i>Designated professional body</i>	FEES 4 Annex 5 R	On or before the relevant dates specified in FEES 4.3.6 R	Not applicable

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified periodic fee
<i>UK recognised body</i>	<p>FEES 4 Annex 6 R, part 1 for a <i>UK RIE</i> ; and</p> <p>FEES 4 Annex 6 R, part 1A for a <i>UK RIE</i> that is also an <i>RAP</i></p>	<p>(1) On or before the relevant dates specified in FEES 4.3.6 R</p> <p>(2) If the event in column 4 occurs during the course of a <i>fee year</i>, 30 days after the occurrence of that event</p>	<p><i>Recognition order</i> is made.</p> <p>The modified periodic fee is specified in FEES 4 Annex 6 R, Part 1 and (in the case of an <i>RAP</i>) Part 1A.</p>
<i>ROIE</i>	FEES 4 Annex 6 R, part 2	<p>(1) On or before the relevant dates specified in FEES 4.3.6 R</p> <p>(2) If the event in column 4 occurs during the course of a <i>fee year</i>, 30 days after the occurrence of that event.</p>	<p><i>Recognition order</i> is made.</p> <p>The modified periodic fee is specified in FEES 4 Annex 6 R, Part 2.</p>
<p><i>Listed issuers (in LR) of shares, depositary receipts and securitised derivatives (in LR), unless the conditions set out below apply.</i></p> <p>The first condition is that the <i>listed issuer</i>, or a related entity, has already paid a periodic fee in respect of the pe-</p>	FEES 4 Annex 7 R	Within 30 days of the date of the invoice	<i>Listed issuer (in LR)</i> becomes subject to <i>listing rules</i>

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified periodic fee
<p>riod concerned. The second condition is that the <i>listed issuer</i> is subject to <i>listing rules</i> as a result of a reverse takeover, or that the <i>listed issuer</i> is a newly formed entity, created as a result of a restructuring.</p>			
<p><i>Sponsors</i></p>	<p>£25,000 per year for the period from 1 April to 31 March the following year (see Note)</p>	<p>Within 30 <i>days</i> of the date of the <i>in-voice</i></p>	<p>(1) Approval of <i>sponsor</i> , unless (2) applies. (2) In the case of approval of a <i>sponsor</i> following a change of legal status in accordance with FEES3 Annex 1 R Part 7, the balance of the fee otherwise due from the original <i>sponsor</i>. Where a payment is made in accordance with (2) the original <i>sponsor's</i> obligation to pay that fee ceases.</p>
<p>All non-listed <i>issuers</i> (in <i>DTR</i>) of <i>shares</i>, <i>depository receipts</i> and <i>securitised derivatives</i>.</p>	<p>FEES 4 Annex 8 R, except for Table 3</p>	<p>Within 30 <i>days</i> of the date of the <i>in-voice</i></p>	<p>Non-listed <i>issuer</i> (in <i>DTR</i>) becomes subject to <i>disclosure rules</i> and <i>transparency rules</i></p>

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified periodic fee
<i>Any primary information provider</i>	FEES 4 Annex 8 R, Table 3	Within 30 days of the date of the invoice	A person is approved as a <i>primary information provider</i>
All firms reporting transactions in securities derivatives to the FCA in accordance with SUP 17, and market operators who provide facilities for trading in securities derivatives.	FEES 4 Annex 9 R	Within 30 days of the date of the invoice	Not applicable
Any issuer of a regulated covered bond.	1 R	<p>(1) Unless (2) applies, on or before the relevant dates specified in FEES 4.3.6 R</p> <p>(2) If an event specified in column 4 occurs during the course of a fee year, 30 days after the occurrence of that event or, if later, the dates specified in FEES 4.3.6 R</p>	A person becomes registered as an issuer of a regulated covered bond
(i) An AIFM (other than a UK AIFM or an EEA AIFM with a	For each notification made by the AIFM of the kind specified in part	(1) Unless (2) applies, on or before 1 August, or, if later, within 30 days of the date of the invoice	The FCA receives a notification to market in the UK

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified periodic fee
<p>branch in the <i>UK</i>) which has notified the <i>FCA</i> of its intention to market an <i>AIF</i> in the <i>UK</i> under regulation 57 of the <i>AIFMD UK regulation</i> and which has not ceased to market that <i>AIF</i> in the <i>UK</i> as at 1 April of the current <i>fee year</i>.</p> <p>(ii) An <i>AIFM</i> which has notified the <i>FCA</i> of its intention to market an <i>AIF</i> in the <i>UK</i> under regulation 58 or 59 of the <i>AIFMD UK regulation</i> and which has not ceased to market that <i>AIF</i> in the <i>UK</i> as at 1 April of the current <i>fee year</i>.</p> <p>A <i>small registered UK AIFM</i></p>	<p>2 of FEES 4 Annex 4 R, the amount specified in part 2 of FEES 4 Annex 4 R</p> <p>The basic fee contained in part 3 of FEES 4 Annex 4 R</p>	<p>(2) If an event in column 4 occurs during the course of a financial year, 30 days after the occurrence of that event</p>	<p>The <i>AIFM</i> is registered by the <i>FCA</i> under regulation 10 of the <i>AIFMD UK regulation</i>.</p>

Note: *Sponsors* on the list of approved *sponsors* as at 1 April each year will be liable for the full year's annual fee unless ■ FEES 4.3.13 R applies.

Table of periodic fees payable to the PRA

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to
-------------	---------------	------------	---

		modified periodic fee
Any firm	As specified in FEES 4.3.1 R in relation to FEES 4 Annex 2BR	<p>(1) Unless (2) applies, on or before the relevant dates specified in FEES 4.3.6 R.</p> <p>(2) if an event specified in column 4 occurs during the course of a <i>fee year</i>, 30 days after the occurrence of that event, or if later the dates specified in FEES 4.3.6 R.</p> <p><i>Firm receives permission; or firm extends permission</i></p>

Periodic fees in relation to the Disclosure and Transparency Rules for the period 1 April 2013 to 31 March 2014

FCA

Annual fees for the period 1 April 2013 to 31 March 2014

All non-listed *issuers* of shares, depositary receipts and securitised derivatives. Annual fees for listed *issuers* in respect of *Disclosure Rules* and *Transparency Rules* obligations are incorporated in the annual fee for listed *issuers* under the Listing Rules.

(1) For all non-listed *issuers* of securitised derivatives, depositary receipts and global depositary receipts the fees payable are set out in Table 1.

(2) For all other non-listed *issuers*, fees to be determined according to market capitalisation as set out in Table 2. The fee is calculated as follows:

(a) the relevant minimum fee; plus

(b) the cumulative total of the sums payable for each of the bands calculated by multiplying each relevant tranche of the *firm's* market capitalisation by the rate indicated for that tranche.

Fees from other fee schedules contained in other sections of the sourcebook may be applicable to a single submission.

Table 1

Annual fees for non-listed issuers of securitised derivatives, depositary receipts and global depositary receipts

Issuer	Fee amount
<i>Issuers of securitised derivatives</i>	£3,800
<i>Issuers of depositary receipts and global depositary receipts</i>	£3,040

Table 2

Fee payable	
Minimum fee (£)	3,800
£ million of Market Capitalisation as at the last <i>business day</i> of the November prior to the <i>FCA</i> financial year in which the fee is payable	Fee (£/£m or part £m of Market Capitalisation) as at the last <i>business day</i> of the November prior to the <i>FCA</i> financial year in which the fee is payable)
0 - 100	0

Fee payable	
>100 - 250	22.879515
>250 - 1,000	9.151199
>1,000 - 5,000	5.632939
>5,000 - 25,000	0.137405
>25,000	0.044392

Table 3 - *Primary information providers*

Fee payable
£15,000

4



6.6 Incoming EEA firms

6.6.1

FCA PRA

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If an *incoming EEA firm*, which is a *CRD credit institution*, an *IMD insurance intermediary* or *MiFID investment firm*, is a *participant firm*, the *FSCS* must give the *firm* such discount (if any) as is appropriate on the share of any levy it would otherwise be required to pay, taking account of the nature of the levy and the extent of the compensation coverage provided by the firm's *Home State* scheme.

6



6.7 Payment of levies

- 6.7.1** **R** **FCA** **PRA** A *participant firm* must pay its share of any levy made by the *FSCS*:
- (1) in one payment; or
 - (2) where the *FSCS* agrees, quarterly, at the beginning of each quarter, by direct debit agreement.
- 6.7.2** **G** **FCA** **PRA** The amount paid under a direct debit arrangement will be adjusted on a continuous basis to take account of interim levies and other adjustments made during the course of the financial year.
- 6.7.3** **R** **FCA** **PRA** A *participant firm's* share of a levy to which **■ FEES 6.7.1 R (1)** applies is due on, and payable within 30 *days* of, the date when the invoice is issued.
- 6.7.4** **R** **FCA** **PRA** If a *participant firm* does not pay its share of a levy subject to a direct debit agreement as required by **■ FEES 6.7.1 R (2)**, the entire amount of the levy becomes due and payable to the *FSCS*, and additional administrative fees are payable at the rate set out in **■ FEES 2.2.1 R**.
- 6.7.5** **R** **FCA** **PRA** A *participant firm* liable to pay its share of the levy under **■ FEES 6.7.1 R** must do so using one of the methods set out in **■ FEES 4.2.4 R** save that no additional amount or discount is applicable.
- 6.7.6** **R** **FCA** **PRA** If a *firm* ceases to be a *participant firm* or carry out activities within one or more *classes* part way through a financial year of the *compensation scheme*:
- (1) it will remain liable for any unpaid levies which the *FSCS* has already made on the *firm*; and
 - (2) the *FSCS* may make one or more levies upon it (which may be before or after the *firm* has ceased to be a *participant firm* or carry out activities within one or more *classes*, but must be before it ceases to be an *authorised person*) for the costs which it would have been liable to pay had the *FSCS* made a levy on all *participant firms* or *firms* carrying out activities within that

Fees Manual

FEES TP 9

Transitional arrangements in relation to amendments introduced by the Compensation Sourcebook (Investments by Large Unincorporated Associations and Certain Large Partnerships) Instrument 2013

FCA

9.1 Introduction

9.1.1 G *FEES* TP 9 deals with transitional arrangements relating to the calculation of *annual eligible income* under *FEES* 6.5.13 R in the light of the introduction of the Compensation Sourcebook (Investments by Large Unincorporated Associations and Certain Large Partnerships) Instrument 2013, which came into force on 13 December 2013 (the "Instrument").

9.1.2 G The definition of *annual eligible income* allows for it to be calculated in one of two ways from annual income: "(a) only include such annual income if it is attributable to business conducted with or for the benefit of *eligible claimants* and is otherwise attributable to compensatable business ["Method (a)"]; or (b) include all such annual income".

9.2 Scope

9.2.1 R *FEES* TP 9 applies to a participant firm providing a statement to the *FSCS* in accordance with *FEES* 6.5.13 R:

(a) in respect of the *participant firm's* financial year ended in the year to 31 December 2013; and

(b) which was a member of class C2, D1 and/or D2 in 2013; and

(c) which states its total amount of business in relation to those classes based on a calculation of its *annual eligible income* using Method (a).

9.3 Firms whose financial years end in the period 1 January 2013 to 12 December 2013

9.3.1 G A *participant firm*, whose financial year ended in the period 1 January 2013 to 12 December 2013, does not need to include in its calculation of *annual eligible income* the annual income attributable to business conducted with or for the benefit of *eligible claimants* who only became *eligible claimants* as a result of the Instrument.

9.4 Firms whose financial years end in the period 13 to 31 December 2013

- 9.4.1 R A *participant firm*, whose financial year ended in the period 13 to 31 December 2013, may calculate its *annual eligible income* by any of the following methods:
- (a) include the annual income attributable to business conducted with or for the benefit of *eligible claimants* who only became *eligible claimants* as a result of the Instrument;
 - (b) do not include the annual income attributable to business conducted with or for the benefit of *eligible claimants* who only became *eligible claimants* as a result of the Instrument; or
 - (c) include only that part of the annual income attributable to business conducted with or for the benefit of *eligible claimants* who became *eligible claimants* as a result of the Instrument that is attributable to the period from 13 December 2013 to the end of the *participant firm's* financial year.

General Prudential sourcebook

Chapter 1

Application



1.1 Application

1.1.1

FCA **PRA**

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There is no overall application statement for *GENPRU*. Each chapter or section has its own application statement.

1.1.2

FCA

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Broadly speaking however, *GENPRU* applies (except as provided in **■ GENPRU 1.1.2A G**) to:

- (1) an *insurer*;
- (2) [deleted]
- (3) [deleted]
- (4) a *BIPRU firm*; and
- (5) groups containing such *firms*.

1.1.2-AA

FCA

G

■ GENPRU 3 (Cross sector groups) applies to:

- (1) an *IFPRU investment firm*;
- (2) an *insurer*; and
- (3) a *group* containing both the *firms* in (1) and (2).

1.1.2-A

PRA

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Further, *GENPRU* also broadly applies to:

- (1) an *insurer*;
- (2) groups containing an *insurer*.

1.1.2-B

FCA

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GENPRU applies to a *collective portfolio management investment firm* that is a *BIPRU firm* in parallel with **■ IPRUINV link 11** (see **■ IPRUINV link 11.6**).

1.1.2A

FCA **PRA**

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A firm should refer to **■ GEN 2.2.13A R** (cross-references in the Handbook) and **■ GEN 2.2.23 R** to **■ GEN 2.2.25 G** (cutover: application of provisions made by both the *FCA* and the *PRA*) when applying the rules and guidance in *GENPRU*. In particular,

many rules in *GENPRU* are made by both the *PRA* (in relation to *PRA-authorized persons*) and by the *FCA* (in relation to *BIPRU firms* that are *FCA-authorized persons*).

1.1.2B

FCA

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As the *FCA* does not have the power to impose prudential rules and guidance on *PRA-authorized persons*, references to *PRA-authorized persons* or *PRA rules* that are included in *FCA GENPRU* provisions will not be relevant in the *FCA*'s application of that provision, unless otherwise stated.

Scope

1.1.3

FCA

PRA

R

GENPRU applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.



1.2 Adequacy of financial resources

Application

1.2.1

FCA

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This section applies to:

- (1) a *BIPRU firm*; and
- (2) an *insurer*, unless it is:
 - (a) a *non-directive friendly society*; or
 - (b) a *Swiss general insurer*; or
 - (c) an *EEA-deposit insurer*; or
 - (d) an *incoming EEA firm*; or
 - (e) an *incoming Treaty firm* .
- (3) [deleted]

1.2.1A

FCA PRA

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This section also applies to an *insurer*, unless it is:

- (1) a *non-directive friendly society*; or
- (2) a *Swiss general insurer*; or
- (3) an *EEA-deposit insurer*; or
- (4) an *incoming EEA firm*; or
- (5) an *incoming Treaty firm*.

1.2.2

R

[deleted]

1.2.2A

R

[deleted]

1.2.3

R

[deleted]

1.2.3A

G

[deleted]

1.2.4	R	[deleted]
1.2.5	R	[deleted]
1.2.6	R	If an <i>insurer</i> carries on:
PRA		(1) <i>long-term insurance business</i> ; and
		(2) <i>general insurance business</i> ;
		This section applies separately to each type of business.
1.2.7	G	The <i>guidance</i> in this section is drafted with respect to a <i>firm</i> to which this section and the other provisions of <i>GENPRU</i> and <i>BIPRU</i> (except ■ BIPRU 12) referred to in this section apply in full.
FCA PRA		
1.2.8	G	[deleted]
1.2.9	G	[deleted]
1.2.10	G	The scope of application of this section is not restricted to <i>insurers</i> that are subject to the relevant <i>EU</i> Directives.
PRA		
1.2.11	G	The adequacy of a <i>firm's</i> financial resources needs to be assessed in relation to all the activities of the <i>firm</i> and the risks to which they give rise and so this section applies to a <i>firm</i> in relation to the whole of its business.
FCA PRA		
1.2.11A	G	In the case of a <i>collective portfolio management investment firm</i> , ■ GENPRU 1.2.11 G means that this section also applies to its activities in relation to the management of <i>AIFs</i> and/or <i>UCITS</i> .
FCA		
		Purpose
1.2.12	G	Adequate financial resources and adequate systems and controls are necessary for the effective management of prudential risks. This section therefore has requirements relating to both of these topics.
FCA PRA		
1.2.13	G	This section amplifies <i>Principle 4</i> , under which a <i>firm</i> must maintain adequate financial resources. It is concerned with the adequacy of the financial resources that a <i>firm</i> needs to hold in order to be able to meet its liabilities as they fall due. These resources include both capital and liquidity resources.
FCA PRA		
1.2.14	G	In the case of a <i>BIPRU firm</i> this section implements the third paragraph of article 95(2) of the <i>EU CRR</i> applying Article 34 of the <i>Capital Adequacy Directive</i> so far as that Article applies Article 123 of the <i>Banking Consolidation Directive</i> .
FCA		

1.2.15

FCA PRA

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This section also has *rules* requiring a *firm* to identify and assess risks to its being able to meet its liabilities as they fall due, how it intends to deal with those risks, and the amount and nature of financial resources that the *firm* considers necessary.

■ GENPRU 1.2.60 R provides that a *firm* should document that assessment. The *appropriate regulator* will review that assessment as part of its own assessment of the adequacy of a *firm's* capital under its *supervisory review and evaluation process (SREP)*. When forming a view of any *individual capital guidance* to be given to the *firm*, the *appropriate regulator* will also review the regulator's risk assessment and any other issues arising from day-to-day supervision.

1.2.16

FCA PRA

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This section also has *rules* requiring a *firm* to carry out appropriate stress tests and scenario analyses for the risks it has previously identified and to establish the amount of financial resources needed in each of the circumstances and events considered in carrying out the stress tests and scenario analyses. In the case of a *BIPRU firm*, the *appropriate regulator* will consider as part of its *SREP* whether the *BIPRU firm* should hold a *capital planning buffer* and, in such a case, the amount and quality of that buffer. The *capital planning buffer* is an amount separate, though related to, the *individual capital guidance*, insofar as its purpose is to ensure that a *BIPRU firm* is able to continue to meet the *overall financial adequacy rule* throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions. Therefore, when forming its view on a *BIPRU firm's capital planning buffer*, the *appropriate regulator* will take into account the assessment made in relation to the *firm's ICG*.

1.2.17

FCA PRA

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The basic requirements in this section are drafted to apply to a *firm* on a solo basis. This section then goes on to describe when its requirements do and do not apply on a solo basis and on a consolidated basis (see ■ GENPRU 1.2.45 R to ■ GENPRU 1.2.47 R and ■ GENPRU 1.2.57 R to ■ GENPRU 1.2.58 R). It also sets out some details about how the solo requirements are adjusted when they are applied on a consolidated basis (see ■ GENPRU 1.2.48 R to ■ GENPRU 1.2.56 G and ■ GENPRU 1.2.29 G).

Outline of other related provisions

1.2.18

FCA PRA

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■ GENPRU 2.1 sets out the minimum *capital resources requirements* for a *firm*.
 ■ GENPRU 2.2 sets out how *capital resources* are defined and measured for the purpose of meeting the requirements of ■ GENPRU 2.1.

1.2.19

FCA PRA

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- (1) ■ BIPRU 2.2 (Internal capital adequacy standards) and ■ INSPRU 7.1 (Individual capital assessment) set out detailed *guidance* on how a *firm* should carry out the assessment referred to in ■ GENPRU 1.2.15 G. The more thorough, objective, and prudent a *firm's* assessment is, and can be demonstrated as being, the more reliance the *appropriate regulator* will be able to place on the results of that assessment.
- (2) ■ BIPRU 2.2 and ■ INSPRU 7.1 also have information on how the *appropriate regulator* will review and respond to the assessments referred to in ■ GENPRU 1.2.15 G and, in the case of *BIPRU firms*, in ■ GENPRU 1.2.16 G. In particular they deal with the giving of *individual capital guidance* to a *firm*, which is *guidance* about the amount and quality of capital resources that the *appropriate regulator* thinks a *firm* should hold at all times under the *overall financial adequacy rule* as it applies on a solo level and a consolidated

level. ■ BIPRU 2.2, also deals with the giving of a *capital planning buffer* to a BIPRU firm on a solo level and a consolidated level.

1.2.20

FCA PRA

G

SYSC sets out general *rules* and *guidance* on the establishment and maintenance of systems and controls.

1.2.21

FCA PRA

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- (1) ■ SYSC 11 sets out material on systems and controls that apply specifically to *liquidity risk* as that concept relates to an *insurer*.
- (2) [deleted]
- (2A) [deleted]
- (3) [deleted]
- (4) ■ SYSC 11.1.21 E is an *evidential provision* relating to the *general stress and scenario testing rule* concerning stress testing and scenario analyses.
 ■ SYSC 11.1.24 E is an *evidential provision* relating to the *overall Pillar 2 rule* about *contingency funding plans*. Both of these *evidential provisions* apply only to an *insurer* to which that section of SYSC applies.
- (5) [deleted]

1.2.21A

FCA

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- (1) ■ BIPRU 12 sets out material on systems and controls that apply specifically to *liquidity risk* in relation to a BIPRU firm.
- (2) ■ GENPRU 2.2 (Adequacy of financial resources) requires certain BIPRU firms to deduct illiquid assets when calculating their *capital resources*.

1.2.22

FCA

G

■ BIPRU 2.3 contains *rules* and *guidance* on interest rate risk in the *non-trading book*. That material elaborates on the general obligation in the *overall Pillar 2 rule*.

1.2.23

FCA

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For a BIPRU firm using a *VaR model* ■ BIPRU 7.10.72 R (Risk management standards: Stress testing) sets out certain stress tests that the *firm* should carry out.

1.2.24

G

[deleted]

1.2.25

FCA

G

For a BIPRU firm using the *IRB approach* ■ BIPRU 4.3.39 R to ■ BIPRU 4.3.40 R set out a recession credit rating migration stress test that the *firm* should carry out. Further *rules* and *guidance* on such stress tests are set out in ■ BIPRU 2.2 (Internal capital adequacy standards).

Requirement to have adequate financial resources

1.2.26

FCA PRA

R

A firm must at all times maintain overall financial resources, including capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

1.2.26A

FCA

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■ BIPRU 12 contains *rules* and *guidance* in relation to the adequacy of a *BIPRU firm's* liquidity resources. Consistent with ■ GENPRU 1.2.2A R, in assessing the adequacy of its liquidity resources, a *BIPRU firm* should do so by reference to the *overall liquidity adequacy rule*, rather than the *overall financial adequacy rule*.

1.2.27

FCA PRA

G

The liabilities referred to in the *overall financial adequacy rule* include a *firm's* contingent and prospective liabilities. They exclude liabilities that might arise from transactions that a *firm* has not entered into and which it could avoid, for example, by taking realistic management actions such as ceasing to transact new business after a suitable period of time has elapsed. They include liabilities or costs that arise both in scenarios where the *firm* is a going concern and those where the *firm* ceases to be a going concern. They also include claims that could be made against a *firm*, which ought to be paid in accordance with fair treatment of *customers*, even if such claims could not be legally enforced.

1.2.28

FCA PRA

G

A *firm* should therefore make its assessment of adequate financial resources on realistic valuation bases for assets and liabilities taking into account the actual amounts and timing of cash flows under realistic adverse projections.

1.2.29

FCA PRA

G

Risks may be addressed through holding capital to absorb losses that unexpectedly materialise. The ability to pay liabilities as they fall due also requires liquidity. Therefore, in assessing the adequacy of a *firm's* financial resources, both capital and liquidity needs should be considered. A *firm* should also consider the quality of its financial resources such as the loss-absorbency of different types of capital and the time required to liquidate different types of asset. ■ SYSC 11.1.24 E is an *evidential provision* relating to the *overall financial adequacy rule* concerning *contingency funding plans*.

Systems, strategies, processes and reviews

1.2.30

FCA PRA

R

A *firm* must have in place sound, effective and complete processes, strategies and systems:

- (1) to assess and maintain on an ongoing basis the amounts, types and distribution of financial resources, *capital resources* and internal capital that it considers adequate to cover:
 - (a) the nature and level of the risks to which it is or might be exposed;
 - (b) the risk in the *overall financial adequacy rule*; and
 - (c) the risk that the *firm* might not be able to meet its *CRR* in the future; and
- (2) that enable it to identify and manage the major sources of risks referred to in (1), including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:
 - (a) credit risk;

- (b) *market risk*;
- (c) *liquidity risk*;
- (d) *operational risk*;
- (e) *insurance risk*;
- (f) *concentration risk*;
- (g) *residual risk*;
- (h) *securitisation risk*;
- (i) *business risk*;
- (j) *interest rate risk (including, in the case of a BIPRU firm, interest rate risk in the non-trading book)*;
- (k) *pension obligation risk* ; and
- (l) *group risk*.

1.2.31

R

FCA PRA

- (1) This *rule* defines some of the terms used in the *overall Pillar 2 rule*.
- (2) Residual risk means the risk that *credit risk mitigation* techniques used by the *firm* prove less effective than expected.
- (3) *Securitisation risk* includes the risk that the *capital resources* held by a *firm* in respect of assets which it has *securitised* are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.
- (4) Business risk means any risk to a *firm* arising from changes in its business, including the risk that the *firm* may not be able to carry out its business plan and its desired strategy. It also includes risks arising from a *firm's remuneration policy* (see also the *Remuneration Code* which applies to *BIPRU firms* and the detailed application of which is set out in ■ SYSC 19A.1) .
- (5) Pension obligation risk is the risk to a *firm* caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related *company* or otherwise). It also means the risk that the *firm* will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because the *firm* considers that it needs to do so for some other reason.

PAGE
9

1.2.32

G

FCA PRA

- (1) This paragraph gives *guidance* on some of the terms used in the *overall Pillar 2 rule*.
- (2) Insurance risk refers to the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

- (3) Interest rate risk in the *non-trading book* is explained in ■ BIPRU 2.3 (Interest rate risk in the non-trading book).
- (4) In a narrow sense, business risk is the risk to a *firm* that it suffers losses because its income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might deflect a *firm* from its desired strategy and business plan. ■ GENPRU 1.2.73 G provides further *guidance* on business risk.
- (5) Further material on pension obligation risk can be found in ■ GENPRU 1.2.79 G - ■ GENPRU 1.2.86 G.
- (6) Group risk is the risk that the financial position of a *firm* may be adversely affected by its relationships (financial or non-financial) with other entities in the same *group* or by risks which may affect the financial position of the whole *group*, for example reputational contagion. Further *guidance* on group risk can be found in ■ GENPRU 1.2.87 G to ■ GENPRU 1.2.91 G.

1.2.33

FCA PRA

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- (1) This *rule* amplifies some of the obligations in the *overall Pillar 2 rule*.

- (3) As part of its obligations in respect of *market risk*, a *BIPRU firm* must consider whether the value adjustments and provisions taken for *positions* and portfolios in the *trading book* enable the *firm* to sell or hedge out its *positions* within a short period without incurring material losses under normal market conditions.

- (4) The processes, strategies and systems required by the *overall Pillar 2 rule* must take into account stress tests and scenario analyses that the *firm* is required to carry out under any other provision of the *Handbook*.

1.2.34

FCA PRA

G

In the *overall Pillar 2 rule*, internal capital refers to the financial resources of a *firm* which it treats as being held against the risks listed in the *overall Pillar 2 rule*. The obligation in that *rule* to assess the distribution of such capital refers, in relation to a *firm* making an assessment on a solo basis, for example, to the need to take account of circumstances where part of a *firm's* financial resources are held by a *branch* of that *firm* which are subject to restrictions on its ability to transfer that capital. An assessment of internal capital distribution might also take account of such of a *firm's* financial resources as may be ring-fenced in the event of its insolvency.

1.2.35

FCA PRA

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The processes, strategies and systems required by the *overall Pillar 2 rule* must be comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

1.2.36

FCA PRA

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As part of its obligations under ■ GENPRU 1.2.30 R (1) (Main requirement relating to risk processes, strategies and systems), a *firm* must identify separately the amount of *tier one capital*, *tier two capital*, *tier three capital*, other capital eligible to form part of its *capital resources* and

each category of capital (if any) that is not eligible to form part of its *capital resources* which it considers adequate for the purposes described in

■ GENPRU 1.2.30 R (1).

1.2.37

FCA PRA

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The processes and systems required by the *overall Pillar 2 rule* must:

- (1) include an assessment of how the *firm* intends to deal with each of the major sources of risk identified in accordance with ■ GENPRU 1.2.30 R (2);
- (2) take into account the impact of diversification effects and how such effects are factored into the *firm's* systems for measuring and managing risks; and
- (3) include an assessment of the *firm-wide* impact of the risks identified in accordance with ■ GENPRU 1.2.30R (2), to which end a *firm* must aggregate the risks across its various business lines and units, making appropriate allowance for the correlation between risks.

1.2.38

FCA PRA

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Certain risks such as systems and controls weaknesses may not be adequately addressed by, for example, holding additional capital and a more appropriate response would be to rectify the weakness. In such circumstances, the amount of financial resources required to address these risks might be zero. However, a *firm* should consider whether holding additional capital might be an appropriate response until the identified weaknesses are rectified. A *firm*, should, in accordance with ■ GENPRU 1.2.60 R (Documentation of risk assessments), document the approaches taken to manage these risks.

1.2.39

FCA PRA

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A *firm* must:

- (1) carry out regularly the assessments required by the *overall Pillar 2 rule*; and
- (2) carry out regularly assessments of the processes, strategies and systems required by the *overall Pillar 2 rule* to ensure that they remain compliant with ■ GENPRU 1.2.35 R.

1.2.40

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A *firm* should carry out assessments of the sort described in the *overall Pillar 2 rule* and ■ GENPRU 1.2.39 R at least annually, or more frequently if changes in the business, strategy, nature or scale of its activities or operational environment suggest that the current level of financial resources is no longer adequate. The appropriateness of the internal process, and the degree of involvement of senior management in the process, will be taken into account by the *appropriate regulator* when reviewing a *firm's* assessment as part of the *appropriate regulator's* own assessment of the adequacy of a *firm's* financial resources. The processes and systems should ensure that the assessment of the adequacy of a *firm's* financial resources is reported to its senior management as often as is necessary.

1.2.41

PRA

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The assessments undertaken by *firms in run-off* may not need to be as comprehensive or frequent compared to a *firm* not in run off since this may better reflect the reduced nature and complexity of its business and reduced access to new capital. Whilst a *firm in run-off* will still need to carefully monitor the progress of the run off, a more comprehensive assessment may only be appropriate on commencement of the run off or when considering

a reduction in capital through the payment of a dividend or other capital distribution or if the *firm's* circumstances change materially.

Stress and scenario tests

1.2.42

FCA PRA

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- (1) As part of its obligation under the *overall Pillar 2 rule*, a *firm* must, for the major sources of risk identified in accordance with ■ GENPRU 1.2.30 R (2), carry out stress tests and scenario analyses that are appropriate to the nature, scale and complexity of those major sources of risk and to the nature, scale and complexity of the *firm's* business.
 - (a) [deleted]
 - (b) [deleted]
 - (i) [deleted]
 - (ii) [deleted]
 - (iii) [deleted]
 - (iv) [deleted]
- (2) In carrying out the stress tests and scenario analyses in (1), a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the exposure of the *firm* to those circumstances, including:
 - (a) circumstances and events occurring over a protracted period of time;
 - (b) sudden and severe events, such as market shocks or other similar events; and
 - (c) some combination of the circumstances and events described in (a) and (b), which may include a sudden and severe market event followed by an economic recession.
- (3) In carrying out the stress tests and scenario analyses in (1), the *firm* must estimate the financial resources that it would need in order to continue to meet the *overall financial adequacy rule* and the *CRR* in the adverse circumstances being considered.
- (4) In carrying out the stress tests and scenario analyses in (1), the *firm* must assess how risks aggregate across business lines or units, any material non-linear or contingent risks and how risk correlations may increase in stressed conditions.
- (5) As part of its obligation under the *overall Pillar 2 rule*, a *BIPRU firm* must also incorporate and take into account any stress tests and scenario analyses that it is required to carry out under

BIPRU. In particular, a *BIPRU firm* with an *IRB permission* must incorporate and take into account the stress test required to be carried out under ■ BIPRU 4.3.40 R (2).

1.2.42A

FCA PRA

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In order to comply with the *general stress and scenario testing rule*, a *firm* should undertake a broad range of stress tests which reflect a variety of perspectives, including sensitivity analysis, scenario analysis and stress testing on an individual portfolio as well as a *firm-wide* level.

1.2.42B

FCA PRA

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A *BIPRU firm* with an *IRB permission* which has any material credit *exposures* excluded from its *IRB* models should also include these *exposures* in its stress and scenario testing to meet its obligations under the *general stress and scenario testing rule*. A *BIPRU firm* without an *IRB permission*, or an *insurer* that has any material credit and counterparty credit risk exposures, should conduct analyses to assess risks to the credit quality of its counterparties, including any protection sellers, considering both on and off-balance sheet exposures.

1.2.42C

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An *insurer* may choose to carry out its *ICA* through the use of stress testing and scenario analyses (see ■ INSPRU 7.1.10 G and ■ INSPRU 7.1.68 G). If it does so, in carrying out the stress tests and scenario analyses referred to in ■ GENPRU 1.2.42 R, an *insurer* should take into account the stress tests it uses for its *ICA*.

1.2.42D

FCA PRA

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In carrying out the stress tests and scenario analyses required by ■ GENPRU 1.2.42R (1), a *firm* should also consider any impact of the adverse circumstances on its *capital resources*. In particular, a *firm* should consider the *capital resources gearing rules* where its *tier one capital* is eroded by the event.

1.2.42E

FCA PRA

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A *firm* should assign adequate resources, including IT systems, to stress testing and scenario analysis, taking into account the stress testing techniques employed, so as to be able to accommodate different and changing stress tests at an appropriate level of granularity.

1.2.42F

FCA PRA

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■ GENPRU 1.2.63 G to ■ GENPRU 1.2.78 G provide additional *guidance* on stress testing and scenario analyses. In particular, ■ GENPRU 1.2.73A G provides specific *guidance* on capital planning.

1.2.43

FCA PRA

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Stress tests and scenario analyses should be carried out at least annually. A *firm* should, however, consider whether the nature of the major sources of risks identified by it in accordance with ■ GENPRU 1.2.30 R (2) (Main requirement relating to risk processes, strategies and systems) and their possible impact on its financial resources suggest that such tests and analyses should be carried out more frequently. For instance, a sudden change in the economic outlook may prompt a *firm* to revise the parameters of some of its stress tests and scenario analyses. Similarly, if a *firm* has recently become exposed to a particular sectoral concentration, it may wish to add some stress tests and scenario analyses in order to reflect that concentration. ■ SYSC 11.1.21 E is an *evidential provision* relating to the *general stress and scenario testing rule* concerning scenario analysis in relation to *liquidity risk*.

1.2.44

FCA PRA

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Application of this section on a solo and consolidated basis: General

- (1) ■ GENPRU 1.2.45 R - ■ GENPRU 1.2.56 G explain when the *ICAAP rules* apply on a solo basis and when they apply on a consolidated basis. This material also explains how the *ICAAP rules* are adjusted to apply on a consolidated basis.
- (2) ■ GENPRU 1.2.57 R - ■ GENPRU 1.2.59 R provide that the *overall financial adequacy rule* always applies on a solo basis. They also explain when and how it applies on a consolidated basis.

Application of this section on a solo and consolidated basis: Processes and tests

1.2.45

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If an *insurer* is a member of an *insurance group* and ■ INSPRU 6.1.9 R, ■ INSPRU 6.1.10 R or ■ INSPRU 6.1.15 R (Requirement to maintain group capital) apply to it with respect to that *insurance group* the *ICAAP rules*:

- (1) apply to that *insurer* on a consolidated basis; and
- (2) do not apply to it on a solo basis.

1.2.46

FCA

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The *ICAAP rules* do not apply on a solo basis to a *BIPRU firm* to which the *ICAAP rules*:

- (1) apply on a consolidated basis under ■ BIPRU 8.2.1 R (Basic consolidation rule for a *UK consolidation group*); or
- (2) apply on a sub-consolidated basis under ■ BIPRU 8.3.1 R (Basic consolidation rule for a non-EEA).

1.2.47

FCA

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The *ICAAP rules* apply on a solo basis:

- (1) [deleted]
- (2) to a *BIPRU firm* to which those *rules* do not apply on a consolidated or sub-consolidated basis as referred to in ■ GENPRU 1.2.46 R (including a *BIPRU investment firm* with an *investment firm consolidation waiver*).
- (3) [deleted]

1.2.47A

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The *ICAAP rules* apply on a solo basis to an *insurer* to which those *rules* do not apply on a consolidated basis under ■ GENPRU 1.2.45 R.

1.2.48

FCA PRA

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The requirements of the *ICAAP rules* as they apply on a consolidated basis must be carried out on the basis of the consolidated position of:

- (1) (if ■ GENPRU 1.2.45 R applies) that *insurance group*;

1.2.49

FCA PRA

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- (2) (if ■ BIPRU 8.2.1 R (Basic consolidation rule for a UK consolidation group) applies) the UK consolidation group of which the firm is a member; and
- (3) (if ■ BIPRU 8.3.1 R (Basic consolidation rule for a non-EEA sub-group) applies) the non-EEA sub-group of which the firm is a member.
- (1) In accordance with the general principles in ■ GENPRU 1.2.48 R and ■ BIPRU 8 (Group risk - consolidation), for the purpose of the ICAAP rules as they apply on a consolidated basis:
- the firm must ensure that the relevant group as defined in (2) have the processes, strategies and systems required by the overall Pillar 2 rule;
 - the risks to which the overall Pillar 2 rule and the general stress and scenario testing rule refer are those risks as they apply to each member of the relevant group;
 - the reference in the overall Pillar 2 rule to amounts and types of financial resources, capital resources and internal capital (referred to in this rule as resources) must be read as being to the amounts and types that the firm considers should be held by the members of the relevant group as defined in (2);
 - other references to resources must be read as being to resources of the members of the relevant group as defined in (2);
 - references to the CRR are to the consolidated capital requirements applicable to the relevant group under ■ BIPRU 8 (Group risk - consolidation) or, as the case may be, ■ INSPRU 6 (Group risk: Insurance groups);
 - the reference in the overall Pillar 2 rule to the distribution of resources must be read as including a reference to the distribution between members of the relevant group as defined in (2); and
 - the reference in the overall Pillar 2 rule to the overall financial adequacy rule must be read as being to that rule as adjusted under ■ GENPRU 1.2.59 R (Application of the overall financial adequacy rule on a consolidated basis).
- (2) For the purpose of this rule the relevant group is the group referred to in ■ GENPRU 1.2.48 R and the members of that group are those undertakings that are included in the scope of consolidation with respect to the insurance group, UK consolidation group or, as the case may be, non-EEA sub-group in question.

1.2.50

FCA PRA

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■ GENPRU 1.2.49 R means that non-financial members of the firm's group are excluded from the group assessment. Notwithstanding the scope of ■ GENPRU 1.2.49 R, a firm should

nevertheless take account of risks arising from the activities of those excluded members in its overall assessment of risk.

1.2.51

FCA PRA

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- (1) This *rule* relates to the assessment of the amounts, types and distribution of financial resources, *capital resources* and internal capital (referred to in this *rule* as "resources") under the *overall Pillar 2 rule* as applied on a consolidated basis and to the assessment of diversification effects as referred to in ■ GENPRU 1.2.37 R (2) as applied on a consolidated basis.
- (2) A *firm* must be able to explain how it has aggregated the risks referred to in the *overall Pillar 2 rule* and the resources required by each member of the relevant group as referred to in ■ GENPRU 1.2.49 R (2) and how it has taken into account any diversification benefits with respect to the group in question.
- (3) In particular, to the extent that the transferability of resources affects the assessment in (2), a *firm* must be able to explain how it has satisfied itself that resources are transferable between members of the group in question in the stressed cases and the scenarios referred to in the *general stress and scenario testing rule*.

1.2.52

FCA PRA

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- (1) A *firm* must allocate the total amount of financial resources, *capital resources* and internal capital identified as necessary under the *overall Pillar 2 rule* (as applied on a consolidated basis) between different parts of the relevant group (as defined in ■ GENPRU 1.2.49 R). ■ GENPRU 1.2.36 R (Identifying different tiers of capital) does not apply to this allocation.
- (2) The *firm* must carry out the allocation in (1) in a way that adequately reflects the nature, level and distribution of the risks to which the group is subject and the effect of any diversification benefits.

1.2.53

FCA PRA

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A *firm* must also allocate the total amount of financial resources, *capital resources* and internal capital (referred to in this *rule* as "resources") identified as necessary under the *overall Pillar 2 rule* as applied on a consolidated basis between each *firm* which is a member of the relevant group (as defined in ■ GENPRU 1.2.49 R) on the following basis:

- (1) the amount allocated to each *firm* must be decided on the basis of the principles in ■ GENPRU 1.2.52 R (2); and
- (2) if the process in (1) were carried out for each group member, the total so allocated would equal the total amount of resources identified as necessary under the *overall Pillar 2 rule* as applied on a consolidated basis.

1.2.54

FCA PRA

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A *firm* to which the ICAAP rules apply on a consolidated basis need not prepare a consolidated basis assessment if such an assessment has been prepared by another member of its *group*. Where that is the case, a *firm* may adopt such an assessment as its own. A *firm* nevertheless remains responsible for the assessment.

1.2.55

FCA PRA

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The purpose of ■ GENPRU 1.2.51 R - ■ GENPRU 1.2.53 R is to enable the *appropriate regulator* to assess the extent, if any, to which a *firm's* assessment, calculated on a consolidated basis, is lower than it would be if each separate legal entity were to assess the amount of capital it would require to mitigate its risks (to the same level of confidence) were it not part of a group subject to consolidated supervision under ■ BIPRU 8 (Group risk - consolidation) or ■ INSPRU 6.1 (Group risk: Insurance groups). The reason the *appropriate regulator* wishes to make this assessment is so that individual capital *guidance* which it gives is fair and comparable as between different *firms* and groups. Group diversification benefits which a *firm* might assert exist can be a material consideration in a capital adequacy assessment. Understanding the methods used to aggregate the different risks (for example, the correlation assumptions) is crucial to a proper evaluation of such benefits.

1.2.56

FCA PRA

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Whereas a single legal entity can generally use its capital to absorb losses wherever they arise, there are often practical and legal restrictions on the ability of a group to do so. For instance:

- (1) capital which is held by overseas regulated *firms* may not be capable of being remitted to a *firm* in the UK which has suffered a loss;
- (2) a *firm* which is insolvent or likely to become so may be obliged to look to the interests of its creditors first before transferring capital to other group *companies*; and
- (3) a parent *company* may have to balance the interests of its shareholders against the protection of the creditors of a *subsidiary undertaking* which is or might become insolvent and may, rationally, conclude that a *subsidiary undertaking* should be allowed to fail rather than provide capital to support it.

Application of this section on a solo and consolidated basis: Adequacy of resources

1.2.57

FCA PRA

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The *overall financial adequacy rule* applies to a *firm* on a solo basis whether or not it also applies to the *firm* on a consolidated basis.

1.2.58

FCA PRA

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The *overall financial adequacy rule* applies to a *firm* on a consolidated basis if the ICAAP rules apply to it on a consolidated basis.

1.2.59

FCA PRA

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- (1) When the *overall financial adequacy rule* applies on a consolidated basis, the *firm* must ensure that at all times its group maintains overall financial resources, including capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that the liabilities of any members of its group cannot be met as they fall due.
- (2) The group referred to in (1) is the relevant group as defined in ■ GENPRU 1.2.49 R.

- (3) The members of the group referred to in (1) must be identified in accordance with ■ GENPRU 1.2.49 R.

Documentation of risk assessments

1.2.60

FCA PRA

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A *firm* must make a written record of the assessments required under this section. These assessments include assessments carried out on a consolidated basis and on a solo basis. In particular it must make a written record of:

- (1) the major sources of risk identified in accordance with ■ GENPRU 1.2.30 R (2) (Main requirement relating to risk processes, strategies and systems);
- (2) how it intends to deal with those risks; and
- (3) details of the stress tests and scenario analyses carried out, including any assumptions made in relation to scenario design, and the resulting financial resources estimated to be required in accordance with the *general stress and scenario testing rule*.

1.2.61

FCA PRA

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A *firm* must retain the records of its assessments referred to in ■ GENPRU 1.2.60 R for at least three years.

1.2.62

FCA PRA

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Where a *firm* assesses the adequacy of its *CRR* in its particular circumstances in accordance with ■ BIPRU 2.2 (Internal capital adequacy standards) and ■ INSPRU 7.1 (Individual capital assessment) as a basis for deciding what financial resources are adequate, it should include this in the documentation produced in accordance with ■ GENPRU 1.2.60 R.

Additional guidance on stress tests and scenario analyses

1.2.63

FCA PRA

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The *general stress and scenario testing rule* requires a *firm* to carry out stress tests and scenario analyses as part of its obligations under the *overall Pillar 2 rule*. Both stress tests and scenario analyses are undertaken by a *firm* to further a better understanding of the vulnerabilities that it faces under adverse conditions. They are based on the analysis of the impact of a range of events of varying nature, severity and duration . These events can be financial, operational or legal or relate to any other risk that might have an economic impact on the *firm*.

1.2.64

FCA PRA

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Stress testing typically refers to shifting the values of individual parameters that affect the financial position of a *firm* and determining the effect on the *firm's* financial position.

1.2.65

FCA PRA

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Scenario analysis typically refers to a wider range of parameters being varied at the same time. Scenario analyses often examine the impact of adverse events on the *firm's* financial position, for example, simultaneous movements in a number of risk categories affecting all of a *firm's* business operations, such as business volumes, investment values and interest rate movements.

- 1.2.66**
FCA PRA G | There are three broad purposes of stress testing and scenario analysis. Firstly, it can be used as a means of quantifying how much capital might be absorbed if an adverse event or events occurred. As such it represents a simple 'what if' approach to estimating exposure to risks. This might be a proportionate approach to risk management for an unsophisticated business. Secondly, it can be used to provide a check on the outputs and accuracy of risk models; particularly, in identifying non-linear effects when aggregating risks. Thirdly, it can be used to explore the sensitivities in longer term business plans and how capital needs might change over time.
- 1.2.67**
G | [deleted]
- 1.2.68**
FCA PRA G | Subject to ■ GENPRU 1.2.76 G, the purpose of stress tests and scenario analyses under the *general stress and scenario testing rule* is to test the adequacy of overall financial resources. Scenarios need only be identified, and their impact assessed, in so far as this facilitates that purpose. In particular, the nature, depth and detail of the analysis depend, in part, upon the *firm's* capital strength and the robustness of its risk prevention and risk mitigation measures.
- 1.2.69**
FCA PRA G | Both stress testing and scenario analyses are forward-looking analysis techniques, which seek to anticipate possible losses that might occur if an identified risk crystallises. In applying them, a *firm* should decide how far forward to look. This should depend upon:
- (1) how quickly it would be able to identify events or changes in circumstances that might lead to a risk crystallising resulting in a loss; and
 - (2) after it has identified the event or circumstance, how quickly and effectively it could act to prevent or mitigate any loss resulting from the risk crystallising and to reduce exposure to any further adverse event or change in circumstance.
- 1.2.70**
FCA PRA G | Where a firm is exposed to *market risk*, the time horizon over which stress tests and scenario analyses should be carried out will depend on, among other things, the maturity and liquidity of the *positions* stressed. For example, for the *market risk* arising from the holding of investments, this will depend upon:
- (1) the extent to which there is a regular, open and transparent market in those assets, which would allow fluctuations in the value of the investment to be more readily and quickly identified; and
 - (2) the extent to which the market in those assets is sufficiently liquid (and would remain liquid in the changed circumstances contemplated in the stress test or scenario analysis) to allow the *firm*, if needed, to sell, hedge or otherwise mitigate the risks relating to its holding so as to prevent or reduce exposure to future price fluctuations. In devising stress tests and scenario analyses for *market risk*, a *BIPRU firm* should also take into account ■ BIPRU 7.1.17 R to ■ BIPRU 7.1.20 G.
- 1.2.71**
FCA PRA G | In identifying scenarios, and assessing their impact, a *firm* should take into account, where material, how changes in circumstances might impact upon:
- (1) the nature, scale and mix of its future activities; and

1.2.72

FCA PRA

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In determining whether it would have adequate financial resources in the event of each identified realistic adverse scenario, a *firm* should:

- (2) the behaviour of *counterparties*, and of the *firm* itself, including the exercise of choices (for example, options embedded in financial instruments or *contracts of insurance*).

- (1) only include financial resources that could reasonably be relied upon as being available in the circumstances of the identified scenario; and
- (2) take account of any legal or other restriction on the use of financial resources.

1.2.73

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- (1) [deleted]
- (1A) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]
- (5) [deleted]

Capital planning

1.2.73A

FCA PRA

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- (1) In identifying an appropriate range of adverse circumstances and events in accordance with ■ GENPRU 1.2.42R (2):
 - (a) a *firm* will need to consider the cycles it is most exposed to and whether these are general economic cycles or specific to particular markets, sectors or industries;
 - (b) for the purposes of ■ GENPRU 1.2.42R (2)(a), the amplitude and duration of the relevant cycle should include a severe downturn scenario based on forward looking hypothetical events, calibrated against the most adverse movements in individual risk drivers experienced over a long historical period;
 - (c) the adverse scenarios considered should in general be acyclical and, accordingly, the scenario should not become more severe during a downturn and less severe during an upturn. However, the *appropriate regulator* does expect scenarios to be updated with relevant new economic data on a pragmatic basis to ensure that the scenario continues to be relevant; and
 - (d) the adverse scenarios considered should reflect a *firm's* risk tolerance of the adverse conditions through which it expects to remain a going concern.
- (2) In making the estimate required by ■ GENPRU 1.2.42R (3), a *firm* should project both its *capital resources* and its required *capital resources* over a time horizon of 3 to 5 years, taking account of its business plan and the impact of relevant adverse scenarios. In making the estimate, the *firm* should consider

both the *capital resources* required to meet its *CRR* and the *capital resources* needed to meet the *overall financial adequacy rule*. The *firm* should make these projections in a manner consistent with its risk management processes and systems as set out in ■ GENPRU 1.2.37 R.

- (3) In projecting its financial position over the relevant time horizon, the *firm* should:
 - (a) reflect how its business plan would "flex" in response to the adverse events being considered, taking into account factors such as changing consumer demand and changes to new business assumptions;
 - (b) consider the potential impact on its stress testing of dynamic feedback effects and second order effects of the major sources of risk identified in accordance with ■ GENPRU 1.2.30R (2);
 - (c) estimate the effects on the *firm's* financial position of the adverse event without adjusting for management actions;
 - (d) separately, identify any realistic management actions that the *firm* could and would take to mitigate the adverse effects of the stress scenario; and
 - (e) estimate the effects of the stress scenario on the *firm's* financial position after taking account of realistic management actions.
- (4) A *firm* should identify any realistic management actions intended to maintain or restore its capital adequacy. These could include ceasing to transact new business after a suitable period has elapsed, balance sheet shrinkage, restricting distribution of profits or raising additional capital. A *firm* should reflect management actions in its projections only where it could and would take such actions, taking account of factors such as market conditions in the stress scenario and any effects upon the *firm's* reputation with its counterparties and investors. The combined effect on capital and retained earnings should be estimated. In order to assess whether prospective management actions in a stress scenario would be realistic and to determine which actions the *firm* would and could take, the *firm* should take into account any preconditions that might affect the value of management actions as risk mitigants and analyse the difference between the estimates in (3)(c) and (3)(e) in sufficient detail to understand the implications of taking different management actions at different times, particularly where they represent a significant divergence from the *firm's* business plan.
- (5) The *firm* should document its stress testing and scenario analysis policies and procedures, as well as the results of its tests in accordance with ■ GENPRU 1.2.60 R. These records should be included within the *firm's* ICAAP or ICA submission document.
- (6) The *appropriate regulator* will review the *firm's* records referred to in (5) as part of its SREP. The purpose of examining these is to enable the *appropriate regulator* to judge whether a *firm* will be able to continue to meet its *CRR* and the *overall financial adequacy rule* throughout the projection period.
- (7) If, after taking account of realistic management actions, a *firm's* stress testing management plan shows that the *firm's* projected *capital resources* are less than those required to continue to meet its *CRR* or less than those needed to continue to meet the *overall financial adequacy rule* over the projection period, the *appropriate regulator* may require the *firm* to set out additional countervailing measures and off-setting actions to reduce such difference or to restore the *firm's* capital adequacy after the stress event.

(8) The *firm's* senior management or *governing body* should be actively involved and engaged in all relevant stages of the *firm's* stress testing and scenario analysis programme. This would include establishing an appropriate stress testing programme, reviewing the programme's implementation (including the design of scenarios) and challenging, approving and actioning the results of the stress tests.

(9) [deleted]

1.2.73B

FCA PRA

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The *appropriate regulator* may formulate macroeconomic and financial market scenarios which a *firm* may use as an additional input to its ICAAP or ICA submission. In addition, the *appropriate regulator* may also ask a *firm* to apply specific scenarios directly in its ICAAP or ICA submission.

1.2.73C

FCA PRA

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For an *insurer*:

- (1) the treatment of new business when making capital projections is likely to be different from its ICA. In projecting its financial position, an *insurer* should take account of new business based on the *firm's* business plan, but flexed to take account of potential changes in trading conditions and strategy. When assessing its current capital adequacy under its ICA, an *insurer* should take account of the effects of closure to new business (see ■ GENPRU 1.2.27 G, ■ GENPRU 1.2.73AG (3) and ■ (4) and ■ INSPRU 7.1.16 G to ■ INSPRU 7.1.19 G). Also, an *insurer* may use methods that are more approximate than used for its ICA (for example, in projecting the *with-profits insurance capital component* for *realistic basis life firms* and the *capital resources* needed to meet the *overall financial adequacy rule*); and
- (2) where management discretion is exercised as a normal part of an *insurer's* business (for example, in changing bonus rates or *surrender values* in accordance with the PPFM for *with-profits business*), under ■ GENPRU 1.2.73AG (3)(c) the *insurer* does not need to estimate the effect of an adverse event on its financial position without adjusting for such changes. However, the effect on the financial position of varying such actions should be estimated and understood.

1.2.74

FCA PRA

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A *firm* may consider scenarios in which expected future profits will provide capital reserves against future risks. However, it would only be appropriate to take into account profits that can be foreseen with a reasonable degree of certainty as arising before the risk against which they are being held could possibly arise. In estimating future reserves, a *firm* should deduct future dividend payment estimates from projections of future profits.

1.2.75

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- (1) [deleted]
- (2) Stress and scenario analyses should, in the first instance, be aligned with the risk appetite of the *firm*, as well as the nature, scale and complexity of its business and of the risks that it bears. The calibration of the stress and scenario analyses should be reconciled to a clear statement setting out the premise upon which the *firm's* internal capital assessment under the *overall Pillar 2 rule* is based.

(3) [deleted]

(4) In identifying adverse circumstances and events in accordance with ■ GENPRU 1.2.42R (2), a *firm* should consider the results of any reverse stress testing conducted in accordance with ■ SYSC 20. Reverse stress testing may be expected to provide useful information about the *firm's* vulnerabilities and variations around the most likely ruin scenarios for the purpose of meeting the *firm's* obligations under ■ GENPRU 1.2.42 R. In addition, such a comparison may help a *firm* to assess the sensitivity of its financial position to different stress calibrations.

1.2.76

FCA PRA

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A *firm* should use the results of its stress testing and scenario analysis not only to assess capital needs, but also to decide if measures should be put in place to minimise the adverse effect on the *firm* if the risk covered by the stress or scenario test actually materialises. Such measures might be a contingency plan or might be more concrete risk mitigation steps.

1.2.77

FCA PRA

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Additional *guidance* on stress tests and scenario analyses for the assessment of *capital resources* is available in ■ BIPRU 2.2 (Internal capital adequacy standards) and ■ INSPRU 7.1 (Individual capital assessment).

1.2.78

FCA PRA

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Additional *guidance* in relation to stress tests and scenario analysis for *liquidity risk* as that concept relates to an *insurer* is available in ■ SYSC 11 (Liquidity risk systems and controls).

1.2.78A

FCA

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■ BIPRU 12 sets out the main *Handbook* provisions in relation to *liquidity risk* for a *BIPRU firm*.

Pension obligation risk

1.2.79

FCA PRA

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■ GENPRU 1.2.80 G to ■ GENPRU 1.2.86 G contain *guidance* on the assessment required by ■ GENPRU 1.2.30 R (2)(k) for a *firm* exposed to pension obligation risk as defined in ■ GENPRU 1.2.31R (5).

1.2.80

FCA PRA

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The pension scheme itself (i.e. the scheme's assets and liabilities) is not the focus of the risk assessment but rather the *firm's* obligations towards the pension scheme . A *firm* should include in its estimate of financial resources both its expected obligations to the pension scheme and any increase in obligations that may arise in a stress scenario.

1.2.81

FCA PRA

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If a *firm* has a current funding obligation in excess of normal contributions or there is a risk that such a funding obligation will arise then, when calculating available capital resources, it should reverse out any accounting deficit and replace this in its capital adequacy assessment with its best estimate, calculated in discussion with the scheme's actuaries or trustees, of the cash that will need to be paid into the scheme in addition to normal contributions over the foreseeable future. This may differ from the approach taken in assessing pension scheme risks for the purposes of calculating resources to meet the *CRR*, where a *firm* may not need to consider funding obligations beyond the next five years.

1.2.82

FCA PRA

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A *firm* should also assess the risks that may increase its current funding obligations towards the pension scheme and that might lead to the *firm* not being able to pay its other liabilities as they fall due.

1.2.83

FCA PRA

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A *firm* may wish to consider the following scenarios:

- (1) one in which the *firm* gets into difficulties with an effect on its ability to fund the pension scheme; and
- (2) one in which the pension scheme position deteriorates (for example, because investment returns fall below expected returns or because of increases in life expectancy) with an effect on the *firm's* funding obligations; taking into account the management actions the *firm* could and would take.

1.2.83A

FCA PRA

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A *firm* is expected to determine where the scope of any stress test impacts upon its pension obligation risk and estimate how the relevant measure of pension obligation risk will change in the scenario in question. For example, in carrying out stress tests under ■ GENPRU 1.2.42 R a *firm* must consider how a stress scenario, such as an economic recession, would impact on the *firm's* current obligations towards its pension scheme and any potential increase in those obligations. Risks such as interest rate risk or reduced investment returns may have a direct impact on a *firm's* financial position as well as an indirect impact resulting from an increase in the *firm's* pension scheme obligations. Both effects should be taken into account in a *firm's* estimate of financial resources under ■ GENPRU 1.2.30 R.

1.2.84

FCA PRA

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Scenarios in which a *firm's* employees suffer a loss or members of a pension scheme suffer a loss do not necessarily affect the *firm's* ability to pay its liabilities as they fall due.

1.2.85

FCA PRA

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A *firm* should consider issues such as:

- (1) the extent to which trustees of the pension scheme or a pension regulator (such as the one created under the Pensions Act 2004) can compel a certain level of contributions or a one-off payment in adverse financial situations or in order to meet the minimum legal requirements under the scheme's trust deed and rules or under the applicable laws relating to the pension scheme;
- (2) whether the valuation bases used to set pension scheme contribution rates are consistent with the *firm's* current business plans and anticipated changes in the workforce; and
- (3) which valuation basis is appropriate given the expected investment return on scheme assets and actions the *firm* can take if those returns do not materialise.

1.2.86

FCA PRA

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A *firm* should carry out analyses only to a degree of sophistication and complexity which is commensurate with the materiality of its pension risks.

Group risk

1.2.87

FCA PRA

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■ GENPRU 1.2.88G to ■ GENPRU 1.2.91G contain additional *guidance* on the assessment required by ■ GENPRU 1.2.30R (2)(I) (Group risk).

1.2.88

FCA PRA

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A *firm* should include in the written record referred to in ■ GENPRU 1.2.60 R a description of the broad business strategy of the *insurance group*, the *UK consolidation group* or the *non-EEA sub-group* of which it is a member, the group's view of its principal risks and its approach to measuring, managing and controlling the risks. This description should include the role of stress testing, scenario analysis and contingency planning in managing risk at the solo and consolidated level.

1.2.89

FCA PRA

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A *firm* should satisfy itself that the systems (including IT) of the *insurance group*, the *UK consolidation group* or the *non-EEA sub-group* of which it is a member are sufficiently sound to support the effective management and, where applicable, the quantification of the risks that could affect the *insurance group*, the *UK consolidation group* or the *non-EEA sub-group*, as the case may be.

1.2.90

FCA PRA

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In performing stress tests and scenario analyses, a *firm* should take into account the risk that its *group* may have to bring back on to its consolidated balance sheet the assets and liabilities of off-balance sheet entities as a result of reputational contagion, notwithstanding the appearance of legal risk transfer.

1.2.91

FCA PRA

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A *firm* should carry out stress tests and scenario analyses to a degree of sophistication which is commensurate with the complexity of its group and the nature of its *group* risk.

1.3 Valuation

Application

1.3.1

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- (1) This section of the *Handbook* applies to an *insurer*, unless it is:
- non-directive friendly society*;
 - an *incoming EEA firm*; or
 - an *incoming Treaty firm*.

(2) This section of the *Handbook* applies to a *BIPRU firm*.

(3) This section of the *Handbook* applies to a *UK ISPV*.

1.3.1A

PRA

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- (1) This section of the *Handbook* also applies to an *insurer*, unless it is:
- a *non-directive friendly society*;
 - an *incoming EEA firm*; or
 - an *incoming Treaty firm*.

(2) This section of the *Handbook* also applies to a *UK ISPV*.

Purpose

1.3.2

FCA PRA

G

This section sets out, for the purposes of *GENPRU*, *BIPRU* and *INSPRU*, *rules* and *guidance* as to how a *firm* should recognise and value assets, liabilities, *exposures*, equity and income statement items.

1.3.3

FCA

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- (1) In the case of a *BIPRU firm*, this section implements Articles 64(4) and 64(5) of the *Banking Consolidation Directive* (Own funds) and Article 33 and Part B of Annex VII of the *Capital Adequacy Directive*.
- (2) In the case of an *insurer*, ■ GENPRU 1.3.4 R implements the requirements of Articles 23.3(viii) and 24.2(iv) of the .

1.3.4

FCA PRA

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General requirements: Accounting principles to be applied

Subject to ■ GENPRU 1.3.9 R to ■ GENPRU 1.3.10 R and ■ GENPRU 1.3.36 R, except where a *rule* in *GENPRU*, *BIPRU* or *INSPRU* provides for a different method of recognition or valuation, whenever a *rule* in *GENPRU*, *BIPRU* or *INSPRU* refers to an asset, liability, *exposure*, equity or income statement item, a *firm* must, for the purpose of that *rule*, recognise the asset, liability, *exposure*, equity or income statement item and measure its value in accordance with whichever of the following are applicable:

- (1) the *insurance accounts rules*, or the Friendly Societies (Accounts and Related Provisions) Regulations 1994;
- (2) Financial Reporting Standards and Statements of Standard Accounting Practice issued or adopted by the Accounting Standards Board;
- (3) Statements of Recommended Practice, issued by industry or sectoral bodies recognised for this purpose by the Accounting Standards Board;
- (4) [deleted]
- (5) *international accounting standards*;
- (6) the Companies Act 1985; and
- (7) the Companies Act 2006;

as applicable to the *firm* for the purpose of its external financial reporting (or as would be applicable if the *firm* was a company with its head office in the *United Kingdom*).

1.3.5

FCA PRA

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Except where a *rule* in *GENPRU*, *BIPRU* or *INSPRU* makes different provision, ■ GENPRU 1.3.4 R applies whenever a *rule* in *GENPRU*, *BIPRU* or *INSPRU* refers to the value or amount of an asset, liability, *exposure*, equity or income statement item, including:

- (1) whether, and when, to recognise or de-recognise an asset or liability;
- (2) the amount at which to value an asset, liability, *exposure*, equity or income statement item; and
- (3) which description to place on an asset, liability, *exposure*, equity or income statement item.

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27

1.3.6

FCA PRA

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In particular, unless an exception applies, ■ GENPRU 1.3.4 R should be applied for the purposes of *GENPRU*, *BIPRU* or *INSPRU* to determine how to account for:

- (1) netting of amounts due to or from the *firm*;
- (2) the securitisation of assets and liabilities (see also ■ GENPRU 1.3.7 G);

- (3) leased tangible assets;
- (4) assets transferred or received under a sale and repurchase or *stock lending* transaction; and
- (5) assets transferred or received by way of initial or variation margin under a *derivative* or similar transaction.

1.3.7

PRA

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In the case of an *insurer* or a *UK ISPV*, where assets or liabilities are securitised, ■ GENPRU 1.3.4 R only permits de-recognition where Financial Reporting Standards (or, where applicable, International Accounting Standards) permit either de-recognition or the linked presentation. However, the *PRA* will consider granting a *waiver* to permit de-recognition in other circumstances provided that the *firm* can demonstrate that securitisation has effectively transferred risk

1.3.8

PRA

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Articles 23.3(viii) and 24.2(iv) of the *Consolidated Life Directive* require assets of an *insurer* that are managed on its behalf by a *subsidiary undertaking* to be taken into account for the purposes of determining the *insurer's admissible assets* and its assets in excess of concentration limits. The application of ■ GENPRU 1.3.4 R will result in such assets remaining on the balance sheet of the *insurer*.

General requirements: Adjustments to accounting values

1.3.9

FCA PRA

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For the purposes of *GENPRU*, *BIPRU* or *INSPRU*, except where a *rule* in *GENPRU*, *BIPRU* or *INSPRU* provides for a different method of recognition or valuation:

- (1) when a *firm*, upon initial recognition, designates its liabilities as at fair value through profit or loss, it must always adjust any value calculated in accordance with ■ GENPRU 1.3.4 R by subtracting any unrealised gains or adding back in any unrealised losses which are not attributable to changes in a benchmark interest rate;
- (2) in respect of a *defined benefit occupational pension scheme*:
 - (a) a *firm* must derecognise any *defined benefit asset*;
 - (b) a *firm* may substitute for a *defined benefit liability* the *firm's deficit reduction amount*.

1.3.10

FCA PRA

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An election made under ■ GENPRU 1.3.9 R (2) must be applied consistently for the purposes of *GENPRU*, *BIPRU* or *INSPRU* in respect of any one financial year.

1.3.11

FCA PRA

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A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *appropriate regulator* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

1.3.12

FCA PRA

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The provisions of ■ GENPRU 1.3.9 R to ■ GENPRU 1.3.10 R and ■ GENPRU 1.3.36 R apply only to the extent that the items referred to in those paragraphs would otherwise be recognised under the accounting requirements applicable to the *firm*. Some of those requirements may only be relevant to a *firm* subject to *international accounting standards*.

1.3.13

FCA PRA

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General requirements: Methods of valuation and systems and controls

- (1) Except to the extent that *GENPRU*, *BIPRU* or *INSPRU* provide for another method of valuation, ■ GENPRU 1.3.14 R to ■ GENPRU 1.3.34 R (Marking to market, Marking to model, Independent price verification, Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves) apply:
 - (a) for the purposes set out in ■ GENPRU 1.3.41 R;
 - (b) for the purposes set out in ■ GENPRU 1.3.39 R; and
 - (c) to any balance sheet position measured at market value or fair value.
- (2) A *firm* must establish and maintain systems and controls sufficient to provide prudent and reliable valuation estimates.
- (3) Systems and controls under (2) must include at least the following elements:
 - (a) documented policies and procedures for the process of valuation, including clearly defined responsibilities of the various areas involved in the determination of the valuation, sources of market information and review of their appropriateness, frequency of independent valuation, timing of closing prices, procedures for adjusting valuations, month-end and ad-hoc verification procedures, and, in the case of a *BIPRU firm*, guidelines for the use of unobservable inputs reflecting the *firm's* assumptions of what market participants would use in pricing the *position*; and
 - (b) reporting lines for the department accountable for the valuation process that are:
 - (i) clear and independent of the front office; and
 - (ii) ultimately to a main board executive director.

General requirements: Marking to market

Wherever possible, a *firm* must use mark to market in order to measure the value of the investments and positions to which this *rule* applies under ■ GENPRU 1.3.13 R and ■ GENPRU 1.3.38 R to ■ GENPRU 1.3.41 R. Marking to market is valuation (on at least a daily basis in the case of the *trading*

1.3.14

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book positions of a *BIPRU firm*) at readily available close out prices from independent sources.

1.3.15

FCA PRA

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For the purposes of ■ GENPRU 1.3.14 R, examples of readily available close out prices include exchange prices, screen prices, or quotes from several independent reputable brokers.

1.3.16

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- (1) When marking to market, a *firm* must use the more prudent side of bid/offer unless the *firm* is a significant market maker in a particular position type and it can close out at the mid-market price.
- (2) When calculating the current *exposure* value of a credit risk *exposure* for *counterparty credit risk* purposes:
 - (a) a *firm* must use the more prudent side of bid/offer or the mid-market price and the *firm* must be consistent in the basis it chooses; and
 - (b) where the difference between the more prudent side of bid/offer and the mid-market price is material, the *firm* must consider making adjustments or, in the case of an *insurer* or a *UK ISPV*, making adjustments or establishing reserves.

General requirements: Marking to model

1.3.17

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Where marking to market is not possible, a *firm* must (in the case of a *BIPRU firm*, conservatively) use mark to model in order to measure the value of the investments and positions to which this *rule* applies under ■ GENPRU 1.3.13 R and ■ GENPRU 1.3.38 R to ■ GENPRU 1.3.41 R. Marking to model is any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. ■ GENPRU 1.3.18 R to ■ GENPRU 1.3.25 R apply when marking to model.

1.3.18

FCA PRA

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When the model used is developed by the *firm*, that model must be:

- (1) based on appropriate assumptions which have been assessed and challenged by suitably qualified parties independent of the development process;
- (2) independently tested, including validation of the mathematics, assumptions, and software implementation; and
- (3) (in the case of a *BIPRU firm*) developed or approved independently of the front office.

1.3.19

FCA PRA

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A *firm* must ensure that its senior management are aware of the positions which are subject to mark to model and understand the materiality of the uncertainty this creates in the reporting of the performance of the business of the *firm* and the risks to which it is subject.

- 1.3.20 **R** A *firm* must source market inputs in line with market prices so far as possible and assess the appropriateness of the market inputs for the position being valued and the parameters of the model on a frequent basis.
FCA PRA
- 1.3.21 **R** A *firm* must use generally accepted valuation methodologies for particular products where these are available.
FCA PRA
- 1.3.22 **R** A *firm* must establish formal change control procedures, hold a secure copy of the model, and periodically use that model to check valuations.
FCA PRA
- 1.3.23 **R** A *firm* must ensure that its risk management functions are aware of the weaknesses of the models used and how best to reflect those in the valuation output.
FCA PRA
- 1.3.24 **R** A *firm* must periodically review the model to determine the accuracy of its performance.
FCA PRA
- 1.3.25 **R** Examples of periodical review are assessing the continued appropriateness of the assumptions, analysis of profit and loss versus risk factors and comparison of actual close out values to model outputs.
FCA PRA

General requirements: Independent price verification

- 1.3.26 **R** In addition to marking to market or marking to model, a *firm* must perform independent price verification. This is the process by which market prices or model inputs are regularly verified for accuracy and independence.
FCA PRA
- 1.3.27 **G** For independent price verification, where independent pricing sources are not available or pricing sources are more subjective (for example, only one available broker quote), prudent measures such as valuation adjustments may be appropriate.
FCA PRA
- 1.3.28 **R** In the case of the *trading book* positions of a *BIPRU firm*, while daily marking to market may be performed by dealers, verification of market prices and model inputs must be performed by a unit independent of the dealing room, at least monthly (or, depending on the nature of the market/trading activity, more frequently).
FCA PRA

General requirements: Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves

- 1.3.29 **R** The recognition of any gains or losses arising from valuations subject to ■ GENPRU 1.3.13 R and ■ GENPRU 1.3.38 R to ■ GENPRU 1.3.41 R must be recognised for the purpose of calculating *capital resources* in accordance with ■ GENPRU 1.3.14 R to ■ GENPRU 1.3.34 R (Marking to market, Marking to model, Independent price verification, Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves). However if *GENPRU*, *BIPRU* or *INSPRU* provide for another treatment of such gains or losses, that other treatment must be applied.
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1.3.30

FCA PRA

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A *firm* must establish and maintain procedures for considering valuation adjustments or, in the case of an *insurer* or a *UK ISPV*, valuation adjustments or reserves. These procedures must be compliant with the requirements set out in ■ GENPRU 1.3.33 R.

1.3.31

FCA PRA

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A *firm* using third-party valuations, or marking to model, must consider whether valuation adjustments are necessary.

1.3.32

FCA PRA

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A *firm* must consider the need for making adjustments or, in the case of an *insurer* or a *UK ISPV*, establishing reserves for less liquid positions and, on an ongoing basis, review their continued appropriateness in accordance with the requirements set out in ■ GENPRU 1.3.33 R. Less liquid positions could arise from both market events and institution-related situations e.g. concentration positions and/or stale positions.

1.3.33

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- (1) This paragraph sets out the requirements referred to in ■ GENPRU 1.3.30 R and ■ GENPRU 1.3.32 R.
- (2) A *firm* must consider the following adjustments or, in the case of an *insurer* or a *UK ISPV*, adjustments or reserves: unearned credit spreads, close-out costs, operational risks, early termination, investing and funding costs, future administrative costs and, where appropriate, model risk.
- (3) (a) In the case of a *BIPRU firm*, a *firm* must establish and maintain procedures for calculating adjustments to the current valuation of less liquid positions. Those adjustments must, where necessary, be in addition to any changes to the value of the position required for financial reporting purposes and must be designed to reflect the illiquidity of the position.
 - (b) A *firm* must consider several factors when determining whether a valuation adjustment or, in the case of an *insurer* or a *UK ISPV*, valuation adjustment or reserve is necessary for less liquid positions. These factors include the amount of time it would take to hedge out the position/risks within the position; the average and volatility of bid/offer spreads; the availability of market quotes (number and identity of market makers); the average and volatility of trading volumes; market concentrations; the ageing of positions; the extent to which valuation relies on marking to model and the impact of other model risks.
- (4) With regard to complex products including, but not limited to, *securitisation exposures* and *nth-to-default credit derivatives*, a *BIPRU firm* must explicitly consider the need for valuation adjustments for model risk arising from using a valuation which

may be incorrect or the risk from using unobservable calibration parameters in the valuation model.

1.3.34

FCA PRA

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If the result of making adjustments or, in the case of an *insurer* or a *UK ISPV*, making adjustments or establishing reserves under ■ GENPRU 1.3.29 R to ■ GENPRU 1.3.33 R is a valuation which differs from the fair value determined in accordance with ■ GENPRU 1.3.4 R, a *firm* must reconcile the two valuations.

1.3.35

FCA PRA

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Reconciliation differences under ■ GENPRU 1.3.34 R should not be reflected in the valuations under ■ GENPRU 1.3 but should be disclosed to the *appropriate regulator* in prudential returns. *Firms* which are subject to the reporting requirement under ■ SUP 16.16 should disclose those reconciliation differences in the Prudent Valuation Return which they are required to submit to the *appropriate regulator* under ■ SUP 16.16.4 R.

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[deleted]

Specific requirements: BIPRU firms

1.3.36

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Adjustments to accounting values

- (1) For the purposes of *GENPRU* and *BIPRU*, the adjustments in (2) and (3) apply to values calculated pursuant to ■ GENPRU 1.3.4 R in addition to those required by ■ GENPRU 1.3.9 R to ■ GENPRU 1.3.10 R.
- (2) A *BIPRU firm* must not recognise either:
 - (a) the fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortised cost; or
 - (b) any unrealised gains or losses on debt instruments held, or formerly held, in the available-for-sale category.
- (3) A *BIPRU firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.
- (4) The items referred to in (2) and (3) must be excluded from *capital resources*.

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33

1.3.37

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Provisions for equity instruments held in the available-for-sale category can be found in ■ GENPRU 2.2.185 R.

1.3.38

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Trading book and other fair-valued positions, and revaluationsto ■ GENPRU 1.3.40 R apply only to a *BIPRU firm*.

1.3.39

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Both *trading book* positions and other fair-valued positions are subject to prudent valuation rules as specified in ■ GENPRU 1.3.14 R to ■ GENPRU 1.3.34 R (Marking to market, Marking to model, Independent price verification, Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves). In accordance with those rules, a *firm* must ensure that the value applied to each of its *trading book* positions and other fair-valued positions appropriately reflects the current market value. This value must contain an appropriate degree of certainty having regard to the dynamic nature of *trading book* positions, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of *trading book* positions and other fair-valued positions.

1.3.40

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Trading book positions must be re-valued at least daily.**Specific requirements: firms carrying on insurance business****Investments, derivatives and quasi-derivatives**

1.3.41

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(1) For the purposes of *GENPRU* and *INSPRU*, an *insurer* or a *UK ISPV* must apply ■ GENPRU 1.3.14 R to ■ GENPRU 1.3.34 R (Marking to market, Marking to model, Independent price verification, Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves) to account for:

- (a) investments that are, or amounts owed arising from the disposal of:
 - (i) *debt securities*, bonds and other money- and capital-market instruments;
 - (ii) loans;
 - (iii) *shares* and other variable yield participations;
 - (iv) *units* in *UCITS schemes*, *non-UCITS retail schemes*, *recognised schemes* and any other *collective investment scheme* falling within paragraph(1)(A)(d)(iv) of ■ GENPRU 2 Annex 7 R; and
- (b) *derivatives* and *quasi-derivatives*

(2) In the case of an *insurer*, (1) is subject to ■ GENPRU 1.3.43 R.

Shares in and debts due from related undertakings

1.3.42

PRA

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■ GENPRU 1.3.43 R to ■ GENPRU 1.3.57 R apply only to *insurers*.

- 1.3.43**
PRA **R** ■ GENPRU 1.3.13 R and ■ GENPRU 1.3.41 R do not apply to *shares* in, and debts due from a *related undertaking* that is:
- (1) a *regulated related undertaking*;
 - (2) an *ancillary services undertaking*; or
 - (3) any other *subsidiary undertaking*, the *shares* of which a *firm* elects to value in accordance with ■ GENPRU 1.3.47 R.
- 1.3.44**
PRA **G** The effect of ■ GENPRU 1.3.43 R is that *shares* in, and debts due from, *related undertakings* of the types referred to are not valued on a mark to market basis by *insurers*. As a result, debts due from these *undertakings*, and *shares* in *related undertakings* which are *ancillary services undertakings*, are valued at their accounting book value in accordance with ■ GENPRU 1.3.4 R. *shares* in *related undertakings* referred to in ■ GENPRU 1.3.43 R (1) or ■ (3) are valued by *insurers* in accordance with ■ GENPRU 1.3.45 R to ■ GENPRU 1.3.50 R.
- 1.3.45**
PRA **R** Except where the contrary is expressly stated in *GENPRU*, whenever a *rule* in *GENPRU* or *INSPRU* refers to *shares* held in, and debts due from, an *undertaking* referred to in ■ GENPRU 1.3.43 R (1) or ■ GENPRU 1.3.43 R (3), a *firm* must value the *shares* held in accordance with ■ GENPRU 1.3.47 R.
- 1.3.46**
PRA **R** In relation to *shares* in, and debts due from, an *undertaking* referred to in ■ GENPRU 1.3.43 R (1), ■ GENPRU 1.3.45 R does not apply for the purposes of ■ GENPRU 2.2.256 R (Adjustments for regulated related undertakings other than insurance undertakings) and ■ *INSPRU* 6.1 (Group risk: Insurance groups).
- 1.3.47**
PRA **R** For the purposes of ■ GENPRU 1.3.45 R, the value of the *shares* held in an *undertaking* referred to in ■ GENPRU 1.3.43 R (1) or ■ GENPRU 1.3.43 R (3) is the sum of:
- (1) the *regulatory surplus value* of that *undertaking*; less
 - (2) for the purposes of ■ GENPRU 2.2.256 R (Adjustments for regulated related undertakings other than insurance undertakings), the book value of the total investments in the *tier one capital resources* and *tier two capital resources* of that *undertaking* by the *firm* and its *related undertakings*; or
 - (3) for other purposes in *GENPRU* and *INSPRU*, the sum of:
 - (a) the book value of the investments by the *firm* and its *related undertakings* in the *tier two capital resources* of the *undertaking*; and
 - (b) if the *undertaking* is an *insurance undertaking*, its ineligible surplus capital and any restricted assets of the *undertaking* which have been excluded under ■ *INSPRU* 6.1.41 R (1).

1.3.48

PRA

R For the purposes of ■ GENPRU 1.3.47 R (1), the regulatory surplus value of an *undertaking* referred to in ■ GENPRU 1.3.43 R (1) or ■ GENPRU 1.3.43 R (3) is, subject to ■ GENPRU 1.3.49 R, the sum of:

- (1) the total capital after deductions of the *undertaking*; less
- (2) the *individual capital resources requirement* of the *undertaking*.

1.3.49

PRA

R (1) Subject to ■ GENPRU 1.3.50 R, for the purposes of ■ GENPRU 1.3.48 R, only the relevant proportion of the:

- (a) total capital after deductions of the *undertaking*; and
- (b) *individual capital resources requirement* of the *undertaking*; is to be taken into account.

(2) In (1), the relevant proportion is the proportion of the total number of *shares* issued by the *undertaking* held, directly or indirectly, by the *firm*.

1.3.50

PRA

R If the *individual capital resources requirement* of an *undertaking* in ■ GENPRU 1.3.43 R (1) that is a *subsidiary undertaking* exceeds total capital after deductions, then the full amount of the items referred to in ■ GENPRU 1.3.49 R (1) must be taken into account for the purposes of ■ GENPRU 1.3.48 R.

1.3.51

PRA

R For the purposes of ■ GENPRU 1.3.47 R to ■ GENPRU 1.3.50 R:

- (1) in relation to an *undertaking* referred to in ■ GENPRU 1.3.43 R (1):
 - (a) subject to (2), *individual capital resources requirement* has the meaning given by ■ INSPRU 6.1.34 R;
 - (b) total capital after deductions means:
 - (i) when used in relation to a *regulated related undertaking* that is subject to the *capital resources table*, the total capital after deductions (as calculated at stage M of the *capital resources table*) of the *undertaking*; and
 - (ii) when used in relation to a *regulated related undertaking* that is not subject to the *capital resources table*, the total capital after deductions calculated as if that *undertaking* were required to calculate its total capital after deductions in accordance with stage M of the calculation in the *capital resources table*, but with such adjustments being made to secure that the *undertaking's* calculation of its total capital after deductions complies with the relevant *sectoral rules* applicable to it; and

(c) ineligible surplus capital has the meaning given by
 ■ INSPRU 6.1.67 R;

- (2) in relation to an *undertaking* referred to in ■ GENPRU 1.3.43 R (3),
- (a) the *individual capital resources requirement* is zero; and
 - (b) the total capital after deductions means the total capital after deductions of the *undertaking* calculated as if the *undertaking* were an *insurance holding company* required to calculate its total capital resources in accordance with the *capital resources table* but with such adjustments being made to secure that the *undertaking's* calculation of its total capital after deductions complies with the *sectoral rules* for the *insurance sector*.

1.3.52
 PRA

G ■ GENPRU 1.3.47 R to ■ GENPRU 1.3.51 R set out several different valuation bases for an *insurer's shares* in *related undertakings*. The *regulatory surplus value* (defined in ■ GENPRU 1.3.48 R) measures the *related undertaking's* own capital surplus or deficit. This is used: (i) in ■ GENPRU 1.3.47 R as a basis for calculating the impact on the firm's position of its investments in *related undertakings*; and (ii) in ■ INSPRU 6.1 as a starting point for the calculation of ineligible surplus capital.

1.3.53
 PRA

G ■ GENPRU 1.3.47 R determines how, for the purposes of the solo capital adequacy calculation of an *insurer*, that *insurer's capital resources* should be adjusted to take into account its investments in *related undertakings*.

1.3.54
 PRA

G The *rules* that specify how, for the purposes of the adjusted solo capital calculation, an *insurer* should incorporate its *related undertakings* into its *capital resources* and *capital resources requirement* are set out in ■ INSPRU 6.1.

Insurance Special Purpose Vehicles

1.3.55
 PRA

R Except where a *rule* in *GENPRU* or *INSPRU* makes a different provision, an *insurer* must not place any value on amounts recoverable from an *ISPV* for the purposes of any *rule* in *GENPRU* or *INSPRU*.

1.3.56
 PRA

G An *insurer* may value amounts recoverable from an *ISPV* if it obtains a *waiver* of ■ GENPRU 1.3.55 R under section 138A of the *Act*. The conditions that will need to be met, in addition to the statutory tests under section 138A(4) of the *Act*, before the *PRA* will consider granting such a *waiver* are set out in ■ INSPRU 1.6.13 G to ■ INSPRU 1.6.18 G.

General insurance business: Community co-insurance operations -

PAGE 37
 1.3.57
 PRA

R Where a *relevant insurer* determines the amount of a liability in order to make provision for outstanding *claims* under a *Community co-insurance operation*, then, if the *leading insurer* has informed the *relevant insurer* of the amount of the provision made by the *leading insurer* for such *claims*, the amount determined by the *relevant insurer*:

- (1) must be at least as great as the amount of the provision made by the *leading insurer*; or
- (2) in a case where it is not the practice in the *United Kingdom* to make such provision separately, must be sufficient, when all liabilities are taken into account, to include provision at least as great as that made by the *leading insurer* for such *claims*,
due regard being had in either case to the proportion of the risk covered by the *relevant insurer* and by the *leading insurer* respectively.



1.4 Actions for damages

1.4.1

FCA

R

A contravention of the *rules* in GENPRU does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).



1.5 Application of GENPRU 1 to Lloyd's

Application of GENPRU 1.2

1.5.1
PRA

R ■ GENPRU 1.2 applies to *managing agents* and to the *Society* in accordance with:

- (1) for *managing agents*, ■ INSPRU 8.1.4 R; and
- (2) for the *Society*, ■ INSPRU 8.1.2 R.

1.5.2
PRA

R ■ GENPRU 1.5.7 R applies to *members*, pursuant to the *insurance market direction* in ■ GENPRU 1.5.5 D.

Insurance market direction

1.5.3
PRA

G The *insurance market direction* in ■ GENPRU 1.5.5 D is given under section 316(1) of the *Act* (Direction by Authority) and applies to *members*.

1.5.4
PRA

G The purpose of the *insurance market direction* in ■ GENPRU 1.5.5 D is to enable the *PRA* to make the rule in ■ GENPRU 1.5.7 R applying to *members*, in order to:

- (1) protect *policyholders* against the risk that *members* may not have adequate financial resources to meet liabilities under or in respect of *contracts of insurance* as they fall due;
- (2) promote confidence in the market at Lloyd's by requiring *members* to maintain financial resources which are adequate to meet their liabilities.

1.5.5
PRA

D With effect from 1 January 2005, Part 9A of the *Act* (Rules and Guidance) applies to the *members* of the *Society* taken together in relation to the *insurance market activities* of *effecting and carrying out contracts of insurance* written at Lloyd's, for the purpose of applying the *rules and guidance* in ■ GENPRU 1.5.7 R to ■ GENPRU 1.5.9 G.

1.5.6
PRA

G Part 9A of the *Act* is a *core provision* specified in section 317(1) of the *Act* (The core provisions). Section 317(2) provides that references in an applied *core provision* to an *authorised person* are to be read as references to a *person* in the class to which the *insurance market direction* applies. From 1 January 2005, references in Part 9A of the *Act* are to be read as references to *members* for the purposes of ■ GENPRU 1.5.7 R to ■ GENPRU 1.5.9 G.

Members' obligation to maintain adequate financial resources

1.5.7
PRA

R

The *members* taken together must at all times maintain overall financial resources, including capital and liquidity resources, that are adequate, both as to amount and quality, to ensure that there is no significant risk that liabilities under or in respect of *contracts of insurance* written at Lloyd's will not be met as they fall due.

1.5.8
PRA

G

Under GENPRU:

- (1) *managing agents* must ensure that adequate financial resources are available to support the *insurance business* carried on through each *syndicate* that they manage; and
- (2) the *Society* must, having regard to the availability and value of the *central assets*, ensure that the financial resources supporting the *insurance business* of each *member* are adequate at all times.

1.5.9
PRA

G

In practice, compliance with the requirements described in ■ GENPRU 1.5.8 G is likely to have the effect that *members* comply with ■ GENPRU 1.5.7 R.

Application of GENPRU 1.3

1.5.10
PRA

R

■ GENPRU 1.3 applies to *managing agents* and to the *Society* in accordance with:

- (1) for *managing agents*, ■ INSPRU 8.1.4 R; and
- (2) for the *Society*, ■ INSPRU 8.1.2 R.

Amounts receivable but not yet received

1.5.11
PRA

R

When recognising and valuing assets that are available to meet liabilities arising from a *member's insurance business*, neither the *Society* nor *managing agents* may attribute any value to any amounts receivable but not yet received from that *member* or another *member*, except for:

- (1) timing differences provided that a corresponding amount has been deducted from *syndicate assets* or *funds at Lloyd's*;
- (2) the *Society's callable contributions*, which are valued according to ■ GENPRU 1.5.17 R to ■ GENPRU 1.5.18 R; and
- (3) debts owed by a *member* to another *member* of the *Society* where the debt is a liability arising out of the *insurance business* he carries on at Lloyd's.

Letters of credit, guarantees and life assurance policies

1.5.12
PRA

R

When recognising and valuing assets held as *members' funds at Lloyd's* the *Society* may, if the conditions in ■ GENPRU 1.5.13 R are satisfied,

attribute a value to letters of credit and guarantees that it holds in respect of a *member's insurance business*.

1.5.13
PRA

R The conditions referred to in ■ GENPRU 1.5.12 R are that letters of credit and guarantees must be:

- (1) in the form prescribed by the *Society* from time to time and notified to the *PRA*; and
- (2) issued by a *credit institution* or an *insurance undertaking*.

1.5.14
PRA

R When recognising and valuing assets held as *members' funds at Lloyd's* the *Society* may attribute a value to verifiable sums arising out of life assurance policies.

1.5.15
PRA

R The *Society* must value any letter of credit, guarantee or life assurance policy at its net realisable value. The *Society* must make all appropriate deductions, including those in respect of:

- (1) the expenses of realisation; and
- (2) any reduction in value that would be likely to occur if the asset needed to be realised at short notice to meet liabilities falling due earlier than expected.

1.5.16
PRA

R If a *member* relies on a value attributed to a letter of credit or guarantee to meet any applicable *capital resources requirement* and that letter of credit or guarantee will expire in less than one month, the *Society* must take appropriate steps to ensure that the applicable *capital resources requirement* will continue to be met, including taking steps to ensure that sums due under the letter of credit or guarantee are drawn down when due and carried to the appropriate *Lloyd's trust fund*.

The Society's callable contributions

1.5.17
PRA

R For the purposes of ■ GENPRU 1.5.15 R (2), the amount assumed to be callable from a *member* must not exceed the lower of:

- (1) the maximum *callable contribution* that *member* is or may be liable to make in that *financial year*; and
- (2) the amount by which the *member's own capital resources* exceed the *member's own capital resources requirement*.

1.5.18
PRA

R The *Society* must value *callable contributions* taking appropriate account of any legal, constructive or other limits on its ability to call for contributions from *members* or to realise the amount called.

1.5.19
PRA

R The *Society* must give the *PRA* adequate advance notice if it proposes to change the maximum amount of the *callable contribution* that *members* may be liable to make in any *financial year*.

1.5.20
PRA

G The *PRA* would normally expect not less than six months' notice under ■ GENPRU 1.5.19 R.

Liabilities

1.5.21
PRA

R Subject to ■ GENPRU 1.5.22 R, the *Society* must recognise and value all of a *member's* liabilities in respect of its *insurance business*.

1.5.22
PRA

R The *Society* need not recognise or value a *member's* liabilities that are recognised and valued at *syndicate* level by *managing agents* in accordance with ■ GENPRU 1.3.

1.5.23
PRA

R For the purposes of calculating a *member's capital resources*, when valuing a *member's funds at Lloyd's* the *Society* must deduct the value of a *member's* liabilities determined under ■ GENPRU 1.5.21 R.

1.5.24
PRA

G The liabilities to be valued under ■ GENPRU 1.5.21 R and deducted under ■ GENPRU 1.5.23 R include:

- (1) amounts owing to *members' agents*;
- (2) amounts owing to the *Society*;
- (3) an appropriate accrual for tax payable on any profits;
- (4) (where required under any applicable accounting principle in accordance with ■ GENPRU 1.3.4 R), any contingent liability relating to liabilities reinsured into Equitas Reinsurance Ltd; and
- (5) amounts apportioned to *members* in respect of the *credit equalisation provision* in ■ INSPRU 1.4.

1.5.25
PRA

R In recognising and valuing a *member's* liabilities, the *Society* and *managing agents* may, to the extent permitted by applicable accounting principles, leave out of account the liabilities in respect of 1992 and prior *general insurance business* reinsured by Equitas Reinsurance Limited.

1.5.26
PRA

G There may be contingent liabilities associated with the reinsurance into Equitas. ■ GENPRU 1.3 requires *managing agents* and the *Society* to treat those contingent liabilities in accordance with applicable accounting principles: see ■ GENPRU 1.3.4 R. Depending on the circumstances, *managing agents* or the *Society* may need to disclose or account for such a liability.

Chapter 2

Capital

2.1 Calculation of capital resources requirements

Application

2.1.1

FCA

R

This section applies to:

- (1) a *BIPRU firm*; and
- (2) an *insurer*, unless it is:
 - (a) a *non-directive friendly society*; or
 - (b) a *Swiss general insurer*; or
 - (c) an *EEA-deposit insurer*; or
 - (d) an *incoming EEA firm*; or
 - (e) an *incoming Treaty firm*.

2.1.1A

PRA

R

Except as indicated in SUP 2.1.60R, this section applies to an *insurer*, unless it is:

- (1) a *non-directive friendly society*; or
- (2) a *Swiss general insurer*; or
- (3) an *EEA-deposit insurer*; or
- (4) an *incoming EEA firm*; or
- (5) an *incoming Treaty firm*.

2.1.2

FCA

PRA

G

The scope of application of this section is not restricted to *firms* that are subject to the relevant *EU Directives*.

2.1.3

FCA

PRA

R

- (1) This section applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.

(2) Where an *insurer* carries on both *long-term insurance business* and *general insurance business*, except where a particular provision provides otherwise, this section applies separately to each type of business.

2.1.4 FCA PRA G The adequacy of a *firm's capital resources* needs to be assessed in relation to all the activities of the *firm* and the risks to which they give rise.

2.1.5 FCA PRA G The requirements in this section apply to a *firm* on a solo basis.

Purpose

2.1.6 FCA PRA G *Principle 4* requires a *firm* to maintain adequate financial resources. ■ GENPRU 2 sets out provisions that deal specifically with the adequacy of that part of a *firm's* financial resources that consists of *capital resources*. The adequacy of a *firm's capital resources* needs to be assessed both by that *firm* and the *appropriate regulator*. Through its *rules*, the *appropriate regulator* sets minimum *capital resources requirements* for *firms*. It also reviews a *firm's* own assessment of its capital needs, and the processes and systems by which that assessment is made, in order to see if the minimum *capital resources requirements* are appropriate (see ■ GENPRU 1.2 (Adequacy of financial resources), ■ BIPRU 2.2 (Internal capital adequacy standards) and ■ INSPRU 7.1 (Individual capital assessment)).

2.1.7 FCA PRA G This section sets *capital resources requirements* for a *firm*. ■ GENPRU 2.2 (Capital resources) sets out how, for the purpose of meeting *capital resources requirements*, the amounts or values of capital, assets and liabilities are to be determined. More detailed *rules* relating to capital, assets and liabilities are set out in ■ GENPRU 1.3 (Valuation) and, for an *insurer*, INSPRU and, for a BIPRU *firm*, BIPRU.

2.1.8 FCA G

(1) [deleted]

(2) This section also implements the third paragraph of article 95(2) of the *EU CRR* applying the provisions of the *Capital Adequacy Directive* and *Banking Consolidation Directive* concerning the level of *capital resources* which a BIPRU *firm* is required to hold. In particular it implements (in part) article 75 of the *Banking Consolidation Directive* and Articles 5, 9, 10 and 18 of the *Capital Adequacy Directive*.

(3) [deleted]

2.1.8A PRA G This section implements minimum EC standards for the *capital resources* required to be held by an *insurer* undertaking business that falls within the scope of the *Consolidated Life Directive* (2002/83/EC), the *Reinsurance Directive* (2005/68/EC) or the *First Non-Life Directive* (1973/239/EEC) as amended.

Monitoring requirements

2.1.9 FCA PRA R A *firm* must at all times monitor whether it is complying with ■ GENPRU 2.1.13 R (the main capital adequacy rule for *insurer*) or the *main*

2.1.10
FCA PRA

G

BIPRU firm Pillar 1 rules and be able to demonstrate that it knows at all times whether it is complying with those rules.

For the purposes of ■ GENPRU 2.1.9 R, a *firm* should have systems in place to enable it to be certain whether it has adequate *capital resources* to comply with ■ GENPRU 2.1.13 R and the *main BIPRU firm Pillar 1 rules* (as applicable) at all times. This does not necessarily mean that a *firm* needs to measure the precise amount of its *capital resources* and its *CRR* on a daily basis. A *firm* should, however, be able to demonstrate the adequacy of its *capital resources* at any particular time if asked to do so by the *appropriate regulator*.

2.1.11
FCA PRA

R

A firm must notify the appropriate regulator immediately of any breach, or expected breach, of ■ GENPRU 2.1.13 R (in the case of an insurer) or the main BIPRU firm Pillar 1 rules (in the case of a BIPRU firm).

Additional capital requirements

2.1.12
FCA PRA

G

The *appropriate regulator* may impose a higher capital requirement than the minimum requirement set out in this section as part of the *firm's Part 4A permission* (see ■ GENPRU 1.2 (Adequacy of financial resources), ■ BIPRU 2.2 (Internal capital adequacy standards) and ■ INSPRU 7.1 (Individual capital assessment)).

Main requirement: Insurers

2.1.13
PRA

R

- (1) Subject to (2), an *insurer* must maintain at all times *capital resources* equal to or in excess of its *capital resources requirement (CRR)*.
- (2) An *insurer* which is a *participating insurance undertaking* and, in relation to its own *group capital resources*, is in compliance with ■ INSPRU 6.1.9 R (Requirement to maintain group capital), is deemed to comply with this *rule*.

2.1.14
PRA

R

An insurer must comply with ■ GENPRU 2.1.13 R separately in respect of both its long-term insurance business and its general insurance business unless it is a pure reinsurer or a captive reinsurer which has a single MCR in respect of its entire business in accordance with ■ GENPRU 2.1.26 R.

2.1.15
PRA

G

In order to comply with ■ GENPRU 2.1.14 R, an *insurer* carrying on both *general insurance business* and *long-term insurance business* will need to allocate its *capital resources* between its *general insurance business* and *long-term insurance business* so that the *capital resources* allocated to its *general insurance business* are equal to or in excess of its *CRR* for its *general insurance business* and the *capital resources* allocated to its *long-term insurance business* are equal to or in excess of its *CRR* for its *long-term insurance business*. Whereas *long-term insurance assets* cannot be used towards meeting a *firm's CRR* for its *general insurance business*, surplus *general insurance assets* may be used towards meeting the *CRR* for its *long-term insurance business* (see ■ INSPRU 1.5.30 R to ■ INSPRU 1.5.32 G). ■ INSPRU 1.5 (Internal-contagion risk) sets out the detailed requirements for the separation of *long-term* and *general insurance business*.

2.1.16

PRA

G

Insurers commonly use different terminology for the various GENPRU requirements. For example, the MCR is traditionally known as the required minimum margin.

Calculation of the CRR for an insurer

2.1.17

PRA

R

The CRR for any *insurer* carrying on *general insurance business* is equal to the MCR in ■ GENPRU 2.1.24 R or, for a *pure reinsurer* or a *captive reinsurer* carrying on both *general insurance business* and *long-term insurance business*, in ■ GENPRU 2.1.26 R.

2.1.18

PRA

R

The CRR for any *insurer* to which this rule applies (see ■ GENPRU 2.1.19 R and ■ GENPRU 2.1.20 R) is the higher of:

- (1) the MCR in ■ GENPRU 2.1.24A R; and
- (2) the ECR in ■ GENPRU 2.1.38 R.

2.1.19

PRA

R

Subject to ■ GENPRU 2.1.20 R, ■ GENPRU 2.1.18 R applies to an *insurer* carrying on *long-term insurance business*, other than:

- (1) a *non-directive mutual*;
- (2) an *insurer* which has no *with-profits insurance liabilities*; and
- (3) an *insurer* which has *with-profits insurance liabilities* that are, and at all times since 31 December 2004 (the coming into force of ■ GENPRU 2.1.18 R) have remained, less than £500 million.

2.1.20

PRA

R

■ GENPRU 2.1.18 R also applies to an *insurer* of a type listed in ■ GENPRU 2.1.19 R (3) if:

- (1) the *insurer* makes an election that ■ GENPRU 2.1.18 R is to apply to it; and
- (2) that election is made by written notice given to the *appropriate regulator* in a way that complies with the requirements for written notice in ■ SUP 15.7 (Form and method of notification).

2.1.21

PRA

G

The effect of ■ GENPRU 2.1.19 R (3) is that an *insurer* to which ■ GENPRU 2.1.18 R applies because it has *with-profits insurance liabilities* of £500 million or more, will continue to be subject to ■ GENPRU 2.1.18 R even if its *with-profits insurance liabilities* fall below £500 million. However, if that happens, it may apply for a *waiver* from ■ GENPRU 2.1.18 R under section 138A of the *Act*. In exercising its discretion under section 138A of the *Act*, the *appropriate regulator* will have regard (among other factors) to whether there has been a material and permanent change to the *insurer's* business and to the prospects of it continuing to have *with-profits insurance liabilities* of less than £500 million.

2.1.22

PRA

G

An *insurer* that has always had *with-profits insurance liabilities* of less than £500 million since ■ GENPRU 2.1.18 R came into force may wish to "opt in" to ■ GENPRU 2.1.18 R and

therefore become a *realistic basis life firm*. By doing so, it becomes obliged to calculate a *with-profits insurance capital component* (see ■ GENPRU 2.1.38 R and ■ INSPRU 1.3 (With-profits insurance capital component)), but it also becomes entitled to certain modifications to the way that a *firm* is required to calculate its *mathematical reserves* (see ■ INSPRU 1.2.46 R (Future net premiums: adjustment for deferred acquisition costs) and ■ INSPRU 1.2.76 R (Persistency assumptions)). The *firm* is also then required to report its liabilities on a realistic basis (see IPRU(INS) rule 9.31R(b)). In order to "opt in", the *insurer* must make an election under ■ GENPRU 2.1.20 R that ■ GENPRU 2.1.18 R is to apply to it. If an *insurer* that has elected to calculate and report its *with-profits insurance liabilities* on a realistic basis subsequently decides that it no longer wishes to do so, it may seek to "opt out" by applying for a *waiver* from ■ GENPRU 2.1.18 R under section 138A of the *Act*. In exercising its discretion under section 138A of the *Act*, the *appropriate regulator* will have regard (among other factors) to whether there has been a material and permanent change to the *firm's* business and to whether it continues to have *with-profits insurance liabilities* of less than £500 million.

2.1.23

PRA

R The *CRR* for an *insurer* carrying on *long-term insurance business*, but to which ■ GENPRU 2.1.18 R does not apply, is equal to the *MCR* in ■ GENPRU 2.1.25 R or, for a *pure reinsurer* or a *captive reinsurer* carrying on both *general insurance business* and *long-term insurance business*, in ■ GENPRU 2.1.26 R.

Calculation of the MCR (Insurer only)

2.1.24

PRA

R Subject to ■ GENPRU 2.1.26 R, for an *insurer* carrying on *general insurance business* the *MCR* in respect of that business is the higher of:

- (1) the *base capital resources requirement* for *general insurance business* applicable to that *firm*; and
- (2) the *general insurance capital requirement*.

2.1.24A

PRA

R Subject to ■ GENPRU 2.1.26 R, for an *insurer* carrying on *long-term insurance business* to which ■ GENPRU 2.1.18 R applies the *MCR* in respect of that business is the higher of:

- (1) the *base capital resources requirement* for *long-term insurance business* applicable to that *firm*; and
- (2) the *long-term insurance capital requirement*.

2.1.25

PRA

R Subject to ■ GENPRU 2.1.26 R, for an *insurer* carrying on *long-term insurance business*, but to which ■ GENPRU 2.1.18 R does not apply, the *MCR* in respect of that business is the higher of:

- (1) the *base capital resources requirement* for *long-term insurance business* applicable to that *firm*; and
- (2) the sum of:
 - (a) the *long-term insurance capital requirement*; and

(b) the *resilience capital requirement*.

2.1.26

PRA

R

For a *pure reinsurer* or a *captive reinsurer* carrying on both *general insurance business* and *long-term insurance business*:

- (1) the MCR in respect of its *general insurance business* is the *general insurance capital requirement*; and
- (2) the MCR in respect of its *long-term insurance business* is the sum of:
 - (a) the *long-term insurance capital requirement*; and
 - (b) the *resilience capital requirement*;

unless the sum of:

- (3) the *general insurance capital requirement*; and
- (4) the sum of:
 - (a) the *long-term insurance capital requirement*; and
 - (b) the *resilience capital requirement*;

is lower than the *base capital resources requirement*, in which case the *firm* has a single MCR in respect of its entire business equal to the *base capital resources requirement*.

2.1.27

PRA

G

The MCR gives effect to the EU Directive minimum requirements. For *general insurance business*, the EU Directive minimum is the higher of the *general insurance capital requirement* and the relevant *base capital resources requirement*. For *long-term insurance business*, the EU Directive minimum is the higher of the *long-term insurance capital requirement* and the *base capital resources requirement*. For *pure reinsurers* and *captive reinsurers* carrying on both *general insurance business* and *long-term insurance business*, however, the *base capital resources requirement* is the EU Directive required minimum only when it is higher than the sum of the *general insurance capital requirement* and the *long-term insurance capital requirement*. The *base capital resources requirement* is the minimum guarantee fund for the purposes of article 29(2) of the *Consolidated Life Directive* (2002/83/EC), article 17(2) of the *First Non-Life Directive* (1973/239/EEC) as amended and article 40(2) of the *Reinsurance Directive* (2005/68/EC). The *resilience capital requirement* is a PRA minimum requirement for *long-term insurance business* for *regulatory basis only life firms* that is additional to the EU minimum requirement for *long-term insurance business*.

2.1.28

PRA

G

The calculation of the *resilience capital requirement* is set out in ■ INSPRU 3.1 (Market Risk in insurance).

Calculation of the base capital resources requirement for an insurer

2.1.29

PRA

R

The amount of an *insurer's base capital resources requirement* is set out in the table in ■ GENPRU 2.1.30 R. If an *insurer* falls within one or more of

the descriptions of type of *firm* set out in ■ GENPRU 2.1.30 R, its *base capital resources requirement* is the highest amount set out against the different types of *firm* within whose description it falls.

Table: Base capital resources requirement for an insurer

This table belongs to ■ GENPRU 2.1.29 R

2.1.30

PRA

R

<i>Firm category</i>	Amount: Currency equivalent of
General insurance business	
Liability insurer (classes 10-15)	€ 2.775 million
<i>Directive mutual</i>	
<i>Non-directive insurer</i>	€ 350 ,000
Other (including mixed insurer but excluding pure reinsurer)	€ 3.7 million
Other insurer	€ 1.875 million
<i>Directive mutual</i>	
<i>Non-directive insurer (classes 1 to 8, 16 or 18)</i>	€ 260 ,000
<i>Non-directive insurer (classes 9 or 17)</i>	€175 ,000
<i>Mixed insurer</i>	€ 3.7 million
Other (excluding pure reinsurer)	€ 2.5 million
Long-term insurance business	
Mutual	€ 2.775 million
<i>Directive</i>	
<i>Non-directive mutual</i>	€ 700 ,000
Any other insurer (including mixed insurer but excluding pure reinsurer)	€ 3.7 million
All business (general insurance business and long-term insurance business)	
Pure reinsurer excluding captive reinsurer	€ 3.7 million
Captive reinsurer	€ 1.2 million

2.1.31

PRA

G

- (1) Under the *Insurance Directives* the amount of the *base capital resources requirement* specified in the last column of the table in ■ GENPRU 2.1.30 R for an *insurer* which is not a *Non-directive insurer* is subject to annual review. The relevant amounts will be increased by the percentage change in the European index of consumer prices (comprising all EU member states, as published by Eurostat) from 20 March 2002, to the relevant review date, rounded up to a multiple of €100,000, provided that where the percentage change since the last increase is less than 5%, no increase will take place.

- (2) Similar provisions for the index-linking of the *base capital resources requirement* are included in the *Reinsurance Directive*, although in that case the index-linking starts from 10 December 2005. However, to ensure consistency as between all *firms* affected by the index-linking of the *base capital resources requirement* under the *Insurance Directives* and the *Reinsurance Directive*, the PRA intends, so far as possible, to amend the amounts in ■ GENPRU 2.1.30 R for all such *firms* (and ■ GENPRU 2.3.9 R for the *base capital resources requirements* applying to Lloyd's) when an index-linked increase is required by the *Insurance Directives*. The PRA may, however, have to depart from this approach where the result would be that the *base capital resources requirement* required for any type of *firm* under ■ GENPRU 2.1.30 R is less than the increased amount resulting from the operation of an index-linking provision to which it is subject.

2.1.32

PRA

G

Any increases in the *base capital resources requirement* referred to in ■ GENPRU 2.1.31 G will be published on the PRA website.

2.1.33

PRA

R

In the case of an *insurer* and for the purposes of the *base capital resources requirement*, the exchange rate from the Euro to the pound sterling for each year beginning on 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all the European Union member states were published in the Official Journal of the European Union.

Calculation of the general insurance capital requirement (Insurer only).....

2.1.34

PRA

R

An *insurer* must calculate its *general insurance capital requirement* as the highest of:

- (1) the *premiums amount*;
- (2) the *claims amount*; and
- (3) the *brought forward amount*.

2.1.35

PRA

G

The calculation of each of the *premiums amount*, *claims amount* and *brought forward amount* is set out in ■ INSPRU 1.1 (Capital resources requirement and technical provisions for insurance business).

Calculation of the long-term insurance capital requirement (Insurer only).....

2.1.36

PRA

R

An *insurer* must calculate its *long-term insurance capital requirement* as the sum of:

- (1) the *insurance death risk capital component*;
- (2) the *insurance health risk and life protection reinsurance capital component*;
- (3) the *insurance expense risk capital component*; and

(4) the *insurance market risk capital component*.

2.1.37
PRA

G

The calculation of each of the capital components is set out in ■ INSPRU 1.1 (Capital resources requirement and technical provisions for insurance business).

Calculation of the ECR (Insurer only)

2.1.38
PRA

R

For an *insurer* carrying on *long-term insurance business* the *ECR* in respect of that business is the sum of:

- (1) the *long-term insurance capital requirement*; and
- (2) the *with-profits insurance capital component*.

2.1.39
PRA

G

Details of the *resilience capital requirement* and the *with-profits insurance capital component* are set out in ■ INSPRU 3.1 (Market Risk in insurance) and ■ INSPRU 1.3 (With-profits insurance capital component) respectively.

Main requirement: BIPRU firms

2.1.40
FCA

R

A *BIPRU firm* must maintain at all times *capital resources* equal to or in excess of the amount specified in the table in ■ GENPRU 2.1.45 R (Calculation of the variable capital requirement for a BIPRU firm).

2.1.41
FCA

R

A *BIPRU firm* must maintain at all times *capital resources* equal to or in excess of the *base capital resources requirement* (see the table in ■ GENPRU 2.1.48 R).

2.1.42
FCA

R

At the time that it first becomes a *BIPRU firm*, a *firm* must hold *initial capital* of not less than the *base capital resources requirement* applicable to that *firm*.

2.1.43
FCA

G

The purpose of the *base capital resources requirement* for a *BIPRU firm* is to act as a minimum capital requirement or floor. It has been written as a separate requirement as there are restrictions in ■ GENPRU 2.2 (Capital resources) on the types of capital that a *BIPRU firm* may use to meet the *base capital resources requirement* which do not apply to some other parts of the capital requirement calculation. In order to preserve the *base capital resources requirement's* role as a floor rather than an additional requirement, ■ GENPRU 2.2.60 R allows a *BIPRU firm* to meet the *base capital resources requirement* with capital that is also used to meet the variable capital requirements in ■ GENPRU 2.1.40 R.

2.1.44
FCA

G

The *base capital resources requirement* and the variable capital requirement in ■ GENPRU 2.1.40 R are together called the *capital resources requirement (CRR)* in the case of a *BIPRU firm*.

Calculation of the variable capital requirement for a BIPRU firm

2.1.45
FCA

R

This table belongs to ■ GENPRU 2.1.40 R

Firm category	Capital requirement
---------------	---------------------

BIPRU firm (including collective portfolio management investment firm) the higher of (1) and (2):

(1) the sum of:

(a) the credit risk capital requirement; and

(b) the market risk capital requirement; and

(2) the fixed overheads requirement.

Adjustment of the variable capital requirement calculation for collective portfolio management investment firms

2.1.46
FCA

R

When a *collective portfolio management investment firm* calculates the *credit risk capital requirement* and the *market risk capital requirement* for the purpose of calculating the variable capital requirement under ■ GENPRU 2.1.40 R it must do so only in respect of *designated investment business*. For this purpose *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.

Calculation of the base capital resources requirement for a BIPRU firm

2.1.47
FCA

R

The amount of a *BIPRU firm's base capital resources requirement* is set out in the table in ■ GENPRU 2.1.48 R.

Table: Base capital resources requirement for a BIPRU firm

2.1.48
FCA

R

This table belongs to ■ GENPRU 2.1.47 R

Firm category	Amount: Currency equivalent of
<i>BIPRU firm (but not a collective portfolio management investment firm)</i>	€50,000

2.1.48A
FCA

G

A *collective portfolio management investment firm* is required to maintain *base own funds requirement* of €125,000 (in line with ■ IPRUINV link 11.3.1R(1)).

Definition of BIPRU firm

2.1.49
FCA

G

The *Capital Adequacy Directive* sets out various categories of *investment firms* subject to differing levels of initial capital. For the purpose of the third paragraph of article 95(2) of the *EU CRR*, a *BIPRU firm* falls into the category in article 5(3) of the *Capital Adequacy Directive*. In summary, a *BIPRU firm*:

- (1) does not provide the *ancillary service* of safekeeping and administration of *financial instruments* for the account of *clients*, including custodianship and related services such as cash/collateral management, and is not authorised to do so;
- (2) is not authorised to provide the following *investment services*:
 - (a) to deal in any *financial instruments* for its own account;
 - (b) to underwrite issues of *financial instruments* on a firm commitment basis;
 - (c) to place *financial instruments* without a firm commitment basis; and

- (d) to operate a *multilateral trading facility*;
- (3) is authorised to provide one or more of the following *investment services*:
 - (a) the execution of investors' orders for *financial instruments*; or
 - (b) the management of individual portfolios of investments in *financial instruments*;
- (4) may be authorised to provide one or more of the following *investment services*:
 - (a) reception and transmission of investors' orders for *financial instruments*; or
 - (b) investment advice; and
- (5) does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation* or *requirement* prohibiting the holding of client money and its permission should not include *safeguarding and administering investments*).

2.1.50

[Deleted]

Calculation of the credit risk capital requirement (BIPRU firm only).....

2.1.51

R

A BIPRU firm must calculate its *credit risk capital requirement* as the sum of:

FCA

- (1) the *credit risk capital component*;
- (2) the *counterparty risk capital component*; and
- (3) the *concentration risk capital component*.

Calculation of the market risk capital requirement (BIPRU firm only).....

2.1.52

R

(1) A BIPRU firm must calculate its *market risk capital requirement* as the sum of:

FCA

- (a) the *interest rate PRR* (including the basic *interest rate PRR* for equity derivatives set out in ■ BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives));
 - (b) the *equity PRR*;
 - (c) the *commodity PRR*;
 - (d) the *foreign currency PRR*;
 - (e) the *option PRR*; and
 - (f) the *collective investment undertaking PRR*.
- (2) Any amount calculated under ■ BIPRU 7.1.9 R - ■ BIPRU 7.1.13 R (Instruments for which no PRR treatment has been specified)

must be allocated between the *PRR* charges in (1) in the most appropriate manner.

Calculation of the fixed overheads requirement

2.1.53

FCA

R

A *BIPRU firm* must calculate a *fixed overheads requirement*, an amount that is equal to one quarter of the *firm's* relevant fixed expenditure calculated in accordance with ■ GENPRU 2.1.54 R.

2.1.54

FCA

R

For the purpose of ■ GENPRU 2.1.53 R, and subject to ■ GENPRU 2.1.55 R to ■ GENPRU 2.1.57 R, a *BIPRU firm's* relevant fixed expenditure is the amount described as total expenditure in its most recent audited *annual report and accounts*, less the following items (if they are included within such expenditure):

- (1) staff bonuses, except to the extent that they are guaranteed;
- (2) employees' and directors' shares in profits, except to the extent that they are guaranteed;
- (3) other appropriations of profits;
- (4) shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue;
- (5) interest charges in respect of borrowings made to finance the acquisition of the *firm's readily realisable investments*;
- (6) interest paid to customers on *client money*;
- (7) interest paid to counterparties;
- (8) fees, brokerage and other charges paid to *clearing houses*, exchanges and *intermediate brokers* for the purposes of *executing*, registering or clearing transactions;
- (9) foreign exchange losses; and
- (10) other variable expenditure.

2.1.55

FCA

R

The relevant fixed expenditure of a *firm* in the following circumstances is:

- (1) where its most recent audited *annual report and accounts* do not represent a twelve month period, an amount calculated in accordance with ■ GENPRU 2.1.54 R, pro-rated so as to produce an equivalent annual amount; and
- (2) where it has not completed twelve months' trading, an amount based on forecast expenditure included in the budget for the first

twelve months' trading, as submitted with its application for *authorisation*.

2.1.56
FCA

R

A *firm* must adjust its relevant fixed expenditure calculation so far as necessary if and to the extent that since the date covered by the most recent audited *annual report and accounts* or (if ■ GENPRU 2.1.55 R (2) applies) since the budget was prepared:

- (1) its level of fixed expenditure changes materially; or
- (2) its *regulated activities* comprised within its *permission* change.

2.1.57
FCA

R

If a *firm* has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to that *firm* then the *firm* must adjust its relevant fixed expenditure calculation by adding back in the whole of the difference between the amount of the expenditure and the amount recharged.

2.1.58
FCA

G

For the purpose of ■ GENPRU 2.1.57 R, the FCA would consider as material 10% of a *firm's* expenditure incurred on its behalf by third parties.

2.1.59
FCA

G

For the purpose of ■ GENPRU 2.1.54 R to ■ 2.1.57 R, fixed expenditure is expenditure which is inelastic relative to fluctuations in a *firm's* levels of business. Fixed expenditure is likely to include most salaries and staff costs, office rent, payment for the rent or lease of office equipment, and insurance *premiums*. It may be viewed as the amount of funds which a *firm* would require to enable it to cease business in an orderly manner, should the need arise. This is not an exhaustive list of such expenditure and a *firm* will itself need to identify (taking appropriate advice where necessary) which costs amount to fixed expenditure.

Calculation of base capital resources requirement for banks authorised before 1993

2.1.60

R

- (1) This *rule* applies to a *bank* that meets the following conditions:
 - (a) on 31 December 2006 it had the benefit of IPRU(BANK) rule 3.3.12 (Reduced minimum capital requirement for a *bank* that is a *credit institution* which immediately before 1 January 1993 was authorised under the Banking Act 1987);
 - (b) the relevant amount (as referred to in IPRU(BANK) rule 3.3.12) applicable to it was below €5 million as at 31 December 2006; and
 - (c) on 1 January 2007 it did not comply with the *base capital resources requirement* as set out in the table in ■ GENPRU 2.1.48 R (€5 million requirement).
- (2) Subject to (3), the applicable *base capital resources requirement* as at any time (the "relevant time") is the higher of:

- (a) the relevant amount applicable to it under IPRU(BANK) rule 3.3.12 as at 31 December 2006 as adjusted under
 - GENPRU 2.1.62 R (2); and
 - (b) the highest amount of eligible *capital resources* which that *bank* has held between 1 January 2007 and the relevant time.
- (3) This *rule* ceases to apply when:
- (a) that *bank's* eligible *capital resources* at any time since 1 January 2007 equal or exceed €5 million; or
 - (b) a *person* (other than an existing controller) becomes the *parent undertaking* of that *bank*.
- (4) If this *rule* ceases to apply under (3)(a) it continues not to apply if the *bank's* eligible *capital resources* later fall below €5 million.

2.1.61

G

Where two or more *banks* merge, all of which individually have the benefit of ■ GENPRU 2.1.60 R, the *PRA* may agree in certain circumstances that the *base capital resources requirement* for the *bank* resulting from the merger may be the sum of the aggregate *capital resources* of the merged *banks*, calculated at the time of the merger, provided this figure is less than €5 million.

2.1.62

R

For the purpose of ■ GENPRU 2.1.60 R:

- (1) an existing controller of a *bank* means:
 - (a) a *person* who has been a *parent undertaking* of that *bank* since 31 December 2006 or earlier; or
 - (b) a *person* who became a *parent undertaking* of that *bank* after 31 December 2006 but who, when he became a *parent undertaking* of that *bank*, was a *subsidiary undertaking* of an existing controller of that *bank*;
- (2) the relevant amount of capital as referred to in
 - GENPRU 2.1.60 R (2)(a) is adjusted by identifying the time as of which the amount of capital it was obliged to hold under IPRU(BANK) rule 3.3.12 as referred to in ■ GENPRU 2.1.60 R (2)(a) was fixed and then recalculating the capital resources it held at that time in accordance with the definition of eligible *capital resources* (as defined in (3)); and
- (3) eligible *capital resources* mean *capital resources* eligible under ■ GENPRU 2.2 (Capital resources) to be used to meet the *base capital resources requirement*.

Requirements for collective portfolio management investment firms.....

2.1.63

[Deleted]

2.1.64	[Deleted]
2.1.65	[Deleted]
2.1.66	[Deleted]
2.1.67	[Deleted]
2.1.68	[Deleted]
2.1.69	[Deleted]
2.1.70	[Deleted]
2.1.71	[Deleted]
2.1.72	[Deleted]
2.1.73	[Deleted]
2.1.74	[Deleted]

2.2 Capital resources

Application

2.2.1

FCA

R

This section applies to:

- (1) a *BIPRU firm*; and
- (2) an *insurer* unless it is:
 - (a) a *non-directive friendly society*; or
 - (b) a *Swiss general insurer*; or
 - (c) an *EEA-deposit insurer*; or
 - (d) an *incoming EEA firm*; or
 - (e) an *incoming Treaty firm*.

2.2.1A

PRA

R

This section applies to an *insurer* unless it is:

- (1) a *non-directive friendly society*; or
- (2) a *Swiss general insurer*; or
- (3) an *EEA-deposit insurer*; or
- (4) an *incoming EEA firm*; or
- (5) an *incoming Treaty firm*.

Purpose

2.2.2

FCA PRA

G

■ GENPRU 2.1 (Calculation of capital resources requirement) sets out minimum *capital resources requirements* for a *firm*. This section (■ GENPRU 2.2) sets out how, for the purpose of these requirements, *capital resources* are defined and measured.

2.2.3

PRA

G

This section implements minimum EC standards for the composition of *capital resources* required to be held by an *insurer* undertaking business that falls within the scope of the *Consolidated Life Directive* (2002/83/EC), the *First Non-Life Directive* (1973/239/EEC) as amended or the *Reinsurance Directive* (2005/68/EC).

2.2.4
FCA

G

This section also implements minimum EC standards for the composition of *capital resources* required to be held by a *BIPRU firm*. In particular it implements the third paragraph of article 95(2) of the *EU CRR*, applying Articles 56 - 61, Articles 63 - 64, Article 66 and Articles 120 - 122 of the *Banking Consolidation Directive* (2006/48/EC) and Articles 12 - 16, Article 17 (in part), Article 22(1)(c) (in part) and paragraphs 13 - 15 of Part B of Annex VII of the *Capital Adequacy Directive* (2006/49/EC).

Contents guide

2.2.5
FCA

G

The table in ■ GENPRU 2.2.6 G sets out where the main topics in this section can be found.

Table: Arrangement of GENPRU 2.2

2.2.6
FCA

G

This table belongs to ■ GENPRU 2.2.5 G

Topic	Location of text
Application and purpose of the <i>rules</i> in this section	GENPRU 2.2.1 R to GENPRU 2.2.4 G
<i>BIPRU firms</i> that only have simple types of <i>capital resources</i> (<i>simple capital issuers</i>)	GENPRU 2.2.7 G
Principles underlying the definition of <i>capital resources</i>	GENPRU 2.2.8 G
Which method of calculating <i>capital resources</i> applies to which type of <i>firm</i>	GENPRU 2.2.17 R to GENPRU 2.2.19 R
Purpose of the limits on the use of different forms of capital	GENPRU 2.2.24 G
Use of higher tier capital in lower tiers	GENPRU 2.2.25 R to GENPRU 2.2.28 R
Calculation of <i>capital resources</i> for <i>BIPRU firms</i>	GENPRU 2.2.20 G to GENPRU 2.2.21 G; GENPRU 2 Annex 4 R to GENPRU 2 Annex 6 R
Limits on the use of different forms of capital for <i>BIPRU firms</i> (certain types of <i>capital resources</i> cannot be used for certain purposes)	GENPRU 2.2.44 R to GENPRU 2.2.45 R; GENPRU 2.2.47 R to GENPRU 2.2.48 R
Limits on the use of different forms of capital for <i>BIPRU firms</i> (<i>capital resources gearing rules</i>)	GENPRU 2.2.29 R to GENPRU 2.2.31 G; GENPRU 2.2.46 R; GENPRU 2.2.50 R
Example of how the <i>capital resources</i> calculation for <i>BIPRU firms</i> works	GENPRU 2.2.51 G to GENPRU 2.2.59 G
Capital used to meet the <i>base capital resources requirement</i> for <i>BIPRU firms</i>	GENPRU 2.2.60 R to GENPRU 2.2.61 G
Notification of issuance of <i>capital instruments</i> .	GENPRU 2.2.61A R to GENPRU 2.2.61H G
<i>Tier one capital instruments</i> : general	GENPRU 2.2.9 G to GENPRU 2.2.10 G; GENPRU 2.2.62 R to GENPRU 2.2.69 G; GENPRU 2.2.80 R to GENPRU 2.2.82 G
<i>Tier one capital</i> : payment of <i>coupons</i> (<i>BIPRU firm only</i>)	GENPRU 2.2.69A R to GENPRU 2.2.69F G
<i>Core tier one capital</i> : permanent share capital	GENPRU 2.2.83 R to GENPRU 2.2.84A G

Topic	Location of text
General conditions for eligibility of <i>capital instruments</i> as <i>core tier one capital</i> (<i>BIPRU firm</i> only)	GENPRU 2.2.83A R to GENPRU 2.2.83D G; GENPRU 2.2.84A G
<i>Core tier one capital</i> : exception to eligibility criteria (<i>building societies</i> only)	GENPRU 2.2.83E R to GENPRU 2.2.83H G
<i>Core tier one capital</i> : profit and loss account and other reserves: material applicable to all <i>firms</i>	GENPRU 2.2.85 R; GENPRU 2.2.87 R to GENPRU 2.2.89 G; GENPRU 2.2.91 G
<i>Core tier one capital</i> : profit and loss account and other reserves: material specific to <i>BIPRU firms</i>	GENPRU 2.2.86 R; GENPRU 2.2.90 R; GENPRU 2.2.92 G
<i>Core tier one capital</i> : provisions relating to partnerships and <i>limited liability partnerships</i>	GENPRU 2.2.93 R to GENPRU 2.2.100 R
<i>Core tier one capital</i> : share premium account	GENPRU 2.2.101 R
<i>Core tier one capital</i> : externally verified interim net profits	GENPRU 2.2.102 R to GENPRU 2.2.103 G
<i>Hybrid capital</i> (excluding issues through <i>SPVs</i>) (<i>BIPRU firm</i> only)	GENPRU 2.2.115A R to GENPRU 2.2.119 G
<i>Hybrid capital</i> (issues through <i>SPVs</i>) (<i>BIPRU firm</i> only)	GENPRU 2.2.123 R to GENPRU 2.2.137 R
<i>Tier one capital</i> : conversion ratio	GENPRU 2.2.138 R to GENPRU 2.2.144 G
<i>Tier one capital</i> : requirement to have sufficient unissued stock	GENPRU 2.2.145 R
Deductions from <i>tier one capital resources</i>	GENPRU 2.2.155 R to GENPRU 2.2.156 G
<i>Tier two capital</i>	GENPRU 2.2.11 G; GENPRU 2.2.157 G to GENPRU 2.2.197 G
Deductions from <i>tier one capital resources</i> and <i>tier two capital resources</i>	GENPRU 2.2.208 R to GENPRU 2.1.216G; GENPRU 2.2.217 R to GENPRU 2.2.220 R; GENPRU 2.2.236 R to GENPRU 2.2.240 G
<i>Tier three capital</i>	GENPRU 2.2.12 G; GENPRU 2.2.241 R to GENPRU 2.2.249 R
Deductions from total <i>capital resources</i>	GENPRU 2.2.14 G to GENPRU 2.2.16 G; GENPRU 2.2.259 R to GENPRU 2.2.62 R
The effect of swaps	GENPRU 2.2.198 R to GENPRU 2.2.201 R
<i>Step-ups</i> (<i>Tier one capital</i> and <i>tier two capital</i>)	GENPRU 2.2.76 R; GENPRU 2.2.146 R to GENPRU 2.2.154 G
Redemption of <i>tier one instruments</i>	GENPRU 2.2.64 R (3); GENPRU 2.2.70 R to GENPRU 2.2.79 G
Purchases of <i>tier one instruments</i> : <i>BIPRU firm</i> only	GENPRU 2.2.79A R to GENPRU 2.2.79H G; GENPRU 2.2.79L G
Redemption of <i>tier two instruments</i>	GENPRU 2.2.172 R to GENPRU 2.2.174 R; GENPRU 2.2.177 R to GENPRU 2.2.178 R (<i>upper tier two instruments</i>); GENPRU 2.2.194 R to GENPRU 2.2.197 G (<i>lower tier two instruments</i>)

Topic	Location of text
Non-standard capital instruments	GENPRU 2.2.13 G
Standard form documentation for subordinated debt	GENPRU 2.2.164 G
Public sector guarantees	GENPRU 2.2.276 R
Additional requirements for <i>insurer</i> carrying on <i>with-profits insurance business</i>	GENPRU 2.2.270 R to GENPRU 2.2.272 G; GENPRU 2.2.274 G

Simple capital issuers

2.2.7
FCA

G

Parts of this section are irrelevant to a *BIPRU firm* whose *capital resources* consist of straightforward *capital instruments*.

Principles underlying the definition of capital resources

2.2.8
FCA PRA

G

The *appropriate regulator* has divided its definition of capital into categories, or tiers, reflecting differences in the extent to which the *capital instruments* concerned meet the purpose and conform to the characteristics of capital listed in ■ GENPRU 2.2.9 G. The *appropriate regulator* generally prefers a *firm* to hold higher quality capital that meets the characteristics of permanency and loss absorbency that are features of *tier one capital*. *Capital instruments* falling into *core tier one capital* can be included in a *firm's* regulatory capital without limit. Typically, other forms of capital are either subject to limits (see the *capital resources gearing rules*) or, in the case of some specialist types of capital, may only be included with the express consent of the *appropriate regulator* (which takes the form of a *waiver* under section 138A of the *Act*). Details of the individual components of capital are set out in the *capital resources table*.

Tier one capital

2.2.9
FCA PRA

G

Tier one capital typically has the following characteristics:

- (1) it is able to absorb losses;
- (2) it is permanent or (in the case of a *BIPRU firm*) available when required;
- (3) it ranks for repayment upon winding up, administration or similar procedure after all other debts and liabilities; and
- (4) it has no fixed costs, that is, there is no inescapable obligation to pay dividends or interest.

2.2.10
FCA PRA

G

The forms of capital that qualify for *Tier one capital* are set out in the *capital resources table* and include, for example, *share capital*, reserves, partnership and *sole trader capital*, verified interim net profits and, for a *mutual*, the *initial fund* plus permanent members' accounts. *Tier one capital* is divided into :

- (1) in the case of an *insurer*, *core tier one capital*, perpetual non-cumulative *preference shares* and *innovative tier one capital*; and

- (2) in the case of a *BIPRU firm*, *core tier one capital* and *hybrid capital*. *Hybrid capital* is further divided into the different stages B1, B2 and C of the calculation in the *capital resources table*.

Upper and lower tier two capital

2.2.11

FCA PRA

G

Tier two capital includes forms of capital that do not meet the requirements for permanency and absence of fixed servicing costs that apply to *tier one capital*. *Tier two capital* includes, for example:

- (1) capital which is perpetual (that is, has no fixed term) but cumulative (that is, servicing costs cannot be waived at the issuer's option, although they may be deferred - for example, cumulative *preference shares*); only perpetual *capital instruments* may be included in *upper tier two capital*;
- (2) capital which is not perpetual (that is, it has a fixed term) or which may have fixed servicing costs that cannot generally be either waived or deferred (for example, most subordinated debt); such capital should normally be of a medium to long-term maturity (that is, an original maturity of at least five years); dated *capital instruments* are included in *lower tier two capital*;
- (3) (for *BIPRU firms*) certain revaluation reserves such as reserves arising from the revaluation of land and buildings, including any net unrealised gains for the fair valuation of equities held in the available-for-sale financial assets category; and
- (4) (for *BIPRU firms*) general/collective provisions.

Tier three capital

2.2.12

FCA PRA

G

Tier three capital consists of forms of capital conforming least well to the characteristics of capital listed in ■ GENPRU 2.2.9 G: either subordinated debt of short maturity (*upper tier three capital*) or net *trading book* profits that have not been externally verified (*lower tier three capital*).

Non-standard capital instruments

2.2.13

FCA PRA

G

There may be examples of *capital instruments* that, although based on a standard form, contain structural features that make the *rules* in this section difficult to apply. In such circumstances, a *firm* may seek individual *guidance* on the application of those *rules* to the *capital instrument* in question. See SUP 9 (Individual guidance) for the process to be followed when seeking individual *guidance*.

Deductions from capital

2.2.14

FCA PRA

G

Deductions should be made at the relevant stage of the calculation of *capital resources* to reflect capital that may not be available to the *firm* or assets of uncertain value (for example, holdings of intangible assets and assets that are inadmissible for an *insurer*).

2.2.15

FCA

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Deductions should also be made, in the case of certain *BIPRU firms* for *illiquid assets* (see ■ GENPRU 2.2.19 R).

2.2.16 FCA PRA G A full list of deductions from *capital resources* is shown in the *capital resources table* applicable to the *firm*.

Which method of calculating capital resources applies to which type of firm

2.2.17 FCA R A *firm* must calculate its *capital resources* in accordance with the version of the *capital resources table* applicable to the *firm*, subject to the *capital resources gearing rules*. The version of the *capital resources table* that applies to a *firm* is specified in the table in ■ GENPRU 2.2.19 R.

2.2.18 FCA R In the case of a *BIPRU firm* the *capital resources table* also sets out how the *capital resources requirement* is deducted from *capital resources* in order to decide whether its *capital resources* equal or exceed its *capital resources requirement*.

Table: Applicable capital resources calculation

2.2.19 FCA R This table belongs to ■ GENPRU 2.2.17 R

Type of <i>firm</i>	Location of <i>rules</i>	Remarks
<i>BIPRU firm without an investment firm consolidation waiver</i>	GENPRU 2 Annex 4 R (Deducts material holdings)	Applies to a <i>BIPRU firm</i> not using GENPRU 2 Annex 5 R or GENPRU 2 Annex 6 R
<i>BIPRU firm without an investment firm consolidation waiver</i>	GENPRU 2 Annex 5 R (Deducts illiquid assets)	A <i>BIPRU firm</i> must give one <i>Month's</i> prior notice to the <i>FCA</i> before starting to use or stopping using this method
<i>BIPRU firm with an investment firm consolidation waiver</i>	GENPRU 2 Annex 6 R (Deducts illiquid assets and material holdings)	A <i>firm</i> with an <i>investment firm consolidation waiver</i> must use this method. No other <i>BIPRU firm</i> may use it.

Calculation of capital resources: Which rules apply to BIPRU firms

2.2.20 FCA G ■ GENPRU 2.2.19 R sets out three different methods of calculating *capital resources* for *BIPRU firms*. The differences between the three methods relate to whether and how *material holdings* and *illiquid assets* are deducted when calculating *capital resources*. The method depends on whether a *firm* has an *investment firm consolidation waiver*. If a *firm* does have such a *waiver*, it should deduct *illiquid assets*, own *group material holdings* and certain contingent liabilities. If a *firm* does not have such a *waiver*, it should choose to deduct either *material holdings* or, subject to notifying the *FCA*, *illiquid assets*.

2.2.21

FCA

G

A consequence of a *firm* deducting all of its *illiquid assets* under ■ GENPRU 2 Annex 5 R is that it is allowed a higher limit on short term subordinated debt under ■ GENPRU 2.2.49 R.

Calculation of capital resources: Insurers

2.2.22

PRA

G

Capital resources for an *insurer* can be calculated either as the total of eligible assets less foreseeable liabilities (which is the approach taken in the *Insurance Directives*) or by identifying the components of capital. Both calculations give the same result for the total amount of *capital resources*. The approach taken in this section has been to specify the components of capital and the relevant deductions. This is set out in the *capital resources table*. A simple example, showing the reconciliation of the two methods, is given in the table in ■ GENPRU 2.2.23 G.

Table: Approaches to calculating capital resources

2.2.23

PRA

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This table belongs to ■ GENPRU 2.2.22 G

Liabilities		Assets	
Borrowings	100	Admissible assets	350
Ordinary <i>shares</i>	200	Intangible assets	100
Profit and loss account and other reserves	100	Other inadmissible as-sets	100
Perpetual subordinated debt	150		
Total		Total	
Calculation of <i>capital resources</i> : eligible assets less foreseeable liabilities			
Total assets		550	
less intangible assets		(100)	
less inadmissible assets		(100)	
less liabilities (borrowings)		(100)	
<i>Capital resources</i>			
Calculation of <i>capital resources</i> : components of capital			
Ordinary <i>shares</i>		200	
Profit and loss account and other reserves		100	
Perpetual subordinated debt		150	
less intangible assets		(100)	
less inadmissible assets		(100)	
<i>Capital resources</i>			

Limits on the use of different forms of capital: General

2.2.24

FCA PRA

G

As the various components of capital differ in the degree of protection that they offer the *firm* and its *customers* and *consumers*, restrictions are placed on the extent to which certain types of capital are eligible for inclusion in a *firm's capital resources*. These *rules* are called the *capital resources gearing rules*.

Limits on the use of different forms of capital: Use of higher tier capital in lower tiers

2.2.25

FCA PRA

R

A firm may include in a *lower stage of capital*, capital resources which are eligible for inclusion in a *higher stage of capital* if the *capital resources gearing rules* would prevent the use of that capital in that *higher stage of capital*. However:

- (1) the *capital resources gearing rules* applicable to that *lower stage of capital* apply to *higher stage of capital* included in that *lower stage of capital*; and
- (2) (subject to ■ GENPRU 2.2.26 R and ■ GENPRU 2.2.26A R) the *rules* in GENPRU governing the eligibility of capital in that *lower stage of capital* continue to apply.

2.2.26

FCA PRA

R

An item of *tier one capital* which is included in a firm's *tier two capital resources* under ■ GENPRU 2.2.25 R is not subject to the requirement to obtain a legal opinion in ■ GENPRU 2.2.159 R (12).

2.2.26A

FCA PRA

R

A dated item of *tier one capital* which is included in a BIPRU firm's *tier two capital resources* under ■ GENPRU 2.2.25 R is not subject to the requirement to have no fixed maturity date in ■ GENPRU 2.2.177R (1).

2.2.27

R

[deleted]

2.2.28

FCA

R

In the case of a BIPRU firm, the requirement to obtain a legal opinion in ■ GENPRU 2.2.159 R (12) does not apply to *hybrid capital* treated under ■ GENPRU 2.2.25 R but the requirements to obtain a legal opinion in ■ GENPRU 2.2.118 R continue to apply.

Limits on the use of different forms of capital: Limits relating to tier one capital applicable to insurers

2.2.29

PRA

R

In relation to the *tier one capital resources* of an insurer, calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions), at least 50% must be accounted for by *core tier one capital*.

2.2.30

PRA

R

In relation to the *tier one capital resources* of an insurer, calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions), no more than 15% may be accounted for by *innovative tier one capital*.

Limits on the use of different forms of capital: Limits relating to tier one capital applicable to BIPRU firms

2.2.30A

FCA

R

In relation to the *tier one capital resources* of a BIPRU firm, calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions):

- (1) no more than 50% may be accounted for by *hybrid capital*;
- (2) no more than 35% may be accounted for by *hybrid capital* included at stages B2 and C of the calculation in the *capital resources table*; and
- (3) no more than 15% may be accounted for by *hybrid capital* included at stage C of the calculation in the *capital resources table*.

Limits on the use of different forms of capital: Limits relating to tier one capital: Purpose of the requirements

2.2.31

FCA PRA

G

The purpose of the requirements in ■ GENPRU 2.2.29 R and ■ GENPRU 2.2.30A R (1) is to ensure that the *firm's tier one capital resources* includes a minimum proportion of *core tier one capital* which provides the highest quality capital. Within the 50% limit on non-core *tier one capital*:

- (1) ■ GENPRU 2.2.30 R places a further sub-limit on the amount of *innovative tier one capital* that an *insurer* may include in its *tier one capital resources*; and
- (2) ■ GENPRU 2.2.30A R (2) and ■ GENPRU 2.2.30A R (3) place further sub-limits on the amounts of *hybrid capital* included at stages B2 and C of the calculation in the *capital resources table* that a BIPRU firm may include in its *tier one capital resources*.

These limits are necessary to ensure that most of a *firm's tier one capital* comprises items of capital of the highest quality.

Limits on the use of different forms of capital: Insurers

2.2.32

PRA

R

At least 50% of an *insurer's MCR* must be accounted for by the sum of:

- (1) the amount calculated at stage A of the calculation in the *capital resources table* (Core tier one capital); and
- (2) notwithstanding ■ GENPRU 2.2.29 R, the amount calculated at stage B of the calculation in the *capital resources table* (Perpetual non-cumulative preference shares);

less the amount calculated at stage E of the calculation in the *capital resources table* (Deductions from tier one capital).

2.2.33

PRA

R

Subject to ■ GENPRU 2.2.34A R, an *insurer* carrying on *long-term insurance business* must meet the higher of:

- (1) 1/3 of the *long-term insurance capital requirement*; and

(2) the *base capital resources requirement*;

with the sum of the items listed at stages A (Core tier one capital), B (Perpetual non-cumulative preference shares), G (Upper tier two capital) and H (Lower tier two capital) in the *capital resources table* less the sum of the items listed at stage E in the *capital resources table* (Deductions from tier one capital).

2.2.34

PRA

R

Subject to ■ GENPRU 2.2.34A R, an *insurer* carrying on *general insurance business* must meet the higher of:

(1) 1/3 of the *general insurance capital requirement*; and

(2) the *base capital resources requirement*;

with the sum of the items listed at stages A (Core tier one capital), B (Perpetual non-cumulative preference shares), G (Upper tier two capital) and H (Lower tier two capital) in the *capital resources table* less the sum of the items listed at stage E (Deductions from tier one capital) in the *capital resources table*.

2.2.34A

PRA

R

A *pure reinsurer* carrying on both *long-term insurance business* and *general insurance business* must meet the higher of:

(1) 1/3 of the sum of the *long-term insurance capital requirement* and the *general insurance capital requirement*; and

(2) the *base capital resources requirement*;

with the sum of the items listed at stages A (Core tier one capital), B (Perpetual non-cumulative preference shares), G (Upper tier two capital) and H (Lower tier two capital) in the *capital resources table* less the sum of the items listed at stage E (Deductions from tier one capital) in the *capital resources table*.

2.2.35

PRA

R

In ■ GENPRU 2.2.33 R , ■ GENPRU 2.2.34 R and ■ GENPRU 2.2.34A R :

(1) items listed at stage B (Perpetual non-cumulative preference shares) in the *capital resources table* may be included notwithstanding ■ GENPRU 2.2.29 R;

(2) *innovative tier one capital* that meets the conditions (other than ■ GENPRU 2.2.159 R (12) (Requirement for a legal opinion)) for it to be included as *upper tier two capital* at stage G (Upper tier two capital) in the *capital resources table* may be treated as an item listed at stage G; and

(3) an *insurer* must exclude from the calculation the higher of the following:

- (a) the amount (if any) by which the sum of the items listed at stages G (Upper tier two capital) and H (Lower tier two capital) in the *capital resources table* exceeds the total (net of deductions) of the remaining constituents of adjusted stage M; and
- (b) the amount (if any) by which the sum of the items listed at stage H in the *capital resources table* exceeds one-third of the total (net of deductions) of the remaining constituents of adjusted stage M;

where adjusted stage M means the amount calculated at stage M of the calculation in the *capital resources table* (Total capital after deductions) less the amount of any *innovative tier one capital* that is not treated as *upper tier two capital* for the purpose of ■ GENPRU 2.2.33 R , ■ GENPRU 2.2.34 R or ■ GENPRU 2.2.34A R , as the case may be.

2.2.36
PRA

G The purpose of the requirements in ■ GENPRU 2.2.33 R to ■ GENPRU 2.2.34A R is to comply with the requirements of the *Insurance Directives* and the *Reinsurance Directive* that an insurer must maintain a *guarantee fund* of higher quality *capital resources* items .

2.2.37
PRA

R Subject to ■ GENPRU 2.2.38 R, an *insurer* must exclude from the calculation of its *capital resources* the following:

- (1) the amount (if any) by which *tier two capital resources* exceed the amount calculated at stage F (Total tier one capital after deductions) of the calculation in the *capital resources table*; and
- (2) the amount (if any) by which *lower tier two capital resources* exceed 50% of the amount calculated at stage F of the calculation in the *capital resources table*.

2.2.38
PRA

R At least 75% of an *insurer's MCR* must be accounted for by the sum of:

- (1) the amount calculated at stage A (Core tier one capital) plus, notwithstanding ■ GENPRU 2.2.29 R, the amount calculated at stage B (Perpetual non-cumulative preference shares) less the amount calculated at stage E (Deductions from tier one capital) of the calculation in the *capital resources table*; and
- (2) the amount calculated at stage G (Upper tier two capital) of the calculation in the *capital resources table*.

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2.2.39
PRA

G In ■ GENPRU 2.2.38 R the amount of any *innovative tier one capital* that meets the conditions for it to be included as *upper tier two capital* at stage G (Upper tier two capital) in the *capital resources table* may be included in the amount calculated at stage G.

2.2.40

PRA

G

■ GENPRU 2.2.32 R, ■ GENPRU 2.2.37 R and ■ GENPRU 2.2.38 R give effect to the requirements of the *Insurance Directives* and the *Reinsurance Directive* that no more than 50% of the amount which is the lesser of the available solvency margin and the required solvency margin should consist of *tier two capital resources* and that no more than 25% of that amount should consist of *lower tier two capital resources*.

2.2.41

PRA

R

An *insurer* (other than a *pure reinsurer*) that carries on both *long-term insurance business* and *general insurance business* must apply the relevant limits in ■ GENPRU 2.2.32 R to ■ GENPRU 2.2.38 R separately for each type of business.

2.2.42

R

[deleted]

2.2.43

G

[deleted]

Limits on the use of different kinds of capital: Purposes for which tier three capital may not be used (BIPRU firm only)

2.2.44

FCA

R

Tier one capital and *tier two capital* are the only type of *capital resources* that a *BIPRU firm* may use for the purpose of meeting:

- (1) the *credit risk capital component*;
- (2) [deleted]
- (3) the *counterparty risk capital component*; and
- (4) the *base capital resources requirement*.

2.2.45

FCA

R

■ GENPRU 2.2.44 R (and the *capital resources gearing rules* that relate to it) also applies for the purposes of any other requirement in the *Handbook* for which it is necessary to calculate the *capital resources* of a *BIPRU firm*, except for the purposes described in ■ GENPRU 2.2.47 R and except as may otherwise be stated in the relevant part of the *Handbook*.

Limits on the use of different kinds of capital: Tier two limits (BIPRU firm only)

2.2.46

FCA

R

For the purpose of ■ GENPRU 2.2.44 R:

- (1) the amount of the items which may be included in a *BIPRU firm's tier two capital resources* must not exceed the amount calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions); and
- (2) the amount of the items which may be included in a *BIPRU firm's lower tier two capital resources* must not exceed 50% of the amount calculated at stage F of the calculation in the *capital resources table*.

Limits on the use of different kinds of capital: Purposes for which tier three capital may be used (BIPRU firm only)

2.2.47

FCA

R

For the purposes of meeting:

- (1) the *market risk capital requirement*;
- (2) the *concentration risk capital component*; and
- (3) the *fixed overheads requirement* ;

a BIPRU firm may only use the following parts of its *capital resources*:

- (4) *tier one capital* to the extent that it is not required to meet the requirements in ■ GENPRU 2.2.44 R (■ GENPRU 2.2.48 R explains how to calculate how much *tier one capital* is required to meet the requirements in ■ GENPRU 2.2.44 R);
- (5) *tier two capital* to the extent that it:
 - (a) comes within the limits in ■ GENPRU 2.2.46 R (100% limit for *tier two capital resources* and 50% limit for *lower tier two capital resources*); and
 - (b) it is not required to meet the requirements in ■ GENPRU 2.2.44 R; (■ GENPRU 2.2.48 R explains how to calculate how much *tier two capital* is required to meet the requirements in ■ GENPRU 2.2.44 R);
- (6) *tier two capital* that cannot be used for the purposes in ■ GENPRU 2.2.44 R because it falls outside the limits in ■ GENPRU 2.2.46 R; and
- (7) *tier three capital*.

2.2.48

FCA

R

The amount of *tier one capital* and *tier two capital* that is not used to meet the requirements in ■ GENPRU 2.2.44 R as referred to in ■ GENPRU 2.2.47 R (4) and ■ (5)(5) is equal to the amount calculated at stage N of the calculation in the *capital resources table* (Total tier one capital plus tier two capital after deductions) less the parts of the *capital resources requirement* deducted immediately after stage N of the *capital resources table* (the parts of the *capital resources requirements* listed in ■ GENPRU 2.2.44 R).

Limits on the use of different kinds of capital: Combined tier two and tier three limits (BIPRU firm only)

2.2.49

FCA

R

For the purpose of meeting the requirements in ■ GENPRU 2.2.47 R (1) to ■ GENPRU 2.2.47 R (3) and subject to ■ GENPRU 2.2.50 R, a BIPRU firm must not include any item in either:

- (1) its *tier two capital resources* falling within ■ GENPRU 2.2.47 R (6) (*excess tier two capital*); or

(2) its *upper tier three capital resources*;

to the extent that the sum of (1) and (2) would exceed 250% of the amount resulting from the following calculation:

(3) calculate the amount at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions); and

(4) deduct from (3) those parts of the *firm's tier one capital* used to meet the requirements in ■ GENPRU 2.2.44 R (1) and ■ (2) as established by ■ GENPRU 2.2.48 R.

2.2.50

FCA

R

In relation to a *BIPRU firm* which calculates its *capital resources* under ■ GENPRU 2 Annex 4 R (Capital resources table for a BIPRU investment firm deducting material holdings), the figure of 200% replaces that of 250% in ■ GENPRU 2.2.49 R.

Example of how the capital resources calculation for BIPRU firms works

2.2.51

FCA

G

■ GENPRU 2.2.52 G to ■ GENPRU 2.2.59 G illustrate how to calculate a *BIPRU firm's capital resources* and how the *capital resources gearing rules* work. In this example the *BIPRU firm* has a combined credit, operational and counterparty risk requirement of £100 (of which £10 is due to counterparty risk) and a market risk requirement of £90, making a total capital requirement of £190. Its *capital resources* are as set out in the table in ■ GENPRU 2.2.52 G.

Table: Example of the calculation of the capital resources of a BIPRU firm

2.2.52

FCA

G

This table belongs to ■ GENPRU 2.2.51 G

Description of the stage of the capital resources calculation	Stage in the <i>capital resources table</i>	Amount (£)
Total <i>tier one capital</i> after deductions	Stage F	80
Total <i>tier two capital</i>	Stage K	80
Deductions	Stage M	(20)
Total <i>tier one capital</i> and <i>tier two capital</i> after deductions	Stage N	140
<i>Upper tier three capital</i> (this example assumes the <i>firm</i> has no lower tier three capital (<i>trading book profits</i>))	Stage Q	50
Total <i>capital resources</i>	Stage T	190

2.2.53

G

[deleted]

2.2.54

FCA

G

In the example in the table in ■ GENPRU 2.2.52 G the *firm* has total *tier one capital* after deductions of £80. Its *tier two capital* of £80 is therefore the maximum permitted under ■ GENPRU 2.2.46 R (Tier two limits), that is 100% of *tier one capital*.

2.2.55

FCA

G

The combined credit, operational and counterparty risk capital requirement is deducted after stage N of the *capital resources table* and the market risk requirement following stage T of the *capital resources table*. These calculations are shown in the table in

■ GENPRU 2.2.56 G.

Table: Example of how capital resources of a BIPRU firm are measured against its capital resources requirement

2.2.56

FCA

G

This table belongs to ■ GENPRU 2.2.55 G

Description of the stage of the capital resources calculation	Stage in the <i>capital resources table</i>	Amount (£)
Total <i>tier one capital</i> and <i>tier two capital</i> after deductions	Stage N	140
Credit and counterparty risk requirement		(100)
<i>Tier one capital</i> and <i>tier two capital</i> available to meet market risk requirement		40
<i>Tier three capital</i>	Stage Q	50
Total capital available to meet market risk requirement		90
Market risk requirement		(90)
Market risk requirement met subject to meeting gearing limit set out in GENPRU 2.2.49 R - see GENPRU 2.2.57 G		

2.2.57

FCA

G

The gearing limit in ■ GENPRU 2.2.49 R (Combined tier two and tier three limits) requires that the *upper tier three capital* used to meet the market risk requirement does not exceed 250% of the relevant *tier one capital*.

2.2.58

FCA

G

In this example it is assumed that the maximum possible amount of *tier one capital* is carried forward to meet the market risk requirement. There are other options as to the allocation of *tier one capital* and *tier two capital* to the credit and counterparty risk requirement.

In order to calculate the relevant *tier one capital* for the *upper tier three* gearing limit in accordance with ■ GENPRU 2.2.49 R it is first necessary to allocate *tier one capital* and *tier two capital* to the individual credit and counterparty risk requirements. This allocation process underlies the calculation of the overall amount referred to in ■ GENPRU 2.2.48 R. The calculation in ■ GENPRU 2.2.49 R (3) and ■ GENPRU 2.2.49 R (4) then focuses on the *tier one* element of this earlier calculation.

In this worked example, if it is assumed that the counterparty risk requirement has been met by *tier one capital*, the relevant *tier one capital* for gearing is £50. This is because the deductions of £20 and the credit risk requirement of £90 have been met by *tier two capital* in the first instance. However, the total sum of deductions and credit risk requirement exceed the *tier two capital* amount of £80 by £30. Hence the £80 of *tier one capital* has been reduced by £30 to leave £50.

In practical terms, the same result is achieved for the relevant *tier one capital* for gearing by taking the amount carried forward to meet market risk of £40 and adding back the

£10 in respect of the counterparty risk requirement. Again, there are other options as to the allocation to credit and counterparty risk of the constituent elements of Stage N of the *capital resources table*.

The outcome of these calculations can be summarised as follows:

- (1) the relevant *tier one capital* for the gearing calculation is £50;
- (2) 250% of the relevant *tier one capital* is £125; and
- (3) the *upper tier three capital* used to meet market risk is £50.

2.2.59

FCA

G

The 250% gearing limit is met as the limit of £125 is greater than the *upper tier three capital* of £50 used in this example.

Capital used to meet the base capital resources requirement (BIPRU firm only)

2.2.60

FCA

R

A BIPRU firm may use the *capital resources* used to meet the *base capital resources requirement* to meet any other part of the *capital resources requirement*.

2.2.61

FCA

G

The explanation for ■ GENPRU 2.2.60 R can be found in ■ GENPRU 2.1.43 G (Base capital resources requirement). In brief the reason is that the *base capital resources requirement* is not in practice meant to act as an additional capital resources requirement. It is meant to act as a floor to the *capital resources requirement*.

Notification of issuance of capital instruments

2.2.61A

FCA PRA

R

This section applies to a *firm* intending to issue a *capital instrument* on or after 1 March 2012 for inclusion in its *capital resources*.

2.2.61B

FCA PRA

R

A *firm* must notify the *appropriate regulator* in writing of its intention to issue a *capital instrument* which it intends to include within its *capital resources* at least one *month* before the intended date of issue, unless there are exceptional circumstances which make it impracticable to give such a period of notice, in which event the *firm* must give as much notice as is practicable in those circumstances. When giving notice, a *firm* must:

- (1) provide details of the amount of capital the *firm* is seeking to raise through the intended issue and whether the capital is intended to be issued to external investors or within its *group*;
- (2) identify the stage of the *capital resources table* the *capital instrument* is intended to fall within;
- (3) include confirmation from a *senior manager* of the *firm* responsible for authorising the intended issue that the *capital instrument* complies with the *rules* applicable to instruments

included in the stage of the *capital resources table* identified in (2); and

- (4) provide a copy of the term sheet and details of any features of the *capital instrument* which are novel, unusual or different from a *capital instrument* of a similar nature previously issued by the *firm* or widely available in the market or not specifically contemplated by ■ GENPRU 2.2.

This rule does not apply to a *firm* which intends to issue a *capital instrument* listed in ■ GENPRU 2.2.61E R

2.2.61C

FCA PRA

R

A *firm* must provide a further notification to the *appropriate regulator* in writing including all the information required in ■ GENPRU 2.2.61BR (1) to ■ (4) as soon as it proposes any change to the intended date of issue, amount of issue, type of investors, stage of capital or any other feature of the *capital instrument* to that previously notified to the *appropriate regulator*.

2.2.61D

FCA PRA

R

If a *firm* proposes to establish a debt securities program for the issue of *capital instruments* for inclusion within its *capital resources*, it must:

- (1) notify the *appropriate regulator* of the establishment of the program; and
- (2) provide the information required by ■ GENPRU 2.2.61BR (1) to ■ (4) at least one *month* before the first proposed drawdown. Any changes must be notified to the *appropriate regulator* in accordance with ■ GENPRU 2.2.61C R.

2.2.61E

FCA PRA

R

The *capital instruments* to which ■ GENPRU 2.2.61B R does not apply are:

- (1) ordinary *shares* which:
 - (a) are the most deeply subordinated *capital instrument* issued by the *firm*;
 - (b) meet the criteria set out in ■ GENPRU 2.2.83R (2) and ■ (3) and, for a *BIPRU firm*, ■ GENPRU 2.2.83A R; and
 - (c) are the same as ordinary *shares* previously issued by the *firm*;
- (2) debt instruments issued from a debt securities program, provided that program was notified to the *appropriate regulator* prior to its first drawdown, in accordance with ■ GENPRU 2.2.61D R; and
- (3) *capital instruments* which are not materially different in terms of their characteristics and eligibility for inclusion in a particular tier of capital to *capital instruments* previously issued by the *firm*.

2.2.61F
FCA PRA

R

A *firm* must notify the *appropriate regulator* in writing, no later than the date of issue, of its intention to issue a *capital instrument* listed in ■ GENPRU 2.2.61E R which it intends to include within its *capital resources*. When giving notice, a *firm* must:

- (1) provide the information set out at ■ GENPRU 2.2.61BR (1) to ■ (3); and
- (2) confirm that the terms of the *capital instrument* have not changed since the previous issue by the *firm* of that type of *capital instrument*.

2.2.61G
FCA PRA

G

■ GENPRU 2.2.61B R provides that, in exceptional circumstances, a *firm* may provide less than one *month's* notice of the intended issue. The *appropriate regulator* is unlikely to consider circumstances to be exceptional unless they are such that there is a risk of a *firm's capital resources* falling below its *capital resources requirement* if a one-month notification period is observed. In such circumstances, a *firm* should notify the *appropriate regulator* as soon as it has resolved to issue further capital, and provide details of its circumstances and why it is not possible to provide one *month's* notice of the intended issue.

2.2.61H
FCA PRA

G

Details of the notification to be provided by a *BIPRU firm* in relation to *capital instruments* issued by another *undertaking* in its *group* for inclusion in its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group* are set out in ■ BIPRU 8.6.1A R to ■ BIPRU 8.6.1F R. Details of the notification to be provided by an *insurer* in relation to *capital instruments* issued by another *undertaking* in its *group* for inclusion in its *group capital resources* are set out in ■ INSPRU 6.1.43A R to ■ INSPRU 6.1.43F R.

Tier one capital: General

2.2.62
FCA PRA

R

A *firm* may not include a *capital instrument* in its *tier one capital resources* unless it complies with the following conditions:

- (1) it is included in one of the categories in ■ GENPRU 2.2.63 R;
- (2) it complies with the conditions set out in ■ GENPRU 2.2.64 R;
- (3) it is not excluded under ■ GENPRU 2.2.65 R (Connected transactions); and
- (4) it is not excluded by any of the *rules* in ■ GENPRU 2.2.

2.2.63
FCA PRA

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The categories referred to in ■ GENPRU 2.2.62 R (1) are:

- (1) *permanent share capital*;
- (2) *eligible partnership capital*;
- (3) *eligible LLP members' capital*;

- (4) *sole trader* capital;
- (5) (in the case of an *insurer*) a perpetual non-cumulative *preference share*;
- (6) [deleted]
- (7) (in the case of an *insurer*) an *innovative tier one instrument*; and
- (8) (in the case of a *BIPRU firm*) *hybrid capital*.

General conditions for eligibility as tier one capital

2.2.64

R

FCA PRA

The conditions that an item of capital of a *firm* must comply with under ■ GENPRU 2.2.62 R (2) are as follows:

- (1) it is issued by the *firm*;
- (2) it is fully paid and the proceeds of issue are immediately and fully available to the *firm*;
- (3) it:
 - (a) cannot be redeemed at all or can only be redeemed on a winding up of the *firm*; or
 - (b) complies with the conditions in ■ GENPRU 2.2.70 R (Basic requirements for redeemability) and ■ GENPRU 2.2.76 R (Redeemable instrument subject to a *step-up*);
- (4) the item of capital meets the following conditions in relation to any *coupon*:
 - (a) the *firm* is under no obligation to pay a *coupon*; or
 - (b) (if the *firm* is obliged to pay the *coupon*) the *coupon* is payable in the form of an item of capital that is:
 - (i) in the case of a *BIPRU firm*, *core tier one capital*; and
 - (ii) in the case of an *insurer*, included in a *higher stage of capital* or the *same stage of capital* as that first item of capital;
- (5) any *coupon* is either:
 - (a) non-cumulative; or
 - (b) (if it is cumulative) it must, if deferred, be paid by the *firm* in the form of *tier one capital* complying with (4)(b);

- (6) it is able to absorb losses to allow the *firm* to continue trading and :
- (a) in the case of an *insurer*, in particular it complies with
 - GENPRU 2.2.80 R to ■ GENPRU 2.2.81 R (Loss absorption) and, in the case of an *innovative tier one instrument*, ■ GENPRU 2.2.116 R to ■ GENPRU 2.2.118 R (Other tier one capital: loss absorption); and
 - (b) in the case of a *BIPRU firm*, it does not, through appropriate mechanisms, hinder the recapitalisation of the *firm*, and in particular it complies with:
 - (i) ■ GENPRU 2.2.80 R to ■ GENPRU 2.2.81 R (Loss absorption);
 - (ii) in the case of *core tier one capital*, ■ GENPRU 2.2.83A R (9) to ■ GENPRU 2.2.83A R (10) (General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only)); and
 - (iii) in the case of *hybrid capital*, ■ GENPRU 2.2.116 R to ■ GENPRU 2.2.118 R (Other tier one capital: loss absorption);
- (7) the amount of the item included must be net of any foreseeable tax charge at the moment of its calculation or must be suitably adjusted in so far as such tax charges reduce the amount up to which that item may be applied to cover risks or losses;
- (8) it is available to the *firm* for unrestricted and immediate use to cover risks and losses as soon as these occur;
- (9) it ranks for repayment upon winding up, administration or any other similar process:
- (a) in the case of an *insurer*, no higher than a *share* of a company incorporated under the Companies Act 2006 (whether or not it is such a *share*); or
 - (b) in the case of a *BIPRU firm*, lower than any items of capital that are:
 - (i) eligible for inclusion within the *firm's tier two capital resources*; and
 - (ii) not eligible for inclusion within the *firm's tier one capital resources*; and
- (10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9)

and, where it applies, ■ GENPRU 2.2.271 R (Other requirements: insurers carrying on with-profits business (Insurer only)).

2.2.65

FCA PRA

R

An item of capital does not qualify for inclusion as *tier one capital* if the issue of that item of capital by the *firm* is connected with one or more other transactions which, when taken together with the issue of that item, could result in that item of capital no longer displaying all of the characteristics set out in ■ GENPRU 2.2.64 R (1) to ■ GENPRU 2.2.64 R (9).

Guidance on certain of the general conditions for eligibility as tier one capital

2.2.66

FCA PRA

G

■ GENPRU 2.2.65 R is an example of the general principle in ■ GEN 2.2.1 R (Purposive interpretation). Its purpose is to emphasise that an item of capital does not meet the conditions for inclusion in *tier one capital* if in isolation it does meet those requirements but it fails to meet those requirements when other transactions are taken into account. Examples of such connected transactions might include guarantees or any other side agreement provided to the holders of the *capital instrument* by the *firm* or a connected party or a related transaction designed, for example, to enhance their security or to achieve a tax benefit, but which may compromise the loss absorption capacity or permanence of the original capital item.

2.2.67

FCA PRA

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■ GENPRU 2.2.64 R (2) is stricter than the Companies Act definition of fully paid, which only requires an undertaking to pay.

2.2.67A

FCA PRA

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The purpose of ■ GENPRU 2.2.64 R (4) is to ensure that a *firm* retains flexibility over the payment of *coupons* and can preserve cash in times of financial stress. However, a *firm* may include, as part of the capital instrument terms, a right to make payments of a *coupon* mandatory if an item of capital becomes ineligible to form part of its *capital resources* (e.g. through a change in the relevant *rules*) and the *firm* has notified the *appropriate regulator* that the instrument is ineligible.

2.2.68

FCA PRA

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The *appropriate regulator* considers that dividend pushers diminish the quality of capital by breaching the principle of complete discretion over *coupons* set out in ■ GENPRU 2.2.64 R (4). A dividend pusher operates so that, in a given period of time, payments must be made on senior securities if payments have previously been made on junior securities or securities ranking *pari passu*. As such, dividend pushers may not be included in the terms of *tier one capital*, unless the *firm* has the option to fund the "pushed payment" in stock.

2.2.68A

FCA

R

A *BIPRU firm* must not include a *capital instrument* in its *tier one capital resources* if:

- (1) the *capital instrument* is affected by a dividend stopper; and
- (2) the dividend stopper operates in a way that hinders recapitalisation.

2.2.68B

FCA

G

A dividend stopper prevents the *firm* from paying any *coupon* on more junior or *pari passu* instruments in a period in which the *firm* omits payments to the holder of the *capital*

instrument containing the dividend stopper, and so may hinder the recapitalisation of the *firm* contrary to ■ GENPRU 2.2.64 R (6).

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2.2.69
FCA PRA

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An item of capital does not comply with ■ GENPRU 2.2.64 R (10) if it is marketed as a *capital instrument* that would only qualify for a lower level of capital or on the basis that investing in it is like investing in an instrument in a lower tier of capital. For example, an undated *capital instrument* should not be marketed as a dated *capital instrument* if the terms of the *capital instrument* include an option by the issuer to redeem the *capital instrument* at a specified date in the future.

Tier one capital: payment of coupons (BIPRU firm only)

2.2.69A
FCA

R

A *BIPRU firm* must not make a payment of a *coupon* on an item of *hybrid capital* if the *firm* has no distributable reserves.

2.2.69B
FCA

R

A *BIPRU firm* must cancel the payment of a *coupon* on an item of *hybrid capital* if the *BIPRU firm* does not meet its *capital resources requirement* or if the payment of that *coupon* would cause it to breach its *capital resources requirement*.

2.2.69C
FCA

R

A *BIPRU firm* must not pay a *coupon* on an item of *hybrid capital* in the form of *core tier one capital* in accordance with ■ GENPRU 2.2.64 R (4)(b) unless:

- (1) the *firm* meets its *capital resources requirement*; and
- (2) such a substituted payment preserves the *firm's* financial resources.

2.2.69D
FCA

G

The *appropriate regulator* considers that a *BIPRU firm's* financial resources are not preserved under ■ GENPRU 2.2.69C R (2) unless, among other things, the conditions of the substituted payment are that:

- (1) there is no decrease in the amount of the *firm's core tier one capital*;
- (2) the deferred *coupon* is satisfied without delay using newly issued *core tier one capital* that has an aggregate fair value no more than the amount of the *coupon*;
- (3) the *firm* is not obliged to find new investors for the newly issued instruments; and
- (4) if the holder of the newly issued instruments subsequently sells the instruments and the sale proceeds are less than the value of the *coupon*, the *firm* is not obliged to issue further new instruments to cover the loss incurred by the holder of the instruments.

2.2.69E
FCA

R

A *BIPRU firm* must cancel the payment of a *coupon* if circumstances arise whereby the payment of the *coupon* by newly issued instruments,

in accordance with ■ GENPRU 2.2.64 R (4)(b), does not comply with the requirements of ■ GENPRU 2.2.69C R.

2.2.69F

FCA

G

- (1) In relation to the cancellation or deferral of the payment of a *coupon* in accordance with ■ GENPRU 2.2.64 R (4) and ■ GENPRU 2.2.64 R (5), ■ GENPRU 2.2.68A R, or ■ GENPRU 2.2.69B R, the *appropriate regulator* expects that situations where a *coupon* may need to be cancelled or deferred will be resolved through analysis and discussion between the *firm* and the *appropriate regulator*. If the *appropriate regulator* and the *firm* do not agree on the cancellation or deferral of the payment of a *coupon*, then the *appropriate regulator* may consider using its powers under 55J of the *Act* to, on its own initiative, vary a *firm's Part 4A permission* to require it to cancel or defer a *coupon* in accordance with the *appropriate regulator's* view of the financial and solvency situation of the *firm*.
- (2) In considering a *firm's* financial and solvency situation, the *appropriate regulator* will normally take into account, among other things, the following:
 - (a) the *firm's* financial and solvency position before and after the payment of the *coupon*, in particular whether that payment, or other foreseeable internal and external events or circumstances, may increase the risk of the *firm* breaching its *capital resources requirement* or the *overall financial adequacy rule*;
 - (b) an appropriately stressed capital plan, covering 3-5 years, which includes the effect of the proposed payment of the *coupon*; and
 - (c) an evaluation of the risks to which the *firm* is or might be exposed and whether the level of *tier one capital* ensures the coverage of those risks, including stress tests on the main risks showing potential loss under different scenarios.
- (3) If the *BIPRU firm* is required to cancel or defer the payment of a *coupon* by the *appropriate regulator*, it may still be able to pay the *coupon* by way of newly issued *core tier one capital* in accordance with ■ GENPRU 2.2.64 R (4)(b) and ■ GENPRU 2.2.69C R. The *appropriate regulator* may consider using its powers under 55J of the *Act* to, on its own initiative, vary a *firm's Part 4A permission* to impose conditions on the use of such a mechanism or to require its cancellation, based on the factors outlined in this *guidance*.

Redemption of tier one instruments

A *firm* may not include a *capital instrument* in its *tier one capital resources*, unless its contractual terms are such that:

- (1) (if it is redeemable other than in circumstances set out in ■ GENPRU 2.2.64 R (3)(a) (redemption on a winding up)) it is redeemable only at the option of the *firm* or, in the case of a *BIPRU firm*, on the date of maturity;
- (2) the *firm* cannot exercise that redemption right:
 - (a) before the fifth anniversary of its date of issue;

2.2.70

FCA PRA

R

- (b) unless it has given notice to the *appropriate regulator* in accordance with ■ GENPRU 2.2.74 R; and
 - (c) unless at the time of exercise of that right it complies with ■ GENPRU 2.1.13 R (the main capital adequacy *rule* for *insurers*) or the *main BIPRU firm Pillar 1 rules* and will continue to do so after redemption ;
- (3) (in the case of a *BIPRU firm* and if it is undated) if it provides for a moderate incentive for the *BIPRU firm* to redeem it, that incentive does not occur before the tenth anniversary of its date of issue; and
- (4) (in the case of a *BIPRU firm* and if it is dated):
- (a) it has an original maturity date of at least 30 years after its date of issue; and
 - (b) it does not provide an incentive to redeem on any date other than its maturity date.

2.2.70A

FCA

G

In the case of a *BIPRU firm*, an incentive to redeem is a feature of a *capital instrument* that would lead a reasonable market participant to have an expectation that the *firm* will redeem the instrument. The *appropriate regulator* considers that interest rate step-ups and principal stock settlements, in conjunction with a call option, are incentives to redeem. Only instruments with moderate incentives to redeem are permitted as *tier one capital*, in accordance with the limited conversion ratio in ■ GENPRU 2.2.138 R and the *rule* on step-ups in ■ GENPRU 2.2.147 R.

2.2.71

FCA PRA

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A *firm* may include a term in a *tier one instrument* allowing the *firm* to redeem it before the date in ■ GENPRU 2.2.70 R (2)(a) if the following conditions are satisfied:

- (1) the other conditions in ■ GENPRU 2.2.70 R are met;
- (2) the circumstance that entitles the *firm* to exercise that right is:
 - (a) (in the case of an *insurer*) a change in law or regulation in any relevant jurisdiction or in the interpretation of such law or regulation by any court or authority entitled to do so; and
 - (b) (in the case of a *BIPRU firm*) a change in the applicable tax treatment or regulatory classification of those instruments;
- (3) (a) (in the case of an *insurer*) it would be reasonable for the *firm* to conclude that it is unlikely that that circumstance will occur, judged at the time of issue or, if later, at the time that the term is first included in the terms of the *tier one instrument*; and

(b) (in the case of a *BIPRU firm*) the circumstance that entitles the *firm* to exercise that right was not reasonably foreseeable at the date of issue of the *tier one instrument*; and

(4) the *firm's* right is conditional on it obtaining the *appropriate regulator's* consent in the form of a *waiver* of ■ GENPRU 2.2.72 R.

2.2.72

FCA PRA

R

A *firm* must not redeem a *tier one instrument* in accordance with a term included under ■ GENPRU 2.2.71 R.

2.2.73

FCA PRA

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The purpose of ■ GENPRU 2.2.71 R to ■ GENPRU 2.2.72 R is this. In general a *tier one instrument* should not be redeemable by the *firm* before its fifth anniversary. However there may be circumstances in which it would be reasonable for the *firm* to redeem it before then. ■ GENPRU 2.2.71 R allows the *firm* to include a right to redeem the instrument before the fifth anniversary in certain circumstances. A tax call is an example of a term that may be allowed. ■ GENPRU 2.2.71 R says that the terms of the *tier one instrument* should provide that the *firm* should not be able to exercise that right without the *appropriate regulator's* consent. Any such consent will be given in the form of a *waiver* allowing early repayment. Thus although a *firm* may include a right to redeem early in the terms of a *tier one instrument* without the need to apply for a *waiver* the actual exercise of that right will require a *waiver*.

2.2.74

FCA PRA

R

A *firm* must not redeem any *tier one instrument* that it has included in its *tier one capital resources* unless it has notified the *appropriate regulator* of its intention at least one month before it becomes committed to do so. When giving notice, the *firm* must provide details of its position after such redemption in order to show how it will:

- (1) meet its *capital resources requirement*;
- (2) have sufficient financial resources to meet the *overall financial adequacy rule* ; and
- (3) in the case of a *BIPRU firm*, not otherwise suffer any undue effects to its financial or solvency conditions.

2.2.74A

FCA PRA

G

The *appropriate regulator* considers that, in order to comply with ■ GENPRU 2.2.74 R, the *firm* should, at a minimum, provide the *appropriate regulator* with the following information:

- (1) a comprehensive explanation of the rationale for the redemption;
- (2) the *firm's* financial and solvency position before and after the redemption, in particular whether that redemption, or other foreseeable internal and external events or circumstances, may increase the risk of the *firm* breaching its *capital resources requirement*;
- (3) an appropriately stressed capital plan covering 3-5 years, which includes the effect of the proposed redemption; and

- (4) an evaluation of the risks to which the *firm* is or might be exposed and whether the level of *tier one capital* ensures the coverage of such risks including stress tests on the main risks showing potential loss under different scenarios.

2

2.2.74B

FCA

R

If a *BIPRU firm* does not comply with its *capital resources requirement* or if the redemption of any dated *tier one instrument* would cause it to breach its *capital resources requirement*, it must suspend the redemption of its dated *tier one instruments*.

2.2.75

FCA PRA

R

If a *firm* gives notice of the redemption or repayment of any *tier one instrument*, the *firm* must no longer include that instrument in its *tier one capital resources*.

Step-ups and redeemable tier one instruments: Insurer only

2.2.76

PRA

R

In the case of an *insurer*, in relation to an *innovative tier one instrument* which is redeemable and which satisfies the following conditions:

- (1) it is or may become subject to a *step-up*; and
- (2) a reasonable *person* would think that:
 - (a) the *firm* is likely to redeem it before the tenth anniversary of its date of issue; or
 - (b) the *firm* is likely to have an economic incentive to redeem it before the tenth anniversary of its date of issue;

the redemption date in ■ GENPRU 2.2.70 R (2)(a) is amended by replacing "fifth anniversary" with "tenth anniversary".

Meaning of redemption

2.2.77

FCA PRA

R

- (1) This *rule* applies to a *tier one instrument*, *tier two instrument* or *tier three instrument* (instrument A) that under its terms is exchanged for or converted into another instrument or is subject to a similar process.
- (2) This *rule* also applies to instrument A if under its terms it is redeemed out of the proceeds of the issue of new securities.
- (3) If the instrument with which instrument A is replaced is included in the *same stage of capital* or a *higher stage of capital* as instrument A, instrument A is treated as not having been redeemed or repaid for the purposes of GENPRU 2.2.
- (4) (3) does not apply to ■ GENPRU 2.2.114 R (Redeemable instrument likely to be repaid etc), ■ GENPRU 2.2.74 R (Notice of redemption of *tier one instruments*), ■ GENPRU 2.2.174 R (Notice of redemption of *tier two instruments*) or

■ GENPRU 2.2.245 R (so far as it relates to notice of redemption of *tier three instruments*).

(5) (3) only applies if it would be reasonable (taking into account the economic substance) to treat the original instruments as continuing in issue on the same or a more favourable basis. The question of whether that basis is more or less favourable must be judged from the point of view of the adequacy of the *firm's capital resources*.

2.2.78

FCA PRA

R

(1) A *share* is not redeemable for the purposes of this section merely because the Companies Act 1985, the Companies (Northern Ireland) Order 1986 or the Companies Act 2006 allows the *firm* that issued it to purchase it.

(2) A *capital instrument* is not redeemable for the purposes of this section merely because the *firm* that issued it has a right to purchase it similar to the right in (1).

2.2.79

FCA PRA

G

This section generally uses the term repay and redeem interchangeably.

Purchases of tier one instruments: BIPRU firm only

2.2.79A

FCA

R

A *BIPRU firm* must not purchase a *tier one instrument* that it has included in its *tier one capital resources* unless:

- (1) the *firm* initiates the purchase;
- (2) [deleted]
- (3) the *firm* has given notice to the *appropriate regulator* in accordance with ■ GENPRU 2.2.79G R; and
- (4) (in the case of *hybrid capital*) it is on or after the fifth anniversary of the date of issue of the instrument.

2.2.79B

FCA

G

In exceptional circumstances a *BIPRU firm* may apply for a *waiver* of ■ GENPRU 2.2.79AR (4) under section 138A (Modification or waiver of rules) of the *Act*.

2.2.79C

FCA

R

■ GENPRU 2.2.79AR (4) does not apply if:

- (1) the *firm* replaces the *capital instrument* it intends to purchase with a *capital instrument* that is included in a *higher stage of capital* or the *same stage of capital*; and
- (2) the replacement *capital instrument* has already been issued.

2.2.79D

FCA

R

■ GENPRU 2.2.79AR (4) does not apply if:

- (1) the *firm* intends to hold the purchased instrument for a temporary period as *market maker*; and
- (2) the purchased instruments held by the *firm* do not exceed the lower of:
 - (a) 10% of the relevant issuance; or
 - (b) 3% of the *firm's* total issued *hybrid capital*.

2.2.79E

FCA

G

In the circumstances provided for in ■ GENPRU 2.2.79D R, a *firm* would purchase the instrument and, instead of cancelling it, the *firm* would hold the instrument for a temporary period. In that case a *firm* should have in place adequate policies to take into account any relevant regulations and *rules*, which include those relating to market abuse.

2.2.79F

FCA

R

For the purposes of calculating its *tier one capital resources*, a *firm* must deduct the amount of any item of *hybrid capital* which it then holds.

2.2.79G

FCA

R

A *BIPRU firm* must not purchase a *tier one instrument* in accordance with ■ GENPRU 2.2.79A R unless it has notified the *appropriate regulator* of its intention at least one month before it becomes committed to doing so. When giving notice, the *firm* must provide details of its position after the purchase in order to show how, over an appropriate timescale, adequately stressed, and without planned recourse to the capital markets, it will:

- (1) meet its *capital resources requirement*; and
- (2) have sufficient financial resources to meet the *overall financial adequacy rule*.

2.2.79H

FCA

G

The *appropriate regulator* considers that:

- (1) in order to comply with ■ GENPRU 2.2.79G R, the *firm* should, at a minimum, provide the *appropriate regulator* with the following information:
 - (a) a comprehensive explanation of the rationale for the purchase;
 - (b) the *firm's* financial and solvency position before and after the purchase, in particular whether the purchase, or other foreseeable internal and external events or circumstances, may increase the risk of the *firm* breaching its *capital resources requirement* or the *overall financial adequacy rule*;
 - (c) an appropriately stressed capital plan covering 3-5 years, which includes the effect of the proposed purchase; and
 - (d) an evaluation of the risks to which the *firm* is or might be exposed and whether the level of *tier one capital* ensures the coverage of such risks including stress tests on the main risks showing potential loss under different scenarios; and

- (2) the proposed purchase should not be on the basis that the *firm* reduces capital on the date of the purchase and then plans to raise new external capital during the following 3-5 years to replace the purchased capital.

2.2.79I
FCA

R A *BIPRU firm* must not announce to the holders of a *tier one instrument* its intention to purchase that instrument unless it has notified that intention to the *appropriate regulator* in accordance with ■ GENPRU 2.2.79G R and it has not, during the period of one month from the date of giving notice, received an objection from the *appropriate regulator*.

2.2.79J
FCA

R If a *BIPRU firm* announces the purchase of any *tier one instrument*, the *firm* must no longer include that instrument in its *tier one capital resources*.

2.2.79K
FCA

R If a *BIPRU firm* does not comply with its *capital resources requirement*, or if the purchase of any *tier one instrument* would cause it to breach its *capital resources requirement*, it must suspend the purchase of *tier one instruments*.

2.2.79L
FCA

G A *firm* should continue to exclude from its *tier one capital resources* all *tier one instruments* that are the subject of a purchase notification under ■ GENPRU 2.2.79G R and for which the offer to purchase has been declined by the instrument holders unless the purchase offer period has expired.

Loss absorption

2.2.80
FCA PRA

R A *firm* may not include a *share* in its *tier one capital resources* unless (in addition to complying with the other relevant *rules* in ■ GENPRU 2.2):

- (1) (in the case of a *firm* that is a company as defined in the Companies Act 2006 it is "called-up *share* capital" within the meaning given to that term in that Act; or
- (2) [deleted]
- (3) (in the case of any other *firm*) it is:
 - (a) in economic terms; and
 - (b) in its characteristics as capital (including loss absorbency, permanency, ranking for repayment and fixed costs);
 substantially the same as called-up *share* capital falling into (1).

2.2.81
FCA PRA

R A *firm* may not include a *capital instrument* other than a *share* in its *tier one capital resources* unless it complies with ■ GENPRU 2.2.80 R (3).

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45

2.2.82
FCA PRA

G There are additional loss absorption requirements for (in the case of an *insurer*) *innovative tier one capital* and (in the case of a *BIPRU firm*) *hybrid capital* in ■ GENPRU 2.2.116 R to ■ GENPRU 2.2.118 R (Other tier one capital: loss absorption) and (in the case of a *BIPRU firm*) for *core tier one capital* in ■ GENPRU 2.2.83AR (9) to ■ (10) (General conditions for eligibility of capital instruments as core tier one capital (*BIPRU firm* only)).

Core tier one capital: permanent share capital

2.2.83

FCA PRA

R

Permanent share capital means an item of capital which (in addition to satisfying ■ GENPRU 2.2.64 R) meets the following conditions:

- (1) it is:
 - (a) an ordinary *share*; or
 - (b) a *members' contribution*; or
 - (c) part of the *initial fund* of a *mutual*; or
 - (d) [deleted]
- (2) any *coupon* on it is not cumulative, the *firm* is under no obligation to pay a *coupon* in any circumstances and the *firm* has the right to choose the amount of any *coupon* that it pays;
- (3) the terms upon which it is issued do not permit redemption and it is otherwise incapable of being redeemed to at least the same degree as an ordinary *share* issued by a company incorporated under the Companies Act 2006 (whether or not it is such a *share*) ; and
- (4) (in the case of a *BIPRU firm*) it meets the conditions set out in ■ GENPRU 2.2.83A R (General conditions for eligibility of capital instruments as core tier one capital (*BIPRU firm* only)).

General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only)

2.2.83A

FCA

R

The conditions that a *BIPRU firm's permanent share capital* must comply with under ■ GENPRU 2.2.83A R (4) or that a *BIPRU firm's eligible partnership capital* or *eligible LLP members' capital* must comply with under ■ GENPRU 2.2.95 R are as follows:

- (1) it is undated;
- (2) the terms upon which it is issued do not give the holder a preferential right to the payment of a *coupon*;
- (3) the terms upon which it is issued do not indicate the amount of any *coupon* that may be payable nor impose an upper limit on the amount of any *coupon* that may be payable;
- (4) the *firm's* obligations under the instrument do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986 and the holder has no right to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* arising from the

- non-payment of a *coupon* or any other sums payable under the instrument;
- (5) there is no contractual or other obligation arising out of the terms upon which it is issued that requires the *firm* to repay capital to the holders other than on a liquidation of the *firm*;
 - (6) the terms upon which it is issued do not include a dividend pusher or a dividend stopper;
 - (7) the *firm* is under no obligation to issue *core tier one capital* or to make a payment in kind in lieu of making a *coupon* payment and non-payment of a *coupon* is not an event of default on the part of the *firm*;
 - (8) it is simple and the terms upon which it is issued are clearly defined;
 - (9) it is able to fully and unconditionally absorb losses on a non-discretionary basis as soon as they arise to allow the *firm* to continue trading, and it absorbs losses before all *capital instruments* that are not eligible for inclusion in stage A of the *capital resources table* and equally and proportionately with all *capital instruments* that are eligible for inclusion in stage A of the *capital resources table*;
 - (10) it ranks for repayment on winding up, administration or any other similar process lower than all other items of capital, and on a liquidation of the *firm* the holders have a claim on the residual assets remaining after satisfaction of all prior claims that is proportional to their holding and do not have a priority claim or a fixed claim for the nominal amount of their holding;
 - (11) the *firm* has not provided the holder with a direct or indirect financial contribution specifically to pay for the whole or a part of its subscription or purchase;
 - (12) a reasonable person would not think that the *firm* is likely to redeem or purchase it because of the description of its characteristics used in its marketing and in its contractual terms of issue; and
 - (13) its issue is not connected with one or more other transactions which, when taken together with its issue, could result in it no longer displaying all of the characteristics set out in
 - GENPRU 2.2.83R (2), ■ GENPRU 2.2.83AR (1) to ■ (12) and (in the case of *permanent share capital*) ■ GENPRU 2.2.83R (3).

A *BIPRU firm* must not include in stage A of the *capital resources table* different classes of the same *share* type (for example "A ordinary shares"

and "B ordinary shares") that meet the conditions in ■ GENPRU 2.2.83 R and ■ GENPRU 2.2.83A R but have differences in voting rights, unless it has notified the *appropriate regulator* of its intention at least one month before the *shares* are issued or (in the case of existing issued *shares*) the differences in voting rights take effect.

2.2.83C

FCA

R

A BIPRU firm must not pay a *coupon* on a *tier one instrument* included in stage A of the *capital resources table* if it has no distributable reserves.

2.2.83D

FCA

G

A BIPRU firm may disclose its dividend policy, provided that the policy only reflects the current intention of the firm and does not undermine the firm's right to choose the amount of any *coupon* that it pays.

Core tier one capital: exception to eligibility criteria (building societies only)

2.2.83E

R

A *building society* may include in stage A of the *capital resources table* a *capital instrument* that includes in its terms of issue an upper limit on the amount of any *coupon* that may be payable and the prohibition on a *coupon* limit under ■ GENPRU 2.2.83AR (3) does not apply to that *capital instrument*, provided that:

- (1) the *capital instrument* satisfies all other conditions for eligibility as *core tier one capital* set out in ■ GENPRU 2.2.83 R to ■ GENPRU 2.2.83A R;
- (2) the *coupon* limit has been imposed by law or the constitutional documents of the *firm*;
- (3) the objective of the limit is to protect the capital reserves of the *firm*;
- (4) the *firm* continues to have the effective right to choose the amount of any *coupon* that it pays;
- (5) all other *capital instruments* issued by the *firm* and included in stage A of the *capital resources table*:
 - (a) meet the conditions set out in ■ GENPRU 2.2.83 R (2), ■ GENPRU 2.2.83 R (3) and ■ GENPRU 2.2.83A R (General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only)); and
 - (b) if subject to a *coupon* limit, are subject to the same *coupon* limit; and
- (6) any preferential *coupon* on a *capital instrument* included in stage A of the *capital resources table*, arising as a result of the inclusion of a *coupon* limit on another *capital instrument*, must be restricted to a fixed multiple of the *coupon* payment on the

capital instrument that is subject to the *coupon* limit.

■ GENPRU 2.2.83A R (2) to ■ (3) do not prevent a *capital instrument* from being included in stage A of the *capital resources table* if the only reason for those prohibitions not being met is that a preferential *coupon* arises, and is restricted, in the manner referred to in this paragraph (6).

2.2.83F

R

A *building society* must not issue a *capital instrument* that includes a *coupon* limit in its terms of issue in accordance with ■ GENPRU 2.2.83E R unless it has notified the *PRA* of its intention to do so at least one month before the intended date of issue.

2.2.83G

G

Under ■ GENPRU 2.2.83E R (4), an effective right means that in practice the *firm* has, and exercises, full discretion to choose the amount of *coupon* that it pays (for example, it has not fettered that discretion by indicating to instrument holders that the *coupon* limit is the standard level of *coupon* they will receive).

2.2.83H

G

The purpose of ■ GENPRU 2.2.83E R (6) is to limit the potential preferential rights that may arise on *capital instruments* that are not subject to a *coupon* limit. The *PRA* considers that "preferential" refers to both priority of *coupon* payment and level of *coupon* payment. Therefore the *PRA* considers that:

- (1) a *coupon* arising on a *capital instrument* which is not subject to an explicit *coupon* limit within its terms of issue is likely to be preferential to a *coupon* on a *capital instrument* included in the *same stage of capital* which is subject to a *coupon* limit; and
- (2) the preference so arising should be restricted so that it is not an unlimited preference.

Core tier one capital: additional information

2.2.84

FCA **PRA**

G

In the case of an *insurer*, ■ GENPRU 2.2.83 R (2) and ■ GENPRU 2.2.83 R (3) have the effect that the *firm* should be under no obligation to make any payment in respect of a *tier one instrument* if it is to form part of its *permanent share capital* unless and until the *firm* is wound up. A *tier one instrument* that forms part of *permanent share capital* should not therefore count as a liability before the *firm* is wound up. The fact that relevant company law permits the *firm* to make earlier repayment does not mean that the *tier one instruments* are not eligible. However, the *firm* should not be required by any contractual or other obligation arising out of the terms of that capital to repay *permanent share capital*. Similarly a *tier one instrument* may still qualify if company law allows dividends to be paid on this capital, provided the *firm* is not contractually or otherwise obliged to pay them. There should therefore be no fixed costs.

2.2.84A

FCA **PRA**

G

Under ■ GENPRU 2.2.83A R (13) a *tier one instrument* does not meet the conditions for inclusion as *core tier one capital* if in isolation it does meet those requirements but fails to meet those requirements when other transactions are taken into account. Examples of those transactions include guarantees, pledges of assets or other side agreements provided by the *firm* to the holder of a *tier one instrument* designed to enhance the legal or economic seniority of the *tier one instrument*.

2.2.85

FCA

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Core tier one capital: profit and loss account and other reserves: Losses

- (1) Negative amounts, including any interim net losses (but in the case of a *BIPRU firm*, only material interim net losses), must be deducted from profit and loss account and other reserves.
- (2) For these purposes material interim net losses mean unaudited interim losses arising from a *firm's trading book* and *non-trading book* business which exceed 10% of the sum of its *capital resources* calculated at stage A (Core tier one capital) in the *capital resources table*.
- (3) If interim losses as referred to in (2) exceed the 10% figure in (2) then a *BIPRU firm* must deduct the whole amount of those losses and not just the excess.

2.2.85A

PRA

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- (1) In the case of an insurer, negative amounts, including any interim net losses, must be deducted from profit and loss account and other reserves.
- (2) For these purposes material interim net losses mean unaudited interim losses arising from a *firm's trading book* and *non-trading book* business which exceed 10% of the sum of its *capital resources* calculated at stage A (Core tier one capital) in the *capital resources table*.

Core tier one capital: profit and loss account and other reserves: Losses arising from valuation adjustments (BIPRU firm only)

2.2.86

FCA

R

- (1) This *rule* applies to *trading book* valuation adjustments or reserves referred to in ■ GENPRU 1.3.29 R to ■ GENPRU 1.3.35A G (Valuation adjustments and reserves). It applies to a *BIPRU firm*.
- (2) When valuation adjustments or reserves give rise to losses of the current financial year, a *firm* must treat them in accordance with ■ GENPRU 2.2.85 R.
- (3) Valuation adjustments or reserves which exceed those made under the accounting framework to which a *firm* is subject must be treated in accordance with (2) if they give rise to losses and under ■ GENPRU 2.2.248 R (Net interim *trading book* profits) otherwise.

2.2.87

FCA PRA

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Core tier one capital: profit and loss account and other reserves: Dividends

Dividends must be deducted from reserves as soon as they are foreseeable

2.2.87A

FCA PRA

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Each *firm* must assess for itself when, in its particular circumstances, dividends are foreseeable. A dividend is foreseeable at the latest:

- (1) in the case of an interim dividend, when it is declared by the *directors*; or
- (2) in the case of a final dividend, when the *directors* approve the dividend to be proposed at the annual general meeting.

Core tier one capital: profit and loss account and other reserves: Capital contributions

2.2.88

FCA PRA

R

A *firm* must account for a capital contribution as an increase in reserves and may, notwithstanding ■ GENPRU 2.2.63 R, count that increase in reserves as *core tier one capital*.

2.2.89

FCA PRA

G

An item of capital qualifies as a capital contribution if it is a gift of capital (and, as such, is not repayable) and a *coupon* is not payable on it.

Core tier one capital: profit and loss account and other reserves: Securitisation (BIPRU firm only)

2.2.90

FCA

R

In the case of a *BIPRU firm* which is the *originator* of a *securitisation*, net gains arising from the capitalisation of future income from the *securitised* assets and providing *credit enhancement* to *positions* in the *securitisation* must be excluded from profit and loss account and other reserves.

Core tier one capital: profit and loss account and other reserves: Valuation

2.2.91

FCA PRA

G

Profit and loss account and other reserves should be valued in accordance with the *rules* in ■ GENPRU 1.3 (Valuation).

Core tier one capital: profit and loss account and other reserves: Revaluation reserves (BIPRU firm only)

2.2.92

FCA

G

A revaluation reserve is not included as part of a *BIPRU firm's* profit and loss account and other reserves. It is dealt with separately and forms part of a *BIPRU firm's upper tier two capital*.

Core tier one capital: partnership capital account (BIPRU firm only)

2.2.93

FCA

R

Eligible partnership capital means a partners' account:

- (1) into which capital contributed by the partners is paid; and
- (2) from which under the terms of the partnership agreement an amount representing capital may be withdrawn by a partner only if:
 - (a) he ceases to be a partner and an equal amount is transferred to another such account by his former partners or any *person* replacing him as their partner;
 - (b) the partnership is wound up or otherwise dissolved; or

- (c) the *BIPRU firm* has ceased to be *authorised* or no longer has a *Part 4A permission* .

Core tier one capital: Eligible LLP members' capital (BIPRU firm only)

2.2.94

FCA

R

Eligible LLP members' capital means a members' account:

- (1) into which capital contributed by the members is paid; and
- (2) from which under the terms of the *limited liability partnership* agreement an amount representing capital may be withdrawn by a member only if:
 - (a) he ceases to be a member and an equal amount is transferred to another such account by his former fellow members or any *person* replacing him as a member;
 - (b) the *limited liability partnership* is wound up or otherwise dissolved; or
 - (c) the *BIPRU firm* has ceased to be *authorised* or no longer has a *Part 4A permission* .

Core tier one capital: Eligible LLP members' and partnership capital accounts (BIPRU firm only)

2.2.95

FCA

R

A *BIPRU firm* that is a partnership or a *limited liability partnership* may not include *eligible partnership capital* or *eligible LLP members' capital* in its *tier one capital resources* unless (in addition to ■ GENPRU 2.2.62 R (General conditions relating to *tier one capital*)) it complies with ■ GENPRU 2.2.83 R (2) (Coupons should not be cumulative or mandatory) and ■ GENPRU 2.2.83A R to ■ GENPRU 2.2.83C R (General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only)). However, ■ GENPRU 2.2.64 R (3) (Redemption), ■ GENPRU 2.2.83A R (5) (Capital repayment) and ■ GENPRU 2.2.83A R (12) (Characteristics in contract) are replaced by ■ GENPRU 2.2.93 R or ■ GENPRU 2.2.94 R.

2.2.96

FCA

G

If a *firm* has surplus *eligible partnership capital* or *eligible LLP members' capital* that it wishes to repay in circumstances other than those set out in ■ GENPRU 2.2.93 R or ■ GENPRU 2.2.94 R it may apply to the *appropriate regulator* for a *waiver* to allow it to do so. If a *firm* applies for such a *waiver* the information that the *firm* supplies with the application might include:

- (1) a demonstration that the *firm* would have sufficient *capital resources* to meet its *capital resources requirement* immediately after the repayment;
- (2) a demonstration that the *firm* would have sufficient financial resources to meet any *individual capital guidance* and the *firm's* latest assessment under the *overall Pillar 2 rule* immediately after the repayment; and

- (3) a two to three year capital plan demonstrating that the *firm* would be able to meet the requirements in (1) and (2) at all times without needing further capital injections.

Core tier one capital: Other capital items for limited liability partnerships and partnerships (BIPRU firm only)

2.2.97 **R** The items *permanent share capital* and *share premium account* (which form part of *core tier one capital*) do not apply to a *BIPRU firm* that is a partnership or a *limited liability partnership*.
FCA

2.2.98 **R** Without prejudice to ■ GENPRU 2.2.62 R (Tier one capital: General), the item other reserves (which forms part of the item profit and loss and other reserves) applies to a *BIPRU firm* that is a partnership or a *limited liability partnership* to the extent the reserves correspond to reserves that are eligible for inclusion as other reserves in the case of a *BIPRU firm* that is incorporated under the Companies Act 2006 .
FCA

2.2.99 **G** A *BIPRU firm* that is a partnership or a *limited liability partnership* should include profit and loss (taking into account interim losses or material interim net losses) in its *core tier one capital*.
FCA

Core tier one capital: partnership and limited liability partnership excess drawings (BIPRU firm only)

2.2.100 **R** A *BIPRU firm* which is a partnership or *limited liability partnership* must deduct at stage E of the calculation in the *capital resources table* (Deductions from tier one capital) the amount by which the aggregate of the amounts withdrawn by its partners or members exceeds the profits of that *firm*. Amounts of *eligible partnership capital* or *eligible LLP members' capital* repaid in accordance with ■ GENPRU 2.2.93 R or ■ GENPRU 2.2.94 R are not included in this calculation.
FCA

Core tier one capital: Share premium account

- 2.2.101 **R**
- (1) A *firm* must include *share premium account* relating to the issue of a *share* forming part of its *core tier one capital* in its *core tier one capital*.
FCA PRA
 - (2) A *firm* must include *share premium account* relating to the issue of a *share* forming part of another tier of capital in that other tier.
 - (3) A *firm* that is incorporated under the Companies Act 2006 may include its *share premium account* as *core tier one capital* notwithstanding (2) to the extent that the terms of issue of the *share* concerned provide that any premium is not repayable on redemption.
 - (4) Paragraph (3) applies to a *firm* that is not incorporated under the Companies Act 2006 if its *share premium account* is subject to

substantially the same or greater restraints on use than a *share* premium account falling into (3).

Core tier one capital: externally verified interim net profits

2.2.102

FCA PRA

R

Externally verified interim net profits are interim profits which have been verified by a *firm's* external auditors after deduction of tax, foreseeable dividends and other appropriations.

2.2.103

FCA PRA

G

A *firm* may include interim profits before a formal decision has been taken only if these profits have been verified, in accordance with the relevant Auditing Practices Board's Practice Note, by *persons* responsible for the auditing of the accounts.

Core tier one capital: valuation differences (insurer only)

2.2.104

PRA

R

■ GENPRU 2.2.104 R to ■ GENPRU 2.2.107 R only apply to an *insurer*.

2.2.105

PRA

R

Valuation differences are all differences between the valuation of assets and liabilities as valued in *GENPRU* and the valuation that the *insurer* uses for its external financial reporting purposes, except valuation differences which are dealt with elsewhere in the *capital resources table*. The sum of these valuation differences must either be added to (if positive) or deducted from (if negative) an *insurer's capital resources* in accordance with the *capital resources table*.

2.2.106

PRA

G

Additions to and deductions from *capital resources* will arise from the application of asset and liability valuation and admissibility *rules* (see ■ GENPRU 1.3 (Valuation), ■ GENPRU 2.2.251 R (Deductions from total capital: Inadmissible assets) and ■ GENPRU 2 Annex 7 R (Admissible assets in insurance)). Downward adjustments include *discounting of technical provisions for general insurance business* (which is optional for financial reporting but not permitted for regulatory valuation - see ■ GENPRU 2.2.107 R) and derecognition of any *defined benefit asset* in respect of a *defined benefit occupational pension scheme* (see ■ GENPRU 1.3.9 R (2) (General requirements: Adjustments to accounting values)). Details of valuation differences relating to *technical provisions* and liability adjustments for *long-term insurance business* are set out in ■ INSPRU 1.2 (Mathematical reserves). In particular, contingent loans or other arrangements which are not valued as a liability under ■ INSPRU 1.2.79 R (2) (Reinsurance) result in a positive valuation difference.

2.2.107

PRA

R

- (1) Subject to (3), this *rule* applies to an *insurer* that carries on *general insurance business* and which *discounts* or reduces its *technical provisions for claims* outstanding.
- (2) An *insurer* of a kind referred to in (1) must deduct from its *capital resources* the difference between the undiscounted *technical provisions* or *technical provisions* before deductions, and the discounted *technical provisions* or *technical provisions* after deductions. This adjustment must be made for all *general insurance business classes*, except for risks listed under *classes 1 and 2*. For *classes* other than 1 and 2, no adjustment needs to be made in respect of the discounting of annuities included

in *technical provisions*. For *classes 1 and 2* (other than annuities), if the expected average interval between the settlement date of the *claims* being discounted and the accounting date is not at least four years, the *insurer* must deduct:

- (a) the difference between the undiscounted *technical provisions* and the discounted *technical provisions*; or
 - (b) where it can identify a subset of *claims* such that the expected average interval between the settlement date of the *claims* and the accounting date is at least four years, the difference between the undiscounted *technical provisions* and the discounted *technical provisions* for the other claims.
- (3) This *rule* does not apply to a *pure reinsurer* which became a *firm in run-off* before 31 December 2006 and whose *Part 4A permission* has not subsequently been varied to add back the *regulated activity of effecting contracts of insurance*.

Core tier one capital: fund for future appropriations (insurer only)

2.2.108

PRA

R

In relation to an *insurer* the fund for future appropriations means the fund of the same name required by the *insurance accounts rules*, comprising all funds the allocation of which either to *policyholders* or to shareholders has not been determined by the end of the *financial year*, or the balance sheet items under *international accounting standards* which in aggregate represent as nearly as possible that fund.

Core tier one capital: deferred shares (building society only)

2.2.108A

R

A *building society* may include a *deferred share* at stage A of the calculation in the *capital resources table* if (in addition to satisfying all the other requirements in relation to *tier one capital*) it is *permanent share capital* and is otherwise equivalent to an ordinary *share* in terms of its capital qualities, taking into account the specific constitution of *building societies* under the Building Societies Act 1986.

2.2.108B

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The other main provisions relevant to inclusion of a *deferred share* in *tier one capital* are ■ GENPRU 2.2.62 R (Tier one capital: General), ■ GENPRU 2.2.64 R (General conditions for eligibility as tier one capital), ■ GENPRU 2.2.65 R (Connected transactions) and ■ GENPRU 2.2.80 R (Loss absorption).

Other tier one capital: perpetual non-cumulative preference shares (insurer only)

2.2.109

PRA

R

In the case of an *insurer*, a perpetual non-cumulative *preference share* may be included at stage B of the calculation in the *capital resources table* if (in addition to satisfying all the other requirements in relation to *tier one capital*) it satisfies the following conditions:

- (1) any *coupon* on it is not cumulative, and the *firm* is under no obligation to pay a *coupon* in any circumstances; and
- (2) it is not an *innovative tier one instrument*.

2.2.110
PRA

G

The other main provisions relevant to the eligibility of a perpetual non-cumulative *preference share* for inclusion by an *insurer* in *tier one capital* are ■ GENPRU 2.2.62 R (Tier one capital: General), ■ GENPRU 2.2.64 R (General conditions for eligibility as tier one capital), ■ GENPRU 2.2.65 R (Connected transactions), ■ GENPRU 2.2.70 R to ■ GENPRU 2.2.75 R (Redemption of *tier one instruments*) and ■ GENPRU 2.2.80 R (Loss absorption). The *rules* about *innovative tier one capital* are also relevant as they may result in perpetual non-cumulative *preference shares* being treated as *innovative tier one capital*. Perpetual non-cumulative *preference shares* should be perpetual and redeemable only at the *firm's* option. Perpetual *preference shares* should be non-cumulative if they are to be included at stage B of the calculation in the *capital resources table*. Any feature that, in conjunction with a call, would make a *firm* more likely to redeem perpetual non-cumulative *preference shares* would normally result in classification as an *innovative tier one instrument*. Such features would include, but not be limited to, a *step-up*, bonus *coupon* on redemption or redemption at a premium to the original issue price of the *share*.

2.2.111

R

[deleted]

2.2.112

G

[deleted]

Other tier one capital: innovative tier one capital: general (insurer only)

2.2.113
PRA

R

If, in the case of an *insurer*, an item of capital is stated to be an *innovative tier one instrument* by the *rules* in ■ GENPRU 2.2, it cannot be included in stages A (Core tier one capital) or B (Perpetual non-cumulative preference shares) of the calculation in the *capital resources table*.

Other tier one capital: innovative tier one capital: redemption (insurer only)

2.2.114
PRA

R

If, in the case of an *insurer*, a *tier one instrument* :

- (1) is redeemable; and
- (2) a reasonable *person* would think that:
 - (a) the *firm* is likely to redeem it; or
 - (b) the *firm* is likely to have an economic incentive to redeem it;

that *tier one instrument* is an *innovative tier one instrument*.

2.2.115
PRA

G

Any feature that in conjunction with a call would make an *insurer* more likely to redeem a *tier one instrument* would normally result in classification as *innovative tier one capital resources*. *Innovative tier one instruments* include but are not limited to those incorporating a *step-up* or principal stock settlement.

Other tier one capital: conditions for eligibility for hybrid capital to be included at the different stages B1, B2 and C of the calculation in the capital resources table (BIPRU firm only)

2.2.115A

FCA

R

A BIPRU firm must not include a *capital instrument* at stage B1 of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) its contractual terms are such that:

- (1) it cannot be redeemed in cash but can only be converted into *core tier one capital*;
- (2) it must be converted into *core tier one capital* by the firm during emergency situations;
- (3) the emergency situations referred to in (2):
 - (a) are clearly defined within the terms of the *capital instrument*, legally certain and transparent; and
 - (b) occur at the latest, and include, when the BIPRU firm does not meet its *capital resources requirement*;
- (4) the *appropriate regulator* may require its conversion into *core tier one capital* when the appropriate regulator considers it necessary;
- (5) it may be converted into *core tier one capital* by the firm or the holder of the instrument at any time; and
- (6) the maximum number of *capital instruments* which are *core tier one capital* into which it may be converted must:
 - (a) be determined at the date of its issue;
 - (b) be determined on the basis of the market value of those other instruments at the date of its issue;
 - (c) have an aggregate value equal to its par value; and
 - (d) not increase if the price of those other instruments decreases.

2.2.115B

FCA

G

The intention of ■ GENPRU 2.2.115A R is to ensure that *capital instruments* included in stage B1 of the calculation in the *capital resources table* have the same permanence as *core tier one capital*; the presence of a call option for these instruments may reduce their permanence.

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57

2.2.115C

FCA

G

- (1) In respect of ■ GENPRU 2.2.115A R (4), the *appropriate regulator* may require the firm to convert the instrument into *core tier one capital* based on its financial and solvency situation. The *appropriate regulator* will take into account, among other things, the factors identified at ■ GENPRU 2.2.69F G (2), adjusted to take into account the effects of a conversion rather than payment of a *coupon*.

- (2) Even if a *firm* meets its *capital resources requirement*, the *appropriate regulator* may consider the amount or composition of the *firm's tier one capital* as inadequate to cover the financial and solvency risks of the *firm* in which event the *appropriate regulator* may require the *firm* to convert the instrument into *core tier one capital*.

2.2.115D **R**
FCA

A *BIPRU firm* may include a *capital instrument* at stage B2 of the calculation in the *capital resources table* if (while satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) it cannot be included at stage B1 of that calculation as it does not satisfy the requirements of ■ GENPRU 2.2.115A R.

2.2.115E **G**
FCA

- (1) The other main provisions relevant to the eligibility of a *capital instrument* to be included at stages B1 and B2 of the calculation in the *capital resources table* are ■ GENPRU 2.2.62 R (Tier one capital: General), ■ GENPRU 2.2.64 R (General conditions for eligibility as tier one capital), ■ GENPRU 2.2.65 R (Connected transactions), ■ GENPRU 2.2.68A R (Dividend stoppers), ■ GENPRU 2.2.70 R to ■ GENPRU 2.2.75 R (Redemption of tier one instruments), ■ GENPRU 2.2.80 R (Loss absorption) and ■ GENPRU 2.2.116 R to ■ GENPRU 2.2.118 R (Other tier one capital: loss absorption).
- (2) The *rule* about *hybrid capital* included at stage C of the calculation in the *capital resources table* in ■ GENPRU 2.2.115F R is also relevant. *Capital instruments* that would otherwise qualify for inclusion at stages B1 or B2 of the calculation in the *capital resources table* may only be eligible for inclusion at stage C of that calculation.

2.2.115F **R**
FCA

A *BIPRU firm* may include a *capital instrument* at stage C of the calculation in the *capital resources table*, and must not include it in stage B1 or B2 of that calculation, if (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) it either:

- (1) is dated; or
- (2) provides an incentive for the *firm* to redeem it, as assessed at the date of its issue.

2.2.115G **G**
FCA

An incentive to redeem is a feature of a *capital instrument* that would lead a reasonable market participant to have an expectation that the *firm* will redeem the instrument. The effect of ■ GENPRU 2.2.115F R (2) is that the classification of an instrument that provides an incentive to redeem is always assessed at the date of its issue, and it cannot be reclassified.

Other tier one capital: loss absorption

2.2.116 **R**
PRA

An *insurer* must not include a *capital instrument* that is not a *share* in its *innovative tier one capital resources* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *innovative tier one capital*) the *firm's* obligations under the instrument either:

- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
- (2) do constitute such a liability but the terms of the instrument are such that:
 - (a) any such liability is not relevant for the purposes of deciding whether:
 - (i) the *firm* is, or is likely to become, unable to pay its debts; or
 - (ii) its liabilities exceed its assets;
 - (b) a *person* (including, but not limited to, a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may become unable to pay any such liability; and
 - (c) the *firm* is not obliged to take into account such a liability for the purposes of deciding whether or not the *firm* is, or may become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (wrongful trading).

2.2.116A

R

FCA

A BIPRU *firm* must not include a *capital instrument* that is not a *share* at stage B1, B2 or C of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) the *firm's* obligations under the instrument either:

- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
- (2) do constitute such a liability but the terms of the instrument are such that:
 - (a) any such liability is not relevant for the purposes of deciding whether:
 - (i) the *firm* is, or is likely to become, unable to pay its debts; or
 - (ii) its liabilities exceed its assets;
 - (b) a *person* (including, but not limited to, a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may become unable to pay any such liability; and
 - (c) the *firm* is not obliged to take into account such a liability for the purposes of deciding whether or not the *firm* is, or may

become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (Wrongful trading).

2.2.117

FCA PRA

G

The effect of ■ GENPRU 2.2.116 R and ■ GENPRU 2.2.116A R is that if a *potential tier one instrument* does constitute a liability, this should only be the case when the *firm* is able to pay that liability but chooses not to do so. As *tier one capital resources* for an *insurer* should be undated, this will generally only be relevant on a solvent winding up of the *firm*. The holder should agree that the *firm* has no liability (including any contingent or prospective liability) to pay any amount to the extent to which that liability would cause the *firm* to become insolvent if it made the payment or to the extent that its liabilities exceed its assets or would do if the payment were made. The terms of the *capital instrument* should be such that the *directors* can continue to trade in the best interests of the senior creditors even if this prejudices the interests of the holders of the instrument.

2.2.117A

FCA

R

A *BIPRU firm* must not include a *capital instrument* at stage B1, B2 or C of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) its contractual terms provide for a mechanism within the instrument which:

- (1) is clearly defined and legally certain;
- (2) is disclosed and transparent to the market;
- (3) makes the recapitalisation of the *firm* more likely by adequately reducing the potential future outflows to a holder of the *capital instrument* at certain trigger points;
- (4) enables the *firm*, at and after the trigger points, to operate the mechanism; and
- (5) when initiated, operates in one of the following ways:
 - (a) the principal of the instrument is written down permanently; or
 - (b) the principal of the instrument is written down temporarily. During the write-down period any *coupon* payable on the instrument must be cancelled and any related dividend stoppers and pushers must operate in a way that does not hinder recapitalisation; or
 - (c) the instrument is converted into *core tier one capital*. The maximum number of *capital instruments* which are *core tier one capital* into which it must be converted must:
 - (i) be determined at the date of its issue;
 - (ii) be determined on the basis of the market value of those other instruments at the date of its issue;

- (iii) have an aggregate value no more than 150% of its par value; and
- (iv) not increase if the share price decreases; or
- (d) an alternative process applies which has the same or greater effect on the likelihood of recapitalisation as (a), (b), and (c).

2.2.117B

R

FCA

The trigger points required by ■ GENPRU 2.2.117A R (3) must:

- (1) be clearly defined within the instrument and legally certain;
- (2) be disclosed and transparent to the market; and
- (3) be prudent and timely, and include trigger points which occur:
 - (a) before a breach of the *firm's capital resources requirement* and both:
 - (i) when the *firm's* losses lead to a significant reduction of the *firm's* retained earnings or other reserves which causes a significant deterioration of the *firm's* financial and solvency conditions; and
 - (ii) when it is reasonably foreseeable that the events described in (i) will occur; and
 - (b) when the *firm* is in breach of its *capital resources requirement*.

2.2.117C

G

FCA

- (1) The effects of the mechanisms described in ■ GENPRU 2.2.117A R will be more meaningful if they happen immediately after losses cause a significant deterioration of the financial as well as the solvency situation and even before the reserves are exhausted.
- (2) If a *firm* does not operate the loss absorption mechanism in a prudent and timely way, then the *appropriate regulator* may consider using its powers under 55J of the *Act* to, on its own initiative, vary the *firm's Part 4A permission* to require it to operate the mechanism.

2.2.118

R

FCA PRA

- (1) An *insurer* may not include an *innovative tier one instrument*, unless it is a *preference share*, in its *tier one capital resources* unless it has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the criteria in ■ GENPRU 2.2.64R (6) (loss absorption) and ■ GENPRU 2.2.80 R to ■ GENPRU 2.2.81 R (Loss absorption) are met.
- (2) A *BIPRU firm* may not include a *capital instrument* at stage B1, B2 or C of the calculation in the *capital resources table* unless it has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the criteria

in ■ GENPRU 2.2.62 R (Tier one capital: General),
 ■ GENPRU 2.2.64 R (1) to ■ GENPRU 2.2.64 R (9) (General conditions for eligibility as tier one capital) and
 ■ GENPRU 2.2.80 R to ■ GENPRU 2.2.81 R (Loss absorption) are met.

2.2.118A G For the purposes of ■ GENPRU 2.2.118R (2), the focus of the legal opinion in considering
FCA ■ GENPRU 2.2.64R (6)(b) should be on whether appropriate mechanisms exist and are designed to operate to ensure that the value of the *hybrid capital* instrument and the position of the *hybrid capital* holder are not enhanced by recapitalisation.

2.2.119 G For the purpose of ■ GENPRU 2.2.118 R, an independent legal opinion may be given by
FCA PRA an *employee* of that *firm*, but if an *employee* does so he should not be part of the business unit responsible for the transaction (including the drafting of the issue documentation).

Other tier one capital: innovative tier one capital: coupons (insurer only)

2.2.120 R In the case of an *insurer*, a *tier one instrument* with a cumulative or
PRA mandatory *coupon* is an *innovative tier one instrument*.

Other tier one capital: innovative tier one capital: step-ups (insurer only)

2.2.121 R If, in the case of an insurer:
PRA

- (1) a *potential tier one instrument* is or may become subject to a *step-up*; and
- (2) that *potential tier one instrument* is redeemable at any time (whether before, at or after the time of the *step-up*);

that *potential tier one instrument* is an *innovative tier one instrument*.

2.2.122 G See ■ GENPRU 2.2.146 R to ■ GENPRU 2.2.154 G for further *rules* and *guidance* on *step-ups*.
PRA

Other tier one capital: hybrid capital: indirectly issued tier one capital (BIPRU firm only)

2.2.123 R ■ GENPRU 2.2.123 R to ■ GENPRU 2.2.137 R apply to a *BIPRU firm*.
FCA

2.2.124 R (1) ■ GENPRU 2.2.123 R - ■ GENPRU 2.2.137 R apply to capital of a
FCA *firm* if:

- (a) either or both of the conditions in (2) are satisfied; and
- (b) any of the *SPVs* referred to in (2) is a *subsidiary undertaking* of the *firm*.

(2) The conditions referred to in (1) are:

- (a) that capital is issued to an *SPV*; or

(b) the subscription for the capital issued by the *firm* is funded directly or indirectly by an *SPV*.

(3) A *BIPRU firm* may not include capital coming within this *rule* in its *capital resources* unless the requirements in the following *rules* are satisfied:

(a) (if (2)(a) applies and (2)(b) does not) ■ GENPRU 2.2.127 R, ■ GENPRU 2.2.129 R and ■ GENPRU 2.2.132 R; or

(b) (in any other case) ■ GENPRU 2.2.133 R.

2.2.125

FCA

R

A *BIPRU firm* may only count capital to which ■ GENPRU 2.2.124 R applies at stage C of the calculation in the *capital resources table*.

2.2.126

FCA

R

For the purpose of ■ GENPRU 2.2, an *SPV* is, in relation to a *BIPRU firm*, any *undertaking* whose main activity is to raise funds for that *firm* or for a *group* to which that *BIPRU firm* belongs.

2.2.127

FCA

R

The *SPV* referred to in ■ GENPRU 2.2.124 R (2)(a) must satisfy the following conditions:

(1) it is controlled by the *firm* and may not operate independently of the *firm*;

(2) the rights of investors in the *SPV* who do not belong to the *group* of the *BIPRU firm* in question are not such as to affect the ability of the *firm* to control the *SPV*;

(3) all or virtually all of its *exposures* (calculated by reference to the amount) consist of *exposures* to the *firm* or to that *firm's group*; and

(4) it is incorporated under, and governed by, the laws and jurisdiction of England and Wales, Scotland or Northern Ireland.

2.2.128

FCA

G

An *SPV* could take the form of a limited partnership. In such an arrangement, holders of a *capital instrument* issued by the *SPV* which do not belong to the *group* of the *BIPRU firm* in question should have no right to participate in the management of the partnership, whether under the partnership's constitutional documents or the transaction documents. In general, this means that they should be treated as limited partners. It is expected that the general partner, having control of the *SPV*, would be the *firm*.

2.2.128A

FCA

R

■ GENPRU 2.2.127 R (4) does not apply if the *firm* has conducted a properly reasoned analysis confirming that any potential risks, including legal and operational risks, associated with cross-border issues, which undermine the quality of the capital for the issuer, that arise from an *SPV* not being incorporated under or governed by the laws and jurisdiction of England and Wales, Scotland or Northern Ireland, are adequately mitigated.

2.2.128B

FCA

R

The analysis must be set out in writing and dated before the date of issue of the *capital instrument* and the *firm* must be able to show that the analysis has been fully considered as part of its decision to proceed with the issue. The analysis must be conducted by a person or persons appropriately qualified to assess the relevant risks and that person may be an independent adviser or an employee of the *firm* who is not part of the business unit responsible for the transaction (including the drafting of the issue documentation).

2.2.129

FCA

R

The *SPV* referred to in ■ GENPRU 2.2.124 R (2)(a) must fund its subscription for the capital issued by the *firm* by the issue of capital that satisfies the following conditions:

- (1) it must comply with the conditions for qualification as *tier one capital*, as amended by ■ GENPRU 2.2.130 R, as if the *SPV* was itself a *firm* seeking to include that capital in its *tier one capital resources*;
- (2) (a) its terms must include an obligation on the *firm* that, in the event of a collapse of the *SPV* structure, and if the mechanism contained within the instrument under ■ GENPRU 2.2.117A R is a conversion, the *firm* must substitute the *capital instrument* issued by the *SPV* with *core tier one capital* issued by the *firm*; and
 - (b) there must be no obstacle to the *firm's* issue of new securities;
- (3) the conversion ratio in respect of the substitution described in (2) must be fixed when the *SPV* issues the *capital instrument*;
- (4) to the extent that investors have the benefit of an obligation by a *person* other than the *SPV*:
 - (a) that obligation must be one owed by a member of the *firm's* group; and
 - (b) the extent of that obligation must be no greater than would be permitted by *GENPRU* if that obligation formed part of the terms of a *capital instrument* issued by that member which complied with the *rules* in *GENPRU* relating to *tier one capital* included at stage C of the calculation in the *capital resources table*; and
- (5) if the *SPV* structure collapses, the holder of it has no better a claim against the *firm* than a holder of the same type of instrument directly issued by the *firm*.

- 2.2.130 **R** For the purpose of ■ GENPRU 2.2.129 R and ■ GENPRU 2.2.132 R, ■ GENPRU 2.2.118 R (Requirement to obtain a legal opinion) does not apply.
FCA
- 2.2.131 **R** In relation to the obligation to substitute described in ■ GENPRU 2.2.129 R (2), a *firm* must take all reasonable steps to ensure that it has at all times authorised and unissued *capital instruments* which are *core tier one capital* (and the authority to issue them) sufficient to discharge its obligation to substitute.
FCA
- 2.2.131A **G** ■ GENPRU 2.2.129 R (2) and ■ GENPRU 2.2.131 R allow a *firm* to replace the capital issued by the *SPV* with *capital instrument* which are *core tier one capital*.
FCA
- 2.2.132 **R** The capital which the *firm* seeks to include in its *capital resources* under ■ GENPRU 2.2.124 R (3)(a) must satisfy the following conditions:
FCA
- (1) it meets the conditions for inclusion in *tier one capital* (subject to ■ GENPRU 2.2.130 R);
 - (2) its first call date (if any) must not arise before that on the instrument issued by the *SPV*; and
 - (3) its terms relating to repayment must be the same as those of the instrument issued by the *SPV*.
- 2.2.133 **R**
- (1) This rule deals with any transaction:
 - (a) under which an *SPV* directly or indirectly funds the subscription for capital issued by the *firm* as described in ■ GENPRU 2.2.124 R; or
 - (b) that is directly or indirectly funded by a transaction in (1)(a).
 - (2) Each *undertaking* that is a party to a transaction to which this *rule* applies (other than the *firm*) must be a *subsidiary undertaking* of the *firm*.
 - (3) Each *SPV* that is a party to a transaction to which this *rule* applies must comply with ■ GENPRU 2.2.127 R.
 - (4) Any capital to which (1) applies (other than the capital that is to be included in the *firm's capital resources*) must be in the form of capital that complies with ■ GENPRU 2.2.129 R (1) and ■ GENPRU 2.2.129 R (4), whether or not issued by an *SPV*.
 - (5) The obligations in ■ GENPRU 2.2.129 R (2) and ■ GENPRU 2.2.129 R (3) only apply to capital issued by an *SPV* at the end of the chain of transactions beginning with the issue of capital by the *firm* referred to in ■ GENPRU 2.2.124 R.

(6) ■ GENPRU 2.2.132 R applies to the capital issued by the *firm* as referred to in ■ GENPRU 2.2.124 R. For these purposes references in ■ GENPRU 2.2.132 R to the instrument issued by the *SPV* are to the instrument referred to in (5).

2.2.134
FCA

G

The purpose of ■ GENPRU 2.2.133 R is to deal with a capital-raising under which the capital raised by a special purpose vehicle is passed through a number of *undertakings* before it is invested in the *firm*. If the *capital resources* of the *firm* fall below, or are likely to fall below, its *capital resources requirement* the *firm* should replace the capital issued by that first special purpose vehicle with a *tier one instrument* directly issued by the *firm* which complies with ■ GENPRU 2.2.129 R (2) .

2.2.135
FCA

R

A *firm* which satisfies the conditions for the inclusion of capital set out in ■ GENPRU 2.2.124 R, must, in addition, if that transaction is in any respect unusual, notify the *appropriate regulator* at least one *Month* in advance of the date on which the *firm* intends to include that capital in its *capital resources*.

2.2.136
FCA

G

The *appropriate regulator* is likely to consider as unusual a transaction which involves the raising by the *firm* of *tier one capital* through a *subsidiary undertaking* of that *firm* that is not an *SPV*. The *appropriate regulator* would expect a *firm* to request individual *guidance* in such circumstances.

2.2.137
FCA

R

A *firm* must ensure that, in relation to a transaction falling within ■ GENPRU 2.2.124 R:

- (1) the marketing document for the transaction contains all the information which a reasonable third party would require to understand the transaction fully and its effect on the financial position of the *firm* and its *group*; and
- (2) the information in (1) and the transaction are easily comprehensible without the need for additional information about the *firm* and its *group*.

Tier one capital: Conversion ratio

2.2.138
FCA PRA

R

- (1) This *rule* applies to a *potential tier one instrument* if:
 - (a) it is redeemable by the *firm* (ignoring ■ GENPRU 2.2.77 R (Meaning of redemption));
 - (b) it provides that if the issuer does not exercise that right or does not do so in specified circumstances the issuer must or may have to redeem it in whole or in part through the issue of *shares* eligible for inclusion in the *firm's tier one capital resources* or the instrument converts or may convert into such *shares*; and
 - (c) ■ GENPRU 2.2.77 R means that the obligation in (1)(b) is treated as not being inconsistent with ■ GENPRU 2.2.70 R (1)

(*Tier one capital* should not be redeemable at the option of the holder).

- (2) A *firm* must not include a *potential tier one instrument* to which this *rule* applies in its *tier one capital resources* if:
- (a) the conversion ratio as at the date of redemption may be greater than the conversion ratio as at the time of issue by more than:
 - (i) in the case of a *BIPRU firm*, 150%; and
 - (ii) in the case of an *insurer*, 200%; or
 - (b) the market price of the conversion instruments issued in relation to one unit of the original capital item (plus any cash element of the redemption) may be greater than the issue price of that original capital item.
- (3) All determinations under this *rule* are made as at the date of issue of the original capital item.

2.2.139

FCA PRA

R

In ■ GENPRU 2.2.138 R to ■ GENPRU 2.2.142 R:

- (1) the original capital item means the capital item that is being redeemed; and
- (2) the conversion instrument means the *tier one capital* to be issued on its redemption.

2.2.140

FCA PRA

R

In ■ GENPRU 2.2.138 R to ■ GENPRU 2.2.142 R, the conversion ratio means the ratio of:

- (1) the number of units of the conversion instrument that the *firm* must issue to satisfy its redemption obligation (so far as it is to be satisfied by the issue of conversion instruments) in respect of one unit of the original capital item; to
- (2) one unit of the original capital item.

2.2.141

FCA PRA

R

In ■ GENPRU 2.2.138 R to ■ GENPRU 2.2.142 R, the conversion ratio as at the date of issue of the original capital item is calculated as if the original capital item were redeemable at that time.

2.2.142

FCA PRA

R

If the conversion instruments or the original capital item are subdivided or consolidated or subject to any other occurrence that would otherwise result in like not being compared with like, the conversion ratio calculation in ■ GENPRU 2.2.138 R must be adjusted accordingly.

2.2.143

FCA PRA

G

- (1) The significance of the limitations on conversion in ■ GENPRU 2.2.138 R (2) can be seen in the example in this paragraph, which uses the conversion ratio applicable to an *insurer*.
- (2) An *insurer* issues innovative notes with a par value of £100 each. The terms of the instrument provide that if the instrument is not called at par at the first call date the notes convert into a variable number of ordinary *shares*.
- (3) If the market price of the ordinary *shares* is 400 pence per share on the day of issue of the innovative notes then the maximum number of ordinary *shares* (M) that a single £100 par value innovative note can be converted into is calculated as follows:
 - (a) $M = \text{Par value of innovative instrument} * 200\% / \text{market value of ordinary share}$;
 - (b) $M = £100 * 2 / £4 = 50 \text{ shares}$.
- (4) The practical effect is that conversion will result in the holder of an innovative capital note receiving ordinary *shares* equal to the par value of that note only when the market price of the ordinary *shares* remains above half the market price of the *shares* at the date of issue of the notes.
- (5) If the market price of the ordinary *shares* fell by half to 200 pence, the maximum permitted number of *shares* (50) would have to be issued in order to give an investor in the innovative note ordinary *shares* with a market value equal to £100. If the market price of the ordinary *shares* fell below 200 pence, the issue of the maximum permitted number of ordinary *shares* would have a market value below £100.

2.2.144

FCA PRA

G

- (1) In addition to the maximum conversion ratios of 200% for an *insurer* and 150% for a *BIPRU firm*, ■ GENPRU 2.2.138 R (2)(b) does not permit a *firm* to issue *shares* that would have a market value that exceeds the issue price of the instrument being redeemed.
- (2) In the example in ■ GENPRU 2.2.143 G, if the market value of the ordinary *shares* was 250 pence at the conversion date, the maximum number of ordinary *shares* that may be issued to satisfy the redemption of one of the £100 par value innovative notes would be 40 (= £100 / £2.5).

Tier one capital: Requirement to have sufficient unissued stock

2.2.145

FCA PRA

R

- (1) This *rule* applies to a *potential tier one instrument* of a *firm* where either:
 - (a) the redemption proceeds; or
 - (b) any *coupon* on that capital item;

can be satisfied by the issue of another *capital instrument*.

- (2) A *firm* may only include an item of capital to which this *rule* applies in its *tier one capital resources* if the *firm* has authorised

and unissued *capital instruments* of the kind in question (and the authority to issue them):

- (a) that are sufficient to satisfy all such payments then due; and
- (b) are of such amount as is prudent in respect of such payments that could become due in the future.

Step-ups: calculating the size of a step-up

2.2.146

R

FCA PRA

- (1) Where a *rule* in this section says that a particular treatment applies to an item of capital that is subject to a *step-up* of a specified amount, the question of whether that *rule* is satisfied must be judged by reference to the cumulative amount of all *step-ups* since the issue of that item of capital rather than just by reference to a particular *step-up*.
- (2) Where a *step-up* arises through a change from paying a *coupon* on a debt instrument to paying a dividend on a *share* issued in settlement of the *coupon*, any net cost to the *firm* arising from the different tax treatment of the dividend compared to the tax treatment of interest may be ignored for the purpose of assessing the effect of that *step-up*.

Step-ups: Limits on the amount of step-ups on tier one and two capital

2.2.147

R

FCA PRA

- (1) A *firm* may not include in its *tier one capital resources* a *tier one instrument* that is or may be subject to a *step-up* that does not meet the definition of moderate in the press release of the Basle Committee on Banking Supervision of 27th October 1998 called "Instruments eligible for inclusion in Tier 1 capital".
- (2) For the purpose of (1) the words in that press release "than, at national supervisory discretion, either" are replaced by "than the higher of the following two amounts".
- (3) The calculations required by this *rule* and ■ GENPRU 2.2.151 R must be carried out as at the date of issue of the relevant instrument.
- (4) A *BIPRU firm* may not include a *capital instrument* in its *tier one capital resources* if it is redeemable and subject to more than one *step-up*.

2.2.148

G

FCA PRA

The effect of ■ GENPRU 2.2.147 R is that for inclusion in *tier one capital resources*, *step-ups* in instruments should be moderate. A moderate *step-up* for these purposes is one which results in an increase over the initial rate that is no greater than the higher of the following two amounts:

- (1) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis; or

- (2) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.

2.2.149

FCA PRA

G

If a *coupon* paid on an item of capital is initially set at a specified spread above an index (the initial index basis), and the *coupon* moves to being set relative to another index (the stepped up index basis), there will be an implied *step-up* (positive or negative) even if the specified spread does not change. This is because each index may itself include a spread relative to the risk free rate and this spread may differ between the two indexes. The deduction of the swap spread in ■ GENPRU 2.2.148 G (1) and ■ (2) above adjusts for this difference.

2.2.150

FCA PRA

G

Where the *step-up* involves a conversion from fixed to floating (or vice versa), or a switch in basis index, the swap spread should be fixed at pricing date, reflecting the differential in pricing between indices at the time. The significance of deducting the swap spread can be seen by the following example:

- (1) the pricing date:
- (a) 10 year gilts (G) = 5.5% (the initial index basis);
 - (b) 3 month LIBOR is the stepped up index basis and the 10 year mid swap rate (L) = 5.9%;
 - (c) initial fixed *coupon* rate = G + 200bp;
 - (d) swap spread = 0.4% (= 5.9% - 5.5%);
 - (e) initial fixed coupon rate = 7.5%;
 - (f) the swap spread shows that there is 40bps of spread in the stepped up index basis relative to the initial index basis; and
 - (g) the initial fixed coupon rate of 7.5% is equivalent to the mid swap rate + 160bp, or L + 200bp - the swap spread;
- (2) pricing of *stepped-up* rate at year 10 with *step-up* of 100bp without deducting swap spread:
- (a) *stepped-up* floating rate = L + 200 + 100bp step-up = 8.9%; and
 - (b) effective *step-up* from initial fixed rate of 140bp (= 8.9% - 7.5%); and
- (3) pricing of *stepped-up* rate at year 10 with step-up of 100bp with deduction of the swap spread:
- (a) *stepped-up* floating *coupon* rate = L + 200 less 40bp swap spread (difference between 5.5% and 5.9%) + 100bp step-up = 8.5%
 - (b) effective *step-up* from initial rate of 100bp (= 8.5% - 7.5%).

2.2.151

FCA PRA

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- (1) Subject to (2), if a *tier two instrument* is or may be subject to a *step-up* that does not meet the definition of moderate in the press release of the Basle Committee on Banking Supervision referred to in ■ GENPRU 2.2.147 R (1) as adjusted under ■ GENPRU 2.2.147 R (2), the first date that a *step-up* can take

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effect is deemed to be its final maturity date if that date is before its actual maturity date.

- (2) If a *tier two instrument*:
- (a) is or may be subject to a *step-up* during the period beginning on the fifth anniversary of the date of issue of that item and ending immediately before the tenth anniversary of the date of issue; and
 - (b) the *step-up* or possible *step-up* is one which may result in an increase over the initial rate that is greater than 50 basis points, less the swap spread between the initial index basis and the stepped-up index basis (all these terms must be interpreted in accordance with ■ GENPRU 2.2.147 R);

the first date that a *step-up* can take effect is deemed to be its final maturity date if that date is before its actual maturity date.

2.2.152

R

FCA PRA

An instrument does not breach ■ GENPRU 2.2.147 R or as the case may be, is not subject to a deemed maturity date under ■ GENPRU 2.2.151 R, even though it is or may be subject to a *step-up* that exceeds the amount specified in those *rules* if:

- (1) the instrument is fungible with other instruments (the "existing stock") that are included in the *firm's tier one capital resources* (in the case of ■ GENPRU 2.2.147 R) or *tier two capital resources* (in the case of ■ GENPRU 2.2.151 R);
- (2) (if there has been no more than one previous issue of the existing stock) the existing stock complied with those limits on its date of issue;
- (3) (if there has been more than one previous issue of the existing stock) the first such issue of the existing stock complied with those limits on its date of issue; and
- (4) the result of the *step-up* on the instrument to which this *rule* applies is that the *coupon* on that instrument and the *coupon* on the existing stock is the same.

2.2.153

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FCA PRA

- (1) A *firm* must not include in its *tier one capital resources* a *potential tier one instrument* that is or may become subject to a *step-up* if that *step-up* can arise earlier than the tenth anniversary of the date of issue of that item of capital.
- (2) A *firm* must not include in its *tier two capital resources* a *capital instrument* that is or may become subject to a *step-up* if that *step-up* can arise earlier than the fifth anniversary of the date of issue of that item of capital.

2.2.154 FCA PRA G Debt instruments containing embedded options, e.g. issues containing options for the interest rate after the *step-up* to be at a margin over the higher of two (or more) reference rates, or for the interest rate in the previous period to act as a floor, may affect the funding costs of the borrower and imply a *step-up*. In such circumstances, a *firm* may wish to seek individual *guidance* on the application of the *rules* relating to *step-ups* to the *capital instrument* in question. See ■ SUP 9 (Individual guidance) for the process to be followed when seeking individual *guidance*.

Deductions from tier one: Intangible assets

2.2.155 FCA PRA R A *firm* must deduct from its *tier one capital resources* the value of intangible assets.

2.2.156 FCA G Intangible assets include goodwill as defined in accordance with the requirements referred to in ■ GENPRU 1.3.4 R (General requirements: accounting principles to be applied) applicable to the *firm*. The treatment of deferred acquisition cost assets for *BIPRU firms* is dealt with in ■ GENPRU 1.3 (Valuation); they should not be deducted as an intangible asset.

2.2.156A G Intangible assets include goodwill as defined in accordance with the requirements referred to in ■ GENPRU 1.3.4 R (General requirements: accounting principles to be applied) applicable to the *firm*.

Tier two capital: General

2.2.157 FCA PRA G *Tier two capital resources* are split into upper and lower tiers. A major distinction between *upper* and *lower tier two capital* is that, except as provided by ■ GENPRU 2.2.26A R for *BIPRU firms*, only perpetual instruments may be included in *upper tier two capital* whereas dated instruments, such as fixed term *preference shares* and dated subordinated debt, may be included in *lower tier two capital*.

2.2.158 FCA PRA G *Tier two instruments* are *capital instruments* that combine the features of debt and equity in that they are structured like debt, but exhibit some of the loss absorption and funding flexibility features of equity.

General conditions for eligibility as tier two capital instruments

2.2.159 FCA PRA R A *capital instrument* must not form part of the *tier two capital resources* of a *firm* unless it meets the following conditions:

- (1) the claims of the creditors must rank behind those of all unsubordinated creditors;
- (2) the only events of default must be non-payment of any amount falling due under the terms of the *capital instrument* or the winding-up of the *firm* and any such event of default must not prejudice the subordination in (1);
- (3) to the fullest extent permitted under the laws of the relevant jurisdictions, the remedies available to the subordinated creditor in the event of non-payment or other breach of the terms of the

capital instrument must (subject to ■ GENPRU 2.2.161 R) be limited to petitioning for the winding-up of the *firm* or proving for the debt in the liquidation or administration;

- (4) any:
 - (a) remedy permitted by (3);
 - (b) remedy that cannot be excluded under the laws of the relevant jurisdictions as referred to in (3);
 - (c) remedy permitted by ■ GENPRU 2.2.161 R; and
 - (d) terms about repayment as referred to in (5);must not prejudice the matters in (1) and (2) and in particular any damages permitted by (b) or (c) and repayment obligation must be subordinated in accordance with (1);
- (5) without prejudice to (1), the debt must not become due and payable before its stated final maturity date (if any) except on an event of default complying with (2) or as permitted by ■ GENPRU 2.2.172 R (Repayment at the option of the issuer) or ■ GENPRU 2.2.194 R (2) (Repayment of *lower tier two capital* at the option of the holder) and any remedy described in (4)(a) to (c) must not prejudice this requirement;
- (6) the debt agreement or terms of the *capital instrument* are governed by the law of England and Wales, or of Scotland or of Northern Ireland;
- (7) to the fullest extent permitted under the laws of the relevant jurisdictions, creditors must waive their right to set off amounts they owe the *firm* against subordinated amounts included in the *firm's capital resources* owed to them by the *firm*;
- (8) the terms of the *capital instrument* must be set out in a written agreement that contains terms that provide for the conditions set out in (1) to (7);
- (9) the debt must be unsecured and fully paid up;
- (10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9) and, where it applies, ■ GENPRU 2.2.271 R (Other requirements: insurers carrying on with-profits business (Insurer only));
- (11) the amount of the item included must be net of any foreseeable tax charge at the moment of its calculation or must be suitably adjusted in so far as such tax charges reduce the amount up to which that item may be applied to cover risks or losses; and

(12) the *firm* has obtained a properly reasoned independent legal opinion from an appropriately qualified individual stating that the requirements in (1) to (7) and (insofar as it relates to whether the *capital instrument* is unsecured) (9) have been met.

2.2.160 **R** A holder of a non-deferred share of a *building society* must be treated as a senior unsecured creditor of that *building society* for the purpose of ■ GENPRU 2.2.159 R.

**General conditions for eligibility as tier two capital instruments:
Additional remedies**

2.2.161 **R** A *capital instrument* may be included in a *firm's tier two capital resources* even though the remedies available to the subordinated creditor go beyond those referred to in ■ GENPRU 2.2.159 R (3), if the following conditions are satisfied:

FCA PRA

- (1) those remedies are not available for failure to pay any amount of principal, interest or expenses or in respect of any other payment obligation; and
- (2) those remedies do not in substance amount to remedies to recover payment of the amounts in (1).

2.2.162 **G** If damages are a remedy that cannot be excluded as referred to in ■ GENPRU 2.2.159 R (3) those damages should be subordinated in accordance with ■ GENPRU 2.2.159 R (1). Damages permitted by ■ GENPRU 2.2.161 R should also be subordinated in accordance with ■ GENPRU 2.2.159 R (1).

FCA PRA

**General conditions for eligibility as tier two capital instruments:
Alternative governing laws**

2.2.163 **R** ■ GENPRU 2.2.159 R (6) does not apply if the *firm* has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the same degree of subordination has been achieved under the law that governs the debt and the agreement as that which would have been achieved under the laws of England and Wales, Scotland, or Northern Ireland.

FCA PRA

General conditions for eligibility as tier two capital instruments: Standard form documentation

2.2.164 **G** The *appropriate regulator* is more concerned that the subordination provisions listed in ■ GENPRU 2.2.159 R should be effective than that they should follow a particular form. The *appropriate regulator* does not, therefore, prescribe that the loan agreement or *capital instrument* should be drawn up in a standard form.

FCA PRA

Guidance on the general conditions for eligibility as tier two capital instruments

2.2.165
FCA PRA

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For the purposes of ■ GENPRU 2.2.159 R (5) the debt agreement or terms of the instrument should not contain any clause which might require early repayment of the debt (e.g. cross default clauses, negative pledges and restrictive covenants). A cross default clause is a clause which says that the loan goes into default if any of the borrower's other loans go into default. It is intended to prevent one creditor being repaid before other creditors, e.g. obtaining full repayment through the courts. A negative pledge is a clause which puts the loan into default if the borrower gives any further charge over its assets. A restrictive covenant is a term of contract that directly, or indirectly, could lead to early repayment of the debt. Some covenants, e.g. relating to the provision of management information or ownership restrictions, are likely to comply with ■ GENPRU 2.2.159 R (3) as long as monetary redress is ruled out, or any payments are covered by the subordination clauses.

2.2.166
FCA PRA

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■ GENPRU 2.2.159 R (3) allows a *capital instrument* to form part of the *tier two capital resources* even though the laws of the relevant jurisdiction do not allow remedies to be limited in the way described there. For example it is not possible to limit certain remedies in the case of an issue in the United States that is SEC-registered and subject to the provisions of the Trust Indenture Act.

2.2.167
FCA PRA

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The purpose of ■ GENPRU 2.2.159 R (7) is to ensure that all of the *firm's* assets are available to *consumers* ahead of subordinated creditors. The waiver should apply both before and during liquidation or administration.

2.2.168
FCA PRA

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The *guidance* in ■ GENPRU 2.2.119 G (Employee may give legal opinion) also applies for the purpose of ■ GENPRU 2.2.159 R (12) and ■ GENPRU 2.2.163 R.

Tier two capital instruments: Connected transactions

2.2.169
FCA PRA

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An item of capital does not comply with ■ GENPRU 2.2.159 R (General conditions for eligibility as tier two *capital instruments*) or ■ GENPRU 2.2.177 R (Upper tier two capital: General) if the issue of that item of capital by the *firm* is connected with one or more other transactions which, when taken together with the issue of that item, could result in that item of capital no longer displaying all of the characteristics set out in whichever of those *rules* apply.

2.2.170
FCA PRA

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■ GENPRU 2.2.66 G (*Guidance* on ■ GENPRU 2.2.65 R) applies to ■ GENPRU 2.2.169 R in the same way as it does to ■ GENPRU 2.2.65 R (The equivalent of ■ GENPRU 2.2.169 R in relation to *tier one capital*).

Amendment of tier two instruments

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75

2.2.171
FCA PRA

R

A *firm* must not amend the terms of the capital or the documents referred to in ■ GENPRU 2.2.159 R (8) unless:

- (1) at least one *Month* before the amendment is due to take effect, the *firm* has given the *appropriate regulator* notice in writing of the

proposed amendment and the *appropriate regulator* has not objected; and

- (2) that notice includes confirmation that the legal opinions referred to in ■ GENPRU 2.2.159 R (12) and, if applicable,
 - GENPRU 2.2.163 R (General conditions for eligibility as tier two *capital instruments*: Alternative governing laws) and
 - GENPRU 2.2.181 R (Legal opinions for *upper tier two instruments*), continue in full force and effect in relation to the terms of the debt and documents after any proposed amendment.

Redemption of tier two instruments

2.2.172
FCA PRA

R A *tier two instrument* may be redeemable at the option of the *firm*, but any term of the instrument providing for the *firm* to have the right to exercise such an option must not provide for that right to be exercisable earlier than the fifth anniversary of the date of issue of the instrument.

2.2.173
FCA PRA

R ■ GENPRU 2.2.71 R to ■ GENPRU 2.2.73 G (*Tier one instruments* may be redeemed by the issuer before the fifth anniversary in limited circumstances) apply to ■ GENPRU 2.2.172 R in the same way as they do to ■ GENPRU 2.2.70 R (The issuer should not redeem *tier one capital* before the fifth anniversary).

2.2.174
FCA PRA

R In relation to a *tier two instrument*, a *firm* must notify the *appropriate regulator*:

- (1) in the case of an *insurer*, six *Months*; and
- (2) in the case of a *BIPRU firm*, one *Month*;

before it becomes committed to the proposed repayment (unless that *firm* intends to repay an instrument on its final maturity date) . When giving notice, the *firm* must provide details of its position after such repayment in order to show how it will:

- (3) meet its *capital resources requirement*; and
- (4) have sufficient financial resources to meet the *overall financial adequacy rule*.

Tier two capital: step-ups

2.2.175
FCA PRA

G The *rules and guidance* in ■ GENPRU 2.2.146 R to ■ GENPRU 2.2.154 G on *step-ups* cover *tier two capital* as well as *tier one capital*.

Upper tier two capital: General

2.2.176
FCA PRA

G Examples of *capital instruments* which may be eligible to count in *upper tier two capital resources* include the following:

- (1) perpetual cumulative *preference shares*;

- (2) perpetual subordinated debt; and
- (3) other instruments that have the same economic characteristics as (1) or (2).

2.2.177

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FCA PRA

A *capital instrument* must (in addition to meeting the requirements of the *rules* about eligibility for inclusion in *tier two capital*) meet the following conditions before it can be included in a *firm's upper tier two capital resources*:

- (1) it must have no fixed maturity date;
- (2) the terms of the instrument must provide for the *firm* to have the option to defer any *coupon* on the debt, except that the *firm* need not have that right in the case of a *coupon* payable in the form of an item of capital that is included in the *same stage of capital* or a *higher stage of capital* as that first item of capital;
- (3) the terms of the instrument must provide for the loss-absorption capacity of the *capital instrument* and unpaid *coupons*, whilst enabling the *firm* to continue its business;
- (4) it meets the conditions in ■ GENPRU 2.2.169 R (Connected transactions) and ■ GENPRU 2.2.180 R (Loss absorption); and
- (5) the terms of the instrument are such that either the instrument or debt is not redeemable or repayable or it is repayable or redeemable only at the option of the *firm*.

2.2.178

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FCA PRA

If a *firm* gives notice of the redemption or repayment of an *upper tier two instrument*, the *firm* must no longer include it in its *upper tier two capital resources*.

2.2.179

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FCA PRA

- (1) The purpose of ■ GENPRU 2.2.177 R (2) is to ensure that a *firm* which issues an item of capital with a *coupon* retains flexibility over the payments of such *coupon* and can preserve cash in times of financial stress. However, a *firm* may include, as part of the capital instrument terms, a right to make payments of a *coupon* mandatory if an item of capital becomes ineligible to form part of its *capital resources* (for example, through a change in the relevant *rules*) and the *firm* has notified the *appropriate regulator* that the instrument is ineligible.
- (2) For the purpose of ■ GENPRU 2.2.177 R (2), ■ GENPRU 2.2.68 G (Dividend pushers) applies equally in relation to the inclusion of an instrument in *upper tier two capital resources*.
- (3) ■ GENPRU 2.2.26A R provides an exception, in the case of a *BIPRU firm*, to the *rule* that instruments must have no fixed maturity date to be eligible for *upper tier two capital resources*.

2.2.180

FCA PRA

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Upper tier two capital: Loss absorption

A *capital instrument* may only be included in *upper tier two capital resources* if a *firm's* obligations under the instrument either:

- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
- (2) do constitute such a liability but the terms of the instrument are such that:
 - (a) any such liability is not relevant for the purposes of deciding whether:
 - (i) the *firm* is, or is likely to become, unable to pay its debts; or
 - (ii) its liabilities exceed its assets;
 - (b) a *person* (including but not limited to a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may become unable to pay any such liability; and
 - (c) the *firm* is not obliged to take into account such a liability for the purposes of deciding whether or not the *firm* is, or may become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (wrongful trading).

2.2.181

FCA PRA

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Upper tier two capital: Legal opinions

A *firm* may not include an *upper tier two instrument* in its *upper tier two capital resources* unless it has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the criteria in ■ GENPRU 2.2.177 R (3) and ■ GENPRU 2.2.180 R (Loss absorption) are met. This *rule* does not apply to a perpetual cumulative *preference share*.

2.2.182

FCA PRA

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Upper tier two capital: Guidance

■ GENPRU 2.2.180 R is an example of the general principle in ■ GENPRU 2.2.177 R (3).

2.2.183

FCA PRA

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The *guidance* in ■ GENPRU 2.2.117 G (There should be no liability to the extent that the *firm* would become insolvent, etc) also applies for the purpose of ■ GENPRU 2.2.180 R.

2.2.184

FCA PRA

G

The *guidance* in ■ GENPRU 2.2.119 G (Employee may give legal opinion) also applies for the purpose of ■ GENPRU 2.2.181 R.

Upper tier two capital: Revaluation reserves (BIPRU firm only)

2.2.185

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FCA

- (1) This *rule* applies to a *BIPRU firm*.
- (2) A *BIPRU firm* must, in relation to equities held in the available-for-sale financial assets category:
 - (a) deduct any net losses at stage E of the calculation in the *capital resources table* (Deductions from tier one capital); and
 - (b) include any net gains (after deduction of deferred tax) in revaluation reserves at stage G of the calculation in the *capital resources table* (Upper tier two capital).
- (3) A *BIPRU firm* must include any net gains, after deduction of deferred tax, on revaluation reserves of investment properties at stage G of the calculation in the *capital resources table*. A *firm* must include any losses on such revaluation reserves in profit and loss account and other reserves.
- (4) A *BIPRU firm* must include any net gains, after deduction of deferred tax, on revaluation reserves of land and buildings at stage G of the calculation in the *capital resources table*. A *firm* must include any losses on such revaluation reserves in profit and loss account and other reserves.
- (5) (2) only applies to a *firm* to the extent that the category of asset referred to in that paragraph exists under the accounting framework that applies to the *firm* as referred to in
 - GENPRU 1.3.4 R (General requirements: accounting principles to be applied).
- (6) (3) and (4) apply to a *firm* whatever the accounting treatment of those items is under the accounting framework that applies to the *firm* as referred to in ■ GENPRU 1.3.4 R.

2.2.186

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FCA

Subject to ■ GENPRU 2.2.185 R, a *BIPRU firm* should value its revaluation reserves in accordance with the *rules* in ■ GENPRU 1.3 (Valuation).

Upper tier two capital: General/collective provisions (BIPRU firm only)

2.2.187

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FCA

A *BIPRU firm* which adopts the *standardised approach* to credit risk may include general/collective provisions in its *tier two capital resources* only if:

- (1) they are freely available to the *firm*;
- (2) their existence is disclosed in internal accounting records; and
- (3) their amount is determined by the management of the *firm*, verified by independent auditors and notified to the *appropriate regulator*.

2.2.188 **R** The value of general/collective provisions which a *firm* may include in its *tier two capital resources* as referred to in ■ GENPRU 2.2.187 R may not exceed 1.25% of the sum of the following:

FCA

- (1) the sum of the *market risk capital requirement* and the *operational risk capital requirement* (if applicable), multiplied by a factor of 12.5; and
- (2) the sum of *risk weighted assets* under the *standardised approach* for credit risk.

2.2.189 **R** Where a *firm* is unable to determine whether collective/general provisions relate only to *exposures* on either the *standardised approach* or the *IRB approach*, that *firm* must allocate them on a basis which is reasonable and consistent.

FCA

Upper tier two capital: Surplus provisions (BIPRU firm only)

2.2.190 **R** A *BIPRU firm* calculating *risk weighted exposure amounts* under the *IRB approach* may include in its *upper tier two capital resources* positive amounts resulting from the calculation in ■ BIPRU 4.3.8 R (Treatment of expected loss amounts), up to 0.6% of the *risk weighted exposure amounts* calculated under that approach.

FCA

2.2.191 **R** A *BIPRU firm* calculating *risk weighted exposure amounts* under the *IRB approach* may not include in its *capital resources* value adjustments and provisions included in the calculation in ■ BIPRU 4.3.8 R (Treatment of expected loss amounts under the *IRB approach* for *trading book exposures*) or value adjustments and provisions for *exposures* that would otherwise have been eligible for inclusion in general/collective provisions other than in accordance with ■ GENPRU 2.2.190 R.

FCA

2.2.192 **R** For the purpose of ■ GENPRU 2.2.190 R and ■ GENPRU 2.2.191 R, *risk weighted exposure amounts* must not include those calculated in respect of *securitisation positions* which have a *risk weight* of 1250%.

FCA

2.2.193 **R** If a *BIPRU firm* calculates *risk weighted exposure amounts* under the *IRB approach* for the purposes of ■ BIPRU 14 (Capital requirements for settlement and counterparty risk) it must not include valuation adjustments referred to in ■ BIPRU 14.2.18 R (1) (Treatment of expected loss amounts) in its *capital resources* except in accordance with that *rule*.

FCA

Lower tier two capital

2.2.194 **R** A *firm* may include a *capital instrument* in its *lower tier two capital resources* if (in addition to meeting the requirements of the *rules* about eligibility for inclusion in *tier two capital*) either the holder has no right to repayment or it satisfies either of the following conditions:

FCA

PRA

- (1) it has an original maturity of at least five years; or
- (2) it is redeemable on notice from the holder, but the period of notice of repayment required to be given by the holder is five years or more.

2.2.195

FCA PRA

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A *firm* may include perpetual *capital instruments* that do not meet the conditions in ■ GENPRU 2.2.177 R (Eligibility conditions for *upper tier two capital*) in *lower tier two capital resources* if they meet the general conditions described in ■ GENPRU 2.2.159 R (General conditions for eligibility as tier two *capital instruments*).

2.2.196

FCA PRA

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- (1) For the purposes of calculating the amount of a *lower tier two instrument* which may be included in a *firm's capital resources*:
 - (a) in the case of an instrument with a fixed maturity date, in the final five years to maturity; and
 - (b) in the case of an instrument with or without a fixed maturity date but where five years' or more notice of redemption or repayment has been given, in the final five years to the date of redemption or repayment;

the principal amount must be amortised on a straight line basis.
- (2) If a *firm* gives notice of the redemption or repayment of a *lower tier two instrument* and (1) does not apply, the *firm* must no longer include it in its *lower tier two capital resources*.

2.2.197

FCA PRA

G

If a *firm* wishes to include in *lower tier two capital resources* an instrument with or without a fixed maturity date but where less than five years' notice of redemption or repayment has been given, it should seek individual *guidance* from the *appropriate regulator*.

The effect of swaps on debt capital

2.2.198

FCA PRA

R

■ GENPRU 2.2.198 R to ■ GENPRU 2.2.201 R apply to a *tier one instrument*, *tier two instrument* or *tier three instrument* of a *firm* that is treated as a liability under the accounting framework to which it is subject as referred to in ■ GENPRU 1.3.4 R (General requirements: accounting principles to be applied) (a "debt instrument").

2.2.199

FCA PRA

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A *firm* must recognise for the purpose of this section any effect that changes in exchange rates or interest rates have on a debt instrument (as defined in ■ GENPRU 2.2.198 R) under the accounting framework to which the *firm* is subject as referred to in ■ GENPRU 1.3.4 R (General requirements: accounting principles to be applied).

2.2.200

FCA PRA

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A *firm* must recognise, in accordance with ■ GENPRU 2.2.201 R, the effect of a *foreign currency* hedge on a debt instrument (as defined in ■ GENPRU 2.2.198 R) denominated in a *foreign currency* or of an interest rate hedge on a fixed rate *coupon* debt instrument if:

- (1) the accounting framework to which the *firm* is subject as referred to in ■ GENPRU 1.3.4 R (General requirements: accounting principles to be applied) provides for a fair value hedge accounting relationship between a liability and its related hedge;
- (2) such a relationship exists under that accounting framework between that debt instrument and that hedge;
- (3) (if the debt instrument is a *tier one instrument*) the *firm's* obligations under that hedge comply with the conditions in ■ GENPRU 2.2.64 R to ■ GENPRU 2.2.65 R (General conditions for eligibility as tier one capital);
- (4) (if the debt instrument is a *tier two instrument* or an *upper tier three instrument*) the *firm's* obligations under that hedge comply with the conditions in ■ GENPRU 2.2.159 R to ■ GENPRU 2.2.169 R (General conditions for eligibility as tier two capital instruments) as modified, in the case of an *upper tier three instrument*, by ■ GENPRU 2.2.244 R (Application of *tier two capital rules* to *tier three capital debt*) except as follows:
 - (a) ■ GENPRU 2.2.159 R (9) only applies to the extent that it requires that hedge to be unsecured; and
 - (b) ■ GENPRU 2.2.159 R (12) (legal opinion) does not apply.

2.2.201
FCA PRA

R A *firm* must recognise the effect of a hedge as referred to in ■ GENPRU 2.2.200 R by including the net accounting fair value of the hedging instrument in the valuation of the debt instrument (as defined in ■ GENPRU 2.2.198 R).

Deductions from tiers one and two: Qualifying holdings (bank or building society only)

2.2.202

R ■ GENPRU 2.2.202 R to ■ GENPRU 2.2.207 R only apply to a *bank* or *building society*.

2.2.203

R A *qualifying holding* is a direct or indirect holding of a *bank* or *building society* in a non-financial *undertaking* which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that *undertaking*.

2.2.204

R For the purpose of ■ GENPRU 2.2.203 R, a non-financial *undertaking* is an *undertaking* other than:

- (1) a *credit institution* or *financial institution*;
- (2) an *undertaking* whose exclusive or main activities are a direct extension of banking or concern services ancillary to banking,

such as leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity; or

(3) an *insurer*.

2.2.205 **R** The amount of *qualifying holdings* that a *bank* or *building society* must deduct in the calculation in the *capital resources table* is:

- (1) (if the *firm* has one or more *qualifying holdings* that exceeds 15% of its relevant *capital resources*) the sum of such excesses; and
- (2) to the extent not already deducted in (1), the amount by which the sum of each of that *firm's qualifying holdings* exceeds 60% of its relevant *capital resources*.

2.2.206 **R** The relevant *capital resources* of a *firm* mean for the purposes of this *rule* the sum of the amount of *capital resources* calculated at stages L (Total tier one capital plus tier two capital) and Q (Total tier three capital) of the calculation in the *capital resources table* as adjusted in accordance with the following:

- (1) the *firm* must not take into account the items referred to in any of the following:
 - (a) ■ GENPRU 2.2.190 R to ■ GENPRU 2.2.193 R (surplus provisions); or
 - (b) ■ GENPRU 2.2.236 R (*expected loss* amounts and other negative amounts); or
 - (c) ■ GENPRU 2.2.237 R (*securitisation positions*);
- (2) the *firm* must make the deductions to be made at stage S of the calculation in the *capital resources table* (Deductions from total capital); and
- (3) the *firm* need not deduct any *excess trading book position* under (2).

2.2.207 **R** The following are not included as *qualifying holdings*:

- (1) *shares* that are not held as investments; or
- (2) *shares* that are held temporarily during the normal course of underwriting; or
- (3) *shares* held in a *firm's* name on behalf of others.

Deductions from tiers one and two: Material holdings (BIPRU firm only)

2.2.208

R■ GENPRU 2.2.208 R to ■ GENPRU 2.2.216 G only apply to a *BIPRU firm*.

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2.2.209

R

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(1) Subject to (2) and (3), a *material holding* is:

- (a) a *BIPRU firm's* holdings of *shares* and any other interest in the capital of an individual *credit institution* or *financial institution* (held in the *non-trading book* or the *trading book* or both) exceeding 10% of the *share* capital of the issuer, and, where this is the case, any holdings of subordinated debt of the same issuer are also included as a *material holding*; the full amount of the holding is a *material holding*; or
- (b) a *BIPRU firm's* holdings of *shares*, any other interest in the capital and subordinated debt in an individual *credit institution* or *financial institution* (held in the *non-trading book* or the *trading book* or both) not deducted under (a) if the total amount of such holdings exceeds 10% of that *firm's capital resources* at stage N (Total tier one capital plus tier two capital after deductions) of the calculation in the *capital resources table* (calculated before deduction of its *material holdings*); only the excess amount is a *material holding*; or
- (c) a *bank* or *building society's* aggregate holdings in the *non-trading book* of *shares*, any other interest in the capital, and subordinated debt in all *credit institutions* or *financial institutions* not deducted under (a) or (b) if the total amount of such holdings exceeds 10% of that *firm's capital resources* at stage N of the calculation in the *capital resources table* (calculated before deduction of its *material holdings*); only the excess amount is a *material holding*; or
- (d) a *material insurance holding*.

(2) If a *BIPRU firm* holds *shares* in the capital of Business Growth Fund plc or another *financial institution* which makes *venture capital investments* (in this section and its related annexes, a "Venture Capital Investor") and the following conditions are met:

- (a) the sole business of the Venture Capital Investor is the making of *venture capital investments* together with the performance of *ancillary activities* in relation to the administration of the *venture capital investments*;
- (b) none of the *venture capital investments* made by the Venture Capital Investor is an investment (direct or indirect) in:
 - (i) a *credit institution*; or

- (ii) a *financial institution* the principal activity of which is to perform any activity other than the acquisition of holdings in other *undertakings*;
- (c) the relevant proportion of the Venture Capital Investor is included in the *firm's UK consolidation group* in accordance with ■ BIPRU 8.5; and
- (d) the *firm* assigns a *risk weight* to its *exposure* to the Venture Capital Investor as if it were an *equity exposure* to which the simple *risk weight* approach is applied as set out in ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.12 R (and in calculating its *capital resources requirement* the *firm* must assign a *risk weight* to that *exposure* in accordance with those *rules* and notwithstanding that those *rules* would not otherwise apply to that calculation);

the Venture Capital Investor may be ignored for the purposes of determining whether there is a *material holding*.

- (3) If a *BIPRU firm* holds *shares* in the capital of a *subsidiary undertaking* which is a *financial institution* solely by reason of its principal activity being the acquiring of holdings and which in turn holds (directly or indirectly) *shares* in the capital of a Venture Capital Investor (in this section and its related annexes, a "Venture Capital Holding Company") and the following conditions are met:
 - (a) the Venture Capital Investor meets the conditions in (2)(a) and (b);
 - (b) the Venture Capital Holding Company is included in the *firm's UK consolidation group* in accordance with ■ BIPRU 8.5;
 - (c) the proportion of the value of the Venture Capital Holding Company attributable to investment in Venture Capital Investors and the proportion of the value of the Venture Capital Holding Company attributable to investment in other investments can be identified and valued on a regular basis; and
 - (d) the *firm* assigns a *risk weight* to its *exposure* to the proportion of the Venture Capital Holding Company that represents the value of its investment in Venture Capital Investors as if it were an *equity exposure* to which the simple *risk weight* approach is applied as set out in ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.12 R (and in calculating its *capital resources requirement* the *firm* must assign a *risk weight* to that *exposure* in accordance with those *rules* and notwithstanding that those *rules* would not otherwise apply to that calculation);

the proportion of the *firm's* investment in the Venture Capital Holding Company that represents the value of its investment in Venture Capital Investors may be ignored for the purposes of

- determining whether there is a *material holding*. The proportion of the *firm's* investment in the Venture Capital Holding Company that represents the value of other investments is a *material holding*.
- 2.2.210** **G** For the purpose of the definition of a *material holding*, *share capital* includes *preference shares*. *Share premium* should be taken into account when determining the amount of *share capital*.
FCA
- 2.2.211** **R** When calculating the size of its *material holdings* a *firm* must only include an actual holding (that is, a long cash position). A *firm* must not net such holdings with a short position.
FCA
- 2.2.212** **R** A *material insurance holding* means the holdings of a *BIPRU firm* of items of the type set out in ■ GENPRU 2.2.213 R in any:
FCA
- (1) *insurance undertaking*; or
 - (2) *insurance holding company*;
- that fulfils one of the following conditions:
- (3) it is a *subsidiary undertaking* of that *firm*; or
 - (4) that *firm* holds a *participation* in it.
- 2.2.213** **R** An item falls into this provision for the purpose of ■ GENPRU 2.2.212 R if it is:
FCA
- (1) an *ownership share*; or
 - (2) subordinated debt or another item of capital that falls into Article 16(3) of the *First Non-Life Directive* or, as applicable, Article 27(3) of the *Consolidated Life Directive*.
- 2.2.214** **R** The amount to be deducted with respect to each *material insurance holding* is the higher of:
FCA
- (1) the book value of the *material insurance holding*; and
 - (2) the *solo capital resources requirement* for the *insurance undertaking* or *insurance holding company* in question calculated in accordance with Part 3 of ■ GENPRU 3 Annex 1 R (Method 3 of the capital adequacy calculations for financial conglomerates).
- 2.2.215** **R** For the purpose of the definition of a *material holding*, holdings must be valued using the valuation method which the holder uses for its external financial reporting purposes.
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2.2.216

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- (1) This paragraph gives *guidance* on how the calculation under ■ GENPRU 2.2.214 R (1) should be carried out where an *insurance undertaking* is accounted for using the embedded value method.
- (2) On acquisition, any "goodwill" element (that is, the difference between the acquisition value according to the embedded value method and the actual investment) should be deducted from *tier one capital resources*.
- (3) The embedded value should be deducted from the total of *tier one capital resources* and *tier two capital resources*.
- (4) Post-acquisition, where the embedded value of the *undertaking* increases, the increase should be added to reserves, while the new embedded value is deducted from total *capital resources*.
- (5) This means that the net impact on the level of total *capital resources* is zero, although *tier two capital resources* headroom will increase with any increase in *tier one capital resources* reserves.
- (6) Embedded value is the value of the *undertaking* taking into account the present value of the expected future inflows from existing life assurance business.

2.2.216A

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- (1) This paragraph gives *guidance* as to the amount to be deducted at Part 2 of stage M (Deductions from the totals of tier one and two) of ■ GENPRU 2 Annex 2 R (Capital resources table for a bank) and ■ GENPRU 2 Annex 3 R (Capital resources table for a building society) in respect of investments in *subsidiary undertakings* and *participations* (excluding any amount which is already deducted as *material holdings* or *qualifying holdings*).
- (2) The effect of those *rules* is to achieve the deduction of all investments in *subsidiary undertakings* and *participations* for *banks* and *building societies* by ensuring that amounts not already deducted under other *rules* are accounted for at this stage of the calculation of *capital resources*, except where the investment has been made in:
 - (a) a Venture Capital Investor and the conditions in ■ GENPRU 2.2.209R (2) are met; or
 - (b) a Venture Capital Holding Company and the conditions in ■ GENPRU 2.2.209R (3) are met;
- (3) The following investments in *subsidiary undertakings* and *participations* should be deducted at this stage:
 - (a) those not deducted in Part 1 of stage M because of the operation of the thresholds in ■ GENPRU 2.2.205 R (on qualifying holdings) and ■ GENPRU 2.2.209 R (on material holdings); and
 - (b) those which do not meet the definition of *qualifying holding* or *material holding*, but excluding investments in Venture Capital Investors which are ignored in accordance with ■ GENPRU 2.2.209R (2) and investments in Venture Capital Holding Companies which are ignored in accordance with ■ GENPRU 2.2.209R (3), for the purposes of determining whether there is a *material holding*.

- (4) For example, an investment in an *undertaking* which is not a *qualifying holding* under ■ GENPRU 2.2.204 R (2) (on the definition of a non-financial undertaking), that is whose exclusive or main activities are a direct extension of banking or concern services ancillary to banking, such as leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity, should be deducted at this stage.

Deductions from tiers one and two: Reciprocal cross holdings (BIPRU firm only)

2.2.217

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■ GENPRU 2.2.217 R to ■ GENPRU 2.2.220 R apply to a *BIPRU firm*.

2.2.218

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A *BIPRU firm* must deduct at stage M of the calculation in the *capital resources table* (Deductions from the totals of tier one and two) any *reciprocal cross-holdings*. However a *BIPRU firm* must not deduct such holdings to the extent that they fall to be deducted at Part 1 of stage M of the calculation in the *capital resources table* (Deductions for *material holdings, qualifying holdings* and certain other items).

2.2.219

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A *reciprocal cross-holding* means a holding of the *BIPRU firm* of *shares*, any other interest in the capital, and subordinated debt, whether in the *trading* or *non-trading* book, in:

- (1) a *credit institution*; or
- (2) a *financial institution*;

that satisfies the following conditions:

- (3) the holding is the subject of an agreement or arrangement between the *BIPRU firm* and either the issuer of the instrument in question or a member of a *group* to which the issuer belongs;
- (4) under the terms of the agreement or arrangement described in (3) the issuer invests in the *BIPRU firm* or in a member of the *group* to which that *BIPRU firm* belongs; and
- (5) the effect of that agreement or arrangement on the capital position of the *BIPRU firm*, the issuer, or any member of a *group* to which either belongs, under any relevant rules is significantly more beneficial than it is in economic terms, taking into account the agreement or arrangement as a whole.

2.2.220

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For the purpose of ■ GENPRU 2.2.219 R, a relevant rule means a *rule* in *GENPRU, BIPRU* or *INSPRU* or any other capital adequacy or solvency requirements of the *appropriate regulator* or any other regulator, territory or country.

Deductions from tiers one and two: Connected lending of a capital nature (bank only)

- 2.2.221 **R** (1) ■ GENPRU 2.2.221 R to ■ GENPRU 2.2.235 G only apply to a bank.
- (2) If a *firm* has elected to ignore an investment in a Venture Capital Investor or a Venture Capital Holding Company in accordance with ■ GENPRU 2.2.209R (2) or ■ (3), for the purposes of determining whether there is a *material holding*, ■ GENPRU 2.2.221 R to ■ GENPRU 2.2.233 R do not apply to any lending by the *firm* to that Venture Capital Investor or Venture Capital Holding Company, provided that any lending to the Venture Capital Holding Company is made to and deployed by the *firm* solely in connection with the Venture Capital Investor.
- 2.2.222 **R** *Connected lending of a capital nature* means all lending within ■ GENPRU 2.2.227 R or ■ GENPRU 2.2.229 R and guarantees within ■ GENPRU 2.2.231 R or ■ GENPRU 2.2.233 R.
- 2.2.223 **R** A *bank* must not deduct any item as *connected lending of a capital nature* to the extent that it falls to be deducted at Part 1 of stage M of the calculation in the *capital resources table* (Deductions for *material holdings*, *qualifying holdings* and certain other items) or as a *reciprocal cross-holding*.
- 2.2.224 **R** For the purpose of the *rules* in this section about *connected lending of a capital nature* and in relation to a *bank*, a connected party means another *person* ("P") who fulfils at least one of the following conditions and is not solo-consolidated with the *bank* under ■ BIPRU 2.1 (Solo consolidation):
- (1) P is *closely related* to the *bank*; or
 - (2) P is an *associate* of the *bank*; or
 - (3) the same *persons* significantly influence the *governing body* of P and the *bank*.
- 2.2.225 **R** For the purpose of ■ GENPRU 2.2.224 R, in relation to a *person* ("P") to which a *bank* has an *exposure* when P is acting on his own behalf and also an *exposure* to P when P acts in his capacity as a trustee, custodian or general partner of an investment trust, unit trust, venture capital or other investment fund, pension fund or similar fund (a "fund") the *bank* may choose to treat this latter *exposure* as an *exposure* to the fund, unless such treatment would be misleading.
- 2.2.226 **G** ■ BIPRU 10.3.13 G (*Guidance* on exposures to trustees) applies to ■ GENPRU 2.2.225 R .

- 2.2.227 **R** A loan is *connected lending of a capital nature* if:
- (1) it is made by the *bank* to a connected party; and
 - (2) it falls into ■ GENPRU 2.2.228 R.
- 2.2.228 **R** A loan falls into this *rule* for the purposes of ■ GENPRU 2.2.227 R (2) if, whether through contractual, structural, reputational or other factors:
- (1) based on the terms of the loan and the other knowledge available to the *bank*, the borrower would be able to consider it from the point of view of its characteristics as capital as being similar to *share* capital or subordinated debt; or
 - (2) the position of the lender from the point of view of maturity and repayment is inferior to that of the senior unsecured and unsubordinated creditors of the borrower.
- 2.2.229 **R** A loan is also *connected lending of a capital nature* if:
- (1) it funds directly or indirectly a loan to a connected party of the *bank* falling into ■ GENPRU 2.2.228 R or an investment in the capital of a connected party of the *bank*; and
 - (2) it falls into ■ GENPRU 2.2.228 R.
- 2.2.230 **G** It is likely that a loan is not *connected lending of a capital nature* if:
- (1) it is secured by collateral that is eligible for the purposes of *credit risk mitigation* under the *standardised approach* to credit risk as set out in ■ BIPRU 5.4 (Financial collateral) and ■ BIPRU 5.5 (Other funded credit risk mitigation); or
 - (2) it is repayable on demand (and should be treated as such for accounting purposes by the borrower and lender) and the *bank* can demonstrate that there are no potential obstacles to exercising the right to repay, whether contractual or otherwise.
- 2.2.231 **R** A guarantee is *connected lending of a capital nature* if it is a guarantee by the *bank* of a loan from a third party to a connected party of the *bank* and:
- (1) the loan meets the requirements of ■ GENPRU 2.2.228 R; or
 - (2) the rights that the *bank* would have against the borrower with respect to the guarantee meet the requirements of ■ GENPRU 2.2.228 R (2).

2.2.232 **R** A guarantee is also *connected lending of a capital nature* if it is a guarantee by the *bank* of a loan falling into ■ GENPRU 2.2.229 R (1); and

- (1) the loan meets the conditions in ■ GENPRU 2.2.228 R; or
- (2) the guarantee meets the conditions in ■ GENPRU 2.2.231 R (2).

2.2.233 **R** The amount of a guarantee that constitutes *connected lending of a capital nature* that a *firm* must deduct is the amount guaranteed.

2.2.234 **G** A loan may initially fall outside the definition of *connected lending of a capital nature* but later fall into it. For example, if the initial lending to a connected party is subsequently downstreamed to another connected party the relationship between the *bank* and the ultimate borrower may be such that, looking at the arrangements as a whole, the *undertaking* to which the *bank* lends is able to regard the loan to it as being capable of absorbing losses.

2.2.235 **G** Lending to a connected party will not normally be *connected lending of a capital nature* where that party:

- (1) is acting as a vehicle to pass funding to an unconnected party; and
- (2) has no other creditors whose claims could be senior to those of the lender.

Deductions from tiers one and two: Expected losses and other negative amounts (BIPRU firm only)

2.2.236 **R** A BIPRU firm calculating *risk weighted exposure amounts* under the IRB approach must deduct:

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- (1) any negative amounts arising from the calculation in ■ BIPRU 4.3.8 R (Treatment of expected loss amounts); and
- (2) any *expected loss* amounts calculated in accordance with ■ BIPRU 4.7.12 R (*Expected loss* amounts under the simple risk weight approach to calculating *risk weighted exposure amounts* for *exposures* belonging to the *equity exposure IRB exposure class*) or ■ BIPRU 4.7.17 R (*Expected loss* amounts under the PD/LGD approach).

Deductions from tiers one and two: Securitisation positions (BIPRU firm only)

2.2.237 **R** A BIPRU firm calculating *risk weighted exposure amounts* under the IRB approach or the *standardised approach* to credit risk must deduct from its *capital resources* the following:

FCA

- (1) the exposure amount of *securitisation positions* which receive a *risk weight* of 1250% under ■ BIPRU 9 (Securitisation), unless the *firm* includes the *securitisation positions* in its calculation of *risk*

weighted exposure amounts (see ■ BIPRU 9.10 (Reduction in risk-weighted exposure amounts)); and

- (2) the exposure amount of *securitisation positions* in the *trading book* that would receive a *risk weight* of 1250% if they were in the *firm's non-trading book*.

Deductions from tiers one and two: Special treatment of material holdings and other items (BIPRU firm only)

2.2.238

FCA

R

■ GENPRU 2.2.238 R to ■ GENPRU 2.2.241 R apply to a *BIPRU firm* and relate to the deductions in respect of:

- (1) *material holdings*;
- (2) *expected loss* amounts and other negative amounts referred to in ■ GENPRU 2.2.236 R; and
- (3) *securitisation positions* referred to in ■ GENPRU 2.2.237 R.

2.2.239

FCA

R

- (1) The treatment in the *capital resources table* of the deductions in ■ GENPRU 2.2.238 R only has effect for the purpose of the *capital resources gearing rules*.

- (2) In other cases (3) and (4) apply.

- (3) A *BIPRU firm* making the deductions described in ■ GENPRU 2.2.238 R must deduct 50% of the total amount of those deductions at stage E (Deductions from tier one capital) and 50% at stage J (Deductions from tier two capital) of the calculation in the *capital resources table* after the application of the *capital resources gearing rules*.

- (4) To the extent that half of the total of:

- (a) *material holdings*;
- (b) *expected loss* amounts and other negative amounts; and
- (c) *securitisation positions*;

exceeds the amount calculated at stage I (Total tier two capital) of that calculation, a *firm* must deduct that excess from the amount calculated at stage F (Total tier one capital after deductions) of the *capital resources table*.

2.2.240

FCA

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The alternative calculation in ■ GENPRU 2.2.239 R (3) to ■ (4) is only relevant to ■ BIPRU 11 (Pillar 3 disclosures) and certain reporting requirements under *SUP*. However the deduction of *material holdings* at Part 2 of stage E of the *capital resources table* in the case of a *BIPRU firm* with an *investment firm consolidation waiver* has effect for all purposes.

Tier three capital: upper tier three capital resources (BIPRU firm only).....

2.2.241

R

■ GENPRU 2.2.241 R to ■ GENPRU 2.2.245 R only apply to a *BIPRU firm*.

FCA

2.2.242

R

A *BIPRU firm* may include subordinated debt in its *upper tier three capital resources* only if:

FCA

- (1) it has an original maturity of at least two years or is subject to at least two years' notice of repayment; and
- (2) payment of interest or principal is permitted only if, after that payment, the *firm's capital resources* would be not less than its *capital resources requirement*.

2.2.243

R

A *BIPRU firm* which includes subordinated debt in its *tier three capital resources* must notify the *appropriate regulator* one month in advance of all payments of either interest or principal made when the *firm's capital resources* are less than 120% of its *capital resources requirement*.

FCA

2.2.244

R

The *rules* in the table in ■ GENPRU 2.2.245 R apply to short term subordinated debt that a *BIPRU firm* includes in its *tier three capital resources* in the same way that they apply to a *firm's tier two capital resources* with the adjustments in that table.

FCA

2.2.245

R

Table: Application of tier two capital rules to tier three debt

FCA

This table belongs to ■ GENPRU 2.2.244 R

<i>Tier two capital rule</i>	<i>Adjustment</i>
GENPRU 2.2.159 R (General conditions for eligibility as tier two capital)	<p>The references in GENPRU 2.2.159 R (5) (Capital must not become repayable prior to stated maturity date except in specified circumstances) to repayment at the option of the holder are replaced by a reference to GENPRU 2.2.242 R (1) (<i>Upper tier three capital</i> should have maturity or notice period of at least two years)</p> <p>The reference in GENPRU 2.2.159 R (10) (Description of <i>tier two capital</i> in marketing documents) to GENPRU 2.2.271 R (Other requirements: insurers carrying on with-profits business (Insurer only)) does not apply</p>
GENPRU 2.2.161 R (Additional remedies)	

Tier two capital rule	Adjustment
<p>GENPRU 2.2.163 R (Legal opinion where debt subject to a law of a country outside the <i>United Kingdom</i>)</p> <p>GENPRU 2.2.169 R (Ineligibility as <i>tier two capital</i> owing to connected transactions)</p> <p>GENPRU 2.2.171 R (Amendments to terms of the <i>capital instrument</i>)</p> <p>GENPRU 2.2.172 R to GENPRU 2.2.173 R (Redeemability at the option of the issuer)</p> <p>GENPRU 2.2.174 R (Notification of redemption)</p> <p>References in the <i>rules</i> in the first column to the fifth anniversary are amended so as to refer to the second anniversary.</p>	<p>The reference to GENPRU 2.2.177 R (General eligibility conditions for <i>upper tier two capital</i>) does not apply</p>

Tier three capital: lower tier three capital resources (BIPRU firm only)

2.2.246

FCA

R

■ GENPRU 2.2.246 R to ■ GENPRU 2.2.249 R only apply to a *BIPRU firm*.

2.2.247

FCA

R

A *BIPRU firm's* net interim *trading book* profits mean its net *trading book* profits adjusted as follows:

- (1) they are net of any foreseeable charges or dividends and less net losses on its other business; and
- (2) a *firm* must not take into account items that have already been included in the calculation of *capital resources* as part of the calculation of the following items:
 - (a) interim net profits (see stage (A) of the *capital resources table*); or
 - (b) interim net losses or material interim net losses (see stage (A) of the *capital resources table*); or
 - (c) profit and loss and other reserves (see stage (A) of the *capital resources table*).

2.2.248

FCA

R

Trading book profits and losses, other than those losses to which ■ GENPRU 2.2.86 R (2) (Valuation adjustment and reserves) refers, originating from valuation adjustments or reserves as referred to in ■ GENPRU 1.3.29 R to ■ GENPRU 1.3.35A G (Valuation adjustments or

reserves) must be included in the calculation of net interim *trading book* profits and be added to or deducted from *tier three capital resources*.

2.2.249

FCA

R

Trading book valuation adjustments or reserves as referred to in ■ GENPRU 1.3.29 R to ■ GENPRU 1.3.35A G which exceed those made under the accounting framework to which a *firm* is subject must be treated in accordance with ■ GENPRU 2.2.248 R if not required to be treated under ■ GENPRU 2.2.86 R (2).

Deductions from total capital: Inadmissible assets (insurers only)

2.2.250

PRA

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■ GENPRU 2.2.250 R to ■ GENPRU 2.2.253 G only apply to an *insurer*.

2.2.251

PRA

R

For the purposes of the *capital resources table*, an *insurer* which is not a *pure reinsurer* must deduct from total *capital resources* the value of any asset which is not an *admissible asset* as listed in ■ GENPRU 2 Annex 7 R (Admissible assets in insurance), unless the asset is held to cover *property-linked liabilities* or *index-linked liabilities* under ■ INSPRU 3.1.57 R or ■ INSPRU 3.1.58 R (Covering linked liabilities).

2.2.252

PRA

G

■ GENPRU 2.2.251 R does not apply to intangible assets which should be deducted from *tier one capital resources* under ■ GENPRU 2.2.155 R (Deductions from tier one: Intangible assets).

2.2.253

PRA

G

The list of *admissible assets* has been drawn with the aim of excluding assets:

- (1) for which a sufficiently objective and verifiable basis of valuation does not exist; or
- (2) whose realisability cannot be relied upon with sufficient confidence; or
- (3) whose nature presents an unacceptable custody risk; or
- (4) the holding of which may give rise to significant liabilities or onerous duties.

Deductions from total capital: Adjustments for related undertakings

2.2.254

PRA

R

■ GENPRU 2.2.254 R to ■ GENPRU 2.2.258 G only apply to an *insurer*.

2.2.255

PRA

R

An *insurer* must deduct from its *capital resources* the value of its investments in each of its *related undertakings* that is an *ancillary services undertaking*.

2.2.256

PRA

R

In relation to each of its *related undertakings* that is a *regulated related undertaking* (other than an *insurance undertaking*) an *insurer* must add to (if positive), at stage J in the *capital resources table* (Positive adjustments for related undertakings), or deduct from (if negative), at stage L in the *capital resources table* (Deductions from total capital), its *capital resources* the value of its *shares* in that *undertaking* calculated in accordance with ■ GENPRU 1.3.47 R (Shares in and debts due from related undertakings).

2.2.257
PRA

G

For the purposes of ■ GENPRU 2.2.255 R, investments must be valued at their accounting book value in accordance with ■ GENPRU 1.3.4 R (General requirements: accounting principles to be applied).

2.2.258
PRA

G

Related undertakings which are also *insurance undertakings* are not included in ■ GENPRU 2.2.256 R because an *insurer* that is a *participating insurance undertaking* is subject to the requirements of ■ INSPRU 6.1 (Group Risk: Insurance Groups).

Deductions from total capital: Illiquid assets (BIPRU investment firm only)

2.2.259
FCA

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■ GENPRU 2.2.259 R to ■ GENPRU 2.2.262 G only apply to a *BIPRU firm*.

2.2.260
FCA

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Illiquid assets means illiquid assets including

- (1) tangible fixed assets (except land and buildings if they are used by a *firm* as security for loans, but this exclusion is only up to the value of the principal outstanding on the loans); or
- (2) any holdings in the *capital resources* of *credit institutions* or *financial institutions*, except to the extent that:
 - (a) they have already been deducted as a *material holding*; or
 - (b) they are *shares* which are included in a *firm's trading book* and included in the calculation of the *firm's market risk capital requirement*; or
- (3) holdings of other *securities* which are not *readily realisable securities*; or
- (4) deficiencies of net assets in *subsidiary undertakings*; or
- (5) deposits which are not repayable within 90 days (except for payments in connection with margined *futures* or *options* contracts); or
- (6) loans and other amounts owed to a *firm* except where they are due to be repaid within 90 days; or
- (7) physical stocks except for *positions in physical commodities* which are included in the calculation of a *firm's commodity PRR*.

2.2.261
FCA

G

If a loan or other amount owing to a *firm* was originally due to be paid more than 90 days from the date of the making of the loan or the incurring of the payment obligation, as the case may be, it may be treated as liquid for the purposes of ■ GENPRU 2.2.260 R (6) where through the passage of time the remaining time to the contractual repayment date falls below 90 days.

2.2.262 FCA G If a loan or other amount is due to be paid within 90 days (whether measured by reference to original or remaining maturity), a *firm* should consider whether it can reasonably expect the amount owing to be paid within that period. If the *firm* cannot reasonably expect it to be paid within that period the *firm* should treat it as illiquid.

Deductions from total capital: Excess trading book position (bank or building society only)

2.2.263 R ■ GENPRU 2.2.263 R to ■ GENPRU 2.2.265 R only apply to a *bank* or *building society*.

2.2.264 R (1) The *excess trading book position* is the excess of:

- (a) a *bank* or *building society's* aggregate net long (including notional) *trading book positions in shares*, subordinated debt or any other interest in the capital of *credit institutions* or *financial institutions*;

over;

- (b) 25% of that *firm's capital resources* calculated at stage T (Total capital after deductions) of the *capital resources table* (calculated before deduction of the *excess trading book position*).

(2) Only the excess amount calculated under (1) must be deducted.

2.2.265 R The *standard market risk PRR rules* apply for establishing what is a net *position* and the amount and value of that *position* for the purposes of ■ GENPRU 2.2.264 R, ignoring *rules* which would otherwise exclude such *positions* from ■ BIPRU 7.2 (Interest rate PRR) or ■ BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives) on the basis that they are to be deducted from a *bank* or *building society's capital resources*, or for any other reason.

Other capital resources: Unpaid share capital or initial funds and calls for supplementary contributions (Insurer only)

2.2.266 PRA G ■ GENPRU 2.2.266 G to ■ GENPRU 2.2.269 G only apply to an *insurer*.

2.2.267 PRA G Unpaid *share capital* or, in the case of a *mutual*, *unpaid initial funds* and calls for supplementary contributions are excluded from the *capital resources* of a *firm* except to the extent allowed in a *waiver* under section 138A of the *Act* (Modification or waiver of rules).

2.2.268 PRA G Subject to a *waiver*, under the *Insurance Directives* a maximum of one half of unpaid *share capital* or, in the case of a *mutual*, one half of the *unpaid initial fund* may be included in an *insurer's capital resources*, once the paid-up part amounts to 25% of that *share capital* or fund, up to 50% of total *capital resources*.

2.2.269

PRA

G

In the case of a *mutual* carrying on *general insurance business* and subject to a *waiver*, calls for supplementary contributions within the *financial year* may only be included in a *firm's capital resources* up to a maximum of 50% of the difference between the maximum contributions and the contributions actually called in, subject to a limit of 50% of total *capital resources*. In the case of a *mutual* carrying on *long-term insurance business*, the *Consolidated Life Directive* does not permit calls for supplementary contributions to be included in a *firm's capital resources*.

Other requirements: insurers carrying on with-profits business (Insurer only)

2.2.270

FCA PRA

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■ GENPRU 2.2.270 R to ■ GENPRU 2.2.275 G only apply to an *insurer*.

2.2.270A

FCA PRA

G

■ GENPRU 2.2.271 R to ■ GENPRU 2.2.272 G and ■ GENPRU 2.2.274 G are made by both the *PRA* and *FCA* for the purpose of applying these provisions to *insurers* pursuant to the *statutory objectives*.

2.2.271

FCA PRA

R

An *insurer* carrying on *with-profits insurance business* must, in addition to the other requirements in respect of *capital resources* elsewhere in ■ GENPRU 2.2, meet the following conditions before a *capital instrument* can be included in that *insurer's capital resources*:

- (1) the *insurer* must manage the *with-profits fund* so that discretionary benefits under a *with-profits insurance contract* are calculated and paid disregarding, insofar as is necessary for its *customers* to be treated fairly, any liability the *firm* may have to make payments under the *capital instrument*;
- (2) the intention to manage the *with-profits fund* on the basis set out in (1) must be disclosed in the *firm's Principles and Practices of Financial Management*; and
- (3) no amounts, whether interest, principal, or other amounts, must be payable by the *firm* under the *capital instrument* if the *firm's* assets would then be insufficient to enable it to declare and pay under a *with-profits insurance contract* discretionary benefits that are consistent with the *firm's* obligations under the *FCA's Principle 6 (Customers' interests)*.

2.2.272

FCA PRA

G

The purpose of ■ GENPRU 2.2.271 R is to achieve practical subordination of *capital instruments* if they are to qualify as *capital resources* to the liabilities an *insurer* has to *with-profits policyholders*, including liabilities which arise from the regulatory duty (as regulated by the *FCA*) to treat *customers* fairly in setting discretionary benefits. (*FCA's Principle 6 (Customers' interests)* requires a *firm* to pay due regard to the interests of its customers and treat them fairly.) It is not sufficient for a *capital instrument* to be subordinated to such liabilities only on winding up of the *firm* because such liabilities to *policyholders* may have been reduced by the inappropriate use of management discretion to enable funds to be applied in repaying subordinated *capital instruments* before winding up proceedings commence.

2.2.273

PRA

G

■ GENPRU 2.2.271 R is an additional requirement to all other *rules* in this section concerning the eligibility of a *capital instrument* to count as a component of an *insurer's capital resources*. Subordinated debt instruments will be the main type of *capital instrument* to which this *rule* is relevant, including both *upper tier two* (undated) and *lower tier two* (dated) subordinated debt instruments. Subordinated debt instruments which are issued by a *related undertaking* are not intended to be covered by this *rule* and may be included in *group capital resources* as appropriate if the other eligibility criteria are met.

2.2.274

FCA PRA

G

■ GENPRU 2.2.64 R (10) and ■ GENPRU 2.2.159 R (10) contain provisions concerning the marketing of a *capital instrument*. In relation to a *firm* to which ■ GENPRU 2.2.271 R applies, in order to comply with ■ GENPRU 2.2.64 R (10) and ■ GENPRU 2.2.159 R (10), it should draw to the attention of subscribers the risk that payments may be deferred or cancelled in order to operate the *with-profits fund* so as to give priority to the payment of discretionary benefits to *with-profits policyholders*.

2.2.275

PRA

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- (1) *Upper tier two instruments* should meet the requirements of ■ GENPRU 2.2.177 R (3) which goes beyond the requirement in ■ GENPRU 2.2.271 R (3) since it requires a *firm* to have the option to defer payments in all circumstances, not just if necessary to treat *customers* fairly. However, for *lower tier two instruments*, ■ GENPRU 2.2.271 R (3) represents an additional requirement since a failure to pay amounts of interest or principal on a due date must not constitute an event of default under ■ GENPRU 2.2.159 R (2) for *firms* carrying on *with-profits insurance business*.
- (2) For *firms* which are *realistic basis life firms* compliance with ■ GENPRU 2.2.271 R (3) would usually be achieved if the *capital instrument* provides that no amounts will be payable under it unless the *firm's capital resources* exceed its *capital resources requirement*. However, such *firms* should ensure that the terms of the *capital instrument* refer to *capital resources requirements* in force from time to time, including the current realistic reserving requirements and are not restricted to former minimum capital requirements based only on the *Insurance Directives'* required minimum margin of solvency. For *firms* which are not *realistic basis life firms*, compliance with ■ GENPRU 2.2.271 R (3) will probably require specific reference to be made to treating *customers* fairly in the terms of the *capital instrument*.

Public sector guarantees

2.2.276

FCA

R

A *BIPRU firm* may not include a guarantee from a state or public authority in its *capital resources*.

2.3 Application of GENPRU 2 to Lloyd's

Application of GENPRU 2.1

2.3.1 **R** ■ GENPRU 2.1 applies to the *Society* in accordance with ■ INSPRU 8.1.2 R.

PRA

2.3.2 **R** ■ GENPRU 2.1.38 R to ■ GENPRU 2.2.39 G apply to *managing agents* in accordance with ■ INSPRU 8.1.4 R.

PRA

2.3.3 **G** ■ GENPRU 2.1.13 R requires the *Society* to ensure, in relation to each *member's insurance business*, that *capital resources* equal to or in excess of the *member's capital resources* requirement (CRR) are maintained. ■ GENPRU 2.1 sets out the overall framework of the CRR. ■ INSPRU 1.1 sets out the calculation of the components of the *general insurance capital requirement* and the *long-term insurance capital requirement*.

PRA

2.3.4 **G** *Managing agents* are required to calculate the ECR for the purposes of carrying out *syndicate ICAs* under ■ INSPRU 7.1. As *with-profits insurance business* is not carried on through any *syndicate*, the calculation of the *with-profits insurance capital component* will not be applicable. ■ INSPRU 1.3 is not applied to Lloyd's.

PRA

Calculation of the MCR

2.3.5 **R** For the purposes of ■ GENPRU 2.1.24 R, the *Society* must calculate the MCR in respect of the *general insurance business* of each *member* as the higher of:

PRA

- (1) the *member's share* of the *base capital resources requirement* in respect of *general insurance business* for the *members* in aggregate; and
- (2) the *general insurance capital requirement* for the *members*, calculated according to ■ GENPRU 2.3.11 R.

2.3.6 **R** For the purposes of ■ GENPRU 2.3.5 R (1), the *Society* must determine the *member's share* by apportioning the *base capital resources requirement* in respect of *general insurance business* for the *members* in aggregate between *members* in proportion to the result for each *member* of ■ GENPRU 2.3.11 R.

PRA

2.3.7

PRA

R For the purposes of ■ GENPRU 2.1.25 R, the *Society* must calculate the MCR in respect of the *long-term insurance business* of each *member* as the higher of:

- (1) the *member's* share of the *base capital resources requirement* in respect of *long-term insurance business* for the *members* in aggregate; and
- (2) the sum of, for each *member*:
 - (a) the *long-term insurance capital requirement*; and
 - (b) the *resilience capital requirement*.

2.3.8

PRA

R For the purposes of ■ GENPRU 2.3.7 R (1), the *Society* must determine the *member's* share by applying to the aggregate long-term business *base capital resources requirement* the ratio of the result for the *member* of ■ GENPRU 2.3.7 R (2) to the aggregate of the results of ■ GENPRU 2.3.7 R (2) for all *members*.

Calculation of the base capital resources requirement

2.3.9

PRA

R The amount of the *base capital resources requirement* for the *members* in aggregate is:

- (1) for *general insurance business*, € 3.7 million; and
- (2) for *long-term insurance business*, € 3.7 million.

Calculation of the general insurance capital requirement

2.3.10

PRA

R For the purposes of ■ GENPRU 2.1.34 R, the *Society* must calculate the *general insurance capital requirement* for the *members* in aggregate as the higher of:

- (1) the aggregate for all *members* of the higher of, for each *member*, the result of the *premiums amount* and the *claims amount*; and
- (2) the *brought forward amount*.

2.3.11

PRA

R The *Society* must determine the *general insurance capital requirement* for each *member* by apportioning the result of ■ GENPRU 2.3.10 R between *members* on a fair and reasonable basis, provided that the *general insurance capital requirement* for a *member* must not be less than the higher of the result of the *premiums amount* and the *claims amount* for that *member*.

2.3.12

PRA

G The *Society* should calculate the *premiums amount* and the *claims amount* for each *member* on the basis of the *member's* own *general insurance business*, including *insurance business* that attaches to the reinsuring *member* for the purposes of GENPRU following an approved *reinsurance to close* (see ■ INSPRU 8.2.16 R).

2.3.13 **R** The *Society* must calculate the *general insurance capital requirement* it would have to determine under ■ GENPRU 2.1.34 R if it were an *insurer* carrying on all the *general insurance business* carried on by its *members*, but eliminating *inter-syndicate reinsurance* (the *Society GICR*).

2.3.14 **G** For the purpose of ■ GENPRU 2.3.13 R the *Society* may make appropriate approximations, taking reasonable care to avoid underestimating the *Society GICR*.

2.3.15 **R** The *Society* must determine each *member's* share of the *Society GICR* by allocating the *Society GICR* between the *members* in proportion to the result for each *member* of ■ GENPRU 2.3.11 R.

Application of GENPRU 2.2

2.3.16 **R** Subject to ■ GENPRU 2.3.18 R, ■ GENPRU 2.3.19 R and ■ GENPRU 2.3.21 R, ■ GENPRU 2.2 applies to *managing agents* and to the *Society* in accordance with:

- (1) for *managing agents*, ■ INSPRU 8.1.4 R; and
- (2) for the *Society*, ■ INSPRU 8.1.2 R.

2.3.17 **G** ■ GENPRU 2.1 sets out minimum *capital resources requirements* for a *firm* and for Lloyd's *members*. ■ GENPRU 2.2 sets out how, for the purpose of these requirements, *capital resources* are defined and measured. ■ GENPRU 2.2 applies:

- (1) to *managing agents* for their calculation of the *capital resources* managed by them in respect of each *syndicate* they manage (by reference, where there is a change in the underlying capital provision, to each open *syndicate* year); and
- (2) to the *Society* for its calculation of:
 - (a) each *member's capital resources*; and
 - (b) its own *capital resources*.

2.3.18 **R** ■ GENPRU 2.2.32 R to ■ GENPRU 2.2.41 R (Limits on the use of different forms of capital) do not apply to *managing agents*.

2.3.19 **R** ■ GENPRU 2.2.32 R to ■ GENPRU 2.2.41 R (Limits on the use of different forms of capital) do apply to the *Society* with respect to:

- (1) the *capital resources* requirements for the *members* in aggregate; and
- (2) the aggregate *capital resources* supporting the *insurance business* of all the *members*.

- 2.3.20 **R** ■ GENPRU 2.2.74 R does not apply to the *Society* or to *managing agents*.
PRA
- 2.3.21 **R** In this section (■ GENPRU 2.3), "the aggregate *capital resources* supporting the *insurance business* of all the *members*" are:
PRA
- (1) the aggregate of all the *members' capital resources* calculated under ■ GENPRU 2.3.25 R; and
 - (2) the *Society's capital resources* excluding callable contributions.
- Calculation of capital resources**

- 2.3.22 **R** The *capital resources table* applies with the modifications that:
PRA
- (1) *Core tier one capital* includes *Lloyd's members' contributions* in accordance with ■ GENPRU 2.3.34 R, subject, in the case of letters of credit, guarantees and verifiable sums arising out of life assurance policies, to compliance with ■ GENPRU 1.5.8 G to ■ GENPRU 1.5.12 R; and
 - (2) the *Society* may also recognise and value *callable contributions*, pursuant to ■ GENPRU 2.3.24 R.
- 2.3.23 **G** *Lloyd's member's contributions* are *admissible assets* under ■ GENPRU 2.3.34 R and include letters of credit, guarantees and verifiable sums arising out of life assurance policies held as *funds at Lloyd's*. Assets that may be valued as part of *capital resources* under PRU are not necessarily, however, permitted investments for *members* under the terms of any *Lloyd's trust deed*.
PRA
- 2.3.24 **R** In calculating its *capital resources*, the *Society* may, subject to ■ GENPRU 1.5.13 R to ■ GENPRU 1.5.14 R, recognise and value *callable contributions*.
PRA
- 2.3.25 **R** The *Society* must calculate each *member's capital resources* as the sum of:
PRA
- (1) a *member's* proportionate share of the *capital resources* held at *syndicate* level for each *syndicate* in which the *member* participates; and
 - (2) the value of a *member's funds at Lloyd's* after deducting liabilities in compliance with ■ GENPRU 1.5.18 R.
- 2.3.26 **R** In order to comply with ■ GENPRU 2.1.13 R the *Society* must ensure at all times that:
PRA
- (1) each *member's capital resources requirement* is covered by:
 - (a) that *member's capital resources*, calculated according to ■ GENPRU 2.3.25 R; and

(b) to the extent that (a) is insufficient, by the *Society's* own *capital resources*; and

(2) the *Society GICR* is covered by the aggregate *capital resources* supporting the *insurance business* of all the *members*.

2.3.27

PRA

R For the purposes of ■ GENPRU 2.3.26 R (1)(b), the *Society* must maintain at all times *capital resources* sufficient to meet the aggregate of, for each *member*, the amount, if any, by which the *member's capital resources* fall short of the *member's capital resources requirement*.

2.3.28

PRA

R The *Society* must calculate each *member's* share of the amount of *capital resources* required to comply with ■ GENPRU 2.2.33 R as the higher of:

(1) 1/3 of the *long-term insurance capital requirement* for the *members* in aggregate; and

(2) the *base capital resources requirement*;

allocated between the *members* in proportion to the result for each *member* of ■ GENPRU 2.3.7 R (2).

2.3.29

PRA

R For the purposes of ■ GENPRU 2.2.34 R, the *Society* must ensure that the aggregate *capital resources* supporting the *insurance business* of all the *members* meet the higher of:

(1) 1/3 of the *general insurance capital requirement* for the *members* in aggregate;

(2) 1/3 of the *Society GICR*; and

(3) the *base capital resources requirement*;

with the sum of the items listed in ■ GENPRU 2.2.34 R.

2.3.30

PRA

R The *Society* must calculate each *member's* share of the amount of *capital resources* required to comply with ■ GENPRU 2.2.34 R as the higher of:

(1) 1/3 of the *general insurance capital requirement* for the *members* in aggregate;

(2) 1/3 of the *Society GICR*; and

(3) the *base capital resources requirement*;

allocated between the *members* in proportion to the result for each *member* of ■ GENPRU 2.3.11 R.

Characteristics of tier one capital

2.3.31

PRA

R

A Lloyd's member's contribution may be included in tier one capital resources to the extent that:

- (1) the proceeds are immediately and fully available in respect of the member's insurance business at Lloyd's;
- (2) (except in relation to letters of credit), it complies with ■ GENPRU 2.2.64 R (3) or cannot be repaid to a member until all of the member's liabilities in respect of its insurance business at Lloyd's have been extinguished, covered or reinsured by an approved reinsurance to close;
- (3) it otherwise complies with ■ GENPRU 2.2.64 R (5) to ■ GENPRU 2.2.64 R (10).

Adjustments for related undertakings

2.3.32

PRA

R

■ GENPRU 2.2.256 R (Adjustment for regulated related undertakings other than insurance undertakings) applies to the Society with the modification that the Society must also value its insurance undertakings in accordance with ■ GENPRU 2.2.256 R.

2.3.33

PRA

R

If a related undertaking is an insurance undertaking which has a deficit in the capital resources available to cover its capital resources requirement, the Society must make provision for:

- (1) its proportionate share of that deficit; or
- (2) in the case of a subsidiary undertaking, the whole of that deficit.

Modification of GENPRU 2 Annex 7R for Lloyd's

2.3.34

PRA

R

In the case of members, Lloyd's members' contributions are included in ■ GENPRU 2 Annex 7 R and include:

- (1) letters of credit;
- (2) guarantees; and
- (3) verifiable sums arising out of life assurance policies;

held as funds at Lloyd's.

2.3.35

PRA

G

The effect of ■ GENPRU 2.3.34 R is that Lloyd's members' contributions, including letters of credit, guarantees and life assurance policies, are admissible assets.

Capital resources table for an insurer

PRA

Capital resources calculation for an insurer

Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	GENPRU 2.2.83 R	
Profit and loss account and other reserves (taking into account interim net losses)	GENPRU 2.2.85A R; GENPRU 2.2.87 R to GENPRU 2.2.88 R	
<i>Share premium account</i>	GENPRU 2.2.101 R	
Externally verified interim net profits	GENPRU 2.2.102 R	
Positive valuation differences	GENPRU 2.2.105 R	
Fund for future appropriations	GENPRU 2.2.108 R	
Perpetual non-cumulative preference shares		(B)
<i>Perpetual non-cumulative preference shares</i>	GENPRU 2.2.109 R	
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i>	GENPRU 2.2.113 R to GENPRU 2.2.121 R	
Total tier one capital before deductions = A+B+C		(D)
Deductions from tier one capital		(E)
<i>Investments in own shares</i>	None	
<i>Intangible assets</i>	GENPRU 2.2.155 R	
<i>Amounts deducted from technical provisions for discounting and other negative valuation differences</i>	GENPRU 2.2.105 R to GENPRU 2.2.107 R	
Total tier one capital after deductions = D-E		(F)
Upper tier two capital		(G)
<i>Perpetual cumulative preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.181 R	

Capital resources calculation for an insurer		
Type of capital	Related text	Stage
Perpetual subordinated debt	See previous entry	
Perpetual subordinated securities	See previous entry	
Lower tier two capital		(H)
Fixed term <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.175 G; GENPRU 2.2.194 R to GENPRU 2.2.196 R	
Long term subordinated debt	See previous entry	
Fixed term subordinated securities	See previous entry	
Total tier two capital = G+H		(I)
Positive adjustments for related undertakings		(J)
<i>Related undertakings that are regulated related undertakings (other than insurance undertakings)</i>	GENPRU 2.2.256 R	
Total capital after positive adjustments for insurance undertakings but before deductions = F + I + J		(K)
Deductions from total capital		(L)
Inadmissible assets	GENPRU 2.2.250 R to GENPRU 2.2.251 R; GENPRU 2 Annex 7 R	
Assets in excess of <i>market risk and counterparty limits</i>	INSPRU 2.1.22 R	
<i>Related undertakings that are ancillary services undertakings</i>	GENPRU 2.2.255 R	
Negative adjustments for <i>Related undertakings that are regulated related undertakings (other than insurance undertakings)</i>	GENPRU 2.2.256 R	
Total capital after deductions = K - L		(M)
Other capital resources*		(N)
Unpaid <i>share capital or, in the case of a mutual, unpaid initial funds</i> and calls for supplementary contributions	GENPRU 2.2.266 G to GENPRU 2.2.269 G	
<i>Implicit items</i>	GENPRU 2 Annex 8 G	

Capital resources calculation for an insurer		
Type of capital	Related text	Stage
Total capital resources after deductions = M + N		(O)
<p>* Items in section (N) of the table can be included in <i>capital resources</i> if subject to a <i>waiver</i> under section 138A of the <i>Act</i>.</p> <p>Note: Where the table refers to related text, it is necessary to refer to that text in order to understand fully what is included in the descriptions of capital items and deductions set out in the table.</p>		

Capital resources table for a bank

Capital resources table for a building society

Capital resources table for a BIPRU firm deducting material holdings

FCA

The capital resources calculation for an investment firm deducting material holdings

Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	GENPRU 2.2.83 R	
Profit and loss account and other reserves (taking into account material interim net losses)	GENPRU 2.2.85 R to 2.2.90	
<i>Eligible partnership capital</i>	GENPRU 2.2.93 R; GENPRU 2.2.95 R	
<i>Eligible LLP members' capital</i>	GENPRU 2.2.94 R; GENPRU 2.2.95 R	
<i>Sole trader capital</i>	None	
<i>Share premium account</i>	GENPRU 2.2.101 R	
Externally verified interim net profits	GENPRU 2.2.102 R	
Hybrid capital		
Stage B1	GENPRU 2.2.115A R to GENPRU 2.2.117B R	(B1)
Stage B2	GENPRU 2.2.115D R to GENPRU 2.2.117B R	(B2)
Stage C	GENPRU 2.2.115F R to GENPRU 2.2.117B R	(C)
Total tier one capital before deductions = A + B1 + B2 + C		(D)
Deductions from tier one capital		(E)
<i>Investments in own shares</i>	None	
Intangible assets	GENPRU 2.2.155 R	
Excess of drawings over profits for partnerships, limited liability partnerships and sole traders	GENPRU 2.2.100 R; there is no related text for <i>sole traders</i>	

The capital resources calculation for an investment firm deducting material holdings

Type of capital	Related text	Stage
Net losses on equities held in the available-for-sale financial asset category	GENPRU 2.2.185 R	
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	
Total tier one capital after deductions = D-E		(F)
Upper tier two capital		(G)
Perpetual cumulative <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.181 R	
Perpetual subordinated debt	See previous entry	
Perpetual subordinated securities	See previous entry	
Revaluation reserves	GENPRU 2.2.185 R	
General/collective provisions	GENPRU 2.2.187 R to GENPRU 2.2.189 R	
Surplus provisions	GENPRU 2.2.190 R to GENPRU 2.2.193 R	
Lower tier two capital		(H)
Fixed term <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.174 R; GENPRU 2.2.194 R to GENPRU 2.2.196 R	
Long term subordinated debt	See previous entry	
Fixed term subordinated securities	See previous entry	
Total tier two capital = G+H		(I)
Deductions from tier two capital		(J)
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	
Total tier two capital after deductions = I - J		(K)
Total tier one capital plus tier two capital = F+K		(L)
Deductions from the totals of tier one and two		(M)
<i>Material holdings</i>	GENPRU 2.2.208 R to GENPRU 2.2.215 R	

The capital resources calculation for an investment firm deducting material holdings

Type of capital	Related text	Stage
<i>Expected loss amounts and other negative amounts</i>	GENPRU 2.2.236 R	(Part 1 of stage M)
<i>Securitisation positions</i>	GENPRU 2.2.237 R	
<i>Reciprocal cross-holdings</i>	GENPRU 2.2.217 R to GENPRU 2.2.220 R	(Part 2 of stage M)
Total tier one capital plus tier two capital after deductions = L-M		(N)
<p>In calculating whether a firm's capital resources exceed its capital resources requirement:</p> <p>(1) the <i>credit risk capital component</i> and the <i>counterparty risk capital component</i>; or</p> <p>(2) the <i>base capital resources requirement</i>; as the case may be, must be deducted here.</p>		
Upper tier three		(O)
Short term subordinated debt	GENPRU 2.2.241 R to GENPRU 2.2.245 R	
Lower tier three		(P)
Net interim <i>trading book profit and loss</i>	GENPRU 2.2.246 R to GENPRU 2.2.249 R	
Total tier three capital=O+P		(Q)
Total capital before deductions = N+Q		(R)
Deductions from total capital		(S)
<i>Free deliveries</i>	BIPRU 14.4	
Total capital after deductions (R - S)		(T)
<p>In calculating whether a firm's capital resources exceed its capital resources requirement, the market risk capital requirement and the fixed overheads requirement must be deducted here.</p>		

Note (1): Where the table refers to related text, it is necessary to refer to that text in order to understand fully what is included in the descriptions of capital items and deductions set out in the table.

Note (2): If the amount calculated at:

- (a) stage N less the deductions in respect of the *capital resources requirement* made immediately following stage N; or
- (b) stage T less the deductions in respect of the *capital resources requirement* made immediately following stages N and T;

is a negative number the *firm's capital resources* are less than its *capital resources requirement*.

Capital resources table for a BIPRU investment firm deducting illiquid assets

FCA

The capital resources calculation for an investment firm that deducts illiquid assets

Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	GENPRU 2.2.83 R	
Profit and loss account and other reserves (taking into account material interim net losses)	GENPRU 2.2.85 R to GENPRU 2.2.90 R	
<i>Eligible partnership capital</i>	GENPRU 2.2.93 R; GENPRU 2.2.95 R	
<i>Eligible LLP members' capital</i>	GENPRU 2.2.94 R; GENPRU 2.2.95 R	
<i>Sole trader capital</i>	None	
<i>Share premium account</i>	GENPRU 2.2.101 R	
Externally verified interim net profits	GENPRU 2.2.102 R	
Hybrid capital		
Stage B1	GENPRU 2.2.115A R to GENPRU 2.2.117B R	(B1)
Stage B2	GENPRU 2.2.115D R to GENPRU 2.2.117B R	(B2)
Stage C	GENPRU 2.2.115F R to GENPRU 2.2.117B R	(C)
Total tier one capital before deductions = A + B1 + B2 + C		(D)
Deductions from tier one capital		(E)
<i>Investments in own shares</i>	None	
Intangible assets	GENPRU 2.2.155 R	
Excess of drawings over profits for partnerships, limited liability partnerships and sole traders	GENPRU 2.2.100 R; there is no related text for <i>sole traders</i>	

The capital resources calculation for an investment firm that deducts illiquid assets

Type of capital	Related text	Stage
Net losses on equities held in the available-for-sale financial asset category	GENPRU 2.2.185 R	
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	
Total tier one capital after deductions = D-E		(F)
Upper tier two capital		(G)
Perpetual cumulative <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.181 R	
Perpetual subordinated debt	See previous entry	
Perpetual subordinated securities	See previous entry	
Revaluation reserves	GENPRU 2.2.185 R	
General/collective provisions	GENPRU 2.2.187 R to GENPRU 2.2.189 R	
Surplus provisions	GENPRU 2.2.190 R to GENPRU 2.2.193 R	
Lower tier two capital		(H)
Fixed term <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.174 R; GENPRU 2.2.194 R to GENPRU 2.2.196 R	
Long term subordinated debt	See previous entry	
Fixed term subordinated securities	See previous entry	
Total tier two capital = G+H		(I)
Deductions from tier two capital		(J)
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	
Total tier two capital after deductions = I - J		(K)
Total tier one capital plus tier two capital = F+K		(L)
Deductions from the totals of tier one and two		(M)
<i>Expected loss amounts and other negative amounts</i>	GENPRU 2.2.236 R	(Part 1 of stage M)

The capital resources calculation for an investment firm that deducts illiquid assets

Type of capital	Related text	Stage
<i>Securitisation positions</i>	GENPRU 2.2.237 R	
<i>Reciprocal cross-holdings</i>	GENPRU 2.2.217 R to GENPRU 2.2.220 R	(Part 2 of stage M)
Total tier one capital plus tier two capital after deductions = L-M		(N)
<p>In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i>:</p> <p>(1) the <i>credit risk capital component</i> and the <i>counterparty risk capital component</i>; or</p> <p>(2) the <i>base capital resources requirement</i>; as the case may be, must be deducted here.</p>		
Upper tier three		(O)
Short term subordinated debt	GENPRU 2.2.241 R to GENPRU 2.2.245 R	
Lower tier three		(P)
Net interim trading book profit and loss	GENPRU 2.2.246 R to GENPRU 2.2.249 R	
Total tier three capital=O+P		(Q)
Total capital before deductions = N+Q		(R)
Deductions from total capital		(S)
<i>Illiquid assets</i>	GENPRU 2.2.259 R to GENPRU 2.2.260 R	
<i>Free deliveries</i>	BIPRU 14.4	
Total capital after deductions = R-S		(T)
<p>In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i>, the <i>market risk capital requirement</i> and the <i>fixed overheads requirement</i> must be deducted here.</p>		

Note (1): Where the table refers to related text, it is necessary to refer to that text in order to understand fully what is included in the descriptions of capital items and deductions set out in the table.

Note (2): If the amount calculated at:

- (a) stage N less the deductions in respect of the *capital resources requirement* made immediately following stage N; or

(b) stage T less the deductions in respect of the *capital resources requirement* made immediately following stages N and T;

is a negative number the *firm's capital resources* are less than its *capital resources requirement*.

Capital resources table for a BIPRU investment firm with a waiver from consolidated supervision

FCA

Part 1 of the capital resources calculation for an investment firm with a waiver from consolidated supervision

Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	GENPRU 2.2.83 R	
Profit and loss account and other reserves (taking into account material interim net losses)	GENPRU 2.2.85 R to 2.2.90	
<i>Eligible partnership capital</i>	GENPRU 2.2.93 R; GENPRU 2.2.95 R	
<i>Eligible LLP members' capital</i>	GENPRU 2.2.94 R; GENPRU 2.2.95 R	
<i>Sole trader capital</i>	None	
<i>share premium account</i>	GENPRU 2.2.101 R	
Externally verified interim net profits	GENPRU 2.2.102 R	
Hybrid capital		
Stage B1	GENPRU 2.2.115A R to GENPRU 2.2.117B R	(B1)
Stage B2	GENPRU 2.2.115D R to GENPRU 2.2.117B R	(B2)
Stage C	GENPRU 2.2.115F R to GENPRU 2.2.117B R	(C)
Total tier one capital before deductions = A + B1 + B2 + C		(D)
Deductions from tier one capital		(E)
Investments in own shares	None	(Part 1 of stage E)
Intangible assets	GENPRU 2.2.155 R	

Part 1 of the capital resources calculation for an investment firm with a waiver from consolidated supervision

Type of capital	Related text	Stage
Excess of drawings over profits for partnerships, <i>limited liability partnerships</i> and <i>sole traders</i>	GENPRU 2.2.100 R; there is no related text for <i>sole traders</i>	
Net losses on equities held in the available-for-sale financial asset category	GENPRU 2.2.185 R	(Part 1 of stage E)
(For certain limited purposes only certain additional deductions are made here. This line does not include <i>material holdings</i>.)	GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	
<i>Material holdings</i> falling into Note (4)	Note (4) of Part 2 of this table; GENPRU 2.2.208 R to GENPRU 2.2.215 R	(Part 2 of stage E)
(For certain limited purposes only certain additional deductions of <i>material holdings</i> are made here)	Note (5) of Part 2 of this table; GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	(Part 3 of stage E)
Total tier one capital after deductions = D-E		(F)
Upper tier two capital		(G)
Perpetual cumulative <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.181 R	
Perpetual subordinated debt	See previous entry	
Perpetual subordinated securities	See previous entry	
Revaluation reserves	GENPRU 2.2.185 R	
General/collective provisions	GENPRU 2.2.187 R to GENPRU 2.2.189 R	
Surplus provisions	GENPRU 2.2.190 R to GENPRU 2.2.193 R	
Lower tier two capital		(H)
Fixed term <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.174 R; GENPRU 2.2.194 R to GENPRU 2.2.196 R	
Long term subordinated debt	See previous entry	
Fixed term subordinated securities	See previous entry	

Part 1 of the capital resources calculation for an investment firm with a waiver from consolidated supervision		
Type of capital	Related text	Stage
Total tier two capital = G+H		(I)
Deductions from tier two capital		(J)
(For certain limited purposes only certain additional deductions are made here)	Note (5) of Part 2 of this table; GENPRU 2.2.239 R (2) to GENPRU 2.2.239 R (4)	
Total tier two capital after deductions = I - J		(K)
Total tier one capital plus tier two capital = F+K		(L)
Deductions from the totals of tier one and two		(M)
<i>Material holdings falling into Note (5)</i>	Note (5) of Part 2 of this table; GENPRU 2.2.208 R to GENPRU 2.2.215 R	(Part 1 of stage M)
<i>Contingent liabilities</i>	Note (6) of Part 2 of this table	
<i>Expected loss amounts and other negative amounts</i>	GENPRU 2.2.236 R	
<i>Securitisation positions</i>	GENPRU 2.2.237 R	
<i>Reciprocal cross-holdings</i>	GENPRU 2.2.217 R to GENPRU 2.2.220 R	(Part 2 of stage M)
Total tier one capital plus tier two capital after deductions = L-M		(N)
In calculating whether a firm's capital resources exceed its capital resources requirement:		
(1) the credit risk capital component and the counterparty risk capital component; or		
(2) the base capital resources requirement;		
as the case may be, must be deducted here.		
Upper tier three		(O)
Short term subordinated debt	GENPRU 2.2.241 R to GENPRU 2.2.245 R	
Lower tier three		(P)
Net interim trading book profit and loss	GENPRU 2.2.246 R to GENPRU 2.2.249 R	
Total tier three capital=O+P		(Q)
Total capital before deductions = N+Q		(R)

Part 1 of the capital resources calculation for an investment firm with a waiver from consolidated supervision

Type of capital	Related text	Stage
Deductions from total capital		(S)
<i>Illiquid assets</i>	GENPRU 2.2.259 R to GENPRU 2.2.260 R	
<i>Free deliveries</i>	BIPRU 14.4	
Total capital after deductions = R-S		(T)
<p>In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i>, the <i>market risk capital requirement</i>, and the <i>fixed overheads requirement</i> must be deducted here.</p>		

Part 2 of the capital resources calculation for an investment firm with a waiver from consolidated supervision

Note (1): Where the table refers to related text, it is necessary to refer to that text in order to understand fully what is included in the descriptions of capital items and deductions set out in the table.

Note (2): If the amount calculated at:

- (a) stage N less the deductions in respect of the *capital resources requirement* made immediately following stage N; or
- (b) stage T less the deductions in respect of the *capital resources requirement* made immediately following stages N and T;

is a negative number the *firm's capital resources* are less than its *capital resources requirement*.

Note (4): The *material holdings* that must be deducted at part 2 of stage E are *material holdings* issued by *undertakings* which would have been members of the *firm's UK consolidation group* or *non-EEA sub-group* if the *firm* did not have an *investment firm consolidation waiver* if:

- (1) in relation to a *BIPRU firm*, the holding forms part of the *undertaking's tier one capital resources*; or
- (2) (subject to (3)) in relation to any other *undertaking*, the holding would form part of the *undertaking's tier one capital resources* if:
 - (a) that *undertaking* were a *BIPRU firm* with a *Part 4A permission*; and
 - (b) it had carried on all its business in the *United Kingdom* and had obtained whatever *permissions* for doing so are required under the *Act*; or

Part 2 of the capital resources calculation for an investment firm with a waiver from consolidated supervision

- (3) in relation to any *undertaking* not falling within (1) and for which the methodology in (2) does not give an answer, the holding would form part of its *tier one capital resources* if the *undertaking* were a *BIPRU firm* of the same category as the *firm* carrying out the calculation under this Annex.

Note (5): The *material holdings* that must be deducted by a *firm* at part 3 of stage E and at stage J or at Part 1 of stage M are *material holdings* issued by *undertakings* which would have been members of that *firm's UK consolidation group* or *non-EEA sub-group* if the *firm* did not have an *investment firm consolidation waiver* and which do not fall into Note (4).

Note (6): The contingent liabilities that must be deducted by a *firm* at Part 1 of stage M are any contingent liabilities which the *firm* has in favour of *BIPRU firms*, *financial institutions*, *asset management companies* and *ancillary services undertakings* which would have been members of the *firm's UK consolidation group* or *non-EEA sub-group* if the *firm* did not have an *investment firm consolidation waiver*.

Guidance on applications for waivers relating to Implicit items

PRA

G Implicit items under the Act

- 1 The *capital resources table* does not permit *implicit items* to be included in the calculation of a *firm's capital resources*, except subject to a *waiver* under section 138A of the *Act*. Article 27(4) of the *Consolidated Life Directive* states that *implicit items* can be included in the calculation of a *firm's capital resources*, within limits, provided that the supervisory authority agrees. Certain *implicit items*, however, are not eligible for inclusion beyond 31 December 2009 (see paragraph 5). The *PRA* may be to grant a *waiver* from the *capital resources table* to allow *implicit items*, in line with the purpose of the *Consolidated Life Directive*, and provided the conditions as set out in article 27(4) of the *Consolidated Life Directive* are met. Such a *waiver* would allow an *implicit item* to count towards the *firm's capital resources* available to count against its *capital resources requirement (CRR)* set out for *realistic basis life firms* in GENPRU 2.1.18 R and for *regulatory basis only life firms* in GENPRU 2.1.23 R. An *implicit item* may potentially count as *tier one capital* (but not *core tier one capital*) or *tier two capital*. Where a *waiver* is granted allowing an *implicit item* as *tier one capital*, the value of the *implicit item* so allowed must be included at stage B of the *capital resources table*. If the application of the value of the *implicit item* is restricted by GENPRU 2.2.29 R, which requires that at least 50% of a *firm's tier one capital resources* must be accounted for by *core tier one capital*, the remainder may be included at stage G of the calculation in the *capital resources table*, subject to GENPRU 2.2.31 G. An *implicit item* treated as *tier two capital* will also be included at stage G of the calculation, again subject to GENPRU 2.2.81 R. Article 29(1) of the *Consolidated Life Directive* requires that *implicit items* be excluded from the capital eligible to cover the *guarantee fund*. Under GENPRU 2.2.33 R a *firm* must meet the *guarantee fund* from the sum of the items listed at stages A, B, G and H of the *capital resources table* less the sum of the items listed at stage E of the *capital resources table*. The *PRA* will only grant an *implicit items waiver* if the *waiver* includes a modification to GENPRU 2.2.33 R to ensure that the *implicit item* does not count towards meeting the *guarantee fund*.
- 2 Under section 138A of the *Act*, the *PRA* may, on the application of a *firm*, grant a *waiver* from *PRU*. There are general requirements that must be met before any *waiver* can be granted. As explained in SUP 8, the *PRA* may not give a *waiver* unless the *PRA* is satisfied that:
 - (1) compliance by the *firm* with the *rules* will be unduly burdensome, or would not achieve the purpose for which the *rules* were made; and
 - (2) the *waiver* would adversely affect the advancement of any of the *appropriate regulator's objectives*
- 3 The appropriate regulator *PRA* will assess compliance with the requirements in the light of all the relevant circumstances. This will include consideration of the costs incurred by compliance with a particular *rule* or whether a *rule* is framed in a way that would make compliance difficult in view of the *firm's* circumstances. For example, the *firm* may demonstrate that if an *implicit item* were not allowed, the *firm* would either have to suffer increased (and unwarranted) costs in injecting further *capital resources* or operate with a lower equity backing ratio (see case studies in paragraph 43). Even if a *firm* can demonstrate a case for an *implicit item waiver*, it should not assume that the appropriate regulator *PRA* will grant the *waiver* requested, or that any *waiver* will be granted for the full amount of the *implicit item* which could be granted, as set out in this annex. The appropriate regulator *PRA* will consider each application on its own merits, and taking into account all relevant circumstances, including the financial situation and business prospects of the *firm*.

4 *Implicit items* are economic reserves which are contained within the long-term insurance business provisions. Article 27(4) of the *Consolidated Life Directive* identifies three types of *implicit item*, in respect of: future profits, *zillmerisation* and hidden reserves. This annex is intended to amplify the *guidance* in SUP 8 relating to the granting of *waivers* for *implicit items* and to provide *guidance* on other aspects. Whilst this *guidance* applies to applications for *waivers* for *implicit items* generally, for a *realistic basis life firm*, to the extent that an *implicit item* is allocated to a *with-profits fund*, this *guidance* relates to *implicit items* for the purposes of determining the *regulatory value of assets* (see INSPRU 1.4.24 R).

5 The *Consolidated Life Directive* (reflecting the changes introduced by the Solvency 1 Directive) requires member states to end a *firm's* ability to take into account future profits *implicit items* by (at the latest) 31 December 2009. Until then, the maximum amount of the *implicit item* relating to future profits permitted under the *Consolidated Life Directive* is limited to 50% of the product of the estimated annual profits and the average period to run (not exceeding six years) on the *policies* in the portfolio. The *Consolidated Life Directive* further limits the maximum amount of these economic reserves that can be counted to 25% of the lesser of the available solvency margin and the required solvency margin. The changes introduced by the *Solvency 1 Directive* take effect for financial years beginning on or after 1 January 2004. However, the *Consolidated Life Directive* allows for a transitional period of five years, which runs from 20 March 2002 (the publication date of the *Solvency 1 Directive*), for *Firms* to become fully compliant with these new requirements. *Firms* will need to consider the potential impact of these changes when engaging in future capital planning. When applying for an *implicit item waiver* a *firm* should provide the *PRA* with a plan showing how the *firm* intends to maintain its capital adequacy over the period to 31 December 2009. *Firms* should also be aware that the *PRA* will typically only grant *waivers* for a maximum of 12 months.

Future Profits

6 The future profits *implicit item* allows *firms* to take credit for margins in the *mathematical reserves* to the extent that these are expected to emerge from in force business. The future profit from in force business should be assessed, in the first instance, on prudent assumptions, to demonstrate that there is an 'economic reserve'. Having demonstrated that it exists, the amount should be limited to an amount calculated using a formula that takes into account the actual profit which has emerged over the last five years (see paragraph 28).

Zillmerisation

7 *Zillmerisation* is an allowance for acquisition costs that are expected, under prudent assumptions, to be recoverable from future *premiums*. *Firms* can make a direct adjustment to their reserves for *zillmerisation*, subject to the *rules* on *mathematical reserves*. However, where no such adjustment has been made, the *PRA* will consider an application for a *waiver* to take into account an *implicit item*.

Hidden reserves

8 Hidden reserves are reserves resulting from the underestimation of assets (other than *mathematical reserves*).

Process for applying for a waiver, including limits applicable when a waiver is granted

9 This annex sets out the procedures to be followed and the form of calculations and data which should be submitted by *firms* to the appropriate regulator *PRA*. This *guidance* should also be read in conjunction with the general requirements relating to the *waiver* process described in SUP 8. The *PRA* expects that applications for *waivers* in respect of future profits and *zillmerising* will not normally be considered to pass the "would not adversely affect the advancement of any of the *PRA's* objectives" test unless the relevant criteria set out in this *guidance* have been satisfied and an application for such a *waiver* may require further criteria to be satisfied for this test to be passed. As set out below, *waivers* in respect of either *zillmerising* or hidden reserves will not normally be given except in very exceptional circumstances.

Timing

- 10 *A long-term insurer may apply to the PRA for a waiver in respect of implicit items. A waiver will not apply retrospectively (see SUP 8.3.6 G). Consequently, applications intended for a particular accounting reference date will normally need to be made well before that reference date. Applications by firms must be made to the PRA in writing and include the relevant details specified under SUP 8.3.3 D. Given the uncertainty in predicting the future, waivers will normally be granted for a maximum of 12 months at a time and any further applications will need to be made accordingly.*
- 11 *The information that will be required to enable an application to be considered as set out below, should normally include a demonstration of how the capital resources requirement is to be met, with and without the waiver. Clearly, up-to-date information may not be available before the financial year-end. In some cases information from the previous year-end's return may be used, as long as any known significant changes in the structure of the firm, or the assumptions used, have been taken into account.*
- 12 *If the application for a waiver is granted, when a firm submits its next return the amount of the implicit item shown should not exceed that supported by the firm's calculations as at the valuation date. In the event that the amount of the future profits item calculated by the firm based on these updated assumptions is less than the amount calculated at the time of the firm's waiver application, the lower figure should be used in the return.*
- 13 *An implicit item waiver in respect of zillmerising or hidden reserves is related to the basis on which liabilities or assets have been valued. In the case of hidden reserves, as explained below, the granting of a waiver will be dependent on the overall capital resources of the firm. Waivers in respect of these implicit items will, therefore, only be made in relation to the position shown in a particular set of returns and it will be essential for firms to submit applications to the appropriate regulator PRA well in advance of the latest date for the submission of the relevant return.*
- 14 *Waivers may be withdrawn by the PRA at any time (e.g. where the PRA considers the amount in respect of which a waiver has been given can no longer be justified). This may be as a result of changes in the firm's position or as a result of queries arising on scrutiny of the returns.*
- Information to be submitted
- 15 *An application for a capital resources waiver (which includes an application for an extension to or other variation of a waiver) should be prepared using the standard application form for a waiver (see SUP 8 Annex 2 D). In addition, the application should be accompanied by full supporting information to enable the PRA to arrive at a decision on the merits of the case. In particular, the application should state clearly the nature and the amounts of the implicit items that a firm wishes to count against its capital resources requirement and whether it proposes to treat the implicit item as tier one capital or tier two capital. In order to assess an application, the PRA needs information as to the make-up of the firm's capital resources, the quality of the capital items which have been categorised into each tier of capital and a breakdown of capital both within and outside the firm's long-term insurance fund or funds and between the firm's with-profits funds and non-profit funds. An explanation as to the appropriateness of the proposed treatment of the implicit item under the capital resources table should also be provided, including a demonstration that, in allowing for implicit items, there has been no double counting of future margins and that the basis for valuing such margins is prudent.*
- 16 *The PRA recognises that the assessment of the insurance technical provisions reflects the contractual obligations of the firm. Implicit items are therefore margins over and above an economic assessment in these technical provisions only. Non-contractual "constructive" obligations arising from a firm's regulatory duty (as regulated by the FCA) to treat customers fairly e.g. regarding future terminal bonuses, are not fully captured by the technical provisions. A firm must instead be satisfied that it has sufficient capital resources at all times to meet its obligations under the FCA's Principle 6. The granting of a waiver for an implicit item does not in any way detract from this requirement and a firm will need to be satisfied that this condition is still met.*
- 17 *As a minimum, applications for a future profits implicit item waiver should be supported by the information contained in Forms 13, 14, 18, 19, 40, 41, 42, 48, 49, the answers to questions 1 to 12 of the abstract of the valuation report, Appendix 9.4 of IPRU(INS), the abstract of the valuation report for the realistic valuation, Appendix 9.4A of IPRU(INS) and Forms 51, 52, 53, 54 and 58.*

For a *zillmerisation implicit item waiver*, only those items noted above forming part of the abstract valuation report will normally be needed. Applications for a *waiver* in respect of a hidden reserves *implicit item* will normally be considered only if accompanied by the information which is contained in the annual regulatory *returns*. In particular, the balance sheet forms, *long-term insurance business* revenue accounts, and abstract of the valuation report as set out in Appendices 9.1, 9.3 and 9.4 of *IPRU(INS)* should be provided. This is not to say that a full regulatory *return* must be provided in the specified format, simply that the information contained in these forms should be provided. Where appropriate, the information may be summarised.

- 18 The following supporting information relating to the calculation of the amounts claimed should be supplied for each type of *implicit item* in respect of which a *waiver* is sought: Future profits: in addition to information related to the prospective calculation and retrospective calculation described below, the profits reported in each of the last five *financial years* up to the date of the most recent available valuation under *rule 9.4* of *IPRU(INS)* which has been submitted to the *PRA* prior to, or together with, the application, and the amounts and nature of any exceptional items left out of account; the method used for calculating the average period to run and the results for each of the main categories of business, both before and after allowing for premature termination (where the calculation has been made in two stages); and the basis on which this allowance has been made. *Zillmerising*: the categories of contracts for which an item has been calculated and the percentages of the *relevant capital sum* in respect of which an adjustment has been made. Hidden reserves: particulars, with supporting evidence, of the undervaluation of assets for which recognition is sought.

Continuous monitoring by firms

- 19 *Firms* should take into account any material changes in financial conditions or other relevant circumstances that may have an impact on the level of future profits that can prudently be taken into account. *Firms* should also re-evaluate whether an application to vary an *implicit item waiver* should be made whenever circumstances have changed. In the event that circumstances have changed such that an amendment is appropriate, the *firm* must contact the *PRA* as quickly as possible in accordance with Principle 11. (See *SUP 8.5.1 R*). In this context, the *PRA* would expect notice of any matter that materially impacts on the *firm's* financial condition, or any *waivers* granted.

Future profits - factors to take into account when submitting calculations to support waiver applications

- 20 Where an application is made in respect of a *firm* which has separate *with-profits funds* and *non-profit funds*, the *firm* should ensure that the *capital resources requirement* in respect of the *non-profit fund* is not covered by future profits attributable to *policyholders* arising in the *with-profits fund*. Furthermore, for a *realistic basis life firm* the amount of the *implicit item* allocated to each *with-profits fund* should be calculated separately, as the amount allocated to each *with-profits fund* will be taken into consideration in the calculation of the *with-profits insurance capital component* (see *INSPRU 1.4.24 R*).
- 21 *Firms* need to assess prospective future profit (i.e. how much can reasonably be expected to arise) and compare this to maximum limits (in article 27(4) of the *Consolidated Life Directive*), which relate to past profits.

Future profits - prospective calculation

- 22 The application for a *waiver* should be supported by details of a prospective calculation of future profits arising from in-force business. The information supplied to the *PRA* should include a description of the method used in the calculation and of the assumptions made, together with the results arising. From 31 December 2009 at the latest, future profits *implicit items* will no longer be permitted under the *Consolidated Life Directive*. Where a *firm* first applies for an *implicit item waiver* after *GENPRU 2.2* comes into effect, under the prospective calculation a *firm* should only take into consideration future profits that are expected to emerge in the period up to 31 December 2009. *Implicit item waivers* granted before *GENPRU 2.2* comes into effect will continue to operate under the terms of those *waivers*, but an application to vary the terms of such a *waiver*, for example to extend the effective period, is an application for a new *waiver* for which a *firm* should usually

only take into consideration future profits that are expected to emerge in the period up to 31 December 2009.

Assumptions

23 The assumptions made should be prudent, rather than best estimate, assumptions of future experience (that is, the prudent assumptions should allow for the fair market price for assuming that risk including associated expenses). In particular, it would not normally be considered appropriate for the projected return on any asset to be taken to be higher than the risk-free yield (that is, assessed by reference to the yield arrived at using a model of future risk free yields properly calibrated from the forward gilts market). It may also be appropriate to bring future withdrawals into account on a suitably prudent basis. For *with-profits business*, the assumptions for future investment returns should not capitalise future bonus loadings except where the with-profits *policyholders* share in risks other than the investment performance of the fund. Furthermore, the rate at which future profits are discounted should include an appropriate margin over a risk free rate of return. Calculations should also be carried out to demonstrate that the prospective calculation of the future profits arising from the in-force business supporting the application for the *implicit item waiver* would be sufficient to support the amount of the *implicit item* under each scenario described for use in determining the *resilience capital requirement* - where the *waiver* relates to an *implicit item* allocated to more than one fund, this should be demonstrated separately for that element of the *implicit item* allocated to each fund. For an *implicit item* allocated to a *with-profits fund*, proper allowance should be made for any shareholder transfers to ensure that the *implicit item* is not supported by future profits which will be required to support those transfers. To the extent, if any, that future profits are dependent on the levying of explicit expense related charges (for example as in the case of unit-linked business) the documentation submitted should include a demonstration of the prudence of the assumptions made as to the level at which future charges will be levied and expenses incurred.

Other limitations on the extent to which waivers for implicit items will be granted to a realistic basis life firm

24 Where a *waiver* in respect of an *implicit item* is granted to a *realistic basis life firm* additional limits may apply by reference to a comparison of *realistic excess capital* and *regulatory excess capital* including allowance for the effect of the *waiver*. Where the *capital resources waiver* relates to an *implicit item* allocated partly or entirely to a *with-profits fund*, the *waiver* will contain a limitation to the effect that the *regulatory excess capital* for that *with-profits fund*, allowing for the effect of the *waiver*, may not exceed that fund's *realistic excess capital*. This limitation will apply on an ongoing basis so that, for example, in the case of an *implicit item* allocated to a *with-profits fund*, the amount of the *implicit item* would be limited to zero whenever the *regulatory excess capital* exceeded the *realistic excess capital* of that fund.

Other charges to future profits

25 To avoid double counting, no account should be taken of any future surplus arising from assets corresponding to explicit items which have been counted towards the *capital resources requirement* such as shareholders funds, surplus carried forward or investment reserves. Deductions should be made in the calculation of future surpluses for the impact of any other arrangements which give rise to a charge over future surplus emerging (e.g. financial *reinsurance* arrangements, subordinated loan capital or contingent loan agreements). Deductions should also be made to the extent that any credit has been taken for the purposes of INSPRU 1.4.45 R (2) for the present value of future profits relating to non-profit business written in a *non-profit fund*. The information supplied to the *PRA* should identify the amount and reason for any adjustments made to the calculation of the prospective amount of future profits.

26 The *firm* should confirm to the *PRA* that the calculations have been properly carried out and that there are no other factors that should be taken into account.

Future profits - retrospective calculation

Overriding limit

27 The maximum amount of the *implicit item* relating to future profits permitted under the *Consolidated Life Directive* is 50% of the product of the estimated annual profit and the average period to run (not exceeding six years (ten years during the transitional period referred to in paragraph

5)) on the *policies* in the portfolio. Article 27(4) of the *Consolidated Life Directive* also imposes a further limit on the amount of the *implicit item* equal to 25% of the lower of:

- (1) the *firm's capital resources*; and
- (2) the higher of its *base capital resources requirement for long-term insurance business* and its *long-term insurance capital requirement*.

Once the transitional period set out in article 71(1) of the *Consolidated Life Directive* has expired in 2007 (see paragraph 5), the appropriate regulator will not allow a *capital resources* for more than the amount permitted by article 27(4) of the Directive.

Definition of profits

28 The estimated annual profit should be taken as the average annual surplus arising in the *long-term insurance fund* over the last five *financial years* up to the date of the most recent available valuation which has been submitted to the *PRA* prior to, or together with, the application. For this purpose, deficiencies arising should be treated as negative surpluses. Where a *firm's financial year* has altered, the surplus arising in a period falling partly outside the relevant five year period should be assumed to accrue uniformly over the period in question for the purpose of estimating the profits arising within the five year period. When there has been a transfer of a block of business into the *firm* (or out of the *firm*) during the period, surplus arising from the transferred block should be included (or excluded) for the full five year period. Where a portion of a block of business is transferred, the surplus included (or excluded) should be a reasonable estimate of the surplus arising from the portion transferred.

29 Where a *firm* has been carrying on *long-term insurance business* for less than 5 years, the total profits made during the past five years should be taken to be the aggregate of any surpluses that have arisen during the period in which *long-term insurance business* has been carried on less any deficiencies that may have arisen during that period. The resulting total should still be divided by five to obtain the estimated annual profit.

Exceptional items

30 Substantial items of an exceptional nature should be excluded from the calculation of the estimated annual profit. Such items include profits arising from an exceptional change in the value at which assets are brought into account, where this is not reflected in a similar change in the amount of the liabilities, and profits arising from a change in the overall valuation approach between one year and another. An exceptional loss (i.e. a reduction of an exceptional nature in the surplus arising) may be excluded from the calculation only to the extent that it can be set against a profit or profits up to the amount of the loss and arising from a similar cause. It is not intended, however, that any adjustment should be made for the effect on surplus of a net strengthening of reserves for costs associated with an expansion of the business or for special capital expenditure, such as the purchase of computer systems.

Double counting

31 The inclusion of investment income arising from the assets representing the explicit components of *capital resources* (as part of the estimated annual profit for the purpose of determining the future profits *implicit item*) would result in double-counting. If those assets were required to meet the effects of adverse developments, this would automatically result in the cessation of the contribution to profits from the associated investment income. It would clearly not be appropriate for the *PRA* to grant a *capital resources waiver* which would enable a *firm* to meet the *capital resources requirement* on the basis of counting both the capital values of the assets and the value of the income flow which they can be expected to generate.

32 The definition of the estimated annual profit as the surplus arising in the *long-term insurance fund* ensures that any contribution to surplus arising from transfers from the profit and loss account, including investment income on shareholders' assets, is not included in the estimated annual profit. Thus double-counting should not arise in respect of shareholders' assets. Double-counting may arise, however, in respect of the investment income from the assets representing the explicit components of *capital resources* carried within the *long-term insurance fund* (e.g. surplus carried

forward or investment reserves), but the amount of such investment income is not separately identified in the *return*.

- 33 Where there is reason to suspect that the elimination of any such double-counting would reduce a *firm's capital resources* to close to or below the required level, or would otherwise be significant, the *PRA* will request this information with a view to taking account of this factor in determining the amount of the *implicit item*. Additional information concerning investment income should be furnished with an application for a *waiver*, if a *firm* believes that any double-counting would fall into one of the categories mentioned above.

Average period to run

- 34 The average number of years remaining to run on *policies* should be calculated on the basis of the weighted average of the periods for individual *contracts of insurance*, using as weights the actuarial present value of the benefits payable under the contracts. A separate weighted average should be calculated for each of the various categories of contract and the results combined to obtain the weighted average for the portfolio as a whole. Approximate methods of calculation, which the *firm* considers will give results similar to the full calculation, will be accepted. In particular, the *PRA* will normally accept the calculation of an average period to run for a specific category of contract on the basis of the average valuation factor for future benefits derived from data contained in the abstract of the valuation report in the regulatory *returns*. A *firm* will be asked to demonstrate the validity of the method adopted only where an abnormal distribution of the business in force gives grounds for doubt about its accuracy.

- 35 Calculations will normally be requested only for the main categories of *insurance business*, accounting for not less than 90% of the *mathematical reserves*, except where there are grounds for expecting that the exclusion of certain categories of *policies* under this provision might have a significant effect on the resulting average period to run. Detailed calculations will not be required where a *waiver* is sought in respect of a low multiple of the annual profits, well within the average period to run for the *firm*.

- 36 Where, for a particular category of business, a method of valuation is used which does not involve the calculation of the value of future benefits and which is significant for the *firm* in question, the calculation of the average period to run should be based on estimates of the value of future benefits.

Premature termination of contracts

- 37 Allowance should be made for the premature termination of *contracts of insurance*, based on the actual experience of the *firm* over the last five years, or other appropriate period, and taking into account specific features of contracts such as options which can be expected to lead to premature termination (e.g. guaranteed surrender values on income bonds written as *long-term insurance contracts* and option dates on flexible whole-life contracts). The adjustment should be made separately for each of the main categories of business. The use of industry-wide rates of termination will be acceptable where a *firm* is satisfied that this will result in sufficient allowance being made having regard to the *firm's* own experience. Methods of calculation that involve a degree of approximation will be permitted.

- 38 For certain types of contract, where the period left to run is most naturally defined as the term to a fixed maturity or expiry date, the allowance for premature termination should also take into account terminations resulting from death.

Overall limit

- 39 The overall average period left to run calculated as described above should be limited to a maximum of six years under article 27(4) of the *Consolidated Life Directive* (or a maximum of ten years during the transitional period referred to in paragraph 5) before applying it to the estimated annual profit in order to determine the maximum value of the future profits *implicit item*.

Definition of period to run

- 40 The definition of the period to run and the basis of the allowance for early termination should clearly be considered together. For certain types of contracts (e.g. pension contracts with a range of retirement ages or other options), there is inherent uncertainty about the likely term to run. In such circumstances any estimate for determining the amount of the future profits *implicit item*

for which a *waiver* is sought should be based on prudent assumptions tending, if anything, to underestimate the average period to run.

Zillmerising

- 41 The *PRA* does not normally expect to grant a *waiver* permitting *implicit items* due to *zillmerisation* except in very exceptional circumstances. *Zillmerisation* is an allowance for acquisition costs that are expected, under prudent assumptions, to be recoverable from future *premiums*. *Firms* can make a direct adjustment to their reserves for *zillmerisation*, subject to the requirements on *mathematical reserves* set out in INSPRU 1.3.43 R, and this is the usual approach. However, where no such adjustment has been made, or where the maximum adjustment has not been made in the *mathematical reserves*, the *PRA* will consider an application for an *implicit item waiver*, if the amount is consistent with the amount that would have been allowed as an adjustment to *mathematical reserves* under INSPRU 1.3.43 R.

Hidden reserves

- 42 The *PRA* will grant *waivers* permitting *implicit items* due to hidden reserves only in very exceptional circumstances. These items relate to hidden reserves resulting from the underestimation of assets. The *rules* for the valuation of assets and liabilities (see GENPRU 1.3) which apply to assets and liabilities other than *mathematical reserves* are based on the valuation used by the *firm* for the purposes of its external accounts, with adjustments for regulatory prudence such as concentration limits for large holdings, and would not normally be expected to contain hidden reserves.

Case studies on "unduly burdensome"

- 43 Some examples of situations where the existing *rules* might be considered to be unduly burdensome are given below:
- A *firm* writes *with-profits business*. The *firm's* investment policy is affected by its published financial position. Application of the *rules* without an *implicit item waiver* would result in the *firm* adopting a lower equity backing ratio. It may be possible to demonstrate that, in the circumstances, it would be unduly burdensome to require the *firm* to incur costs (which might prejudice *policyholders*) resulting from the lower equity backing ratio, rather than take allowance for an *implicit item*.
 - A *firm* has purchased a block of in-force business, on which the future profits may be reasonably estimated. However, this asset is given no value under the *rules*. It may be possible to demonstrate that it is unduly burdensome for the *firm* to recognise the cost of acquiring the assets whilst giving no value to the asset acquired.
 - A *firm* has a block of in-force business, on which the future profits may be reasonably estimated. Application of the *rules* without an *implicit item waiver* would result in a need to obtain additional capital. It may be possible to demonstrate that it is unduly burdensome, having regard to the particular circumstances of the *firm*, to require it to incur the costs involved in the injection of further capital rather than take allowance for an *implicit item*.
 - A *firm* has purchased matching assets for guaranteed annuity liabilities. The operation of the asset and liability valuation *rules* leads to statutory losses in certain circumstances in spite of good matching of assets and liabilities on a realistic basis of assessment. It may be possible to demonstrate that it is unduly burdensome to require the *firm* to incur the costs involved in the injection of further capital rather than take allowance for an *implicit item*.

Conditions which will typically be applied to implicit items waivers

Limits

- 44 Where *implicit items waivers* are granted, the value cannot exceed (and will normally be less than) the monetary limits described in paragraph 27, except that during the transitional period the pre-Solvency I limits will apply. In addition, time limits will apply and *waivers* will normally only last for 12 months.

Publicity

45

The *PRA* will publish the *waiver* (see SUP 8.6 and SUP 8.7). Public disclosure is standard practice unless the *PRA* is satisfied that publication is inappropriate or unnecessary (see section 138AB of the *Act*). Any request that a direction not be published should be made to the *PRA* in writing with grounds in support, as set out in SUP 8.6. Disclosure of a *waiver* will normally be required in the *firm's* annual *returns*.

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3.1.3

FCA PRA

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Introduction: identifying a financial conglomerate

- (1) In general the process in (2) to (8) applies for identifying *financial conglomerates*.
- (2) *Competent authorities* that have authorised *regulated entities* should try to identify any *consolidation group* that is a *financial conglomerate*. If a *competent authority* is of the opinion that a *regulated entity* authorised by that *competent authority* is a member of a *consolidation group* which may be a *financial conglomerate* it should communicate its view to the other *competent authorities* concerned.
- (3) A *competent authority* may start (as described in (2)) the process of deciding whether a group is a *financial conglomerate* even if it would not be the *coordinator*.
- (4) A member of a group may also start that process by notifying one of the *competent authorities* that have authorised group members that its group may be a *financial conglomerate*, for example by notification under ■ SUP 15.9.
- (5) If a group member gives a notification in accordance with (4), that does not automatically mean that the group should be treated as a *financial conglomerate*. The process described in (6) to (9) still applies.
- (6) The *competent authority* that would be *coordinator* will take the lead in establishing whether a group is a *financial conglomerate* once the process has been started as described in (2) and (3).
- (7) The process of establishing whether a group is a *financial conglomerate* will normally involve discussions between the *financial conglomerate* and the *competent authorities* concerned.
- (8) A *financial conglomerate* should be notified by its *coordinator* that it has been identified as a *financial conglomerate* and of the appointment of the *coordinator*. The notification should be given to the *parent undertaking* at the head of the group or, in the absence of a *parent undertaking*, the *regulated entity* with the largest balance sheet total in the *most important financial sector*. That notification does not of itself make a group into a *financial conglomerate*; whether or not a group is a *financial conglomerate* is governed by the definition of *financial conglomerate* as set out in ■ GENPRU 3.1.
- (9) ■ GENPRU 3 Annex 3 G is a questionnaire (together with its explanatory notes) that the *appropriate regulator* asks groups that may be *financial conglomerates* to fill out in order to decide whether or not they are.
- (10) If a *mixed financial holding company* is subject to equivalent provisions under ■ BIPRU 8 (Group risk consolidation) and under ■ GENPRU 3 (Cross sector groups) and the *appropriate regulator* is the *coordinator*, the *appropriate regulator* may, on application by a *firm* and after consulting other *competent authorities* responsible for the supervision of subsidiaries, disapply such provisions of ■ BIPRU 8 with regard to the *mixed financial holding company* and apply only the relevant provisions of ■ GENPRU 3 to the *mixed financial holding company*.

3.1.3A

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If a *mixed financial holding company* is subject to equivalent provisions under this Chapter and under *EEA prudential sectoral legislation* in relation to the *insurance sector* as implemented in the *United Kingdom* and the *FCA* is the *coordinator*, the *FCA* may, on

application by the *firm* and after consulting other *relevant competent authorities*, disapply such provisions of the *EEA prudential sectoral legislation* as implemented in the *United Kingdom* with regard to that undertaking which are considered by the *FCA* as equivalent to those applying to the *firm* under ■ GENPRU 3.1.

[Note: article 120(2) of *CRD*]

Introduction: The role of other competent authorities

3.1.4

FCA PRA

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A lead supervisor (called the *coordinator*) is appointed for each *financial conglomerate*. Article 10 of the *Financial Groups Directive* describes the criteria for deciding which *competent authority* is appointed as *coordinator*. Article 11 of the *Financial Groups Directive* sets out the tasks of the *coordinator*.

Definition of financial conglomerate: basic definition

3.1.5

FCA PRA

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A *financial conglomerate* means a *consolidation group* that is identified as a *financial conglomerate* in accordance with the decision tree in ■ GENPRU 3 Annex 4 R.

Definition of financial conglomerate: sub-groups

3.1.6

FCA PRA

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A *consolidation group* is not prevented from being a *financial conglomerate* because it is part of a wider:

- (1) *consolidation group*; or
- (2) *financial conglomerate*; or
- (3) group of persons linked in some other way.

Definition of financial conglomerate: the financial sectors: general

3.1.7

FCA PRA

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For the purpose of the definition of *financial conglomerate*, there are two *financial sectors* as follows:

- (1) the *banking sector* and the *investment services sector*, taken together; and
- (2) the *insurance sector*.

3.1.8

FCA PRA

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- (1) This *rule* applies for the purpose of the definition of *financial conglomerate* and the *financial conglomerate definition decision tree*.
- (2) Any *mixed financial holding company* is considered to be outside the *overall financial sector* for the purpose of the tests set out in the boxes titled Threshold Test 1, Threshold Test 2 and Threshold Test 3 in the *financial conglomerate definition decision tree*.

- (3) Determining whether the tests set out in the boxes titled Threshold Test 2 and Threshold Test 3 in the *financial conglomerate definition decision tree* are passed is based on considering the consolidated and/or aggregated activities of the members of the *consolidation group* within the *insurance sector* and the consolidated and/or aggregated activities of the members of the *consolidation group* within the *banking sector* and the *investment services sector*.

Definition of financial conglomerate: adjustment of the percentages

3.1.9

FCA PRA

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Once a *financial conglomerate* has become a *financial conglomerate* and subject to supervision in accordance with the *Financial Groups Directive*, the figures in the *financial conglomerate definition decision tree* are altered as follows:

- (1) the figure of 40% in the box titled Threshold Test 1 is replaced by 35%;
- (2) the figure of 10% in the box titled Threshold Test 2 is replaced by 8%; and
- (3) the figure of six billion Euro in the box titled Threshold Test 3 is replaced by five billion Euro.

3.1.10

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The alteration in ■ GENPRU 3.1.9 R only applies to a *financial conglomerate* during the period that:

- (1) begins when the *financial conglomerate* would otherwise have stopped being a *financial conglomerate* because it does not meet one of the unaltered thresholds referred to in ■ GENPRU 3.1.9 R; and
- (2) covers the three years following that date.

Definition of financial conglomerate: balance sheet totals

3.1.11

FCA PRA

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The calculations referred to in the *financial conglomerate definition decision tree* regarding the balance sheet must be made on the basis of the aggregated balance sheet total of the members of the *consolidation group*, according to their annual accounts. For the purposes of this calculation, *undertakings* in which a *participation* is held must be taken into account as regards the amount of their balance sheet total corresponding to the aggregated proportional share held by the *consolidation group*. However, where consolidated accounts are available, they must be used instead of aggregated accounts.

3.1.12

FCA PRA

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Definition of financial conglomerate: solvency requirement

The solvency and capital adequacy requirements referred to in the *financial conglomerate definition decision tree* must be calculated in accordance with the provisions of the relevant *sectoral rules*.

3.1.13

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Definition of financial conglomerate: discretionary changes to the definition

Articles 3(3) to 3(6), Article 5(4) and Article 6(5) of the *Financial Groups Directive* allow *competent authorities*, on a case by case basis, to:

- (1) change the definition of *financial conglomerate* and the obligations applying with respect to a *financial conglomerate* (which would include, where the *appropriate regulator* would be the *coordinator* under ■ GENPRU 3.1.3 G (6), permitting *firms* to apply, on an annual basis and subject to publication and notification to the *relevant competent authorities*, for a group of which it is a member not to be regarded as a *financial conglomerate* on the basis of Article 3(3) of the *Financial Groups Directive* (for a group that, in terms of the tests in ■ GENPRU 3 Annex 4 R, does not meet Threshold Test 2 but meets Threshold Test 3) or Article 3(3a) of the *Financial Groups Directive* (for a group that, in terms of the tests in ■ GENPRU 3 Annex 4 R, meets Threshold Test 2 but not Threshold Test 3);
- (2) apply the scheme in the *Financial Groups Directive* to *EEA regulated entities* in specified kinds of group structures that do not come within the definition of *financial conglomerate*; and
- (3) exclude a particular entity in the scope of capital adequacy requirements that apply with respect to a *financial conglomerate*.

3.1.14

FCA PRA

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Capital adequacy requirements: introduction

The capital adequacy provisions of ■ GENPRU 3.1 are designed to be applied to *EEA-based financial conglomerates*.

3.1.15

FCA PRA

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■ GENPRU 3.1.25 R is a high level capital adequacy *rule*. It applies whether or not the *appropriate regulator* is the *coordinator* of the *financial conglomerate* concerned.

3.1.16

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■ GENPRU 3.1.29 R to ■ GENPRU 3.1.31 R and ■ GENPRU 3 Annex 1 R implement the detailed capital adequacy requirements of the *Financial Groups Directive*. They only deal with a *financial conglomerate* for which the *appropriate regulator* is the *coordinator*. If another *competent authority* is *coordinator* of a *financial conglomerate*, those *rules* do not apply with respect to that *financial conglomerate* and instead that *coordinator* will be responsible for implementing those detailed requirements.

3.1.17 FCA PRA G Annex I of the *Financial Groups Directive* lays down three methods for calculating capital adequacy at the level of a *financial conglomerate*. Those three methods are implemented as follows:

- (1) Method 1 calculates capital adequacy using accounting consolidation. It is implemented by ■ GENPRU 3.1.29 R to ■ GENPRU 3.1.31 R and Part 1 of ■ GENPRU 3 Annex 1 R.
- (2) Method 2 calculates capital adequacy using a deduction and aggregation approach. It is implemented by ■ GENPRU 3.1.29 R to ■ GENPRU 3.1.31 R and Part 2 of ■ GENPRU 3 Annex 1 R.
- (3) [deleted]
- (4) Method 3 consists of a combination of Methods 1 and 2 from Annex I of the *Financial Groups Directive* and would be implemented by means of a *requirement*.

3.1.18 FCA PRA G [deleted]

3.1.19 FCA PRA G Paragraph 5.7 of ■ GENPRU 3 Annex 1 R (Capital adequacy calculations for financial conglomerates) deals with a case in which there are no capital ties between entities in a *financial conglomerate*. In particular, the *appropriate regulator* , after consultation with the other *relevant competent authorities* and in accordance with Annex I of the *Financial Groups Directive*, will determine which proportional share of a solvency deficit in such an entity will have to be taken into account, bearing in mind the liability to which the existing relationship gives rise.

3.1.20 FCA PRA G (1) [deleted]
(2) [deleted]

3.1.21 FCA PRA G The Annex I method to be applied may be decided by the *coordinator* after consultation with the *relevant competent authorities* and the *financial conglomerate* itself. Where the *appropriate regulator* acts as *coordinator*, the *financial conglomerate* itself may choose which of Method 1 or Method 2 from Annex I it will apply, unless the *firm* is subject to a *requirement* obliging the *firm* to apply a particular method.

3.1.22 FCA PRA G [deleted]

3.1.23 FCA PRA G [deleted]

3.1.24 FCA PRA G [deleted]

Capital adequacy requirements: high level requirement

3.1.25 FCA PRA R (1) A *firm* that is a member of a *financial conglomerate* must at all times have capital resources of such an amount and type that results

3.1.26
FCA PRA

R [deleted]

3.1.27
FCA PRA

R [deleted]

3.1.28
FCA PRA

R (1) [deleted]

(2) [deleted]

Capital adequacy requirements: application of Method 1 or 2 from Annex I of the Financial Groups Directive

3.1.29
FCA PRA

R If , with respect to a *firm* and a *financial conglomerate* of which it is a member, this *rule* applies under ■ GENPRU 3.1.29A R to the *firm* with respect to that *financial conglomerate* as described in ■ GENPRU 3.1.30 R, the *firm* must at all times have capital resources of an amount and type that ensures that the *conglomerate capital resources* of that *financial conglomerate* at all times equal or exceed its *conglomerate capital resources requirement*.

3.1.29A
FCA PRA

R ■ GENPRU 3.1.29 R applies to a *firm* with respect to the *financial conglomerate* of which it is a member if notification has been made in accordance with regulation 2 of the *Financial Groups Directive Regulations* that the *financial conglomerate* is a *financial conglomerate* and that the *appropriate regulator* is *coordinator* of that *financial conglomerate*.

Capital adequacy requirements: use of requirement to apply Annex I of the Financial Groups Directive

3.1.30
FCA PRA

R If ■ GENPRU 3.1.29 R (application of Method 1 or 2 from Annex I of the Financial Groups Directive) applies to a *firm* with respect to the *financial conglomerate* of which it is a member, then with respect to the *firm* and the *financial conglomerate*:

- (1) the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of that *rule* are the ones from whichever of Part 1 or Part 2 of ■ GENPRU 3 Annex 1 R the *firm* has indicated to the *appropriate regulator* it will apply, unless the *firm* is subject to a *requirement* obliging the *firm* to apply a specific part of ■ GENPRU 3 Annex 1 R, in which case ■ GENPRU 3.1.31 R will apply; and

- (2) the *firm* must indicate to the *appropriate regulator* in advance which Part of ■ GENPRU 3 Annex 1 R the *firm* intends to apply.

3.1.31

FCA PRA

R

If ■ GENPRU 3.1.29 R (application of Method 1 or 2 from Annex I of the *Financial Groups Directive*) applies to a *firm* with respect to a *financial conglomerate* of which it is a member, and the *firm* is subject to a *requirement* obliging the *firm* to apply a specific part of ■ GENPRU 3 Annex 1 R, the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of that *rule* are the ones from whichever of Part 1 or Part 2 of ■ GENPRU 3 Annex 1 R is specified in the *requirement* .

Risk concentration and intra-group transactions: introduction

3.1.32

FCA PRA

G

■ GENPRU 3.1.35 R implements Article 7(4) and Article 8(4) of the *Financial Groups Directive*, which provide that where a *financial conglomerate* is headed by a *mixed financial holding company*, the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate*, if any, shall apply to that sector as a whole, including the *mixed financial holding company*.

3.1.33

FCA PRA

G

Articles 7(3) (Risk concentration) and 8(3) (Intra-group transactions) and Annex II (Technical application of the provisions on intra-group transactions and risk concentration) of the *Financial Groups Directive* say that Member States may apply at the level of the *financial conglomerate* the provisions of the *sectoral rules* on *risk concentrations* and *intra-group transactions*. ■ GENPRU 3.1 does not take up that option, although the *appropriate regulator* may impose such obligations on a case by case basis.

Risk concentration and intra-group transactions: application

3.1.34

FCA PRA

R

■ GENPRU 3.1.35 R applies to a *firm* with respect to a *financial conglomerate* of which it is a member if:

- (1) the condition in Articles 7(4) and 8(4) of the *Financial Groups Directive* is satisfied (the *financial conglomerate* is headed by a *mixed financial holding company*); and
- (2) that *financial conglomerate* is a *UK regulated EEA financial conglomerate*.

Risk concentration and intra group transactions: the main rule

3.1.35

FCA PRA

R

A *firm* must ensure that the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate* referred to in ■ GENPRU 3.1.34 R are complied with with respect to that *financial sector* as a whole, including the *mixed financial holding company*. The *sectoral rules* for these purposes are those identified in the table in ■ GENPRU 3.1.36 R.

Risk concentration and intra-group transactions: Table of applicable sectoral rules

3.1.36 **R**
FCA PRA

Table: application of sectoral rules

This table belongs to ■ GENPRU 3.1.35 R

The most important financial sector	Applicable sectoral rules	
	Risk concentration	Intra-group transactions
<i>Banking and investment services sector</i>	the <i>EU CRR</i>	Part Four of the <i>EU CRR</i>
<i>Insurance sector</i>	None	<i>Rule 9.39 of IPRU(INS)</i>
Note	Any <i>waiver granted to a member of the financial conglomerate, on a solo or consolidated basis, shall not apply in respect of the financial conglomerate for the purposes of GENPRU 3.1.36 R.</i>	

3.1.37 **R**
FCA PRA

- (1) Where the *sectoral rules* for the *banking and investment services sector* are being applied, a *mixed financial holding company* must be treated as being a *financial holding company*.
- (2) Where the *rules* for the *insurance sector* are being applied, a *mixed financial holding company* must be treated as being an *insurance holding company*.

3.1.38 **R**
FCA PRA

- (1) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]

The financial sectors: asset management companies and alternative investment fund managers

3.1.39 **R**
FCA PRA

- (1) In accordance with Articles 30 and 30a of the *Financial Groups Directive* (Asset management companies and Alternative investment fund managers), this *rule* deals with the inclusion of an *asset management company* or an *alternative investment fund manager* that is a member of a *financial conglomerate* in the scope of regulation of *financial conglomerates*.
- (2) An *asset management company* or an *alternative investment fund manager* is in the *overall financial sector* and is a *regulated entity* for the purpose of:

- (a) ■ GENPRU 3.1.29 R to ■ GENPRU 3.1.36 R;
 - (b) ■ GENPRU 3 Annex 1 R (Capital adequacy calculations for financial conglomerates) and ■ GENPRU 3 Annex 2 R (Prudential rules for third country groups); and
 - (c) any other provision of the *Handbook* or *PRA Rulebook* relating to the supervision of *financial conglomerates*.
- (3) In the case of a *financial conglomerate* for which the *appropriate regulator* is the *coordinator*, all *asset management companies* and all *alternative investment fund managers* must be allocated to one *financial sector* to which they belong for the purposes in (2), being either the *investment services sector* or the *insurance sector*. But if that choice has not been made in accordance with (4) and notified to the *appropriate regulator* in accordance with (4)(d), an *asset management company* or an *alternative investment fund manager* must be allocated to the smallest *financial sector*.
- (4) The choice in (3):
- (a) must be made by the *undertaking* in the *financial conglomerate* holding the position referred to in Article 4(2) of the *Financial Groups Directive* (group member to whom notice must be given that the group has been found to be a *financial conglomerate*);
 - (b) applies to all *asset management companies* and all *alternative investment fund managers* that are members of the *financial conglomerate* from time to time;
 - (c) cannot be changed; and
 - (d) must be notified to the *appropriate regulator* as soon as reasonably practicable after the notification in (4)(a).
- (5) This *rule* applies even if:
- (a) a *UCITS management company* is an *IFPRU investment firm*;
or
 - (b) an *asset management company* or *alternative investment fund manager* is an *investment firm*.

3.2 Third-country groups

Application

3.2.1

FCA PRA

R

■ GENPRU 3.2 applies to every *firm* that is a member of a *third-country group*. But it does not apply to:

- (1) an *incoming EEA firm*; or
- (2) an *incoming Treaty firm*; or
- (3) a *UCITS qualifier*; or
- (4) an *ICVC*.

Purpose

3.2.2

FCA PRA

G

■ GENPRU 3.2 implements in part Article 18 of the *Financial Groups Directive* and Article 127 of the *CRD*.

Equivalence

3.2.3

FCA PRA

G

The first question that must be asked about a *third-country financial group* is whether the *EEA regulated entities* in that *third-country group* are subject to supervision by a *third-country competent authority*, which is equivalent to that provided for by the *Financial Groups Directive* (in the case of a *financial conglomerate*) or the *EEA prudential sectoral legislation* for the *banking sector* or the *investment services sector* (in the case of a *banking and investment group*). Article 18(1) of the *Financial Groups Directive* sets out the process for establishing equivalence with respect to *third-country financial conglomerates* and Article 127(1) and (2) of the *CRD* does so with respect to *third-country banking and investment groups*.

Other methods: General

3.2.4

FCA PRA

G

If the supervision of a *third-country group* by a *third-country competent authority* does not meet the equivalence test referred to in ■ GENPRU 3.2.3 G, the methods set out in the *CRD* and *EU CRR* will apply or *competent authorities* may apply other methods that ensure appropriate supervision of the *EEA regulated entities* in that *third-country group* in accordance with the aims of supplementary supervision under the *Financial Groups Directive* or consolidated supervision under the applicable *EEA prudential sectoral legislation*.

Supervision by analogy: introduction

3.2.5

FCA PRA

G

If the supervision of a *third-country group* by a *third-country competent authority* does not meet the equivalence test referred to in ■ GENPRU 3.2.3 G, a *competent authority* may, rather than take the measures described in ■ GENPRU 3.2.4 G, apply, by analogy, the provisions concerning supplementary supervision under the *Financial Groups Directive* or, as applicable, consolidated supervision under the applicable *EEA prudential sectoral legislation*, to the *EEA regulated entities* in the *banking sector*, *investment services sector* and (in the case of a *financial conglomerate*) *insurance sector*.

3.2.6

FCA PRA

G

The *appropriate regulator* believes that it will only be right to adopt the option in ■ GENPRU 3.2.5 G in response to very unusual group structures.

3.2.7

FCA PRA

G

■ GENPRU 3.2.8 R and ■ GENPRU 3.2.9 R and ■ GENPRU 3 Annex 2 R set out *rules* to deal with the situation covered in ■ GENPRU 3.2.5 G. Those *rules* do not apply automatically. Instead, they can only be applied with respect to a particular *third-country group* through the *Part 4A permission* of a *firm* in that *third-country group*.

Supervision by analogy: rules for third-country conglomerates

3.2.8

FCA PRA

R

If the *Part 4A permission* of a *firm* contains a *requirement* obliging it to comply with this *rule* with respect to a *third-country financial conglomerate* of which it is a member, it must comply, with respect to that *third-country financial conglomerate*, with the *rules* in Part 1 of ■ GENPRU 3 Annex 2 R, as adjusted by Part 3 of that annex.

Supervision by analogy: rules for third-country banking and investment groups

3.2.9

FCA PRA

R

If the *Part 4A permission* of a *firm* contains a *requirement* obliging it to comply with this *rule* with respect to a *third-country banking and investment group* of which it is a member, it must comply, with respect to that *third-country banking and investment group*, with the *rules* in Part 2 of ■ GENPRU 3 Annex 2 R, as adjusted by Part 3 of that annex.

- (2) If there is an *EEA regulated entity* at the head of the *financial conglomerate*, then:
 - (a) if that entity is in the *banking sector* or the *investment services sector*, the *financial conglomerate* is a *banking and investment services conglomerate*; or
 - (b) if that entity is in the *insurance sector*, the *financial conglomerate* is an *insurance conglomerate*.
- (3) If (2) does not apply and the *most important financial sector* is the *banking and investment services sector*, it is a *banking and investment services conglomerate*.
- (4) If (2) and (3) does not apply, it is an *insurance conglomerate*.

7 Table

A mixed financial holding company	4.4	<p><i>A mixed financial holding company</i> must be treated in the same way as:</p> <ul style="list-style-type: none"> (1) a <i>financial holding company</i> (if Part One, Title II, Chapter 2 of the <i>EU CRR</i> and the <i>PRA Rulebook</i>) are applied; or (2) an <i>insurance holding company</i> (if the rules in INSPRU 6.1 are applied).
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8 Table: PART 5: Principles applicable to all methods

Transfer-ability of capital	5.1	<p>Capital may not be included in:</p> <p><i>a firm's conglomerate capital resources</i> under GENPRU 3.1.29 R</p> <p>if the effectiveness of the transferability and availability of the capital across the different members of the <i>financial conglomerate</i> is insufficient, given the objectives (as referred to in the third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the <i>Financial Groups Directive</i> (Technical principles)) of the capital adequacy rules for <i>financial conglomerates</i>.</p>
Double counting	5.2	<p>Capital must not be included in:</p> <p><i>a firm's conglomerate capital resources</i> under GENPRU 3.1.29 R</p> <p>if:</p> <ul style="list-style-type: none"> (1) it would involve double counting or multiple use of the same capital; or

(2) it results from any inappropriate intra-group creation of capital.

Cross sectoral capital 5.3

In accordance with the second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the *Financial Groups Directive* (Other technical principles and insofar as not already required in Parts 1-3):

- (1) the solvency requirements for each different *financial sector* represented in a *financial conglomerate* required by GENPRU 3.1.29 R must be covered by own funds elements in accordance with the corresponding *applicable sectoral rules*; and
- (2) if there is a deficit of own funds at the *financial conglomerate* level, only cross sectoral capital (as referred to in that sub-paragraph) shall qualify for verification of compliance with the additional solvency requirement required by GENPRU 3.1.29 R.

Application of sectoral 5.4 rules: General

The following adjustments apply to the *applicable sectoral rules* as they are applied by the *rules* in this annex.

- (1) The scope of those *rules* will be extended to cover any *mixed financial holding company* and each other member of the *overall financial sector*.
- (2) If any of those *rules* would otherwise not apply to a situation in which they are applied by GENPRU 3 Annex 1 R, those *rules* nevertheless still apply (and in particular, any of those *rules* that would otherwise have the effect of disapplying consolidated supervision (or, in the case of the *insurance sector*, supplementary supervision) do not apply).
- (3) (If it would not otherwise have been included) an *ancillary insurance services undertaking* is included in the *insurance sector*.
- (4) The scope of those *rules* is amended so as to remove restrictions relating to where members of the *financial conglomerate* are incorporated or have their head office, so that the scope covers every member of the *financial conglomerate* that would have been included in the scope of those *rules* if those members had their head offices in an *EEA State*.
- (5) (For the purposes of Parts 1 to 3) those *rules* must be adjusted, if necessary, when calculating the capital resources, capital resources requirements or solvency requirements for a particular *financial sector* to exclude those for a member of another *financial sector*.
- (6) Any *waiver* granted to a member of the *financial conglomerate* under those *rules* does not apply for the purposes of this annex.

**Application of sectoral 5.5
rules: Insurance sector**

(1) This *rule* applies an adjustment to the *applicable sectoral rules* for the *insurance sector* as they are applied by the *rules* in this annex.

(2) To the extent that:

- (a) those *rules* merely require a report on whether or not a specified level of solvency is met (a soft limit); or
- (b) the requirements in those *rules* concern having certain net assets of an amount at or above certain levels;

those requirements are restated so as to include an obligation at all times actually to have capital at or above that level (a hard limit), thereby turning a soft limit into a hard limit and turning a limit drafted by reference to assets and liabilities into a requirement that the level of capital be maintained at or above a specified level. If those *rules* apply both a hard and a soft limit, and the level of the soft limit is higher, that soft limit is applied under this annex, but translated into a hard limit in accordance with the earlier provisions of this *rule*.

**Application of sectoral 5.6
rules: Banking sector
and investment ser-
vices sector**

In relation to a *BIPRU firm* that is a member of a *financial conglomerate* where there are no *credit institutions* or *investment firms*, the following adjustments apply to the *applicable sectoral rules* for the *banking sector* and the *investment services sector* as they are applied by the *rules* in this annex.

(1) References in those *rules* to *non-EEA sub-groups* do not apply.

(2) [deleted]

(3) Any *investment firm consolidation waivers* granted to members of the *financial conglomerate* do not apply.

(4) (For the purposes of Part 3), without prejudice to the application of requirements in **BIPRU 8** preventing the use of an *advanced prudential calculation approach* on a consolidated basis, any *advanced prudential calculation approach permission* that applies for the purpose of **BIPRU 8** does not apply.

(5) (For the purposes of Part 3), **BIPRU 8.5.9 R** and **BIPRU 8.5.10 R** do not apply.

(6) (For the purposes of Part 3), where the *financial conglomerate* does not include a *credit institution*, the method in **GENPRU 2 Annex 4 R** must be used for calculating the capital resources and **BIPRU 8.6.8 R** does not apply.

(Other than as above) the *EU CRR* apply for the *banking sector* and the *investment services sector*.

No capital ties 5.7

(1) This *rule* deals with a *financial conglomerate* in which some of the members are not linked by capital ties at the time of the notification referred to in **GENPRU 3.1.29A R**

(Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive).

(2)

[deleted]

(3) [deleted]

(4) If:

(a) [deleted]

(b) **GENPRU 3.1.29 R** (Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive) applies with respect to a *financial conglomerate* falling into (1);

then:

(c) the treatment of the links in (1) (including the treatment of any *solvency deficit*) is as provided for in whichever of Part 1 or Part 2 of **GENPRU 3 Annex 1 R** the *firm* has, under **GENPRU 3.1.30 R**, indicated to the *appropriate regulator* it will apply or, if applicable, in the *requirement* referred to in **GENPRU 3.1.31 R**; and

(d) **GENPRU 3.1.29 R** applies even if the *applicable sectoral rules* do not deal with how *undertakings* not linked by capital ties are to be dealt with for the purposes of consolidated supervision (or, in the case of the *insurance sector*, supplementary supervision).

(5) [deleted]

9 Table: PART 6: Definitions used in this Annex

Defining the financial 6.1
sectors

For the purposes of Parts 1 and 2 of this annex:

(1) an *asset management company* is allocated in accordance with **GENPRU 3.1.39 R**;

(2) an *alternative investment fund manager* is allocated in accordance with **GENPRU 3.1.39 R**; and

(3) a *mixed financial holding company* must be treated as being a member of the *most important financial sector*.

Solo capital resources 6.2
requirement: Banking
sector and investment
service sector

(1) The *solo capital resources requirement* of an *undertaking* in the *banking sector* or the *investment services sector* must be calculated in accordance with this *rule*, subject to paragraphs 6.5 and 6.6.

(2) The *solo capital resources requirement* of a *building society* is its *own funds requirements*.

(3) The *solo capital resources requirement* of an *electronic money institution* is the capital resources requirement that applies to it under the *Electronic Money Regulations*.

(4) If there is a *credit institution* in the *financial conglomerate*, the *solo capital resources requirement* for any *undertaking* in the *banking sector* or the *investment services sector* is,

subject to (2) and (3), calculated in accordance with the *EU CRR* for calculating the *own funds requirements* of a .

(5) If:

- (a) the *financial conglomerate* does not include a *credit institution*;
- (b) there is at least one *investment firm* in the *financial conglomerate*; and
- (c) all the *investment firm* in the *financial conglomerate* are *limited licence firms* or *limited activity firms*;

the *solo capital resources requirement* for any *undertaking* in the *banking sector* or the *investment services sector* is calculated in accordance with the *EU CRR* for calculating the *own funds requirements* of:

- (i) (if there is a *limited activity firm* in the *financial conglomerate*), an *IFPRU limited activity firm*; or
- (ii) (in any other case), an *IFPRU limited licence firm*.

(6) If:

- (a) the *financial conglomerate* does not include a *credit institution*; and
- (b) (5) does not apply;

the *solo capital resources requirement* for any *undertaking* in the *banking sector* or the *investment services sector* is calculated in accordance with the *EU CRR* for calculating the *own funds requirement* of a *full-scope IFPRU investment firm*.

(7) In relation to a *BIPRU firm* that is a member of a *financial conglomerate* where there are no *credit institutions* or *investment firms*, any *capital resources requirements* calculated under a *BIPRU TP* may be used for the purposes of the *solo capital resources requirement* in this rule in the same way that the *capital resources requirements* can be used under **BIPRU 8**.

Solo capital resources requirement: application of rules 6.3

Any exemption that would otherwise apply under any *rules* applied by paragraph 6.2 do not apply for the purposes of this Annex.

Solo capital resources requirement: Insurance sector 6.4

(1) The *solo capital resources requirement* of an *undertaking* in the *insurance sector* must be calculated in accordance with this rule.

(2) Subject to (3), the *solo capital resources requirement* of an *undertaking* in the *insurance sector* is the capital resources requirement identified in **INSPRU 6.1.34 R** (1) to (8) as applying to that *undertaking*.

(3) **INSPRU 6.1.34 R** (1)(b) does not apply for the purposes of this annex.

<p>Solo capital resources requirement: EEA firms in the banking sector or investment services sector</p>	6.5	<p>The <i>solo capital resources requirement</i> for an <i>EEA regulated entity</i> (other than a <i>bank, building society, designated investment firm, IFPRU investment firm, BIPRU firm, an insurer or an EEA insurer</i>) that is subject to the solo capital adequacy <i>sectoral rules</i> for its <i>financial sector</i> of the <i>competent authority</i> that authorised it is equal to the amount of capital it is obliged to hold under those <i>sectoral rules</i> provided that the following conditions are satisfied:</p> <ol style="list-style-type: none"> (1) (for the purposes of the <i>banking sector</i> and the <i>investment services sector</i>) those <i>sectoral rules</i> must correspond to the <i>appropriate regulator's sectoral rules</i> identified in paragraph 6.2 as applying to that <i>financial sector</i>; (2) the entity must be subject to those <i>sectoral rules</i> in (1); and (3) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.
<p>Solo capital resources requirement: non-EEA firms subject to equivalent regimes in the banking sector or investment services sector</p>	6.6	<p>The <i>solo capital resources requirement</i> for a <i>recognised third country credit institution</i> or a <i>recognised third country investment firm</i> is the amount of capital resources that it is obliged to hold under the <i>sectoral rules</i> for its <i>financial sector</i> that apply to it in the state or territory in which it has its head office provided that:</p> <ol style="list-style-type: none"> (1) there is no reason for the <i>firm</i> applying the <i>rules</i> in this annex to believe that the use of those <i>sectoral rules</i> would produce a lower figure than would be produced under paragraph 6.2; and (2) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.
<p>Solo capital resources requirement: mixed financial holding company</p>	6.7	<p>The <i>solo capital resources requirement</i> of a <i>mixed financial holding company</i> is a notional capital requirement. It is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 6.10.</p>

10 Table

<p>Solo capital resources requirement: the insurance sector</p>	6.8	<p>References to capital requirements in the provisions of GENPRU 3 Annex 1 R defining <i>solo capital resources requirement</i> must be interpreted in accordance with paragraph 5.4.</p>
<p>Applicable sectoral consolidation rules</p>	6.9	<p>The <i>applicable sectoral consolidation rules</i> for a <i>financial sector</i> are the <i>appropriate regulator's sectoral rules</i> about capital adequacy and solvency on a consolidated basis that are applied in the table in paragraph 6.10.</p>

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

Financial sector	Sectoral rules
<i>Banking sector</i>	Part One, Title II, Chapter 2 of the <i>EU CRR</i> and the <i>PRA Rulebook</i>
<i>Insurance sector</i>	INSPRU 6.1.
<i>Investment services sector</i>	<p>(in relation to a <i>designated investment firm</i> or <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>PRA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>EU CRR</i> and the <i>PRA Rulebook</i>;</p> <p>(in relation to an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>FCA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>EU CRR</i> and <i>IFPRU 8.1</i>;</p> <p>(in relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i> for which the <i>FCA</i> is the <i>coordinator</i>) <i>BIPRU 8</i> and <i>BIPRU TP</i></p>

12 Table:

Part 5	1	This Part 6 is subject to Part 5 of this Annex.
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Prudential rules for third country groups (GENPRU 3.2.8R to GENPRU 3.2.9R)

FCA **PRA**

1 Table: PART 1: Third-country financial conglomerates

- 1.1 This Part of this annex sets out the *rules* with which a *firm* must comply under GENPRU 3.2.8 R with respect to a *financial conglomerate* of which it is a member.
- 1.2 A *firm* must comply, with respect to the *financial conglomerate* referred to in paragraph 1.1, with GENPRU 3.1.29 R as applied under paragraph 1.3.
- 1.3 For the purposes of paragraph 1.2:
- (1) [deleted]
- (2) the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of that rule are the ones from whichever of Part 1 or Part 2 of GENPRU 3 Annex 1 R is specified in the *requirement* referred to in GENPRU 3.2.8 R ; and
- (3) the *rules* so applied (including those in GENPRU 3 Annex 1 R) are adjusted in accordance with paragraph 3.1.
- 1.4 If the condition in Articles 7(4) and 8(4) of the *Financial Groups Directive* is satisfied (the *financial conglomerate* is headed by a *mixed financial holding company*) with respect to the *financial conglomerate* referred to in paragraph 1.1 the *firm* must also comply with GENPRU 3.1.35 R (as adjusted in accordance with paragraph 3.1) with respect to that *financial conglomerate*.
- 1.5 A *firm* must comply with the following with respect to the *financial conglomerate* referred to in paragraph 1.1:
- (1) SYSC 12 (as it applies to *financial conglomerates* and as adjusted under paragraph 3.1); and
- (2) GENPRU 3.1.25 R.

2 Table: PART 2: Third-country banking and investment groups

- 2.1 This Part of this annex sets out the *rules* with which a *firm* must comply under GENPRU 3.2.9 R with respect to a *third-country banking and investment group* of which it is a member.
- 2.2 A *firm* must comply with one of the sets of *rules* specified in paragraph 2.3 as adjusted under paragraph 3.1 with respect to the *third-country banking*

	<i>and investment group</i> referred to in paragraph 2.1.
2.3	The <i>rules</i> referred to in paragraph 2.2 are :
	(1) the <i>applicable sectoral consolidation rules</i> in paragraph 6.10 of GENPRU 3 Annex 1 R.
2.4	The set of <i>rules</i> from paragraph 2.3 that apply with respect to a particular <i>third-country banking and investment group</i> (as referred to in paragraph 2.1) are those that would apply if they were adjusted in accordance with paragraph 3.1.
2.5	The <i>sectoral rules</i> applied by Part 2 of this annex cover all prudential <i>rules</i> applying on a consolidated basis including those relating to large exposures.
2.6	A <i>firm</i> must comply with SYSC 12 (as it applies to <i>banking and investment groups</i> and as adjusted under paragraph 3.1) with respect to the <i>third-country banking and investment group</i> referred to in paragraph 2.1.

3 Table: PART 3: Adjustment of scope

3.1	The adjustments that must be carried out under this paragraph are that the scope of the <i>rules</i> referred in Part 1 or Part 2 of this annex, as the case may be, are amended:
	(1) so as to remove any provisions disapplying those <i>rules</i> for <i>third-country groups</i> ;
	(2) so as to remove all limitations relating to where a member of the <i>third-country group</i> is incorporated or has its head office; and
	(3) so that the scope covers every member of the <i>third-country group</i> that would have been included in the scope of those <i>rules</i> if those members had their head offices in, and were incorporated in, an <i>EEA State</i> .

Guidance Notes for Classification of Groups

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

Classification of Groups (GENPRU 3.1.3 G) - genpru_ch3_annex3G.pdf

Purpose and scope

The form is designed to identify groups and sub-groups that are likely to be financial conglomerates under the Financial Groups Directive. A group may be a financial conglomerate if it contains both insurance and banking/investment businesses and meets certain threshold tests. The *appropriate regulator* needs to identify conglomerates with their head offices in the EEA and those with their head offices outside the EEA, although this does not necessarily mean that the latter will be subject to EEA conglomerate supervision.

This form's purpose is to enable the *appropriate regulator* to obtain sufficient information so as to be able to determine how likely a group/sub-group is to be a financial conglomerate. In certain cases this can only be determined after consultation with the other EU relevant competent authorities. A second purpose of the form is therefore to identify any groups and sub-groups that may need such consultation so that this can be made as soon as possible. This should allow firms time to prepare to comply.

The third purpose of the form is to gain information from firms on the most efficient way to implement the threshold calculations in detail (consistently with the directive). We have, therefore, asked for some additional information in part 4 of the form.

A copy of this form will can be found on the *appropriate regulator's* Financial Groups Website with current contact details.

Please include workings showing the method employed to determine the percentages in part 2 (for the threshold conditions) and giving details of all important assumptions / approximations made in doing the calculations.

The definition of financial conglomerate includes not only conventional groups made up of parent-subsidiary relationships but groups linked by control and "consolidation Article 12(1) relationships". If this is the case for your group, please submit along with this form a statement that this is the case. Please include in that statement an explanation of how you have included group members not linked by capital ties in the questionnaire calculations.

A consolidation Article 12(1) relationship arises between undertakings in the circumstances set out in Article 12(1) of the Seventh Company Law Directive. These are set out in the Handbook Glossary (in the definition of consolidation Article 12(1) relationship). Broadly speaking, undertakings come within this definition if they do not form a conventional group but:

- (a) are managed on a unified basis; or
- (b) have common management.

PAGE
1

General guidance

We would like this to be completed based on the most senior parent in the group, and, if applicable, for the company heading the most senior conglomerate group in the EEA. If appropriate, please also attach a list of all other likely conglomerate sub-groups.

Please use the most recent accounts for the top level company in the group together with the corresponding accounts for all subsidiaries and participations that are included in the consolidated accounts. Please indicate the names of any significant subsidiaries with a different year-end from the group's year-end.

Please note the following:

- (a) Branches should be included as part of the parent entity.
- (b) Include in the calculations overseas entities owned by the relevant group or sub-group.
- (c) There are only two sectors for this purpose: banking/investment and insurance.
- (d) You will need to assign non-regulated financial entities to one of these sectors:
 - **banking/investment** activities are listed in - Annex 1 to the Capital Requirements Directive 2013/36/EU
 - **insurance** activities are listed in - IPRU Insurers Annex 11.1 and 11.2 .
 - Any **operator of a UCITS scheme, insurance intermediary, mortgage broker and mixed financial holding company** does not fall into the directive definitions of either financial sector or insurance sector and should be treated for these purposes as being outside the financial sector. They should therefore be ignored for the purposes of these calculations.

Threshold tests

For the purpose of completing section 2 of the form relating to the threshold tests, the following guidance should be used. However, if you consider that for your group there is a more appropriate calculation then you may use this calculation so long as the method of computation is submitted with the form.

Calculating balance sheet totals

Generally, use total (gross) assets for the balance sheet total of a group/entity. However, investments in other entities that are part of the group will need to be deducted from the sector that has made the investment and the balance sheet total of the entity is added to the sector in which it operates.

Our expectation of how this may be achieved efficiently is as follows:

- (i) Off-balance-sheet items should be excluded.
- (ii) Where off-balance sheet treatment of **funds under management** and on-balance sheet treatment of **policy holders' funds** may distort the threshold calculation, groups should consult the appropriate regulator on the appropriateness of using other measures under article 3.5 of the Financial Groups Directive.
- (iii) If consolidated accounts exist for a sub-group consisting of financial entities from only one of the two sectors, these consolidated accounts should be used to measure the balance-sheet total of the sub-group (i.e. total assets less investments in entities in the other sector). If consolidated accounts do not exist, intra-group balances should be netted out when calculating the balance sheet total of a single sector (but cross-sector intra-group balances should not be netted out).
- (iv) Where consolidated accounts are used, minority interests should be excluded and goodwill should be included.
- (v) Where accounting standards differ between entities, groups should consult the *appropriate regulator* if they believe this is likely materially to affect the threshold calculation.
- (vi) Where there is a subsidiary or participation in the opposite sector from its parent (i.e. insurance sector for a banking/investment firm parent and vice versa), the balance sheet amount of the subsidiary or participation should be allocated to its sector using its individual accounts.
- (vii) The balance-sheet total of the parent entity/sub-group is measured as total assets of the parent/sub-group less the book value of its subsidiaries or participations in the other sector (i.e. the value of the subsidiary or participation in the parent's consolidated accounts is deducted from the parent's consolidated assets).

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GENPRU TP 7
[deleted]
[deleted]

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GENPRU TP 8 Miscellaneous capital resources definitions for BIPRU firms

		Application
8.1	R	This section applies to a <i>BIPRU firm</i> .
[FCA]		
8.2	R	Any provision of this section that applies on a consolidated basis under <i>GENPRU TP 8.3R</i> applies to any <i>firm</i> to which <i>BIPRU 8 (Group risk - consolidation)</i> applies.
[FCA]		
8.3	R	<p>A provision of this section applies on a consolidated basis for the purpose of <i>BIPRU 8 (Group risk -consolidation)</i> to the extent that, and in the same way that, the provision in <i>BIPRU</i> to which it relates applies on a consolidated basis.</p> <p>(2) the <i>building society</i> issued it before 18 November 2004; and</p>
[FCA]		
		Preference shares
8.7	R	A <i>BIPRU firm</i> may treat a <i>preference share</i> as eligible for inclusion within stage B of the <i>capital resources table</i> (Perpetual non-cumulative preference shares) if it would not otherwise be eligible if:
[FCA]		
		(1) on 31 December 2006 the <i>firm</i> was subject to <i>IPRU(INV)</i> ;
		(2) the <i>firm</i> issued it on or before 31 December 2006;
		(3) as at 31 December 2006 the <i>firm</i> included it, and was entitled to include it, in the calculation of its capital resources under <i>IPRU(INV)</i> as capital of a type that corresponded to <i>tier one capital resources</i> ;
		(4) it would have been eligible for inclusion within stage B of the <i>capital resources table</i> except for the fact that it does not meet <i>GENPRU 2.2.64 R (4)(b)</i> (Restrictions on mandatory <i>coupons</i> for <i>tier one capi-</i>

tal) or GENPRU 2.2.109 R (1) (Restrictions on mandatory *coupons* for perpetual non-cumulative *preference shares*) or both of those *rules*;

- (5) the only reason that it does not meet GENPRU 2.2.64 R (4)(b) or GENPRU 2.2.109 R (1) is because a mandatory cash *coupon* is payable;
- (6) the *firm* has the right not to pay the cash *coupon* if it is in breach of any of the *main BIPRU firm Pillar 1 rules* or to the extent that paying such *coupon* would result in a breach of any of those *rules*; and
- (7) any amount not paid under (6) does not accumulate.

Upper tier 2 instruments: Deferral of interest

8.9
[FCA]

R

A *BIPRU firm* may treat a *capital instrument* as eligible for inclusion within stage G of the *capital resources table* (Upper tier two capital) if it would not otherwise be eligible if:

- (1) on 31 December 2006 the *firm* was subject to *IPRU(INV)*;
- (2) the *firm* issued it on or before 31 December 2006;
- (3) as at 31 December 2006 the *firm* included it, and was entitled to include it, in the calculation of its capital resources under *IPRU(INV)* as capital of a type that corresponded to *upper tier two capital resources*;
- (4) it would have been eligible for inclusion within stage G of the *capital resources table* except for the fact that it does not meet GENPRU 2.2.177 R (2);
- (5) the only reason that it does not meet GENPRU 2.2.177 R (2) is because a mandatory cash *coupon* is payable; and
- (6) the *firm* has the right not to pay the cash *coupon* if it is in breach of any of the *main BIPRU firm Pillar 1 rules* or to the extent that paying such *coupon*

would result in a breach of any of those *rules* .

Conversion ratio

8.11 R GENPRU 2.2.138 R (2) (Tier one capital: Conversion ratio) does not apply to a *capital instrument* issued by a *firm* if:
[FCA]

- (1) on 31 December 2006 the *firm* was subject to *IPRU(INV)*;
- (2) the *firm* issued it on or before 31 December 2006; and
- (3) as at 31 December 2006 the *firm* included it, and was entitled to include it, in the calculation of its capital resources under:
 - (a) [deleted]
 - (b) *IPRU(INV)* as capital of a type that corresponded to *tier one capital*.

Legal opinions

8.12 R GENPRU 2.2.118 R (Legal opinions for *innovative tier one capital*) does not apply to a *capital instrument* issued by a *firm* if:
[FCA]

- (1) on 31 December 2006 the *firm* was subject to *IPRU(INV)*;
- (2) the *firm* issued the *capital instrument* on or before 31 December 2006; and
- (3) [deleted]
- (4) the *firm* included the *capital instrument*, and was entitled to include it, in the calculation of its capital resources under *IPRU(INV)* as capital of a type that corresponded to *tier one capital*.

8.13 R The following *rules*:

- [FCA]
- (1) GENPRU 2.2.159 R (12) (Legal opinions for *tier two capital*);
 - (2) GENPRU 2.2.163 R (Legal opinions for *tier two capital* governed by a foreign law);
 - (3) GENPRU 2.2.181 R (Legal opinions for *upper tier two capital*); and

		(4)	GENPRU 2.2.244 R (Application of certain rules about tier two capital to tier three capital) so far as it applies the rules in (1) to (3);
			do not apply to a capital instrument issued by a firm if:
		(5)	on 31 December 2006 the firm was subject to IPRU(INV);
		(6)	the firm issued the capital instrument on or before 31 December 2006; and
		(7)	as at 31 December 2006 the firm included the capital instrument, and was entitled to include it, in the calculation of its capital resources under IPRU(INV) as capital of the type that corresponds to:
		(a)	(where the firm disapplies the rule in (1) or (2)) tier two capital; or
		(b)	(where the firm disapplies the rule in (3)) upper tier two capital; or
		(c)	(where the firm disapplies the rule in (4)) tier three capital.
			Version of IPRU
8.14	R		Any reference in this section to a type of capital in IPRU is to a type of capital in IPRU in the form IPRU was in on 31 December 2006.
[FCA]			Eligibility
8.15	G		If this section says that an item of capital is eligible for inclusion within a particular stage of the capital resources table this is still subject to the application of the capital resources gearing rules.
[FCA]			Waivers and concessions
8.16	G		A reference to a firm being entitled to include capital instruments in the calculation of its capital resources under IPRU(INV) at a particular level includes the firm being able to do this under a waiver .
[FCA]			Combinations of provisions

8.17	G	A <i>firm</i> may combine the use of two or more of the provisions in this section.
[FCA]		

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GENPRU TP 8A Further miscellaneous capital resources definitions for BIPRU firms

FCA

Application and interpretation

8A.1 R This section applies to a *BIPRU firm*. In this section a reference to 30 December 2010 means 23.59 on 30 December 2010.

Tier one capital

8A.2 R Until 31 December 2040 a *BIPRU firm* may treat a *capital instrument* as eligible for inclusion as *hybrid capital*, if it would not otherwise be eligible, if:

- (1) on 30 December 2010 the *BIPRU firm* was subject to *GENPRU*; and
- (2) as at 30 December 2010 the *BIPRU firm* included it, and was entitled to include it, at stage B or C of the calculation in the *capital resources table*.

8A.3 If a *BIPRU firm* treats a *capital instrument* as eligible for inclusion as *hybrid capital* under GENPRU TP8A.2R, then the *firm*:

- (1) if it included the *capital instrument* as *innovative tier one capital* as at 30 December 2010, must treat the *capital instrument* as *hybrid capital* included at stage C of the calculation in the *capital resources table*;
- (2) must apply the limit in GENPRU 2.2.30A R (3) to the aggregate of the *capital instruments* treated under (1) and the *hybrid capital* that is eligible under GENPRU 2.2 for inclusion at stage C of the calculation in the *capital resources table*;
- (3) [deleted]
- (4) [deleted]
- (5) must not include *hybrid capital* at stage B2 of the calculation in the *capital resources table* under GENPRU 2.2, except as provided by GENPRU TP8A.4R, if and to the extent that the aggregate of the following exceeds the limit in GENPRU 2.2.30A R (2)
 - (a)

		(b) <i>capital instruments</i> included at stage B of the calculation in the <i>capital resources table</i> as at 30 December 2010 and treated under GENPRU TP8A.2R;
	(6)	if it includes <i>hybrid capital</i> at stage B2 of the calculation in the <i>capital resources table</i> under GENPRU 2.2, except as provided by GENPRU TP8A.4R, must include <i>capital instruments</i> treated under GENPRU TP8A.2R in the calculation of the limit in GENPRU 2.2.30A R (2);
	(7)	must not include <i>hybrid capital</i> at stage B1 of the calculation in the <i>capital resources table</i> under GENPRU 2.2, except as provided by GENPRU TP8A.5R, if and to the extent that the aggregate of the following exceeds the limit in GENPRU 2.2.30A R (1):
		(a) <i>capital instruments</i> included at stage C in the <i>capital resources table</i> under (1) and GENPRU 2.2; and
		(b)
	(8)	if it includes <i>hybrid capital</i> at stage B1 of the calculation in the <i>capital resources table</i> under GENPRU 2.2, except as provided by GENPRU TP8A.5R, must include <i>capital instruments</i> treated under GENPRU TP8A.2R in the calculation of the limit in GENPRU 2.2.30A R (1).
8A.4	R	A BIPRU firm may include <i>hybrid capital</i> at stage B2 of the calculation in the <i>capital resources table</i> , notwithstanding GENPRU TP8A.3R(5), if the firm issued it after 30 December 2010 and:
	(1)	the <i>capital instrument</i> would otherwise be eligible for inclusion as <i>hybrid capital</i> at stage B2 of the calculation in the <i>capital resources table</i> under GENPRU 2.2; and
	(2)	the firm issued it in order to replace another <i>capital instrument</i> that the firm treated as <i>hybrid capital</i> under GENPRU TP8A.2R.
8A.5	R	A BIPRU firm may include <i>hybrid capital</i> at stage B1 of the calculation in the <i>capital resources table</i> , notwithstanding GENPRU TP8A.3R(7), if the firm issued it after 30 December 2010 and:
	(1)	the <i>capital instrument</i> would otherwise be eligible for inclusion as <i>hybrid capital</i> at stage B1 of the calculation in the <i>capital resources table</i> under GENPRU 2.2; and
	(2)	the firm issued it in order to replace another <i>capital instrument</i> that the firm treated as <i>hybrid capital</i> under GENPRU TP8A.2R.
8A.6	R	In relation to the <i>tier one capital resources</i> of a BIPRU firm, calculated at stage F of the calculation in the <i>capital resources table</i> (Total tier one capital after deductions):
	(1)	from 31 December 2020 until 30 December 2030:
		(a) no more than 20% may be accounted for by items treated under GENPRU TP8A.2R as <i>tier one capital</i> ; and
		(b) [deleted]

	(2)	from 31 December 2030 until 30 December 2040, no more than 10% may be accounted for by items treated under GENPRU TP8A.2R as <i>tier one capital</i> .
8A.7	R	<i>BIPRU firms</i> which do not comply by 31 December 2010 with the limits set out in GENPRU 2.2.29 R to GENPRU 2.2.30A R (3) must develop strategies and processes on the necessary measures to resolve this situation before the dates set out in GENPRU TP8A.6R.

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GENPRU TP 8B Miscellaneous capital resources definitions for BIPRU firms: Core tier one capital

FCA

Application

8B.1 R This section applies to a *BIPRU firm*.

Core tier one capital

8B.2 R A provision in this section applies on a consolidated basis for the purposes of BIPRU 8 (Group risk - consolidation) to a *UK consolidation group* to the extent that, and in the same manner that, the provision in *GENPRU* to which it relates applies on a consolidated basis.

8B.5 R A *BIPRU firm* may treat an ordinary *share* that has different voting rights to other ordinary *shares* issued by the *firm* as eligible for inclusion within stage A of the *capital resources table* (Core tier one capital) without making a notification of issue or change in voting rights to the *appropriate regulator* under GENPRU 2.2.83B R if:

- (1) on 30 December 2010 the *firm* was subject to *GENPRU*;
- (2) the *firm* issued the ordinary *share* on or before 30 December 2010 and the shareholders were bound by the differences in voting rights on or before 30 December 2010; and
- (3) as at 30 December 2010 the *firm* included the ordinary *share*, and was entitled to include it, in the calculation of *capital resources* under *GENPRU* as *permanent share capital*;

provided that by 30 June 2011 the *firm* provides the *appropriate regulator* with full details of the ordinary *shares*, their terms of issue and the differences in voting rights applicable to those ordinary *shares*.

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GENPRU TP 9 [deleted]

[deleted]

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GENPRU TP 14 [deleted]

[deleted]

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GENPRU TP 16 [deleted]

[deleted]

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Schedule 2 Notification and reporting requirements

G

1 The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant notification requirements.

2 It is not a complete statement of those requirements and should not be relied on as if it were.

3 Table

Handbook reference	Matter to be notified	Contents of notification	Trigger events	Time allowed
GENPRU 1.5.19 R [PRA]	Intention to change maximum amount of <i>callable contribution</i>	Fact of intention and details of the change	Intention to change the maximum amount	Adequate advance notice, normally not less than 6 months
GENPRU 2.1.11 R [FCA] [PRA] [deleted]	Breach or expected breach of GENPRU 2.1.13 R or <i>main BIPRU firm Pillar 1 rules</i>	Fact of breach or expectation of breach	Breach or expectation of breach	Immediately
GENPRU 2.2.61B R [FCA] [PRA]	Intention to issue a <i>capital instrument</i> for inclusion in <i>capital resources</i>	Fact of intention and details of intended amount, issue date, type of investor, stage of capital, features of instrument and confirmation of compliance with <i>rules</i>	Intention to issue	One <i>month</i> prior to issue, unless exceptional circumstances prevent a <i>firm</i> adhering to a one- <i>month</i> period
GENPRU 2.2.61C R [FCA] [PRA]	Proposed changes to details of the issue of a <i>capital instrument</i> notified under GENPRU 2.2.61B R	Proposed change and all information required under GENPRU 2.2.61B R (1) to GENPRU 2.2.61B R (4)	Intention to change any details of the issue previously notified to the <i>appropriate regulator</i>	As soon as the changes are proposed
GENPRU 2.2.61D R [FCA] [PRA]	Proposed establishment of a debt securities program	All information required under GENPRU 2.2.61B R (1) to GENPRU 2.2.61B R (4)	Intention to establish	One month prior to first drawdown

Handbook reference	Matter to be notified	Contents of notification	Trigger events	Time allowed
GENPRU 2.2.61F R [FCA] [PRA]	Issue of <i>capital instruments</i> for inclusion in <i>capital resources</i> where instrument or facility previously notified to the appropriate regulator	All information required under GENPRU 2.2.61B R (1) to GENPRU 2.2.61B R (3) and confirmation no changes have been made to the terms of the instrument since a previous similar issue	Intention to issue	No later than date of issue
GENPRU 2.2.74 R [FCA] [PRA]	Intention to redeem <i>tier one instrument</i> included in <i>tier one capital resources</i>	Fact of intention and details of the <i>firm's</i> position after such redemption in order to show how it will meet the <i>capital resources requirement</i> , how it will have sufficient financial resources to meet the <i>overall financial adequacy rule</i> and, in the case of a <i>BIPRU firm</i> , how it will not otherwise suffer any undue effects to its financial or solvency conditions	Intention to redeem	At least one month prior to becoming committed to redeem
[deleted]				
[deleted]				
[deleted]				
[deleted]				
GENPRU 2.2.171 R [FCA] [PRA]	Proposal to amend a tier two instrument	Details of the proposed amendment	Proposal to amend	One month before amendment is due to take effect
GENPRU 2.2.174 R [FCA] [PRA]	Intention to repay (other than on contractual repayment date) <i>tier two instrument</i>	Fact of intention and details of the <i>firm's</i> position after such repayment in order to show how it will meet the <i>capital resources requirement</i> and how it will have sufficient financial resources to meet the <i>overall financial adequacy rule</i>	Intention to repay	Six <i>Months</i> (in the case of an <i>insurer</i>) or one <i>Month</i> (in the case of a <i>BIPRU firm</i>) prior to becoming committed to repayment
[deleted]				
[deleted]				

Prudential sourcebook for Banks, Building Societies and Investment Firms

Prudential sourcebook for Banks, Building Societies and Investment Firms

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Chapter 1

Application

1.1 Application

1.1.1

FCA

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There is no overall application statement for *BIPRU*. Each chapter or section has its own application statement. Broadly speaking however, *BIPRU* applies in the following manner :

- (1) [deleted]
- (2) [deleted]
- (3) to a *BIPRU firm*;
- (3A) to an *IFPRU investment firm*, only ■ BIPRU 12 (Liquidity standards); and
- (4) in relation to groups containing such *firms*:
 - (a) only ■ BIPRU 12 (Liquidity standards) applies to the group containing any of the *firms* in (3) and (3A); and
 - (b) *BIPRU* as a whole applies to the group containing only the *firms* in (3).

1.1.2

FCA

R

***BIPRU* applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.**

1.1.2A

FCA

G

BIPRU applies to a *collective portfolio management investment firm* that is a *BIPRU firm* in parallel with ■ IPRUINV link 11 (see ■ IPRUINV link 11.6).

1.1.3

FCA

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In the main *BIPRU* only applies to a *collective portfolio management investment firm* in respect of *designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However ■ BIPRU 2.2 (Internal capital adequacy standards), ■ BIPRU 2.3 (Interest rate risk in the non-trading book), ■ BIPRU 8 (Group risk - consolidation) and ■ BIPRU 11 (Disclosure) apply to the whole of its business.

Purpose

1.1.4

FCA

G

■ BIPRU 1.1 implements in part the third paragraph of article 95(2) of the *EU CRR* that permits the *FCA* to apply the *Banking Consolidation Directive* and the *Capital Adequacy Directive*.

1.1.5

G

[Deleted]

The definition of a BIPRU firm

1.1.6

R [Deleted]

1.1.7

R None of the following is a *BIPRU firm* :**FCA**

- (1) an *incoming EEA firm*;
- (2) an *incoming Treaty firm*;
- (3) any other *overseas firm*;
- (4) an *ELMI*;
- (5) an *insurer*; and
- (6) an *ICVC*.

1.1.7A

G In summary, a *BIPRU firm*:**FCA**

- (1) does not provide the *ancillary service* of safekeeping and administration of *financial instruments* for the account of *clients*, including custodianship and related services such as cash/collateral management, and is not authorised to do so;
- (2) is not authorised to provide the following *investment services*:
 - (a) to deal in any *financial instruments* for its own account;
 - (b) to underwrite issues of *financial instruments* on a firm commitment basis;
 - (c) to place *financial instruments* without a firm commitment basis; and
 - (d) to operate a *multilateral trading facility*;
- (3) is authorised to provide one or more of the following *investment services*:
 - (a) the execution of investors' orders for *financial instruments*; or
 - (b) the management of individual portfolios of investments in *financial instruments*;
- (4) may be authorised to provide one or more of the following *investment services*:
 - (a) reception and transmission of investors' orders for *financial instruments*;
or
 - (b) investment advice; and
- (5) does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation* or *requirement* prohibiting the holding of client money and its permission should not include *safeguarding and administering investments*).

1.1.8

R [Deleted]

1.1.9

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[Deleted]

1.1.10

G

FCA

- (1) This paragraph applies to an *undertaking* that would be a *third country BIPRU firm* if it were *authorised* under the *Act*.
- (2) Except in exceptional circumstances, it is the *appropriate regulator's* policy that it will not give an overseas applicant a *Part 4A permission* unless the *appropriate regulator* is satisfied that the applicant will be subject to prudential regulation by its home state *regulatory body* that is broadly equivalent to that provided for in the *Handbook* and the applicable *EEA prudential sectoral legislation*. The *appropriate regulator* will take into account not only the requirements to which the *firm* is subject but how they are enforced. The *appropriate regulator* will also take into account the laws, regulations and administrative provisions to which it is subject in its home state. The reasons for that policy include:
- (a) it is unlikely that a *firm* that is not subject to equivalent supervision will be able to satisfy the *threshold conditions* (and in particular *threshold condition 5* (Suitability)) and it is unlikely that it will be possible to establish that the *firm* does satisfy them; and
- (b) such a *firm* is likely to pose a threat to the interests of *consumers* and potential *consumers*, particularly as effective supervision of an *overseas firm* depends on cooperation between the *appropriate regulator* and the *regulatory body* that authorises the *firm* in its home country and on the *appropriate regulator* being able to place appropriate reliance on the supervision carried out by such *regulatory body*.
- (c) [deleted]
- (3) If an *undertaking* is not subject to equivalent supervision in its home state and it wishes to carry on in the *United Kingdom regulated activities* coming within the scope of the activities that define a *BIPRU firm* it should establish a *subsidiary undertaking* in the *United Kingdom*. Such a *subsidiary undertaking* should be able to show, amongst other things, how it would comply with the *threshold conditions* (and in particular *threshold conditions 3* (Close links) and *5* (Suitability)).
- (4) If in exceptional circumstances the *appropriate regulator* does grant a *Part 4A permission* to an *undertaking* that is not subject to equivalent prudential regulation the *appropriate regulator* is likely to take measures under the *regulatory system* to compensate for the lack of equivalent supervision. These may include applying the prudential requirements for *BIPRU firms* to the *firm*.
- (5) An *overseas firm* that is subject to equivalent supervision is subject to the *threshold conditions* and the *Principles*. *BIPRU* and *GENPRU* do not generally apply.

1.1.11

[Deleted]

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1.1.12

[Deleted]

1.1.13

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1.2 Definition of the trading book

Application

1.2.1 **R** This section applies to a *BIPRU firm*.

FCA

Purpose

1.2.2 **G** Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the section implements certain provisions of the *Capital Adequacy Directive* and the *Banking Consolidation Directive* relating to the *trading book*. The precise provisions being implemented are listed as a note after each *rule*.

FCA

Definition of the trading book: General

1.2.3 **R** The *trading book* of a *firm* consists of all *position* in *CRD financial instrument* and *commodities* held either with trading intent or in order to hedge other elements of the *trading book* and which are either free of any restrictive covenants on their tradability or able to be hedged.

FCA

[Note: CAD Article 11(1)]

Definition of the trading book: Positions

1.2.4 **R** The term *position* includes proprietary positions and positions arising from client servicing and market making.

FCA

[Note: CAD Article 11(2) second sentence]

1.2.5 **G** *Positions* arising from client servicing include those arising out of contracts where a *firm* acts as principal (even in the context of activity described as 'broking' or 'customer business'). Such *positions* should be allocated to a *firm's trading book* if the intent is trading (see **■ BIPRU 1.2.10 R**). This applies even if the nature of the business means that generally the only risks incurred by the *firm* are counterparty risks (i.e. no market risk charges apply). If the nature of the business means that generally the only risks incurred by the *firm* are counterparty risks, the *position* will generally still meet the trading intent requirement in **■ BIPRU 1.2.10 R** if the *position* would meet the trading intent requirement if *position* risk did arise. The *appropriate regulator* understands that business carried out under International Uniform Brokerage Execution ("Give-Up") Agreements involve back to back trades as principal. Thus *positions* arising out of business carried out under such agreements should be allocated to a *firm's trading book*.

FCA

Definition of the trading book: Repos

1.2.6

FCA

R

Term trading-related repo-style transactions that a *firm* accounts for in its *non-trading book* may be included in the *trading book* for capital requirement purposes so long as all such repo-style transactions are included. For this purpose, trading-related repo-style transactions are defined as those that meet the requirements of ■ BIPRU 1.2.4 R, ■ BIPRU 1.2.10 R and ■ BIPRU 1.2.12 R, and both legs are in the form of either cash or securities includable in the *trading book*. Regardless of where they are booked, all repo-style transactions are subject to a *non-trading book* counterparty credit risk charge.

[Note: CAD Annex VII Part D point 4]

1.2.6A

FCA

G

Capital requirements for term trading-related repo-style transactions are the same whether the risks arise in the *trading book* as counterparty credit risk or in the *non-trading book* as credit risk.

CRD financial instruments

1.2.7

FCA

R

A *CRD financial instrument* means any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

[Note: CAD Article 3(1)(e)]

1.2.8

FCA

R

CRD financial instruments include both primary *CRD financial instrument* or cash instruments, and derivative *CRD financial instruments* the value of which is derived from the price of an underlying *CRD financial instrument*, a rate, an index or the price of another underlying item and include as a minimum the instruments specified in Section C of Annex I to the *MIFID*.

[Note: CAD Article 3(1) last paragraph]

1.2.9

FCA

G

Generally, for the purpose of the definition of *CRD financial instrument*:

- (1) a financial asset means cash, the right to receive cash or another financial asset, the contractual right to exchange financial assets on potentially favourable terms or an equity instrument; and
- (2) a financial liability means the contractual obligation to deliver cash or another financial asset or to exchange financial liabilities under conditions that are potentially unfavourable.

Trading intent

1.2.10

FCA

R

Positions held with trading intent for the purpose of the definition of the *trading book* are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price

1 differences between buying and selling prices, or from other price or interest rate variations.

[Note: CAD Article 11(2) first sentence]

1.2.11

FCA

R

Trading intent must be evidenced on the basis of the strategies, policies and procedures set up by the *firm* to manage the *position* or portfolio in accordance with ■ BIPRU 1.2.12 R.

[Note: CAD 11(3)]

1.2.12

FCA

R

Positions/portfolios held with trading intent must comply with the following requirements:

- (1) there must be a clearly documented trading strategy for the *position*/instrument or portfolios, approved by senior management, which must include the expected holding horizon;
- (2) there must be clearly defined policies and procedures to monitor the *position* against the *firm's* trading strategy including the monitoring of turnover and stale *position* in the *firm's trading book*; and
- (3) there must be clearly defined policies and procedures for the active management of the *position*, which must include the following:
 - (a) *position* entered into on a trading desk;
 - (b) *position* limits are set and monitored for appropriateness;
 - (c) dealers have the autonomy to enter into/manage the *position* within agreed limits and according to the approved strategy;
 - (d) *positions* are reported to senior management as an integral part of the *firm's* risk management process; and
 - (e) *positions* are actively monitored with reference to market information sources and an assessment made of the marketability or hedge-ability of the *position* or its component risks, including the assessment of, the quality and availability of market inputs to the valuation process, level of market turnover, sizes of *positions* traded in the market.

[Note: CAD Annex VII Part A]

Internal hedges

1.2.13

FCA

R

Internal hedges may be included in the *trading book*, in which case
 ■ BIPRU 1.2.14 R to ■ BIPRU 1.2.16 R apply.

[Note: CAD Article 11(5)]

1.2.14

FCA

R

(1) An internal hedge is a *position* that materially or completely offsets the component risk element of a *non-trading book position* or a set of *position*. *Positions* arising from internal hedges are eligible for *trading book* capital treatment, provided that they are held with trading intent and that the general criteria on trading intent and prudent valuation specified in ■ BIPRU 1.2.12 R and the *trading book systems and controls rules*. In particular:

- (a) internal hedges must not be primarily intended to avoid or reduce capital requirements;
- (b) internal hedges must be properly documented and subject to particular internal approval and audit procedures;
- (c) the internal transaction must be dealt with at market conditions;
- (d) the bulk of the market risk that is generated by the internal hedge must be dynamically managed in the *trading book* within the authorised limits; and
- (e) internal transactions must be carefully monitored.

(2) Monitoring must be ensured by adequate procedures.

[Note: CAD Annex VII Part C point 1]

1.2.15

FCA

R

The treatment referred to in ■ BIPRU 1.2.14 R applies without prejudice to the capital requirements applicable to the "*non-trading book leg*" of the internal hedge.

[Note: CAD Annex VII Part C point 2]

1.2.16

FCA

R

By way of derogation from ■ BIPRU 1.2.14 R to ■ BIPRU 1.2.15 R, when a *firm* hedges a *non-trading book* credit risk exposure using a credit derivative booked in its *trading book* (using an internal hedge), the *non-trading book* exposure is not deemed to be hedged for the purposes of calculating capital requirements unless the *firm* purchases from an eligible third party protection provider a credit derivative meeting the requirements set out in ■ BIPRU 5.7.13 R (Additional requirements for credit derivatives) with regard to the *non-trading book* exposure. Without prejudice to the second sentence of ■ BIPRU 14.2.10 R, where such third party protection is purchased and is recognised as a hedge of a *non-trading book* exposure for the purposes of calculating capital requirements, neither the internal nor external credit

derivative hedge must be included in the *trading book* for the purposes of calculating capital requirements.

[Note: CAD Annex VII Part C point 3]

Size thresholds

1.2.17

FCA

R

- (1) Subject to (3), a *firm* may calculate its capital requirements for its *trading book* business in accordance with the *standardised approach* to credit risk (or, if it has an *IRB permission*, the *IRB approach*) as it applies to the *non-trading book* where the size of the *trading book* business meets the following requirements:
 - (a) the *trading book* business of the *firm* does not normally exceed 5% of its total business;
 - (b) its total *trading book position* do not normally exceed €15 million; and
 - (c) the *trading book* business of the *firm* never exceeds 6% of its total business and its total *trading book positions* never exceed €20 million.

- (2) Subject to (3), if (1) applies, the following are disapplied:
 - (a) the *rules* relating to the *interest rate PRR*, the *equity PRR*, the *CIU PRR* and the *PRR* calculated under ■ BIPRU 7.11 (Credit derivatives in the trading book);
 - (b) the *rules* relating to the *option PRR* (but only in relation to *positions* which under ■ BIPRU 7.6.5 R (Table: Appropriate calculation for an option or warrant) may be subject to one of the other *PRR charges* listed in (2)(a) or which would be subject to such a *PRR charge* if ■ BIPRU 7.6.5 R did not require an *option PRR* to be calculated);
 - (c) ■ ■ BIPRU 7.10 (Use of a Value at Risk Model) so far as ■ BIPRU 7.10 relates to the risks covered by the requirements in (a) and (b); and
 - (d) ■ BIPRU 14 (Capital requirements for settlement and counterparty risk).

- (3) If (1) applies, the following continue to apply:
 - (a) the *rules* relating to the *commodity PRR* and the *foreign currency PRR*;
 - (b) the *rules* relating to the *option PRR* (so far as not disapplied under (2)(b));
 - (c) ■ BIPRU 7.10 (so far as not disapplied under (2)(c));
 - (d) ■ BIPRU 14.2.3 R to ■ BIPRU 14.2.8 R (Credit derivatives); and

- (e) ■ BIPRU 14.2.15 R to ■ BIPRU 14.2.16 R (Collateral for *repurchase transactions* and other products).

[Note: CAD Article 18(2)]

1.2.18

FCA

R

In order to calculate the proportion that *trading book* business bears to total business for the purpose of ■ BIPRU 1.2.17 R (1)(a) to ■ BIPRU 1.2.17R (1)(c) the *firm* must refer to the size of the combined on- and off-balance-sheet business. For this purpose, debt instruments must be valued at their market prices or their principal values, equities at their market prices and derivatives according to the nominal or market values of the instruments underlying them. Long *positions* and short *positions* must be summed regardless of their signs.

[Note: CAD Article 18(3)]

1.2.19

FCA

R

If a *firm* should happen for more than a short period to exceed either or both of the limits imposed in ■ BIPRU 1.2.17 R (1)(a) and ■ BIPRU 1.2.17R (1)(b) or either or both of the limits imposed in ■ BIPRU 1.2.17 R (1)(c):

- (1) ■ BIPRU 1.2.17 R ceases to apply; and
- (2) the *firm* must notify the *appropriate regulator*.

[Note: CAD Article 18(4)]

1.2.20

FCA

G

As required by ■ BIPRU 8.7.21 R (Special rules for the consolidated market risk requirement), a *firm* should consider whether it meets the threshold conditions in ■ BIPRU 1.2.17 R on both an unconsolidated (or solo) basis and a consolidated basis. If a *firm's* trading activities on both an unconsolidated (or solo) basis and a consolidated basis are below the threshold size, it may be appropriate for the *firm* not to adopt the *trading book* treatment. However, even if the *firm* does not apply the *trading book* treatment it should still adopt a *trading book policy statement*. That statement may be restricted to identifying the activities the *firm* normally considers to be trading and that would constitute part of its *trading book*. The *firm* should use this policy statement to help it to decide whether or not adopting the *trading book* treatment is appropriate.

Systems and controls for the trading book

1.2.21

FCA

R

A *firm* must implement policies and processes for the measurement and management of all material sources and effects of market risks.

[Note: BCD Annex V, Part 7 point 10]

1.2.22

FCA

R

A *firm* must establish and maintain systems and controls to manage its *trading book*, in accordance with the *trading book systems and controls rules*, ■ BIPRU 1.2.6 R (Definition of the trading book: Repos) and the *overall financial adequacy rule* to ■ BIPRU 1.2.27 R (Trading book policy statements).

1.2.23

FCA

R

[Note: CAD Article 11(4)]

A *firm* must establish and maintain systems and controls sufficient to provide prudent and reliable valuation estimates.

[Note: CAD Annex VII Part B point 1]

1.2.24

FCA

R

Systems and controls must include at least the following elements:

- (1) documented policies and procedures for the process of valuation (including clearly defined responsibilities of the various areas involved in the determination of the valuation, sources of market information and review of their appropriateness, frequency of independent valuation, timing of closing prices, procedures for adjusting valuations, month end and ad-hoc verification procedures); and
- (2) reporting lines for the department accountable for the valuation process that are clear and independent of the front office.

[Note: CAD Annex VII Part B point 2]

1.2.25

FCA

R

The reporting line in relation to the matters covered by ■ BIPRU 1.2.21 R to ■ BIPRU 1.2.24 R must ultimately be to an executive *director* on the *firm's governing body*.

[Note: CAD Annex VII Part B point 2 (last sentence)]

Trading book policy statements

1.2.26

FCA

R

A *firm* must have clearly defined policies and procedures for determining which *positions* to include in the *trading book* for the purposes of calculating its capital requirements, consistent with the criteria set out in ■ BIPRU 1.2.3 R to ■ BIPRU 1.2.4 R, ■ BIPRU 1.2.10 R to ■ BIPRU 1.2.11 R, ■ BIPRU 1.1.13 R and ■ BIPRU 1.2.22 R and taking into account the *firm's* risk management capabilities and practices. Compliance with these policies and procedures must be fully documented and subject to periodic internal audit.

[Note: CAD Annex VII Part D point 1]

1.2.27

FCA

R

A *firm* must have clearly defined policies and procedures for overall management of the *trading book*. At a minimum these policies and procedures must address:

- (1) the activities the *firm* considers to be trading and as constituting part of the *trading book* for capital requirement purposes;
- (2) the extent to which a *position* can be marked-to-market daily by reference to an active, liquid two-way market;

- (3) for *positions* that are marked-to-model, the extent to which the *firm* can:
 - (a) identify all material risks of the *position*;
 - (b) hedge all material risks of the *position* with instruments for which an active, liquid two-way market exists; and
 - (c) derive reliable estimates for the key assumptions and parameters used in the model;
- (4) the extent to which the *firm* can, and is required to, generate valuations for the *position* that can be validated externally in a consistent manner;
- (5) the extent to which legal restrictions or other operational requirements would impede the *firm's* ability to effect a liquidation or hedge of the *position* in the short term;
- (6) the extent to which the *firm* can, and is required to, actively risk manage the *position* within its trading operation; and
- (7) the extent to which the *firm* may transfer risk or *positions* between the *non-trading book* and *trading book* and the criteria for such transfers.

[Note: CAD Annex VII Part D point 2]

1.2.28

FCA

G

The policies and procedures referred to in ■ BIPRU 1.2.27 R (1) should cover:

- (1) the *CRD financial instrument* and *commodities* that the *firm* proposes to trade in, including the currencies, maturities, issuers and quality of issues; and
- (2) any instruments to be excluded from its *trading book*.

1.2.29

FCA

R

- (1) The policies and procedures referred to in the *overall financial adequacy rule* and ■ BIPRU 1.2.27 R must be recorded in a single written document. A *firm* may record those policies and procedures in more than one written document if the *firm* has a single written document that identifies:
 - (a) all those other documents; and
 - (b) the parts of those documents that record those policies and procedures.
- (2) A *trading book policy statement* means the single document referred to in this *rule*.

1.2.30

FCA

R

(1) A *firm* must notify the *appropriate regulator* as soon as is reasonably practicable when it adopts a *trading book policy statement*.

(2) A *firm* must notify the *appropriate regulator* as soon as is reasonably practicable if the *trading book policy statement* is subject to significant changes.

1.2.31

FCA

G

A significant change for the purpose of the *overall Pillar 2 rule* includes new types of customers or business requiring different funding or provisioning.

1.2.32

FCA

G

There is likely to be an overlap between what the *trading book policy statement* should contain and other documents such as dealing or treasury manuals. A cross reference to the latter in the *trading book policy statement* is adequate and material in other documents need not be set out again in the *trading book policy statement*. However where this is the case the matters required to be included in the *trading book policy statement* should be readily identifiable.

1.2.33

FCA

G

The *trading book policy statement* may be prepared on either a consolidated or a solo (or solo-consolidated) basis. It should be prepared on a consolidated basis when a group either manages its trading risk centrally or employs the same risk management techniques in each group member. A *trading book policy statement* prepared on a consolidated basis should set out how it applies to each *firm* in the group and should be approved by each such *firm's governing body*.

Treatments common to the trading book and the non-trading book

1.2.34

FCA

G

Capital requirements for *foreign currency risk* and *commodity position risk* are the same whether the risk arises in the *trading book* or the *non-trading book*. The calculation of capital requirements for *foreign currency risk* is set out in ■ BIPRU 7.5. The calculation of capital requirements for *commodity position risk* is set out in ■ BIPRU 7.4.

Trading book treatments

1.2.35

FCA

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All *positions* that are in a *firm's trading book* require capital to cover *position risk* and may require capital to cover counterparty credit risk and to cover large exposures. Counterparty credit risk in the *trading book* is dealt with by ■ BIPRU 14 and capital for *large exposures* is covered by ■ BIPRU 10.

Non-trading book treatments

1.2.36

FCA

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All *positions* that are not in a *firm's trading book* are included in its *non-trading book* and subject capital requirements for the *non-trading book* unless they are deducted from *capital resources* under GENPRU 2.2 (Capital resources).

1.3 Applications for advanced approaches and waivers

Application

1.3.1

FCA

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This section of the *Handbook* applies to every *BIPRU firm* that wishes to apply for a permission to use any of the approaches set out in ■ BIPRU 1.3.2 G.

Purpose

1.3.2

FCA

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- (1) A *firm* may apply for an *Article 129 permission* or a *waiver* in respect of:
 - (a) the *IRB approach*;
 - (b) [deleted]
 - (c) the *CCR internal model method*; and
 - (d) the *VaR model approach*.

- (2) A *firm* should apply for a *waiver* if it wants to:
 - (a) apply the *CAD 1 model approach*; or
 - (b) apply the *master netting agreement internal models approach*; or
 - (c) disapply consolidated supervision under ■ BIPRU 8 for its *UK consolidation group* or *non-EEA sub-group*; or
 - (d) apply the treatment in ■ BIPRU 2.1 (Solo-consolidation waiver); or
 - (da) apply the treatment for a *core UK group* in ■ BIPRU 3.2.25 R (Zero risk-weighting for intra-group exposures) .
 - (e) [deleted]
 - (f) [deleted]

Article 129

1.3.3

FCA

G

An *EEA parent institution* and its *subsidiary undertakings* or the *subsidiary undertakings* of its *EEA parent financial holding company* or the *subsidiary undertakings* of its *EEA parent mixed financial holding company* that wish to use any of the approaches listed in ■ BIPRU 1.3.2 G (1) in respect of its group, including members of its group that are *BIPRU firms*, may apply for an *Article 129 permission*.

1.3.4

FCA

G

The *Article 129 procedure* allows an *EEA parent institution* and its *subsidiary undertakings* or the *subsidiary undertakings* of its *EEA parent financial holding company* or the *subsidiary undertakings* of its *EEA parent mixed financial holding company* to apply for permission to use the approaches in ■ BIPRU 1.3.2 G (1) without making separate applications to the *competent authority* of each *EEA State* where members of a *firm's* group are authorised.

1.3.5

FCA

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The *Capital Requirements Regulations 2006* set out the *Article 129 procedure*.

1.3.6

FCA

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Where a *firm* or its group has been granted an *Article 129 permission*, each *competent authority*, including the lead *competent authority*, will need to take action to apply that *Article 129 permission* to the *institutions* that they authorise. Part 3 of the *Capital Requirements Regulations 2006* governs how the *appropriate regulator* will take that action, whether or not the *appropriate regulator* is the lead *competent authority*.

Article 129 permissions and waivers - specific conditions

1.3.7

FCA

D

When an *advanced measurement approach* is intended to be used by an *EEA parent institution* and its *subsidiary undertakings* or the *subsidiary undertakings* of an *EEA parent financial holding company*, the application of a *firm* in accordance with ■ BIPRU 1.3.14 D must include the elements listed in ■ BIPRU 6.5.5 R (Minimum standards for the advanced measurement approach).

[Note:BCD Article 105(2)]

1.3.8

FCA

D

When an *advanced measurement approach* is intended to be used by an *EEA parent institution* and its *subsidiary undertakings* or the *subsidiary undertakings* of an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*, the application of a *firm* must include a description of the methodology used for allocating *operational risk* capital between the different entities of the group.

[Note: BCD AnnexX Part 3 point 30]

1.3.9

FCA

D

For the purposes of ■ BIPRU 1.3.8 D, the application of a *firm* must indicate whether and how diversification effects are intended to be factored in the risk measurement system.

[Note: BCD annex X Part 3 point 31]

Waiver - general

1.3.10

FCA

G

As explained in ■ SUP 8, under section 138A of the *Act*, the *appropriate regulator* may not grant a *waiver* to a *firm* unless it is satisfied that:

- (1) compliance by the *firm* with the *rules*, or with the *rules* as modified, would be unduly burdensome or would not achieve the purpose for which the *rules* were made; and
- (2) the *waiver* would not adversely affect the advancement of any of the *appropriate regulator's* objectives.

1.3.11
FCA **G** The conditions relating to the use of an approach listed in ■ BIPRU 1.3.2 G referred to in the relevant chapter of *BIPRU* are minimum standards. Satisfaction of those conditions does not automatically mean the *appropriate regulator* will grant a *waiver* referred to in those paragraphs. The *appropriate regulator* will in addition also apply the tests in section 138A of the *Act*.

1.3.12
FCA **G** In the *appropriate regulator's* view, if the minimum standards referred to in ■ BIPRU 1.3.11 G are satisfied, the conditions referred to in ■ BIPRU 1.3.10 G (1) will generally be met.

Forms and method of application

1.3.13
FCA **D** Subject to ■ BIPRU 1.3.14 D to ■ BIPRU 1.3.20 D, if a *firm* wishes to apply for a *waiver* to apply an approach set out in ■ BIPRU 1.3.2 G, it must comply with ■ SUP 8.3.3 D.

1.3.14
FCA **D** [deleted]

1.3.15
FCA **D** If a *firm* wishes to apply for a *waiver* or an *Article 129 permission* to use the *IRB approach*, it must complete and submit the form in ■ BIPRU 1 Annex 2D D.

1.3.16
FCA **D** If a *firm* wishes to apply for a *waiver* or an *Article 129 permission* to use the *CCR internal model method*, it must complete and submit the form in ■ BIPRU 1 Annex 3D D.

1.3.17
FCA **D** Where a *firm* makes an application in accordance with ■ BIPRU 1.3.14 D, ■ BIPRU 1.3.15 D or ■ BIPRU 1.3.16 D, the *firm* must state on the application whether it is making an application for a *waiver* or an *Article 129 permission*.

1.3.18
FCA **D** Where a *firm* applies for a *VaR model permission*, the *firm* must state whether it is making an application for a *waiver* or an *Article 129 permission*.

1.3.19
FCA **G** In respect of the application for *waivers* to apply the approaches set out in ■ BIPRU 1.3.2 G (1), the *appropriate regulator* will aim to give decisions on applications as soon as practicable. However, the *appropriate regulator* expects that it will take a significant period to determine and give a decision due to the complexity of the issues raised by the applications. Details of timelines for applications for waivers to use advanced approaches and under the *Article 129 procedure* are set out on the *appropriate regulator* website.

1.3.20
FCA **D** Where a *firm* applies for a *solo consolidation waiver*, it must demonstrate how each of the conditions set out in ■ BIPRU 2.1.20 R to ■ BIPRU 2.1.24 R are met and address the criteria set out in the *guidance* in ■ BIPRU 2.1.25 G as part of its application in accordance with ■ BIPRU 1.3.13 D.

1.3.21
FCA **G** Before sending in an application for a *waiver* or *Article 129 permission*, a *firm* may find it helpful to discuss the application with its usual supervisory contact at the *appropriate regulator*. However, the *firm* should still ensure that all relevant information is included in the application.



1.4 Actions for damages

1.4.1

FCA

R

A contravention of the *rules* in *BIPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

Application form to apply the advanced measurement approach

1

FCA

This annex consists only of one or more forms.

Forms

Application form to apply the IRB approach

FCA

This annex consists only of one or more forms.

Forms

Application form to apply the CCR internal model method approach

1

FCA

This annex consists only of one or more forms.

Forms

Chapter 2

Capital

2.1 Solo consolidation

Application

- 2.1.1 **R** This section applies to a *BIPRU firm* that has a *solo consolidation waiver*.
FCA

Purpose

- 2.1.2 **G** Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of this section is to implement Articles 70 and 118 of the *Banking Consolidation Directive* so far as they apply under Articles 2 and 28 of the *Capital Adequacy Directive* to *CAD investment firms* that are subject to the requirements imposed by *MiFID* (or which would have been subject to that Directive if its head office were in an *EEA State*), but excluding a *bank*, *building society*, a *credit institution*, a *local* and an *exempt CAD firm*..
FCA

- 2.1.3 **G** The *rules* in *GENPRU* and *BIPRU* do not allow a *firm* that is a *parent undertaking* to incorporate the capital and requirements of a *subsidiary undertaking* in the calculation of that *firm's capital resources* and *capital resources requirement*. A *firm* that wishes to incorporate a *subsidiary undertaking* for this purpose should therefore apply for a *solo consolidation waiver*.
FCA

Applying for a solo consolidation waiver

- 2.1.4 **G** ■ *BIPRU 1.3* (Applications for advanced approaches) explains how to apply for a *solo consolidation waiver*.
FCA

General

- 2.1.5 **G** The *appropriate regulator* will not grant a *firm* a *solo consolidation waiver* with respect to a *subsidiary undertaking* unless the *firm* and the *subsidiary undertaking* meet the standards in ■ *BIPRU 2.1.19 R* to ■ *BIPRU 2.1.24 R*.
FCA

- 2.1.6 **G** A *solo consolidation waiver* will modify the relevant parts of *GENPRU*, *BIPRU* and *SYSC* referred to in ■ *BIPRU 2.1.7 R* to ■ *BIPRU 2.1.8 R* to apply ■ *BIPRU 2.1* to a *firm*.
FCA

The basic rules for solo consolidation

- 2.1.7 **R** A *firm* that has a *solo consolidation waiver* must incorporate in the calculation of its requirements under the *main BIPRU firm Pillar 1 rules*
FCA

each *subsidiary undertaking* to which the *solo consolidation waiver* applies. This does not apply to the *base capital resources requirement*.

2.1.8

FCA

R

- (1) A *firm* that has a *solo consolidation waiver* must meet the obligations in ■ SYSC 12.1.13 R (Application of certain systems and controls *rules* on a consolidated basis) on a consolidated basis with respect to the *firm* and each *subsidiary undertaking* to which the *firm's solo consolidation waiver* applies.
- (2) If (1) applies, ■ SYSC 12.1.13 R applies to the group made up of the *firm* and its *subsidiary undertakings* referred to in (1) in the same way as it applies to a *UK consolidation group* or *non-EEA sub-group*.
- (3) If (1) applies, the provisions of SYSC and BIPRU listed in ■ SYSC 12.1.13 R do not apply to the *firm* on a solo basis.

Solo consolidation and capital and concentration risk requirements

2.1.9

FCA

R

■ BIPRU 2.1.10 R to ■ BIPRU 2.1.18 R apply for the purposes of ■ BIPRU 2.1.7 R.

2.1.10

FCA

R

A *firm* must treat itself and each *subsidiary undertaking* referred to in ■ BIPRU 2.1.7 R as a single *undertaking* and must apply, on that basis, ■ BIPRU 8 (Group risk - consolidation) to the group made up of the *firm* and such *subsidiary undertakings* in the same way as ■ BIPRU 8 applies to a *UK consolidation group* or *non-EEA sub-group*.

2.1.11

FCA

R

Subject to ■ BIPRU 2.1.13 R, a *firm* must calculate its *capital resources* in accordance with ■ BIPRU 8.6 (Consolidated capital resources).

2.1.12

FCA

R

A *firm* must calculate its *capital resources requirement* in accordance with ■ BIPRU 8.7.13 R (3) (Treating group members as a single undertaking for consolidation purposes).

2.1.13

FCA

R

Where GENPRU applies a different method of calculating *capital resources* or *capital resources requirements* depending on the category into which the *firm* in question falls, the method that applies is the one that would apply to the *firm* on a solo basis.

2.1.14

FCA

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For example, the effect of ■ BIPRU 2.1.13 R is that if a *firm* that is applying ■ BIPRU 2.1 is a *limited licence firm* it should continue to apply the *capital resources* and *capital resources requirement* applicable to a *limited licence firm*.

2.1.15

FCA

R

A *firm* must continue to calculate its *base capital resources requirement* and the requirement in ■ GENPRU 2.1.42 R (Calculation of capital resources requirement on authorisation) on a solo basis.

2.1.16

FCA

R

[deleted]

2.1.17 FCA	G	[deleted]
2.1.18 FCA	R	A <i>firm</i> must include in full any <i>subsidiary undertaking</i> in respect of which the <i>firm</i> applies ■ BIPRU 2.1 in the calculations under ■ BIPRU 2.1.7 R.
Minimum standards		
2.1.19 FCA	R	A <i>firm</i> must not apply ■ BIPRU 2.1 to a <i>subsidiary undertaking</i> to which the <i>firm's solo consolidation waiver</i> applies ■ BIPRU 2.1 unless in addition it meets the conditions in ■ BIPRU 2.1.20 R to ■ BIPRU 2.1.24 R.
2.1.20 FCA	R	The risk evaluation, measurement and control procedures of the <i>firm</i> must cover the <i>subsidiary undertaking</i> referred to in ■ BIPRU 2.1.19 R.
2.1.21 FCA	R	The <i>firm</i> must hold more than 75% of the voting rights attaching to the <i>shares</i> in the capital of the <i>subsidiary undertaking</i> referred to in ■ BIPRU 2.1.19 R and must have the right to appoint or remove a majority of the members of the <i>governing body</i> of the <i>subsidiary undertaking</i> .
2.1.22 FCA	R	The material <i>exposures</i> or material liabilities of the <i>subsidiary undertaking</i> referred to in ■ BIPRU 2.1.19 R must be to the <i>firm</i> .
2.1.23 FCA	R	Where the <i>firm</i> is a <i>parent institution in a Member State</i> , it must have measures in place that ensure the satisfactory allocation of risks within the group consisting of the <i>firm</i> and each <i>subsidiary undertaking</i> to which ■ BIPRU 2.1 is applied.
2.1.24 FCA	R	A <i>firm</i> must be able to demonstrate fully to the <i>appropriate regulator</i> the circumstances and arrangements, including legal arrangements, by virtue of which there are no material practical or legal impediments, and none are foreseen, to the prompt transfer of the <i>capital resources</i> of the <i>subsidiary undertaking</i> referred to in ■ BIPRU 2.1.19 R or repayment of liabilities when due by the <i>subsidiary undertaking</i> to the <i>firm</i> .
2.1.25 FCA	G	The following are the criteria that the <i>appropriate regulator</i> will take into account when considering whether the condition in ■ BIPRU 2.1.24 R is going to be met: <ul style="list-style-type: none"> (1) the speed with which funds can be transferred or liabilities repaid to the <i>firm</i> and the simplicity of the method for the transfer or repayment; (2) whether there are any interests other than those of the <i>firm</i> in the <i>subsidiary undertaking</i> and what impact those other interests may have on the <i>firm's</i> control over the <i>subsidiary undertaking</i> and on the ability of the <i>firm</i> to require a transfer of funds or repayment of liabilities; (3) whether the prompt transfer of funds or repayment of liabilities to the <i>firm</i> might harm the reputation of the <i>firm</i> or its <i>subsidiary undertakings</i>;

- (4) whether there are any tax disadvantages for the *firm* or the *subsidiary undertaking* as a result of the transfer of funds or repayment of liabilities;
- (5) whether there are any exchange controls that may have an impact on the transfer of funds or repayment of liabilities;
- (6) whether there are assets in the *subsidiary undertaking* available either to be transferred or liquidated for the purposes of the transfer of funds or repayment of liabilities;
- (7) whether any regulatory requirements impact on the ability of the *subsidiary undertaking* to transfer funds or repay liabilities promptly;
- (8) whether the purpose of the *subsidiary undertaking* prejudices the prompt transfer of funds or repayment of liabilities;
- (9) whether the legal structure of the *subsidiary undertaking* prejudices the prompt transfer of funds or repayment of liabilities;
- (10) whether the contractual relationships of the *subsidiary undertaking* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities;
- (11) whether past and proposed flows of funds between the *subsidiary undertaking* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities; and
- (12) whether the degree of solo consolidation by the *firm* undermines the *appropriate regulator's* ability to assess the soundness of the *firm* as a legal entity (taking into account any other *subsidiary undertakings* to which ■ BIPRU 2.1 is being applied).

2.1.26

FCA

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The effect of ■ BIPRU 2.1.19 R is that even though a *firm's solo consolidation waiver* applies ■ BIPRU 2.1 with respect to a *subsidiary undertaking*, the *firm* should not apply ■ BIPRU 2.1 with respect to that *subsidiary undertaking* unless in addition it meets the conditions in ■ BIPRU 2.1.20 R to ■ BIPRU 2.1.24 R.

2.1.27

FCA

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A *firm* should not apply ■ BIPRU 2.1 to a *subsidiary undertaking* to which the *firm's solo consolidation waiver* applies if it ceases to be a *subsidiary undertaking* of the *firm* even if the *solo consolidation waiver* is not varied by removing the *subsidiary undertaking*.

2.1.28

FCA

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If a *subsidiary undertaking* referred to in ■ BIPRU 2.1.27 G later becomes a *subsidiary undertaking* again the *firm* should not apply ■ BIPRU 2.1 to it unless the *solo consolidation waiver* is varied to re-apply it with respect to the *subsidiary undertaking*.

2.2 Internal capital adequacy standards

Application

2.2.1
FCA

G ■ BIPRU 2.2 applies to a *BIPRU firm*.

Purpose

2.2.2
FCA

- G**
- (1) ■ BIPRU 2.2 sets out *guidance* on ■ GENPRU 1.2 (Adequacy of financial resources) so far as it applies to a *BIPRU firm*. In particular it sets out *guidance* on how a *firm* should carry out its *ICAAP*, as well as some factors the *appropriate regulator* will take into consideration when undertaking a *SREP*. The terms *ICAAP* and *SREP* are explained in ■ BIPRU 2.2.4 G.
■ BIPRU 2.2.41 R- ■ BIPRU 2.2.43 R are *rules* that apply to a *firm* with an *IRB permission*.
 - (2) ■ BIPRU 2.2 is for the most part written on the basis that ■ GENPRU 1.2 (Adequacy of financial resources) applies to a *firm* on a solo basis. However it is still relevant when ■ GENPRU 1.2 applies on a consolidated basis. When ■ GENPRU 1.2 applies on a consolidated basis, ■ BIPRU 2.2 should be read with appropriate adjustments.

Meaning of capital

2.2.3
FCA

G For the purpose of ■ BIPRU 2.2, "capital" refers to a *firm's* financial resources, *capital resources* and internal capital, all as referred to in the *overall Pillar 2 rule*.

The ICAAP and the SREP: Introduction

2.2.4
FCA

G The adequacy of a *firm's* capital needs to be assessed both by a *firm* and the *appropriate regulator*. This process involves:

- (1) an *internal capital adequacy assessment process (ICAAP)*, which a *firm* is obliged to carry out in accordance with the *ICAAP rules*; and
- (2) a *supervisory review and evaluation process (SREP)*, which is conducted by the *appropriate regulator*.

The ICAAP and the SREP: The ICAAP

2.2.5

FCA

G

The obligation to conduct an *ICAAP*, includes requirements on a *firm* to:

- (1) carry out regularly assessments of the amounts, types and distribution of financial resources, *capital resources* and internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed (■ GENPRU 1.2.30 R to ■ GENPRU 1.2.41 G (the *overall Pillar 2 rule* and related *rules*);
- (2) identify the major sources of risk to its ability to meet its liabilities as they fall due (the *overall Pillar 2 rule*);
- (3) conduct stress and scenario tests (the *general stress and scenario testing rule*), taking into account, in the case of a *firm* with an *IRB permission*, the stress test required by ■ BIPRU 4.3.39 R to ■ BIPRU 4.3.40 R (Stress tests used in assessment of capital adequacy for a *firm* with an *IRB permission*);
- (4) ensure that the processes, strategies and systems required by the *overall Pillar 2 rule* and used in its *ICAAP*, are both comprehensive and proportionate to the nature, scale and complexity of that *firm's* activities (■ GENPRU 1.2.35 R); and
- (5) document its *ICAAP* (■ GENPRU 1.2.60 R).

2.2.6

FCA

G

Where a *firm* is a member of a group, it should base its *ICAAP* on the consolidated financial position of the group. The group assessment should include information on diversification benefits and transferability of resources between members of the group and an apportionment of the capital required by the group as a whole to the *firm* (■ GENPRU 1.2.44 G to ■ GENPRU 1.2.56 G (Application of ■ GENPRU 1.2 on a solo and consolidated basis: Processes and tests)). A *firm* may, instead of preparing the *ICAAP* itself, adopt as its *ICAAP* an assessment prepared by other group members.

2.2.7

FCA

G

A *firm* should ensure that its *ICAAP* is:

- (1) the responsibility of the *firm's governing body*;
- (2) reported to the *firm's governing body*; and
- (3) forms an integral part of the *firm's* management process and decision-making culture.

The ICAAP and the SREP: The SREP

2.2.8

FCA

G

The *appropriate regulator* will review a *firm's ICAAP*, including the results of the *firm's* stress tests carried out under *GENPRU* and *BIPRU*, as part of its *SREP*. Provided that the *appropriate regulator* is satisfied with the appropriateness of a *firm's* capital assessment, the *appropriate regulator* will take into account that *firm's ICAAP* and stress tests in its *SREP*. More material on stress tests for a *firm* with an *IRB permission* can be found in ■ BIPRU 2.2.41 R to ■ BIPRU 2.2.45 G.

2.2.9

FCA

G

The *SREP* is a process under which the *appropriate regulator* :

- (1) reviews the arrangements, strategies, processes and mechanisms implemented by a *firm* to comply with *GENPRU*, *BIPRU* and *SYSC* and with requirements imposed by or under the *regulatory system* and evaluates the risks to which the *firm* is or might be exposed;
- (2) determines whether the arrangements, strategies, processes and mechanisms implemented by the *firm* and the capital held by the *firm* ensures a sound management and coverage of the risks in (1); and
- (3) (if necessary) requires the *firm* to take the necessary actions or steps at an early stage to address any failure to meet the requirements referred to in (1).

2.2.10

FCA

G

As part of its *SREP*, the *appropriate regulator* may ask a *firm* to provide it with the results of that *firm's ICAAP*, together with an explanation of the process used. Where appropriate, the *appropriate regulator* will ask for additional information on the *ICAAP*.

2.2.11

FCA

G

As part of its *SREP*, the *appropriate regulator* will consider whether the amount and quality of capital which a *firm* should hold to meet its *CRR* in ■ [GENPRU 2.1](#) (Calculation of capital resources requirements) is sufficient for that *firm* to comply with the *overall financial adequacy rule*.

2.2.12

FCA

G

After completing a review as part of the *SREP*, the *appropriate regulator* will normally give that *firm* individual *guidance (individual capital guidance)*, advising it of the amount and quality of capital which it should hold to meet the *overall financial adequacy rule*.

2.2.12A

FCA

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As part of its *SREP*, the *appropriate regulator* will also consider whether a *firm* should hold a *capital planning buffer* and, in that case, the amount and quality of such *capital planning buffer*. In making these assessments, the *appropriate regulator* will have regard to the nature, scale and complexity of a *firm's* business and of the major sources of risks relevant to such business as referred to in the *general stress and scenario testing rule*. Accordingly, a *firm's capital planning buffer* should be of sufficient amount and adequate quality to allow the *firm* to continue to meet the *overall financial adequacy rule* in the face of adverse circumstances, after allowing for realistic management actions.

2.2.12B

FCA

G

After completing a review as part of the *SREP*, the *appropriate regulator* may notify the *firm* of the amount and quality of capital which it should hold as a *capital planning buffer* over and above the level of capital recommended as its *ICG*. The *appropriate regulator* may set a *firm's capital planning buffer* either as an amount and quality of capital which it should hold now (that is, at the time of the *appropriate regulator's* notification following the *firm's SREP*) or, in exceptional cases, as a forward looking target that the *firm* should build up over time.

2.2.12C

FCA

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Where the amount or quality of capital which the *appropriate regulator* considers a *firm* should hold to meet the *overall financial adequacy rule* or as a *capital planning buffer* is not the same as that which results from a *firm's ICAAP*, the *appropriate regulator* usually expects to discuss any such difference with the *firm*. Where necessary,

the *appropriate regulator* may consider the use of its powers under section 166 of the *Act* (Reports by skilled persons) to assist in such circumstances.

2.2.13

FCA

G

If a *firm* considers that the *individual capital guidance* given to it is inappropriate to its circumstances it should, consistent with *Principle 11* (Relations with regulators), inform the *appropriate regulator* that it disagrees with that *guidance*. The *appropriate regulator* may reissue *individual capital guidance* if, after discussion with the *firm*, the *appropriate regulator* concludes that the amount or quality of capital that the *firm* should hold to meet the *overall financial adequacy rule* is different from the amount or quality initially suggested by the *appropriate regulator*.

2.2.13A

FCA

G

If a *firm* disagrees with the *appropriate regulator's* assessment as to the amount or quality of *capital planning buffer* that it should hold, it should, consistent with *Principle 11* (Relations with regulators), notify the *appropriate regulator* of its disagreement. The *appropriate regulator* may reconsider its initial assessment if, after discussion with the *firm*, the *appropriate regulator* concludes that the amount or quality of capital that the *firm* should hold as *capital planning buffer* is different from the amount or quality initially suggested.

2.2.14

FCA

G

The *appropriate regulator* will not give *individual capital guidance* to the effect that the amount of capital advised in that *guidance* is lower than the amount of capital which a *firm* should hold to meet its *CRR*.

2.2.15

FCA

G

If, after discussion, the *appropriate regulator* and a *firm* still do not agree on an adequate level of capital, the *appropriate regulator* may consider using its powers under section 55J of the *Act* to vary on its own initiative a *firm's Part 4A permission* so as to require it to hold capital in accordance with the *appropriate regulator's* view of the capital necessary to comply with the *overall financial adequacy rule*. In deciding whether it should use its powers under section 55J, the *appropriate regulator* will take into account the amount and quality of the *capital planning buffer* which the *firm* should hold as referred to in ■ BIPRU 2.2.12A G and ■ BIPRU 2.2.12B G. ■ SUP 7 provides further information about the *appropriate regulator's* powers under section 45.

The drafting of individual capital guidance and capital planning buffer

2.2.16

FCA

G

If the *appropriate regulator* gives *individual capital guidance* to a *firm*, the *appropriate regulator* will state what amount and quality of capital the *appropriate regulator* considers the *firm* needs to hold in order to comply with the *overall financial adequacy rule*. It will generally do so by saying that the *firm* should hold *capital resources* of an amount which is at least equal to a specified percentage of that *firm's capital resources requirement* plus one or more static add-ons in relation to specific risks in accordance with the *overall Pillar 2 rule*.

2.2.17

FCA

G

- (1) *Individual capital guidance* may refer to two types of *capital resources*.
- (2) The first type is referred to as general capital. It refers to total *tier one capital resources* and *tier two capital resources* after deductions.
- (3) The second type is referred to as total capital. It refers to total *tier one capital resources*, *tier two capital resources* and *tier three capital resources* after deductions.

2.2.18

FCA

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- (1) In both of the cases in ■ BIPRU 2.2.17 G *capital resources* should be calculated in the same way as they are in GENPRU 2.2 (Capital resources). This includes the *rules* limiting the amount of capital that can be included in the various tiers of capital when *capital resources* are being calculated.
- (2) ■ GENPRU 2.2.42 R does not allow *innovative tier one capital* to count as *tier one capital resources* for certain purposes. This restriction does not apply for the purposes in ■ BIPRU 2.2.17 G.

2.2.19

FCA

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- (1) *Individual capital guidance* may also be given with respect to group capital resources. This paragraph explains how such *guidance* should be interpreted unless the *individual capital guidance* specifies another interpretation.
- (2) If ■ BIPRU 8.2.1 R (General consolidation *rule* for a *UK consolidation group*) applies to the *firm* the *guidance* relates to its *UK consolidation group*. If ■ BIPRU 8.3.1 R (General consolidation *rule* for a *non-EEA sub-group*) applies to the *firm* the *guidance* relates to its *non-EEA sub-group*. If both apply to the *firm* the *guidance* relates to its *UK consolidation group* and to its *non-EEA sub-group*.
- (3) The *guidance* will be on the *overall financial adequacy rule* as it applies on a consolidated basis under ■ GENPRU 1.2.59 R (Application of ■ GENPRU 1.2 on a solo and consolidated basis: Adequacy of resources) and insofar as it refers to capital resources.
- (4) ■ BIPRU 2.2.16 G to ■ BIPRU 2.2.18 G apply for the purpose of this paragraph as they apply to *guidance* given on a solo basis. References to *capital resources* should be read as being to *consolidated capital resources*.

2.2.19A

FCA

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Where the *appropriate regulator* notifies a *firm* that it should hold a *capital planning buffer*, the notification will state what amount and quality of capital the *appropriate regulator* considers that is adequate for the *firm* to hold as such. This will normally be notified to the *firm* together with its *individual capital guidance* and expressed as a separate amount of *capital resources* that the *firm* should hold in excess of the amount of *capital resources* indicated as its *individual capital guidance*.

2.2.19B

FCA

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For the purposes of ■ BIPRU 2.2.19A G, ■ BIPRU 2.2.17 G to ■ BIPRU 2.2.19 G apply as they apply to *individual capital guidance*. References in those provisions to *individual capital guidance* or *guidance* should be read as if they were references to *capital planning buffer*. In relation to ■ BIPRU 2.2.19G (3) and ■ GENPRU 1.2.59 R, where the *general stress and scenario testing rule*, as part of the *ICAAP rules*, applies to a *firm* on a consolidated basis, the *appropriate regulator* may notify the *firm* that it should hold a group *capital planning buffer*. In these cases, the *firm* should ensure that the group holds a *capital planning buffer* of sufficient amount and adequate quality to allow it to continue to meet the *overall financial adequacy rule* in the face of adverse circumstances, after allowing for realistic management actions.

Failure to meet individual capital guidance and monitoring and reporting on the capital planning buffer

2.2.20

FCA

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A *firm's* continuing to hold capital in accordance with its *individual capital guidance* and its ability to carry on doing so is a fundamental part of the *appropriate regulator's*

supervision of that *firm*. Therefore if a *firm's capital resources* have fallen, or are expected to fall, below the level advised in *individual capital guidance*, then, consistent with *Principle 11* (Relations with regulators), a *firm* should inform the *appropriate regulator* of this fact as soon as practicable, explaining why this has happened or is expected to happen and:

- (1) what action the *firm* intends to take to increase its capital resources or to reduce its risks and hence its capital requirements; or
- (2) what modification the *firm* considers should be made to the *individual capital guidance* which it has been given.

2.2.21

FCA

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In the circumstance set out in ■ BIPRU 2.2.20 G, the *appropriate regulator* may ask a *firm* for alternative or more detailed proposals and plans or further assessments and analyses of capital adequacy and risks faced by the *firm*. The *appropriate regulator* will seek to agree with the *firm* appropriate timescales and scope for any such additional work, in light of the circumstances which have arisen.

2.2.22

FCA

G

If a *firm* has not accepted *individual capital guidance* given by the *appropriate regulator* it should, nevertheless, inform the *appropriate regulator* as soon as practicable if its capital resources have fallen, or are expected to fall, below the level suggested by that *individual capital guidance*.

2.2.23

FCA

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Monitoring the use of a *firm's capital planning buffer* is also a fundamental part of the *appropriate regulator* supervision of that *firm*. A *firm* should only use its *capital planning buffer* to absorb losses or meet increased capital requirements if certain adverse circumstances materialise. These should be circumstances beyond the *firm's* normal and direct control, whether relating to a deteriorating external environment or periods of stress such as macroeconomic downturns or financial/market shocks, or firm-specific circumstances.

2.2.23A

FCA

G

Consistent with *Principle 11* (Relations with regulators), a *firm* should notify the *appropriate regulator* as early as possible in advance where it has identified that it would need to use its *capital planning buffer*. The *firm's* notification should at least state:

- (1) what adverse circumstances are likely to force the *firm* to draw down its *capital planning buffer*;
- (2) how the *capital planning buffer* will be used up in line with the *firm's* capital planning projections; and
- (3) what plan is in place for the eventual restoration of the *capital planning buffer*.

2.2.23B

FCA

G

Following discussions with the *firm* on the items listed in ■ BIPRU 2.2.23AG (1) to ■ BIPRU 2.2.23AG (3), the *appropriate regulator* may put in place additional reporting arrangements to monitor the *firm's* use of its *capital planning buffer* in accordance with the plan referred to in ■ BIPRU 2.2.23AG (3). The *appropriate regulator* may also identify specific trigger points as the *capital planning buffer* is being used up by the *firm*, which could lead to additional supervisory actions.

2.2.23C

FCA

G

Where a *firm's capital planning buffer* is being drawn down due to circumstances other than those referred to in ■ BIPRU 2.2.23 G, such as poor planning or mismanagement, the *appropriate regulator* may ask the *firm* for more detailed plans for it to restore its *capital planning buffer*. In the light of the relevant circumstances, the *appropriate regulator* may consider taking other remedial actions, which may include using its powers under section 55L (in the case of the *FCA*) or section 55M (in the case of the *PRA*) of the *Act* to impose on its own initiative such requirements on a *firm* as it considers appropriate.

2.2.23D

FCA

G

A *firm* should inform the *appropriate regulator* where its *capital planning buffer* is likely to start being drawn down even if it has not accepted the *appropriate regulator's* assessment as to the amount or quality of its *capital planning buffer*.

2.2.23E

FCA

G

Where a *firm* has started to use its *capital planning buffer* in circumstances where it was not possible to notify in advance, it should notify the *appropriate regulator* and provide the information referred to in ■ BIPRU 2.2.23A G as soon as practicable afterwards.

2.2.23F

FCA

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■ BIPRU 2.2.20 G to ■ BIPRU 2.2.23E G also apply to *individual capital guidance* and to *capital planning buffer* on a consolidated basis as referred to in ■ BIPRU 2.2.19 G.

Proportionality of an ICAAP

2.2.24

FCA

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■ BIPRU 2.2.25 G to ■ BIPRU 2.2.27 G set out what the *appropriate regulator* considers to be a proportional approach to preparing an *ICAAP* as referred to in ■ GENPRU 1.2.35 R (The processes, strategies and systems required by the *overall Pillar 2 rule* should be comprehensive and proportionate), according to the relative degree of complexity of a *firm's* activities. If a *firm* adopts the appropriate approach, it may enable the *appropriate regulator* more easily to review a *firm's ICAAP* when the *appropriate regulator* undertakes its *SREP*. The *appropriate regulator* is also likely to place more reliance on an *ICAAP* which takes the appropriate form described in ■ BIPRU 2.2.25 G to ■ BIPRU 2.2.27 G than would otherwise be the case although there may also be circumstances in which the *appropriate regulator* will be able to rely on an *ICAAP* that is not drawn up in that form.

2.2.25

FCA

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- (1) This paragraph applies to a small *firm* whose activities are simple and primarily not credit-related.
- (2) In carrying out its *ICAAP* it could:
 - (a) identify and consider that *firm's* largest losses over the last 3 to 5 years and whether those losses are likely to recur;
 - (b) prepare a short list of the most significant risks to which that *firm* is exposed;
 - (c) consider how that *firm* would act, and the amount of capital that would be absorbed, in the event that each of the risks identified were to materialise;
 - (d) consider how that *firm's CRR* might alter under the scenarios in (c) and how its *CRR* might alter in line with its business plans for the next 3 to 5 years;

- (e) consider whether any of the risks in the *overall Pillar 2 rule* is applicable to the *firm* (it is unlikely that any of those risks not already identified in (a) or (b) will apply to a *firm* whose activities are simple);
 - (f) document the ranges of capital required in the scenarios identified and form an overall view on the amount and quality of capital which that *firm* should hold, ensuring that its senior management is involved in arriving at that view; and
 - (g) (in order to determine the amount of capital that would be absorbed in the circumstances detailed in (c)) carry out simple sensitivity tests where the *firm* analyses the impact of a shift in the key risk parameters identified in (b) on the earnings of the *firm*.
- (3) A *firm* is also expected to form a view on the consolidated amount of capital it should hold as well as the capital required to be held in respect of each of the individual risks identified under the *overall Pillar 2 rule*. For that purpose, it may conservatively sum the results of the individual tests performed in (2)(c). If the *firm* chooses however to reduce that sum on the understanding that not all risks will materialise at the same time, then the *firm* should perform scenario tests that demonstrate that a reduction in capital is legitimate.
- (4) A *firm* should conduct stress tests and scenario analyses in accordance with ■ GENPRU 1.2.42 R to assess how that *firm's* capital and CRR would alter and what that *firm's* reaction might be to a range of adverse scenarios, including operational and market events. Where relevant, a *firm* should also consider the impact of a severe economic or industry downturn on its future earnings, *capital resources* and *capital resources requirement*, taking into account its business plans. The downturn scenario should be based on forward looking hypothetical events calibrated against the most adverse movements in individual risk drivers experienced over a long historical period.

2.2.26

FCA

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In relation to a *firm* whose activities are moderately complex, in carrying out its ICAAP, ■ BIPRU 2.2.25 G (3) to ■ (4) apply. In addition, it could:

- (1) having consulted the management in each major business line, prepare a comprehensive list of the major risks to which the business is exposed;
- (2) estimate, with the aid of historical data, where available, the range and distribution of possible losses which might arise from each of those risks and consider using shock stress tests to provide risk estimates;
- (3) consider the extent to which that *firm's* CRR adequately captures the risks identified in (1) and (2);
- (4) for areas in which the CRR is either inadequate or does not address a risk, estimate the additional capital (if any) needed to protect that *firm* and its *customers*, in addition to any other risk mitigation action that *firm* plans to take;
- (5) consider the risk that that *firm's* own analyses of capital adequacy may be inaccurate and that it may suffer from management weaknesses, which affect the effectiveness of its risk management and mitigation;

2.2.27

FCA

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- (6) project that *firm's* business activities forward in detail for one year and in less detail for the next 3 to 5 years and estimate how that *firm's* capital and CRR would alter, assuming that business develops as expected;
 - (7) assume that business does not develop as expected and consider how that *firm's* capital and CRR would alter and what that *firm's* reaction to a range of adverse economic scenarios might be (see ■ GENPRU 1.2.30 R to ■ GENPRU 1.2.43 G (the *overall Pillar 2 rule* and related *rules and guidance*)). Where appropriate, the adverse scenarios should consider the impact of market events that are instantaneous or occur over an extended period of time but which are nevertheless still co-dependent on movements in economic conditions ;
 - (8) document the results obtained from the analyses in (2), (4), (6), and (7) in a detailed report for that *firm's* senior management, and, where relevant, its *governing body*; and
 - (9) ensure that systems and processes are in place to review against performance the accuracy of the estimates made in (2), (4), (6) and (7).
- (1) This paragraph applies to a proportional ICAAP in the case of a *firm* whose activities are complex.
 - (2) A proportional approach to that *firm's* ICAAP should cover the matters identified in ■ BIPRU 2.2.26 G, but is likely also to involve the use of models, most of which will be integrated into its day-to-day management and operation.
 - (3) Models of the sort referred to in (2) may be linked so as to generate an overall estimate of the amount of capital that a *firm* considers appropriate to hold for its business needs. For example, a *firm* is likely to use value at risk models for *market risk* (see ■ BIPRU 7.10), advanced modelling approaches for credit risk (see ■ BIPRU 4) and, possibly, *advanced measurement approaches* for *operational risk* (see ■ BIPRU 6.5). A *firm* might also use economic scenario generators to model stochastically its business forecasts and risks. A *firm* may also link such models to generate information on the economic capital desirable for that *firm*. A model which a *firm* uses to generate its target amount of economic capital is known as an economic capital model (ECM). Economic capital is the target amount of capital which maximises the return for a *firm's* stakeholders for a desired level of risk.
 - (4) A *firm* is also likely to be part of a *group* and to be operating internationally. There is likely to be centralised control over the models used throughout the *group*, the assumptions made and their overall calibration.
 - (5) The more a *firm* integrates into its business such economic capital modelling, the more it is likely to focus on managing risks for the benefit of its stakeholders. Consequently, ECMs may produce capital estimates that differ from the amount of capital needed for regulatory purposes. For the *appropriate regulator* to rely on the results of a *firm's* models, including ECMs, a *firm* should be able to explain the basis and results of its models and how the amount of capital produced by its models reflects the amount of capital needed for regulatory purposes. It may be that those amounts are not equal. Where they are not equal, the *appropriate regulator* will expect a *firm* to discuss any differences with the *appropriate regulator*. However,

it may prove difficult to reconcile the outcome of a *firm's* modelling with the *appropriate regulator's* own assessment of the adequacy of that *firm's* capital. This may be the case when, for instance, matters of judgment are involved in arriving at a *firm's* capital assessment, or the *appropriate regulator* relies on information which cannot be fully disclosed to the *firm* (for example comparisons with the *firm's* peers). Nevertheless, a *firm* whose ECM produces a different amount of capital to that required for regulatory purposes is still obliged to comply with the *overall Pillar 2 rule*. A *firm* should therefore be able to explain to the *appropriate regulator* how the outcome of its ECM is adjusted so that it complies with the *overall financial adequacy rule* and the *overall Pillar 2 rule*.

- (6) Stress testing should provide senior management with a consolidated view of the amount of risk the *firm* is or might be exposed to under the chosen stress events. Senior management should therefore be presented with information that considers the possibility of the risks materialising simultaneously in various proportions. For instance, it would be misrepresentative to simulate *market risk* stressed events without considering that, in those circumstances, market *counterparties* may be more likely to default. Accordingly, a *firm* could:
 - (a) carry out combined stress tests where assets and liabilities are individually subjected to simultaneous changes in two or more risk drivers; for instance, the change in value of each loan made by a *firm* may be estimated using simultaneous changes to both interest rates and stock market or property values;
 - (b) integrate the results of market and credit risk models rather than aggregating the results of each model separately; and
 - (c) consider scenarios which include systemic effects on the *firm* of wider failures in the *firm's* market or systems upon which the *firm* depends and also any possible systemic effects caused by the *firm* itself suffering losses which affect other market participants which in turn exacerbate the *firm's* position.

- (7) Furthermore, if a complex *firm* uses an ECM it should validate the assumptions of the model through a comprehensive stress testing programme. In particular this validation should:
 - (a) test correlation assumptions (where risks are aggregated in this way) using combined stresses and scenario analyses;
 - (b) use stress tests to identify the extent to which the *firm's* risk models omit non-linear effects, for instance the behaviour of derivatives in market risk models; and
 - (c) consider not just the effect of parallel shifts in interest rate curves, but also the effect of curves becoming steeper or flatter.

Guidance on risks to be covered in an ICAAP

■ BIPRU 2.2.30 G to ■ BIPRU 2.2.40 G set out *guidance* on some of the sources of risk identified in the *overall Pillar 2 rule*. ■ BIPRU 2.2.41 R to ■ BIPRU 2.2.45 G have material relating to a *firm* with an *IRB permission*.

2.2.28

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15

2.2.29

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- (1) A *firm* may take into account factors other than those identified in the *overall Pillar 2 rule* when it assesses the level of capital it wishes to hold. These factors might include external rating goals, market reputation and its strategic goals.

However, a *firm* should be able to distinguish, for the purpose of its dialogue with the *appropriate regulator*, between capital it holds in order to comply with the *overall financial adequacy rule*, capital that it holds as a *capital planning buffer* and capital held for other purposes.

- (2) The calibration of the *CRR* assumes that a *firm's* business is well-diversified, well-managed with assets matching its liabilities and good controls, and stable with no large, unusual or high risk transactions. A *firm* may find it helpful to assess the extent to which its business in fact differs from these assumptions and therefore what adjustments it might be reasonable for it to make to the *CRR* to arrive at an adequate level of *capital resources*.

Interest rate risk arising from non-trading book activities

2.2.30

FCA

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A *firm* should assess its exposure to changes in interest rates, in particular risks arising from the effect of interest rate changes on *non-trading book* activities that are not captured by the *CRR*. In doing so, a *firm* may wish to use stress tests to determine the impact on its balance sheet of a change in market conditions.

Securitisation risk

2.2.31

FCA

G

A *firm* should assess its exposure to risks transferred through the *securitisation* of assets should those transfers fail for whatever reason. A *firm* should consider the effect on its financial position of a *securitisation* arrangement failing to operate as anticipated or of the values and risks transferred not emerging as expected.

Residual risk

2.2.32

FCA

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A *firm* should assess its exposure to residual risks that may result from the partial performance or failure of *credit risk mitigation* techniques for reasons that are unconnected with their intrinsic value. This could result from, for instance, ineffective documentation, a delay in payment or the inability to realise payment from a guarantor in a timely manner. Given that residual risks can always be present, a *firm* should assess the appropriateness of its *CRR* against its assumptions which underlie any risk mitigation measures it may have in place.

Concentration risk

2.2.33

FCA

G

A *firm* should assess, and monitor, in detail its exposure to sectoral, geographic, liability and asset concentrations. The *appropriate regulator* considers that concentrations in these areas increase a *firm's* exposure to credit risk. Where a *firm* identifies such concentrations it should consider the adequacy of its *CRR*.

Liquidity risk

2.2.34

FCA

G

In accordance with the *overall Pillar 2 rule* a *firm* should consider its exposure to *liquidity risk* and assess its response should that risk materialise.

2.2.35

FCA

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When assessing *liquidity risk*, a *firm* should consider the extent to which there is a mismatch between assets and liabilities.

2.2.36

FCA

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A *firm* should also, when assessing *liquidity risk*, consider the amount of assets it holds in highly liquid, marketable forms that are available should unexpected cash flows

lead to a liquidity problem. The price concession of liquidating assets is of prime concern when assessing such *liquidity risk* and should therefore be built into a *firm's ICAAP*.

2.2.37

FCA

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Some further areas to consider in developing the *liquidity risk* scenario might include:

- (1) any mismatching between expected asset and liability cash flows;
- (2) the inability to sell assets quickly;
- (3) the extent to which a *firm's* assets have been pledged; and
- (4) the possible need to reduce large asset positions at different levels of market liquidity and the related potential costs and timing constraints.

Business risk: General

2.2.38

FCA

G

A *firm's CRR*, being risk-sensitive, may vary as business cycles and economic conditions fluctuate over time. A deterioration in business or economic conditions could require a *firm* to raise capital or, alternatively, to contract its businesses, at a time when market conditions are most unfavourable to raising capital. Such an effect is known as procyclicality.

2.2.39

FCA

G

To reduce the impact of cyclical effects, a *firm* should aim to maintain an adequate *capital planning buffer* during an upturn in business and economic cycles such that it has sufficient capital available to protect itself in unfavourable market conditions.

2.2.40

FCA

G

To assess its expected capital requirements over the economic and business cycles, a *firm* may wish to project forward its financial position taking account of its business strategy and expected growth according to a range of assumptions as to the state of the economic or business environment which it faces. For example, an *ICAAP* should include an analysis of the impact that the actions of a *firm's* competitors might have on its performance, in order to see what changes in its environment the *firm* could sustain. Projections over a three to five year period would be appropriate in most circumstances. A *firm* may then calculate its projected *CRR* and assess whether it could be met from expected financial resources. Additional *guidance* on capital planning over an economic and business cycle can be found in ■ GENPRU 1.2.73A G (Capital planning).

Business risk: Stress tests for firms using the IRB approach

2.2.41

FCA

R

A *firm* with an *IRB permission* must ensure that there is no significant risk that it will not be able to meet its capital resource requirements for credit risk under ■ GENPRU 2.1 (Calculation of capital resources requirements) at all times throughout an economic cycle, including the capital resources requirements for credit risk indicated by any stress test carried out under ■ BIPRU 4.3.39 R to ■ BIPRU 4.3.40 R (Stress tests used in assessment of capital adequacy for a *firm* with an *IRB permission*) as being likely to apply in the scenario tested. For the purpose of deciding what *capital resources* are or will be available to meet those credit risk requirements from time to time a *firm* must exclude *capital resources* that are likely to be required to meet its other capital requirements under ■ GENPRU 2.1 at the relevant

time. A *firm* must also be able to demonstrate to the *appropriate regulator* at any time that it is complying with this *rule*.

2.2.42

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■ BIPRU 2.2.41 R applies to a *firm* on a solo basis if ■ BIPRU 4 (IRB approach) applies to it on a solo basis and applies on a consolidated basis if ■ BIPRU 4 does.

2.2.43

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R

If ■ BIPRU 2.2.41 R applies to a *firm* on a consolidated basis the following adjustments are made to ■ BIPRU 2.2.41 R in accordance with the general principles of ■ BIPRU 8 (Group risk - consolidation):

- (1) references to *capital resources* are to the *consolidated capital resources* of the *firm's UK consolidation group* or, as the case may be, its *non-EEA sub-group*; and
- (2) references to the capital requirements in ■ GENPRU 2.1 (Calculation of capital resources requirements) are to the consolidated capital requirements with respect to the *firm's UK consolidation group* or, as the case may be, its *non-EEA sub-group* under ■ BIPRU 8 (Group risk - consolidation).

2.2.44

FCA

G

If a *firm's* current available *capital resources* are less than the capital resources requirement indicated by the stress test that need not be a breach of ■ BIPRU 2.2.41 R. The *firm* may wish to set out any countervailing effects and off-setting actions that can be demonstrated to the satisfaction of the *appropriate regulator* as being likely to reduce the difference referred to in the first sentence. The *appropriate regulator* is only likely to consider a demonstration of such actions as credible if those actions are set out in a capital management plan based on the procedures in ■ GENPRU 1.2.73A G (Capital planning) and including a plan of the type referred to in ■ GENPRU 1.2.73A G (5) that has been approved by the *firm's* senior management or *governing body*.

2.2.45

FCA

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The countervailing factors and off-setting actions that a *firm* may rely on as referred to in ■ BIPRU 2.2.44 G include, but are not limited to, projected balance sheet shrinkage, growth in *capital resources* resulting from retained profits between the date of the stress test and the projected start of the economic downturn, the possibility of raising new capital in a downturn, the ability to reduce dividend payments or other distributions, and the ability to allocate capital from other risks which can be shown to be negatively correlated with the *firm's* credit risk profile.

Systems and controls

2.2.46

FCA

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A *firm* may decide to hold additional capital to mitigate any weaknesses in its overall control environment. These weaknesses might be indicated by the following:

- (1) a failure by a *firm* to complete an assessment of its systems and controls to establish whether they comply with SYSC; or
- (2) a failure by a *firm's* senior management to approve its financial results; or
- (3) a failure by a *firm* to consider an analysis of relevant internal and external information on its business and control environment.

2.2.47

FCA

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In considering if there are any systems and control weaknesses and their effect on the adequacy of the *CRR*, a *firm* should be able to demonstrate to the *appropriate regulator* that all the issues identified in *SYSC* have been considered and that appropriate plans and procedures exist to deal adequately with adverse scenarios.

Risks which may be considered according to the nature of the activities of a firm

2.2.48

FCA

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(1) ■ BIPRU 2.2.61 G to ■ BIPRU 2.2.70 G set out *guidance* for:

- (a) [deleted]
- (b) an asset management *firm*; and
- (c) a securities *firm*;

whose activities are either simple or moderately complex.

(2) ■ BIPRU 2.2.49 G to ■ BIPRU 2.2.70 G provide examples of the sorts of risks which such a *firm* might typically face and of stress tests or scenario analyses which it might carry out as part of its *ICAAP*.

(3) The material on securities *firms* is also relevant to a *commodities firm*.

Banks and building societies

2.2.49

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The *appropriate regulator* considers that the concentration risk resulting from concentrated portfolios is significant for most *banks* and *building societies*.

2.2.50

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If a *bank* or *building society* chooses to use the *CRR* as a starting point for its capital assessment, it should remember that, when assessing its exposure to concentration risk, the calculation of the *CRR* is based on the assumption that a *firm* is well-diversified.

2.2.51

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In assessing the degree of credit concentration, a *bank* or *building society* should consider its degree of credit concentration in a particular economic or geographic area. Where the business of a *firm* is, by its nature, concentrated (for example, a specialised *firm* lending to one sector only), a *firm* should consider the impact of adverse economic factors, such as a rise in unemployment in the area in which it has a concentration of *exposures*, and its impact on asset quality. A gradual change of cultural environment could also affect a *bank* or *building society* and a *firm* should consider whether this issue should be the subject of scenario analysis.

2.2.52

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Typically, a *building society's* portfolio is concentrated. The extent to which a *building society* can diversify its business is limited. A *building society* should, nevertheless, consider the impact of geographic concentrations on its capital by, for instance, analysing the effect of local economic factors such as unemployment and its impact on arrears, house prices and loan-to-value ratios.

2.2.53

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Similarly, a *building society* should consider the concentration in its portfolio of certain product types that have, inherently, a more than average risk (for example, lifetime mortgages). It should, through scenario analyses in relation to its portfolio, assess the potential impact on its profitability and capital of those scenarios.

- 2.2.54 **G** In relation to ■ BIPRU 10 (Large exposures requirements), a *bank* or *building society* should take into account factors such as future business growth and cyclicality when it assesses the amount of capital which it will need to remain in compliance with those *rules*. A *firm* may also consider in its assessment whether any *large exposures* that it has identified are positively correlated.
- 2.2.55 **G** Where a *bank* or *building society* lends to a *counterparty* which it assesses as representing a high credit risk, it should assess whether compliance with the *rules* in BIPRU in relation to credit risk is sufficient for it to manage that risk prudently.
- 2.2.56 **G** The performance of specialised portfolios may, in some instances, depend on key individuals. This factor exacerbates concentration risk because the skill of those individuals in part limits the risk arising from a concentrated portfolio. The impact of those individuals is likely to be correspondingly greater in small *firms*. In developing its stress tests and scenario analyses, a *bank* or *building society* should therefore consider the impact of losing key individuals on its ability to operate normally, as well as the direct impact on its revenues.
- 2.2.57 **G** A *bank* or *building society* should assess the sensitivity of its financial position to adverse movements in interest rates. For instance, a *bank* or *building society* should assess its sensitivity to interest rate risk arising from interest rate mismatches between assets and liabilities. A *building society* is exposed to interest rate risk to the extent that it borrows on a short term basis but lends over a longer period.
- 2.2.58 **G** When assessing the adequacy of its capital, a *bank* or *building society* should not only consider the vulnerability of its revenue, but also the sensitivity of its funding and, in particular, its ability to raise additional funding in time of economic stress. A *bank* or *building society* should therefore consider whether its funding pool is sufficiently diversified. For example, where a *bank* is reliant solely on its parent to provide funding, its access to funds may be suddenly restricted should the parent's creditworthiness be downgraded. Similarly, a *bank* or *building society* may consider the impact of an increase in bond rates or a rating downgrade, if relevant, on its capital cost and its subsequent ability to raise capital.
- 2.2.59 **G** A *bank* or *building society* should assess the impact of its business plans on its capital over the time horizon which it uses in its business plans. A *bank* or *building society* should assess the impact on its capital of diversifying its activities and the risk it runs of failing to manage that new business successfully. For that purpose, it may consider the cost of a price war to enter a new competitive market or the risk of mis-pricing some products as a result of not having sufficient expertise in its new area of business.
- 2.2.60 **G** A *bank* or *building society* is also exposed to reputational risk, as its ability to underwrite new business is heavily reliant on the standing of the reputation of the *firm*. A *bank* or *building society* may consider the impact on its financial position of legal disputes which damage its reputation.

An asset management firm

- 2.2.61 **G** An asset manager is primarily exposed to *operational risk* and reputational risk.

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2.2.62

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When assessing reputational risk an asset manager should consider issues such as:

- (1) how poor performance can affect its ability to generate profits;
- (2) the effect on its financial position should one or more of its key fund managers leave that *firm*;
- (3) the effect on its financial position should it lose some of its largest customers; and
- (4) how poor customer services can affect its financial position; for example, a *firm* which has outsourced the management of customer accounts may want to consider the impact on its own reputation of the service provider failing to deliver the service.

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As an asset manager's mandates become more complex, the risk of it failing to comply fully with the terms of its contracts increases. In the event of such failure, a *firm* can be exposed to substantial losses resulting from *customers'* claims and legal actions. Although the *appropriate regulator* would expect an asset manager to have in place adequate controls to mitigate that risk, it may also like to consider the potential cost to it should *customers* claim that it has not adhered to mandates. Past claims and compensation may provide a useful benchmark for an asset manager to assess its sensitivity to future legal action. In assessing the adequacy of its capital, an asset manager may therefore consider whether it could absorb the highest operational loss it has suffered over the last 3 to 5 years.

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In relation to the issues identified in ■ BIPRU 2.2.63 G, an asset manager should consider, for example:

- (1) the direct cost to it resulting from fraud or theft;
- (2) the direct cost arising from *customers'* claims and legal action in the future; an asset manager could consider the impact on its financial position if a legal precedent were to encourage its *customers* to take legal action against that *firm* for failing to advise correctly on a certain type of product; the relevance of such scenarios is likely to depend on whether the asset manager is acting on a discretionary basis or solely as advisor; and
- (3) where it has obtained professional indemnity insurance, the deductibles and individual or aggregate limits on the sums insured.

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The *appropriate regulator* expects an asset manager to consider the impact of economic factors on its ability to meet its liabilities as they fall due. An asset manager should therefore develop scenarios which relate to its strategic and business plan. An asset manager might therefore consider:

- (1) the effect of a market downturn affecting both transaction volumes and the market values of assets in its funds; in assessing the impact of such a scenario, an asset manager may consider the extent to which it can remain profitable (for example, by rapidly scaling down its activities and reducing its costs);
- (2) the impact on current levels of capital if it plans to undertake a significant restructuring; and

2.2.66

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- (3) the impact on current levels of capital if it plans to enter a new market or launch a new product; it should assess the amount of capital it needs to hold, when operating for the first time in a market in which it lacks expertise.

A securities firm

- (1) A securities *firm* may consider the impact of the situations listed in (a) to (c) on its capital levels when assessing its exposure to concentration risk:
- (a) the potential loss that could arise from large exposures to a single *counterparty*;
 - (b) the potential loss that could arise from exposures to large transactions or to a product type; and
 - (c) the potential loss resulting from a combination of events such as a sudden increase in volatility leaving a hitherto fully-margined client unable to meet the margin calls due to the large size of the underlying *position* and the subsequent difficulties involved in liquidating its *position*.
- (2) An example of the analysis in (1)(b) relates to a securities *firm* which relies on the income generated by a large, one-off corporate finance transaction. It may want to consider the possibility of legal action arising from that transaction which prevents the payment of its fees. Additionally, an underwriting *firm* may, as a matter of routine, commit to place a large amount of securities. It may therefore like to assess the impact of losses arising from a failure to place the securities successfully.

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Where a securities *firm* deals in illiquid securities (for example, unlisted securities or securities listed on illiquid markets), or holds illiquid assets, potentially large losses can arise from trades that have failed to settle or because of large unrealised market losses. A securities *firm* may therefore consider the impact of *liquidity risk* on its exposure to:

- (1) credit risk; and
- (2) *market risk*.

2.2.68

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Counterparty risk *rules* only partially capture the risk of settlement failure as the quantification of risk is only based on mark-to-market values and does not take account of the volatility of the securities over the settlement period. A securities *firm's* assessment of its exposure to counterparty risk should take into account:

- (1) whether it acts as arranger only or whether it also executes trades;
- (2) the types of execution venues which it uses; for example, the London Stock Exchange or a retail service provider (RSP) have more depth than *multilateral trading facilities* ; and
- (3) whether it offers extended settlements and free delivery compared to delivery versus payment business.

2.2.69

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- (1) A securities *firm* should also consider the impact of external factors on the levels of capital it needs to hold. Scenarios covering such external factors should relate to its strategy and business plan. A securities *firm* might wish to consider the questions in (2) to (7).
- (2) Whether it plans to participate in a one-off transaction that might strain temporarily or permanently its capital.
- (3) Whether the unevenness of its revenue suggests that it should hold a capital buffer. Such an assessment could be based, for instance, on an analysis of past revenue and the volatility of its capital.
- (4) How its income might alter as interest rates fluctuate where it is obliged to pay interest to its clients in excess of interest it earns on client money deposits.
- (5) How its capital would be affected by a market downturn. For instance, how sensitive that *firm* is to a sharp reduction of trading volumes.
- (6) How political and economic factors will affect that *firm's* business. For instance, a *commodity firm* may wish to consider the impact of a sharp increase in prices on initial margins and, consequently, on its liquidity.
- (7) Whether it anticipates expanding its activities (for example, by offering clearing services), and if so, the impact on its capital.

2.2.70

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A securities *firm* may also want to assess the impact of its internal credit limits on its levels of capital. For instance, a *firm* whose internal procedures authorise dealing without cash in the account or without pre-set dealing limits might consider more capital is required than if it operated stricter internal credit limits.

Capital models

2.2.71

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A *firm* may approach its assessment of adequate capital by developing a model, including an ECM (see ■ BIPRU 2.2.27 G), for some or all of its business risks. The assumptions required to aggregate risks modelled and the confidence levels adopted should be considered by a *firm's* senior management. A *firm* should also consider whether any relevant risks, including systems and control risks, are not captured by the model.

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A *firm* should not expect the *appropriate regulator* to accept as adequate any particular model that it develops or automatically to reflect the results from the model in any *individual capital guidance* or *capital planning buffer*. However, the *appropriate regulator* will take into account the results of a sound and prudent model when giving *individual capital guidance* or when dealing with the *firm* in relation to its *capital planning buffer* (see ■ GENPRU 1.2.19 G (Outline of provisions related to ■ GENPRU 2.1 (Adequacy of financial resources))).

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23

2.2.73

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There is no prescribed approach as to how a *firm* should develop its internal capital model. However, a *firm* should be able to demonstrate:

- (1) the confidence levels set and whether these are linked to its corporate strategy;
- (2) the time horizons set for the different types of business that it undertakes;

- (3) the extent of historic data used and back-testing carried out;
- (4) that it has in place a process to verify the correctness of the model's outputs; and
- (5) that it has the skills and resources to operate, maintain and develop the model.

2.2.74

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In relation to the use of an ECM (see ■ BIPRU 2.2.27 G), the *appropriate regulator* is likely to place more reliance on a *firm's ICAAP* if the *firm* provides the following information:

- (1) a comparison of the amount of capital that the ECM generates in respect of each of the risks captured in the *CRR* before aggregation with the corresponding components of the *CRR* calculation; and
- (2) evidence that the *guidance* in ■ BIPRU 2.2.71 G to ■ BIPRU 2.2.78 G has been followed.

2.2.75

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If a *firm* adopts a top-down approach to developing its internal model, it should be able to allocate the outcome of the internal model to risks it has previously identified in relation to each separate legal entity, business unit or business activity, as appropriate. In relation to a *firm* which is a member of a group, ■ GENPRU 1.2.53 R (Application of ■ GENPRU 1.2 on a solo and consolidated basis: Processes and tests) sets out how internal capital identified as necessary by that *firm's ICAAP* should be allocated.

2.2.76

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If a *firm's* internal model makes explicit or implicit assumptions in relation to correlations within or between risk types, or in relation to diversification benefits between business types, the *firm* should be able to explain to the *appropriate regulator*, with the support of empirical evidence, the basis of those assumptions.

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A *firm's* model should also reflect the past experience of both the *firm* and the sectors in which it operates.

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The values assigned to inputs into a *firm's* model should be derived either stochastically, by assuming the value of an item can follow an appropriate probability distribution and by selecting appropriate values at the tail of the distribution, or deterministically, using appropriate prudent assumptions. For options or guarantees which change in value significantly in certain economic or demographic circumstances, a stochastic approach would normally be appropriate.

2.3 Interest rate risk in the non-trading book

Application

2.3.1

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This section of the *Handbook* applies to a *BIPRU firm*.

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- (1) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]

2.3.3

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Interest rate risk in the *non-trading book* may arise from a number of sources for example:

- (1) risks related to the mismatch of repricing of assets and liabilities and off balance sheet short and long-term positions;
- (2) risks arising from hedging exposure to one interest rate with exposure to a rate which reprices under slightly different conditions;
- (3) risk related to the uncertainties of occurrence of transactions e.g. when expected future transactions do not equal the actual transactions; and
- (4) risks arising from consumers redeeming fixed rate products when market rates change.

Purpose

2.3.4

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■ BIPRU 2.3 sets out more detail on how the systems and controls requirements in SYSC and ■ GENPRU 1.2.30 R (Processes, strategies and systems for risks) and the requirements about stress and scenario testing in ■ GENPRU 1.2.36 R apply to interest rate risk in the *non-trading book*.

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25

2.3.5

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■ BIPRU 2.3 implements Article 124(5) of the *Banking Consolidation Directive*.

2.3.6
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The *guidance* on proportionality in ■ BIPRU 2.2 applies to ■ BIPRU 2.3.

Stress testing for interest rate risk: General requirement

2.3.7
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R

- (1) As part of its obligations under ■ GENPRU 1.2.30 R (Processes, strategies and systems for risks) and ■ GENPRU 1.2.36 R (Stress and scenario tests) a *firm* must carry out an evaluation of its exposure to the interest rate risk arising from its non-trading activities.
- (2) The evaluation under (1) must cover the effect of a sudden and unexpected parallel change in interest rates of 200 basis points in both directions.
- (3) A *firm* must immediately notify the *appropriate regulator* if any evaluation under this *rule* suggests that, as a result of the change in interest rates described in (2), the economic value of the *firm* would decline by more than 20% of its *capital resources*.

2.3.8
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A *firm* should, under ■ BIPRU 2.3.7 R (2), apply a 200 basis point shock to each major currency exposure.

2.3.9
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For a larger and/or more complex *firm*, appropriate systems to evaluate and manage interest rate risk in the *non-trading book* should include:

- (1) the ability to measure the exposure and sensitivity of the *firm's* activities, if material, to repricing risk, yield curve risk, basis risk and risks arising from embedded optionality (for example, pipeline risk, prepayment risk) as well as changes in assumptions (for example those about customer behaviour);
- (2) consideration as to whether a purely static analysis of the impact on their current portfolio of a given shock or shocks should be supplemented by a more dynamic simulation approach; and
- (3) scenarios in which different interest rate paths are computed and in which some of the assumptions (e.g. about behaviour, contribution to risk and balance sheet size and composition) are themselves functions of interest rate level.

2.3.10
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Under ■ GENPRU 1.2.60 R, a *firm* is required to make a written record of its assessments made under ■ GENPRU 1.2. A *firm's* record of its approach to evaluating and managing interest rate risk as it affects the *firm's* non-trading activities should cover the following issues:

- (1) the internal definition of and boundary between "banking book" and "trading activities" (see ■ BIPRU 1.2);
- (2) the definition of economic value and its consistency with the method used to value assets and liabilities (e.g. discounted cashflows);

- (3) the size and the form of the different shocks to be used for internal calculations;
- (4) the use of a dynamic and / or static approach in the application of interest rate shocks;
- (5) the treatment of commonly called "pipeline transactions" (including any related hedging);
- (6) the aggregation of multicurrency interest rate exposures;
- (7) the inclusion (or not) of non-interest bearing assets and liabilities (including capital and reserves);
- (8) the treatment of current and savings accounts (i.e. the maturity attached to exposures without a contractual maturity);
- (9) the treatment of fixed rate assets (liabilities) where customers still have a right to repay (withdraw) early;
- (10) the extent to which sensitivities to small shocks can be scaled up on a linear basis without material loss of accuracy (i.e. covering both convexity generally and the non-linearity of pay-off associated with explicit option products);
- (11) the degree of granularity employed (for example offsets within a time bucket); and
- (12) whether all future cash flows or only principal balances are included.

2.3.11

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The *appropriate regulator* will periodically review whether the level of the shock referred to in ■ BIPRU 2.3.7 R (2) is appropriate in the light of changing circumstances, in particular the general level of interest rates (for instance periods of very low interest rates) and their volatility. A *firm's* internal systems should therefore be flexible enough to compute its sensitivity to any standardised shock that is prescribed. If a 200 basis point shock would imply negative interest rates or if such a shock would otherwise be considered inappropriate, the *appropriate regulator* will consider adjusting the requirements accordingly.

Stress testing for interest rate risk: Frequency

2.3.12

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- (1) A *firm* must carry out the evaluations required by ■ BIPRU 2.3.7 R as frequently as necessary for it to be reasonably satisfied that it has at all times a sufficient understanding of the degree to which it is exposed to the risks referred to in that *rule* and the nature of that exposure. In any case it must carry out those evaluations no less frequently than required by (2) or (3).
- (2) The minimum frequency of the evaluation in ■ BIPRU 2.3.7 R (1) is once each year.
- (3) The minimum frequency of the evaluation in ■ BIPRU 2.3.7 R (2) is once each quarter.

2.3.13

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Consolidation

■ GENPRU 1.2.45 R to ■ GENPRU 1.2.59 R (Application of ■ GENPRU 1.2 on a solo and consolidated basis) apply to ■ BIPRU 2.3 as they apply to ■ GENPRU 1.2.30 R and ■ GENPRU 1.2.36 R.

Chapter 3

Standardised credit risk

3.1 Application and purpose

Application

3.1.1 **R** ■ BIPRU 3 applies to a *BIPRU firm*.

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Purpose

3.1.2 **G** Pursuant to the third paragraph of article 95(2) of the *EU CRR*, ■ BIPRU 3 implements:

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- (1) Articles 78 to 80, paragraph (1) of Article 81, Article 83, Annex II and Parts 1 and 3 of Annex VI of the *Banking Consolidation Directive*;
- (2) Article 18 of the *Capital Adequacy Directive* so far as it applies Articles 78 to 80, paragraph (1) of Article 81, Article 83 and Parts 1 and 3 of Annex VI of the *Banking Consolidation Directive* to *investment firms*; and
- (3) Article 40 of the *Capital Adequacy Directive* for the purposes of the calculation of credit risk under the *Banking Consolidation Directive*.

3.1.3 **G** ■ BIPRU 3.1 sets out how a *firm* should calculate the *credit risk capital component*, which is one of the elements that make up the *credit risk capital requirement* under ■ GENPRU 2.1.51 R. Part of that calculation involves calculating *risk weighted exposure amounts* for *exposures* in the *firm's non-trading book*. The rest of ■ BIPRU 3 sets out how the *firm* should carry out that calculation.

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3.1.4 **G** ■ BIPRU 5 deals with the effect of *credit risk mitigation* on the calculation of *risk weighted exposure amounts*. ■ BIPRU 13 deals with the calculation of *exposure* values for certain kinds of products. ■ BIPRU 14.3 deals with the calculation of the *counterparty risk capital component* for unsettled transactions in the *trading book* and *non-trading book*. ■ BIPRU 14.4 deals with *capital resources* with respect to *free deliveries*.

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Calculation of the credit risk capital component

3.1.5 **R** The *credit risk capital component* of a *firm* is 8% of the total of its *risk weighted exposure amounts* for *exposures* falling into ■ BIPRU 3.1.6 R, calculated in accordance with ■ BIPRU 3.

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3.1.6 **R** An *exposure* falls into this *rule* if:

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- (1) it is in a *firm's non-trading book*; and

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- (2) it has not been deducted from the *firm's capital resources* under
■ GENPRU 2.2.

3.2 The central principles of the standardised approach to credit risk

3.2.1

FCA

R Subject to ■ BIPRU 13:

- (1) the *exposure* value of an asset item must be its balance-sheet value, subject to any value adjustments required by ■ GENPRU 1.3; and
- (2) the *exposure* value of an off-balance sheet item listed in the table in ■ BIPRU 3.7.2 R must be the percentage of its value set out in that table.

[Note: BCD Article 78(1) part]

3.2.2

FCA

R The off-balance sheet items listed in the table in ■ BIPRU 3.7.2 R must be assigned to the risk categories as indicated in that table.

[Note: BCD Article 78(1) part]

3.2.3

FCA

R Where an *exposure* is subject to *funded credit protection*, a firm may modify the *exposure* value applicable to that item in accordance with ■ BIPRU 5.

[Note: BCD Article 78(3)]

3.2.4

FCA

G ■ BIPRU 13 sets out the method for determination of the *exposure* value of a *financial derivative instrument*, with the effects of contracts of novation and other netting agreements taken into account for the purposes of that method in accordance with ■ BIPRU 13.7.

[Note: reference to BCD Article 78(2) first sentence. Implementation in ■ BIPRU 13]

3.2.5

FCA

G ■ BIPRU 13.3 and ■ BIPRU 13.8 set out the provisions applying to the treatment and determination of the *exposure* value of *repurchase transactions*, *securities or commodities lending or borrowing transactions*, *long settlement transactions* and *margin lending transactions* (SFTs).

[Note: reference to BCD Article 78(2) second sentence. Implementation in ■ BIPRU 13]

3.2.6

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■ BIPRU 13 also sets out the methods for the determination of *exposure* values for *long settlement transactions*.

3.2.7

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■ BIPRU 13.8 provides that, in the case of a *firm* using the *financial collateral comprehensive method* under ■ BIPRU 5, where an *exposure* takes the form of an *SFT*, the *exposure* value should be increased by the volatility adjustment appropriate to such *securities* or *commodities* set out in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R (Supervisory volatility adjustments approach and the own estimates of volatility adjustments approach).

[Note: reference to *BCD* Article 78(1), part. Implementation in ■ BIPRU 13]

3.2.8

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■ BIPRU 13.3.13 R and ■ BIPRU 13.8.8 R set out the provisions relating to determination of the *exposure* value of certain credit risk *exposures* outstanding with a *central counterparty*, where the *central counterparty* credit risk *exposures* with all participants in its arrangements are fully collateralised on a daily basis.

[Note: reference to *BCD* Article 78(4). Implementation in ■ BIPRU 13]

Exposure Classes

3.2.9

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A *firm* must assign each *exposure* to one of the following *exposure* classes:

- (1) claims or contingent claims on central governments or *central banks*;
- (2) claims or contingent claims on regional governments or local authorities;
- (3) claims or contingent claims on administrative bodies and non-commercial *undertakings*;
- (4) claims or contingent claims on *multilateral development banks*;
- (5) claims or contingent claims on *international organisation*;
- (6) claims or contingent claims on *institutions*;
- (7) claims or contingent claims on corporates;
- (8) retail claims or contingent retail claims;
- (9) claims or contingent claims secured on real estate property;
- (10) past due items;
- (11) items belonging to regulatory high-risk categories;
- (12) claims in the form of *covered bonds*;

- (13) *securitisation* positions;
- (14) short-term claims on *institutions* and corporates;
- (15) claims in the form of *CIUs*; or
- (16) other items.

[Note: *BCD* Article 79(1)]

3.2.10

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R To be eligible for the *retail exposure* class, an *exposure* must meet the following conditions:

- (1) the *exposure* must be either to an individual *person* or *persons*, or to a small or medium sized entity;
- (2) the *exposure* must be one of a significant number of *exposures* with similar characteristics such that the risks associated with such lending are substantially reduced; and
- (3) the total amount owed to the *firm*, its *parent undertakings* and its *subsidiary undertakings*, including any past due *exposure*, by the obligor client or *group of connected clients*, but excluding claims or contingent claims secured on residential real estate collateral, must not, to the knowledge of the *firm*, exceed €1 million.

[Note: *BCD* Article 79(2)]

3.2.11

FCA

R A *firm* must take reasonable steps to acquire the knowledge referred to in ■ BIPRU 3.2.10 R (3).

[Note: *BCD* Article 79(2)(c) last sentence]

3.2.12

FCA

R *Securities* are not eligible for the *retail exposure* class.

[Note: *BCD* Article 79(2) last sentence]

3.2.13

FCA

R The present value of retail minimum lease payments is eligible for the *retail exposure* class.

[Note: *BCD* Article 79(3)]

3.2.14

FCA

G **Retail exposures: Significance**
 A key driver of the preferential *risk weight* afforded *retail exposures* is the lower correlation and systematic risk associated with such *exposures*. This aspect is unrelated to the absolute number of *retail exposures*. Accordingly in defining what constitutes a significant number of *retail exposures* for the purpose of ■ BIPRU 3.2.10 R (2), a *firm* need only satisfy itself that the number of *retail exposures* is sufficiently large to diversify away idiosyncratic risk. This assessment will be subject to supervisory review

and part of a *firm's* SREP. It will be looked at as one of the issues relating to overall diversification.

Retail exposures: Aggregation: Reasonable steps

3.2.15

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In deciding what steps are reasonable for the purposes of ■ BIPRU 3.2.11 R, a *firm* may take into account complexity and cost, as well as the materiality of the impact upon its capital calculation. A *firm* should be able to demonstrate to the *appropriate regulator* that it has complied with the obligation to take reasonable steps under ■ BIPRU 3.2.11 R in the way it takes these factors into account.

Retail exposures: Aggregation: Single risk

3.2.16

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- (1) The definition of *group of connected clients* is set out in the *Glossary*. Paragraph (2) of that definition is "two or more *persons* ... who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties".
- (2) Say that a *firm* has *exposures* to A and B. When deciding whether A and B come within paragraph (2) of the definition two conditions should be satisfied. Firstly the connections between A and B should mean that if A experiences financial problems, B should be likely to encounter repayment difficulties. Secondly, the connections between A and B should mean that if B experiences financial problems, A should be likely to encounter repayment difficulties.
- (3) The *guidance* in ■ BIPRU 3.2.16 G is provided for the purpose of ■ BIPRU 3.2.10 R only and not for the purposes of any other provision in the Handbook that uses the defined term *group of connected clients*.

Retail exposures: Aggregation: Personal and business exposures

3.2.17

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If a *firm* has *exposures* to an owner of a *retail SME* in his personal capacity and *exposures* to the *retail SME* the *firm* should aggregate the two types of *exposure* for the purpose of ■ BIPRU 3.2.10 R (3), although it should not include claims secured on residential real estate collateral. In deciding what steps are reasonable for the purposes of ■ BIPRU 3.2.11 R in aggregating these two types of *exposure*, a *firm* may take into account the materiality of those personal *exposures*. A *firm* should be able to demonstrate to the *appropriate regulator* that it has complied with the obligation to take reasonable steps under ■ BIPRU 3.2.11 R when taking into account materiality in this way.

Retail exposures: Exchange rate

3.2.18

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Where an exposure is denominated in a currency other than the euro, a *firm* may calculate the euro equivalent for purposes of ■ BIPRU 3.2.10 R using any appropriate set of exchange rates provided its choice has no obvious bias and that the *firm* is consistent in its approach to choosing rates.

Retail exposures: Frequency of monitoring

3.2.19

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A *firm* may monitor compliance with the €1m threshold in ■ BIPRU 3.2.10 R on the basis of approved limits provided it has internal control procedures that are sufficient to ensure

that amounts owed cannot diverge from approved limits to such an extent as to give rise to a material breach of the €1m threshold.

3.2.20

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- (1) To calculate *risk weighted exposure amounts*, *risk weights* must be applied to all *exposures*, unless deducted from *capital resources*, in accordance with the provisions of ■ BIPRU 3.4.
- (2) The application of *risk weights* must be based on the *standardised credit risk exposure class* to which the *exposure* is assigned and, to the extent specified in ■ BIPRU 3.4, its credit quality.
- (3) Credit quality may be determined by reference to:
 - (a) the credit assessments of *eligible ECAs* in accordance with the provisions of ■ BIPRU 3; or
 - (b) the credit assessments of export credit agencies as described in ■ BIPRU 3.4.

[Note: BCD Article 80(1)]

3.2.21

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For the purposes of applying a *risk weight*, as referred to in ■ BIPRU 3.2.20 R, the *exposure* value must be multiplied by the *risk weight* specified or determined in accordance with the *standardised approach*.

[Note: BCD Article 80(2)]

3.2.22

FCA

R

Notwithstanding ■ BIPRU 3.2.20 R, where an *exposure* is subject to credit protection the *risk weight* applicable to that item may be modified in accordance with ■ BIPRU 5.

[Note: BCD Article 80(4)]

3.2.23

FCA

R

Risk weighted exposure amounts for *securitised exposures* must be calculated in accordance with ■ BIPRU 9.

[Note: BCD Article 80(5)]

3.2.24

FCA

R

Exposures the calculation of *risk weighted exposure amounts* for which is not otherwise provided for under the *standardised approach* must be assigned a *risk weight* of 100%.

[Note: BCD Article 80(6)]

Zero risk-weighting for intra-group exposures: core UK group

3.2.25

FCA

R

- (1) Subject to ■ BIPRU 3.2.35 R, and with the exception of *exposures* giving rise to liabilities in the form of the items referred to in ■ BIPRU 3.2.26 R, a *firm* is not required to comply with

■ BIPRU 3.2.20 R (Calculation of risk weighted exposures amounts under the standardised approach) in the case of the *exposures* of the *firm* to a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking* provided that the following conditions are met:

- (a) the counterparty is
 - (i) a *core concentration risk group counterparty*; and
 - (ii) an *institution*, *financial holding company*, *mixed financial holding company*, *financial institution*, *asset management company* or *ancillary services undertaking* subject to appropriate prudential requirements;
 - (b) [deleted]
 - (ba) (in relation to a *subsidiary undertaking*) 100% of the voting rights attaching to the *shares* in the counterparty's capital is held by the *firm* or a *financial holding company* (or a *subsidiary undertaking* of the *financial holding company*), whether individually or jointly, and that the *firm* or *financial holding company* (or its *subsidiary undertaking*) must have the right to appoint or remove a majority of the members of the board of *directors*, committee of management or other governing body of the counterparty;
 - (c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the *firm*;
 - (d) the counterparty is incorporated in the *United Kingdom*; and
 - (e) there is no current or foreseen material practical or legal impediment to the prompt transfer of *capital resources* or repayment of liabilities from the counterparty to the *firm*.
- (2) Where a *firm* chooses under (1) not to apply ■ BIPRU 3.2.20 R, it must assign a *risk weight* of 0% to the *exposure*.
- (3) A *firm* need not apply the treatment in (1) and (2) to every *exposure* that is eligible for that treatment.

[Note: BCD Article 80(7)]

- (1) [deleted]
- (2) [deleted]

3.2.25A

G

FCA

3.2.26

FCA

R

A *firm* must not apply the treatment in ■ BIPRU 3.2.25 R to *exposures* giving rise to liabilities in the form of any of the following items:

- (1) in the case of a *BIPRU firm*, any *tier one capital* or *tier two capital*; and
- (2) in the case of any other *undertaking*, any item that would be *tier one capital* or *tier two capital* if the *undertaking* were a *BIPRU firm*.

[Note: BCD Article 80(7), part]

3.2.27

R

- (1) [deleted]
 - (a) [deleted]
 - (b) [deleted]
 - (c) [deleted]

(2) [deleted]

3.2.27A

FCA

R

- (1) For the purpose of ■ BIPRU 3.2.25R (1)(e), a *firm* must be able on an ongoing basis to demonstrate fully to the *appropriate regulator* the circumstances and arrangements, including legal arrangements, by virtue of which there are no material practical or legal impediments, and none are foreseen, to the prompt transfer of *capital resources* or repayment of liabilities from the counterparty to the *firm*.
- (2) In relation to a counterparty that is not a *firm*, the arrangements referred to in (1) must include a legally binding agreement with each *firm* that is a member of the *core UK group* that it will promptly on demand by the *firm* increase the *firm's capital resources* by an amount required to ensure that the *firm* complies with ■ GENPRU 2.1 (Calculation of capital resources requirements) and any other requirements relating to *capital resources* or concentration risk imposed on a *firm* by or under the *regulatory system*.
- (3) For the purpose of (2), the obligation to increase the *firm's capital resources* may be limited to capital resources available to the *counterparty* and may reasonably exclude such amount of capital resources that, if transferred to the *firm*, would cause the *counterparty* to become balance sheet insolvent in the manner contemplated in section 123(2) of the Insolvency Act 1986.

3.2.28

FCA

G

For the purpose of ■ BIPRU 3.2.25 R (1)(c) it is the risk management functions of the group that should be integrated, rather than the group's operational management. A *firm* should ensure that if risk management functions are integrated in this way it

should be possible for the *appropriate regulator* to undertake qualitative supervision of the management of the integrated risk management function.

3.2.29

FCA

G

In relation to a *core concentration risk group counterparty*, an *undertaking* is included within the scope of consolidation of a group on a full basis if it is at the head of the group or if its assets and liabilities are taken into account in full as referred to in ■ BIPRU 8.5.2 G (Basis of inclusion of undertakings in consolidation).

3.2.29A

FCA

G

- (1) In relation to ■ BIPRU 3.2.25 R (1)(ba), a *subsidiary undertaking* should generally be 100% owned and controlled by a single shareholder. However, if a *subsidiary undertaking* has more than one shareholder, that *undertaking* may be a member of the *core UK group* if all its shareholders are also members of the same *core UK group*.
- (2) For the purpose of ■ BIPRU 3.2.25R (1)(d) (Incorporation in the UK), if a counterparty is of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC) and it is established in the *United Kingdom* other than by incorporation, a *firm* wishing to include that counterparty in its *core UK group* may apply to the *appropriate regulator* for a *waiver* of this condition if it can demonstrate fully to the *appropriate regulator* that the counterparty's centre of main interests is situated in the *United Kingdom* within the meaning of that Regulation.

3.2.30

FCA

G

For the purpose of ■ BIPRU 3.2.25R (1)(e) (Prompt transfer of capital resources):

- (1) in the case of an *undertaking* that is a *firm* the requirement in ■ BIPRU 3.2.25R (1)(e) for the prompt transfer of *capital resources* refers to *capital resources* in excess of the capital and financial resources requirements to which it is subject under the *regulatory system*; and
- (2) [deleted]
- (3) the *FCA* will consider the following criteria:
 - (a) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment;
 - (b) whether there are any interests other than those of the *firm* in the *core concentration risk group counterparty* and what impact those other interests may have on the firm's control over the *core group concentration risk group counterparty* and the ability of the *firm* to require a transfer of funds or repayment of liabilities;
 - (c) whether there are any tax disadvantages for the *firm* or the *core concentration risk group counterparty* as a result of the transfer of funds or repayment of liabilities;
 - (d) whether the purpose of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;
 - (e) whether the legal structure of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;
 - (f) whether the contractual relationships of the *core concentration risk group counterparty* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and

- (g) whether past and proposed flows of funds between the *core concentration risk group counterparty* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities.

3.2.31 FCA	G	The requirement in ■ BIPRU 3.2.25 R (1)(e) for the prompt repayment of liabilities refers to the prompt repayment of liabilities when due.
3.2.32 FCA	G	The <i>guidance</i> in ■ BIPRU 3.2.30 G - ■ BIPRU 3.2.31 G does not apply to ■ BIPRU 2.1 (Solo consolidation) even though the provisions have similar wording. This is because the purpose of the provisions in ■ BIPRU 2.1 is to define the conditions under which two <i>undertakings</i> should be treated as a single <i>undertaking</i> . The purpose of ■ BIPRU 3.2.25 R (1) is to define the circumstances in which it is appropriate to apply a zero <i>risk weight</i> .
3.2.33 FCA	G	A <i>firm</i> that has chosen to apply the treatment in ■ BIPRU 3.2.25 R should monitor the <i>exposures</i> to which a 0% <i>risk weight</i> is applied under that treatment and report these to the <i>appropriate regulator</i> as required.
3.2.34 FCA	G	If a <i>firm</i> has an <i>IRB permission</i> and <i>exposures</i> are exempted from the <i>IRB approach</i> under ■ BIPRU 4.2.26 R (6) the <i>firm</i> may apply a 0% <i>risk weight</i> to them under ■ BIPRU 3.2.25 R (2) (Zero risk weighting for intra-group exposures) if the conditions in ■ BIPRU 3.2.25 R (1) are satisfied.
3.2.35 FCA	R	<p>(1) A <i>firm</i> may not apply ■ BIPRU 3.2.25 R unless it has a <i>core UK group waiver</i>.</p> <p>(2) [deleted]</p> <p>(3) A <i>firm</i> may stop applying ■ BIPRU 3.2.25 R or may stop applying it to some <i>exposures</i>.</p> <p>(4) [deleted]</p> <p>(5) A <i>firm</i> must notify the <i>appropriate regulator</i> if it becomes aware that any <i>exposure</i> that it has treated as exempt under ■ BIPRU 3.2.25 R has ceased to meet the conditions for exemption or if the <i>firm</i> ceases to treat an <i>exposure</i> under that <i>rule</i>.</p>
3.2.36	G	[deleted]
3.2.37 FCA	G	■ BIPRU 3 Annex 1 G is a flow chart guide to assessing whether an intra-group <i>exposure</i> can be zero <i>risk weighted</i> using the <i>standardised approach</i> subject to the conditions set out in ■ BIPRU 3.2.25 R - ■ BIPRU 3.2.35 R.

3.2.38

FCA

R

Exposures to recognized third-country investment firms, clearing houses and investment exchanges

For the purposes of the *standardised approach* (including as it applies for the purposes of ■ BIPRU 14) and without prejudice to ■ BIPRU 13.3.13 R and ■ BIPRU 13.8.8 R (Exposure to a central counterparty), *exposures to recognised third country investment firms and exposures to recognised clearing houses, designated clearing houses, recognised investment exchanges and designated investment exchanges* must be treated as exposures to *institutions*.

[Note: CAD Article 40]

3.3 The use of the credit assessments of ratings agencies

3.3.1

FCA

R

An external credit assessment may be used to determine the *risk weight* of an *exposure* in accordance with ■ BIPRU 3.2.20 R to ■ BIPRU 3.2.26 R only if the *ECAI* which provides it is recognised by the *appropriate regulator* as an *eligible ECAI* for the purposes of the *standardised approach to credit risk*.

[Note: BCD Article 81(1)]

Recognition of ratings agencies

3.3.2

FCA

G

The *appropriate regulator* will recognise an *ECAI* as an *eligible ECAI* for the purposes of ■ BIPRU 3, or will refuse to recognise an *ECAI* or will revoke its recognition of an *ECAI* as an *eligible ECAI* in accordance with the *Capital Requirements Regulations 2006*.

3.3.3

FCA

G

Regulation 22 of the *Capital Requirements Regulations 2006* deals with recognition by the *appropriate regulator* of *eligible ECAs* for *exposure risk weight* purposes. Regulation 25 deals with revoking recognition.

3.3.4

FCA

G

The criteria which the *appropriate regulator* must apply when assessing *ECAs* for recognition for *exposure risk weighting* purposes are set out in Regulation 22 and Schedule 1 to the *Capital Requirements Regulations 2006*. In making an assessment against those criteria and in carrying out the mapping process described in ■ BIPRU 3.3.7 G to ■ BIPRU 3.3.9 G the *appropriate regulator* will have regard to the approach set out in the Committee of European Banking Supervisors' "Guidelines on the recognition of External Credit Assessment Institutions" dated 20 January 2006. The *appropriate regulator* does not expect to recognise an *ECAI* unless the information set out in those guidelines has been submitted to it.

3.3.5

FCA

G

The list of *eligible ECAs* is published on the *appropriate regulator* website. When the *appropriate regulator* recognises an *ECAI* as an *eligible ECAI*, it publishes that decision by amending the list of *eligible ECAs* on the *appropriate regulator* website to include the name of the *eligible ECAI*. When the *appropriate regulator* determines that the recognition of an *ECAI* should be revoked, it publishes that decision by deleting the name of the *ECAI* from the list on the *appropriate regulator* website

3.3.6

FCA

G

The list of *eligible ECAs* includes those who have been recognised as eligible for *exposure risk weighting* purposes by a *competent authority* of another *EEA State* and

are subsequently recognised as *eligible ECAIs* by the *appropriate regulator* without carrying out its own evaluation process under Regulation 22(2) of the *Capital Requirements Regulations 2006*.

Mapping of credit assessments

3.3.7

FCA

G

Under Regulation 22(3) of the *Capital Requirements Regulations 2006* the *appropriate regulator* is obliged to determine, taking into account the requirements set out in Schedule 2 to the *Capital Requirements Regulations 2006*, with which of the *credit quality steps* set out in Part 1 of Annex VI of the *Banking Consolidation Directive* the relevant credit assessments of an *eligible ECAI* are to be associated. Those determinations should be objective and consistent.

3.3.8

FCA

R

The *credit quality step* with which a relevant credit assessment of an *eligible ECAI* is to be associated is that in the table mapping the credit assessments of *eligible ECAIs* to *credit quality steps* published by the *appropriate regulator* under Regulation 22(3) of the *Capital Requirements Regulations 2006*.

3.3.9

FCA

G

The table mapping the credit assessments of *eligible ECAIs* to *credit quality steps* is published on the *appropriate regulator's* website and amended from time to time in line with additions to and deletions from the list of *eligible ECAIs*. The table includes mappings made by a *competent authority* of another *EEA State* which are subsequently recognised by the *appropriate regulator* without carrying out its own determination process under Regulation 22(5) of the *Capital Requirements Regulations 2006*.

[Note: For the most recent version of the table, refer to: <http://www.fca.org.uk/your-fca/documents/fsa-eca-is-standardised> for the FCA and <http://www.bankofengland.co.uk/publications/Documents/other/pr/policy/2013/eca-is-standardised.pdf> for the PRA]

3.4 Risk weights under the standardised approach to credit risk

Risk weights: Exposures to central governments or central banks: Treatment

3.4.1
FCA

R Without prejudice to ■ BIPRU 3.4.2 R to ■ BIPRU 3.4.9 R, exposures to central governments and central banks must be assigned a 100% *risk weight*.

[Note: BCD Annex VI Part 1 point 1]

3.4.2
FCA

R Subject to ■ BIPRU 3.4.4 R, *exposures* to central governments and *central banks* for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.3 R in accordance with the assignment by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: BCD Annex VI Part 1 point 2]

Table: Exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available

3.4.3
FCA

R This table belongs to ■ BIPRU 3.4.2 R.

<i>Credit quality step</i>	1	2	3	4	5	6
<i>Risk weight</i>	0 %	20 %	50 %	100 %	100 %	150 %

3.4.4
FCA

R *Exposures* to the European Central Bank must be assigned a 0% *risk weight*.

[Note: BCD Annex VI Part 1 point 3]

Exposures in the national currency of the borrower

3.4.5

FCA

R

Exposures to EEA States' central governments and central banks denominated and funded in the domestic currency of that central government and *central bank* must be assigned a *risk weight* of 0%.

[Note: BCD Annex VI Part 1 point 4]

3.4.6

FCA

R

When the *competent authorities* of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the EEA assign a *risk weight* which is lower than that indicated in ■ BIPRU 3.4.1 R to ■ BIPRU 3.4.3 R to *exposures* to their central government and *central bank* denominated and funded in the domestic currency, a *firm* may *risk weight* such *exposures* in the same manner.

[Note: BCD Annex VI Part 1 point 5]

Use of credit assessments by export credit agencies

3.4.7

FCA

R

An export credit agency credit assessment may be recognised by a *firm* for the purpose of determining the *risk weight* to be applied to an *exposure* under the *standardised approach* if either of the following conditions is met:

- (1) the credit assessment is a consensus risk score from export credit agencies participating in the OECD "Arrangement on Guidelines for Officially Supported Export Credits"; or
- (2) the export credit agency publishes its credit assessments, and the export credit agency subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIP) that the OECD agreed methodology establishes.

[Note: BCD Annex VI Part 1 point 6]

3.4.8

FCA

R

Exposures for which a credit assessment by an export credit agency is recognised for *risk weighting* purposes must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.9 R.

[Note: BCD Annex VI Part 1 point 7]

Table: Exposure for which a credit assessment by an export credit agency is recognised

3.4.9

FCA

R

This table belongs to ■ BIPRU 3.4.8 R.

MEIP	0	1	2	3	4	5	6	7
<i>Risk weight</i>	0%	0%	20%	50%	100%	100%	100%	150%

Exposures to regional governments or local authorities: General

3.4.10

FCA

R

Without prejudice to ■ BIPRU 3.4.15 R to ■ BIPRU 3.4.19 R:

- (1) a *firm* must *risk weight exposures* to regional governments and local authorities in accordance with ■ BIPRU 3.4.11 R to ■ BIPRU 3.4.14 R and ■ BIPRU 3.4.19A R; and
- (2) the preferential treatment for short-term *exposures* specified in ■ BIPRU 3.4.37 R, ■ BIPRU 3.4.39 R and ■ BIPRU 3.4.44 R must not be applied.

[Note: BCD Annex VI Part 1 point 8]

Exposures to regional governments or local authorities: Central government risk weight based method

3.4.11

FCA

R

- (1) *Exposures* to regional governments and local authorities must be assigned a *risk weight* according to the *credit quality step* to which *exposures* to the central government of the jurisdiction in which the regional government or local authority is established are assigned in accordance with the table in ■ BIPRU 3.4.12 R.
- (2) *Exposures* to an unrated regional government or local authority must not be assigned a *risk weight* lower than that applied to *exposures* to its central government.

[Note: BCD Annex VI Part 1 points 25 and 26]

Table: Central government risk weight based method

3.4.12

FCA

R

This table belongs to ■ BIPRU 3.4.11 R.

<i>Credit quality step to which central government is assigned</i>	1	2	3	4	5	6
<i>Risk weight of exposure</i>	20%	50%	100%	100%	100%	150%

3.4.13

FCA

R

For *exposures* to regional governments and local authorities established in countries where the central government is unrated, the *risk weight* must be not more than 100%.

[Note: BCD Annex VI Part 1 point 27]

3.4.14 **R** For *exposures* to regional governments and local authorities with an original effective maturity of three months or less, the *risk weight* must be 20%.

FCA

[Note: BCD Annex VI Part 1 point 28]

3.4.15 **R** A *firm* must treat an *exposure* to a regional government or local authority of the *United Kingdom* listed in ■ BIPRU 3 Annex 2 R as an *exposure* to the central government of the *United Kingdom*.

FCA

[Note: BCD Annex VI Part 1 point 9]

3.4.16 **G** The *appropriate regulator* will include a regional government or local authority in the list in ■ BIPRU 3 Annex 2 R where there is no difference in risk between *exposures* to that body and *exposures* to the central government of the *United Kingdom* because of the specific revenue-raising powers of the regional government or local authority, and the existence of specific institutional arrangements the effect of which is to reduce the risk of default.

FCA

[Note: BCD Annex VI Part 1 point 9]

3.4.17 **R** A *firm* must treat an *exposure* to a regional government or local authority of an *EEA State* other than the *United Kingdom* as an *exposure* to the central government in whose jurisdiction that regional government or local authority is established if that regional government or local authority is included on the list of regional governments and local authorities drawn up by the *competent authority* in that *EEA State* under a *CRD implementation measure* with respect to point 9 of Part 1 of Annex VI of the *Banking Consolidation Directive*.

FCA

[Note: BCD Annex VI Part 1 point 9]

3.4.18 **R** *Exposures* to churches or religious communities constituted in the form of a legal *person* under public law must, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as *exposures* to regional governments and local authorities, except that ■ BIPRU 3.4.15 R and ■ BIPRU 3.4.17 R do not apply.

FCA

[Note: BCD Annex VI Part 1 point 10]

3.4.19 **R** When competent authorities of a third country jurisdiction which apply supervisory and regulatory arrangements at least equivalent to those applied in the *EEA* treat *exposures* to regional governments and local authorities as *exposures* to their central government, a *firm* may *risk weight exposures* to such regional governments and local authorities in the same manner.

FCA

[Note: BCD Annex VI Part 1 point 11]

3.4.19A **R** Without prejudice to ■ BIPRU 3.4.17 R to ■ BIPRU 3.4.19 R, an *exposure* to a regional government or local authority of an *EEA State* denominated

FCA

and funded in the domestic currency of that regional government or local authority must be assigned a risk weight of 20%.

[Note: *BCD* Annex VI Part 2(b)]

Exposures to administrative bodies and non-commercial undertakings

3.4.20

FCA

R

■ BIPRU 3.4.21 R to ■ BIPRU 3.4.26 R set out the provisions applying to *exposures* to administrative bodies and non-commercial *undertakings*.

Treatment

3.4.21

FCA

R

Without prejudice to ■ BIPRU 3.4.22 R to ■ BIPRU 3.4.26 R, *exposures* to administrative bodies and non-commercial *undertakings* must be assigned a 100% *risk weight*.

[Note: *BCD* Annex VI Part 1 point 12]

Public sector entities

3.4.22

FCA

R

Without prejudice to ■ BIPRU 3.4.23 R to ■ BIPRU 3.4.26 R, *exposures* to *public sector entities* must be assigned a 100% *risk weight*.

[Note: *BCD* Annex VI Part 1 point 13]

3.4.23

FCA

R

A *firm* may treat an *exposure* to a *public sector entity* as an *exposure* to a regional government or local authority in accordance with ■ BIPRU 3.4.11 R to ■ BIPRU 3.4.14 R.

[Note: *BCD* Annex VI Part 1 point 14]

3.4.24

FCA

R

In exceptional circumstances a *firm* may treat an *exposure* to a *public sector entity* established in the *United Kingdom* as an *exposure* to the central government of the *United Kingdom* if there is no difference in risk between *exposures* to that body and *exposures* to the central government of the *United Kingdom* because of the existence of an appropriate guarantee by the central government.

[Note: *BCD* Annex VI Part 1 point 15]

3.4.25

FCA

R

Where a *competent authority* of another *EEA State* implements points 14 or 15 of Part 1 of Annex VI of the *Banking Consolidation Directive* by exercising the discretion to treat *exposures* to *public sector entities* as *exposures* to *institutions* or as *exposures* to the central government of the *EEA State* concerned, a *firm* may *risk weight exposures* to the relevant *public sector entities* in the same manner.

[Note: *BCD* Annex VI Part 1 point 16]

3.4.26

FCA

R

When *competent authorities* of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the *EEA*, treat *exposures* to *public sector entities* as *exposures*

to *institutions*, a *firm* may *risk weight exposures* to the relevant *public sector entities* in the same manner.

[Note: BCD Annex VI Part 1 point 17]

Exposures to multilateral development banks: Treatment

3.4.27

FCA

R

Without prejudice to ■ BIPRU 3.4.28 R to ■ BIPRU 3.4.29 R:

- (1) a *firm* must treat *exposures* to *multilateral development banks* in the same manner as *exposures* to *institutions* in accordance with ■ BIPRU 3.4.34 R to ■ BIPRU 3.4.39 R (Exposures to institutions: credit assessment based method); and
- (2) the preferential treatment for short-term *exposures* specified in ■ BIPRU 3.4.37 R, ■ BIPRU 3.4.39 R and ■ BIPRU 3.4.44 R must not be applied.

[Note: BCD Annex VI Part 1 point 19]

3.4.28

FCA

R

An *exposure* to a *multilateral development bank* listed in point (a) of the definition in the *Glossary* must be assigned a 0% *risk weight*.

[Note: BCD Annex VI Part 1 point 20]

3.4.29

FCA

R

A *risk weight* of 20% must be assigned to the portion of unpaid capital subscribed to the European Investment Fund.

[Note: BCD Annex VI Part 1 point 21]

Exposures to international organisations

3.4.30

FCA

R

Exposures to the following *international organisations* must be assigned a 0% *risk weight*:

- (1) the *EU*;
- (2) the International Monetary Fund; and
- (3) the Bank for International Settlements.

[Note: BCD Annex VI Part 1 point 22]

Exposures to institutions: General

3.4.31

FCA

R

■ BIPRU 3.4.32 R to ■ BIPRU 3.4.48 R set out the treatment to be accorded to *exposures* to *institutions*.

Exposures to institutions: Treatment

3.4.32

FCA

R

Without prejudice to ■ BIPRU 3.4.33 R to ■ BIPRU 3.4.47 R, *exposures* to *financial institutions* authorised and supervised by the *competent*

authorities responsible for the authorisation and supervision of *credit institutions* and subject to prudential requirements equivalent to those applied to *credit institutions* must be *risk weighted* as *exposures to institutions*.

[Note: BCD Annex VI Part 1 point 24]

Exposures to institutions: Risk weight floor on exposures to unrated institutions

3.4.33
FCA

R *Exposures* to an unrated *institution* must not be assigned a *risk weight* lower than that applied to *exposures* to its central government.

[Note: BCD Annex VI Part 1 point 25]

Exposures to institutions: Credit assessment based method

3.4.34
FCA

R *Exposures* to *institutions* with a residual maturity of more than three months for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.35 R in accordance with the assignment by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: BCD Annex VI Part 1 point 29]

Table: Exposures to institutions with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available

3.4.35
FCA

R This table belongs to ■ BIPRU 3.4.34 R.

<i>Credit quality step</i>	1	2	3	4	5	6
<i>Risk weight</i>	20%	50%	50%	100%	100%	150%

3.4.36
FCA

R Without prejudice to ■ BIPRU 3.4.33 R, *exposures* to unrated *institutions* must be assigned a *risk weight* of 50%.

[Note: BCD Annex VI Part 1 point 30]

3.4.37
FCA

R *Exposures* to an *institution* with a residual maturity of three months or less for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.38 R in accordance with the assignment by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: BCD Annex VI Part 1 point 31]

Table: Exposures to an institution with a residual maturity of three months or less for which a credit assessment by a nominated ECAI is available

3.4.38

FCA

R This table belongs to ■ BIPRU 3.4.37 R.

Credit quality step	1	2	3	4	5	6
Risk weight	20%	20%	20%	50%	50%	150%

3.4.39

FCA

R Without prejudice to ■ BIPRU 3.4.33 R, *exposures* to unrated *institutions* having an original effective maturity of three months or less must be assigned a 20% *risk weight*

[Note: BCD Annex VI Part 1 point 32]

Exposures to institutions: Interaction with short-term credit assessments

3.4.40

FCA

R If there is no short-term credit assessment as set out in ■ BIPRU 3.4.112 R, the general preferential treatment for short-term *exposures* as specified in ■ BIPRU 3.4.37 R applies to all *exposures* to *institutions* of up to three months residual maturity.

[Note: BCD Annex VI Part 1 point 34]

3.4.41

FCA

R If there is a short-term credit assessment as set out in ■ BIPRU 3.4.112 R and such an assessment determines the application of a more favourable or identical *risk weight* than the use of the general preferential treatment for short-term *exposures*, as specified in ■ BIPRU 3.4.37 R, then the short-term assessment and *risk weighting* specified in ■ BIPRU 3.4.112 R must be used for that specific *exposure* only. Other short-term *exposures* must follow the general preferential treatment for short-term *exposures*, as specified in ■ BIPRU 3.4.37 R.

[Note: BCD Annex VI Part 1 point 35]

3.4.42

FCA

R If there is a short-term credit assessment as set out in ■ BIPRU 3.4.112 R and such an assessment determines a less favourable *risk weight* than the use of the general preferential treatment for short-term *exposures*, as specified in ■ BIPRU 3.4.37 R, then the general preferential treatment for short-term *exposures* must not be used and all unrated short-term claims must be assigned the same *risk weight* as that applied by the specific short-term assessment.

[Note: BCD Annex VI Part 1 point 36]

PAGE
23

3.4.43

FCA

G ■ BIPRU 3 Annex 4 G contains a flow diagram guide to determining the *risk weight* to be applied to short-term *exposures* to *institutions* according to whether a short-term credit assessment is available.

Exposures to institutions: Short-term exposures in the national currency of the borrower3.4.44
FCA

R A *firm* may assign to an *exposure* to an *institution* formed under the law of the *United Kingdom* of a residual maturity of 3 months or less denominated and funded in pounds sterling a *risk weight* that is one category less favourable than the preferential *risk weight*, as described in ■ BIPRU 3.4.5 R (Exposures in the national currency of the borrower), assigned to *exposures* to the central government of the *United Kingdom*.

[Note: BCD Annex VI Part 1 point 37]

3.4.45
FCA

R (1) Where a *competent authority* of another *EEA State* implements point 37 of Part 1 of Annex VI of the *Banking Consolidation Directive* by exercising the discretion to allow the treatment in that point, a *firm* may assign to the relevant national currency *exposures* the *risk weight* permitted by that *CRD implementation measure*.

(2) When the *competent authority* of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the *EEA* assigns to an *exposure* to an *institution* formed under the law of that third country of a residual maturity of 3 months or less denominated and funded in the national currency a *risk weight* that is one category less favourable than the preferential *risk weight*, as described in ■ BIPRU 3.4.6 R (Exposures in the national currency of the borrower), assigned to *exposures* to the central government of that third country, a *firm* may *risk weight* such *exposures* in the same manner.

[Note: BCD Annex VI Part 1 point 37]

3.4.46
FCA

R No *exposures* of a residual maturity of 3 months or less denominated and funded in the national currency of the borrower may be assigned a *risk weight* less than 20%.

[Note: BCD Annex VI Part 1 point 38]

Exposures to institutions: Investments in regulatory capital instruments3.4.47
FCA

R Investments in *equity* or regulatory capital instruments issued by *institutions* must be *risk weighted* at 100%, unless deducted from *capital resources*.

[Note: BCD Annex VI Part 1 point 39]

Exposures to institutions: Minimum reserves required by the ECB3.4.48
FCA

R Where an *exposure* to an *institution* is in the form of minimum reserves required by the European Central Bank or by the *central bank* of an *EEA State* to be held by the *firm*, a *firm* may assign the *risk weight* that

would be assigned to *exposures* to the *central bank* of the *EEA State* in question provided:

- (1) the reserves are held in accordance with Regulation (EC) No. 1745/2003 of the European Central Bank of 12 September 2003 or a subsequent replacement regulation or in accordance with national requirements in all material respects equivalent to that Regulation; and
- (2) in the event of the bankruptcy or insolvency of the *institution* where the reserves are held, the reserves will be fully repaid to the *firm* in a timely manner and will not be available to meet other liabilities of the *institution*.

[Note: BCD Annex VI Part 1 point 40]

Exposures to corporates: General

3.4.49

FCA

G

■ BIPRU 3.4.50 R to ■ BIPRU 3.4.52 R set out the treatment to be accorded to *exposures* to *corporates*.

Exposures to corporates: Treatment

3.4.50

FCA

R

Exposures for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.51 R in accordance with the assignment by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: BCD Annex VI Part 1 point 41]

Table: Exposures for which a credit assessment by a nominated ECAI is available

3.4.51

FCA

R

This table belongs to ■ BIPRU 3.4.50 R.

<i>Credit quality step</i>	1	2	3	4	5	6
<i>Risk weight</i>	20%	50%	100%	100%	150%	150%

3.4.52

FCA

R

Unrated *exposures* must be assigned a 100% *risk weight* or the *risk weight* of its central government, whichever is the higher.

[Note: BCD Annex VI Part 1 point 42]

Retail exposures

3.4.53

FCA

R

Exposures that comply with the criteria listed in ■ BIPRU 3.2.10 R must be assigned a *risk weight* of 75%. However a *firm* may treat such an *exposure* under ■ BIPRU 3.2.24 R (100% *risk weight*).

[Note: BCD Annex VI Part 1 point 43]

Exposures secured by real estate property

3.4.54

FCA

R

■ BIPRU 3.4.55 R to ■ BIPRU 3.4.94 R set out the treatment to be accorded to *exposures* secured by real estate property.

3.4.55

FCA

R

Without prejudice to ■ BIPRU 3.4.56 R to ■ BIPRU 3.4.94 R, *exposures* fully secured by real estate property must be assigned a *risk weight* of 100%.

[Note: BCD Annex VI Part 1 point 44]

Exposures secured by mortgages on residential property

3.4.56

FCA

R

Without prejudice to ■ BIPRU 3.4.85 R, an *exposure* or any part of an *exposure* fully and completely secured, to the satisfaction of the *firm*, by mortgages on residential property which is or shall be occupied or let by the owner or the beneficial owner in the case of personal investment companies must be assigned a *risk weight* of 35%.

[Note: BCD Annex VI Part 1 point 45]

3.4.56A

FCA

R

- (1) A *firm* must not treat a *lifetime mortgage* as an *exposure* fully and completely secured on residential property for the purposes of ■ BIPRU 3.4.56 R unless the amount of the *exposure* is calculated according to the following formula:

exposure amount =

$$\frac{P(1+i)^T}{(1+d)^T}$$

where:

- (a) *P* is the current outstanding balance on the *lifetime mortgage*;

- (b) *i* is the interest rate charged on the *lifetime mortgage*, which for the purposes of this calculation must not be lower than the discount rate referred to in (c);
- (c) *d* is the discount rate which is the risk-free rate as represented by the yield on 10-year *UK* government bonds; and
- (d) *T* is the projected number of years to maturity of the *exposure*.

(2) Notwithstanding (1)(c), a *firm* may calculate an annual average discount rate provided there is no obvious bias in its calculation and it is consistent in its approach.

3.4.56B

G

FCA

- (1) This paragraph provides *guidance* on ■ BIPRU 3.4.56A R.
- (2) For the purposes of ■ BIPRU 3.4.56A R (2), a *firm* may use the FTSE *UK* gilt 10-year yield index which the Council of Mortgage Lenders makes available to its members.
- (3) If a *firm* offers a variable interest rate on a *lifetime mortgage*, it should calculate an average interest rate in a way which is consistent with the calculation of the discount rate.
- (4) To determine the projected number of years to maturity of the *exposure*, a *firm* may use the standard mortality tables published by the Institute of Actuaries or the Faculty of Actuaries. For internal risk management purposes, the *firm* should use factual data or seek actuarial advice to determine how the information in these tables may be adjusted to take account of regional and other relevant variations.

3.4.57

R

FCA

Exposures fully and completely secured, to the satisfaction of the *firm*, by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of residential property which is or shall be occupied or let by the owner must be assigned a *risk weight* of 35%.

[Note: *BCD* Annex VI Part 1 point 46]

3.4.58

R

FCA

Without prejudice to ■ BIPRU 3.4.85 R, an *exposure* or any part of an *exposure* to a tenant under a property leasing transaction concerning residential property under which the *firm* is the lessor and the tenant has an option to purchase, must be assigned a *risk weight* of 35% provided that the *firm* is satisfied that the *exposure* of the *firm* is fully and completely secured by its ownership of the property.

[Note: *BCD* Annex VI Part 1 point 47]

3.4.59

G

FCA

An *Ijara* mortgage is an example of an *exposure* described in ■ BIPRU 3.4.58 R.

3.4.60

FCA

R

- (1) In the exercise of its judgement for the purposes of ■ BIPRU 3.4.56 R to ■ BIPRU 3.4.58 R, a *firm* may be satisfied only if the conditions in (2) to (6) are met.
- (2) The value of the property does not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macroeconomic factors affect both the value of the property and the performance of the borrower.
- (3) The risk of the borrower does not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral.
- (4) The minimum requirements about:
 - (a) legal certainty in ■ BIPRU 3.4.64 R;
 - (b) monitoring of property values in ■ BIPRU 3.4.66 R;
 - (c) documentation in ■ BIPRU 3.4.72 R; and
 - (d) insurance in ■ BIPRU 3.4.73 R;
 are met.
- (5) The valuation *rules* set out in ■ BIPRU 3.4.77 R to ■ BIPRU 3.4.80 R are met.
- (6) The value of the property exceeds the *exposures* by a substantial margin as set out in ■ BIPRU 3.4.81 R, ■ BIPRU 3.4.83 R, ■ BIPRU 3.4.84 R or ■ BIPRU 3.4.85 R (as applicable).

[Note: BCD Annex VI Part 1 point 48]

3.4.61

FCA

R

■ BIPRU 3.4.60 R (3) does not apply to *exposures* fully and completely secured by mortgages on residential property which is situated within the *United Kingdom*.

[Note: BCD Annex VI Part 1 point 49]

3.4.62

FCA

G

The *Banking Consolidation Directive* permits a *competent authority* to disapply the condition in ■ BIPRU 3.4.60 R (3), if it has evidence that a well-developed and long-established residential real estate market is present in its territory with loss rates which are sufficiently low to justify such treatment. ■ BIPRU 3.4.61 R implements that option. However, if the evidence changes so that these conditions are no longer satisfied, the *appropriate regulator* may be obliged to revoke ■ BIPRU 3.4.61 R.

3.4.63

FCA

R

If a *CRD implementation measure* of another *EEA State* exercises the discretion in point 49 of Part 1 of Annex VI of the *Banking Consolidation Directive* to dispense with the condition corresponding to ■ BIPRU 3.4.60 R (3) (The risk of the borrower should not materially depend upon the performance of the underlying property or project) , a *firm* may apply a *risk weight* of 35% to such *exposures* fully and completely secured by mortgages on residential property situated in that *EEA State*.

[Note: *BCD* Annex VI Part 1 point 50]

3.4.64

FCA

R

The requirements about legal certainty referred to in ■ BIPRU 3.4.60 R (4)(a) are as follows:

- (1) the mortgage or charge must be enforceable in all relevant jurisdictions which are relevant at the time of conclusion of the credit agreement, and the mortgage or charge must be properly filed on a timely basis;
- (2) the arrangements must reflect a perfected lien (i.e. all legal requirements for establishing the pledge shall have been fulfilled); and
- (3) the protection agreement and the legal process underpinning it must enable the *firm* to realise the value of the protection within a reasonable timeframe.

[Note: *BCD* Annex VIII Part 2 point 8(a)]

3.4.65

FCA

G

The term protection agreement in ■ BIPRU 3.4.64 R (3) refers to the contract or deed by which the mortgage or charge is established.

3.4.66

FCA

R

- (1) The requirements about monitoring of property values referred to in ■ BIPRU 3.4.60 R (4)(b) are as follows:
 - (a) the value of the property must be monitored on a frequent basis and at a minimum once every three years for residential real estate;
 - (b) more frequent monitoring must be carried out where the market is subject to significant changes in conditions;
 - (c) statistical methods may be used to monitor the value of the property and to identify property that needs revaluation;
 - (d) the property valuation must be reviewed by an independent valuer when information indicates that the value of the property may have declined materially relative to general market prices; and

(e) for loans exceeding €3 million or 5% of the *capital resources* of the *firm*, the property valuation must be reviewed by an independent valuer at least every three years.

(2) For the purposes of (1), 'independent valuer' means a person who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.

[Note: BCD Annex VIII Part 2 point 8(b)]

3.4.67

FCA

G

A property will need to be revalued over time to ensure that the original purchase price does not overstate the degree of security provided by the property. Ijara providers should undertake revaluations in the same way as providers of conventional mortgages.

3.4.68

FCA

G

For the purposes of ■ BIPRU 3.4.66 R (1)(a), the monitoring of property values should be an inherent part of risk managing and tracking the portfolio. The requirement to monitor property values does not include the physical assessment of each property in the portfolio.

3.4.69

FCA

G

For the purposes of ■ BIPRU 3.4.66 R (1)(d) and ■ (e), the review of a property valuation is more in-depth than the normal monitoring process required by ■ BIPRU 3.4.66 R (1)(a). This requirement is likely to include a review of the property value on an individual *exposure* basis. Where an *exposure* is secured by multiple properties, the review can be undertaken at the level of the *exposure*, rather than at the level of each individual property.

3.4.70

FCA

G

The review of property values required by ■ BIPRU 3.4.66 R (1)(e) may lead to an amendment of the value assigned to the property under by ■ BIPRU 3.4.80 R.

3.4.71

FCA

G

For the purposes of ■ BIPRU 3.4.66 R (2), necessary qualifications need not be professional qualifications but the firm should be able to demonstrate that he or she has the necessary ability and experience to undertake the review.

3.4.72

FCA

R

The requirements about documentation referred to in ■ BIPRU 3.4.60 R (4)(c) are that the types of residential real estate accepted by the *firm* and its lending policies in this regard must be clearly documented.

[Note: BCD Annex VIII Part 2 point 8(c)]

3.4.73

FCA

R

The requirements about insurance referred to in ■ BIPRU 3.4.60 R (4)(d) are that the *firm* must have procedures to monitor that the property taken as protection is adequately insured against damage.

[Note: BCD Annex VIII Part 2 point 8(d)]

- 3.4.74**
FCA **G** For the purposes of ■ BIPRU 3.4.73 R a *firm* should, as a minimum, ensure that it is a requirement of each loan that the property taken as collateral must have adequate buildings insurance at all times, which should be reviewed when any new loan is extended against the property.
- 3.4.75**
FCA **G** A *firm* may deal with the risk that insurance on properties taken as protection may be inadequate by taking out insurance at the level of the portfolio.
- 3.4.76**
FCA **R** The valuation *rules* referred to in ■ BIPRU 3.4.60 R (5) are set out in ■ BIPRU 3.4.77 R to ■ BIPRU 3.4.80 R.
- 3.4.77**
FCA **R** The property must be valued by an independent valuer at or less than the market value. In those *EEA States* that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions the property may instead be valued by an independent valuer at or less than the mortgage lending value.
- [Note: BCD Annex VIII Part 3 point 62]
- 3.4.78**
FCA **R** Market value means the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value must be documented in a transparent and clear manner.
- [Note: BCD Annex VIII Part 3 point 63]
- 3.4.79**
FCA **R** Mortgage lending value means the value of the property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. Speculative elements must not be taken into account in the assessment of the mortgage lending value. The mortgage lending value must be documented in a transparent and clear manner.
- [Note: BCD Annex VIII Part 3 point 64]
- 3.4.80**
FCA **R** The value of the collateral must be the market value or mortgage lending value reduced as appropriate to reflect the results of the monitoring required under ■ BIPRU 3.4.60 R (4)(b) and ■ BIPRU 3.4.66 R and to take account of any prior claims on the property.
- [Note: BCD Annex VIII Part 3 point 65]
- 3.4.81**
FCA **R** A *firm* may not treat an *exposure* as fully and completely secured by residential property located in the *United Kingdom* for the purpose of ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R unless the amount of the *exposure* or of the secured part of the *exposure* referred to in ■ BIPRU 3.4.56 R or

■ BIPRU 3.4.58 R, as the case may be, is 80% or less of the value of the residential property on which it is secured.

3.4.82

FCA

G

- (1) The application of ■ BIPRU 3.4.81 R may be illustrated by an example. If a *firm* has a mortgage *exposure* of £100,000 secured on residential property in the *United Kingdom* that satisfies the criteria listed in ■ BIPRU 3.4.56 R to ■ BIPRU 3.4.80 R and the value of that property is £100,000, then £80,000 of that *exposure* may be treated as fully and completely secured and *risk weighted* at 35%. The remaining £20,000 may be *risk weighted* at 75% provided the *exposure* meets the criteria in ■ BIPRU 3.2.10 R. The portion *risk weighted* at 75% should be treated as a *retail exposure* for the purposes of the aggregation calculations specified in ■ BIPRU 3.2.10 R (3). A diagrammatic illustration of this example is in (2).

(2)



EXAMPLE

- £100,000 loan secured on property valued at £100,000
- First £80,000 (80% LTV) *risk weighted* at 35%
- Remaining £20,000 *risk weighted* at 75% if meets retail criteria: counts to retail aggregation calculation
- Overall *risk weight* = 43%

- (3) The same approach applies to *exposures* described in ■ BIPRU 3.4.58 R. On initiation a 35% *risk weight* should be applied to the first 80% of the principal "purchase price" outstanding, with a 75% *risk weight* being applied to the remainder of the principal (assuming that the *exposure* meets the requirements in ■ BIPRU 3.2 to be treated as a *retail exposure*).

3.4.83

FCA

R

A *firm* may only treat an *exposure* as fully and completely secured by residential property situated in another *EEA State* for the purposes of ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R if it would be treated as fully and completely secured by the relevant *CRD implementation measures* in that *EEA State* implementing points 45 and 47 of Part 1 of Annex VI of the *Banking Consolidation Directive*.

3.4.84

FCA

R

For the purposes of ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R, a *firm* may only treat an *exposure* as fully and completely secured by residential property situated in the territory of a *third-country competent authority* that is listed as equivalent for credit risk in ■ BIPRU 8 Annex 6 R if it would be treated as fully and completely secured under the applicable requirements of that *third-country competent authority* (including any applicable loan-to-value ceiling).

3.4.85

FCA

R

For the purposes of ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R, where the residential property in question is situated in the territory of a *third-country competent authority* that is not listed as equivalent for credit risk in ■ BIPRU 8 Annex 3 R:

(1) a *firm* must not treat an *exposure* as fully and completely secured by the residential property in question unless the value of the property exceeds the *exposures* by a substantial margin, which must be at least 20%;

(2) the *firm* must apply a *risk weight* of 50% to the *exposure*.

3.4.86

FCA

G

For the purposes of ■ BIPRU 3.4.85 R (1) and in order to satisfy itself that an *exposure* is fully and completely secured by the relevant property, a *firm* should make its own assessment of the appropriate margin in each case, using its knowledge of the market in the relevant country and of its own portfolio.

3.4.87

FCA

G

If a *firm* has more than one *exposure* secured on the same property they should be aggregated and treated as if they were a single *exposure* secured on the property for the purposes of ■ BIPRU 3.4.56 R and ■ BIPRU 3.4.58 R and ■ BIPRU 3.4.81 R, ■ BIPRU 3.4.83 R and ■ BIPRU 3.4.84 R.

3.4.88

FCA

G

If an *exposure* is secured on property that is used in part for residential purposes in accordance with ■ BIPRU 3.4.56 R and partly for commercial purposes (such as a farm, public house, guest house or shop) it may be treated as secured by residential real estate if the *firm* can demonstrate that the property's main use is, or will be, residential and that the value of the property is not significantly affected by its commercial use.

Exposures secured by mortgages on commercial real estate

3.4.89

FCA

R

Exposures or any part of an *exposure* secured by mortgages on offices or other commercial premises which cannot properly be considered to fall within any other *standardised credit risk exposure class* or to qualify for a lower *risk weight* under ■ BIPRU 3 must be assigned a *risk weight* of 100%.

[Note: BCD Annex VI Part 1 point 51]

3.4.90

FCA

R

Exposures fully and completely secured by shares in Finnish housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of offices or other commercial premises may be assigned a *risk weight* of 50%.

[Note: BCD Annex VI Part 1 point 52]

3.4.91

FCA

R

If a *CRD implementation measure* in another *EEA State* implements the discretion in point 51 of Part 1 of Annex VI of the *Banking Consolidation Directive*, a *firm* may apply the same treatment as that *CRD implementation measure* to *exposures* falling within the scope of that *CRD implementation measure* which are fully and completely secured by mortgages on offices or other commercial premises situated in that *EEA State*.

[Note: BCD Annex VI Part 1 points 51 and 57]

3.4.92

FCA

R

If a *CRD implementation measure* in another *EEA State* implements the discretion in point 53 of Part 1 of Annex VI of the *Banking Consolidation Directive*, a *firm* may apply the same treatment as that *CRD implementation measure* to *exposures* related to property leasing transactions concerning offices or other commercial premises situated in that *EEA State* and governed by statutory provisions whereby the lessor retains full ownership of the rented assets until the tenant exercises his option to purchase, as long as that *exposure* falls within the scope of that *CRD implementation measure*.

[Note: *BCD* Annex VI Part 1 points 53 and 57]

3.4.93

FCA

R

In particular, if a *firm* applies ■ BIPRU 3.4.91 R or ■ BIPRU 3.4.92 R, it must comply with the corresponding *CRD implementation measures* in relation to points 54-56 of Part 1 of Annex VI of the *Banking Consolidation Directive*.

[Note: *BCD* Annex VI Part 1 points 54 to 56]

3.4.94

FCA

R

(1) If a *CRD implementation measure* in another *EEA State* implements the discretion in point 58 of Part 1 of Annex VI of the *Banking Consolidation Directive* to dispense with the condition in point 54(b) for *exposures* fully and completely secured by mortgages on commercial property situated in that *EEA State*, a *firm* may apply the same treatment as that *CRD implementation measure* to *exposures* fully and completely secured by mortgages on commercial property situated in that *EEA State* falling within the scope of that *CRD implementation measure*.

(2) However a *firm* may not apply the treatment in (1) if the eligibility to use that treatment under the *CRD implementation measure* referred to in (1) ceases as contemplated under point 59 of Annex VI of the *Banking Consolidation Directive* (condition in point 54(b) must apply where conditions in point 58 are not satisfied).

[Note: *BCD* Annex VI Part 1 points 58, 59 and 60]

Past due items

3.4.95

FCA

G

■ BIPRU 3.4.96 R to ■ BIPRU 3.4.101 R set out the treatment to be accorded to past due items.

3.4.96

FCA

R

Without prejudice to the provisions contained in ■ BIPRU 3.4.97 R to ■ BIPRU 3.4.101 R, the unsecured part of any item that is past due for more than 90 days (irrespective of the amount of that item or of the unsecured portion of that item) must be assigned a *risk weight* of:

- (1) 150% if value adjustments are less than 20% of the unsecured part of the *exposure* gross of value adjustments; and
- (2) 100% if value adjustments are no less than 20% of the unsecured part of the *exposure* gross of value adjustments.

[Note: *BCD Annex VI Part 1 point 61*]

3.4.97

FCA

R

For the purpose of defining the secured portion of the past due item, eligible collateral and guarantees must be those eligible for *credit risk mitigation* purposes under ■ BIPRU 5.

[Note: *BCD Annex VI Part 1 point 62*]

3.4.98

FCA

G

For the purposes of ■ BIPRU 3.4.97 R, the secured portion of a past due item is dealt with under ■ BIPRU 5 (Credit risk mitigation). A *firm* may treat the secured portion of an *exposure* covered by a mortgage indemnity product that meets the relevant *CRM* eligibility criteria as secured for the purposes of ■ BIPRU 3.4.97 R. The *risk weight* to be applied to the secured portion is determined under ■ BIPRU 5.7.21 R to ■ BIPRU 5.7.24 R. The *risk weight* of the unsecured portion is determined in accordance with ■ BIPRU 3.4.96 R.

3.4.99

FCA

R

Exposures indicated in ■ BIPRU 3.4.56 R to ■ BIPRU 3.4.63 R (*Exposures* secured by mortgages on residential property) must be assigned a *risk weight* of 100% net of value adjustments if they are past due for more than 90 days. If value adjustments are no less than 20% of the *exposure* gross of value adjustments, the *risk weight* to be assigned to the remainder of the *exposure* is 50%.

[Note: *BCD Annex VI Part 1 point 64*]

3.4.100

FCA

G

The application of ■ BIPRU 3.4.96 R and ■ BIPRU 3.4.99 R may be illustrated on the basis of a £110,000 loan on a property valued at £100,000, where £80,000 of the loan is secured and £30,000 of the *exposure* is unsecured and provisions of £20,000 are taken:

- (1) Option 1 (application of ■ BIPRU 3.4.96 R):
 - (a) provision of £20,000 taken on £80,000 secured *exposure*;
 - (b) provision exceeds 20%, so the *firm* should *risk weight* the remaining £60,000 secured *exposure* at 50%;
 - (c) the *risk weight* to be applied to the unsecured *exposure* of £30,000 is 150%;
 - (d) the average *risk weight* to be assigned to the net *exposure* of £90,000 is 83%.
- (2) Option 2 (application of ■ BIPRU 3.4.99 R):
 - (a) provision of £20,000 taken on £30,000 unsecured *exposure*;
 - (b) provision exceeds 20%, so the *firm* should *risk weight* the remaining £10,000 unsecured *exposure* at 100%;
 - (c) the *risk weight* to be applied to the secured *exposure* of £80,000 is 100%;

- (d) the average *risk weight* to be assigned to the net *exposure* of £90,000 is 100%.

3.4.101

FCA

R

Exposures indicated in ■ BIPRU 3.4.89 R to ■ BIPRU 3.4.94 R (*Exposures* secured by mortgages on commercial real estate) must be assigned a *risk weight* of 100% if they are past due for more than 90 days.

[Note: BCD Annex VI Part 1 point 65]

3.4.102

FCA

R

Non past due items to be assigned a 150% *risk weight* under ■ BIPRU 3.4 and for which value adjustments have been established may be assigned a *risk weight* of:

- (1) 100% if value adjustments are no less than 20% of the *exposure* value gross of value adjustments; and
- (2) 50%, if value adjustments are no less than 50% of the *exposure* value gross of value adjustments.

[Note: BCD Annex VI Part 1 point 67]

Items belonging to regulatory high-risk categories

3.4.103

FCA

R

■ BIPRU 3.4.104 R sets out the treatment to be accorded to items belonging to regulatory high-risk categories.

3.4.104

FCA

R

Exposures listed in ■ BIPRU 3 Annex 3 R must be assigned a *risk weight* of 150%.

[Note: BCD Annex VI Part 1 point 66]

3.4.105

FCA

G

For the purposes of point 66 of Part 1 of Annex VI of the *Banking Consolidation Directive*, the *exposures* listed in ■ BIPRU 3 Annex 3 R are in the view of the *appropriate regulator* associated with particularly high risk.

Exposures in the form of covered bonds

3.4.106

FCA

R

■ BIPRU 3.4.107 R to ■ BIPRU 3.4.110 R set out the treatment to be accorded to *exposures* in the form of *covered bonds*.

3.4.107

FCA

R

- (1) *Covered bonds* means covered bonds as defined in paragraph (1) of the definition in the *glossary* (Definition based on Article 22(4) of the *UCITS Directive*) and collateralised by any of the following eligible assets:
 - (a) *exposures* to or guaranteed by central governments, *central bank*, *public sector entities*, regional governments and local authorities in the *EEA*;

- (b) (i) *exposures* to or guaranteed by non-EEA central governments, non-EEA central banks, multilateral development banks, international organisations that qualify for the *credit quality step 1*;
 - (ii) *exposures* to or guaranteed by non-EEA public sector entities, non-EEA regional governments and non-EEA local authorities that are *risk weighted* as *exposures* to institutions or central governments and central banks according to ■ BIPRU 3.4.23 R, ■ BIPRU 3.4.24 R, ■ BIPRU 3.4.10 R or ■ BIPRU 3.4.16 G to ■ BIPRU 3.4.17 R respectively and that qualify for the *credit quality step 1*; and
 - (iii) *exposures* in the sense of this point (b) that qualify as a minimum for the *credit quality step 2*, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of issuing institutions;
- (c) *exposures* to institutions that qualify for the *credit quality step 1* but so that:
- (i) the total exposure of this kind must not exceed 15% of the nominal amount of the outstanding covered bonds of the issuing credit institution;
 - (ii) *exposures* caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by real estate to the holders of covered bonds must not be comprised by the 15% limit; and
 - (iii) *exposures* to institutions in the EEA with a maturity not exceeding 100 days are not comprised by the step 1 requirement but those institutions must as a minimum qualify for *credit quality step 2*;
- (d) loans secured:
- (i) by residential real estate or shares in Finnish residential housing companies as referred to in ■ BIPRU 3.4.57 R up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value of the pledged properties; or
 - (ii) by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of an EEA State securitising residential real estate exposures provided that the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council ensures that the assets underlying such units must, at any time while they are included in the cover pool,

be at least 90% composed of residential mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80% of the value of the pledged properties, that the units qualify for *credit quality step 1* and that such units do not exceed 10% of the nominal amount of the outstanding issue; or

- (e) (i) loans secured by commercial real estate or shares in Finnish housing companies as referred to in ■ BIPRU 3.4.57 R up to the lesser of the principal amount of the liens that are combined with any prior liens and 60% of the value of the pledged properties; or
- (ii) loans secured by senior units issued by French Fonds Communs de Créances or by equivalent *securitisation* entities governed by the laws of an *EEA State* *securitising* commercial real estate *exposures* provided that the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council ensures that the assets underlying such units must, at any time while they are included in the cover pool, be at least 90% composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60% of the value of the pledged properties, that the units qualify for *credit quality step 1* and that such units do not exceed 10% of the nominal amount of the outstanding issue; or
- (iii) a *firm* may recognise loans secured by commercial real estate as eligible where the loan to value ratio of 60% is exceeded up to a maximum level of 70% if the value of the total assets pledged as collateral for the *covered bonds* exceed the nominal amount outstanding on the *covered bond* by at least 10%, and the bondholders' claim meets the legal certainty requirements set out in ■ BIPRU 3 and ■ BIPRU 5; the bondholders' claim must take priority over all other claims on the collateral; or
- (f) loans secured by ships where only liens that are combined with any prior liens within 60% of the value of the pledged ship.

- (2) For the purposes of ■ BIPRU 3.4.107 R (1)(d)(ii) and ■ BIPRU 3.4.107 R (1)(e)(ii) *exposures* caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of

the senior units or debt *securities* must not be comprised in calculating the 90% limit.

- (3) For the purposes of ■ BIPRU 3.4.107 R to ■ BIPRU 3.4.110 R "collateralised" includes situations where the assets described in subpoints (1)(a) to (1)(f) are exclusively dedicated in law to the protection of the bond-holders against losses.
- (4) [deleted]
- (4A) Until 31 December 2013, the 10% limit for senior units issued by French Fonds Communs de Créances or by equivalent *securitisation* entities as specified in (1)(d)(ii) and (1)(e)(ii) does not apply, provided that:
- (a) the *securitised* residential or commercial real estate *exposures* were originated by a member of the same consolidated group of which the *issuer* of the *covered bonds* is also a member or by an entity affiliated to the same central body to which the *issuer* of the *covered bonds* is also affiliated (that common group membership or affiliation to be determined at the time the senior units are made collateral for *covered bonds*); and
 - (b) a member of the same consolidated group of which the *issuer* of the *covered bonds* is also a member or an entity affiliated to the same central body to which the *issuer* of the *covered bonds* is also affiliated retains the whole first loss tranche supporting those senior units.
- (5) Until 31 December 2010 the figure of 60% in (1)(f) can be replaced with a figure of 70%.

[Note: BCD Annex VI Part 1 point 68]

3.4.108

FCA

R

A *firm* must for real estate collateralising *covered bonds* meet the minimum requirements set out in ■ BIPRU 3.4.64 R to ■ BIPRU 3.4.73 R and the valuation rules set out in ■ BIPRU 3.4.77 R to ■ BIPRU 3.4.80 R.

[Note: BCD Annex VI Part 1 point 69]

3.4.109

FCA

R

Notwithstanding ■ BIPRU 3.4.107 R to ■ BIPRU 3.4.108 R, *covered bonds* meeting the definition of Article 22(4) of the *UCITS Directive* and issued before 31 December 2007 are also eligible for the preferential treatment until their maturity.

[Note: BCD Annex VI Part 1 point 70]

3.4.110

FCA

R

Covered bonds must be assigned a *risk weight* on the basis of the *risk weight* assigned to senior unsecured *exposures* to the *credit institution*

which issues them. The following correspondence between *risk weights* applies:

- (1) if the *exposures* to the *institution* are assigned a *risk weight* of 20%, the *covered bond* must be assigned a *risk weight* of 10%;
- (2) if the *exposures* to the *institution* are assigned a *risk weight* of 50%, the *covered bond* must be assigned a *risk weight* of 20%;
- (3) if the *exposures* to the *institution* are assigned a *risk weight* of 100%, the *covered bond* must be assigned a *risk weight* of 50%; and
- (4) if the *exposures* to the *institution* are assigned a *risk weight* of 150%, the *covered bond* must be assigned a *risk weight* of 100%.

[Note: BCD Annex VI Part 1 point 71]

Items representing securitisation positions

3.4.111
FCA

R *Risk weighted exposure* amounts for *securitisation* positions must be determined in accordance with ■ BIPRU 9.

[Note: BCD Annex VI Part 1 point 72]

Exposures to institutions and corporates with a short-term credit assessment

3.4.112
FCA

R *Exposures to institutions* where ■ BIPRU 3.4.34 R to ■ BIPRU 3.4.39 R apply, and *exposures to corporates* for which a short-term credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.113 R in accordance with the mapping by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: BCD Annex VI Part 1 point 73]

Table: Exposures to institutions where BIPRU 3.4.34 R to BIPRU 3.4.39 R apply, and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available

3.4.113
FCA

R This table belongs to ■ BIPRU 3.4.112 R.

<i>Credit quality step</i>	1	2	3	4	5	6
<i>Risk weight</i>	20%	50%	100%	150%	150%	150%

Exposures in the form of collective investment undertakings (CIUs)

3.4.114 **R** ■ BIPRU 3.4.115 R to ■ BIPRU 3.4.125 R set out the treatment to be accorded to *exposures* in the form of *CIUs*.
FCA

3.4.115 **R** Without prejudice to ■ BIPRU 3.4.116 R to ■ BIPRU 3.4.125 R, *exposures* in *CIUs* must be assigned a *risk weight* of 100%.
FCA

[Note: BCD Annex VI Part 1 point 74]

3.4.116 **R** *Exposures* in the form of *CIUs* for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in ■ BIPRU 3.4.117 R in accordance with the assignment by the *appropriate regulator* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAs* to six steps in a *credit quality assessment scale*.
FCA

[Note: BCD Annex VI Part 1 point 75]

3.4.117 **R** Table: Exposures in the form of *CIUs* for which a credit assessment by a *nominated ECAI* is available
FCA

This table belongs to ■ BIPRU 3.4.116 R.

<i>Credit quality step</i>	1	2	3	4	5	6
<i>Risk weight</i>	20%	50%	100%	100%	150%	150%

3.4.118 **R** Where a *firm* considers that a position in a *CIU* is associated with particularly high risks it must assign that position a *risk weight* of 150%.
FCA

[Note: BCD Annex VI Part 1 point 76]

3.4.119 **G** A *firm* should consider a *CIU* as being high risk where there is no external credit assessment from an *eligible ECAI* and where the *CIU* has specific features (such as high levels of leverage or lack of transparency) that prevent it from meeting the eligibility criteria laid out in ■ BIPRU 3.4.121 R.
FCA

3.4.120 **G** Other examples of high risk *CIUs* are: one in which a substantial element of the *CIU's* property is made up of items that would attract a *risk weight* of over 100%; or one whose mandate (as referred to in ■ BIPRU 3.4.124 R) would permit it to invest in a substantial amount of such items.
FCA

3.4.121 **R** Where ■ BIPRU 3.4.116 R does not apply, a *firm* may determine the *risk weight* for a *CIU* as set out in ■ BIPRU 3.4.123 R to ■ BIPRU 3.4.125 R, if the following eligibility criteria are met:
FCA

- (1) one of the following conditions is satisfied:

- (a) the *CIU* is managed by a company which is subject to supervision in an *EEA State*; or
 - (b) the following conditions are satisfied:
 - (i) the *CIU* is managed by a company which is subject to supervision that is equivalent to that laid down in *EU* law; and
 - (ii) cooperation between *competent authorities* is sufficiently ensured; and
- (2) the *CIU*'s prospectus or equivalent document includes:
- (a) the categories of assets in which the *CIU* is authorised to invest; and
 - (b) if investment limits apply, the relative limits and the methodologies to calculate them; and
- (3) the business of the *CIU* is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.

[Note: *BCD* Annex VI Part 1 point 77]

3.4.122

FCA

R

If another *EEA competent authority* approves a third country *CIU* as eligible under a *CRD implementation measure* with respect to point 77(a) of Part 1 of Annex VI of the *Banking Consolidation Directive* then a *firm* may make use of this recognition.

[Note: *BCD* Annex VI Part 1 point 78]

3.4.123

FCA

R

Where a *firm* is aware of the underlying *exposures* of a *CIU*, it may look through to those underlying *exposures* in order to calculate an average *risk weight* for the *CIU* in accordance with the *standardised approach*.

[Note: *BCD* Annex VI Part 1 point 79]

3.4.124

FCA

R

Where a *firm* is not aware of the underlying *exposures* of a *CIU*, it may calculate an average *risk weight* for the *CIU* in accordance with the *standardised approach* subject to the following rules: it will be assumed that the *CIU* first invests, to the maximum extent allowed under its mandate, in the *standardised credit risk exposure classes* attracting the highest capital requirement, and then continues making investments in descending order until the maximum total investment limit is reached.

[Note: *BCD* Annex VI Part 1 point 80]

- 3.4.125 **R** A *firm* may rely on a third party to calculate and report, in accordance with the methods set out in ■ BIPRU 3.4.123 R to ■ BIPRU 3.4.124 R, a *risk weight* for the *CIU* provided that the correctness of the calculation and report is adequately ensured.
- [Note: *BCD* Annex VI Part 1 point 81]
- Other items**
- 3.4.126 **R** ■ BIPRU 3.4.127 R to ■ BIPRU 3.4.133 R set out the treatment to be accorded to other items as referred to in ■ BIPRU 3.2.9 R (16).
- Treatment**
- 3.4.127 **R** Tangible assets within the meaning of Article 4(10) of the *Bank Accounts Directive* must be assigned a *risk weight* of 100%.
- [Note: *BCD* Annex VI Part 1 point 82]
- 3.4.128 **R** Prepayments and accrued income for which a *firm* is unable to determine the counterparty in accordance with the *Bank Accounts Directive*, must be assigned a *risk weight* of 100%.
- [Note: *BCD* Annex VI Part 1 point 83]
- 3.4.129 **R** Cash items in the process of collection must be assigned a 20% *risk weight*. Cash in hand and equivalent cash items must be assigned a 0% *risk weight*.
- [Note: *BCD* Annex VI Part 1 point 84]
- 3.4.130 **R** Holdings of equity and other participations except where deducted from *capital resources* must be assigned a *risk weight* of at least 100%.
- [Note: *BCD* Annex VI Part 1 point 86]
- 3.4.131 **R** Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities must be assigned a 0% *risk weight*.
- [Note: *BCD* Annex VI Part 1 point 87]
- 3.4.132 **R** In the case of asset sale and *repurchase agreements* and outright forward purchases, the *risk weight* must be that assigned to the assets in question and not to the counterparties to the transactions.
- [Note: *BCD* Annex VI Part 1 point 88]
- 3.4.133 **R** Where a *firm* provides credit protection for a number of *exposures* under terms that the *n*th default among the *exposures* triggers payment and that this credit event terminates the contract, and where the product has an external credit assessment from an *eligible ECAI* the *risk weights* prescribed in ■ BIPRU 9 must be assigned. If the product is not rated by an *eligible*

ECAI, the *risk weights* of the *exposures* included in the basket must be aggregated, excluding *n-1 exposures*, up to a maximum of 1250% and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the *risk weighted* asset amount. The *n-1 exposures* to be excluded from the aggregation must be determined on the basis that they include those *exposures* each of which produces a lower *risk weighted exposure amount* than the *risk weighted exposure amount* of any of the *exposures* included in the aggregation.

[Note: BCD Annex VI Part 1 point 89]

3.4.134

FCA

R

The *exposure* value for leases must be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option (i.e. an option the exercise of which is reasonably certain). Any guaranteed residual value fulfilling the set of conditions in ■ BIPRU 5.7.1 R (Eligibility), regarding the eligibility of protection providers as well as the minimum requirements for recognising other types of guarantees provided in ■ BIPRU 5.7.6 R (Minimum requirements: General) to ■ BIPRU 5.7.12 R (Additional requirements for guarantees) must also be included in the minimum lease payments. These *exposures* must be assigned to the relevant *exposure* class in accordance with ■ BIPRU 3.2.9 R, ■ BIPRU 3.2.10 R, ■ BIPRU 3.2.11 R, ■ BIPRU 3.2.12 R, ■ BIPRU 3.2.13 R and ■ BIPRU 3.2.14 G. When the *exposure* is a residual value of leased properties, the *risk weighted exposure amounts* must be calculated as follows:

$1/t * 100\% * \textit{exposure value}$;

where *t* is the greater of 1 and the nearest number of whole years of the lease term remaining.

[Note: BCD Annex VI Part 1, point 90]



3.5 Simplified method of calculating risk weights

3.5.1
FCA

G This section (■ BIPRU 3.5) sets out a simplified approach to calculating *risk weights*. This approach is only relevant to an *exposure* class for which *risk weights* are determined by the ratings of a *nominated ECAI* or an export credit agency. For other *exposure* classes a *firm* should use the normal approach under the *standardised approach*.

3.5.2
FCA

G The approach in this section is only likely to be relevant for a *limited licence firm* or a *limited activity firm* that has only incidental credit *exposures* and for whom it would be prohibitively costly to establish the systems needed to include the credit assessments of *ECAIs* and export credit agencies in its regulatory capital calculations. However the approach may be used by other *firms* if appropriate. A *firm* should notify the *appropriate regulator* if it adopts the approach in this section.

3.5.3
FCA

G Rather than *risk weighting exposures* individually, a *firm* eligible to apply the simplified approach should apply a single *risk weight* to all *exposures* in each *exposure* class. The simplified *risk weight* for *exposures* in a particular class will be the *risk weighting* for unrated entities for each *exposure* class in which the external credit assessments influence *risk weights*.

3.5.4
FCA

G The table in ■ BIPRU 3.5.5 G has a summary of the *risk weights* that a *firm* should use if it uses the simplified method of calculating *risk weights* referred to in ■ BIPRU 3.5.1 G.

3.5.5
FCA

G Table : Simplified method of calculating risk weights

This table belongs to ■ BIPRU 3.5.4 G.

Exposure class	Exposure sub-class	Risk weights	Comments
Central government	<i>Exposures to United Kingdom government or Bank of England in sterling</i>	0%	See Note 2.
	<i>Exposures to United Kingdom government or Bank of England in the currency of another EEA State</i>	0%	

Exposure class	Exposure sub-class	Risk weights	Comments
Regional/local governments	<i>Exposures to EEA State's central government or central bank in currency of that state</i>	0%	
	<i>Exposures to EEA State's central government or central bank in the currency of another EEA State</i>	0%	See Notes 2 and 3.
	<i>Exposures to central governments or central banks of certain countries outside the EEA in currency of that country</i>	See next column	The <i>risk weight</i> is whatever it is under local law. See BIPRU 3.4.6 R for precise details.
	<i>Exposures to European Central Bank</i>	0%	
	<i>Other exposures</i>	100%	
	<i>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in sterling</i>	0%	
	<i>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in the currency of another EEA State</i>	0%	See Note 2.
	<i>Exposures to EEA States' equivalent regional/local governments in currency of that state</i>	0%	See BIPRU 3.4.17 R for details of type of local/regional government covered.
	<i>Exposures to EEA States' equivalent regional/local governments in the currency of another EEA State</i>	0%	See BIPRU 3.4.17 R for details of type of local/regional government covered.
	<i>Exposures to local or regional governments of certain countries outside the EEA in currency of that country</i>	0%	See Notes 2 and 3. See BIPRU 3.4.19 R for details of type of local/regional government covered. See Note 1.

Exposure class	Exposure sub-class	Risk weights	Comments
PSE	<i>Exposures to United Kingdom or EEA States' local/regional government in currency of that state if the exposure has original effective maturity of 3 months or less</i>	20%	
	<i>Exposures to United Kingdom or EEA States' local/regional government in the currency of another EEA State if the exposure has original effective maturity of 3 months or less</i>	20%	See Note 2. See Note 3 for local/regional government of an EEA State other than the United Kingdom
	<i>Exposures to local or regional governments of countries outside the EEA in currency of that country if the exposure has original effective maturity of 3 months or less</i>	20%	See Note 1.
	<i>Other exposures</i>	100%	
	<i>Exposures to a PSE of the United Kingdom or of an EEA State if that PSE is guaranteed by its central government and if the exposure is be in currency of that PSE's state.</i>	0%	BIPRU 3.4.24 R describes the United Kingdom PSEs covered and BIPRU 3.4.25 R describes the EEA PSEs covered.
	<i>Exposures to PSE of a country outside the EEA if that PSE is guaranteed by the country's central government and if the exposure is in currency of that country.</i>	0%	See BIPRU 3.4.26 R and Note 1.
	<i>Exposures to a PSE of the United Kingdom or of an EEA State in currency of that state if the exposure has original effective maturity of 3 months or less</i>	20%	
	<i>Exposures to a PSE of the United Kingdom or</i>	20%	See Notes 2 and 3.

Exposure class	Exposure sub-class	Risk weights	Comments
	of an <i>EEA State</i> in the currency of another <i>EEA State</i> if the <i>exposure</i> has original effective maturity of 3 months or less		
	<i>Exposures to PSE</i> of a country outside the <i>EEA</i> in currency of that country if the <i>exposure</i> has original effective maturity of 3 months or less	20%	See Note 1.
	Other <i>exposures</i>	100%	
Multilateral development banks	<i>Exposures to multilateral development banks</i> listed in paragraph (1) of the <i>Glossary</i> definition	0%	Simplified approach does not apply. Normal <i>rules</i> apply.
	Other <i>exposures</i>	Various	Treated as an <i>institution</i>
<i>EU</i> , the International Monetary Fund and the Bank for International Settlements		0%	Simplified approach does not apply. Normal <i>rules</i> apply.
<i>Institutions</i>	<i>Exposures to United Kingdom institution</i> in sterling with original effective maturity of three months or less	20%	
	<i>Exposures to United Kingdom institution</i> in the currency of another <i>EEA State</i> with original effective maturity of three months or less	20%	See Note 2.
	<i>Exposures to institution</i> whose head office is in another <i>EEA State</i> in the currency of that state with original effective maturity of three months or less	20%	
	<i>Exposures to institution</i> whose head office is in another <i>EEA State</i> in the currency	20%	See Notes 2 and 3.

Exposure class	Exposure sub-class	Risk weights	Comments
	of another <i>EEA State</i> with original effective maturity of three months or less		
	<i>Exposures to institution</i> with a head office in a country outside the <i>EEA</i> in the currency of that country with original effective maturity of three months or less	20%	See Note 1.
	<i>Exposures to United Kingdom institution</i> in sterling with original effective maturity of over three months	50%	
	<i>Exposures to United Kingdom institution</i> in the currency of another <i>EEA State</i> with original effective maturity of over three months	50%	See Note 2.
	<i>Exposures to an EEA institution</i> with a head office in another <i>EEA State</i> in the currency of that state with original effective maturity of over three months	50%	
	<i>Exposures to an EEA institution</i> with a head office in another <i>EEA State</i> in the currency of another <i>EEA State</i> with original effective maturity of over three months	50%	See Notes 2 and 3.
	<i>Exposures to institution</i> with a head office in a country outside the <i>EEA</i> in the currency of that country with original effective maturity of over three months	50%	See Note 1.
	Other <i>exposures</i>	100%	
<i>Corporates</i>		100%	

Exposure class	Exposure sub-class	Risk weights	Comments
<i>Retail exposures</i>		75%	Simplified approach does not apply. Normal rules apply.
Mortgages on residential or commercial property		Various	Simplified approach does not apply. Normal rules apply.
Past due items		Various	Simplified approach does not apply. Normal rules apply.
High risk items		150%	Simplified approach does not apply. Normal rules apply.
<i>Covered bonds</i>		Various	<i>Risk weights</i> are based on the <i>risk weight</i> of issuer as described in BIPRU 3.4.110 R. The <i>risk weight</i> of the issuer for this purpose should be calculated under the simplified approach.
<i>Securitisation exposures</i>		Generally 1250%. May look through to underlying exposures if BIPRU 9 allows.	Use the BIPRU 9 rules for unrated exposures under the standardised approach
Short term exposures with rating			See BIPRU 3.4.112 R. Not applicable as uses ECAI ratings.
<i>CIUs</i>	May look through to underlying under BIPRU 3.4.123 R	Various	Simplified approach does not apply. Normal rules apply. May use simplified approach to underlying if simplified approach applies to underlying.
	May use average <i>risk weight</i> under BIPRU 3.4.124 R	Various	Simplified approach does not apply. Normal rules apply. May use simplified approach to underlyings if simplified approach applies to underlying.
	High risk under BIPRU 3.4.118 R	150%	Simplified approach does not apply. Normal rules apply.
	Others	100%	

Exposure class	Exposure sub-class	Risk weights	Comments
Other items under BIPRU 3.2.9 R (16)		Various	Simplified approach does not apply. Normal rules apply.
<p>Note 1: The <i>risk weight</i> should not be lower than the <i>risk weight</i> that applies for national currency exposures of the central government of the third country in question under BIPRU 3.5. That means that this <i>risk weight</i> only applies if the third country is one of those to which BIPRU 3.4.6 R (Preferential <i>risk weight</i> for exposures of the central government of countries outside the EEA that apply equivalent prudential standards) applies.</p> <p>Note 2: This is a transitional measure. It lasts until 31 December 2012.</p> <p>Note 3: The <i>risk weight</i> should not be lower than the <i>risk weight</i> that applies for exposures of the central government of the EEA State in question in the currency of another EEA State under BIPRU 3.5.</p>			

3.5.6
FCA

G

If an *exposure* is guaranteed and if under ■ BIPRU 5 the *firm* may treat the *exposure* as being to the guarantor, the simplified approach may be used for the guarantor. The key provisions are ■ BIPRU 5.7.23 R to ■ BIPRU 5.7.25 R.

3.5.7
FCA

G

If an *exposure* is collateralised and if under ■ BIPRU 5 the *firm* may recognise the collateral, the simplified approach may be used to determine the *risk weight* to be applied to the collateralised *exposure*. The key provisions are ■ BIPRU 5.4.18 R to ■ BIPRU 5.4.21 R.

3.5.8
FCA

R

If a *firm* does not nominate one or more *eligible ECAIs* as referred to in ■ BIPRU 3.6.4 R the *firm* must not use the *financial collateral comprehensive method*.

3.6 Use of rating agencies' credit assessments for the determination of risk weights under the standardised approach to credit risk

3.6.1 **R** The use of *ECAI* credit assessments for the calculation of a *firm's risk weighted exposure amounts* must be consistent and in accordance with **FCA** ■ BIPRU 3.6. Credit assessments must not be used selectively.

[Note: BCD Article 83(1)]

3.6.2 **R** Where the *appropriate regulator's* recognition of an *ECAI* is not limited to its solicited credit assessments, a *firm* may use an unsolicited credit assessment of an *eligible ECAI* for the calculation of a *firm's risk weighted exposure amounts*. **FCA**

[Note: BCD Article 83(2)]

3.6.3 **G** The *appropriate regulator's* recognition of an *ECAI* may be limited to its solicited credit assessments. Where this is the case a *firm* should not use unsolicited assessments. The *appropriate regulator* may indicate that the unsolicited ratings of an *eligible ECAI* are not to be used for the purposes of ■ BIPRU 3 if those assessments are considered to be inferior in quality to the general quality of solicited assessments or if it considers that the *ECAI's* strategy in relation to the issuing of unsolicited assessments is founded in the placing of undue pressure on the rated entity to pay for a rating. **FCA**

Treatment

3.6.4 **R** A *firm* may nominate one or more *eligible ECAIs* to be used for the determination of *risk weights* to be assigned to asset and off-balance sheet items. **FCA**

[Note: BCD Annex VI Part 3 point 1]

3.6.5 **R** A *firm* which decides to use the credit assessments produced by an *eligible ECAI* for a certain class of items must use those credit assessments consistently for all *exposures* belonging to that class. **FCA**

[Note: BCD Annex VI Part 3 point 2]

3.6.6 **R** A *firm* which decides to use the credit assessments produced by an *eligible ECAI* must use them in a continuous and consistent way over time.

FCA

[Note: BCD Annex VI Part 3 point 3]

3.6.7 **R** A *firm* can only use *ECAIs'* credit assessments that take into account all amounts both in principal and in interest owed to it.

FCA

[Note: BCD Annex VI Part 3 point 4]

3.6.8 **R** If only one credit assessment is available from a *nominated ECAI* for a rated item, that credit assessment must be used to determine the *risk weight* for that item.

FCA

[Note: BCD Annex VI Part 3 point 5]

3.6.9 **R** If two credit assessments are available from *nominated ECAIs* and the two correspond to different *risk weights* for a rated item, the higher *risk weight* must be applied.

FCA

[Note: BCD Annex VI Part 3 point 6]

3.6.10 **R** If more than two credit assessments are available from *nominated ECAIs* for a rated item, the two assessments generating the two lowest *risk weights* must be referred to. If the two lowest *risk weights* are different, the higher *risk weight* must be assigned. If the two lowest *risk weights* are the same, that *risk weight* must be assigned.

FCA

[Note: BCD Annex VI Part 3 point 7]

3.6.11 **R** (1) If a *firm* has decided to make use of the credit assessments of export credit agencies, when *risk weighting exposures* to central governments or *central banks*, if two or more credit assessments are available to a *firm* from export credit agencies or if credit assessments are available to a *firm* from both *nominated ECAIs* and export credit agencies, the *firm* must adopt the approach in this *rule*.

FCA

(2) If two credit assessments are available and correspond to different *risk weights* for a rated item, the higher *risk weight* must be applied.

(3) If more than two credit assessments are available for a rated item, the assessments generating the two lowest *risk weights* must be referred to:

(a) if the two lowest *risk weights* are the same, that *risk weight* must be applied; or

(b) if the two lowest *risk weights* are different, the higher of the two must be applied.

(4) If a *firm* does not for the purposes of ■ BIPRU 3 make any use of the consensus risk scores referred to in ■ BIPRU 3.4.7 R (1) it may treat those scores as not being available to it for the purpose of this *rule*. Likewise, if a *firm* does not for the purposes of ■ BIPRU 3 make any use of the credit assessments of a particular export credit agency as referred to in ■ BIPRU 3.4.7 R (2) it may treat those assessments as not being available to it for the purpose of this *rule*.

Issuer and issue credit assessment

3.6.12

FCA

R

Where a credit assessment exists for a specific issuing program or facility to which the item constituting the *exposure* belongs, this credit assessment must be used to determine the *risk weight* to be assigned to that item.

[Note: BCD Annex VI Part 3 point 8]

3.6.13

FCA

R

Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the *exposure* does not belong or a general credit assessment exists for the issuer, then that credit assessment must be used if it produces a higher *risk weight* than would otherwise be the case or if it produces a lower *risk weight* and the *exposure* in question ranks *pari passu* or senior in all respects to the specific issuing program or facility or to senior unsecured *exposures* of that issuer as relevant.

[Note: BCD Annex VI Part 3 point 9]

3.6.14

FCA

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■ BIPRU 3.6.12 R and ■ BIPRU 3.6.13 R are not to prevent the application of ■ BIPRU 3.4.107 R to ■ BIPRU 3.4.110 R (Exposures in the form of covered bonds).

[Note: BCD Annex VI Part 3 point 10]

3.6.15

FCA

R

Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.

[Note: BCD Annex VI Part 3 point 11]

Long-term and short-term credit assessments

3.6.16

FCA

R

Short-term credit assessments may only be used for short-term asset and off-balance sheet items constituting *exposures* to *institutions* and *corporates*.

[Note: BCD Annex VI Part 3 point 12]

3.6.17
FCA **R** Any short-term credit assessment may only apply to the item the short-term credit assessment refers to, and it must not be used to derive *risk weights* for any other item.

[Note: BCD Annex VI Part 3 point 13]

3.6.18
FCA **R** Notwithstanding ■ BIPRU 3.6.17 R, if a short-term rated facility is assigned a 150% *risk weight*, then all unrated unsecured *exposures* on that obligor whether short-term or long-term must also be assigned a 150% *risk weight*.

[Note: BCD Annex VI Part 3 point 14]

3.6.19
FCA **R** Notwithstanding ■ BIPRU 3.6.17 R, if a short-term rated facility is assigned a 50% *risk weight*, no unrated short-term *exposure* may be assigned a *risk weight* lower than 100%.

[Note: BCD Annex VI Part 3 point 15]

Domestic and foreign currency items

3.6.20
FCA **R** A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a *risk weight* for another *exposure* on that same obligor that is denominated in a foreign currency.

[Note: BCD Annex VI Part 3 point 16]

3.6.21
FCA **R** Notwithstanding ■ BIPRU 3.6.20 R, when an *exposure* arises through a *firm's* participation in a loan that has been extended by a *multilateral development bank* whose preferred creditor status is recognised in the market, the credit assessment on the obligors' domestic currency item may be used for *risk weighting* purposes.

[Note: BCD Annex VI Part 3 point 17]

 **3.7** **Classification of off-balance-sheet items**

3.7.1

FCA

R In accordance with ■ BIPRU 3.2.1 R (2) and ■ BIPRU 3.2.2 R, a *firm* must:

- (1) assign an off-balance sheet item listed in the table in ■ BIPRU 3.7.2 R to the risk category indicated in column 1 of that table; and
- (2) determine the *exposure* value of that item as the percentage of its value for the appropriate risk category as set out in column 3 of the table in ■ BIPRU 3.7.2 R.

3.7.2

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Table: Classification of off-balance-sheet items

This table belongs to ■ BIPRU 3.7.1 R

[Note: *BCD Annex II*]

Category	Item	Percentage
Full risk	Guarantees having the character of credit substitutes	100%
	Credit derivatives	
	Acceptances	
	Endorsements on bills not bearing the name of another <i>credit institution</i>	
	Transactions with recourse	
	Irrevocable standby letters of credit having the character of credit substitutes	
	Assets purchased under outright forward purchase agreements	
	Forward deposits	
	The unpaid portion of partly-paid <i>shares and securities</i>	
	Asset sale and repurchase agreements as defined in Article 12(3) and (5) of the <i>Bank Accounts Directive</i>	
Other items also carrying full risk		
Medium risk	Documentary credits issued and confirmed (see also medium/low risk).	50%
	Warranties and indemnities (including tender, performance, customs and tax bonds) and guarantees not having the character of credit substitutes.	
	Irrevocable standby letters of credit not having the character of credit substitutes.	

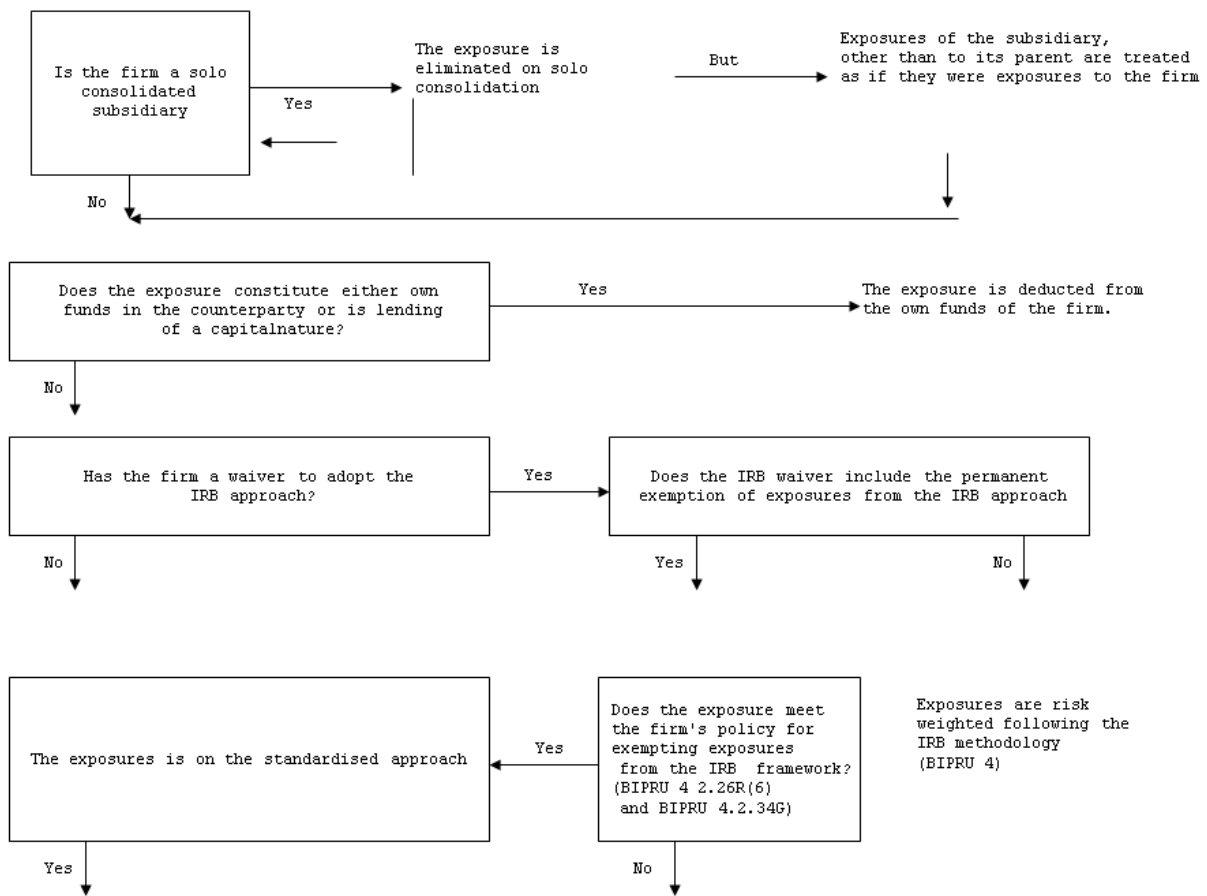
Category	Item	Percentage
	<p>Undrawn credit facilities (agreements to lend, purchase <i>securities</i>, provide guarantees or acceptance facilities) with an original maturity of more than one year.</p> <p>Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs).</p>	
Medium/low risk	<p>Documentary credits in which underlying shipment acts as collateral and other self-liquidating transactions.</p>	20%
	<p>Undrawn credit facilities (agreements to lend, purchase <i>securities</i>, provide guarantees or acceptance facilities) with an original maturity of up to and including one year which may not be cancelled unconditionally at any time without notice or that do not effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.</p>	
Low risk	<p>Undrawn credit facilities (agreements to lend, purchase <i>securities</i>, provide guarantees or acceptance facilities) which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness. Retail credit lines may be considered as unconditionally cancellable if the terms permit the <i>firm</i> to cancel them to the full extent allowable under consumer protection and related legislation.</p>	0%

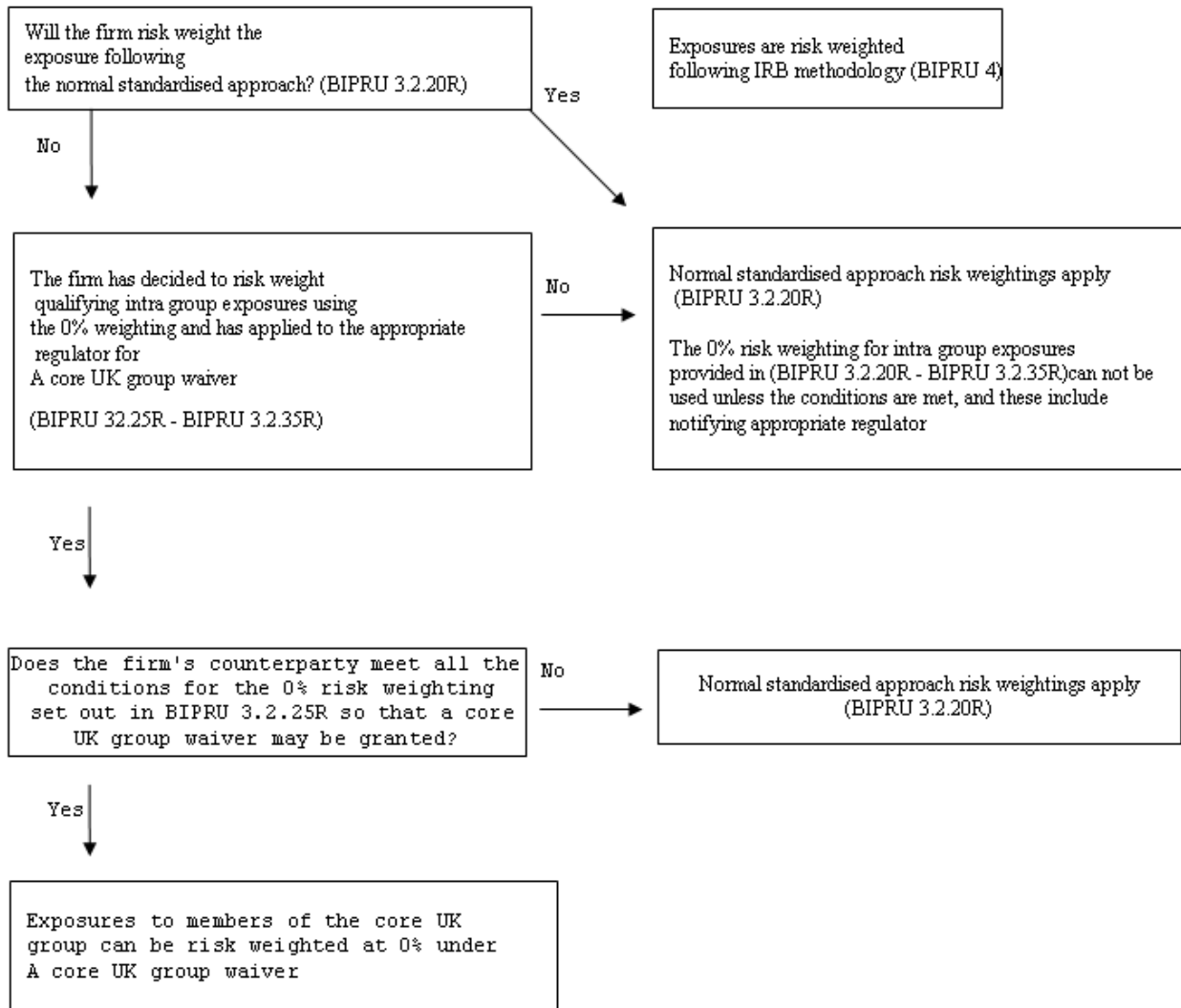
Guidance on the standardised approach zero risk weighting for intra-group exposures

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This flow chart belongs to ■ BIPRU 3.2.25 R - ■ BIPRU 3.2.35 R.

Flowchart - zero risk weighting for intra-group exposures





**Regional governments and local authorities eligible for the treatment in BIPRU
3.4.15R**

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- (1) The Scottish Parliament**
- (2) National Assembly for Wales**
- (3) Northern Ireland Assembly**

3

High risk exposures

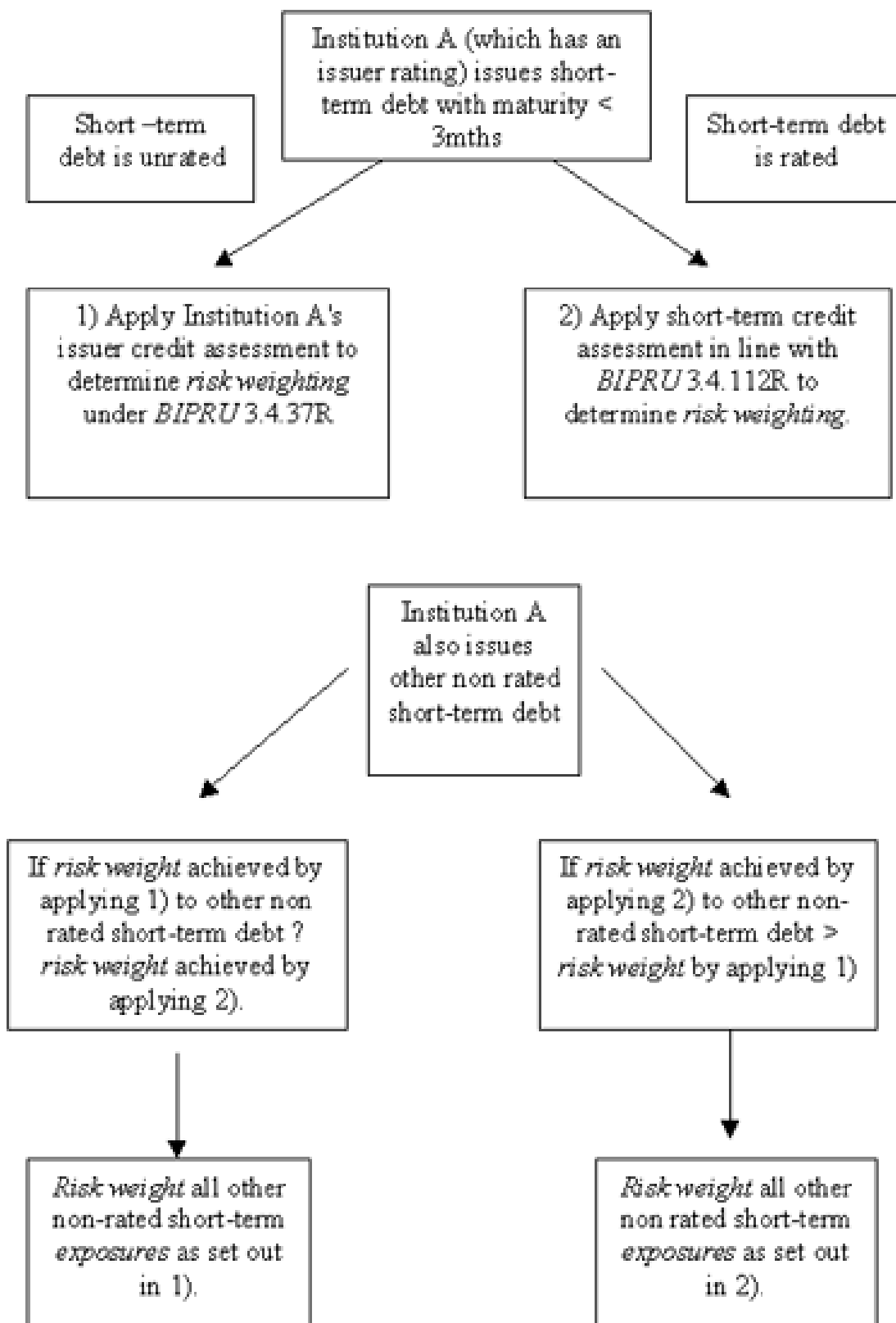
FCA

- (1) *Exposures arising out of venture capital business (whether or not the firm itself carries on the venture capital business).*
- (2) **Any exposure of the type referred to in BIPRU 3.4.118 R (High risk position in a CIU) that is illiquid and held with a view to long-term sale or realisation.**

**Exposures to institutions: Interaction with short-term credit assessments in BIPRU
3.4.40R**

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Chapter 4

The IRB approach

4.1 The IRB approach: Application, purpose and overview

Application

4.1.1 **R** ■ BIPRU 4 applies to a BIPRU firm with an IRB permission.

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Purpose

4.1.2 **G** Pursuant to the third paragraph of article 95(2) of the EU CRR, ■ BIPRU 4 implements the following provisions of the *Banking Consolidation Directive*:

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- (1) Articles 84 - 89; and
- (2) Annex VII.

4.1.3 **G** Pursuant to the third paragraph of article 95(2) of the EU CRR, ■ BIPRU 4 also implements Annex VIII of the *Banking Consolidation Directive* so far as it applies to the *IRB approach*. In particular, it implements (in part):

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- (1) from Part 1 of that Annex, points 12-16, 19-22, 26(g)(ii) and 27;
- (2) from Part 2 of that Annex, points 8-11; and
- (3) from Part 3 of that Annex, points 1, 11, 20, 23-24, 58(h), 61, 64-79 and 90-93.

4.1.4 **G** Similarly, ■ BIPRU 4 also implements article 40 of the *Capital Adequacy Directive* as it applies to the *IRB approach*.

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4.1.5 **G** Other material on the *IRB approach* can be found in ■ BIPRU 8 (Group risk), ■ BIPRU 9 (Securitisation), ■ BIPRU 13 (The calculation of exposure values for financial derivatives, securities financing transactions and long settlement transactions) and ■ BIPRU 14 (Capital requirements for settlement and counterparty risk). ■ BIPRU 5 (Credit risk mitigation) also contains material applicable to the *IRB approach*.

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Overview

4.1.6 **G** The *IRB approach* is an alternative to the *standardised approach* for calculating a firm's credit risk capital requirements. It may be applied to all a firm's exposures or to some of them, subject to various limitations on partial use as set out in ■ BIPRU 4.2. Under the *IRB approach* capital requirements are based on a firm's own estimates of

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certain parameters together with other parameters set out in the *Banking Consolidation Directive*.

4.1.7

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Exposures are divided into a number of distinct *exposure* classes. These are listed in ■ BIPRU 4.3.2 R. There is a special treatment for purchased receivables, although they do not form an *exposure* class on their own.

4.1.8

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For *exposures* in the *sovereign, institution and corporate IRB exposure class*, there is a *foundation IRB approach* under which a *firm* provides its own estimates of *PD* and an *advanced IRB approach* under which a *firm* additionally provides its own estimates of *LGD* and *conversion factors*. The distinction between the *foundation IRB approach* and the *advanced IRB approach* only applies to this *IRB exposure class*.

4.1.9

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For *retail exposures*, a *firm* provides its own estimates of *PD*, *LGD* and *conversion factors*.

4.1.10

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For the *corporate exposure* class there is a separate sub-class of *specialised lending exposure*. A *firm* may calculate *risk weights* for these *exposures*, where it is able to do so, in the same way as it does for the rest of its *corporate exposure* class, i.e. using the *foundation IRB approach* or the *advanced IRB approach*. Where a *firm* is not able to use this approach it may calculate *risk weights* for *specialised lending exposures* by slotting them into predetermined *risk weights*.

4.1.11

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For *equity exposures* there are two approaches based on market based measures and a third under which a *firm* uses its own estimates of *PD* only.

IRB permissions: general

4.1.12

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The *rules* in *GENPRU* and *BIPRU* do not allow a *firm* to use the *IRB approach*. A *firm* that wishes to use the *IRB approach* should therefore apply for permission to use the *IRB approach* using the application procedure explained in ■ BIPRU 1.3. If a *firm's* application is granted, its terms will be set out in an *IRB permission*.

4.1.13

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The *appropriate regulator* recognises that the nature of *IRB approaches* will vary between *firms*. The scope of and the requirements and conditions set out in an *IRB permission* may therefore differ in substance or detail from ■ BIPRU 4 in order to address individual circumstances adequately. However any differences will only be allowed if they are compliant with the *Banking Consolidation Directive*. An *IRB permission* will implement any such variation by modifying the relevant provisions of *GENPRU* and *BIPRU*. An *IRB permission* may also include additional conditions to meet the particular circumstances of the *firm*.

4.1.14

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- (1) The *appropriate regulator* will only grant an *IRB permission* if it is satisfied that the *firm's* systems for the management and rating of credit risk *exposures* are sound and implemented with integrity and, in particular, that they meet the standards in ■ BIPRU 4.2.2 R in accordance with the *minimum IRB standards*.
- (2) Under ■ BIPRU 4.2.11 R, a *firm* applying for an *IRB permission* is required to demonstrate that it has been using for the *IRB exposure classes* in question *rating systems* that were broadly in line with the *minimum IRB standards* for

internal risk measurement and management purposes for at least three years prior to the date of its *IRB permission*.

- (3) Under ■ BIPRU 4.2.13 R, a *firm* applying for the use of own estimates of *LGDs* and/or *conversion factors* should demonstrate that it has been estimating and employing own estimates of *LGDs* and/or *conversion factors* in a manner that was broadly consistent with the *minimum IRB standards* for use of own estimates for at least three years prior to the date of its *IRB permission* or of a variation of its *IRB permission* that, in either case, entitles the *firm* to use own estimates of *LGDs* and/or *conversion factors*.

Link to standard rules: Incorporation of the IRB output into the capital calculation

4.1.15
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An *IRB permission* will modify ■ GENPRU 2.1.51 R (Calculation of the credit risk capital requirement) by amending, to the extent set out in the *IRB permission*, the calculation of the *credit risk capital requirement* in accordance with ■ BIPRU 4 and the other provisions of the *Handbook* relating to the *IRB approach*.

4.1.16
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A *firm* must calculate its *credit risk capital component* as the sum of:

- (1) (for *exposures* to which the *standardised approach* is applied) the *credit risk capital component* as calculated under ■ BIPRU 3.1.5 R; and
- (2) (for *exposures* to which the *IRB approach* is applied to which the *standardised approach* would otherwise apply in accordance with ■ BIPRU 3.1.5 R (Credit risk capital component)), 8% of the total of the *firm's risk weighted exposure amounts* calculated in accordance with the *IRB approach*.

4.1.17
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For *exposures* covered by an *IRB permission*, ■ BIPRU 5 (Credit risk mitigation) is modified by ■ BIPRU 4.10.

4.1.18
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Under ■ BIPRU 4.9, a *firm* is required to deal with *securitisation positions* under those provisions of ■ BIPRU 9 applicable to a *firm* using the *IRB approach*.

4.1.19
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G

Exposures treated under ■ BIPRU 13 are required to be dealt with in accordance with the *IRB approach* to the extent set out in ■ BIPRU 13.

4.1.20
FCA

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By modifying ■ GENPRU 2.1.51 R to allow the *firm* to use the *IRB approach* to calculate all or part of its *risk weighted exposure amounts*, the *appropriate regulator* is treating it like an application rule. The modification means that the provisions of BIPRU relating to the *IRB approach* supersede the rules relating to the *standardised approach* for *exposures* coming within the scope of the *IRB permission*.

4.1.21

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A reference in the *Handbook* to a provision of the *IRB approach*, in the case of a *firm*:

- (1) excludes any provision of the *IRB approach* set out in the *Handbook* that is not applied to that *firm* by its *IRB permission*;
- (2) includes any additional provision contained in the *firm's IRB permission*; and
- (3) takes into account any other amendments made to the provisions in the *Handbook* relating to the *IRB approach* made by the *firm's IRB permission*.

4.1.22

FCA

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To the extent that a *firm's IRB permission* does not allow it to use a particular approach in the *Handbook* relating to the *IRB approach* the *Handbook* provision in question does not apply to the *firm*.

4.1.23

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If a provision of the *Handbook* relating to the *IRB approach* says that a *firm* may do something if its *IRB permission* allows it, a *firm* may do that thing unless its *IRB permission* expressly says that it may not do so except that:

- (1) ■ BIPRU 4.2.18 R - ■ BIPRU 4.2.19 R (Sequential implementation of IRB approach) and ■ BIPRU 4.2.26 R (1)-■ BIPRU 4.2.26R (5) (Combined use of standardised approach with IRB approach) only apply if expressly permitted by a *firm's IRB permission*;
- (2) a *firm* may not use the *advanced IRB approach* for the *sovereign, institution and corporate IRB exposure class* except to the extent expressly permitted by the *firm's IRB permission*;
- (3) if a *firm* uses its own estimates of *LGD* and *conversion factors* it may only take into account *unfunded credit protection* to reduce *LGD* in the manner set out in its *IRB permission*;
- (4) if a *firm* uses its own estimates of *LGD* and *conversion factors* it may only recognise the effects of financial collateral under ■ BIPRU 10.2.19 R (Firms using own estimates of LGD and conversion factors under the IRB approach) in the manner set out in its *IRB permission*;
- (5) a *firm* must deal with *equity exposures* in the manner set out in its *IRB permission*; and
- (6) (in the case of *collateral* that is only eligible for recognition under paragraph 21 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (Other physical collateral)) a *firm* may not recognise as eligible collateral an item of a type referred to in ■ BIPRU 4.10.16 R

(Other physical collateral) unless that item is of a type specified as permitted in its *IRB permission*.

4.1.24

FCA

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An *IRB permission* will set out *firm*-specific material. This will generally include:

- (1) details about the *firm*'s methodology for carrying out the *IRB approach*, including the models and *rating systems* that a *firm* should use;
- (2) reporting requirements; and
- (3) requirements about internal control structure.

Compliance

4.1.25

FCA

R

If a *firm* ceases to comply with the requirements of the *IRB approach*, it must either present to the *appropriate regulator* a plan for a timely return to compliance or demonstrate that the effect of non-compliance is immaterial.

[Note: *BCD Article 84(5)*]

4.1.26

FCA

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If a *firm* ceases to comply with the requirements of the *IRB approach*, the *appropriate regulator* may revoke the *IRB permission* or take other appropriate supervisory action.

4.1.27

FCA

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For the purposes of ■ BIPRU 4.1.25 R, the *appropriate regulator* will expect a *firm* to demonstrate that, taking into account all instances where the *firm* has not complied with the requirements of the *IRB approach*, the effect of non-compliance is immaterial.

4.2 The IRB approach: High level material

Application

4.2.1

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This section applies to all *exposures* treated under the *IRB approach*.

General approach to granting an IRB permission

4.2.2

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A *firm's* systems for the management and rating of credit risk *exposures* must be sound and implemented with integrity and, in particular, they must meet the following standards in accordance with the *minimum IRB standards*:

- (1) the *firm's rating systems* provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk;
- (2) internal ratings and *default* and *loss* estimates used in the calculation of capital requirements and associated systems and processes play an essential role in the risk management and decision-making process, and in the credit approval, internal capital allocation and corporate governance functions of the *firm*;
- (3) the *firm* has a credit risk control unit responsible for its *rating systems* that is appropriately independent and free from undue influence;
- (4) the *firm* collects and stores all relevant data to provide effective support to its credit risk measurement and management process; and
- (5) the *firm* documents its *rating systems*, the rationale for their design and validates its rating systems.

[Note: BCD Article 84(2) (part)]

4.2.3

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Where an *EEA parent institution* and its *subsidiary undertakings* or an *EEA parent financial holding company* and its *subsidiary undertakings* or an *EEA parent mixed financial holding company* and its *subsidiary undertakings* use the *IRB approach* on a unified basis, the question whether the *minimum IRB standards* are met is answered by considering the *parent*

undertaking and its subsidiary undertakings together, unless the firm's IRB permission specifies otherwise.

[Note: BCD Article 84(2) (part)]

Outsourcing

4.2.4

FCA

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- (1) This *guidance* sets out the basis on which a *firm* may rely upon a *rating system* or data provided by another member of its *group*.
- (2) A *firm* may rely upon a *rating system* or data provided by another member of its *group* if the following conditions are satisfied:
 - (a) the *firm* only does so to the extent that it is appropriate, given the nature and scale of the *firm's* business and portfolios and the *firm's* position within the *group*;
 - (b) the *group* is an *EEA banking and investment group*;
 - (c) the integrity of the *firm's* systems and controls is not adversely affected;
 - (d) the outsourcing of these functions meets the requirements of SYSC; and
 - (e) (if the provision of the *rating system* or data is not carried out in the *United Kingdom* or in the jurisdiction of the *competent authority* that is the lead regulator of the *group*) the *firm* can demonstrate to the *appropriate regulator* that the ability of the *appropriate regulator* and that lead regulator to carry out their responsibilities under the *Handbook*, the *Banking Consolidation Directive* and the *Capital Adequacy Directive* are not adversely affected.
- (3) If a *firm* does use a *rating system* or data provided by another member of its *group*, the requirements in ■ BIPRU 4 continue to apply to that *firm* in respect of that *rating system* and data. A *firm* cannot absolve itself of the responsibility for complying with those requirements by claiming that any breach is caused by the actions of a third party to which the *firm* has delegated tasks. The *rating system* and data provision are still those of the *firm*, even though personnel elsewhere in the *firm's* group are carrying out these functions on its behalf. So any references in *BIPRU* to what a *firm*, its personnel and its management should and should not do still apply.
- (4) If a *firm* does use a *rating system* or data provided by another *group* member, the *firm's governing body* should formally delegate those functions to the *persons* or bodies that are to carry them out.
- (5) Before delegating the provision of a *rating system* or data to another *group* member, the *firm's governing body* should have explicitly considered the arrangement and decided that it is appropriate and that it enables the *firm* to meet the conditions in (2).

Assessment and estimation

4.2.5

FCA

G

- (1) This paragraph provides *guidance* on ■ BIPRU 4.2.2 R and in particular ■ BIPRU 4.2.2 R (1).
- (2) The information that a *firm* produces or uses for the purpose of the *IRB approach* should be reliable and take proper account of the different users

of the information produced (customers, shareholders, regulators and other market participants).

- (3) A *firm* should establish quantified and documented targets and standards, against which it should test the accuracy of data used in its *rating systems*.
- (4) Tests under (3) might include:
 - (a) report and accounts reconciliation, including completeness in relation to (b);
 - (b) whether every *exposure* has a *PD*, *LGD* and, if applicable, *conversion factor* for reporting purposes;
 - (c) whether the *firm's* risk control environment has key risk indicators for the purpose of monitoring and ensuring data accuracy;
 - (d) whether the *firm* has an adequate business and information technology infrastructure with fully documented processes;
 - (e) whether the *firm* has clear and documented standards on ownership of data (including inputs and manipulation) and timeliness of current data (daily, monthly, real time); and
 - (f) whether the *firm* has a comprehensive quantitative audit programme.
- (5) The reconciliation referred to in 4(a) should be reasonably fit for purpose. In particular it should meet the standards in (6) and (7).
- (6) For data inputs, testing for accuracy of data, including the reconciliation referred to in 4(a), should be sufficiently detailed so that, together with other available evidence, it gives reasonable assurance that data input into the *rating system* is accurate, complete and appropriate. Input data fails the required standard if it gives rise to a serious risk of material misstatement in the capital requirement either immediately or subsequently.
- (7) For data outputs, the *firm*, as part of the reconciliation referred to in 4(a), should be able to identify and explain material differences between the outputs produced under accounting standards and those produced under the requirements of the *IRB approach*, including in relation to areas that address similar concepts in different ways (for example *expected loss* on the one hand and accounting provisions on the other).
- (8) A *firm* should have clear and documented standards and policies about the use of data in practice (including information technology standards) which should in particular cover the *firm's* approach to the following:
 - (a) data access and security;
 - (b) data integrity, including the accuracy, completeness, appropriateness and testing of data; and
 - (c) data availability.

Further requirements concerning the use test

4.2.6

FCA

R

If a *firm* uses separate models for the purpose of the *IRB approach* and for its internal purposes as referred to in ■ BIPRU 4.2.2 R (2) it must be able to demonstrate the reasonableness of any differences between those models.

4.2.7

FCA

G

- (1) This paragraph provides *guidance* on ■ BIPRU 4.2.2 R and in particular ■ BIPRU 4.2.2 R (2).
- (2) The *IRB approach* as applicable to a *firm* should be an integral part of its business and risk management processes and procedures to the extent that credit risk is relevant to them. It should also have a substantial influence on its decision-making and actions.
 - (a) particular regard should be had to the use of the *IRB approach* in:
 - (i) credit approval;
 - (ii) individual and portfolio limit setting;
 - (iii) reporting of credit risk information; and
 - (iv) provisioning;
 - (b) other relevant aspects include:
 - (i) assessment of economic capital;
 - (ii) internal capital allocation so far as related to credit risk;
 - (iii) risk appetite;
 - (iv) strategy and acquisitions;
 - (v) profitability and performance; and
 - (vi) performance-related remuneration;
 - (c) the carrying out of the *firm's* obligations under the *overall Pillar 2 rule*; and
 - (d) matters relating to the *firm's* infrastructure, including information technology, skills and resources and organisational culture.

4.2.8

FCA

G

This paragraph provides further *guidance* on ■ BIPRU 4.2.2 R and in particular ■ BIPRU 4.2.2 R (2). In the *appropriate regulator's* view risk management has an essential role in informing risk decisions. However, an essential role does not necessarily mean an exclusive role or even always a primary role. There may be justifiable differences between the *IRB approach* and the *firm's* use of *rating systems* for its internal purposes as referred to in ■ BIPRU 4.2.2 R (2). For example, internal standards and policies may refer to estimates of *PD* and *LGD* for the length of the asset rather than to estimates based on a one-year period (in the case of *PD* estimates) or on an economic downturn (in the case of *LGD* estimates) required by the *IRB approach*.

4.2.9

FCA

G

If a *firm* uses scorecards for its internal credit approval process and the models it uses for the purpose of the *IRB approach* are fundamentally different from those scorecards, a *firm's* demonstration of how this is compatible with ■ BIPRU 4.2.2 R (2) might include

demonstrating that estimates calculated under the *IRB approach* are used to change sanctioning decisions at an individual or portfolio level. Examples of this might include amending cut-offs, the application of policy rules, the revision of an existing scorecard or the introduction of a new one or taking strategic decisions on which segments of the market to target.

4.2.10

FCA

G

To the extent that a *firm* uses *LGD* estimates in its internal risk management processes that differ from the downturn *LGDs* used in the calculation of *risk weighted* assets (see ■ BIPRU 4.3.103 R), the reasons for the difference should be documented in accordance with ■ BIPRU 4.3.109 R.

Requirements concerning the experience requirement

4.2.11

FCA

R

A *firm* must be able to demonstrate that it has been using for the *IRB exposure classes* in question *rating systems* that were broadly in line with the *minimum IRB standards* for internal risk measurement and management purposes for at least three years prior to the date of its *IRB permission*.

[Note: BCD Article 84(3)]

4.2.12

FCA

G

In meeting the experience requirement under ■ BIPRU 4.2.11 R, the *appropriate regulator* would expect a *firm* to be able to demonstrate that it has been:

- (1) operating an internal *rating system* with estimates of *PD*;
- (2) meeting the standards in ■ BIPRU 4 for senior management knowledge and reporting; and
- (3) meeting the standards in ■ BIPRU 4 relating to the use of *rating systems* in its business;

for the required minimum 3 year period.

4.2.13

FCA

R

A *firm* that has applied for the use of own estimates of *LGDs* and/or *conversion factors* must be able to demonstrate to the *appropriate regulator* that it has been estimating and employing own estimates of *LGDs* and/or *conversion factors* in a manner that was broadly consistent with the *minimum IRB standards* for use of own estimates of those parameters for at least three years prior to the date of its *IRB permission* or of a variation of its *IRB permission* that, in either case, entitled the *firm* to use own estimates of *LGDs* and/or *conversion factors*.

[Note: BCD Article 84(4)]

4.2.14

FCA

G

In meeting the experience requirement under ■ BIPRU 4.2.13 R, the *appropriate regulator* would expect a *firm* to be able to demonstrate that it has been:

- (1) operating an internal *rating system* with estimates of *LGD* and with *conversion factors*; and

(2) compliant with ■ BIPRU 4.2.11 R as applied to the *advanced IRB approach*.

for the required minimum 3 year period.

4.2.15

FCA

G

In the *appropriate regulator's* view the standard required by ■ BIPRU 4.2.11 R and ■ BIPRU 4.2.13 R is for a *rating system* to be improved in the light of experience during the three year period so that it meets the minimum requirements more fully for the last year than for the two prior years, provided that the *rating system* has not changed so profoundly that experience from the first or second years becomes of marginal relevance in assessing the reliability of the changed *rating system*.

Implementation of the internal ratings based approach

4.2.16

FCA

R

A *firm* must comply with any requirements in its *IRB permission* relating to the matters described in ■ BIPRU 4.2.17 R - ■ BIPRU 4.2.35 G.

4.2.17

FCA

R

Without prejudice to ■ BIPRU 4.2.26 R, a *firm* and any *parent undertaking* and its *subsidiary undertakings* must implement the *IRB approach* for all *exposures*.

[Note: BCD Article 85(1) (part)]

4.2.18

FCA

R

To the extent that a *firm's IRB permission* permits this, implementation may be carried out sequentially across the different *IRB exposure classes* within the same business unit, across different business units in the same group or for the use of own estimates of *LGDs* or *conversion factors* for the calculation of *risk weights* for the *sovereign, institution and corporate IRB exposure class*.

[Note: BCD Article 85(1) (part)]

4.2.19

FCA

R

In the case of the *retail exposures*, implementation may (but only to the extent provided for in the *firm's IRB permission*) be carried out sequentially across the categories of *exposures* to which the different correlations in ■ BIPRU 4.6.41 R-■ BIPRU 4.6.44 R correspond.

[Note: BCD Article 85(1) (part)]

4.2.20

FCA

R

- (1) Implementation of the *IRB approach* as referred to in ■ BIPRU 4.2.18 R must be carried out within a reasonable period of time as set out in the *IRB permission*.
- (2) The implementation must be carried out subject to strict conditions determined by the *appropriate regulator* and set out in the *IRB permission*.
- (3) A *firm* must not use the flexibility under ■ BIPRU 4.2.18 R selectively with the purpose of achieving reduced minimum capital requirements in respect of those *IRB exposure classes*

or business units that are yet to be included in the *IRB approach* or in the use of own estimates of *LGDs* and *conversion factors*.

[Note: BCD Article 85(2)]

4.2.21

FCA

G

- (1) A *firm* should achieve full roll-out of the *IRB approach* to all its *exposures*, subject to the exemptions outlined in ■ BIPRU 4.2.26 R, within the period specified in its *IRB permission*. A *firm* should not retain a permanent mix of portfolios on the *standardised approach* and the *IRB approach*, on the *foundation IRB approach* and the *advanced IRB approach* or on a mixture of all approaches with the exception of portfolios covered by those exemptions.
- (2) This applies to a move:
 - (a) from the *standardised approach* to the *IRB approach*;
 - (b) from the *foundation IRB approach* to the *advanced IRB approach*; and
 - (c) from the *transitional rules and guidance for BIPRU* to the *IRB approach*.
- (3) The period referred to in ■ BIPRU 4.2.20 R (1) will generally be not more than three years of starting use of the *IRB approach* or the *advanced IRB approach* as applicable.

4.2.22

FCA

R

A *firm* using the *IRB approach* for any *IRB exposure class* must at the same time use the *IRB approach* for the *equity exposure class*.

[Note: BCD Article 85(3)]

4.2.23

FCA

R

Subject to ■ BIPRU 4.2.17 R - ■ BIPRU 4.2.20 R, ■ BIPRU 4.2.22 R and ■ BIPRU 4.2.26 R, a *firm* that has an *IRB permission* must not use the *standardised approach* for the calculation of *risk weighted exposure amounts* for the *exposures* to which the *IRB approach* applies under the *IRB permission*.

[Note: BCD Article 85(4)]

4.2.24

FCA

R

Subject to ■ BIPRU 4.2.17 R - ■ BIPRU 4.2.22 R and ■ BIPRU 4.2.26 R, a *firm* whose *IRB permission* provides for the use of the *advanced IRB approach* for the calculation of *LGDs* and *conversion factors* for the *sovereign, institution and corporate IRB exposure class* must not use the *LGD values* and *conversion factors* applicable to the *foundation IRB approach* for the *exposures* to which the *advanced IRB approach* applies under the *IRB permission*.

[Note: BCD Article 85(5)]

4.2.25

FCA

G

The *appropriate regulator* will not agree to a *firm's* request to revoke or vary its *IRB permission* so as to permit the *firm* to revert to the *standardised approach* except for demonstrated good cause. Likewise, the *appropriate regulator* will not agree to a *firm's* request to revoke or vary its *IRB permission* so as to permit the *firm* to revert to the

foundation IRB approach if the *IRB permission* provides for it to use the *advanced IRB approach*, except for demonstrated good cause.

Combined use of methodologies: Basic provisions

4.2.26

FCA

R

- (1) To the extent that its *IRB permission* permits this, a *firm* permitted to use the *IRB approach* in the calculation of *risk weighted exposure amounts* and *expected loss* amounts for one or more *IRB exposure classes* may apply the *standardised approach* in accordance with this *rule*.
- (2) A *firm* may apply the *standardised approach* to the *IRB exposure class* referred to in ■ BIPRU 4.3.2 R (1) (Sovereigns) where the number of material counterparties is limited and it would be unduly burdensome for the *firm* to implement a *rating system* for these counterparties. A *firm* may include in this treatment an *exposure* of the type described in ■ BIPRU 3.4.18 R (Exposures to churches or religious communities) that would fall within ■ BIPRU 3.4.15 R or ■ BIPRU 3.4.17 R (Exposure to a regional government or local authority) if those provisions had not been excluded by ■ BIPRU 3.4.18 R.
- (3) A *firm* may apply the *standardised approach* to the *IRB exposure class* referred to in ■ BIPRU 4.3.2 R (2) (Institutions), where the number of material counterparties is limited and it would be unduly burdensome for the *firm* to implement a *rating system* for these counterparties.
- (4) A *firm* may apply the *standardised approach* to *exposures* in non-significant business units as well as *IRB exposure classes* that are immaterial in terms of size and perceived risk profile.
- (5) A *firm* may apply the *standardised approach* to *exposures* to the central governments of *EEA States* and their regional governments, local authorities and administrative bodies, provided that:
 - (a) there is no difference in risk between the *exposures* to the central government and those other *exposures* because of specific public arrangements; and
 - (b) *exposures* to the central government are assigned a 0% *risk weight* under the *standardised approach*.
- (6) A *firm* may apply the *standardised approach* to *exposures* of a *firm* to a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking* provided that the counterparty is an *institution*, a *financial holding company*, a *mixed financial holding company*, a *financial institution*, an *asset management*

company or an *ancillary services undertaking* subject to appropriate prudential requirements.

- (7) A *firm* may apply the *standardised approach* to *equity exposures* to entities whose credit obligations qualify for a 0% *risk weight* under the *standardised approach* (including those publicly sponsored entities where a zero *risk weight* can be applied).
- (8) A *firm* may apply the *standardised approach* to *equity exposures* incurred under legislative programmes to promote specified sectors of the economy that provide significant subsidies for the investment to the *firm* and involve some form of government oversight and restrictions on the *equity* investments. This exclusion is limited to an aggregate of 10% of *capital resources*.
- (9) A *firm* may apply the *standardised approach* to the *exposures* identified in ■ BIPRU 3.4.48 R (Exposures in the form of minimum reserves required by the European Central Bank or by the central bank of an *EEA State*) meeting the conditions specified therein.
- (10) A *firm* may apply the *standardised approach* to state and state-reinsured guarantees pursuant to ■ BIPRU 5.7.12 R (Conditions for state and state-reinsured guarantees).

[Note: BCD Article 89(1)]

Combined use of methodologies: Documentation

4.2.27

FCA

G

As part of the application for an *IRB permission*, a *firm* should have a well documented policy explaining the basis on which *exposures* are to be selected for permanent exemption from the *IRB approach* and for treatment under the *standardised approach*. The *firm's* roll out plan should also contain provisions for the continuing application of that policy on a consistent basis over time.

Combined use of methodologies: Sovereign and institutional, exposures

4.2.28

FCA

G

A *firm* intending to make use of ■ BIPRU 4.2.26 R (2) or ■ BIPRU 4.2.26 R (3) should demonstrate to the *appropriate regulator* when applying for an *IRB permission* that it meets the requirements of those provisions with respect to its sovereign or, as the case may be, institutional, *exposures*.

Combined use of methodologies: Meaning of non-significance and immateriality

4.2.29

FCA

R

For the purposes of ■ BIPRU 4.2.26 R (4), the *equity exposure IRB exposure class* of a *firm* must be considered material if its aggregate value, excluding *equity exposures* incurred under legislative programmes as referred to in ■ BIPRU 4.2.26 R (8) but including *exposures* in a *CIU* treated as *equity exposures* in accordance with ■ BIPRU 4.9.11 R to ■ BIPRU 4.9.15 R, exceeds, on average over the preceding year, 10% of the *firm's capital resources*.

If the number of those *equity exposures* is less than 10 individual holdings, that threshold is 5% of the *firm's capital resources*.

[Note: BCD Article 89(2)]

4.2.30

FCA

R

- (1) This *rule* sets out what must be treated as being non-significant business or immaterial for the purposes of ■ BIPRU 4.2.26 R (4), for *exposures* that do not fall within the *equity exposure IRB exposure class*.
- (2) A *firm* may elect permanently to exclude *exposures* from the *IRB approach* and apply the *standardised approach*. However a *firm* may only make use of this exemption to the extent that:
 - (a) the *consolidated credit risk requirement* (adjusted under (6)) so far as it is attributable to the excluded *exposures*; would be no more than 15% of:
 - (b) the *consolidated credit risk requirement* (adjusted under (6)) with respect to all *exposures* (including the ones dealt with under (a)).
- (3) *Exposures* excluded under ■ BIPRU 4.2.29 R or ■ BIPRU 4.2.26 R (2), ■ BIPRU 4.2.26 R (3) and ■ BIPRU 4.2.26 R (5)-■ BIPRU 4.2.26 R (7) must not be included in (a) or (b).
- (4) The calculation in (2)(a) is based on the *standardised approach*.
- (5) The calculation in (2)(b) is based on whichever of the *standardised approach* and the *IRB approach* would apply to the *exposures* referred to in (2)(b) at the time when the calculation is being made.
- (6) The *consolidated credit risk requirement* is adjusted for the purposes of this *rule* as follows:
 - (a) the element based on the *concentration risk capital component* is excluded, with only the elements based on the *credit risk capital component* and the *counterparty risk capital component* being taken into account; and
 - (b) the calculation is carried out with respect to the group of *undertakings* referred to in ■ BIPRU 4.2.17 R.
- (7) If a group with respect to which the calculation in this *rule* is being carried out is not required to calculate the *consolidated credit risk requirement*, the calculations in this *rule* must be carried out as if it were.

4.2.31

FCA

R

If a *firm* applies to use the *advanced IRB approach* for the *sovereign, institution and corporate IRB exposure class*, ■ BIPRU 4.2.26 R (4) also applies with respect to *exposures* in that class. For these purposes, to the extent permitted in the *firm's IRB permission*, a *firm* may:

- (1) exclude some *exposures* from the *IRB approach* and apply the *standardised approach* to those *exposures*; and
- (2) exclude other *exposures* from the *advanced IRB approach* and apply the *foundation IRB approach* to those *exposures*.

4.2.32

FCA

G

Where ■ BIPRU 4.2.31 R applies:

- (1) the 15% limit in ■ BIPRU 4.2.30 R (2) is a combined limit for excluded *exposures* remaining on the *standardised approach* and excluded *exposures* remaining on the *foundation IRB approach*; and
- (2) the calculation in ■ BIPRU 4.2.30 R (2)(a) is carried out under whichever method of calculation would be applicable to the *exposure* in question.

Combined use of methodologies: Territorial aspects

4.2.33

FCA

G

- (1) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]
- (5) [deleted]
- (6) [deleted]

Combined use of methodologies: Intra-group exposures

4.2.34

FCA

G

- (1) Generally, the *appropriate regulator* will consider excluding, through a *firm's IRB permission*, *exposures* falling into ■ BIPRU 4.2.26 R (6) from the *IRB approach*. The degree to which this exclusion applies will be set out in the *firm's IRB permission*.
- (2) *Exposures* excluded under (1) will be eligible for a 0% *risk weight* under the *standardised approach* if they satisfy the conditions in ■ BIPRU 3.2.25 R to ■ BIPRU 3.2.27A R (Zero risk weight for certain intra-group exposures).
- (3) *Exposures* to or holdings in any non-financial *undertakings* in a *firm's group* are not eligible for permanent exemption from the *IRB approach* under ■ BIPRU 4.2.26 R (6), as they are not subject to consolidated supervision. It is also the *appropriate regulator's* policy that *exposures* to or holdings in any *insurance undertaking* are ineligible. Such *exposures* should remain on the *IRB approach* unless excluded under another part of ■ BIPRU 4.2.26 R.

- (4) If a *firm* uses the exemption in (1) it should have a policy that:
 - (a) provides for the identification of connected counterparties excluded under (1);
 - (b) identifies *exposures* that would be permanently exempted from the *IRB approach* under (1); and
 - (c) identifies the connected counterparty *exposures* that are not permitted to be permanently exempted from the *IRB approach* under (1).
- (5) The policy in (4) should be applied consistently to all *exposures* excluded under (1).

Combined use of methodologies: Purchase of a new businesses

4.2.35

FCA

G

- (1) This *guidance* deals with some possible effects of acquiring a major new business after the grant of an *IRB permission*.
- (2) A *firm* should if possible ensure that the *exposures* arising through the acquisition are dealt with in accordance with the *firm's IRB permission*.
- (3) If the acquisition is made during the currency of a roll out plan under ■ BIPRU 4.2.18 R, a *firm* should ensure that the *exposures* arising through the acquisition are dealt with in accordance with that plan. For these purposes the existing and the acquired business should be considered together. The whole of the *firm's* business, including the newly acquired business, should be included in both the denominator and numerator of the fraction in ■ BIPRU 4.2.30 R.
- (4) If a *firm* cannot comply with (2) the *appropriate regulator* will consider an application to vary the *firm's IRB permission* in order to deal with the acquisition. For example the *appropriate regulator* may agree to extend the time by which the roll out should be completed (see ■ BIPRU 4.2.20 R). However any such variation should be consistent with the provisions of ■ BIPRU 4.2 that would have applied if the acquisition had been included in the *firm's* original application for an *IRB permission*.
- (5) If the acquisition is made after a *firm* has completed its roll out under ■ BIPRU 4.2.18 R the *appropriate regulator* will not in general agree to an application to treat an *exposure*:
 - (a) under the *standardised approach* if it would otherwise be treated under the *IRB approach* under the *firm's IRB permission*; or
 - (b) under the *foundation IRB approach* if it would otherwise be treated under the *advanced IRB approach* under the *firm's IRB permission*.
- (6) Any application to disapply the policy in (5) will be treated in accordance with the approach set out in ■ BIPRU 4.2.25 G.
- (7) The *appropriate regulator* will also adopt the approach in (5) while a roll out plan is in progress if, in relation to an *exposure* of a particular type, the period for completion of the roll out for those *exposures* under that plan has ended.

4.3 The IRB approach: Provisions common to different exposure classes

Application

4.3.1

FCA

R This section applies to all *exposures* treated under the *IRB approach*.

Exposure classes

4.3.2

FCA

R Each *exposure* must be assigned to one of the following *exposure classes*:

- (1) claims or contingent claims on central governments and *central banks*;
- (2) claims or contingent claims on *institutions*;
- (3) claims or contingent claims on corporates;
- (4) retail claims or contingent retail claims;
- (5) equity claims;
- (6) *securitisation* positions; and
- (7) *non credit-obligation assets*.

[Note: BCD Article 86(1)]

4.3.3

FCA

R The methodology used by a *firm* for assigning *exposures* to different *IRB exposure classes* must be appropriate and consistent over time.

[Note: BCD Article 86(9)]

Calculation of risk weighted exposure amounts

4.3.4

FCA

R The *risk weighted exposure amounts* for credit risk for *exposures* belonging to one of the *exposure classes* referred to in (1) to (4) must, unless deducted from *capital resources*, be calculated in accordance with the following provisions:

- (1) for *exposures* in the *sovereign, institution and corporate IRB exposure class*, ■ BIPRU 4.4.57 R to ■ BIPRU 4.4.60 R, ■ BIPRU 4.4.79 R,

■ BIPRU 4.5.8 R to ■ BIPRU 4.5.10 R (for *specialised lending exposures*), ■ BIPRU 4.9.3 R and ■ BIPRU 4.8.16 R to ■ BIPRU 4.8.17 R (for purchased *corporate exposure* receivables);

(2) for *exposures* in the *retail exposure class*, ■ BIPRU 4.6.41 R to ■ BIPRU 4.6.44 R, ■ BIPRU 4.6.57 R and ■ BIPRU 4.8.18 R to ■ BIPRU 4.8.20 R (for purchased *retail exposure* receivables);

(3) for *exposures* in the *equity exposure class*, ■ BIPRU 4.7.5 R to ■ BIPRU 4.7.6 R, ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.11 R, ■ BIPRU 4.7.14 R to ■ BIPRU 4.7.16 R and ■ BIPRU 4.7.24 R to ■ BIPRU 4.7.25 R; and

(4) for *exposures* in the *non credit-obligation assets exposure class*, ■ BIPRU 4.9.6 R.

[Note: BCD Article 87(1)]

4.3.5

FCA

R

The calculation of *risk weighted exposure amounts* for credit risk and *dilution risk* must be based on the relevant parameters associated with the *exposure* in question. These include *probability of default (PD)*, *loss given default (LGD)*, maturity (M) and the *exposure* value of the *exposure*. *PD* and *LGD* may be considered separately or jointly, in accordance with the provisions relating to *PD* and *LGD* in ■ BIPRU 4.4, ■ BIPRU 4.6, ■ BIPRU 4.7 and ■ BIPRU 4.8 at:

(1) for *exposures* in the *sovereign, institution and corporate IRB exposure class*, ■ BIPRU 4.4.34 R - ■ BIPRU 4.4.35 R, ■ BIPRU 4.4.42 R to ■ BIPRU 4.4.43 R, ■ BIPRU 4.4.63 R - ■ BIPRU 4.4.66 R, ■ BIPRU 4.4.80 R and, for *PD* and *LGD* for *dilution risk* of purchased *corporate exposure* receivables, ■ BIPRU 4.8.23 R and ■ BIPRU 4.8.26 R;

(2) for *exposures* in the *retail exposure class*, ■ BIPRU 4.6.50 R - ■ BIPRU 4.6.54 R, ■ BIPRU 4.6.58 R, and, for *PD* and *LGD* for *dilution risk* of purchased *retail exposure* receivables, ■ BIPRU 4.8.24 R and ■ BIPRU 4.8.27 R; and

(3) for *exposures* in the *equity exposure class*, ■ BIPRU 4.7.18 R and ■ BIPRU 4.7.20 R - ■ BIPRU 4.7.21 R.

[Note: BCD Article 87(3)]

Calculation of expected loss amounts

4.3.6

FCA

R

The *expected loss* amounts for *exposures* belonging to one of the *IRB exposure classes* referred to in (1) to (3) must be calculated in accordance with the methods set out in the following provisions:

- (1) for *exposures* in the *sovereign, institution and corporate IRB exposure class*, ■ BIPRU 4.4.61 R to ■ BIPRU 4.4.62 R and (for *specialised lending exposures*) ■ BIPRU 4.5.13 R to BIPRU 4.5.15R;
- (2) for *exposures* in the *retail exposure class*, ■ BIPRU 4.6.47 R to ■ BIPRU 4.6.48 R;
- (3) for *exposures* in the *equity exposure class*, ■ BIPRU 4.7.12 R, ■ BIPRU 4.7.17 R and ■ BIPRU 4.7.26 R; and
- (4) (for purchased receivables falling into one of the *IRB exposure classes* in (1) to (3)) ■ BIPRU 4.8.30 R.

[Note: BCD Article 88(1)]

4.3.7

FCA

R

The calculation of *expected loss* amounts in accordance with ■ BIPRU 4.3.6 R must be based on the same input figures of *PD*, *LGD* and the *exposure* value for each *exposure* as being used for the calculation of *risk weighted exposure amounts* in accordance with ■ BIPRU 4. For *defaulted exposures*, where a *firm* uses its own estimate of *LGDs*, *EL* must be the *firm's* best estimate of expected loss (EL_{BE}), for the *defaulted exposure* in accordance with ■ BIPRU 4.3.122 R.

[Note: BCD Article 88(2)]

Treatment of expected loss amounts

4.3.8

FCA

R

The *expected loss* amounts calculated in accordance with ■ BIPRU 4.3.6 R (1), ■ BIPRU 4.3.6 R (2) and ■ BIPRU 4.3.6 R (4) must be subtracted from the sum of value adjustments and provisions related to these *exposures*. Discounts on balance sheet *exposures* purchased when in *default* according to ■ BIPRU 4.4.71 R must be treated in the same manner as value adjustments. *Expected loss* amounts for *securitised exposures* and value adjustments and provisions related to these *exposures* must not be included in this calculation.

[Note: BCD Annex VII Part 1 point 36]

Corporate governance

4.3.9

FCA

R

All material aspects of the rating and estimation processes must be approved by the *firm's governing body* or a designated committee thereof and senior management. These parties must possess a general understanding of the *firm's rating systems* and detailed comprehension of its associated management reports.

[Note: BCD Annex VII Part 4 point 124]

4.3.10

FCA

G

- (1) A *firm's governing body* or *designated committee* may choose to approve only material aspects of the *firm's rating systems* and material changes to the *firm's rating systems*.
- (2) Where a *firm's governing body* or *designated committee* chooses to approve only material aspects of the *firm's rating systems* and material changes to the *firm's rating systems*:
 - (a) the *firm's governing body* or *designated committee* should define the *firm's* overall approach to material aspects of rating and estimation processes for all *rating systems*, including non-material *rating systems* and approve a policy statement defining that approach; and
 - (b) the *firm* should define and document the process for approval of non-material aspects of the *firm's rating systems*.

4.3.11

FCA

R

Senior management must provide notice to the *governing body* or a *designated committee* thereof of material changes or exceptions from established policies that will materially impact the operations of the *firm's rating systems*.

[Note: BCD Annex VII Part 4 point 125]

4.3.12

FCA

G

Where the *firm's rating systems* are used on a unified basis for the *parent undertaking* and its *subsidiary undertakings* under ■ BIPRU 4.2.3 R, and approval and reporting of the *ratings systems* are carried out at the group level, the governance requirements in ■ BIPRU 4.3.9 R and ■ BIPRU 4.3.11 R may be met if:

- (1) the *subsidiary undertakings* have delegated to the *governing body* or *designated committee* of the *EEA parent institution* or *EEA parent financial holding company* responsibility for approval of the *firm's rating systems*;
- (2) the *governing body* or *designated committee* of the *EEA parent institution* or *EEA parent financial holding company* approves either:
 - (a) all aspects of the *firm's rating systems*, and material changes; or
 - (b) all aspects of the *firm's rating systems* that are material in the context of the group, and material changes to those, and a policy statement defining the overall approach to material aspects of rating and estimation processes for all *rating systems*, including non-material *rating systems*.

4.3.13

FCA

R

Senior management must have a good understanding of the *rating system's* designs and operations. Senior management must ensure on an ongoing basis that the *rating systems* are operating properly. Senior management must be regularly informed by the credit risk control units about the performance of the rating process, areas needing improvement, and the status of efforts to improve previously identified deficiencies.

[Note: BCD Annex VII Part 4 point 126]

4.3.14

FCA

R

Internal ratings-based analysis of the *firm's* credit risk profile must be an essential part of the management reporting required under ■ BIPRU 4.3.9 R, ■ BIPRU 4.3.11 R and ■ BIPRU 4.3.13 R. Reporting must include at least risk profile by grade, migration across grades, estimation of the relevant parameters per grade, and comparison of realised *default* rates and, to the extent that own estimates are used, of realised *LGDs* and realised *conversion factors* against expectations and stress-test results. Reporting frequencies must depend on the significance and type of information and the level of the recipient.

[Note: *BCD* Annex VII Part 4 point 127]

Credit risk control

4.3.15

FCA

R

The credit risk control unit must be independent from the personnel and management functions responsible for originating or renewing *exposures* and report directly to senior management. The unit must be responsible for the design or selection, implementation, oversight and performance of the *rating systems*. It must regularly produce and analyse reports on the output of the *rating systems*.

[Note: *BCD* Annex VII Part 4 point 128]

4.3.16

FCA

R

The areas of responsibility for the credit risk control unit(s) must include the following:

- (1) testing and monitoring grades and pools;
- (2) production and analysis of summary reports from the *firm's rating systems*;
- (3) implementing procedures to verify that grade and pool definitions are consistently applied across departments and geographic areas;
- (4) reviewing and documenting any changes to the rating process, including the reasons for the changes;
- (5) reviewing the rating criteria to evaluate if they remain predictive of risk (and changes to the rating process, criteria or individual rating parameters must be documented and retained);
- (6) active participation in the design or selection, implementation and validation of models used in the rating process;
- (7) oversight and supervision of models used in the rating process; and
- (8) ongoing review and alterations to models used in the rating process.

[Note: *BCD* Annex VII Part 4 point 129]

4.3.17

FCA

R Notwithstanding ■ BIPRU 4.3.16 R, a *firm* using pooled data according to ■ BIPRU 4.3.92 R - ■ BIPRU 4.3.94 R (Overall requirements for estimation) may outsource the following tasks:

- (1) production of information relevant to testing and monitoring grades and pools;
- (2) production of summary reports from the *firm's rating systems*;
- (3) production of information relevant to review of the rating criteria to evaluate if they remain predictive of risk;
- (4) documentation of changes to the rating process, criteria or individual rating parameters; and
- (5) production of information relevant to ongoing review and alterations to models used in the rating process.

[Note: BCD Annex VII Part 4 point 130 (part)]

4.3.18

FCA

R A *firm* making use of ■ BIPRU 4.3.17 R must ensure that the *appropriate regulator* has access to all relevant information from the third party that is necessary for examining compliance with the *minimum IRB standards* and the *firm's IRB permission* and that the *appropriate regulator* may perform on-site examinations to the same extent as within the *firm*.

[Note: BCD Annex VII Part 4 point 130 (part)]

Documentation of rating systems

4.3.19

FCA

R A *firm* must document the design and operational details of its *rating systems*. The documentation must evidence compliance with the *minimum IRB standards* and the *firm's IRB permission*, and address topics including portfolio differentiation, rating criteria, responsibilities of parties that rate obligors and *exposures*, frequency of assignment reviews, and management oversight of the rating process.

[Note: BCD Annex VII Part 4 point 31]

4.3.20

FCA

R A *firm* must ensure that all documentation relating to its *rating systems* or otherwise required by the *rules* governing the *IRB approach* are stored, arranged and indexed in such a way that the *firm* would be able to make them all available to the *appropriate regulator*, or to make any class or description of them specified by the *appropriate regulator* available to the *appropriate regulator*, immediately on demand or within a short time thereafter.

4.3.21

FCA

R A *firm* must document the rationale for and analysis supporting its choice of rating criteria. A *firm* must document all major changes in the risk rating process, and such documentation must support identification

of changes made to the risk rating process subsequent to the last review by the *appropriate regulator*. The organisation of rating assignment including the rating assignment process and the internal control structure must also be documented.

[Note: BCD Annex VII Part 4 point 32]

4.3.22

FCA

R

A *firm* must document the specific definitions of default and loss used internally and demonstrate consistency with the definitions of *default* and *loss* set out in the *glossary* and ■ BIPRU 4.

[Note: BCD Annex VII Part 4 point 33]

4.3.23

FCA

G

A *firm's* documentation relating to data should include clear identification of responsibility for data quality. A *firm* should set standards for data quality and aim to improve them over time. A *firm* should measure its performance against those standards. A *firm* should ensure that its data is of high enough quality to support its risk management processes and the calculation of its capital requirements.

4.3.24

FCA

R

Where a *firm* employs statistical models in the rating process, the *firm* must document its methodologies. This material must:

- (1) provide a detailed outline of the theory, assumptions and/or mathematical and empirical basis of the assignment of estimates to grades, individual obligors, *exposures*, or pools, and the data source(s) used to estimate the model;
- (2) establish a rigorous statistical process (including out-of-time and out-of-sample performance tests) for validating the model; and
- (3) indicate any circumstances under which the model does not work effectively.

[Note: BCD Annex VII Part 4 point 34]

Rating systems

4.3.25

FCA

R

A *rating system* comprises all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of *exposures* to grades or pools (rating), and the quantification of *default* and *loss* estimates for a certain type of *exposure*.

[Note: BCD Annex VII Part 4 point 1]

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25

4.3.26

FCA

R

If a *firm* uses multiple *rating systems*, the rationale for assigning an obligor or a transaction to a *rating system* must be documented and applied in a manner that appropriately reflects the level of risk.

[Note: BCD Annex VII Part 4 point 2]

4.3.27

FCA

R

Assignment criteria and processes must be periodically reviewed to determine whether they remain appropriate for the current portfolio and external conditions.

[Note: BCD Annex VII Part 4 point 3]

4.3.28

FCA

R

Where a *firm* uses direct estimates of risk parameters these may be seen as the outputs of grades on a continuous rating scale.

[Note: BCD Annex VII Part 4 point 4]

Validation of internal estimates

4.3.29

FCA

R

A *firm* must have robust systems in place to validate the accuracy and consistency of *rating systems*, processes, and the estimation of all relevant risk parameters (*PD*, *LGD*, *conversion factors* and *EL*). A *firm* must be able to demonstrate to the *appropriate regulator* that the internal validation process enables it to assess the performance of internal rating and risk estimation systems consistently and meaningfully.

[Note: BCD Annex VII Part 4 point 110]

4.3.30

FCA

R

- (1) A *firm* must validate its *rating systems*. Its validation process must include, as a minimum, the elements set out in (2) - (8).
- (2) A *firm* must establish and define standards of objectivity, accuracy, stability and conservatism that it designs its *ratings systems* to meet. It must have processes that establish whether its *rating systems* meet those standards.
- (3) A *firm* must establish and define standards of accuracy of calibration (i.e. whether outcomes are consistent with estimate) and discriminative power (i.e. the ability to rank-order risk) that it designs its *rating systems* to meet. It must have processes that establish whether its *rating systems* meet those standards.
- (4) A *firm* must have policies and standards that specify the actions to be taken when a *rating system* fails to meet the standards of accuracy and discriminative power referred to in (2) and (3).
- (5) A *firm's* validation process must include a mix of developmental evidence, benchmarking and process verification. A *firm's* validation process must include policies on how this mixture varies between different *rating systems*.
- (6) A *firm's* validation process must include the use of both quantitative and qualitative techniques.
- (7) A *firm's* validation process must include policies on how validation procedures are expected to vary over time.

- (8) A *firm's* validation process must include independent input into and review of its *rating systems*.
- (9) The standards set under (2) and (3) must meet the *minimum IRB standards*.
- (10) For the purpose of (5):
 - (a) developmental evidence means evidence that substantiates whether the logic and quality of a *rating system* (including the quantification process) adequately discriminates between different levels of, and delivers accurate estimates of *PD, EL, LGD* and *conversion factors* (as applicable); and
 - (b) process verification means the process of establishing whether the methods used in a *rating system* to discriminate between different levels of risk and to quantify *PD, EL, LGD* and *conversion factors* are being used, monitored and updated in the way intended in the design of the *rating system*.

4.3.31

FCA

G

A *firm* should have regard to the involvement of management at an appropriately senior level in the validation process.

4.3.32

FCA

G

The approach to validation may vary with the significance of the *exposures* covered by a *rating system*.

4.3.33

FCA

R

A *firm* must regularly compare realised *default* rates with estimated *PDs* for each grade and where realised *default* rates are outside the expected range for that grade a *firm* must specifically analyse the reasons for the deviation. A *firm* using its own estimates of *LGDs* and/or *conversion factors* must also perform analogous analysis for own estimates of *LGDs* and *conversion factors*. Such comparisons must make use of historical data that cover as long a period as possible. A *firm* must document the methods and data used in such comparisons. This analysis and documentation must be updated at least annually.

[Note: BCD Annex VII Part 4 point 111]

4.3.34

FCA

G

- (1) This paragraph sets out *guidance* on assessing the adequacy of a *rating system's* discriminative power (see ■ BIPRU 4.3.30 R (3) on the meaning of discriminative power).
- (2) A *firm* should be able to explain the performance of its *rating systems* against its chosen measure (or measures) of discriminative power. In making this comparison a *firm* should rely primarily on actual historic *default* experience where this is available. In particular, a *firm* should be able to explain:
 - (a) the extent of any potential inaccuracy in these measures, caused in particular by small sample size; and

- (b) the potential for divergence in the future, whether caused by changing economic conditions or other factors.
- (3) The assessment of discriminative power should include appropriate use of external benchmarks where available.
- (4) The *appropriate regulator* will, in assessing the *firm's* performance, take into consideration the sophistication of the measure of discrimination chosen.
- (5) In the case of a portfolio for which there is insufficient *default* experience to provide any confidence in statistical measures of discriminative power a *firm* need not carry out the procedure in (2) and may instead use other methods. For example, it may make use of comparison with an external measurement approach by analysing whether the *firm's rating systems* and the external approach rank common obligors in broadly similar ways. A *firm* should be able to explain the methodology it uses and the rationale for its use.

4.3.35

FCA

R

A *firm* must also use other appropriate quantitative validation tools and comparisons with relevant external data sources. The analysis must be based on data that is appropriate to the portfolio, is updated regularly, and covers a relevant observation period. A *firm's* internal assessments of the performance of its *rating systems* must be based on as long a period as possible.

[Note: BCD Annex VII Part 4 point 112]

4.3.36

FCA

R

The methods and data used for quantitative validation must be consistent through time. Changes in estimation and validation methods and data (both data sources and periods covered) must be documented.

[Note: BCD Annex VII Part 4 point 113]

4.3.37

FCA

R

A *firm* must have sound internal standards for situations where deviations in realised *PDs*, *LGDs*, *conversion factors* and, where *EL* is used, total *losses*, from expectations become significant enough to call the validity of the estimates into question. These standards must take account of business cycles and similar systematic variability in *default* and *loss* experience. Where realised values continue to be higher than expected values, a *firm* must revise estimates upward to reflect its *default* and *loss* experience.

[Note: BCD Annex VII Part 4 point 114]

Internal audit

4.3.38

FCA

R

Internal audit or another comparable independent auditing unit must review at least annually the *firm's rating systems* and its operations, including the operations of the *firm* and the estimation of *PDs*, *LGDs*, *ELs* and *conversion factors*. Areas of review must include adherence to all applicable minimum requirements.

[Note: BCD Annex VII Part 4 point 131]

Stress tests used in assessment of capital adequacy

4.3.39

FCA

R

A *firm* must have in place sound stress testing processes for use in the assessment of its capital adequacy. Stress testing must involve identifying possible events or future changes in economic conditions that could have unfavourable effects on the firm's credit *exposures* and assessment of the *firm's* ability to withstand such changes.

[Note: BCD Annex VII Part 4 point 40]

4.3.39A

FCA

G

The *appropriate regulator* expects that *firms* will routinely make use of stress testing and scenario analysis as a tool in the calibration and/or validation of their *IRB approach* parameters in order to increase the accuracy or, at least, the conservatism of the estimates. Stress testing should include a thorough exploration of various outturns different to the *firm's* normal expectations in order to give the *firm* a clear view of the potential for the forward-looking estimate to be different from that indicated by the primary data source(s). *Firms* should consider this as an integral part of their quantification process, and should have clear standards for how the results of the stress tests affect the final estimates used for the *IRB approach* parameters.

4.3.40

FCA

R

- (1) A *firm* must regularly perform a credit risk stress test to assess the effect of certain specific conditions on its total capital requirements for credit risk. The test to be employed must be one chosen by the *firm*. The test to be employed must be meaningful and reasonably conservative. Stressed portfolios must contain the vast majority of a *firm's* total *exposures* covered by the *IRB approach*.
- (2) The stress test must be designed to assess the *firm's* ability to meet its capital requirements for credit risk under ■ GENPRU 2.1 during all stages of the economic cycle and during an economic downturn scenario based on forward looking hypothetical events calibrated against the most adverse movements in individual risk drivers experienced over a long historical period.
- (3) In particular the stress test must address the impact (including by ratings migration) of changes in the credit quality of its credit risk counterparties including its protection providers. A *firm* using the treatment set out in ■ BIPRU 4.4.79 R must in particular consider the impact of protection providers falling outside the eligibility criteria.
- (4) The stress test must be conducted on the basis of the *firm's* *exposures* (on- and off-balance sheet) as they stand at the time of the stress test.
- (5) The stress test must be carried out at least annually and also in the event of a significant change in the state of the economy.

- (6) A *firm* need not assume that the recession referred to in (2) will occur in the 12 months immediately following the stress test. Instead, the stress test must incorporate a plausible time horizon for the occurrence of the cyclical deterioration of the severity tested for. A *firm* need not assume that the downturn will occur for all portfolios in all jurisdictions simultaneously.

[Note: BCD Annex VII Part 4 points 41 and 42]

4.3.41

FCA

G

To the extent that the economic conditions assumed in the stress tests required under ■ BIPRU 4.3.39 R or ■ BIPRU 4.3.40 R coincide with the conditions assumed in the production of economic downturn *LGDs* (see ■ BIPRU 4.3.103 R), the *LGDs* to be used might be expected to be similar.

4.3.42

FCA

G

The requirement in ■ BIPRU 4.3.40 R (2) is to identify, in a forward-looking manner, severe but plausible downturn conditions relevant to business lines and jurisdictions and to determine the likely impact of those conditions on a *firm's* credit risk regulatory capital requirements. The description of the economic recession contained in ■ BIPRU 4.3.40 R (2) should not be taken as stipulating one approach (e.g. statistical) over other approaches (e.g. scenario analysis) in the identification of the relevant recessionary circumstances.

Rating systems: Assignment to grades or pools

4.3.43

FCA

R

A *firm* must have specific definitions, processes and criteria for assigning *exposures* to grades or pools within a *rating system*.

[Note: BCD Annex VII Part 4 point 17 (part)]

4.3.44

FCA

R

The grade or pool definitions and criteria must be sufficiently detailed to allow those charged with assigning ratings consistently to assign obligors or facilities posing similar risk to the same grade or pool. This consistency must exist across lines of business, departments and geographic locations within each *rating system*.

[Note: BCD Annex VII Part 4 point 17 (part)]

4.3.45

FCA

G

In meeting ■ BIPRU 4.3.44 R a *firm* should have regard to its application to each *rating system*.

4.3.46

FCA

R

The documentation of the rating process must allow third parties to understand the assignments of *exposures* to grades or pools, to replicate grade and pool assignments and to evaluate the appropriateness of the assignments to a grade or a pool.

[Note: BCD Annex VII Part 4 point 17 (part)]

4.3.47

FCA

R

The criteria referred to in ■ BIPRU 4.3.43 R must also be consistent with the *firm's* internal lending standards and its policies for handling troubled obligors and facilities.

[Note: BCD Annex VII Part 4 point 17 (part)]

4.3.48

FCA

R

A *firm* must take all relevant information into account in assigning obligors and facilities to grades or pools. Information must be current and must enable the *firm* to forecast the future performance of the *exposure*. The less information a *firm* has, the more conservative must be its assignments of *exposures* to obligor and *facility grades* or pools. If a *firm* uses an external rating as a primary factor determining an internal rating assignment, the *firm* must ensure that it considers other relevant information.

[Note: BCD Annex VII Part 4 point 18]

Rating systems: General governance

4.3.49

FCA

G

- (1) This paragraph contains *guidance* on ■ BIPRU 4.3.43 R and more general *guidance* about the governance of *rating systems*.
- (2) In determining the assignment referred to in ■ BIPRU 4.3.43 R, a *firm* should have regard to the sensitivity of the rating to movements in fundamental risk drivers.
- (3) A *firm* should, for any *rating system*, be able to demonstrate that it acts appropriately or has an appropriate policy, as applicable, with respect to:
 - (a) any deficiencies caused by its not being sensitive to movements in fundamental risk drivers or for any other reason;
 - (b) periodic review and action in the light of such review;
 - (c) provision of appropriate internal guidance to staff to ensure consistency in the use of the *rating system*, including the assignment of *exposures* or facilities to pools or grades;
 - (d) dealing with potential weaknesses of the *rating system*;
 - (e) identifying appropriate and inappropriate uses of the *rating system* and acting on that identification;
 - (f) novel or narrow rating approaches; and
 - (g) ensuring the appropriate level of stability over time of the *rating system*.

Rating systems: Overrides

4.3.50

FCA

R

For grade and pool assignments a *firm* must document the situations in which human judgement may override the inputs or outputs of the assignment process and the personnel responsible for approving these overrides. A *firm* must document these overrides and the personnel responsible. A *firm* must analyse the performance of the *exposures* whose assignments have been overridden. This analysis must include assessment

of the performance of *exposures* whose rating has been overridden by a particular *person*, accounting for all the responsible personnel.

[Note: BCD Annex VII Part 4 point 25]

Rating systems: Use of models

4.3.51

FCA

R

- (1) This paragraph applies to the use of statistical models and/or other mechanical methods to assign *exposures* to *obligor grades*, *obligor pools*, *facility grades* or *facility pools*.
- (2) A *firm* must be able to demonstrate to the *appropriate regulator* that the model has good predictive power and that capital requirements are not distorted as a result of its use.
- (3) The input variables to the model must form a reasonable and effective basis for the resulting predictions. The model must not have material biases.
- (4) A *firm* must have in place a process for vetting data inputs into the model, which includes an assessment of the accuracy, completeness and appropriateness of the data.
- (5) A *firm* must be able to demonstrate to the *appropriate regulator* that the data used to build the model is representative of the population of the *firm's* actual obligors or *exposures*.
- (6) A *firm* must have a regular cycle of model validation that includes monitoring of model performance and stability, review of model specification and testing of model outputs against outcomes.
- (7) A *firm* must complement the statistical model by human judgement and human oversight to review model-based assignments and to ensure that the models are used appropriately. Review procedures must aim at finding and limiting errors associated with model weaknesses. Human judgements must take into account all relevant information not considered by the model. A *firm* must document how human judgement and model results are to be combined.
- (8) Use of a model obtained from a third-party vendor that claims proprietary technology is not a justification for exemption from documentation or any other of the requirements in ■ BIPRU 4 or a *firm's* IRB permission for *rating systems*. A *firm* must be able to satisfy the *appropriate regulator* that all those requirements are satisfied if it uses such a model.

[Note: BCD Annex VII Part 4 points 30 and 35 (part)]

4.3.52

G

FCA

- (1) This paragraph contains guidance on ■ BIPRU 4.3.51 R (7).
- (2) ■ BIPRU 4.3.51 R (7) does not require that each individual assignment of an *exposure* to a pool or grade should be the subject of an open-ended review by reference to factors not covered by the model if:
 - (a) that is not necessary in order to meet the requirements of ■ BIPRU 4 about the ability of the *rating system* to predict and to discriminate (as referred to in ■ BIPRU 4.3.29 R to ■ BIPRU 4.3.30 R (Validation of internal estimates)); and
 - (b) the outputs of the model are not designed to be supplemented by such a review.

4.3.53

G

FCA

- (1) This paragraph contains *guidance* on ■ BIPRU 4.3.51 R for the use of external models.
- (2) ■ BIPRU 4.3.51 R (2) - ■ BIPRU 4.3.51 R (8) also apply to mechanical methods to assign *exposures* or obligors to facility grades or pools and to a combination of models and mechanical methods.
- (3) The standards which a *firm* applies to an external model should not be lower than those for internal models.
- (4) The *appropriate regulator* will not accredit any individual model or vendor. The burden is on a *firm* to satisfy itself that external models are fit for purpose and meet the relevant requirements of the *IRB approach*.
- (5) Notwithstanding that commercial confidentiality may limit the willingness of vendors of external models to disclose all details, a *firm* should ensure that it is able to obtain sufficiently detailed information to be able to satisfy the requirements of the *IRB approach*.
- (6) A *firm* should have a clear understanding of responsibilities for support and maintenance of external models. This should include how new developments will be brought in and what entitlement the *firm* has to receive and/or request specific enhancements. A *firm* should ensure that the requirements of ■ BIPRU 4.3.51 R and other provisions of the *IRB approach* are complied with on an ongoing basis.
- (7) If a *firm* uses an external model it should have regard to the following:
 - (a) the adequacy of the information it has about the population on which the model is built;
 - (b) the comparability of the population referred to in (a) to the *exposures* with respect to which it is using that model;
 - (c) what the drivers of the model are and their relevance to the *exposures* with respect to which it is using the model; and
 - (d) how the *firm* satisfies itself that the standards required by the *IRB approach* for an internal model are met by the external model.

Rating systems: Data maintenance

4.3.54

FCA

R

A *firm* must collect and store data on aspects of its internal ratings as required under ■ BIPRU 11 (Disclosure).

[Note: BCD Annex VII Part 4 point 36]

Rating systems: IT systems

4.3.55

FCA

G

A *firm* should ensure that IT systems relevant to the operation of its *rating systems* are sound and robust. A *firm's* IT systems should provide rapid availability of databases and appropriate archiving. Adequate controls should be in place to prevent unauthorised changes to data being made. Contingency processes and plans should be in place to deal with events of system failure. A *firm* should document work-flows and procedures related to data collection and storage.

Definition of default: Main provisions

4.3.56

FCA

R

A *default* must be considered to have occurred with regard to a particular obligor when either or both of the two following events has taken place:

- (1) the *firm* considers that the obligor is unlikely to pay its credit obligations to the *firm*, the *parent undertaking* or any of its *subsidiary undertakings* in full, without recourse by the *firm* to actions such as realising security (if held); and
- (2) the obligor is past due more than 90 days on any material credit obligation to the *firm*, the *parent undertaking* or any of its *subsidiary undertakings*.

[Note: BCD Annex VII Part 4 point 44 (part)]

4.3.57

FCA

R

The following provisions also apply with respect to the definition of *default*:

- (1) for overdrafts, days past due commence once an obligor has breached an advised limit, has been advised a limit smaller than current outstandings, or has drawn credit without authorisation and the underlying amount is material;
- (2) an advised limit means a limit which has been brought to the knowledge of the obligor;
- (3) days past due for credit cards commence on the minimum payment due date;
- (4) in the case of *retail exposures* and *exposures to public sector entities* the number of days past due is as set out in ■ BIPRU 4.4.22 R and ■ BIPRU 4.6.20 R; and
- (5) in all cases for the purposes of the definition of *default*, a credit obligation or, for overdrafts, the underlying amount, is material

if, when added to the other *exposures* of the obligor, the total exceeds the amount which the *firm* treats as a material default for its internal risk measurement and management purposes.

[Note: BCD Annex VII Part 4 point 44 (part)]

Definition of default: Materiality

4.3.58

FCA

R

Where a *firm* applies the definition of *default* at facility level in accordance with ■ BIPRU 4.6.21 R, it should define materiality for the purposes of ■ BIPRU 4.3.57 R (5) by reference to the facility amount only, disregarding other *exposures* of the obligor.

4.3.59

FCA

R

A *firm* must have a policy which sets out how it will determine whether a credit obligation or, for overdrafts, the underlying amount, is material for the purposes of the definition of *default* in ■ BIPRU 4.3.56 R (2) and ■ BIPRU 4.3.57 R (5).

Definition of default: Identification of obligor

4.3.60

FCA

G

- (1) This paragraph contains *guidance* on the definition of *default*.
- (2) If:
 - (a) a *firm* ordinarily assigns *exposures* in the *sovereign, institution and corporate IRB exposure class* to a member of a group substantially on the basis of membership of that group and a common group rating; and
 - (b) the *firm* does so in the case of a particular group;
- (3) the *firm* should consider whether members of that group should be treated as a single obligor for the purpose of the definition of *default*.
- (4) The *appropriate regulator* would not expect a *firm* to treat an obligor as part of a single obligor under (2) if the *firm* rates its *exposures* on a stand alone basis or if its rating is notched. A rating is notched if it takes into account individual risk factors or otherwise reflects risk factors that are not applied on a common group basis.
- (5) Accordingly if a group has two members who are separately rated the *default* of one does not necessarily imply the *default* of the other.

Definition of default: Days past due

4.3.61

FCA

G

- (1) This paragraph contains *guidance* on the meaning of days past due for the purposes of the definition of *default*.
- (2) If an amount is overdue by the relevant number of days past due because of administrative oversight on the part of the obligor or the *firm*, a *firm* with sufficient information may, retrospectively if necessary, treat that as not involving a *default* if:
 - (a) that failure is not associated with any increase in the risk referred to in ■ BIPRU 4.3.56 R (1); and

- (b) treating it as not being in *default* is consistent with the way that the *firm* treated the failure in its relationship with the obligor.
- (3) If a *firm* takes advantage of this provision it should have a policy about the circumstances in which it can apply the treatment in (2). That policy should be documented and consistently applied.

4.3.62

FCA

G

Days past due is only one part of the definition of *default* and should be treated as a back-stop. A *firm* should not rely solely on the number of days past due set by ■ BIPRU 4 but should also consider all other indicators of unlikelihood to pay when assessing whether a *default* has occurred.

4.3.63

FCA

R

Definition of default: Unlikelihood to pay

- (1) Elements to be taken as indications of unlikelihood to pay must include the items set out in this *rule*.
- (2) The *firm* putting the credit obligation on non-accrued status must be taken as an indication of unlikelihood to pay.
- (3) The *firm* making a value adjustment resulting from a significant perceived decline in credit quality subsequent to the *firm* taking on the *exposure* must be taken as an indication of unlikelihood to pay.
- (4) The *firm* selling the credit obligation at a material credit-related economic loss must be taken as an indication of unlikelihood to pay.
- (5) The *firm* consenting to a distressed restructuring of the credit obligation must be taken as an indication of unlikelihood to pay where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees. This includes in the case of *equity exposures* assessed under a *PD/LGD approach*, distressed restructuring of the equity itself.
- (6) The *firm* having filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the *firm*, the *parent undertaking* or any of its *subsidiary undertakings* must be taken as an indication of unlikelihood to pay.
- (7) The obligor seeking or having been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the *firm*, the *parent undertaking* or any of its *subsidiary undertakings* must be taken as an indication of unlikelihood to pay.

[Note: BCD Annex VII Part 4 point 45]

4.3.64

FCA

G

A *firm* may use the amount overdue as an additional indication of unlikeliness to pay. If a *firm* uses this approach, the days past due element of the definition of *default* continues to apply, including the provisions relating to the fixed number of days past due referred to in ■ BIPRU 4.3.57 R (4). A *firm* might make the use of a definition of *default* that takes into account the amount overdue consistent with the days past due element of the definition by setting the amount overdue at such a level that, taking into account:

- (1) the order in which payments are applied against overdue payments; and
- (2) the number of payment dates, the time between them, the amount of the overdue payments that results in a *default* under the definition used by the *firm* and other relevant factors;

it is not possible for any payment to be past due by a number of days exceeding the maximum amount specified in *BIPRU* for the purposes of the definition of *default* without there being a *default* under the part of the definition of *default* based on the amount overdue.

4.3.65

FCA

G

In the case of a *retail exposure*, a value adjustment resulting from significant perceived decline in credit quality falling within ■ BIPRU 4.3.63 R (3) need not necessarily be taken as an indication of unlikeliness to pay if a *firm* employs formulaic portfolio provisioning based on a number of days overdue for its *retail exposures*. However, if such an *exposure* reaches the compulsory days past due indicator for the purposes of the definition of *default* it should automatically be deemed to be in *default*, regardless of the provisioning situation.

4.3.66

FCA

G

An obligation should be considered a distressed restructuring under ■ BIPRU 4.3.63 R (5) if an independent third party, with expertise in the relevant area, would not be prepared to provide financing on substantially the same terms and conditions.

4.3.67

FCA

G

- (1) The realisation or forfeiture of collateral may be taken as an indication of unlikeliness to pay for the purposes of the definition of *default*.
- (2) However, the realisation or forfeiture of collateral may not indicate unlikeliness to pay:
 - (a) in the case of an *exposure* in a market (such as one that involves *retail exposures* involving margin lending) in which it is established practice for collateral to be sold if its value falls below a certain percentage of the *exposure* and the obligor does not restore the margin (but this exception does not apply if the value of the collateral has fallen below the amount outstanding); or
 - (b) if the *firm* is able to demonstrate that for some other reason the realisation or forfeiture of collateral is not a meaningful indication of unlikeliness to pay.

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37

4.3.68

FCA

G

- (1) If an obligor approach is being taken with respect to *retail exposures* (that is, the application of the definition of *default* at an obligor level rather than at a facility level as set out in ■ BIPRU 4.6.21 R,) a *firm* should ensure that the *PD* associated with unsecured *exposures* is not understated as a result of the presence of any collateralised *exposures*. A *firm* should be able to explain to the *appropriate regulator*, if asked, how it has ensured that its estimate of *PD* is

appropriate for both secured and unsecured *exposures* covered by an obligor rating approach.

- (2) In the view of the *appropriate regulator*, *firms* typically find that the *PD* of a residential mortgage is lower than the *PD* of an unsecured loan to the same borrower.

4.3.69

FCA

G

A *firm* may, but without prejudice to ■ BIPRU 4.4.22 R and ■ BIPRU 4.6.20 R (Fixed numbers of days past due), use additional, or stricter, indicators of unlikelihood to pay if it uses these indicators for internal purposes in accordance with ■ BIPRU 4.2.2 R (2) (Use tests) and if the disclosures under ■ BIPRU 11 (Disclosure) are on this basis.

Risk quantification: Definition of default: Other provisions

4.3.70

FCA

R

A *firm* must (if it uses external data that is not itself consistent with the definition of *default*) be able to demonstrate to the *appropriate regulator* that appropriate adjustments have been made that achieve broad equivalence with the definition of *default*.

[Note: BCD Annex VII Part 4 point 46]

4.3.71

FCA

R

If a *firm* considers that a previously *defaulted exposure* is such that no trigger of *default* continues to apply, the *firm* must rate the obligor or facility as it would for a non-*defaulted exposure*. Should the definition of *default* subsequently be triggered, another *default* must be deemed to have occurred.

[Note: BCD Annex VII Part 4 point 47]

4.3.72

FCA

G

A *firm* should have a clear and documented policy for determining whether an *exposure* that has been in *default* should subsequently be returned to performing status.

Risk quantification: Overall requirements for estimation: General

4.3.73

FCA

R

■ BIPRU 4.3.74 R to ■ BIPRU 4.3.131 R apply to a *firm's* own estimates of risk parameters used in the *IRB approach*.

[Note: BCD Annex VII Part 4 point 43]

4.3.74

FCA

R

A *firm's* own estimates of the risk parameters *PD*, *LGD*, *conversion factor* and *EL* must incorporate all relevant data, information and methods. The estimates must be derived using both historical experience and empirical evidence, and must not be based purely on judgemental considerations. The estimates must be plausible and intuitive and must be based on the material drivers of the respective risk parameters. The less data a *firm* has, the more conservative it must be in its estimation.

[Note: BCD Annex VII Part 4 point 49]

4.3.75

FCA

G

- (1) This paragraph provides guidance on ■ BIPRU 4.3.73 R.
- (2) Relevant data and information under ■ BIPRU 4.3.73 R includes external data.
- (3) Where internal *default* and *loss* experience is scarce, a *firm* should consider using material relevant external information. When using external information such as industry averages when determining *LGD* or *conversion factors*, a *firm* should consider whether this data is appropriate to its own experience and whether adjustments are necessary.

4.3.76

FCA

R

- (1) In calculating estimates of *PD*, *LGD* and *conversion factors* a *firm* must adjust the averages of historical experience referred to in the *historical averages rules* in order to ensure that those estimates are accurate estimates of the *default* rate, *loss* rate or *conversion factor* over the long-run.
- (2) The *historical average rules* means the requirements in ■ BIPRU 4 relating to the calculation of *PD*, *LGD* and *conversion factors* using historical averages (and in particular ■ BIPRU 4.4.24 R, ■ BIPRU 4.4.30 R, ■ BIPRU 4.8.7 R, ■ BIPRU 4.8.8 R, ■ BIPRU 4.6.24 R, ■ BIPRU 4.6.27 R, ■ BIPRU 4.3.99 R and ■ BIPRU 4.3.125 R).

4.3.77

FCA

G

Where a *firm* is able to demonstrate that the effect is immaterial in accordance with ■ BIPRU 4.1.25 R (Compliance), it may estimate average *LGDs* and *conversion factors* under the *historical average rules* in a way that does not strictly comply with ■ BIPRU 4.3.94 R (Default weighted average), provided the final estimates of *LGD* and *conversion factors* following the adjustments to averages of historical experience are made on the basis of *default* weighted averages for the *facility grade* or pool in question.

4.3.78

FCA

G

A *firm* may carry out the adjustments under ■ BIPRU 4.3.76 R (Adjustments to averages of historical experience) by adjusting the data from which estimates are made rather than by adjusting the estimates themselves if it can demonstrate that capital requirements are not underestimated as a result.

4.3.79

FCA

G

While the qualitative requirements in ■ BIPRU 4 are important for all portfolios, they are of even greater importance in those cases where a *firm* lacks sufficient historical data to calibrate or validate its estimates of *PD*, *LGD* or *conversion factors* on the basis of proven statistical significance, sometimes referred to as low default portfolios.

4.3.80

FCA

R

- (1) A *firm* must collect data on what it considers to be the main drivers of the risk parameters *PD*, *LGD*, *conversion factor* and *EL* for each group of obligors or facilities.
- (2) A *firm* must document its identification of the main drivers of risk parameters.
- (3) A *firm* must be able to demonstrate that its process of identification is reasonable and appropriate.

4.3.81

FCA

R In its processes for identifying the main drivers of risk parameters, a *firm* must set out its reasons for concluding that the data sources chosen provide in themselves sufficient discriminative power and accuracy and why additional potential data sources do not provide relevant and reliable information that would be expected materially to improve the discriminative power and accuracy of its estimates of the risk parameter in question. This does not require an intensive analysis of all factors.

4.3.82

FCA

G If a *firm* uses a rating model to assign exposures to the borrower or facility grades, it may reflect the data on main drivers of risk parameters by its inclusion in the model as a risk driver or as part of a subsequent process that adjusts the output of that model to calculate the risk parameters *PD*, *LGD*, *conversion factor* and *EL*.

4.3.83

FCA

R A *firm* must be able to provide a breakdown of its loss experience in terms of *default* frequency, *LGD*, *conversion factor*, or *loss* where *EL* estimates are used, by the factors it sees as the drivers of the respective risk parameters. A *firm* must be able to demonstrate to the *appropriate regulator* that its estimates are representative of long-run experience.

[Note: BCD Annex VII Part 4 point 50]

4.3.84

FCA

R Any changes in lending practice or the process for pursuing recoveries over the observation periods referred to in ■ BIPRU 4.4.31 R (Observation period for sovereigns, institutions and corporates for PDs), ■ BIPRU 4.6.28 R (Observation period for retail exposures for PDs), ■ BIPRU 4.4.54 R (Observation period for sovereigns, institutions and corporates for LGDs), ■ BIPRU 4.6.33 R (Observation period for retail exposures for LGDs), ■ BIPRU 4.4.55 R (Observation period for sovereigns, institutions and corporates for conversion factors) and ■ BIPRU 4.6.38 R (Observation period for retail exposures for conversion factors) must be taken into account. A *firm's* estimates must reflect the implications of technical advances and new data and other information, as it becomes available. A *firm* must review its estimates when new information comes to light but at least on an annual basis.

[Note: BCD Annex VII Part 4 point 51]

4.3.85

FCA

R The population of *exposures* represented in the data used for estimation, the lending standards used when the data was generated and other relevant characteristics must be comparable with those of a *firm's* *exposures* and standards. A *firm* must also be able to demonstrate to the *appropriate regulator* that the economic or market conditions that underlie the data are relevant to current and foreseeable conditions. The number of *exposures* in the sample and the data period used for quantification must be sufficient to provide a *firm* with confidence in the accuracy and robustness of its estimates.

[Note: BCD Annex VII Part 4 point 52]

4.3.86

FCA

G

It may be reasonable for a *firm* to treat foreseeable in ■ BIPRU 4.3.85 R as referring to the most distant date to which it carries out detailed capital planning.

4.3.87

FCA

G

A *firm* should be able to demonstrate to the *appropriate regulator*:

- (1) how, with respect to each *rating system*, both assignment of ratings and estimates of *PD*, *LGD* and *conversion factors* are affected by:
 - (a) movements in the economic cycle; and
 - (b) other cyclical effects which are material to levels of *default*, *loss* or the amount of *exposures at default* for the *exposures* covered by the *rating system*; and
- (2) the level of conservatism inherent in its ratings, as provided for by *BIPRU*.

4.3.88

FCA

R

A *firm* must add to its estimates a margin of conservatism that is related to the expected range of estimation errors. Where methods and data are less satisfactory and the expected range of errors is larger, the margin of conservatism must be larger.

[Note: *BCD Annex VII Part 4 point 54*]

4.3.89

FCA

G

Estimation of *PD* through the use of a technique set out in *BIPRU* does not remove the need to make conservative adjustments, where necessary, related to the expected range of estimation errors so that capital requirements produced by the relevant model or other *rating system* are not understated.

4.3.90

FCA

R

If a *firm* uses different estimates for the calculation of *risk weights* and internal purposes it must be documented. The *firm* must be able to demonstrate to the *appropriate regulator* the reasonableness of such estimates.

[Note: *BCD Annex VII Part 4 point 55*]

4.3.91

FCA

G

If a *firm* can demonstrate to the *appropriate regulator* that for data that has been collected prior to 31 December 2006, appropriate adjustments have been made to achieve broad equivalence with the definitions of *default* or *loss*, the *appropriate regulator* may in the *IRB permission* allow the *firm* some flexibility in the application of the required standards for data.

[Note: *BCD Annex VII Part 4 point 56*]

Risk quantification: Overall requirements for estimation: Pooled data

4.3.92

FCA

R

If a *firm* uses data that is pooled across *institutions* it must be able to demonstrate to the *appropriate regulator* that:

- (1) the *rating systems* and criteria of other firms in the pool are similar to its own;

- (2) the pool is representative of the portfolio for which the pooled data is used; and
- (3) the pooled data is used consistently over time by the *firm* for its permanent estimates.

[Note: BCD Annex VII Part 4 point 57]

4.3.93

FCA

G

■ BIPRU 4.3.92 R (1) is intended to ensure that data entering a pool is consistent and does not contain distortions as a result of different contributors' practices. It is not intended to constrain the use of pooled data by one *firm* that is contributed by a second *firm* where the differences do not affect the data being contributed.

4.3.94

FCA

R

If a *firm* uses data that is pooled across *institutions* it remains responsible for the integrity of its *rating systems*. If a *firm* uses such data it must be able to demonstrate to the *appropriate regulator* that it has sufficient in-house understanding of its *rating systems*, including effective ability to monitor and audit the rating process.

[Note: BCD Annex VII Part 4 point 58]

Risk quantification: Overall requirements for estimation: Requirements specific to PD estimates

4.3.95

FCA

R

- (1) If:
 - (a) a *firm's* internal experience of *exposures* of a type covered by a model or other *rating system* is 20 *defaults* or fewer; and
 - (b) in the *firm's* view, reliable estimates of *PD* cannot be derived from external sources of *default* data, including the use of market price related data, for all the *exposures* covered by the *rating system*;

the *firm* must estimate *PD* for *exposures* covered by that *rating system* in accordance with this *rule*.
- (2) A *firm* must use a statistical technique to derive the distribution of *defaults* implied by the *firm's* experience, estimating *PDs* (the "statistical *PD*") from the upper bound of a confidence interval set by the *firm* in order to produce conservative estimates of *PDs* in accordance with ■ BIPRU 4.3.88 R.
- (3) The techniques chosen for the purposes of (2) must take account, as a minimum, of the following modelling issues:
 - (a) the number of *defaults* and number of obligor years in the sample;
 - (b) the number of years from which the sample was drawn;

- (c) the interdependence between *default* events for individual obligors;
 - (d) the interdependence between *default* rates for different years; and
 - (e) the choice of the statistical estimators and the associated distributions and confidence intervals.
- (4) The *firm* must further adjust the statistical PD to the extent necessary to take account of the following:
- (a) any likely differences between the observed *default* rates over the period covered by the *firm's default* experience and the long-run PD for each grade in accordance with ■ BIPRU 4.4.24 R and ■ BIPRU 4.6.24 R; and
 - (b) any other information that indicates (taking into account the robustness and cogency of that information) that the statistical PD is likely to be an inaccurate estimate of PD.
- (5) This *rule* is in addition to the other requirements in *BIPRU* about the calculation of PD.
- (6) When a *firm* calculates whether it has 20 *defaults* or fewer under the calculation in (1)(a), it must only take into account *defaults* that occurred during periods that are relevant to the validation under ■ BIPRU 4 of the model or other *rating system* in question.

4.3.96

FCA

G

A *firm* may if appropriate also choose to use the approach in ■ BIPRU 4.3.91 G if the internal experience on *exposures* covered by a *rating system* is greater than 20 *defaults*.

4.3.97

FCA

G

If a *firm* excludes *defaulted exposures* that have been cured (as referred to in ■ BIPRU 4.3.71 R) or restructured (as referred to in ■ BIPRU 4.3.63 R (5)) from estimates of LGD in accordance with ■ BIPRU 4.3.110 G, it may also exclude cures from estimates of PD for these *exposures*.

Risk quantification: Overall requirements for estimation: Requirements specific to own-LGD estimates

4.3.98

FCA

R

■ BIPRU 4.3.98 R to ■ BIPRU 4.3.123 R set out requirements specific to own-LGD estimates.

4.3.99

FCA

R

A *firm* must estimate LGDs by *facility grade* or pool on the basis of the average realised LGDs by *facility grade* or pool using all observed *defaults* within the data sources (*default weighted average*).

[Note: BCD Annex VII Part 4 point 73]

4.3.100

FCA

R

A *firm* must calculate the *default* weighted average on the basis of the number of *defaults* included in the calculations made under the *historical average rules* so far as they relate to the calculation of *PDs* and must not be weighted by the size of *exposures*.

4.3.101

FCA

R

- (1) A *firm's* estimates of *LGDs* must take into account:
 - (a) data in respect of relevant incomplete workouts; and
 - (b) the possibility that the proportion of *defaulted exposures* which are cured (as referred to in ■ BIPRU 4.3.71 R) or restructured (as referred to in ■ BIPRU 4.3.63 R (5)) or the length of the period over which a *firm* makes recoveries under a *defaulted exposure* may be different from the *firm's* observed historic experience.
- (2) An incomplete workout as referred to in (1)(a) means a *defaulted exposure* included in the data set on which the *firm's LGD* estimates are based, but for which the recovery process is still in progress, with the result that the final realised *losses* in respect of that *exposure* are not yet certain.

4.3.102

FCA

G

The changes referred to in ■ BIPRU 4.3.101 R (1)(b) may be caused by external factors, such as the economic environment, as well as factors specific to the obligor, the transaction or the policies of the *firm*.

4.3.103

FCA

R

A *firm* must use *LGD* estimates that are appropriate for an economic downturn if those are more conservative than the long-run average. To the extent a *rating system* is expected to deliver constant realised *LGDs* by grade or pool over time, a *firm* must make adjustments to its estimates of risk parameters by grade or pool to limit the capital impact of an economic downturn.

[Note: BCD Annex VII Part 4 point 74]

4.3.104

FCA

R

- (1) A *firm* must have a rigorous and well documented process for:
 - (a) assessing the effects, if any, of economic downturn conditions on recovery rates; and
 - (b) producing *LGD* estimates consistent with downturn conditions as referred to in ■ BIPRU 4.3.103 R.
- (2) That process must include the following, which may be included in an integrated manner:
 - (a) identification of appropriate downturn conditions for each *IRB exposure class* within each jurisdiction;
 - (b) identification of adverse dependencies, if any, between *default* rates and recovery rates; and

- (c) **incorporation of adverse dependencies, if identified, between *default* rates and recovery rates in the *firm's* estimates of *LGD* in a manner that meets the requirements in ■ BIPRU 4.3.103 R relating to an economic downturn.**

4.3.105

FCA

G

A *firm* may derive the *LGD* in accordance with ■ BIPRU 4.3.104 R (2)(c) either by directly assigning to the *facility grade* or pool an estimate of *LGD* appropriate for downturn conditions, or alternatively by estimating a *default* weighted average *LGD* in accordance with ■ BIPRU 4.3.99 R and ■ BIPRU 4.3.76 R and converting it into an *LGD* appropriate for downturn conditions by the use of a formula. It should be able to demonstrate that that formula produces well-founded estimates of *LGDs* consistent with downturn conditions for the *exposures* in question.

4.3.106

FCA

G

A *firm* may combine *IRB exposure classes*, jurisdictions or both for the purpose of ■ BIPRU 4.3.104 R (2)(a) if it can demonstrate that the downturn conditions to which the portfolios are subject will be similar.

4.3.107

FCA

G

The adverse dependencies referred to in ■ BIPRU 4.3.104 R (2)(b) will not always exist. However, if a *firm* uses *LGDs* that do not allow for such adverse dependencies, it should be able to justify its decision.

4.3.108

FCA

G

Data relating to economic downturn conditions is likely to be scarce. Accordingly, a *firm* should use internal data, external data or a combination of data sources in order to produce appropriate downturn *LGD* estimates in accordance with ■ BIPRU 4.3.103 R.

4.3.109

FCA

R

A *firm* must retain sufficient data on both *LGDs* calculated on a economic downturn basis and calculated on a long-run average basis (as referred to in ■ BIPRU 4.3.103 R) to be able to demonstrate to the *appropriate regulator* (if asked) that its estimates based on an economic downturn are no less conservative than the long-run average as referred to in that *rule*.

4.3.110

FCA

G

Where a *firm* is able to demonstrate that the effect is immaterial in accordance with ■ BIPRU 4.1.25 R (Compliance), it may exclude *defaulted exposures* that have been cured (as referred to in ■ BIPRU 4.3.67 G (1)) or restructured (as referred to in ■ BIPRU 4.3.63 R (5)) from the data about *default* and *loss* experience on which *LGDs* are calculated provided it can demonstrate that its calculation of capital requirements (including capital requirements resulting from the application of capital floors under the transitional *rules* and *guidance* in *BIPRU*) are not reduced as a result of this approximation.

4.3.111

FCA

R

Irrespective of whether calculated on an economic downturn or long-run average basis, each *LGD* estimate must be at least zero.

4.3.112

FCA

G

In order to support an *LGD* estimate which is very low or zero, a *firm* should be able to demonstrate that the estimate adequately reflects the expected experience on a *default* weighted average basis or in a downturn as appropriate, taking into account the costs and discount rate associated with realisations and the operation of ■ BIPRU 4.3.118 R.

4.3.113 **R** The methods that a *firm* uses for discounting cash flows for the purposes of estimating *LGDs* must take account of the uncertainties associated with the receipt of recoveries with respect to a *defaulted exposure*. If a *firm* intends to use a discount rate that does not take full account of the uncertainty in recoveries, it must be able to explain by what other process it has taken into account that uncertainty for the purposes of calculating *LGDs*.

FCA

4.3.114 **G** The uncertainty referred to in ■ BIPRU 4.3.113 R can be addressed by adjusting cash flows to certainty-equivalents or by using a discount rate that embodies an appropriate risk premium; or by a combination of the two.

FCA

4.3.115 **G** A *firm* may exclude from its calculation of *loss* indirect costs that it incurs for the purpose of making recoveries with respect to a *defaulted exposure* if it would also have incurred those costs if there had not been a *default*.

FCA

4.3.116 **R** A *firm* must consider the extent of any dependence between the risk of the obligor with that of the collateral or collateral provider. Cases where there is a significant degree of dependence must be addressed in a conservative manner.

FCA

[Note: BCD Annex VII Part 4 point 75]

4.3.117 **R** Currency mismatches between the underlying obligation and the collateral must be treated conservatively in the *firm's* assessment of *LGD*.

FCA

[Note: BCD Annex VII Part 4 point 76]

4.3.118 **R** To the extent that *LGD* estimates take into account the existence of collateral, these estimates must not solely be based on the collateral's estimated market value. *LGD* estimates must take into account the effect of the potential inability of the *firm* expeditiously to gain control of its collateral and liquidate it.

FCA

[Note: BCD Annex VII Part 4 point 77]

- 4.3.119** **G**
- (1) A *firm* may comply with ■ BIPRU 4.3.118 R by reducing the amount of the collateral taken into account for the purposes of calculating *LGD* (applying a haircut to the collateral), basing that reduction on validated realisation experience and using conservatism to reflect the uncertainties.
 - (2) If collateral is used to reduce the *LGD*, a *firm* should be able to demonstrate how the risk in ■ BIPRU 4.3.118 R has been accounted for. To the extent that it is adequately accounted for in that way it need not be reflected again as part of the residual risk in relation to collateral under the *overall Pillar 2 rule*.

FCA

4.3.120

FCA

R

To the extent that *LGD* estimates take into account the existence of collateral, a *firm* must establish internal requirements for collateral management, legal certainty and risk management that are generally consistent with those set out in ■ BIPRU 5 (Credit risk mitigation) as modified by ■ BIPRU 4.10.

[Note: *BCD* Annex VII Part 4 point 78]

4.3.121

FCA

R

To the extent that a *firm* recognises collateral for determining the exposure value for *counterparty credit risk* according to the *CCR standardised method* or the *CCR internal model method*, any amount expected to be recovered from the collateral must not be taken into account in the *LGD* estimates.

[Note: *BCD* Annex VII Part 4 point 79]

4.3.122

FCA

R

For the specific case of *exposures* already in *default*, a *firm* must use the sum of its best estimate of *expected loss* for each *exposure* given current economic circumstances and *exposure* status and the possibility of additional unexpected *losses* during the recovery period.

[Note: *BCD* Annex VII Part 4 point 80]

4.3.123

FCA

R

To the extent that unpaid late fees have been capitalised in a *firm's* income statement, they must be added to the *firm's* measure of *exposure* and *loss*.

[Note: *BCD* Annex VII Part 4 point 81]

Risk quantification: Overall requirements for estimation: Requirements specific to own-conversion factor estimates

4.3.124

FCA

R

■ BIPRU 4.3.125 R - ■ BIPRU 4.3.131 R set out requirements specific to *own-conversion factor* estimates.

4.3.125

FCA

R

A *firm* must estimate *conversion factors* by *facility grade* or pool on the basis of the average expected *conversion factors* by *facility grade* or pool using all observed *defaults* within the data sources (*default weighted average*).

[Note: *BCD* Annex VII Part 4 point 87]

4.3.126

FCA

G

- (1) A *firm* using own estimates of *conversion factors* should take into account all facility types that may result in an *exposure* when an obligor *defaults*, including uncommitted facilities.
- (2) A *firm* should treat a facility as an *exposure* from the earliest date at which a customer is able to make drawings under it.
- (3) To the extent that a *firm* makes available multiple facilities, it should be able to demonstrate:

- (a) how it deals with the fact that *exposures* on one may become *exposures* under another on which the *losses* are ultimately incurred; and
- (b) the impact of its approach on its capital requirements.

4.3.127

FCA

R

A *firm* must use *conversion factor* estimates that are appropriate for an economic downturn if those are more conservative than the long-run average. To the extent a *rating system* is expected to deliver realised *conversion factors* at a constant level by grade or pool over time, a *firm* must make adjustments to its estimates of risk parameters by grade or pool to limit the capital impact of an economic downturn.

[Note: BCD Annex VII Part 4 point 88]

4.3.128

FCA

R

A *firm's* estimates of *conversion factors* must reflect the possibility of additional drawings by the obligor up to and after the time a *default* event is triggered. The *conversion factor* estimate must incorporate a larger margin of conservatism where a stronger positive correlation can reasonably be expected between the *default* frequency and the magnitude of *conversion factor*.

[Note: BCD Annex VII Part 4 point 89]

4.3.129

FCA

R

In arriving at estimates of *conversion factors* a *firm* must consider its specific policies and strategies adopted in respect of account monitoring and payment processing. A *firm* must also consider its ability and willingness to prevent further drawings in circumstances short of payment *default*, such as covenant violations or other technical *default* events.

[Note: BCD Annex VII Part 4 point 90]

4.3.130

FCA

R

A *firm* must have adequate systems and procedures in place to monitor facility amounts, current outstandings against committed lines and changes in outstandings per obligor and per grade. A *firm* must be able to monitor outstanding balances on a daily basis.

[Note: BCD Annex VII Part 4 point 91]

4.3.131

FCA

R

If a *firm* uses different estimates of *conversion factors* for the calculation of *risk weighted exposure amounts* and internal purposes it must be documented. The *firm* must be able to demonstrate their reasonableness to the *appropriate regulator*.

[Note: BCD Annex VII Part 4 point 92]

Risk quantification: Overall requirements for estimation: Comparability

4.3.132

FCA

G

- (1) This paragraph contains *guidance* about the interpretation of the requirements relating to comparability in ■ BIPRU 4.3.85 R. It is also relevant to the requirement for representative data in ■ BIPRU 4.3.51 R (5), to the references

to comparability in the additional *guidance* in ■ BIPRU 4.3.53 G (7)(b) and to the requirements for similarity in ■ BIPRU 4.3.92 R.

- (2) In general, comparability should be based on analyses of the population of *exposures* represented in the data, the lending standards used when the data was generated (where relevant) and other relevant characteristics in relation to the corresponding properties of the *firm's* own portfolio. Other relevant characteristics could include the distribution of the obligors across industries, the size distribution of the *exposures* and similarity with respect to the geographic or demographic distribution of the *exposures*.

4.4 The IRB approach: Exposures to corporates, institutions and sovereigns

Application

4.4.1
FCA

R

- (1) This section applies with respect to the *sovereign, institution and corporate IRB exposure class*.
- (2) The *sovereign, institution and corporate IRB exposure class* includes *specialised lending exposures*.
- (3) Both ■ BIPRU 4.4 and ■ BIPRU 4.5 (Specialised lending exposures) apply to *specialised lending exposures*. A firm may calculate *risk weighted exposure amounts* for a *specialised lending exposure* either:
 - (a) (if it is able to do so) in accordance with ■ BIPRU 4.4; or
 - (b) in accordance with ■ BIPRU 4.4 as modified by ■ BIPRU 4.5.

Definition

4.4.2
FCA

R

The following *exposures* must be treated as *exposures* to central governments and *central banks*:

- (1) *exposures* to regional governments, local authorities or *public sector entities* which are treated as *exposures* to central governments under the *standardised approach*; and
- (2) *exposures* to *multilateral development banks* and international organisations which attract a *risk weight* of 0% under the *standardised approach*.

[Note: BCD Article 86(2)]

4.4.3
FCA

R

The following *exposures* must be treated as *exposures* to *institutions*:

- (1) *exposures* to regional governments and local authorities which are not treated as *exposures* to central governments under the *standardised approach*;

- (2) *exposures to public sector entities* which are treated as *exposures to institutions* under the *standardised approach*;
- (3) *exposures to multilateral development banks* which do not attract a 0% *risk weight* under the *standardised approach*; and
- (4) without prejudice to ■ BIPRU 13.3.13 R and ■ BIPRU 13.8.7 R (Exposures to a central counterparty) *exposures to recognised third country investment firms* and *exposures to recognised clearing houses* and *designated investment exchanges*.

[Note: BCD Article 86(3) and CAD Article 40]

4.4.4

FCA

R

Any credit obligation not assigned to the *IRB exposure classes* referred to in ■ BIPRU 4.3.2 R (1) (Sovereigns), ■ BIPRU 4.3.2 R (2) (Institutions) and ■ BIPRU 4.3.2 R (4) - ■ BIPRU 4.3.2 R (6) (Retail, equity and securitisations) must be assigned to the *corporate exposure class*.

[Note: BCD Article 86(7)]

Rating system: Structure of rating system

4.4.5

FCA

R

■ BIPRU 4.4.6 R - ■ BIPRU 4.4.21 R apply in addition to ■ BIPRU 4.3.25 R - ■ BIPRU 4.3.28 R (Rating systems).

4.4.6

FCA

R

A *rating system* must take into account obligor and transaction risk characteristics.

[Note: BCD Annex VII Part 4 point 5]

4.4.7

FCA

R

A *rating system* must have an obligor rating scale which reflects exclusively quantification of the risk of obligor *default*. The obligor rating scale must have a minimum of seven grades for non-*defaulted* obligors and one for *defaulted* obligors.

[Note: BCD Annex VII Part 4 point 6]

4.4.8

FCA

R

An *obligor grade* means for the purpose of ■ BIPRU 4 as it applies to the *sovereign, institution and corporate IRB exposure class* a risk category within a *rating system's* obligor rating scale, to which obligors are assigned on the basis of a specified and distinct set of rating criteria, from which estimates of *PD* are derived. A *firm* must document both the relationship between *obligor grades* in terms of the level of *default risk* each grade implies and the criteria used to distinguish that level of *default risk*.

[Note: BCD Annex VII Part 4 point 7]

4.4.9

FCA

R

A *firm* with portfolios concentrated in a particular market segment and range of *default risk* must have enough *obligor grades* within that range to avoid undue concentrations of obligors in a particular grade. Significant

concentrations within a single grade must be supported by convincing empirical evidence that the *obligor grade* covers a reasonably narrow *PD* band and that the *default* risk posed by all obligors in the grade falls within that band.

[Note: *BCD* Annex VII Part 4 point 8]

Rating system: Assignment to grades or pools

4.4.10

FCA

G

Material on assignment to grades or pools can be found in ■ BIPRU 4.3.43 R -

■ BIPRU 4.3.48 R.

Rating system: Assignment of exposures

4.4.11

FCA

R

Each obligor must be assigned to an *obligor grade* as part of the credit approval process.

[Note: *BCD* Annex VII Part 4 point 19]

4.4.12

FCA

R

Each separate legal entity to which a *firm* is exposed must be separately rated. A *firm* must be able to demonstrate to the *appropriate regulator* that it has acceptable policies regarding the treatment of individual obligor clients and *groups of connected clients*.

[Note: *BCD* Annex VII Part 4 point 22]

4.4.13

FCA

R

Separate *exposures* to the same obligor must be assigned to the same *obligor grade*, irrespective of any differences in the nature of each specific transaction. Exceptions, where separate *exposures* are allowed to result in multiple grades for the same obligor are:

- (1) country transfer risk, this being dependent on whether the *exposures* are denominated in local or foreign currency;
- (2) where the treatment of associated guarantees to an *exposure* may be reflected in an adjusted assignment to an *obligor grade*; and
- (3) where consumer protection, bank secrecy or other legislation prohibit the exchange of client data.

[Note: *BCD* Annex VII Part 4 point 23]

Rating system: Overrides

4.4.14

FCA

G

Material on overrides can be found in ■ BIPRU 4.3.50 R.

Rating system: Integrity of assignment process

4.4.15

FCA

R

Assignments and periodic reviews of assignments must be completed or approved by an independent party that does not directly benefit from decisions to extend the credit.

[Note: BCD Annex VII Part 4 point 26]

4.4.16

FCA

R

A *firm* must update assignments at least annually. High risk obligors and problem *exposures* must be subject to more frequent review. A *firm* must undertake a new assignment if material information on the obligor or *exposure* becomes available.

[Note: BCD Annex VII Part 4 point 27]

4.4.17

FCA

G

Although it will not usually be the case that facility ratings and *conversion factors* will have to be updated more frequently than annually, *LGDs* and *exposure* values are subject to more frequent recalculation due to their connection to drawn balances, which can vary on a daily basis.

4.4.18

FCA

R

A *firm* must have an effective process to obtain and update relevant information on obligor characteristics that affect *PDs*, and on transaction characteristics that affect *LGDs* and *conversion factors*.

[Note: BCD Annex VII Part 4 point 28]

Rating system: Use of models

4.4.19

FCA

G

Material on the use of models can be found in ■ BIPRU 4.3.51 R - ■ BIPRU 4.3.53 G.

Rating system: Documentation of rating systems

4.4.20

FCA

G

Material on the documentation of rating systems can be found in ■ BIPRU 4.3.19 R - ■ BIPRU 4.3.24 R.

Rating system: Data maintenance

4.4.21

FCA

R

In addition to complying with the material in ■ BIPRU 4.3.54 R (Data maintenance) a *firm* must collect and store:

- (1) complete rating histories on obligors and recognised guarantors;
- (2) the dates the ratings were assigned;
- (3) the key data and methodology used to derive the rating;
- (4) the person responsible for the rating assignment;
- (5) the identity of obligors and *exposures* that *defaulted*;
- (6) the date and circumstances of such *defaults*;

- (7) data on the *PDs* and realised *default* rates associated with rating grades and ratings migration; and
- (8) (in the case of a *firm* not using the *advanced IRB approach* in the calculation of *LGDs* and/or *conversion factors*) data on comparisons of realised *LGDs* to the values as set out in ■ BIPRU 4.4.34 R and ■ BIPRU 4.8.25 R and realised *conversion factors* to the values as set out in ■ BIPRU 4.4.37 R, ■ BIPRU 4.4.45 R and ■ BIPRU 4.6.44 R.

[Note: BCD Annex VII Part 4 point 37]

Risk quantification: Definition of default

4.4.22
FCA

R

- (1) This *rule*, in accordance with ■ BIPRU 4.3.57 R (4) (Definition of default), sets the exact number of days past due that a *firm* should abide by in the case of *exposures* to *PSEs*.
- (2) For counterparts that are *PSEs* situated within the *United Kingdom* the number of days past due is 180.
- (3) For counterparts that are *PSEs* situated in another *EEA State* the number of days past due is the lower of:
 - (a) 180; and
 - (b) the number of days past due fixed under the *CRD implementation measure* with respect to point 48 of Part 4 of Annex VII of the *Banking Consolidation Directive* for that *EEA State* for such *exposures*.
- (4) For counterparts that are *PSEs* in a state outside the *EEA* the number of days past due is the lower of:
 - (a) 180; and
 - (b) (if a number of days past due for such *exposures* has been fixed under any law of that state applicable to *undertakings* in the *banking sector* or the *investment services sector* that implements the *IRB approach*) that number.

[Note: BCD Annex VII Part 4 point 44 (part) and point 48 (part)]

Risk quantification: Overall requirements for estimation: Requirements specific to PD estimation

4.4.23
FCA

R

■ BIPRU 4.4.24 R - ■ BIPRU 4.4.31 R apply to both the *foundation IRB approach* and the *advanced IRB approach*.

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54

4.4.24 **R** A *firm* must estimate *PDs* by *obligor grade* from long run averages of one-year *default* rates.

FCA

[Note: BCD Annex VII Part 4 point 59]

4.4.25 **R** A *firm* must use *PD* estimation techniques only with supporting analysis. A *firm* must recognise the importance of judgmental considerations in combining results of techniques and in making adjustments for limitations of techniques and information.

FCA

[Note: BCD Annex VII Part 4 point 62]

4.4.26 **G** Where rating agency experience or the output of a statistical default model are the primary component of *PD* estimation, a *firm* should consider whether it needs to make adjustments for other relevant information, such as internal experience, conservatism and cyclical effects. In making these adjustments, a *firm* should consider the extent to which it needs to take account of the potential for both under-recording of actual *defaults* experienced and divergence of actual experience from the true underlying average *PD*.

FCA

4.4.27 **R** To the extent that a *firm* uses data on internal *default* experience for the estimation of *PDs* it must be able to demonstrate in its analysis that the estimates are reflective of underwriting standards and of any differences in the *rating system* that generated the data and the current *rating system*. Where underwriting standards or *rating systems* have changed, a *firm* must add a greater margin of conservatism in its estimate of *PD*.

FCA

[Note: BCD Annex VII Part 4 point 63]

4.4.28 **R** To the extent that a *firm* associates or maps its internal grades to the scale used by an *ECAI* or similar organisations and then attributes the *default* rate observed for the external organisation's grades to the *firm's* grades, mappings must be based on a comparison of internal rating criteria to the criteria used by the external organisation and on a comparison of the internal and external ratings of any common obligors. Biases or inconsistencies in the mapping approach or underlying data must be avoided. The external organisation's criteria underlying the data used for quantification must be oriented to *default* risk only and not reflect transaction characteristics. The *firm's* analysis must include a comparison of the *default* definitions used, subject to the requirements in ■ BIPRU 4.3.56 R to ■ BIPRU 4.3.71 R and ■ BIPRU 4.4.22 R (Definition of default). The *firm* must document the basis for the mapping.

FCA

[Note: BCD Annex VII Part 4 point 64]

4.4.29 **G** It is unlikely that a *firm* will be able to convince the *appropriate regulator* that it had considered all relevant and available information, as required by ■ BIPRU 4.3.74 R, if it used only data from one *ECAI* or similar organisation, where other relevant information is available.

FCA

4.4.30

FCA

R To the extent that a *firm* uses statistical *default* prediction models it may estimate *PDs* as the simple average of *default*-probability estimates for individual obligors in a given grade. The firm's use of *default* probability models for this purpose must meet the standards specified in ■ BIPRU 4.3.51 R.

[Note: BCD Annex VII Part 4 point 65]

4.4.31

FCA

R Irrespective of whether a *firm* is using external, internal, or pooled data sources, or a combination of the three, for its *PD* estimation, the length of the underlying historical observation period used must be at least five years for at least one source. If the available observation period spans a longer period for any source, and this data is relevant, this longer period must be used. A *firm* not permitted to use own estimates of *LGDs* or *conversion factors* may have, when it implements the *IRB approach*, relevant data covering a period of two years. The period to be covered must increase by one year each year until relevant data cover a period of five years.

[Note: BCD Annex VII Part 4 point 66 (part)]

IRB foundation approach: General

4.4.32

FCA

R ■ BIPRU 4.4.33 R - ■ BIPRU 4.4.39 R set out requirements specific to the *foundation IRB approach*.

4.4.33

FCA

R Under the *foundation IRB approach* a *firm* must apply the *LGD* values set out in ■ BIPRU 4.4.34 R and ■ BIPRU 4.8.25 R and the *conversion factors* set out in ■ BIPRU 4.4.37 R.

[Note: BCD Article 87(8)]

IRB foundation approach: LGDs

4.4.34

FCA

R A *firm* must use the following *LGD* values:

- (1) senior *exposures* without eligible collateral, 45%;
- (2) subordinated *exposures* without eligible collateral, 75%;
- (3) a *firm* may recognise funded and *unfunded credit protection* in the *LGD* in accordance with ■ BIPRU 5 (Credit risk mitigation), as modified by ■ BIPRU 4.10;
- (4) *covered bonds* may be assigned an *LGD* value of 11.25 %; and
- (5) for certain senior *corporate exposure* purchased receivables, for certain subordinated *corporate exposure* purchased receivables and for *dilution risk* of *corporate* purchased receivables the

provisions of ■ BIPRU 4.8.25 R (LGDs for corporate receivables) apply.

[Note: BCD Annex VII Part 2 point 8 (part)]

4.4.35

R

[deleted]

(1) [deleted]

(2) [deleted]

(3) [deleted]

(4) [deleted]

Foundation IRB approach: Exposure value and conversion factors

4.4.36

R

FCA

■ BIPRU 4.4.37 R - ■ BIPRU 4.4.39 R apply in addition to ■ BIPRU 4.4.71 R - ■ BIPRU 4.4.78 R.

4.4.37

R

FCA

- (1) The *exposure* value for the items set out in this *rule* must be calculated as the committed but undrawn amount multiplied by the applicable *conversion factor* set out in this *rule*.
- (2) For credit lines which are uncommitted, that are unconditionally cancellable at any time by the *firm* without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's credit worthiness, a *conversion factor* of 0 % applies. To apply a *conversion factor* of 0% a *firm* must actively monitor the financial condition of the obligor, and its internal control systems must enable it immediately to detect a deterioration in the credit quality of the obligor.
- (3) For short-term letters of credit arising from the movement of goods, a *conversion factor* of 20% applies for both the issuing and confirming *firms*.
- (4) For other credit lines, note issuance facilities (NIFs), and revolving underwriting facilities (RUFs), a *conversion factor* of 75% applies.
- (5) For undrawn purchase commitments for revolving purchased receivables falling under ■ BIPRU 4.8.29 R, the *conversion factor* set out in that *rule* applies.

[Note: BCD Annex VII Part 3 point 9 (part)]

4.4.38

FCA

R Where a commitment refers to the extension of another commitment, the lower of the two *conversion factors* associated with the individual commitment must be used.

[Note: BCD Annex VII Part 3 point 10]

4.4.39

FCA

R For all off-balance sheet items other than mentioned in ■ BIPRU 4.4.37 R, ■ BIPRU 4.4.45 R, ■ BIPRU 4.4.71 R - ■ BIPRU 4.4.78 R, ■ BIPRU 4.6.44 R, ■ BIPRU 4.8.28 R and ■ BIPRU 4.8.29 R, the *exposure* value must be the following percentage of its value:

- (1) 100% if it is a full risk item;
- (2) 50% if it is a medium risk item;
- (3) 20% if it is a medium/low risk item; and
- (4) 0% if it is a low risk item.

For the purposes of this *rule* the off-balance sheet items must be assigned to risk categories as indicated in ■ BIPRU 3.7 (Classification of off-balance sheet items).

[Note: BCD Annex VII Part 3 point 11]

Advanced IRB approach: General

4.4.40

FCA

R ■ BIPRU 4.4.41 R - ■ BIPRU 4.4.55 R set out requirements specific to the *advanced IRB approach*.

4.4.41

FCA

R Under the *advanced IRB approach* a *firm* must use its own estimates of *LGDs* and *conversion factors* in accordance with ■ BIPRU 4.

[Note: BCD Article 87(9)]

Advanced IRB approach: LGDs and PDs

4.4.42

FCA

R A *firm* using own *LGD* estimates under the *advanced IRB approach* may recognise *unfunded credit protection* by adjusting *PDs* subject to ■ BIPRU 4.4.43 R.

[Note: BCD Annex VII Part 2 point 6]

4.4.43

FCA

R Notwithstanding ■ BIPRU 4.4.34 R and ■ BIPRU 4.8.25 R, if a *firm's IRB permission* permits it to use own *LGD* estimates under the *advanced IRB approach* for *exposures* to which ■ BIPRU 4 applies and permits it to use the approach in this *rule*, *unfunded credit protection* may be recognised by adjusting *PD* and/or *LGD* estimates subject to the *minimum IRB standards*. A *firm* must not assign guaranteed exposures an adjusted *PD* or *LGD* such that the adjusted *risk weight* would be lower than that of a comparable, direct *exposure* to the guarantor.

[Note: BCD Annex VII Part 2 point 10]

4.4.44

FCA

G

A firm using the *advanced IRB approach* may only recognise *unfunded credit protection* in accordance with ■ BIPRU 4.4.43 R. The other methods for recognising *unfunded credit risk mitigation* under the *standardised approach* and *foundation IRB approach* are not available to a firm on the *advanced IRB approach*.

Advanced IRB approach: Conversion factors

4.4.45

FCA

R

If a firm uses its own estimates of *conversion factors* under the *advanced IRB approach* it must calculate the *exposure* value of off-balance sheet *exposures* calculated with the use of *conversion factors* by using its own estimates of *conversion factors* across different product types as mentioned in ■ BIPRU 4.4.37 R and ■ BIPRU 4.4.39 R (2) to ■ BIPRU 4.4.39 R (4).

[Note: BCD Annex VII Part 3 point 9 (part)]

4.4.46

FCA

G

Under ■ BIPRU 4.4.45 R, a firm may calculate *exposure* values by calculating the amount expected to be claimed, instead of the maximum possible amount of the potential claim. The figure for the amount expected to be claimed should not be less than the current outstandings from time to time.

Advanced IRB approach: Structure of the rating system

4.4.47

FCA

R

■ BIPRU 4.4.48 R - ■ BIPRU 4.4.50 R are in addition to ■ BIPRU 4.3.25 R - ■ BIPRU 4.3.28 R and ■ BIPRU 4.4.6 R - ■ BIPRU 4.4.9 R.

4.4.48

FCA

R

If a firm's *IRB permission* provides for it to use the *advanced IRB approach* for the calculation of *LGDs*, its *rating system* must incorporate a distinct facility rating scale which exclusively reflects *LGD* related transaction characteristics.

[Note: BCD Annex VII Part 4 point 9]

4.4.49

FCA

R

A *facility grade* means for the purpose of the *advanced IRB approach* a risk category within a *rating system's* facility scale to which *exposures* are assigned on the basis of a specified and distinct set of rating criteria from which own estimates of *LGDs* are derived. The grade definition must include both a description of how *exposures* are assigned to the grade and of the criteria used to distinguish the level of risk across grades.

[Note: BCD Annex VII Part 4 point 10]

4.4.50

FCA

R

Significant concentrations within a single *facility grade* must be supported by convincing empirical evidence that the *facility grade* covers a reasonably narrow *LGD* band, respectively, and that the risk posed by all *exposures* in the grade falls within that band.

[Note: BCD Annex VII Part 4 point 11]

Advanced IRB approach: Assignment of exposures

4.4.51

FCA

R

For a *firm* permitted to use own estimates of *LGDs* or *conversion factors* under the *advanced IRB approach*, each *exposure* must be assigned to a *facility grade* as part of the credit approval process. This is in addition to the requirements in ■ BIPRU 4.4.11 R - ■ BIPRU 4.4.13 R.

[Note: BCD Annex VII Part 4 point 20]

4.4.52

FCA

G

■ BIPRU 4.4.50 R and ■ BIPRU 4.4.51 R should be read in the light of ■ BIPRU 4.3.28 R.

Advanced IRB approach: Data maintenance

4.4.53

FCA

R

As well as complying with ■ BIPRU 4.3.54 R and ■ BIPRU 4.4.21 R (Data maintenance), a *firm* using own estimates of *LGDs* and/or *conversion factors* under the *advanced IRB approach* must collect and store:

- (1) complete histories of data on the facility ratings and *LGD* and *conversion factor* estimates associated with each rating scale;
- (2) the dates the ratings were assigned and the estimates were done;
- (3) the key data and methodology used to derive the facility ratings and *LGD* and *conversion factor* estimates;
- (4) the person who assigned the facility rating and the person who provided *LGD* and *conversion factor* estimates;
- (5) data on the estimated and realised *LGDs* and *conversion factors* associated with each *defaulted exposure*;
- (6) data on the *LGD* of the *exposure* before and after evaluation of the effects of a guarantee or credit derivative, for a *firm* that reflects the credit risk mitigating effects of guarantees or credit derivatives through *LGD*; and
- (7) data on the components of *loss* for each *defaulted exposure*.

[Note: BCD Annex VII Part 4 Point 38]

Advanced IRB approach: Requirements specific to own-LGD estimates

4.4.54

FCA

R

In addition to the requirements in ■ BIPRU 4.3.74 R - ■ BIPRU 4.3.94 R (General requirements about risk quantification) and ■ BIPRU 4.3.98 R - ■ BIPRU 4.3.123 R (Requirements for risk quantification specific to own-LGD estimates), estimates of *LGD* must be based on data over a minimum of five years, increasing by one year each year after implementation until a minimum of seven years is reached, for at least one data source. If the available observation period spans a longer period for any source, and the data is relevant, this longer period must be used.

[Note: BCD Annex VII Part 4 point 82]

Advanced IRB approach: Requirements specific to own-conversion factor estimates

4.4.55

FCA

R

In addition to the requirements in ■ BIPRU 4.3.124 R - ■ BIPRU 4.3.131 R (Requirements specific to own-conversion factor estimates), estimates of *conversion factors* must be based on data over a minimum of five years, increasing by one year each year after implementation until a minimum of seven years is reached, for at least one data source. If the available observation period spans a longer period for any source, and the data is relevant, this longer period must be used.

[Note: BCD Annex VII Part 4 point 93]

Calculations: General

4.4.56

FCA

R

The remainder of this section applies to both the *foundation IRB approach* and the *advanced IRB approach*.

Calculations: Risk-weighted exposure amounts

4.4.57

FCA

R

Subject to ■ BIPRU 4.4.59 R to ■ BIPRU 4.4.60 R, ■ BIPRU 4.5.6 R, ■ BIPRU 4.5.8 R - ■ BIPRU 4.5.10 R (Risk weights for specialised lending), ■ BIPRU 4.8.16 R, ■ BIPRU 4.8.17 R (Risk weights for corporate exposure purchased receivables) and ■ BIPRU 4.9.3 R (Securitisation: provision of credit protection), *risk weighted exposure amounts* must be calculated according to the formulae in the table in ■ BIPRU 4.4.58 R and the adjustment formula in ■ BIPRU 4.4.79 R (Double default).

[Note: BCD Annex VII Part 1 point 3]

4.4.58

FCA

R

Table: Formulae for the calculation of *risk weighted exposure amounts*

This table belongs to ■ BIPRU 4.4.57 R

Correlation (R)	$0.12 \times (1 - \text{EXP}(-50 \cdot PD)) / (1 - \text{EXP}(-50)) + 0.24 \cdot [1 - (1 - \text{EXP}(-50 \cdot PD)) / (1 - \text{EXP}(-50))]$
Maturity factor (b)	$(0.11852 - 0.05478 \cdot \ln(PD))^2$ $(LGD \cdot N[(1-R)^{-0.5} \cdot G(PD) + (R/(1-R))^{0.5} \cdot G(0.999)] - PD \cdot LGD) \cdot (1 - 1.5 \cdot b)^{-1} \cdot (1 + (M - 2.5) \cdot b) \cdot 12.5 \cdot 1.06$
N(x)	denotes the cumulative distribution function for a standard normal random variable (i.e. the probability that a normal random variable with mean zero and variance of one is less than or equal to x). G(z) denotes the inverse cumulative distribution function for a standard normal random variable (i.e. the value x such that N(x) = z).
PD = 0	For PD = 0, RW shall be: 0

PD = 1 For **PD = 1**:

(i) for *defaulted exposures* where a *firm* applies the *LGD* values set out in BIPRU 4.4.32R and BIPRU 4.8.25R RW shall be: 0;

(ii) for *defaulted exposures* where a *firm* uses its own estimates of *LGDs*, RW shall be: $\text{Max}\{0, 12.5 * (\text{LGD} - \text{EL}_{\text{BE}})\}$;

where EL_{BE} must be the *firm's* best estimate of *expected loss* for the *defaulted exposure* according to BIPRU 4.3.122 R.

[Note: BCD Annex VII Part 1 point 3]

4.4.59

FCA

R

For *exposures* to companies where the total annual sales for the consolidated group of which the firm is a part is less than EUR 50 million a *firm* may use the following correlation formula for the calculation of *risk weights* for *corporate exposures*. In this formula S is expressed as total annual sales in millions of Euros with $\text{EUR } 5 \text{ million} \leq S \leq \text{EUR } 50 \text{ million}$. Reported sales of less than EUR 5 million must be treated as if they were equivalent to EUR 5 million. In accordance with ■ BIPRU 4.8.21 R, for purchased receivables the total annual sales are the weighted average by individual *exposures* of the pool. The formula for the calculation of correlation (R) is:

$$0.12 \times (1 - \text{EXP}(-50 * \text{PD})) / (1 - \text{EXP}(-50)) + 0.24 * [1 - (1 - \text{EXP}(-50 * \text{PD})) / (1 - \text{EXP}(-50))] - 0.04 * (1 - (S - 5) / 45)$$

$$[1 - (1 - \text{EXP}(-50 * \text{PD})) / (1 - \text{EXP}(-50))]$$

$$-0.04 * (1 - (S - 5) / 45)$$

[Note: BCD Annex VII Part 1 point 5 (part)]

4.4.60

FCA

R

A *firm* must for the purpose of ■ BIPRU 4.4.59 R substitute total assets of the consolidated group for total annual sales when total annual sales are not a meaningful indicator of firm size and total assets are a more meaningful indicator than total annual sales.

[Note: BCD Annex VII Part 1 point 5 (part)]

Calculations: Expected loss amounts

4.4.61

FCA

R

Expected loss amounts must be calculated according to the formulae in the table in ■ BIPRU 4.4.62 R.

[Note: BCD Annex VII Part 1 point 30 (part)]

4.4.62

FCA

R Table: Formulae for the calculation of *expected loss* amounts

This table belongs to ■ BIPRU 4.4.61 R

<i>Expected loss (EL)</i>	equals $PD \times LGD$
<i>Expected loss amount</i>	equals $EL \times \text{exposure value}$

For *defaulted exposures* ($PD = 1$) where a *firm* uses its own estimates of *LGDs*, *EL* must be EL_{BE} , the *firm's* best estimate of *expected loss* for the *defaulted exposure* according to BIPRU 4.3.122 R.

For exposures subject to the treatment set out in BIPRU 4.4.79 R (Double default) *EL* must be 0.

[Note: BCD Annex VII Part 1 point 30 (part)]

Calculations: PD

4.4.63

FCA

R A *firm* must provide its own estimates of *PDs* in accordance with its *IRB permission* and the *minimum IRB standards*.

[Note: BCD Article 87(6) (part)]

4.4.64

FCA

R The *PD* of a *corporate exposure* or an *exposure* in the *IRB exposure class* referred to in ■ BIPRU 4.3.2 R (2) (Institutions) must be at least 0.03%.

[Note: BCD Annex VII Part 2 point 2]

4.4.65

FCA

R The *PD* of obligors in *default* must be 100%.

[Note: BCD Annex VII Part 2 point 4]

4.4.66

FCA

R Subject to ■ BIPRU 4.4.42 R (*Advanced IRB approach: LGDs and PDs*) a *firm* may recognise *unfunded credit protection* in the *PD* in accordance with the provisions of ■ BIPRU 5 (Credit risk mitigation), as modified by ■ BIPRU 4.10. For *dilution risk*, however, a *firm* may also recognise *unfunded credit protection* providers which are specified in its *IRB permission* in addition to those indicated in the *CRM eligibility conditions*.

[Note: BCD Annex VII Part 2 point 5]

Calculations: Maturity

4.4.67

FCA

R (1) A *firm* must calculate maturity (*M*) for each of the *exposures* referred to in this *rule* in accordance with this *rule* and subject to ■ BIPRU 4.4.68 R to ■ BIPRU 4.4.70 R. In all cases, *M* must be no greater than 5 years.(2) For an instrument subject to a cash flow schedule *M* must be calculated according to the following formula:

$$M = \text{MAX}\{1; \text{MIN}\left\{\sum_t t * CF_t / \sum_t CF_t; 5\right\}\}$$

where CF_t denotes the cash flows (principal, interest payments and fees) contractually payable by the obligor in period t .

- (3) For derivatives subject to a master netting agreement M must be the weighted average remaining maturity of the *exposure*, where M must be at least 1 year. The notional amount of each *exposure* must be used for weighting the maturity.
- (4) For *exposures* arising from fully or nearly-fully collateralised *financial derivative instruments* transactions and fully or nearly-fully collateralised *margin lending transactions* which are subject to a master netting agreement M must be the weighted average remaining maturity of the transactions where M must be at least 10 days. For *repurchase transactions* or securities or commodities lending or borrowing transactions which are subject to a master netting agreement, M must be the weighted average remaining maturity of transactions, where M must be at least 5 days. The notional amount of each transaction must be used for weighting the maturity.
- (5) Where a *firm* uses the *CCR internal model method* to calculate the *exposure* values, M must be calculated for *exposures* to which a *firm* applies this method and for which the maturity of the longest-dated contract contained in the *netting set* is greater than one year according to the following formula:

$$M = \text{MIN} \left(\frac{\sum_{k=1}^{tk \leq 1 \text{ year}} \text{Effective } EE_k * \Delta t_k * df_k + \sum_{k=1}^{\text{maturity}} \text{Effective } EE_k * \Delta t_k * df_k}{\sum_{k=1}^{tk \leq 1 \text{ year}} \text{Effective } EE_k * \Delta t_k * df_k}; 5 \right)$$

where:

df_k = the risk-free discount factor for future time period tk and the remaining symbols are defined in ■ BIPRU 13.6.

- (6) Notwithstanding (7), a *firm* that uses a *CCR internal model method* model to calculate a *one-sided credit valuation adjustment* (CVA) may use the effective credit duration estimated by the model as M if permitted to do so by its *CCR internal model method permission*.
- (7) Subject to ■ BIPRU 4.4.68 R, for *netting sets* in which all contracts have an original maturity of less than one year the formula in (2) must be applied.
- (8) If a *firm* is permitted under its *IRB permission* to use own *PD* estimates for *corporate exposure* purchased receivables, for drawn amounts M must equal the purchased receivables

exposure weighted average maturity, where M must be at least 90 days. This same value of M must also be used for undrawn amounts under a committed purchase facility provided the facility contains effective covenants, early amortisation triggers, or other features that protect the purchasing *firm* against a significant deterioration in the quality of the future receivables it is required to purchase over the facility's term. Absent such effective protections, M for undrawn amounts must be calculated as the sum of the longest-dated potential receivable under the purchase agreement and the remaining maturity of the purchase facility, where M must be at least 90 days.

- (9) For any other instrument than mentioned in this *rule* or when a *firm* is not in a position to calculate M as set out in (2), M must be the maximum remaining time (in years) that the obligor is permitted to take fully to discharge its contractual obligations, where M must be at least 1 year.
- (10) Notwithstanding (2) and (9), M must be at least one-day for:
- (a) import letters of credit (including standby letters of credit issued for similar purposes) and acceptances under them;
 - (b) export letters of credit confirmation and negotiation;
 - (c) pre-shipment and post-shipment acceptances and financing;
 - (d) export and import loans collateralised by underlying goods, up to a maximum maturity of 180 days; and
 - (e) performance guarantees, bid bonds and other guarantees (including standby letters of credit issued for similar purposes) relating to the export and import of goods and services;
- provided these *exposures* are not part of the *firm's* ongoing financing of the obligor.

[Note: BCD Annex VII Part 2 point 13 (part)]

4.4.68

FCA

R

Notwithstanding ■ BIPRU 4.4.67 R (2) - ■ (4) and (8)-(9), M must be at least one-day for:

- (1) fully or nearly-fully collateralised *financial derivative instruments*;
- (2) fully or nearly-fully collateralised *margin lending transactions*; and
- (3) *repurchase transactions, securities or commodities lending or borrowing transactions*,

provided the documentation requires daily remargining and daily revaluation and includes provisions that allow for the prompt liquidation or setoff of collateral in the event of *default* or failure to re-margin.

[Note: BCD Annex VII Part 2 point 14 (part)]

4.4.69

FCA

G

The last paragraph of paragraph 14 of Part 2 of Annex VII of the *Banking Consolidation Directive* says: "In addition, for other short-term exposures specified by the competent authorities which are not part of the credit institution's ongoing financing of the obligor, M shall be at least one-day. A careful review of the particular circumstances shall be made in each case." ■ BIPRU 4.4.67R (10) is currently the only instance where the *appropriate regulator* has specified any such short-term exposures .

[Note: BCD Annex VII Part 2 point 14 (part)]

4.4.70

FCA

R

Maturity mismatches must be treated as specified in ■ BIPRU 4.10 and ■ BIPRU 5 (Credit risk mitigation).

[Note: BCD Annex VII Part 2 point 16]

Calculations: Exposure value

4.4.71

FCA

R

Unless provided otherwise in ■ BIPRU 4 the *exposure* value of on-balance sheet *exposures* must be measured gross of value adjustments. This also applies to assets purchased at a price different than the amount owed. For purchased assets, the difference between the amount owed and the net value recorded on the balance-sheet of the firm is denoted discount if the amount owed is larger, and premium if it is smaller.

[Note: BCD Annex VII Part 3 point 1]

4.4.72

FCA

R

A *firm* must not treat the *exposure* value of a facility as being less than current drawings under it. Interest accrued to date on an *exposure* under a facility must be included in current drawings or an allowance for it must be built into the *conversion factor*.

4.4.73

FCA

R

Where a *firm* uses master netting agreements in relation to *repurchase transactions* or *securities or commodities lending or borrowing transactions* the *exposure* value must be calculated in accordance with ■ BIPRU 5 (Credit risk mitigation), as modified by ■ BIPRU 4.10, and ■ BIPRU 13.8.

[Note: BCD Annex VII Part 3 point 2]

4.4.74

FCA

R

For on-balance sheet netting of loans and deposits a *firm* must apply for the calculation of the *exposure* value the methods set out in ■ BIPRU 5 (Credit risk mitigation), as modified by ■ BIPRU 4.10.

[Note: BCD Annex VII Part 3 point 3]

4.4.75

FCA

R The *exposure* value for leases must be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option (i.e. option the exercise of which is reasonably certain). Any guaranteed residual value fulfilling the set of conditions in ■ BIPRU 5.7.1 R (Eligibility), as modified by ■ BIPRU 4.10.38 R and ■ BIPRU 4.10.39 R (Unfunded credit protection: Eligibility of providers) regarding the eligibility of protection providers as well as the minimum requirements for recognising other types of guarantees provided in ■ BIPRU 5.7.6 R (Minimum requirements: General) to ■ BIPRU 5.7.12 R (Additional requirements for guarantees) should also be included in the minimum lease payments.

[Note: BCD Annex VII Part 3 point 4]

4.4.76

FCA

R Where an *exposure* takes the form of *securities* or *commodities* sold, posted or lent under *repurchase transactions* or *securities or commodities lending or borrowing transactions*, *long settlement transactions* and *margin lending transactions*, the *exposure* value must be the value of the *securities* or *commodities* determined in accordance with ■ GENPRU 1.3 (Valuation). Where the *financial collateral comprehensive method* is used, the *exposure* value must be increased by the volatility adjustment appropriate to such *securities* or *commodities* as set out in ■ BIPRU 4.10 and ■ BIPRU 5 (Credit risk mitigation). The *exposure* value of *repurchase transactions*, *securities or commodities lending or borrowing transactions*, *long settlements transactions* and *margin lending transactions* must be determined in accordance with ■ BIPRU 13.

[Note: BCD Annex VII Part 3 point 7]

4.4.77

FCA

R Notwithstanding ■ BIPRU 4.4.76 R, the *exposure* value of credit risk *exposures* outstanding, as determined by the *firm*, with a *central counterparty* must be determined in accordance with ■ BIPRU 13.3.3 R and ■ BIPRU 13.8.8 R (Exposure to central counterparty), provided that the *central counterparty's CCR exposures* with all participants in its arrangements are fully collateralised on a daily basis.

[Note: BCD Annex VII Part 3 point 8]

4.4.78

FCA

R In the case of any *financial derivative instrument*, the *exposure* value must be determined by the methods set out in ■ BIPRU 13.

[Note: BCD Annex VII Part 3 point 5]

Double default

4.4.79

FCA

R

The *risk weighted exposure amount* for each *exposure* which meets the requirements set out in ■ BIPRU 5.7.2 R and ■ BIPRU 4.4.83 R (Double default) may be adjusted according to the following formula:

- (1) *Risk weighted exposure amount* = $RW * exposure\ value * (0.15 + 160 * PD_{pp})$
- (2) $PD_{pp} = PD$ of the protection provider
- (3) RW must be calculated using the relevant *risk weight* formula set out in ■ BIPRU 4.4.57 R for the *exposure*, the *PD* of the obligor and the *LGD* of a comparable direct *exposure* to the protection provider. The maturity factor (b) must be calculated using the lower of the *PD* of the protection provider and the *PD* of the obligor.

[Note: BCD Annex VII Part 1 point 4]

4.4.80

FCA

R

Notwithstanding ■ BIPRU 4.4.34 R and ■ BIPRU 4.4.43 R, for the purposes of ■ BIPRU 4.4.79 R, the *LGD* of a comparable direct *exposure* to the protection provider shall either be the *LGD* associated with an unhedged facility to the guarantor or the unhedged facility of the obligor, depending upon whether in the event both the guarantor and the obligor *default* during the life of the hedged transaction available evidence and the structure of the guarantee indicate that the amount recovered would depend on the financial condition of the guarantor or obligor, respectively

[Note: BCD Annex VII Part 2 point 11]

4.4.81

FCA

R

For the purposes of ■ BIPRU 4.4.79 R, M must be the effective maturity of the credit protection but at least 1 year.

[Note: BCD Annex VII Part 2 point 13 (part)]

4.4.82

FCA

R

■ BIPRU 4.4.83 R applies to the eligibility of protection providers under the *IRB approach* which qualify for the treatment set out in ■ BIPRU 4.4.79 R.

4.4.83

FCA

R

An *institution*, an *insurance undertaking* (including an *insurance undertaking* that carries out *reinsurance*) or an export credit agency which fulfils the following conditions may be recognised as an eligible provider of *unfunded credit protection* which qualifies for the treatment set out in ■ BIPRU 4.4.79 R:

- (1) the protection provider has sufficient expertise in providing *unfunded credit protection*;

- (2) the protection provider is regulated in a manner equivalent to the rules laid down in the *Banking Consolidation Directive* or had, at the time the credit protection was provided, a credit assessment by an *eligible ECAI* which is associated with *credit quality step 3* or above under the *rules* for the *risk weighting* of *exposures to corporates* under the *standardised approach*;
- (3) the protection provider had, at the time the credit protection was provided, or for any period of time thereafter, an internal rating with a *PD* equivalent to or lower than that associated with *credit quality step 2* or above under the *rules* for the *risk weighting* of *exposures to corporates* under the *standardised approach*;
- (4) the protection provider has an internal rating with a *PD* equivalent to or lower than that associated with *credit quality step 3* or above under the *rules* for the *risk weighting* of *exposures to corporates* under the *standardised approach*;

For the purpose of this *rule*, credit protection provided by an export credit agency must not benefit from any explicit central government counter-guarantee.

[Note: *BCD* Annex VIII Part 1 point 29]

4.4.84

FCA

R

■ BIPRU 4.4.85 R applies to the requirements to qualify for the treatment set out in ■ BIPRU 4.4.79 R.

4.4.85

FCA

R

To be eligible for the treatment set out in ■ BIPRU 4.4.79 R, credit protection deriving from a guarantee or credit derivative must meet the following conditions:

- (1) the underlying obligation must be to:
 - (a) a *corporate exposure*, excluding an *exposure to an insurance undertaking* (including an *insurance undertaking* that carries out *reinsurance*); or
 - (b) an *exposure to a regional government, local authority or public sector entity* which is not treated as an *exposure to a central government or a central bank* according to ■ BIPRU 4.4.2 R; or
 - (c) an *exposure to retail SME*, classified as a *retail exposure* according to ■ BIPRU 4.6.2 R;
- (2) the underlying obligors must not be members of the same *group* as the protection provider;
- (3) the *exposure* must be hedged by one of the following instruments:
 - (a) single name unfunded credit derivatives or single name guarantees;

- 4
- (b) first to *default* basket products, with these the treatment must be applied to the asset within the basket with the lowest *risk weighted exposure amount*;
 - (c) n^{th} to *default* basket products, with these the protection obtained is only eligible for consideration under this framework if eligible $(n-1)^{\text{th}}$ *default* protection has also been obtained or where $(n-1)$ of the assets within the basket has/have already *defaulted* and where this is the case the treatment must be applied to the asset within the basket with the lowest *risk weighted exposure amount*;
- (4) the credit protection must meet the requirements set out in ■ BIPRU 5.7.6 R - ■ BIPRU 5.7.8 R (Minimum requirements: Operational requirements), ■ BIPRU 5.7.11 R (Additional requirements for guarantees) and ■ BIPRU 5.7.13 R - ■ BIPRU 5.7.14 R (Additional requirements for credit derivatives);
 - (5) the *risk weight* that is associated with the *exposure* prior to the application of the treatment in ■ BIPRU 4.4.79 R does not already factor in any aspect of the credit protection;
 - (6) a *firm* must have the right and expectation to receive payment from the protection provider without having to take legal action in order to pursue the counterparty for payment;
 - (7) the purchased credit protection must absorb all credit losses incurred on the hedged portion of an *exposure* that arise due to the occurrence of credit events outlined in the contract;
 - (8) if the payout structure provides for physical settlement, then there must be legal certainty with respect to the deliverability of a loan, bond or contingent liability and if a *firm* intends to deliver an obligation other than the underlying *exposure*, it must ensure that the deliverable obligation is sufficiently liquid so that the *firm* would have the ability to purchase it for delivery in accordance with the contract;
 - (9) the terms and conditions of credit protection arrangements must be legally confirmed in writing by both the protection provider and the *firm*;
 - (10) a *firm* must have a process in place to detect excessive correlation between the creditworthiness of a protection provider and the obligor of the underlying *exposure* due to their performance being dependent on common factors beyond the systematic risk factor;

- (11) in the case of protection against *dilution risk*, the seller of purchased receivables must not be a member of the same *group* as the protection provider; and
- (12) with reference to (6), to the extent possible, a *firm* must take steps to satisfy itself that the protection provider is willing to pay promptly should a credit event occur.

[Note: *BCD* Annex VIII Part 2 point 22]

4.5 The IRB approach: Specialised lending exposures

Application

4.5.1
FCA

- R** ■ BIPRU 4.5 applies with respect to the *exposures* referred to in ■ BIPRU 4.5.3 R.

4.5.2
FCA

- R** Except for ■ BIPRU 4.5.1 R and ■ BIPRU 4.5.3 R, ■ BIPRU 4.5 only applies to the extent that a *firm* applies the method in ■ BIPRU 4.5 (slotting).

Definition of specialised lending

4.5.3
FCA

- R** Within the *corporate exposure IRB exposure class*, a *firm* must separately identify as *specialised lending exposures*, *exposures* which possess the following characteristics:

- (1) the *exposure* is to an entity which was created specifically to finance and/or operate physical assets;
- (2) the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and
- (3) the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

[Note: BCD Article 86(6)]

Treatment of specialised lending

4.5.4
FCA

- R** If a *firm* is using or is applying to use the *advanced IRB approach* for some or all of its *exposures* in the *sovereign, institution and corporate IRB exposure class*, then *specialised lending exposures* treated under ■ BIPRU 4.5.8 R (Slotting) must be treated as being dealt with under the *advanced IRB approach* for the purposes of the calculations in ■ BIPRU 4.2.30 R and ■ BIPRU 4.2.31 R. If a *firm* is not using or applying to use the *advanced IRB approach* for any of its *exposures* in the *sovereign, institution and corporate IRB exposure class*, in the cases in which it is necessary to distinguish between the *advanced IRB approach* and the *foundation IRB approach*, then *specialised lending*

exposures treated under ■ BIPRU 4.5.8 R must be treated as being dealt with under the *foundation IRB approach* for the purposes of the calculations in ■ BIPRU 4.2.30 R and ■ BIPRU 4.2.31 R.

Structure of rating system

4.5.5

FCA

R

A *firm* using the methods set out in ■ BIPRU 4.5.8 R (Slotting) for assigning *risk weights* for *specialised lending exposures* is exempt from the requirement to have an obligor rating scale which reflects exclusively quantification of the risk of obligor *default* for these *exposures*. Notwithstanding ■ BIPRU 4.4.7 R (Seven grades for exposures to sovereigns, institutions and corporates), a *firm* must have for these *exposures* four grades for non-*defaulted* obligors and one grade for *defaulted* obligors.

[Note: BCD Annex VII Part 4 point 12 and point 21]

Assignment of exposures

4.5.6

FCA

R

- (1) A *firm* using the methods set out in ■ BIPRU 4.5.8 R (Slotting) for assigning *risk weights* for *specialised lending exposures* must assign each of these *exposures* to a grade in accordance with ■ BIPRU 4 Annex 1 R, taking into account the following factors:
 - (a) financial strength;
 - (b) political and legal environment;
 - (c) transaction and/or asset characteristics;
 - (d) strength of the sponsor and developer including any public private partnership income stream; and
 - (e) security package.
- (2) A *firm* must slot *exposures* into the five columns in the tables in ■ BIPRU 4.5.9 R and ■ BIPRU 4.5.13 R as follows:
 - (a) a *firm* must slot an *exposure* categorised as strong under Annex X into column 1;
 - (b) a *firm* must slot an *exposure* categorised as good under the Annex X into column 2;
 - (c) a *firm* must slot an *exposure* categorised as satisfactory under Annex X into column 3;
 - (d) a *firm* must slot an *exposure* categorised as weak under Annex X into column 4;
 - (e) in accordance with ■ BIPRU 4.5.5 R a *firm* must slot an *exposure* in *default* into column 5.

[Note: BCD Annex VII Part 1 point 6 (part)]

Calculation of risk-weighted exposure amounts

4.5.7
FCA

R Notwithstanding ■ BIPRU 4.3.5 R (Use of relevant parameters for calculating risk weighted exposure amounts), the calculation of *risk weighted exposure amounts* for credit risk for *specialised lending exposures* may be calculated in accordance with ■ BIPRU 4.5.8 R.

[Note: BCD Article 87(5)]

4.5.8
FCA

R For *specialised lending exposures* in respect of which a *firm* cannot demonstrate that its *PD* estimates meet the *minimum IRB standards* it must assign *risk weights* to these *exposures* according to the table in ■ BIPRU 4.5.9 R.

[Note: BCD Annex VII Part 1 point 6 (part)]

4.5.9
FCA

R Table: Risk weights for specialised lending

This table belongs to ■ BIPRU 4.5.8 R

Remain- ing matu- rity	Category 1 (Strong)	Category 2 (Good)	Category 3 (Satis- factory)	Category 4 (Weak)	Category 5
Less than 2.5 years	50%	70%	115%	250%	0%
Equal or more than 2.5 years	70%	90%	115%	250%	0%

The coverage of each of the categories is set out in BIPRU 4.5.6 R

[Note: BCD Annex VII Part 1 point 6 (part)]

4.5.10
FCA

R A *firm* may generally assign preferential *risk weights* of 50% to *exposures* in category 1, and a 70% *risk weight* to *exposures* in category 2 if:

- (1) its *IRB permission* allows this; and
- (2) the *firm's* underwriting characteristics and other risk characteristics are substantially strong for the relevant category.

[Note: BCD Annex VII Part 1 point 6 (part)]

4.5.11
FCA

G (1) If a *firm* applies for an *IRB permission* or for a variation of an *IRB permission* that permits the treatment in ■ BIPRU 4.5.10 R it should demonstrate that its standards exceed those of the slotting criteria provided for in ■ BIPRU 4.5 and result in ratings that are stronger than the benchmarks referred to in (3).

- (2) If a *firm* has an *IRB permission* that permits the treatment in ■ BIPRU 4.5.10 R it should continue to be able to demonstrate the matters in (1) to the *appropriate regulator* if asked.
- (3) Although a *firm* should map its internal ratings to the supervisory categories set out in the table in ■ BIPRU 4.5.9 R using the slotting criteria provided in ■ BIPRU 4.5.6 R, each supervisory category broadly corresponds to a range of external credit assessments of BBB- or better, BB+ or BB, BB- or B+ and B to C- (or their equivalents). The fifth category covers *default*.

Calculation of expected loss amounts

4.5.12

FCA

R

The *EL* values for *specialised lending exposures* where a *firm* uses the methods set out in ■ BIPRU 4.5.8 R for assigning *risk weights* must be assigned according to the table in ■ BIPRU 4.5.13 R.

[Note: BCD Annex VII Part 1 point 31 (part)]

4.5.13

FCA

R

Table: Expected loss values for specialised lending

This table belongs to ■ BIPRU 4.5.12 R

Remain- ing maturi- ty	Category 1 (Strong)	Category 2 (Good)	Category 3 (Satisfac- tory)	Category 4 (Weak)	Category 5
Less than 2.5 years	0%	0.4%	2.8%	8%	50%
Equal or more than 2.5 years	0.4%	0.8%	2.8%	8%	50%

The coverage of each of the categories is set out in BIPRU 4.5.6 R

[Note: BCD Annex VII Part 1 point 31 (part)]

4.5.14

FCA

R

Where a *firm's IRB permission* authorises it generally to assign preferential *risk weights* as outlined in ■ BIPRU 4.5.10 R of 50% to *exposures* in category 1, and 70% to *exposures* in category 2, the *EL* value for *exposures* in category 1 must be 0%, and for *exposures* in category 2 must be 0.4%.

[Note: BCD Annex VII Part 1 point 31 (part)]

4.6 The IRB approach: Retail exposures

Application

4.6.1
FCA

- R** ■ BIPRU 4.6 applies with respect to the *exposures* referred to in
■ BIPRU 4.6.2 R.

Definition of retail exposures

4.6.2
FCA

- R** To be eligible to be treated as a *retail exposure*, *exposures* must meet the following criteria:

- (1) they must be either to an individual person or persons, or to a small or medium sized entity, provided in the latter case that the total amount owed to the *firm* and *parent undertaking* and its *subsidiary undertakings*, including any past due *exposure*, by the obligor client or *group of connected clients*, but excluding claims or contingent claims secured on residential real estate collateral, must not, to the knowledge of the *firm*, which must have taken reasonable steps to confirm the situation, exceed EUR 1 million;
- (2) they are treated by the *firm* in its risk management consistently over time and in a similar manner;
- (3) they are not managed just as individually as *exposures* in the *corporate exposure IRB exposure class*; and
- (4) they each represent one of a significant number of similarly managed *exposures*.

[Note: BCD Article 86(4) (part)]

4.6.3
FCA

- R** The present value of retail minimum lease payments is eligible to be treated as a *retail exposure*.

[Note: BCD Article 86(4) (part)]

4.6.4
FCA

- G** (1) This paragraph sets out *guidance* on ■ BIPRU 4.6.2 R so far as it relates to the boundary between *retail exposures* and *corporate exposures*.

- (2) In deciding what steps are reasonable for the purposes of ■ BIPRU 4.6.2 R (1), a *firm* may take into account complexity and cost, as well as the materiality of the impact upon its capital calculation. A *firm* should be able to demonstrate to the *appropriate regulator* that it has complied with the obligation to take reasonable steps under ■ BIPRU 4.6.2 R (1) in the way it takes these factors into account.
- (3) If a *firm* has *exposures* to an owner of a *retail SME* in his personal capacity and *exposures* to the *retail SME* the *firm* should aggregate the two types of *exposure* for the purpose of ■ BIPRU 4.6.2 R (1), although it should not include claims secured on residential real estate collateral. In deciding what steps are reasonable for the purposes of ■ BIPRU 4.6.2 R (1) in aggregating these two types of *exposure*, a *firm* may take into account the materiality of those personal *exposures*. A *firm* should be able to demonstrate to the *appropriate regulator* that it has complied with the obligation to take reasonable steps under ■ BIPRU 4.6.2 R (1) when taking into account materiality in this way.
- (4) The definition of *group of connected clients* is set out in the *glossary*. Paragraph (2) of that definition is "two or more *persons* ... who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties". Say that a *firm* has *exposures* to A and B. When deciding whether A and B come within paragraph (2) of the definition two conditions should be satisfied. Firstly the connections between A and B should mean that if A experiences financial problems, B should be likely to encounter repayment difficulties. Secondly, the connections between A and B should mean that if B experiences financial problems, A should be likely to encounter repayment difficulties
- (5) A *firm* should have its own documented policy on the types of *exposures* that, in accordance with ■ BIPRU 4.6, qualify as *retail SME exposures*. The *appropriate regulator* would not expect that a definition based on the EUR 1m *exposure* limit would be adequate on its own.
- (6) The purpose of the definition of *retail exposure* is to separate a non-granular retail and small and medium sized business portfolio from other business so that a separate capital calculation may be applied to that portfolio that takes into account its non-granularity. Where *retail exposures* are assigned to pools it is the statistical characteristics of these pools which are used to derive the *IRB approach* estimates. Therefore pools should be reasonably homogenous and subject to consistent risk management practices.
- (7) A *firm* should have sufficient controls to ensure that any inadvertent assignment of non-eligible *exposures* to the *retail exposure IRB exposure class* is sufficiently immaterial that it does not result in any significant distortion of the overall statistical characteristics of the sub-sets of that *IRB exposure class* which arise when the *exposures* are assigned to grades or pools. Cost considerations do not justify inclusion of non-eligible *exposures* if the effect would be material. Sample testing could be one method of demonstrating that the impact would be immaterial. ■ BIPRU 4.1.25 R applies to *exposures* treated in accordance with this sub-paragraph (7).
- (8) If an *exposure* to a small or medium sized business crosses the *retail exposure* size boundary it should be treated as a *corporate*, unless, in accordance with

■ BIPRU 4.1.25 R, the excess is immaterial because of its size or because it is temporary.

- (9) ■ BIPRU 4.6.2 R does not require that *exposures to retail SMEs* should never be individually managed. In deciding whether the frequency and extent of individual management does or does not make *exposures* ineligible for the *retail exposure IRB exposure class*, a *firm* should consider whether that individual management is:
- (a) sufficiently insignificant not to disrupt the homogeneity of the pool;
 - (b) consistent with the management of other *exposures* in the same *retail exposure* pool; and
 - (c) significantly different in extent from the individual management that occurs for *corporate exposures*, looked at as a whole.
- (10) Where an *exposure* is denominated in other currencies, a *firm* may calculate the Euro equivalent for the purposes of ■ BIPRU 4.6.2 R (1) using any appropriate set of exchange rates provided its choice has no obvious bias and that the *firm* is consistent in its approach to choosing rates.
- (11) A *firm* may monitor compliance with the €1m threshold in ■ BIPRU 4.6.2 R (1) on the basis of approved limits provided that it has internal control procedures that are sufficient to ensure that amounts owed cannot diverge from those approved limits to such an extent as to give rise to a breach of the €1m threshold or, if the *firm* is relying on provisions relating to reasonable steps in ■ BIPRU 4.6.2 R (1), any material breach of that threshold.

Rating system: Structure of rating system

4.6.5
FCA

- G Further material on the structure of rating systems can be found in ■ BIPRU 4.3.25 R - ■ BIPRU 4.3.28 R.

Rating system: Assignment to grades or pools

4.6.6
FCA

- R **Rating systems must reflect both obligor and transaction risk, and must capture all relevant obligor and transaction characteristics.**

[Note: BCD Annex VII Part 4 point 13]

4.6.7
FCA

- R The level of risk differentiation must ensure that the number of *exposures* in a given grade or pool is sufficient to allow for meaningful quantification and validation of the *loss* characteristics at the grade or pool level. The distribution of *exposures* and obligors across grades or pools must be such as to avoid excessive concentrations.

[Note: BCD Annex VII Part 4 point 14]

4.6.8
FCA

- G (1) This paragraph contains *guidance* on the level of differentiation referred to in ■ BIPRU 4.6.7 R.

- (2) It is important that a *firm* achieves adequate segmentation to deliver robust estimates of *LGD* and *conversion factors*, as well as *PD*. Whether the focus should be more on *exposure* size or collateral type is a question of fact for the particular circumstances in which the assignment of *exposures* to grades or pools occurs. Typically the *appropriate regulator* would expect both to be important.
- (3) A *firm* may allocate *retail exposures* to pools based on direct estimates of *PD*, *LGD* and *conversion factors* as well as using an approach under which the *firm* segments first and attributes *PD*, *LGD* and *conversion factors* afterwards. However the result should in either case be that the pools are sufficiently homogenous.
- (4) The number and size of pools should be determined in relation to the objective of establishing homogeneous risk. Pools should be of sufficient size to permit the production of robust risk estimates but should not be so large as to obscure variations in quality.

4.6.9

FCA

R

A *firm* must be able to demonstrate to the *appropriate regulator* that the process of assigning *exposures* to grades or pools provides for a meaningful differentiation of risk, provides for a grouping of sufficiently homogenous exposures, and allows for accurate and consistent estimation of *loss* characteristics at grade or pool level.

[Note: BCD Annex VII Part 4 point 15 (part)]

4.6.10

FCA

G

For purchased receivables, ■ BIPRU 4.8 contains material about assignment to grades or pools.

4.6.11

FCA

R

- (1) A *firm* must consider the following risk drivers when assigning *exposures* to grades or pools:
 - (a) obligor risk characteristics;
 - (b) transaction risk characteristics, including product or collateral types or both; and
 - (c) delinquency.
- (2) In the case of (1)(b) a *firm* must explicitly address cases where several *exposures* benefit from the same collateral.
- (3) However:
 - (a) a *firm* need not consider delinquency if this is compatible with its *IRB permission*; and
 - (b) (in the case of a *firm* with an *IRB permission* that permits the *firm* not to consider delinquency) it should be able to demonstrate to the *appropriate regulator* that delinquency is not a material risk driver for the *exposures* treated in this way.

[Note: BCD Annex VII Part 4 Point 16]

Rating system: Assignment of exposures

4.6.12

R

Each *exposure* must be assigned to a grade or a pool as part of the credit approval process.

FCA

[Note: BCD Annex VII Part 4 point 24]

Rating system: Overrides

4.6.13

G

Material on overrides can be found in ■ BIPRU 4.3.50 R.

FCA

Rating system: Integrity of assignment process

4.6.14

R

A *firm* must at least annually update obligor and facility assignments or review the *loss* characteristics and delinquency status of each identified risk pool whichever is applicable. A *firm* must also at least annually review in a representative sample the status of individual *exposures* within each pool as a means of ensuring that *exposures* continue to be assigned to the correct pool.

FCA

[Note: BCD Annex VII Part 4 point 29]

4.6.15

G

Annual rescoreing is one method of meeting the requirement in ■ BIPRU 4.6.14 R. However a *firm* need not carry out this update by means of a full re-run of a credit scoring model if it is able to demonstrate that its method is appropriate to the portfolio given its materiality and its impact on its capital requirements and that the *firm* still meets the *minimum IRB standards*.

FCA

Rating system: Use of models

4.6.16

G

Material on the use of models can be found in ■ BIPRU 4.3.51 R - ■ BIPRU 4.3.53 G.

FCA

Rating system: Documentation

4.6.17

G

Material on documentation can be found in ■ BIPRU 4.3.19 R - ■ BIPRU 4.3.24 R.

FCA

Rating system: Data maintenance

4.6.18

R

In addition to complying with ■ BIPRU 4.3.54 R (Data maintenance) a *firm* must collect and store:

FCA

- (1) data used in the process of allocating *exposures* to grades or pools;
- (2) data on the estimated *PDs*, *LGDs* and *conversion factors* associated with grades or pools of *exposures*;
- (3) the identity of obligors and *exposures* that *defaulted*;

- (4) for *defaulted exposures*, data on the grades or pools to which the *exposure* was assigned over the year prior to *default* and the realised outcomes on *LGD* and *conversion factor*; and
- (5) data on *loss rates* for *qualifying revolving retail exposures*.

[Note: BCD Annex VII Part 4 point 39]

Risk quantification: Definition of default

4.6.19

G

FCA

Material on the definition of *default* can be found in ■ BIPRU 4.3.56 R - ■ BIPRU 4.3.72 G.

4.6.20

R

FCA

- (1) This *rule*, in accordance with ■ BIPRU 4.3.57 R (4) (Definition of default), sets the exact number of days past due that a *firm* must abide by in the case of *retail exposures*.
- (2) For *retail exposures* to counterparts situated within the *United Kingdom* the number of days past due is 180 days with the exception of *retail SME exposures*. For these *exposures* the number is 90 days.
- (3) For *retail exposures* to counterparts situated in another *EEA State* the number of days past due is the lower of:
 - (a) 180; and
 - (b) the number of days past due fixed under the *CRD implementation measure* in that *EEA State* with respect to paragraph 48 of Part 4 of Annex VII of the *Banking Consolidation Directive* for such *exposures*.
- (4) For *retail exposures* to counterparts in a state outside the *EEA* the number of days past due is the lower of:
 - (a) 180; and
 - (b) (if a number of days past due for such *exposures* has been fixed under any national law of that state applicable to *undertakings* in the *banking sector* or the *investment services sector* that implements the *IRB approach*) that number.

[Note: BCD Annex VII Part 4 point 44 (part) and point 48 (part)]

4.6.21

R

FCA

A *firm* may apply the definition of *default* at a facility level.

[Note: BCD Annex VII Part 4 point 44 (part)]

4.6.22

G

FCA

Where a *firm* chooses to apply the definition of *default* at facility level and a customer has *defaulted* on a facility, then *default* on that facility is likely to influence the *PD* assigned to that customer on other facilities and so should be taken into account.

Risk quantification: Overall requirements for estimation

4.6.23

FCA

G

Material on the overall requirements for estimation can be found in ■ BIPRU 4.3.73 R - ■ BIPRU 4.3.94 R.

Risk quantification: Requirements specific to PD estimation

4.6.24

FCA

R

A *firm* must estimate *PDs* by obligor grade or pool from long run averages of one-year *default* rates.

[Note: *BCD* Annex VII Part 4 point 67]

4.6.25

FCA

R

Notwithstanding ■ BIPRU 4.6.24 R, *PD* estimates may also be derived from realised *losses* and appropriate estimates of *LGDs*.

[Note: *BCD* Annex VII Part 4 point 68]

4.6.26

FCA

R

A *firm* must regard internal data for assigning exposures to grades or pools as the primary source of information for estimating *loss* characteristics. A *firm* may use external data (including pooled data) or statistical models for quantification provided a strong link can be demonstrated between:

- (1) the *firm's* process of assigning *exposures* to grades or pools and the process used by the external data source; and
- (2) the *firm's* internal risk profile and the composition of the external data.

[Note: *BCD* Annex VII Part 4 point 69]

4.6.27

FCA

R

If a *firm* derives long run average estimates of *PD* and *LGD* for *retail exposures* from an estimate of total *losses*, and an appropriate estimate of *PD* or *LGD*, the process for estimating total *losses* must meet the *minimum IRB standards* for estimation of *PD* and *LGD*, and the outcome must be consistent with the concept of *LGD* as set out in ■ BIPRU 4.3.99 R (Default weighted average).

[Note: *BCD* Annex VII Part 4 point 70]

4.6.28

FCA

R

Irrespective of whether a *firm* is using external, internal, pooled data sources or a combination of the three, for its estimation of *loss* characteristics, the length of the underlying historical observation period used must be at least five years for at least one source. If the available observation spans a longer period for any source, and these data are relevant, this longer period must be used. However:

- (1) a *firm* need not give equal importance to historic data if this is compatible with its *IRB permission*; and

- (2) (in the case of a *firm* with an *IRB permission* that permits this treatment of historic data) the *firm* must be able to convince the *appropriate regulator* that more recent data is a better predictor of loss rates.

[Note: BCD Annex VII Part 4 point 71 (part)]

4.6.29

FCA

R

A *firm* may have, when implementing the *IRB approach*, relevant data covering a period of two years. The period to be covered must increase by one year each year until relevant data covers a period of five years.

[Note: BCD Annex VII Part 4 point 71 (part)]

4.6.30

FCA

R

A *firm* must identify and analyse expected changes of risk parameters over the life of credit *exposures* (seasoning effects).

[Note: BCD Annex VII Part 4 point 72]

Risk quantification: Requirements specific to own-LGD estimation

4.6.31

FCA

R

Notwithstanding ■ BIPRU 4.3.99 R (Default weighted average), *LGD* estimates may be derived from realised *losses* and appropriate estimates of *PDs*.

[Note: BCD Annex VII Part 4 point 83]

4.6.32

FCA

R

Notwithstanding ■ BIPRU 4.3.128 R (Additional drawings), a *firm* may reflect future drawings either in its *conversion factor* or in its *LGD* estimates.

[Note: BCD Annex VII Part 4 point 84]

4.6.33

FCA

R

Estimates of *LGD* must be based on data over a minimum of five years. Notwithstanding ■ BIPRU 4.3.99 R (Default weighted average):

- (1) a *firm* need not give equal importance to historic data if this is permitted by its *IRB permission*; and
- (2) (in the case of a *firm* with an *IRB permission* that permits this treatment of historic data) the *firm* must be able to convince the *appropriate regulator* that more recent data is a better predictor of loss rates.

[Note: BCD Annex VII Part 4 point 86 (part)]

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4.6.34

FCA

R

A *firm* may have, when it implements the *IRB approach*, relevant data covering a period of two years. The period to be covered must increase by one year each year until relevant data covers a period of five years.

[Note: BCD Annex VII Part 4 point 86 (part)]

4.6.35

FCA

G

The *appropriate regulator* does not assume that all portfolios are sensitive to downturns. The *appropriate regulator* also accepts that for some portfolios, particularly in unsecured lending, the impact of the material drivers on *LGD* may be weak. However the burden is on the *firm* to demonstrate that its models are appropriate for the circumstances in which they are applied.

4.6.36

FCA

G

Additional material on requirements specific to own-*LGD* estimation can be found in ■ BIPRU 4.3.98 R - ■ BIPRU 4.3.123 R.

Risk quantification: Requirements specific to own-conversion factor estimates

4.6.37

FCA

R

Notwithstanding ■ BIPRU 4.3.128 R (Additional drawings), a *firm* may reflect future drawings either in its *conversion factors* or in its *LGD* estimates.

[Note: BCD Annex VII Part 4 point 94]

4.6.38

FCA

R

Estimates of *conversion factors* must be based on data over a minimum of five years. Notwithstanding ■ BIPRU 4.3.125 R:

- (1) a *firm* need not give equal importance to historic data if this is permitted by its *IRB permission*; and
- (2) (in the case of a *firm* with an *IRB permission* that permits this treatment of historic data) the *firm* must be able to convince the *appropriate regulator* if asked that more recent data is a better predictor of loss rates.

[Note: BCD Annex VII Part 4 point 95 (part)]

4.6.39

FCA

R

A *firm* may have, when it implements the *IRB approach*, relevant data covering a period of two years. The period to be covered must increase by one year each year until relevant data cover a period of five years.

[Note: BCD Annex VII Part 4 point 95 (part)]

4.6.40

FCA

G

Additional material on requirements specific to own-*conversion factor* estimation can be found in ■ BIPRU 4.3.124 R - ■ BIPRU 4.3.131 R.

Calculation of risk weighted exposure amounts for retail exposures: General

4.6.41

FCA

R

Subject to ■ BIPRU 4.6.43 R and ■ BIPRU 4.6.44 R, the *risk weighted exposure amounts* for *retail exposures* must be calculated according to the formulae in the table in ■ BIPRU 4.6.42 R.

[Note: BCD Annex VII Part 1 point 10 1st sentence]

4.6.42

FCA

R

Table: Risk weighted exposure amounts for retail exposures

This table belongs to ■ BIPRU 4.6.41 R

Correlation (R) $0.03 \times (1 - \text{EXP}(-35 \cdot PD)) / (1 - \text{EXP}(-35)) + 0.16 \cdot [1 - (1 - \text{EXP}(-35 \cdot PD)) / (1 - \text{EXP}(-35))]$

Risk weight (RW) $(LGD \cdot N[(1-R)^{-0.5} \cdot G(PD) + (R/(1-R))^{0.5} \cdot G(0.999)] - PD \cdot LGD) \cdot 12.5 \cdot 1.06$

N(x) denotes the cumulative distribution function for a standard normal random variable (i.e. the probability that a normal random variable with mean zero and variance of one is less than or equal to x).

G(z) denotes the inverse cumulative distribution function for a standard normal random variable (i.e. the value x such that N(x) = z).

PD = 1 For PD = 1 (defaulted exposure), RW must be:

$$\text{Max} \{0, 12.5 \cdot (LGD - EL_{BE})\}$$

where EL_{BE} must be the firm's best estimate of expected loss for the defaulted exposure according to BIPRU 4.3.122 R.

Risk weighted exposure amount equals RW * exposure value

[Note: BCD Annex VII Part 1 point 10 (part)]

Calculation of risk weighted exposure amounts for retail exposures: Retail mortgages

4.6.43

FCA

R

For retail exposures secured by real estate collateral a correlation (R) of 0.15 must replace the correlation formula in the table in ■ BIPRU 4.6.42 R.

[Note: BCD Annex VII Part 1 point 12]

Calculation of risk weighted exposure amounts for retail exposures: Qualifying revolving retail exposures

4.6.44

FCA

R

(1) For qualifying revolving retail exposures a correlation (R) of 0.04 must replace the correlation formula in the table in ■ BIPRU 4.6.42 R.

(2) Retail exposures qualify as qualifying revolving retail exposures if they meet the following conditions:

- (a) the IRB permission of the firm in question does not disapply this paragraph;
- (b) the exposures are to individuals;

- (c) the *exposures* are revolving, unsecured, and, to the extent they are not drawn, immediately and unconditionally cancellable by the *firm*;
- (d) the maximum *exposure* to a single individual in the sub-portfolio is EUR 100,000 or less;
- (e) the *firm* is able to demonstrate to the *appropriate regulator* that the use of the correlation formula in this paragraph is limited to portfolios that have exhibited low volatility of *loss rates*, relative to their average level of *loss rates*, especially within the low *PD* bands; and
- (f) the *firm* is able to demonstrate to the *appropriate regulator* that treatment as a *qualifying revolving retail exposure* is consistent with the underlying risk characteristics of the sub-portfolio.

- (3) In the context of this *rule* revolving *exposures* are defined as those where customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to a limit established by the *firm* in question. Undrawn commitments may be considered as unconditionally cancellable if the terms permit the *firm* to cancel them to the full extent allowable under consumer protection and related legislation.

[Note: BCD Annex VII Part 1 point 13 (part) and Part 3 point 9(a) (part)]

4.6.45

FCA

G

A *firm* should be able to demonstrate the low volatility of *loss rates* mentioned in ■ BIPRU 4.6.44 R (2)(e) at the time of the initial application for an *IRB permission* and thereafter at any time on request. The benchmark level should be the volatility of *loss rates* for the *qualifying revolving retail exposure* portfolio relative to the volatilities of *loss rates* of other relevant types of *retail exposures*. A *firm* should demonstrate low volatility by reference to data on the mean and standard deviation of *loss rates* over a time period that can be regarded as representative of the long-run performance of the portfolios concerned.

4.6.46

FCA

G

In the *appropriate regulator's* view a sub-portfolio consisting of credit card or overdraft obligations will usually meet the condition in ■ BIPRU 4.6.44 R (2)(f). In the *appropriate regulator's* view it is unlikely that any other type of *retail exposure* will do so. If a *firm* wishes to apply the treatment in ■ BIPRU 4.6.44 R (1) to product types other than credit card or overdraft obligations it should first discuss this with the *appropriate regulator*.

Calculation of expected loss amounts

4.6.47

FCA

R

Expected loss amounts must be calculated according to the formulae in the table in ■ BIPRU 4.6.48 R.

[Note: BCD Annex VII Part 1 point 30 (part)]

4.6.48

FCA

R Table: Formulae for the calculation of expected loss amounts

This table belongs to ■ BIPRU 4.6.47 R

Expected loss (EL) equals $PD \times LGD$ *Expected loss amount* equals $EL \times \text{exposure value}$

For *defaulted exposures* ($PD = 1$) where a *firm* uses its own estimates of *LGDs*, *EL* must be EL_{BE} , the *firm's* best estimate of *expected loss* for the *defaulted exposure* according to BIPRU 4.3.122 R.

For *exposures* subject to the treatment set out in BIPRU 4.4.79 R (Double default) *EL* must be 0.

[Note: BCD Annex VII Part 1 point 30 (part)]

Calculation of PDs

4.6.49

FCA

R A *firm* must provide its own estimates of *PDs* in accordance with its *IRB permission* and the *minimum IRB standards*.

[Note: BCD Article 87(6) (part)]

4.6.50

FCA

R The *PD* of an *exposure* must be at least 0.03%.

[Note: BCD Annex VII Part 2 point 17]

4.6.51

FCA

R The *PD* of obligors in *default* must be 100%. If a *firm* is using the facility level approach described in ■ BIPRU 4.6.21 R, the *PD* of an *exposure* in *default* must be 100%.

[Note: BCD Annex VII Part 2 point 18]

4.6.52

FCA

R *Unfunded credit protection* may be recognised by adjusting *PDs* subject to ■ BIPRU 4.6.54 R. For *dilution risk*, where a *firm* does not use its own estimates of *LGDs*, this must be subject to compliance with ■ BIPRU 5 (Credit risk mitigation) modified by ■ BIPRU 4.10 and, for this purpose, a *firm* may recognise *unfunded credit protection* providers other than those indicated in the *CRM eligibility conditions* provided the *firm* is able to demonstrate that the unfunded protection provider giving the undertaking is sufficiently reliable and that the protection agreement is legally effective in accordance with ■ BIPRU 5.2.7 R (Unfunded credit protection).

[Note: BCD Annex VII Part 2 point 20]

Calculation of LGDs

4.6.53

FCA

R A *firm* must provide its own estimates of *LGDs* in accordance with its *IRB permission* and the *minimum IRB standards*.

[Note: BCD Article 87(7) (part)]

4.6.54

FCA

R *Unfunded credit protection* may be recognised as eligible by adjusting *PD* or *LGD* estimates subject to the *minimum IRB standards* as specified in ■ BIPRU 4.10.43 R - ■ BIPRU 4.10.48 R and in accordance with the *IRB permission* either in support of an individual *exposure* or a pool of *exposures*. A *firm* must not assign guaranteed *exposures* an adjusted *PD* or *LGD* such that the adjusted *risk weight* would be lower than that of a comparable, direct *exposure* to the guarantor.

[Note: BCD Annex VII Part 2 point 22]

Calculation of exposure values and own conversion factors

4.6.55

FCA

R Except where otherwise specified, ■ BIPRU 4.4.37 R - ■ BIPRU 4.4.39 R (Exposure value and conversion factors), ■ BIPRU 4.4.45 R (AIRB conversion factors) and ■ BIPRU 4.4.71 R - ■ BIPRU 4.4.78 R (Calculation of exposure values for sovereigns, institutions and corporates) also apply to *retail exposures*.

4.6.56

FCA

R A *firm* must provide its own estimates of *conversion factors* in accordance with its *IRB permission* and the *minimum IRB standards*.

[Note: BCD Article 87(7) (part)]

Double default

4.6.57

FCA

R The *risk weighted exposure amount* for each *exposure to retail SME* as defined in ■ BIPRU 4.6.2 R which meets the requirements set out in ■ BIPRU 4.4.83 R and ■ BIPRU 4.4.85 R may be calculated according to ■ BIPRU 4.4.79 R (Double default).

[Note: BCD Annex VII Part 1 point 11]

4.6.58

FCA

R Notwithstanding ■ BIPRU 4.6.54 R for the purposes of ■ BIPRU 4.4.80 R the *LGD* of a comparable direct *exposure* to the protection provider must either be the *LGD* associated with an unhedged facility to the guarantor or the unhedged facility of the obligor, depending upon whether in the event both the guarantor and obligor *default* during the life of the hedged transaction available evidence and the structure of the guarantee indicate that the amount recovered would depend on the financial condition of the guarantor or obligor, respectively.

[Note: BCD Annex VII Part 2 point 23]

4.7 The IRB approach: Equity exposures

Application

4.7.1
FCA

- R** ■ BIPRU 4.7 applies with respect to the *exposures* referred to in ■ BIPRU 4.7.2 R.

Definition of equity exposures

4.7.2
FCA

- R** The following *exposures* must be classed as *equity exposures*:

- (1) non-debt *exposures* conveying a subordinated, residual claim on the assets or income of the issuer; and
- (2) debt *exposures* the economic substance of which is similar to the *exposures* specified in (1).

[Note: BCD Article 86(2)]

Calculation of risk-weighted exposure amounts

4.7.3
FCA

- R** Notwithstanding ■ BIPRU 4.3.5 R (Relevant parameters), the calculation of *risk weighted exposure amounts* for credit risk for all *exposures* belonging to the *equity exposure IRB exposure class* must be calculated in accordance with one of the following ways:

- (1) the simple risk weight approach (see ■ BIPRU 4.7.8 R;
- (2) the *PD/LGD approach* (see ■ BIPRU 4.7.13 R); and
- (3) the internal models approach (see ■ BIPRU 4.7.23 R);

in accordance with ■ BIPRU 4.7 and subject to the *firm's IRB permission*.

[Note: BCD Article 87(4) (part)]

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4.7.4
FCA

- R** Even if a *firm's IRB permission* would otherwise permit the use of the internal models approach as referred to in ■ BIPRU 4.7.3 R (3), it may only use that approach if it meets the minimum requirements in ■ BIPRU 4.7.27 R - ■ BIPRU 4.7.35 R.

[Note: BCD Article 87(4) (part)]

4.7.5

FCA

R

A *firm* may employ different approaches to different portfolios where the *firm* itself uses different approaches internally. A *firm* must, if it uses different approaches in accordance with the previous sentence, be able to demonstrate to the *appropriate regulator* that the choice is made consistently and is not determined by regulatory arbitrage considerations.

[Note: BCD Annex VII Part 1 point 17]

4.7.6

FCA

R

Notwithstanding ■ BIPRU 4.7.5 R a firm may, if its *IRB permission* permits it to do so, attribute the *risk weighted exposure amounts* for *equity exposures* to *ancillary services undertakings* according to the treatment of *non credit-obligation assets*.

[Note: BCD Annex VII Part 1 point 18]

Exposure value

4.7.7

FCA

R

The *exposure* value must be the value presented in the financial statements. Admissible *equity exposure* measures are the following:

- (1) for investments held at fair value with changes in value flowing directly through income and into *capital resources*, the *exposure* value is the fair value presented in the balance sheet;
- (2) for investments held at fair value with changes in value not flowing through income but into a tax-adjusted separate component of equity, the *exposure* value is the fair value presented in the balance sheet; and
- (3) for investments held at cost or at the lower of cost or market value, the *exposure* value is the cost or market value presented in the balance sheet.

[Note: BCD Annex VII Part 3 point 12]

The calculation of risk-weighted exposure amounts for equity exposures: The simple risk weight approach: Introduction

4.7.8

FCA

R

■ BIPRU 4.7.9 R to ■ BIPRU 4.7.12 R set out the simple risk weight approach for calculating the *risk weighted exposure amounts* for *equity exposures* as referred to in ■ BIPRU 4.7.3 R (1).

**The calculation of risk-weighted exposure amounts for equity exposures:
The simple risk weight approach: Risk weighted exposure amounts**

4.7.9

FCA

R The *risk weighted exposure amounts* must be calculated according to the following formula:

risk-weighted exposure amounts = RW * *exposure value*;

where:

- (1) *risk weight* (RW) = 190% for private *equity exposures* in sufficiently diversified portfolios;
- (2) *risk weight* (RW) = 290% for exchange traded *equity exposures*; and
- (3) *risk weight* (RW) = 370% for all other *equity exposures*.

[Note: BCD Annex VII Part 1 point 19]

4.7.10

FCA

R Short cash positions and derivative instruments held in the *non-trading book* are permitted to offset long positions in the same individual stocks provided that these instruments have been explicitly designated as hedges of specific *equity exposures* and that they provide a hedge for at least another year. Other short positions must be treated as if they are long positions with the relevant *risk weight* assigned to the absolute value of each position. In the context of maturity mismatched positions, the method is that for *corporate exposures* as set out in ■ BIPRU 4.4.70 R.

[Note: BCD Annex VII Part 1 point 20]

4.7.11

FCA

R A *firm* may recognise *unfunded credit protection* obtained on an *equity exposure* in accordance with the methods set out in ■ BIPRU 5 (Credit risk mitigation), as modified by ■ BIPRU 4.10.

[Note: BCD Annex VII Part 1 point 21]

**The calculation of risk-weighted exposure amounts for equity exposures:
The simple risk weight approach: Expected loss**

4.7.12

FCA

R The *expected loss* amounts for *equity exposures* must be calculated according to the following formula:

- (1) *expected loss* amount = EL × *exposure value*; and
- (2) the *EL* values must be the following:
 - (a) *expected loss* (EL) = 0.8% for private *equity exposures* in sufficiently diversified portfolios;
 - (b) *expected loss* (EL) = 0.8% for exchange traded *equity exposures*; and

(c) *expected loss (EL) = 2.4% for all other equity exposures.*

[Note: BCD Annex VII Part 1 point 32]

**The calculation of risk-weighted exposure amounts for equity exposures:
The PD/LGD approach: Introduction**

4.7.13

FCA

R

■ BIPRU 4.7.14 R to ■ BIPRU 4.7.22 R set out the *PD/LGD approach* for calculating the *risk weighted exposure amounts* for *equity exposures*.

**The calculation of risk-weighted exposure amounts for equity exposures:
The PD/LGD approach: Risk weighted exposure amounts**

4.7.14

FCA

R

The *risk weighted exposure amounts* must be calculated according to the formulas in ■ BIPRU 4.4.58 R (Risk weighted exposure amounts for sovereigns, institutions and corporates). If a *firm* does not have sufficient information to use the definition of *default* a scaling factor of 1.5 must be assigned to the *risk weights*.

[Note: BCD Annex VII Part 1 point 22]

4.7.15

FCA

R

At the individual *exposure* level the sum of the *expected loss* amount multiplied by 12.5 and the *risk weighted exposure amount* must not exceed the *exposure* value multiplied by 12.5.

[Note: BCD Annex VII Part 1 point 23]

4.7.16

FCA

R

A *firm* may recognise *unfunded credit protection* obtained on an *equity exposure* in accordance with the methods set out in ■ BIPRU 5 (Credit risk mitigation) as modified by ■ BIPRU 4.10. This must be subject to an *LGD* of 90% on the *exposure* to the provider of the hedge. For private *equity exposures* in sufficiently diversified portfolios an *LGD* of 65% may be used.

[Note: BCD Annex VII Part 1 point 24]

**The calculation of risk-weighted exposure amounts for equity exposures:
The PD/LGD approach: Calculation of expected loss amounts**

4.7.17

FCA

R

The *expected loss* amounts for *equity exposures* must be calculated according to the following formulae:

(1) *expected loss (EL) = PD × LGD*; and

(2) *expected loss amount = EL × exposure value*.

[Note: BCD Annex VII Part 1 point 33]

**The calculation of risk-weighted exposure amounts for equity exposures:
The PD/LGD approach: PDs**

4.7.18

FCA

R

PDs must be determined according to the methods for *corporate exposures*.
The following minimum *PDs* must be applied:

- (1) 0.09% for exchange traded *equity exposures* where the investment is part of a long-term customer relationship;
- (2) 0.09% for non-exchange traded *equity exposures* where the returns on the investment are based on regular and periodic cash flows not derived from capital gains;
- (3) 0.40% for exchange traded *equity exposures* including other short positions as set out in ■ BIPRU 4.7.10 R; and
- (4) 1.25% for all other *equity exposures* including other short positions as set out in ■ BIPRU 4.7.10 R.

[Note: BCD Annex VII Part 2 point 24]

4.7.19

FCA

R

■ BIPRU 4.4.29 G (five year observation period) applies to the *PD/LGD approach*.

[Note: BCD Annex VII Part 4 point 66 (part)]

**The calculation of risk-weighted exposure amounts for equity exposures:
The PD/LGD approach: LGDs**

4.7.20

FCA

R

Private *equity exposures* in sufficiently diversified portfolios may be assigned an *LGD* of 65%.

[Note: BCD Annex VII Part 2 point 25]

4.7.21

FCA

R

All other *exposures* must be assigned an *LGD* of 90%.

[Note: BCD Annex VII Part 2 point 26]

**The calculation of risk-weighted exposure amounts for equity exposures:
The PD/LGD approach: Maturity**

4.7.22

FCA

R

M (maturity) assigned to all *exposures* must be 5 years.

[Note: BCD Annex VII Part 2 point 27]

**The calculation of risk-weighted exposure amounts for equity exposures:
The internal models approach: Introduction**

4.7.23

FCA

R

■ BIPRU 4.7.24 R to ■ BIPRU 4.7.35 R set out the internal models approach for calculating the *risk weighted exposure amounts* for *equity exposures* as referred to in ■ BIPRU 4.7.3 R (3).

4.7.24

FCA

R

**The calculation of risk-weighted exposure amounts for equity exposures:
The internal models approach: Risk weighted exposure amounts**

The *risk weighted exposure amount* is the potential *loss* on the *firm's equity exposures* as derived using internal value-at-risk models subject to the 99th percentile, one-tailed confidence interval of the difference between quarterly returns and an appropriate risk-free rate computed over a long-term sample period, multiplied by 12.5. The *risk weighted exposure amounts* at the *equity exposure* portfolio level must not be less than the total of the sums of the minimum *risk weighted exposure amounts* required under the *PD/LGD approach* and the corresponding *expected loss* amounts multiplied by 12.5 and calculated on the basis of the *PD* values set out in ■ BIPRU 4.7.18 R (1) and the corresponding *LGD* values set out in ■ BIPRU 4.7.20 R and ■ BIPRU 4.7.21 R.

[Note: BCD Annex VII Part 1 point 25]

4.7.25

FCA

R

A *firm* may recognise *unfunded credit protection* obtained on an *equity position*.

[Note: BCD Annex VII Part 1 point 26]

**The calculation of risk weighted exposure amounts for equity exposures:
The internal models approach: Expected loss amounts**

4.7.26

FCA

R

The *expected loss* amounts for *equity exposures* under the internal models approach must be 0%.

[Note: BCD Annex VII Part 1 point 34]

**The calculation of risk weighted exposure amounts for equity exposures:
The internal models approach: Capital requirements and risk quantification**

4.7.27

FCA

R

- (1) A *firm* must meet the standards set out in (2) to (9) for the purpose of calculating capital requirements.
- (2) The estimate of potential *loss* must be robust to adverse market movements relevant to the long-term risk profile of the *firm's* specific holdings. The data used to represent return distributions must reflect the longest sample period for which data is available and be meaningful in representing the risk profile of the *firm's* specific *equity exposures*. The data used must be sufficient to provide conservative, statistically reliable and robust loss estimates that are not based purely on subjective or judgmental considerations. A *firm* must be able to demonstrate to the *appropriate regulator* that the shock employed provides a conservative estimate of potential *losses* over a relevant long-term market or business cycle.

- (3) A *firm* must combine empirical analysis of available data with adjustments based on a variety of factors in order to attain model outputs that achieve appropriate realism and conservatism. In constructing Value at Risk (VaR) models estimating potential quarterly losses, a *firm* may use quarterly data or convert shorter horizon period data to a quarterly equivalent using an analytically appropriate method supported by empirical evidence and through a well-developed and documented thought process and analysis. Such an approach must be applied conservatively and consistently over time. Where only limited relevant data is available a *firm* must add appropriate margins of conservatism.
- (4) The models used must be able to capture adequately all of the material risks embodied in equity returns including both the *general market risk* and *specific risk* exposure of the *firm's equity exposure* portfolio. The internal models must adequately explain historical price variation, capture both the magnitude and changes in the composition of potential concentrations, and be robust to adverse market environments. The population of risk *exposures* represented in the data used for estimation must be closely matched to or at least comparable with those of the *firm's equity exposures*.
- (5) The internal model must be appropriate for the risk profile and complexity of a *firm's equity exposure* portfolio. Where a *firm* has material holdings with values that are highly non-linear in nature the internal models must be designed to capture appropriately the risks associated with such instruments.
- (6) Mapping of individual positions to proxies, market indices, and risk factors must be plausible, intuitive, and conceptually sound.
- (7) A *firm* must be able to demonstrate to the *appropriate regulator* through empirical analyses the appropriateness of risk factors, including their ability to cover both *general market risk* and *specific risk*.
- (8) The estimates of the return volatility of *equity exposures* must incorporate relevant and available data, information, and methods. Independently reviewed internal data or data from external sources (including pooled data) must be used.
- (9) A rigorous and comprehensive stress-testing programme must be in place.

[Note: BCD Annex VII Part 4 point 115]

4.7.28

FCA

R

The calculation of risk-weighted exposure amounts for equity exposures: The internal models approach: Risk management and controls

- (1) With regard to the development and use of internal models for capital requirement purposes, a *firm* must establish policies, procedures, and controls to ensure the integrity of the model and modelling process. These policies, procedures, and controls must include the ones set out in the rest of this paragraph.
- (2) There must be full integration of the internal model into the overall management information systems of the *firm* and in the management of the *non-trading book equity exposure* portfolio. In particular they must be used in:
 - (a) measuring and assessing *equity exposure* portfolio performance (including the risk adjusted performance);
 - (b) allocating economic capital to *equity exposures*; and
 - (c) evaluating overall capital adequacy and the investment management process.
- (3) A *firm* must have established management systems, procedures, and control functions for ensuring the periodic and independent review of all elements of the internal modelling process, including approval of model revisions, vetting of model inputs, and review of model results, such as direct verification of risk computations. These reviews must assess the accuracy, completeness, and appropriateness of model inputs and results and focus on both finding and limiting potential errors associated with known weaknesses and identifying unknown model weaknesses. Such reviews may be conducted by an internal independent unit, or by an independent external third party.
- (4) There must be adequate systems and procedures for monitoring investment limits and the risk exposures of *equity exposures*.
- (5) The units responsible for the design and application of the model must be functionally independent from the units responsible for managing individual investments.
- (6) Parties responsible for any aspect of the modelling process must be adequately qualified. Management must allocate sufficient skilled and competent resources to the modelling function.

[Note: BCD Annex VII Part 4 point 116]

The calculation of risk-weighted exposure amounts for equity exposures: The internal models approach: Validation and documentation

4.7.29

FCA

R

A *firm* must have a robust system in place to validate the accuracy and consistency of its internal models and modelling processes. All material elements of the internal models and the modelling process and validation must be documented.

[Note: BCD Annex VII Part 4 point 117]

4.7.30

FCA

R

A *firm* must use the internal validation process to assess the performance of its internal models and processes in a consistent and meaningful way.

[Note: BCD Annex VII Part 4 point 118]

4.7.31

FCA

R

The methods and data used for quantitative validation must be consistent through time. Changes in estimation and validation methods and data (both data sources and periods covered) must be documented.

[Note: BCD Annex VII Part 4 point 119]

4.7.32

FCA

R

A *firm* must regularly compare actual *equity exposure* returns (computed using realised and unrealised gains and losses) with modelled estimates. Such comparisons must make use of historical data that cover as long a period as possible. A *firm* must document the methods and data used in such comparisons. This analysis and documentation must be updated at least annually.

[Note: BCD Annex VII Part 4 point 120]

4.7.33

FCA

R

A *firm* must make use of other quantitative validation tools and comparisons with external data sources. The analysis must be based on data that are appropriate to the portfolio, are updated regularly, and cover a relevant observation period. A *firm's* internal assessments of the performance of its models must be based on as long a period as possible.

[Note: BCD Annex VII Part 4 point 121]

4.7.34

FCA

R

A *firm* must have sound internal standards for situations where comparison of actual *equity exposure* returns with the models' estimates calls the validity of the estimates or of the models as such into question. These standards must take account of business cycles and similar systematic variability in *equity exposure* returns. All adjustments made to internal models in response to model reviews must be documented and consistent with the *firm's* model review standards.

[Note: BCD Annex VII Part 4 point 122]

4.7.35

FCA

R

The internal model and the modelling process must be documented, including the responsibilities of parties involved in the modelling, and the model approval and model review processes.

[Note: *BCD Annex VII Part 4 point 123*]

4.8 The IRB approach: Purchased receivables

Application

4.8.1

R

■ BIPRU 4.8 applies with respect to purchased receivables.

FCA

4.8.2

G

Purchased receivables do not form an *IRB exposure class* on their own. For any purchased receivable, the provisions of the sections of ■ BIPRU 4 that deal with the *IRB exposure class* to which it belongs also apply, as modified by this section.

FCA

[Note: BCD Annex VII Part 4 point 15 (part)]

Structure of rating systems

4.8.3

R

For *retail exposure* that are purchased receivables, the grouping referred to in ■ BIPRU 4.6.9 R must reflect the seller's underwriting practices and the heterogeneity of its customers.

FCA

Risk quantification: Overall requirements for estimation: General

4.8.4

G

Further general material about the requirements for estimation can be found in ■ BIPRU 4.3.73 R - ■ BIPRU 4.3.94 R.

FCA

4.8.5

R

The estimates for determining the risk parameters *PD*, *LGD*, *conversion factor* and *EL* must reflect all relevant information available to the purchasing *firm* regarding the quality of the underlying receivables, including data for similar pools provided by the seller, by the purchasing *firm*, or by external sources. The purchasing *firm* must evaluate any data relied upon which is provided by the seller.

FCA

[Note: BCD Annex VII Part 4 point 53]

Risk quantification: Overall requirements for estimation: Requirements specific to PD estimation

4.8.6

R

With respect to ■ BIPRU 4.6.26 R (Internal and external data for PD estimation: retail exposures) a *firm* may use external and internal reference data for *PD* estimation. A *firm* must use all relevant data sources as points of comparison.

FCA

[Note: BCD Annex VII Part 4 point 69 (part)]

4.8.7 **R** For *corporate exposure* purchased receivables a *firm* may estimate *ELs* by obligor grade from long run averages of one-year realised *default* rates.

FCA

[Note: BCD Annex VII Part 4 point 60]

4.8.8 **R** If a *firm* derives long run average estimates of *PDs* and *LGDs* for *corporate exposure* purchased receivables from an estimate of *EL*, and an appropriate estimate of *PD* or *LGD*, the process for estimating total losses must meet the overall standards for estimation of *PD* and *LGD* set out in the *minimum IRB standards*, and the outcome must be consistent with the concept of *LGD* as set out in ■ BIPRU 4.3.99 R.

FCA

[Note: BCD Annex VII Part 4 point 61]

Risk quantification: Overall requirements for estimation: Requirements specific to own-LGD estimates

4.8.9 **R** A *firm* may use external and internal reference data for its *LGD* estimates in the case of *retail exposures* that are purchased receivables.

FCA

[Note: BCD Annex VII Part 4 point 85]

Risk quantification: Overall requirements for estimation: Minimum requirements for purchased receivables: General

4.8.10 **R** ■ BIPRU 4.8.11 R - ■ BIPRU 4.8.15 R set out minimum requirements specific to the treatment of purchased receivables under the *IRB approach*.

FCA

Risk quantification: Overall requirements for estimation: Minimum requirements for purchased receivables: Legal certainty

4.8.11 **R** The structure of the facility must ensure that under all foreseeable circumstances a *firm* has effective ownership and control of all cash remittances from the receivables. When the obligor makes payments directly to a seller or servicer a *firm* must verify regularly that payments are forwarded completely and within the contractually agreed terms. Servicer means an entity that manages a pool of purchased receivables or the underlying credit *exposures* on a day-to-day basis. A *firm* must have procedures to ensure that ownership over the receivables and cash receipts is protected against bankruptcy stays or legal challenges that could materially delay the lender's ability to liquidate or assign the receivables or retain control over cash receipts.

FCA

[Note: BCD Annex VII Part 4 point 105]

Risk quantification: Overall requirements for estimation: Minimum requirements for purchased receivables: Effectiveness of monitoring systems

4.8.12 **R** (1) A *firm* must monitor both the quality of the purchased receivables and the financial condition of the seller and servicer.

FCA

In particular a *firm* must comply with the remaining provisions of this *rule*.

- (2) A *firm* must assess the correlation among the quality of the purchased receivables and the financial condition of both the seller and servicer, and have in place internal policies and procedures that provide adequate safeguards to protect against such contingencies, including the assignment of an internal risk rating for each seller and servicer.
- (3) A *firm* must have clear and effective policies and procedures for determining seller and servicer eligibility. A *firm* or its agent must conduct periodic reviews of sellers and servicers in order to verify the accuracy of reports from the seller or servicer, detect fraud or operational weaknesses, and verify the quality of the seller's credit policies and servicer's collection policies and procedures. The findings of these reviews must be documented.
- (4) A *firm* must assess the characteristics of the purchased receivables pools including:
 - (a) over-advances;
 - (b) history of the seller's arrears, bad debts, and bad debt allowances;
 - (c) payment terms; and
 - (d) potential contra accounts.
- (4) A *firm* must have effective policies and procedures for monitoring on an aggregate basis single-obligor concentrations both within and across purchased receivables pools.
- (5) A *firm* must ensure that it receives from the servicer timely and sufficiently detailed reports of receivables ageings and dilutions to ensure compliance with the *firm's* eligibility criteria and advancing policies governing purchased receivables, and provide an effective means with which to monitor and confirm the seller's terms of sale and dilution.

[Note: BCD Annex VII Part 4 point 106]

Risk quantification: Overall requirements for estimation: Minimum requirements for purchased receivables: Effectiveness of work-out systems

A *firm* must have systems and procedures for detecting deteriorations in the seller's financial condition and purchased receivables quality at an early stage, and for addressing emerging problems proactively. In particular a *firm* must have clear and effective policies, procedures, and information systems to monitor covenant violations, and clear and effective policies

and procedures for initiating legal actions and dealing with problem purchased receivables.

[Note: BCD Annex VII Part 4 point 107]

Risk quantification: Overall requirements for estimation: Minimum requirements for purchased receivables: Effectiveness of systems for controlling collateral, credit availability and cash

4.8.14

FCA

R

A *firm* must have clear and effective policies and procedures governing the control of purchased receivables, credit, and cash. In particular, written internal policies must specify all material elements of the receivables purchase programme, including the advancing rates, eligible collateral, necessary documentation, concentration limits, and the way cash receipts are to be handled. These elements must take appropriate account of all relevant and material factors, including the seller's and servicer's financial condition, risk concentrations, and trends in the quality of the purchased receivables and the seller's customer base, and internal systems must ensure that funds are advanced only against specified supporting collateral and documentation.

[Note: BCD Annex VII Part 4 point 108]

Risk quantification: Overall requirements for estimation: Minimum requirements for purchased receivables: Compliance with the firm's internal policies and procedures

4.8.15

FCA

R

A *firm* must have an effective internal process for assessing compliance with all internal policies and procedures. The process must include regular audits of all critical phases of the *firm's* receivables purchase programme, verification of the separation of duties between, firstly, the assessment of the seller and servicer and the assessment of the obligor and, secondly, between the assessment of the seller and servicer and the field audit of the seller and servicer and evaluations of back office operations, with particular focus on qualifications, experience, staffing levels, and supporting automation systems.

[Note: BCD Annex VII Part 4 point 109]

Calculation of risk-weighted asset amounts: Eligibility for different treatments: Corporate exposures

4.8.16

FCA

R

For its *corporate exposure* purchased receivables a *firm* must comply with the minimum requirements set out in ■ BIPRU 4.8.11 R - ■ BIPRU 4.8.15 R. For *corporate exposure* purchased receivables that comply in addition with the conditions set out in ■ BIPRU 4.8.18 R, and where it would be unduly burdensome for a *firm* to use the risk quantification standards for *corporate exposures* as set out in the *minimum IRB standards* for these receivables, the risk quantification standards for *retail exposures* as set out in the *minimum IRB standards* may be used.

[Note: BCD Annex VII Part 1 point 7]

4.8.17

FCA

R

For *corporate exposure* purchased receivables, refundable purchase discounts, collateral or partial guarantees that provide first-loss protection for *default losses*, *dilution losses*, or both, may be treated as first-loss positions under the provisions in ■ BIPRU 9 (Securitisation) about the *IRB approach*.

[Note: BCD Annex VII Part 1 point 8]

Calculation of risk weighted asset amounts: Eligibility for different treatments: Retail exposures

4.8.18

FCA

R

To be eligible for the *retail exposure* treatment purchased receivables must comply with the minimum requirements set out in ■ BIPRU 4.8.11 R - ■ BIPRU 4.8.15 R and the following conditions:

- (1) the *firm* has purchased the receivables from unrelated, third party sellers, and its *exposure* to the obligor of the receivable does not include any *exposures* that are directly or indirectly originated by the *firm* itself;
- (2) the purchased receivables must be generated on an arm's-length basis between the seller and the obligor (and as such, intercompany accounts receivables and receivables subject to contra-accounts between firms that buy and sell to each other are ineligible);
- (3) the purchasing *firm* has a claim on all proceeds from the purchased receivables or a pro-rata interest in the proceeds; and
- (4) the portfolio of purchased receivables is sufficiently diversified.

[Note: BCD Annex VII Part 1 point 14]

4.8.19

FCA

R

With respect to *retail exposures*, for purchased receivables, refundable purchase discounts, collateral or partial guarantees that provide first-loss protection for *default losses*, *dilution losses*, or both, may be treated as first-loss positions under the provisions in ■ BIPRU 9 (Securitisation) about the *IRB approach*.

[Note: BCD Annex VII Part 1 point 15]

4.8.20

FCA

R

For hybrid pools of purchased *retail exposure* receivables where the purchasing *firm* cannot separate *exposures* secured by real estate collateral and *qualifying revolving retail exposures* from other *retail exposures*, the retail *risk weight* function producing the highest capital requirements for those *exposures* must apply.

[Note: BCD Annex VII Part 1 point 16]

4.8.21

FCA

R

Calculation of risk weighted asset amounts for dilution risk

The *risk weights* for *dilution risk* for purchased receivables (both *corporate exposures* and *retail exposures*) must be calculated according to this *rule*. The *risk weights* must be calculated according to the formula in ■ BIPRU 4.4.58 R. However, for the purposes of that formula, the total annual sales referred to in ■ BIPRU 4.4.59 R are the weighted average by individual *exposures* of the pool. The input parameters *PD* and *LGD* and the *exposure* value must be determined under the applicable provisions of ■ BIPRU 4 as modified by this section. *M* (maturity) must be 1 year. However:

- (1) a *firm* need not recognise *dilution risk* if its *IRB permission* permits this; and
- (2) (in the case of a *firm* with an *IRB permission* that permits the treatment of *dilution risk* in (1)) the *firm* must be able to convince the *appropriate regulator* that *dilution risk* is immaterial.

[Note: BCD Article 87(2) (part) and Annex VII Part 1 point 28]

4.8.22

FCA

R

Calculation of risk weighted exposure amounts: PDs

For purchased *corporate exposure* receivables in respect of which a *firm* cannot demonstrate that its *PD* estimates meet the *minimum IRB standards*, the *PDs* for these *exposures* must be determined according to the following methods:

- (1) for senior claims on purchased *corporate exposure* receivables *PD* must be the *firm's* estimate of *EL* divided by *LGD* for these receivables;
- (2) for subordinated claims on purchased *corporate exposure* receivables *PD* must be the *firm's* estimate of *EL*; and
- (3) if a *firm* is under its *IRB permission* using the *advanced IRB approach* for *LGD* estimates for *corporate exposures* and it can decompose its *EL* estimates for purchased *corporate exposure* receivables into *PDs* and *LGDs* in a reliable manner, the *LGD* estimate may be used.

[Note: BCD Annex VII Part 2 point 3]

4.8.23

FCA

R

In the case of *corporate exposures*, for *dilution risk* of purchased receivables *PD* must be set equal to *EL* estimate for *dilution risk*. If a *firm* is under its *IRB permission* using the *advanced IRB approach* for *LGD* estimates for *corporate exposures* and it can decompose its *EL* estimates for *dilution risk* of purchased *corporate exposure* receivables into *PDs* and *LGDs* in a reliable manner, the *PD* estimate may be used. A *firm* may recognise *unfunded credit protection* in the *PD* in accordance with the provisions of ■ BIPRU 9 and ■ BIPRU 5 as modified by

■ BIPRU 4.10. A *firm* may recognise those *unfunded credit protection* providers set out in its *IRB permission* in addition to those indicated in the *CRM eligibility conditions*. Where a *firm's IRB permission* allows it to use its own *LGD* estimates for *dilution risk* of purchased corporate receivables, the *firm* may recognise *unfunded credit protection* by adjusting *PDs* subject to the provisions of ■ BIPRU 4.4.43 R.

[Note: BCD Annex VII Part 2 point 7]

4.8.24

FCA

R

In the case of *retail exposures*, for *dilution risk* of purchased receivables *PD* must be set equal to *EL* estimates for *dilution risk*. If a *firm* can decompose its *EL* estimates for *dilution risk* of purchased receivables into *PDs* and *LGDs* in a reliable manner, the *PD* estimate may be used.

[Note: BCD Annex VII Part 2 point 19]

Calculation of risk weighted asset amounts: LGDs: Corporate exposures

4.8.25

FCA

R

The following *LGD* values apply for purchased *corporate exposure* receivables:

- (1) for senior purchased *corporate exposure* receivables *exposures* where a *firm* cannot demonstrate that its *PD* estimates meet the *minimum IRB standards*, the value is 45%;
- (2) for subordinated purchased *corporate exposure* receivables *exposures* where a *firm* cannot demonstrate that its *PD* estimates meet the *minimum IRB standards*, the value is 100%; and
- (3) for *dilution risk* of purchased *corporate exposure* receivables, the value is 75%.

[Note: BCD Annex VII Part 2 point 8(e) to (g)]

4.8.26

FCA

R

Notwithstanding ■ BIPRU 4.4.34 R and ■ BIPRU 4.8.25 R, for *dilution risk* and *default risk* if a *firm* is under its *IRB permission* using the *advanced IRB approach* for *LGD* estimates for *corporate exposures* and it can decompose its *EL* estimates for purchased *corporate exposure* receivables into *PDs* and *LGDs* in a reliable manner, the *LGD* estimate for purchased *corporate exposure* receivables may be used.

[Note: BCD Annex VII Part 2 point 9]

Calculation of risk weighted asset amounts: LGDs: Retail exposures

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105

4.8.27

FCA

R

For *dilution risk* of purchased *retail exposure* receivables an *LGD* value of 75% must be used. If a *firm* can decompose its *EL* estimates for *dilution risk* of purchased receivables into *PDs* and *LGDs* in a reliable manner, the *LGD* estimate may be used.

[Note: BCD Annex VII Part 2 point 21]

Calculation of risk weighted asset amounts: Exposure value

4.8.28

FCA

R

The *exposure* value for the calculation of *risk weighted exposure amounts* of purchased receivables must be the outstanding amount minus the capital requirements for *dilution risk* prior to *credit risk mitigation*.

[Note: BCD Annex VII Part 3 point 6]

4.8.29

FCA

R

- (1) The *exposure* value for the items in (2) must be calculated as the committed but undrawn amount multiplied by a *conversion factor*.
- (2) For undrawn purchase commitments for revolving purchased receivables that are unconditionally cancellable or that effectively provide for automatic cancellation at any time by the *firm* without prior notice, a *conversion factor* of 0% applies. To apply a *conversion factor* of 0%, a *firm* must actively monitor the financial condition of the obligor, and its internal control systems must enable it immediately to detect a deterioration in the credit quality of the obligor.

[Note: BCD Annex VII Part 3 point 9 (c)]

Calculation of expected loss amounts

4.8.30

FCA

R

The *expected loss* amounts for *dilution risk* of purchased receivables must be calculated according to the following formula:

expected loss (EL) = PD × LGD; and

expected loss amount = EL × exposure value.

[Note: BCD Article 88(5) and Annex VII Part 1 point 35]

4.9 The IRB approach: Securitisation, non-credit obligations assets and CIUs

Application

4.9.1
FCA

R BIPRU 4.9 applies with respect to *securitisation exposures, non credit-obligation assets and exposures to CIUs*.

Securitisation exposures

4.9.2
FCA

R The following must be calculated in accordance with ■ BIPRU 9 (Securitisation):

- (1) *risk-weighted exposure amounts for securitised exposures and for exposures belonging to the IRB exposure class referred to in ■ BIPRU 4.3.2 R (6) (securitisation positions); and*
- (2) *the expected loss amounts for securitised exposures.*

[Note: BCD Article 87(10) and Article 88(3)]

Provision of credit protection

4.9.3
FCA

R Where a *firm* provides credit protection for a number of *exposures* under terms that the *n*th default among the *exposures* shall trigger payment and that this credit event shall terminate the contract, if the product has an external credit assessment from an *eligible ECAI* the *risk weights* set out in ■ BIPRU 9 must be applied. If the product is not rated by an *eligible ECAI*, the *risk weights* of the *exposures* included in the basket must be aggregated, excluding *n-1 exposures* where the sum of the *expected loss* amount multiplied by 12.5 and the *risk weighted exposure amount* must not exceed the nominal amount of the protection provided by the credit derivative multiplied by 12.5. The *n-1 exposures* to be excluded from the aggregation must be determined on the basis that they must include those *exposures* each of which produces a lower *risk weighted exposure amount* than the *risk weighted exposure amount* of any of the *exposures* included in the aggregation.

[Note: BCD Annex VII Part 1 point 9]

4.9.4

FCA

R

Non credit obligation assets: Introduction

■ BIPRU 4.9.5 R-■ BIPRU 4.9.10 R apply to *non credit-obligation assets*.

4.9.5

FCA

R

Non credit obligation assets: Inclusion of residual value of leases

The *non credit obligation asset IRB exposure class* includes the residual value of leased properties, if not included in the lease *exposure* as defined in ■ BIPRU 4.4.75 R.

[Note: BCD Article 86(8)]

4.9.6

FCA

R

Non credit obligation assets: Risk weighted exposure amount

The *risk weighted exposure amounts* must be calculated according to the formula:

Risk-weighted exposure amount = 100% * *exposure* value except for when the *exposure* is a residual value of leased properties in which case it must be calculated as follows:

$1/t * 100\% * \textit{exposure}$ value; where *t* is the greater of 1 and the nearest number of whole years of the lease remaining.

[Note: BCD Annex VII Part 1 point 27]

4.9.7

FCA

G

t should be an integer number reflecting the nearest number of whole years of the lease remaining and should decrease as the lease matures so that the discounted value steps up gradually from a small value to 100% as the end of the lease approaches.

4.9.8

FCA

R

Where a *firm* has full recourse in respect of purchased receivables for *default risk* and for *dilution risk*, to the seller of the purchased receivables, ■ BIPRU 4.8.21 R and ■ BIPRU 4.8.30 R need not be applied. The *exposure* may instead be treated as a collateralised *exposure*.

[Note: BCD Article 87(2) (part)]

4.9.9

FCA

R

Non credit obligation assets: Exposure value

The *exposure* value of *non credit-obligation assets* must be the value presented in the financial statements.

[Note: BCD Annex VII Part 3 point 13]

4.9.10

FCA

R

Non credit obligation assets: Expected loss amounts

For *non credit-obligation assets* the *expected loss* amount must be zero.

[Note: BCD Article 88(4)]

4.9.11

FCA

R

Collective investment undertakings

- (1) Where *exposures* in the form of a *CIU* meet the criteria set out in ■ BIPRU 3.4.121 R to ■ BIPRU 3.4.122 R (Conditions for look through treatment under the standardised approach) and the *firm* is aware of all of the underlying *exposures* of the *CIU*, the *firm* must look through to those underlying *exposures* in order to calculate *risk weighted exposure amounts* and *expected loss* amounts in accordance with the methods set out in ■ BIPRU 4. ■ BIPRU 4.9.12 R applies to the part of the underlying *exposures* of the *CIU* of which the *firm* is not aware or could not reasonably be aware. In particular, ■ BIPRU 4.9.12 R must apply where it would be unduly burdensome for the *firm* to look through the underlying *exposures* in order to calculate *risk weighted exposure amounts* and *expected loss* amounts in accordance with methods set out in this *rule*.
- (2) Where (1) applies but a *firm* does not meet the conditions for using the methods set out in ■ BIPRU 4 for all or part of the underlying *exposures* of the *CIU*, *risk weighted exposure amounts* and *expected loss* amounts must be calculated in accordance with the following approaches.
- (3) For *equity exposures* the approach set out in ■ BIPRU 4.7.9 R - ■ BIPRU 4.7.12 R (Simple risk weights) must be used. If, for those purposes, the *firm* is unable to differentiate between private equity, exchange-traded and other *equity exposures*, it must treat the *exposures* concerned as other *equity exposures*.
- (4) For all other underlying *exposures*, the *standardised approach* must be used, subject to the following modifications:
 - (a) [deleted]
 - (b) [deleted]
 - (c) for *exposures* subject to a specific *risk weight* for unrated *exposures* or subject to the *credit quality step* yielding the highest *risk weight* for a given exposure class, the *risk weight* must be multiplied by a factor of two, but cannot be higher than 1250%; and
 - (d) for all other *exposures*, the *risk weight* must be multiplied by a factor of 1.1 and subject to a minimum of 5%.

[Note: BCD Article 87(11)]

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109

4.9.12

FCA

R

- (1) Where *exposures* in the form of a *CIU* do not meet the criteria set out in ■ BIPRU 3.4.121 R to ■ BIPRU 3.4.122 R (Conditions for look through treatment under the standardised approach) or the *firm* is not aware of all of the underlying *exposures* of the *CIU*, a *firm* must look through to the underlying *exposures* and calculate *risk*

weighted exposure amounts and *expected loss* amounts in accordance with the approach set out in ■ BIPRU 4.7.9 R - ■ BIPRU 4.7.12 R (Simple risk weights). If, for those purposes, the *firm* is unable to differentiate between private equity, exchange-traded and other *equity exposures*, it must treat the *exposures* concerned as other *equity exposures*. For these purposes, non-equity *exposures* must be assigned to one of the classes (private equity, exchange traded equity or other equity) set out in ■ BIPRU 4.7.9 R (Simple risk weight approach) and unknown *exposures* must be assigned to the other equity class.

- (2) Alternatively to the method described in (1), a *firm* may calculate itself or rely on a third party to calculate and report the average *risk weighted exposure amounts* based on the *CIU's* underlying *exposures* and calculated in accordance with the approaches in ■ BIPRU 4.9.11R (3) to ■ BIPRU 4.9.11R (4), provided that the correctness of the calculation and the report is adequately ensured.
- (3) [deleted]
- (4) [deleted]
- (a) [deleted]
- (b) [deleted]

[Note: BCD Article 87(12)]

4.9.13

FCA

G

For the purposes of ■ BIPRU 4.9.12 R (1), in the case of non-equity *exposures* a *firm* should look at the risk profile of the underlying *exposures* and map these to an equivalent equity *risk weight*. For example, if the underlying *exposures* are exchange-traded, the *risk weight* of exchange-traded *equity exposures* will apply. If the underlying *exposures* are unknown, the *risk weight* of the other equity class will apply. Only under exceptional circumstances would supervisors expect to see non-equity *exposures* mapped to the diversified private equity *risk weight*.

4.9.14

FCA

G

For the purposes of ■ BIPRU 4.9.12 R (2), a *firm* should ensure that any third party relied on for the calculations and report possesses the necessary competence and experience to ensure that the calculations and report are correct.

4.9.15

FCA

R

The *expected loss* amounts for *exposures* referred to in ■ BIPRU 4.9.11 R - ■ BIPRU 4.9.12 R must be calculated in accordance with the methods set out in ■ BIPRU 4.4.61 R (Calculation of expected loss for sovereigns, institutions and corporates), ■ BIPRU 4.5.12 R - ■ BIPRU 4.5.14 R (Calculation of expected loss for specialised lending), ■ BIPRU 4.6.47 R - ■ BIPRU 4.6.48 R (Calculation of expected loss for retail exposures), ■ BIPRU 4.7.12 R, ■ BIPRU 4.7.17 R and ■ BIPRU 4.7.26 R (Calculation of

expected loss for equity exposures) and ■ BIPRU 4.8.30 R (Dilution risk of purchased receivables).

[Note: *BCD* Article 88(6)]

4.10 The IRB approach: Credit risk mitigation

Application

4.10.1

FCA

G

■ BIPRU 4.10 applies to all *exposures* treated under the *IRB approach*.

Purpose

4.10.2

FCA

G

■ BIPRU 4.10 sets out modifications to ■ BIPRU 5 (Credit risk mitigation) for those *exposures* for which the *IRB approach* is being used.

General

4.10.3

FCA

R

A *firm* using the *IRB approach*, but not using its own estimates of *LGD* and *conversion factors*, may recognise *credit risk mitigation* in accordance with ■ BIPRU 5 as modified by ■ BIPRU 4.10 in the calculation of *risk weighted exposure amounts* for the purposes of the calculation of the *credit risk capital component* or as relevant *expected loss* amounts for the purposes of the calculation in ■ GENPRU 2.2.191 R to ■ GENPRU 2.2.193 R or ■ GENPRU 2.2.236 R.

[Note: *BCD Article 91* (as it applies to the *IRB approach*)]

4.10.4

FCA

R

- (1) Where the requirements of ■ BIPRU 5.2.2 R - ■ BIPRU 5.2.8 R are met the calculation of *risk weighted exposure amounts*, and, as relevant, *expected loss* amounts, may be modified in accordance with ■ BIPRU 5 as modified by ■ BIPRU 4.10.
- (2) No *exposure* in respect of which *credit risk mitigation* is obtained must produce a higher *risk weighted exposure amount* or *expected loss* amount than an otherwise identical *exposure* in respect of which there is no *credit risk mitigation*.
- (3) Where the *risk weighted exposure amount* already takes account of credit protection under the *IRB approach* the calculation of the credit protection must not be further recognised under ■ BIPRU 5 or ■ BIPRU 4.10.
- (4) Subject to ■ BIPRU 5.2.8 R (Maturity mismatches), ■ BIPRU 5.2.9 R (Combinations of credit risk mitigation in the standardised

approach) and ■ BIPRU 5.7.27 R to ■ BIPRU 5.7.28 R (Basket credit risk mitigation techniques), where the *CRM eligibility conditions* and the *CRM minimum requirements* are satisfied, the calculation of *risk weighted exposure amounts* and *expected loss* amounts under the *IRB approach* may be modified in accordance with the provisions of ■ BIPRU 5 and ■ BIPRU 4.10 that deal with calculating the effects of credit risk mitigation.

[Note: BCD Article 93 and Annex VIII Part 3 point 1 (as they apply to the *IRB approach*)]

Eligibility of funded credit protection: General

4.10.5

FCA

R

In addition to the collateral set out in ■ BIPRU 5.3.1 R to ■ BIPRU 5.3.2 R, ■ BIPRU 5.4.1 R to ■ BIPRU 5.4.8 R and ■ BIPRU 5.6.1 R (Eligibility of funded credit protection) the provisions of ■ BIPRU 4.10.6 R - ■ BIPRU 4.10.12 R (Eligibility of real estate collateral), ■ BIPRU 4.10.14 R (Eligibility: receivables), ■ BIPRU 4.10.16 R (Eligibility: other physical collateral), and ■ BIPRU 4.10.19 R (Eligibility: leasing), apply where a *firm* calculates *risk weighted exposure amounts* and *expected loss* amounts under the *IRB approach*.

[Note: BCD Annex VIII Part 1 point 12]

Real estate collateral: Types of eligible collateral: General

4.10.6

FCA

R

- (1) Residential real estate property which is or will be occupied or let by the owner or the beneficial owner in the case of personal investment companies and commercial real estate property, that is offices and other commercial premises, may be recognised as eligible collateral where the conditions set out in the remaining provisions of this paragraph are met.
- (2) The value of the property must not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower.
- (3) The risk of the borrower must not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility must not materially depend on any cash flow generated by the underlying property serving as collateral.

[Note: BCD Annex VIII Part 1 point 13]

4.10.7

FCA

R

The condition in ■ BIPRU 4.10.6 R (3) does not apply to *exposures* secured by residential real estate property situated within the *United Kingdom*.

[Note: BCD Annex VIII Part 1 point 16 (part)]

4.10.8

FCA

G

- (1) Under paragraph 16 of Part 1 of Annex VIII of the *Banking Consolidation Directive*, a *competent authority* may only disapply the condition in ■ BIPRU 4.10.6 R (3) if the *competent authority* has evidence that the relevant market is well-developed and long-established with loss-rates which are sufficiently low to justify such action.
- (2) If the evidence were to change so that the action was no longer justified the *appropriate regulator* would expect to revoke ■ BIPRU 4.10.7 R.

4.10.9

FCA

R

- (1) The condition in ■ BIPRU 4.10.6 R (3) does not apply for *exposures* secured by residential real estate property situated within the territory of another *EEA State*.
- (2) However (1) only applies if and to the extent that the *CRD implementation measures* for that *EEA State* in relation to the *IRB approach* implement the option set out in paragraph 16 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (waiver for residential real estate property) with respect to residential real estate property situated within that *EEA State*. Therefore (1) does not apply if the eligibility to use this treatment under those measures ceases as contemplated under paragraph 18 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (suspension of alternative treatment).

[Note: BCD Annex VIII Part 1 point 16 (part)]

4.10.10

FCA

R

- (1) The condition in ■ BIPRU 4.10.6 R (3) does not apply for commercial real estate property situated within the territory of another *EEA State*.
- (2) However (1) only applies if and to the extent that the *CRD implementation measures* for that *EEA State* in relation to the *IRB approach* implement the option set out in paragraph 17 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (waiver for commercial real estate property) with respect to commercial real estate property situated within that *EEA State*. Therefore (1) does not apply if the eligibility to use this treatment under those measures ceases as contemplated under paragraph 18 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (suspension of alternative treatment).

[Note: BCD Annex VIII Part 1 point 19]

4.10.11

FCA

R

Real estate collateral: Types of eligible collateral: Finnish housing legislation

A *firm* may also recognise as eligible collateral shares in Finnish residential housing companies operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation in respect of residential property which is or will be occupied or let by the owner, as residential real estate collateral, provided that the conditions in ■ BIPRU 4.10.6 R are met.

[Note: BCD Annex VIII Part 1 point 14]

4.10.12

FCA

R

A *firm* may also recognise as eligible collateral shares in Finnish housing companies operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation as commercial real estate collateral, provided that the conditions in ■ BIPRU 4.10.6 R are met.

[Note: BCD Annex VIII Part 1 point 15]

Real estate collateral: Minimum requirements for recognition

4.10.13

FCA

R

For the recognition of real estate collateral: the minimum requirements in ■ BIPRU 3.4.64 R - ■ BIPRU 3.4.73 R must be met with the following adjustments:

- (1) those provisions apply to all real estate collateral eligible under ■ BIPRU 4.10; and
- (2) the minimum frequency of valuation as referred to in ■ BIPRU 3.4.66 R is once every year for commercial real estate.

[Note: BCD Annex VIII Part 2 point 8 (as it applies to the *IRB approach*)]

Receivables: Types of eligible collateral

4.10.14

FCA

R

Amounts receivable linked to a commercial transaction or transactions with an original maturity of less than or equal to one year may be recognised as eligible collateral. Eligible receivables do not include those associated with *securitisations*, sub-participations or credit derivatives or amounts owed by affiliated parties.

[Note: BCD Annex VIII Part 1 point 20]

Receivables: Minimum requirements for recognition

4.10.15

FCA

R

- (1) For the recognition of receivables as collateral the requirements in this paragraph must be met.
- (2) The legal mechanism by which the collateral is provided must be robust and effective and ensure that the lender has clear rights over the proceeds.

- (3) A *firm* must take all steps necessary to fulfil local requirements in respect of the enforceability of security interests. There must be a framework which allows the lender to have a first priority claim over the collateral subject to any claims of preferential creditors provided for in applicable insolvency law.
- (4) A *firm* must have conducted sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions.
- (5) The collateral arrangements must be properly documented, with a clear and robust procedure for the timely collection of collateral. A *firm's* procedures must ensure that any legal conditions required for declaring the default of the borrower and timely collection of collateral are observed. In the event of the obligor's financial distress or default, a *firm* must have legal authority to sell or assign the receivables to other parties without consent of the receivables obligors.
- (6) A *firm* must have a sound process for determining the credit risk associated with the receivables. Such a process must include, among other things, analyses of the obligor's business and industry and the types of customers with whom the obligor does business. Where a *firm* relies on the obligor to ascertain the credit risk of the customers, the *firm* must review the obligor's credit practices to ascertain their soundness and credibility.
- (7) The margin between the amount of the *exposure* and the value of the receivables must reflect all appropriate factors, including the cost of collection, concentration within the receivables pool pledged by an individual obligor, and potential concentration risk within the *firm's* total *exposures* beyond that controlled by the *firm's* general methodology. A *firm* must maintain a continuous monitoring process appropriate to the receivables. Additionally, compliance with loan covenants, Environmental restrictions, and other legal requirements must be reviewed on a regular basis.
- (8) The receivables pledged by an obligor must be diversified and not be unduly correlated with the obligor. Where there is material positive correlation, the attendant risks must be taken into account in the setting of margins for the collateral pool as a whole.
- (9) Receivables from affiliates of the obligor (including *subsidiary undertakings* and employees) must not be recognised as risk mitigants.

- (10) A *firm* must have a documented process for collecting receivable payments in distressed situations. The requisite facilities for collection must be in place, even when the *firm* normally looks to the obligor for collections.

[Note: BCD Annex VIII Part 2 point 9]

Other physical collateral: Types of eligible collateral

4.10.16

FCA

R

A *firm* may recognise as eligible collateral a physical item of a type other than those types indicated in ■ BIPRU 4.10.6 R - ■ BIPRU 4.10.12 R (Eligibility of real estate collateral) if its *IRB permission* provides that the *firm* may treat collateral of that type as eligible and if the *firm* is able to demonstrate the following:

- (1) the existence of liquid markets for disposal of the collateral in an expeditious and economically efficient manner;
- (2) the existence of well-established, publicly available market prices for the collateral; and
- (3) there is no evidence that the net prices it receives when collateral is realised deviates significantly from the market prices referred to in (b).

[Note: BCD Annex VIII Part 1 point 21]

4.10.17

FCA

G

If a *firm* wishes to recognise other types of collateral in accordance with ■ BIPRU 4.10.16 R (whether as part of its application for an *IRB permission* or under a variation of its *IRB permission*) it should demonstrate to the *appropriate regulator* how the criteria in ■ BIPRU 4.10.16 R (1) - ■ BIPRU 4.10.16 R (3) have been met with respect to that type of collateral.

Other physical collateral: Minimum requirements for recognition

4.10.18

FCA

R

- (1) If a type of other physical collateral referred to in ■ BIPRU 4.10.16 R is potentially eligible under a *firm's IRB permission* a *firm* must only recognise it as eligible if the minimum requirements in (2) to (10) are met.
- (2) The collateral arrangement must be legally effective and enforceable in all relevant jurisdictions and must enable the *firm* to realise the value of the property within a reasonable timeframe.
- (3) With the sole exception of permissible prior claims referred to in ■ BIPRU 4.10.15 R (3), only first liens on, or charges over, collateral must be permissible. As such, the *firm* must have priority over all other lenders to the realised proceeds of the collateral.

- 4
- (4) The value of the property must be monitored on a frequent basis and at a minimum once every year. More frequent monitoring must be carried out where the market is subject to significant changes in conditions.
 - (5) The loan agreement (or other agreement documenting the *exposure*) must include detailed descriptions of the collateral plus detailed specifications of the manner and frequency of revaluation.
 - (6) The types of physical collateral accepted by the *firm* and policies and practices in respect of the appropriate amount of each type of collateral relative to the *exposure* amount must be clearly documented in internal credit policies and procedures available for examination.
 - (7) The *firm's* credit policies with regard to the transaction structure must address appropriate collateral requirements relative to the *exposure* amount, the ability to liquidate the collateral readily, the ability to establish objectively a price or market value, the frequency with which the value can readily be obtained (including a professional appraisal or valuation), and the volatility or a proxy of the volatility of the value of the collateral.
 - (8) Both initial valuation and revaluation must take fully into account any deterioration or obsolescence of the collateral. Particular attention must be paid in valuation and revaluation to the effects of the passage of time on fashion- or date-sensitive collateral.
 - (9) The *firm* must have the right to inspect the property physically. It must have policies and procedures addressing its exercise of the right to physical inspection.
 - (10) The *firm* must have procedures to monitor that the property taken as protection is adequately insured against damage.

[Note: BCD Annex VIII Part 2 point 10]

Leasing: Types of eligible transactions and conditions of eligibility

4.10.19

FCA

R

- (1) Where the requirements set out in this paragraph are met, *exposures* arising from transactions whereby a *firm* leases property to a third party must be treated the same as loans collateralised by the type of property leased.
- (2) For the *exposures* arising from leasing transactions to be treated as collateralised by the type of property leased, the following conditions must be met:

- (a) the conditions set out or referred to in ■ BIPRU 4.10.13 R or ■ BIPRU 4.10.18 R as appropriate for the recognition as collateral of the type of property leased are met;
- (b) there is robust risk management on the part of the lessor with respect to the use to which the leased asset is put, its age, and planned duration of its use, including appropriate monitoring of the value of the security;
- (c) there is in place a robust legal framework establishing the lessor's legal ownership of the asset and its ability to exercise its rights as owner in a timely fashion; and
- (d) where this has not already been ascertained in calculating the *LGD* level, the difference between value of the unamortised amount and the market value of the security must not be so large as to overstate the *credit risk mitigation* attributed to the leased assets.

[Note: *BCD* Annex VIII Part 1 point 22 and Part 2 point 11]

Calculating risk-weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Introduction

4.10.20
FCA

R

■ BIPRU 4.10.21 R - ■ BIPRU 4.10.37 R and ■ BIPRU 4.10.49 R set out how the calculation of *risk weighted exposure amounts* and *expected loss* amounts under ■ BIPRU 4.1 - ■ BIPRU 4.9 may be modified to take into account *credit risk mitigation* that meets the *CRM eligibility conditions* and the *CRM minimum requirements*.

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Valuation: Receivables

4.10.21
FCA

R

The value of receivables for the purpose of calculating the effect of *credit risk mitigation* must be the amount receivable.

[Note: *BCD* Annex VIII Part 3 point 66]

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Valuation: Other physical collateral

4.10.22
FCA

R

Physical collateral recognised as eligible as described in ■ BIPRU 4.10.16 R must be valued for the purpose of calculating the effect of *credit risk mitigation* at its market value. Market value is the estimated amount for which the property would exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction.

[Note: *BCD* Annex VIII Part 3 point 67]

Calculating risk weighted exposure amounts and expected loss amounts: General treatment

- 4.10.23 **R** ■ BIPRU 4.10.24 R - ■ BIPRU 4.10.29 R apply to collateral in the form of real estate collateral, receivables, other physical collateral and leasing permitted by ■ BIPRU 4.10 and *exposures* secured by such collateral.
FCA
- 4.10.24 **R** LGD* (the effective *loss given default*) calculated as set out in ■ BIPRU 4.10.25 R - ■ BIPRU 4.10.28 R must be taken as the *LGD*.
FCA
- [Note: BCD Annex VIII Part 3 point 68]
- 4.10.25 **R** Where the ratio of the value of the collateral (C) to the *exposure* value (E) is below a threshold level of C* (the required minimum collateralisation level for the *exposure*) as laid down in ■ BIPRU 4.10.28 R, LGD* must be the *LGD* laid down in the other sections of ■ BIPRU 4 for uncollateralised *exposures* to the counterparty. For this purpose, the *exposure* value of items listed in ■ BIPRU 4.4.37 R to ■ BIPRU 4.4.39 R and ■ BIPRU 4.8.29 R must be calculated using a *conversion factor* or percentage of 100% rather than the *conversion factors* or percentages indicated in those rules.
FCA
- [Note: BCD Annex VIII Part 3 point 69]
- 4.10.26 **R** Where the ratio of the value of the collateral to the *exposure* value exceeds a second, higher threshold level of C** (i.e. the required level of collateralisation to receive full *LGD* recognition) as laid down in ■ BIPRU 4.10.28 R, LGD* must be that prescribed in that table.
FCA
- [Note: BCD Annex VIII Part 3 point 70]
- 4.10.27 **R** Where the required level of collateralisation C** is not achieved in respect of the *exposure* as a whole, the *exposure* must be considered to be two *exposures* - that part in respect of which the required level of collateralisation C** is achieved and the remainder.
FCA
- [Note: BCD Annex VIII Part 3 point 71]

4.10.28

R

Table: Minimum LGD for secured portion of exposures

FCA

This table belongs to ■ BIPRU 4.10.24 R - ■ BIPRU 4.10.27 R

	LGD* for senior claims or contingent claims	LGD* for subordinated claims or contingent claims	Required minimum collateralisation level of the exposure (C*)	Required minimum collateralisation level of the exposure (C**)
Receivables	35%	65%	0%	125%
Residential real estate/commercial real estate	35%	65%	30%	140%
Other collateral	40%	70%	30%	140%

[Note: BCD Annex VIII Part 3 point 72 (part)]

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Alternative treatment for real estate collateral

4.10.29

R

FCA

- (1) A firm may apply the treatment in paragraph 74 of Part 3 of Annex VIII of the *Banking Consolidation Directive* (50% risk weight for exposures secured by real estate) in respect of exposures collateralised by:
 - (a) residential real estate property; or
 - (b) commercial real estate property; located in the territory of another *EEA State*.
- (2) However (1)(a) or (1)(b) only applies if the *CRD implementing measures* for that *EEA State* with respect to the *IRB approach* have implemented the option set out in the provision of the *Banking Consolidation Directive* referred to in (1) with respect to the relevant category of real estate property situated within that *EEA State*.
- (3) The use of the treatment in (1) with respect to property in another *EEA State* must be subject to the same conditions as apply under the relevant *CRD implementation measures* for that *EEA State*.

[Note: BCD Annex VIII Part 3 point 75]

Calculating risk weighted exposure amounts and expected loss amounts: Mixed pools of collateral

4.10.30

FCA

R

- (1) Where:
- (a) *risk weighted exposure amounts* and *expected loss amounts* are calculated under the *IRB approach*; and
 - (b) an *exposure* is collateralised by both financial collateral and other eligible collateral;
- LGD* to be taken as the *LGD* for the purposes of the *IRB approach* must be calculated in accordance with this *rule*.
- (2) A *firm* must subdivide the volatility-adjusted value of the *exposure* (i.e. the value after the application of the volatility adjustment as set out in ■ BIPRU 5.4.28 R (Volatility adjustments under the financial collateral comprehensive method) into parts each covered by only one type of collateral. That is, the *firm* must divide the *exposure* into the part covered by eligible financial collateral, the part covered by receivables, the parts covered by commercial real estate property collateral and/or residential real estate property collateral, the part covered by other eligible collateral, and the unsecured part, as relevant.
- (3) LGD* for each part of *exposure* must be calculated separately in accordance with the relevant provisions of ■ BIPRU 5 (Credit risk mitigation) and ■ BIPRU 4.10.

[Note: BCD Annex VIII Part 3 points 76 to 78]

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Other modifications of the rules on credit risk mitigation: Financial collateral simple method

4.10.31

FCA

R

The *financial collateral simple method* must not be used under the *IRB approach*.

[Note: BCD Annex VIII Part 3 point 24 (part)]

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Other modifications of the rules on credit risk mitigation: Master netting agreements

4.10.32

FCA

R

- (1) This *rule* sets out how the calculations under ■ BIPRU 5.6.11 R (Using the supervisory volatility adjustments or the own estimates volatility adjustments approaches to master netting agreements covering repurchase transactions and/or securities or commodities lending or borrowing transactions and/or other capital market driven transactions) must be modified under the *IRB approach*.

- (2) Where *risk weighted exposure amounts* and *expected loss* amounts are calculated under the *IRB approach*, E is the *exposure* value for each separate *exposure* under the agreement referred to in the provisions listed in (1) that would apply in the absence of the credit protection.

[Note: BCD Annex VIII Part 3 point 11 (as it applies to the *IRB approach*)]

4.10.33

FCA

R

- (1) This *rule* sets out how the calculations under ■ BIPRU 5.6.24 R (Using the internal models approach to master netting agreements covering repurchase transactions and/or securities or commodities lending or borrowing transactions and/or other capital market driven transactions) must be modified under the *IRB approach*.
- (2) Where *risk weighted exposure amounts* and *expected loss* amounts are calculated under the *IRB approach* E is the *exposure* value for each separate *exposure* under the agreement referred to in the provisions listed in (1) that would apply in the absence of the credit protection.

[Note: BCD Annex VIII Part 3 point 20 (as it applies to the *IRB approach*)]

4.10.34

FCA

R

- (1) This *rule* sets out how the calculations under ■ BIPRU 5.6.29 R (Calculating risk-weighted exposure amounts and expected loss amounts for master netting agreements covering repurchase transactions and/or securities or commodities lending or borrowing transactions and/or other capital market driven transactions) must be modified under the *IRB approach*.
- (2) E* must be taken as the *exposure* value of the *exposure* to the counterparty arising from the transactions subject to the master netting agreement referred to in the provisions listed in (1) for the purposes of ■ BIPRU 4.

[Note: BCD Annex VIII Part 3 point 23 (as it applies to the *IRB approach*)]

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Other modifications of the rules on credit risk mitigation: Financial collateral comprehensive method

4.10.35

FCA

R

- (1) This *rule* sets out how the calculations under ■ BIPRU 5.4.28 R (Calculating adjusted values under the financial collateral comprehensive method) must be modified under the *IRB approach*.
- (2) E as referred to in the provisions listed in (1) is the *exposure* value as would be determined under the *IRB approach* if the *exposure* was not collateralised. For this purpose, where a *firm* calculates *risk weighted exposure amounts* under the *IRB approach*, the *exposure* value of the items listed in ■ BIPRU 4.4.37 R to ■ BIPRU 4.4.39 R, ■ BIPRU 4.4.45 R, ■ BIPRU 4.6.44 R (3) and

4.10.36

FCA

R

- BIPRU 4.8.29 R must be calculated using a *conversion factor* of 100% rather than the *conversion factors* or percentages indicated in those provisions.
- (1) This *rule* sets out the calculation of *risk weighted exposure amounts* and *expected loss* amounts under the *financial collateral comprehensive method* for a *firm* using the *IRB approach*.
 - (2) LGD* (the effective *loss given default*) calculated as set out in this paragraph must be taken as the *LGD* for the purposes of ■ BIPRU 4.
 - (3) $LGD^* = LGD \times (E^*/E)$ where:
 - (a) *LGD* is the *loss given default* that would apply to the *exposure* under the *IRB approach* if the *exposure* was not collateralised;
 - (b) *E* is the *exposure* value as calculated under ■ BIPRU 4; and
 - (c) *E** is as calculated under ■ BIPRU 5.4.28 R (3) (Calculation of adjusted values under the financial collateral comprehensive method).

[Note: BCD Annex VIII Part 3 point 61]

4.10.37

FCA

R

- (1) In the case of a *firm* using the *IRB approach* to calculate *risk weighted exposure amounts* and *expected loss* amounts, the *persons* in (2) are added to the list in ■ BIPRU 5.4.64 R (Definition of core market participant).
- (2) The *persons* referred to in (1) are other financial companies (including insurance companies) *exposures* to which do not have a credit assessment by an *eligible ECAI* and are internally rated as having a *probability of default* equivalent to that associated with the credit assessments of *ECAIs* that are associated with *credit quality step 2* or above under the *rules* for the *risk weighting* of *exposures* under the *standardised approach* to credit risk.

[Note: BCD Annex VIII Part 3 point 58(h) (as it applies to the *IRB approach*)]

Unfunded credit protection: Eligibility of providers

4.10.38

FCA

R

- (1) In the case of a *firm* using the *IRB approach* in calculating *risk weighted exposure amounts* and *expected loss* amounts, the *persons* in (2) are added to the list in ■ BIPRU 5.7.1 R (List of eligible providers of unfunded credit protection).

- (2) The *persons* referred to in (1) are other corporate entities, including *parent undertakings, subsidiary undertakings* and affiliate corporate entities of the *firm*, that do not have a credit assessment by an *eligible ECAI* and are internally rated as having a *probability of default* equivalent to that associated with the credit assessments of *ECAIs* that are associated with *credit quality step 2* or above under the *rules* for the *risk weighting* of *exposures* under the *standardised approach* to credit risk.

[Note: BCD Annex VIII Part 1 point 26(g)(ii)]

4.10.39

FCA

R

Where *risk weighted exposure amounts* and *expected loss* amounts are calculated under the *IRB approach*, to be eligible a guarantor must be internally rated by a *firm* in accordance with the provisions of the *minimum IRB standards*.

[Note: BCD Annex VIII Part 1 point 27]

Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives: Introduction

4.10.40

FCA

R

■ BIPRU 4.10.41 R to ■ BIPRU 4.10.48 R set out the minimum requirements:

- (1) assessing the effect of guarantees and credit derivatives for:
 - (a) *exposures* in the *sovereign, institution and corporate IRB exposure class* where the *advanced IRB approach* is being used to calculate *LGDs*; and
 - (b) *retail exposures*; and
- (2) additionally, in the case of *retail exposure* guarantees, to the assignment of *exposures* to grades or pools, and the estimation of *PD*.

[Note: BCD Annex VII Part 4 point 97]

4.10.41

FCA

R

The requirements in ■ BIPRU 4.10.40 R (2) and ■ BIPRU 4.10.42 R - ■ BIPRU 4.10.48 R do not apply to guarantees provided by *institutions, central governments, central banks* and other *corporate* entities which meet the requirements in ■ BIPRU 5.7.1 R (7) if the *firm* has received approval under ■ BIPRU 4.2 to apply the *standardised approach* for *exposures* to such entities. In this case the requirements of ■ BIPRU 5 (credit risk mitigation) apply.

[Note: BCD Annex VII Part 4 point 96]

Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives: Eligible guarantors and guarantees

4.10.42
FCA

R A *firm* must have clearly specified criteria for the types of guarantors it recognises for the calculation of *risk weighted exposure amounts*.

[Note: Annex VII Part 4 point 98]

4.10.43
FCA

R For recognised guarantors the same requirements as for obligors as set out in ■ BIPRU 4.3.43 R - ■ BIPRU 4.3.48 R (Assignment to grades and pools), ■ BIPRU 4.4.11 R - ■ BIPRU 4.4.18 R and ■ BIPRU 4.4.51 R (Assignment of exposures and rating systems), ■ BIPRU 4.5.6 R (Assignment of exposures) and ■ BIPRU 4.6.11 R and ■ BIPRU 4.6.14 R (Assignment of exposures and rating systems) apply.

[Note: BCD Annex VII Part 4 point 99]

4.10.44
FCA

R The guarantee must be evidenced in writing, non-cancellable on the part of the guarantor, in force until the obligation is satisfied in full (to the extent of the amount and tenor of the guarantee) and legally enforceable against the guarantor in a jurisdiction where the guarantor has assets to attach and enforce a judgement. Guarantees prescribing conditions under which the guarantor may not be obliged to perform (conditional guarantees) may be recognised if the *IRB permission* permits this. A *firm* must (in the case of a *firm* with an *IRB permission* that permits conditional guarantees) be able to demonstrate to the *appropriate regulator* that the assignment criteria adequately address any potential reduction in the risk mitigation effect.

[Note: BCD Annex VII Part 4 point 100]

Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives: Adjustment criteria

4.10.45
FCA

R A *firm* must have clearly specified criteria for adjusting grades, pools or *LGD* estimates, and in the case of *retail exposures* and eligible purchased receivables, the process of allocating *exposures* to grades or pools, to reflect the impact of guarantees for the calculation of *risk weighted exposure amounts*. These criteria must comply with the minimum requirements referred to in ■ BIPRU 4.10.43 R.

[Note: BCD Annex VII Part 4 point 101]

4.10.46
FCA

R The criteria in ■ BIPRU 4.10.45 R must be plausible and intuitive. They must address the guarantor's ability and willingness to perform under the guarantee, the likely timing of any payments from the guarantor, the degree to which the guarantor's ability to perform under the guarantee is correlated with the obligor's ability to repay, and the extent to which residual risk to the obligor remains.

[Note: BCD Annex VII Part 4 point 102]

Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives: Credit derivatives

4.10.47

FCA

R

The minimum requirements for guarantees set out in ■ BIPRU 4.10 also apply for single name credit derivatives. In relation to a mismatch between the underlying obligation and the reference obligation of the credit derivative or the obligation used for determining whether a credit event has occurred the requirements set out under ■ BIPRU 5.7.14 R (Mismatches and credit derivatives) apply. For *retail exposures* and eligible purchased receivables, this paragraph applies to the process of allocating *exposures* to grades or pools.

[Note: BCD Annex VII Part 4 point 103]

4.10.48

FCA

R

The criteria applied by ■ BIPRU 4.10.47 R must address the payout structure of the credit derivative and conservatively assess the impact this has on the level and timing of recoveries. A *firm* must consider the extent to which other forms of residual risk remain.

[Note: BCD Annex VII Part 4 point 104]

Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives: Calculating risk weighted exposure amounts and expected loss amounts

4.10.49

FCA

R

- (1) This *rule* relates to the calculation of *risk-weighted exposure amounts* and *expected loss* amounts in the case of *unfunded credit protection*.
- (2) ■ BIPRU 5.7.21 R (Tranching) applies for the purpose in (1).
- (3) The provisions in (4) replace those in ■ BIPRU 5.7.22 R to ■ BIPRU 5.7.25 R (Calculating risk weighted exposure amounts under the standardised approach in the case of unfunded credit protection).
- (4) For the covered portion of the *exposure* value E (based on the adjusted value of the credit protection G_A), the *PD* for the purposes of ■ BIPRU 4 may be the *PD* of the protection provider, or a *PD* between that of the borrower and that of the guarantor if a full substitution is deemed not to be warranted. In the case of subordinated *exposures* and non-subordinated unfunded protection, the *LGD* to be applied for the purposes of ■ BIPRU 4 may be that associated with senior claims.
- (5) For any uncovered portion of the *exposure* value E the *PD* must be that of the borrower and the *LGD* must be that of the underlying *exposure*.

- (6) G_A is the value of G^* as calculated under ■ BIPRU 5.7.17 R (Valuation of unfunded credit protection) further adjusted for any maturity mismatch as laid down in ■ BIPRU 4.10.51 R (Maturity mismatches).
- (7) E is the *exposure* value as related to the following rules:
 ■ BIPRU 4.4.38 R, ■ BIPRU 4.4.39 R, ■ BIPRU 4.4.71 R to ■ BIPRU 4.4.78 R, ■ BIPRU 4.7.7 R, ■ BIPRU 4.8.28 R, ■ BIPRU 4.8.29 R and ■ BIPRU 4.9.9 R. For this purpose, the *exposure* value of the items referred to in ■ BIPRU 4.4.37 R to ■ BIPRU 4.4.39 R and ■ BIPRU 4.8.29 R must be calculated using a *conversion factor* or percentage of 100% rather than the *conversion factors* or percentages indicated in those rules.

[Note: BCD Annex VIII Part 3 points 90 to 92]

Maturity mismatches

4.10.50

FCA

R

In addition to ■ BIPRU 5.8.2 R, where there is a maturity mismatch the credit protection must not be recognised where the *exposure* is a short term *exposure* specified in the *firm's IRB permission* as being subject to a one-day floor rather than a one-year floor in respect of the maturity value (M) under ■ BIPRU 4.4.68 R.

[Note: BCD Annex VIII Part 4 point 2(b)]

4.10.51

FCA

R

G_A as calculated under ■ BIPRU 5.8.11 R is then taken as the value of the protection for the purposes of calculating the effects of *unfunded credit protection* under the *IRB approach*.

[Note: BCD Annex VIII Part 4 point 8 (part)]

Supervisory Slotting Criteria for Specialised Lending

FCA

This Annex outlines the criteria that must be used to slot a *specialised lending exposure* into the categories in ■ BIPRU 4.5.6 R.

This table belongs to ■ BIPRU 4.5.6 R and must be used in accordance with that rule only for project finance exposures.

Table 1 - Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Market conditions	Few competing suppliers or substantial and durable advantage in location, cost, or technology. Demand is strong and growing	Few competing suppliers or better than average location, cost, or technology but this situation may not last. Demand is strong and stable	Project has no advantage in location, cost, or technology. Demand is adequate and stable	Project has worse than average location, cost, or technology. Demand is weak and declining
Financial ratios (e.g. debt service coverage ratio (DSCR), loan life coverage ratio (LLCR), project life coverage ratio (PLCR), and debt-to-equity ratio)	Strong financial ratios considering the level of project risk; very robust economic assumptions	Strong to acceptable financial ratios considering the level of project risk; robust project economic assumptions	Standard financial ratios considering the level of project risk	Aggressive financial ratios considering the level of project risk
Stress analysis	The project can meet its financial obligations under sustained, severely stressed economic or sectoral conditions	The project can meet its financial obligations under normal stressed economic or sectoral conditions. The project is only likely to default under severe economic conditions	The project is vulnerable to stresses that are not uncommon through an economic cycle, and may default in a normal downturn	The project is likely to default unless conditions improve soon

Table 1 - Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
Duration of the credit compared to the duration of the project	Useful life of the project significantly exceeds tenor of the loan	Useful life of the project exceeds tenor of the loan	Useful life of the project exceeds tenor of the loan	Useful life of the project may not exceed tenor of the loan
Amortisation schedule	Amortising debt	Amortising debt	Amortising debt repayments with limited bullet payment	Bullet repayment or amortising debt repayments with high bullet repayment
Political and legal environment				
Political risk, including transfer risk, considering project type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Force majeure risk (war, civil unrest, etc)	Low exposure	Acceptable exposure	Standard protection	Significant risks, not fully mitigated
Government support and project's importance for the country over the long term	Project of strategic importance for the country (preferably export-oriented). Strong support from Government	Project considered important for the country. Good level of support from Government	Project may not be strategic but brings unquestionable benefits for the country. Support from Government may not be explicit	Project not key to the country. No or weak support from Government
Stability of legal and regulatory environment (risk of change in law)	Favourable and stable regulatory environment over the long term	Favourable and stable regulatory environment over the medium term	Regulatory changes can be predicted with a fair level of certainty	Current or future regulatory issues may affect the project
Acquisition of all necessary supports and approvals for such relief from local content laws	Strong	Satisfactory	Fair	Weak
Enforceability of contracts, collateral and security	Contracts, collateral and security are enforceable	Contracts, collateral and security are enforceable	Contracts, collateral and security are considered enforceable even if certain	There are unresolved key issues in respect if actual enforcement of

Table 1 - Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
Transaction characteristics			non-key issues may exist	contracts, collateral and security
Design and technology risk	Fully proven technology and design	Fully proven technology and design	Proven technology and design - start-up issues are mitigated by a strong completion package	Unproven technology and design; technology issues exist and/or complex design
Permitting and siting	All permits have been obtained	Some permits are still outstanding but their receipt is considered very likely	Some permits are still outstanding but the permitting process is well defined and they are considered routine	Key permits still need to be obtained and are not considered routine. Significant conditions may be attached
Type of construction contract	Fixed-price date-certain turnkey construction EPC (engineering and procurement contract)	Fixed-price date-certain turnkey construction EPC	Fixed-price date-certain turnkey construction contract with one or several contractors	No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors
Completion guarantees	Substantial liquidated damages supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Inadequate liquidated damages or not supported by financial substance or weak completion guarantees
Track record and financial strength of contractor in constructing similar projects.	Strong	Good	Satisfactory	Weak
Scope and nature of operations and maintenance (O & M) contracts	Strong long-term O&M contract, preferably with contractual performance incentives,	Long-term O&M contract, and/or O&M reserve accounts	Limited O&M contract or O&M reserve account	No O&M contract: risk of high operational cost overruns beyond mitigants

Table 1 - Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
Operator's expertise, track record, and financial strength	Very strong, or committed technical assistance of the sponsors	Strong	Acceptable	Limited/weak, or local operator dependent on local authorities
(a) If there is a take-or-pay or fixed-price off-take contract:	Excellent creditworthiness of off-taker; strong termination clauses; tenor of contract comfortably exceeds the maturity of the debt	Good creditworthiness of off-taker; strong termination clauses; tenor of contract exceeds the maturity of the debt	Acceptable financial standing of off-taker; normal termination clauses; tenor of contract generally matches the maturity of the debt	Weak off-taker; weak termination clauses; tenor of contract does not exceed the maturity of the debt
(b) If there is no take-or-pay or fixed-price off-take contract:	Project produces essential services or a commodity sold widely on a world market; output can readily be absorbed at projected prices even at lower than historic market growth rates	Project produces essential services or a commodity sold widely on a regional market that will absorb it at projected prices at historical growth rates	Commodity is sold on a limited market that may absorb it only at lower than projected prices	Project output is demanded by only one or a few buyers or is not generally sold on an organised market
Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength	Long-term supply contract with supplier of excellent financial standing	Long-term supply contract with supplier of good financial standing	Long-term supply contract with supplier of good financial standing - a degree of price risk may remain	Short-term supply contract or long-term supply contract with financially weak supplier - a degree of price risk definitely remains
Reserve risks (e.g. natural resource development)	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Independently audited, proven and developed reserves in excess of requirements over lifetime of the project	Proven reserves can supply the project adequately through the maturity of the debt	Project relies to some extent on potential and undeveloped reserves
Strength of Sponsor				

4

Table 1 - Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
Sponsor's track record, financial strength, and country/sector experience	Strong sponsor with excellent track record and high financial standing	Good sponsor with satisfactory track record and good financial standing	Adequate sponsor with adequate track record and good financial standing	Weak sponsor with no or questionable track record and/or financial weaknesses
Sponsor support, as evidenced by equity, ownership clause and incentive to inject additional cash if necessary	Strong. Project is highly strategic for the sponsor (core business - long-term strategy)	Good. Project is strategic for the sponsor (core business - long-term strategy)	Acceptable. Project is considered important for the sponsor (core business)	Limited. Project is not key to sponsor's long-term strategy or core business
Security Package				
Assignment of contracts and accounts	Fully comprehensive	Comprehensive	Acceptable	Weak
Pledge of assets, taking into account quality, value and liquidity of assets	First perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Acceptable security interest in all project assets, contracts, permits and accounts necessary to run the project	Little security or collateral for lenders; weak negative pledge clause
Lender's control over cash flow (e.g. cash sweeps, independent escrow accounts)	Strong	Satisfactory	Fair	Weak
Strength of the covenant package (mandatory prepayments, payment deferrals, payment cascade, dividend restrictions...)	Covenant package is strong for this type of project	Covenant package is satisfactory for this type of project	Covenant package is fair for this type of project	Covenant package is Insufficient for this type of project
	Project may issue no additional debt	Project may issue extremely limited additional debt	Project may issue limited additional debt	Project may issue unlimited additional debt
Reserve funds (debt service, O&M, renewal and replacement,	Longer than average coverage period, all reserve funds fully funded in cash or letters	Average coverage period, all reserve funds fully funded	Average coverage period, all reserve funds fully funded	Shorter than average coverage period, reserve funds funded from operating cash flows

Table 1 - Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
unforeseen events, of credit from etc) highly rated bank				

This table belongs to ■ BIPRU 4.5.6 R and must be used in accordance with that rule only for income-producing real estate exposures

Table 2 - Supervisory Rating Grades for Income-Producing Real Estate Exposures

	Strong	Good	Satisfactory	Weak
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Financial strength

Market conditions	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is equal or lower than forecasted demand	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand	Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The project's design and capabilities may not be state of the art compared to new projects	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The project is losing tenants at lease expiration. New lease terms are less favourable compared to those expiring
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Financial ratios and advance rate	The property's debt service coverage ratio (DSCR) is considered strong (DSCR is not relevant for the construction phase) and its loan to value ratio (LTV) is considered low given its property type. Where a secondary market exists, the transaction is underwritten to market standards	The DSCR (not relevant for development real estate) and LTV are satisfactory. Where a secondary market exists, the transaction is underwritten to market standards	The property's DSCR has deteriorated and its value has fallen, increasing its LTV	The property's DSCR has deteriorated significantly and its LTV is well above underwriting standards for new loans
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Stress analysis	The property's resources, contingencies and liability	The property can meet its financial obligations under	During an economic downturn, the property would	The property's financial condition is strained and is
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Table 2 - Supervisory Rating Grades for Income-Producing Real Estate Exposures

	Strong	Good	Satisfactory	Weak
	structure allow it to meet its financial obligations during a period of severe financial stress (e.g. interest rates, economic growth)	a sustained period of financial stress (e.g. interest rates, economic growth). The property is likely to default only under severe economic conditions	suffer a decline in revenue that would limit its ability to fund capital expenditures and significantly increase the risk of default	likely to default unless conditions improve in the near term
Cash-flow predictability				
(a) For complete and stabilised property	The property's leases are long-term with credit-worthy tenants and their maturity dates are scattered. The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (maintenance, insurance, security, and property taxes) are predictable	Most of the property's leases are long-term, with tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable	Most of the property's leases are medium rather than long-term with tenants that range in creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue	The property's leases are of various terms with tenants that range in creditworthiness. The property experiences a very high level of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred preparing space for new tenants
(b) For complete but not stabilised property	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future	Most leasing activity is within projections; however, stabilisation will not occur for some time	Market rents do not meet expectations. Despite achieving target occupancy rate, cash flow coverage is tight due to disappointing revenue
(c) For construction phase	The property is entirely pre-leased through the tenor of the loan or pre-sold to an investment grade tenant or buyer, or the	The property is entirely pre-leased or pre-sold to a creditworthy tenant or buyer, or the bank has a binding commit-	Leasing activity is within projections but the building may not be pre-leased and there may not exist a take-out financing.	The property is deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may

Table 2 - Supervisory Rating Grades for Income-Producing Real Estate Exposures

	Strong	Good	Satisfactory	Weak
Asset characteristics	bank has a binding commitment for take-out financing from an investment grade lender	ment for permanent financing from a creditworthy lender	The bank may be the permanent lender	be a dispute with the party providing the permanent financing
Location	Property is located in highly desirable location that is convenient to services that tenants desire	Property is located in desirable location that is convenient to services that tenants desire	The property location lacks a competitive advantage	The property's location, configuration, design and maintenance have contributed to the property's difficulties
Design and condition	Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties	Property is adequate in terms of its configuration, design and maintenance	Weaknesses exist in the property's configuration, design or maintenance
Property is under construction	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified	Construction budget is adequate and contractors are ordinarily qualified	Project is over budget or unrealistic given its technical hazards. Contractors may be under qualified
Strength of Sponsor/Developer				
Financial capacity and willingness to support the property	The sponsor/developer made a substantial cash contribution to the construction or purchase of the property. The sponsor/developer has substantial resources and limited direct and contingent liabilities.	The sponsor/developer made a material cash contribution to the construction or purchase of the property. The sponsor/developer's financial condition allows it to support the property in the event of a	The sponsor/developer's contribution may be immaterial or non-cash. The sponsor/developer is average to below average in financial resources	The sponsor/developer lacks capacity or willingness to support the property

Table 2 - Supervisory Rating Grades for Income-Producing Real Estate Exposures

	Strong	Good	Satisfactory	Weak
	The sponsor/developer's properties are diversified geographically and by property type	cash flow shortfall. The sponsor/developer's properties are located in several geographic regions		
Reputation and track record with similar properties	Experienced management and high sponsors' quality. Strong reputation and lengthy and successful record with similar properties	Appropriate management and sponsors' quality. The sponsor or management has a successful record with similar properties	Moderate management and sponsors' quality. Management or sponsor track record does not raise serious concerns	Ineffective management and substandard sponsors' quality. Management and sponsor difficulties have contributed to difficulties in managing properties in the past
Relationships with relevant real estate actors	Strong relationships with leading actors such as leasing agents	Proven relationships with leading actors such as leasing agents	Adequate relationships with leasing agents and other parties providing important real estate services	Poor relationships with leasing agents and/or other parties providing important real estate services
Security Package				
Nature of lien	Perfect first lien (Note 1)	Perfect first lien (Note 1)	Perfect first lien (Note 1)	Ability of lender to foreclose is constrained
Assignment of rents (for projects leased to long-term tenants)	The lender has obtained an assignment. They maintain current tenant information that would facilitate providing notice to remit rents directly to the lender, such as a current rent roll and copies of the project's leases	The lender has obtained an assignment. They maintain current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases	The lender has obtained an assignment. They maintain current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases	The lender has not obtained an assignment of the leases or has not maintained the information necessary to readily provide notice to the building's tenants
Quality of the insurance coverage	Appropriate	Appropriate	Appropriate	Substandard

Table 2 - Supervisory Rating Grades for Income-Producing Real Estate Exposures

Strong	Good	Satisfactory	Weak
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Note 1: Lenders in some markets extensively use loan structures that include junior liens. Junior liens may be indicative of this level of risk if the total LTV inclusive of all senior positions does not exceed a typical first loan LTV.

This table belongs to **■ BIPRU 4.5.6 R** and must be used in accordance with that rule only for object finance exposures

Table 3 - Supervisory Rating Grades for Object Finance Exposures

Strong	Good	Satisfactory	Weak
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Financial strength

Market conditions	Demand is strong and growing, strong entry barriers, low sensitivity to changes in technology and economic outlook	Demand is strong and stable. Some entry barriers, some sensitivity to changes in technology and economic outlook	Demand is adequate and stable, limited entry barriers, significant sensitivity to changes in technology and economic outlook	Demand is weak and declining, vulnerable to changes in technology and economic outlook, highly uncertain environment
Financial ratios (debt service coverage ratio and loan-to-value ratio)	Strong financial ratios considering the type of asset. Very robust economic assumptions	Strong / acceptable financial ratios considering the type of asset. Robust project economic assumptions	Standard financial ratios for the asset type	Aggressive financial ratios considering the type of asset
Stress analysis	Stable long-term revenues, capable of withstanding severely stressed conditions through an economic cycle	Satisfactory short-term revenues. Loan can withstand some financial adversity. Default is only likely under severe economic conditions	Uncertain short-term revenues. Cash flows are vulnerable to stresses that are not uncommon through an economic cycle. The loan may default in a normal downturn	Revenues subject to strong uncertainties; even in normal economic conditions the asset may default, unless conditions improve
Market liquidity	Market is structured on a worldwide basis; assets are highly liquid	Market is worldwide or regional; assets are relatively liquid	Market is regional with limited prospects in the short term, implying lower liquidity	Local market and/or poor visibility. Low or no liquidity, particularly on niche markets

Table 3 - Supervisory Rating Grades for Object Finance Exposures

	Strong	Good	Satisfactory	Weak
Political and legal environment				
Political risk, including transfer risk	Very low; strong mitigation instruments, if needed	Low; satisfactory mitigation instruments, if needed	Moderate; fair mitigation instruments	High; no or weak mitigation instruments
Legal and regulatory risks	Jurisdiction is favourable to repossession and enforcement of contracts	Jurisdiction is favourable to repossession and enforcement of contracts	Jurisdiction is generally favourable to repossession and enforcement of contracts, even if repossession might be long and/or difficult	Poor or unstable legal and regulatory environment. Jurisdiction may make repossession and enforcement of contracts lengthy or impossible
Transaction characteristics				
Financing term compared to the economic life of the asset	Full payout profile/minimum balloon. No grace period	Balloon more significant, but still at satisfactory levels	Important balloon with potentially grace periods	Repayment in fine or high balloon
Operating risk				
Permits / licensing	All permits have been obtained; asset meets current and foreseeable safety regulations	All permits obtained or in the process of being obtained; asset meets current and foreseeable safety regulations	Most permits obtained or in process of being obtained, outstanding ones considered routine, asset meets current safety regulations	Problems in obtaining all required permits, part of the planned configuration and/or planned operations might need to be revised
Scope and nature of O & M contracts	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts (if needed)	Long-term O&M contract, and/or O&M reserve accounts (if needed)	Limited O&M contract or O&M reserve account (if needed)	No O&M contract: risk of high operational cost overruns beyond mitigants
Operator's financial strength, track record in managing the asset type	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing capability	No or unknown track record and inability to re-market the asset

Table 3 - Supervisory Rating Grades for Object Finance Exposures

	Strong	Good	Satisfactory	Weak
and capability to re-market asset when it comes off-lease				
Asset characteristics				
Configuration, size, design and maintenance (i.e. age, size for a plane) compared to other assets on the same market	Strong advantage in design and maintenance. Configuration is standard such that the object meets a liquid market	Above average design and maintenance. Standard configuration, maybe with very limited exceptions - such that the object meets a liquid market	Average design and maintenance. Configuration is somewhat specific, and thus might cause a narrower market for the object	Below average design and maintenance. Asset is near the end of its economic life. Configuration is very specific; the market for the object is very narrow
Resale value	Current resale value is well above debt value	Resale value is moderately above debt value	Resale value is slightly above debt value	Resale value is below debt value
Sensitivity of the asset value and liquidity to economic cycles	Asset value and liquidity are relatively insensitive to economic cycles	Asset value and liquidity are sensitive to economic cycles	Asset value and liquidity are quite sensitive to economic cycles	Asset value and liquidity are highly sensitive to economic cycles
Strength of sponsor				
Operator's financial strength, track record in managing the asset type and capability to re-market asset when it comes off-lease	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing capability	No or unknown track record and inability to re-market the asset
Sponsors' track record and financial strength	Sponsors with excellent track record and high financial standing	Sponsors with good track record and good financial standing	Sponsors with adequate track record and good financial standing	Sponsors with no or questionable track record and/or financial weaknesses
Security Package				
Asset control	Legal documentation provides the lender effective control (e.g. a first	Legal documentation provides the lender effective control (e.g. a per-	Legal documentation provides the lender effective control (e.g. a per-	The contract provides little security to the lender and leaves room to

Table 3 - Supervisory Rating Grades for Object Finance Exposures

	Strong	Good	Satisfactory	Weak
	perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	some risk of losing control on the asset
Rights and means at the lender's disposal to monitor the location and condition of the asset	The lender is able to monitor the location and condition of the asset, at any time and place (regular reports, possibility to lead inspections)	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is able to monitor the location and condition of the asset are limited
Insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

This table belongs to **■ BIPRU 4.5.6 R** and must be used in accordance with that rule only for commodities finance exposures.

Table 4 - Supervisory Rating Grades for Commodities Finance Exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Degree of over-collateralisation of trade	Strong	Good	Satisfactory	Weak
Political and legal Environment				
Country risk	No country risk	Limited exposure to country risk (in particular, offshore location of reserves in an emerging country)	Exposure to country risk (in particular, offshore location of reserves in an emerging country)	Strong exposure to country risk (in particular, inland reserves in an emerging country)
Mitigation of country risks	Very strong mitigation:	Strong mitigation:	Acceptable mitigation:	Only partial mitigation:

Table 4 - Supervisory Rating Grades for Commodities Finance Exposures

	Strong	Good	Satisfactory	Weak
	Strong offshore Mechanisms	Offshore mechanisms	Offshore mechanisms	No offshore mechanisms
	Strategic commodity	Strategic commodity	Less strategic commodity	Non-strategic commodity
	1st class buyer	Strong buyer	Acceptable buyer	Weak buyer
Asset characteristics				
Liquidity and susceptibility to damage	Commodity is quoted and can be hedged through futures or OTC instruments. Commodity is not susceptible to damage	Commodity is quoted and can be hedged through OTC instruments. Commodity is not susceptible to damage	Commodity is not quoted but is liquid. There is uncertainty about the possibility of hedging. Commodity is not susceptible to damage	Commodity is not quoted. Liquidity is limited given the size and depth of the market. No appropriate hedging instruments. Commodity is susceptible to damage
Strength of sponsor				
Financial strength of trader	Very strong, relative to trading philosophy and risks	Strong	Adequate	Weak
Track record, including ability to manage the logistic process	Extensive experience with the type of transaction in question. Strong record of operating success and cost efficiency	Sufficient experience with the type of transaction in question. Above average record of operating success and cost efficiency	Limited experience with the type of transaction in question. Average record of operating success and cost efficiency	Limited or uncertain track record in general. Volatile costs and profits
Trading controls and hedging policies	Strong standards for counterparty selection, hedging, and monitoring	Adequate standards for counterparty selection, hedging, and monitoring	Past deals have experienced no or minor problems	Trader has experienced significant losses on past deals
Quality of financial disclosure	Excellent	Good	Satisfactory	Financial disclosure contains some uncertainties or is insufficient
Security package				

Table 4 - Supervisory Rating Grades for Commodities Finance Exposures

	Strong	Good	Satisfactory	Weak
Asset control	First perfected security interest provides the lender legal control of the assets at any time if needed	First perfected security interest provides the lender legal control of the assets at any time if needed	At some point in the process, there is a rupture in the control of the assets by the lender. The rupture is mitigated by knowledge of the trade process or a third party undertaking as the case may be	Contract leaves room for some risk of losing control over the assets. Recovery could be jeopardised
Insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

Chapter 5

Credit risk mitigation

5.1 Application and purpose

Application

5.1.1 **R** ■ BIPRU 5 applies to a *BIPRU firm*.

FCA

Purpose

5.1.2 **G** Pursuant to the third paragraph of article 95(2) of the *EU CRR*, ■ BIPRU 5 implements, in part, Articles 78(1) and 91 to 93 and Annex VIII of the *Banking Consolidation Directive*.

FCA

5.1.3 **G** ■ BIPRU 5 sets out the principles for the recognition of *credit risk mitigation* in the calculation of *risk weighted exposure amounts* for the purposes of the calculation of the *credit risk capital component*.

FCA

5.1.4 **G** ■ BIPRU 4.10 implements those parts of Articles 91 to 93 and Annex VIII of the *Banking Consolidation Directive* which are specific to the recognition of *credit risk mitigation* by *firms* using the *IRB approach*, and modifies the application of the provisions in ■ BIPRU 5 to those *firms*.

FCA

5.1.5 **G** In certain cases provisions specific to the *IRB approach* have been kept in ■ BIPRU 5 in order to reduce duplication. The main examples are certain references to *expected loss* and references in the *IRB approach* in the provisions in ■ BIPRU 5.7 about basket CRM techniques.

FCA

5.2 The central principles of credit risk mitigation

5.2.1

FCA

R

A *firm* using the *standardised approach* may recognise *credit risk mitigation* in accordance with ■ BIPRU 5 in the calculation of *risk weighted exposure amounts* for the purposes of the calculation of the *credit risk capital component*.

[Note: BCD Article 91]

5.2.2

FCA

R

The technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by a *lending firm* must be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions.

[Note: BCD Article 92(1)]

5.2.3

FCA

R

- (1) A *firm* must not recognise credit protection as eligible until it has conducted sufficient legal review confirming that the credit protection arrangements are legally effective and enforceable in all relevant jurisdictions in accordance with ■ BIPRU 5.2.2 R.
- (2) A *firm* must re-conduct legal reviews as necessary to ensure continuing enforceability and effectiveness.

5.2.4

FCA

R

A *lending firm* must take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address related risks.

[Note: BCD Article 92(2)]

Funded credit protection

5.2.5

FCA

R

In the case of *funded credit protection*:

- (1) to be eligible for recognition the assets relied upon must be sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate *risk weighted exposure amounts* and to the degree of recognition allowed; eligibility is limited to the assets set out in the *CRM eligibility conditions*; and

- (2) the *lending firm* must have the right to liquidate or retain, in a timely manner, the assets from which the protection derives in the event of the default, insolvency or bankruptcy of the obligor - or other credit event set out in the transaction documentation - and, where applicable, of the custodian holding the collateral; the degree of correlation between the value of the assets relied upon for protection and the credit quality of the obligor must not be undue.

[Note: BCD Article 92(3) and (4)]

Treatment of credit linked notes

5.2.6

FCA

G

A credit linked note should be treated, to the extent of its cash funding, as *funded credit protection*. Therefore the conditions in ■ BIPRU 5 regulating the eligibility of protection providers for *unfunded credit protection* do not apply. However the other provisions about the requirements for the recognition of *unfunded credit protection* do apply.

Unfunded credit protection

5.2.7

FCA

R

In the case of *unfunded credit protection*:

- (1) to be eligible for recognition the party giving the undertaking must be sufficiently reliable, and the protection agreement legally effective and enforceable in the relevant jurisdictions, to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate *risk weighted exposure amounts* and to the degree of recognition allowed; and
- (2) eligibility is limited to the protection providers and types of protection agreement set out in the *CRM eligibility conditions*.

[Note: BCD Article 92(5)]

Minimum requirements

5.2.8

FCA

R

The minimum requirements set out in BIPRU 5 must be complied with.

[Note: BCD Article 92(6)]

5.2.9

FCA

R

A *firm* must be able to satisfy the *appropriate regulator* that it has adequate risk management processes to control the risks to which the *firm* may be exposed as a result of carrying out *credit risk mitigation*. Those processes must include appropriate stress tests and scenario analyses relating to those risks, including residual risk and the risks relating to the intrinsic value of the *credit risk mitigation*.

[Note: BCD Annex VIII Part 2 point 1]

5.2.10

FCA

R

Notwithstanding the presence of *credit risk mitigation* taken into account for the purposes of calculating *risk weighted exposure amounts* and as relevant *expected loss* amounts, a *firm* must continue to undertake full credit risk assessment of the underlying *exposure* and must be in a position to demonstrate to the *appropriate regulator* the fulfilment of this requirement. In the case of *repurchase transactions* and/or *securities or commodities lending or borrowing transactions* the underlying *exposure* must, for the purposes of this *rule* only, be deemed to be the net amount of the *exposure*.

[Note: BCD Annex VIII Part 2 point 2]

Calculating the effects of the credit risk mitigation

5.2.11

FCA

R

Where the requirements of ■ BIPRU 5.2.2 R to ■ BIPRU 5.2.8 R are met the calculation of *risk weighted exposure amounts*, may be modified in accordance with ■ BIPRU 5.

[Note: BCD Article 93(1)]

5.2.12

FCA

R

No *exposure* in respect of which *credit risk mitigation* is obtained may produce a higher *risk weighted exposure amount* than an otherwise identical *exposure* in respect of which there is no *credit risk mitigation*.

[Note: BCD Article 93(2)]

5.2.13

FCA

R

Where the *risk weighted exposure amount* already takes account of credit protection under the *standardised approach* the calculation of the credit protection must not be further recognised under ■ BIPRU 5.

[Note: BCD Article 93(3)]

5.2.14

FCA

R

Subject to ■ BIPRU 5.8, ■ BIPRU 5.9 and ■ BIPRU 5.7.27 R to ■ BIPRU 5.7.28 R, where the *CRM eligibility conditions* and the *CRM minimum requirements* are satisfied, the calculation of *risk weighted exposure amounts* under the *standardised approach* may be modified in accordance with the provisions of ■ BIPRU 5.

[Note: BCD Annex VIII Part 3 point 1]

5.2.15

FCA

R

Cash, *securities* or *commodities* purchased, borrowed or received under a *repurchase transaction* or *securities or commodities lending or borrowing transaction* must be treated as collateral.

[Note: BCD Annex VIII Part 3 point 2]

5.3 On balance sheet netting

Eligibility

5.3.1
FCA

R A *firm* may recognise as eligible the on-balance sheet netting of mutual claims between the *firm* and its counterparty.

[Note: BCD Annex VIII Part 1 point 3]

5.3.2
FCA

R Without prejudice to ■ BIPRU 5.6.1 R, eligibility is limited to reciprocal cash balances between a *firm* and a counterparty. Only loans and deposits of the *lending firm* may be subject to a modification of *risk weighted exposure amounts* and, as relevant, *expected loss* amounts as a result of an on-balance sheet netting agreement.

[Note: BCD Annex VIII Part 1 point 4]

Minimum requirements

5.3.3
FCA

R For on-balance sheet netting agreements - other than master netting agreements covering *repurchase transactions, securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions* - to be recognised for the purposes of ■ BIPRU 5 the following conditions must be satisfied:

- (1) they must be legally effective and enforceable in all relevant jurisdictions, including in the event of the insolvency or bankruptcy of a counterparty;
- (2) the *firm* must be able to determine at any time those assets and liabilities that are subject to the on-balance sheet netting agreement;
- (3) the *firm* must monitor and control the risks associated with the termination of the credit protection; and
- (4) the *firm* must monitor and control the relevant *exposures* on a net basis.

[Note: BCD Annex VIII Part 2 point 3]

Calculating the effects of credit risk mitigation

5.3.4

FCA

R

Loans and deposits with a *lending firm* subject to on-balance sheet netting are to be treated as cash collateral.

[Note: *BCD* Annex VIII Part 3 point 4]

5

5.4 Financial collateral

Eligibility

5.4.1

FCA

R

- (1) Where the *credit risk mitigation* used relies on the right of a *firm* to liquidate or retain assets, eligibility depends upon whether *risk weighted exposure amounts*, and, as relevant, *expected loss amounts*, are calculated under the *standardised approach* or the *IRB approach*.
- (2) Eligibility further depends upon whether the *financial collateral simple method* is used or the *financial collateral comprehensive method*.
- (3) In relation to *repurchase transactions* and *securities or commodities lending or borrowing transactions*, eligibility also depends upon whether the transaction is booked in the *non-trading book* or the *trading book*.

[Note: BCD Annex VIII Part 1 point 6]

5.4.2

FCA

R

The following financial items may be recognised as eligible collateral under all approaches and methods:

- (1) cash on deposit with, or *cash assimilated instruments* held by, the *lending firm*;
- (2) *debt securities* issued by central governments or *central banks* which *securities* have a credit assessment by an *eligible ECAI* or export credit agency recognised as eligible for the purposes of the *standardised approach*, which is associated with *credit quality step 4* or above under the *rules* for the *risk weighting* of *exposures* to central governments and *central banks* under the *standardised approach*;
- (3) *debt securities* issued by *institutions* which *securities* have a credit assessment by an *eligible ECAI* associated with *credit quality step 3* or above under the *rules* for the *risk weighting* of *exposures* to a *credit institution* under the *standardised approach*;

- (4) *debt securities* issued by other entities which *securities* have a credit assessment by an *eligible ECAI* associated with *credit quality step 3* or above under the *rules* for the *risk weighting* of *exposures* to *corporates* under the *standardised approach*;
- (5) *debt securities* with a short-term credit assessment by an *eligible ECAI* associated with *credit quality step 3* or above under the *rules* for the *risk weighting* of *short term exposures* under the *standardised approach*;
- (6) equities or *convertible* bonds that are included in a main index; and
- (7) gold.

[Note: BCD Annex VIII Part 1 point 7 (part)]

5

5.4.3

FCA

R

For the purposes of ■ BIPRU 5.4.2 R (2), '*debt securities* issued by central governments or *central banks*' include -

- (1) *debt securities* issued by regional governments or local authorities *exposures* to which are treated as *exposures* to the central government in whose jurisdiction they are established under the *standardised approach*;
- (2) *debt securities* issued by *public sector entities* which are treated as *exposures* to central governments in accordance with ■ BIPRU 3.4.24 R;
- (3) *debt securities* issued by *multilateral development banks* to which a 0% *risk weight* is assigned under the *standardised approach*; and
- (4) *debt securities* issued by *international organisations* which are assigned a 0% *risk weight* under the *standardised approach*.

[Note: BCD Annex VIII Part 1 point 7 (part)]

5.4.4

FCA

R

For the purposes of ■ BIPRU 5.4.2 R (3), '*debt securities* issued by *institutions*' include:

- (1) *debt securities* issued by regional governments or local authorities other than those *exposures* to which are treated as *exposures* to the central government in whose jurisdiction they are established under the *standardised approach*;
- (2) *debt securities* issued by *public sector entities*, *exposures* to which are treated as *exposures* to a *credit institution* under the *standardised approach*;

- (3) *debt securities* issued by *multilateral development banks* other than those to which a 0% *risk weight* is assigned under the *standardised approach*.

[Note: BCD Annex VIII Part 1 point 7 (part)]

5.4.5

FCA

R

Debt securities issued by *institutions* which *securities* do not have a credit assessment by an *eligible ECAI* may be recognised as eligible collateral if they fulfil the following criteria:

- (1) they are listed on a *recognised investment exchange* or a *designated investment exchange*;
- (2) they qualify as senior debt;
- (3) all other rated issues by the issuing *institution* of the same seniority have a credit assessment by an *eligible ECAI* associated with *credit quality step 3* or above under the *rules* for the *risk weight* of *exposures to institutions* or short term *exposures* under the *standardised approach*;
- (4) the *lending firm* has no information to suggest that the issue would justify a credit assessment below that indicated in (3); and
- (5) the *firm* can demonstrate to the *appropriate regulator* that the market liquidity of the instrument is sufficient for these purposes.

[Note: BCD Annex VIII Part 1 point 8]

5.4.6

FCA

R

- (1) Units in *CIUs* may be recognised as eligible collateral if the following conditions are satisfied:
 - (a) they have a daily public price quote;
 - (b) the *CIU* is limited to investing in instruments that are eligible for recognition under ■ BIPRU 5.4.2 R to ■ BIPRU 5.4.5 R; and
 - (c) if the *CIU* is not limited to investing in instruments that are eligible for recognition under ■ BIPRU 5.4.2 R to ■ BIPRU 5.4.5 R, units may be recognised with the value of the eligible assets as collateral under the assumption that the *CIU* has invested to the maximum extent allowed under its mandate in non-eligible assets. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, the *firm* must calculate the total value of the non-eligible assets and must reduce the value of the eligible assets by that of the non-eligible assets in case the latter is negative in total.

- (2) The use (or potential use) by a *CIU* of derivative instruments to hedge permitted investments shall not prevent units in that *CIU* from being eligible.

[Note: *BCD* Annex VIII Part 1 point 9]

5.4.7

FCA

R In relation to ■ BIPRU 5.4.2 R (2) to ■ (5):

- (1) where a *security* has two credit assessments by *eligible ECAIs*, the less favourable assessment must be deemed to apply;
- (2) in cases where a *security* has more than two credit assessments by *eligible ECAIs*:
- (a) the two most favourable assessments must be deemed to apply; or
- (b) if the two most favourable credit assessments are different, the less favourable of the two must be deemed to apply.

[Note: *BCD* Annex VIII Part 1 point 10]

5.4.8

FCA

- R** (1) In addition to the collateral set out in ■ BIPRU 5.4.2 R to ■ BIPRU 5.4.7 R, where a *firm* uses the *financial collateral comprehensive method*, the following financial items may be recognised as eligible collateral:
- (a) equities or *convertible* bonds not included in a main index but traded on a *recognised investment exchange* or a *designated investment exchange*;
- (b) units in *CIUs* if the following conditions are met:
- (i) they have a daily public price quote; and
- (ii) the *CIU* is limited to investing in instruments that are eligible for recognition under ■ BIPRU 5.4.2 R to ■ BIPRU 5.4.5 R and the items mentioned in (a); and
- (c) if the *CIU* is not limited to investing in instruments that are eligible for recognition under ■ BIPRU 5.4.2 R to ■ BIPRU 5.4.5 R and the items mentioned in (a) of this *rule*, units may be recognised with the value of the eligible assets as collateral under the assumption that the *CIU* has invested to the maximum extent allowed under its mandate in non-eligible assets. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, the *firm* must calculate the total value of the non-eligible assets and must reduce the value of the eligible assets by that of the non-eligible assets, in case the latter is negative in total.

- (2) The use (or potential use) by a *CIU* of derivative instruments to hedge permitted investments shall not prevent units in that *CIU* from being eligible.

[Note: *BCD* Annex VIII Part 1 point 11]

Minimum requirements

5.4.9

FCA

R

For the recognition of financial collateral and gold, the following conditions must be met:

- (1) the low correlation conditions in ■ BIPRU 5.4.10 R;
- (2) the legal certainty conditions in ■ BIPRU 5.4.11 R; and
- (3) the operational requirements in ■ BIPRU 5.4.12 R.

[Note: *BCD* Annex VIII Part 2 point 6]

5.4.10

FCA

R

The low correlation conditions referred to in ■ BIPRU 5.4.9 R (1) are as follows:

- (1) (a) the credit quality of the obligor and the value of the collateral must not have a material positive correlation; and
(b) *securities* issued by the obligor, or any related *group* entity are not eligible.
- (2) notwithstanding (1)(b), the obligor's own issues of *covered bonds* falling within the terms of ■ BIPRU 3.4.107 R to ■ BIPRU 3.4.109 R may be recognised as collateral for *repurchase transactions*, provided that (1)(a) is complied with.

[Note: *BCD* Annex VIII Part 2 point 6(a)]

5.4.11

FCA

R

The legal certainty conditions referred to in ■ BIPRU 5.4.9 R (2) are as follows:

- (1) a *firm* must fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of the collateral arrangements under the law applicable to its interest in the collateral;
- (2) in accordance with the general principle in ■ BIPRU 5.2.2 R, a *firm* must have conducted sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions; and
- (3) a *firm* must re-conduct such review as necessary to ensure continuing enforceability.

[Note: BCD Annex VIII Part 2 point 6(b)]

5.4.12

FCA

R

The operational requirements referred to in ■ BIPRU 5.4.9 R (3) are as follows:

- (1) the collateral arrangements must be properly documented, with a clear and robust procedure for the timely liquidation of collateral;
- (2) a *firm* must employ robust procedures and processes to control risks arising from the use of collateral - including risks of failed or reduced credit protection, valuation risks, risks associated with the termination of the credit protection, concentration risk arising from the use of collateral and the interaction with the *firm's* overall risk profile;
- (3) a *firm* must have documented policies and practices concerning the types and amounts of collateral accepted;
- (4) a *firm* must calculate the market value of the collateral, and revalue it accordingly, with a minimum frequency of once every six months and whenever the *firm* has reason to believe that there has occurred a significant decrease in its market value; and
- (5) where the collateral is held by a third party, a *firm* must take reasonable steps to ensure that the third party segregates the collateral from its own assets.

[Note: BCD Annex VIII Part 2 point 6(c)]

5.4.13

FCA

R

In addition to the requirements set out in ■ BIPRU 5.4.9 R, for the recognition of financial collateral under the *financial collateral simple method* the residual maturity of the protection must be at least as long as the residual maturity of the *exposure*.

[Note: BCD Annex VIII Part 2 point 7]

The financial collateral simple method: General

5.4.14

FCA

R

■ BIPRU 5.4.17 R - ■ BIPRU 5.4.22 R set out the calculation of the effects of *credit risk mitigation* under the *financial collateral simple method*.

5.4.15

FCA

R

The *financial collateral simple method* is available only where *risk weighted exposure amounts* are calculated under the *standardised approach* to credit risk.

[Note: BCD Annex VIII Part 3 point 24 (part)]

5.4.16

FCA

R

A *firm* must not use both the *financial collateral simple method* and the *financial collateral comprehensive method*, unless such use is for the purposes of ■ BIPRU 4.2.17 R to ■ BIPRU 4.2.19 R and ■ BIPRU 4.2.26 R, and such use is provided for by the *firm's IRB permission*. A *firm* must

demonstrate to the *appropriate regulator* that this exceptional application of both methods is not used selectively with the purpose of achieving reduced minimum capital requirements and does not lead to regulatory arbitrage.

[Note: BCD Annex VIII Part 3 point 24 (part)]

The financial collateral simple method: Valuation

5.4.17

FCA

R

Under the *financial collateral simple method*, recognised financial collateral is assigned a value equal to its market value as determined in accordance with ■ BIPRU 5.4.12 R.

[Note: BCD Annex VIII Part 3 point 25]

The financial collateral simple method: Calculating risk-weighted exposure amounts

5.4.18

FCA

R

The *risk weight* that would be assigned under the *standardised approach* to credit risk if the *lending firm* had a direct *exposure* to the collateral instrument must be assigned to those portions of *exposure* values collateralised by the market value of recognised collateral. For this purpose, the *exposure* value of an off-balance sheet item listed in ■ BIPRU 3.7.2 R must be 100% of its value rather than the *exposure* value indicated in ■ BIPRU 3.2.1 R. The *risk weight* of the collateralised portion must be a minimum of 20% except as specified in ■ BIPRU 5.4.19 R to ■ BIPRU 5.4.21 R. The remainder of the *exposure* value receives the *risk weight* that would be applied to an unsecured *exposure* to the counterparty under the *standardised approach*.

[Note: BCD Annex VIII Part 3 point 26]

The financial collateral simple method: Repurchase transactions and securities lending or borrowing transactions

5.4.19

FCA

R

A *risk weight* of 0% must be assigned to the collateralised portion of the *exposure* arising from transactions which fulfil the criteria enumerated in ■ BIPRU 5.4.62 R or ■ BIPRU 5.4.65 R. If the counterparty to the transaction is not a *core market participant* a *risk weight* of 10% must be assigned.

[Note: BCD Annex VIII Part 3 point 27]

The financial collateral simple method: financial derivative instruments subject to daily mark-to-market

5.4.20

FCA

R

A *risk weight* of 0% must, to the extent of the collateralisation, be assigned to the *exposure* values determined under ■ BIPRU 13 for *financial derivative instruments* and subject to daily marking-to-market, collateralised by cash or *cash assimilated instruments* where there is no currency mismatch. A *risk weight* of 10% must be assigned to the extent of the collateralisation to the *exposure* values of such transactions

collateralised by *debt securities* issued by central governments or *central banks* which are assigned a 0% *risk weight* under the *standardised approach*.

[Note: BCD Annex VIII Part 3 point 28 (part)]

5.4.21

FCA

R

A 0% *risk weight* may be assigned where the *exposure* and the collateral are denominated in the same currency, and either:

- (1) the collateral is cash on deposit or a *cash assimilated instrument*; or
- (2) the collateral is in the form of *debt securities* issued by central governments or *central banks* eligible for a 0% *risk weight* under the *standardised approach*, and its market value has been discounted by 20%.

[Note: BCD Annex VIII Part 3 point 29]

5.4.22

FCA

R

For the purposes of ■ BIPRU 5.4.20 R and ■ BIPRU 5.4.21 R '*debt securities* issued by central governments or *central banks*' must include:

- (1) *debt securities* issued by regional governments or local authorities *exposures* to which are treated as *exposures* to the central government in whose jurisdiction they are established under the *standardised approach*;
- (2) *debt securities* issued by *multilateral development banks* to which a 0% *risk weight* is assigned under or by virtue of the *standardised approach*; and
- (3) *debt securities* issued by *international organisations* which are assigned a 0% *risk weight* under the *standardised approach*.

[Note: BCD Annex VIII Part 3 point 28 (part)]

The financial collateral comprehensive method: General

5.4.23

FCA

R

■ BIPRU 5.4.24 R - ■ BIPRU 5.4.66 R set out the calculation of the effects of *credit risk mitigation* under the *financial collateral comprehensive method*.

5.4.24

FCA

R

In valuing financial collateral for the purposes of the *financial collateral comprehensive method*, volatility adjustments must be applied to the market value of collateral, as set out in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R, in order to take account of price volatility.

[Note: BCD Annex VIII Part 3 point 30]

5.4.25

FCA

R

Subject to the treatment for currency mismatches in the case of *financial derivative instrument* set out in ■ BIPRU 5.4.26 R, where collateral is

denominated in a currency that differs from that in which the underlying *exposure* is denominated, an adjustment reflecting currency volatility must be added to the volatility adjustment appropriate to the collateral as set out in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.

[Note: BCD Annex VIII Part 3 point 31]

5.4.26

FCA

R

In the case of *financial derivative instrument* covered by netting agreements recognised under ■ BIPRU 13, a volatility adjustment reflecting currency volatility must be applied when there is a mismatch between the collateral currency and the settlement currency. Even in the case where multiple currencies are involved in the transactions covered by the netting agreement, only a single volatility adjustment may be applied.

[Note: BCD Annex VIII Part 3 point 32]

5.4.27

FCA

R

In the case of a *firm* using the *financial collateral comprehensive method*, where an *exposure* takes the form of securities or *commodities* sold, posted or lent under a *repurchase transaction* or under a *securities or commodities lending or borrowing transaction*, and *margin lending transactions* the *exposure* value must be increased by the volatility adjustment appropriate to such securities or *commodities* as prescribed in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.

[Note: BCD Article 78(1), third sentence]

The financial collateral comprehensive method: Calculating adjusted values

5.4.28

FCA

R

- (1) The volatility-adjusted value of the collateral to be taken into account is calculated as follows in the case of all transactions except those transactions subject to recognised master netting agreements to which the provisions set out in ■ BIPRU 5.6.5 R to ■ BIPRU 5.6.29 R are to be applied:

$$C_{VA} = C \times (1 - H_C - H_{FX})$$

- (2) The volatility-adjusted value of the *exposure* to be taken into account is calculated as follows:

$$E_{VA} = E \times (1 + H_E), \text{ and in the case of } \textit{financial derivative instruments} \ E_{VA} = E.$$

- (3) The fully adjusted value of the *exposure*, taking into account both volatility and the risk-mitigating effects of collateral is calculated as follows:

$$E^* = \max \{0, [E_{VA} - C_{VAM}]\}$$

Where:

- (a) E is the *exposure* value as would be determined under the *standardised approach* if the *exposure* was not collateralised.
 - (b) E_{VA} is the volatility-adjusted *exposure* amount.
 - (c) C_{VA} is the volatility-adjusted value of the collateral.
 - (d) C_{VAM} is C_{VA} further adjusted for any maturity mismatch in accordance with the provisions of ■ BIPRU 5.8.
 - (e) H_E is the volatility adjustment appropriate to the *exposure* (E), as calculated under ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.
 - (f) H_C is the volatility adjustment appropriate for the collateral, as calculated under ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.
 - (g) H_{FX} is the volatility adjustment appropriate for currency mismatch, as calculated under ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.
 - (h) E^* is the fully adjusted *exposure* value taking into account volatility and the risk-mitigating effects of the collateral.
- (4) For the purpose of (3)(a), for a *firm* calculating *risk weighted exposure amounts* under the *standardised approach* the *exposure* value of an off-balance sheet items listed in ■ BIPRU 3.7 must be 100% of its value rather than the *exposure* value indicated in ■ BIPRU 3.2.1 R and ■ BIPRU 3.7.2 R.

[Note: BCD Annex VIII Part 3 point 33]

The financial collateral comprehensive method: Calculation of volatility adjustments to be applied: General

5.4.29

FCA

R

■ BIPRU 5.4.30 R - ■ BIPRU 5.4.65 R set out the calculation of volatility adjustments under the *financial collateral comprehensive method*.

5.4.30

FCA

R

Volatility adjustments may be calculated in two ways: the *supervisory volatility adjustments approach* and the *own estimates of volatility adjustments approach*.

[Note: BCD Annex VIII Part 3 point 34]

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17

5.4.31

FCA

R

A *firm* may choose to use the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* independently of the choice it has made between the *standardised approach* and the *IRB approach* for the calculation of *risk weighted exposure amounts*. However, if a *firm* seeks to use the *own estimates of volatility adjustments approach*,

it must do so for the full range of instrument types, excluding immaterial portfolios where it may use the *supervisory volatility adjustments approach*.

[Note: BCD Annex VIII Part 3 point 35 (part)]

5.4.32

FCA

R Where the collateral consists of a number of recognised items, the volatility adjustment must be

$$(H = \sum_i \alpha_i H_i)$$

where:

- (1) a_i is the proportion of an item to the collateral as a whole; and
- (2) H_i is the volatility adjustment applicable to that item.

[Note: BCD Annex VIII Part 3 point 35 (part)]

The financial collateral comprehensive method: Supervisory volatility adjustments approach

5.4.33

FCA

R ■ BIPRU 5.4.34 R - ■ BIPRU 5.4.43 R set out the calculation of volatility adjustments under the *supervisory volatility adjustments approach*.

5.4.34

FCA

R The volatility adjustments to be applied under the *supervisory volatility adjustments approach* (assuming daily revaluation) are those set out in the tables in ■ BIPRU 5.4.35 R - ■ BIPRU 5.4.38 R.

[Note: BCD Annex VIII Part 3 point 36]

Table: Volatility adjustments for debt securities described in BIPRU 5.4.2R(2) and (3) - (4)

5.4.35

FCA

R This table belongs to ■ BIPRU 5.4.34 R.

<i>Credit quality step with which the credit assessment of the debt security is associated</i>	Residual Maturity	Volatility adjustments for <i>debt securities</i> issued by entities described in BIPRU 5.4.2 R (2)			Volatility adjustments for <i>debt securities</i> issued by entities described in BIPRU 5.4.2 R (3) and (4)		
		20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)	20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)
1	≤ 1 year	0.707	0.5	0.354	1.414	1	0.707
	> 1 ≤ 5 years	2.828	2	1.414	5.657	4	2.828
	> 5 years	5.657	4	2.828	11.314	8	5.657
2-3	≤ 1 year	1.414	1	0.707	2.828	2	1.414
	> 1 ≤ 5 years	4.243	3	2.121	8.485	6	4.243
	> 5 years	8.485	6	4.243	16.971	12	8.485
4	≤ 1 year	21.213	15	10.607	N/A	N/A	N/A
	> 1 ≤ 5 years	21.213	15	10.607	N/A	N/A	N/A
	> 5 years	21.213	15	10.607	N/A	N/A	N/A

5

Table: Volatility adjustments for debt securities described in BIPRU 5.4.2R(5)

5.4.36

FCA

R

This table belongs to ■ BIPRU 5.4.34 R.

<i>Credit quality step with which the credit assessment of a short term debt security is associated</i>	Volatility adjustments for <i>debt securities</i> issued by entities described in BIPRU 5.4.2 R (2) with short-term credit assessments			Volatility adjustments for <i>debt securities</i> issued by entities described in BIPRU 5.4.2 R (3) and (4) with short-term credit assessments		
	20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)	20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)
1	0.707	0.5	0.354	1.414	1	0.707
2-3	1.414	1	0.707	2.828	2	1.414

Table: Volatility adjustments for other collateral or exposure types

5.4.37

FCA

R

This table belongs to ■ BIPRU 5.4.34 R.

	Other collateral or <i>exposure</i> types		
	20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)
Main index equities, main index convertible bonds	21.213	15	10.607
Other equities or convertible bonds listed on a recognised investment exchange or designated investment exchange	35.355	25	17.678
Cash	0	0	0

Other collateral or <i>exposure</i> types			
	20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)
Gold	21.213	15	10.607

Table: Volatility adjustments for currency mismatch

5.4.38

FCA

R

This table belongs to ■ BIPRU 5.4.34 R.

Volatility adjustment for currency mismatch		
20 day liquidation period (%)	10 day liquidation period (%)	5 day liquidation period (%)
11.314	8	5.657

5.4.39

FCA

R

- (1) For *secured lending transactions* the liquidation period is 20 business days.
- (2) For *repurchase transactions* (except insofar as such transactions involve the transfer of *commodities* or guaranteed rights relating to title to *commodities*) and *securities lending or borrowing transactions* the liquidation period is 5 business days.
- (3) For other *capital market-driven transactions*, the liquidation period is 10 business days.

[Note: BCD Annex VIII Part 3 point 37]

5.4.40

FCA

R

In the tables in ■ BIPRU 5.4.35 R - ■ BIPRU 5.4.38 R and in ■ BIPRU 5.4.41 R to ■ BIPRU 5.4.43 R, the *credit quality step* with which a credit assessment of the *debt security* is associated is the *credit quality step* with which the external credit assessment is associated under the *standardised approach*. For the purposes of this *rule*, ■ BIPRU 5.4.7 R also applies.

[Note: BCD Annex VIII Part 3 point 38]

5.4.41

FCA

R

For non-eligible *securities* or for *commodities* lent or sold under *repurchase transactions* or *securities or commodities lending or borrowing transactions*, the volatility adjustment is the same as for non-main index equities listed on a *recognised investment exchange* or a *designated investment exchange*.

[Note: BCD Annex VIII Part 3 point 39]

5.4.42

FCA

R

For eligible units in *CIUs* the volatility adjustment is the weighted average volatility adjustments that would apply, having regard to the liquidation period of the transaction as specified in ■ BIPRU 5.4.39 R, to the assets in

which the fund has invested. If the assets in which the fund has invested are not known to the *firm*, the volatility adjustment is the highest volatility adjustment that would apply to any of the assets in which the fund has the right to invest.

[Note: BCD Annex VIII Part 3 point 40]

5.4.43

FCA

R For unrated *debt securities* issued by *institutions* and satisfying the eligibility criteria in ■ BIPRU 5.4.5 R the volatility adjustments are the same as for *securities* issued by *institutions* or *corporates* with an external credit assessment associated with *credit quality steps* 2 or 3.

[Note: BCD Annex VIII Part 3 point 41]

The financial collateral comprehensive method: Own estimates of volatility adjustments approach: General

5.4.44

FCA

R ■ BIPRU 5.4.45 R - ■ BIPRU 5.4.60 R deal with the calculation of volatility adjustments under the *own estimates of volatility adjustments approach*.

5.4.45

FCA

R A *firm* complying with the requirements set out in ■ BIPRU 5.4.50 R to ■ BIPRU 5.4.60 R may use the *own estimates of volatility adjustments approach* for calculating the volatility adjustments to be applied to collateral and *exposures*.

[Note: BCD Annex VIII Part 3 point 42]

5.4.46

FCA

R When *debt securities* have a credit assessment from an *eligible ECAI* equivalent to investment grade or better, a *firm* may calculate a volatility estimate for each category of *security*.

[Note: BCD Annex VIII Part 3 point 43]

5.4.47

FCA

R In determining relevant categories, a *firm* must take into account the type of issuer of the *security* the external credit assessment of the *securities*, their residual maturity, and their modified duration. Volatility estimates must be representative of the *securities* included in the category by the *firm*.

[Note: BCD Annex VIII Part 3 point 44]

5.4.48

FCA

R For *debt securities* having a credit assessment from an *eligible ECAI* equivalent to below investment grade and for other eligible collateral the volatility adjustments must be calculated for each individual item.

[Note: BCD Annex VIII Part 3 point 45]

5.4.49

FCA

R A *firm* using the *own estimates of volatility adjustments approach* must estimate volatility of the collateral or foreign exchange mismatch without

taking into account any correlations between the unsecured *exposure*, collateral and/or exchange rates.

[Note: *BCD* Annex VIII Part 3 point 46]

The financial collateral comprehensive method: Own estimates of volatility adjustments approach: Quantitative Criteria

5.4.50

FCA

R

In calculating the volatility adjustments, a 99th percentile one-tailed confidence interval must be used.

[Note: *BCD* Annex VIII Part 3 point 47]

5.4.51

FCA

R

The liquidation period is 20 *business days* for *secured lending transactions*; 5 *business days* for *repurchase transactions* except insofar as such transactions involve the transfer of *commodities* or guaranteed rights relating to title to *commodities* and *securities lending or borrowing transactions*; and 10 *business days* for other *capital market-driven transactions*.

[Note: *BCD* Annex VIII Part 3 point 48]

5.4.52

FCA

R

A *firm* may use volatility adjustment numbers calculated according to shorter or longer liquidation periods, scaled up or down to the liquidation period set out in ■ BIPRU 5.4.51 R for the type of transaction in question, using the square root of time formula:

$$(H_M = H_N) \sqrt{T_M/T_N}$$

where:

- (1) T_M is the relevant liquidation period;
- (2) H_M is the volatility adjustment under T_M ; and
- (3) H_N is the volatility adjustment based on the liquidation period T_N .

[Note: *BCD* Annex VIII Part 3 point 49]

5.4.53

FCA

R

A *firm* must take into account the illiquidity of lower-quality assets. The liquidation period must be adjusted upwards in cases where there is doubt concerning the liquidity of the collateral. A *firm* must also identify where historical data may understate potential volatility, e.g. a pegged currency. Such cases must be dealt with by means of stress scenario assessments .

[Note: *BCD* Annex VIII Part 3 point 50]

5.4.54

FCA

R

The historical observation period (sample period) for calculating volatility adjustments must be a minimum length of one year. For a *firm* that uses

a weighting scheme or other methods for the historical observation period, the effective observation period must be at least one year (that is, the weighted average time lag of the individual observations must not be less than 6 months).

[Note: BCD Annex VIII Part 3 point 51]

5.4.55

FCA

G

The *appropriate regulator* may also require a *firm* to calculate its volatility adjustments using a shorter observation period if, in the *appropriate regulator's* judgement, this is justified by a significant upsurge in price volatility.

5.4.56

FCA

R

A *firm* must update its data sets at least once every three months and must also reassess them whenever market prices are subject to material changes. This implies that volatility adjustments must be computed at least every three months.

[Note: BCD Annex VIII Part 3 point 52]

The financial collateral comprehensive method: Own estimates of volatility adjustments approach: Qualitative Criteria

5.4.57

FCA

R

The volatility estimates must be used in the day-to-day risk management process of a *firm* including in relation to its internal *exposure* limits.

[Note: BCD Annex VIII Part 3 point 53]

5.4.58

FCA

R

If the liquidation period used by a *firm* in its day-to-day risk management process is longer than that set out in ■ BIPRU 5.4 for the type of transaction in question, the *firm's* volatility adjustments must be scaled up in accordance with the square root of time formula set out in ■ BIPRU 5.4.52 R.

[Note: BCD Annex VIII Part 3 point 54]

5.4.59

FCA

R

A *firm* must have established procedures for monitoring and ensuring compliance with a documented set of policies and controls for the operation of its system for the estimation of volatility adjustments and for the integration of such estimations into its risk management process.

[Note: BCD Annex VIII Part 3 point 55]

5.4.60

FCA

R

An independent review of a *firm's* system for the estimation of volatility adjustments must be carried out regularly in the *firm's* own internal auditing process. A review of the overall system for the estimation of volatility adjustments and for integration of those adjustments into the *firm's* risk management process must take place at least once a year and must specifically address, at a minimum:

- (1) the integration of estimated volatility adjustments into daily risk management;

- (2) the validation of any significant change in the process for the estimation of volatility adjustments;
- (3) the verification of the consistency, timeliness and reliability of data sources used to run the system for the estimation of volatility adjustments, including the independence of such data sources; and
- (4) the accuracy and appropriateness of the volatility assumptions.

[Note: BCD Annex VIII Part 3 point 56]

The financial collateral comprehensive method: Scaling up of volatility adjustments

5.4.61

FCA

R

The volatility adjustments set out in ■ BIPRU 5.4.34 R to ■ BIPRU 5.4.43 R are the volatility adjustments to be applied where there is daily revaluation. Similarly, where a *firm* uses its own estimates of the volatility adjustments in accordance with ■ BIPRU 5.4.45 R to ■ BIPRU 5.4.60 R, these must be calculated in the first instance on the basis of daily revaluation. If the frequency of revaluation is less than daily, larger volatility adjustments must be applied. These must be calculated by scaling up the daily revaluation volatility adjustments, using the following 'square root of time' formula:

$$(H = H_M \sqrt{(N_R + (T_M - 1)) / (T_M)})$$

where:

- (1) H is the volatility adjustment to be applied;
- (2) H_M is the volatility adjustment where there is daily revaluation;
- (3) N_R is the actual number of business days between revaluations;
and
- (4) T_M is the liquidation period for the type of transaction in question.

[Note: BCD Annex VIII Part 3 point 57]

The financial collateral comprehensive method: Conditions for applying a 0% volatility adjustment

5.4.62

FCA

R

In relation to *repurchase transaction* and *securities lending or borrowing transactions*, where a *firm* uses the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* and where the conditions set out in (1) - (8) are satisfied, a *firm* may, instead of applying the volatility adjustments calculated under ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.61 R, apply a 0% volatility adjustment:

- (1) both the *exposure* and the collateral are cash or *debt securities* issued by central governments or *central banks* within the meaning of ■ BIPRU 5.4.2 R (2) and eligible for a 0% *risk weight* under the *standardised approach*;
- (2) both the *exposure* and the collateral are denominated in the same currency;
- (3) either the maturity of the transaction is no more than one day or both the *exposure* and the collateral are subject to daily marking-to-market or daily remargining;
- (4) it is considered that the time between the last marking-to-market before a failure to remargin by the counterparty and the liquidation of the collateral is no more than four business days;
- (5) the transaction is settled across a settlement system proven for that type of transaction;
- (6) the documentation covering the agreement is standard market documentation for *repurchase transactions* or *securities lending or borrowing transactions* in the *securities* concerned;
- (7) the transaction is governed by documentation specifying that if the counterparty fails to satisfy an obligation to deliver cash or *securities* or to deliver margin or otherwise defaults, then the transaction is immediately terminable; and
- (8) the counterparty is a *core market participant*.

[Note: BCD Annex VIII Part 3 point 58 (part)]

5.4.63

FCA

R

The option in ■ BIPRU 5.4.62 R is not available in respect of a *firm* using the *master netting agreement internal models approach*.

[Note: BCD Annex VIII Part 3 point 58 (part)]

5.4.64

FCA

R

Core market participant means the following entities:

- (1) the entities mentioned in ■ BIPRU 5.4.2 R (2) *exposures* to which are assigned a 0% *risk weight* under the *standardised approach* to credit risk;
- (2) *institutions*;
- (3) other financial companies (including insurance companies) *exposures* which are assigned a 20% *risk weight* under the *standardised approach*;

- (4) regulated *CIUs* that are subject to capital or leverage requirements;
- (5) regulated pension funds; and
- (6) a *recognised clearing house* or *designated clearing house*.

[Note: *BCD Annex VIII Part 3 point 58 (part)*]

5.4.65

FCA

R

If under the *CRD implementation measure* for a particular *EEA State* with respect to point 58 of Part 3 of Annex VIII of the *Banking Consolidation Directive* (Conditions for applying the 0% volatility adjustment) the treatment set out in that point is permitted to be applied in the case of *repurchase transactions* or *securities lending or borrowing transactions* in *securities* issued by the domestic government of that *EEA State*, then a *firm* may adopt the same approach to the same transactions.

[Note: *BCD Annex VIII Part 3 point 59*]

Financial collateral comprehensive method: Calculating risk-weighted exposure amounts

5.4.66

FCA

R

Under the *standardised approach* E^* as calculated under ■ BIPRU 5.4.28 R must be taken as the *exposure* value for the purposes of ■ BIPRU 3.2.20 R to ■ BIPRU 3.2.26 R. In the case of off-balance sheet items listed in ■ BIPRU 3.7, E^* must be taken as the value to which the percentages indicated in ■ BIPRU 3.2.1 R and ■ BIPRU 3.7.2 R must be applied to arrive at the *exposure* value.

[Note: *BCD Annex VIII Part 3 point 60*]

5.5 Other funded credit risk mitigation

Deposits with third parties: Eligibility

5.5.1
FCA

R Cash on deposit with, or *cash assimilated instruments* held by, a third party *institution* in a non-custodial arrangement and pledged to a *lending firm* may be recognised as eligible credit protection.

[Note: BCD Annex VIII Part 1 point 23]

Deposits with third parties: Minimum requirements

5.5.2
FCA

R To be eligible for the treatment set out at ■ BIPRU 5.5.3 R, the protection referred to in ■ BIPRU 5.5.1 R must satisfy the following conditions:

- (1) the borrower's claim against the third party *institution* is openly pledged or assigned to the *lending firm* and such pledge or assignment is legally effective and enforceable in all relevant jurisdictions;
- (2) the third party *institution* is notified of the pledge or assignment;
- (3) as a result of the notification, the third party *institution* is able to make payments solely to the *lending firm* or to other parties with the *lending firm's* consent; and
- (4) the pledge or assignment is unconditional and irrevocable.

[Note: BCD Annex VIII Part 2 point 12]

Deposits with third parties: Calculating the effects of the credit risk mitigation

5.5.3
FCA

R Where the conditions set out in ■ BIPRU 5.5.2 R are satisfied, credit protection falling within the terms of ■ BIPRU 5.5.1 R may be treated as a guarantee by the third party *institution*.

[Note: BCD Annex VIII Part 3 point 79]

5.5.4

FCA

R

Life insurance policies: Eligibility

Life insurance policies pledged to a *lending firm* may be recognised as eligible credit protection.

[Note: BCD Annex VIII Part 1 point 24]

5.5.5

FCA

R

Life insurance policies: Minimum requirements

For life insurance policies pledged to a *lending firm* to be recognised the following conditions must be met:

- (1) the party providing the life insurance must be subject to Directive 2002/83/EC and Directive 2001/17/EC of the European Parliament and of the Council, or is subject to supervision by a competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the Community;
- (2) the life insurance policy is openly pledged or assigned to the *lending firm*;
- (3) the party providing the life insurance is notified of the pledge or assignment and as a result may not pay amounts payable under the contract without the consent of the *lending firm*;
- (4) the *surrender value* is declared by the company providing the life insurance and is non-reducible;
- (4A) the *surrender value* must be paid in a timely manner upon request;
- (4B) the *surrender value* must not be requested without the consent of the *lending firm*;
- (5) the *lending firm* must have the right to cancel the policy and receive the surrender value in a timely way in the event of the default of the borrower;
- (6) the *lending firm* is informed of any non-payments under the policy by the policyholder;
- (7) the credit protection must be provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the *lending firm* must ensure that the amount deriving from the insurance contract serves the *lending firm* as security until the end of the duration of the credit agreement; and
- (8) the pledge or assignment must be legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.

[Note: BCD Annex VIII Part 2 point 13 (part)]

5.5.6

FCA

R

Where it is not possible for a *firm* to meet the condition set out in ■ BIPRU 5.5.5 R (7), because the insurance relationship ends before the loan relationship expires, the *firm* must ensure that the amount deriving from the insurance contract serves the *firm* as security until the end of the duration of the credit agreement.

[Note: BCD Annex VIII Part 2 point 13 (part)]

Life insurance policies: Calculating the effects of the credit risk mitigation

5.5.7

FCA

R

- (1) Where the conditions set out in ■ BIPRU 5.5.5 R are satisfied, the portion of the *exposure* collateralised by the current *surrender value* of credit protection falling within the terms of ■ BIPRU 5.5.4 R must be either:
 - (a) subject to the *risk weights* specified in (3) where the *exposure* is subject to the *standardised approach* to credit risk; or
 - (b) assigned an *LGD* of 40% where the *exposure* is subject to the *IRB approach* but not subject to the *firm's* own estimates of *LGD*.
- (2) In case of a currency mismatch, the current *surrender value* must be reduced according to ■ BIPRU 5.7.17 R and ■ BIPRU 5.7.18R, the value of the credit protection being the current *surrender value* of the life insurance policy.
- (3) For the purpose of (1)(a), the following *risk weights* must be assigned on the basis of the *risk weight* assigned to a senior unsecured *exposure* to the company providing the life insurance:
 - (a) a *risk weight* of 20%, where the senior unsecured *exposure* to the company providing the life insurance is assigned a *risk weight* of 20%;
 - (b) a *risk weight* of 35%, where the senior unsecured *exposure* to the company providing the life insurance is assigned a *risk weight* of 50%;
 - (c) a *risk weight* of 70%, where the senior unsecured *exposure* to the company providing the life insurance is assigned a *risk weight* of 100%; and
 - (d) a *risk weight* of 150%, where the senior unsecured *exposure* to the company providing the life insurance is assigned a *risk weight* of 150%.

[Note: BCD Annex VIII Part 3 point 80]

5.5.8

FCA

R

Instruments purchased on request: Eligibility

Instruments issued by third party *institutions* which will be repurchased by that *institution* on request may be recognised as eligible credit protection.

[Note: *BCD* Annex VIII Part 1 point 25]

Instruments purchased on request: Calculating the effects of the credit risk mitigation

5.5.9

FCA

R

Instruments eligible under ■ BIPRU 5.5.8 R may be treated as a guarantee by the issuing *institution*.

[Note: *BCD* Annex VIII Part 3 point 81]

5.5.10

FCA

R

For the purposes of ■ BIPRU 5.5.9 R, the value of the credit protection recognised is the following:

- (1) where the instrument will be repurchased at its face value, the value of the protection is that amount; or
- (2) where the instrument will be repurchased at market price, the value of the protection is the value of the instrument valued in the same way as the *debt securities* specified in ■ BIPRU 5.4.5 R.

[Note: *BCD* Annex VIII Part 3 point 82]

Credit linked notes

5.5.11

FCA

R

Investments in credit linked notes issued by a *lending firm* may be treated as cash collateral.

[Note: *BCD* Annex VIII Part 3 point 3]

5.6 Master netting agreements

Eligibility

5.6.1

FCA

R

- (1) For a *firm* adopting the *financial collateral comprehensive method*, the effects of bilateral netting contracts covering *repurchase transactions, securities or commodities lending or borrowing transactions*, and/or other *capital market-driven transactions* with a counterparty may be recognised.
- (2) Without prejudice to ■ BIPRU 14 to be recognised the collateral taken and *securities or commodities* borrowed within such agreements must comply with the eligibility requirements for collateral set out at ■ BIPRU 5.4.2 R to ■ BIPRU 5.4.8 R.

[Note: BCD Annex VIII Part 1 point 5]

Minimum requirements

5.6.2

FCA

R

For master netting agreements covering *repurchase transactions* and/or *securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions* to be recognised for the purposes of ■ BIPRU 5, they must:

- (1) be legally effective and enforceable in all relevant jurisdictions, including in the event of the bankruptcy or insolvency of the counterparty;
- (2) give the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement upon the event of default, including in the event of the bankruptcy or insolvency of the counterparty; and
- (3) provide for the netting of gains and losses on transactions closed out under a master agreement so that a single net amount is owed by one party to the other.

[Note: BCD Annex VIII Part 2 point 4]

5.6.3

FCA

R

In addition the minimum requirements for the recognition of financial collateral under the *financial collateral comprehensive method* set out in ■ BIPRU 5.4.9 R must be fulfilled.

[Note: BCD Annex VIII Part 2 point 5]

Calculation of the fully adjusted exposure value: the supervisory volatility adjustments approach and the own estimates of volatility adjustments approach

5.6.4

FCA

R

■ BIPRU 5.6.5 R to ■ BIPRU 5.6.11 R set out the calculation of the fully adjusted *exposure value* under the *supervisory volatility adjustments approach* and the *own estimates of volatility adjustments approach*.

5.6.5

FCA

R

In calculating the 'fully adjusted *exposure value*' (E^*) for the *exposures* subject to an eligible master netting agreement covering *repurchase transactions* and/or *securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions*, a firm must calculate the volatility adjustments to be applied in the manner set out in ■ BIPRU 5.6.6 R to ■ BIPRU 5.6.11 R either using the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* as set out in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R for the *financial collateral comprehensive method*. For the use of the *own estimates of volatility adjustments approach* the same conditions and requirements apply as under the *financial collateral comprehensive method*.

[Note: BCD Annex VIII Part 3 point 5]

5.6.6

FCA

R

A firm must calculate the net position in each type of *security* or *commodity* by subtracting from the total value of the *securities* or *commodities* of that type lent, sold or provided under the master netting agreement, the total value of *securities* or *commodities* of that type borrowed, purchased or received under the agreement.

[Note: BCD Annex VIII Part 3 point 6]

5.6.7

FCA

R

For the purposes of ■ BIPRU 5.6.6 R, type of *security* means *securities* which are issued by the same entity, have the same issue date, the same maturity and are subject to the same terms and conditions and are subject to the same liquidation periods as indicated in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.

[Note: BCD Annex VIII Part 3 point 7]

5.6.8

FCA

R

A firm must calculate the net position in each currency other than the settlement currency of the master netting agreement by subtracting from the total value of *securities* denominated in that currency lent, sold or provided under the master netting agreement added to the amount of cash in that currency lent or transferred under the agreement, the total value of *securities* denominated in that currency borrowed, purchased or received

under the agreement added to the amount of cash in that currency borrowed or received under the agreement.

[Note: BCD Annex VIII Part 3 point 8]

5.6.9

FCA

R A *firm* must apply the volatility adjustment appropriate to a given type of *security* or cash position to the absolute value of the positive or negative net position in the *securities* of that type.

[Note: BCD Annex VIII Part 3 point 9]

5.6.10

FCA

R A *firm* must apply the foreign exchange risk (fx) volatility adjustment to the net positive or negative position in each currency other than the settlement currency of the master netting agreement.

[Note: BCD Annex VIII Part 3 point 10]

5.6.11

FCA

R E^* must be calculated according to the following formula:

$$E^* = \max \{0, [(\sum(E) - \sum(C)) + \sum(|\text{net position in each security}| \times H_{\text{sec}}) + (\sum|E_{\text{fx}}| \times H_{\text{fx}})]\}$$

where:

- (1) (where *risk weighted exposure amounts* are calculated under the *standardised approach*) E is the *exposure* value for each separate *exposure* under the agreement that would apply in the absence of the credit protection;
- (2) C is the value of the *securities* or *commodities* borrowed, purchased or received or the cash borrowed or received in respect of each such *exposure*;
- (3) $\sum(E)$ is the sum of all Es under the agreement;
- (4) $\sum(C)$ is the sum of all Cs under the agreement;
- (5) E_{fx} is the net position (positive or negative) in a given currency other than the settlement currency of the agreement as calculated under ■ BIPRU 5.6.8 R;
- (6) H_{sec} is the volatility adjustment appropriate to a particular type of *security*;
- (7) H_{fx} is the foreign exchange volatility adjustment; and
- (8) E^* is the fully adjusted *exposure* value.

[Note: BCD Annex VIII Part 3 point 11]

Calculation of the fully adjusted exposure value: the master netting agreement internal models approach

5.6.12

FCA

R

■ BIPRU 5.6.16 R to ■ BIPRU 5.6.28 G apply to a *firm* that has a *master netting agreement internal models approach permission* and set out the calculation of the effects of *credit risk mitigation* under the *master netting agreement internal models approach*.

5.6.13

FCA

G

A *firm* that wishes to use the *master netting agreement internal models approach* will need to apply to the *appropriate regulator* for a *master netting agreement internal models approach permission*. ■ BIPRU 1.3 sets out the requirements and procedures relating to those applications.

5.6.14

FCA

G

A *master netting agreement internal models approach permission* will amend, to the extent set out in the *master netting agreement internal models approach permission*, ■ BIPRU 5.6.1 R so as to provide that, with the exceptions provided in ■ BIPRU 5.6, a *firm* must use the *master netting agreement internal models approach* for the purposes of the calculations specified in ■ BIPRU 5.6.

5.6.15

FCA

G

A *firm* which has been granted a *VaR model waiver* will still need to make an application to the *appropriate regulator* for a *master netting agreement internal models approach permission*. However, the application should generally be straightforward as a *firm* which is able to satisfy the requirements for a *VaR model waiver* should usually also be able to satisfy the requirements for a *master netting agreement internal models approach permission*.

[Note: BCD Annex VIII Part 3 point 14]

5.6.16

FCA

R

The *master netting agreement internal models approach* is an alternative to using the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* in calculating volatility adjustments for the purpose of calculating the 'fully adjusted exposure value' (E^*) resulting from the application of an eligible master netting agreement covering *repurchase transactions, securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions* other than derivative transactions. The *master netting agreement internal models approach* takes into account correlation effects between security positions subject to a master netting agreement as well as the liquidity of the instruments concerned. The internal model used for the *master netting agreement internal models approach* must provide estimates of the potential change in value of the unsecured *exposure* amount ($\Sigma E - \Sigma C$).

[Note: BCD Annex VIII Part 3 point 12 (part)]

5.6.17

FCA

R

A *firm* may also use the internal model used for the *master netting agreement internal models approach* for *margin lending transactions* if

the transactions are covered under the *firm's master netting agreement internal models approach permission* and the transactions are covered by a bilateral master netting agreement that meets the requirements set out in ■ BIPRU 13.7.

[Note: BCD Annex VIII Part 3 point 12 (part)]

5.6.18

FCA

R

A *firm* may use the *master netting agreement internal models approach* independently of the choice it has made between the *standardised approach* and the *IRB approach* for the calculation of *risk weighted exposure amounts*. However, if a *firm* uses the *master netting agreement internal models approach*, it must do so for all counterparties and *securities*, excluding immaterial portfolios where it may use the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* as set out in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.

[Note: BCD Annex VIII Part 3 point 13]

5.6.19

FCA

R

- (1) A *firm* must be able to satisfy the *appropriate regulator* that the *firm's* risk management system for managing the risks arising on the transactions covered by the master netting agreement is conceptually sound and implemented with integrity and that, in particular, the minimum qualitative standards in (2) - (11) are met.
- (2) The internal risk-measurement model used for calculation of potential price volatility for the transactions is closely integrated into the daily risk-management process of the *firm* and serves as the basis for reporting risk *exposures* to senior management of the *firm*.
- (3) The *firm* has a risk control unit that is independent from business trading units and reports directly to senior management. The unit must be responsible for designing and implementing the *firm's* risk-management system. It must produce and analyse daily reports on the output of the risk-measurement model and on the appropriate measures to be taken in terms of position limits.
- (4) The daily reports produced by the risk-control unit are reviewed by a level of management with sufficient authority to enforce reductions of positions taken and of overall risk *exposure*.
- (5) The *firm* has sufficient staff skilled in the use of sophisticated models in the risk control unit.
- (6) The *firm* has established procedures for monitoring and ensuring compliance with a documented set of internal policies and

controls concerning the overall operation of the risk-measurement system.

- (7) The *firm's* models have a proven track record of reasonable accuracy in measuring risks demonstrated through the back-testing of its output using at least one year of data.
- (8) The *firm* frequently conducts a rigorous programme of stress testing and the results of these tests are reviewed by senior management and reflected in the policies and limits it sets.
- (9) The *firm* must conduct, as part of its regular internal auditing process, an independent review of its risk-measurement system. This review must include both the activities of the business trading units and of the independent risk-control unit.
- (10) At least once a year, the *firm* must conduct a review of its risk management system.
- (11) The internal model used for the *master netting agreement internal models approach* must meet the requirements set out in ■ BIPRU 13.6.65 R to ■ BIPRU 13.6.67 R.

[Note: BCD Annex VIII Part 3 point 16]

5.6.19A

FCA

G

This paragraph provides *guidance* in relation to ■ BIPRU 5.6.19R (8). In carrying out the stress testing programme, a *firm* should evaluate the simultaneous impact of individual stress scenarios on its *counterparty exposures*, its *positions* and the aggregate amount of margin calls that it would receive. A *firm's* stress scenarios should take into account the possibility that the liquidation period may be substantially longer than 5 days for *repurchase transactions* and securities lending or borrowing transactions, and 10 days for other types of *securities financing transactions*.

5.6.20

FCA

R

The calculation of the potential change in value must be subject to the following minimum standards:

- (1) at least daily calculation of the potential change in value;
- (2) a 99th percentile, one-tailed confidence interval;
- (3) a 5-day equivalent liquidation period, except in the case of transactions other than securities *repurchase transaction* or *securities lending or borrowing transactions* where a 10-day equivalent liquidation period should be used;
- (4) an effective historical observation period of at least one year except where a shorter observation period is justified by a significant upsurge in price volatility; and

(5) three-monthly data set updates.

[Note: BCD Annex VIII Part 3 point 17]

5.6.21

FCA

R

The internal risk-measurement model must capture a sufficient number of risk factors in order to capture all material price risks.

[Note: BCD Annex VIII Part 3 point 18]

5.6.22

FCA

R

A *firm* may use empirical correlations within risk categories and across risk categories provided that it is able to satisfy the *appropriate regulator* that the *firm's* system for measuring correlations is sound and implemented with integrity.

[Note: BCD Annex VIII Part 3 point 19]

5.6.23

FCA

G

The *appropriate regulator* will not grant a *master netting agreement internal models approach permission* if it is not satisfied that the standards in ■ BIPRU 5.6.19 R to ■ BIPRU 5.6.22 R are met.

5.6.24

FCA

R

The fully adjusted *exposure* value (E^*) for a *firm* using the *master netting agreement internal models approach* must be calculated according to the following formula:

$$E^* = \max \{0, [(\sum E - \sum C) + (VaR \text{ output of the internal models})]\}$$

where

- (1) (where *risk weighted exposure amounts* are calculated under the *standardised approach*) E is the *exposure* value for each separate *exposure* under the agreement that would apply in the absence of the credit protection;
- (2) C is the value of the *securities* borrowed, purchased or received or the cash borrowed or received in respect of each such *exposure*;
- (3) $\sum (E)$ is the sum of all Es under the agreement; and
- (4) $\sum (C)$ is the sum of all Cs under the agreement.

[Note: BCD Annex VIII Part 3 point 20]

5.6.25

FCA

R

In calculating *risk weighted exposure amounts* using the *master netting agreement internal models approach*, a *firm* must use the previous *business day's* model output.

[Note: BCD Annex VIII Part 3 point 21]

5.6.26

FCA

G

No changes should be made to the internal model used for the *master netting agreement internal models approach* unless the change is not material. Material changes to such a model will require a variation of the *master netting agreement internal models approach permission*. Materiality is measured against the model as it was at the time that the *master netting agreement internal models approach permission* was originally granted or, any later date set out in the *master netting agreement internal models approach permission* for this purpose. If a *firm* is considering making material changes to such a model then it should notify the *appropriate regulator* at once.

5.6.27

FCA

G

If a *firm* ceases to meet the requirements of ■ BIPRU 5 in relation to the *master netting agreement internal models approach*, the *firm* should notify the *appropriate regulator* at once.

5.6.28

FCA

G

The *appropriate regulator* is likely to revoke a *master netting agreement internal models approach permission* if a *firm* ceases to meet the requirements of ■ BIPRU 5 in relation to the *master netting agreement internal models approach*.

Calculation of risk weighted exposure amounts under the standardised approach

5.6.29

FCA

R

- (1) A *firm* must under the *standardised approach* calculate *risk weighted exposure amounts* for *repurchase transactions* and/or *securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions* covered by master netting agreements under this *rule*.
- (2) E^* as calculated under ■ BIPRU 5.6.5 R to ■ BIPRU 5.6.25 R must be taken as the *exposure* value of the *exposure* to the counterparty arising from the transactions subject to the master netting agreement for the purposes of ■ BIPRU 3.2.20 R to ■ BIPRU 3.2.26 R.

[Note: BCD Annex VIII Part 3 point 22]

5.7 Unfunded credit protection

Eligibility

5.7.1

FCA

R

The following parties may be recognised as eligible providers of *unfunded credit protection*:

- (1) central governments and *central banks*;
- (2) regional governments or local authorities;
- (3) *multilateral development banks*;
- (4) *international organisations exposures* which are assigned a 0% *risk weight* under the *standardised approach*;
- (5) *public sector entities, claims* on which are treated as claims on *institutions* or central governments under the *standardised approach*;
- (6) *institutions*;
- (7) other corporate entities, including *parent undertakings, subsidiary undertakings* and affiliate corporate entities of the *firm*, that have a credit assessment by an *eligible ECAI* associated with *credit quality step 2* or above under the *rules* for the *risk weighting of exposures to corporates* under the *standardised approach*.

[Note: BCD Annex VIII Part 1 point 26]

Types of credit derivatives

5.7.2

FCA

R

The following types of credit derivatives, and instruments that may be composed of such credit derivatives or that are economically effectively similar, may be recognised as eligible;

- (1) credit default swaps;
- (2) total return swaps; and

(3) credit linked notes to the extent of their cash funding.

[Note: BCD Annex VIII Part 1 point 30]

5.7.3

FCA

R Where a *firm* buys credit protection through a total return swap and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves), the credit protection must not be recognised as eligible.

[Note: BCD Annex VIII Part 1 point 31]

Internal hedges

5.7.4

FCA

R When a *firm* conducts an internal hedge using a credit derivative - i.e. hedges the credit risk of an *exposure* in the *non-trading book* with a credit derivative booked in the *trading book* - in order for the protection to be recognised as eligible for the purposes of ■ BIPRU 4.10 or ■ BIPRU 5 the credit risk transferred to the *trading book* must be transferred out to a third party or parties. In such circumstances, subject to the compliance of such transfer with the requirements for the recognition of *credit risk mitigation* set out in ■ BIPRU 4.10 or ■ BIPRU 5, the *rules* for the calculation of *risk weighted exposure amounts* and *expected loss* amounts where *unfunded credit protection* is acquired set out in ■ BIPRU 4.10 or ■ BIPRU 5 must be applied.

[Note: BCD Annex VIII Part 1 point 32]

Minimum requirements: General

5.7.5

FCA

R ■ BIPRU 5.7.6 R to ■ BIPRU 5.7.10 R deal with requirements common to guarantees and credit derivatives.

5.7.6

FCA

R Subject to ■ BIPRU 5.7.9 R, for the credit protection deriving from a guarantee or credit derivative to be recognised the following conditions must be met:

- (1) the credit protection must be direct;
- (2) the extent of the credit protection must be clearly defined and incontrovertible;
- (3) the credit protection contract must not contain any clause, the fulfilment of which is outside the direct control of the lender, that:
 - (a) would allow the protection provider unilaterally to cancel the protection;
 - (b) would increase the effective cost of protection as a result of deteriorating credit quality of the protected *exposure*;

(c) could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due; or

(d) could allow the maturity of the credit protection to be reduced by the protection provider; and

(4) it must be legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.

[Note: BCD Annex VIII Part 2 point 14]

5.7.7

FCA

G

For the purposes of ■ BIPRU 5.7.6 R (3)(a), payment of premiums and other monies due under the contract is within the control of the *lending firm*. So a clause that allows the protection provider unilaterally to cancel the contract after a reasonable period due to non payment of such monies will not mean that the condition in that *rule* is not met.

Minimum requirements: Operational requirements

5.7.8

FCA

R

A *firm* must be able to satisfy the *appropriate regulator* that it has systems in place to manage potential concentration of risk arising from the *firm's* use of guarantees and credit derivatives. The *firm* must be able to demonstrate how its strategy in respect of its use of credit derivatives and guarantees interacts with its management of its overall risk profile.

[Note: BCD Annex VIII Part 2 point 15]

Minimum requirements: Sovereign and other public sector counter-guarantees

5.7.9

FCA

R

Where an *exposure* is protected by a guarantee which is counter-guaranteed by a central government or *central bank*, a regional government or local authority or a *public sector entity* claims on which are treated as claims on the central government in whose jurisdiction they are established under the *standardised approach*, a *multilateral development bank* or an *international organisation*, to which a 0% *risk weight* is assigned under or by virtue of the *standardised approach*, or a *public sector entity*, claims on which are treated as claims on *credit institutions* under the *standardised approach*, the *exposure* may be treated as protected by a guarantee provided by the entity in question provided the following conditions are satisfied:

- (1) the counter-guarantee covers all credit risk elements of the claim;
- (2) both the original guarantee and the counter-guarantee meet the requirements for guarantees set out in ■ BIPRU 5.7.6 R, ■ BIPRU 5.7.8 R and ■ BIPRU 5.7.11 R, except that the counter-guarantee need not be direct; and

- (3) the *firm* is able to satisfy the *appropriate regulator* that the cover is robust and that nothing in the historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the entity in question.

[Note: BCD Annex VIII Part 2 point 16]

5.7.10

FCA

R

The treatment of ■ BIPRU 5.7.9 R applies, also, to an *exposure* which is not counter-guaranteed by an entity listed in that *rule* if the *exposure's* counter-guarantee is in its turn directly guaranteed by one of the listed entities and the conditions listed in ■ BIPRU 5.7.9 R are satisfied.

[Note: BCD Annex VIII Part 2 point 17]

Additional requirements for guarantees

5.7.11

FCA

R

For a guarantee to be recognised the following conditions must also be met:

- (1) on the qualifying default of and/or non-payment by the counterparty, the *lending firm* must have the right to pursue, in a timely manner, the guarantor for any monies due under the claim in respect of which the protection is provided;
- (2) payment by the guarantor must not be subject to the *lending firm* first having to pursue the obligor;
- (3) in the case of *unfunded credit protection* covering residential mortgage loans, the requirements in ■ BIPRU 5.7.6 R (3)(c) and in this *rule* have only to be satisfied within 24 months;
- (4) the guarantee must be an explicitly documented obligation assumed by the guarantor;
- (5) subject to (6), the guarantee must cover all types of payments the obligor is expected to make in respect of the claim; and
- (6) where certain types of payment are excluded from the guarantee, the recognised value of the guarantee must be adjusted to reflect the limited coverage.

[Note: BCD Annex VIII Part 2 point 18]

5.7.12

PAGE
43

FCA

R

In the case of guarantees provided in the context of mutual guarantee schemes recognised for these purposes by another EEA *competent authority* under a *CRD implementation measure* with respect to point 19 of Part 2 of Annex VIII of the *Banking Consolidation Directive* or provided by or counter-guaranteed by entities referred to in ■ BIPRU 5.7.9 R, the requirements in ■ BIPRU 5.7.11 R (1) - ■ (3) will be satisfied where either of the following conditions are met:

- (1) the *lending firm* has the right to obtain in a timely manner a provisional payment by the guarantor calculated to represent a robust estimate of the amount of the economic *loss*, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, likely to be incurred by the *lending firm* proportional to the coverage of the guarantee; or
- (2) the *lending firm* is able to demonstrate to the *appropriate regulator* that the loss-protecting effects of the guarantee, including losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify such treatment.

[Note: BCD Annex VIII Part 2 point 19]

Additional requirements for credit derivatives

5.7.13

FCA

R

For a credit derivative to be met the following conditions must also be met.

- (1) Subject to (2), the credit events specified under the credit derivative must at a minimum include:
 - (a) the failure to pay the amounts due under the terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with or shorter than the grace period in the underlying obligation);
 - (b) the bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
 - (c) the restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. value adjustment or other similar debit to the profit and loss account).
- (2) Where the credit events specified under the credit derivative do not include restructuring of the underlying obligation as described in (1)(c), the credit protection may nonetheless be recognised subject to a reduction in the recognised value as specified in ■ BIPRU 5.7.16 R.
- (3) In the case of credit derivatives allowing for cash settlement a robust valuation process must be in place in order to estimate loss reliably. There must be a clearly specified period for obtaining post-credit-event valuations of the underlying obligation.

- (4) If the protection purchaser's right and ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation must provide that any required consent to such transfer may not be unreasonably withheld.
- (5) The identity of the parties responsible for determining whether a credit event has occurred must be clearly defined. This determination must not be the sole responsibility of the protection provider. The protection buyer must have the right/ability to inform the protection provider of the occurrence of a credit event.

[Note: BCD Annex VIII Part 2 point 20]

5.7.14

FCA

R

A mismatch between the underlying obligation and the reference obligation under the credit derivative (i.e. the obligation used for the purposes of determining cash settlement value or the deliverable obligation) or between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible only if the following conditions are met:

- (1) the reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, ranks *pari passu* with or is junior to the underlying obligation; and
- (2) the underlying obligation and the reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, share the same obligor (i.e., the same legal entity) and there are in place legally enforceable cross-default or cross-acceleration clauses.

[Note: BCD Annex VIII Part 2 point 21]

Unfunded credit protection: Valuation

5.7.15

FCA

R

■ BIPRU 5.7.16 R to ■ BIPRU 5.7.19 R set out the provisions applying to the valuation of *unfunded credit protection*.

5.7.16

FCA

R

- (1) The value of *unfunded credit protection* (G) is the amount that the protection provider has undertaken to pay in the event of the default or non-payment of the borrower or on the occurrence of other specified credit events.
- (2) In the case of credit derivatives which do not include as a credit event restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that result in a credit loss event (e.g. value adjustment, the making of a value adjustment or other similar debit to the profit and loss account):

- (a) where the amount that the protection provider has undertaken to pay is not higher than the *exposure* value, the value of the credit protection calculated under (1) must be reduced by 40%; or
- (b) where the amount that the protection provider has undertaken to pay is higher than the *exposure* value, the value of the credit protection must be no higher than 60% of the *exposure* value.

[Note: BCD Annex VIII Part 3 point 83]

5.7.17

FCA

R Where *unfunded credit protection* is denominated in a currency different from that in which the *exposure* is denominated (a currency mismatch) the value of the credit protection must be reduced by the application of a volatility adjustment H_{FX} as follows:

$$G^* = G \times (1 - H_{FX})$$

where:

- (1) G is the nominal amount of the credit protection;
- (2) G^* is G adjusted for any *foreign currency* risk; and
- (3) H_{FX} is the volatility adjustment for any currency mismatch between the credit protection and the underlying obligation.

[Note: BCD Annex VIII Part 3 point 84 (part)]

5.7.18

FCA

R Where there is no currency mismatch:

$$G^* = G$$

[Note: BCD Annex VIII Part 3 point 84 (part)]

5.7.19

FCA

R The volatility adjustments to be applied for any currency mismatch may be calculated based on the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* as set out in ■ BIPRU 5.4.30 R to ■ BIPRU 5.4.65 R.

[Note: BCD Annex VIII Part 3 point 85]

Calculating risk weighted exposure amounts and expected loss amounts

5.7.20

FCA

R ■ BIPRU 5.7.21 R to ■ BIPRU 5.7.28 R set out the provisions applying to the calculation of *risk weighted exposure amounts*.

5.7.21

FCA

R

Calculating risk weighted exposure amounts: Partial protection - tranching

Where a *firm* transfers a part of the risk of a loan in one or more *tranches*, BIPRU 9 applies. Materiality thresholds on payments below which no payment shall be made in the event of loss are considered to be equivalent to retained first loss positions and to give rise to a *tranching* transfer of risk.

[Note: BCD Annex VIII Part 3 point 86]

5.7.22

FCA

R

Calculating risk-weighted exposure amounts : The standardised approach

■ BIPRU 5.7.23 R to ■ BIPRU 5.7.25 R set out the provisions applying to the calculation of *risk weighted exposure amounts* under the *standardised approach* in the case of *unfunded credit protection*.

Calculating risk weighted exposure amounts: standardised approach: Full protection

5.7.23

FCA

R

For the purposes of ■ BIPRU 3.2.20 R to ■ BIPRU 3.2.26 R, *g* shall be the *risk weight* to be assigned to an *exposure*, the *exposure* value (*E*) of which is fully protected by *unfunded credit protection* (G_A), where:

- (1) *g* is the *risk weight* of *exposures* to the protection provider as specified under the *standardised approach*;
- (2) G_A is the value of G^* as calculated under ■ BIPRU 5.7.17 R further adjusted for any maturity mismatch as laid down in ■ BIPRU 5.8; and
- (3) *E* is the *exposure* value according to ■ BIPRU 3.2.1 R to ■ BIPRU 3.2.3 R and ■ BIPRU 13; for this purpose the *exposure* value of an off-balance sheet item listed in ■ BIPRU 3.7.2 R shall be 100% of its value rather than the *exposure* value indicated in ■ BIPRU 3.2.1 R.

[Note: BCD Annex VIII Part 3 point 87]

Calculating risk weighted exposure amounts: Standardised approach: Partial protection - equal seniority

5.7.24

FCA

R

Where the protected amount is less than the *exposure* value and the protected and unprotected portions are of equal seniority - i.e. the *firm* and the protection provider share losses on a pro-rata basis, proportional regulatory capital relief is afforded. For the purposes of ■ BIPRU 3.2.20 R to ■ BIPRU 3.2.26 R *risk weighted exposure amounts* must be calculated in accordance with the following formula:

$$(E - G_A) \times r + G_A \times g$$

where:

- (1) E is the *exposure* value; according to ■ BIPRU 3.2.1 R to ■ BIPRU 3.2.3 R and ■ BIPRU 13; for this purpose, the *exposure* value of an off-balance sheet item listed in ■ BIPRU 3.7.2 R shall be 100% of its value rather than the *exposure* value indicated in ■ BIPRU 3.2.1 R;
- (2) G_A is the value of G^* as calculated under ■ BIPRU 5.7.17 R further adjusted for any maturity mismatch as laid down in ■ BIPRU 5.8;
- (3) r is the *risk weight* of *exposures* to the obligor as specified under the *standardised approach*; and
- (4) g is the *risk weight* of *exposures* to the protection provider as specified under the *standardised approach*.

[Note: BCD Annex VIII Part 3 point 88]

Calculating risk weighted exposure amounts: standardised approach: Sovereign guarantees

5.7.25
FCA

R A *firm* may apply the treatment provided for in ■ BIPRU 3.4.5 R to ■ BIPRU 3.4.7 R to *exposures* or parts of *exposures* guaranteed by the central government or *central bank*, where the guarantee is denominated in the domestic currency of the borrower and the *exposure* is funded in that currency.

[Note: BCD Annex VIII Part 3 point 89]

Calculating risk-weighted exposure amounts and expected loss amounts: Basket CRM techniques

5.7.26
FCA

R ■ BIPRU 5.7.27 R to ■ BIPRU 5.7.28 R set out the provisions applying to the calculation of *risk weighted exposure amount* and *expected loss* amounts where *basket credit risk mitigation* techniques are used.

First-to-default credit derivatives

5.7.27
FCA

R Where a *firm* obtains credit protection for a number of *exposures* under terms that the first default among the *exposures* will trigger payment and that this credit event will terminate the contract, the *firm* may modify the calculation of the *risk weighted exposure amount* and, as relevant, the *expected loss* amount of the *exposure* which would in the absence of the credit protection produce the lowest *risk weighted exposure amount* under the *standardised approach* or the *IRB approach* as appropriate in accordance with ■ BIPRU 4.10 or ■ BIPRU 5, but only if the *exposure* value is less than or equal to the value of the credit protection.

[Note: BCD Annex VIII Part 6 point 1]

5.7.28

FCA

R

Nth-to-default credit derivatives

Where the *n*th default among the *exposures* triggers payment under the credit protection provided by a credit derivative, a *firm* purchasing the protection may only recognise the protection for the calculation of *risk weighted exposure amounts* and, as relevant, *expected loss* amounts if protection has also been obtained for defaults 1 to *n*-1 or when *n*-1 defaults have already occurred. In such cases the methodology must follow that set out in ■ BIPRU 5.7.27 R for first-to-default derivatives appropriately modified for *n*th-to-default products.

[Note: BCD Annex VIII Part 6 point 2]

5

5.8 Maturity mismatches

5.8.1

FCA

R

For the purposes of calculating *risk weighted exposure amounts*, a maturity mismatch occurs when the residual maturity of the credit protection is less than that of the protected *exposure*. Protection of less than three months residual maturity, the maturity of which is less than the maturity of the underlying *exposure*, must not be recognised.

[Note: BCD Annex VIII Part 4 point 1]

5.8.2

FCA

R

Where there is a maturity mismatch the credit protection must not be recognised where the original maturity of the protection is less than 1 year.

[Note: BCD Annex VIII Part 4 point 2 (part)]

Definition of maturity

5.8.3

FCA

R

Subject to a maximum of 5 years, the effective maturity of the underlying is the longest possible remaining time before the obligor is scheduled to fulfil its obligations. Subject to ■ BIPRU 5.8.4 R, the maturity of the credit protection is the time to the earliest date at which the protection may terminate or be terminated.

[Note: BCD Annex VIII Part 4 point 3]

5.8.4

FCA

R

Where there is an option to terminate the protection which is at the discretion of the protection seller, the maturity of the protection must be taken to be the time to the earliest date at which that option may be exercised. Where there is an option to terminate the protection which is at the discretion of the protection buyer and the terms of the arrangement at origination of the protection contain a positive incentive for the *firm* to call the transaction before contractual maturity, the maturity of the protection must be taken to be the time to the earliest date at which that option may be exercised; otherwise such an option may be considered not to affect the maturity of the protection.

[Note: BCD Annex VIII Part 4 point 4]

5.8.5 **R** Where a credit derivative is not prevented from terminating prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay the maturity of the protection must be reduced by the amount of the grace period.

FCA

[Note: BCD Annex VIII Part 4 point 5]

Valuation of protection: Transactions subject to funded credit protection - financial collateral simple method

5.8.6 **R** ■ BIPRU 5.8.7 R sets out the calculation for the valuation of transactions subject to *funded credit protection* under the *financial collateral simple method*.

FCA

5.8.7 **R** Where there is a mismatch between the maturity of the *exposure* and the maturity of the protection, the collateral must not be recognised.

FCA

[Note: BCD Annex VIII Part 4 point 6]

Valuation of protection: Transactions subject to funded credit protection - financial collateral comprehensive method

5.8.8 **R** ■ BIPRU 5.8.9 R sets out the calculation for the valuation of transactions subject to *funded credit protection* under the *financial collateral comprehensive method*.

FCA

5.8.9 **R** (1) The maturity of the credit protection and that of the *exposure* must be reflected in the adjusted value of the collateral according to the following formula:

FCA

$$C_{VAM} = C_{VA} \times (t-t^*) / (T-t^*)$$

where:

- (a) C_{VA} is the volatility adjusted value of the collateral as specified in ■ BIPRU 5.4.28 R or the amount of the *exposure*, whichever is the lowest;
- (b) t is the number of years remaining to the maturity date of the credit protection calculated in accordance with ■ BIPRU 5.8.3 R to ■ BIPRU 5.8.5 R, or the value of T , whichever is the lower;
- (c) T is the number of years remaining to the maturity date of the *exposure* calculated in accordance with ■ BIPRU 5.8.3 R to ■ BIPRU 5.8.5 R, or 5 years, whichever is the lower; and
- (d) t^* is 0.25.

- (2) C_{VAM} must be taken as C_{VA} further adjusted for maturity mismatch to be included in the formula for the calculation of the fully adjusted value of the *exposure* (E^*) set out at ■ BIPRU 5.4.28 R.

[Note: BCD Annex VIII Part 4 point 7]

Valuation of protection: Transactions subject to unfunded credit protection

5.8.10

FCA

R

■ BIPRU 5.8.11 R sets out the calculation for the valuation of transactions subject to *unfunded credit protection*.

5.8.11

FCA

R

- (1) The maturity of the credit protection and that of the *exposure* must be reflected in the adjusted value of the credit protection according to the following formula:

$$G_A = G^* \times (t-t^*) / (T-t^*)$$

where:

- (a) G^* is the amount of the protection adjusted for any currency mismatch;
 - (b) G_A is G^* adjusted for any maturity mismatch;
 - (c) t is the number of years remaining to the maturity date of the credit protection calculated in accordance with ■ BIPRU 5.8.3 R to ■ BIPRU 5.8.5 R, or the value of T , whichever is the lower;
 - (d) T is the number of years remaining to the maturity date of the *exposure* calculated in accordance with ■ BIPRU 5.8.3 R to ■ BIPRU 5.8.5 R, or 5 years, whichever is the lower; and
 - (e) t^* is 0.25.
- (2) G_A is then taken as the value of the protection for the purposes of ■ BIPRU 5.7.16 R to ■ BIPRU 5.7.25 R.

[Note: BCD Annex VIII Part 4 point 8]



5.9 Combinations of credit risk mitigation in the standardised approach

5.9.1

FCA

R

In the case where a *firm* calculating *risk weighted exposure amounts* under the *standardised approach* has more than one form of *credit risk mitigation* covering a single *exposure* (e.g. a *firm* has both collateral and a guarantee partially covering an *exposure*), the *firm* must subdivide the *exposure* into parts covered by each type of *credit risk mitigation* tool (e.g. a part covered by collateral and a portion covered by guarantee) and the *risk weighted exposure amount* for each portion must be calculated separately in accordance with the provisions of the *standardised approach* and ■ BIPRU 5.

[Note: BCD Annex VIII Part 5 point 1]

5.9.2

FCA

R

When credit protection provided by a single protection provider has differing maturities, a similar approach to that described in ■ BIPRU 5.9.1 R must be applied.

[Note: BCD Annex VIII Part 5 point 2]

Chapter 6

[Deleted]



[Chapter Deleted]

Chapter 7

Market risk

7.1 Application, purpose, general provisions and non-standard transactions

Application

7.1.1
FCA

R This chapter applies to a *BIPRU firm*.

Purpose

7.1.2
FCA

G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of this chapter is to implement Annexes I, III, IV and V of the *Capital Adequacy Directive*.

General provisions: Obligation to calculate PRR

7.1.3
FCA

R A *firm* must calculate a *PRR* in respect of:

- (1) all its *trading book positions*;
- (2) all *positions* falling within ■ BIPRU 7.5.3 R (Scope of the foreign exchange PRR calculation), whether or not in the *trading book*; and
- (3) all *positions in commodities* (including *physical commodities*) whether or not in the *trading book*;

even if no treatment is provided for that *position* in the other sections of this chapter.

7.1.4
FCA

R A *firm* must calculate a *PRR* for any *position* falling into ■ BIPRU 7.1.3 R using:

- (1) the *PRR* calculations contained in ■ BIPRU 7; or
- (2) another method provided the *firm* is able to demonstrate that in all circumstances the calculation being employed results in a higher *PRR* for the *position* than would be required under (1).

General provisions: Non-trading book items

7.1.5
FCA

G *Positions* in instruments which are *non-trading book* items should be treated under ■ BIPRU 3 (Standardised credit risk), ■ BIPRU 4 (The IRB approach) or ■ BIPRU 13 (Financial derivatives, SFTs and long settlement transactions) unless deducted as an

illiquid asset. If they fall into ■ BIPRU 7.1.3R(2) or ■ (3) they also give rise to a *PRR charge*.

General provisions: Frequency of calculation

7.1.6 **R** A *firm* must be able to monitor its total *PRR* on an intra-day basis, and, before executing any trade, must be able to re-calculate *PRR* to the level of detail necessary to establish whether or not the *firm's capital resources* exceed its *capital resources requirement*.
FCA

7.1.7 **G** A *firm* may rely on intra-day limits for the purposes of ■ BIPRU 7.1.6R.
FCA

Purpose of rules for non-standard transactions and instruments for which no PRR treatment has been specified

7.1.8 **G** The methodologies which have been developed for calculating *PRR charges* have been based on existing instruments and assume instruments with standard characteristics. However, as a result of innovation and because there are instruments which, although based on a standard contract, contain structural features which would make the *rules* in the rest of this chapter inappropriate, flexible *rules* are required. The *rules* in this section about transactions for which no *PRR* treatment has been specified and non-standard transactions are designed to address this.
FCA

Instruments for which no PRR treatment has been specified

7.1.9 **R** Where a *firm* has a *position* for which no *PRR* treatment has been specified, it must calculate the *PRR* for that *position* in accordance with ■ BIPRU 7.1.12R-■ BIPRU 7.1.13R.
FCA

7.1.10 **R** If ■ BIPRU 7.1.9 R applies, a *firm* must document its policies and procedures for calculating the *PRR* for that *position* of that type in its *trading book policy statement*.
FCA

7.1.11 **G** Under ■ BIPRU 1.2.30 R (2) a *firm* should notify the *appropriate regulator* as soon as is reasonably practicable if its *trading book policy statement* is subject to significant changes. Therefore if a *firm* makes a change in accordance with ■ BIPRU 7.1.10R it should consider whether it is necessary to report it to the *appropriate regulator* .
FCA

7.1.12 **R** A *firm* may calculate the *PRR* for a *position* falling into ■ BIPRU 7.1.9R by applying by analogy the *rules* relating to the calculation of the *interest rate PRR*, the *equity PRR*, the *commodity PRR*, the *foreign currency PRR*, the *option PRR* or the *collective investment undertaking PRR* if doing so is appropriate and if the *position* and *PRR item* are sufficiently similar to those that are covered by those *rules*.
FCA

7.1.13 **R** Where a *firm* has a *position* for which no *PRR* treatment has been specified and it is not applying ■ BIPRU 7.1.12R, it must calculate a *PRR* of an appropriate percentage of the current value of the *position* calculated under ■ GENPRU 1.3 (Valuation).
FCA

Instruments in non-standard form

7.1.14

FCA

R

- (1) If a *firm* has a *position*:
- (a) in a *PRR item* in non-standard form; or
 - (b) that is part of a non-standard arrangement; or
 - (c) that, taken together with other *positions* (whether or not they are subject to *PRR charges* under ■ BIPRU 7), gives rise to a non-standard *market risk*;
- the *firm* must notify the *appropriate regulator* of that fact and of details about the *position*, *PRR item*, arrangements and type of risk concerned.
- (2) Except as (1) provides to the contrary, (1) applies to a *position* that is subject to a *PRR* under ■ BIPRU 7.1.3R.
- (3) The question of what is non-standard for the purposes of (1) must be judged by reference to the standards:
- (a) prevailing at the time the *rule* is being applied; and
 - (b) of *firms* generally who carry on business which gives rise to *PRRs* under ■ BIPRU 7 rather than merely by reference to the *firm's* own business.

7.1.15

FCA

R

If a *firm* has a *position* or combination of *positions* falling into ■ BIPRU 7.1.14R and the *PRR* relating to that *position* or *positions* materially underestimates the *market risk* incurred by the *firm* to which they give rise, the *firm* must calculate the *PRR* for that *position* or *positions* under ■ BIPRU 7.1.13R.

Meaning of appropriate percentage for non-standard transactions

7.1.16

FCA

A

- (1) In ■ BIPRU 7.1.13R and, to the extent that that *rule* applies ■ BIPRU 7.1.13R, ■ BIPRU 7.1.15R, an "appropriate percentage" is:
- (a) 100%; or
 - (b) a percentage which takes account of the characteristics of the *position* concerned and of discussions with the *appropriate regulator* or a predecessor regulator under the Banking Act 1987 or the Financial Services Act 1986.
- (2) Compliance with (1) may be relied on as tending to establish compliance with ■ BIPRU 7.1.13R or, insofar as it incorporates the requirements relating to an appropriate percentage, ■ BIPRU 7.1.15R.

- (3) Contravention of (1) may be relied on as tending to establish contravention with ■ BIPRU 7.1.13 R or, insofar as it incorporates the requirements relating to an appropriate percentage, ■ BIPRU 7.1.15 R.

Stress testing and scenario analyses of trading book positions

7.1.17

FCA

R

A *firm* must conduct a regular programme of stress testing and scenario analysis of its *trading book positions*, both at the trading desk level and on a *firm-wide* basis. The results of these tests must be reviewed by senior management and reflected in the policies and limits the *firm* sets.

7.1.17A

FCA

G

The *firm's* stress testing programme should be comprehensive in terms of both risk and *firm* coverage, and appropriate to the size and complexity of *trading book positions* held.

7.1.18

FCA

R

In carrying out the stress tests and scenario analyses required by ■ BIPRU 7.1.17 R, a *firm* must incorporate and take into account any other relevant stress tests and scenario analyses that it is required to carry out under any other provision of the *Handbook*, and in particular under ■ BIPRU 7.10.72 R where the *firm* has a *VaR model permission*.

7.1.19

FCA

G

This paragraph gives *guidance* in relation to the stress testing programme that a *firm* must carry out in relation to its *trading book positions*.

- (1) The frequency of the stress testing of *trading book positions* should be determined by the nature of the *positions*.
- (2) The stress testing should include shocks which reflect the nature of the portfolio and the time it could take to hedge out or manage risks under severe market conditions.
- (3) The *firm* should have procedures in place to assess and respond to the results of the stress testing programme. In particular, stress testing should be used to evaluate the *firm's* capacity to absorb losses or to identify steps to be taken by the *firm* to reduce risk.
- (4) As part of its stress testing programme, the *firm* should consider how prudent valuation principles (see ■ GENPRU 1.3) will be met in a stressed scenario.

7.1.20

FCA

G

The stress testing and scenario analysis under ■ BIPRU 7.1.17 R should be taken into account under the *overall Pillar 2 rule*.

7.2 Interest rate PRR

General rule

7.2.1
FCA

R

- (1) A *firm* must calculate its *interest rate PRR* under ■ BIPRU 7.2 by:
 - (a) identifying which *positions* must be included within the *interest rate PRR* calculation;
 - (b) deriving the net *position* in each debt *security* in accordance with ■ BIPRU 7.2.36R-■ BIPRU 7.2.41R;
 - (c) including these net *positions* in the *interest rate PRR* calculation for *general market risk* and the *interest rate PRR* calculation for *specific risk*; and
 - (d) summing all *PRRs* calculated for *general market risk* and *specific risk*.
- (2) A *firm* must calculate its *interest rate PRR* by adding the amount calculated under (1) to the amount calculated under the basic *interest rate PRR* calculation under ■ BIPRU 7.3.45R.
- (3) All net *positions*, irrespective of their signs, must be converted on a daily basis into the *firm's base currency* at the prevailing spot exchange rate before their aggregation.
- (4) Net *positions* must be classified according to the currency in which they are denominated. A *firm* must calculate the capital requirement for *general market risk* and *specific risk* in each individual currency separately.

7.2.2
FCA

G

The *interest rate PRR* calculation divides the interest rate risk into the risk of loss from a general move in market interest rates, and the risk of loss from an individual debt *security's* price changing for reasons other than a general move in market interest rates. These are called *general market risk* and *specific risk* respectively.

7.2.3

FCA

R

Scope of the interest rate PRR calculation

A firm's interest rate PRR calculation must:

- (1) include all *trading book positions* in *debt securities*, *preference shares* and *convertibles*, except:
 - (a) *positions* in *convertibles* which have been included in the firm's *equity PRR* calculation;
 - (b) *positions* fully deducted as a *material holding* under the calculations under the *capital resources table*, in which case the firm may exclude them; or
 - (c) *positions* hedging an *option* which is being treated under ■ BIPRU 7.6.26R (Table: Appropriate treatment for equities, debt securities or currencies hedging options);
- (2) include notional *positions* arising from *trading book positions* in the instruments listed in the table in ■ BIPRU 7.2.4R; and
- (3) (if the firm is the transferor of *debt securities* or guaranteed rights relating to title to *debt securities* in a *repurchase agreement* or the lender of *debt securities* in a *debt securities* lending agreement) include such *debt securities* if those *debt securities* meet the criteria for inclusion in the *trading book*.

7.2.4

FCA

R

Table: Instruments which result in notional positions

This table belongs to ■ BIPRU 7.2.3R(2)

Instrument	See
<i>Futures, forwards or synthetic futures on debt securities</i>	BIPRU 7.2.13 R
<i>Futures, forwards or synthetic futures on debt indices or baskets</i>	BIPRU 7.2.14R
<i>Interest rate futures or forward rate agreements (FRAs)</i>	BIPRU 7.2.18 R
<i>Interest rate swaps or foreign currency swaps</i>	BIPRU 7.2.21R
<i>Deferred start interest rate swaps or foreign currency swaps</i>	BIPRU 7.2.24R
<i>The interest rate leg of an equity swap (unless the firm calculates the interest rate PRR on the instrument using the basic interest rate PRR calculation in BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives))</i>	BIPRU 7.2.27R

Instrument	See
The cash leg of a <i>repurchase agreement</i> or a <i>reverse repurchase agreement</i>	BIPRU 7.2.30R
Cash borrowings or deposits	BIPRU 7.2.31 R
<i>Options</i> on a <i>debt security</i> , a basket of <i>debt securities</i> , a <i>debt security index</i> , an <i>interest rate</i> or an <i>interest rate future</i> or <i>swap</i> (including an <i>option on a future on a debt security</i>) (unless the <i>firm</i> calculates a <i>PRR</i> on the <i>option</i> under BIPRU 7.6 (Option PRR))	BIPRU 7.2.32R
Dual currency bonds	BIPRU 7.2.33R
<i>Foreign currency futures</i> or <i>forwards</i>	BIPRU 7.2.34R
<i>Gold futures</i> or <i>forwards</i>	BIPRU 7.2.34R
<i>Forwards, futures</i> or <i>options</i> (except <i>cliquets</i>) on an <i>equity</i> , basket of <i>equities</i> or <i>equity index</i> (unless the <i>firm</i> calculates the <i>interest rate PRR</i> on the instrument using the basic <i>interest rate PRR</i> calculation in BIPRU 7.3)	BIPRU 7.2.34R
Credit derivatives	BIPRU 7.11
A warrant must be treated in the same way as an option	

7.2.5

FCA

G

■ BIPRU 7.2.3R(1) includes a *trading book position* in *debt security*, *preference share* or *convertible* that is subsequently repo'd under a *repurchase agreement* or lent under a stock lending agreement. Clearly, if the *security* had initially been obtained via a *reverse repurchase agreement* or stock borrowing agreement, the *security* would not have been included in the *PRR* calculation in the first place.

7.2.6

FCA

G

■ BIPRU 7.2.3R(1) includes *net underwriting positions* or *reduced net underwriting position* in *debt securities*.

7.2.7

FCA

G

Firms are reminded that the table in ■ BIPRU 7.6.5R (Table: Appropriate PRR calculation for an option or warrant) divides *options* and *warrants* on interest rates, *debt securities* and interest rate *futures* and *swaps* into:

- (1) those which must be treated under ■ BIPRU 7.6 (Option PRR); and
- (2) those which must be treated under either ■ BIPRU 7.2 or ■ BIPRU 7.6, the *firm* being able to choose whether ■ BIPRU 7.2 or ■ BIPRU 7.6 is used.

7.2.8

FCA

G

Cliquets on *equities*, baskets of *equities* or *equity* indices do not attract an *interest rate PRR*. The table in ■ BIPRU 7.2.4R excludes them from the scope of the *interest rate PRR* calculation in ■ BIPRU 7.2 and ■ BIPRU 7.3.45R excludes them from the basic *interest rate PRR* calculation in ■ BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives).

7.2.9

FCA

G

The table in ■ BIPRU 7.2.4R shows that *equity derivatives* are excluded from ■ BIPRU 7.2's *PRR* calculation if they have been included in the basic *interest rate PRR* calculation in ■ BIPRU 7.3 (see ■ BIPRU 7.3.45R).

Derivation of notional positions: General approach

7.2.10

FCA

G

■ BIPRU 7.2.11 R - ■ BIPRU 7.2.35R convert the instruments listed in the table in ■ BIPRU 7.2.4R into notional *positions* in:

- (1) the underlying debt *security*, where the instrument depends on the price (or yield) of a specific debt *security*; or
- (2) notional debt *securities* to capture the pure interest rate risk arising from future payments and receipts of cash (including notional payments and receipts) which, because they are designed to represent pure *general market risk* (and not *specific risk*), are called *zero-specific-risk securities*; or
- (3) both (1) and (2).

7.2.11

FCA

R

- (1) For the purposes of calculating *interest rate PRR*, unless specified otherwise, a *firm* must derive the value of notional *positions* as follows:
 - (a) notional *positions* in actual debt *securities* must be valued as the nominal amount underlying the contract at the current market price of the debt *security*; and
 - (b) *positions* in *zero-specific-risk securities* must be valued using one of the two methods in (2).
- (2) A *firm* must use one of the following two methods for all *positions* arising under (1)(b) and must use the same method for all *positions* denominated in the same currency:
 - (a) the present value approach, under which the *zero-specific-risk security* is assigned a value equal to the present value of all the future cash flows that it represents; or
 - (b) the alternative approach, under which the *zero-specific-risk security* is assigned a value equal to:
 - (i) the market value of the underlying notional *equity position* in the case of an *equity derivative*;
 - (ii) the notional principal amount in the case of an interest rate or *foreign currency swap*; or

- (iii) the notional amount of the future cash flow that it represents in the case of any other *CRD financial instrument*.

7.2.12
FCA

R A *firm* must use ■ BIPRU 7.2.11R(2)(a) in respect of any *positions* that it includes in the *interest rate duration method*.

Derivation of notional positions: Futures, forwards or synthetic futures on a debt security

7.2.13
FCA

R *Futures, forwards or synthetic futures* on a single debt *security* must be treated as follows:

- (1) a purchased *future, synthetic future or forward* is treated as:
 - (a) a notional long *position* in the underlying debt *security* (or the cheapest to deliver (taking into account the conversion factor) where the contract can be satisfied by delivery of one from a range of *securities*); and
 - (b) a notional short *position* in a zero coupon *zero-specific-risk security* with a maturity equal to the expiry date of the *future or forward*; and
- (2) a sold *future, synthetic future or forward* is treated as:
 - (a) a notional short *position* in the underlying *security* (or the cheapest to deliver (taking into account the conversion factor) where the contract can be satisfied by delivery of one from a range of *securities*); and
 - (b) a notional long *position* in a zero coupon *zero-specific-risk security* with a maturity equal to the expiry date of the *future, synthetic future or forward*.

Derivation of notional positions: Futures, forwards or synthetic futures on a basket or index of debt securities

7.2.14
FCA

R *Futures, forwards or synthetic futures* on a basket or index of debt *securities* must be converted into *forwards* on single debt *securities* as follows (and then the resulting *positions* must be treated under ■ BIPRU 7.2.13R):

- (1) *futures, synthetic futures or forwards* on a single currency basket or index of debt *securities* must be treated as either:
 - (a) a series of *forwards*, one for each of the constituent debt *securities* in the basket or index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant debt *security* in the basket; or

- (b) a single *forward* on a notional debt *security*; and
- (2) *futures, synthetic futures* or *forwards* on multiple currency baskets or indices of debt *securities* must be treated as either:
 - (a) a series of *forwards* (using the method described in (1)(a)); or
 - (b) a series of *forwards*, each one on a notional debt *security* to represent one of the currencies in the basket or index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant currency in the basket.

7.2.15
FCA

G Under ■ BIPRU 7.2.14R(2)(b), a *forward* on basket of three Euro denominated debt *securities* and two Dollar denominated debt *securities* would be treated as a *forward* on a single notional Euro denominated debt *security* and a *forward* on a single notional Dollar denominated debt *security*.

7.2.16
FCA

R The notional debt *securities* in ■ BIPRU 7.2.14R are assigned a *specific risk position risk adjustment* and a *general market risk position risk adjustment* equal to the highest that would apply to the debt *securities* in the basket or index.

7.2.17
FCA

G The debt *security* with the highest *specific risk position risk adjustment* within the basket might not be the same as the one with the highest *general market risk position risk adjustment* . ■ BIPRU 7.2.16R requires a *firm* to select the highest percentages even where they relate to different debt *securities* in the basket or index, and regardless of the proportion of those debt *securities* in the basket or index.

Derivation of notional positions: Interest rate futures and forward rate agreements (FRAs)

7.2.18
FCA

R Interest rate *futures* or *FRAs* must be treated as the two notional *positions* (one long, one short) shown in the table in ■ BIPRU 7.2.19R.

7.2.19
FCA

R Table: Interest rate futures and FRAs

This table belongs to ■ BIPRU 7.2.18R

	A short <i>position</i> in a zero coupon zero-specific-risk <i>security</i>	A long <i>position</i> in a zero coupon zero-specific-risk <i>security</i>
Where the <i>firm</i> buys an interest rate <i>future</i> or sells an <i>FRA</i>	Maturity equals the expiry date of the <i>future</i> (or settlement date of the <i>FRA</i>)	Maturity equals the expiry date of the <i>future</i> (or settlement date of the <i>FRA</i>) plus the maturity of the notional borrowing/deposit

	A short <i>position</i> in a zero coupon <i>zero-specific-risk security</i>	A long <i>position</i> in a zero coupon <i>zero-specific-risk security</i>
Where the <i>firm</i> sells an interest rate <i>future</i> or buys an <i>FRA</i>	Maturity equals the expiry date of the <i>future</i> (or settlement date of the <i>FRA</i>) plus the maturity of the notional borrowing/deposit	Maturity equals the expiry date of the <i>future</i> (or settlement date of the <i>FRA</i>)

7.2.20

FCA

G

- (1) The following example illustrates ■ BIPRU 7.2.18R and ■ BIPRU 7.2.19R in conjunction with ■ BIPRU 7.2.11R (the last *rule* determines the value of notional *positions*). A *firm* sells £1mn notional of a 3v6 *FRA* at 6%. This results in:
- (a) a short *position* in a *zero-specific-risk security* with a zero coupon, three month maturity, and a nominal amount of £1million; and
 - (b) a long *position* in a *zero-specific-risk security* with a zero coupon, six month maturity, and nominal amount of £1,015,000 (i.e. notional plus interest at 6% over 90 days).
- (2) If a *firm* were to apply the approach in ■ BIPRU 7.2.11R(2)(a) the two nominal amounts would have to be present valued.

Derivation of notional positions: Interest rate swaps or foreign currency swaps

7.2.21

FCA

R

Interest rate *swaps* or *foreign currency swaps* without deferred starts must be treated as the two notional *positions* (one long, one short) shown in the table in ■ BIPRU 7.2.22R.

7.2.22

FCA

R

Table: Interest rate and foreign currency swaps

This table belongs to ■ BIPRU 7.2.21R

	Paying leg (which must be treated as a short <i>position</i> in a <i>zero-specific-risk security</i>)	Receiving leg (which must be treated as a long <i>position</i> in a <i>zero-specific-risk security</i>)
Receiving fixed and paying floating	Coupon equals the floating rate and maturity equals the reset date	Coupon equals the fixed rate of the <i>swap</i> and maturity equals the maturity of the <i>swap</i>
Paying fixed and receiving floating	Coupon equals the fixed rate of the <i>swap</i> and maturity equals	Coupon equals the floating rate and maturity equals the reset date

	Paying leg (which must be treated as a short <i>position in a zero-specific-risk security</i>)	Receiving leg (which must be treated as a long <i>position in a zero-specific-risk security</i>)
	the maturity of the swap	
Paying floating and receiving floating	Coupon equals the floating rate and maturity equals the reset date	Coupon equals the floating rate and maturity equals the reset date

7.2.23
FCA

G For a *foreign currency swap*, the two notional *zero-specific-risk securities* would be denominated in different currencies. A *foreign currency swap* is also included in the *foreign currency PRR* calculation.

Derivation of notional positions: Deferred start interest rate swaps or foreign currency swaps

7.2.24
FCA

R Interest rate *swaps* or *foreign currency swaps* with a deferred start must be treated as the two notional *positions* (one long, one short) shown in the table in ■ BIPRU 7.2.25R.

7.2.25
FCA

R Table: Deferred start interest rate and foreign currency swaps

This table belongs to ■ BIPRU 7.2.24R

	Paying leg (which must be treated as a short <i>position in a zero-specific-risk security with a coupon equal to the fixed rate of the swap</i>)	Receiving leg (which must be treated as a long <i>position in a zero-specific-risk security with a coupon equal to the fixed rate of the swap</i>)
Receiving fixed and paying floating	maturity equals the start date of the swap	maturity equals the maturity of the swap
Paying fixed and receiving floating	maturity equals the maturity of the swap	maturity equals the start date of the swap

7.2.26
FCA

G An example of ■ BIPRU 7.2.24R is as follows. A *firm* enters into a five year *swap* which starts in two year's time. The *firm* has contracted to receive 6% and pay six month Libor on a principal amount of £1 million. This results in a long *position* in a 7 year debt *security* and a short *position* in a 2 year debt *security*. Both have a coupon of 6%. ■ BIPRU 7.2.24R deals with the capital treatment of the delayed start date; once the *swap* has started, ■ BIPRU 7.2.21R applies.

Derivation of notional positions: Swaps where only one leg is an interest rate leg (e.g. equity swaps)

7.2.27

FCA

R

A *firm* must treat a *swap* with only one interest rate leg as a notional position in a *zero-specific-risk security*:

- (1) with a coupon equal to that on the interest rate leg;
- (2) with a maturity equal to the date that the interest rate will be reset; and
- (3) which is a long *position* if the *firm* is receiving interest payments and short if making interest payments.

7.2.28

FCA

G

■ BIPRU 7.2.27R includes *equity swaps*, *commodity swaps* and any other *swap* where only one leg is an interest rate leg.

Derivation of notional positions: Cash legs of repurchase agreements and reverse repurchase agreements

7.2.29

FCA

G

Firms are reminded that for the purposes of ■ BIPRU 7.2.30R, a *repurchase agreement* includes a sell/buy back or stock lending; and a *reverse repurchase agreement* includes a buy/sell back or a stock borrowing.

7.2.30

FCA

R

The forward cash leg of a *repurchase agreement* or *reverse repurchase agreement* must be treated as a notional position in a *zero-specific-risk security* which:

- (1) is a short notional *position* in the case of a *repurchase agreement*; and a long notional *position* in the case of a *reverse repurchase agreement*;
- (2) has a value equal to the market value of the cash leg;
- (3) has a maturity equal to that of the *repurchase agreement* or *reverse repurchase agreement*; and
- (4) has a coupon equal to:
 - (a) zero, if the next interest payment date coincides with the maturity date; or
 - (b) the interest rate on the contract, if any interest is due to be paid before the maturity date.

7.2.31

FCA

R

Derivation of notional positions: Cash borrowings and deposits

A cash borrowing or deposit must be treated as a notional *position* in a zero coupon *zero-specific-risk security* which:

- (1) is a short *position* in the case of a borrowing and a long *position* in the case of a deposit;
- (2) has a value equal to the market value of the borrowing or deposit;
- (3) has a maturity equal to that of the borrowing or deposit, or the next date the interest rate is reset (if earlier); and
- (4) has a coupon equal to:
 - (a) zero, if the next interest payment date coincides with the maturity date; or
 - (b) the interest rate on the borrowing or deposit, if any interest is due to be paid before the maturity date.

Derivation of notional positions: Options and warrants

7.2.32

FCA

R

- (1) Where included in the *PRR* calculation in ■ BIPRU 7.2 (see the table in ■ BIPRU 7.2.4R), *options* and *warrants* must be treated in accordance with this *rule*.
- (2) An *option* or *warrant* on a debt *security*, a basket of debt *securities* or a debt *security* index must be treated as a *position* in that debt *security*, basket or index.
- (3) An *option* on an interest rate must be treated as a *position* in a zero coupon *zero-specific-risk security* with a maturity equal to the sum of the time to expiry of the *option* and the length of the period for which the interest rate is fixed.
- (4) An *option* on a *future* - where the *future* is based on an interest rate or debt *security* - must be treated as:
 - (a) a long *position* in that *future* for purchased call *options* and written put *options*; and
 - (b) a short *position* in that *future* for purchased put *options* and written call *options*.
- (5) An *option* on a *swap* must be treated as a deferred starting *swap*.

Derivation of notional positions: Bonds where the coupons and principal are paid in different currencies

7.2.33

FCA

R

Where a debt *security* pays coupons in one currency, but will be redeemed in a different currency, it must be treated as:

- (1) a debt *security* denominated in the coupon's currency; and
- (2) a *foreign currency forward* to capture the fact that the debt *security's* principal will be repaid in a different currency from that in which it pays coupons, specifically:
 - (a) a notional forward sale of the coupon currency and purchase of the redemption currency, in the case of a long *position* in the debt *security*; or
 - (b) a notional forward purchase of the coupon currency and sale of the redemption currency, in the case of a short *position* in the debt *security*.

Derivation of notional positions: Interest rate risk on other futures, forwards and options

7.2.34

FCA

R

Other *futures, forwards, options* and *swaps* treated under ■ BIPRU 7.2 must be treated as *positions* in *zero-specific-risk securities*, each of which:

- (1) has a zero coupon;
- (2) has a maturity equal to that of the relevant contract; and
- (3) is long or short according to the table in ■ BIPRU 7.2.35R.

7.2.35

FCA

R

Table: Interest rate risk on other futures, forwards, options and swaps

This table belongs to ■ BIPRU 7.2.34R.

Instrument	Notional <i>positions</i>		
<i>foreign currency forward</i> or <i>future</i>	a long <i>position</i> denominated in the currency purchased	and	a short <i>position</i> denominated in the currency sold
Gold <i>forward</i> or <i>future</i>	a long <i>position</i> if the <i>forward</i> or <i>future</i> involves an actual (or notional) sale of gold	or	a short <i>position</i> if the <i>forward</i> or <i>future</i> involves an actual (or notional) purchase of gold
<i>Equity forward</i> or <i>future</i> , or <i>option</i>	A long <i>position</i> if the contract in-	or	A short <i>position</i> if the contract in-

Instrument	Notional <i>positions</i>	
(unless the <i>interest rate PRR</i> is calculated under the basic <i>interest rate PRR</i> calculation in BIPRU 7.3)	volves an actual (or notional) sale of the underlying <i>equity</i>	volves an actual (or notional) purchase of the underlying <i>equity</i>

Deriving the net position in each debt security: General

7.2.36

FCA

R

The net *position* in a debt *security* is the difference between the value of the *firm's* long *positions* (including notional *positions*) and the value of its short *positions* (including notional *positions*) in the same debt *security*.

Deriving the net position in each debt security: Netting positions in the same debt security

7.2.37

FCA

R

- (1) A *firm* must not net *positions* (including notional *positions*) unless those *positions* are in the same debt *security*. This *rule* sets out the circumstances in which debt *securities* may be treated as the same for these purposes.
- (2) Subject to (3) long and short *positions* are in the same debt *security*, and a debt *security* is the same as another if and only if:
 - (a) they enjoy the same rights in all respects; and
 - (b) are fungible with each other.
- (3) Long and short *positions* in different tranches of the same debt *security* may be treated as being in the same debt *security* for the purpose of (1) where:
 - (a) the tranches enjoy the same rights in all respects; and
 - (b) the tranches become fungible within 180 days and thereafter the debt *security* of one tranche can be delivered in settlement of the other tranche.

Deriving the net position in each debt security: Netting the cheapest to deliver security with other deliverable securities

7.2.38

FCA

R

A *firm* may net a short notional *position* in the cheapest to deliver *security* arising from a short *future* or *forward* (see ■ BIPRU 7.2.13R(2)(a)) under which the seller has a choice of which debt *security* it may use to settle its obligations against a long *position* in any deliverable *security* up to a maximum of 90% of the common nominal amounts. The residual long and short nominal amounts must be treated as separate long and short *positions*.

7.2.39

FCA

R The netting permitted by ■ BIPRU 7.2.38R only relates to where the *firm* has sold the *future* or *forward*. It does not relate to where the *firm* has bought a *future* or *forward*.

Deriving the net position in each debt security: Netting zero-specific-risk securities with different maturities

7.2.40

FCA

R A *firm* may net a notional long *position* in a *zero-specific-risk security* against a notional short *position* in a *zero-specific-risk security* if:

- (1) they are denominated in the same currency;
- (2) their coupons do not differ by more than 15 basis points; and
- (3) they mature:
 - (a) on the same day, if they have residual maturities of less than one month;
 - (b) within 7 days of each other, if they have residual maturities of between one month and one year; and
 - (c) within 30 days of each other, if they have residual maturities in excess of one year.

Deriving the net position in each debt security: Reduced net underwriting positions in debt securities

7.2.41

FCA

R A *firm* must not net a *reduced net underwriting position* in a debt *security* with any other debt *security position*.

7.2.42

FCA

G ■ BIPRU 7.2.41R only relates to *reduced net underwriting position*.

Deriving the net position in the correlation trading portfolio

7.2.42A

FCA

R A *correlation trading portfolio* may only consist of *securitisation positions* and *nth-to-default credit derivatives* that meet the following criteria:

- (1) the *positions* are neither *resecuritisation positions*, nor *options* on a *securitisation position*, nor any other derivatives of *securitisation exposures* that do not provide a pro-rata share in the proceeds of a *securitisation tranche*;
- (2) all reference instruments are either single-name instruments, including single-name credit derivatives, for which a liquid two-way market exists, or commonly traded indices based on reference entities which meet this criterion;
- (3) the *positions* do not fall under the exposure classes outlined in ■ BIPRU 3.2.9 R (8) (retail claims or contingent retail claims) and

■ BIPRU 3.2.9 R (9) (claims or contingent claims secured on real estate property); and

(4) the *positions* do not reference a claim on a *special purpose vehicle*.

7.2.42B

FCA

R

Positions which are not *securitisation positions* or nth-to-default credit derivatives may be included in the *correlation trading portfolio* only if they hedge other such *positions* in this portfolio and a liquid two-way market exists for the relevant *position* or its reference entities.

7.2.42C

FCA

R

For the purposes of ■ BIPRU 7.2.42A R (2) and ■ BIPRU 7.2.42B R, a two-way market may be deemed to exist only where there are independent, bona fide offers to buy and sell, so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one *business day* and settled at that price within a relatively short time conforming to trade custom.

7.2.42D

FCA

R

A *firm* must calculate both the net long and the net short *positions* in the *correlation trading portfolio* by applying ■ BIPRU 7.2.36 R and ■ BIPRU 7.2.37 R or, where applicable, ■ BIPRU 7.11.13 R to ■ BIPRU 7.11.17 R.

Specific risk calculation

7.2.43

FCA

R

- (1) A *firm* must calculate the *specific risk* portion of the *interest rate PRR* for each debt *security* by multiplying the market value of the individual net *position* (ignoring the sign) by the *appropriate position risk adjustment* from the table in ■ BIPRU 7.2.44R or as specified by ■ BIPRU 7.2.45R - ■ BIPRU 7.2.48L R or by ■ BIPRU 7.11.13 R - ■ BIPRU 7.11.17 R.
- (2) Notional *positions* in *zero-specific-risk securities* do not attract *specific risk*.
- (3) For the purpose of (1), a *firm* may cap the product of multiplying the individual net *position* by the *appropriate position risk adjustment* at the maximum possible default-risk-related loss. For a short *position* in a credit derivative, a *firm* may calculate the maximum possible default-risk-related loss as a change in value due to the underlying names immediately becoming default-risk-free.

7.2.44

FCA

R Table: specific risk position risk adjustments

This table belongs to ■ BIPRU 7.2.43R.

Issuer	Residual maturity	Position risk adjustment
Debt securities issued or guaranteed by central governments, issued by <i>central banks, international organisations, multilateral development banks</i> or <i>EEA States'</i> regional governments or local authorities which would qualify for <i>credit quality step 1</i> or which would receive a 0% risk weight under the <i>standardised approach</i> to credit risk.	Any	0%
(A) Debt securities issued or guaranteed by central governments, issued by <i>central banks, international organisations, multilateral development banks</i> or <i>EEA States'</i> regional governments or local authorities which would qualify for <i>credit quality step 2</i> or 3 under the <i>standardised approach</i> to credit risk.	Zero to six months	0%
	over 6 and up to and including 24 months	1%
	Over 24 months	1%
(B) Debt securities issued or guaranteed by <i>institutions</i> which would qualify for <i>credit quality step 1</i> or 2 under the <i>standardised approach</i> to credit risk.		
(C) Debt securities issued or guaranteed by <i>institution</i> which would qualify for <i>credit quality step 3</i> under BIPRU 3.4.34 R (Exposures to institutions: Credit assessment based method) or which would do so if it had an original effective maturity of three months or less.		
(D) Debt securities issued or guaranteed by <i>corporates</i> which would qualify for <i>credit quality step 1</i> , 2 or 3 under the <i>standardised approach</i> to credit risk.		
(E) Other <i>qualifying debt securities</i> (see BIPRU 7.2.49R)		
(A) Debt securities issued or guaranteed by central governments, issued by <i>central banks</i> ,	Any	8%

Issuer	Residual maturity	Position risk adjustment
<p><i>international organisations, multilateral development banks or EEA States' regional governments or local authorities or institutions which would qualify for credit quality step 4 or 5 under the standardised approach to credit risk.</i></p>		
<p>(B) Debt securities issued or guaranteed by corporates which would qualify for credit quality step 4 under the standardised approach to credit risk.</p>		
<p>(C) Exposures for which a credit assessment by a nominated ECAI is not available.</p>		
<p>(A) Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or EEA States' regional governments or local authorities or institution which would qualify for credit quality step 6 under the standardised approach to credit risk.</p>	Any	12%
<p>(B) Debt securities issued or guaranteed by corporate which would qualify for credit quality step 5 or 6 under the standardised approach to credit risk.</p>		
<p>(C) An instrument that shows a particular risk because of the insufficient solvency of the issuer of liquidity. This paragraph applies even if the instrument would otherwise qualify for a lower position risk adjustment under this table.</p>		
<p>Note: The question of what a <i>corporate</i> is and of what category a debt security falls into must be decided under the rules relating to the standardised approach to credit risk.</p>		

[Note: CAD Annex I point 14 Table 1]

To the extent that a firm applies the IRB approach, to qualify for a credit quality step for the purpose of the table in ■ BIPRU 7.2.44R the obligor of the exposure must have an internal rating with a PD equivalent to or lower than that associated with the appropriate credit quality step under the standardised approach to credit risk.

7.2.46

FCA

R

A *debt security* issued by a non-qualifying issuer must receive a *specific risk position risk adjustment* of 8% or 12% according to the table in ■ BIPRU 7.2.44R. However a *firm* must apply a higher *specific risk position risk adjustment* to such a *debt security* and/or not recognise offsetting for the purposes of defining the extent of *general market risk* between such a *security* and any other *debt securities* to the extent that doing otherwise would not be a prudent treatment of *specific risk* or *general market risk*.

7.2.46A

FCA

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■ BIPRU 7.2.43 R includes both actual and notional *positions*. However, notional *positions* in a *zero-specific-risk security* do not attract *specific risk*. For example:

- (1) interest-rate *swaps*, *foreign-currency swaps*, *FRAs*, interest-rate *futures*, *foreign-currency forwards*, *foreign-currency futures*, and the cash leg of *repurchase agreements* and *reverse repurchase agreements* create notional *positions* which will not attract *specific risk*; while
- (2) *futures*, *forwards* and *swaps* which are based on the price (or yield) of one or more *debt securities* will create at least one notional *position* that attracts *specific risk*.

Specific risk: securitisations and resecuritisations

7.2.47

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7.2.47A

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[deleted]

7.2.47B

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7.2.47C

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7.2.48

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7.2.48A

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- (1) Subject to (3), a *firm* must calculate the *specific risk* portion of the *interest rate PRR* for each *securitisation* and *resecuritisation position* by multiplying the market value of the individual net *position* (ignoring the sign) by the *appropriate position risk adjustment* from the table in ■ BIPRU 7.2.48D R or ■ BIPRU 7.2.48E R, or in accordance with ■ BIPRU 7.2.48F R, as applicable.
- (2) In calculating the *specific risk* capital charge of an individual net *securitisation* or *resecuritisation position*, a *firm* may cap the product of the weight and the individual net position at the maximum possible default-risk-related loss. For a short position, that limit may be calculated as a change in value due to the underlying names immediately becoming default-risk-free.

- (3) For a transitional period ending on 31 December 2013, where a *firm* holds *securitisation* and *resecuritisation* positions, other than positions included in the *correlation trading portfolio*, it must calculate:
 - (a) the total *specific risk* capital charges that would apply just to the net long positions; and
 - (b) the total *specific risk* capital charges that would apply just to the net short positions.

The total *specific risk* capital charge for *securitisation* and *resecuritisation* positions will be the higher of (3)(a) and (3)(b).

7.2.48B
FCA

R The *firm* must report to the *appropriate regulator* the total sum of its weighted net long and net short *securitisation* and *resecuritisation* positions, broken down by types of underlying assets.

7.2.48C
FCA

R When calculating the PRR of a *protection seller* in *securitisation* and *resecuritisation* credit derivatives, a *firm* must apply **■** BIPRU 7.11.3 R.

7.2.48D
FCA

R Table: specific risk position risk adjustments - standardised approach

Credit quality step	1	2	3	4 (only for credit assessments other than short-term credit assessments)	All other credit quality steps
---------------------	---	---	---	--	--------------------------------

<i>Securitisations</i>	1.6%	4%	8%	28%	100%
<i>Resecuritisations</i>	3.2%	8%	18%	52%	100%

A *firm* may only apply the *position risk adjustments* in this table where it would have to calculate a *risk weighted exposure amount* in accordance with the *standardised approach* to *securitisation* and *resecuritisation* positions if such positions were in its *non-trading book* under BIPRU 9. The *appropriate position risk adjustment* is calculated as 8% of the *risk weight* that would apply to the *position* under the *standardised approach* in BIPRU 9.11.2 R, subject to the requirements of BIPRU 9.9 to BIPRU 9.11, where appropriate.

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7.2.48E

FCA

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Table: specific risk Position Risk Adjustments - IRB approach

Credit Quality Step		Securitisation positions			Resecuritisation positions	
Credit assessments other than short term	Short-term credit assessments	A	B	C	D	E
1	1	0.56%	0.96%	1.6%	1.6%	2.4%
2		0.64%	1.20%	2%	2%	3.2%
3		0.8%	1.44%	2.8%	2.8%	4%
4	2	0.96%	1.6%		3.2%	5.2%
5		1.60%	2.8%		4.8%	8%
6		2.8%	4%		8%	12%
7	3	4.8%	6%		12%	18%
8		8%			16%	28%
9		20%			24%	40%
10		34%			40%	52%
11		52%			60%	68%
all other unrated		100%				

A firm may only apply the position risk adjustments in this table where it would have to calculate a risk weighted exposure amount in accordance with the IRB approach to securitisation and resecuritisation positions if such positions were in its non-trading book under BIPRU 9. The appropriate position risk adjustment is calculated as 8% of the risk weight that would apply to the position under the IRB approach in BIPRU 9.12.11 R, subject to the requirements in BIPRU 9.12 where appropriate.

7.2.48F

FCA

R

- (1) A firm may use the supervisory formula method to calculate the appropriate position risk adjustment for specific risk where:
- the firm is permitted to apply the supervisory formula method to the same position if it was held in its non-trading book in accordance with ■ BIPRU 9.12; or
 - otherwise, the firm is expressly permitted by its VaR model permission to apply the supervisory formula method to calculate the appropriate position risk adjustment for specific risk.

- (2) The *appropriate position risk adjustment* under the *supervisory formula method* must be calculated by multiplying the *risk weight* calculated according to ■ BIPRU 9.12.21 R by 8%.
- (3) Where relevant, estimates of *PDs* and *LGDs* as inputs to the *supervisory formula method* must be determined in accordance with ■ BIPRU 4.
- (4) Where expressly permitted by its *VaR model permission*, a *firm* may use the approach outlined in ■ BIPRU 7.10.55A R to ■ BIPRU 7.10.55S G (Incremental Risk Charge) to determine *PDs* and *LGDs* as inputs to the *supervisory formula method*.

7.2.48G

FCA

R

Where a *securitisation position* in the *trading book* is subject to an increased *risk weight* in accordance with ■ BIPRU 9.15, the *appropriate position risk adjustment* must be calculated as 8% of the *risk weight* that would apply to the *position* in accordance with ■ BIPRU 9.15.

7.2.48H

FCA

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Originators, *investors* and *sponsors* of *securitisations* in the *trading book* will have to meet the requirements of ■ BIPRU 9.3.1A R, ■ BIPRU 9.3.15 R to ■ BIPRU 9.3.20 R and ■ BIPRU 9.15.

7.2.48I

FCA

G

- (1) Subject to ■ BIPRU 7.2.48J G, ■ BIPRU 9.15.9 R and ■ BIPRU 9.15.10 R, where the investor, *originator* or *sponsor* of a *securitisation* fails to meet any of the requirements in ■ BIPRU 9.3.18 R to ■ BIPRU 9.3.20 R (Disclosure requirements) and ■ BIPRU 9.15.11 R to ■ BIPRU 9.15.16 R (investor due diligence requirements) in any material respect by reason of its negligence or omission, the *appropriate regulator* will use its powers under section 55J (Variation etc. on the Authority's own initiative) of the *Act* to impose an additional capital charge in accordance with ■ BIPRU 7.2.48 GR. The additional capital charge imposed will be progressively increased with each relevant, subsequent infringement of the requirements in ■ BIPRU 9.3.18 R to ■ BIPRU 9.3.20 R and ■ BIPRU 9.15.11 R to ■ BIPRU 9.15.16A R, up to a maximum of 1250% *risk weight*.
- (2) Subject to ■ BIPRU 9.3.22 G, ■ BIPRU 9.15.9 R and ■ BIPRU 9.15.10 R, where a *credit institution* fails to meet in any material respect the requirements in ■ BIPRU 9.15.16A R (Group level requirements), the *appropriate regulator* may consider using its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* in the manner described in (1). In order to calculate the *risk weights* that would apply to the *credit institution*, the *appropriate regulator* may treat the *securitisation* investments of the *subsidiary undertaking* as if they were *securitisation positions* held directly by the *credit institution*.

7.2.48J

FCA

G

When calculating the additional capital charge it will impose under ■ BIPRU 7.2.48G R, the *appropriate regulator* will take into account the exemption of certain *securitisations* from the scope of ■ BIPRU 9.15.3 R under ■ BIPRU 9.15.9 R and ■ BIPRU 9.15.10 R and, if those exemptions are relevant, it will reduce the capital charge it would otherwise impose.

7.2.48K

FCA

R

A *securitisation exposure* in the *trading book* that would be subject to deduction in accordance with ■ GENPRU 2.2. (Capital resources) or to a 1250% *risk weight* in accordance with ■ BIPRU 9 (Securitisation) is subject to a capital charge that is no less than that set out under those provisions, capped at the maximum possible default-risk-related loss. Unrated liquidity facilities are subject to a capital charge that is no less than that set out in ■ BIPRU 9.

Specific risk: correlation trading portfolio

7.2.48L

FCA

R

- (1) Where a *firm* holds a *position* in the *correlation trading portfolio*, it must calculate:
 - (a) The total *specific risk* capital charges that would apply just to the net long *positions* of the *correlation trading portfolio*; and
 - (b) The total *specific risk* capital charges that would apply just to the net short *positions* of the *correlation trading portfolio*.
- (2) The higher of (1)(a) and (1)(b) will be the *specific risk* capital charge for the *correlation trading portfolio*.
- (3) In calculating the *specific risk* capital charge of an individual net *position* in the *correlation trading portfolio*, a *firm* may cap the product of multiplying the individual net *position* by the *appropriate position risk adjustment* at the maximum possible default-risk-related loss. For a short *position*, a *firm* may calculate the maximum possible default-risk-related loss as a change in value due to the underlying names immediately becoming default-risk-free.

Definition of a qualifying debt security

7.2.49

FCA

R

A *debt security* is a *qualifying debt security* if:

- (1) it qualifies for a *credit quality step* under the *standardised approach* to credit risk corresponding at least to investment grade; or
- (2) it has a *PD* which, because of the solvency of the issuer, is not higher than that of the *debt securities* referred to under (1) under the *IRB approach*; or
- (3) it is a *debt security* for which a credit assessment by a *nominated ECAI* is unavailable and which meets the following conditions:
 - (a) it is considered by the *firm* to be sufficiently liquid;

- (b) it is of investment quality, according to the *firm's* own discretion, at least equivalent to that of the debt *securities* referred to under (1); and
 - (c) it is listed on at least one *regulated market* or *designated investment exchange*; or
- (4) it is a debt *security* issued by an *institution* subject to the capital adequacy requirements set out in the *EU CRR* or, as may be applicable, the *Banking Consolidation Directive* that satisfies the following conditions:
- (a) it is considered by the *firm* to be sufficiently liquid;
 - (b) its investment quality is, according to the *firm's* own discretion, at least equivalent to that of the assets referred to under (1) above; or
- (5) it is a debt *security* issued by an *institution* that is deemed to be of equivalent or higher credit quality than that associated with *credit quality step 2* under the *standardised approach* to credit risk and that is subject to supervision and regulatory arrangements comparable to those under the *Capital Adequacy Directive*.

7.2.50

FCA

R

A *firm* must not treat a *debt security* as a *qualifying debt security* if it would be prudent to consider that the *debt security* concerned is subject to too high a degree of *specific risk* for it to be treated as a *qualifying debt security*.

7.2.51

FCA

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The manner in which a *firm* assesses a *debt security* for the purpose of treatment as a *qualifying debt security* will be subject to scrutiny by the *appropriate regulator*. The *appropriate regulator* may take action to overturn the *firm's* judgement if it considers that the *debt security* should not be treated as a *qualifying debt security*.

General market risk calculation: General

7.2.52

FCA

R

A *firm* must calculate the *general market risk* portion of the *interest rate PRR* for each currency using either:

- (1) the *interest rate simplified maturity method*;
- (2) the *interest rate maturity method*; or
- (3) the *interest rate duration method*.

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27

7.2.53

FCA

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■ BIPRU 7.2.52R(3) is subject to ■ BIPRU 7.2.54R.

7.2.54

FCA

R A firm must not use the *interest rate duration method* for index-linked securities. Instead, these securities must:

- (1) be attributed a coupon of 3%; and
- (2) be treated separately under either the *interest rate simplified maturity method* or the *interest rate maturity method*.

General market risk calculation: Simplified maturity method

7.2.55

FCA

G The *interest rate simplified maturity method* weights individual net positions to reflect their price sensitivity to changes in interest rates. The weights are related to the coupon and the residual maturity of the instrument (or the next interest rate re-fix date for floating rate items).

7.2.56

FCA

R Under the *interest rate simplified maturity method*, the portion of the *interest rate PRR* for general market risk equals the sum of each individual net position (long or short) multiplied by the *appropriate position risk adjustment* in the table in ■ BIPRU 7.2.57R. A firm must assign its net positions to the appropriate maturity bands in the table in ■ BIPRU 7.2.57R on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the interest rate is next set in the case of instruments on which the interest rate is variable before final maturity.

7.2.57

FCA

R Table: general market risk Position Risk Adjustments

This table belongs to ■ BIPRU 7.2.56R.

Zone	Maturity band		<i>position risk adjustment</i>
	Coupon of 3% or more	Coupon of less than 3%	
One	0 ; 1 month	0 ; 1 month	0.00%
	> 1 ; 3 months	> 1 ; 3 months	0.20%
	> 3 ; 6 months	> 3 ; 6 months	0.4%
	> 6 ; 12 months	> 6 ; 12 months	0.7%
Two	> 1 ; 2 years	> 1.0 ; 1.9 years	1.25%
	> 2 ; 3 years	> 1.9 ; 2.8 years	1.75%
	> 3 ; 4 years	> 2.8 ; 3.6 years	2.25%
Three	> 4 ; 5 years	> 3.6 ; 4.3 years	2.75%
	> 5 ; 7 years	> 4.3 ; 5.7 years	3.25%
	> 7 ; 10 years	> 5.7 ; 7.3 years	3.75%
	> 10 ; 15 years	> 7.3 ; 9.3 years	4.5%
	> 15 ; 20 years	> 9.3 ; 10.6 years	5.25%

Zone	Maturity band		<i>position risk adjustment</i>
	Coupon of 3% or more	Coupon of less than 3%	
	> 20 years	> 10.6 ; 12.0 years	6.00%
		> 12.0 ; 20.0 years	8.00%
		> 20 years	12.50%

General market risk calculation: The maturity method

7.2.58

FCA

G

The *interest rate maturity method* builds on the *interest rate simplified maturity method* by partially recognising offsetting *positions*. ■ BIPRU 7.2.61G provides an illustration of the *interest rate maturity method*.

7.2.59

FCA

R

Under the *interest rate maturity method*, the portion of the *interest rate PRR* for *general market risk* is calculated as follows:

- (1) Step 1: each net *position* is allocated to the appropriate maturity band in the table in ■ BIPRU 7.2.57R and multiplied by the corresponding *position risk adjustment*;
- (2) Step 2: weighted long and short *positions* are matched within:
 - (a) the same maturity band;
 - (b) the same zone (using unmatched *positions* from (a)); and
 - (c) different zones (using unmatched *positions* from (b) and matching between zones 1 and 2 and 2 and 3 before zone 1 and 3); and
- (3) Step 3: the portion of the *interest rate PRR* for *general market risk* is the sum of:
 - (a) 10% of the total amount matched within maturity bands;
 - (b) 40% of the amount matched within zone 1 under (2)(b);
 - (c) 30% of the amount matched within zones 2 & 3 under (2)(b);
 - (d) 40% of the amounts matched between zones 1 and 2, and between zones 2 and 3;
 - (e) 150% of the amount matched between zones 1 and 3; and
 - (f) 100% of the weighted *positions* remaining unmatched after (2)(c).

7.2.60

FCA

G

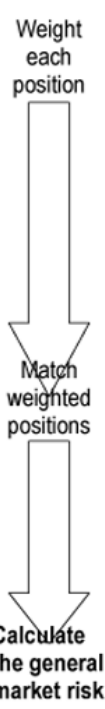
The table in ■ BIPRU 7.2.57R distinguishes between debt *securities* with a coupon of less than 3% and those with coupon in excess of 3%. However, this does not mean that the *firm* has to do a separate *general market risk* calculation for each; it merely ensures that when allocating debt *securities* to a particular band, their coupons are taken into account as well as their maturities. So for example, a 21 year 6% debt *security* falls into the same band as an 11 year 2% debt *security*. They are both weighted at 6%, and can be matched under ■ BIPRU 7.2.59R(2)(a) (the first part of step two of the *interest rate maturity method* calculation) because they fall within the same band.

7.2.61

FCA

G

This paragraph sets out an example of a calculation under the *interest rate maturity method*. In this example, a *firm* with a £ sterling *base currency* is processing its euro denominated *positions*.



Zone	Totals of:		PRA	Weighted longs within each band	Weighted shorts within each band
	net longs within the band	net shorts within the band			
1	€100	€50	0.00%	0	0
	€250	€0	0.20%	0.50	0
	€200	€0	0.40%	0.80	0
	€0	€0	0.70%	0	0
2	€140	€0	1.25%	1.75	0
	€200	€300	1.75%	3.50	5.25
	€0	€400	2.25%	0	9
3	€0	€0	2.75%	0	0
	€200	€200	3.25%	6.50	6.50
	€300	€0	3.75%	11.25	0
	€200	€300	4.50%	9	13.50
	€0	€14.30	5.25%	0	0.75
	€300	€0	6.00%	18.00	0
	€0	€0	8.00%	0	0
€0	€0	12.50%	0	0	

same band		same zones		different zones	
Long	Short	Long	Short	Long	Short
0.50		0.50		1.30	
0.80		0.80			
1.75		1.75			
3.50	5.25	1.75	1.75		9.00
	9		9		
6.50	6.50				
11.25		11.25			
9	13.50		4.50		
18.00	0.75	18.00	0.75		
19 matched		7 matched		9 matched	

Matched within bands	19	@	10%	=	1.9
Matched within zone 1	0	@	40%	=	0
Matched within zones 2&3	7	@	30%	=	2.1
Matched between zones 1&2 and 2&3	9	@	40%	=	3.6
Matched between zones 1&3	0	@	150%	=	0
Unmatched after 2(c)	16.30	@	100%	=	16.30
total = € 23.90					
<i>general market risk PRR (if €1=£0.60) = £14.34</i>					

General market risk calculation: Duration method

7.2.62

FCA

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The *interest rate duration method* produces a more accurate measure of interest rate risk than the maturity methods but it is also more complex to calculate.

7.2.63

FCA

R

(1) A *firm* must use the following formula to calculate modified duration for the purpose of the *interest rate duration method*:

$$\text{Modified duration} = \frac{D}{(1+r)}$$

- (2) For the purposes of the formula in (1):

$$D = \frac{\sum_{t=1}^m \frac{tC_t}{(1+r)^t}}{\sum_{t=1}^m \frac{C_t}{(1+r)^t}}$$

- (3) For the purpose of the formulae in (1) and (2):

- (a) C_t =cash payment at time t
- (b) m =total maturity
- (c) r =yield to maturity. In the case of a fixed-rate debt *security* a *firm* must take the current mark to market of the debt *security* and thence calculate its yield to maturity, which is the implied discount rate for that instrument. In the case of a floating rate instrument, a *firm* must take the current mark to market of the debt *security* and thence calculate its yield on the assumption that the principal is due on the date that the interest rate can next be changed.
- (d) t =time

7.2.64

FCA

R

Under the *interest rate duration method*, the portion of the *interest rate PRR* for *general market risk* is calculated as follows:

- (1) Step 1: allocate each net *position* to the appropriate duration zone in the table in ■ BIPRU 7.2.65R and multiply it by:
 - (a) its modified duration (using the formula in ■ BIPRU 7.2.63R); and
 - (b) the appropriate assumed interest rate change in the table in ■ BIPRU 7.2.65R;
- (2) Step 2: match weighted long and short *positions*:
 - (a) within zones; and
 - (b) across zones (using unmatched *positions* from (2)(a) and following the process in ■ BIPRU 7.2.59R (2)(c)); and
- (3) Step 3: calculate the portion of the *interest rate PRR* for *general market risk* as the sum of:

- (a) 100% of the weighted *positions* remaining unmatched after (2)(b);
- (b) 2% of the matched weighted *position* in each zone;
- (c) 40% of the matched weighted *position* between zones 1 and 2, and between zones 2 and 3; and
- (d) 150% of the matched weighted *position* between zones 1 and 3.

7.2.65

FCA

R

Table: Assumed interest rate change in the interest rate duration method

This table belongs to ■ BIPRU 7.2.64R

Zone	Modified Duration	Assumed interest rate change (percentage points)
1	0 ; 12 months	1.00
2	> 12 months ; 3.6 years	0.85
3	> 3.6 years	0.70

7.2.66

FCA

R

If a *firm* uses the *interest rate duration method* it must do so on a consistent basis.

7.3 Equity PRR and basic interest rate PRR for equity derivatives

General rule

7.3.1

FCA

R

- (1) A *firm* must calculate its *equity PRR* by:
- (a) identifying which *positions* must be included within the *PRR* calculation (see ■ BIPRU 7.3.2R);
 - (b) deriving the net *position* in each *equity* in accordance with ■ BIPRU 7.3.23R;
 - (c) including each of those net *positions* in either the *simplified equity method* (see ■ BIPRU 7.3.29R) or, subject to ■ BIPRU 7.3.27R, the *standard equity method* (see ■ BIPRU 7.3.32R); and
 - (d) summing the *PRR* on each net *position* as calculated under the *simplified equity method* and *standard equity method*.
- (2) All net *positions*, irrespective of their signs, must be converted on a daily basis into the *firm's base currency* at the prevailing spot exchange rate before their aggregation.

Scope of the equity PRR calculation

7.3.2

FCA

R

A *firm's equity PRR* calculation must:

- (1) include all *trading book positions* in *equities*, unless:
 - (a) the *position* is fully deducted as a *material holding* under the calculations under the *capital resources table*, in which case the *firm* may exclude it; or
 - (b) the *position* is hedging an *option* or *warrant* which is being treated under ■ BIPRU 7.6.26R (Table: Appropriate treatment for equities, debt securities or currencies hedging options);
- (2) include notional *positions* arising from *trading book positions* in the instruments listed in the table in ■ BIPRU 7.3.3R; and

- (3) (if the *firm* is the transferor of *equities* or guaranteed rights relating to title to *equities* in a *repurchase agreement* or the lender of *equities* in an *equities* lending agreement) include such *equities* if those *equities* meet the criteria for inclusion in the *trading book*.

7.3.3

FCA

R Table: Instruments which result in notional positions

This table belongs to ■ BIPRU 7.3.2R(2)

Instrument	See
Depository receipts	BIPRU 7.3.12R
<i>Convertibles</i> where:	
(a) the <i>convertible</i> is trading at a market price of less than 110% of the underlying <i>equity</i> ; and the first date at which conversion can take place is less than three months ahead, or the next such date (where the first has passed) is less than a year ahead; or	BIPRU 7.3.13R
(b) the conditions in (a) are not met but the <i>firm</i> includes the <i>convertible</i> in its <i>equity PRR</i> calculation rather than including it in its <i>interest rate PRR</i> calculation set out in BIPRU 7.2 (Interest rate PRR).	
<i>Futures, forwards, CFDs and synthetic futures on a single equity</i>	BIPRU 7.3.14R
<i>Futures, forwards, CFDs and synthetic futures on a basket of equities or equity index</i>	BIPRU 7.3.15R
<i>equity legs of an equity swap</i>	BIPRU 7.3.19R
<i>Options or warrants on a single equity, an equity future, a basket of equities or an equity index (unless the firm calculates a PRR on the option or warrant under BIPRU 7.6).</i>	BIPRU 7.3.21R

7.3.4

FCA

G ■ BIPRU 7.3.2R(1) includes a *trading book position* in an *equity* that is subsequently repo'd under a *repurchase agreement* or lent under a stock lending agreement. Clearly, if the *equity* had initially been obtained via a *reverse repurchase agreement* or stock

borrowing agreement, the *equity* would not have been included in the *trading book* in the first place.

7.3.5

FCA

G

■ BIPRU 7.3.2R(1) includes *net underwriting positions* or *reduced net underwriting positions* in *equities*. ■ BIPRU 7.3.27R requires a *firm* to use the *simplified equity method* in the case of *reduced net underwriting positions*. In the case of *net underwriting positions* that have not been reduced according to ■ BIPRU 7.8.27R (Calculating the reduced net underwriting position), there is no such restriction; a *firm* can choose which of the two *equity* methods to use.

7.3.6

FCA

G

Firms are reminded that the table in ■ BIPRU 7.6.5R (Table: Appropriate PRR calculation for an option or warrant) divides *equity options* and *warrants* into:

- (1) those which must be treated under ■ BIPRU 7.6 (Option PRR); and
- (2) those which must be treated under either ■ BIPRU 7.3 or ■ BIPRU 7.6, the *firm* being able to choose whether ■ BIPRU 7.3 or ■ BIPRU 7.6 is used.

7.3.7

FCA

G

The table in ■ BIPRU 7.3.3R does not require every *convertible* to be included in ■ BIPRU 7.3's PRR calculation. Where a *convertible* is not included in this PRR calculation, ■ BIPRU 7.2.3R (1) (Scope of the interest rate PRR calculation) requires that it be included in the ■ BIPRU 7.2 PRR calculation.

7.3.8

FCA

G

Some of the instruments listed in the table in ■ BIPRU 7.3.3R are also included in a *firm's* *interest rate PRR* calculation. For simplicity, a *firm* may use the *interest rate PRR* calculation in ■ BIPRU 7.3 rather than the calculation in ■ BIPRU 7.2 (Interest rate PRR). ■ BIPRU 7.3.44G explains this in more detail.

Derivation of notional positions: General approach

7.3.9

FCA

G

■ BIPRU 7.3.10R - ■ BIPRU 7.3.21R convert the instruments listed in the table in ■ BIPRU 7.3.3R into notional *positions* in individual *equities*, *equity* baskets or *equity* indices.

7.3.10

FCA

R

Unless specified otherwise, the value of each notional *equity position* equals the quantity of that *equity* underlying the instrument multiplied by the current market value of the *equity*.

7.3.11

FCA

G

- (1) An example of ■ BIPRU 7.3.10R is as follows. The current market value of a particular *equity* is £2.50. If a *firm* contracts to sell this *equity* in five year's time for £3 it would treat the notional short *equity position* as having a value of £2.50 when calculating the *equity* PRR.
- (2) In effect, the forward *position* has been treated as being equivalent to a spot *position* for the purposes of calculating *equity* PRR. To capture the risk that the forward price changes relative to the spot price, forward *equity positions* are included in the *firm's* *interest rate PRR* calculation (see ■ BIPRU 7.3.45R or the table in ■ BIPRU 7.2.4R (Table: Instruments which result in notional positions)).

7.3.12
FCA

R

Derivation of notional positions: Depository receipts

A depository receipt must be treated as a notional *position* in the underlying *equity*.

7.3.13
FCA

R

Derivation of notional positions: Convertibles

Where a *convertible* is included in ■ BIPRU 7.3's PRR calculation (see the table in ■ BIPRU 7.3.3R):

- (1) it must be treated as a *position* in the *equity* into which it converts; and
- (2) the *firm's equity PRR* must be adjusted by making:
 - (a) an addition equal to the current value of any loss which the *firm* would make if it did convert to *equity*; or
 - (b) a deduction equal to the current value of any profit which the *firm* would make if it did convert to *equity* (subject to a maximum deduction equal to the PRR on the notional *position* underlying the *convertible*).

7.3.14
FCA

R

Derivation of notional positions: Futures, forwards and CFDs on a single equity

A *future* (including a *synthetic future*), *forward* or *CFD* on a single *equity* must be treated as a notional *position* in that *equity*.

7.3.15
FCA

R

Derivation of notional positions: Futures, forwards and CFDs on equity indices or baskets

A *future* (including a *synthetic future*), *forward* or *CFD* on an *equity* index or basket must be treated as either:

- (1) a *position* in each of the underlying *equities*; or
- (2) the *positions* shown in the table in ■ BIPRU 7.3.16R.

7.3.16
FCA

R

Table: Instruments which result in notional positions

This table belongs to ■ BIPRU 7.3.15R(2)

	Under the <i>simplified equity method</i> (BIPRU 7.3.29R)	Under the <i>standard equity method</i> (BIPRU 7.3.32R)
Only one country in the index or	One <i>position</i> in the index or basket	One <i>position</i> in the index or basket

	Under the <i>simplified equity method</i> (BIPRU 7.3.29R)	Under the <i>standard equity method</i> (BIPRU 7.3.32R)
basket (see BIPRU 7.3.32R)		
More than one country in the index or basket	One <i>position</i> in the index or basket	Several notional- or al basket <i>positions</i>, one for each country
		One notional basket <i>position</i> in a separate, notional country

7.3.17
FCA

G An example of ■ BIPRU 7.3.16R is as follows. A *firm* decides to treat a FTSE Eurotop 300 *future* under the *standard equity method*, and furthermore, chooses to treat it as one notional *position*. The table in ■ BIPRU 7.3.16R requires that this notional *position* be treated as if it were from a separate notional country rather than any of the countries to which the underlying *equities* are from.

7.3.18
FCA

R The notional *positions* created under ■ BIPRU 7.3.15R have the following values:

- (1) where only one notional *position* is created, it has a value equal to the total market value of the *equities* underlying the contract; or
- (2) where more than one notional *position* is created, each one has a value which reflects the relevant *equity's* or country's contribution to the total market value of the *equities* underlying the contract.

Derivation of notional positions: Equity legs of equity swaps

7.3.19
FCA

R The *equity* leg of an *equity swap* must be treated as a *position* in the underlying *equity, equity basket* or *equity index*, which is:

- (1) long, if the *firm* has contracted to receive any increase and pay any decrease in the value of the underlying *equities* or *equity index*; and
- (2) short, if the *firm* has contracted to receive any decrease and pay any increase in the value of the underlying *equities* or *equity index*.

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37

7.3.20
FCA

G The interest rate leg of an *equity swap* is included in a *firm's interest rate PRR* calculation (see the table in ■ BIPRU 7.2.4R (Table: Instruments which result in notional positions)) unless it is treated under ■ BIPRU 7.3.45R.

Derivation of notional positions: Options

7.3.21

FCA

R

If included in ■ BIPRU 7.3's PRR calculation (see the table in ■ BIPRU 7.3.3R), *options* must be treated as follows:

- (1) an *option* on a single *equity* must be treated as a notional *position* in that *equity*;
- (2) an *option* on a basket of *equities* or *equity* index must be treated as a *future* on that basket or index; and
- (3) an *option* on an *equity future* must be treated as:
 - (a) a long *position* in that *future*, for purchased call *options* and written put *options*; and
 - (b) a short *position* in that *future*, for purchased put *options* and written call *options*.

Deriving the net position in each equity

7.3.22

FCA

R

The net *position* in each *equity* is the difference between the value of the *firm's* long *positions* (including notional *positions*) and the value of its short *positions* (including notional *positions*) in the same *equity*.

7.3.23

FCA

R

- (1) When deriving the net *position* in each *equity*, a *firm* must not net long and short *positions* except in accordance with this *rule*.
- (2) Subject to (3), a *firm* may net long and short *positions* in the same *equity*. Two *equities* are the same if and only if they:
 - (a) enjoy the same rights in all respects; and
 - (b) are fungible with each other.
- (3) Long and short *positions* in different tranches of the same *equity* may be treated as being in the same *equity* for the purpose of (1), where:
 - (a) the tranches enjoy the same rights in all respects; and
 - (b) the tranches become fungible with each other within 180 days, and thereafter the *equity* of one tranche can be delivered in settlement of the other tranche.

7.3.24

FCA

R

A *firm* must not net a *reduced net underwriting position* with any other *equity position*.

7.3.25

FCA

G

■ BIPRU 7.3.24R only relates to *reduced net underwriting position*.

Simplified and standard equity methods

7.3.26
FCA

G

■ BIPRU 7.3.1R (1) requires that the net *position* in each *equity* be included in either the *simplified equity method* or the *standard equity method*, subject to the restriction in ■ BIPRU 7.3.27R. A *firm* does not have to use the same method for all *equities*.

7.3.27
FCA

R

A *firm* must use the *simplified equity method* for *reduced net underwriting positions*.

7.3.28
FCA

G

A *firm* may use either method for a *net underwriting position*; ■ BIPRU 7.3.27R only relates to *reduced net underwriting positions*.

Simplified equity method

7.3.29
FCA

R

Under the *simplified equity method*, the PRR for each *equity*, *equity index*, or *equity basket* equals the market value of the net *position* (ignoring the sign) multiplied by the *appropriate position risk adjustment* from the table in ■ BIPRU 7.3.30R. The result must be converted into the *firm's base currency* at current spot *foreign currency* rates.

7.3.30
FCA

R

Table: simplified equity method *position risk adjustments*

This table belongs to ■ BIPRU 7.3.29R

Instrument	Position risk adjustment
Single <i>equities</i>	16%
<i>Qualifying equity indices</i> (see BIPRU 7.3.38R)	8%
All other <i>equity indices</i> or baskets	16%

If it is necessary to distinguish between the *specific risk position risk adjustment* and the *general market risk position risk adjustment*, the *specific risk position risk adjustment* for the first and third rows is 8% and that for the second row is 0%. The rest of the *position risk adjustment* in the second column is the *general market risk position risk adjustment*

Standard equity method

7.3.31
FCA

G

The *standard equity method* divides the risk of loss from a *firm's equity positions* into the risk of loss from a general move in a country's *equity market* and the risk of loss from an individual *equity's* price changing relative to that country's *equity market*. These are called *general market risk* and *specific risk* respectively.

7.3.32
FCA

R

Under the *standard equity method*, a *firm* must:

- (1) group *equity positions* into country portfolios as follows:
 - (a) a *position* in an individual *equity* belongs to:
 - (i) the country it is listed in;

- (ii) any of the countries it is listed in, if more than one; or
- (iii) the country it was issued from, if unlisted;

(b) a *position* in an *equity* basket or index that is treated under ■ BIPRU 7.3.15R(2), is allocated to one or more country portfolios based on the countries to which the underlying *equities* belong to under (a) or a notional country provided for in the table in ■ BIPRU 7.3.16R; and

(2) sum:

- (a) the *PRRs* for *specific risk* calculated under ■ BIPRU 7.3.33R; and
- (b) the *PRRs* for *general market risk* for each country portfolio as calculated under ■ BIPRU 7.3.41R and ■ BIPRU 7.3.42R.

Standard equity method: Specific risk

7.3.33
FCA

R Under the *standard equity method*, a *firm* must calculate a *PRR* for *specific risk* based on the net *position* in each *equity*, *equity* index or *equity* basket by multiplying its market value (ignoring the sign) by the *appropriate position risk adjustment* from the table in ■ BIPRU 7.3.34R.

7.3.34
FCA

R Table: *position risk adjustment* for specific risk under the standard equity method

This table belongs to ■ BIPRU 7.3.33R

Instrument	<i>Position risk adjustment</i>
<i>Qualifying equity indices</i> (see BIPRU 7.3.38R)	0%
All <i>equities</i> , and other <i>equity</i> indices or <i>equity</i> baskets	8%

Definition of a qualifying equity

7.3.35

R [deleted]

7.3.36

G [deleted]

7.3.37

G [deleted]

Definition of a qualifying equity index

7.3.38
FCA

R A *qualifying equity index* is one which is traded on a *recognised investment exchange* or a *designated investment exchange* and:

- (1) is listed in the table in ■ BIPRU 7.3.39R; or

- (2) is not listed in the table in ■ BIPRU 7.3.39R, but is constructed in such a way that:
- (a) it contains at least 20 *equities*;
 - (b) no single *equity* represents more than 20% of the total index; and
 - (c) no five *equities* combined represent more than 60% of the total index.

7.3.39

FCA

R Table: Qualifying equity indices

This table belongs to ■ BIPRU 7.3.38R

Country or territory	Name of index
Australia	All Ordinaries
Austria	Austrian Traded Index
Belgium	BEL 20
Canada	TSE 35, TSE 100, TSE 300
France	CAC 40, SBF 250
Germany	DAX
European	Dow Jones Stoxx 50 Index, FTSE Eurotop 300, MSCI Euro Index
Hong Kong	Hang Seng 33
Italy	MIB 30
Japan	Nikkei 225, Nikkei 300, TOPIX
Korea	Kospi
Netherlands	AEX
Singapore	Straits Times Index
Spain	IBEX 35
Sweden	OMX
Switzerland	SMI
UK	FTSE 100, FTSE Mid 250, FTSE All Share
US	S&P 500, Dow Jones Industrial Average, NASDAQ Composite, Russell 2000

Standard equity method: General market risk: General

7.3.40

FCA

R Under the *standard equity method*, a *firm* must apply approach one, as set out in ■ BIPRU 7.3.41R, to each country portfolio (or part portfolio) unless the conditions in ■ BIPRU 7.3.42R(3) are met, in which case the *firm*

may instead apply approach two, as set out in ■ BIPRU 7.3.42R, to the relevant country portfolios (or part portfolios).

Standard equity method: General market risk: Approach One: No offset between different country portfolios

7.3.41
FCA

R

Under approach one as referred to in ■ BIPRU 7.3.40R, the *PRR* for *general market risk* equals the net value (ignoring the sign) of the country portfolio multiplied by 8%.

Standard equity method: General market risk: Approach Two: Limited offset between different country portfolios

7.3.42
FCA

R

(1) Under approach two as referred to in ■ BIPRU 7.3.40R, the *PRR* for *general market risk* is calculated using the following formula:

$$\sqrt{(8\% * CP_1)^2 + (8\% * CP_2)^2 + (8\% * CP_3)^2 + \dots + (8\% * CP_n)^2}$$

- (2) In the formula in (1) CP_i denotes the net value of i th country portfolio (converted to the *firm's base currency* using current spot *foreign currency* rates).
- (3) The conditions referred to in ■ BIPRU 7.3.40R that must be met for a *firm* to be able to use approach two as referred to in ■ BIPRU 7.3.40R are as follows:
 - (a) at least four country portfolios are included (that is: $n \geq 4$);
 - (b) only country portfolios for countries which are full members of the *OECD*, Hong Kong or Singapore are included;
 - (c) no individual country portfolio comprises more than 30% of the total gross value of country portfolios included; and
 - (d) the total net value of country portfolios included equals zero, that is:

$$\sum_i CP_i = 0$$

7.3.43
FCA

G

In order to meet ■ BIPRU 7.3.42R(3)(d), it is likely that part of a country portfolio will have to be excluded from approach two under ■ BIPRU 7.3.42R (and therefore included in approach one under ■ BIPRU 7.3.41R), even if that country portfolio meets ■ BIPRU 7.3.42R(3)(a) - ■ (c).

Basic interest rate calculation for equity instruments

7.3.44
FCA

G

A *basic interest rate PRR* calculation is included in ■ BIPRU 7.3 for a *firm* that does not wish to use the calculation in ■ BIPRU 7.2 (Interest rate PRR). However, it tends to result in higher charges than the methods in ■ BIPRU 7.2, largely because the *interest rate PRR* is calculated on each notional *equity position* separately and then summed without offsetting long and short *positions*.

7.3.45

FCA

R

This rule applies to a *firm* that does not include a *forward*, *future*, *option* or *swap* on an *equity*, basket of *equities* or *equity* index in the calculation of its *interest rate PRR* calculation under ■ BIPRU 7.2 (Interest rate PRR). However it does not apply to cliquet as defined in ■ BIPRU 7.6.18R (Table: Option PRR: methods for different types of option). A *firm* must calculate the *interest rate PRR* for a *position* being treated under this rule as follows:

- (1) multiply the market value of the notional *equity position* underlying the instrument by the appropriate percentage from the table in ■ BIPRU 7.3.47R; and
- (2) sum the results from (1), ignoring the sign.

7.3.46

FCA

G

Cliquets on *equities*, baskets of *equities* or *equity* indices do not attract an *interest rate PRR*. ■ BIPRU 7.3.45R excludes them from the basic *interest rate PRR* calculation and the table in ■ BIPRU 7.2.4R (Table: Instruments which result in notional positions) excludes them from the scope of the *interest rate PRR* calculation in ■ BIPRU 7.2 (Interest rate PRR).

7.3.47

FCA

R

Table: Percentages used in the basic interest rate PRR calculation for equity instruments

This table belongs to ■ BIPRU 7.3.45R(1)

Time to expiration	Percentage (%)
0 ; 3 months	0.20
> 3 ; 6 months	0.40
> 6 ; 12 months	0.70
> 1 ; 2 years	1.25
> 2 ; 3 years	1.75
> 3 ; 4 years	2.25
> 4 ; 5 years	2.75
> 5 ; 7 years	3.25
> 7 ; 10 years	3.75
> 10 ; 15 years	4.50
> 15 ; 20 years	5.25
> 20 years	6.00

Additional capital charge in relation to equity indices

7.3.48

FCA

R

If a *firm* nets off *positions* in one or more of the *equities* constituting an *equity index future*, *forward* or *CFD* against one or more *positions* in the *equity index future*, *forward* or *CFD* itself, the *firm* must apply an additional *equity PRR* to the netted *position* to cover the risk of loss caused by the value of the *future*, *forward* or *CFD* not moving fully in line with

that of its constituent *equities*. The same applies if a *firm* holds opposite *positions* in a *future, forward* or *CFD* on an *equity* index that are not identical in respect of either their maturity or their composition or both.

7.4 Commodity PRR

General rule

7.4.1

FCA

R A *firm* must calculate its *commodity PRR* by:

- (1) identifying which *commodity position* must be included within the scope of the *PRR* calculation (see ■ BIPRU 7.4.2R);
- (2) expressing each such *position* in terms of the standard unit of measurement of the *commodity* concerned;
- (3) expressing the spot price in each *commodity* in the *firm's base currency* at current spot foreign exchange rates;
- (4) calculating an individual *PRR* for each *commodity* (see ■ BIPRU 7.4.20R); and
- (5) summing the resulting individual *PRRs*.

Scope of the commodity PRR calculation

7.4.2

FCA

R A *firm's commodity PRR* calculation must, regardless of whether the *positions* concerned are *trading book* or *non-trading book positions*:

- (1) include *physical commodity positions*;
- (2) (if the *firm* is the transferor of *commodities* or guaranteed rights relating to title to *commodities* in a *repurchase agreement* or the lender of *commodities* in a *commodities* lending agreement) include such *commodities*;
- (3) include notional *positions* arising from *positions* in the instruments listed in the table in ■ BIPRU 7.4.4R; and
- (4) exclude *positions* constituting a *stock financing* transaction.

7.4.3

FCA

R Gold *positions* are excluded from the scope of the *commodity PRR*. Instead, they are included within the scope of the foreign exchange *PRR* (■ BIPRU 7.5).

7.4.4

FCA

R Table: Instruments which result in notional positions

This table belongs to ■ BIPRU 7.4.2R(3)

Instrument	See
<i>Forwards, futures, CFDs, synthetic futures and options on a single commodity (unless the firm calculates a PRR on the option under BIPRU 7.6 (Option PRR))</i>	BIPRU 7.4.8R
A commitment to buy or sell a single commodity at an average of spot prices prevailing over some future period	BIPRU 7.4.10R
<i>Forwards, futures, CFDs, synthetic futures and options on a commodity index (unless the firm calculates an PRR on the option under BIPRU 7.6)</i>	BIPRU 7.4.13R - BIPRU 7.4.14R
<i>Commodity swaps</i>	BIPRU 7.4.16R - BIPRU 7.4.17R
A warrant relating to a commodity must be treated as an option on a commodity.	

7.4.5

FCA

G

■ BIPRU 7.4.2R includes a *trading book position* in a *commodity* that is subsequently repo'd under a *repurchase agreement* or lent under a stock lending agreement. Clearly, if the *commodity* had initially been obtained via a *reverse repurchase agreement* or stock borrowing agreement, the *commodity* would not have been included in the *trading book* in the first place.

7.4.6

FCA

G

Firms are reminded that the table in ■ BIPRU 7.6.5R (Table: Appropriate PRR calculation for an option or warrant) divides *commodity options* into:

- (1) those which must be treated under ■ BIPRU 7.6; and
- (2) those which must be treated under either ■ BIPRU 7.4 or ■ BIPRU 7.6 (Option PRR), the *firm* being able to choose whether ■ BIPRU 7.4 or ■ BIPRU 7.6 is used.

7.4.7

FCA

G**Derivation of notional positions: General**

■ BIPRU 7.4.8R - ■ BIPRU 7.4.19G convert the instruments listed in the table in ■ BIPRU 7.4.4R into notional *positions* in the relevant *commodities*. These notional *positions* are expressed in terms of quantity (tonnes, barrels, etc), not value. The maturity of the *position* is only relevant where the *firm* is using the *commodity maturity ladder approach* or the *commodity extended maturity ladder approach*.

Derivation of notional positions: Futures, forwards, CFDs and options on a single commodity

7.4.8

FCA

R

Where a *forward, future, CFD, synthetic future* or *option* (unless already included in the *firm's option PRR* calculation) settles according to:

- (1) the difference between the price set on trade date and that prevailing at contract expiry, the notional *position*:
 - (a) equals the total quantity underlying the contract; and
 - (b) has a maturity equal to the expiry date of the contract; and
- (2) the difference between the price set on trade date and the average of prices prevailing over a certain period up to contract expiry, there is a notional *position* for each of the reference dates used in the averaging period to calculate the average price, which:
 - (a) equals a fractional share of the total quantity underlying the contract; and
 - (b) has a maturity equal to the relevant reference date.

7.4.9

FCA

G

- (1) The following example illustrates ■ BIPRU 7.4.8R (2).
- (2) A *firm* buys a Traded Average Price Option (TAPO - a type of Asian option) allowing it to deliver 100 tonnes of Grade A copper and receive \$1,750 in June. If there were 20 *business days* in June the short notional *positions* will each:
 - (a) equal 5 tonnes per day (1/20 of 100 tonnes); and
 - (b) have a maturity equal to one of the *business days* in June (one for each day).
- (3) In this example as each *business day* in June goes by the quantity per day for the remaining days does not change (5 tonnes per day) only the days remaining changes. Therefore, halfway through June there are ten, 5 tonne short notional *positions* remaining each for the ten remaining *business days* in June.

Derivation of notional positions: Buying or selling a single commodity at an average of spot prices prevailing in the future

7.4.10

FCA

R

Commitments to buy or sell at the average spot price of the *commodity* prevailing over some period between trade date and maturity must be treated as a combination of:

- (1) a *position* equal to the full amount underlying the contract with a maturity equal to the maturity date of the contract which is:
 - (a) long, where the *firm* will buy at the average price; or
 - (b) short, where the *firm* will sell at the average price; and

- (2) a series of notional *positions*, one for each of the reference dates where the contract price remains unfixed, each of which:
 - (a) is long if the *position* under (1) is short, or short if the *position* under (1) is long;
 - (b) equals a fractional share of the total quantity underlying the contract; and
 - (c) has a maturity date of the relevant reference date.

7.4.11

FCA

G

The following guidance provides an example of ■ BIPRU 7.4.10R. In January, a *firm* agrees to buy 100 tonnes of copper for the average spot price prevailing during the 20 *business days* in February, and will settle on 30 June. After entering into this agreement, the *firm* faces the risk that the average price for February increases relative to that for 30 June. Therefore, as highlighted in the table below:

- (1) the short *positions* reflect the fact that this could occur because any one of the remaining forward prices for February increase; and
- (2) the long *position* reflects the fact that this loss could occur because the forward price for 30 June falls.

7.4.12

FCA

G

Table: Example of buying at the average spot price prevailing in the future

This table belongs to ■ BIPRU 7.4.11G

	Application of BIPRU 7.4.10R(1)	Application of BIPRU 7.4.10R(2)
From trade date to start of averaging period	Long <i>position</i> in 100 tonnes of copper with a maturity of 30 June.	A series of 20 notional short <i>positions</i> each equal to 5 tonnes of copper. Each <i>position</i> is allocated a maturity equal to one of the <i>business days</i> in February (one for each day).
During averaging period	Long <i>position</i> in 100 tonnes of copper with a maturity of 30 June.	As each <i>business day</i> goes by in February the price for 5 tonnes of copper is fixed and so there will be one less notional short <i>position</i> .
After averaging period	Long <i>position</i> in 100 tonnes of copper with a maturity of 30 June.	No short <i>positions</i> .

7.4.13

FCA

R

Derivation of notional positions: CFDs and options on a commodity index
Commodity index futures and *commodity index options* (unless the *option* is included in the *firm's option PRR* calculation), must be treated as follows:

- (1) Step 1: the total quantity underlying the contract must be either:

- (a) treated as a single notional *commodity position* (separate from all other *commodities*); or
 - (b) divided into notional *positions*, one for each of the constituent *commodities* in the index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant *commodity* in the index;
- (2) Step 2: each notional *position* determined in Step 1 must then be included:
- (a) when using the *commodity simplified approach* (■ BIPRU 7.4.24R), without adjustment; or
 - (b) when using the *commodity maturity ladder approach* (■ BIPRU 7.4.25R) or the *commodity extended maturity ladder approach* (■ BIPRU 7.4.32R), with the adjustments in ■ BIPRU 7.4.14R.

7.4.14

FCA

R

Table: Treatment of commodity index futures and commodity index options

This table belongs to ■ BIPRU 7.4.13R(2)(b)

Construction of index	Notional <i>position</i> (or <i>positions</i>) and maturity
Spot level of index is based on the spot price of each constituent <i>commodity</i>	Each quantity determined in Step 1 as referred to in BIPRU 7.4.13R is assigned a maturity equal to the expiry date of the contract.
Spot level of index is based on an average of the forward prices of each constituent <i>commodity</i>	Each quantity determined in Step 1 as referred to in BIPRU 7.4.13R is divided (on a pro-rata basis) into a series of forward <i>positions</i> to reflect the impact of each forward price on the level of the index. The maturity of each forward <i>position</i> equals the maturity of the relevant forward price determining the level of the index when the contract expires.

7.4.15

FCA

G

- (1) An example of using ■ BIPRU 7.4.13R and the table in ■ BIPRU 7.4.14R is as follows.
- (2) A *firm* is long a three-month *commodity index future* where the spot level of the index is based on the one, two and three month forward prices of aluminium, copper, tin, lead, zinc and nickel (18 prices in total).
- (3) Step 1: the *firm* should decide whether to treat the full quantity underlying the contract as a single notional *commodity position* or disaggregate it into notional *positions* in aluminium, copper, tin, lead, zinc and nickel. In this case the *firm*

decides to disaggregate the contract into notional *positions* in aluminium, copper, tin, lead, zinc and nickel.

- (4) Step 2: if the *firm* uses the *commodity simplified approach*, nothing more need be done to arrive at the notional *position*. In this case the *firm* uses the *commodity maturity ladder approach* and so subdivides each *position* in each metal into three because the level of the index is based on the prevailing one, two and three month forward prices. Since the *future* will be settled in three months' time at the prevailing level of the index, the three *positions* for each metal will have maturities of four, five and six months respectively.

Derivation of notional positions: Commodity swaps

7.4.16
FCA

R A *firm* must treat a *commodity swap* as a series of notional *positions*, one *position* for each payment under the *swap*, each of which:

- (1) equals the total quantity underlying the contract;
- (2) has a maturity corresponding to the payment date; and
- (3) is long or short according to ■ BIPRU 7.4.17R.

7.4.17
FCA

R Table: Treatment of commodity swaps

This table belongs to ■ BIPRU 7.4.16R

	Receiving amounts which are unrelated to any <i>commodity's</i> price	Receiving the price of <i>commodity 'b'</i>
Paying amounts which are unrelated to any <i>commodity's</i> price	N/A	Long <i>positions</i> in <i>commodity 'b'</i>
Paying the price of <i>commodity 'a'</i>	Short <i>positions</i> in <i>commodity 'a'</i>	Short <i>positions</i> in <i>commodity 'a'</i> and long <i>positions</i> in <i>commodity 'b'</i>

7.4.18
FCA

G The table in ■ BIPRU 7.4.17R shows that where the legs of the *swap* are in different *commodities*, a series of forward *positions* are created for each *commodity* (that is, a series of short *positions* in *commodity 'a'* and a series of long *positions* in *commodity 'b'*).

7.4.19
FCA

G The table in ■ BIPRU 7.4.17R also covers the case where one leg is unrelated to any *commodity's* price. This leg may be subject to a *PRR* under another part of ■ BIPRU 7; for example, an interest rate based leg would have to be included in a *firm's interest rate PRR* calculation.

Calculating the PRR for each commodity: General

7.4.20

FCA

R

A *firm* must calculate a *commodity PRR* for each *commodity* separately using either the *commodity simplified approach* (■ BIPRU 7.4.24R), the *commodity maturity ladder approach* (■ BIPRU 7.4.25R) or the *commodity extended maturity ladder approach* (■ BIPRU 7.4.32R).

7.4.21

FCA

R

A *firm* must use the same approach for a particular *commodity* but need not use the same approach for all *commodities*.

7.4.22

FCA

R

(1) A *firm* must treat *positions* in different grades or brands of the same *commodity-class* as different *commodities* unless they:

- (a) can be delivered against each other; or
- (b) are close substitutes and have price movements which have exhibited a stable correlation coefficient of at least 0.9 over the last 12 months.

(2) If a *firm* relies on (1)(b) it must then monitor compliance with the conditions in that paragraph on a continuing basis.

7.4.23

FCA

R

If a *firm* intends to rely on the approach in ■ BIPRU 7.4.22R(1)(b):

- (1) it must notify the *appropriate regulator* in writing at least 20 *business days* prior to the date the *firm* starts relying on it; and
- (2) the *firm* must, as part of the notification under (1), provide to the *appropriate regulator* the analysis of price movements on which it relies.

Calculating the PRR for each commodity: Simplified approach

7.4.24

FCA

R

A *firm* which calculates a *commodity PRR* using the *commodity simplified approach* must do so by summing:

- (1) 15% of the net *position* multiplied by the spot price for the *commodity*; and
- (2) 3% of the gross *position* (long plus short, ignoring the sign) multiplied by the spot price for the *commodity*;

(and for these purposes the excess of a *firm's* long (short) *positions* over its short (long) *positions* in the same *commodity* (including notional *positions* under ■ BIPRU 7.4.4R) is its net *position* in each *commodity*).

Calculating the PRR for each commodity: Maturity ladder approach

7.4.25

FCA

R

A *firm* using the *commodity maturity ladder approach* must calculate the *commodity PRR* following the steps in ■ BIPRU 7.4.26R and then sum all spread charges, carry charges and outright charges that result. A *firm* must use a separate maturity ladder for each *commodity*.

7.4.26

FCA

R

- (1) A *firm* must calculate the charges referred to in ■ BIPRU 7.4.25R as follows.
- (2) Step 1: offset long and short *positions* maturing:
 - (a) on the same day; or
 - (b) (in the case of *positions* arising under contracts traded in markets with daily delivery dates) within 10 *business days* of each other.
- (3) Step 2: allocate the *positions* remaining after step 1 to the appropriate maturity band in the table in ■ BIPRU 7.4.28R (*physical commodity positions* are allocated to band 1).
- (4) Step 3: match long and short *positions* within each band. In each instance, calculate a spread charge equal to the matched amount multiplied first by the spot price for the *commodity* and then by the spread rate of 3%.
- (5) Step 4: carry unmatched *positions* remaining after step 3 to another band where they can be matched, then match them. Do this until all matching possibilities are exhausted. In each instance, calculate:
 - (a) a carry charge equal to the carried *position* multiplied by the spot price for the *commodity*, the carry rate of 0.6% and the number of bands by which the *position* is carried; and
 - (b) a spread charge equal to the matched amount multiplied by the spot price for the *commodity* and the spread rate of 3%.
- (6) Step 5: calculate the outright charge on the remaining *positions* (which will either be all long *positions* or all short *positions*). The outright charge equals the remaining *position* (ignoring the sign) multiplied by the spot price for the *commodity* and the outright rate of 15%.

7.4.27

FCA

G

The matched amount in ■ BIPRU 7.4.26R is the lesser (ignoring the sign) of either the total long *position* or the total short *position*. For example, a band with 1000 long and 700 short results in a matched amount of 700. The unmatched amount would be 300.

7.4.28

FCA

R

Table: Maturity bands for the maturity ladder approach

This table belongs to ■ BIPRU 7.4.26R

Band	Maturity of <i>position</i>
Band 1	0 ; 1 month

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Band	Maturity of <i>position</i>
Band 2	> 1 month ; 3 months
Band 3	> 3 months ; 6 months
Band 4	> 6 months ; 1 year
Band 5	> 1 year ; 2 years
Band 6	> 2 years ; 3 years
Band 7	> 3 years

7.4.29

FCA

G

■ BIPRU 7.4.30G is an example illustrating the calculation of the *commodity PRR* on an individual *commodity* using the *commodity maturity ladder approach* (■ BIPRU 7.4.26R). After the *firm* has carried out the pre-processing required by ■ BIPRU 7.4.26R(2) (that is, step 1), it follows steps 2 to 5 as shown below. Because the *firm* is using the *commodity maturity ladder approach* the spread rate is 3%, the carry rate is 0.6% and the outright rate is 15%. The example assumes that the spot price for the *commodity* is £25.

7.4.30

FCA

G

Table: Example illustrating the commodity maturity ladder approach

This table belongs to ■ BIPRU 7.4.29G

Band	Step 2 Allocate remaining <i>positions</i> to appropriate maturity bands	Step 3 Match within bands. Each matched amount incurs a spread charge.	Step 4a Carry across bands. Each carried amount incurs a carry charge.	Step 4b Match within band. Each matched amount incurs a spread charge.	Step 6 Remaining <i>position(s)</i> incur an outright charge.
0 ≤ 1 month					
>1 month ≤ 3 months	1000 long 700 short	700 matched	300 carried		
>3 months ≤ 6 months					
>6 months ≤ 1 year					
>1 year ≤ 2 years	600 short	Nothing matched	100 carried	400 matched	200 short remains
>2 years ≤ 3 years					
> 3 years	100 long	Nothing matched			
Spread charges	700*£25*3% + 400*£25*3%			=	£825
Carry charges	300*£25*0.6%*3 + 100*£25*0.6%*2			=	£165
Outright charge	200*£25*15%			=	£750
					<u>£1740</u>

Calculating the PRR for each commodity: Extended maturity ladder approach

7.4.31

FCA

R

A *firm* may use the *commodity extended maturity ladder approach* to calculate the *commodity PRR* for a particular *commodity* provided the *firm*:

- (1) has a diversified *commodities* portfolio;
- (2) undertakes significant *commodities* business;
- (3) is not yet in a position to use the *VaR model approach* to calculate *commodity PRR*; and
- (4) at least twenty *business days* before the date the *firm* uses that approach notifies the *appropriate regulator* in writing of:
 - (a) its intention to use the *commodity extended maturity ladder approach*; and
 - (b) the facts and matters relied on to demonstrate that the *firm* meets the criteria in (1) - (3).

7.4.32

FCA

R

A *firm* using the *commodity extended maturity ladder approach* must calculate its *commodity PRR* by:

- (1) following the same steps as in ■ BIPRU 7.4.26R but using the rates from the table in ■ BIPRU 7.4.33R rather than those in ■ BIPRU 7.4.26R; and
- (2) summing all spread charges, carry charges and outright charge that result.

7.4.33

FCA

R

Table: Alternative spread, carry and outright rates

This table belongs to ■ BIPRU 7.4.32R

	Precious metals (excluding gold)	Base metals	Softs (agricultural)	Other (including energy)
Spread rate (%)	2	2.4	3	3
Carry rate (%)	0.3	0.5	0.6	0.6
Outright rate (%)	8	10	12	15

7.4.34
FCA **G** For the purposes of ■ BIPRU 7.4.31R(1) a *firm* has a diversified *commodity* portfolio where it holds *positions* in more than one *commodity* in each of the categories set out in the table in ■ BIPRU 7.4.33R and holds *positions* across different maturities in those individual *commodities*. A *firm* would not have a diversified *commodity* portfolio if it held *positions* in only one *commodity* in each of the categories set out in the table in ■ BIPRU 7.4.33R. This is because the rates in the table in ■ BIPRU 7.4.33R assume *firms* have *positions* in more than one of that category's *commodities*. Different *commodities* within a given category are likely to exhibit different volatilities, so where a *firm* does not have a diversified *commodity* portfolio in that category, the rates applying to that category might underestimate the regulatory capital required for a certain *commodity* at certain times.

7.4.35
FCA **G** What constitutes significant business in ■ BIPRU 7.4.31R(2) will vary from *firm* to *firm*. The more regularly the *firm* undertakes trades in *commodities* and the more consistently it has *positions* in the relevant *commodity*, the more likely it is to be undertaking significant business for the purposes of ■ BIPRU 7.4.31R(2).

7.4.36
FCA **R** Where a *firm* is:

- (1) treating a *commodity* index *derivative* as if it was based on a single separate *commodity* (see ■ BIPRU 7.4.13R(1)(a)); and
- (2) using the *commodity* extended maturity ladder approach to calculate the *commodity* PRR for that *commodity*;

it must determine which index constituent incurs the highest rate in the table in ■ BIPRU 7.4.33R and apply that rate to the notional *position* for the purposes of ■ BIPRU 7.4.32R.

7.4.37
FCA **G** Where an index is only based on precious metals, ■ BIPRU 7.4.13R and ■ BIPRU 7.4.36R allow the *firm* to treat the single notional *position* as precious metal for the purposes of ■ BIPRU 7.4.32R. However, if the index contained a mix of precious metals and base metals the *firm* would have to treat the notional *position* under ■ BIPRU 7.4.36R as a base metal because base metals attract a higher rate than precious metals in the table in ■ BIPRU 7.4.33R.

Liquidity and other risks

7.4.38
FCA **R** If a short *position* to which ■ BIPRU 7.4 applies falls due before a long *position* to which ■ BIPRU 7.4 applies, a *firm* must also guard against the risk of a shortage of liquidity which may exist in some markets.

7.4.39
FCA **G** In particular, where ■ BIPRU 7.4.38R applies and the short *position* constitutes a material *position* compared to a *firm's* total *commodity* *positions*, it should consider a further *commodity* PRR charge in respect of that *position* depending on the likelihood of a shortage of liquidity in that market.

7.4.40
FCA **R** A *firm* must safeguard against other risks, apart from the delta risk, associated with *commodity* options.

7.4.41

FCA

R The interest-rate and foreign-exchange risks not covered by other provisions of ■ BIPRU 7.4 or by the provisions of ■ BIPRU 7.2 (Interest rate PRR) or ■ BIPRU 7.5 (Foreign currency PRR) must be included in the calculation of *general market risk* for traded debt securities and in the calculation of *foreign currency PRR*.

7.5 Foreign currency PRR

General rule

7.5.1

FCA

R

A *firm* must calculate its *foreign currency PRR* by:

- (1) identifying which *foreign currency* and *gold positions* to include in the *PRR* calculation;
- (2) calculating the net open *position* in each currency in accordance with this section (including where necessary the *base currency* calculated in the same way as it is for *foreign currencies*) and in gold;
- (3) calculating the *open currency position* for *foreign currencies* as calculated under ■ BIPRU 7.5.19R and the net gold position (see ■ BIPRU 7.5.20R); and
- (4) multiplying the sum of the absolutes of that *open currency position* and that net gold *position* by 8%.

7.5.2

FCA

G

An example of the operation of ■ BIPRU 7.5.1R is as follows. A *firm* has an *open currency position* of £100 and a net gold *position* of £50. The sum (ignoring the sign) is £150, and so the *foreign currency PRR* is £12.

Scope of the foreign currency PRR calculation

7.5.3

FCA

R

A *firm's foreign currency PRR* calculation must include the following items regardless of whether they are *trading book* or *non-trading book positions*:

- (1) all gold *positions*;
- (2) all spot *positions* in *foreign currency* (that is, all asset items less all liability items, including accrued interest, in the *foreign currency* in question);
- (3) all forward *positions* in *foreign currency*;
- (4) all *CRD financial instruments* and other items which are denominated in a *foreign currency*;

7.5.4
FCA

R

- (5) irrevocable guarantees (and similar instruments) that are certain to be called and likely to be irrecoverable to the extent they give rise to a *position* in gold or *foreign currency*; and
- (6) notional *positions* arising from the instruments listed in the table in ■ BIPRU 7.5.5R.
- (1) The following are excluded from a *firm's foreign currency PRR* calculation:
- foreign currency* assets which have been deducted in full from the *firm's capital resources* under the calculations under the *capital resources table*;
 - positions* hedging (a);
 - positions* that a *firm* has deliberately taken in order to hedge against the adverse effect of the exchange rate on the ratio of its *capital resources* to its *capital resources requirement*; and
 - transactions to the extent that they fully hedge net future *foreign currency* income or expenses which are known but not yet accrued.
- (2) If a *firm* uses an exclusion under (1) it must:
- notify the *appropriate regulator* before it makes use of it;
 - include in the notification in (a) the terms on which the relevant item will be excluded;
 - not change the terms of the exclusion under (b); and
 - document its policy on the use of that exclusion in its *trading book policy statement*.
- (3) A *position* may only be excluded under (1)(b) or (c) if it is of a non-trading or structural nature.

7.5.5
FCA

R

Table: instruments which result in notional foreign currency positions

This table belongs to ■ BIPRU 7.5.3R(6).

Instruments	See
<i>Foreign currency futures, forwards, synthetic futures and CFDs</i>	BIPRU 7.5.11R
<i>Foreign currency swaps</i>	BIPRU 7.5.13R
<i>Foreign currency options or warrants (unless the firm calculates a</i>	BIPRU 7.5.15R

Instruments	See
<i>PRR on the option or warrant under BIPRU 7.6 (Option PRR).</i>	
<i>Gold futures, forwards, synthetic futures and CFDs</i>	BIPRU 7.5.16R
<i>Gold options (unless the firm calculates a PRR on the option under BIPRU 7.6).</i>	BIPRU 7.5.17R
<i>Positions in CIUs</i>	BIPRU 7.5.18R

7.5.6

FCA

G

Firms are reminded that the table in ■ BIPRU 7.6.5R (Table: Appropriate PRR calculation for an option or warrant) divides *foreign currency options* and *warrants* into:

- (1) those which must be treated under ■ BIPRU 7.6 (Option PRR); and
- (2) those which must be treated under either ■ BIPRU 7.5 or ■ BIPRU 7.6, the *firm* being able to choose whether ■ BIPRU 7.5 or ■ BIPRU 7.6 is used.

7.5.7

FCA

R

When determining the currency of denomination *firms* must:

- (1) use the currency in which the *firm* accounts for the instrument where an instrument is quoted in more than one currency; and
- (2) treat depository receipts as *positions* in the underlying *security*.

7.5.8

FCA

G

Instruments denominated in a foreign currency include, amongst other things, assets and liabilities (including accrued interest); non-foreign currency derivative; net underwriting positions; reduced net underwriting positions; and irrevocable guarantees (or similar instruments) that are certain to be called.

7.5.9

FCA

R

Where a contract is based on a basket of currencies, the *firm* can choose either to derive notional *positions* in each of the constituent currencies or treat it as a single notional *position* in a separate notional currency.

Derivation of notional positions: General

7.5.10

FCA

G

■ BIPRU 7.5.11R - ■ BIPRU 7.5.18R derive notional currency *positions* for the instruments listed in the table in ■ BIPRU 7.5.5R.

Derivation of notional positions: Foreign exchange forwards, futures, CFDs and synthetic futures

7.5.11

FCA

R

- (1) A *firm* must treat a *foreign currency forward, future, synthetic future* or *CFD* as two notional currency *positions* as follows:
 - (a) a long notional *position* in the currency which the *firm* has contracted to buy; and

(b) a short notional *position* in the currency which the *firm* has contracted to sell.

(2) In (1) the notional *positions* have a value equal to either:

(a) the contracted amount of each currency to be exchanged in the case of a *forward, future, synthetic future* or *CFD* held in the *non-trading book*; or

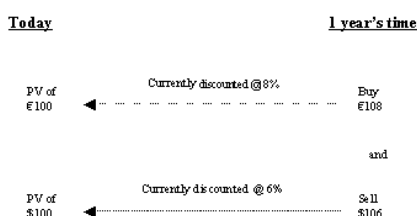
(b) the present value of the amount of each currency to be exchanged in the case of a *forward, future, synthetic future* or *CFD* held in the *trading book*.

7.5.12

FCA

G

(1) The following example illustrates ■ BIPRU 7.5.11R. In this example, a *firm* contracts to sell \$106 for €108 in one year's time and the present values of each cash flow are \$100 and €100 respectively.



(2) In the *non-trading book*, this *forward* would be treated as a combination of a €108 long *position* and a \$106 short *position*.

(3) In the *trading book*, this *forward* would be treated as a combination of a €100 long *position* and a \$100 short *position*.

(4) *Firms* are reminded that *foreign currency forwards* held in the *trading book* should also be included in the *firm's interest rate PRR* calculation (see ■ BIPRU 7.2.4R (Instruments which result in notional *positions* for the purpose of the *interest rate PRR*)).

Derivation of notional positions: Foreign currency swaps

7.5.13

FCA

R

(1) A *firm* must treat a *foreign currency swap* as:

(a) a long notional *position* in the currency in which the *firm* has contracted to receive interest and principal; and

(b) a short notional *position* in the currency in which the *firm* has contracted to pay interest and principal.

(2) In (1) the notional *positions* have a value equal to either:

(a) the nominal amount of each currency underlying the *swap* if it is held in the *non-trading book*; or

(b) the present value amount of all cash flows in the relevant currency in the case of a *swap* held in the *trading book*.

7.5.14

FCA

G

- (1) The following example illustrates ■ BIPRU 7.5.13R. In this example a *firm* enters into a five year *foreign currency swap* where it contracts to pay six month US\$ Libor on \$100 in return for receiving 6% fixed on €100. The present values of each leg are \$100 and €98 respectively.
- (2) In the *non-trading book*, this *swap* would be treated as a combination of a €100 long *position* and a \$100 short *position*.
- (3) In the *trading book*, this *swap* would be treated as a combination of a €98 long *position* and a \$100 short *position*.
- (4) *Firms* are reminded that *foreign currency swaps* held in the *trading book* should also be included in the *firm's interest rate PRR* calculation (see ■ BIPRU 7.2.4R (Instruments which result in notional *positions* for the purpose of the *interest rate PRR*)).

Derivation of notional positions: Foreign currency options and warrants.....

7.5.15

FCA

R

Where included in ■ BIPRU 7.5's *PRR* calculation (see the table in ■ BIPRU 7.5.5R), a *foreign currency option* or *warrant* must be treated as a *foreign currency forward*.

Derivation of notional positions: Gold forwards, futures, synthetic futures and CFDs.....

7.5.16

FCA

R

A *forward*, *future*, *synthetic future* or *CFD* on gold must be treated as a notional *position* in gold with a value equal to the amount of gold underlying multiplied by the current spot price for gold.

Derivation of notional positions: Gold options.....

7.5.17

FCA

R

If included in the *PRR* calculation under ■ BIPRU 7.5 (see the table in ■ BIPRU 7.5.5R), a *gold option* must be treated as a *gold forward*.

Derivation of notional positions: CIUs.....

7.5.18

FCA

R

- (1) This *rule* deals with *positions* in *CIUs*.
- (2) The actual *foreign currency positions* of a *CIU* must be included in a *firm's foreign currency PRR* calculation under ■ BIPRU 7.5.1 R.
- (3) A *firm* may rely on third party reporting of the *foreign currency positions* in the *CIU*, where the correctness of this report is adequately ensured.
- (4) If a *firm* is not aware of the *foreign currency positions* in a *CIU*, the *firm* must assume that the *CIU* is invested up to the maximum extent allowed under the *CIUs* mandate in *foreign currency* and the *firm* must, for *trading book positions*, take account of the maximum indirect exposure that it could achieve by taking leveraged *positions* through the *CIU* when calculating its *foreign currency PRR*. This must be done by proportionally increasing the

position in the *CIU* up to the maximum exposure to the underlying investment items resulting from the investment mandate.

- (5) The assumed *position* of the *CIU* in *foreign currency* calculated in accordance with ■ BIPRU 7.5.18R(4) must be treated as a separate currency according to the treatment of investments in gold, subject to the modification that, if the direction of the *CIUs* investment is available, the total long *position* may be added to the total long open *foreign currency position* and the total short *position* may be added to the total short open *foreign currency position*. No netting is allowed between such *positions* prior to this calculation.

Open currency position

7.5.19

FCA

R

A *firm* must calculate its *open currency position* by:

- (1) calculating the net *position* in each *foreign currency*;
- (2) converting each such net *position* into its *base currency* equivalent at current spot rates;
- (3) summing all short net *positions* and summing all long net *positions* calculated under (1) and (2); and
- (4) selecting the larger sum (ignoring the sign) from (3).

Net gold position

7.5.20

FCA

R

A *firm* must calculate its net gold *position* by:

- (1) valuing all gold *positions* using the prevailing spot price for gold (regardless of the maturity of the *positions*);
- (2) offsetting long and short *positions*; and
- (3) converting the resulting net *position* into the *base currency* equivalent using the current spot *foreign currency* rate.

7.6 Option PRR

Option PRR calculation

7.6.1

FCA

R

A *firm* must calculate its *option PRR* by:

- (1) identifying which *option positions* must be included within the scope of the *option PRR* calculation under ■ BIPRU 7.6.3R - ■ BIPRU 7.6.5R;
- (2) calculating the derived *position* in each *option* in accordance with ■ BIPRU 7.6.9R - ■ BIPRU 7.6.15R;
- (3) calculating the *PRR* for each derived *position* in accordance with ■ BIPRU 7.6.16R - ■ BIPRU 7.6.31R;
- (4) summing all of the *PRRs* calculated in accordance with (3).

7.6.2

FCA

G

Firms are reminded that the table in ■ BIPRU 7.2.4R (Instruments which result in notional *positions* for the purposes of the *interest rate PRR*) and the table in ■ BIPRU 7.3.3R (Instruments which result in notional *positions* for the purposes of the *equity PRR*) also require an *interest rate PRR* to be calculated for *options* on *equities*, baskets of *equities* or *equities* indices. The interaction between ■ BIPRU 7.6 and the rest of Chapter 7 is illustrated in ■ BIPRU 7.6.33G.

Scope of the option PRR calculation

7.6.3

FCA

R

Except as permitted under ■ BIPRU 7.6.5R, a *firm's option PRR* calculation must include:

- (1) each *trading book position* in an *option* on an *equity*, interest rate or debt *security*;
- (2) each *trading book position* in a *warrant* on an *equity* or debt *security*;
- (3) each *trading book position* in a *CIU*; and
- (4) each *trading book* and *non-trading book position* in an *option* on a *commodity*, currency or gold.

7.6.4
FCA

G ■ BIPRU 7.6.3R(2) includes *net underwriting positions* or *reduced net underwriting positions* in warrants.

7.6.5
FCA

R Table: Appropriate PRR calculation for an option or warrant

This table belongs to ■ BIPRU 7.6.3R

<i>Option type (see BIPRU 7.6.18R) or warrant</i>	<i>PRR calculation</i>
American option, European option, Bermudan option, Asian option or warrant for which the <i>in the money</i> percentage (see BIPRU 7.6.6R) is equal to or greater than the <i>appropriate position risk adjustment</i> (see BIPRU 7.6.7R and BIPRU 7.6.8R)	Calculate either an <i>option PRR</i> , or the most appropriate to the underlying position of: (a) an <i>equity PRR</i> ; or (b) an <i>interest rate PRR</i> ; or (c) a <i>commodity PRR</i> ; or (d) a <i>foreign currency PRR</i> ; or (e) a <i>collective investment undertaking PRR</i> .
American option, European option, Bermudan option, Asian option or warrant: (a) for which the <i>in the money</i> percentage (see BIPRU 7.6.6R) is less than the <i>appropriate position risk adjustment</i> (see BIPRU 7.6.7R and BIPRU 7.6.8R); or (b) that is <i>at the money</i> ; or (c) that is <i>out of the money</i> .	Calculate an <i>option PRR</i>
All other types of <i>option</i> listed in BIPRU 7.6.18R (regardless of whether <i>in the money</i> , <i>at the money</i> or <i>out of the money</i>).	

The in the money percentage

7.6.6
FCA

R (1) The *in the money* percentage is calculated in accordance with this rule.

(2) For a call *option*:

$$* 100$$

Strike price of the *option*

(3) For a put *option*:

$$* 100$$

Strike price of the *option*

- (4) In the case of an *option* on a basket of *securities* a *firm* may not treat the *option* as being *in the money* by the relevant percentage so as to enable the *firm* not to apply an *option PRR* under ■ BIPRU 7.6.5R unless the conditions in ■ BIPRU 7.6.5R are satisfied with respect to each kind of underlying investment.
- (5) (4) also applies to an *option* on a *CIU* if a *firm* is using one of the *CIU look through methods*.

The appropriate position risk adjustment

7.6.7

FCA

R

- (1) The *appropriate position risk adjustment* for a *position* is that listed in the table in ■ BIPRU 7.6.8R against the relevant underlying *position*.
- (2) If the *firm* uses the *commodity extended maturity ladder approach* or the *commodity maturity ladder approach* for a particular *commodity* under ■ BIPRU 7.4 (Commodity PRR) the *appropriate position risk adjustment* for an *option* on that *commodity* is the outright rate applicable to the underlying *position* (see ■ BIPRU 7.4.26R (Calculating the PRR for each commodity: Maturity ladder approach) and ■ BIPRU 7.4.33R (Table: Alternative spread, carry and outright rates)).
- (3) If a *firm* does not have *commodity positions* treated under ■ BIPRU 7.4 or does not have *positions* in the *commodity* in question treated under ■ BIPRU 7.4 the restrictions in ■ BIPRU 7.4 that regulate when a *firm* can and cannot use a particular method of calculating the *commodity PRR* apply for the purpose of establishing the *appropriate position risk adjustment* for the purposes of ■ BIPRU 7.6.
- (4) If a *firm* is using one of the *CIU look through methods* for an *option* on a *CIU* the leveraging requirements in ■ BIPRU 7.7 (Position risk requirements for collective investment undertakings) apply (see ■ BIPRU 7.7.11R). For this purpose the amount of the *appropriate position risk adjustments* under ■ BIPRU 7.6.6R(5) is increased by the amount of that leveraging (expressed as a percentage) as calculated under ■ BIPRU 7.7, subject to a maximum *appropriate position risk adjustment* of 32%.

7.6.8

FCA

R Table: Appropriate position risk adjustment

This table belongs to ■ BIPRU 7.6.7R

Underlying <i>position</i>	Appropriate <i>position risk adjustment</i>
<i>Equity</i>	The <i>position risk adjustment</i> applicable to the underlying <i>equity</i> or <i>equity</i> index in the table in BIPRU 7.3.30R (Simplified equity method)
<i>Interest rate</i>	The sum of the <i>specific risk position risk adjustment</i> (see BIPRU 7.2.43R to BIPRU 7.2.51G (Specific risk calculation)) and the <i>general market risk position risk adjustment</i> (as set out in BIPRU 7.2.57R (General market risk position risk adjustments)) applicable to the underlying <i>position</i>
<i>Debt securities</i>	The sum of the <i>specific risk position risk adjustment</i> (see BIPRU 7.2.43R to BIPRU 7.2.51G (Specific risk calculation)) and the <i>general market risk position risk adjustment</i> (as set out in the table in BIPRU 7.2.57R (General market risk position risk adjustments)) applicable to the underlying <i>position</i>
<i>Commodity</i>	18% (unless BIPRU 7.6.7R requires otherwise)
<i>Currency</i>	8%
<i>Gold</i>	8%
<i>CIU</i>	32% (subject to BIPRU 7.6.6R and BIPRU 7.6.7R)

Calculating derived positions

7.6.9

FCA

R A *firm* must calculate the derived *position* specified in the table in ■ BIPRU 7.6.13R for each *position* included in its *option PRR* calculation.**Netting positions**

7.6.10

FCA

R A *firm* may calculate a derived *position* for its net *position* in an *option* or a *warrant*, if the relevant *options* or *warrants* are identical or may be treated as identical under ■ BIPRU 7.6.11R or ■ BIPRU 7.6.12R.

7.6.11

FCA

R A *firm* may treat *options* or *warrants* as identical if they have the same strike price, maturity (except for an interest rate cap or floor - see ■ BIPRU 7.6.12R) and underlying.

7.6.12

FCA

R

A *firm* may treat as identical a purchased interest rate cap (or floor) and a written interest rate cap (or floor) only if they mature within 30 days of each other and all other terms are identical (a cap may not be netted against a floor).

Derived positions

7.6.13

FCA

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Table: Derived positions

This table belongs to ■ BIPRU 7.6.9R

Underlying	Option (or warrant)	Derived <i>position</i>
<i>Equity</i>	<i>Option (warrant) on a single equity or option on a future/forward on a single equity</i>	A notional <i>position</i> in the actual <i>equity</i> underlying the contract valued at the current market price of the <i>equity</i> .
	<i>Option (warrant) on a basket of equities or option on a future/forward on a basket of equities</i>	A notional <i>position</i> in the actual <i>equities</i> underlying the contract valued at the current market price of the <i>equities</i> .
	<i>Option (warrant) on an equity index or option on a future/forward on an equity index</i>	A notional <i>position</i> in the index underlying the contract valued at the current market price of the index.
Interest rate	<i>Option on an interest rate or an interest rate future/FRA</i>	A zero coupon <i>zero-specific-risk security</i> in the currency concerned with a maturity equal to the sum of the time to expiry of the contract and the length of the period on which the settlement amount of the contract is calculated valued at the notional amount of the contract.
	<i>Option on an interest rate swap</i>	A zero coupon <i>zero-specific-risk security</i> in the currency concerned with a maturity equal to the length of the <i>swap</i> valued at the notional principal amount.
	Interest rate cap or floor	A zero coupon <i>zero-specific-risk security</i> in the

7

Underlying	Option (or warrant)	Derived <i>position</i>
Debt securities		currency concerned with a maturity equal to the remaining period of the cap or floor valued at the notional amount of the contract.
	<i>Option (warrant) on a debt security or option on a future/forward on a debt security</i>	The underlying debt security with a maturity equal to the time to expiry of the <i>option</i> valued as the nominal amount underlying the contract at the current market price of the debt security.
	<i>Option (warrant) on a basket of debt securities or option on a future/forward on a basket of debt securities</i>	A notional <i>position</i> in the actual debt securities underlying the contract valued at the current market price of the debt securities.
Commodity	<i>Option (warrant) on an index of debt securities or option on a future/forward on an index of debt securities</i>	A notional <i>position</i> in the index underlying the contract valued at the current market price of the index.
	<i>Option on a commodity or option on a future/forward on a commodity</i>	An amount equal to the tonnage, barrels or kilos underlying the <i>option</i> with (in the case of a <i>future/forward</i> on a <i>commodity</i>) a maturity equal to the expiry date of the <i>forward</i> or <i>Futures</i> contract underlying the <i>option</i> . In the case of an <i>option</i> on a <i>commodity</i> the maturity of the <i>position</i> falls into Band 1 in the table in BIPRU 7.4.28R (Table: Maturity bands for the maturity ladder approach).

Underlying	Option (or warrant)	Derived <i>position</i>
	<i>Option on a commodity swap</i>	An amount equal to the tonnage, barrels or kilos underlying the <i>option</i> with a maturity equal to the length of the <i>swap</i> valued at the notional principal amount.
<i>CIU</i> (These provisions about <i>CIUs</i> are subject to BIPRU 7.6.35R)	<i>Option (warrant) on a single CIU or option on a future/forward on a single CIU</i>	A notional <i>position</i> in the actual <i>CIU</i> underlying the contract valued at the current market price of the <i>CIU</i> .
	<i>Option (warrant) on a basket of CIUs or option on a future/forward on a basket of CIUs</i>	A notional <i>position</i> in the actual <i>CIUs</i> underlying the contract valued at the current market price of the <i>CIUs</i> .
Gold	<i>Option on gold or option on a future/forward on gold</i>	An amount equal to the troy ounces underlying the <i>option</i> with (in the case of a <i>future/forward</i> on gold) a maturity equal to the expiry date of the <i>forward</i> or <i>futures</i> contract underlying the <i>option</i> .
Currency	Currency <i>option</i>	The amount of the underlying currency that the <i>firm</i> will receive if the <i>option</i> is exercised converted at the spot rate into the currency that the <i>firm</i> will sell if the <i>option</i> is exercised.

Combinations of options which can be treated as one option

7.6.14

FCA

R

A *firm* may treat (for the purpose of calculating an *option PRR* under ■ BIPRU 7.6) an *option* strategy listed in the table in ■ BIPRU 7.6.15R as the single *position* in a notional *option* specified against that strategy in the table in ■ BIPRU 7.6.15R, if:

- (1) each element of the strategy is transacted with the same *counterparty*;
- (2) the strategy is documented as a single structure;

- (3) the underlying for each part of the composite *position* (including any actual holding of the underlying) is the same under the *PRR identical product netting rules*;
- (4) the netting achieved does not result overall in a greater degree of netting in the calculation of the *market risk capital requirement* than would be permitted under the other *standard market risk PRR rules*;
- (5) each *option* in the structure has the same maturity and underlying; and
- (6) the constituent parts of the structure form an indivisible single contract, so that neither party can unwind or default on one part of the structure without doing so for the contract as a whole;

except that (1) and (6) only apply to the extent possible with respect to any part of the composite *position* held by the *firm* that consists of an actual holding of the underlying.

7.6.15

FCA

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Table: Option strategies

This table belongs to ■ BIPRU 7.6.14R

Option strategy (and an example)	Notional option (and rule it must be treated under)
Bull Spread (e.g. buy 100 call and sell 101 call)	One purchased option (treat under BIPRU 7.6.20R)
Bear Spread (e.g. sell 100 put and buy 101 put)	One written option (treat under BIPRU 7.6.21R)
Synthetic Long Call (e.g. long underlying and buy 100 put)	One purchased option (treat under BIPRU 7.6.20R or BIPRU 7.6.24R)
Synthetic Short Call (e.g. short underlying and sell 100 put)	One written option (treat under BIPRU 7.6.21R or BIPRU 7.6.24R)
Synthetic Long Put (e.g. short underlying and buy 100 call)	One purchased option (treat under BIPRU 7.6.20R or BIPRU 7.6.24R)

Option strategy (and an example)	Notional option (and rule it must be treated under)
Synthetic Short Put (e.g. buy underlying and sell 100 call)	One written option (treat under BIPRU 7.6.21R or BIPRU 7.6.24R)
Long Straddle (e.g. buy 100 call and buy 100 put)	One purchased option (treat under BIPRU 7.6.20R)
Short Straddle (e.g. sell 100 call and sell 100 put)	One written option (treat under BIPRU 7.6.21R but with no reduction for the amount the option is out of the money)
Long Strangle (e.g. buy 101 call and buy 99 put)	One purchased option (treat under BIPRU 7.6.20R)
Short Strangle (e.g. sell 99 call and sell 101 put)	One written option (treat under BIPRU 7.6.21R but with no reduction for the amount the option is out of the money)
Long Butterfly (e.g. buy one 100 call, sell two 101 calls, and buy one 102 call)	One purchased option (treat under BIPRU 7.6.20R)
Short Butterfly (e.g. sell one 100 put, buy two 101 puts, and sell one 102 put)	One written option (treat under BIPRU 7.6.21R but with no reduction for the amount the option is out of the money)

The option PRR for an individual positions

7.6.16

FCA

R

A firm must calculate the *option PRR* for each individual derived *option position* using the method specified in the table in ■ BIPRU 7.6.18R, or, if more than one method is permitted, using one of those methods.

7.6.17

FCA

R

A firm must convert its *positions* into its *base currency* in accordance with the procedures that apply for whichever of the other *PRR charges* is appropriate (see ■ BIPRU 7.2.1R(3), ■ BIPRU 7.3.1R(2), ■ BIPRU 7.4.1R(3), ■ BIPRU 7.5.19R(2), ■ BIPRU 7.5.20R(3) and ■ BIPRU 7.7.1R(3)).

7.6.18

FCA

R Table: Option PRR: methods for different types of option

This table belongs to ■ BIPRU 7.6.16R

Option	Description	Method
<i>American option</i>	An <i>option</i> that may be exercised at any time over an extended period up to its expiry date.	<i>Option standard method or option hedging method if appropriate</i>
<i>European option</i>	An <i>option</i> that can only be exercised at expiry.	
<i>Bermudan option</i>	A cross between an <i>American option</i> and <i>European option</i> . The <i>Bermudan option</i> can only be exercised at specific dates during its life.	
<i>Asian option</i>	The buyer has the right to exercise at the average rate or price of the underlying over the period (or part of the period) of the <i>option</i> . One variant is where the payout is based on the average of the underlying against a fixed strike price; another variant is where the payout gives at expiry the price of the underlying against the average price over the <i>option</i> period.	<i>Option standard method or option hedging method if appropriate</i>
<i>Barrier option</i>	An <i>option</i> which is either cancelled or activated if the price of the underlying reaches a pre-set level regardless of the price at which the underlying may be trading at the expiry of the <i>option</i> . The knock-out type is cancelled if the underlying price or rate trades through the trigger; while the	

Option	Description	Method
Corridor option	<p>knock-in becomes activated if the price moves through the trigger.</p> <p>Provides the holder with a pay-out for each day that the underlying stays within a defined range chosen by the investor.</p>	
Ladder option	<p>Provides the holder with guaranteed pay-outs if the underlying trades through a pre-agreed price(s) or rate(s) at a certain point(s) in time, regardless of future performance.</p>	
Lock-in option	<p>An option where the pay-out to the holder is locked in at the maximum (or minimum) value of the underlying that occurred during the life of the option.</p>	
Look-back option	<p>A European style option where the strike price is fixed in retrospect, that is at the most favourable price (i.e. the lowest (highest) price of the underlying in the case of a call (put)) during the life of the option.</p>	
Forward starting option	<p>An option that starts at a future date.</p>	
Compound option	<p>An option where the underlying is itself an option (i.e. an option on an option).</p>	<p>Option standard method or option hedging method if appropriate</p>
Interest rate cap	<p>An interest rate option or series of options under which a counterparty contracts to pay any interest costs arising as</p>	<p>Option standard method, but no reduction for the amount the option is out of the money is permitted</p>

Option	Description	Method
<p>Interest rate floor</p>	<p>a result of an increase in rates above an agreed rate: the effect being to provide protection to the holder against a rise above that agreed interest rate.</p> <p>An interest rate <i>option</i> or series of <i>options</i> under which a counterparty contracts to pay any lost income arising as a result of a fall in rates below an agreed rate: the effect being to provide protection to the holder against a fall below that agreed interest rate.</p>	
<p>Performance option</p>	<p>An <i>option</i> based on a reference basket comprising any number of assets, where the payout to the holder could be one of the following: the maximum of the worst performing asset, or 0; the maximum of the best performing asset, or 0; the maximum of the spreads between several pairs of the assets, or 0.</p>	<p><i>Option standard method</i> or <i>option hedging method</i> - using the highest <i>position risk adjustment</i> of the individual assets in the basket</p>
<p>Quanto</p>	<p>Quanto stands for "Quantity Adjusted Option". A quanto is an instrument where two currencies are involved. The payoff is dependent on a variable that is measured in one of the currencies and the payoff is made in the other currency.</p>	<p>Subject to BIPRU 7.6.31R, the <i>option standard method</i></p>

Option	Description	Method
<i>Cliquet option</i>	A <i>cliquet option</i> consists of a series of forward starting <i>options</i> where the strike price for the next exercise date is set equal to a positive constant times the underlying price as of the previous exercise date. It initially acts like a vanilla <i>option</i> with a fixed price but as time moves on, the strike is reset and the intrinsic value automatically locked in at pre-set dates. If the underlying price is below the previous level at the reset date no intrinsic value is locked in but the strike price will be reset to the current price attained by the underlying. If the underlying price exceeds the current level at the next reset the intrinsic value will again be locked in.	<i>Option standard method</i> for a purchased cliquet, or the method specified in BIPRU 7.6.30R for a written cliquet
<i>Digital option</i>	A type of <i>option</i> where the pay-out to the holder is fixed. The most common types are all-or-nothing and one-touch <i>options</i> . All-or-nothing will pay out the fixed amount if the underlying is above (call) or below (put) a set value at expiry. The one-touch will pay the fixed amount if the underlying reaches a fixed point any time before expiry.	The method specified in BIPRU 7.6.29 R
<i>Any other option or warrant</i>		The method specified for the type of instrument whose description

Option	Description	Method
		it most closely resembles.

7.6.19

FCA

G

- (1) The *option standard method* is described in ■ BIPRU 7.6.20R - ■ BIPRU 7.6.22R.
- (2) The *option hedging method* is described in ■ BIPRU 7.6.23G - ■ BIPRU 7.6.28R.

The standard method: Purchased options and warrants

7.6.20

FCA

R

Under the *option standard method*, the PRR for a purchased *option* or *warrant* is the lesser of:

- (1) the market value of the derived *position* (see ■ BIPRU 7.6.9R) multiplied by the *appropriate position risk adjustment* (see ■ BIPRU 7.6.8R); and
- (2) the market value of the *option* or *warrant*.

The standard method: Written options and warrants

7.6.21

FCA

R

Under the *option standard method*, the PRR for a written *option* or *warrant* is the market value of the derived *position* (see ■ BIPRU 7.6.9R) multiplied by the *appropriate position risk adjustment* (see ■ BIPRU 7.6.8R). This result may be reduced by the amount the *option* or *warrant* is *out of the money* (subject to a maximum reduction to zero).

The standard method: Underwriting or sub-underwriting an issue of warrants

7.6.22

FCA

R

Under the *option standard method*, the PRR for *underwriting* or *sub-underwriting* an issue of *warrants* is the *net underwriting position* (or *reduced net underwriting position*) multiplied by the current market price of the underlying *securities* multiplied by the *appropriate position risk adjustment*, but the result can be limited to the value of the *net underwriting position* (or *reduced net underwriting position*) calculated using the issue price of the *warrant*.

The hedging method

7.6.23

FCA

G

The *option hedging method* involves the *option PRR* being calculated on a combination of the *option* and its hedge.

7.6.24

FCA

R

Under the *option hedging method* a *firm* must calculate the *option PRR* for individual *positions* as follows:

- (1) for an *option* or *warrant* on an *equity*, basket of *equities* or *equity* index and its *equity* hedge(s), the *firm* must, to the extent

specified or permitted in the table in ■ BIPRU 7.6.26R, use the calculation in the table in ■ BIPRU 7.6.27R;

- (2) for an *option* or *warrant* on a debt *security*, basket of debt *securities* or debt *security* index and its debt *security* hedge(s), the *firm* must, to the extent specified or permitted in the table in ■ BIPRU 7.6.26R, use the calculation in the table in ■ BIPRU 7.6.27R;
- (3) for an *option* on gold and its gold hedge, the *firm* must, to the extent specified or permitted in the table in ■ BIPRU 7.6.26R, use the calculation in the table in ■ BIPRU 7.6.27R; and
- (4) for an *option* on a currency and its currency hedge, the *firm* must, to the extent specified or permitted in the table in ■ BIPRU 7.6.26R, use the calculation in the table in ■ BIPRU 7.6.28R.

7.6.25

FCA

R

- (1) A *firm* may not use the *option hedging method* for:
 - (a) an interest rate *option* and its hedge; or
 - (b) a *commodity option* and its hedge; or
 - (c) a *CIU option* and its hedge.
- (2) A *firm* may only use the *option hedging method* if the item underlying the *option* or *warrant* is the same as the hedge of the *option* or *warrant* under the *PRR identical product netting rules*.

7.6.26

FCA

R

Table: Appropriate treatment for equities, debt securities or currencies hedging options

This table belongs to ■ BIPRU 7.6.24R

Hedge	PRR calculation for the hedge	Limits (if hedging method is used)	Naked <i>position</i>
An <i>equity</i> (hedging an <i>option</i> or <i>warrant</i>)	The <i>equity</i> must be treated in either BIPRU 7.3 (equity <i>PRR</i>) or the <i>option hedging method</i> (see the table in BIPRU 7.6.27R)	The <i>option hedging method</i> must only be used up to the amount of the hedge that matches the notional amount underlying the <i>option</i> or <i>warrant</i>	To the extent that the amount of the hedge (or <i>option</i> or <i>warrant</i>) exceeds the notional amount underlying the <i>option</i> or <i>warrant</i> (or hedge), a <i>firm</i> must apply an <i>equity PRR</i> , interest rate <i>PRR</i> or <i>foreign currency PRR</i> (or the <i>op-</i>

Hedge	PRR calculation for the hedge	Limits (if hedging method is used)	Naked <i>position</i> <i>standard method</i>)
A debt security (hedging an option or warrant)	The debt security must be treated in BIPRU 7.2 (interest rate PRR) or the option hedging method (see the table in BIPRU 7.6.27R)	As for the first row	As for the first row
Gold (hedging a gold option)	The gold must be treated in either BIPRU 7.5 (Foreign currency PRR) or the option hedging method (see the table in BIPRU 7.6.27R)	As for the first row	As for the first row
A currency or currencies (hedging a currency option)	The currency must be treated in either BIPRU 7.5 (Foreign currency PRR) or the option hedging method (see the table in BIPRU 7.6.28R)	As for the first row	As for the first row

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7.6.27
FCA

R Table: The hedging method of calculating the PRR (equities, debt securities and gold)

This table belongs to ■ BIPRU 7.6.24R(1) - ■ (3)

PRR				
	Option or warrant position	In the money by more than the position risk adjustment	In the money by less than the position risk adjustment	Out of the money or at the money
Long in security or gold	Long put	Zero	Wp	X
	Short call	Y	Y	Z

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		PRR		
Short in <i>security</i> or gold	Long call	Zero	Wc	X
	Short put	Y	Y	Z
Where:				
Wp means	{ (<i>position risk adjustment</i> -100%) x The underlying <i>position</i> valued at strike price}		+	The market value of the underlying <i>position</i>
Wc means	{(100% + <i>position risk adjustment</i> x The underlying <i>position</i> valued at strike price}		-	The market value of the underlying <i>position</i>
X means	The market value of the underlying <i>position</i> multiplied by the <i>appropriate position risk adjustment</i>			
Y means	The market value of the underlying <i>position</i> multiplied by the <i>appropriate position risk adjustment</i> . This result may be reduced by the market value of the <i>option</i> or <i>warrant</i> , subject to a maximum reduction to zero.			
Z means	The <i>option hedging method</i> is not permitted; the <i>option standard method</i> must be used.			

7.6.28

FCA

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Table: The hedging method of calculating the PRR (currencies)

This table belongs to ■ BIPRU 7.6.24R(4)

		PRR		
<i>Option position</i>	<i>In the money by more than 8%</i>	<i>In the money by less than 8%</i>	<i>Out of the money or at the money</i>	
Long calls & long puts	Zero	W _L	X	
Short calls & short puts	Zero	Y	X	
Where:				
W _L means	(1.08% x U)	-	The market value of the underlying <i>position</i>	
U means	The amount of the underlying currency that the <i>firm</i> will receive if the <i>option</i> is exercised, converted at the strike price into the currency that the <i>firm</i> will sell if the <i>option</i> is exercised			
X means	The market value of the underlying <i>position</i> multiplied by 8%.			

7

PRR

Y means The market value of the underlying *position* multiplied by 8%. This result may be reduced by the market value of the *option*, subject to a maximum reduction to zero.

Specific methods and treatments: Digital options

7.6.29

FCA

R The *option PRR* for a digital *option* is the maximum loss of the *option*.

Specific methods and treatments: Written cliquet options

7.6.30

FCA

R The *option PRR* for a written cliquet *option* is the market value of the derived *position* (see ■ BIPRU 7.6.9R) multiplied by the *appropriate position risk adjustment* (see ■ BIPRU 7.6.8R) multiplied by F+1 (see the following provisions of this paragraph). This result may be reduced by the amount the *option* is *out of the money* (subject to a maximum reduction to zero). The *option PRR* for a written cliquet *option* is therefore defined by the following formula:

$$[\textit{position risk adjustment} * \textit{underlying} * (F + 1)] - \textit{OTM}$$

where:

$$(1) \quad F = \min \left[FR, \max \left(\frac{FR}{2}, Y \right) \right]$$

(2) FR= Number of forward re-sets

(3) Y= Years to maturity

(4) OTM= the amount by which the *option* is *out of the money*

Specific methods and treatments: Quantos

7.6.31

FCA

R If the pay-out to the holder of a quanto *option* is fixed at the inception of the transaction a *firm* must add 8% to the *position risk adjustment* when applying the *option standard method*.

Interaction with other chapters

7.6.32

FCA

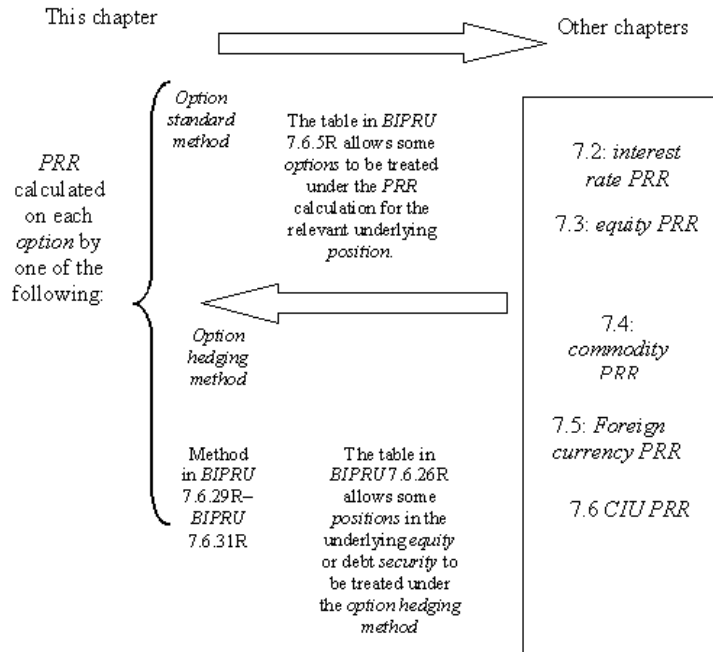
G The application of an *option PRR* to a *position* does not prevent any of the other *PRR charges* from applying if they would otherwise do so. In particular if a *firm* applies an *option PRR* to an *equity derivative* an *interest rate PRR* will also generally apply.

7.6.33

FCA

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The following diagram illustrates the relationship between ■ BIPRU 7.6 and the rest of ■ BIPRU 7.



Options on a commodity

7.6.34

FCA

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■ BIPRU 7.4.38R to ■ BIPRU 7.4.41R (Liquidity and other risks) apply to *commodity options* treated under ■ BIPRU 7.6 as well as to those treated under ■ BIPRU 7.4 (Commodity PRR).

Options on a CIU

7.6.35

FCA

R

For the purpose of identifying the appropriate treatment for the purpose of ■ BIPRU 7.6.5R, the underlying *position* for the purpose of ■ BIPRU 7.6.8R and the derived *position* under ■ BIPRU 7.6.13R a *firm* may choose between treating an *option* on a *CIU* as being:

- (1) a *position* in the *CIU* itself; or
- (2) (if the conditions in ■ BIPRU 7.7 (Position risk requirements for collective investment undertakings) for the use of the method in question are satisfied) *positions* in the underlying investments or assumed *positions* arising through the use of the *standard CIU look through method* or the *modified CIU look through method*.

7.6.36

FCA

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- (1) This paragraph gives an example of how the *appropriate position risk adjustment* should be calculated for the purpose of deciding whether or not an *option* on a *CIU* is sufficiently *in the money* for the *firm* to have a choice whether or not to apply an *option PRR*. This example assumes that there is no leveraging (see ■ BIPRU 7.7.11R (CIU modified look through method)).
- (2) Say that the *CIU* contains underlying *equity position* and the *firm* is using one of the *CIU look through methods*. The *appropriate position risk adjustment* for some is 8% and for the others is 12%. The *firm* should identify the highest

appropriate position risk adjustment for the underlyings. In this case it is 12%. Therefore in this case the *option* would need to be *in the money* by more than 12% in order for the *firm* to have a choice between applying the *option PRR* or one of the other *PRR charges*.

- (3) However if the *firm* is not using one of the *CIU look through methods* the *option* would need to be *in the money* by more than 32% in order for the *firm* to have a choice between applying the *option PRR* or the *CIU PRR*.

7.6.37

FCA

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■ BIPRU 7.6.10R - ■ BIPRU 7.6.12R are subject to ■ BIPRU 7.7.3R (netting). ■ BIPRU 7.7.4R (use of third party) applies for the purpose of ■ BIPRU 7.6.

7.7 Position risk requirements for collective investment undertakings

Collective investment undertaking PRR calculation

7.7.1

FCA

R

A *firm* must calculate its *CIU PRR* by:

- (1) identifying which *CIU positions* must be included within the scope of the *PRR* calculation (see ■ BIPRU 7.7.2R);
- (2) identifying which *CIU positions* are to be subject to the *CIU PRR* and which *positions* are to be subject to one of the other *PRR charges*;
- (3) converting on a daily basis net *positions* into the *firm's base currency* at the prevailing spot exchange rate before their aggregation;
- (4) calculating an individual *PRR* for each *position* in a *CIU* (see ■ BIPRU 7.7.5R);
- (5) summing the resulting individual *PRRs*.

Scope of the PRR calculation for collective investment undertakings

7.7.2

FCA

R

- (1) A *firm's PRR* calculation must include all *trading book positions* in *CIUs*.
- (2) A *firm's CIU PRR* calculation must include all *trading book positions* in *CIUs* unless they are treated under one of the *CIU look through methods* and included in the *PRR* calculations for the relevant underlying investments or subject to an *option PRR*.
- (3) A *firm's PRR* calculation for *CIUs* must include notional *positions* arising from *trading book positions* in *options* or *warrants* on *collective investment undertakings*.

General rules

7.7.3

FCA

R

Unless noted otherwise, no netting is permitted between the underlying investments of a *CIU* and other *positions* held by a *firm* for the purposes of calculating the *PRR charge* for a *position* in a *CIU*.

7.7.4

FCA

R

A firm may rely on a third party to calculate and report PRR capital requirements for position risk (general market risk and specific risk) for positions in CIUs falling within ■ BIPRU 7.7.9R and ■ BIPRU 7.7.11R, in accordance with the methods set out in ■ BIPRU 7.7, provided that the correctness of the calculation and the report is adequately ensured.

Calculation of the collective investment undertaking PRR

7.7.5

FCA

R

Without prejudice to other provisions in ■ BIPRU 7.7, a position in a CIU is subject to a collective investment undertaking PRR (general market risk and specific risk) of 32%. Without prejudice to provisions in ■ BIPRU 7.5.18R (Foreign currency PRR for CIUs) or, if the firm has a VaR model permission, ■ BIPRU 7.10.44R (Commodity risks and VaR models) taken together with ■ BIPRU 7.5.18R, where the modified gold treatment set out in those rules is used, a position in a CIU is subject to a securities PRR requirement for position risk (general market risk and specific risk) and a foreign currency PRR of no more than 40%.

Look through methods: General criteria

7.7.6

FCA

R

A firm may determine the securities PRR requirement for positions in CIUs which meet the criteria set out in ■ BIPRU 7.7.7R, by one of the following methods:

- (1) the standard CIU look through method (■ BIPRU 7.7.4R and ■ BIPRU 7.7.7R - ■ BIPRU 7.7.10R); or
- (2) the modified CIU look through method (■ BIPRU 7.7.4R, ■ BIPRU 7.7.7R - ■ BIPRU 7.7.8R and ■ BIPRU 7.7.11R - ■ BIPRU 7.7.12R).

7.7.7

FCA

R

The general eligibility criteria for using the methods in ■ BIPRU 7.7.4R and ■ BIPRU 7.7.9R - ■ BIPRU 7.7.11R, for CIUs issued by companies supervised or incorporated within the EEA are that:

- (1) the CIU's prospectus or equivalent document must include:
 - (a) the categories of assets the CIU is authorised to invest in;
 - (b) if investment limits apply, the relative limits and the methodologies to calculate them;
 - (c) if leverage is allowed, the maximum level of leverage; and
 - (d) if investment in OTC financial derivatives or repo-style transactions are allowed, a policy to limit counterparty risk arising from these transactions;
- (2) the business of the CIU must be reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period;

- (3) the units/shares of the *CIU* are redeemable in cash, out of the *undertaking's* assets, on a daily basis at the request of the unit holder;
- (4) investments in the *CIU* must be segregated from the assets of the *CIU* manager; and
- (5) there must be adequate risk assessment, by the investing *firm*, of the *CIU*.

7.7.8

FCA

R

Third country *CIUs* are eligible if the requirements in ■ BIPRU 7.7.7R (1) - ■ BIPRU 7.7.7R (5) are met.

Standard *CIU* look through method: General

7.7.9

FCA

R

- (1) Where a *firm* is aware of the underlying investments of the *CIU* on a daily basis the *firm* may look through to those underlying investments in order to calculate the *securities PRR* for *position* risk (*general market risk* and *specific risk*) for those *positions* in accordance with the methods set out in the *securities PRR* requirements or, if the *firm* has a *VaR model permission*, in accordance with the methods set out in ■ BIPRU 7.10 (Use of a Value at Risk Model).
- (2) Under this approach, *positions* in *CIUs* must be treated as *positions* in the underlying investments of the *CIU*. Netting is permitted between *positions* in the underlying investments of the *CIU* and other *positions* held by the *firm*, as long as the *firm* holds a sufficient quantity of units to allow for redemption/creation in exchange for the underlying investments.

Standard *CIU* look through method: Index or basket funds

7.7.10

FCA

R

- (1) A *firm* may calculate the *securities PRR* for *position* risk (*general market risk* and *specific risk*) for *positions* in *CIUs* in accordance with the methods set out in the *securities PRR* requirements or, if the *firm* has a *VaR model permission*, in accordance with the methods set out in ■ BIPRU 7.10 (Use of a Value at Risk Model), to assumed *positions* representing those necessary to replicate the composition and performance of the externally generated index or fixed basket of *equities* or *debt securities* referred to in (a), subject to the following conditions:
 - (a) the purpose of the *CIU's* mandate is to replicate the composition and performance of an externally generated index or fixed basket of *equities* or *debt securities*; and
 - (b) a minimum correlation of 0.9 between daily price movements of the *CIU* and the index or basket of *equities* or *debt securities* it tracks can be clearly established over a minimum period of six months.

- (2) Correlation as referred to in (1)(b) means the correlation coefficient between daily returns on the *CIU* and the index or basket of *equities* or *debt securities* it tracks.

CIU modified look through method

7.7.11

FCA

R

Where a *firm* is not aware of the underlying investments of the *CIU* on a daily basis, the *firm* may calculate the *securities PRR* for *position risk* (*general market risk* and *specific risk*) in accordance with the methods set out in the *securities PRR* requirements, subject to the following conditions:

- (1) it must be assumed that the *CIU* first invests to the maximum extent allowed under its mandate in the asset classes attracting the highest *securities PRR* for *position risk* (*general market risk* and *specific risk*), and then continues making investments in descending order until the maximum total investment limit is reached;
- (2) the *firm* must take account of the maximum indirect exposure that it could achieve by taking leveraged *positions* through the *CIU* when calculating its *securities PRR* for *position risk*, by proportionally increasing the *position* in the *CIU* up to the maximum exposure to the underlying investment items resulting from the investment mandate; and
- (3) should the *securities PRR* for *position risk* (*general market risk* and *specific risk*) under this approach exceed that set out in ■ BIPRU 7.7.5R, the *PRR charge* must be capped at that level.

7.7.12

FCA

R

For the purpose of ■ BIPRU 7.7.11R (1) the *position* in the *CIU* must be treated as a direct holding in the assumed *position*.

CAD 1 models and VaR models

7.7.13

FCA

G

Where ■ BIPRU 7.7 permits a *firm* to calculate the *PRR charge* for a *position* in a *CIU* using the *rules* in ■ BIPRU 7 relating to the underlying investment, a *firm* that has:

- (1) a *CAD 1 model waiver* that covers *positions* in *CIUs* may use the *rules* as modified by that *waiver*; and
- (2) a *VaR model permission* that covers *positions* in *CIUs* may use its *VaR model*.

Options on a CIU

7.7.14

FCA

G

An *option* on a *CIU* should be treated in accordance with ■ BIPRU 7.6.35R to ■ BIPRU 7.6.37G (Options on a *CIU*).

7.8 Securities underwriting

General rules

7.8.1

FCA

G

■ BIPRU 7.8 sets out the method for calculating a *net underwriting position* or *reduced net underwriting position*, which is then included in the *PRR* calculation in other parts of ■ BIPRU 7. It also deals with concentration risk. ■ BIPRU 7.8 only relates to new *securities*, which is defined in ■ BIPRU 7.8.12R.

7.8.2

FCA

R

A *firm* which *underwrites* or *sub-underwrites* an issue of *securities* must, for the purposes of calculating its *market risk capital component* and its *concentration risk capital component*:

- (1) identify commitments to *underwrite* or *sub-underwrite* which give rise to an *underwriting position* (see ■ BIPRU 7.8.8R);
- (2) identify the time of *initial commitment* (see ■ BIPRU 7.8.13R); and
- (3) calculate the *net underwriting position* (set out in ■ BIPRU 7.8.17R), *reduced net underwriting position* or the *net underwriting exposure*.

7.8.3

FCA

R

A *firm* must include the *net underwriting position* or *reduced net underwriting position* in whichever one or more of the following is or are relevant:

- (1) ■ BIPRU 7.2.3R (1) where *debt securities* are being underwritten;
- (2) ■ BIPRU 7.3.2R (1) where *equities* are being underwritten;
- (3) ■ BIPRU 7.6.22R where *warrants* are being underwritten; and
- (4) ■ BIPRU 7.5.3R where the *equities*, *debt securities* or *warrants* being underwritten are denominated in a *foreign currency*.

7.8.4

FCA

R

A *firm* must comply with ■ BIPRU 7.8.3R from *initial commitment* (as determined under ■ BIPRU 7.8.8R) until the end of the fifth *business day* after *working day 0* (as determined under ■ BIPRU 7.8.23R).

7.8.5

FCA

G

Sub-*underwriting* is a commitment given by one *firm* to someone other than the issuer or seller of the *securities* to sub-underwrite all or part of an issue of *securities*.

7.8.6

FCA

G

The *net underwriting position* calculated in ■ BIPRU 7.8.17R will also be used in calculating the *net underwriting exposure* under ■ BIPRU 7.8.34R.

7.8.7

FCA

G

The *net underwriting position* or *reduced net underwriting position* arising from *underwriting* or sub-*underwriting* a rights or *warrants* issue should be calculated using the current market price of the underlying *security* for the purposes of the *equity PRR* or *option PRR*. However, the *PRR* will be limited to the value of the *net underwriting position* calculated using the initial issue price of the rights or *warrants*. Where there is no market price because the rights or *warrants* are in relation to a new class of *securities* and the initial price has not been set the *net underwriting position* or *reduced net underwriting* is the amount of the commitment.

Commitment to underwriting securities

7.8.8

FCA

R

- (1) For the purpose of ■ BIPRU 7.8.2R (1), a *firm* has a commitment to *underwrite* or sub-*underwrite* an issue of *securities* where:
 - (a) it gives a commitment to an issuer of *securities* to *underwrite* an issue of *securities*; or
 - (b) (where ■ BIPRU 7.8.12R (2) applies) it gives a commitment to a seller of *securities* to *underwrite* a sale of those *securities*; or
 - (c) it gives a commitment to a *person*, other than the issuer of *securities* or, if ■ BIPRU 7.8.12R (2) applies, the seller of the *securities*, to sub-*underwrite* an issue of *securities*; or
 - (d) it is a member of a syndicate or group that gives a commitment of the type described in (1)(a)-(c).
- (2) Unless a *rule* deals with them separately or the context otherwise requires, a provision of ■ BIPRU 7.8 that deals with *underwriting* also applies to sub-*underwriting*.

Exclusions from BIPRU 7.8

7.8.9

FCA

G

- (1) Block trades, including bought deals, and private placements are not within the scope of ■ BIPRU 7.8 because they involve an outright purchase by the *firm* of the relevant *securities*.
- (2) For the purpose of ■ BIPRU 7.8 *securities* include debt and *equity* instruments and *convertibles* but excludes loans.

Grey market transactions

7.8.10

FCA

R

- (1) A *firm* that buys and sells *securities* before issue is dealing in the grey market for the purposes of ■ BIPRU 7.8.

- (2) ■ BIPRU 7.8 does not apply to a *firm* with respect to its dealings in the grey market unless the *firm*:
 - (a) has an *underwriting* commitment to the issuer in respect of those *securities*; or
 - (b) has a sub-*underwriting* commitment in respect of those *securities* and is using the grey market solely for the purpose of reducing that sub-*underwriting* commitment.
- (3) ■ BIPRU 7.8 does not apply to a *firm* with respect to its dealings in the grey market if the transaction is undertaken by the proprietary trading part of the *firm* or is undertaken for proprietary trading purposes.
- (4) ■ BIPRU 7.8 does not apply to a *firm* with respect to its dealings in the grey market except as described in ■ BIPRU 7.8.17R.

7.8.11

FCA

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In ■ BIPRU 7.8 the grey market is the market in which dealers "buy" and "sell" *securities* ahead of issue. In reality the dealers are buying and selling promises to deliver the *securities* when issued.

New securities

7.8.12

FCA

R

For the purposes of ■ BIPRU 7.8, a *firm* must treat *securities* as being new for the purposes of the definition of *underwriting* if they are:

- (1) *securities* that, prior to the allotment following the *underwriting*, were not in issue; or
- (2) *securities* that do not fall within (1) but that have not previously been offered for sale or subscription to the public and have not been admitted to trading on a market operated by a *recognised investment exchange* or an *overseas investment exchange*.

Time of initial commitment

7.8.13

FCA

R

Subject to ■ BIPRU 7.8.14R, the time of *initial commitment* is the earlier of:

- (1) (in the case of *underwriting*) the time the *firm* agrees with the issuer of *securities* to *underwrite* those *securities*; or
- (2) (in the case of *underwriting* falling under ■ BIPRU 7.8.12R (2)) the time the *firm* agrees with the seller of *securities* to *underwrite* those *securities*; or
- (3) (in the case of sub-*underwriting*) the time the *firm* agrees with the *person* referred to ■ BIPRU 7.8.8R (1)(c) to sub-*underwrite* those *securities*; or

- (4) (in the case of ■ BIPRU 7.8.8R (1)(d)) the time the group or syndicate in question (or a member of that group or syndicate on behalf of the others) agrees with the issuer or other *person* to whom the commitment is given as referred to in ■ BIPRU 7.8.8R (1)(d) to *underwrite* or *sub-underwrite* the *securities* in question; or
- (5) (if the *firm* at that time has a commitment, whether legally or binding or not) the time the price and allocation of the issue or offer are set.

7.8.14
FCA

R If a *firm* has an irrevocable and unfettered right to withdraw from an *underwriting* commitment, exercisable within a certain period, the commitment commences (and thus the time of *initial commitment* occurs) when that right expires.

7.8.15
FCA

G Subject to the existence of a right described in ■ BIPRU 7.8.14R an *underwriting* commitment commences even if it is subject to formal, legal or other conditions that would normally be expected to be satisfied.

7.8.16
FCA

G A force majeure or material adverse change clause would not be a right of the sort referred to in ■ BIPRU 7.8.14R.

Calculating the net underwriting position

7.8.17
FCA

R A *firm* must calculate a *net underwriting position* by adjusting the gross amount it has committed to *underwrite* for:

- (1) any sales or *sub-underwriting* commitments received that have been confirmed in writing at the time of *initial commitment* (but excluding any sales in the grey market as defined in ■ BIPRU 7.8.10R (1));
- (2) any *underwriting* or *sub-underwriting* commitments obtained from others since the time of *initial commitment*;
- (3) any purchases or sales of the *securities* since the time of *initial commitment* (other than purchases or sales in the grey market as defined in ■ BIPRU 7.8.10R (1));
- (4) (in the case of sales in the grey market as defined in ■ BIPRU 7.8.10R (1)) any sales of the *securities* as at the time of *initial commitment* or since the time of *initial commitment* subject, in both cases, to the following conditions:
 - (a) any sales of the *securities* as at the time of *initial commitment* must be confirmed in writing at the time of *initial commitment*; and

(b) sales must be net of any purchases in the grey market as defined in ■ BIPRU 7.8.10R (1); and

(5) any allocation of *securities* granted or received, arising from the commitment to *underwrite* the *securities*, since the time of *initial commitment*.

7.8.18

FCA

R

If the allocation of *securities* has not been fixed a *firm* must calculate the gross amount of its commitment, for the purposes of ■ BIPRU 7.8.17R, by reference to the maximum amount it has committed to *underwrite* until the time the allocation is set.

7.8.19

FCA

R

An *underwriting* commitment may only be reduced under ■ BIPRU 7.8.17R on the basis of a formal agreement.

7.8.20

FCA

G

Allocations may arise, after date of *initial commitment*, from the agreement to *underwrite*. For example obligations or rights may be allocated to or from the issuer, the *underwriting* group or syndicate.

Over-allotment options

7.8.21

FCA

R

(1) This *rule* deals with the treatment of short *positions* that arise when a *firm* commits to distribute *securities* that it is *underwriting* in an amount that exceeds the allocation to the *firm* made by the issuer of the *securities* being *underwritten*.

(2) When calculating its *net underwriting position*, a *firm* may use an over-allotment option granted to it by the issuer of the *securities* being *underwritten* to reduce the short *positions* in (1).

(3) A *firm* may also use an over-allotment option granted to another member of the *underwriting* syndicate for the purpose in (2).

(4) (2) and (3) only apply from *working day 0*.

(5) (2) and (3) only apply to the extent that the treatment is consistent with the terms of the over-allotment option.

7.8.22

FCA

R

Except as provided in ■ BIPRU 7.8.21R, a *firm* must not take into account an over-allotment option granted to it or another member of the *underwriting* syndicate in calculating its *net underwriting position*.

Working day 0

7.8.23

FCA

R

For the purposes of ■ BIPRU 7.8 *working day 0* is the *business day* on which a *firm* that is *underwriting* or sub-*underwriting* becomes unconditionally committed to accepting a known quantity of *securities* at a specified price.

7.8.24

FCA

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For debt issues and *securities* which are issued in a similar manner, *working day 0* is the later of the date on which the *securities* are allotted and the date on which payment for them is due.

7.8.25

FCA

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For *equity* issues and *securities* which are issued in a similar manner, *working day 0* is the later of the date on which the offer becomes closed for subscriptions and the date on which the allocations are made public.

7.8.26

FCA

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For rights issues, *working day 0* is the first day after the date on which the offer becomes closed to acceptances for subscription.

Calculating the reduced net underwriting position

7.8.27

FCA

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To calculate the *reduced net underwriting position* a firm must apply the reduction factors in the table in ■ BIPRU 7.8.28R to the *net underwriting position* (calculated under ■ BIPRU 7.8.17R) as follows:

- (1) in respect of debt *securities*, a firm must calculate two *reduced net underwriting positions*; one for inclusion in the firm's *interest rate PRR specific risk* calculation (■ BIPRU 7.2.43R), the other for inclusion in its *interest rate PRR general market risk* calculation (■ BIPRU 7.2.52R); and
- (2) in respect of *equities*, a firm must calculate only one *reduced net underwriting position*, and then include it in the *simplified equity method* (see ■ BIPRU 7.3.29R).

7.8.28

FCA

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Table: Net underwriting position reduction factors

This table belongs to ■ BIPRU 7.8.27R

Underwriting timeline	Debt		Equity
	<i>General market risk</i>	<i>Specific risk</i>	
Time of initial commitment until working day 0	0%	100%	90%
<i>Working day 1</i>	0%	90%	90%
<i>Working day 2</i>	0%	75%	75%
<i>Working day 3</i>	0%	75%	75%
<i>Working day 4</i>	0%	50%	50%
<i>Working day 5</i>	0%	25%	25%
<i>Working day 6 and onwards</i>	0%	0%	0%

7.8.29

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FCA

The table in ■ BIPRU 7.8.30G gives an example of the *reduced net underwriting position* calculation. The example is based on the *firm* starting with a commitment to underwrite £100 million of a new *equity* issue. *Firms* are reminded that in the case of an *equity*, the *reduced net underwriting position* should be treated under the *simplified equity method* (see ■ BIPRU 7.8.27R (Simplified and standard equity methods) and ■ BIPRU 7.8.27R).

7.8.30

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FCA

Table: Example of the reduced net underwriting position calculation

This table belongs to ■ BIPRU 7.8.29G

Time	<i>Net underwriting position</i> (see BIPRU 7.8.17R)		£	Percentage reduction (see BIPRU 7.8.28R)	<i>Reduced net underwriting position</i>
At <i>initial commitment</i> 9.00am Monday	£100m gross amount is reduced by £20m due to sales/sub-underwriting commitments confirmed in writing at the time of initial commitment (see BIPRU 7.8.17R (1) and (4)).	=	£80m	90%	£8m
Post initial commitment 9.02am Monday	Remaining £80m is reduced by £40m due to further sales, sub-underwriting commitments obtained and allocations granted (see BIPRU 7.8.17R (2) - (5)).	=	£40m	90%	£4m
At the end of <i>working day 1</i>	Remaining £40m is reduced to £20m due to further sales.	=	£20m	90%	£2m
End of <i>working day 3</i>	Remaining £20m is reduced to £5m due to further sales.	=	£5m	75%	£1.25 m
End of <i>working day 4</i>	Remaining £5m is re-	=	£2m	50%	£1m

Time	Net underwriting position (see BIPRU 7.8.17R)	Percentage reduction (see BIPRU 7.8.28R)	Reduced net underwriting position
	duced to £2m due to further sales.		
End of working day 5	Remaining £2m is reduced to £1m due to further sales.	25%	£0.75 m
Start of working day 6	£1m remaining	0%	£1m

Large exposure risk from underwriting securities: Calculating the net underwriting exposure

7.8.31
FCA

R For the purposes of calculating the total amount of its *trading book exposures* to a *person* for concentration risk purposes, a *firm* must include *net underwriting exposure* to that *person*.

7.8.32
FCA

R A *firm* must include any other *exposures* arising out of *underwriting* (including any counterparty *exposures* to any sub-underwriters) for the purposes of calculating the total amount of its *trading book exposures* to a *person* for concentration risk purposes.

7.8.33
FCA

R A *firm*, before entering into a new *underwriting* commitment, must be able to recalculate the *concentration risk capital component* to the level of detail necessary to ensure that the *firm's capital resources requirement* does not exceed the *firm's capital resources*.

7.8.34
FCA

R Except where otherwise specified by a *requirement* on its *Part 4A permission*, a *firm* must calculate the *net underwriting exposure* to an issuer by applying the relevant reduction factors in the table in ■ BIPRU 7.8.35R to its *net underwriting position* calculated under ■ BIPRU 7.8.17R.

7.8.35
FCA

R Table: Calculation of net underwriting exposure

This table belongs to ■ BIPRU 7.8.34R

Time	Reduction factor to be applied to net underwriting position
<i>Initial commitment to working day 0</i>	100%
<i>Working day 0</i>	100%

Time	Reduction factor to be applied to net underwriting position
<i>Working day 1</i>	90%
<i>Working day 2</i>	75%
<i>Working day 3</i>	75%
<i>Working day 4</i>	50%
<i>Working day 5</i>	25%
<i>Working day 6 onwards</i>	0%

7.8.36

FCA

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The effect of ■ BIPRU 7.8.34R is that there is no concentration limit for *net underwriting exposures* between *initial commitment* and the end of *working day 0*, except where specified by a *requirement* on a *firm's Part 4A permission*.

Large exposure risk from underwriting securities: Monitoring and reporting concentration risk

7.8.37

FCA

R

For the purposes of concentration risk monitoring only, a *firm* must report its *net underwriting exposure* both before and after the application of the reduction factors in the table in ■ BIPRU 7.8.35R.

Risk management

7.8.38

FCA

R

A *firm* must take reasonable steps to establish and maintain such systems and controls to monitor and manage its *underwriting* and *sub-underwriting* business as are appropriate to the nature, scale and complexity of its *underwriting* and *sub-underwriting* business. In particular, a *firm* must have systems to monitor and control its *underwriting exposures* between the time of the *initial commitment* and *working day one* in the light of the nature of the risks incurred in the markets in question.

7.8.39

FCA

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A *firm* should take reasonable steps to:

- (1) allocate responsibility for the management of its *underwriting* and *sub-underwriting* business;
- (2) allocate adequate resources to monitor and control its *underwriting* and *sub-underwriting* business;
- (3) satisfy itself that its systems to monitor *exposure* to counterparties will calculate, revise and update its *exposure* to each counterparty arising from its *underwriting* or *sub-underwriting* business;
- (4) satisfy itself of the suitability of each *person* who performs functions for it in connection with the *firm's underwriting* and *sub-underwriting* business having regard to the *person's* skill and experience; and
- (5) satisfy itself that its procedures and controls to monitor and manage its *underwriting* business address, on an on-going basis, the capacity of *sub-underwriters* to meet *sub-underwriting* commitments.

7.9 Use of a CAD 1 model

Introduction

7.9.1
FCA

G

A *firm* is required under ■ GENPRU 2.1.52 R (Calculation of the *market risk* capital requirement) to calculate its *market risk capital requirement* using the rules in ■ BIPRU 7. However, the *appropriate regulator* may at the *firm's* request modify ■ GENPRU 2.1.52 R to allow the *firm* to calculate all or part of the *PRR* for the *positions* covered by that model by using a *CAD 1 model* (for *options* risk aggregation and/or interest rate pre-processing) or a *VaR model* (value at risk model) instead. ■ BIPRU 7.10 (Use of a Value at Risk Model) deals with *VaR model permissions*.

7.9.2
FCA

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The purpose of ■ BIPRU 7.9 is to provide *guidance* on the *appropriate regulator's* policy for granting *CAD 1 model waivers* under section 138A of the *Act* (Modification or waiver of rules). The policy recognises that *CAD 1 models* may vary across *firms* but, as a minimum, the *appropriate regulator* will need to be satisfied:

- (1) about the quality of the internal controls and risk management relating to the model (see ■ BIPRU 7.9.19G - ■ BIPRU 7.9.23G for further details);
- (2) about the quality of the model standards; and
- (3) that the *CAD 1 model* captures and produces an accurate measure of the risks inherent in the portfolio covered by the *CAD 1 model* (see ■ BIPRU 7.9.25G - ■ BIPRU 7.9.53G for further details).

7.9.3
FCA

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■ BIPRU 7.9 also explains how the output from the *CAD 1 model* is fed into the *market risk capital requirement* calculation.

7.9.4
FCA

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If a *CAD 1 model waiver* is granted by the *appropriate regulator*, the *waiver* will contain certain requirements. In order adequately to address individual circumstances, these may differ from what is set out in ■ BIPRU 7.9. The *waiver* will also identify the *rules* to which the *waiver* applies and the scope of model recognition granted to the *firm*.

7.9.5
FCA

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Waivers permitting the use of models in the calculation of *PRR* will not be granted if that would be contrary to the *CAD*. Any *waiver* which is granted will only be granted on terms that are compatible with the *CAD*. Accordingly, the only *waivers* permitting the use of models in calculating *PRR* that the *appropriate regulator* is likely to grant are *CAD 1 model waivers* and *VaR model permissions*.

7.9.6
FCA

G The *appropriate regulator* recognises two types of *CAD 1 model*. The table in ■ BIPRU 7.9.7G describes them.

7.9.7
FCA

G Table: Types of CAD 1 model

This table belongs to ■ BIPRU 7.9.6G

	Options risk aggregation models	Interest rate pre-processing models
Brief description and eligible instruments	Analyse and aggregate <i>options</i> risks for: <ul style="list-style-type: none"> • interest rate <i>options</i>; • equity <i>options</i>; • foreign currency <i>options</i>; • commodity <i>options</i>; and • <i>CIU options</i>. 	May be used to calculate duration weighted <i>positions</i> for: <ul style="list-style-type: none"> • interest rate <i>futures</i>; • forward rate agreements (<i>FRAs</i>); • forward commitments to buy or sell debt <i>securities</i>; • <i>options, swaps</i> or <i>warrants</i> on interest rates or debt <i>securities</i> and <i>options</i> on such <i>swaps</i>; • amortising bonds; • equity <i>futures, forwards, warrants</i> and <i>options</i> (but only in relation to the interest rate risk inherent in these products); and • foreign currency <i>futures, forwards, swaps</i> and <i>options</i>, but only in relation to the interest rate risk inherent in these products.
The output and how it is used in the <i>PRR</i> calculation	Depending on the type of model and the requirements in the <i>CAD 1 model waiver</i> granted, the outputs from an <i>options</i> risk aggregation model are used as an input to the <i>market risk capital requirement</i> calculation.	Depending on the type of model and the requirements in the <i>CAD 1 model waiver</i> granted, the individual sensitivity figures produced by this type of <i>CAD 1 model</i> are either input into the calculation of <i>interest rate PRR</i> under the <i>interest rate duration method</i> (see BIPRU 7.2.63R) or are converted into notional <i>position</i> and input into the calculation of <i>interest rate PRR</i> under the <i>interest rate maturity method</i> (see BIPRU 7.2.59R).

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97

7.9.8
FCA

G Currently the *appropriate regulator* only envisages allowing recognition for *options* on *CIUs* if the *CIU* satisfies one of the following conditions:

- (1) it is a *regulated collective investment scheme*; or

- (2) the *firm* can demonstrate that it has characteristics that are similar to or better than an *undertaking* in (1) from the point of view of transparency and liquidity.

The CAD 1 model waiver application and review process

7.9.9

FCA

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Details of the general *waiver* process are set out in ■ SUP 8 (Waiver and modification of rules). Further details of the *waiver* process applicable to certain *waivers* relating to BIPRU (including *CAD 1 model waivers*) can be found in ■ BIPRU 1.3 (Applications for advanced approaches). Because of the complexity of a *CAD 1 model waiver*, it is recommended that, as set out in ■ SUP 8.3.4 G and ■ BIPRU 1.3.21 G, a *firm* contact its usual contact at the *appropriate regulator* to discuss its proposed application. It should also be noted that the *waiver* recognition process in the case of a *CAD 1 model* may take longer than the timescales indicated in ■ SUP 8.3.5 G.

7.9.10

FCA

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In order to consider a *CAD 1 model waiver* request, the *appropriate regulator* may undertake a review to ensure that it is adequate and appropriate for the *PRR* calculation.

7.9.11

FCA

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The model review process may be conducted through a series of visits covering various aspects of the *firm's* control and IT environment. Before these visits the *appropriate regulator* may ask the *firm* to provide some information relating to its *waiver* request accompanied by some specified background material. The model review visits are organised on a timetable that allows a *firm* being visited sufficient time to arrange the visit and provide the appropriate pre-visit information.

7.9.12

FCA

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As part of the model review process, the following may be reviewed: organisational structure and personnel; details of the *firm's* market position in the relevant products; profit and risk information; valuation and reserving policies; operational controls; IT systems; model release and control procedures; risk management and control framework; risk appetite and limit structure and future developments relevant to model recognition.

7.9.13

FCA

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The *appropriate regulator* will normally require meetings with senior management and staff from the front office, financial control, risk management, operations, systems development, information technology and audit areas.

7.9.14

FCA

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A review by a *skilled person* may be used before a *CAD 1 model waiver* is granted to supplement the *waiver* process or after the *waiver* has been granted to review the *CAD 1 model*.

7.9.15

FCA

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If the *appropriate regulator* grants a *CAD 1 model waiver*, the *waiver* direction will specify the particular *rule* which has been modified, and set out the requirements subject to which the *waiver* has been granted. These requirements may include:

- (1) the details of the calculation of *PRR*;
- (2) the *CAD 1 model waiver* methodology to be employed;

- (3) the products covered by the model (e.g. *option* type, maturity, currency); and
- (4) any notification requirements relating to the *CAD 1 model waiver*.

7.9.16

FCA

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Where a *firm* operates any part of its *CAD 1 model* outside the *United Kingdom*, the *appropriate regulator* may take into account the results of any review of that model carried out by any overseas regulator concerned. The *appropriate regulator* may wish to receive information directly from that regulator.

Maintenance of model recognition

7.9.17

FCA

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No changes should be made to a *CAD 1 model* unless the change is not material. Material changes to a *CAD 1 model* will require a renewed *waiver* to be issued. Materiality is measured from the time that the *waiver* is granted or, if the *waiver* has been varied in accordance with section 138A of the *Act*, any later time that may be specified in the *waiver* for these purposes. If a *firm* is considering making material changes to its *CAD 1 model*, then it should notify the *appropriate regulator* at once. If a *firm* wishes to change the products covered by the model it should apply for a variation of its *CAD 1 model waiver*.

7.9.18

FCA

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If the *CAD 1 model* ceases to meet the requirements of the *waiver*, the *firm* should notify the *appropriate regulator* at once. The *appropriate regulator* may then revoke the *waiver* unless it is varied in accordance with section 138A of the *Act*. If the *CAD 1 model waiver* contains conditions it is a condition of using the *CAD 1 model approach* that the *firm* should continue to comply with those conditions.

Risk management standards

7.9.19

FCA

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A *firm* with a complex portfolio is expected to demonstrate more sophistication in its modelling and risk management than a *firm* with a simple portfolio.

7.9.20

FCA

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A *firm* should be able to demonstrate that the risk management standards set out in ■ BIPRU 7.9 are satisfied by each legal entity with respect to which the *CAD 1 model approach* is being used (even though they are expressed to refer only to a *firm*). This is particularly important for *subsidiary undertakings* in *groups* subject to matrix management where the business lines cut across legal entity boundaries.

7.9.21

FCA

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- (1) A *firm* should have a conceptually sound risk management system which is implemented with integrity and should meet the minimum standards set out in this paragraph.
- (2) A *firm* should have a risk control unit that is independent of business trading units and reports directly to senior management. The unit should be responsible for designing and implementing the *firm's* risk management system. It should produce and analyse daily reports on the risks run by the business and on the appropriate measures to be taken in terms of the trading limits.
- (3) A *firm's* senior management should be actively involved in the risk control process and the daily reports produced by the risk control unit should be reviewed by a level of management with sufficient authority to enforce reductions of *positions* taken by individual traders as well as in the *firm's* overall risk exposure.

- (4) The risk control group should have a sufficient number of staff with appropriate skills in the use of models.
- (5) A *firm* should have established procedures for monitoring and ensuring compliance with a documented set of appropriate internal policies and controls concerning the overall operation of the risk measurement and control framework. This should take into account the front, middle and back office functions.
- (6) A *firm* should conduct, as part of its regular internal audit process, a review of the systems and controls relating to its *CAD 1 model*. This review should include the valuation process, compliance with the *CAD 1 model waiver's* scope and the activities of the business trading units and the risk control units. This review should be undertaken by staff independent of the areas being reviewed.

7.9.22

FCA

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In assessing whether the risk management and control framework is implemented with integrity, the *appropriate regulator* will consider the IT systems used to run the *CAD 1 model* and associated calculations. The assessment will include, where appropriate:

- (1) feeder systems; risk aggregation systems; the integrity of the data (i.e. whether it is complete, coherent and correct); reconciliations and checks on completeness of capture; and
- (2) system development, change control and documentation; security and audit trails; system availability and contingency procedures; network adequacy.

7.9.23

FCA

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A *firm* should take appropriate steps to ensure that it has adequate controls relating to:

- (1) the derivation of the *PRR* from the *CAD 1 model* output;
- (2) *CAD 1 model* development, including independent validation;
- (3) reserving;
- (4) valuation (see ■ GENPRU 1.3 (Valuation)), including independent validation; and
- (5) the adequacy of the IT infrastructure.

Model standards

7.9.24

FCA

G

A *firm* should take appropriate steps to ensure that its *CAD 1 model* captures and produces an accurate measure of the risks inherent in the portfolio covered by the *CAD 1 model*. These risks may include, but are not limited to, gamma, vega and rho.

Options risk aggregation models

7.9.25

FCA

G

For a *firm* to obtain a *CAD 1 model waiver* for its *options* risk aggregation model, it should have in place an appropriate *options* valuation model.

7.9.26

FCA

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The *appropriate regulator* does not specify the methodology that a *firm* should employ in order to produce the appropriate outputs from its *options* risk aggregation CAD 1 model. However, ■ BIPRU 7.9.27G - ■ BIPRU 7.9.43G provide details of how a *firm* could meet the requirement to capture gamma, vega and rho risks using a scenario matrix approach. Where a *firm* adopts the scenario matrix approach then the standards set out in ■ BIPRU 7.9.27G - ■ BIPRU 7.9.43G should be followed. The *firm* should also take into account other risks not captured by the scenario matrix approach. If a *firm* does not use the scenario matrix approach it should use an equivalent methodology. If a *firm* uses an equivalent methodology it should be able to demonstrate that the approach used meets the requirements of ■ BIPRU 7.9.

7.9.27

FCA

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A scenario matrix is an approach by which an *options* portfolio is revalued given a number of simultaneous shifts in both the spot level of the underlying and the implied volatility.

7.9.28

FCA

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The scenario matrix approach may be employed for all types of *options* on all types of underlying asset.

7.9.29

FCA

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- (1) This paragraph provides an outline of the initial steps to be taken when using the scenario matrix approach.
- (2) A value for an *option* should be obtained using the *firm's options* valuation model.
- (3) The inputs into the *options* valuation model for implied volatility of the underlying asset and the price of the underlying asset should then be altered so that a new value for the *option* is obtained (details of the amount by which the implied volatility and the price of the underlying should be amended are set out in ■ BIPRU 7.9.30G - ■ BIPRU 7.9.36G).
- (4) The difference between the original value of the *option* and the new value obtained following the alterations should be input into the appropriate cell in the matrix. The value in the central cell where there is no change in implied volatility or price of the underlying should therefore be zero.
- (5) The process of obtaining a new price for the *option* should be repeated until the matrix is completed.

7.9.30

FCA

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The alteration to the implied volatility (known as the implied volatility shift) referred to in ■ BIPRU 7.9.29G (3) may be a proportional shift. The size of the shift depends on the remaining life of the *option* and the asset class of the underlying. The table in ■ BIPRU 7.9.32G sets out the shifts that should be applied where a proportional shift is used. Alternatively, a *firm* may use a single shift across all maturities or use an absolute rather than a proportional implied volatility shift. Where a single shift or an absolute shift is used it should be at least as conservative as the proportional shifts. Any use of a single shift or an absolute shift should be reviewed and, if necessary updated, on a regular basis.

7.9.31

FCA

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A *firm* may choose to use a less detailed term structure than that in the table in ■ BIPRU 7.9.32G, but the shifts used should be no less conservative than those set out in that table. For example, a *firm* that uses one <3 month band, rather than the two bands (¿ 1 month and 1-3 months) set out in the table, should use the most conservative shift set out in the table for the bands covered. In this example that shift is 30%.

7.9.32

FCA

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Table: proportional implied volatility shifts

This table belongs to ■ BIPRU 7.9.30G

Remaining life of option	Proportional shift	
	<i>Equities, foreign currency and commodities</i>	Interest rates and <i>CIUs</i>
≤ 1 month	30%	30%
> 1 ≤ 3 months	20%	20%
> 3 ≤ 6 months	15%	15%
> 6 ≤ 9 months	12%	12%
> 9 ≤ 12 months	9%	9%
> 1 ≤ 2 years	6%	9%
> 2 ≤ 4 years	4.5%	9%
> 4 years	3%	9%

7.9.33

FCA

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The size of the underlying price/rate shift depends on the asset class of the underlying as referred to in ■ BIPRU 7.9.29G (3) and is set out in the table in ■ BIPRU 7.9.34 G.

7.9.34

FCA

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Table: underlying price/rate shifts

This table belongs to ■ BIPRU 7.9.33G

Underlying asset class	Shift
<i>Equities</i>	±8%
<i>Foreign currency</i>	±8%
<i>Commodities</i>	±15%, (but a <i>firm</i> may use the percentages applicable under the <i>commodity extended maturity ladder approach</i> if it would qualify under BIPRU 7.4 (Commodity PRR) to use that approach).
Interest rates	±100bp (but a <i>firm</i> may use the sliding scale of shifts by maturity as applicable to the <i>interest rate duration method</i>).
<i>CIU</i>	±32%, (but a <i>firm</i> may use the percentages applicable to the underlyings if the <i>firm</i> applies one of the <i>CIU look through methods</i> under BIPRU 7.7 (Position risk requirements for collective investment undertakings)).

7.9.35

FCA

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The shifts outlined in the table in ■ BIPRU 7.9.34G are the maximum shifts required; in addition there will be a number of intermediate shifts as a result of the minimum matrix size criteria set out in ■ BIPRU 7.9.36G.

7.9.36

FCA

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The minimum size of the scenario matrix should be 3x7, that is, three observations for implied volatility (including the actual implied volatility) and seven observations for the price of the underlying (including the actual price of the underlying). A *firm* should be able to justify its choice of granularity. Greater granularity may be required where the portfolio contains, for example, a large proportion of barrier *options*.

7.9.37

FCA

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- (1) A different scenario matrix should be set up for each underlying asset type in accordance with this paragraph.
- (2) For *equities* (including single *equities*, baskets and indices) there should be a separate matrix for each national market or non-decomposed basket or non-decomposed multi-national index.
- (3) For *foreign currency* products there should be a separate matrix for each currency pair where appropriate.
- (4) For *commodity* products there should be a separate matrix for each *commodity*. The question whether two items are the same *commodity* should be decided in accordance with ■ BIPRU 7.4 (Commodity PRR).
- (5) For interest rate products there should be a separate matrix for each currency. In addition, a *firm* should not offset the gamma and vega exposures (except in the circumstances set out in ■ BIPRU 7.9.38G) arising from any one of the following types of product with the gamma and vega exposures arising from any of the other products in the list:
 - (a) swaptions (*options* on interest rates);
 - (b) interest rate *options* (including *options* on exchange-traded deposit or bill *futures*);
 - (c) bond *options* (including *options* on exchange-traded bond *futures*); and
 - (d) other types of *options* required by the CAD 1 model *waiver* to form their own separate class of underlying asset.
- (6) The other types of *options* referred to in (5)(d) will generally be exotic *options* that do not fall easily into (5)(a) - (c).
- (7) For *CIUs* there should be a separate matrix for each *CIU* fund. If the *firm* applies one of the *CIU look through methods* under ■ BIPRU 7.7 (Position risk requirements for collective investment undertakings), then (1) - (6) apply based on what the underlyings are.

7.9.38

FCA

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A *firm* may offset gamma and vega exposures arising from the products listed in ■ BIPRU 7.9.37G (5) where it can demonstrate that it trades different types of interest rate-related *options* as a portfolio and takes steps to control the basis risk between different types of implied volatility. To the extent that this is the case an individual matrix is not required for each of the products listed in ■ BIPRU 7.9.37G (5) and a combined scenario matrix may be used.

7.9.39

FCA

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Where it is imprudent fully to offset long-dated and short-dated vega exposure owing to the risk of non-parallel shifts in the yield curve, a *firm* should use an appropriate number

of scenario matrices to take account of non-parallel shifts in the yield curve according to the maturity of the *option* or underlying.

7.9.40

FCA

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Following the steps outlined in ■ BIPRU 7.9.29G, a *firm* then removes the portion of the values in the matrix that can be attributed to the effect that delta has had on the change in the value of the *option* (a process known as delta-stripping).

7.9.41

FCA

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Once the effect of delta has been removed from the matrix, the values left in the matrix relate to gamma and vega risk. A *firm's* PRR in relation to gamma and vega risk on the individual *option* is the absolute of the most negative cell in the scenario matrix produced. Where all cells are positive the PRR is zero. The total PRR for the gamma and vega risk on the portfolio of *options* is a simple sum of the individual requirements. This amount should then be fed into a *firm's* PRR calculation.

7.9.42

FCA

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The values that have been obtained for the delta-equivalent *positions* of instruments included in the scenario matrix should then be treated in the same way as *positions* in the underlying. Where the delta obtained relates to interest rate *position* risk, the delta equivalent *positions* may be fed into the *firm's* interest rate pre-processing model to the extent that the *positions* fall within the scope of interest rate pre-processing models as set out in ■ BIPRU 7.9.7G and provided that the *firm's* CAD 1 model waiver allows the *firm's* CAD 1 model to be used in this way. Alternatively, the delta obtained should be fed into the standard PRR calculations in ■ BIPRU 7.2 (Interest rate PRR), ■ BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives), ■ BIPRU 7.4 (Commodity PRR) or ■ BIPRU 7.5 (Foreign currency PRR) as appropriate.

7.9.43

FCA

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In using the scenario matrix approach, none of the steps followed will take specific account of a *firm's* exposure to rho risk. Where a *firm* can demonstrate that for interest rate-related *options* the rho sensitivity is effectively included in the delta sensitivities produced, there is no separate capital requirement relating to rho. For all other *options* except *commodity options*, a *firm* should calculate a rho sensitivity ladder by currency using its CAD 1 model and either feed this into the *interest rate maturity method* or *interest rate duration method* calculation or, where the *firm's* CAD 1 model waiver allows the *firm's* CAD 1 model to be used in this way, feed that ladder into an interest rate pre-processing model. Generally a CAD 1 model does not need to deal specifically with rho risk for *commodity options*.

Interest rate pre-processing models

7.9.44

FCA

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To the extent that a *firm's* CAD 1 model waiver is for the use of an interest rate pre-processing model the *firm* should use it for the pre-processing of the instruments set out in ■ BIPRU 7.9.7G, from which the residual *positions* are fed into the *interest rate maturity method* or *interest rate duration method* calculation.

7.9.45

FCA

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There are a number of different methods of constructing pre-processing models but all should comply with ■ BIPRU 7.9.45G - ■ BIPRU 7.9.53G. All pre-processing models should generate *positions* that have the same sensitivity to defined interest rate changes as the underlying cash flows.

7.9.46

FCA

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In an interest rate pre-processing model each transaction is converted into its constituent cash flows. The cash flows are discounted using zero coupon rates derived from the *firm's* own yield curves.

7.9.47

FCA

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The cash flows are then calculated again using the *firm's* own yield curve shifted by the amount set out in ■ BIPRU 7.9.49G.

7.9.48

FCA

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The difference between the present values calculated using the *firm's* own yield curve and those calculated using the *firm's* curve shifted under ■ BIPRU 7.9.47G are known as the sensitivity figures. Alternatively, a *firm* may shift the yield curve by one basis point and multiply up the sensitivity figures by the appropriate amount in order to achieve the shifts set out in ■ BIPRU 7.9.47G. These sensitivity figures are then allocated to each of the 15 maturity bands set out in ■ BIPRU 7.9.49G.

7.9.49

FCA

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Table: yield curve shifts

This table belongs to ■ BIPRU 7.9.47G

Zone	Modified duration	Assumed interest rate change (percentage points)
1	0 ĩ 1 months	1.00
	> 1 ĩ 3 months	1.00
	> 3 ĩ 6 months	1.00
	> 6 ĩ 12 months	1.00
2	> 1.0 ĩ 1.9 years	0.90
	> 1.9 ĩ 2.8 years	0.85
	> 2.8 ĩ 3.6 years	0.85
3	> 3.6 ĩ 4.3 years	0.75
3	> 4.3 ĩ 5.7 years	0.70
	> 5.7 ĩ 7.3 years	0.70
	> 7.3 ĩ 9.3 years	0.70
	> 9.3 ĩ 10.6 years	0.70
	> 10.6 ĩ 12 years	0.70
	> 12.0 ĩ 20 years	0.70
	> 20 years	0.70

7.9.50

FCA

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Sensitivity figures calculated by a *firm* using an interest rate pre-processing model are usually produced in the format of a net sensitivity by maturity bucket or by discrete gridpoint. These maturity buckets or gridpoints should then be allocated to the 15 bands set out in ■ BIPRU 7.9.49G. The number of maturity buckets or gridpoints used to represent a yield curve can be referred to as granularity. The granularity should always be adequate to capture the material curve risk in the portfolio. Curve risk can be defined as the risk associated with holding long and short *positions* at different points along the yield curve.

7.9.51

FCA

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Positive and negative amounts placed in each of the different maturity bands in ■ BIPRU 7.9.49G under the sensitivity calculation in ■ BIPRU 7.9.50G should then be netted off to produce one figure for each of the bands. There is no capital requirement for this netting process.

7.9.52

FCA

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The individual sensitivity figures produced should then be input into the *interest rate duration method* calculation. The individual sensitivity figures for each band should be included with the other *positions* in the appropriate column in the table in ■ BIPRU 7.2.65R (Table: Assumed interest rate change in the interest rate duration method).

7.9.53

FCA

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Instead of using the approach in ■ BIPRU 7.9.52G a *firm* may use an approach based on the *interest rate maturity method*, making appropriate adjustments to the sensitivity figures.

7.10 Use of a Value at Risk Model

Application

7.10.1 **R** ■ BIPRU 7.10 applies to a *firm* with a *VaR model permission*.

FCA

Introduction and purpose

7.10.2 **G** ■ BIPRU 7.10 provides details of when the *appropriate regulator* expects to allow a *firm* to use a *VaR model* (value at risk model) for the purpose of calculating part or all of its *PRR*. It introduces the concept of a *VaR model*, the methodology behind it and the link to the *standard market risk PRR rules*. It then goes on to detail the application and review process. The bulk of ■ BIPRU 7.10 specifies the model standards and risk management standards that *firms* will be required to meet in order to use a *VaR model*. It further stipulates requirements for stress testing, backtesting, capital calculations and finally the reporting standards expected by the *appropriate regulator*.

7.10.3 **G** The models described in ■ BIPRU 7.10 are described as VaR models in order to distinguish them from *CAD 1 models*, which are dealt with in ■ BIPRU 7.9 (Use of a CAD 1 model). A *VaR model* is a risk management model which uses a statistical measure to predict profit and loss movement ranges with a confidence interval. From these results *PRR charges* can be calculated. The standards described in ■ BIPRU 7.10, and which will be applied by the *appropriate regulator*, are based on and implement Annex V of the *Capital Adequacy Directive*.

7.10.4 **G** The aim of the *VaR model approach* is to enable a *firm* with adequate risk management systems to be subject to a *PRR* requirement that is more closely aligned with the risks to which it is subject than the *PRR* requirements generated by the *standard market risk PRR rules*. This provides a *firm* with an incentive to measure market risks as accurately and comprehensively as possible. It is crucial that those responsible for managing *market risk* at a *firm* should be aware of the assumptions and limitations of the *firm's VaR model*.

7.10.5 **G** There are a number of general methodologies for calculating *PRR* using a *VaR model*. The *appropriate regulator* does not prescribe any one method of computing *VaR measures*. Moreover, it does not wish to discourage any *firm* from developing alternative risk measurement techniques. A *firm* should discuss the use of any alternative techniques used to calculate *PRR* with the *appropriate regulator*.

7.10.6 **G** A *firm* should not use the *VaR model approach* to calculate *PRR* unless it has a *VaR model permission*. If a *firm* does not have such a permission it should use the *standard market risk PRR rules*. Therefore, a *firm* needs to apply for a *VaR model permission* in

order to calculate its *PRR* using a *VaR model* instead of (or in combination with) the *standard market risk PRR rules*.

Conditions for granting a VaR model permission

7.10.7

FCA

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A *waiver* or other permission allowing the use of models in the calculation of *PRR* will not be granted if that would be contrary to the *Capital Adequacy Directive* and any *VaR model permission* which is granted will only be granted on terms that are compatible with the *Capital Adequacy Directive*. Accordingly, the *appropriate regulator* is likely only to grant a *waiver* or other permission allowing the use of models in the calculation of *PRR* if it is a *VaR model permission* or a *CAD 1 model waiver*.

7.10.8

FCA

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■ BIPRU 7.10 sets out the minimum standards that the *appropriate regulator* expects *firms* to meet before granting a *VaR model permission*. The *appropriate regulator* will not grant a *VaR model permission* unless it is satisfied that the requirements of ■ BIPRU 7.10 are met and it is satisfied about the procedures in place at a *firm* to calculate the *model PRR*. In particular the *appropriate regulator* will not normally grant a *VaR model permission* unless it is satisfied about the quality of:

- (1) the internal controls and risk management relating to the *VaR model* (see ■ BIPRU 7.10.56G - ■ BIPRU 7.10.82R);
- (2) the *VaR model* standards (see ■ BIPRU 7.10.24R- ■ BIPRU 7.10.55G); and
- (3) stress testing and backtesting procedures relating to a *VaR model* (see, in addition to (2), ■ BIPRU 7.10.83R - ■ BIPRU 7.10.112G).

7.10.9

FCA

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The *appropriate regulator* recognises that the nature of *VaR models* will vary between *firms*. The scope of and the requirements and conditions set out in a *VaR model permission* may therefore differ in substance or detail from ■ BIPRU 7.10 in order to address individual circumstances adequately. However any differences will only be allowed if they are compliant with the *Capital Adequacy Directive*. A *VaR model permission* will implement any such variation by modifying ■ BIPRU 7.10. A *VaR model permission* may also include additional conditions to meet the particular circumstances of the *firm* or the model.

The VaR model permission application and review process

7.10.10

FCA

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Details of the general process for applying for a *VaR model permission* are set out in ■ BIPRU 1.3 (Applications for advanced approaches). Because of the complexity of a *VaR model permission*, it is recommended that a *firm* discuss its proposed application with its usual contact at the *appropriate regulator* before it makes the application.

7.10.11

FCA

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In order for a *VaR model permission* to be granted, the *appropriate regulator* is likely to undertake a review to ensure that it is adequate and appropriate for the *PRR* calculation.

7.10.12

FCA

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The *VaR model* review process may be conducted through a series of visits covering various aspects of a *firm's* control and IT environment. Before these visits the *appropriate regulator* may ask the *firm* to provide some information relating to the *firm's VaR model permission* request accompanied by some specified background

material. The *VaR model* review visits are organised on a timetable that allows the *firm* being visited sufficient time to arrange the visit and provide the appropriate pre-visit information.

7.10.13

FCA

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As part of the process for dealing with an application for a *VaR model permission* the following may be reviewed: organisational structure and personnel; details of the *firm's* market position in the relevant products; revenue and risk information; valuation and reserving policies; operational controls; information technology systems; model release and control procedures; risk management and control framework; risk appetite and limit structure; future developments relevant to model recognition.

7.10.14

FCA

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A visit will usually involve the *appropriate regulator* wishing to meet *senior management* and staff from the front office, financial control, risk management, operations, systems development, information technology and internal audit areas.

7.10.15

FCA

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The *appropriate regulator* may complement its own review of a *VaR model permission* request with one or more reviews by a *skilled person* under section 166 of the *Act* (Reports by skilled persons). Such a review may also be used where a *VaR model permission* has been granted to ensure that the requirements ■ BIPRU 7.10 and of the *VaR model permission* continue to be met.

Conditions for a VaR model outside the United Kingdom

7.10.16

FCA

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Where a *VaR model* used outside the *United Kingdom* differs from that used in the *United Kingdom* the *appropriate regulator* may request details of the reasons for using different models.

7.10.17

FCA

G

Where a *firm* operates any part of its *VaR model* outside the *United Kingdom*, the *appropriate regulator* may take into account the results of the home supervisor's review of that model. The *appropriate regulator* may wish to receive information directly from the home supervisor.

Scope of VaR models

7.10.18

FCA

R

A *firm* must use the *VaR model approach* to calculate the *PRR* for a *position*:

- (1) to the extent that the risks in relation to that *position* are within the scope of the *VaR model permission* (see ■ BIPRU 7.10.136R (Link to standard *PRR* rules: Incorporation of the model output into the capital calculation)); and
- (2) if the *position* is of a type that comes within the scope of the *VaR model permission*.

7.10.19

FCA

G

In accordance with ■ BIPRU 7.10.18R (1) a *VaR model permission* will set out the risk categories that it covers, which are expected to be one or more of the following types:

- (1) interest rate *general market risk*;

- (2) interest rate *specific risk* (in conjunction with interest rate *general market risk*);
- (3) *equity general market risk*;
- (4) *equity specific risk* (in conjunction with *equity general market risk*);
- (5) *CIU risk*;
- (6) *foreign currency risk*; and
- (7) *commodity risk*.

7.10.20

FCA

G

A *VaR model permission* will generally set out the broad classes of *position* within its scope. It may also specify how individual products within one of those broad classes may be brought into or taken out of the scope of the *VaR model permission*.

7.10.21

FCA

G

The broad classes of *position* referred to in ■ BIPRU 7.10.20G are as follows:

- (1) linear products, which comprise *securities* with linear pay-offs (e.g. bonds and *equities*) and *derivative* products which have linear pay-offs in the underlying risk factor (e.g. interest rate *swaps*, *FRAs*, total return *swaps*);
- (2) European, American and Bermudan put and call *options* (including caps, floors and swaptions) and *investments* with these features (see ■ BIPRU 7.6.18R (Table: Option PRR: methods for different types of option) for an explanation of some of these terms);
- (3) Asian *options*, digital *options*, single barrier *options*, double barrier *options*, lookback *options*, forward starting *options*, compound *options* and *investments* with these features (see ■ BIPRU 7.6.18R for an explanation of some of these terms); and
- (4) all other *option* based products (e.g. basket *options*, quantos, outperformance *options*, timing *options*) and *investments* with these features (see ■ BIPRU 7.6.18R for an explanation of some of these terms).

7.10.22

FCA

G

The categorisation described in ■ BIPRU 7.10.21G may be amended or replaced in the case of a particular *firm's VaR model permission*.

7.10.23

FCA

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It is the *appropriate regulator's* view that, where a *firm* uses a *VaR model* for one risk category as described in ■ BIPRU 7.10.19G, it is good practice to extend its model over time to calculate all of its *PRR* risk categories. A *firm* will typically be expected to have a realistic plan in place to do this.

Model standards: General

7.10.24

FCA

R

A *firm* must comply with the minimum standards set out in ■ BIPRU 7.10.26R - ■ BIPRU 7.10.53R in calculating the *model PRR*.

7.10.25 **G** The *appropriate regulator* accepts that the scope and nature of *VaR models* varies across *firms*. This means that different *firms* are likely to calculate different estimates of *market risk* for the same portfolio. Systematic differences are due to length of data series, choice of methodology (historical or Monte Carlo simulation or variance-covariance method or a hybrid of these), differences in aggregating risks within and across broad risk factors, the treatment of *options* and other non-linear products and the specification of risk factors.

FCA

Model standards: Frequency of calculations and confidence level

7.10.26 **R** The *model PRR* must be computed at least once every *business day*, using a 99% one-tailed confidence limit.

FCA

7.10.27 **G** A *firm* may meet the requirement in ■ BIPRU 7.10.26R by using different model parameters and employing a suitable adjustment mechanism to produce a figure which is equivalent to the figure produced using the parameters set out in ■ BIPRU 7.10.26R. For example, a *firm's* model may use a 95% one-tailed confidence limit if the *firm* has a mechanism to convert the output of the model to reflect a 99% one-tailed confidence limit.

FCA

7.10.27A **R** *Stressed VaR* must be calculated at least weekly, using a 99% one-tailed confidence limit.

FCA

Model standards: Holding period

7.10.28 **R** In calculating the *VaR number*, a *firm* must either use a ten *business day* holding period, or use a holding period converted to a ten *business day* holding period. However if the *firm's VaR model permission* specifies that the *firm* must use a specific method, the *firm* must do so.

FCA

7.10.29 **G** If a *firm* uses a holding period other than 10 *business days* and converts the resulting *VaR measure* to a ten *business day* equivalent measure, it should be able to justify the choice of conversion technique. For example, the square root of time method will usually be justifiable. The *appropriate regulator* considers it good practice ultimately to move towards the application of an actual ten *business day* holding period, rather than using different holding periods.

FCA

Model standards: Observation period

7.10.30 **R** Subject to ■ BIPRU 7.10.31R, the calculation of *VaR numbers* must be based on an effective historical observation period that is the longest possible consistent with a prudent *VaR number*. That period must be at least one year or such longer period as may be set out in the *firm's VaR model permission*. However if using that prescribed observation period does not result in a sufficiently prudent way of calculating a *VaR measure* or a component of a *VaR measure* the *firm* must shorten this observation period until the observation period is consistent with a prudent *VaR number*.

FCA

7.10.30A **R** The *stressed VaR* measure must be based on inputs calibrated to historical data from a continuous twelve-month period of significant financial stress relevant to the *firm's* portfolio. The choice of that historical period will be subject to the *appropriate regulator's* approval and will form part of a *firm's VaR model permission*.

FCA

7.10.30B FCA	R	A <i>firm</i> must review the selection of the <i>stressed VaR</i> historical observation period at least annually.
Model standards: Data series		
7.10.31 FCA	R	A <i>firm</i> must ensure that the data series used by its <i>VaR model</i> is reliable. Where a reliable data series is not available, proxies or any other reasonable value-at-risk measurement technique must be used. A <i>firm</i> must be able to demonstrate that the technique is appropriate and does not materially understate the modelled risks.
7.10.32 FCA	G	A data series is unreliable if it has, for example, missing data points, or data points which contain stale data. Reliable data series may be difficult to obtain for new products (for example an instrument of longer dated tenor that did not previously trade) and for less liquid risk factors or <i>positions</i> . With regard to less liquid risk factors or <i>positions</i> , a <i>firm</i> may use a combination of prudent valuation techniques and alternative <i>VaR</i> estimation techniques to ensure there is a sufficient cushion against risk over the close out period which takes account of the illiquidity of the risk factor or <i>position</i> .
7.10.33 FCA	R	<ol style="list-style-type: none"> (1) If a weighting scheme or other similar method is used to calculate <i>VaR numbers</i>, then the effective observation period must be at least one year. Where a weighting scheme is used, the weighted average time lag of the individual observations must not be less than six <i>Months</i>. (2) If a specific observation period or weighted average time lag is specified in a <i>firm's VaR model permission</i>, the <i>firm</i> must comply with that if it is longer than the period specified in (1). (3) However, if a weighting scheme in (1) or (2) would result in imprudent <i>VaR numbers</i> then the weighting scheme must be adjusted so that it is consistent with a prudent <i>VaR number</i>.
7.10.34 FCA	R	A <i>firm</i> must update data sets in accordance with the frequency set out in its <i>VaR model permission</i> . If volatility in market prices or rates necessitates more frequent updating in order to ensure a prudent calculation of the <i>VaR measure</i> the <i>firm</i> must do so.
7.10.35 FCA	G	The minimum updating frequency for the current <i>VaR measure</i> that can be specified in a <i>VaR model permission</i> is monthly.
Model standards: Aggregation across risk categories		
7.10.36 FCA	R	The process for determining and implementing correlations within and across risk categories must be sound, implemented with integrity and consistent with the terms of the <i>firm's VaR model permission</i> .
7.10.37 FCA	R	In aggregating <i>VaR measures</i> across risk or product categories, a <i>firm</i> must not use the square root of the sum of the squares approach unless the assumption of zero correlation between these categories is empirically justified. If correlations between risk categories are not empirically

justified, the *VaR measures* for each category must simply be added in order to determine its aggregate *VaR measure*. But to the extent that a *firm's VaR model permission* provides for a different way of aggregating *VaR measures*:

- (1) that method applies instead of this *rule*; and
- (2) if the correlations between risk categories used for that purpose cease to be empirically justified then the *firm* must notify the *appropriate regulator* at once.

Model standards: Risk factors: Introduction

7.10.38

FCA

G

Subject to ■ BIPRU 7.10.53R (Model standards: Materiality), a *VaR model* should capture and accurately reflect all material risks arising on the underlying portfolio on a continuing basis insofar as those risks are within the scope of the *VaR model permission*. This should encompass *general market risk* and, to the extent that this comes within the scope of the *VaR model permission*, *specific risk*. A *firm* should ensure that the *VaR model* has sufficient risk factor granularity to be able to capture all such material risks and that these are properly documented and specified.

Model standards: Risk factors: General

7.10.39

FCA

R

In the case of *general market risk* and risks with respect to which the *standard market risk PRR rules* do not distinguish between *general market risk* and *specific risk*, a *firm's VaR model* must capture a sufficient number of risk factors in relation to the level of activity of the *firm* and in particular the risks set out in ■ BIPRU 7.10.40R - ■ BIPRU 7.10.44R.

7.10.39A

FCA

R

A *firm* must incorporate risk factors that are included in its pricing model in its *VaR model*. A *firm's VaR model* must capture nonlinearities for *options* and other products, as well as correlation risk and *basis risk*. Where proxies for risk factors are used they must show a good track record for the actual *position* held. In addition, ■ BIPRU 7.10.40 R to ■ BIPRU 7.10.44 R apply for individual risk types.

7.10.39B

FCA

R

A *firm* with a *VaR model permission* must justify to the *appropriate regulator* any omissions of risk factors from its *VaR model*, if they are included in its pricing model.

7.10.40

FCA

R

For interest rate risk, a *VaR model* must incorporate a set of risk factors corresponding to the interest rate curves in each currency in which the *firm* has interest rate sensitive *positions*. A *firm* must ensure that it captures the variations of volatility of rates along the yield curve. In order to achieve this, a *firm* must divide the yield curves of, at a minimum, the major currencies and markets in which it has material interest rate exposures into a minimum of six maturity segments. The *VaR model* must also capture the risk of less than perfectly correlated movements between different yield curves.

- 7.10.41 **R** For *equity* risk, a *VaR model* must use a separate risk factor at least for each of the *equity* markets in which the *firm* has material *positions*.
FCA
- 7.10.42 **R** For *foreign currency* risk, a *VaR model* must incorporate risk factors corresponding to the individual *foreign currencies*, including gold, in which the *firm's positions* are denominated.
FCA
- 7.10.43 **R** For *commodity* risk, the *VaR model* must use a separate risk factor at least for each *commodity* in which the *firm* has material *positions*. The *VaR model* must also capture the risk of less than perfectly correlated movements between similar, but not identical, *commodities* and the exposure to changes in forward prices arising from maturity mismatches. It must also take account of market characteristics, notably delivery dates and the scope provided to traders to close out positions.
FCA
- 7.10.44 **R**
- (1) For *CIUs* the actual *foreign currency positions* of the *CIU* must be taken into account.
 - (2) A *firm* may rely on third party reporting of the *foreign currency position* of the *CIU*, where the correctness of this report is adequately ensured.
 - (3) If a *firm* is not aware of the *foreign currency positions* in a *CIU*, this *position* must be carved out and treated in ■ BIPRU 7.5.18R (Derivation of notional *positions* in *CIUs* for the *foreign currency PRR*).
- 7.10.45 **G**
- (1) This paragraph contains *guidance* on the inclusion of *CIUs* in a *VaR model*.
 - (2) The *appropriate regulator* may allow all types of *CIU* to be included within the scope of a *firm's VaR model permission*.
 - (3) ■ BIPRU 7.10 does not distinguish between *specific risk* and *general market risk* for *positions* in *CIUs*. Therefore even if *specific risk* is not otherwise included within the scope of a *firm's VaR model permission*, a *firm* should be able to demonstrate that its *VaR model* captures *specific risk*.
 - (4) A *firm* should also be able to demonstrate that its *VaR model* adequately captures correlations, concentration risk and risks associated with the illiquidity of the *CIU* itself should this be deemed necessary (see ■ BIPRU 7.10.32G).
 - (5) A *firm* may use a look-through approach, under which the *VaR model* estimates are based on the underlying *positions*. If a *firm* uses a look through approach it should also ensure that all the relevant risk factors relating to the underlying *positions* are captured. ■ BIPRU 7.7 (Position risk requirements for collective investment undertakings) sets out *rules* relating to the look through approach when a *firm* is using the *VaR model approach*.

Model standards: Risk factors: Specific risk

7.10.46

FCA

R

- (1) If a *firm's VaR model* covers the calculation of *PRR* with respect to *specific risk* the *firm* must meet the *VaR specific risk minimum requirements* in addition to the other requirements of ■ BIPRU 7.10.
- (2) The *VaR model* must explain the historical price variation in the portfolios concerned.
- (3) The *VaR model* must capture concentration in terms of magnitude and changes of composition of the portfolios concerned.
- (4) The *VaR model* must be robust to an adverse environment.
- (5) The *VaR model* must capture name-related basis risk. That is the *firm* must be able to demonstrate that the *VaR model* is sensitive to material idiosyncratic differences between similar but not identical *positions*.
- (6) The *VaR model* must capture event risk.
- (7) In addition to the other requirements in ■ BIPRU 7.10, a *firm* must have an approach in place to capture, in the calculation of its capital requirements, the *incremental risk charge* of its *trading book positions* that is incremental to the default and migration risk captured by the *VaR measures*, as specified in ■ BIPRU 7.10.55A R to ■ BIPRU 7.10.55S G and ■ BIPRU 7.10.107R (Backtesting: Specific risk backtesting).
- (8) [deleted]

7.10.47

FCA

G

This paragraph provides *guidance* on ■ BIPRU 7.10.46 R (2). Take as an example a *VaR model* based on a factor model or on a historical simulation model. The ability of the model to explain price variation could be demonstrated by a statistical comparison over the same period of time between actual price changes on the portfolio and the profit and loss impact of risk factors included within the model. A *firm* may wish to include an estimate of residual variation not explained by the model.

7.10.48

FCA

R

- (1) [deleted]
- (2) A *firm's VaR model* must conservatively assess the risk arising from less liquid *positions* and *positions* with limited price transparency under realistic market scenarios. In addition, the *VaR model* must meet minimum data standards. Proxies must be appropriately conservative and may be used only where available data is insufficient or is not reflective of the true volatility of a *position* or portfolio.

7.10.49

FCA

R

As techniques and best practices evolve, a *firm* must avail itself of these advances.

7.10.50 **R** [deleted]

7.10.51 **R** [deleted]

7.10.52 **R** [deleted]

Model standards: Materiality

7.10.53 **R**
FCA A *firm's VaR model* must capture accurately all material price risks for *positions* within the scope of its *VaR permission*, including risks relating to *options* or *option-like positions*. The *firm* must ensure that, if its *VaR model* does not accurately capture any material risk, the *firm* has *capital resources* adequate to cover that risk. These capital resources must be additional to those required to meet its *capital resources requirement*.

7.10.54 **G**
FCA For example, **■** BIPRU 7.10.53R might involve creating and documenting a prudent incremental *PRR charge* for the risk not captured in the *VaR model* and holding sufficient *capital resources* against this risk. In that case the *firm* should hold *capital resources* at least equal to its *capital resources requirement* as increased by adding this incremental charge to the *model PRR*. Alternatively the *firm* may make valuation adjustments through its profit and loss reserves to cover this material risk. These reserves should be transparent to *senior management* and auditable. The reserves should also be consistent with **■** GENPRU 1.3 (Valuation) while not being excessive in relation to the principles of mark-to-market accounting. Therefore, a *firm* should be able to satisfy the *appropriate regulator* that all material risks are adequately addressed, whether this be through the *VaR model*, through taking an incremental *PRR charge* or through making an adjustment through profit and loss reserves.

7.10.55 **G**
FCA A *firm* is expected ultimately to move towards full revaluation of *option* positions. For portfolios containing path dependent *options*, an instantaneous price shock applied to a static portfolio will be acceptable provided that the risks not captured by such an approach are not material. Where a risk is immaterial and does not justify further *capital resources*, that immaterial risk should still be documented.

Incremental risk charge: Scope and parameters

7.10.55A **R**
FCA A *firm* must demonstrate that its *incremental risk charge* meets soundness standards comparable to those under the *IRB approach*, assuming a constant level of risk and adjusted, where appropriate, to reflect the impact of liquidity, concentrations, hedging and optionality.

7.10.55B **R**
FCA The *incremental risk charge* must cover all *positions* which are subject to a capital charge for interest-rate *specific risk* in accordance with the *firm's VaR model permission*, except *securitisation positions* and *nth-to-default credit derivatives*. Where permitted by its *VaR model permission*, a *firm* may choose consistently to include all listed *equity positions* and *derivatives positions* based on listed *equities* for which that inclusion is consistent with how the *firm* internally measures and manages risk, but the approach must reflect the impact of correlations between default and migration events, and it must not reflect the impact of diversification between default and migration events and other market risk factors.

7.10.55C **R** The *firm's* approach to capture the *incremental risk charge* must measure losses due to default and internal or external ratings migration at the 99.9% confidence interval over a capital horizon of one year.
FCA

7.10.55D **R** The *firm's* correlation assumptions must be supported by the analysis of objective data in a conceptually sound framework. The approach to capture the *incremental risk charge* must appropriately reflect *issuer* concentrations. Concentrations that can arise within and across product classes under stressed conditions must also be reflected.
FCA

7.10.55E **R** The *firm's* approach must be based on the assumption of a constant level of risk over the one-year capital horizon, implying that given individual *trading book positions* or sets of *positions* that have experienced default or migration over their liquidity horizon are re-balanced at the end of their liquidity horizon to attain the initial level of risk. Alternatively, a *firm* may choose consistently to use a one-year constant *position* assumption.
FCA

Incremental risk charge: Liquidity horizons

7.10.55F **R** (1) The *firm's* liquidity horizons for calculating *incremental risk charge* must be set according to the time required to sell the *position* or to hedge all material and relevant price risks in a stressed market, having particular regard to the size of the *position*.
FCA

(2) Liquidity horizons must reflect actual practice and experience during periods of both systematic and idiosyncratic stresses. The liquidity horizon must be measured under conservative assumptions and must be sufficiently long that the act of selling or hedging, in itself, would not materially affect the price at which the selling or hedging would be executed.

7.10.55G **R** The determination of the appropriate liquidity horizon for a *position* or set of *positions* is subject to a floor of three months. The determination of the appropriate liquidity horizon for a *position* or set of *positions* must take into account a *firm's* internal policies relating to valuation adjustments and the management of stale *positions*.
FCA

7.10.55H **R** When a *firm* determines liquidity horizons for sets of *positions* rather than for individual *positions*, the criteria for defining sets of *positions* must be defined in a way that meaningfully reflects differences in liquidity. The liquidity horizons must be greater for *positions* that are concentrated, reflecting the longer period needed to liquidate those *positions*.
FCA

7.10.55I **R** The liquidity horizon for a *securitisation* warehouse must reflect the time to build, sell and securitise the assets, or to hedge the material risk factors, under stressed market conditions.
FCA

Incremental risk charge: Hedges

7.10.55J

FCA

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- (1) Hedges may be incorporated into the calculation of a *firm's incremental risk charge*. *Positions* may be netted only when long and short *positions* refer to the same financial instrument.
- (2) Hedging or diversification effects associated with long and short *positions* involving different instruments or different securities of the same obligor, as well as long and short *positions* in different *issuers*, may only be recognised by explicitly modelling gross long and short *positions* in the different instruments.
- (3) A *firm* must reflect the impact of material risks that could occur during the interval between the hedge's maturity and the liquidity horizon, as well as the potential for significant basis risks in hedging strategies by product, seniority in the capital structure, internal or external rating, maturity, vintage and other differences in the instruments. A *firm* must reflect a hedge only to the extent that it can be maintained even as the obligor approaches a credit or other event.

7.10.55K

FCA

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For *trading book positions* that are hedged via dynamic hedging strategies, a rebalancing of the hedge within the liquidity horizon of the hedged position may be recognised only if the *firm*:

- (1) chooses to model rebalancing of the hedge consistently over the relevant set of *trading book positions*;
- (2) demonstrates that the inclusion of rebalancing results in a better risk measurement;
- (3) demonstrates that the markets for the instruments serving as hedges are liquid enough to allow for this rebalancing even during periods of stress; and
- (4) reflects in the capital charge any residual risks resulting from dynamic hedging strategies.

Incremental risk charge: Nonlinear positions and model risk

7.10.55L

FCA

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- (1) The *incremental risk charge* must reflect the nonlinear impact of *options*, structured credit derivatives and other *positions* with material nonlinear behaviour with respect to price changes.
- (2) The *firm* must also consider the amount of model risk inherent in the valuation and estimation of price risks associated with those products.

7.10.55M

FCA

R

The *incremental risk charge* must be based on objective and up-to-date data.

Incremental risk charge: Validation

7.10.55N

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FCA

A *firm* must validate its approach to *incremental risk charge*. In particular, a *firm* must:

- (1) validate that its modelling approach for correlations and price changes is appropriate for its portfolio, including the choice and weights of its systematic risk factors;
- (2) perform a variety of stress tests (not limited to the range of events experienced historically), including sensitivity analysis and scenario analysis, to assess the qualitative and quantitative reasonableness of the approach, with particular regard to the treatment of concentrations; and
- (3) apply appropriate quantitative validation including relevant internal modelling benchmarks.

7.10.55O

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FCA

A *firm's* approach for *incremental risk charge* must be consistent with the *firm's* internal risk management methodologies for identifying, measuring, and managing trading risks.

Incremental risk charge: Documentation and frequency of calculation

7.10.55P

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FCA

A *firm* must document its approach for the *incremental risk charge* clearly, setting out its correlation and other modelling assumptions.

7.10.55Q

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FCA

A *firm* must calculate its *incremental risk charge* at least weekly.

Incremental risk charge: Internal approaches based on different parameters

7.10.55R

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FCA

A *firm* may use an approach for *incremental risk charge* that does not comply with all the requirements in ■ BIPRU 7.10.55A R to ■ BIPRU 7.10.55P R, only if:

- (1) such an approach is consistent with the *firm's* internal methodologies for identifying, measuring, and managing risks; and
- (2) the *firm* can demonstrate that its approach results in a capital requirement that is at least as high as it would be if based on an approach in full compliance with the requirements in ■ BIPRU 7.10.55A R to ■ BIPRU 7.10.55P R.

7.10.55S

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FCA

The *appropriate regulator* will review at least annually any approach taken by the *firm* under ■ BIPRU 7.10.55R R.

All price risk measure: General requirements

7.10.55T

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FCA

As part of its *VaR model permission*, the *appropriate regulator* may authorise a *firm* to use the *all price risk measure* to calculate an additional

capital charge in relation to *positions* in its *correlation trading portfolio* if it meets the following minimum standards:

- (1) it adequately captures all price risks at a 99.9% confidence interval over a capital horizon of one year under the assumption of a constant level of risk, and adjusted, where appropriate, to reflect the impact of liquidity, concentrations, hedging and optionality;
- (2) it adequately captures the following risks:
 - (a) the cumulative risk arising from multiple defaults, including the ordering of defaults, in *tranche* products;
 - (b) credit *spread risk*, including the gamma and cross-gamma effects;
 - (c) volatility of implied correlations, including the cross effect between spreads and correlations;
 - (d) *basis risk*, including both:
 - (i) the basis between the spread of an index and those of its constituent single names; and
 - (ii) the basis between the implied correlation of an index and that of bespoke portfolios;
 - (e) recovery-rate volatility, as it relates to the propensity for recovery rates to affect *tranche* prices; and
 - (f) to the extent that the *all price risk measure* incorporates benefits from dynamic hedging, the risk of hedge slippage and the potential costs of rebalancing those hedges.

7.10.55U

FCA

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The amount of the capital charge for the *correlation trading portfolio* calculated in accordance with the *all price risk measure* must not be less than 8% of the capital charge that would result from applying ■ BIPRU 7.2.48L R to all *positions* in the *correlation trading portfolio* subject to the *all price risk measure*.

7.10.55V

FCA

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A *firm* may include in its *all price risk measure positions* that are jointly managed with *positions* in the *correlation trading portfolio* and would otherwise be included in the *incremental risk charge*. In that case, the *firm* must exclude these *positions* from the calculation of its *incremental risk charge*.

7.10.55W

FCA

R

A *firm* must have sufficient market data to ensure that it fully captures the salient risks of the *positions* in its *all price risk measure* in accordance with the standards set out in ■ BIPRU 7.10.55T R.

7.10.55X **R** A *firm* must demonstrate through backtesting or other appropriate means that its *all price risk measure* can appropriately explain the historical price variation of these *positions*. A *firm* must be able to demonstrate to the *appropriate regulator* that it can identify the *positions* within its *correlation trading portfolio*, in relation to which it is authorised to use the *all price risk measure*, separately from those other *positions* in relation to which it is not authorised to do so.

7.10.55Y **R** A *firm* must calculate the capital charge under the *all price risk measure* at least weekly.

All price risk measure: Stress testing

7.10.55Z **R** (1) For *positions* within its *correlation trading portfolio* in relation to which a *firm* may use the *all price risk measure*, a *firm* must regularly apply a set of specific, predetermined stress scenarios. These stress scenarios must examine the effects of stress to default rates, recovery rates, credit spreads, and correlations on the profit and loss of the *correlation trading portfolio*.

(2) A *firm* must apply the stress scenarios in (1) at least weekly and report the results to the *appropriate regulator* in accordance with ■ BIPRU 7.10.129 R.

7.10.55ZA **R** If the results of the stress tests carried out in accordance with ■ BIPRU 7.10.55Z R indicate a material shortfall in the amount of capital required under the *all price risk measure*, a *firm* must notify the *appropriate regulator* of this circumstance by no later than two *business days* after the *business day* on which the material shortfall occurred.

7.10.55ZB **G** The *appropriate regulator* may use its powers under section 55J (Variation etc. on the Authority's own initiative) of the *Act* to impose on the *firm* a capital add-on to cover the material shortfall reported under ■ BIPRU 7.10.55ZA R.

7.10.55ZC **G** The *all price risk measure* is based on the *incremental risk charge*. Therefore, when applying the *all price risk measure*, a *firm* should have regard to the requirements in ■ BIPRU 7.10.55A R to ■ BIPRU 7.10.55R R.

Risk management standards: Introduction

7.10.56 **G** A *firm* with a complex portfolio is expected to demonstrate greater sophistication in its modelling and risk management than a *firm* with a simple portfolio. For example, a *firm* will be expected to consider, where necessary, varying degrees of liquidity for different risk factors, the complexity of risk modelling across time zones, product categories and risk factors. Some trade-off is permissible between the sophistication and accuracy of the model and the conservatism of underlying assumptions or simplifications.

7.10.57 **G** A *firm* should be able to demonstrate that it meets the risk management standards set out in the *VaR model permission* on a legal entity basis. This is particularly important for a *subsidiary undertaking* in a *group* subject to matrix management where the business lines cut across legal entity boundaries.

Risk management standards: General requirement

7.10.58

FCA

R

A *firm* must have a conceptually sound risk management system surrounding the use of its *VaR model* that is implemented with integrity and that in particular meet the qualitative standards set out in ■ BIPRU 7.10.59R - ■ BIPRU 7.10.82R.

Risk management standards: Use requirement

7.10.59

FCA

R

A *firm* must base its *model PRR* calculation on the output of the *VaR model* which is used for its internal risk management rather than one developed specifically to calculate its *PRR*.

7.10.60

FCA

R

The *VaR model* must be fully integrated into the daily risk management process of the *firm*, and serve as the basis for reporting risk exposures to *senior management* of the *firm*.

7.10.61

FCA

G

A *firm's VaR model* output should be an integral part of the process of planning, monitoring and controlling a *firm's market risk* profile. The *VaR model* should be used in conjunction with internal trading and exposure limits. The links between these limits and the *VaR model* should be consistent over time and understood by *senior management*. The *firm* should regard risk control as an essential aspect of the business to which significant resources need to be devoted.

Risk management standards: Risk control unit

7.10.62

FCA

R

A *firm* must have a risk control unit which is independent from business trading units and which reports directly to *senior management*. It:

- (1) must be responsible for designing and implementing the *firm's* risk management system;
- (2) must produce and analyse daily reports on the output of the *VaR model* and on the appropriate measures to be taken in terms of the trading limits; and
- (3) conduct the initial and on-going validation of the *VaR model*.

Risk management standards: Senior management

7.10.63

FCA

R

A *firm's governing body* and *senior management* must be actively involved in the risk control process, and the daily reports produced by the risk control unit must be reviewed by a level of management with sufficient authority to enforce both reductions of *positions* taken by individual traders as well as in the *firm's* overall risk exposure.

7.10.64

FCA

G

It is the responsibility of a *firm's* own management to ensure the accuracy and integrity of its *VaR model*. This responsibility includes obtaining appropriate independent validation of the *VaR model*.

7.10.65

FCA

R

Risk management standards: Skilled staff

A *firm* must have sufficient numbers of staff skilled in the use of sophisticated models in the trading, risk control, audit and back office areas.

7.10.66

FCA

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Risk management standards: Controls and compliance

A *firm* must establish, document and maintain policies, controls and procedures to an auditable standard:

- (1) concerning the operation of its *VaR model approach*; and
- (2) for monitoring and ensuring compliance with the policies, controls and procedures in (1).

7.10.67

FCA

R

Risk management standards: Documentation

A *VaR model* must be adequately documented.

7.10.68

FCA

G

- (1) An example of documents required by ■ BIPRU 7.10.67R may be a manual that describes the basic principles of the risk management framework, clearly setting out empirical techniques, principles and assumptions used within it.
- (2) This documentation should be of sufficient detail for the *appropriate regulator* to be able to develop a clear understanding of how the *VaR model* works from that documentation on its own.

7.10.69

FCA

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Risk management standards: Track record

A *firm's VaR model* must have a proven track record of acceptable accuracy in measuring risk.

7.10.70

FCA

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Risk management standards: Development validation

Adequate procedures must be in place to ensure that model changes are validated before being introduced.

7.10.71

FCA

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The procedures in ■ BIPRU 7.10.70R need not necessarily rely on backtesting using a back-run of recreated data.

7.10.72

FCA

R

Risk management standards: Stress testing

- (1) A *firm* must frequently conduct a rigorous programme of stress testing. The results of these tests must be reviewed by *senior management* and reflected in the policies and limits the *firm* sets.
- (2) The programme must particularly address:
 - (a) concentration risk;
 - (b) illiquidity of markets in stressed market conditions;
 - (c) one way markets;

- (d) event and jump to default risks;
- (e) non linearity of products;
- (f) deep out of the money *positions*;
- (g) *positions* subject to the gapping of prices;
- (h) full revaluation, or a reliable approximation, of *positions*;
- (i) instant shocks as well as effects of longer term periods of stress;
- (j) calibration changes under stressed conditions;
- (k) secondary risk factors (such as volatility);
- (l) basis risk;
- (m) systemic and localised stresses; and
- (n) other risks that may not be captured appropriately in the *VaR model* (for example, recovery rate uncertainty, implied correlations and skew risk).

- (3) The shocks applied must reflect the nature of the portfolios and the time it could take to hedge out or manage risks under severe market conditions.

7.10.73

FCA

G

The stress testing under ■ BIPRU 7.10.72R should be taken into account under the *overall Pillar 2 rule*.

7.10.73A

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The *firm's* stress testing programme should be comprehensive in terms of both risk and *firm* coverage, and appropriate to the size and complexity of *trading book positions* held.

Risk management standards: Valuation

7.10.74

FCA

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A *firm* must have procedures to ensure that the valuation of assets and liabilities is appropriate, that valuation uncertainty is identified and appropriate reserving is undertaken where necessary.

Risk management standards: Risk review

7.10.75

FCA

R

At least once a year, a *firm* must conduct, as part of its regular internal audit process, a review of its risk management process. This review must include both the activities of the business trading units and of the independent risk control unit, and must be undertaken by suitably qualified staff independent of the areas being reviewed. This review must consider, at a minimum:

- (1) the adequacy of the documentation of the risk management system and process;

- (2) the organisation of the risk control unit;
- (3) the integration of *market risk* measures into daily risk management;
- (4) the integrity of the management information system;
- (5) the process for approving risk pricing models and valuation systems used in front and back offices;
- (6) the validation of any significant changes in the risk management process;
- (7) the scope of risks and products captured by the *VaR model*;
- (8) the accuracy and completeness of *position* data;
- (9) the process used to ensure the consistency, timeliness, independence and reliability of data sources (including the independence of such data sources);
- (10) the accuracy and appropriateness of volatility and correlation assumptions;
- (11) reserving policies and the accuracy of the valuation procedures and risk sensitivity calculations;
- (12) the process employed to evaluate the *VaR model's* accuracy, including the programme of backtesting;
- (13) the controls surrounding the development of the *VaR model*; and
- (14) the process employed to produce the calculation of the *model PRR*.

Risk management standards: Validation and backtesting

7.10.76

FCA

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The *appropriate regulator* will require a period of initial monitoring or live testing before a *VaR model* can be recognised. This will be agreed on a *firm by firm* basis.

7.10.77

FCA

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In assessing the *firm's VaR model* and risk management, the *appropriate regulator* has regard to the results of internal model validation procedures used by the *firm* to assess the *VaR model*.

7.10.78

FCA

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A *firm* must have processes in place to ensure that its *VaR model* has been adequately validated by suitably qualified parties independent of the development process to ensure that it is conceptually sound and adequately captures all material risks. This validation must be conducted when the *VaR model* is initially developed and when any significant changes are made to the *VaR model*. The validation must also be conducted on a periodic basis but especially where there have been any significant structural

changes in the market or changes to the composition of the portfolio which might lead to the *VaR model* no longer being adequate. As techniques and best practices evolve, a *firm* must avail itself of these advances. Model validation must not be limited to backtesting, but must, at a minimum, also include the following:

- (1) tests to demonstrate that any assumptions made within the *VaR model* are appropriate and do not underestimate or overestimate the risk (including testing of the validity of the assumptions and approximations underlying the *VaR model*);
- (2) in addition to the regulatory backtesting programmes, a *firm* must carry out its own model validation tests in relation to the risks and structures of its portfolios, such as statistical validation techniques and other methods of measuring performance and validity;
- (3) the use of hypothetical portfolios to ensure that the *VaR model* is able to account for particular structural features that may arise, for example material basis risks and concentration risk; and
- (4) investigation of the limitations of the *VaR model* including testing of the accuracy of parts of the *VaR model* as well as of the whole.

7.10.79

FCA

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- (1) In addition to regulatory backtesting programs, testing for model validation should be carried out using additional tests which may include for example:
 - (a) testing carried out using hypothetical changes in portfolio value that would occur were end of day positions to remain unchanged;
 - (b) testing carried out for longer periods than required for the regular backtesting programme (for example, 3 years);
 - (c) testing carried out using confidence intervals other than the 99 percent interval required under the quantitative requirements in ■ BIPRU 7.10; and
 - (d) testing of parts of portfolios.
- (2) A longer time period generally improves the power of backtesting. However a longer time period may not be desirable if the *VaR model* or market conditions have changed to the extent that historical data is no longer relevant.

7.10.80

FCA

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Further material on backtesting can be found in ■ BIPRU 7.10.91G - ■ BIPRU 7.10.112G.

7.10.81

FCA

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Risk management standards: Information technology

In assessing whether the *VaR model* is implemented with integrity as described in ■ BIPRU 7.10.58R (Stress testing), the *appropriate regulator* will consider in particular

the information technology systems used to run the model and associated calculations. The assessment may include:

- (1) feeder systems; risk aggregation systems; time series databases; the *VaR model* system; stress testing system; the backtesting system including profit and loss cleaning systems where appropriate; data quality; reconciliations and checks on completeness of capture;
- (2) system development, change control and documentation; security and audit trails; system availability and contingency procedures; network adequacy; and
- (3) operational statistics relating to the *VaR model* production process, including, for example, statistics relating to timeliness, number of re-runs required and the reliability of data feeds.

Risk management standards: Controls

7.10.82

FCA

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A *firm* must ensure that it has adequate controls relating to:

- (1) the derivation of the *model PRR*;
- (2) the integrity of the backtesting programme, including the calculation of the profit and loss account;
- (3) the integrity and appropriateness of the *VaR model*, including the *VaR model's* geographic coverage and the completeness of data sources;
- (4) the *VaR model's* initial and ongoing development, including independent validation;
- (5) the valuation models, including independent validation; and
- (6) the adequacy, security and integrity of the information technology infrastructure.

Stress testing

7.10.83

FCA

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■ BIPRU 7.10.84G-■ BIPRU 7.10.90G relate to stress testing of a *VaR model* (see ■ BIPRU 7.10.72R (Risk management standards: Stress testing)).

7.10.84

FCA

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Stress testing is a way of identifying the risk to a *firm* posed by a breakdown of model assumptions or by low-probability events. Where stress tests reveal unacceptable vulnerability to a given set of circumstances, a *firm* should take prompt steps to manage those risks appropriately, for example by hedging against the outcome or reducing the size of the *firm's* *exposure*.

7.10.85

FCA

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A *firm* must have the capacity to run daily stress tests.

7.10.86 FCA	R	Stress testing must involve identifying market scenarios or other low probability events in all types of risks that generate the greatest losses on a <i>firm's</i> portfolio.
7.10.87 FCA	R	A <i>firm</i> must periodically and actively identify all the worst case scenarios that are relevant to its portfolio. Scenarios used must be appropriate to test the effect of adverse movements in market volatilities and correlations and the effect of any change in the assumptions underlying the <i>VaR model</i> . Scenarios involving low probability market events must nevertheless be plausible.
7.10.88 FCA	R	Stress testing must capture non-linear effects.
7.10.89 FCA	R	A <i>firm</i> must have procedures to assess and respond to the results produced from stress testing. In particular, stress testing results must be: <ol style="list-style-type: none"> (1) used to evaluate its capacity to absorb such losses or identify steps to be taken to reduce risk; and (2) communicated routinely to <i>senior management</i> and periodically to the <i>governing body</i>.
7.10.90 FCA	G	A <i>firm</i> may want to conduct the more complex stress tests at longer intervals or on an ad hoc basis.
7.10.90A FCA	R	A <i>firm</i> must also carry out reverse stress tests.
7.10.91 FCA	G	Backtesting: Introduction Backtesting is the process of comparing value-at-risk risk measures to portfolio performance. It is intended to act as one of the mechanisms for the ongoing validation of a <i>firm's VaR model</i> and to provide incentives for <i>firms</i> to improve their <i>VaR measures</i> .
7.10.92 FCA	G	It is a condition for granting a <i>VaR model permission</i> that a <i>firm</i> should have a backtesting programme in place and should provide three months of backtesting history.
7.10.93 FCA	G	Backtesting conducted only at a whole portfolio level using a single measure of profit and loss has limited power to distinguish an accurate <i>VaR model</i> from an inaccurate one. Backtesting should therefore be regarded as an additional safeguard rather than a primary validation tool. Such testing does however form the basis of the <i>appropriate regulator's plus factor</i> system. The test has been chosen as the basis of the backtesting regime because of its simplicity. A <i>firm</i> will therefore be expected to complement this backtesting with more granular backtesting analysis and involving more than one measure of profit and loss (i.e. both a <i>profit and loss figure</i> and a <i>hypothetical profit and loss figure</i>).

7.10.94 **R** A *firm* must have the capacity to analyse and compare its *profit and loss figures* and *hypothetical profit and loss figures* to the *VaR measure*, both at the level of the whole portfolio covered by the *VaR model permission* and at the level of individual books that contain material amounts of risk.
FCA

7.10.94A **R** At a minimum, backtesting of *hypothetical profit and loss figures* must be used for regulatory backtesting and also to calculate *plus factors*.
FCA

7.10.95 **G** Backtesting of *hypothetical profit and loss figures* is also used for model validation and for reporting to the *appropriate regulator*.
FCA

Backtesting: Basic testing requirements

7.10.96 **R** At a minimum, a *firm* must, on each *business day*, compare each of its 250 most recent *business days'* *hypothetical profit and loss figures* (ending with the *business day* preceding the *business day* in question) with the corresponding *one-day VaR measures*.
FCA

7.10.97 **G** Generally the *positions* underlying the profit and loss account and *VaR measures* should not be materially different.
FCA

Backtesting: One day VaR measure

7.10.98 **R** The *one-day VaR measure* for a particular *business day* is the *VaR number* for that *business day* calibrated to a one *business day* holding period and a 99% one-tailed confidence level.
FCA

Backtesting: Calculating the profit and loss

7.10.99 **G** The ultimate purpose of backtesting is to assess whether capital is sufficient to absorb actual losses. Actual daily profit and loss means the day's profit and loss arising from trading activities within the scope of the *VaR model permission*. This measure should, however, be 'cleaned' using ■ BIPRU 7.10.100R inclusion in profit and loss of non-modelled factors.
FCA

7.10.100 **R** The *profit and loss figure* for a particular *business day* is the *firm's* actual profit or loss for that day in respect of the trading activities within the scope of the *firm's VaR model permission*, adjusted by stripping out:

- (1) fees and commissions;
- (2) brokerage;
- (3) additions to and releases from reserves which are not directly related to *market risk* (e.g. administration reserves); and
- (4) any inception profit exceeding an amount specified for this purpose in the *firm's VaR model permission* (where inception profit is defined as any profit arising immediately on entering into a new transaction).

7.10.101 **G** The definition of *profit and loss figure* may be amended or replaced in an individual VaR model permission if the firm can demonstrate to the appropriate regulator that the alternative method meets the spirit and purpose of the provisions in ■ BIPRU 7.10 about the *profit and loss figure*.

7.10.102 **G** The appropriate regulator will review as part of a firm's VaR model permission application the processes and documentation relating to the derivation of profit and loss used for backtesting. A firm's documentation should clearly set out the basis for cleaning profit and loss. To the extent that certain profit and loss elements are not updated every day (for example certain reserve calculations) the documentation should clearly set out how such elements are included in the profit and loss series.

Backtesting: Definition of backtesting exception

7.10.103 **R** A *backtesting exception* is deemed to have occurred for any business day if the *hypothetical profit and loss figure* for that business day shows a loss, which in absolute magnitude, exceeds the *one-day VaR measure* for that business day. The only exception is if that business day is identified in the firm's VaR model permission as giving rise to an excluded *backtesting exception*.

Backtesting: Obligation to notify the appropriate regulator

7.10.104 **R** If a *backtesting exception* occurs, the firm must notify its usual supervisory contact at the appropriate regulator orally by close of business two business days after the business day for which the *backtesting exception* occurred. Within five business days following the end of each Month, the firm must submit to the appropriate regulator a written account of the previous Month's *backtesting exceptions* (if any). This explanation must include the causes of the *backtesting exceptions*, an analysis of whether the *backtesting exception* indicate a deficiency in the firm's VaR model and the firm's planned response (if any).

Backtesting: Summary of the backtesting cycle

- 7.10.105** **G**
- (1) This paragraph gives *guidance* on the backtesting calculation and reporting process in ■ BIPRU 7.10.96R - ■ BIPRU 7.10.104R.
 - (2) Let the day on which the loss referred to in ■ BIPRU 7.10.100R is made be day n. The value-at-risk measure for that day will be calculated on day n-1, or overnight between day n-1 and day n. Profit and loss figures are produced on day n+1, and backtesting also takes place on day n+1. The firm's supervisor should be notified of any *backtesting exceptions* by close of business on day n+2.
 - (3) Any *backtesting exception* initially counts for the purpose of the calculation of the *plus factor* even if subsequently the appropriate regulator agrees to exclude it under the process described in ■ BIPRU 7.10.106G. Thus, where the firm experiences a *backtesting exception* and already has four or more *backtesting exceptions* for the previous 250 business days, changes to the *multiplication factor* arising from changes to the *plus factor* become effective at n+3 (using the time-line terminology in (2)).

Backtesting: Process for disregarding backtesting exceptions

7.10.106

G

FCA

- (1) This paragraph gives *guidance* on the process for excluding *backtesting exceptions* as referred to in ■ BIPRU 7.10.103R.
- (2) The *appropriate regulator* will respond flexibly to *backtesting exceptions*. However, the *appropriate regulator's* starting assumption will be that a *backtesting exception* should be taken into account for the purpose of the calculation of *plus factors*. If the *firm* believes that a *backtesting exception* should not count for that purpose, then it should seek a variation of its *VaR model permission* in order to exclude that particular *backtesting exception*. The *appropriate regulator* will then decide whether to agree to such a variation.
- (3) One example of when a *firm's backtesting exception* might properly be disregarded is when it has arisen as a result of a risk that is not captured in its *VaR model* but against which *capital resources* are already held.

Backtesting: Specific risk backtesting

7.10.107

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FCA

If a *firm's VaR model permission* covers *specific risk*, the *firm* must validate its *VaR model* through backtesting aimed at assessing whether *specific risk* is being accurately captured. This backtesting must be carried out in accordance with the provisions of its *VaR model permission*. If the *VaR model permission* provides for this backtesting to be performed on the basis of relevant sub-portfolios, these must be chosen in a consistent manner.

7.10.108

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FCA

Specific risk backtesting involves the backtesting of a standalone *specific risk VaR* measure against a profit and loss series determined by reference to exposure risk factors categorised as *specific risk*. Alternatively *specific risk* backtesting may take the form of regular backtesting of trading books and portfolios that are predominantly exposed to risk factors categorised as *specific risk*. The precise requirements for *specific risk* backtesting will be specified in the *firm's VaR model permission* as will the definition of a *specific risk backtesting exception*.

Backtesting: Multiple exceptions

7.10.109

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FCA

If ten or more *backtesting exceptions* or ten or more *specific risk backtesting exceptions* are recorded in a 250 *business day* period, a *firm* must take immediate corrective action.

7.10.110

G

FCA

Where backtesting reveals severe problems with the basic integrity of the *VaR model*, the *appropriate regulator* may withdraw model recognition. In particular, if ten or more *backtesting exceptions* are recorded in a 250 *business day* period, the *appropriate regulator* may apply a *plus factor* greater than one or the *appropriate regulator* may consider revoking a *firm's VaR model permission*. The *appropriate regulator* may also consider revoking a *firm's VaR model permission* if ten or more *specific risk backtesting exceptions* occur in such a period.

Backtesting: Hypothetical profit and loss

7.10.111

R

FCA

A *firm* must perform backtesting against a *hypothetical profit and loss figure* with respect to each *business day*. A *hypothetical profit and loss figure* for a *business day* means the *hypothetical profit and loss figure* that

would have occurred for that *business day* if the portfolio on which the *VaR number* for that *business day* is based remained unchanged.

7.10.112

G

FCA

- (1) A *hypothetical profit and loss figure* is based on the day's change in the value of the same portfolio that was used to generate the value-at-risk forecast.
- (2) [deleted]
- (3) The *firm* may also need to calculate a *hypothetical profit and loss figure* in order to produce profit attribution reports and to analyse the cause of *backtesting exceptions*.

7.10.112A

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FCA

The definition of *hypothetical profit and loss figure* may be amended or replaced in an individual *VaR model permission* if the *firm* can demonstrate to the *appropriate regulator* that the alternative method meets the spirit and purpose of the provisions in ■ BIPRU 7.10 about the *hypothetical profit and loss figure*.

Capital calculations: General

7.10.113

R

FCA

The *model PRR* is, for any *business day* (the "relevant" *business day*), calculated in accordance with the following formula:

- (1) the higher of:
 - (a) the *VaR number* for the relevant *business day*; and
 - (b) the average of its daily *VaR numbers* for each of the 60 *business days* ending with the relevant *business day*, multiplied by the *multiplication factor* for the relevant *business day*; and
- (2) (in the case of a *VaR model permission* that covers *specific risk*) the higher of:
 - (a) the *incremental risk charge* for the relevant *business day*; and
 - (b) the average of the twelve-week *incremental risk charge*; and
- (3) the higher of:
 - (a) the latest *stressed VaR number*; and
 - (b) the average of the *firm's* daily *stressed VaR number* for the 60 *business days* ending with the relevant *business day*, multiplied by the *multiplication factor* applied to the *stressed VaR measure* for the relevant *business day*; and
- (4) (in the case of a *VaR model permission* that covers *all price risk measure*) the higher of:
 - (a) the *all price risk measure* for the relevant *business day*; and

(b) the average of the twelve-week *all price risk measure*.

7.10.114 **R** For any day that is not a *business day*, the *model PRR* is the amount for
 the prior *business day*.
 FCA

7.10.115 **R** The *VaR number* for any *business day* means the *VaR measure*, in respect
 of the previous *business day's* close-of-business *positions* in products
 coming within the scope of the *VaR model permission*, calculated by the
VaR model and in accordance with ■ BIPRU 7.10 and any methodology set
 out in the *VaR model permission*. The *VaR number* must not be calculated
 taking into account matters on the *business day* for which it is the *VaR*
number.
 FCA

7.10.116 **R** The *incremental risk charge* for any *business day* means the *incremental*
risk charge required under the provisions in ■ BIPRU 7.10 about *specific*
risk, in respect of the previous *business day's* close-of-business *positions*
 with respect to which those provisions apply.
 FCA

7.10.116A **R** The *all price risk measure* for any *business day* means the *all price risk*
measure required under the provisions in ■ BIPRU 7.10 about *specific risk*
 for the *correlation trading portfolio*.
 FCA

7.10.117 **G** The following equation expresses ■ BIPRU 7.10.113R mathematically:

$$PRR_{VaR} = \text{Max} \left\{ VaR_t, fx \frac{1}{60} \sum_{i=0}^{59} VaR_{t-i} \right\} + \text{Max} \left\{ SVaR_t, sx \frac{1}{y} \sum_{i=0}^{y-1} SVaR_{t-i} \right\} + \text{Max} \left\{ IRC_t, \frac{1}{z} \sum_{i=0}^{z-1} IRC_{t-i} \right\} + \text{Max} \left\{ APR_t, \frac{1}{w} \sum_{i=0}^{w-1} APR_{t-i} \right\}$$

where:

- (1) PRR_{VaR} is a firm's model PRR;
- (2) VaR_t represents the previous day's value-at-risk figure;
- (3) VaR_{t-i} represents the value-at-risk calculated for i business days earlier;
- (4) f is the multiplication factor for VaR;
- (5) $SVaR_t$ represents the latest stressed VaR figure;
- (6) $SVaR_{t-i}$ represents the stressed VaR calculated for i business days earlier;
- (7) s is the multiplication factor for stressed VaR;
- (8) y is the number of times the stressed VaR was calculated in the last 60 business days;
- (9) IRC_t represents the latest incremental risk charge;
- (10) IRC_{t-i} represents the incremental risk charge calculated for i business days earlier;

- (11) z is the number of times the *incremental risk charge* was calculated in the last 12 weeks;
- (12) APR_t represents the latest *all price risk measure*;
- (13) APR_{t-i} represents the *all price risk measure* calculated for i business days earlier; and
- (14) w is the number of times the *all price risk measure* was calculated in the last 12 weeks.

Capital calculations: Multiplication factors

- 7.10.118** **R** The *multiplication factor*, for VaR and *stressed VaR*, for any *business day* is the sum of the *minimum multiplication factor* and the *plus factor* for that day.
FCA
- 7.10.119** **R** The *minimum multiplication factor*, for VaR and *stressed VaR*, is three or any higher amount the *VaR model permission* defines it as.
FCA
- 7.10.120** **G** The *minimum multiplication factor*, for VaR and *stressed VaR*, will never be less than three. If the *appropriate regulator* does set the *minimum multiplication factor*, for VaR and *stressed VaR*, above three the *VaR model permission* will have a table that sets out the reasons for that add on and specify how much of the add on is attributable to each reason (see ■ BIPRU 7.10.121R). If there are weaknesses in the *VaR model* that may otherwise be considered a breach of the minimum standards referred to in ■ BIPRU 7.10.24R the *appropriate regulator* may apply such an add on to act as a mitigant for those weaknesses.
FCA
- 7.10.121** **R** Something that would otherwise be a breach of the minimum standards in ■ BIPRU 7.10.26R - ■ BIPRU 7.10.53R is not a breach to the extent that that thing is identified in the *firm's VaR permission* as a reason for an increase in the *minimum multiplication factor*, for VaR and *stressed VaR*, above 3.
FCA
- 7.10.122** **G** Typically, any add on will be due to a specific weakness in systems and controls identified during the *appropriate regulator's* review that the *appropriate regulator* does not consider material enough to justify withholding overall model recognition. The *firm* will be expected to take action to address the reasons for any add on. The *appropriate regulator* will then review these periodically and, where satisfactory action has been taken, the add on will be removed through a variation of the *VaR model permission*.
FCA
- 7.10.123** **G** The *plus factor* system is designed so that the more often a *VaR model* has under-predicted losses in the past, the higher should be the capital requirement based on the *VaR model*. It is intended to provide a capital incentive for the *firm* to continue to improve the accuracy of its *VaR model*.
FCA
- 7.10.124** **R** The table in ■ BIPRU 7.10.125R sets out the *plus factors* to be added to the *minimum multiplication factor*, for VaR and *stressed VaR*, for any
FCA

business day. It is based on the number of *backtesting exceptions* that occurred during the backtesting period as referred to in ■ BIPRU 7.10.96R (Backtesting: Basic testing requirements) ending three *business days* preceding the *business day* for which the *model PRR* is being calculated.

7.10.125 **R**
FCA

Table: Backtesting plus factors

This table belongs to ■ BIPRU 7.10.124R

Zone	Number of recorded exceptions	Plus factor
Green	4 or less	0.00
Yellow	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red	10 or more	1.00

7.10.126 **G**
FCA

A *VaR model* that correctly predicts a one-tailed 99% confidence level is expected to produce, on average, 2.5 *backtesting exceptions* every 250 days. Random events may cause the number of *backtesting exceptions* actually observed to vary. The *plus factor* system is designed to take this into account. Hence *plus factors* are only imposed on the *firm* if it has five or more recorded *backtesting exceptions*. Therefore, where a *backtesting exception* appears to be caused simply by chance, it will not be appropriate for a *VaR model permission* to be varied to exclude that *backtesting exception* as described in ■ BIPRU 7.10.106G (Backtesting: Process for disregarding backtesting exceptions).

Capital calculations: Specific risk surcharge: transitional requirements

7.10.127 **G**
FCA

Firms who gained model recognition before 1 January 2007 will be permitted to calculate *PRR* for *specific risk* in accordance with the methodology they were permitted to use immediately before that date instead of capturing event and default risk in their models (see ■ BIPRU TP 14 (Market risk: VaR models)). This treatment will not be available to a *firm* that gains model recognition after that date.

Reporting procedures and requirements

7.10.128 **G**
FCA

A *VaR model permission* will contain requirements for what the *firm* should report to the *appropriate regulator* and the procedures for reporting. The precise requirements will vary from *VaR model permission* to *VaR model permission*.
■ BIPRU 7.10.129R-■ BIPRU 7.10.130R set out what the *appropriate regulator* regards as the standard requirements.

7.10.129 **R**
FCA

A *firm* must, no later than the number of *business days* after the end of each quarter specified in the *VaR model permission* for this purpose, submit, in respect of that quarter, a report to the *appropriate regulator* about the operation of the *VaR model*, the systems and controls relating to it and

any changes to the *VaR model* and those systems and controls. Each report must outline as a minimum the following information in respect of that quarter:

- (1) methodological changes and developments to the *VaR model*;
- (2) the introduction of all new pricing models used in connection with the *VaR model* and any changes to any pricing models used in connection with the *VaR model*, including details of any material associated valuation or risk management issues;
- (3) a summary of backtesting performance against *profit and loss figures* (if calculated) and *hypothetical profit and loss figures*, which must be provided in electronic format as stipulated by the *VaR model permission*;
- (4) (if the *VaR model permission* covers *specific risk*) the results of the *specific risk* backtesting including *specific risk backtesting exceptions*;
- (5) any change to any feeder or pre-processing systems in connection with the *VaR model*, including changes to any of the systems set out in the list described in ■ BIPRU 7.10.131G (1) (as it exists at the date of the *VaR model permission*), and any introduction of a new such system;
- (6) any changes to the products coming within the scope of the *VaR model*;
- (7) any material changes or additions to any of the matters referred to in the *firm's* internal documentation in relation to the *VaR model* (as it exists at the date of the *VaR model permission*) or to any matters subsequently notified under (7);
- (8) any changes in *senior management*;
- (9) an up-to-date list of products covered by the *VaR model permission* showing all changes made since the *VaR model permission* was granted;
- (10) where applicable (nil returns are not required), details of:
 - (a) any use of a changed historical observation period in accordance with ■ BIPRU 7.10.30R or any change in the use of any weighting scheme as described in ■ BIPRU 7.10.33R;
 - (b) any data series becoming unreliable as described in ■ BIPRU 7.10.31R and any subsequent use of alternative value-at-risk measurement techniques;

- (c) the frequency of updating data sets being increased in accordance with ■ BIPRU 7.10.34R;
 - (d) any change in the method employed to derive 10-day *VaR measure* (see ■ BIPRU 7.10.28R);
 - (e) to the extent that the use of correlations is permitted by a *firm's VaR model permission*, a summary of any notifications that are required under ■ BIPRU 7.10.37R; and
 - (f) the *VaR model* not accurately capturing risks (as referred to in ■ BIPRU 7.10.53R) and any steps taken under ■ BIPRU 7.10.53R ; and
- (11) the results of the stress tests on the *firm's correlation trading portfolio* under ■ BIPRU 7.10.55Z R, including a comparison to the current capital charge.

7.10.130

FCA

R

A *firm* must provide to, and discuss with, the *appropriate regulator* details of any significant planned changes to the *VaR model* before those changes are implemented. These details must include information about the nature of the change and an estimate of the impact on *VaR numbers* and the *incremental risk charge*.

Updating the VaR model permission

7.10.131

FCA

G

The *VaR model permission* will generally contain a list of the following:

- (1) feeder systems and pre-processing systems;
- (2) products covered by the *VaR model permission*; and
- (3) the *firm's* internal documentation in relation to the *VaR model*.

7.10.132

FCA

G

The information in ■ BIPRU 7.10.131G will vary over time. It is therefore not included in a *VaR model permission* as a *rule* but for information only. The *appropriate regulator* will update that information regularly in accordance with information supplied under ■ BIPRU 7.10.129R. That updating will not amount to a variation of the *VaR model permission*.

Link to standard PRR rules: Incorporation of the model output into the capital calculation

7.10.133

FCA

G

A *VaR model permission* will modify ■ GENPRU 2.1.52 R (Calculation of the *market risk capital requirement*) to provide that a *firm* should calculate its *market risk capital requirement* in accordance with ■ BIPRU 7.10 to the extent set out in the *VaR model permission*.

7.10.134

FCA

G

By modifying ■ GENPRU 2.1.52 R (Calculation of the *market risk capital requirement*) to allow the *firm* to use the *VaR model* to calculate all or part of its *PRR* for certain positions, the *appropriate regulator* is treating it like an *application rule*. The modification means

that the *PRR* calculation set out in ■ BIPRU 7.10 supersedes the *standard market risk PRR rules* for products and risks coming within the scope of the *VaR model permission*.

7.10.135

FCA

R

To the extent that a *position* does not fall within the scope of a *firm's VaR model permission* the *firm* must calculate the *PRR* under the *standard market risk PRR rules* or, as applicable, those provisions as modified by the *firm's CAD 1 waiver*.

7.10.136

FCA

R

- (1) This *rule* applies to a *position* of a type that comes within the scope of a *firm's VaR model permission*.
- (2) Subject to ■ BIPRU 7.10.136A R, if, where the *standard market risk PRR rules* apply, a *position* is subject to a *PRR charge* and the *firm's VaR model permission* says that it covers the risks to which that *PRR charge* relates, the *firm* must, for those risks, calculate the *PRR* for that *position* under the *VaR model approach* rather than under the *standard market risk PRR rules*.
- (3) If, where the *standard market risk PRR rules* apply, a *position* is subject to one or more *PRR charges* and the *firm's VaR model permission* does not cover all the risks to which those *PRR charges* relate, the *firm* must calculate the *PRR* for that *position* under the *VaR model approach* (for those risks that are covered) and under the *standard market risk PRR rules* (for those other risks).
- (4) Where the *standard market risk PRR rules* distinguish between *specific risk* and *general market risk* a *firm's VaR model permission* covers *specific risk* to the extent that it says it does. If the *firm's VaR model permission* does not cover *specific risk*, ■ BIPRU 7.10.143R and ■ BIPRU 7.10.144R apply.
- (5) If a *firm's VaR model permission* covers *positions* in *CIUs* it covers *specific risk* with respect to those *positions*.

7.10.136A

FCA

R

A *firm* must calculate the *market risk capital requirement* for *securitisation positions* and *positions* in the *correlation trading portfolio* in accordance with the *standard market risk PRR rules*, with the exception of those *positions* subject to the *all price risk measure*.

7.10.137

FCA

R

A *firm* may exclude from the *VaR model approach* immaterial risks within the scope of its *VaR model approach*. If a *firm* does so it must instead apply the *standard market risk PRR rules* to those risks.

7.10.138

FCA

R

- (1) If a *firm* calculates its *market risk capital requirement* using a combination of the *standard market risk PRR rules* and either the *VaR model approach* or the *VaR model approach* with the *CAD 1 model approach* the *PRR* from each method must be added together.

- (2) A *firm* must take appropriate steps to ensure that all of the approaches are applied in a consistent manner.

7.10.139

G

FCA

An example of the effect of ■ BIPRU 7.10.138R is that where a *firm* normally calculates the PRR for a particular portfolio using a *VaR model*, a *firm* should not switch to the *standard market risk PRR rules* purely to achieve a more attractive PRR.

7.10.140

R

FCA

If:

- (1) the *standard market risk PRR rules* provide for a choice of which of the *PRR charges* to use or specify that one type must be used in some circumstances and that another type must be used in other circumstances;
- (2) one of those types is disapplied under ■ BIPRU 7.10.136R; and
- (3) the other type is not disapplied;

the *firm*:

- (4) must use the *VaR model approach* if under the *standard market risk PRR rules* the *firm* must use the *standard market risk PRR rules* in (2); and
- (5) may use the *VaR model approach* if under the *standard market risk PRR rules* the *firm* may use the *standard market risk PRR rules* in (2).

7.10.141

G

FCA

The treatment of a *convertible* is an example of a situation in which ■ BIPRU 7.10.140R applies. The table in ■ BIPRU 7.3.3R (Table: Instruments which result in notional positions) shows that there are circumstances in which under the *standard market risk PRR rules* a *firm* should calculate an *equity PRR* and that there are circumstances in which a *firm* may choose between calculating an *equity PRR* and an *interest rate PRR*. ■ BIPRU 7.10.140R would be relevant if a *firm's VaR model permission* only covers one of *equity risk* and *interest rate risk*.

7.10.142

R

FCA

The *standard market risk PRR rules* for the *option PRR* are only disapplied to the extent that the derived positions arising under ■ BIPRU 7.6.13R (Table: Derived positions) come within the scope of the *VaR model permission*.

Link to standard PRR rules: General market risk only

7.10.143

R

FCA

If a *firm's VaR model permission* covers *interest rate general market risk* but not *interest rate specific risk*, the *firm* must calculate the *interest rate PRR* so far as it relates to *interest rate specific risk* in accordance with the *standard market risk PRR rules* except that the *firm* must not use the basic *interest rate PRR* calculation in ■ BIPRU 7.3.45R (Basic interest rate calculation for equity instruments).

Link to standard PRR rules: General market risk only

7.10.144

R

FCA

If a *firm's VaR model permission* covers *equity general market risk* but not *equity specific risk*, the *firm* must calculate the *equity PRR* so far as it relates to *equity specific risk* in accordance with the *standard market risk PRR rules* except that the *PRR for equity specific risk* must be calculated under the *standard equity method*.

Link to standard PRR rules: Miscellaneous

7.10.145

R

FCA

- (1) To the extent that a *firm's VaR model permission* does not allow it to use an approach set out in ■ BIPRU 7.10 the relevant provisions in ■ BIPRU 7.10 do not apply to that *firm*.
- (2) If a provision of the *Handbook* refers to ■ BIPRU 7.10, that reference must, in the case of a particular *firm* with a *VaR model permission*, be treated as excluding provisions of ■ BIPRU 7.10 that do not apply under the *VaR model permission* and as taking into account any modifications to ■ BIPRU 7.10 made by the *VaR model permission*. Such references also include requirements and conditions contained in the *VaR model permission* but not ■ BIPRU 7.10 and to the *rules* modified by the *VaR model permission*.

Requirement to use value at risk methodology

7.10.146

R

FCA

A *VaR model* must be a value-at-risk model. It must provide an estimate of the worst expected loss on a portfolio resulting from market movements over a period of time with the specified confidence level.

Ceasing to meet the requirements of BIPRU 7.10

7.10.147

G

FCA

If a *firm* ceases to meet any of the requirements set out in ■ BIPRU 7.10, the *appropriate regulator's* policy is that the *VaR model permission* should cease to have effect. In part this will be achieved by making it a condition of a *firm's VaR model permission* that it complies at all times with the minimum standards referred to in ■ BIPRU 7.10.26R - ■ BIPRU 7.10.53R. Even if they are not formally included as conditions, the *appropriate regulator* is likely to consider revoking the *VaR model permission* if the requirements are not met.

7.10.148

R

FCA

If a *firm* ceases to meet the conditions or requirements in its *VaR model permission* or ■ BIPRU 7.10 it must notify the *appropriate regulator* at once.

Changes to a VaR model

7.10.149

R

FCA

A *firm* may change its *VaR model* to such extent as it sees fit, except that it must not make a change that (either on its own or together with other changes since the date of *VaR model permission*) would:

- (1) be inconsistent with *VaR model permission* or ■ BIPRU 7.10; or

-
- (2) mean that backtesting in accordance with ■ BIPRU 7.10 and the *VaR model permission* would result in the use of data that is inappropriate for the purposes of measuring the performance of the *VaR model*.

7.11 Credit derivatives in the trading book

Scope

7.11.1
FCA

R This section applies to the treatment of credit derivatives in the *trading book*.

Establishment of positions created by credit derivatives: Treatment of the protection seller

7.11.2
FCA

R ■ BIPRU 7.11.3R - ■ BIPRU 7.11.11R relate to the treatment of the *protection seller* for the purpose of calculating the *securities PRR*. Positions are determined in accordance with ■ BIPRU 7.11.4R - ■ BIPRU 7.11.11R.

7.11.3
FCA

- R**
- (1) When calculating the *PRR* of the *protection seller*, unless specified differently by other *rules* and subject to (2), the notional amount of the credit derivative contract must be used. For the purpose of calculating the *specific risk PRR charge*, other than for total return swaps, the maturity of the credit derivative contract is applicable instead of the maturity of the obligation.
 - (2) When calculating the *PRR* of the *protection seller*, a *firm* may choose to replace the notional value of the credit derivative by the notional value adjusted for changes in the *market value* of the credit derivative since trade inception.

7.11.4
FCA

R A total return swap creates a long *position* in the *general market risk* of the reference obligation and a short *position* in the *general market risk* of a *zero-specific-risk security* with a maturity equivalent to the period until the next interest fixing and which is assigned a 0% *risk weight* under the *standardised approach* to credit risk. It also creates a long *position* in the *specific risk* of the reference obligation.

7.11.5
FCA

R A credit default swap does not create a *position* for *general market risk*. For the purposes of *specific risk*, a *firm* must record a synthetic long *position* in an obligation of the reference entity, unless the derivative is rated externally and meets the conditions for a *qualifying debt security*, in which case a long *position* in the derivative is recorded. If premium or interest payments are due under the product, these cash flows must be represented as notional *positions* in *zero-specific-risk securities*.

7.11.6 **R** A single name credit linked note creates a long *position* in the *general market risk* of the note itself, as an interest rate product. For the purpose of *specific risk*, a synthetic long *position* is created in an obligation of the reference entity. An additional long *position* is created in the issuer of the note. Where the credit linked note has an external rating and meets the conditions for a *qualifying debt security*, a single long *position* with the *specific risk* of the note need only be recorded.

7.11.7 **R** In addition to a long *position* in the *specific risk* of the issuer of the note, a multiple name credit linked note providing proportional protection creates a *position* in each reference entity, with the total notional amount of the contract assigned across the *positions* according to the proportion of the total notional amount that each exposure to a reference entity represents. Where more than one obligation of a reference entity can be selected, the obligation with the highest *risk weighting* determines the *specific risk*.

7.11.8 **R** Where a multiple name credit linked note has an external rating and meets the conditions for a *qualifying debt security*, a single long *position* with the *specific risk* of the note need only be recorded.

7.11.9 **R** A first-asset-to-default credit derivative creates a *position* for the notional amount in an obligation of each reference entity. If the size of the maximum credit event payment is lower than the *PRR* requirement under the method in the first sentence of this *rule*, the maximum payment amount may be taken as the *PRR* requirement for *specific risk*.

7.11.10 **R** A second-asset-to-default credit derivative creates a *position* for the notional amount in an obligation of each reference entity less one (that with the lowest *specific risk PRR* requirement). If the size of the maximum credit event payment is lower than the *PRR* requirement under the method in the first sentence of this *rule*, this amount may be taken as the *PRR* requirement for *specific risk*.

7.11.11 **R** If an *n*th-to-default derivative is externally rated and meets the conditions for a *qualifying debt security*, then the *protection seller* need only calculate one *specific risk* charge reflecting the rating of the derivative. The *specific risk* charge must be based on the *securitisation PRAs* in ■ BIPRU 7.2 as applicable.

Establishment of positions created by credit derivatives: Treatment of the protection buyer

7.11.12 **R** For the *protection buyer*, the *positions* are determined as the mirror principle of the *protection seller*, with the exception of a credit linked note (which entails no short *position* in the issuer). If at a given moment there is a call option in combination with a *step-up*, such moment is treated as the maturity of the protection. In the case of first-to-default credit derivatives and *n*th to default credit derivatives, the treatment in ■ BIPRU 7.11.12AR and ■ BIPRU 7.11.12B R applies instead of the mirror principle .

[Note: CAD Annex I point 8.B]

7.11.12A

FCA

R

Where a *firm* obtains credit protection for a number of reference entities underlying a credit derivative under the terms that the first default among the assets will trigger payment and that this credit event will terminate the contract, the *firm* may off-set specific risk for the reference entity to which the lowest specific risk percentage charge among the underlying reference entities applies according to the Table in ■ BIPRU 7.2.44R.

[Note: CAD Annex I point 8.B]

7.11.12B

FCA

R

Where the n^{th} default among the exposures triggers payment under the credit protection, the *protection buyer* may only off-set specific risk if protection has also been obtained for defaults 1 to $n-1$ or when $n-1$ defaults have already occurred. In those cases, the methodology set out in ■ BIPRU 7.11.12AR for first-to-default credit derivatives must be followed, appropriately modified for n^{th} -to-default products.

[Note: CAD Annex I point 8.B]

Deriving the net position in each debt security: Credit derivatives

7.11.12C

FCA

R

A *firm* must calculate both the net long and the net short positions in credit derivatives by applying ■ BIPRU 7.2.36 R and ■ BIPRU 7.2.37 R and, where applicable, ■ BIPRU 7.2.42A R to ■ BIPRU 7.2.42C R or ■ BIPRU 7.11.13 R to ■ BIPRU 7.11.17 R.

Recognition of hedging provided by credit derivatives

7.11.13

FCA

R

(1) ■ BIPRU 7.11.14R - ■ BIPRU 7.11.17R relate to *specific risk PRR* for *trading book positions* hedged by credit derivatives for the purposes of the calculation of the *securities PRR*.

(2) A *firm* may take an allowance for protection provided by credit derivatives for the purposes in (1) in accordance with the principles set out in the *rules* referred to in (1).

(3) [deleted]

7.11.14

FCA

R

(1) A *firm* may take full allowance when the value of two legs always move in the opposite direction and broadly to the same extent.

(2) This will be the case in the following situations:

(a) the two legs consist of completely identical instruments; or

(b) a long cash *position* is hedged by a total rate of return swap (or vice versa) and there is an exact match between the reference obligation and the underlying exposure (i.e., the cash *position*).

- (3) The maturity of the swap itself may be different from that of the underlying exposure for the purposes of (2)(b).
- (4) In these situations, a *firm* must not apply a *specific risk PRR* to either side of the *position*.

7.11.15

FCA

R

An 80% offset may be applied when the value of two legs always move in the opposite direction and where there is an exact match in terms of the reference obligation, the maturity of both the reference obligation and the credit derivative, and the currency of the underlying exposure. In addition, key features of the credit derivative contract must not cause the price movement of the credit derivative materially to deviate from the price movements of the cash *position*. To the extent that the transaction transfers risk, an 80% *specific risk* offset may be applied to the side of the transaction with the higher *PRR*, while the *specific risk* requirements on the other side are zero.

7.11.16

FCA

R

- (1) A *firm* may take partial allowance when the value of two legs usually move in the opposite direction. This would be the case in the situations set out in (2) - (4).
- (2) The first situation referred to in (1) is that the *position* falls under ■ BIPRU 7.11.16 R (2)(b) but there is an asset mismatch between the reference obligation and the underlying exposure. However, the *positions* meet the following requirements:
 - (a) the reference obligation ranks *pari passu* with or is junior to the underlying obligation; and
 - (b) the underlying obligation and reference obligation share the same obligor and have legally enforceable cross-default or cross-acceleration clauses.
- (3) The second situation referred to in (1) is that the *position* falls under ■ BIPRU 7.11.14 R (2)(a) or ■ BIPRU 7.11.15 R but there is a currency or maturity mismatch between the credit protection and the underlying asset (currency mismatches must be included in the normal reporting with respect to the *foreign currency PRR*).
- (4) The third situation referred to in (1) is that the *position* falls under ■ BIPRU 7.11.15 R but there is an asset mismatch between the cash *position* and the credit derivative. However, the underlying asset is included in the (deliverable) obligations in the credit derivative documentation.
- (5) In each of those situations, rather than adding the *specific risk PRR* requirements for each side of the transaction, only the higher of the two *PRR* requirements applies.

7.11.17 FCA	R	In all situations not falling under ■ BIPRU 7.11.14 R - ■ BIPRU 7.11.16 R, a firm must assess a <i>specific risk PRR charge</i> against both sides of the positions.
		Specific risk calculation
7.11.18	R	[deleted]
7.11.19	R	[deleted]
7.11.20 FCA	R	The <i>specific risk</i> portion of the <i>interest rate PRR</i> for credit derivatives in the <i>trading book</i> must be calculated in accordance with ■ BIPRU 7.2.43 R to ■ BIPRU 7.2.46A G (Specific risk calculation), ■ BIPRU 7.2.48A R to ■ BIPRU 7.2.48K R (Specific risk: securitisations and re-securitisations), ■ BIPRU 7.2.48L R (Specific risk: Correlation trading portfolio), ■ BIPRU 7.2.49 R to ■ BIPRU 7.2.51 G (Definition of a qualifying debt security) and the other provisions of ■ BIPRU 7.11, as applicable.
7.11.21	R	[deleted]
7.11.22	R	[deleted]
7.11.23	R	[deleted]
7.11.24	R	[deleted]
7.11.25	R	[deleted]
7.11.26	R	[deleted]
7.11.27	R	[deleted]
7.11.28	R	[deleted]
7.11.29	R	[deleted]
7.11.30	R	[deleted]
7.11.31	R	[deleted]
7.11.32	R	[deleted]
7.11.33	R	[deleted]
7.11.34	R	[deleted]
7.11.35	R	[deleted]
7.11.36	R	[deleted]

7.11.37	R	[deleted]
7.11.38	R	[deleted]
7.11.39	R	[deleted]
7.11.40	R	[deleted]
7.11.41	R	[deleted]
7.11.42	R	[deleted]
7.11.43	R	[deleted]
7.11.44	R	[deleted]
7.11.45	R	[deleted]
7.11.46	R	[deleted]
7.11.47	G	[deleted]
7.11.48	R	[deleted]
7.11.49	R	[deleted]
7.11.50	R	[deleted]
7.11.51	R	[deleted]
7.11.52	R	[deleted]
7.11.53	R	[deleted]
7.11.54	R	[deleted]
7.11.55	R	[deleted]
7.11.56	R	[deleted]
7.11.57	R	[deleted]
7.11.58	R	[deleted]

PAGE
147**Valuation**

7.11.59	G	■ GENPRU 1.3.29 R - ■ GENPRU 1.3.35 G (General requirements: Valuation adjustments or reserves) are particularly relevant for a <i>firm</i> trading credit derivatives, especially for credit default swaps that are also <i>securitisation positions</i> .
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FCA

Other risks relating to credit derivatives

- 7.11.60 **R** A *firm* must be able to describe, demonstrate and explain to the *appropriate regulator* its trading strategies in relation to credit derivatives both in theory and in practice.
FCA
- 7.11.61 **G** ■ BIPRU 7.11.62 G - ■ BIPRU 7.11.63 G cover risks relating to credit derivatives that may not be captured in this section. This *guidance* is of particular relevance to the *overall financial adequacy rule*, the *overall Pillar 2 rule* and the *general stress and scenario testing rule*.
FCA
- 7.11.62 **G** ■ BIPRU 7.11.5 R requires a *firm* to recognise any premiums payable or receivable under the contract as notional *zero-specific-risk securities*. These *positions* are then entered into the *general market risk* framework. As premium payments paid under such contracts are contingent on no credit event occurring, a credit event could significantly change the *general market risk* capital requirement. A *firm* should consider, under the *overall Pillar 2 rule*, whether this risk means that the capital requirements under this section materially understate the *firm's general market risk* position.
FCA
- 7.11.63 **G** If a *firm* recognises profits on a non-accrual basis it should consider whether the capital requirements for its credit derivatives business adequately cover the risk that any recognised profit may not be achieved due to a credit event occurring. This includes *positions* for which the *firm* may have a perfect hedge in place.
FCA
- 7.11.64 **G** [deleted]

Chapter 8

Group risk consolidation

8.1 Application

8.1.1

FCA

R

This chapter applies to:

- (1) a *BIPRU firm* that is a member of a *UK consolidation group*;
- (2) a *BIPRU firm* that is a member of a *non-EEA sub-group*; and
- (3) [deleted]
- (4) a *firm* that is not a *BIPRU firm* and is a *parent financial holding company in a Member State in a UK consolidation group*.

8.1.2

FCA

R

This chapter does not apply to a *firm* in ■ BIPRU 8.1.1 R (1) to ■ BIPRU 8.1.1R (3) which is a member of the *UK consolidation group* or *non-EEA sub-group* if the interest of the relevant *UK consolidation group* or *non-EEA sub-group* in that *firm* is no more than a *participation*.

8.1.2A

FCA

R

A *firm* is not subject to consolidated supervision under ■ BIPRU 8 where any of the following conditions are fulfilled:

- (1) the *firm* is included in the supervision on a *consolidated basis* of the *group* of which it is a member by the *FCA* or *PRA* under the *EU CRR*; or
- (2) the *firm* is included in the supervision on a *consolidated basis* of the *group* of which it is a member by a *competent authority* other than the *FCA* under the *EU CRR* as implemented by that *competent authority*.

8.1.2B

FCA

R

Where a *group* includes one or more *BIPRU firms* and one or more *IFPRU investment firms* which has permission under article 19 of the *EU CRR* (Exclusion from the scope of prudential consolidation) from the *FCA* not to be included in the supervision on a *consolidated basis* of the *group* of which it is a member, consolidated supervision under ■ BIPRU 8 applies to those *IFPRU investment firms* and the *BIPRU firms*.

Purpose

8.1.3

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Pursuant to the third paragraph of article 95(2) of the *EU CRR*, this chapter implements articles 71, 73(1) and (2), 125, 126, 127(1), 133 and 134 of the *Banking Consolidation Directive* and articles 2 (in part), 22-27 and 37(1) (in part) of the *Capital Adequacy Directive*.

How this chapter is organised

8.1.4

FCA

G

■ BIPRU 8.2 sets out the definition of *UK consolidation group* and the basic requirement to apply financial resources and concentration risk requirements to that group on a consolidated basis.

8.1.5

FCA

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■ BIPRU 8.3 sets out the definition of a *non-EEA sub-group* and the basic requirement to apply financial resources and concentration risk requirements to that group on a consolidated basis.

8.1.6

FCA

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■ BIPRU 8.4 sets out how a group of *CAD investment firms* can apply for a *waiver* from consolidated capital requirements although remaining subject to consolidated supervision (including reporting requirements).

8.1.7

FCA

G

■ BIPRU 8.5 sets out the basis for including and excluding *undertakings* within the group for the purposes of consolidation.

8.1.8

FCA

G

■ BIPRU 8.6 sets out the calculation of the *consolidated capital resources* of a group and the limits that apply.

8.1.9

FCA

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■ BIPRU 8.7 sets out the calculation of the *consolidated capital resources requirement* of a group.

8.1.10

FCA

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■ BIPRU 8.8 deals with the application of *advanced prudential calculation approach* on a consolidated basis.

8.1.11

FCA

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■ BIPRU 8.9 sets out consolidated concentration risk requirements.

Consolidation requirements for BIPRU firms elsewhere in the Handbook

8.1.12

FCA

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■ SYSC 12 (Group risk systems and controls requirement) deals with systems and controls requirements for groups.

8.1.13

FCA

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■ GENPRU 1.2 (Adequacy of financial resources) deals with the detail about how
 ■ GENPRU 1.2 applies on a consolidated basis although the underlying requirement to apply it on a consolidated basis is in ■ BIPRU 8.2 and ■ BIPRU 8.3.

8.1.14

FCA

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■ BIPRU 11 (Disclosure) itself deals with how that chapter is applied on a consolidated basis.

8.1.15

FCA

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■ GENPRU 3.1 (Cross sector groups) deals with *financial conglomerates*.

8.1.16

FCA

G

■ GENPRU 3.2 (Prudential rules for third country groups) deals, amongst other things, with banking and investment services groups headed by a *parent undertaking* outside the *EEA*.

8.2 Scope and basic consolidation requirements for UK consolidation groups

Main consolidation rule for UK consolidation groups

8.2.1

FCA

R

A *firm* that is a member of a *UK consolidation group* must comply, to the extent and in the manner prescribed in ■ BIPRU 8.5, with the obligations laid down in ■ GENPRU 1.2 (Adequacy of financial resources), the *main BIPRU firm Pillar 1 rules* (but not the *base capital resources requirement*) and ■ BIPRU 10 (Large exposures requirements) on the basis of the consolidated financial position of:

- (1) where either Test 1A or Test 1B in ■ BIPRU 8 Annex 1 R (Decision tree identifying a UK consolidation group) apply, the *parent institution in a Member State in the UK consolidation group*; or
- (2) where either Test 1C or Test 1D in ■ BIPRU 8 Annex 1 R apply, the *parent financial holding company in a Member State* or the *parent mixed financial holding company in a Member State*.

8.2.2

FCA

R

Further to ■ BIPRU 8.2.1 R, a *firm* that is a member of a *UK consolidation group* must at all times ensure that the *consolidated capital resources* of the *UK consolidation group* are equal to or exceed its *consolidated capital resources requirement*.

8.2.3

FCA

G

The *base capital resources requirement* does not apply on a consolidated basis.

Definition of UK consolidation group

8.2.4

FCA

R

A *firm's UK consolidation group* means a group that is identified as a *UK consolidation group* in accordance with the decision tree in ■ BIPRU 8 Annex 1 R (Decision tree identifying a UK consolidation group); the members of that group are:

- (1) where either Test 1A or Test 1B in ■ BIPRU 8 Annex 1 R apply, the members of the *consolidation group* made up of the *sub-group* of the *parent institution in a Member State* identified in ■ BIPRU 8 Annex 1 R together with any other *person* who is a member of that *consolidation group* because of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*; or

- (2) where either Test 1C or Test 1D in ■ BIPRU 8 Annex 1 R apply, the members of the *consolidation group* made up of the *sub-group* of the *parent financial holding company in a Member State* or the *parent mixed financial holding company in a Member State* identified in ■ BIPRU 8 Annex 1 R together with any other *person* who is a member of that *consolidation group* because of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*;

in each case only *persons* included under ■ BIPRU 8.5 (Basis of consolidation) are included in the *UK consolidation group*.

8.2.5

FCA

R

For the purposes of this chapter, what would otherwise be a *UK consolidation group* is not a *UK consolidation group* if all the members of that *UK consolidation group* wholly form part of another *UK consolidation group*.

8.2.6

FCA

G

■ BIPRU 8 Annex 2 G (Examples of how to identify a UK consolidation group) sets out examples of how to identify a *UK consolidation group*.

8.2.7

FCA

G

■ BIPRU 8 Annex 1 R (Decision tree identifying a UK consolidation group) shows that Articles 125 and 126 of the *Banking Consolidation Directive* are important in deciding whether the *appropriate regulator* is obliged to supervise a group or part of a group and hence whether that group or part of a group is a *UK consolidation group*.

■ BIPRU 8 Annex 4 G (Text of Articles 125 and 126 of the *Banking Consolidation Directive*) sets out these articles together with an explanation of how those articles should be read in the case of a group which also contains *CAD investment firms*.

8.3 Scope and basic consolidation requirements for non-EEA sub-groups

Main consolidation rule for non-EEA sub-groups

8.3.1

FCA

R

- (1) A *BIPRU firm* that is a *subsidiary undertaking* of a *BIPRU firm* or of a *financial holding company* or of a *mixed financial holding company* must apply the requirements laid down in ■ GENPRU 1.2 (Adequacy of financial resources) and the *main BIPRU firm Pillar 1 rules* (but not the *base capital resources requirement*) on a sub-consolidated basis if the *BIPRU firm*, or the *parent undertaking* where it is a *financial holding company* or a *mixed financial holding company*, have a *third country investment services undertaking* as a *subsidiary undertaking* or hold a *participation* in such an *undertaking*.
- (2) (1) only applies if the *appropriate regulator* is required by the *Banking Consolidation Directive* or the *Capital Adequacy Directive* to supervise the group established under (1) under Article 73(2) of the *Banking Consolidation Directive* (Non-EEA sub-groups).

8.3.2

FCA

R

Further to ■ BIPRU 8.3.1 R, a *firm* that is a member of a *non-EEA sub-group* must at all times ensure that the *consolidated capital resources* of that *non-EEA sub-group* are equal to or exceed its *consolidated capital resources requirement*.

8.3.3

FCA

G

The *base capital resources requirement* does not apply on a consolidated basis.

8.3.4

FCA

G

The *sub-group* identified in ■ BIPRU 8.3.1 R is called a *non-EEA sub-group*.

How to identify a non-EEA sub-group

8.3.5

G

[deleted]

8.3.6

FCA

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The remainder of this section sets out a process for identifying a *non-EEA sub-group* in straightforward cases.

8.3.7

FCA

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A *firm* will not be a member of a *non-EEA sub-group* unless it is also a member of a *UK consolidation group*. So the first step is to identify each *undertaking* in the *firm's UK consolidation group* that satisfies the following conditions:

- (1) it is a *CAD investment firm, financial institution or asset management company* whose head office is outside the *EEA* (a *third country investment services undertaking*);
- (2) one of the following applies:
 - (a) it is a *subsidiary undertaking* of a *BIPRU firm* in that *UK consolidation group*; or
 - (b) a *BIPRU firm* in that *UK consolidation group* holds a *participation* in it; and
- (3) that *BIPRU firm* is not a *parent institution in a Member State*.

8.3.8

FCA

G

The *sub-group* of the *BIPRU firm* identified in ■ BIPRU 8.3.7 G (2)(a) or ■ BIPRU 8.3.7 G (2)(b) is a potential *non-EEA sub-group*.

8.3.9

FCA

G

If more than one *BIPRU firm* is a direct or indirect *parent undertaking* in accordance with ■ BIPRU 8.3.7 G (2)(a) then the *sub-groups* of each of them are all potential *non-EEA sub-groups*.

8.3.10

FCA

G

Similarly if there is more than one *BIPRU firm* that holds a *participation* in the *third country investment services undertaking* in accordance with ■ BIPRU 8.3.7 G (2)(b) then the *sub-group* of each such *BIPRU firm* is a potential *non-EEA sub-group*.

8.3.11

FCA

G

The effect of ■ BIPRU 8.3.7 G (3) is that a *non-EEA sub-group* cannot be headed by a *parent institution in a Member State*.

8.3.12

FCA

G

The *firm* should then identify each *undertaking* in the *firm's UK consolidation group* that satisfies the following conditions:

- (1) it is a *CAD investment firm, financial institution or asset management company* whose head office is outside the *EEA* (a *third country banking or investment services undertaking*);
- (2) one of the following applies:
 - (a) it is a *subsidiary undertaking* of a *financial holding company* in that *UK consolidation group*; or
 - (b) a *financial holding company* in that *UK consolidation group* holds a *participation* in it;
- (3) the head office of that *financial holding company* is in the *United Kingdom*; and

(4) that *financial holding company* has a *subsidiary undertaking* that is a *BIPRU firm*.

8.3.13

FCA

G

The *sub-group* of the *financial holding company* identified in ■ BIPRU 8.3.12 G (2)(a) or ■ BIPRU 8.3.12 G (2)(b) is a potential *non-EEA sub-group*.

8.3.14

FCA

G

The *financial holding company* identified in ■ BIPRU 8.3.12 G may be a *parent financial holding company in a Member State*.

8.3.15

FCA

G

If more than one *financial holding company* is a direct or indirect *parent undertaking* in accordance with ■ BIPRU 8.3.12 G (2)(a) then the *sub-groups* of each of them are all potential *non-EEA sub-groups*.

8.3.16

FCA

G

Similarly if there is more than one *financial holding company* that holds a *participation* in the *third country investment services undertaking* in accordance with ■ BIPRU 8.3.12 G (2)(b) then the *sub-group* of each such *financial holding company* is a potential *non-EEA sub-group*.

8.3.17

FCA

G

The *firm* should apply the process in ■ BIPRU 8.3.12 G to a *third country banking services undertaking* even though it may be also be part of a potential *non-EEA sub-group* under ■ BIPRU 8.3.7 G.

8.3.18

FCA

G

Having identified potential *non-EEA sub-groups* for each *third country investment services undertaking* in its *UK consolidation group* the *firm* should then eliminate overlapping potential *non-EEA sub-groups* in the following way. If:

- (1) one potential *non-EEA sub-group* is contained within a wider potential *non-EEA sub-group*; and
- (2) the *third country investment services undertakings* in the two potential *non-EEA sub-groups* are the same;

then the smaller potential *non-EEA sub-group* is eliminated.

8.3.19

FCA

G

If there is a chain of three or more potential *non-EEA sub-groups*, each with the same *third country investment services undertakings*, the elimination process may remove all but the highest.

8.3.20

FCA

G

Each remaining potential *non-EEA sub-group* is a *non-EEA sub-group*, even though it may be part of a wider *non-EEA sub-group*.

8.3.21

G

[deleted]

8.3.22

FCA

G

If a *UK consolidation group* is headed by a *parent financial holding company in a Member State* the result of the elimination process may be that a *firm's UK consolidation group* contains only one *non-EEA sub-group* and that the *non-EEA sub-group* is the same as the

UK consolidation group. In theory that means that there are two sets of consolidation requirements, one in relation to the *UK consolidation group* and one in relation to the *non-EEA sub-group*. However as the *UK consolidation group* and the *non-EEA sub-group* are the same, in practice this means that the additional *non-EEA sub-group* consolidation disappears.

8.3.23

FCA

G

Even where the requirements for a *non-EEA sub-group* are absorbed into those for the *UK consolidation group* a firm should still make clear in its regulatory reporting that the consolidation figures relate to a *UK consolidation group* and a *non-EEA sub-group* and that they both contain the same members.

8.3.24

FCA

G

The examples in this section have so far assumed that the only *EEA State* involved is the *United Kingdom*. If a potential *non-EEA sub-group* that would otherwise be regulated by the *appropriate regulator* contains a potential *non-EEA sub-group* in another *EEA State* then the *United Kingdom* one is eliminated if the *third country investment services undertaking* in the *UK* potential *non-EEA sub-group* and the potential *non-EEA sub-group* in the other *EEA State* are the same. The intention here is that the *EEA competent authority* closest to the *third country investment services undertaking* should be responsible for the *non-EEA sub-group* subconsolidation. Example 6 in ■ BIPRU 8 Annex 3 G (Examples of how to identify a non-EEA sub-group) illustrates this situation.

8.4 CAD Article 22 groups and investment firm consolidation waiver

Application

8.4.1 **R** This section applies to a *BIPRU firm* with an *investment firm consolidation waiver*.
FCA

8.4.1A **G** An *investment firm consolidation waiver* may be applied for by a *BIPRU firm* only.
FCA

The effect of an investment firm consolidation waiver and the conditions for getting one

8.4.2 **G** A *BIPRU investment firm* may apply for a *waiver* of the requirement in this chapter to apply capital requirements on a consolidated basis. Such a *waiver* is called an *investment firm consolidation waiver*.
FCA

8.4.3 **G** An *investment firm consolidation waiver* will waive the application of ■ BIPRU 8.2.1 R and ■ BIPRU 8.2.2 R (if it applies with respect to a *UK consolidation group*) or ■ BIPRU 8.3.1 R and ■ BIPRU 8.3.2 R (if it applies with respect to a *non-EEA sub-group*). The effect will be to switch off this chapter with respect to the group in question apart from this section.
FCA

8.4.4 **G** The *FCA* will not grant an *investment firm consolidation waiver* unless:

- (1) the *UK consolidation group* or *non-EEA sub-group* meets the conditions for being a *CAD Article 22 group*;
- (2) the *FCA* is satisfied that each *BIPRU firm* in the *UK consolidation group* or *non-EEA sub-group* will be able to meet its capital requirements using the calculation of *capital resources* in ■ GENPRU 2 Annex 6 R (Capital resources table for a *BIPRU investment firm* with a waiver from consolidated supervision); and
- (3) the *firm* demonstrates that the requirements in ■ BIPRU 8.4.11 R to ■ BIPRU 8.4.18 R will be met.

8.4.5 **G** The standards in ■ BIPRU 8.4.4 G are minimum standards. Satisfaction of these conditions does not automatically mean the *FCA* will give an *investment firm consolidation waiver*. The *FCA* will in addition also apply the tests in Section 138A of the *Act* (Modification or waiver of rules).
FCA

8.4.6

FCA

G

■ SUP 8 (Waiver and modification of rules) and ■ BIPRU 1.3 (Application for advanced approaches) are also relevant to applications for an *investment firm consolidation waiver*.

Meeting the terms of an investment firm consolidation waiver

8.4.7

FCA

R

If a *firm* has an *investment firm consolidation waiver* with respect to its *UK consolidation group* or *non-EEA sub-group* but that *UK consolidation group* or *non-EEA sub-group* ceases to meet the definition of a *CAD Article 22 group* the *firm* must comply with the rest of this chapter rather than this section notwithstanding the *investment firm consolidation waiver*.

8.4.8

FCA

G

Compliance with the capital requirements set out in ■ BIPRU 8.4.11 R is a condition under the *Capital Adequacy Directive* for the exemption from capital requirements. Thus if they are breached the *FCA* is likely to revoke the *investment firm consolidation waiver*.

Definition of a CAD Article 22 group

8.4.9

FCA

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- (1) A *CAD Article 22 group* means a *UK consolidation group* or *non-EEA sub-group* that meets the conditions in this *rule*.
- (2) There must be no *bank*, *building society*, *credit institution* or *investment firm* in the *UK consolidation group* or *non-EEA sub-group*.
- (3) Each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* which is an *EEA firm* must use the definition of own funds given in the *CRD implementation measure* of its *EEA State* for Article 16 of the *Capital Adequacy Directive*.
- (4) Each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* must be a:
 - (a) *limited activity firm*; or
 - (b) *limited licence firm*.
- (5) Each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* which is an *EEA firm* must:
 - (a) meet the requirements imposed by the *CRD implementation measures* of its *EEA State* for Articles 18 and Article 20 of the *Capital Adequacy Directive* on an individual basis; and
 - (b) deduct from its own funds any contingent liability in favour of other members of the *UK consolidation group* or *non-EEA sub-group*.

- (6) Each *BIPRU firm* in the *UK consolidation group* or *non-EEA sub-group* must comply with the *main BIPRU firm Pillar 1 rules* on an individual basis.

8.4.10

FCA

G

■ GENPRU 2.2 (Capital resources) says that a *BIPRU firm* with an *investment firm consolidation waiver* should calculate its *capital resources* on a solo basis using ■ GENPRU 2 Annex 6 R (Capital resources table for a *BIPRU firm* with a waiver from consolidated supervision). ■ GENPRU 2 Annex 6 R requires a *BIPRU firm* to deduct contingent liabilities in favour of other members of the *UK consolidation group* or *non-EEA sub-group*. Therefore ■ BIPRU 8.4.9 R (5)(b) only imposes the requirement to deduct them on *EEA firms*.

Capital adequacy obligations relating to a CAD Article 22 group: General rule

8.4.11

FCA

R

If a *firm* has an *investment firm consolidation waiver*, it must ensure that any *financial holding company* in the *UK consolidation group* or the *non-EEA sub-group* that is the *UK parent financial holding company in a Member State* of a *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* has capital resources, calculated under ■ BIPRU 8.4.12 R, in excess of the sum of the following (or any higher amount specified in the *investment firm consolidation waiver*):

- (1) the sum of the solo notional capital resources requirements for each *CAD investment firm, financial institution, asset management company* and *ancillary services undertaking* in the *UK consolidation group* or the *non-EEA sub-group*, as calculated in accordance with ■ BIPRU 8.4.13 R; and
- (2) the total amount of any contingent liability in favour of *CAD investment firms, financial institutions, asset management companies* and *ancillary services undertakings* in the *UK consolidation group* or *non-EEA sub-group*.

Capital adequacy obligations relating to a CAD Article 22 group: Capital resources

8.4.12

FCA

R

A *firm* must calculate the capital resources of the *parent financial holding company in a Member State* for the purpose of ■ BIPRU 8.4.11 R as follows:

- (1) the capital resources are the sum of *capital resources* calculated at stages D (Total tier one capital before deductions) and I (Total tier two capital) of the version of the *capital resources table* in ■ GENPRU 2 Annex 4 R (Capital resources table for a *BIPRU investment firm* deducting material holdings) as adjusted in accordance with this *rule*;
- (2) *capital resources* at stage D must not include *innovative tier one capital resources*, but they may be included at stage I if (5) allows this;

- (3) the amount of the items which may be included at stage I must not exceed the amount calculated at stage D of the *capital resources table*;
- (4) the amount of the items which may be included in *lower tier two capital* in stage I must not exceed 50% of the amount calculated at stage D of the *capital resources table*; and
- (5) ■ GENPRU 2.2.25 R (Limits on the use of different forms of capital: Use of higher tier capital in lower tiers) and ■ GENPRU 2.2.27 R (Use of *innovative tier one capital* in lower stages of capital) apply.

Capital adequacy obligations relating to a CAD Article 22 group: Capital resources requirement

8.4.13

FCA

R

The solo notional capital resources requirement as referred to in ■ BIPRU 8.4.11 R (1) is calculated in the same way as the *capital resources requirement* for a BIPRU firm.

8.4.14

FCA

R

A firm must exclude *material holdings* in the notional calculation of the *credit risk capital requirement* for the purposes of ■ BIPRU 8.4.13 R. A firm must identify whether it has any *material holdings* and the amount of them in accordance with ■ GENPRU 2.2 (Capital resources) and ■ GENPRU 2 Annex 4 R (Capital resources table for a BIPRU investment firm deducting material holdings).

8.4.15

FCA

G

The notional capital resources requirement calculated under ■ BIPRU 8.4.13 R need not include a credit charge for *material holdings*. However it should include one for *illiquid assets*.

8.4.16

FCA

R

Intra-group *exposures* must not be netted for the purpose of ■ BIPRU 8.4.11 R.

Capital adequacy obligations relating to a CAD Article 22 group: Advanced prudential calculation approaches

8.4.17

FCA

R

A firm may not use an *advanced prudential calculation approach* for the purpose of ■ BIPRU 8.4.11 R.

Additional rules that apply to a firm with an investment firm consolidation waiver

8.4.18

FCA

R

If a firm has an *investment firm consolidation waiver*, it must:

- (1) ensure that each CAD investment firm in the UK consolidation group or non-EEA sub-group which is a firm or an EEA firm has in place systems to monitor and control the sources of capital and funding of all the members in the UK consolidation group or non-EEA sub-group;

- (2) notify the *FCA* of any serious risk that could undermine the financial stability of the *UK consolidation group* or *non-EEA sub-group*, as soon as the *firm* becomes aware of that risk, including those associated with the composition and sources of the capital and funding of members of the *UK consolidation group* or *non-EEA sub-group*;
- (3) report the amount of the *consolidated capital resources* and *consolidated capital resources requirement* of the *UK consolidation group* or *non-EEA sub-group* on a periodic basis as set out in the *investment firm consolidation waiver*;
- (4) report any *large exposures* risks of members of the *UK consolidation group* or *non-EEA sub-group* including any *undertakings* not located in an *EEA State* on a periodic basis set out in the *investment firm consolidation waiver*;
- (5) notify the *FCA* immediately it becomes aware that the *UK consolidation group* or *non-EEA sub-group* has ceased to meet the conditions for being a *CAD Article 22 group*; and
- (6) notify the *FCA* immediately it becomes aware of any breach of
■ BIPRU 8.4.11 R.

8.4.19

FCA

G

Although an *investment firm consolidation waiver* switches off most of this chapter, a *firm* should still carry out the capital adequacy calculations in ■ BIPRU 8.3 to ■ BIPRU 8.8 as if those parts of this chapter still applied to the *UK consolidation group* or *non-EEA sub-group* and report these to the *FCA* . It should also still monitor *large exposure* risk on a consolidated basis.

8

8.5 Basis of consolidation

Undertakings to be included in consolidation

8.5.1
FCA

R

A *firm* must include only the following types of *undertaking* in a *UK consolidation group* or *non-EEA sub-group* for the purposes of this chapter:

- (1) a *BIPRU firm*;
- (2) [deleted]
- (3) a *financial institution*;
- (4) an *asset management company*;
- (5) a *financial holding company*;
- (6) a *mixed financial holding company*; and
- (7) an *ancillary services undertaking*.

8.5.2
FCA

G

Although an *undertaking* falling outside ■ BIPRU 8.5.1 R will not be included in a *UK consolidation group* or *non-EEA sub-group* it may be relevant in deciding whether one *undertaking* in the *banking sector* or the *investment services sector* is a *subsidiary undertaking* of another with the result that they should be included in the same *UK consolidation group* or *non-EEA sub-group*.

8.5.3
FCA

G

An example of ■ BIPRU 8.5.2 G is as follows. Say that the *undertaking* at the head of a *BIPRU firm's UK group* is a *parent financial holding company* in a *Member State*. One of its *subsidiary undertakings* is the *firm*. The *parent financial holding company* in a *Member State* also has an *insurer* as a *subsidiary undertaking*. That *insurer* has several *BIPRU firms* as *subsidiary undertakings*. Say that the *UK group* is not a *financial conglomerate*. The *UK consolidation group* will include the *parent financial holding company* in a *Member State* and the *firm*. It will also include the *BIPRU firms* that are *subsidiary undertakings* of the *insurer*. This is because the *BIPRU firms* are *subsidiary undertakings* of the *parent financial holding company* in a *Member State* through the *parent financial holding company* in a *Member State's* holding in the *insurer*. However it will not include the *insurer* itself.

8.5.4

FCA

R

Basis of inclusion of undertakings in consolidation

A *firm* must include any *subsidiary undertaking* in the *UK consolidation group* or *non-EEA sub-group* in full in the calculations in this chapter.

8.5.5

FCA

R

In carrying out the calculations for the purposes of this chapter a *firm* must only include the relevant proportion of an *undertaking* that is a member of the *UK consolidation group* or *non-EEA sub-group*:

- (1) by virtue of a *consolidation Article 12(1) relationship*;
- (2) by virtue of an *Article 134 relationship*; or
- (3) because the group holds a *participation* in it.

8.5.6

FCA

R

In ■ BIPRU 8.5.5 R, the relevant proportion is either:

- (1) (in the case of a *participation*) the proportion of *shares* issued by the *undertaking* held by the *UK consolidation group* or the *non-EEA sub-group*; or
- (2) (in the case of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*), such proportion (if any) as stated in the *Part 4A permission* of the *firm*.

Basis of inclusion of collective portfolio management investment firms in consolidation

8.5.7

FCA

R

■ GENPRU 2.1.46 R (Adjustment of the variable capital requirement calculation for collective portfolio management investment firms) does not apply for the purpose of this chapter.

8.5.8

FCA

G

In general a *collective portfolio management investment firm* only calculates its capital and concentration risk requirements in relation to its *designated investment business* and does not calculate them with respect to *managing an AIF* or *managing a UCITS*. The effect of ■ BIPRU 8.5.7 R is that this does not apply on a consolidated basis. For the purpose of this chapter the calculations are carried out with respect to the whole of the activities of a *collective portfolio management investment firm*.

Exclusion of undertakings from consolidation: Balance sheet size

8.5.9

FCA

R

A *firm* may, having first notified the *appropriate regulator* in writing in accordance with ■ SUP 15.7 (Form and method of notification), exclude a *BIPRU firm*, *asset management company*, *financial institution* or *ancillary services undertaking* that is a *subsidiary undertaking* in, or an *undertaking* in which a *participation* is held by, the *UK consolidation group* or *non-EEA sub-group* if the balance sheet total of that *undertaking* is less than the smaller of the following two amounts:

- (1) 10 million Euros;

- (2) 1% of the balance sheet total of the *parent undertaking* or the *undertaking* that holds the *participation*.

8.5.10

FCA

R

A *firm* must include *undertakings*, to which ■ BIPRU 8.5.9 R would otherwise apply, if the balance sheet total of those *undertakings* taken together breaches the limit in ■ BIPRU 8.5.9 R.

Exclusion of undertakings from consolidation: Other reasons

8.5.11

FCA

G

Article 73(1) of the *Banking Consolidation Directive* allows the *appropriate regulator* to decide to exclude a *BIPRU firm*, *financial institution*, *asset management company* or *ancillary services undertaking* that is a *subsidiary undertaking* in, or an *undertaking* in which a *participation* is held by, the *UK consolidation group* or *non-EEA sub-group* for the purposes of this chapter in the following circumstances:

- (1) where the head office of the *undertaking* concerned is situated in a country outside the *EEA* where there are legal impediments to the transfer of the necessary information; or
- (2) where, in the opinion of the *appropriate regulator*, the *undertaking* concerned is of negligible interest only with respect to the objectives of monitoring *BIPRU firms*; or
- (3) where, in the opinion of the *appropriate regulator*, the consolidation of the financial situation of the *undertaking* concerned would be inappropriate or misleading as far as the objectives of the supervision of *BIPRU firms* are concerned.

8.5.12

FCA

G

If a *firm* wishes to exclude an *undertaking* on the basis of any of the grounds set out in ■ BIPRU 8.5.11 G it should apply to the *appropriate regulator* for a *waiver*. The *appropriate regulator* will consider such applications in the light of the criteria in Section 138A of the *Act*.

8.5.13

FCA

G

If several *undertakings* meet the criteria in ■ BIPRU 8.5.11 G (2), the *appropriate regulator* will not agree to a *waiver* to exclude them all from consolidation where collectively they are of non-negligible interest with respect to the objectives of the supervision of *institutions*.

Information about excluded undertakings

8.5.14

FCA

G

The *appropriate regulator* may require a *firm* to provide information about the *undertakings* excluded from consolidation of the *UK consolidation group* or *non-EEA sub-group* pursuant to this section.

8.6 Consolidated capital resources

General

8.6.1

FCA

R

A *firm* must calculate the *consolidated capital resources* of its *UK consolidation group* or its *non-EEA sub-group* by applying ■ GENPRU 2.2 (Capital resources) to its *UK consolidation group* or *non-EEA sub-group* on an accounting consolidation basis, treating the *UK consolidation group* or *non-EEA sub-group* as a single *undertaking*. The *firm* must adjust ■ GENPRU 2.2 in accordance with this section for this purpose.

Notification of issuance of capital instruments

8.6.1A

FCA

R

This section applies to a *firm* if another member of its *group* intends to issue a *capital instrument* on or after 1 March 2012 for inclusion in the *firm's capital resources* or *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group*.

8.6.1B

FCA

R

A *firm* must notify the *appropriate regulator* in writing of the intention of another member of its *group* which is not a *firm* to issue a *capital instrument* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group* as soon as it becomes aware of the intention of the *group undertaking* to issue the *capital instrument*. When giving notice, a *firm* must:

- (1) provide details of the amount of capital to be raised through the intended issue and whether the capital is intended to be issued to external investors or within its *group*;
- (2) identify the stage of the *capital resources table* the *capital instrument* is intended to fall within;
- (3) include confirmation from a *senior manager* of the *firm* responsible for authorising the inclusion of the issue within *capital resources* or *consolidated capital resources* that the *capital instrument* complies with the *rules* applicable to instruments included in the stage of the *capital resources table* identified in (2); and

- (4) provide details of any features of the *capital instrument* which are novel, unusual or different from a *capital instrument* of a similar nature previously issued by the *firm* or widely available in the market or not specifically contemplated by ■ GENPRU 2.2.

This *rule* does not apply to a *firm* if a *group undertaking* intends to issue a *capital instrument* listed in ■ BIPRU 8.6.1E R.

8.6.1C

FCA

R

A *firm* must provide a further notification to the *appropriate regulator* in writing including all the information required in ■ BIPRU 8.6.1BR (1) to ■ (4) as soon as it becomes aware of any changes that are proposed to the intended date of issue, amount of issue, type of investors, stage of capital or any other feature of the *capital instrument* previously notified to the *appropriate regulator*.

8.6.1D

FCA

R

If a *group undertaking* proposes to establish a debt securities program for the issue of *capital instruments* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group*, it must:

- (1) notify the *appropriate regulator* of the establishment of the program; and
- (2) provide the information required by ■ BIPRU 8.6.1BR (1) to ■ (4);

as soon as it becomes aware of the proposed establishment. The *appropriate regulator* must be notified of any changes, in accordance with ■ BIPRU 8.6.1C R.

8.6.1E

FCA

R

The *capital instruments* to which ■ BIPRU 8.6.1B R does not apply are:

- (1) ordinary *shares* issued by a *group undertaking* which:
 - (a) are the most deeply subordinated *capital instrument* issued by that *group undertaking*;
 - (b) meet the criteria set out in ■ GENPRU 2.2.83 R (2) and ■ GENPRU 2.2.83 R (3) and ■ GENPRU 2.2.83A R; and
 - (c) are the same as ordinary *shares* previously issued by that *group undertaking*;
- (2) debt instruments issued from a debt securities program established by a *group undertaking*, provided the program was notified to the *appropriate regulator* prior to its first drawdown, in accordance with ■ BIPRU 8.6.1D R; and
- (3) *capital instruments* which are not materially different in terms of their characteristics and eligibility for inclusion in a particular tier of capital to *capital instruments* previously issued by a *group undertaking* for inclusion in the *firm's capital resources*

or consolidated capital resources of its UK consolidation group or non-EEA sub-group.

8.6.1F

FCA

R

A firm must notify the appropriate regulator in writing, no later than the date of issue, of the intention of a group undertaking to issue a capital instrument listed in ■ BIPRU 8.6.1E R which the firm intends to include within its capital resources or the consolidated capital resources of its UK consolidation group or non-EEA sub-group. When giving notice a firm must:

- (1) provide the information set out at ■ BIPRU 8.6.1BR (1) to ■ (3); and
- (2) confirm that the terms of the capital instrument have not changed since the previous issue of that type of capital instrument by that group undertaking.

Limits on the use of different forms of capital

8.6.2

FCA

R

The capital resources gearing rules apply for the purposes of calculating consolidated capital resources. They apply to the UK consolidation group or non-EEA sub-group on an accounting consolidation basis, treating the UK consolidation group or non-EEA sub-group as a single undertaking.

8.6.3

FCA

G

As the various components of capital differ in the degree of protection that they offer, the capital resources gearing rules as applied on a consolidated basis place restrictions on the extent to which certain types of capital are eligible for inclusion in a UK consolidation group or non-EEA sub-group's consolidated capital resources. ■ GENPRU 2.2.25 R (Limits on the use of different forms of capital: Use of higher tier capital in lower tiers) also applies.

8.6.4

FCA

G

The prohibition in ■ GENPRU 2.2 (Capital resources) on including innovative tier one capital in tier one capital for the purposes of meeting capital resources requirements applies under this section. However ■ GENPRU 2.2.27 R (innovative tier one capital may be included in lower stages of capital when excluded from tier one capital) also applies. So, for example, a firm should not include consolidated indirectly issued capital in tier one capital but should generally include it as upper tier two capital.

8.6.5

FCA

G

The rules in ■ GENPRU 2.2 (Capital resources) on what tier two capital and tier three capital can be used for also apply under this section.

8.6.6

R

[deleted]

8.6.7

R

[deleted]

PAGE
21

8.6.8

FCA

R

Calculation of consolidated capital resources for a BIPRU firm group

A firm must calculate the consolidated capital resources of its UK consolidation group or non-EEA sub-group using the calculation of capital resources in ■ GENPRU 2 Annex 4 R (Capital resources table for a BIPRU

firm deducting material holdings) or ■ GENPRU 2 Annex 5 R (Capital resources table for a BIPRU firm deducting illiquid assets).

8.6.9

FCA

- R** A *firm* must give one *Month's* prior notice to the *appropriate regulator* before starting to use or stopping using the method in ■ GENPRU 2 Annex 5 R (Capital resources table for a BIPRU investment firm deducting illiquid assets).

Treatment of minority interests

8.6.10

FCA

- R**
- (1) This *rule* sets out how to determine whether minority interests in an *undertaking* in a *UK consolidation group* or *non-EEA sub-group* may be included in *tier one capital*, *tier two capital* or *tier three capital* for the purpose of calculating *consolidated capital resources* (each referred to as a "tier" of capital in this *rule*).
 - (2) A *firm* must identify the item of capital of the *undertaking* in question that gives rise to that minority interest.
 - (3) A *firm* must include the minority interest in the tier of capital in which that *undertaking* would have to include the capital referred to in (2) if it were a *firm* calculating its *capital resources* on a solo basis under whichever method applies to the group under ■ BIPRU 8.6.6 R to ■ BIPRU 8.6.8 R.
 - (4) This *rule* does not apply to a minority interest created by *consolidated indirectly issued capital*.

Indirectly issued capital and group capital resources

8.6.11

FCA

- R** For the purposes of this chapter, ■ GENPRU 2.2.123 R to ■ GENPRU 2.2.137 R (Indirectly issued tier one capital (BIPRU firm only)) do not apply. A *firm* may only include *consolidated indirectly issued capital* in *consolidated capital resources* (whether as a minority interest or otherwise) in accordance with this section.

8.6.12

FCA

- R** *Consolidated indirectly issued capital* means any *capital instrument* issued by a member of the *UK consolidation group* or *non-EEA sub-group* where:
- (1) some or all of the following conditions are satisfied:
 - (a) that capital is issued to an *SPV*; or
 - (b) that capital is issued by an *SPV*; or
 - (c) the subscription for the capital issued by the member of the group in question is funded directly or indirectly by an *SPV*; and

- (2) any of the *SPVs* referred to in (1) is a member of the *UK consolidation group* or *non-EEA sub-group* or a *subsidiary undertaking* of any member of the *UK consolidation group* or *non-EEA sub-group*.

8.6.13

FCA

R

A *firm* may only include *consolidated indirectly issued capital* in the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group* if:

- (1) it is issued by an *SPV* that is a member of the *UK consolidation group* or *non-EEA sub-group* to *persons* who are not members of the *UK consolidation group* or *non-EEA sub-group*; and
- (2) the conditions in ■ BIPRU 8.6.16 R to ■ BIPRU 8.6.18 R are satisfied.

8.6.14

FCA

R

Consolidated indirectly issued capital that is eligible for inclusion in the *consolidated capital resources* of a *UK consolidation group* or *non-EEA sub-group* may only be included as a minority interest created by the *capital instrument* issued by the *SPV* referred to in ■ BIPRU 8.6.13 R. If it is eligible, it is *innovative tier one capital*.

8.6.15

FCA

R

For the purposes of this section, an *undertaking* is an *SPV* if the main activity of the *SPV* is to raise funds for *undertakings* in:

- (1) (in the case of a *UK consolidation group*) that *UK consolidation group*; or
- (2) (in the case of a *non-EEA sub-group*) that *non-EEA sub-group* or any *UK consolidation group* of which it forms part.

8.6.16

FCA

R

The *SPV* referred to in ■ BIPRU 8.6.13 R must satisfy the conditions in ■ GENPRU 2.2.127 R (Conditions that an *SPV* has to satisfy if indirectly issued capital is to be included in *capital resources* on a solo basis) as modified by the following:

- (1) references in ■ GENPRU 2.2.127 R (1) to being controlled by the *firm* are to being controlled by a member of the *firm's UK consolidation group* or *non-EEA sub-group* as the case may be; and
- (2) references to the *firm's group* are to the *firm's UK consolidation group* or *non-EEA sub-group* as the case may be.

8.6.17

FCA

R

The capital issued by the *SPV* referred to in ■ BIPRU 8.6.13 R must satisfy the conditions in ■ GENPRU 2.2.129 R (Conditions that capital issued by an *SPV* has to satisfy if indirectly issued capital is to be included in *capital resources* on a solo basis) as modified by the following:

- (1) references to the *firm's group* are to the *firm's UK consolidation group* or *non-EEA sub-group* as the case may be;

- (2) the substitution obligation in ■ GENPRU 2.2.129 R (2) need not be the *firm's* but may apply to any member of the *UK consolidation group* or *non-EEA sub-group* as the case may be; and
- (3) that substitution obligation applies if the *consolidated capital resources* of the *UK consolidation group* or *non-EEA sub-group*, as the case may be, fall, or are likely to fall, below its *consolidated capital resources requirement*.

8.6.18

FCA

R

The *SPV* referred to in ■ BIPRU 8.6.13 R must invest the funds raised from the issue of capital by the *SPV* by subscribing for capital resources issued by an *undertaking* that is a member of the *UK consolidation group* or *non-EEA sub-group*. Those capital resources must satisfy the following conditions:

- (1) those capital resources must at least comply with the requirements for *lower tier two capital*; and
- (2) the first call date or fixed maturity date (if any) of those capital resources must not arise before the first call date on the instrument issued by the *SPV*.

8.6.19

FCA

R

In relation to the obligation to substitute described in ■ BIPRU 8.6.17 R (2), a *firm* must take all reasonable steps to ensure that the *undertaking* in question has at all times sufficient authorised and unissued *tier one instruments* other than *innovative tier one instruments* (and authority to issue them) to enable it to discharge the obligation to substitute.

8.6.20

FCA

R

A *firm* must comply with the requirements set out in ■ GENPRU 2.2.135R (Notifying the *appropriate regulator* of unusual transactions in relation to indirectly issued capital) and ■ GENPRU 2.2.137 R (Contents of marketing documents in relation to indirectly issued capital) in relation to *consolidated indirectly issued capital* included in *consolidated capital resources*.

8.6.21

R

[deleted]

8.7 Consolidated capital resources requirements

General approach

- 8.7.1** **FCA** **G** The calculation of the *consolidated capital resources requirement* of a firm's UK consolidation group or non-EEA sub-group involves taking the individual components that make up the *capital resources requirement* on a solo basis and applying them on a consolidated basis. Those components are the capital charge for credit risk (the *credit risk capital requirement*), the capital charge for market risk (the *market risk capital requirement*), the capital charge for operational risk (the *operational risk capital requirement*) and the *fixed overheads requirement*.
- 8.7.2** **FCA** **G** Each of the capital charges in **■ BIPRU 8.7.1 G**, as applied on a consolidated basis, is called a *consolidated requirement component*. The name of each *consolidated requirement component* reflects the solo capital charge on which it is based. Solo capital charges are called *risk capital requirements*. Thus for example the *consolidated requirement component* for market risk is called the *consolidated market risk requirement*. The calculation of the *consolidated market risk requirement* is based on the calculation of the capital charge for market risk that applies on a solo basis (the *market risk capital requirement*). So the *risk capital requirement* applicable to the *consolidated market risk requirement* is the *market risk capital requirement*.
- 8.7.3** **G** [deleted]
- 8.7.4** **G** [deleted]
- 8.7.5** **FCA** **G** In general a firm should calculate each *consolidated requirement component* using the *appropriate regulator's rules*, even in the case of group members who are subject to the capital requirements of an overseas regulator. However this section sets out certain circumstances in which a firm may use the capital requirements of an overseas regulator.
- 8.7.6** **FCA** **G** **■ BIPRU 8.8** (Advanced prudential calculation approaches) says that a firm should not apply an *advanced prudential calculation approach* on a consolidated basis unless the *advanced prudential calculation approach permission* allowing the firm to use the *advanced prudential calculation approach* specifically allows it to be used on consolidated basis.
- 8.7.7** **FCA** **G** **■ BIPRU 8.8** (Advanced prudential calculation approaches) has further details about how capital requirements are calculated on a consolidated basis if a firm uses an *advanced prudential calculation approach*.

8.7.8

FCA

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A *firm* has a choice about how it should apply a *risk capital requirement* to the group. It may do this by treating the whole of the group as a single entity and applying the *risk capital requirement* to the group (a line by line approach), calculating a separate *risk capital requirement* for each group member (an aggregation approach) or a mixture of the two.

8.7.9

FCA

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A *firm* may make the choice between an aggregation and a line by line approach differently for each *consolidated requirement component*. So for example a *firm* may decide to calculate the *consolidated market risk requirement* on an aggregation basis and the *consolidated fixed overheads requirement* on a line by line basis.

Method of calculation to be used

8.7.10

FCA

R

A *firm* must calculate the *consolidated capital resources requirement* of its *UK consolidation group* or *non-EEA sub-group* as the higher of the following *consolidated requirements components*:

- (1) the sum of the *consolidated credit risk requirement* and the *consolidated market risk requirement*; and
- (2) the *consolidated fixed overheads requirement*.

Calculation of the consolidated requirement components

8.7.11

FCA

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A *firm* must calculate a *consolidated requirement component* by applying the *risk capital requirement* applicable to that *consolidated requirement component* to the *UK consolidation group* or *non-EEA sub-group* in accordance with ■ BIPRU 8.7.13 R. Except where ■ BIPRU 8.7.34 R to ■ BIPRU 8.7.38 R allow the requirements of another regulator to be used, the *risk capital requirement* must be calculated in accordance with the *appropriate regulator's rules*. The *risk capital requirement* applicable to a *consolidated requirement component* is the one specified in the second column of the table in ■ BIPRU 8.7.12 R.

8.7.12

FCA

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Table: Capital charges relating to consolidated requirement components

This table belongs to ■ BIPRU 8.7.11 R

<i>Consolidated requirement component</i>	<i>Rules on which the consolidated requirement component are based (the applicable risk capital requirement)</i>
<i>Consolidated credit risk requirement</i>	<i>Credit risk capital requirement</i>
<i>Consolidated fixed overheads requirement</i>	<i>Fixed overheads requirement</i>
<i>Consolidated market risk requirement</i>	<i>Market risk capital requirement</i>

Choice of consolidation method

8.7.13

FCA

R

- (1) A *firm* must calculate a *consolidated requirement component* by using one of the methods in this rule.

- (2) Under the first method a *firm* must:
- (a) apply the *risk capital requirement* set out in ■ BIPRU 8.7.12 R to each *undertaking* in the *UK consolidation group* or *non-EEA sub-group*; and
 - (b) add the *risk capital requirements* together.
- (3) Under the second method a *firm* must:
- (a) treat the whole *UK consolidation group* or *non-EEA sub-group* as a single *undertaking*; and
 - (b) apply the *risk capital requirement* set out in ■ BIPRU 8.7.12 R to the group on an accounting consolidation basis.
- (4) The third method is a mixture of methods one and two. Under the third method a *firm* must:
- (a) treat one or more parts of the *UK consolidation group* or *non-EEA sub-group* as separate single *undertakings*;
 - (b) apply the *risk capital requirement* set out in ■ BIPRU 8.7.12 R to each such part of the group on an accounting consolidation basis;
 - (c) apply the *risk capital requirement* set out in ■ BIPRU 8.7.12 R to each of the remaining *undertakings* in the *UK consolidation group* or *non-EEA sub-group* (if any); and
 - (d) add the *risk capital requirements* together.
- (5) A *firm* may use different methods for different *consolidated requirement components*.

8.7.14

FCA

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An accounting consolidation basis means applying the *rules* in ■ BIPRU 8.7.12 R on a line by line consolidation basis rather than an aggregation basis.

8.7.15

FCA

G

The provisions of this section on credit risk and *market risk* restrict the choice given by ■ BIPRU 8.7.13 R in certain circumstances.

8.7.16

FCA

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Notifying the appropriate regulator of the choice of consolidation technique

A *firm* must notify the *appropriate regulator* which method under ■ BIPRU 8.7.13 R it applies for which *consolidated requirement component* and to which parts of the *UK consolidation group* or *non-EEA sub-group* it is applying an aggregation approach and to which parts it is applying an accounting consolidation approach.

Special rules for the consolidated credit risk requirement

- 8.7.17 **R** ■ BIPRU 8.7.18 G to ■ BIPRU 8.7.23 R relate to the calculation of the consolidated credit risk requirement.
FCA
- 8.7.18 **G** The *credit risk capital requirement* (on which the *consolidated credit risk requirement* is based) is split into two capital charges. One relates to credit risk in the *non-trading book* (the *credit risk capital component*). One relates to credit risk in the *trading book* (the *counterparty risk capital component*).
FCA
- 8.7.19 **G** [deleted]
- 8.7.20 **R** A *firm* may use a combination of the *CCR standardised method*, the *CCR mark to market method* and the *CCR internal model method* on a permanent basis with respect to the *firm's UK consolidation group* or *non-EEA sub-group* for the purposes of calculating the *consolidated credit risk requirement*. In particular, where the *firm* is permitted to apply the *CCR internal model method* on a consolidated basis with respect to its *UK consolidation group* or *non-EEA sub-group*, it may combine the use of *CCR standardised method* and *CCR mark to market method* on a permanent basis for *financial derivative instruments* and *long settlement transaction* not covered by its *CCR internal model method permission*.
FCA
- 8.7.21 **R** ■ BIPRU 9.4.1 R (Minimum requirements for recognition of significant credit risk transfer) as applied on a consolidated basis requires the transfer to be to a *person* outside the *UK consolidation group* or *non-EEA sub-group*.
FCA
- 8.7.22 **R** A *firm* must not use both the *financial collateral simple method* and the *financial collateral comprehensive method* with respect to its *UK consolidation group* or *non-EEA sub-group*.
FCA
- 8.7.23 **R** (1) A *firm* may only treat an *exposure* as exempt under ■ BIPRU 3.2.25 R (Zero risk-weighting for intra-group exposures) as applied on a consolidated basis if the member of the *UK consolidation group* or *non-EEA sub-group* that has the *exposure*:
FCA
- (a) is a *BIPRU firm* and that *exposure* is exempt under ■ BIPRU 3.2.25 R as it applies to that *BIPRU firm* on a solo basis; or
 - (b) meets the conditions in ■ BIPRU 3.2.25 R (1)(d) (Condition relating to establishment in the UK) and that *exposure* would be exempt under (a) if that member was a *BIPRU firm*.
- (2) The notification obligation in ■ BIPRU 3.2.35 R applies.

Special rules for the consolidated market risk requirement

8.7.24

FCA

R

For the purposes of calculating the *consolidated market risk requirement* of a *UK consolidation group* or *non-EEA sub-group*, a *firm* must apply ■ BIPRU 1.2.3 R (Definition of the trading book) and ■ BIPRU 1.2.17 R (Size thresholds for the purposes of the definition of the trading book) to the whole *UK consolidation group* or *non-EEA sub-group* as if the group were a single *undertaking*.

8.7.25

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A *firm* may not apply the second method in ■ BIPRU 8.7.13 R (3) (accounting consolidation for the whole group) or apply accounting consolidation to parts of its *UK consolidation group* or *non-EEA sub-group* under method three as described in ■ BIPRU 8.7.13 R (4)(a) for the purposes of the calculation of the *consolidated market risk requirement* unless the group or sub-group and the *undertakings* in that group or sub-group satisfy the conditions in this *rule*. Instead the *firm* must use the aggregation approach described in ■ BIPRU 8.7.13 R (2) (method one) or ■ BIPRU 8.7.13 R (4)(c). Those conditions are as follows:

- (1) each of the *undertakings* in that group or sub-group is an *institution* that is:
 - (a) a *BIPRU firm*;
 - (b) an *EEA firm* that is a *CAD investment firm*; or
 - (c) [deleted]
 - (d) a *recognised third country investment firm*;
- (2) each of the *undertakings* referred to in (1) that is a *BIPRU firm* has *capital resources* that are equal to or in excess of its *capital resources requirement* ;
- (3) each of the *undertakings* referred to in (1) that is an *EEA firm* complies with the *CRD implementation measures* in its *EEA State* that correspond to the requirements in (2);
- (4) each of the *undertakings* referred to in (1) that is a *recognised third country investment firm* complies with laws in the state or territory in which it has its head office that are equivalent to the requirements of the *Banking Consolidation Directive* or *Capital Adequacy Directive* relating to capital adequacy ;
- (5) there is no material legal, regulatory or contractual impediment to the transfer of funds between those *undertakings* in that group or sub-group;
- (6) there is no material legal, regulatory or contractual impediment to mutual financial support between those *undertakings* in that group or sub-group;

- (7) the *market risk position* of the *undertakings* are monitored and managed on a co-ordinated basis; and
- (8) there is satisfactory allocation of capital within the group or sub-group.

Special rules for the consolidated operational risk requirement

8.7.26

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R

For the purposes of calculating the *consolidated operational risk requirement*, a *firm* must apply ■ BIPRU 6.2.9 R to ■ BIPRU 6.2.12 R (Combination of different methodologies) to the whole *UK consolidation group* or *non-EEA sub-group* as if the group were a single *undertaking*.

8.7.27

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- (1) This *rule* sets out how ■ BIPRU 6.3.2 R (3) (Negative figure arising in calculation of the relevant indicator under the *basic indicator approach*) applies on a consolidated basis.
- (2) If the calculation for any individual *undertaking* under method one in ■ BIPRU 8.7.13 R (2) (application of aggregation approach to the whole group) or method three as described in ■ BIPRU 8.7.13 R (4)(c) (mixture of aggregation and accounting consolidation) or for any sub-group created under method three as described in ■ BIPRU 8.7.13 R (4)(a) results in a figure of zero or a negative figure, that figure must be excluded.
- (3) If a *firm* is using method two in ■ BIPRU 8.7.13 R (accounting consolidation approach for the whole group), ■ BIPRU 6.3.2 R (3) applies to the *UK consolidation group* or *non-EEA sub-group* as if it were a single *undertaking*.
- (4) (3) also applies to a sub-group created under method 3 as described in ■ BIPRU 8.7.13 R (4)(a).

Special rules for calculating specific consolidated requirement components

8.7.28

FCA

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■ BIPRU 8.7.21 R to ■ BIPRU 8.7.26 R are generally examples of the application of the general principles in ■ BIPRU 8.2.1 R (Main consolidation rule for UK consolidation groups) and ■ BIPRU 8.3.1 R (Main consolidation rule for non-EEA sub-groups). ■ BIPRU 8.7.20 R and ■ BIPRU 8.7.25 R are exceptions to those principles.

Elimination of intra-group transactions

8.7.29

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R

In accordance with ■ BIPRU 8.2.1 R and ■ BIPRU 8.3.1 R (The basic consolidation *rules* for a *UK consolidation group* or *non-EEA sub-group*), a *firm* may exclude that part of the *risk capital requirement* that arises as a result of:

- (1) (in respect of the *consolidated credit risk requirement*) intra-group balances; or

- (2) (in respect of the *consolidated operational risk requirement* and *consolidated fixed overheads requirement*) intra-group transactions;

with other *undertakings* in the *UK consolidation group* or *non-EEA sub-group*.

Other provisions about calculating risk capital requirements

8.7.30

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(1) [deleted]

(2) [deleted]

(3) [deleted]

(4) [deleted]

(5) [deleted]

8.7.31

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If a *firm* is calculating a *risk capital requirement* for an *undertaking* that is not a *BIPRU firm* it should calculate it as if the *undertaking* were a *BIPRU firm*.

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8.7.32

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[deleted]

8.7.33

G

A *firm* should not use an *advanced prudential calculation approach* for calculating a *risk capital requirement* unless this is permitted as explained in ■ BIPRU 8.8 (Advanced prudential calculation approaches).

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8.7.34

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Use of the solo requirements of another EEA competent authority

A *firm* may calculate the *risk capital requirement* for an *institution* in the *firm's UK consolidation group* or *non-EEA sub-group* that is an *EEA firm* in accordance with the *CRD implementation measures* in the *EEA firm's EEA State* that correspond to the *appropriate regulator's rules* that would otherwise apply under this section if the *institution* is subject to those *CRD implementation measures*.

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8.7.35

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(1) [deleted]

(2) [deleted]

8.7.36

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[deleted]

Use of the consolidated requirements of another EEA competent authority

8.7.37

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(1) This *rule* applies if:

- (a) a *firm* is applying an accounting consolidation approach to part of its *UK consolidation group* or *non-EEA sub-group* under method three as described in ■ BIPRU 8.7.13 R (4)(a); and

FCA

(b) the part of the group in (a) constitutes the whole of a group subject to the consolidated capital requirements of a *competent authority* under the *CRD implementation measures* relating to consolidation under the *Banking Consolidation Directive* or the *Capital Adequacy Directive*.

(2) If the conditions in this *rule* are satisfied, a *firm* may apply the consolidated capital requirement in (1)(b) as the *risk capital requirement* for the group identified in (1)(a) so far as that consolidated capital requirement corresponds to the *appropriate regulator's rules* that would otherwise apply under this section.

8.7.38 R [deleted]

Prohibition on using the standardised rules of a regulator outside the EEA

8.7.38A

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(1) This *rule* applies to a *firm* if:

(a) an *institution* in its *UK consolidation group* or *non-EEA sub-group* is subject to any of the rules or requirements of, or administered by, a *third-country competent authority* applicable to its *financial sector* that correspond to the *sectoral rules* applicable to that *financial sector* ("corresponding sectoral rules"); or

(b) a part of its *UK consolidation group* or *non-EEA sub-group* constitutes the whole of a group subject to the consolidated capital requirements of a *third-country competent authority* under the corresponding sectoral rules applicable to the *banking sector* or the *investment services sector* for a state or territory outside the *EEA*.

(2) A *firm* may not use the requirements under any of the corresponding sectoral rules of a state or territory outside the *EEA* in order to calculate the *consolidated capital resources requirement* of its *UK consolidation group* or *non-EEA sub-group* for the purpose of this chapter.

Use of an advanced prudential calculation approach under the rules of an overseas regulator

8.7.39

FCA

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A *firm* should not use the requirements of an overseas regulator if that would involve the use of an *advanced prudential calculation approach* unless this is permitted under

■ BIPRU 8.8 (Advanced prudential calculation approaches).

8.8 Advanced prudential calculation approaches

General

8.8.1 **R** **FCA** A firm must not apply any *advanced prudential calculation approach* for the purposes of this chapter unless it has an *advanced prudential calculation approach permission* and that *advanced prudential calculation approach permission* requires the firm to use that *advanced prudential calculation approach* for those purposes.

8.8.2 **G** **FCA** ■ BIPRU 1.3 (Applications for advanced approaches) deals with how to apply for an *advanced prudential calculation approach permission*.

Prohibition on using the rules of an overseas regulator

8.8.3 **R** **FCA** Even if a firm has an *advanced prudential calculation approach permission* that allows it to use an *advanced prudential calculation approach* for the purposes of this chapter, the firm may not use the requirements of another state or territory to the extent they provide for that *advanced prudential calculation approach*. Therefore a firm may not use ■ BIPRU 8.7.34 R and ■ BIPRU 8.7.37 R (Use of the capital requirements of another EEA competent authority) if that would involve using an *advanced prudential calculation approach*.

Special provisions relating to the internal ratings based approach

8.8.4 **R** **FCA** The conditions in ■ BIPRU 4.2.26 R (Combined use of methodologies under the IRB approach) apply to a firm's *UK consolidation group* or *non-EEA sub-group* as if that group were a single *undertaking*.

8.8.5 **R** [deleted]

8.8.6 **G** [deleted]

8.8.7 **G** [deleted]

Special provisions relating to the CCR internal model method

8.8.8 **G** **FCA** ■ BIPRU 8.7.17 R deals with the combination of the *CCR internal model method* with other approaches to calculating exposure values on a group level.

8.8.9

FCA

G

Corporate governance arrangement for the IRB approach and the AMA

The governance arrangements that apply to the *governing body*, the senior management and any *designated committee* of a *firm* in relation to the *IRB approach* also apply to the body or *persons* with equivalent powers with respect to the *UK consolidation group* or *non-EEA sub-group*. Where the *parent undertaking* and its *subsidiary undertakings* use rating systems on a unified basis, the approval and reporting process described in ■ BIPRU 4.3.12 G (Approval and reporting arrangements for the *IRB approach* where rating systems are used on a unified group basis) apply for the purpose of this paragraph too.



8.9 [deleted]

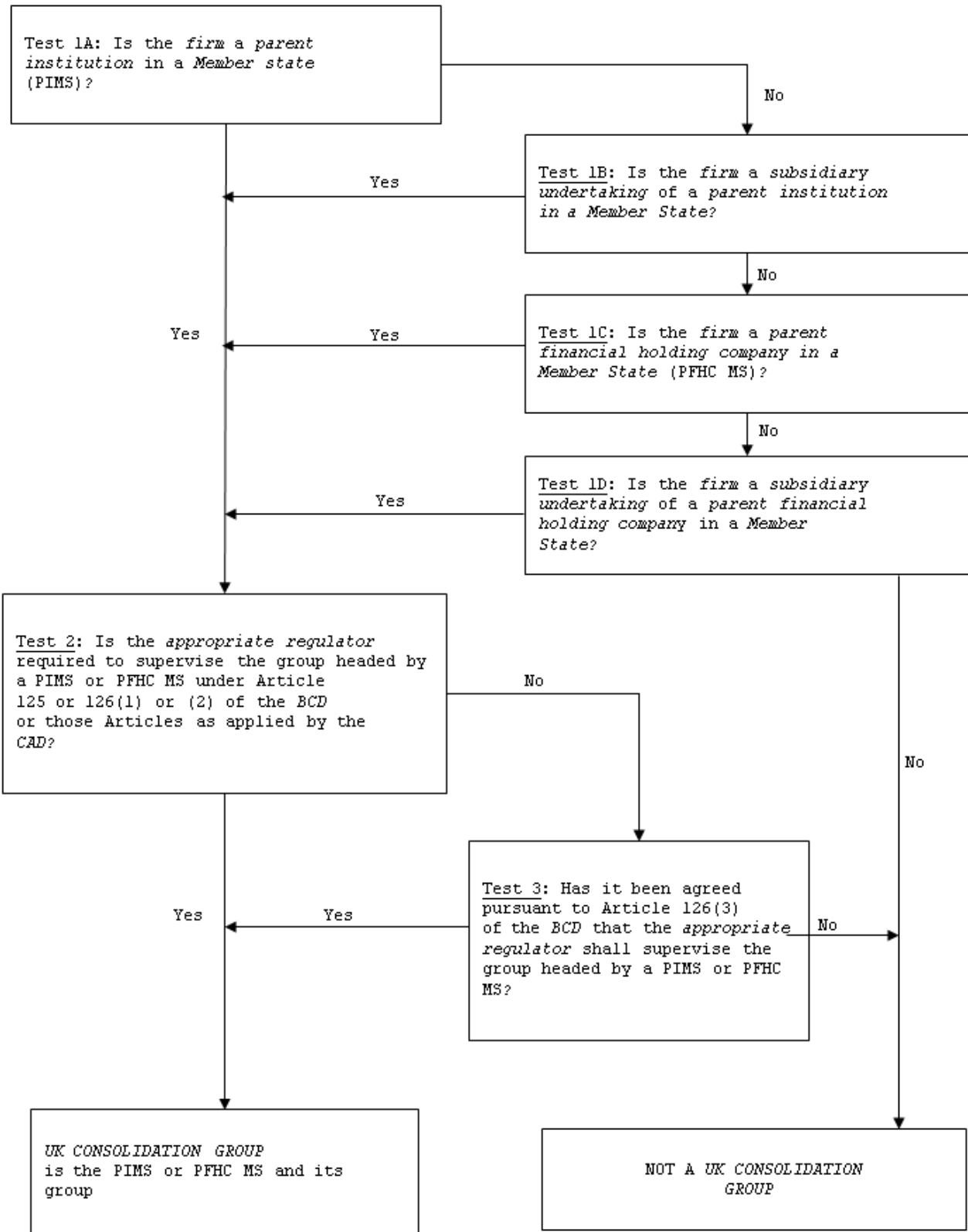
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8.9A [Deleted]

Decision tree identifying a UK consolidation group

FCA



8

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Text of Articles 125 and 126 of the Banking Consolidation Directive**FCA**

Article 125

1. Where a parent undertaking is a parent credit institution in a Member State or an EU parent credit institution, supervision on a consolidated basis shall be exercised by the competent authorities that authorised it under Article 6.
2. Where the parent of a credit institution is a parent financial holding company in a Member State, a parent mixed financial holding company in a Member State, an EU parent financial holding company or an EU parent mixed financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities that authorised that credit institution under Article 6.

Article 126

1. Where credit institutions authorised in two or more Member States have as their parent the same parent financial holding company in a Member State, the same mixed parent financial holding company in a Member State, the same EU parent financial holding company or the same EU parent mixed financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities of the credit institution authorised in the Member State in which the financial holding company or mixed financial holding company is established.

Where the parents of credit institutions authorised in two or more Member States comprise more than one financial holding company or mixed financial holding company which have their head offices in different Member States and there is a credit institution in each of these States, supervision on a consolidated basis shall be exercised by the competent authority of the credit institution with the largest balance sheet total.
2. Where more than one credit institution authorised in the Union has as its parent the same financial holding company or the same mixed financial holding company and none of these credit institutions has been authorised in the Member State in which the financial holding company or the mixed financial holding company is established, supervision on a consolidated basis shall be exercised by the competent authority that authorised the credit institution with the largest balance sheet total, which shall be considered, for the purposes of this Directive, as the credit institution controlled by an EU parent financial holding company or an EU parent mixed financial holding company.
3. In particular cases, the competent authorities may by common agreement waive the criteria referred to in paragraphs 1 and 2 if their application would be inappropriate, taking into account the credit institutions and the relative importance of their activities in different countries, and appoint a different competent authority to exercise supervision on a consolidated basis. In these cases, before taking their decision, the competent authorities shall give the EU parent credit institution, EU parent financial holding company, the EU parent mixed financial holding company, or credit institution with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that decision.
4. [Omitted]

Note

The *Capital Adequacy Directive* says that generally references in Articles 125 and 126 of the *Banking Consolidation Directive* to *credit institution* should be read as including ones to *CAD investment firms*. Also, the *Banking Consolidation Directive* and the *Capital Adequacy Directive* apply to the *EEA*. Therefore for the purposes of BIPRU 8 Articles 125 and 126 of the *Banking Consolidation Directive* should be read with the following adjustments:

- (1) a reference to a credit institution should be read as being one to a *credit institution* or *CAD investment firm*;
- (2) a reference to a parent credit institution in a Member State should be read as being one to a *parent institution in a Member State*;
- (3) a reference to a EU parent credit institution should be read as being one to an *EEA parent institution*;
- (4) a reference to a EU parent financial holding company should be read as being one to an *EEA parent financial holding company*;
- (4a) a reference to a EU parent mixed financial holding company should be read as being one to an *EEA parent mixed financial holding company*;
- (5) a reference to a Member State should be read as being one to an *EEA State*;
- (6) a reference to a credit institution authorised in the Community should be read as being to a *credit institution* or *CAD investment firm* authorised in an *EEA State*.

Parent financial holding company in a Member State, financial holding company, parent mixed financial holding company in a Member State and mixed financial holding company have the same meaning as they do in the *Glossary*.

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Non-EEA regulators' requirements deemed CRD-equivalent for individual risks

FCA**Part 1 (Non-EEA banking regulators' requirements deemed CRD-equivalent for individual risks)**

Regime regulators	Market risk	Credit risk	Operational Risk
USA	✓	X*	X
Office of the Comptroller of the Currency	✓	X*	X
Board of Governors of the Federal Reserve System			
* a US banking subsidiary will be deemed equivalent for credit risk if:			
• it is categorised as well capitalised: and			
• it scales up its US Basel 1 credit risk requirement by 25%			
Australia	✓	✓	X
Australian Prudential Regulation Authority [APRA]			
Canada	✓	✓	✓
Office of the Superintendent of Financial Institutions [OSFI]			
Switzerland Swiss Financial Market Supervisory Authority [FIN- MA]	✓	✓ See note 2	✓

Regime regulators	Market risk	Credit risk	Operational Risk
Japan	√	X	X
Financial Services Agency, Japan [JFSA]			
South Africa	√	√	√
South African Reserve Bank [SARB]			
Hong Kong	√	√	√
Hong Kong Monetary Authority [HKMA]			
Singapore	√	√	√
Monetary Authority of Singapore [MAS]			
India	√	√	√
Reserve Bank of India [RBI]			
Korea	√	X	X
Financial Supervisory Service [FSS]			
Jersey	√	√	√
Guernsey	X	√	√
Isle of Man	X	√	√

Note 1: A √ denotes that the requirements have been assessed as equivalent to *EEA* standards.

A **X** denotes that the requirements have been assessed as not being equivalent to *EEA* standards.

Note 2: √ International standardised approach only. The treatment of the Lombard loans is not equivalent and they must be treated under the *appropriate regulator's rules*.

Part 2 (Non-EEA investment firm regulators' requirements deemed CRD-equivalent for individual risks)

Regime regulators	Market risk	Credit risk	Operational Risk
Australia	✓	X	X
Sydney Futures Exchange	✓	X	X
Australian Stock Exchange			
Canada	✓	X	X
Ontario Securities Commission	✓	X	X
Quebec Securities Commission	✓	X	X
British Columbia Securities Commission	✓	X	X
Alberta Securities Commission			
Investment dealers Association of Canada			
Hong Kong	✓	X	X
Hong Kong Monetary Authority [HKMA]	✓	X	X
Hong Kong Securities and Futures Commission			
Japan	✓	X	X
Financial Services Agency, Japan [JFSA]			
Singapore	✓	X	X
Monetary Authority of Singapore [MAS]	✓	X	X
Stock Exchange of Singapore			

Regime regulators	Market risk	Credit risk	Operational Risk
South Africa	√	X	X
South African Futures Exchange	√	X	X
Johannesburg Stock Exchange	√	X	X
Bond Exchange of South Africa			
Switzerland	√	√ Note 2	√
Swiss Federal Banking Commission [EBK]			
USA	√ Note 3	√	X
Securities & Exchange Commission (SEC): Net Capital rule only	√	X	X
Commodities and Futures Trading Commission			

Note 1: A √ denotes that the requirements have been assessed as equivalent to *EEA* standards.

A X denotes that the requirements have been assessed as not being equivalent to *EEA* standards.

Note 2: √ International standardised approach only. The treatment of Lombard loans is not equivalent and they must be treated under the *appropriate regulator's rules*.

Note 3: √ Where entities are subject to a local regulatory capital requirement.

Chapter 9

Securitisation

9.1 Application and purpose

Application

9.1.1

FCA PRA

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■ BIPRU 9.1 applies to a *BIPRU firm* .

Purpose

9.1.2

FCA

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Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of

■ BIPRU 9 is to implement:

- (1) Articles 94 to 96, paragraphs (1) and (5) of Article 97 , Article 99, Article 100(1) and Article 101;
- (2) Points 8 and 9 of Annex V; and
- (3) Parts 2, 3 (in part) and 4 of Annex IX;

of the *Banking Consolidation Directive*.

General obligations: Risk-weighted exposures

9.1.3

FCA PRA

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A *firm* must calculate the *risk weighted exposure amount* for *securitisation positions* in accordance with ■ BIPRU 9.

9.1.4

FCA

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A *firm* should apply the *securitisation* framework set out in this chapter for determining regulatory capital requirements on *exposures* arising from *traditional securitisations* and from *synthetic securitisations* and from structures that contain features of both.

9.1.5

FCA

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Since transactions may be structured in many different ways, the capital treatment of a position should be determined on the basis of its economic substance rather than merely its legal form. A *firm* should look to the economic substance of a transaction to determine whether the *securitisation* framework is applicable for purposes of determining regulatory capital. A *firm* should consult the *appropriate regulator* when there is uncertainty about whether a given transaction should be considered a *securitisation*.

General obligations: Systems

9.1.6

FCA PRA

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The risks arising from *securitisation* transactions in relation to which a *firm* is investor, *originator* or *sponsor*, including reputational risks, must be evaluated and addressed through appropriate policies and

procedures, to ensure in particular that the economic substance of the transaction is fully reflected in risk assessment and management decisions.

[Note: *BCD Annex V* point 8]

9.1.7
FCA

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A *firm* that is a party to a *securitisation* should fully understand the risks it has assumed or retained. In particular it should do so in order that it can correctly determine in accordance with ■ BIPRU 9 the capital effects of the *securitisation*.

9.1.8
FCA

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The *appropriate regulator* expects an *originator* to continue to monitor any risks that it may be subject to when it has excluded the *securitised exposures* from its calculation of *risk weighted exposure amounts*. The *originator* should consider capital planning implications where risks may return and the impact that *securitisation* has on the quality of the remaining *exposures* held by the *originator*.

9.1.8A
FCA

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- (1) The *appropriate regulator* expects *firms* to conduct regular stress testing in relation to their *securitisation* activities and off-balance sheet *exposures*. The stress tests should consider the *firm-wide* impact of those activities and *exposures* in stressed market conditions and the implications for other sources of risk, for example, credit risk, concentration risk, counterparty risk, *market risk*, *liquidity risk* and reputational risk. Stress testing of *securitisation* activities should take into account both existing securitisations and pipeline transactions, as there is a risk that these would not be completed in a stressed market scenario.
- (2) The frequency and extent of the stress testing should be determined by the materiality of the *firm's* *securitisation* activities and off-balance sheet *exposures*.
- (3) A *firm* should have procedures in place to assess and respond to the results produced from the stress testing and these should be taken into account under the *overall Pillar 2 rule*.

Trading book and non-trading book

9.1.9
FCA

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■ BIPRU 9 deals with:

- (1) requirements for investors, *originators* and *sponsors* of *securitisations* of *non-trading book exposures*;
- (2) the calculation of *risk weighted exposure amount* for *securitisation* positions for the purposes of calculating either the *credit risk capital component* or the *counterparty risk capital component*; and
- (3) the requirements that investors, *originators* and *sponsors* of *securitisations* in the *trading book* will have to meet (■ BIPRU 9.3.1AR, ■ BIPRU 9.3.15R to ■ BIPRU 9.3.20R, ■ BIPRU 9.6.1A R and ■ BIPRU 9.15R).

PAGE
3

9.1.10
FCA

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■ BIPRU 7 sets out the calculation of the *market risk capital requirement* for *securitisation* positions held in the *trading book*.



9.2 Approach to be used

9.2.1

FCA PRA

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- (1) Where a *firm* uses the *standardised approach* set out in ■ BIPRU 3 (Standardised approach to credit risk) for the calculation of *risk weighted exposure amount* for the *standardised credit risk exposure class* to which the *securitised exposures* would otherwise be assigned under ■ BIPRU 3, then it must calculate the *risk weighted exposure amount* for a *securitisation position* in accordance with the *standardised approach to securitisations* set out in ■ BIPRU 9.9, ■ BIPRU 9.10, ■ BIPRU 9.11 and ■ BIPRU 9.13.
- (2) In all other cases it must calculate a *risk weighted exposure amount* in accordance with the *IRB approach to securitisations* set out in ■ BIPRU 9.9, ■ BIPRU 9.10, ■ BIPRU 9.12, ■ BIPRU 9.13 and ■ BIPRU 9.14.

[Note: BCD Article 94]

9.3 Requirements for originators and sponsors

9.3.1

FCA PRA

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- (1) Where significant credit risk associated with *securitised exposures* has been transferred from the *originator* in accordance with the terms of ■ BIPRU 9.4 or ■ BIPRU 9.5, that *originator* may:
- (a) in the case of a *traditional securitisation*, exclude from its calculation of *risk weighted exposure amounts* and, as relevant, *expected loss* amounts, the *exposures* which it has *securitised*; and
 - (b) in the case of a *synthetic securitisation*, calculate *risk weighted exposure amounts* and, as relevant, *expected loss* amounts in respect of such *exposures*, in accordance with the provisions of ■ BIPRU 9.5.
- (2) Where (1) applies, the *originator* must calculate the *risk weighted exposure amounts* prescribed in this chapter for the positions it may hold in the *securitisation*.
- (3) Where the *originator* fails to transfer significant credit risk in accordance with (1), it need not calculate *risk weighted exposure amounts* for any positions it may hold in the *securitisation* in question.

[Note: BCD Article 95]

9.3.1A

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[deleted]

9.3.2

G

A *credit institution* should have regard to the Committee of European Banking Supervisors Guidelines to Article 122a of the *Banking Consolidation Directive* when considering its obligations under ■ BIPRU 9.3.15 R to ■ BIPRU 9.3.20 R and ■ BIPRU 9.15. The Guidelines can be found at <http://www.eba.europa.eu/Publications/Standards-Guidelines.aspx>.

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9.3.3

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[deleted]

9.3.4

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[deleted]

9.3.5

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(1) [deleted]

(2) [deleted]

[deleted]

9.3.6

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FCA

An *originator* should not adjust its assessment of the transfer of risk in order to reflect uncertainties related to the effectiveness of a *securitisation* under ■ BIPRU 9.4 or ■ BIPRU 9.5. Instead the *originator* should treat the terms of ■ BIPRU 9.4 or ■ BIPRU 9.5 as not having been satisfied.

9.3.7

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FCA

PRA

Significant credit risk will be considered to have been transferred for *originators* in the following cases:

- (1) the *risk weighted exposure amounts* of the *mezzanine securitisation positions* held by the *originator* in the *securitisation* do not exceed 50% of the *risk weighted exposure amounts* of all *mezzanine securitisation positions* existing in this *securitisation*;
- (2) where there are no *mezzanine securitisation positions* in a given *securitisation* and the *originator* can demonstrate that the exposure value of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% *risk weight* exceeds a reasoned estimate of the expected loss on the *securitised exposures* by a substantial margin, the *originator* does not hold more than 20% of the exposure values of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% *risk weight*.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1a and Point 2 paragraph 2a]

9.3.8

R

FCA

PRA

An *originator* must notify the *appropriate regulator* that it is relying on the deemed transfer of significant credit risk under ■ BIPRU 9.3.7R within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:

- (1) the *risk weighted exposure amount* of the *securitised exposures* and retained *securitisation positions*;
- (2) the *exposure* value of the *securitised exposures* and the retained *securitisation positions*;
- (3) details of the *securitisation positions*, including rating, *exposure* value broken down by *securitisation positions* sold and retained;
- (4) a statement that sets out why the *firm* is satisfied that the reduction in *risk weighted exposure amounts* is justified by a commensurate transfer of credit risk to third parties;

(5) any relevant supporting documents, for example, a summary of the transaction.

9.3.9

FCA

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In the event that the *appropriate regulator* decides that the possible reduction in *risk weighted exposure amounts* which the *originator* would achieve by the *securitisation* referred to in ■ BIPRU 9.3.7R is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 55J of the *Act* (Variation etc on the Authority's own initiative) to require the *firm* to increase its *risk weighted exposure amount* to an amount commensurate with the *appropriate regulator's* assessment of the transfer of credit risk to third parties.

9.3.10

FCA

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An *originator* may be granted a *waiver* of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R.

9.3.11

FCA

D

An *originator's* application for a *waiver* of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R must demonstrate that the following conditions are satisfied:

- (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the *originator* achieves by the *securitisation* is justified by a commensurate transfer of credit risk to third parties; and
- (2) that such transfer of credit risk to third parties is also recognised for the purposes of the *originator's* internal risk management and its internal capital allocation.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1c and Point 2 paragraph 2c]

9.3.12

FCA

G

■ BIPRU 1.3.10 G sets out the *appropriate regulator's* approach to the granting of *waivers*. The conditions in ■ BIPRU 9.3.11D are minimum requirements. Satisfaction of those does not automatically mean the *appropriate regulator* will grant the relevant *waiver*. The *appropriate regulator* will in addition also apply the tests in section 138A (Modification or waiver of rules) of the *Act*.

9.3.13

FCA

G

When considering an application for a *waiver* of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R, the *appropriate regulator* may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the *appropriate regulator* may request information from the *firm* additional or supplementary to that provided in the *waiver* application.

9.3.14

FCA

G

An *originator* should clearly state the scope of the *waiver* of the requirements in ■ BIPRU 9.3.7R and ■ BIPRU 9.3.8R it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.

Origination criteria

9.3.15

R

A *credit institution*, whether acting as *sponsor* or *originator*, must apply the same sound and well-defined criteria used for credit-granting in respect of exposures held on their *trading* and *non-trading book* under

■ SYSC 7.1.9 R to exposures to be securitised. The criteria applied must include the processes for approving and, where relevant, amending, renewing and re-financing credits.

[Note: *BCD*, Article 122a, paragraph 6]

9.3.16 **R** A *credit institution*, whether acting as *sponsor* or *originator*, must apply the same standards of analysis as are applied under ■ BIPRU 9.3.15R to participations or underwritings in *securitisation* issues purchased from third parties regardless of whether those participations or underwritings are to be held on their *trading* or *non-trading book*.

[Note: *BCD*, Article 122a, paragraph 6]

9.3.17 **R** Where a *credit institution* as *originator* fails to meet the requirements under ■ BIPRU 9.3.15R to ■ BIPRU 9.3.16R, it may not rely on and apply ■ BIPRU 9.3.1R (1) to reduce its *risk weighted exposure amounts* or exclude the relevant securitised exposures from the calculation of its *risk weighted exposure amounts*, and, as relevant, *expected loss* amounts of those *exposures*.

[Note: *BCD*, Article 122a, paragraph 6]

Disclosure requirements

9.3.18 **R** The *sponsor* or *originator credit institution* of a *securitisation* must disclose to investors the level of its commitment to maintain a net economic interest in the *securitisation* under ■ BIPRU 9.15.3R.

[Note: *BCD*, Article 122a, paragraph 7]

9.3.19 **R** The *sponsor* or *originator credit institutions* of a *securitisation* must ensure that prospective investors have readily available access to all materially relevant data concerning it, including:

- (1) on the credit quality and performance of the individual underlying *exposures*;
- (2) cash flows and collateral supporting the *securitisation exposure*; and
- (3) such information as is necessary to conduct comprehensive and well-informed stress-tests on the cash flows and collateral values supporting the underlying *exposures*.

[Note: *BCD*, Article 122a, paragraph 7]

9.3.20 **R** Under ■ BIPRU 9.3.19R, materially relevant data is determined as at the date of the *securitisation* and where appropriate due to the nature of the *securitisation* thereafter.

[Note: *BCD*, Article 122a, paragraph 7]

9.3.21

FCA

G

Subject to ■ BIPRU 9.3.22G, ■ BIPRU 9.15.9R and ■ BIPRU 9.15.10R, where the *originator* or *sponsor* of a *securitisation* fails to meet any of the requirements in ■ BIPRU 9.3.18R to ■ BIPRU 9.3.20R (disclosure requirements) in any material respect by reason of its negligence or omission, the *appropriate regulator* will use its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* to impose an additional *risk weight* of no less than 250% (capped at 1250%) of the *risk weight* that would otherwise apply to the relevant *securitisation positions* under the *rules* in ■ BIPRU 9.11 to ■ BIPRU 9.14. The additional *risk weight* imposed will be progressively increased with each relevant, subsequent infringement of the requirements in ■ BIPRU 9.3.18R to ■ BIPRU 9.3.20R.

[Note: *BCD*, Article 122a, paragraph 5]

9.3.22

FCA

G

When calculating the additional *risk weight* it will impose, the *appropriate regulator* will take into account the exemption of certain *securitisations* from the scope of ■ BIPRU 9.15.3R under ■ BIPRU 9.15.9R and ■ BIPRU 9.15.10R and, if those exemptions are relevant, reduce the *risk weight* it would otherwise impose.

[Note: *BCD*, Article 122a, paragraph 5]

9.4 Traditional securitisation

Minimum requirements for recognition of significant credit risk transfer

9.4.1

FCA PRA

R

The *originator* of a *traditional securitisation* may exclude *securitised exposures* from the calculation of *risk weighted exposure amounts* and *expected loss amounts* if either of the following conditions is fulfilled:

- (1) significant credit risk associated with the *securitised exposures* is considered to have been transferred to third parties; or
- (2) the *originator* applies a 1250% *risk weight* to all *securitisation positions* it holds in the *securitisation* or deducts these *securitisation positions* from *capital resources* according to
 - GENPRU 2.2.237 R;

and the transfer complies with the conditions in ■ BIPRU 9.4.2R
 ■ BIPRU 9.4.14R.

[Note: BCD Annex IX Part 2 point 1, paragraph 1]

9.4.2

FCA PRA

R

The *securitisation* documentation must reflect the economic substance of the transaction.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.3

FCA PRA

R

The *securitised exposures* must be put beyond the reach of the *originator* and its creditors, including in bankruptcy and receivership. This must be supported by the opinion of qualified legal counsel.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.4

FCA

G

Legal counsel's opinions should be reviewed as necessary. For example, an opinion should be reviewed if a relevant statutory provision is amended or where a new decision or judgment of a court might have a bearing on the conclusions reached.

9.4.5

FCA PRA

R

The securities issued must not represent payment obligations of the *originator*.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.6

FCA PRA

R

The transferee must be a *securitisation special purpose entity*.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.7

FCA PRA

R

The *originator* must not maintain effective or indirect control over the transferred *exposures*.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.8

FCA PRA

R

Where there is a *clean-up call option*, the following conditions must be satisfied:

- (1) the *clean-up call option* is exercisable at the discretion of the *originator*;
- (2) the *clean-up call option* may only be exercised when 10% or less of the original value of the *exposures securitised* remains unamortised; and
- (3) the *clean-up call option* is not structured to avoid allocating losses to *credit enhancement* positions or other positions held by investors and is not otherwise structured to provide *credit enhancement*.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.9

FCA PRA

R

The *securitisation* documentation must not contain clauses that:

- (1) other than in the case of *early amortisation provisions*, require positions in the *securitisation* to be improved by the *originator* including but not limited to altering the underlying credit exposures or increasing the yield payable to investors in response to a deterioration in the credit quality of the *securitised exposures*; or
- (2) increase the yield payable to holders of positions in the *securitisation* in response to a deterioration in the credit quality of the underlying pool.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.10

FCA PRA

R

For the purposes of ■ BIPRU 9.4.7 R, an *originator* will be considered to have maintained effective control over the transferred *exposures* if it has the right to repurchase from the transferee the previously transferred *exposures* in order to realise their benefits or if it is obligated to re-assume transferred risk. The *originator's* retention of servicing rights or obligations in respect of the *exposures* does not of itself constitute indirect control of the *exposures*.

[Note: BCD Annex IX Part 2 point 1 (part)]

9.4.11

FCA PRA

R

Significant credit risk will be considered to be transferred for an *originator* in the following cases:

- (1) the *risk weighted exposure amounts* of the *mezzanine securitisation positions* held by the *originator* in the *securitisation* do not exceed 50% of the *risk weighted exposure amounts* of all *mezzanine securitisation positions* existing in this *securitisation*;
- (2) where there are no *mezzanine securitisation positions* in a given *securitisation* and the *originator* can demonstrate that the exposure value of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% *risk weight* exceeds a reasoned estimate of the expected loss on the *securitised exposures* by a substantial margin, the *originator* does not hold more than 20% of the exposure values of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% risk weight.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1a]

9.4.12

FCA PRA

R

An *originator* must notify the *appropriate regulator* that it is relying on the deemed transfer of significant credit risk under ■ BIPRU 9.4.11R within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:

- (1) the *risk weighted exposure amount* of the *securitised exposures* and retained *securitisation positions*;
- (2) the *exposure* value of the *securitised exposures* and the retained *securitisation positions*;
- (3) details of the *securitisation positions*, including rating, *exposure* value broken down by *securitisation positions* sold and retained;
- (4) a statement that sets out why the *firm* is satisfied that the reduction in *risk weighted exposure amounts* is justified by a commensurate transfer of credit risk to third parties;
- (5) any relevant supporting documents, for example, a summary of the transaction.

9.4.13

FCA

G

In the event that the *appropriate regulator* decides that the possible reduction in *risk weighted exposure amounts* which the *originator* would achieve by the *securitisation* referred to in ■ BIPRU 9.4.11R is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* to require the *firm* to increase its *risk weight exposure amount* to an amount commensurate with the *appropriate regulator's* assessment of the transfer of credit risk to third parties.

- 9.4.14**
FCA **G** An *originator* may be granted a *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R.
- 9.4.15**
FCA **D** An *originator's* application for a *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R must demonstrate that the following conditions are satisfied.
- (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the *originator* achieves by the *securitisation* is justified by a commensurate transfer of credit risk to third parties; and
 - (2) that such a transfer of credit risk to third parties is also recognised for the purposes of all the *firm's* internal risk management and internal capital allocation.
- [Note: BCD, Annex IX, Part 2, Point 1, paragraph 1c]**
- 9.4.16**
FCA **G** ■ BIPRU 1.3.10 G sets out the *appropriate regulator's* approach to the granting of *waivers*. The conditions in ■ BIPRU 9.4.15D are minimum requirements. Satisfaction of those does not automatically mean the *appropriate regulator* will grant the relevant *waiver*. The *appropriate regulator* will in addition also apply the tests in section 138A (Modification or waiver of rules) of the *Act*.
- 9.4.17**
FCA **G** When considering an application for a *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R, the *appropriate regulator* may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the *appropriate regulator* may request information from the *firm* additional or supplementary to that provided in the *waiver* application.
- 9.4.18**
FCA **G** An *originator* should clearly state the scope of the *waiver* of the requirements in ■ BIPRU 9.4.11R and ■ BIPRU 9.4.12R it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.

9.5 Synthetic securitisation

Minimum requirements for recognition of significant credit risk transfer

9.5.1

FCA PRA

R

- (1) An *originator* of a *synthetic securitisation* may calculate *risk weighted exposure amounts*, and, as relevant, *expected loss amounts*, for the *securitised exposures* in accordance with ■ BIPRU 9.5.3 R and ■ BIPRU 9.5.4 R, if either of the following conditions is fulfilled:
- (a) significant credit risk is considered to have been transferred to third parties, either through funded or unfunded credit protection; or
 - (b) the *originator* applies a 1250% *risk weight* to all *securitisation positions* he holds in this *securitisation* or deducts these *securitisation positions* from *capital resources* according to ■ GENPRU 2.2.237 R;

and the transfer complies with the conditions in (2)-(8).

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2]

- (2) The *securitisation* documentation must reflect the economic substance of the transaction.
- (3) The credit protection by which the credit risk is transferred must comply with the eligibility and other requirements under ■ BIPRU 5 (Credit risk mitigation) and, so far as applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) for the recognition of such credit protection. For the purposes of this *rule*, *securitisation special purpose entities* must not be recognised as eligible unfunded protection providers.
- (4) The instruments used to transfer credit risk must not contain terms or conditions that:
 - (a) impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;

- (b) allow for the termination of the protection due to deterioration of the credit quality of the underlying *exposures*;
 - (c) other than in the case of *early amortisation provisions*, require positions in the *securitisation* to be improved by the *originator*; or
 - (d) increase the *originator's* cost of credit protection or the yield payable to holders of positions in the *securitisation* in response to a deterioration in the credit quality of the underlying pool.
- (5) An opinion must be obtained from qualified legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions.

[Note: BCD Annex IX Part 2 point 2]

- (6) Significant credit risk will be considered to have been transferred if either of the following conditions is met:
- (a) the *risk weighted exposure amounts* of the *mezzanine securitisation positions* which are held by the *originator* in this *securitisation* do not exceed 50% of the *risk weighted exposure amounts* of all *mezzanine securitisation positions* existing in this *securitisation*;
 - (b) where there are no *mezzanine securitisation positions* in a given *securitisation* and the *originator* can demonstrate that the *exposure* value of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% *risk weight* exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the *originator* does not hold more than 20% of the exposure values of the *securitisation positions* that would be subject to deduction from *capital resources* or a 1250% risk weight.

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2a]

- (7) An *originator* must notify the *appropriate regulator* that it is relying on the deemed transfer of significant credit risk under **■ BIPRU 9.5.1R (6)** within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:
- (a) the *risk weighted exposure amount* of the *securitised exposures* and retained *securitisation positions*;
 - (b) the *exposure* value of the *securitised exposures* and the retained *securitisation positions*;

- (c) details of the *securitisation positions*, including rating, *exposure* value broken down by *securitisation positions* sold and retained;
- (d) a statement that sets out why the *firm* is satisfied that the reduction in *risk weighted exposure amounts* is justified by a commensurate transfer of credit risk to third parties;
- (e) any relevant supporting documents, for example, a summary of the transaction.

9.5.1A

FCA

G

An *originator* may be granted a *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7).

9.5.1B

FCA

D

An *originator's* application for a *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7) must demonstrate that the following conditions are satisfied:

- (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the *originator* achieves by the *securitisation* is justified by a commensurate transfer of credit risk to third parties; and
- (2) that such transfer of credit risk to third parties is also recognised for the purposes of all the *originator's* internal risk management and its internal capital allocation.

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2c]

9.5.1C

FCA

G

■ BIPRU 1.3.10 G sets out the *appropriate regulator* approach to the granting of *waivers*. The conditions in ■ BIPRU 9.5.1BD are minimum requirements. Satisfaction of those does not automatically mean the *appropriate regulator* will grant the relevant *waiver*. The *appropriate regulator* will in addition also apply the tests in section 138A (Modification or waiver of rules) of the *Act*.

9.5.1D

FCA

G

When considering an application for a *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7), the *appropriate regulator* may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the *appropriate regulator* may request information from the *firm* additional or supplementary to that provided in the *waiver* application.

9.5.1E

FCA

G

An *originator* should clearly state the scope of the *waiver* of the requirements in ■ BIPRU 9.5.1R (6) and ■ (7) it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.

9.5.1F

FCA

G

In the event that the *appropriate regulator* decides that the possible reduction in *risk weighted exposure amounts* which the *originator credit institution* would achieve by the *securitisation* referred to in ■ BIPRU 9.5.1R (6) is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* to require the *firm* to increase its *risk*

weight exposure amount to an amount commensurate with the *appropriate regulator's* assessment of the transfer of credit risk to third parties.

Originators' calculation of risk-weighted exposure amounts for exposures securitised in a synthetic securitisation

9.5.2

FCA PRA

R

■ BIPRU 9.5.3 R-■ BIPRU 9.5.8 R apply to the calculation by an *originator* of *risk weighted exposure amounts* for *exposures securitised in a synthetic securitisation*.

9.5.3

FCA PRA

R

- (1) In calculating *risk weighted exposure amounts* for the *securitised exposures*, where the conditions in ■ BIPRU 9.5.1 R are met, the *originator* of a *synthetic securitisation* must, subject to the treatment of maturity mismatches set out in ■ BIPRU 9.5.6 R-■ BIPRU 9.5.8 R, use the relevant calculation methodologies set out in ■ BIPRU 9.9-■ BIPRU 9.14 and not those set out in ■ BIPRU 3 (Standardised credit risk) or ■ BIPRU 4 (IRB approach).
- (2) For *firms* calculating *risk weighted exposure amounts* and *expected loss* amounts under the *IRB approach*, the *expected loss* amount in respect of such *exposures* must be zero.
- (3) For clarity, this paragraph refers to the entire pool of *exposures* included in the *securitisation*.

[Note: BCD Annex IX Part 2 point 3 and point 4 (part)]

9.5.4

FCA PRA

R

Subject to the treatment of maturity mismatches set out in ■ BIPRU 9.5.6 R-■ BIPRU 9.5.8 R, the *originator* must calculate *risk weighted exposure amounts* in respect of all *tranches* in the *securitisation* in accordance with the provisions of ■ BIPRU 9.9-■ BIPRU 9.14. For example, where a *tranche* is transferred by means of unfunded credit protection to a third party, the *risk weight* of that third party must be applied to the *tranche* in the calculation of the *originators risk weighted exposure amount*.

[Note: BCD Annex IX Part 2 point 4 (part)]

Treatment of maturity mismatches in synthetic securitisations

9.5.5

FCA PRA

R

■ BIPRU 9.5.6 R-■ BIPRU 9.5.8 R apply to the treatment of maturity mismatches in a *synthetic securitisation*.

9.5.6

FCA PRA

R

For the purposes of calculating *risk weighted exposure amounts* in accordance with ■ BIPRU 9.5.3 R, any maturity mismatch between the credit protection by which the *tranching* is achieved and the *securitised exposures* must be taken into consideration in accordance with ■ BIPRU 9.5.7 R-■ BIPRU 9.5.8 R.

[Note: BCD Annex IX Part 2 point 5]

9.5.7

FCA PRA

R

The maturity of the *securitised exposures* must be taken to be the longest maturity of any of those *exposures* subject to a maximum of five years. The maturity of the credit protection must be determined in accordance with ■ BIPRU 5 (Credit risk mitigation) and, so far as relevant, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach).

[Note: BCD Annex IX Part 2 point 6]

9.5.8

FCA PRA

R

- (1) An *originator* must ignore any maturity mismatch in calculating *risk weighted exposure amounts* for *tranches* appearing pursuant to ■ BIPRU 9.9-■ BIPRU 9.14 with a *risk weight* of 1250%. For all other *tranches* the maturity mismatch treatment prescribed in ■ BIPRU 5.8 (Maturity mismatches) must be applied in accordance with the following formula:

$$RW^* \text{ is } [RW(SP) \times (t-t^*)/(T-t^*)] + [RW(Ass) \times (T-t)/(T-t^*)]$$

- (2) The following apply for the purposes of the formula in (1):
- (a) RW^* is *risk weighted exposure amounts*;
 - (b) $RW(Ass)$ is *risk weighted exposure amounts* for *exposures* if they had not been *securitised* calculated on a pro-rata basis;
 - (c) $RW(SP)$ is *risk weighted exposure amounts* calculated under ■ BIPRU 9.6.3 G as if there was no maturity mismatch;
 - (d) T is maturity of the underlying *exposures* expressed in years;
 - (e) t is maturity of credit protection expressed in years; and
 - (f) t^* is 0.25.

[Note: BCD Annex IX Part 2 point 7]

9.6 Implicit support

9.6.1

FCA PRA

R

An *originator* which, in respect of a securitisation in the *non-trading book*, has made use of ■ BIPRU 9.3.1 R in the calculation of *risk weighted exposure amounts*, or a *sponsor*, must not, with a view to reducing potential or actual losses to investors, provide support to the *securitisation* beyond its contractual obligations.

[Note: BCD Article 101(1)]

9.6.1A

FCA PRA

R

An *originator* which has sold instruments in its *trading book* to an *SSPE* and no longer holds *market risk capital requirements* for these instruments, or a *sponsor*, must not, with a view to reducing potential or actual losses to investors, provide support to the *securitisation* beyond its contractual obligations.

[Note: BCD Article 101(1)]

9.6.2

FCA PRA

R

If an *originator* or *sponsor* fails to comply with ■ BIPRU 9.6.1 R or ■ BIPRU 9.6.1A R in respect of a *securitisation*, it must:

- (1) hold capital against all of the *securitised exposures* associated with the *securitisation* transaction as if they had not been *securitised*; and
- (2) disclose publicly:
 - (a) that it has provided non-contractual support ; and
 - (b) the regulatory capital impact of doing so.

[Note: BCD Article 101(2)]

9.6.3

FCA

G

- (1) *Securitisation* documentation should make clear, where applicable, that any repurchase of *securitised exposures* or *securitisation positions* by the *originator* or *sponsor* beyond its contractual obligations is not mandatory and may only be made at fair market value. In general, any such repurchase should be subject to a *firm's* credit review and approval process, which should be adequate to ensure that the repurchase complies with ■ BIPRU 9.6.1 R.

- (2) If an *originator* or *sponsor* repurchases *securitised exposures* or *securitisation positions*, it should be able to satisfy the *appropriate regulator* that it has adequately considered the following:
 - (a) the price of the repurchase;
 - (b) the *firm's* capital and liquidity position before and after repurchase;
 - (c) the performance of the *securitised exposures*; and
 - (d) the performance of the issued securities;

and has concluded that, taking into account those factors and any other relevant factors, the repurchase is not structured to provide support.
- (3) A *firm* should keep adequate records of the matters in (1) and (2).

9.6.4

FCA

G

If a *firm* is found to have provided implicit support to a *securitisation*, that fact increases the expectation that the *firm* will provide future support to its *securitisations* thus failing to achieve a significant transfer of risk. The *appropriate regulator* will consider taking appropriate measures to reflect this increased expectation after an instance of implicit support is found.

9.6.5

FCA

G

A *firm* may need to consider three main situations to determine whether there is a breach of the prohibition against implicit support in ■ BIPRU 9.6.1 R:

- (1) support given under a contractual obligation;
- (2) support given under the contractual documentation for the *securitisation* which the *firm* is entitled, but not obliged, to give; and
- (3) support which is not provided for under the contractual documentation for the *securitisation*.

9.6.6

FCA

G

- (1) The support described in ■ BIPRU 9.6.5 G (1) is permitted by ■ BIPRU 9.6.1 R.
- (2) The support described in ■ BIPRU 9.6.5 G (3) is not permitted by ■ BIPRU 9.6.1 R.
- (3) The support described in ■ BIPRU 9.6.5 G (2) may be permitted by ■ BIPRU 9.6.1 R under the following conditions:
 - (a) the fact that the *firm* may give it is expressly set out in the contractual and marketing documents for the *securitisation*;
 - (b) the nature of the support that the *firm* may give is precisely described in the documentation;
 - (c) the maximum degree of support that can be given can be ascertained at the time of the *securitisation* both by the *firm* and by a *person* whose only information comes from the marketing documents for the *securitisation*;
 - (d) the assessment of whether there has been significant risk transfer and the amount of that transfer is made on the basis that the *firm* will provide support to the maximum degree possible; and

- (e) the *firm's capital resources* and *capital resources requirement* are adjusted at the time of the *securitisation* on the basis that the *firm* has provided support to the maximum degree possible, whether by an immediate deduction from capital or appropriate *risk weighting*.

9.6.7

FCA

G

A waiver of the right to future margin income may not breach the prohibition against implicit support:

- (1) the degree of support that can be given can be defined precisely by reference to the *securitisation* contractual documentation , albeit the amount of support may not be ascertainable in absolute monetary terms; and
- (2) no adjustment to the *firm's capital resources* or *capital resources requirement* is required, as a *firm* should not in any case reflect future margin income in its income or *capital resources*.

9.6.8

FCA

G

For the purposes of ■ BIPRU 9.6.2 R (2), *firms* will be expected to include disclosure of implicit support in accordance with the general and technical requirements on public disclosure, as outlined in ■ BIPRU 11 (Disclosure).



9.7 Recognition of credit assessments of ECAIs

9.7.1

FCA PRA

R

An ECAI's credit assessment may be used to determine the *risk weight* of a *securitisation position* in accordance with ■ BIPRU 9.9 only if the ECAI is an *eligible ECAI*.

[Note: BCD Article 97(1)]

9.7.2

FCA PRA

R

- (1) A *firm* must not use a credit assessment of an *eligible ECAI* to determine the *risk weight* of a *securitisation position* in accordance with ■ BIPRU 9.9 unless it complies with the principles of credibility and transparency as elaborated in (2) to (6).
- (2) There must be no mismatch between the types of payments reflected in the credit assessment and the types of payment to which the *firm* is entitled under the contract giving rise to the *securitisation position* in question.
- (3) The credit assessment must be available publicly to the market. Credit assessments may only be treated as publicly available if:
 - (a) they have been published in a publicly accessible forum, and
 - (b) they are included in the ECAI's transition matrix.
- (4) Credit assessments that are made available only to a limited number of entities may not be treated as publicly available.
- (5) The credit assessment must not be based, or partly based, on unfunded support provided by the *firm* itself.
- (6) In the case of a credit assessment referred to in (5), the *firm* must consider the relevant position as if it were not rated and must apply the relevant treatment of unrated positions as set out in ■ BIPRU 9.11 and ■ BIPRU 9.12.

[Note: BCD Article 97(5) and Annex IX Part 3 point 1]

9.7.2A

FCA

G

The requirements in ■ BIPRU 9.7.2R (5) and ■ (6) apply to situations where a *firm* holds *securitisation positions* which receive a lower *risk weight* by virtue of unfunded credit

protection provided by the *firm* itself acting in a different capacity in the *securitisation* transaction. The assessment of whether a *firm* is providing unfunded support to its *securitisation positions* should take into account the economic substance of that support in the context of the overall transaction and any circumstances in which the *firm* could become exposed to a higher credit risk in the absence of that support.

9.7.3

FCA

G

The *guidance* in ■ BIPRU 3.3 (Recognition of ratings agencies) applies for the purposes of ■ BIPRU 9 as it does to *exposure risk weighting* in ■ BIPRU 3, save that the reference in ■ BIPRU 3.3 to the regulation 22 of the *Capital Requirements Regulations 2006* should be read as a reference to regulation 23 of the *Capital Requirements Regulations 2006* for the purposes of ■ BIPRU 9.

9.7.4

FCA

G

Where ■ BIPRU 9.7.2R (5) applies to *securitisation positions* in an *ABCP programme*, the *firm* may be granted a *waiver* which allows it to use the *risk weight* assigned to a *liquidity facility* in order to calculate the *risk weighted exposure amount* for the positions in the *ABCP programme*, provided that the *liquidity facility* ranks *pari passu* with the positions in the *ABCP programme* so that they form overlapping positions and 100% of the commercial paper issued by the *ABCP programme* is covered by *liquidity facilities*. For the purposes of this provision, overlapping positions means that the positions represent, wholly or partially, an *exposure* to the same risk such that, to the extent of the overlap, there is a single *exposure*.

[Note: BCD, Annex IX, Part 4, Point 5]



9.8 Use of ECAI credit assessments for the determination of applicable risk weights

9.8.1 **R** The use of *ECAIs'* credit assessments for the calculation of a *firm's risk weighted exposure amounts* under ■ BIPRU 9 must be consistent and in accordance with ■ BIPRU 9.8.2 R ■ BIPRU 9.8.7 R. Credit assessments must not be used selectively.

FCA PRA

[Note: BCD Article 99]

9.8.2 **R** A *firm* may nominate one or more *eligible ECAIs* the credit assessments of which must be used in the calculation of its *risk weighted exposure amounts* under ■ BIPRU 9 (a *nominated ECAI*).

FCA PRA

[Note: BCD Annex IX Part 3 point 2]

9.8.3 **R** Subject to ■ BIPRU 9.8.5 R ■ BIPRU 9.8.7 R, a *firm* must use credit assessments from *nominated ECAIs* consistently in respect of its *securitisation positions*.

FCA PRA

[Note: BCD Annex IX Part 3 point 3]

9.8.4 **R** Subject to ■ BIPRU 9.8.5 R and ■ BIPRU 9.8.6 R, a *firm* must not use an *ECAI's* credit assessments for its positions in some *tranches* and another *ECAI's* credit assessments for its positions in other *tranches* within the same structure that may or may not be *rated* by the first *ECAI*.

FCA PRA

[Note: BCD Annex IX Part 3 point 4]

9.8.5 **R** Where a position has two credit assessments by *nominated ECAIs*, the *firm* must use the less favourable credit assessment.

FCA PRA

[Note: BCD Annex IX Part 3 point 5]

9.8.6 **R** Where a position has more than two credit assessments by *nominated ECAIs*, the two most favourable credit assessments must be used. If the two most favourable assessments are different, the least favourable of the two must be used.

FCA PRA

[Note: BCD Annex IX Part 3 point 6]

9.8.7

FCA PRA

R

- (1) Where credit protection eligible under ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) is provided directly to the *SSPE*, and that protection is reflected in the credit assessment of a position by a *nominated ECAI*, the *risk weight* associated with that credit assessment may be used.
- (2) If the protection is not eligible under ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach), the credit assessment must not be recognised.
- (3) In the situation where the credit protection is not provided to the *SSPE* but rather is provided directly to a *securitisation position*, the credit assessment must not be recognised.

[Note: *BCD Annex IX Part 3 point 7*]



9.9 Calculation of risk-weighted exposure amounts for securitisation positions

9.9.1

FCA PRA

R

To calculate the *risk weighted exposure amount* of a *securitisation position*, the relevant *risk weight* must be assigned to the *exposure* value of the position in accordance with ■ BIPRU 9.9 - ■ BIPRU 9.14 based on the credit quality of the position.

[Note: BCD Article 96(1) (part) and Annex IX, Part 4 point 1]

9.9.2

FCA PRA

R

For the purpose of ■ BIPRU 9.9.1 R, the credit quality of a position may be determined by reference to an *ECAI* credit assessment or otherwise, as set out in ■ BIPRU 9.9 ■ BIPRU 9.14.

[Note: BCD Article 96(1) (part)]

9.9.3

FCA PRA

R

- (1) Where there is an *exposure* to different *tranches* in a *securitisation*, the *exposure* to each *tranche* must be considered a separate *securitisation position*.
- (2) The providers of credit protection to *securitisation positions* must be treated as holding positions in the *securitisation*.
- (3) *securitisation positions* include *exposures* to a *securitisation* arising from interest rate or currency derivative contracts.

[Note: BCD Article 96(2)]

9.9.4

FCA PRA

R

Subject to ■ BIPRU 9.9.5 R,

- (1) where a *firm* calculates *risk weighted exposure amounts* under the *standardised approach* to *securitisations* outlined in ■ BIPRU 9.11, the *exposure* value of an on-balance sheet *securitisation position* must be its balance sheet value;
- (2) where a *firm* calculates *risk weighted exposure amounts* under the *IRB approach* to *securitisations* outlined in ■ BIPRU 9.12, the *exposure* value of an on-balance sheet *securitisation position* must be measured gross of value adjustments;

(3) the *exposure* value of an off-balance sheet *securitisation position* must be its nominal value multiplied by a conversion figure as prescribed in this chapter; and

(4) the conversion figure referred to in (3) must be 100% unless otherwise specified.

[Note: BCD Annex IX Part 4 point 2]

9.9.5

FCA PRA

R

The *exposure* value of a *securitisation position* arising from a *financial derivative instrument* must be determined in accordance with ■ BIPRU 13 (Treatment of derivative instruments).

[Note: BCD Annex IX Part 4 point 3]

9.9.6

FCA PRA

R

Where a *securitisation position* is subject to funded credit protection, the *exposure* value of that position may be modified in accordance with and subject to the requirements of ■ BIPRU 5 (Credit risk mitigation) as further specified in ■ BIPRU 9.11.13 R and ■ BIPRU 9.14.

[Note: BCD Annex IX Part 4 point 4]

9.9.7

FCA PRA

R

Where a *securitisation position* is subject to funded or unfunded credit protection the *risk weight* to be applied to that position may be modified in accordance with ■ BIPRU 5 (Credit risk mitigation) and, if applicable, ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) read in conjunction with ■ BIPRU 9.14.

[Note: BCD Article 96(3)]

9.9.8

FCA PRA

R

(1) Where a *firm* has two or more overlapping positions in a *securitisation* the *firm* must, to the extent that the positions overlap, include in its calculation of *risk weighted exposure amounts* only the position, or portion of a position, producing the higher *risk weighted exposure amounts*. The *firm* may also recognise such an overlap between capital charges for *specific risk* in relation to *positions* in the *trading book* and capital charges for positions in the *non-trading book*, provided that the *firm* is able to calculate and compare the capital charges for the relevant positions.

(2) For the purposes of (1), overlapping means that the positions, wholly or partially, represent an *exposure* to the same risk such that to the extent of the overlap there is a single *exposure*.

[Note: BCD Annex IX Part 4 point 5]

9.9.9

FCA PRA

R

Subject to the provisions of *GENPRU* that deal with the deduction of *securitisation positions* at stage M in the relevant *capital resources table*,

the *risk weighted exposure amount* must be included in the *firm's* total of *risk weighted exposure amounts* for the purposes of the calculation of its *credit risk capital requirement*.

[Note: BCD Article 96(4)]

9.9.10

FCA

G

Where ■ BIPRU 9.7.2R (5) applies to *securitisation positions* in an *ABCP programme*, the *firm* may be granted a *waiver* in the terms described in ■ BIPRU 9.7.4 G.

[Note: BCD, Annex IX, Part 4, Point 5]



9.10 Reduction in risk-weighted exposure amounts

9.10.1

FCA PRA

R

■ BIPRU 9.10 applies as follows:

- (1) ■ BIPRU 9.10.2 R and ■ BIPRU 9.10.3 R apply to both the *standardised approach* and the *IRB approach*; and
- (2) ■ BIPRU 9.10.4 R ■ BIPRU 9.10.7 R apply to the *IRB approach*.

9.10.2

FCA PRA

R

In respect of a *securitisation position* in respect of which a 1250% *risk weight* is assigned, a *firm* may, as an alternative to including the position in its calculation of *risk weighted exposure amounts*, deduct from its *capital resources* the *exposure* value of the position. For these purposes, the calculation of the *exposure* value may reflect eligible funded protection in a manner consistent with ■ BIPRU 9.14.

[Note: BCD Annex IX Part 4 points 35, 74 and 75(b)]

9.10.3

FCA PRA

R

Where a *firm* applies ■ BIPRU 9.10.2 R, 12.5 times the amount deducted in accordance with that paragraph must, for the purposes of ■ BIPRU 9.11.5 R and ■ BIPRU 9.12.8 R, be subtracted from the amount specified in whichever of those *rules* applies as the maximum *risk weighted exposure amount* to be calculated by a *firm* to which one of those *rules* applies.

[Note: BCD Annex IX Part 4 point 36 and point 76]

9.10.4

FCA PRA

R

The *risk weighted exposure amount* of a *securitisation position* to which a 1250% *risk weight* is assigned may be reduced by 12.5 times the amount of any value adjustments made by the *firm* in respect of the *securitised exposures*.

[Note: BCD Annex IX Part 4 point 72 (part)]

9.10.5

FCA PRA

R

To the extent that value adjustments are taken account of for the purposes of ■ BIPRU 9.10.4 R they must not be taken account of for the purposes of the calculation indicated in ■ BIPRU 4.3.8 R (Treatment of expected loss amounts).

[Note: BCD Annex IX Part 4 point 72 (part)]

9.10.6

FCA PRA

R

The *risk weighted exposure amount* of a *securitisation position* may be reduced by 12.5 times the amount of any value adjustments made by the *firm* in respect of the position.

[Note: BCD Annex IX Part 4 point 73]

9.10.7

FCA PRA

R

For the purposes of ■ BIPRU 9.10.2 R (as it applies to the *IRB approach*):

- (1) the *exposure* value of the position may be derived from the *risk weighted exposure amounts* taking into account any reductions made in accordance with ■ BIPRU 9.10.4 R ■ BIPRU 9.10.6 R;
- (2) where the *supervisory formula method* is used to calculate *risk weighted exposure amounts* and $L < K_{IRBR}$ and $[L+T] > K_{IRBR}$ the position may be treated as two positions with L equal to K_{IRBR} for the more senior of the positions.

[Note: BCD Annex IX Part 4 point 75(a) and (c)]



9.11 Calculation of risk weighted exposure amounts under the standardised approach to securitisations

9.11.1

FCA PRA

R

Subject to ■ BIPRU 9.11.5 R, the *risk weighted exposure amount* of a rated *securitisation position* or *resecuritisation position* must be calculated by applying to the *exposure* value the *risk weight* associated with the *credit quality step* with which the credit assessment has been determined to be associated, as prescribed in ■ BIPRU 9.11.2 R .

[Note: BCD Annex IX Part 4 point 6]

9.11.2

FCA PRA

R

Table:

This table belongs to ■ BIPRU 9.11.1 R

<i>Credit Quality step</i>	1	2	3	4 (only for credit assessments other than short-term credit assessments)	All other credit quality steps
<i>Securitisation positions</i>	20%	50%	100%	350%	1250%
<i>Resecuritisation positions</i>	40%	100%	225%	650%	1250%

[Note: For mapping of the *credit quality step* to the credit assessments of *eligible ECAIs*, refer to: <http://www.fca.org.uk/your-fca/documents/fsa-ecais-securitisation> for the *FCA* and <http://www.bankofengland.co.uk/publications/Documents/other/pr/policy/2013/ecaissecuritisation.pdf> for the *PRA*]

[Note: BCD, Annex IX, Part 4, point 6, Table 1]

9.11.3

R

[deleted]

9.11.4

FCA PRA

R

Subject to ■ BIPRU 9.11.6 R ■ BIPRU 9.11.12 R, the *risk weighted exposure amount* of an *unrated securitisation position* must be calculated by applying a *risk weight* of 1250%.

[Note: BCD Annex IX Part 4 point 7]

Originator and sponsor firms

9.11.5

FCA PRA

R

For an *originator* or *sponsor*, the *risk weighted exposure amounts* calculated in respect of its positions in a *securitisation* may be limited to the *risk weighted exposure amounts* which would be calculated for the *securitised exposures* had they not been *securitised* subject to the presumed application of a 150% *risk weight* to all past due items and items belonging to regulatory high risk categories (see ■ BIPRU 3.4.104 R and ■ BIPRU 3 Annex 3 R) amongst the *securitised exposures*.

[Note: BCD Annex IX Part 4 point 8]

Treatment of unrated securitisation positions

9.11.6

FCA PRA

R

- (1) A *firm* having an *unrated securitisation position* may apply the treatment set out in this paragraph for calculating the *risk weighted exposure amount* for that position provided the composition of the pool of *exposures securitised* is known at all times.
- (2) A *firm* may apply the weighted-average *risk weight* that would be applied to the *securitised exposures* referred to in (1) under the *standardised approach* by a *firm* holding the *exposures* multiplied by a concentration ratio.
- (3) This concentration ratio is equal to the sum of the nominal amounts of all the *tranches* divided by the sum of the nominal amounts of the *tranches* junior to, or *pari passu* with, the *tranche* in which the position is held including that *tranche* itself.
- (4) The resulting *risk weight* must not be higher than 1250% or lower than any *risk weight* applicable to a *rated* more senior *tranche*.
- (5) Where the *firm* is unable to determine the *risk weights* that would be applied to the *securitised exposures* under the *standardised approach*, it must apply a *risk weight* of 1250% to the position.

[Note: BCD Annex IX Part 4 points 9 and 10]

9.11.7

FCA

G

- (1) This provision contains *guidance* on the requirement in ■ BIPRU 9.11.6 R (1) that the composition of the pool of *exposures securitised* must be known at all times.

- (2) The composition should be known sufficiently at the time of purchase for the *firm* to be able accurately to calculate the *risk weighted exposure amounts* of the pool under the *standardised approach*.
- (3) Thereafter, any change to the composition of the pool during the life of the transaction that would lead to an increase in the *risk weighted exposure amount* of the pool of *exposures* under the *standardised approach* should be either:
 - (a) prohibited by the documentation; or
 - (b) included in the *firm's* capital calculations.
- (4) It would be sufficient for the purposes of (2) for the composition of the pool to be reported to the *firm* at least daily, via information service providers, secure web-sites or other appropriate sources.

Treatment of securitisation positions in a second loss tranche or better in an ABCP programme

9.11.8

FCA PRA

R

Subject to the availability of a more favourable treatment by virtue of the provisions concerning *liquidity facilities* in

■ BIPRU 9.11.10 R ■ BIPRU 9.11.12 R, a *firm* may apply to *securitisation positions* meeting the conditions set out in ■ BIPRU 9.11.9 R a *risk weight* that is the greater of:

- (1) 100%, or
- (2) the highest of the risk weights that would be applied to any of the *securitised exposures* under the *standardised approach* by a *firm* holding the *exposures*.

[Note: BCD Annex IX Part 4 point 11]

9.11.9

FCA PRA

R

For the treatment in ■ BIPRU 9.11.8 R to be available,:

- (1) the *securitisation position* must be in an *ABCP programme*;
- (2) the *securitisation position* must be in a *tranche* which is economically in a second loss position or better in the *securitisation* and the first loss *tranche* must provide meaningful *credit enhancement* to the second loss *tranche*;
- (3) the *securitisation position* must be of a quality the equivalent of investment grade or better; and
- (4) the *firm* in question must not hold a position in the first loss *tranche*.

[Note: BCD Annex IX Part 4 point 12]

9.11.10

FCA PRA

R

Treatment of unrated liquidity facilities

When the conditions in this paragraph have been met, and in order to determine its *exposure* value, a conversion figure of 50% may be applied to the nominal amount of a *liquidity facility*. The *risk weight* to be applied is the highest *risk weight* that would be applied to any of the *securitised exposures* under the *standardised approach* by a *firm* holding the *exposures*. Those conditions are as follows:

- (1) the *liquidity facility* documentation must clearly identify and limit the circumstances under which the facility may be drawn;
- (2) it must not be possible for the facility to be drawn so as to provide credit support by covering losses already incurred at the time of draw for example, by providing liquidity in respect of *exposures* in default at the time of draw or by acquiring assets at more than fair value;
- (3) the facility must not be used to provide permanent or regular funding for the *securitisation*;
- (4) repayment of draws on the facility must not be subordinated to the claims of investors other than to claims arising in respect of interest rate or currency derivative contracts, fees or other such payments, nor be subject to waiver or deferral;
- (5) it must not be possible for the facility to be drawn after all applicable *credit enhancements* from which the *liquidity facility* would benefit are exhausted; and
- (6) the facility must include a provision that results in an automatic reduction in the amount that can be drawn by the amount of *exposures* that are in *default*, where *default* has the meaning given to it for the purposes of the *IRB approach*, or where the pool of *securitised exposures* consists of *rated* instruments, that terminates the facility if the average quality of the pool falls below investment grade.

[Note: BCD Annex IX Part 4 point 13]

Liquidity facilities that may be drawn only in the event of a general market disruption

9.11.11

R

[deleted]

9.11.12

FCA PRA

R

Cash advance facilities

To determine its *exposure* value, a conversion figure of 0% may be applied to the nominal amount of a *liquidity facility* that is unconditionally cancellable provided that the conditions set out at ■ BIPRU 9.11.10 R are satisfied and that repayment of draws on the facility

are senior to any other claims on the cash flows arising from the *securitised exposures*.

[Note: BCD Annex IX Part 4 point 15]

Standardised approach: recognition of credit risk mitigation on securitisation positions

9.11.13

FCA PRA

R

Where a *firm* calculates the *risk weighted exposure amount* of a *securitisation position* under the *standardised approach*, where credit protection is obtained on a *securitisation position*, the calculation of *risk weighted exposure amounts* may be modified in accordance with ■ BIPRU 5 (Credit risk mitigation).

[Note: BCD Annex IX Part 4 point 34]



9.12 Calculation of risk-weighted exposure amounts under the IRB approach

9.12.1

FCA PRA

R

■ BIPRU 9.12 applies to the calculation of *risk weighted exposure amounts of securitisation positions* under the *IRB approach*.

[Note: BCD Annex IX Part 4 point 37 (part)]

Hierarchy of methods

9.12.2

FCA PRA

R

For a *rated position* or a position in respect of which an inferred *rating* may be used, the *ratings based method* must be used to calculate the *risk weighted exposure amount*.

[Note: BCD Annex IX Part 4 point 38]

9.12.3

FCA PRA

R

For an *unrated position* the *supervisory formula method* must be used except where a *firm* uses the *ABCP internal assessment approach*.

[Note: BCD Annex IX Part 4 point 39]

9.12.4

FCA

G

In cases where both the *ABCP internal assessment approach* and the *supervisory formula method* are available, a firm should determine the most appropriate approach and apply that approach consistently.

9.12.5

FCA PRA

R

A *firm* other than an *originator* or a *sponsor* may not use the *supervisory formula method* unless its *IRB permission* expressly permits it to do so.

[Note: BCD Annex IX Part 4 point 40]

9.12.6

FCA PRA

R

Subject to any *IRB permission* of the type described in ■ BIPRU 9.12.28 G, in the case of an *originator* or *sponsor* unable to calculate K_{IRB} and which has not obtained approval to use the *ABCP internal assessment approach*, and in the case of other *firms* where they have not obtained approval to use the *supervisory formula method* or, for positions in *ABCP programmes*, the *ABCP internal assessment approach*, a *risk weight* of 1250% must be assigned to *securitisation positions* which are *unrated* and in respect of which an inferred *rating* may not be used.

[Note: BCD Annex IX Part 4 point 41]

9.12.7

FCA PRA

R

Use of inferred ratings

When the following minimum operational requirements are satisfied a *firm* must attribute to an *unrated position* an inferred credit assessment equivalent to the credit assessment of those *rated positions* (the reference positions) which are the most senior positions which are in all respects subordinate to the *unrated securitisation position* in question:

- (1) the reference positions must be subordinate in all respects to the *unrated securitisation position*;
- (2) the maturity of the reference positions must be equal to or longer than that of the *unrated position* in question; and
- (3) on an ongoing basis, any inferred *rating* must be updated to reflect any changes in the credit assessment of the reference positions.

[Note: BCD Annex IX Part 4 point 42]

9.12.8

FCA PRA

R

Maximum risk-weighted exposure amounts

For an *originator*, a *sponsor*, or for other *firms* which can calculate K_{IRB} , the *risk weighted exposure amounts* calculated in respect of its positions in a *securitisation* may be limited to that which would produce an amount in respect of its *credit risk capital requirement* equal to the sum of 8% of the *risk weighted exposure amount* which would be produced if the *securitised assets* had not been *securitised* and were on the balance sheet of the *firm* plus the *expected loss amounts* of those *exposures*.

[Note: BCD Annex IX Part 4 point 45]

9.12.9

FCA PRA

R

Ratings based method

■ BIPRU 9.12.10 R to ■ BIPRU 9.12.19 R apply to the calculation of *risk weighted exposure amount* of *securitisation positions* under the *ratings based method*.

9.12.10

FCA PRA

R

Under the *ratings based method*, the *risk weighted exposure amount* of a *rated securitisation position* or *resecuritisation position* must be calculated by applying to the *exposure value* the *risk weight* associated with the *credit quality step* with which the credit assessment is associated as prescribed in ■ BIPRU 9.12.11 R multiplied by 1.06.

[Note: BCD Annex IX Part 4 point 46]

9.12.11

FCA PRA

R

Table:

This table belongs to ■ BIPRU 9.12.10 R

Credit Quality Step		Securitisation positions			Resecuritisation positions	
Credit assessments other than short term	Short-term credit assessments	A	B	C	D	E
1	1	7%	12%	20%	20%	30%
2		8%	15%	25%	25%	40%
3		10%	18%	35%	35%	50%
4	2	12%	20%		40%	65%
5		20%	35%		60%	100%
6		35%	50%		100%	150%
7	3	60%	75%		150%	225%
8		100%			200%	350%
9		250%			300%	500%
10		425%			500%	650%
11		650%			750%	850%
all other, unrated		1250%				

[Note: For mapping of the *credit quality step* to the credit assessments of eligible *ECAIs*, refer to: <http://www.fca.org.uk/your-fca/documents/fsa-ecais-securitisation> for the *FCA* and <http://www.bankofengland.co.uk/publications/Documents/other/pr/policy/2013/ecaissecuritisation.pdf> for the *PRA*.]

[Note: *BCD*, Annex IX, Part 4, point 46]

9.12.12

R

[deleted]

9.12.13

FCA PRA

R

For the purposes of ■ BIPRU 9.12.10 R:

- (1) the weightings in column C of ■ BIPRU 9.12.11 R must be applied where the *securitisation position* is not a *resecuritisation position* and where the effective number of *exposures* securitised is less than six;
- (2) for the remainder of the *securitisation positions* that are not *resecuritisation positions*, the weightings in column B must be

applied unless the position is in the most senior *tranche* of a *securitisation*, in which case the weightings in column A must be applied; and

- (3) for *resecuritisation positions*, the weightings in column E must be applied unless the *resecuritisation position* is in the most senior *tranche* of the *resecuritisation* and none of the underlying *exposures* were themselves *resecuritisation exposures*, in which case column D must be applied.

[Note: BCD Annex IX Part 4 point 47(part)]

9.12.14

R

FCA PRA

When determining under ■ BIPRU 9.12.13 R whether a *tranche* is the most senior for these purposes, a *firm* need not take into consideration amounts due under interest rate or currency derivative contracts, fees due, or other similar payments.

[Note: BCD Annex IX Part 4 point 47 (part)]

9.12.15

G

FCA

A senior *liquidity facility* need not be taken into account for the purposes of determining the most senior *tranche* under ■ BIPRU 9.12.13 R.

9.12.16

R

[deleted]

9.12.17

R

FCA PRA

In calculating the effective number of *exposures securitised*, multiple *exposures* to one obligor must be treated as one *exposure*. The effective number of *exposures* is calculated as:

$$N = ((\sum_i (EAD_i))^2) / (\sum_i (EAD_i^2))$$

where EAD_i represents the sum of the *exposure* values of all *exposures* to the i^{th} obligor. If the portfolio share associated with the largest *exposure*, C_1 , is available, the *firm* may compute N as $1/C_1$.

[Note: BCD Annex IX Part 4 point 49]

9.12.18

R

[deleted]

9.12.19

R

[deleted]

The ABCP internal assessment approach

9.12.20

R

FCA PRA

(1) If:

- (a) a *firm's* IRB permission allows it to use this treatment; and
 (b) the conditions in (2)(16) are satisfied,

a *firm* may attribute to an *unrated position* in an *asset backed commercial paper programme* a derived *rating* as laid down in (3).

- (2) Positions in the commercial paper issued from the programme must be *rated positions*.
- (3) Under the *ABCP internal assessment approach*, the *unrated position* must be assigned by the *firm* to one of the rating grades described in (5). The position must be attributed a derived rating that is the same as the credit assessments corresponding to that *rating grade* as laid down in (5). Where this derived rating is, at the inception of the *securitisation*, at the level of investment grade or better, it must be treated in the same way as an eligible credit assessment by an *eligible ECAI* for the purposes of calculating *risk weighted exposure amounts*.
- (4) The internal assessment methodology must be used in the *firms* internal risk management processes, including its decision making, management information and capital allocation processes.
- (5) The *firms* internal assessment methodology must include rating grades. There must be a correspondence between such rating grades and the credit assessments of *eligible ECAIs*. This correspondence must be explicitly documented.
- (6) The *firm* must be able to satisfy the *appropriate regulator* that its internal assessment of the credit quality of the position reflects the publicly available assessment methodology of one or more *eligible ECAIs*, for the *rating* of securities backed by the *exposures* of the type *securitised*.
- (7) If a *firm's IRB permission* permits this, a *firm* need not comply with the requirement for the assessment methodology of the *ECAI* to be publicly available where it can demonstrate that due to the specific features of the *securitisation* for example its unique structure - there is as yet no publicly available *ECAI* assessment methodology.
- (8) The *ECAIs*, the methodology of which must be reflected as required by (6), must include those *ECAIs* which have provided an external rating for the commercial paper issued from the programme. Quantitative elements such as stress factors used in assessing the position to a particular credit quality must be at least as conservative as those used in the relevant assessment methodology of the *ECAIs* in question.

- (9) In developing its internal assessment methodology the *firm* must take into consideration relevant published ratings methodologies of the *eligible ECAIs* that rate the commercial paper of the *ABCP programme*. This consideration must be documented by the *firm* and updated regularly, as outlined in (15).
- (10) The *ABCP programme* must have collections policies and processes that take into account the operational capability and credit quality of the servicer. The programme must mitigate seller/servicer risk through various methods, such as triggers based on current credit quality that would preclude commingling of funds.
- (11) The *ABCP programme* must incorporate structural features for example wind down triggers - into the purchase of *exposures* in order to mitigate potential credit deterioration of the underlying portfolio.
- (12) The *ABCP programme* must incorporate underwriting standards in the form of credit and investment guidelines. In deciding on an asset purchase, the programme administrator must consider the type of asset being purchased, the type and monetary value of the *exposures* arising from the provision of liquidity facilities and *credit enhancements*, the loss distribution, and the legal and economic isolation of the transferred assets from the entity selling the assets. A credit analysis of the asset sellers risk profile must be performed and must include analysis of past and expected future financial performance, current market position, expected future competitiveness, leverage, cash flow, and interest coverage, and debt rating. In addition, a review of the sellers underwriting standards, servicing capabilities, and collection processes must be performed.
- (13) The *ABCP programme's* underwriting standards must establish minimum asset eligibility criteria that, in particular,
 - (a) exclude the purchase of assets that are significantly past due or defaulted;
 - (b) limit excess concentration to individual obligor or geographic area; and
 - (c) limit the tenor of the assets to be purchased.
- (14) The aggregated estimate of loss on an asset pool that the *ABCP programme* is considering purchasing must take into account all sources of potential risk, such as credit risk and *dilution risk*. If the seller-provided *credit enhancement* is sized based on only credit-related losses, then a separate reserve must be established for *dilution risk*, if *dilution risk* is material for the particular *exposure* pool. In addition, in sizing the required enhancement

level, the programme must review several years of historical information, including losses, delinquencies, dilutions, and the turnover rate of the receivables.

- (15) Internal or external auditors, an ECAI, or the firm's internal credit review or risk management function must perform regular reviews of the internal assessment process and the quality of the internal assessments of the credit quality of the firms exposures to an ABCP programme. If the firms internal audit, credit review, or risk management functions perform the review, then these functions must be independent of the ABCP programme business line, as well as the customer relationship.
- (16) The firm must track the performance of its internal ratings over time to evaluate the performance of its internal assessment methodology and must make adjustments, as necessary, to that methodology when the performance of the exposures routinely diverges from that indicated by the internal ratings.

[Note: BCD Annex IX Part 4 points 43 and 44]

Supervisory formula method

9.12.21

FCA PRA

R

Subject to any permission of the type described in ■ BIPRU 9.12.28 G, under the supervisory formula method, the risk weight for a securitisation position must be the risk weight to be applied in accordance with ■ BIPRU 9.12.22 R. However, the risk weight must be no less than 20% for resecuritisation positions and no less than 7% for all other securitisation positions.

[Note: BCD Annex IX Part 4 point 52]

9.12.22

FCA PRA

R

- (1) Subject to any permission of the type described in ■ BIPRU 9.12.28 G, the risk weight to be applied to the exposure amount must be:

$$12.5 (S[L+T] - S[L]) / T$$

- (2) The remaining provisions of this paragraph define the terms used in the formulae in (1) and (3).

$$(3) \quad S(x) = \begin{cases} x & \text{when } x \leq K_{IRB} \\ K_{IRB} + K(x) - K(K_{IRB}) + (d \cdot K_{IRB} t) (1 - e^{-(K_{max} - x) / K_{max}}) & \text{when } K_{IRB} < x \end{cases}$$

$$(4) \quad h = (1 - K_{IRB} / ELGD)^N$$

$$(5) \quad c = K_{IRBR} / (1 - h)$$

$$(6) \quad v = \frac{(ELGD - K_{IRBR}) K_{IRBR} + 0.25 (1 - ELGD) K_{IRBR}}{N}$$

$$(7) \quad f = \left(\frac{v + K_{IRBR}^2}{1 - h} - c^2 \right) + \frac{(1 - K_{IRBR}) K_{IRBR} - v}{(1 - h) \tau}$$

$$(8) \quad g = \frac{(1 - c)c}{f} - 1$$

$$(9) \quad a = g \cdot c$$

$$(10) \quad b = g \cdot (1 - c)$$

$$(11) \quad d = 1 - (1 - h) \cdot (1 - \text{Beta}[K_{IRBR}; a, b])$$

$$(12) \quad K[x] = (1 - h) \cdot ((1 - \text{Beta}[x; a, b])x + \text{Beta}[x; a + 1, b]c)$$

$$(13) \quad \tau = 1000,$$

$$(14) \quad \omega = 20.$$

(15) In these expressions, $\text{Beta}[x; a, b]$ refers to the cumulative beta distribution with parameters a and b evaluated at x.

(16) T (the thickness of the *tranche* in which the position is held) is measured as the ratio of (a) the nominal amount of the *tranche* to (b) the sum of the *exposure* values of the *exposures* that have been *securitised*. For these purposes the *exposure* value of a *financial derivative instrument* must, where the current replacement cost is not a positive value, be the potential future credit exposure calculated in accordance with ■ BIPRU 13 (Treatment of derivative instruments).

(17) K_{IRBR} is the ratio of (a) K_{IRB} to (b) the sum of the *exposure* values of the *exposures* that have been *securitised*. K_{IRBR} is expressed in decimal form (for example, K_{IRB} equal to 15% of the pool would be expressed as K_{IRBR} of 0.15).

- (18) L (the *credit enhancement* level) is measured as the ratio of the nominal amount of all *tranches* subordinate to the *tranche* in which the position is held to the sum of the *exposure* values of the *exposures* that have been *securitised*. Capitalised future income must not be included in the measured L. Amounts due by counterparties to *financial derivative instruments* that represent *tranches* more junior than the *tranche* in question may be measured at their current replacement cost (without the potential future credit exposures) in calculating the enhancement level.
- (19) N is the effective number of exposures calculated in accordance with ■ BIPRU 9.12.17 R - ■ BIPRU 9.12.18 R. In the case of *resecuritisations*, the *firm* must look at the number of *securitisation exposures* in the pool and not the number of underlying *exposures* in original pools from which the underlying *securitisation exposures* stem.
- (20) ELGD, the *exposure-weighted average loss-given-default*, is calculated as follows:

$$ELGD = \frac{\sum LGD_i \cdot EAD_i}{\sum EAD_i}$$

- (21) In (20) LGD_i represents the average *LGD* associated with all *exposures* to the i^{th} obligor, where *LGD* is determined in accordance with ■ BIPRU 4. In the case of *resecuritisation*, an *LGD* of 100% must be applied to the *securitised* positions. When default risk and *dilution risk* for purchased receivables are treated in an aggregate manner within a *securitisation* (e.g. a single reserve or over-collateralisation is available to cover losses from either source), the *LGD* input must be constructed as a weighted average of the *LGD* for credit risk and the 75% *LGD* for *dilution risk*. The weights are the stand-alone capital charges for credit risk and *dilution risk* respectively.

[Note: BCD Annex IX Part 4 point 53 (part)]

Simplified inputs

9.12.23

FCA PRA

R

- (1) Under the *supervisory formula method*, if the *exposure* value of the largest *securitised exposure*, C_1 , is no more than 3% of the sum of the *exposure* values of the *securitised exposures*, then for the purposes of the *supervisory formula method* the *firm* may set *LGD* equal 50% and N equal to either:

(a)
$$N = \left(C_1 C_m + \left(\frac{C_m - C_1}{m - 1} \right)_{\max(1 - m C_1, 0)} \right)^{-1}$$

;or

(b) $N=1/ C_1$.

- (2) C_m is the ratio of the sum of the *exposure* values of the largest 'm' *exposures* to the sum of the *exposure* values of the *exposures securitised*. The level of m may be set by the *firm*.
- (3) For *securitisations* involving *retail exposures*, the *supervisory formula method* may be implemented using the simplifications: $h = 0$ and $v = 0$.

[Note: BCD Annex IX Part 4 point 53 (part)]

9.12.24

FCA

G

Where a *securitisation* of *retail exposures* has a sufficiently low value of N for the simplification in ■ BIPRU 9.12.23 R (3) to result in a material change in the capital charge as compared to the position if the approach in ■ BIPRU 9.12.23 R were not taken, a *firm* should discuss with the *appropriate regulator* the suitability of its use.

Liquidity Facilities

9.12.25

FCA PRA

R

The provisions in ■ BIPRU 9.12.26 R to ■ BIPRU 9.12.28 G apply for the purposes of determining the *exposure* value of an *unrated securitisation position* in the form of certain types of *liquidity facility*.

[Note: BCD Annex IX Part 4 point 55]

Liquidity facilities only available in the event of general market disruption

9.12.26

R

[deleted]

Cash advance facilities

9.12.27

FCA PRA

R

A conversion figure of 0% may be applied to the nominal amount of a *liquidity facility* that meets the conditions set out in ■ BIPRU 9.11.12 R.

[Note: BCD Annex IX Part 4 point 57]

Exceptional treatment for liquidity facilities where K_{IRB} cannot be calculated

9.12.28

FCA

G

- (1) When it is not practical for the *firm* to calculate the *risk weighted exposure amounts* for the *securitised exposures* as if they had not been *securitised* and the position does not qualify for the *ABCP internal assessment approach*, a *firm* may apply to the *appropriate regulator* for a variation of its *IRB permission* under which, on an exceptional basis, it may temporarily apply the method in (2) for the calculation of *risk weighted exposure amounts* for an *unrated securitisation position* in the form of a *liquidity facility* that meets the conditions to be a *liquidity facility* set out in ■ BIPRU 9.11.10 R .
- (2) Under the method in this paragraph, the highest *risk weight* that would be applied under the *standardised approach* to any of the *securitised exposures* had they not been *securitised* may be applied to the *securitisation position* represented by the *liquidity facility*. To determine the *exposure* value of the position a conversion figure of 50% may be applied to the nominal amount of

the *liquidity facility* if the facility has an original maturity of one year or less. In other cases a conversion factor of 100% must be applied.

[Note: BCD Annex IX Part 4 points 58 and 59]

9.13 Securitisations of revolving exposures with early amortisation provisions

9.13.1

FCA PRA

R

Where there is a *securitisation of revolving exposures* subject to an *early amortisation provision*, the *originator* must calculate an additional *risk weighted exposure amount* in accordance with this section in respect of the risk that the levels of credit risk to which it is exposed may increase following the operation of the *early amortisation provision*. Accordingly this section sets out how an *originator* must calculate a *risk weighted exposure amount* when it sells *revolving exposures* into a *securitisation* that contains an *early amortisation provision*.

[Note: BCD Article 100(1), Annex IX Part 4 points 16 and 68]

Additional capital requirements for securitisations of revolving exposures with early amortisation provisions

9.13.2

FCA PRA

R

A *firm* must calculate a *risk weighted exposure amount* in respect of the sum of the *originators* interest and the investors interest.

[Note: BCD Annex IX Part 4 point 17]

9.13.3

FCA PRA

R

For *securitisation* structures where the *securitised exposures* comprise *revolving exposures* and non-revolving *exposures*, an *originator* must apply the treatment set out in this section to that portion of the underlying pool containing *revolving exposures*.

[Note: BCD Annex IX Part 4 point 18]

9.13.4

FCA PRA

R

For the purposes of this section, subject to ■ BIPRU 9.13.6 R:

- (1) *originators* interest means the exposure value of that notional part of a pool of drawn amounts sold into a *securitisation*, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cash-flows generated by principal and interest collections and other associated amounts which are not available to make payments to those having *securitisation positions* in the *securitisation*;
- (2) to qualify as such the *originators* interest may not be subordinate to the investors interest; and

- (3) investors interest means the exposure value of the remaining notional part of the pool of drawn amounts.

[Note: BCD Annex IX Part 4 point 19]

9.13.5

FCA PRA

R

Subject to ■ BIPRU 9.13.7 R, the *exposure* of the *originator* associated with its rights in respect of the *originators* interest must not be treated as a *securitisation position* but as a *pro rata exposure* to the *securitised exposures* as if they had not been *securitised*.

[Note: BCD Annex IX Part 4 point 20]

9.13.6

FCA PRA

R

- (1) For *firms* using the *IRB approach* set out in ■ BIPRU 4, this paragraph applies in place of ■ BIPRU 9.13.4 R.
- (2) For the purposes of this section, *originators* interest means the sum of:
- (a) the exposure value of that notional part of a pool of drawn amounts sold into a *securitisation*, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cash-flows generated by principal and interest collections and other associated amounts which are not available to make payments to those having *securitisation positions* in the *securitisation*; and
 - (b) the exposure value of that part of the pool of undrawn amounts of the credit lines, the drawn amounts of which have been sold into the *securitisation*, the proportion of which to the total amount of such undrawn amounts is the same as the proportion of the exposure value described in (a) to the exposure value of the pool of drawn amounts sold into the *securitisation*.
- (3) To qualify as such the *originators* interest may not be subordinate to the investors interest.
- (4) Investors interest means the exposure value of the notional part of the pool of drawn amounts not falling within (2)(a) plus the exposure value of that part of the pool of undrawn amounts of credit lines, the drawn amounts of which have been sold into the *securitisation*, not falling within (2)(b).

[Note: BCD Annex IX Part 4 points 69 and 70]

9.13.7

FCA PRA

R

For *firms* using the *IRB approach* set out in ■ BIPRU 4, this paragraph applies in place of ■ BIPRU 9.13.5 R. The *exposure* of the *originator* associated with its rights in respect of that part of the *originators* interest described in ■ BIPRU 9.13.6 R (2)(a) must not be treated as a *securitisation*

position but as a pro rata *exposure* to the *securitised* drawn amounts as if they had not been *securitised* in an amount equal to that described in ■ BIPRU 9.13.6 R (2)(a). The *originator* must also be considered to have a pro rata exposure to the undrawn amounts of the credit lines, the drawn amounts of which have been sold into the *securitisation*, in an amount equal to that described in ■ BIPRU 9.13.6 R (2)(b).

[Note: BCD Annex IX Part 4 point 71]

Exemptions from early amortisation treatment

9.13.8

FCA PRA

R

Originators of the following types of *securitisation* are exempt from the capital requirement in ■ BIPRU 9.13.1 R:

- (1) *securitisations* of *revolving exposures* whereby investors remain fully exposed to all future draws by borrowers so that the risk on the underlying facilities does not return to the *originator* even after an early amortisation event has occurred; and
- (2) *securitisations* where any *early amortisation provision* is solely triggered by events not related to the performance of the *securitised* assets or the *originator*, such as material changes in tax laws or regulations.

[Note: BCD Annex IX Part 4 point 21]

Maximum capital requirement

9.13.9

FCA PRA

R

For an *originator* subject to the capital requirement in ■ BIPRU 9.13.1 R the total of the *risk weighted exposure amounts* in respect of its positions in the investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R) and the *risk weighted exposure amounts* calculated under ■ BIPRU 9.13.1 R must be no greater than the greater of:

- (1) the *risk weighted exposure amounts* calculated in respect of its positions in the investors interest (as so defined); and
- (2) the *risk weighted exposure amounts* that would be calculated in respect of the *securitised exposures* by a *firm* holding the *exposures* as if they had not been *securitised* in an amount equal to the investors interest (as so defined).

[Note: BCD Annex IX Part 4 point 22]

9.13.10

FCA PRA

R

Deduction of net gains, if any, arising from the capitalisation of future income required under ■ GENPRU 2.2.90 R (Core tier one capital: profit and loss account and other reserves: Securitisation) must be treated outside the maximum amount indicated in ■ BIPRU 9.13.9 R.

[Note: BCD Annex IX Part 4 point 23]

Calculation of risk-weighted exposure amounts

9.13.11

FCA PRA

R

The *risk weighted exposure amount* to be calculated in accordance with ■ BIPRU 9.13.1 R must be determined by multiplying the amount of the investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R) by the product of:

- (1) the appropriate conversion figure as indicated in ■ BIPRU 9.13.16 R, ■ BIPRU 9.13.19 R or ■ BIPRU 9.13.20 R; and
- (2) the weighted average *risk weight* that would apply to the *securitised exposures* if the *exposures* had not been *securitised*.

[Note: BCD Annex IX Part 4 point 24]

9.13.12

FCA PRA

R

An *early amortisation provision* must be treated as controlled for the purposes of this section where the following conditions are met:

- (1) the *originator* has an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation;
- (2) throughout the duration of the transaction there is a pro rata sharing between the *originators* interest and the investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R) of payments of interest and principal, expenses, losses and recoveries based on the balance of receivables outstanding at one or more reference points during each month;
- (3) the amortisation period is considered sufficient for 90% of the total debt (*originators* and investors interest (as defined in ■ BIPRU 9.13.4 R or ■ BIPRU 9.13.6 R)) outstanding at the beginning of the early amortisation period to have been repaid or recognised as in default; and
- (4) the speed of repayment is no more rapid than would be achieved by straight-line amortisation over the period set out in (3).

[Note: BCD Annex IX Part 4 point 25]

9.13.13

FCA PRA

R

In the case of a *securitisation* meeting the following conditions:

- (1) it is subject to an *early amortisation provision*;
- (2) the *securitisation* is of *retail exposures* which are uncommitted and unconditionally cancellable without prior notice; and
- (3) the early amortisation is triggered by the *excess spread* level falling to a specified level

a *firm* must, to calculate the appropriate conversion figure referred to in ■ BIPRU 9.13.11 R, compare the three-month average *excess spread* level with the *excess spread* levels at which *excess spread* is required to be trapped.

[Note: BCD Annex IX Part 4 point 26]

9.13.14
FCA PRA

R Where the *securitisation* does not require *excess spread* to be trapped, the trapping point is deemed to be 4.5 percentage points greater than the *excess spread* level at which an early amortisation is triggered.

[Note: BCD Annex IX Part 4 point 27]

9.13.15
FCA PRA

R The conversion figure to be applied must be determined by the level of the actual three month average *excess spread* in accordance with ■ BIPRU 9.13.16 R.

[Note: BCD Annex IX Part 4 point 28]

9.13.16
FCA PRA

R Table: Conversion figures

This table belongs to ■ BIPRU 9.13.15 R

	Securitisations subject to a controlled early amortisation provision	Securitisation subject to a non-controlled early amortisation provision
3 months average <i>excess spread</i>	Conversion figure	Conversion figure
Above level A	0%	0%
Level A	1%	5%
Level B	2%	15%
Level C	10%	50%
Level D	20%	100%
Level E	40%	100%

9.13.17
FCA PRA

R In ■ BIPRU 9.13.16 R:

- (1) Level A means levels of *excess spread* less than 133.33% of the trapping level of *excess spread* but not less than 100% of that trapping level;
- (2) Level B means levels of *excess spread* less than 100% of the trapping level of *excess spread* but not less than 75% of that trapping level;

- (3) Level C means levels of *excess spread* less than 75% of the trapping level of *excess spread* but not less than 50% of that trapping level;
- (4) Level D means levels of *excess spread* less than 50% of the trapping level of *excess spread* but not less than 25% of that trapping level; and
- (5) Level E means levels of *excess spread* less than 25% of the trapping level of *excess spread*.

[Note: BCD Annex IX Part 4 point 29]

9.13.18

FCA

G

In the case of a *securitisation* meeting the conditions in this paragraph, a *firm* may apply to the *appropriate regulator* for a *waiver* that would allow a treatment which approximates closely to that prescribed in ■ BIPRU 9.13.13 R to ■ BIPRU 9.13.17 R for determining the conversion figure indicated. If a *firm* wants such a *waiver*, it should satisfy the *appropriate regulator* that:

- (1) the *securitisation* is subject to an *early amortisation provision* of retail *exposures*;
- (2) those retail *exposures* are uncommitted and unconditionally cancellable without prior notice;
- (3) the *early amortisation* is triggered by a quantitative value in respect of something other than the three month average *excess spread*;
- (4) the *firm* can establish a quantitative measure equivalent, in relation to the value in (3), to the trapping level of *excess spread*; and
- (5) that treatment is a prudent measure of the risk that the levels of credit risk to which it is exposed may increase following the operation of the *early amortisation provision* (referred to in BIPRU 9.13.1R).

[Note: BCD Annex IX Part 4 point 30]

9.13.19

FCA PRA

R

All other *securitisations* subject to a controlled *early amortisation provision of revolving exposures* are subject to a credit conversion figure of 90%.

[Note: BCD Annex IX Part 4 point 32]

9.13.20

FCA PRA

R

All other *securitisations* subject to a non-controlled *early amortisation provision of revolving exposures* are subject to a credit conversion figure of 100%.

[Note: BCD Annex IX Part 4 point 33]

9.13.21

FCA PRA

R

Liquidity plans

A *firm* which is an *originator* of a revolving *securitisation* transaction involving *early amortisation provisions* should have liquidity plans to address the implications of both scheduled and early amortisation.

[Note: *BCD* Annex V point 9]

9

9.14 Recognition of credit risk mitigation on securitisation positions under the IRB approach

9.14.1

FCA PRA

R

This section applies to *credit risk mitigation* in relation to a *securitisation position* for a *firm* calculating *risk weighted exposure amounts* using the *IRB approach*.

[Note: BCD Annex IX Part 4 point 37 (part)]

9.14.2

FCA PRA

R

Where a *firm* uses the *ratings based method* to calculate the *risk weighted exposure amounts* of *securitisation positions*, the *firm* may recognise *credit risk mitigation* in accordance with ■ BIPRU 9.14.4 R to ■ BIPRU 9.14.6 R.

[Note: BCD Annex IX Part 4 point 51]

9.14.3

FCA PRA

R

Where a *firm* uses the *supervisory formula method* to calculate the *risk weighted exposure amounts* of *securitisation positions*, the *firm* may recognise *credit risk mitigation* in accordance with ■ BIPRU 9.14.4 R to ■ BIPRU 9.14.5 R and ■ BIPRU 9.14.7 R to ■ BIPRU 9.14.13 R.

[Note: BCD Annex IX Part 4 point 54]

Funded protection

9.14.4

FCA PRA

R

Eligible funded protection is limited to that which is eligible for the calculation of *risk weighted exposure amounts* under the *standardised approach* as laid down under ■ BIPRU 5 and recognition is subject to compliance with the relevant minimum requirements as laid down under ■ BIPRU 5.

[Note: BCD Annex IX Part 4 point 60]

Unfunded credit protection

9.14.5

FCA PRA

R

Eligible unfunded credit protection and unfunded protection providers are limited to those which are eligible under ■ BIPRU 5 (Credit risk mitigation) and ■ BIPRU 4.10 (Credit risk mitigation under the IRB approach) and recognition is subject to compliance with the relevant minimum requirements laid down under those provisions.

[Note: BCD Annex IX Part 4 point 61]

Credit risk mitigation under the ratings based method

9.14.6

FCA PRA

R

Where *risk weighted exposure amounts* are calculated using the *ratings based method*, the *exposure* value and/or the *risk weighted exposure amount* for a *securitisation position* in respect of which credit protection has been obtained may be modified in accordance with the provisions of ■ BIPRU 5 (Credit risk mitigation) as they apply for the calculation of *risk weighted exposure amounts* under the *standardised approach* set out in ■ BIPRU 3.

[Note: BCD Annex IX Part 4 point 62]

Credit risk mitigation under the supervisory formula method full credit protection

9.14.7

FCA PRA

R

■ BIPRU 9.14.8 R ■ BIPRU 9.14.10 R apply where *risk weighted exposure amounts* are calculated using the *supervisory formula method* where there is full credit protection.

[Note: BCD Annex IX Part 4 point 63 (part)]

9.14.8

FCA PRA

R

A *firm* must determine the effective *risk weight* of the position. It must do this by dividing the *risk weighted exposure amount* of the position by the *exposure* value of the position and multiplying the result by 100.

[Note: BCD Annex IX Part 4 point 63 (part)]

9.14.9

FCA PRA

R

In the case of funded credit protection, the *risk weighted exposure amount* of the *securitisation position* must be calculated by multiplying the funded protection-adjusted *exposure* amount of the position (E^* , as calculated under ■ BIPRU 5.4.28 R (3), taking the amount of the *securitisation position* to be E) by the effective *risk weight*.

[Note: BCD Annex IX Part 4 point 64]

9.14.10

FCA PRA

R

In the case of unfunded credit protection, the *risk weighted exposure amount* of the *securitisation position* must be calculated by multiplying G_A (the amount of the protection adjusted for any currency mismatch and maturity mismatch in accordance ■ BIPRU 5.7.23 R (2)) by the *risk weight* of the protection provider; and adding this to the amount arrived at by multiplying the amount of the *securitisation position* minus G_A by the effective *risk weight*.

[Note: BCD Annex IX Part 4 point 65]

Credit risk mitigation under the supervisory formula method partial protection

9.14.11

FCA PRA

R

■ BIPRU 9.14.12 R ■ BIPRU 9.14.13 R apply where *risk weighted exposure amounts* are calculated using the *supervisory formula method* where there is partial protection.

9.14.12

FCA PRA

R

If the *credit risk mitigation* covers the first loss or losses on a proportional basis on the *securitisation position*, a *firm* may apply ■ BIPRU 9.14.7 R to ■ BIPRU 9.14.10 R.

[Note: BCD Annex IX Part 4 point 66]

9.14.13

FCA PRA

R

In other cases the *firm* must treat the *securitisation position* as two or more positions with the uncovered portion being the position with the lower credit quality. For the purposes of calculating the *risk weighted exposure amount* for this position, the provisions in ■ BIPRU 9.12.22 R to ■ BIPRU 9.12.24 G apply subject to the modifications that T is adjusted to e^* in the case of funded credit protection; and to $T-g$ in the case of unfunded credit protection, where e^* denotes the ratio of E^* to the total notional amount of the underlying pool, where E^* is the adjusted *exposure amount* of the *securitisation position* calculated in accordance with ■ BIPRU 5.4.28 R (3) taking the amount of the *securitisation position* to be E; and g is the ratio of the nominal amount of credit protection (adjusted for any currency or maturity mismatch in accordance with the provisions of ■ BIPRU 5 (Credit risk mitigation)) to the sum of the *exposure amounts* of the *securitised exposures*. In the case of unfunded credit protection the *risk weight* of the protection provider must be applied to that portion of the position not falling within the adjusted value of T.

[Note: BCD Annex IX Part 4 point 67]

9.15 Requirements for investors

Application

9.15.1

R

Subject to ■ BIPRU 9.15.1A R, ■ BIPRU 9.15 applies to:

- (1) new *securitisations* issued on or after 1 January 2011; and
- (2) from 31 December 2014, to existing *securitisations* where new underlying *exposures* are added or substituted after that date.

[Note: BCD, Article 122a, paragraph 8]

9.15.1A

R

■ BIPRU 9.15.16A R and ■ BIPRU 9.15.16B R only apply to:

- (1) new *securitisations* issued on or after 31 December 2011; and
- (2) from 31 December 2014, to existing *securitisations* where new underlying *exposures* are added or substituted after that date.

9.15.1B

G

A *credit institution* should have regard to the Committee of European Banking Supervisors Guidelines to Article 122a of the *Banking Consolidation Directive* when considering its obligations under ■ BIPRU 9.3.15 R to ■ BIPRU 9.3.20 R and ■ BIPRU 9.15. The Guidelines can be found at <http://www.eba.europa.eu/Publications/Standards-Guidelines.aspx>.

Purpose

9.15.2

G

The purpose of ■ BIPRU 9.15 is to implement Article 122a of the *Banking Consolidation Directive*, with the exception of those parts of Article 122a that are implemented through the *rules* in ■ BIPRU 9.3.

Exposures to transferred credit risk

9.15.3

R

Subject to ■ BIPRU 9.15.9 R and ■ BIPRU 9.15.10R, a *credit institution*, other than when acting as an *originator*, a *sponsor* or original lender, will be exposed to the credit risk of a *securitisation position* in its *trading book* or *non-trading book* only if the *originator*, *sponsor* or original lender has explicitly disclosed to the *credit institution* that it will retain, on an *ongoing basis*, a material net economic interest which, in any event, must not be less than 5%.

[Note: *BCD*, Article 122a, paragraphs 1 and 3]

Retention of net economic interest

9.15.4

R

Retention of net economic interest means any of the following:

- (1) retention of no less than 5% of the nominal value of each of the *tranches* sold or transferred to the investors;
- (2) in the case of *securitisations of revolving exposures*, retention of the *originator's* interest of no less than 5% of the nominal value of the *securitised exposures*;
- (3) retention of randomly selected *exposures*, equivalent to no less than 5% of the nominal amount of the *securitised exposures*, where those *exposures* would otherwise have been *securitised* in the *securitisation* provided that the number of potentially *securitised exposures* is no less than 100 at origination;
- (4) retention of the first loss *tranche* and, if necessary, other *tranches* having the same or a more severe risk profile than those transferred or sold to investors and not maturing any earlier than those transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the *securitised exposures*.

[Note: *BCD*, Article 122a, paragraph 1]

9.15.5

R

Net economic interest is measured at the origination and must be maintained on an *ongoing basis*. It must not be subject to any *credit risk mitigation* or any short positions or any hedge. The net economic interest must be determined by the notional value for off-balance sheet items.

[Note: *BCD*, Article 122a, paragraph 1]

9.15.6

R

Multiple applications of the retention of net economic interest requirements for any given *securitisation* are not required.

[Note: *BCD*, Article 122a, paragraph 1]

9.15.7

R

Subject to ■ BIPRU 9.15.8R, where an *EEA parent credit institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*, or one of its *subsidiaries*, as an *originator* or a *sponsor*, *securitises exposures* from several *credit institutions*, *investment firms* or other *institutions* which are included within the scope of supervision on a consolidated basis, the requirement to retain a net economic interest referred to in ■ BIPRU 9.15.3R may be satisfied on the basis of the consolidated situation of the related *EEA parent credit institution*, *EEA parent financial holding company* or *EEA parent mixed financial holding company*.

[Note: BCD, Article 122a, paragraph 2]

- 9.15.8 **R** ■ BIPRU 9.15.7R only applies where the *credit institutions, investment firms or institutions* which created the *securitised exposures* have committed themselves to adhere to the requirements in ■ BIPRU 9.3.15R to ■ BIPRU 9.3.17R and deliver, in a timely manner, to the *originator or sponsor* and to the *EEA parent credit institution or an EEA parent financial holding company or an EEA parent mixed financial holding company* the information needed to satisfy ■ BIPRU 9.3.18R to ■ BIPRU 9.3.20R.

[Note: BCD, Article 122a, paragraph 2]

- 9.15.9 **R** ■ BIPRU 9.15.3R does not apply where the *securitised exposures* are claims or contingent claims on, or fully, unconditionally and irrevocably guaranteed by:

- (1) central governments or *central banks*;
- (2) regional governments, local authorities and public sector entities of *EEA States*;
- (3) *institutions* to which a 50% *risk weight* or less is assigned under ■ BIPRU 3.4.31 R to ■ BIPRU 3.4.46 R; or
- (4) *multilateral development banks*.

[Note: BCD, Article 122a, paragraph 3]

- 9.15.10 **R** The requirements in ■ BIPRU 9.15.3R do not apply with respect to the following:

- (1) transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than *securitisation positions*; or
- (2) syndicated loans, purchased receivables or credit default swaps where these instruments are not used to package and/or hedge a *securitisation* that is within the scope of ■ BIPRU 9.15.3 R.

[Note: BCD, Article 122a, paragraph 3]

Investor due diligence

- 9.15.11 **R** Before investing, and as appropriate thereafter, a *credit institution* must be able to demonstrate to the *PRA* for each of its individual *securitisation positions*, that it has a comprehensive and thorough understanding of, and has implemented, formal policies and procedures appropriate to its *trading and non-trading book* and commensurate with the risk profile of its investments in *securitised positions* for analysing and recording:

- (1) information disclosed under ■ BIPRU 9.15.3R, by *originators* or *sponsors* to specify the net economic interest that they maintain, on an *ongoing basis*, in the *securitisation*;
- (2) the risk characteristics of the individual *securitisation position*;
- (3) the risk characteristics of the *exposures* underlying the *securitisation position*;
- (4) the reputation and loss experience in earlier *securitisations* of the *originators* or *sponsors* in the relevant *exposure* classes underlying the *securitisation position*;
- (5) the statements and disclosures made by the *originators* or *sponsors*, or their agents or advisors, about their due diligence on the *securitised exposures* and, where applicable, on the quality of the collateral supporting the *securitised exposures*;
- (6) where applicable, the methodologies and concepts on which the valuation of collateral supporting the *securitised exposures* is based and the policies adopted by the *originator* or *sponsor* to ensure the independence of the valuer; and
- (7) all the structural features of the *securitisation* that can materially impact the performance of the *credit institution's securitisation position*.

[Note: BCD, Article 122a, paragraph 4]

9.15.12 **R** A *credit institution* must regularly perform its own stress tests appropriate to its *securitisation positions*.

[Note: BCD, Article 122a, paragraph 4]

9.15.13 **R** For the purposes of ■ BIPRU 9.15.12R, a *credit institution* may rely on financial models developed by an *ECAI* provided that the *credit institution* can demonstrate, when requested by the *PRA*, that they took due care prior to investing to validate the relevant assumptions in and structuring of the models and to understand methodology, assumptions and results.

[Note: BCD, Article 122a, paragraph 4]

Monitoring requirements

9.15.14 **R** A *credit institution*, other than when acting as *originator* or *sponsor* or original lender, must establish formal procedures appropriate to its *trading* and *non-trading book*, and commensurate with the risk profile of its investments in *securitised positions*, to monitor, on an *ongoing basis* and in a timely manner, performance information on the *exposures* underlying its *securitisation positions*.

[Note: BCD, Article 122a, paragraph 5]

- 9.15.15 **R**
- (1) Where relevant, the information required to be monitored under **■ BIPRU 9.15.14R** must include:
- (a) the *exposure* type;
 - (b) the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure;
 - (c) collateral type and occupancy;
 - (d) frequency distribution of credit scores or other measures of credit worthiness across underlying exposures;
 - (e) industry and geographical diversification; and
 - (f) frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis.
- (2) Where underlying exposures are themselves *securitisation positions*, a *credit institution* must have the information set out in paragraph (1) not only on the underlying *securitisation tranches*, such as the issuer name and credit quality, but also on the characteristics and performance of the pools underlying those *securitisation tranches*.

[Note: BCD, Article 122a, paragraph 5]

- 9.15.16 **R**
- A *credit institution* must have a thorough understanding of all structural features of a *securitisation transaction* that would materially impact the performance of its *exposures* to the *transaction*, such as the contractual waterfall and waterfall related triggers, credit enhancements, *liquidity* enhancements, market value triggers and deal-specific definition of default.

[Note: BCD, Article 122a, paragraph 5]

Group level requirements

- 9.15.16A **R**
- Subject to **■ BIPRU 9.15.16B R**, a *credit institution* must ensure that any *undertaking* in relation to which the *credit institution* is a *parent undertaking*:
- (1) becomes exposed to the credit risk of a *securitisation* only where the *originator*, *sponsor* or original lender in the *securitisation* has explicitly disclosed to the *undertaking* that it will retain, on an *ongoing basis*, a material net economic interest which, in any event, must not be less than 5%, as set out in **■ BIPRU 9.15.3 R** to **■ BIPRU 9.15.10 R**;
 - (2) complies before investing in a *securitisation*, and continues to comply thereafter, with the investor due diligence requirements set out in **■ BIPRU 9.15.11 R** to **■ BIPRU 9.15.13 R**; and

- (3) complies in relation to its investments in *securitisations* with the monitoring requirements set out in ■ BIPRU 9.15.14 R to ■ BIPRU 9.15.16 R.

9.15.16B **R** The requirements in ■ BIPRU 9.15.16A R do not apply in respect of *subsidiaries of a credit institution which are insurance undertakings, reinsurance undertakings or UCITS management companies.*

9.15.16C **G** The purpose of ■ BIPRU 9.15.16A R is to ensure that a *credit institution* meets the requirements in ■ BIPRU 9.15 at *group* level in relation to its *subsidiary undertakings*. In order to comply with this *rule*, a *credit institution* should be able to demonstrate to the *PRA* that it has put in place adequate *group* policies and procedures which its *subsidiary undertakings* must follow in order to materially meet the requirements for investors set out in ■ BIPRU 9.15, and that it regularly monitors compliance with those policies.

9.15.16D **G** Where a *credit institution* applies to the *PRA* for a *waiver* of ■ BIPRU 9.15.16A R in relation to its non-*EEA subsidiary undertakings*, the *PRA* may have regard in its assessment of the waiver tests under section 138A of the *Act* as to whether those *undertakings* are themselves subject to requirements in their jurisdiction similar to those set out in ■ BIPRU 9.15 and the extent to which complying with such requirements and ■ BIPRU 9.15.16A R would be unduly burdensome, including circumstances where it could create a substantial conflict for the *credit institution*.

9.15.16E **G** Without prejudice to ■ BIPRU 9.15.16A R, when assessing group risk in accordance with ■ GENPRU 1.2.30 R a *credit institution* should have regard to the potential risks arising from *securitisation* investment activities carried out by other *undertakings* within its *group*, such as *affiliated companies* and *undertakings* in which the *credit institution* has a participating interest. Where these *undertakings* are not subject to similar requirements as those set out in ■ BIPRU 9.15, the *PRA* may seek to address the potential risks arising from this situation for example by imposing a specific capital add-on in the *credit institution's ICG*.

Consequences of failure to meet requirements

9.15.17 **G** (1) Subject to ■ BIPRU 9.3.22 G, ■ BIPRU 9.15.9 R to ■ BIPRU 9.15.10 R and ■ BIPRU 9.15.18 G, where a *credit institution* fails to meet any of the requirements in ■ BIPRU 9.3.18 R to ■ BIPRU 9.3.20 R (disclosure requirements), and ■ BIPRU 9.15.11 R to ■ BIPRU 9.15.16 R (investor due diligence requirements) in any material respect by reason of its negligence or omission, the *PRA* will use its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* to impose an additional *risk weight* of no less than 250% (capped at 1250%) of the risk weight that would otherwise apply to the relevant *securitisation positions* under ■ BIPRU 9.11 to ■ BIPRU 9.14. The additional *risk weight* imposed will be progressively increased with each relevant, subsequent infringement of the requirements in ■ BIPRU 9.3.18 R to ■ BIPRU 9.3.20 R and ■ BIPRU 9.15.11 R to ■ BIPRU 9.15.16 R.

[Note: *BCD*, Article 122a, paragraph 5]

- (2) Subject to ■ BIPRU 9.3.22 G, ■ BIPRU 9.15.9 R to ■ BIPRU 9.15.10 R and ■ BIPRU 9.15.18 G, where a *credit institution* fails to meet in any material respect the requirements in ■ BIPRU 9.15.16A R (Group level requirements), the *PRA* may consider using its powers under section 55J (Variation etc on the Authority's own initiative) of the *Act* in the manner described in (1). In order to calculate the *risk weights* that would apply to the *credit institution*, the *PRA* may treat the *securitisation* investments of the *subsidiary undertaking* as if they were *securitisation positions* held directly by the *credit institution*.

9.15.18

G

When calculating the additional *risk weight* it will impose, the *PRA* will take into account the exemption of certain *securitisations* from the scope of ■ BIPRU 9.15.3R under ■ BIPRU 9.15.9R and ■ BIPRU 9.15.10R and, if those exemptions are relevant, reduce the *risk weight* it would otherwise impose.

[Note: *BCD*, Article 122a, paragraph 5]

Chapter 10

[Deleted]



[Chapter Deleted]

Chapter 11

Disclosure (Pillar 3)



11.1 Application and purpose

Application

11.1.1

FCA

R

■ BIPRU 11 applies to a *BIPRU firm*.

Purpose

11.1.2

FCA

G

Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of *BIPRU 11* is to implement:

- (1) (a) Article 68(3);
(b) Article 72;
(c) Articles 145 to 149; and
(d) Annex XII;
of the *Banking Consolidation Directive*; and
- (2) (a) Article 2, in part;
(b) Point 3 of Article 23, in part; and
(c) Article 39;
of the *Capital Adequacy Directive*.

11.2 Basis of disclosures

Disclosure on an individual basis

11.2.1

FCA

R

The following must comply with the obligations laid down in ■ BIPRU 11.3 on an individual basis:

- (1) a *firm* which is neither a *parent undertaking* nor a *subsidiary undertaking*;
- (2) a *firm* which is excluded from a *UK consolidation group* or *non-EEA sub-group* pursuant to ■ BIPRU 8.5; and

[Note: BCD Article 68(3)]

- (3) a *firm* which is part of a *group* which has been granted an *investment firm consolidation waiver* under ■ BIPRU 8.4;

[Note: CAD.Article 23]

EEA parent institutions

11.2.2

FCA

R

A *firm* which is an *EEA parent institution* must comply with the obligations laid down in ■ BIPRU 11.3 on the basis of its consolidated financial situation.

[Note: BCD Article 72(1)]

11.2.3

FCA

R

A *firm* which is a significant subsidiary of an *EEA parent institution* must disclose the information specified in ■ BIPRU 11.4.5 R on an individual or sub-consolidated basis.

Firms controlled by an EEA parent financial holding company

11.2.4

FCA

R

A *firm* controlled by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* must comply with the obligations laid down in ■ BIPRU 11.3 on the basis of the consolidated financial situation of that *EEA parent financial holding company* or *EEA parent mixed financial holding company*.

[Note: BCD Article 72(2)]

11.2.5

FCA

R

A *firm* which is a significant subsidiary of an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* must disclose the information specified in ■ BIPRU 11.4.5 R on an individual or sub-consolidated basis.

Waiver: Comparable disclosures provided on a consolidated basis by a parent undertaking established in a third country

11.2.6

FCA

G

A *firm* which is included within comparable disclosures provided on a consolidated basis by a *parent undertaking* whose head office is not in an *EEA State* may apply for a *waiver* from the relevant disclosure requirements in ■ BIPRU 11.2.2 R - ■ BIPRU 11.2.5 R. The *appropriate regulator's* approach to granting *waivers* is set out in the Supervision manual (see ■ SUP 8).

[Note: BCD Article 72(3)]

11.2.7

FCA

G

A *firm* applying for a *waiver* from one or more of the disclosure requirements in ■ BIPRU 11.2.2 R - ■ BIPRU 11.2.5 R will need to:

- (1) satisfy the *appropriate regulator* that it is included within comparable disclosures provided on a consolidated basis by a *parent undertaking* whose head office is not in an *EEA State*; and
- (2) notify the *appropriate regulator* of the location where the comparable disclosures are provided.

11.3 Disclosures: Information to be disclosed; Frequency, media and location of disclosures; Verification

Information to be disclosed

11.3.1

FCA

R

A *firm* must publicly disclose the information laid down in ■ BIPRU 11.5 subject to the provisions laid down in ■ BIPRU 11.3.5 R to ■ BIPRU 11.3.7 R.

[Note: BCD Article 145(1), CAD Article 39]

11.3.2

FCA

R

- (1) A *firm* which has an *IRB permission* must publicly disclose the information laid down in ■ BIPRU 11.6.1 R to ■ BIPRU 11.6.4 R.
- (2) A *firm* which recognises *credit risk mitigation* in accordance with ■ BIPRU 5 must publicly disclose the information laid down in ■ BIPRU 11.6.5 R.
- (3) A *firm* using the *advanced measurement approach* for the calculation of its *operational risk capital requirement* must publicly disclose the information laid down in ■ BIPRU 11.6.6 R.

[Note: BCD Article 145(2), CAD Article 39]

Disclosure policy

11.3.3

FCA

R

- (1) A *firm* must adopt a formal policy to comply with the disclosure requirements laid down in ■ BIPRU 11.3.1 R and ■ BIPRU 11.3.2 R and have policies for assessing the appropriateness of its disclosures, including their verification and frequency.
- (2) A *firm* must also have policies for assessing whether its disclosures convey its risk profile comprehensively to market participants. Where those disclosures do not convey its risk profile comprehensively to market participants, a *firm* must publicly disclose the information necessary in addition to that required according to ■ BIPRU 11.3.3R (1). However, a *firm* may omit one or more items of information if those items are not, in the light of the criterion specified in ■ BIPRU 11.4.1 R, regarded as material, or if those items are, in the light of the criteria specified in ■ BIPRU 11.4.2 R and ■ BIPRU 11.4.3 R, regarded as proprietary or confidential.

[Note: BCD Article 145(3)]

Rating decisions

11.3.4
FCA

R A *firm* must, if requested, explain its rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked. The administrative costs of the explanation have to be at an appropriate rate to the size of the loan.

[Note: BCD Article 145(4)]

Exemption from disclosure: Materiality

11.3.5
FCA

R A *firm* may omit one or more of the disclosures listed in ■ BIPRU 11.5 if the information provided by such disclosures is not, in the light of the criterion specified in ■ BIPRU 11.4.1 R, regarded as material.

[Note: BCD Article 146(1)]

Exemption from disclosure: Proprietary or confidential information

11.3.6
FCA

R A *firm* may omit one or more items of information included in the disclosures listed in ■ BIPRU 11.5 and ■ BIPRU 11.6 if those items include information which, in the light of the criteria specified in ■ BIPRU 11.4.2 R and ■ BIPRU 11.4.3 R, is regarded as proprietary or confidential.

[Note: BCD Article 146(2)]

11.3.7
FCA

R In the exceptional cases referred to in ■ BIPRU 11.3.6 R, a *firm* must:

- (1) state in its disclosures:
 - (a) the fact that the specific items of information are not disclosed; and
 - (b) the reason for non-disclosure; and
- (2) publish more general information about the subject matter of the disclosure requirement, except where these are to be classified as secret or confidential under the criteria set out in ■ BIPRU 11.4.2 R and ■ BIPRU 11.4.3 R.

[Note: BCD Article 146(3)]

Frequency of publication

11.3.8
FCA

R A *firm* must:

- (1) publish the disclosures required under ■ BIPRU 11.3.1 R to ■ BIPRU 11.3.5 R on an annual basis at a minimum;
- (2) publish disclosures as soon as practicable.

[Note: BCD Article 147(1)]

11.3.9

FCA

R

A *firm* must also determine whether more frequent publication than is provided for in ■ BIPRU 11.3.8 R is necessary in the light of the criteria set out in ■ BIPRU 11.4.4 R.

[Note: BCD Article 147(2)]

Media and location of publication

11.3.10

FCA

R

- (1) A *firm* may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements laid down in ■ BIPRU 11.3.1 R to ■ BIPRU 11.3.4 R.
- (2) To the degree feasible, a *firm* must provide all disclosures in one medium or location.
- (3) Equivalent disclosures made by a *firm* under accounting, *listing* or other requirements may be deemed to constitute compliance with ■ BIPRU 11.3.1 R to ■ BIPRU 11.3.4 R.
- (4) If disclosures are not included in the financial statements, a *firm* must indicate where they can be found.

[Note: BCD Article 148]

11.4 Technical criteria on disclosure: General criteria

Criterion for materiality

11.4.1
FCA

R

A *firm* must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

[Note: BCD Annex XII Part 1 point 1]

Criteria: Proprietary or confidential information

11.4.2
FCA

R

- (1) A *firm* must regard information as proprietary information if sharing that information with the public would undermine its competitive position.
- (2) Proprietary information may include information on products or systems which, if shared with competitors, would render a *firm's* investments therein less valuable.

[Note: BCD Annex XII Part 1 point 2]

11.4.3
FCA

R

A *firm* must regard information as confidential if there are obligations to customers or other counterparty relationships binding the *firm* to confidentiality.

[Note: BCD Annex XII Part 1 point 3]

Criteria: Frequency of publication

11.4.4
FCA

R

- (1) A *firm* must assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of its business such as:
 - (a) scale of operations;
 - (b) range of activities;
 - (c) presence in different countries;
 - (d) involvement in different financial sectors;
 - (e) participation in international financial markets; and

(f) participation in payment, settlement and clearing systems.

(2) In making its assessment under (1) a *firm* must pay particular attention to the possible need for more frequent disclosure of:

- (a) items of information laid down in ■ BIPRU 11.5.3 R (2) and ■ BIPRU 11.5.3 R (5), and ■ BIPRU 11.5.4 R (2) - ■ BIPRU 11.5.4 R (5);
- (b) information on risk exposure and other items prone to rapid change.

[Note: BCD Annex XII Part 1 point 4]

Disclosures: Significant subsidiaries

11.4.5

FCA

R

A *firm* which is a significant subsidiary of:

- (1) an *EEA parent institution*; or
- (2) an *EEA parent financial holding company*; or
- (3) an *EEA parent mixed financial holding company*;

must disclose the information specified in ■ BIPRU 11.5.3 R to ■ BIPRU 11.5.4 R on an individual or sub-consolidated basis.

[Note: BCD Annex XII Part 1 point 5]

11.5 Technical criteria on disclosure: General requirements

Disclosure: Risk management objectives and policies

11.5.1
FCA

R

A *firm* must disclose its risk management objectives and policies for each separate category of risk, including the risks referred to under ■ BIPRU 11.5.1 R to ■ BIPRU 11.5.17 R. These disclosures must include:

- (1) the strategies and processes to manage those risks;
- (2) the structure and organisation of the relevant risk management function or other appropriate arrangements;
- (3) the scope and nature of risk reporting and measurement systems; and
- (4) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

[Note: BCD Annex XII Part 2 point 1]

Disclosure: Scope of application of directive requirements

11.5.2
FCA

R

A *firm* must disclose the following information regarding the scope of application of the requirements of the *Banking Consolidation Directive*:

- (1) the name of the *firm* which is the subject of the disclosures;
- (2) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:
 - (a) fully consolidated;
 - (b) proportionally consolidated;
 - (c) deducted from *capital resources*;
 - (d) neither consolidated nor deducted;

- (3) any current or foreseen material practical or legal impediment to the prompt transfer of *capital resources* or repayment of liabilities among the *parent undertaking* and its *subsidiary undertakings*;
- (4) the aggregate amount by which the actual *capital resources* are less than the required minimum in all *subsidiary undertakings* not included in the consolidation, and the name or names of such *subsidiary undertakings*; and
- (5) if applicable, the circumstance of making use of the provisions laid down in ■ BIPRU 2.1 (Solo consolidation waiver).

[Note: BCD Annex XII Part 2 point 2]

Disclosure: Capital resources

11.5.3

FCA

R

A *firm* must disclose the following information regarding its *capital resources*:

- (1) summary information on the terms and conditions of the main features of all *capital resources* items and components thereof, including:
 - (a) *hybrid capital*;
 - (b) *capital instruments* which provide an incentive for the *firm* to redeem them; and
 - (c) *capital instruments* which the *firm* treats as *tier one capital* under ■ GENPRU TP8A;
- (2) *tier one capital resources*, with separate disclosure of:
 - (a) all positive items and deductions;
 - (b) the overall amount of *hybrid capital*, with specification of those instruments treated as *tier one capital* under ■ GENPRU TP 8A.1; and
 - (c) the overall amount of *capital instruments* that provide for an incentive to redeem them, with specification of those instruments treated as *tier one capital* under ■ GENPRU TP 8A.1;
- (3) the total amount (for the purposes of (3), the total amount must be stated gross of deductions) of:
 - (a) *tier two capital resources* plus any *innovative tier one capital resources*; and
 - (b) *tier three capital resources*;

- (4) deductions from *tier one capital resources* and *tier two capital resources*, with separate disclosure of items referred to in
 - GENPRU 2.2.236 R; and
- (5) total *capital resources*, net of deductions in ■ GENPRU 2.2 and limits laid down in ■ GENPRU 2.2.25 R to ■ GENPRU 2.2.30 R and ■ GENPRU 2.2.42 R to ■ GENPRU 2.2.50 R.

[Note: BCD Annex XII Part 2 point 3]

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the overall Pillar 2 rule

11.5.4
FCA

R

A *firm* must disclose the following information regarding compliance with ■ BIPRU 3, ■ BIPRU 4, , ■ BIPRU 7, and the *overall Pillar 2 rule*:

- (1) a summary of the *firm's* approach to assessing the adequacy of its internal capital to support current and future activities;
- (2) for a *firm* calculating *risk weighted exposure amounts* in accordance with the *standardised approach* to credit risk, 8% of the *risk weighted exposure amounts* for each of the *standardised credit risk exposure classes*;
- (3) for a *firm* calculating *risk weighted exposure amounts* in accordance with the *IRB approach*, 8% of the *risk weighted exposure amounts* for each of the *IRB exposure classes*;

[Note: BCD Annex XII Part 2 point 4 (part)]

- (4) the *firm's* minimum capital requirements for the following:
 - (a) in respect of its *trading-book* business, its:
 - (i) *interest rate PRR*;
 - (ii) *equity PRR*;
 - (iii) *option PRR*;
 - (iv) *collective investment schemes PRR*;
 - (v) *counterparty risk capital component*;
 - (vi) *concentration risk capital component*; and
 - (b) in respect of all of its business activities, its:
 - (i) *commodity PRR*; and
 - (ii) *foreign currency PRR* .

- (5) [deleted]

11.5.5

FCA

R

For *retail exposures*, the requirement under ■ BIPRU 11.5.4 R (3) applies to each of the following categories:

- (1) *exposures to retail SMEs*;
- (2) *retail exposures* secured by real estate collateral;
- (3) *qualifying revolving retail exposures*; and
- (4) other *retail exposures*.

[Note: BCD Annex XII Part 2 point 4(part)]

11.5.6

FCA

R

For *equity exposures*, the requirement under ■ BIPRU 11.5.4 R (3) applies to:

- (1) each of the approaches (the simple risk weight approach, the PD/LGD approach and the internal models approach) provided for in ■ BIPRU 4.7.5 R to ■ BIPRU 4.7.6 R, ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.11 R, ■ BIPRU 4.7.14 R to ■ BIPRU 4.7.16 R, ■ BIPRU 4.7.24 R to ■ BIPRU 4.7.25 R;
- (2) exchange traded *exposures*, private *equity exposures* in sufficiently diversified portfolios, and other *exposures*;
- (3) *exposures* subject to supervisory transition regarding capital requirements; and
- (4) *exposures* subject to grandfathering provisions regarding capital requirements.

[Note: BCD Annex XII Part 2 point 4(part)]

11.5.7

FCA

R

A *firm* must disclose the following information regarding its *exposure to counterparty credit risk*:

- (1) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit *exposures*;
- (2) a discussion of policies for securing collateral and establishing credit reserves;
- (3) a discussion of policies with respect to *wrong-way risk exposures*;
- (4) a discussion of the impact of the amount of collateral the *firm* would have to provide given a downgrade in its credit rating;
- (5) gross positive fair value of contracts, netting benefits, netted current credit *exposure*, collateral held and 'net derivatives credit *exposure*',

where 'net derivatives credit *exposure*' is the credit *exposure* on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;

- (6) measures for exposure value under the *CCR mark to market method*, the *CCR standardised method* or the *CCR internal model method*, whichever is applicable;
- (7) the notional value of credit derivative hedges, and the distribution of current credit *exposure* by types of credit *exposure*;
- (8) credit derivative transactions (notional), segregated between use for the *firm's* own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; and
- (9) the estimate of alpha (α) if the *firm's CCR internal model method permission* permits it to estimate α .

[Note: *BCD Annex XII Part 2 point 5*]

Disclosure: Credit risk and dilution risk

11.5.8

FCA

R

A *firm* must disclose the following information regarding its *exposure* to credit risk and *dilution risk*:

- (1) the definitions for accounting purposes of past due and impaired;
- (2) a description of the approaches and methods adopted for determining value adjustments and provisions;
- (3) the total amount of *exposures* after accounting offsets and without taking into account the effects of *credit risk mitigation*, and the average amount of the *exposures* over the period broken down by different types of *exposure* classes;
- (4) the geographic distribution of the *exposures*, broken down in significant areas by material *exposure* classes, and further detailed if appropriate;
- (5) the distribution of the *exposures* by industry or counterparty type, broken down by *exposure* classes, and further detailed if appropriate;
- (6) the residual maturity breakdown of all the *exposures*, broken down by *exposure* classes, and further detailed if appropriate;

- (7) by significant industry or counterparty type, the amount of:
 - (a) impaired *exposures* and past due *exposures*, provided separately;
 - (b) value adjustments and provisions; and
 - (c) charges for value adjustments during the period;
- (8) the amount of the impaired *exposures* and past due *exposures*, provided separately, broken down by the significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area;
- (9) the reconciliation of changes in the value adjustments and provisions for impaired *exposures*, shown separately; and
- (10) value adjustments and recoveries recorded directly to the income statement must be disclosed separately.

[Note: BCD Annex XII Part 2 point 6 (part)]

11.5.9

FCA

R

The information to be disclosed under ■ BIPRU 11.5.8 R (9) must comprise:

- (1) a description of the type of value adjustments and provisions;
- (2) the opening balances;
- (3) the amounts taken against the provisions during the period;
- (4) the amounts set aside or reversed for estimated probable losses on *exposures* during the period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of *subsidiary undertakings*, and transfers between provisions; and
- (5) the closing balances.

[Note: BCD Annex XII Part 2 point 6 (part)]

Disclosure: Firms calculating risk weighted exposure amounts in accordance with the standardised approach

11.5.10

FCA

R

For a *firm* calculating *risk weighted exposure amounts* in accordance with the *standardised approach* to credit risk, the following information must be disclosed for each of the *standardised credit risk exposure classes*;

- (1) the names of the *nominated ECAIs* and export credit agencies and the reasons for any changes;

- (2) the *standardised credit risk exposure classes* for which each ECAI or export credit agency is used;
- (3) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the *trading book*;
- (4) the association of the external rating of each *nominated ECAI* or export credit agency with the *credit quality steps* prescribed in ■ BIPRU 3, taking into account that this information need not be disclosed if the *firm* complies with the *credit quality assessment scale*; and
- (5) the *exposure* values and the *exposure* values after *credit risk mitigation* associated with each *credit quality step* prescribed in ■ BIPRU 3, as well as those deducted from *capital resources*.

[Note: BCD Annex XII Part 2 point 7]

Disclosure: Firms calculating risk weighted exposure amounts using the IRB approach

11.5.11
FCA

R

A *firm* calculating *risk weighted exposure amounts* for *specialised lending exposures* in accordance with ■ BIPRU 4.5.8 R to ■ BIPRU 4.5.10 R or *equity exposures* in accordance with ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.10 R (the simple risk weight approach) must disclose the *exposures* assigned:

- (1) to each category of the table in ■ BIPRU 4.5.9 R; or
- (2) to each *risk weight* mentioned in ■ BIPRU 4.7.9 R to ■ BIPRU 4.7.10 R.

[Note: BCD Annex XII Part 2 point 8]

Disclosure: Market risk

11.5.12
FCA

R

A *firm* must disclose its *capital resources requirements* separately for each risk referred to in (1) , (2) and (3):

- (1) in respect of its *trading-book* business, its:
 - (a) *interest rate PRR*;
 - (b) *equity PRR*;
 - (c) *option PRR*;
 - (d) *collective investment schemes PRR*;
 - (e) *counterparty risk capital component*; and
 - (f) *concentration risk capital component*; and
- (2) in respect of all of its business activities, its:

- (a) *commodity PRR*; and
- (b) *foreign currency PRR*; and

(3) its specific interest-rate risk of *securitisation positions*.

[Note: BCD Annex XII Part 2 point 9]

Disclosure: Use of VaR model for calculation of market risk capital requirement

11.5.13

FCA

R

The following information must be disclosed by a *firm* which calculates its *market risk capital requirement* using a *VaR model*:

- (1) for each sub-portfolio covered:
 - (a) the characteristics of the models used;
 - (b) a description of stress testing applied to the sub-portfolio;
 - (c) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
 - (d) for the capital charges calculated according to the *incremental risk charge* and the *all price risk measure* separately, the methodologies used and the risks measured through the use of an internal model, including a description of the approach used by the *firm* to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;
- (2) the scope of the *firm's VaR model permission*;
- (3) a description of the extent and methodologies for compliance with the requirements set out in ■ GENPRU 1.3.13 R (2) and ■ GENPRU 1.3.13 R (3) and ■ GENPRU 1.3.14 R to ■ GENPRU 1.3.34 R ;
- (4) the highest, the lowest and the mean of the following:
 - (a) the daily *VaR measures* over the reporting period and the *VaR measure* as per the period end;
 - (b) the *stressed VaR measures* over the reporting period and the *stressed VaR measure* as per the period end;
 - (c) the capital charge according to the *incremental risk charge* over the reporting period and as per the period end;
 - (d) the capital charge according to the *all price risk measure* over the reporting period and as per the period end;

- (5) the amount of capital according to the *incremental risk charge* and the amount of capital according to the *all price risk measure* shown separately, together with the weighted average liquidity horizon for each sub-portfolio covered; and
- (6) a comparison of the daily end-of-day *VaR measures* to the one-day changes of the portfolio's value by the end of the subsequent *business day* together with an analysis of any important overshooting during the reporting period.

[Note: BCD Annex XII Part 2 point 10]

11.5.14 **R** [Deleted]

Disclosure: Non-trading book exposures in equities

11.5.15

FCA

R A *firm* must disclose the following information regarding the *exposures* in *equities* not included in the *trading book*:

- (1) the differentiation between *exposures* based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;
- (2) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;
- (3) the types, nature and amounts of exchange-traded *exposures*, private *equity exposures* in sufficiently diversified portfolios, and other *exposures*;
- (4) the cumulative realised gains or losses arising from sales and liquidations in the period; and
- (5) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in *tier one*, *tier two* or *tier three capital resources*.

[Note: BCD Annex XII Part 2 point 12]

Disclosures: Exposures to interest rate risk in the non-trading book

11.5.16

FCA

R A *firm* must disclose the following information on its *exposure* to interest rate risk on positions not included in the *trading book*:

- (1) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; and

- (2) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

[Note: BCD Annex XII Part 2 point 13]

Disclosures: Securitisation

11.5.17

FCA

R

A *firm* calculating *risk weighted exposure amounts* in accordance with ■ BIPRU 9 or *capital resource requirements* according to ■ BIPRU 7.2.48A R to ■ BIPRU 7.2.48K R must disclose the following information, where relevant separately for its *trading book* and *non-trading book*:

- (1) a description of the *firm's* objectives in relation to *securitisation* activity;
- (1A) the nature of other risks, including *liquidity risk* inherent in securitised assets;
- (1B) the type of risks in terms of seniority of underlying *securitisation positions* and in terms of assets underlying these latter *securitisation positions* assumed and retained with *resecuritisation* activity;
- (2) the different roles played by the *firm* in the *securitisation* process;
- (3) an indication of the extent of the *firm's* involvement in each of them;
- (3A) a description of the processes in place to monitor changes in the credit and market risk of *securitisation exposures*, including how the behaviour of the underlying assets impacts *securitisation positions* and a description of how those processes differ for *resecuritisation positions*;
- (3B) a description of the *firm's* policy governing the use of hedging and unfunded protection to mitigate the risks of retained *securitisation* and *resecuritisation positions*, including identification of material hedge counterparties by relevant type of risk exposure;
- (4) the approaches to calculating *risk weighted exposure amounts* that the *firm* follows for its *securitisation* activities, including the types of *securitisation exposures* to which each approach applies;
- (4A) the types of *SSPEs* that the *firm*, as *sponsor*, uses to securitise third-party *exposures*, including whether, and in what form, and to what extent, the *firm* has *exposures* to these *SSPEs*, separately for on and off-balance sheet *exposures*, as well as a list of the entities that the *firm* manages, or advises, and that invest in either

the *securitisation positions* that the *firm* has securitised or in *SSPEs* that the *firm* sponsors;

- (5) a summary of the *firm's* accounting policies for *securitisation* activities, including:
 - (a) whether the transactions are treated as sales or financings;
 - (b) the recognition of gains on sales;
 - (c) the methods, key assumptions, inputs and the changes from the previous period for valuing *securitisation positions*;
 - (d) the treatment of *synthetic securitisations* if this is not covered by other accounting policies;
 - (e) how assets awaiting *securitisation* are valued and whether they are recorded in the *firm's non-trading book* or *trading book*; and
 - (f) policies for recognising liabilities on the balance sheet for arrangements that could require the *firm* to provide financial support for securitised assets;
- (6) the names of the *ECAIs* used for *securitisations* and the types of *exposure* for which each agency is used;
- (6A) where applicable, a description of the *ABCP internal assessment approach* as set out in ■ BIPRU 9.12.20 R including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for *ABCP internal assessment approach* capital purposes, the control mechanisms for the internal assessment process (including discussion of independence, accountability, and internal assessment process review), the *exposure* types to which the internal assessment process is applied and the stress factors used for determining *credit enhancement* levels, by *exposure* type;
- (6B) an explanation of significant changes to any of the quantitative disclosures in (8) and (13) to (15) since the last reporting period;
- (7) [deleted]
- (8) for the *non-trading book* and for *exposures securitised* by the *firm*, the amount of impaired and past due *exposures securitised*, and the losses recognised by the *firm* during the current period, broken down by exposure type;
- (9) [deleted]
- (10) [deleted]

- (11) [deleted]
- (12) [deleted]
- (13) separately for the *trading book* and the *non-trading book*, the following information broken down by *exposure* type:
- (a) the total outstanding amount of *exposures securitised* by the *firm*, separately for *traditional securitisations* and *synthetic securitisations*, and *securitisations* for which the *firm* acts only as *sponsor*;
 - (b) the aggregate amount of on-balance sheet *securitisation positions* retained or purchased, and off-balance sheet *securitisation exposures*;
 - (c) the aggregate amount of assets awaiting *securitisation*;
 - (d) for securitised facilities subject to an *early amortisation provision*, the aggregate drawn-down *exposures* attributed to the *originator's* and investors' interests respectively, the aggregate *capital resources requirement* incurred by the *firm* against the *originator's* interest and the aggregate *capital resources requirement* incurred by the *firm* against the investors' shares of drawn balances and undrawn lines;
 - (e) the amount of *securitisation positions* that have been *risk weighted* at 1250% or deducted; and
 - (f) a summary of the *securitisation* activity of the current period, including the amount of *exposures securitised* and recognised gain or loss on sale;
- (14) separately for the *trading book* and the *non-trading book*, the following information:
- (a) the aggregate amount of *securitisation positions* retained or purchased and the associated *capital resources requirements*, broken down by *securitisation* and *resecuritisation exposures*, and further broken down into a meaningful number of *risk weight* or *capital resources requirement* bands, for each *capital resources requirement* approach used; and
 - (b) the aggregate amount of *resecuritisation exposures* retained or purchased, broken down according to the *exposure* before and after hedging or insurance, and the *exposure* to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name; and
- (15) for the *trading book*, the total outstanding *exposures securitised* by the *firm* and subject to a *market risk capital requirement*, broken down into *traditional* and *synthetic*, and by *exposure* type.

[Note: *BCD* Annex XII Part 2 point 14]

Disclosures: remuneration

11.5.18

FCA

R

A *firm* must disclose the following information, including regular, at least annual, updates, regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile:

- (1) information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;
- (2) information on the link between pay and performance;
- (3) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;
- (4) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;
- (5) the main parameters and rationale for any variable component scheme and any other non-cash benefits;
- (6) aggregate quantitative information on remuneration, broken down by business area;
- (7) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the *firm*, indicating the following:
 - (a) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
 - (b) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
 - (c) the amounts of outstanding deferred remuneration, split into vested and unvested portions;
 - (d) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;

- (e) new sign-on and severance payments made during the financial year, and the number of beneficiaries of those payments;
- (f) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

[Note: Paragraph 15 of Annex XII to the *Banking Consolidation Directive*.]

11.5.19

FCA

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The *appropriate regulator* would normally consider the requirements to publish disclosures in accordance with ■ BIPRU 11.3.8 R and ■ 11.3.9 R in respect of ■ BIPRU 11.5 as a whole to meet the requirement in paragraph 15 of Annex XII to the *Banking Consolidation Directive* to publish "regular, at least annual, updates" (as implemented in ■ BIPRU 11.5.18 R).

11.5.20

FCA

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- (1) A *firm* that is significant in terms of its size, internal organisation and the nature, scope and the complexity of its activities must also disclose the quantitative information referred to in ■ BIPRU 11.5.18 R at the level of *senior personnel*.
- (2) *Firms* must comply with the requirements set out in ■ BIPRU 11.5.18 R in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the *UK* or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

[Note: Paragraph 15 of Annex XII to the *Banking Consolidation Directive*.]

[Note: The *appropriate regulator* has given *guidance* for the purpose of providing a framework for complying with the disclosure requirements of ■ BIPRU 11.5.18 R in accordance with the proportionality test set out in ■ BIPRU 11.5.20 R (2).]

11.5.21

FCA

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In the *appropriate regulator's* view, the exemptions from disclosure provided for in ■ BIPRU 11.3.5 R (materiality) and ■ BIPRU 11.3.6 R (proprietary or confidential information) are unlikely to apply to the disclosure required by ■ BIPRU 11.5.18 R (having regard, amongst other things, to the fact that the requirements set out in ■ BIPRU 11.5.18 R are to be complied with in the manner described in ■ BIPRU 11.5.20 R (2)).

11.6 Qualifying requirements for the use of particular instruments or methodologies

Disclosures: Firms using the IRB approach

11.6.1

FCA

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A firm calculating *risk weighted exposure amounts* in accordance with the *IRB approach* must disclose the following information:

- (1) the scope of the *firm's IRB permission*;
- (2) an explanation and review of:
 - (a) the structure of internal *rating systems* and relation between internal and external ratings;
 - (b) the use of internal estimates other than for calculating *risk weighted exposure amounts* in accordance with the *IRB approach*;
 - (c) the process for managing and recognising *credit risk mitigation*; and
 - (d) the control mechanisms for *rating systems* including a description of independence, accountability, and *rating systems* review;
- (3) a description of the internal ratings process, provided separately for the following *IRB exposure classes*:
 - (a) central governments and *central banks*;
 - (b) *institutions*;
 - (c) corporate, including SMEs, *specialised lending* and purchased corporate receivables;
 - (d) retail, for *exposures to retail SMEs exposures, retail exposures secured by real estate collateral, qualifying revolving retail exposures, and other retail exposures*; and
 - (e) *equities*;
- (4) the *exposure* values for each of the *IRB exposure classes*;

- (5) for each of the *IRB exposure classes* central governments and *central banks, institutions, corporate and equity*, and across a sufficient number of *obligor grades* (including *default*) to allow for a meaningful differentiation of credit risk, a *firm* must disclose:
- (a) the total *exposures* (for the *IRB exposure classes* central governments and *central banks, institutions and corporate exposures*, the sum of outstanding loans and *exposure* values for undrawn commitments; for *equity exposures*, the outstanding amount);
 - (b) for a *firm* using own *LGD* estimates for the calculation of *risk weighted exposure amounts*, the *exposure-weighted average LGD* in percentage;
 - (c) the *exposure-weighted average risk weight*; and
 - (d) for a *firm* using own estimates of *conversion factors* for the calculation of *risk weighted exposure amounts*, the amount of undrawn commitments and *exposure-weighted average exposure* values for each *IRB exposure class*;
- (6) for the *retail exposure* class and for each of the categories of:
- (a) *exposures to retail SMEs*;
 - (b) *retail exposures* secured by real estate collateral;
 - (c) *qualifying revolving retail exposures*; and
 - (d) other *retail exposures*;
- either the disclosures outlined under (5) (if applicable, on a pooled basis), or an analysis of *exposures* (outstanding loans and *exposure* values for undrawn commitments) against a sufficient number of *EL* grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);
- (7) the actual value adjustments in the preceding period for each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)) and how they differ from past experience;
- (8) a description of the factors that impacted on the loss experience in the preceding period (for example, whether the *firm* experienced higher than average *default* rates, or higher than average *LGDs* and *conversion factors*); and
- (9) the *firm's* estimates against actual outcomes over a longer period including, at a minimum, information on estimates of losses against actual losses in each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)) over a period sufficient to allow for a meaningful assessment of the performance of the

internal rating processes for each *IRB exposure class* (for *retail exposures*, for each of the categories in (6)(a) to (d)).

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.2

FCA

R For the purposes of ■ BIPRU 11.6.1 R (3), the description must include the types of *exposure* included in the *IRB exposure class*, the definitions, methods and data for estimation and validation of *PD* and, if applicable, *LGD* and *conversion factors*, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of *default*, including the broad segments affected by such deviations.

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.3

FCA

R For the purposes of ■ BIPRU 11.6.1 R (4), where a *firm* uses its own estimates of *LGDs* or *conversion factors* for the calculation of *risk weighted exposure amounts* for *exposures* falling into the *sovereign, institution and corporate IRB exposure class*, the *firm* must disclose those *exposures* separately from *exposures* for which it does not use such estimates.

[Note: BCD Annex XII Part 3 point 1 (part)]

11.6.4

FCA

R For the purposes of ■ BIPRU 11.6.1 R (9), where appropriate, a *firm* must further decompose the information to provide analysis of *PD* and, for a *firm* using own estimates of *LGDs* and/or *conversion factors*, *LGD* and *conversion factor* outcomes against estimates provided in the quantitative risk assessment disclosures under ■ BIPRU 11.6.1 R to ■ BIPRU 11.6.4 R.

[Note: BCD Annex XII Part 3 point 1 (part)]

Disclosures: Credit risk mitigation

11.6.5

FCA

R A *firm* applying *credit risk mitigation* techniques must disclose the following information:

- (1) the policies and processes for, and an indication of the extent to which the *firm* makes use of, on- and off-balance sheet netting;
- (2) the policies and processes for collateral valuation and management;
- (3) a description of the main types of collateral taken by the *firm*;
- (4) the main types of guarantor and credit derivative counterparty and their creditworthiness;

- (5) information about *market risk* or credit risk concentrations within the credit mitigation taken;
- (6) for *firms* calculating *risk weighted exposure amounts* using the *standardised approach* to credit risk or the *IRB approach*, but not providing own estimates of *LGDs* or *conversion factors* in respect of the *exposure* class, separately for each *exposure* class, the total *exposure* value (after, where applicable, on- or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible *collateral*; and
- (7) for *firms* calculating *risk weighted exposure amounts* using the *standardised approach* or the *IRB approach*, separately for each *exposure* class, the total *exposure* (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for *equity exposures*, this requirement applies to each of the approaches (the simple risk weight approach, the PD/LGD approach and the internal models approach) provided for in
 - BIPRU 4.7.5 R to ■ BIPRU 4.7.6 R, ■ BIPRU 4.7.9 R to
 - BIPRU 4.7.11 R, ■ BIPRU 4.7.14 R to ■ BIPRU 4.7.16 R,
 - BIPRU 4.7.24 R to ■ BIPRU 4.7.25 R.

[Note: *BCD* Annex XII Part 3 point 2]

11.6.6

R

[Deleted]

Chapter 12

Liquidity standards

12.1 Application

12.1.1

PRA

R Subject to ■ BIPRU 12.1.2R, ■ BIPRU 12 applies to:

- (1) [deleted]
- (1A) a *UK bank*;
- (1B) a *building society*;
- (1C) a *UK designated investment firm*;
- (2) an *incoming EEA firm* which:
 - (a) is a *CRD credit institution*; and
 - (b) has a *branch* in the *United Kingdom*; and
- (3) a *third country BIPRU firm* which:
 - (a) [deleted]
 - (b) has a *branch* in the *United Kingdom*.

12.1.1A

FCA

R Subject to ■ BIPRU 12.1.2 R, ■ BIPRU 12 applies to:

- (1) an *IFPRU investment firm*; and
- (2) a *BIPRU firm*.

12.1.2

FCA PRA

R ■ BIPRU 12.5 (Individual Liquidity Adequacy Standards), ■ BIPRU 12.6 (Simplified ILAS), ■ BIPRU 12.7 (Liquid assets buffer) and ■ BIPRU 12.9 (Individual liquidity guidance and regulatory intervention points) apply only to an *ILAS BIPRU firm*.

12.1.3

FCA

G A firm that is an An *exempt full scope IFPRU investment firm* is not an *ILAS BIPRU firm*.

12.1.4

FCA

R

- (1) An *exempt full scope IFPRU investment firm* is a *full-scope IFPRU investment firm* that at all times has total net assets which are less than or equal to 50 million.
- (2) In this *rule*, total net assets are the sum of a *firm's* total *trading book* assets and its total *non-trading book* assets, less the sum of its called up share capital, reserves and minority interests.
- (3) For the purpose of (2), the value attributed to each of the specified balance sheet items must be that which is reported to the *FCA* in the *firm's* most recent *data item*.

12.1.5

FCA

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The effect of ■ BIPRU 12.1.4R is therefore to require the *firm* to sum the values of cell entries 20A and 20B in *data item* FSA001 and deduct from that total the sum of the values of cell entries 42, 43 and 44 in the same *data item*.

12.1.6

FCA PRA

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There are some provisions in other sections of ■ BIPRU 12 which apply only to an *ILAS BIPRU firm*. Where this is the case, the provision in question says so.

12.1.7

FCA PRA

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In relation to an *incoming EEA firm* or a *third country BIPRU firm*, this chapter applies only with respect to the activities of the *firm's UK branch*.

12.2 Adequacy of liquidity resources

The overall liquidity adequacy rule

12.2.1

FCA PRA

R

- (1) A *firm* must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.
- (2) For the purpose of (1):
 - (a) a *firm* may not include liquidity resources that can be made available by other members of its *group*;
 - (b) an *incoming EEA firm* or a *third country BIPRU firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in
 - BIPRU 12.2.3R;
 - (c) a *firm* may not include liquidity resources that may be made available through emergency liquidity assistance from a central bank (including the European Central Bank).

12.2.2

FCA PRA

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■ BIPRU 12.2.1R is the *overall liquidity adequacy rule*.

Branch liquidity resources

12.2.3

FCA PRA

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The conditions to which ■ BIPRU 12.2.1R (2)(b) refers are that the *firm's* liquidity resources are:

- (1) under the day-to-day control of the *UK branch's* senior management;
- (2) held in an account with one or more *custodians* in the sole name of the *UK branch*;
- (3) unencumbered; and
- (4) for the purpose of the *overall liquidity adequacy rule* only, attributed to the balance sheet of the *UK branch*.

12.2.4

FCA PRA

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The effect of ■ BIPRU 12.2.1R (2)(b) and ■ BIPRU 12.2.3 R is to require an *incoming EEA firm* or a *third country BIPRU firm* to maintain a local operational liquidity reserve in relation to the activities of its *UK branch*. ■ BIPRU 12.9 contains further *guidance* on this point.

Liquidity resources: general

12.2.5

FCA PRA

G

For the purposes of the *overall liquidity adequacy rule*, liquidity resources are not confined to the amount or value of a *firm's* marketable, or otherwise realisable, assets. Rather, in assessing the adequacy of those resources, a *firm* should have regard to the overall character of the resources available to it which enable it to meet its liabilities as they fall due. Therefore, for the purposes of that *rule*, a *firm* should ensure that:

- (1) it holds sufficient assets which are marketable, or otherwise realisable;
- (2) it is able to generate funds from those assets in a timely manner;
- (3) it maintains a prudent funding profile in which its assets are of appropriate maturities, taking account of the expected timing of that *firm's* liabilities; and
- (4) it is able to generate unsecured funding of appropriate tenor in a timely manner.

12.2.6

FCA PRA

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The *overall liquidity adequacy rule* is expressed to apply to each *firm* on a solo basis. Each *firm* must be able to satisfy that *rule* relying solely on its own liquidity resources. Where the *firm* is an *incoming EEA firm* or a *third country BIPRU firm*, compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in ■ BIPRU 12.2.3R.

12.2.7

FCA PRA

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The starting point, therefore, is that each *firm*, or where relevant its *UK branch*, must be self-sufficient in terms of its own liquidity adequacy. The *appropriate regulator* does, however, recognise that there are circumstances in which it may be appropriate for a *firm* or *branch* to rely on liquidity support provided by other entities in its *group* or from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind, whether for itself or for its *UK branch*, may only do so with the consent of the *appropriate regulator*, given by way of a *waiver* under section 138A (Modification or waiver of rules) of the *Act* to the *overall liquidity adequacy rule*.

Liquid assets buffer and funding profile

12.2.8

FCA PRA

R

For the purposes of the *overall liquidity adequacy rule*, an *ILAS BIPRU firm* must also ensure that:

- (1) its liquidity resources contain an adequate buffer of high quality, unencumbered assets; and
- (2) it maintains a prudent funding profile.

12.2.9

FCA PRA

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The purpose of ■ BIPRU 12.2.8R is to ensure that an *ILAS BIPRU firm* has a buffer of liquid assets which are available to meet those liabilities which fall due in periods of stress experienced by that *firm*. Those periods of stress may be both market-wide and idiosyncratic in nature. The *appropriate regulator* acknowledges that in periods of stress a *firm's* liquid assets buffer may be eroded.

12.2.10 FCA PRA G The *appropriate regulator* recognises, however, that it may take time for a *firm* to build a buffer which is of a sufficient size and quality to help reduce the effect of periods of stress on the *firm*. In particular, the *appropriate regulator* recognises that the transition from the *appropriate regulator's* liquidity regime in force immediately prior to the ■ BIPRU 12 regime is likely to be a gradual one for many *firms*. The *appropriate regulator* will seek to agree with a *firm* an appropriate period of time over which its liquid assets buffer ought to be built. The *appropriate regulator* will, in any event, incorporate into the *individual liquidity guidance* which it gives to the *firm* details of the steps that it expects the *firm* to take so that it may establish an appropriately robust liquid assets buffer.

12.2.11 FCA PRA R In complying with ■ BIPRU 12.2.8R, a *simplified ILAS BIPRU firm* must ensure that its liquid assets buffer is at least equal to the amount of liquidity resources required by the *simplified buffer requirement*.

12.2.12 FCA PRA G The *appropriate regulator* is likely to regard a *simplified ILAS BIPRU firm* whose liquid assets buffer accords with the *simplified buffer requirement* as having an adequate buffer of assets and a prudent funding profile for the purpose of ■ BIPRU 12.2.8R. Further *guidance* on this matter is provided in ■ BIPRU 12.6.5G.

12.2.13 FCA PRA G ■ BIPRU 12.7 contains more detailed *rules* and *guidance* about the type of assets that an *ILAS BIPRU firm* is permitted to hold in order to satisfy ■ BIPRU 12.2.8R.

Individual assessments of liquidity adequacy

12.2.14 FCA PRA G The adequacy of an *ILAS BIPRU firm's* liquidity resources needs to be assessed both by that *firm* and by the *appropriate regulator*. This process involves:

- (1) in the case of a *standard ILAS BIPRU firm*, an *Individual Liquidity Adequacy Assessment (ILAA)* which such a *firm* is obliged to carry out in accordance with ■ BIPRU 12.5;
- (2) in the case of a *simplified ILAS BIPRU firm*, an *Individual Liquidity Systems Assessment (ILSA)* which such a *firm* is obliged to carry out in accordance with ■ BIPRU 12.6; and
- (3) a *Supervisory Liquidity Review Process (SLRP)*, which is conducted by the *appropriate regulator*.

12.2.15 FCA PRA G ■ BIPRU 12.5 sets out the *ILAS* framework. That section describes some of the stress tests that a *standard ILAS BIPRU firm* must carry out in conducting its *ILAA* and identifies a number of sources of *liquidity risk* in relation to which a *firm* is required to assess the impact of those stresses. For a *standard ILAS BIPRU firm*, the requirements in ■ BIPRU 12.5 are in addition to the stress testing requirements in ■ BIPRU 12.4. The *rules* in ■ BIPRU 12.5 require a *standard ILAS BIPRU firm* to report the results of both sets of stress tests in its *ILAA*, while the *rules* in ■ BIPRU 12.6 require a *simplified ILAS BIPRU firm* to report those results in its *ILSA*.

- 12.2.16** **FCA PRA** **G** As part of its *SLRP*, the *appropriate regulator* will, having regard to the *liquidity risk* profile of the *firm*, consider:
- (1) the adequacy, both as to amount and quality, of the liquidity resources (including the liquid assets buffer) held by the *firm*; and
 - (2) the degree of prudence reflected in the *firm's* funding profile.
- 12.2.17** **FCA PRA** **G** In assessing the adequacy of those resources, the *appropriate regulator* will consider a *firm's* overall ability to generate funding in a way that ensures that it can meet its liabilities as they fall due both in stressed and in ordinary business conditions.
- 12.2.18** **FCA PRA** **G** After completing a review of the *ILAA* as part of the *SLRP*, the *appropriate regulator* will give a *standard ILAS BIPRU firm individual liquidity guidance*, advising it of the amount and quality of liquidity resources which the *appropriate regulator* considers are appropriate having regard to the *liquidity risk* profile of the *firm*. In giving *individual liquidity guidance*, the *appropriate regulator* will also advise the *firm* of what it considers to be a prudent funding profile for the *firm*. In giving the *firm individual liquidity guidance* as to its funding profile, the *appropriate regulator* will consider the extent to which the *firm's* liabilities are adequately matched by assets of appropriate maturities. Although the *appropriate regulator* may have given a *firm individual liquidity guidance*, this does not remove the need for the *firm* to monitor its *liquidity risk* profile on an ongoing basis and to consider whether it should be holding liquidity resources that are greater in amount or higher in quality, or maintaining a more prudent funding profile, than those advised in its *individual liquidity guidance*.
- 12.2.19** **FCA PRA** **G** ■ BIPRU 12.5 sets out in greater detail the *appropriate regulator's ILAS* regime. ■ BIPRU 12.9 sets out in greater detail the *appropriate regulator's* process for issuing an *ILAS BIPRU firm* with *individual liquidity guidance* and its approach to monitoring a *firm's* adherence to that *guidance* or, as the case may be, to the *simplified buffer requirement*.

12.3 Liquidity risk management

12.3.1

FCA PRA

G

The approach taken in ■ BIPRU 12.3 is to set out:

- (1) overarching systems and controls provisions in relation to a *firm's* management of its *liquidity risk*;
- (2) provisions outlining the responsibilities of that *firm's governing body* and *senior managers* for the oversight of *liquidity risk*;
- (3) more detailed provisions covering a number of specific areas, including:
 - (a) pricing *liquidity risk*;
 - (b) intra-day management of liquidity;
 - (c) management of collateral;
 - (d) management of liquidity across legal entities, business lines and currencies; and
 - (e) funding diversification and market access.

12.3.2

FCA PRA

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■ BIPRU 12.4 contains further *rules* and *guidance* on stress testing and *contingency funding plans*. These are both extensions of the overarching systems and controls provisions in ■ BIPRU 12.3. In formulating the *rules* and *guidance* in these two sections, the *appropriate regulator* has taken account of the Principles for Sound Liquidity Management and Supervision dated September 2008 issued by the Basel Committee on Banking Supervision. It is intended that the content of ■ BIPRU 12.3 and ■ BIPRU 12.4 be consistent with those Principles.

12.3.3

FCA PRA

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■ BIPRU 12.5.4R provides that, in relation to a *standard ILAS BIPRU firm*, it must include in its *ILAA* an assessment of its compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4, including the results of the stress tests required by the *rules* in ■ BIPRU 12.4. A *simplified ILAS BIPRU firm* is not subject to ■ BIPRU 12.5 and consequently it is not required to prepare an *ILAA*. Instead, the *rules* in ■ BIPRU 12.6 provide that such a *firm* is to carry out an *ILSA*, being alone an assessment of that *firm's* compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4.

Overarching liquidity systems and controls requirements

12.3.4

FCA PRA

R

A *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk* over an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines, currencies, *branches* and legal entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks.

[Note: article 86(1) of the *CRD*]

12.3.4A

FCA PRA

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The strategies, policies, processes and systems referred to in ■ BIPRU 12.3.4 R should include those which enable it to assess and maintain on an ongoing basis the amounts, types and distribution of liquidity resources that it considers adequate to cover:

- (1) the nature and level of the *liquidity risk* to which it is or might be exposed;
- (2) the risk that the *firm* cannot meet its liabilities as they fall due; and
- (3) in the case of an *ILAS BIPRU firm*, the risk that its liquidity resources might in the future fall below the level, or differ from the quality and funding profile, of those resources advised as appropriate by the *appropriate regulator* in that *firm's individual liquidity guidance* or, as the case may, its *simplified buffer requirement*.

12.3.5

FCA PRA

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The strategies, policies, processes and systems referred to in ■ BIPRU 12.3.4 R must be proportionate to the complexity, risk profile and scope of operation of the *firm*, and the liquidity risk tolerance set by the *firm's governing body* in accordance with ■ BIPRU 12.3.8 R, and must reflect the *firm's importance* in each *EEA State*, in which it carries on business .

[Note: article 86(2) (part) of the *CRD*]

12.3.6

FCA PRA

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- (1) [deleted]
- (2) [deleted]
- (3) A *firm* should ensure that its strategies, policies, processes and systems in relation to *liquidity risk* enable it to identify, measure, manage and monitor its *liquidity risk* positions for:
 - (a) all sources of contingent liquidity demand (including those arising from off-balance sheet activities);
 - (b) all currencies in which that *firm* is active; and
 - (c) correspondent, custody and settlement activities.
- (4) [deleted]
- (5) A *firm* should ensure that it has in place early warning indicators to identify immediately the emergence of increased *liquidity risk*

or vulnerabilities, including indicators that signal whether embedded triggers in funding or security arrangements such as warranties, covenants, events of default, conditions precedent or terms having similar effect are likely to, or will, be breached, occur or fail to be satisfied, or contingent risks will or are likely to crystallise, in either case with the result that access to liquidity resources may be impaired.

- (6) A *firm* should ensure that it has in place reliable management information systems to provide its *governing body*, *senior managers* and other appropriate personnel with timely and forward-looking information on the liquidity position of the *firm*.
- (7) Contravention of any of (3), (5) and (6) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4R.

12.3.7

FCA PRA

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As well as the *rules* in ■ BIPRU 12.3 requiring a *firm* to have robust systems to enable it to identify, measure, manage and monitor *liquidity risk*, an *ILAS BIPRU firm* is also subject to obligations in ■ SUP 16 (Reporting requirements) requiring it to report quantitative data about its liquidity position to the *appropriate regulator*. That chapter of *SUP* sets out the applicable *data items* and the *rules* governing the frequency of their submission to the *appropriate regulator*. Absent a *firm-specific liquidity stress* or a *market liquidity stress*, the *rules* in ■ SUP 16 do not require daily (weekly for a *low frequency liquidity reporting firm* and a *simplified ILAS BIPRU firm*) reporting of *data items*. An *ILAS BIPRU firm* should, however, note that those *rules* do require that it has systems in place to ensure that it is able at all times to meet the requirements for daily (or weekly as applicable) reporting of applicable *data items* even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

12.3.7A

FCA PRA

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A *firm* must, taking into account the nature, scale and complexity of its activities, have liquidity risk profiles that are consistent with and not in excess of those required for a well-functioning and robust system.

[Note: article 86(3) of the *CRD*]

Governing body and senior management oversight: liquidity risk tolerance

12.3.8

FCA PRA

R

A *firm* must ensure that:

- (1) its *governing body* establishes that *firm's liquidity risk* tolerance and that this is appropriately documented;
- (2) its *liquidity risk* tolerance is appropriate for its business strategy and reflects its financial condition and funding capacity; and
- (3) its *liquidity risk* tolerance is communicated to all relevant business lines.

[Note: article 86(2) of the *CRD*]

12.3.9

FCA PRA

G

As part of the *SLRP*, the *appropriate regulator* will assess the appropriateness of the *liquidity risk* tolerance adopted by an *ILAS BIPRU firm* to ensure that this risk tolerance is consistent with maintenance by the *firm* of adequate liquidity resources for the purpose of the *overall liquidity adequacy rule*. The *appropriate regulator* will expect a *firm* to provide it with an adequately reasoned explanation for the level of *liquidity risk* which that *firm's governing body* has decided it should assume. In assessing the appropriateness of the *liquidity risk* tolerance adopted by a *firm*, the *appropriate regulator* will consider whether the tolerance adopted is consistent with the *firm's* satisfaction of threshold condition 2E, 3D, 4E or 5E as applicable. Consistent with the *appropriate regulator's* statutory objectives under the *Act*, in assessing the appropriateness of a *firm's* adopted *liquidity risk* tolerance the *appropriate regulator* will also have regard to the role and importance of a *firm* in the *UK financial system*.

Governing body and senior management oversight: approval and review of arrangements

12.3.10

FCA PRA

R

A *firm* must ensure that its *governing body* approves the *firm's* strategies, policies, processes and systems relating to the management of *liquidity risk*, including those described in ■ BIPRU 12.3.4R.

12.3.11

FCA PRA

R

A *firm* must ensure that its *governing body* reviews regularly (and not less frequently than annually):

- (1) the continued adequacy of any strategies, policies, processes and systems approved in accordance with ■ BIPRU 12.3.10R; and
- (2) the *firm's liquidity risk* tolerance.

12.3.12

FCA PRA

R

A *firm* must ensure that its *senior managers*:

- (1) continuously review that *firm's* liquidity position, including its compliance with the *overall liquidity adequacy rule*; and
- (2) report to its *governing body* on a regular basis adequate information as to that *firm's* liquidity position and its compliance with the *overall liquidity adequacy rule* and with ■ BIPRU 12.3.4R.

12.3.13

FCA PRA

G

Although a *firm's senior managers* are likely to develop strategies, policies and practices for the management of that *firm's liquidity risk*, it is the responsibility of a *firm's governing body* to approve those strategies, policies and practices as adequate. In determining the adequacy of those strategies, policies and practices, a *firm's governing body* should have regard to that *firm's liquidity risk* tolerance established in accordance with ■ BIPRU 12.3.8R.

12.3.14

FCA PRA

G

The *appropriate regulator* will assess the adequacy of an *ILAS BIPRU firm's* *liquidity risk* management framework as part of the *SLRP*.

Pricing liquidity risk

12.3.15

FCA PRA

A

- (1) In relation to all significant business activities, a *firm* should ensure that it accurately quantifies liquidity costs, benefits and risks and fully incorporates them into:

- (a) product pricing;
 - (b) performance measurement and incentives; and
 - (c) the approval process for new products.
- (2) For the purposes of (1), a *firm* should ensure that it:
- (a) includes significant business activities whether or not they are accounted for on-balance sheet; and
 - (b) carries out the exercise of quantification and incorporation both in normal financial conditions and under the stresses required by ■ BIPRU 12.4.1R.
- (3) A *firm* should ensure that the liquidity costs, benefits and risks are clearly and transparently attributed to business lines and are understood by business line management.
- (4) Contravention of any of (1), (2) or (3) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4R.

12.3.16

FCA PRA

G

The incorporation of liquidity pricing into a *firm's* processes assists in aligning the risk-taking incentives of individual business lines within that *firm* with the *liquidity risk* to which the *firm* as a whole is exposed as a result of their activities. It is important that all significant business activities are addressed, including activities which involve the creation of contingent exposures which may not have an immediate balance sheet impact.

Intra-day management of liquidity**12.3.17**

FCA PRA

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A *firm* must actively manage its intra-day liquidity positions and any related risks so that it is able to meet its payment and settlement obligations on a timely basis.

12.3.18

FCA PRA

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In complying with ■ BIPRU 12.3.17R, a *firm* should take into account all obligations arising from its acting as a custodian, a correspondent bank or a settlement agent.

12.3.19

FCA PRA

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For the purposes of ■ BIPRU 12.3.17R, a *firm* must ensure that:

- (1) it is able to meet its payment and settlement obligations on a timely basis under both normal financial conditions and under the stresses required by ■ BIPRU 12.4.1R; and
- (2) its arrangements for the management of intra-day liquidity enable it to identify and prioritise the most time-critical payment and settlement obligations.

12.3.20

FCA PRA

G

The *appropriate regulator* considers that a *firm's* ability to meet its payment and settlement obligations on an intra-day basis is important not just for that *firm*, but

also for the liquidity position of that *firm's* counterparties and for the smooth functioning of payment and settlement systems as a whole.

12.3.21

▲

FCA PRA

- (1) A *firm* should ensure that its intra-day liquidity management arrangements enable it, in relation to the markets in which it is active and the currencies in which it has significant positions, to:
- (a) measure expected daily gross liquidity inflows and outflows, anticipate the intra-day timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;
 - (b) monitor its intra-day liquidity positions against expected activities and available resources;
 - (c) identify gross liquidity inflows and outflows attributable to any correspondent, custodian or settlement agency services provided by that *firm*;
 - (d) manage the timing of its liquidity outflows such that priority is given to that *firm's* most time-critical obligations;
 - (e) deal with unexpected disruptions to its intra-day liquidity flows;
 - (f) acquire sufficient intra-day funding such that it is able to meet its most time-critical obligations when expected and other less time-critical obligations as soon as possible thereafter; and
 - (g) manage and mobilise collateral as necessary for the purposes of achieving the aim in (f).
- (2) Contravention of any of (1)(a) to (g) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4R.

Management of collateral

12.3.22

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FCA PRA

A *firm* must actively manage its collateral positions.

12.3.22A

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FCA PRA

A *firm* must distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. A *firm* must also take into account the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account as well as their eligibility and must monitor how assets can be mobilised in a timely manner.

[Note: article 86(5) of the *CRD*]

PAGE
13

12.3.22B

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FCA PRA

A *firm* must also have regard to existing legal, regulatory and operational limitations to potential transfers of liquidity and unencumbered assets amongst entities, both within and outside the *EEA*.

[Note: article 86(6) of the *CRD*]

12.3.23

FCA PRA

R

For the purposes of ■ BIPRU 12.3.22R, a *firm* must, in relation to all currencies in which it has significant positions and all jurisdictions in which it carries on significant business activities, ensure that it:

- (1) can calculate all of its collateral positions, including assets currently provided as collateral, relative to the total amount of security required;
- (2) can calculate the amount of unencumbered assets available to it to be provided as collateral;
- (3) can mobilise collateral in a timely manner;
- (4) monitors the location of available collateral;
- (5) takes into account the extent to which counterparties with which it has deposited collateral may have re-hypothecated that collateral;
- (6) has access to adequately diversified sources of collateral;
- (7) assesses the eligibility of each major asset class that it holds for use as collateral with central banks;
- (8) assesses on an ongoing basis the acceptability of its assets to major counterparties and providers of funds in secured funding markets; and
- (9) monitors and manages the impact that the terms of existing funding or security arrangements, such as warranties, covenants, events of default, negative pledges and cross default clauses could have on its ability to mobilise collateral including for use in borrowing under any central bank facility (in particular, emergency liquidity assistance on a secured basis).

12.3.24

FCA PRA

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For the purposes of ■ BIPRU 12.3.23R (8) and ■ (9), a *firm* should take into account the impact of the stresses that it conducts under ■ BIPRU 12.4.1R on the requirements which may be imposed on the provision of its assets as collateral (for example, haircuts) and also the availability of funds from private counterparties during such periods of stress.

12.3.25

FCA PRA

A

- (1) A *firm* should ensure that its arrangements for the management of *liquidity risk*:
 - (a) enable it to monitor shifts between intra-day and overnight or term collateral usage;
 - (b) enable it to appropriately adjust its calculation of available collateral to account for assets that are part of a tied hedge;

- (c) include adequate consideration of the potential for uncertainty around, or disruption to, intra-day asset flows; and
- (d) take into account the potential for additional collateral requirements under the terms of contracts governing existing collateral positions (for example, as a result of a deterioration in its own credit rating).

(2) Contravention of any of (1)(a) to (d) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4 R.

Managing liquidity across legal entities, business lines and currencies

12.3.26

FCA PRA

R

In complying with ■ BIPRU 12.3.4 R, a *firm* must ensure that:

- (1) it actively manages its *liquidity risk* exposures and related funding needs; and
- (2) it takes into account:
 - (a) the impact on its own liquidity position of its forming part of a *group*;
 - (b) the need to manage the liquidity position of individual business lines in addition to that of the *firm* as a whole; and
 - (c) the *liquidity risk* arising from its taking positions in foreign currencies; and
- (3) where it forms part of a *group*, it understands and has regard to any legal, regulatory, operational or other constraints on the transferability to it of funds and collateral by other entities in that *group*.

12.3.27

FCA PRA

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A *firm* must develop methodologies for the identification, measurement, management and monitoring of funding positions. Those methodologies must include the current and projected material cash-flows in and arising from assets, liabilities, off-balance-sheet items, including contingent liabilities and the possible impact of reputational risk.

[Note: article 86(4) of the *CRD*]

12.3.28

FCA PRA

G

In its *liquidity risk* management plans, a *firm* should identify clearly its assumptions regarding the transferability of funds and collateral. A *firm* should expect that the *appropriate regulator* will scrutinise those assumptions.

Funding diversification and market access

12.3.29

FCA PRA

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In complying with ■ BIPRU 12.3.4 R, a *firm* must ensure that it has access to funding which is adequately diversified, both as to source and tenor.

12.3.30
FCA PRA

R A *firm* must ensure that its *governing body*:

- (1) is aware of the composition, characteristics and degree of diversification of its assets and funding sources; and
- (2) regularly reviews its funding strategy in the light of any changes in the environment in which it operates.

12.3.31
FCA PRA

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Funding diversification should not be considered an end in its own right. Rather, the purpose of diversification is to ensure that a *firm* has in place alternative sources of funding that strengthen its capacity to withstand a variety of severe yet plausible institution-specific and market-wide liquidity shocks.

12.3.32
FCA PRA

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- (1) A *firm* should ensure that funding diversification is taken into account in that *firm's* business planning process.
- (2) A *firm* should ensure that its funding arrangements take into account correlations between market conditions and the ability to access funds from different sources.
- (3) A *firm* should ensure that in establishing adequate diversification it sets limits on its funding according to the following variables:
 - (a) maturity;
 - (b) nature of depositor or counterparty;
 - (c) levels of secured and unsecured funding;
 - (d) instrument type;
 - (e) securitisation vehicle;
 - (f) currency; and
 - (g) geographic market.
- (4) A *firm* should ensure that it maintains an ongoing presence in its chosen funding markets and strong relationships with its chosen providers of funds.
- (5) A *firm* should regularly test its capacity to raise funds quickly from its chosen funding sources to provide short, medium and long-term liquidity.
- (6) A *firm* should ensure that its *senior managers* identify the main factors that affect its ability to raise funds and should monitor those factors closely to ensure that their estimates of fund raising capacity remain valid.
- (7) Contravention of any of (1) to (6) may be relied upon as tending to establish contravention of **■** BIPRU 12.3.4 R.

12.4 Stress testing and contingency funding

12.4.-2

FCA PRA

R

A *firm* must consider different liquidity risk mitigation tools, including a system of limits and liquidity buffers in order to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources. Those arrangements must be reviewed regularly.

[Note: article 86(7) of the *CRD*]

Stress testing

12.4.-1

FCA PRA

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A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities (SSPEs)* or other special purpose entities, as referred to in the *EU CRR*, in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

[Note: article 86(8) of the *CRD*]

12.4.1

FCA PRA

R

In order to ensure compliance with the *overall liquidity adequacy rule* and with ■ BIPRU 12.3.4R and ■ BIPRU 12.4.-1 R , a *firm* must:

- (1) conduct on a regular basis appropriate stress tests so as to:
 - (a) identify sources of potential liquidity strain;
 - (b) ensure that current liquidity exposures continue to conform to the *liquidity risk* tolerance established by that *firm's governing body*; and
 - (c) identify the effects on that *firm's* assumptions about pricing; and
- (2) analyse the separate and combined impact of possible future liquidity stresses on its:
 - (a) cash flows;
 - (b) liquidity position;

			(c) profitability; and
			(d) solvency.
12.4.2	R		In accordance with ■ BIPRU 12.3.11R, ■ BIPRU 12.4.-2 R and ■ BIPRU 12.4.-1 R, a <i>firm</i> must ensure that its <i>governing body</i> reviews regularly the stresses and scenarios tested to ensure that their nature and severity remain appropriate and relevant to that <i>firm</i> .
FCA PRA			
12.4.3	G		Consistent with ■ BIPRU 12.3.5R, the expects that the extent and frequency of such testing, as well as the degree of regularity of <i>governing body</i> review under ■ BIPRU 12.4.2R, should be proportionate to the nature scale and complexity of a <i>firm's</i> activities, as well as to the size of its liquidity risk exposures. Consistent with the <i>appropriate regulator's</i> statutory objectives under the <i>Act</i> , in assessing the adequacy of a <i>firm's</i> stress testing arrangements (including their frequency and the regularity of <i>governing body</i> review) the <i>appropriate regulator</i> will also have regard to the role and importance of that <i>firm</i> in the <i>UK financial system</i> . The <i>appropriate regulator</i> will, however, expect stress testing and <i>governing body</i> review to be carried out no less frequently than annually. The <i>appropriate regulator</i> expects that a <i>firm</i> will build into its stress testing arrangements the capability to increase the frequency of those tests in special circumstances, such as in volatile market conditions or where requested by the <i>appropriate regulator</i> .
FCA PRA			
12.4.4	G		For the purposes of ■ BIPRU 12.4.2R, a review should take into account:
FCA PRA			
			(1) changes in market conditions;
			(2) changes in the nature, scale or complexity of the <i>firm's</i> business model and activities; and
			(3) the <i>firm's</i> practical experience in periods of stress.
12.4.5	A		(1) [deleted]
			(2) [deleted]
12.4.5A	R		A <i>firm</i> must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time periods and varying degrees of stressed conditions must be considered.
FCA PRA			
			[Note: article 86(9) of the <i>CRD</i>]
12.4.6	G		The <i>appropriate regulator</i> expects every <i>firm</i> , including a <i>firm</i> with an apparently strong liquidity profile, to consider the potential impact of severe stress scenarios.
FCA PRA			
12.4.7	G		In conducting its stress testing, a <i>firm</i> should also, where relevant, consider the impact of its chosen stresses on the appropriateness of its assumptions relating to:
FCA PRA			
			(1) correlations between funding markets;
			(2) the effectiveness of diversification across its chosen sources of funding;

- (3) additional margin calls and collateral requirements;
- (4) contingent claims, including potential draws on committed lines extended to third parties or to other entities in that *firm's group*;
- (5) liquidity absorbed by off-balance sheet vehicles and activities (including conduit financing);
- (6) the transferability of liquidity resources;
- (7) access to central bank market operations and liquidity facilities;
- (8) estimates of future balance sheet growth;
- (9) the continued availability of market liquidity in a number of currently highly liquid markets;
- (10) ability to access secured and unsecured funding (including retail *deposits*);
- (11) currency convertibility; and
- (12) access to payment or settlement systems on which the *firm* relies.

12.4.8



FCA	PRA
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- (1) A *firm* should ensure that the results of its stress tests are:
 - (a) reviewed by its *senior managers*;
 - (b) reported to that *firm's governing body*, specifically highlighting any vulnerabilities identified and proposing appropriate remedial action;
 - (c) reflected in the processes, strategies and systems established in accordance with ■ BIPRU 12.3.4R;
 - (d) used to develop effective *contingency funding plans*;
 - (e) integrated into that *firm's* business planning process and day-to-day risk management; and
 - (f) taken into account when setting internal limits for the management of that *firm's liquidity risk* exposure.
- (2) Contravention of any of (1)(a) to (f) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4 R.

12.4.9



FCA	PRA
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A *firm* must ensure that the results of its stress tests are reported to the *appropriate regulator* in a timely manner.

Contingency funding plans

12.4.10



FCA	PRA
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A *firm* must adjust its strategies, internal policies and limits on *liquidity risk* and develop an effective *contingency funding plan*, taking into account the outcome of the alternative scenarios referred to in ■ BIPRU 12.4.-1 R.

12.4.11

FCA PRA

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[Note: article 86(10) of the *CRD*]

A *firm* must have in place liquidity recovery plans setting out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to *branches* established in another *EEA State*. Those plans must be tested at least annually, updated on the basis of the outcome of the alternative scenarios set out in ■ BIPRU 12.4.-1 R, and be reported to and approved by the *firm's governing body*, so that internal policies and processes can be adjusted accordingly. A *firm* must take the necessary operational steps in advance to ensure that liquidity recovery plans can be implemented immediately.

[Note: article 86(11) (part) of the *CRD*]

12.4.11A

PRA

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For a *firm* that is a *CRD credit institution* the operational steps referred to in ■ BIPRU 12.4.11 R must include holding collateral immediately available for central bank funding. This includes holding collateral where necessary in the currency of another *EEA State*, or currency of a *non-EEA state* to which the *firm* has exposures, and where operationally necessary within the territory of a *Host State* or *non-EEA state* to whose currency it is exposed.

[Note: article 86(11) (part) of the *CRD*]

12.4.12

FCA PRA

G

A *contingency funding plan* sets out a *firm's* strategies for addressing liquidity shortfalls in emergency situations. Its aim should be to ensure that, in each of the stresses required by ■ BIPRU 12.4.1R, it would still have sufficient liquidity resources to ensure that it can meet its liabilities as they fall due.

12.4.13

FCA PRA

R

A *firm* must ensure that its *contingency funding plan*:

- (1) outlines strategies, policies and plans to manage a range of stresses;
- (2) establishes a clear allocation of roles and clear lines of management responsibility;
- (3) is formally documented;
- (4) includes clear invocation and escalation procedures;
- (5) is regularly tested and updated to ensure that it remains operationally robust;
- (6) outlines how that *firm* will meet time-critical payments on an intra-day basis in circumstances where intra-day liquidity resources become scarce;
- (7) outlines that *firm's* operational arrangements for managing a retail funding run;

- (8) in relation to each of the sources of funding identified for use in emergency situations, is based on a sufficiently accurate assessment of:
 - (a) the amount of funding that can be raised from that source; and
 - (b) the time needed to raise funding from that source;
- (9) is sufficiently robust to withstand simultaneous disruptions in a range of payment and settlement systems;
- (10) outlines how that *firm* will manage both internal communications and those with its external stakeholders; and
- (11) establishes mechanisms to ensure that the *firm's governing body* and *senior managers* receive management information that is both relevant and timely.

12.4.14



FCA	PRA
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- (1) In designing a *contingency funding plan* a *firm* should ensure that it takes into account:
 - (a) the impact of stressed market conditions on its ability to sell or securitise assets;
 - (b) the impact of extensive or complete loss of typically available market funding options;
 - (c) the financial, reputational and any other additional consequences for that *firm* arising from the execution of the *contingency funding plan* itself;
 - (d) its ability to transfer liquid assets having regard to any legal, regulatory or operational constraints; and
 - (e) its ability to raise additional funding from central bank market operations and liquidity facilities.
- (2) Contravention of any of (1)(a) to (e) may be relied upon as tending to establish contravention of ■ BIPRU 12.3.4R.

12.4.15



FCA	PRA
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A *firm* should ensure that its *contingency funding plan* takes into account the terms and conditions of any central bank liquidity facilities to which it has access, including both facilities that form part of normal liquidity management operations and emergency liquidity assistance on a secured basis. Where a *firm* includes in its *contingency funding plan* the use of central bank liquidity facilities it should consider the nature of those facilities, collateral eligibility, haircuts to which its collateral might be subject, terms in its existing or available funding arrangements which might impact its ability to access central bank facilities, operational arrangements for accessing those facilities and the potential reputational consequences for that *firm* in accessing them. In formulating its *contingency funding plan*, a *firm* should not rely on expectations it may have about future changes to central bank facilities, either in relation to their normal liquidity management operations or in relation to the availability of specific liquidity facilities in exceptional circumstances.

12.4.16

FCA PRA

G

The *appropriate regulator* expects that a *firm's contingency funding plan* will encompass a range of actions that the *firm* might take in anticipation of or in response to changes in its funding position. These changes could result from either *firm*-specific or general developments. The *appropriate regulator* anticipates that different actions in a *contingency funding plan* would be taken at different stages of a developing situation.

12.5 Individual Liquidity Adequacy Standards

Individual Liquidity Adequacy Assessment

12.5.1

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This section applies to a *standard ILAS BIPRU firm*.

FCA PRA

12.5.2

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A *firm* must carry out an individual liquidity adequacy assessment (*ILAA*) in accordance with this section.

FCA PRA

12.5.3

G

In conducting its *ILAA*, a *firm* is obliged to comply with the stress testing and related requirements which appear in this section. The *rules* in this section also provide that in its *ILAA* a *firm* must include an assessment of the *firm's* compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4.

FCA PRA

12.5.4

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A *firm* must ensure that:

FCA PRA

- (1) it regularly carries out an *ILAA*;
- (2) it makes a written record of its *ILAA*;
- (3) its *ILAA* is proportionate to the nature, scale and complexity of its activities;
- (4) its *ILAA* takes into account whole-*firm* and *group-wide* liquidity resources only to the extent that reliance on these is permitted by the *appropriate regulator*;
- (5) its *ILAA* includes an assessment of the results of the stress tests required by ■ BIPRU 12.5.6 R; and
- (6) its *ILAA* includes an assessment of the *firm's* compliance with ■ BIPRU 12.3 and ■ BIPRU 12.4, including the results of the stress tests required by the rules in ■ BIPRU 12.4.

12.5.5

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A *firm* should carry out an *ILAA* at least annually, or more frequently if changes in its business or strategy or the nature, scale or complexity of its activities or the operational environment suggest that the current level of liquidity resources is no longer adequate. A *firm* should expect that its usual supervisory contact at the *appropriate regulator* will ask for the *ILAA* to be submitted as part of the ongoing supervisory process.

FCA PRA

12.5.6

FCA PRA

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A *firm* must ensure that in carrying out its *ILAA* it considers how that *firm's* liquidity resources change as a result of:

- (1) the stress in ■ BIPRU 12.5.8 R (the first liquidity stress);
- (2) the stress in ■ BIPRU 12.5.11 R (the second liquidity stress); and
- (3) the first and second liquidity stresses occurring simultaneously.

ILAA stresses

12.5.7

FCA PRA

G

The *appropriate regulator* will review the results of a *firm's* *ILAA*, including the results of the stress tests required by ■ BIPRU 12.5.6R, as part of its *Supervisory Liquidity Review Process (SLRP)*. The *appropriate regulator's* review of the stress test results will assist it assessing the adequacy of a *firm's* liquidity resources relative to other *ILAS BIPRU firms* and, consequently, in calibrating the *individual liquidity guidance* that it gives to that *firm*. ■ BIPRU 12.9.2G sets out the *appropriate regulator's* approach to assessing the adequacy of a *firm's* liquidity resources and indicates that, among other factors, it will have regard to the *firm's* *ILAA*. It is not, therefore, the case that the amount of liquidity resources advised to the *firm* as being adequate in its *individual liquidity guidance* will necessarily equate to the amount needed to meet its liabilities as they fall due in the stresses required by ■ BIPRU 12.5.6R. The *appropriate regulator* will assess the adequacy of a *firm's* liquidity resources on a case-by-case basis and, accordingly, the amount of liquidity resources judged as adequate in the *firm's* *individual liquidity guidance* might be either above or below the amount needed to survive the stresses required by ■ BIPRU 12.5.6R.

First liquidity stress

12.5.8

FCA PRA

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The first liquidity stress to which ■ BIPRU 12.5.6R refers is an unforeseen, name-specific, liquidity stress in which:

- (1) financial market participants and retail depositors consider that in the short-term the *firm* will be or is likely to be unable to meet its liabilities as they fall due;
- (2) the *firm's* counterparties reduce the amount of intra-day credit which they are willing to extend to it;
- (3) the *firm* ceases to have access to foreign currency spot and *swap* markets; and
- (4) over the longer-term the *firm's* obligations linked to its credit rating crystallise as a result of a reduction in that credit rating.

12.5.9

FCA PRA

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For the purpose of ■ BIPRU 12.5.8R (1) to ■ (3), a *firm* must assume that the initial, short-term, period of stress lasts for at least two weeks.

12.5.10

FCA PRA

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For the purpose of ■ BIPRU 12.5.8R (4), a *firm* should consider the effect of credit rating downgrades of varying degrees of severity. In doing so, it should also consider the cumulative effect of successive credit rating downgrades to its long-term credit rating.

Second liquidity stress

12.5.11

FCA PRA

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The second liquidity stress to which ■ BIPRU 12.5.6R refers is an unforeseen, market-wide liquidity stress of three *months* duration.

12.5.12

FCA PRA

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For the purpose of ■ BIPRU 12.5.11R, a *firm* must assume that the second liquidity stress is characterised by:

- (1) uncertainty as to the accuracy of the valuation attributed to that *firm's* assets and those of its counterparties;
- (2) inability to realise, or ability to realise only at excessive cost, particular classes of assets, including those which represent claims on other participants in the financial markets or which were originated by them;
- (3) uncertainty as to the ability of a significant number of *firms* to ensure that they can meet their liabilities as they fall due; and
- (4) risk aversion among participants in the markets on which the *firm* relies for funding.

ILAA methodology

12.5.13

FCA PRA

R

In carrying out the liquidity stresses required by ■ BIPRU 12.5.6R, a *firm* must:

- (1) analyse each of the sources of risk identified in ■ BIPRU 12.5.14R;
- (2) record the evidence which supports any behavioural assumptions that it makes in carrying out those stress tests;
- (3) record the evidence which supports its assessment of the adequacy of its liquid assets buffer; and
- (4) identify those of the measures set out in its *contingency funding plan* that it would implement.

12.5.14

FCA PRA

R

The sources of risk referred to in ■ BIPRU 12.5.13R are:

- (1) wholesale secured and unsecured funding risk;
- (2) retail funding risk;
- (3) intra-day *liquidity risk*;
- (4) intra-group *liquidity risk*;
- (5) cross-currency *liquidity risk*;

- (6) off-balance sheet *liquidity risk*;
- (7) franchise-viability risk;
- (8) marketable assets risk;
- (9) non-marketable assets risk; and
- (10) funding concentration risk.

Wholesale secured and unsecured funding risk

12.5.15

FCA PRA

R

For the purpose of assessing its wholesale funding risk, a *firm* must estimate the gross wholesale outflows that could occur under the liquidity stresses required by ■ BIPRU 12.5.6R.

12.5.16

FCA PRA

R

In assessing its wholesale funding risk, a *firm* must:

- (1) identify its wholesale liabilities;
- (2) determine how those liabilities behave under normal financial conditions;
- (3) assess how they will behave under the stresses required by ■ BIPRU 12.5.6R; and
- (4) divide its wholesale liabilities into funding which the *firm* assesses as having a higher than average likelihood of withdrawal in response to actual or perceived changes in the *firm's* credit-worthiness (Type A wholesale funding) and other funding (Type B wholesale funding).

12.5.17

FCA PRA

G

In assessing how its liabilities behave under stress, the *firm* should categorise its liabilities according to value, maturity and estimated speed of outflow. The *firm* should bear in mind that wholesale funding risk may crystallise as an acute loss of funds in the short term, or as a longer-term gradual leakage of funds, or as both.

12.5.18

FCA PRA

G

In the *appropriate regulator's* view, Type A wholesale funding is likely to include at least funding which:

- (1) is accepted from a *credit institution*, local authority, *insurance undertaking*, pension fund, money market fund, asset manager (including a hedge fund manager), government-sponsored agency, sovereign government, or sophisticated non-financial corporation; or
- (2) is accepted through the treasury function of a sophisticated non-financial corporation which may be assumed to respond swiftly to negative news about a *firm's* credit-worthiness; or
- (3) is accepted on wholesale market terms as a part of a *firm's* money market operations; or

- (4) is accepted from a depositor with whom a *firm* does not have a long-established relationship or to whom a *firm* does not supply a range of services; or
- (5) is accepted from overseas counterparties (other than those in the country or territory of incorporation of a *firm's parent undertaking* or, in the case of a *UK branch*, of the *firm* of which it forms part); or
- (6) is obtained through unsecured debt instruments (such as certificates of deposit, medium-term notes and commercial paper); or
- (7) is not obtained through *repo* against assets of the type described in ■ BIPRU 12.7.2R (1) or ■ BIPRU 12.7.2R (2); or
- (8) is obtained from counterparties with a relatively low creditor seniority on the liquidation of the *firm*.

12.5.19

FCA PRA

R

For the purpose of ■ BIPRU 12.5.15R, a *firm* must assume that it is unable to roll any of its Type A wholesale funding in the first two weeks of the stresses.

Retail funding risk

12.5.20

FCA PRA

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In this part of ■ BIPRU 12.5, retail funding is funding that is accepted from a *consumer*.

12.5.21

FCA PRA

R

For the purpose of assessing its retail funding risk, a *firm* must:

- (1) estimate the gross retail outflows that could occur under the liquidity stresses required by ■ BIPRU 12.5.6R;
- (2) identify the stress, or combination of stresses, to which it considers its retail funding to be most vulnerable and estimate the gross retail outflows that could occur under that stress or combination of stresses; and
- (3) divide its retail funding into funding which the *firm* assesses as having a higher than average likelihood of withdrawal in response to actual or perceived changes in the *firm's* credit-worthiness (Type A retail funding) and other funding (Type B retail funding).

12.5.22

FCA PRA

G

In general, the *appropriate regulator* expects a *firm's* retail funding to be less responsive than its wholesale funding to actual or perceived changes in the *firm's* credit-worthiness. However, a *firm* should nevertheless make its own assessment of the relative responsiveness of its wholesale and retail funding.

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27

12.5.23

FCA PRA

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For the purposes of assessing behaviour under stress, a *firm* should categorise its retail liabilities according to: value, maturity, estimated speed of outflow, product type, interest rate applied and any other factor that it considers relevant to its retail *deposit* structure.

12.5.24

FCA PRA

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A *firm* should also be mindful that its retail funding profile is unlikely to be constant. In carrying out its *ILAA*, a *firm* should have regard to any changes to its retail funding profile since the previous *ILAA* and also to the possible impact of any future changes on its ability to maintain retail funding during periods of stress. In its *ILAA* submission to the *appropriate regulator*, a *firm* should include an analysis of:

- (1) its retail funding profile as at the date of its *ILAA*;
- (2) its retail funding profile over the twelve *months* preceding its *ILAA*;
- (3) its projected retail funding profile over the twelve *months* following the date of its *ILAA*; and
- (4) its approach to assessing which of its retail funding it has classed as Type A retail funding and which as Type B retail funding.

12.5.25

FCA PRA

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In the *appropriate regulator's* view Type A retail funding is likely to include at least funding which:

- (1) has been accepted through the internet; or
- (2) is considered to have a more than average sensitivity to interest rate changes (such as a *deposit* whose acceptance can reasonably be attributed to the use of price-focused advertising by the *firm* accepting the *deposit*); or
- (3) in relation to any individual depositor exceeds to a significant extent the amount of that individual's *deposits* with the accepting *firm* that are covered by a national deposit guarantee scheme; or
- (4) is not accepted from a depositor with whom the *firm* has had a long relationship; or
- (5) is accepted from retail depositors who can access their *deposits* before their residual contractual maturity subject to a loss of interest or payment of another form of early access charge (as a general proposition, the behaviour of liabilities to retail depositors is likely to depend in part on the contractual terms and conditions which give rise to those liabilities); or
- (6) is not held in an account which is maintained for transactional purposes.

Intra-day liquidity risk

12.5.26

FCA PRA

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For the purpose of assessing its intra-day *liquidity risk* arising from its direct participation in a payment or settlement system, a *firm* must in relation to each such system in which it participates:

- (1) calculate on an intra-day basis the net amounts of collateral and cash required by that *firm* to fund participation in that system; and
- (2) estimate how the amounts in (1) could change under the liquidity stresses required by ■ BIPRU 12.5.6 R.

12.5.27 G For the purpose of calculating the net amounts of collateral and cash under ■ BIPRU 12.5.26R, a *firm* should separately analyse:

FCA PRA

- (1) the amounts of collateral and cash needed in relation to both its own payments and those of its customers; and
- (2) the intra-day timing of the payment of cash and the posting of the collateral, including the time at which the demand for its collateral and cash is greatest.

12.5.28 G For the purpose of ■ BIPRU 12.5.26R, a *firm* should ensure that it takes into account, in both normal financial conditions and in periods of stress, the effect of:

FCA PRA

- (1) other participants in a payment system withholding some or all of the payments expected from them; and
- (2) its customers increasing either or both the volume and value of their payments.

12.5.29 R **At the same time as it carries out the calculation and estimation in ■ BIPRU 12.5.26 R, a *firm* which participates directly in one or more payment or settlement systems must also estimate the impact on its liquidity position of the customer to which it has the largest intra-day credit exposure defaulting on its payment obligations to the *firm*:**

FCA PRA

- (1) under normal financial conditions; and
- (2) under the stresses required by ■ BIPRU 12.5.6 R.

12.5.30 G For the purpose of ■ BIPRU 12.5.29R, a *firm* should assume that the effect of that default is that the exposure is rolled overnight.

FCA PRA

12.5.31 R **A *firm* must, as part of its *ILAA* submission to the *appropriate regulator* :**

FCA PRA

- (1) identify those payment and settlement systems in which it is a direct participant; and
- (2) provide details of the intra-day credit policies that it applies, including the criteria against which it sets credit limits, when extending credit to a customer which is not a direct participant in the payment or settlement system in question.

12.5.32 G For the purpose of ■ BIPRU 12.5.31R, the *appropriate regulator* would expect a *firm*, in relation to each payment or settlement system in which it participates directly, to provide details of:

FCA PRA

- (1) that *firm's* charges for providing intra-day credit;
- (2) any collateral requirements which it applies to its customers;

- (3) the credit limits that it imposes (and the circumstances, if any, in which credit may be provided notwithstanding a limit breach);
- (4) the extent to which the customers of that *firm* make use of the credit extended to them; and
- (5) where relevant, the points during the day at which a customer is required to settle, or provide assets as collateral to cover, that *firm's* credit exposure to it.

12.5.33

FCA PRA

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■ BIPRU 12.5.34R applies to a *firm* which:

- (1) is not a direct participant in a given payment or settlement system;
- (2) is a customer of a *firm* that is a direct participant in such a system for the purposes of gaining access to that system; and
- (3) receives intra-day credit from that participant *firm* or prefunds its account with such a *firm*.

12.5.34

FCA PRA

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For the purpose of assessing its intra-day *liquidity risk* a *firm* to which ■ BIPRU 12.5.33R applies must assess the effect on its own position of a participant *firm* from which it receives intra-day credit or with which it has a prefunded account being unable to perform its obligations to that *firm*:

- (1) under normal financial conditions; and
- (2) under the stresses required by ■ BIPRU 12.5.6 R.

12.5.35

FCA PRA

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As part of its *ILAA* submission to the *appropriate regulator*, a *firm* to which ■ BIPRU 12.5.33R applies should include:

- (1) details of any alternative arrangements that it has in place to ensure that it continues to be able to meet its liabilities as they fall due in the circumstances set out in ■ BIPRU 12.5.34R; and
- (2) details of the policies governing the use of intra-day credit provided to it by a *firm* which is a direct participant in a given payment or settlement system, including details of the criteria against which that participant will decide whether to reduce or cease the provision of intra-day credit.

Intra-group liquidity risk

12.5.36

FCA PRA

R

Where a *firm* has an *intra-group liquidity modification* permitting it to rely on liquidity from other members of its *group* in order to satisfy the *overall liquidity adequacy rule*, or may be exposed to calls on its own liquidity resources from others in its *group*, then in assessing its *intra-group liquidity risk* it must:

- (1) take into account:
 - (a) the extent to which it and other entities in its *group* have access to central bank funding;
 - (b) in relation to any *group* entity on which a *firm* relies for liquidity support, the legal and regulatory regime to which that entity is subject, in particular that covering liquidity regulation; and
 - (c) the contractual arrangements governing any agreed forms of intra-*group* liquidity support (including committed funding lines); and
- (2) assume that in periods of stress, *group* entities will not repay loans or *deposits* made by the *firm* to them, but that the *firm* will meet its liabilities that fall due to other *group* entities during the period of the relevant stress.

12.5.37

FCA PRA

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For the purpose of ■ BIPRU 12.5.36R, a *firm* should consider the full range of legal and regulatory restrictions on the availability to it of liquidity support from other members of its *group*. A *firm* should ensure that it understands restrictions in force in other jurisdictions, as well as the potential for such restrictions to be imposed in the future, as to the allowable size of intra-*group* exposures. A *firm* should also consider the circumstances in which it may find itself obliged to transfer liquidity resources to other entities in its *group*.

12.5.38

FCA PRA

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In relation to an *incoming EEA firm* or *third country BIPRU firm* which does not have a *whole-firm liquidity modification*, that *firm* must assess the risk that its *UK branch* may be exposed to calls on liquidity under its control from its head office:

- (1) in normal financial conditions; and
- (2) under the liquidity stresses required by ■ BIPRU 12.5.6 R.

12.5.39

FCA PRA

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In complying with ■ BIPRU 12.5.38R a *firm* is therefore assessing its exposure to inter-office *liquidity risk*, rather than intra-*group liquidity risk*. It is the *appropriate regulator's* assessment of the *firm's* inter-office *liquidity risk* that is one of the factors that will inform the *appropriate regulator's* decision as to the appropriate size for the *firm's* local operational liquidity reserve (as described in ■ BIPRU 12.2).

Cross-currency liquidity risk

12.5.40

FCA PRA

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For the purpose of assessing its cross-currency *liquidity risk*, a *firm* must:

- (1) in relation to each currency in which it has significant positions, calculate its gross outflows and gross inflows having regard to their respective maturities;

- (2) where it identifies a net outflow in (1), assess how it will fund that outflow; and
- (3) estimate how the amounts in (1) and the assessment in (2) could change under the liquidity stresses required by ■ BIPRU 12.5.6R.

12.5.41

FCA PRA

R

A *firm* must, as part of its *ILAA* submission to the *appropriate regulator*, in relation to each currency in which it has significant positions:

- (1) identify the type of financial instruments which that firm uses to raise funding in that currency;
- (2) identify the main counterparties which provide funding to that *firm* in that currency; and
- (3) describe the arrangements that it has in place to fund net outflows in that currency on a timely basis.

Off-balance sheet liquidity risk

12.5.42

FCA PRA

R

For the purpose of assessing its off-balance sheet *liquidity risk*, a *firm* must:

- (1) identify all off-balance sheet activities that might affect its cash flows;
- (2) calculate the effect on its cash flows of those activities in normal financial conditions; and
- (3) estimate the effect on its cash flows of those activities under the liquidity stresses required by ■ BIPRU 12.5.6R.

12.5.43

FCA PRA

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For the purpose of ■ BIPRU 12.5.42R, a *firm* must take into account the circumstances in which it may choose to provide liquidity support in respect of its off-balance sheet activities beyond its contractual obligations (if any) to do so.

12.5.44

FCA PRA

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For the purpose of ■ BIPRU 12.5.42R, a *firm* must in particular consider the impact on its cash flows of:

- (1) *derivatives* positions;
- (2) contingent liabilities;
- (3) commitments given; and
- (4) liquidity facilities to support securitisation programmes.

12.5.45

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FCA PRA

In relation to *derivatives* positions, a *firm* should:

- (1) assess the effect on its cash flows arising from the maturity, exercise and repricing of *derivatives* in which it holds a position, including the impact of counterparties:
 - (a) who may require the posting of additional margin or collateral in the event of a decline in that *firm's* credit rating;
 - (b) who may require the posting of additional margin or collateral (or the return to them of margin or collateral) in the event of a change in the value of a *derivative* or of the posted collateral;
 - (c) who (in the case of those that are any of a *recognised investment exchange*, a *designated investment exchange* or a *recognised clearing house*) may require the posting of additional margin in volatile market conditions;
 - (d) who may choose to terminate an *OTC derivative* which they have entered into with the *firm* rather than post additional margin or collateral;
 - (e) who, in periods of name-specific liquidity stress experienced by the *firm*, may choose to terminate out of the money *derivatives* which they have entered into with that *firm*; and
 - (f) who, in periods of stress, may choose to post less liquid collateral than would likely be the case in normal financial conditions; and
- (2) assume that under the stresses required by ■ BIPRU 12.5.6 R there may be uncertainty as to the accuracy of the valuation attributed to a *derivative* contract.

12.5.46

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FCA PRA

In relation to its contingent liabilities, a *firm* should:

- (1) calculate the impact on its cash flows of those of its contingent obligations that will be triggered in normal financial conditions; and
- (2) estimate the impact on its cash flows of those of its contingent obligations that may be triggered under the liquidity stresses required by ■ BIPRU 12.5.6 R.

12.5.47

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FCA PRA

For the purpose of ■ BIPRU 12.5.46G, a *firm* should therefore assess the impact on its cash flows of the triggering of contingent obligations contained in all contractual documentation to which it is party, including: acceptances, endorsements, guarantees, underwriting agreements, standby letters of credit, documentary credits, warrants, indemnities, undrawn note issuance facilities and other revolving credit facilities. A *firm* should also assess the degree of concentration in its total contingent liabilities as respects obligations arising from particular types of contract, counterparty and market sector.

12.5.48

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FCA PRA

In relation to its commitments (other than liquidity facilities to support securitisation programmes)), a *firm* should:

- (1) calculate its maximum contractual exposure arising from those commitments;
- (2) calculate the effect on its cash flows of the drawing of those commitments in normal financial conditions; and
- (3) estimate the effect on its cash flows of the drawing of those commitments under the liquidity stresses required by ■ BIPRU 12.5.6 R.

12.5.49

FCA PRA

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For the purpose of ■ BIPRU 12.5.48G, a firm should:

- (1) consider its contractual exposure to the following types of commitment: committed funding facilities, undrawn loans and advances to wholesale counterparties, mortgages that have been agreed but not yet been drawn down, credit cards, overdrafts (and other retail lending facilities);
- (2) ensure that its analysis of each type of commitment is sufficiently granular to enable that *firm* to:
 - (a) assess the circumstances in which counterparties will draw down;
 - (b) identify the extent of any correlations as between counterparties in deciding whether or not to draw down;
 - (c) identify the extent to which decisions by the *firm's* counterparties to draw down may be correlated to a decline in the *firm's* own liquidity resources; and
 - (d) assess the proportion of its total commitments attributable to particular counterparties; and
- (3) assess the extent to which draw down requires the counterparty in question to deliver to the *firm* collateral in the form of marketable assets, while also assessing the anticipated effect of such a requirement on:
 - (a) the likelihood that the counterparty in question will draw down; and
 - (b) the *firm's* liquidity position if the counterparty in question delivers collateral on draw down; and
- (4) assess the impact on its cash flows of its commitment counterparties experiencing liquidity stress at the same time as that *firm* is subject to the stresses required by ■ BIPRU 12.5.6 R.

12.5.50

FCA PRA

G

In relation to liquidity facilities to support securitisation programmes, a *firm* should:

- (1) assess the extent of its contractual obligations to provide liquidity support to sponsored and third-party structured vehicles;
- (2) identify the circumstances in which support will, or is likely to, be called; and
- (3) assess the impact on that *firm's* cash flows of such support being called:
 - (a) in normal financial conditions; and
 - (b) under the liquidity stresses required by ■ BIPRU 12.5.6R.

12.5.51

FCA PRA

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For the purpose of ■ BIPRU 12.5.50G (2), a *firm* should consider the impact of the following events on the likelihood of a call for liquidity support: inability of a vehicle to roll over commercial paper (due either to disruption in the CP market or to concern as to the quality of the assets securitised) and, in relation to sponsored vehicles, concern as to the solvency of that *firm* as sponsor and, separately, the possibility of draw down of undrawn commitments entered into by the sponsored vehicle in its own right.

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34

Franchise-viability risk

12.5.52

FCA PRA

R

For the purposes of assessing its franchise-viability risk, a *firm* must assess, under the liquidity stresses required by ■ BIPRU 12.5.6 R, the liquidity resources required to maintain its core business franchise and reputation.

12.5.53

FCA PRA

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Franchise-viability risk is the risk that in the stresses required by ■ BIPRU 12.5.6R a *firm* may not have sufficient liquidity resources to maintain its core business franchise and reputation.

12.5.54

FCA PRA

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In complying with ■ BIPRU 12.5.52R, a *firm* should assess the extent to which it can and realistically will:

- (1) restrict new retail lines without significantly damaging customer relationships;
- (2) restrict new wholesale lending without significantly damaging its ability to resume such lending following the period of stress in question;
- (3) cease to provide liquidity support to its sponsored vehicles;
- (4) decline to exercise call *options* whose effect if not exercised might be to cause market participants to question the *firm's* ability to continue to meet its liabilities as they fall due; and
- (5) continue any regular programme of buying back its issued debt.

12.5.55

FCA PRA

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For the purpose of ■ BIPRU 12.5.54G (5), a *firm* may wish to continue repurchasing its debt to help demonstrate that a two-way market continues to be made in its paper and, more generally, in order to maintain the long-term viability of its debt issuance programme. Equally, a *firm* may wish to continue repaying retail depositors before the contractual maturity of those *deposits* in order to maintain confidence in its ability to continue to meet its liabilities as they fall due.

Marketable assets risk

12.5.56

FCA PRA

R

For the purpose of assessing its exposure to marketable assets risk, a *firm* must assess how the marketable assets comprised in its liquidity resources will behave:

- (1) under normal financial conditions; and
- (2) under the liquidity stresses identified in ■ BIPRU 12.5.6R, including an assessment of the effect of these stresses on:
 - (a) its ability to derive funding from its marketable assets in a timely fashion;
 - (b) the potential for using those assets as collateral to raise secured funding and the size of the haircut likely to be required by a counterparty;
 - (c) the likelihood and extent of forced-sale loss; and

(d) the effect on its business activities of any changes in (a) to (c) identified as likely to result from those liquidity stresses.

12.5.57

FCA PRA

G

In complying with ■ BIPRU 12.5.56R, a *firm* should consider all marketable assets which count towards its liquidity resources for the purposes of meeting the *overall liquidity adequacy rule*. A firm should therefore include in this assessment any assets that it holds in its liquid assets buffer.

12.5.58

FCA PRA

G

The *appropriate regulator* regards as marketable those of a *firm's* assets that it is able to sell outright or *repo*. For liquidity management purposes, a *firm* would ordinarily expect to hold a stock of assets of this kind in order to reduce the likelihood that it may need to borrow unsecured at short notice. To the extent that these assets may behave differently under stress conditions than under normal financial conditions, a *firm* is subject to marketable assets risk.

12.5.59

FCA PRA

G

As a general proposition, the speed with which a *firm* may be able to realise a marketable asset, and the price impact of doing so, will depend to a significant extent on the volume of those assets which that *firm* wishes to realise and the market conditions prevailing at the time.

12.5.60

FCA PRA

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The behaviour of a *firm's* marketable assets under conditions of stress is likely to depend on a number of different factors, including:

- (1) the depth and competitiveness of the market for the marketable asset in question, the size of the bid-offer spread, the presence of committed market-makers, the nature of the information available to potential counterparties, the degree of structural complexity of the assets in question and the assets eligibility in central bank market operations and liquidity facilities; and
- (2) that *firm's* operational capability to generate funding from those assets in a timely manner.

12.5.61

FCA PRA

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In considering its operational capability to generate funding from assets, a *firm* should be aware that its capability in this regard is likely to depend on:

- (1) whether it has in place arrangements for *repo*;
- (2) the extent to which that *firm* already holds a significant proportion of the market for the marketable asset in question;
- (3) the extent to which that *firm* periodically realises some or all of its holdings of that asset; and
- (4) that *firm's* accounting treatment and valuation of that asset.

12.5.62

FCA PRA

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For the purpose of its *ILAA* submission to the *appropriate regulator*, a *firm* must provide the *appropriate regulator* with an analysis of the profile of its marketable assets as at the date of submission in a way that:

- (1) separately identifies its marketable assets according to asset class, maturity, currency, their eligibility for use in central bank monetary operations and liquidity facilities and any other characteristic that it uses in its liquidity management; and
- (2) assesses the degree of diversification achieved across its marketable assets.

Non-marketable assets risk

12.5.63

FCA PRA

R

For the purpose of assessing its exposure to non-marketable assets risk, a *firm* must assess how the non-marketable assets in its liquidity resources will behave:

- (1) under normal financial conditions; and
- (2) under the liquidity stresses required by ■ BIPRU 12.5.6 R, including an assessment of the effect of these stresses on:
 - (a) the *firm's* ability to derive funding from its non-marketable assets; and
 - (b) the impact on the *firm's* liquidity position of any consequences for its funding ability identified in (a).

12.5.64

FCA PRA

G

In complying with ■ BIPRU 12.5.63R, a *firm* should consider all non-marketable assets which count towards its liquidity resources for the purposes of meeting the *overall liquidity adequacy rule*.

12.5.65

FCA PRA

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■ BIPRU 12.2.5 G notes that a *firm* should include in its liquidity resources sufficient assets which are marketable or otherwise realisable. The *appropriate regulator* considers those assets which are capable of realisation, but other than through *repo* or outright sale, as non-marketable assets. To the extent that these assets may behave differently under stress conditions than under normal financial conditions, a *firm* is subject to non-marketable assets risk. Different forms of non-marketable assets risk arise, particularly in relation to:

- (1) retail loans; and
- (2) unsecured wholesale assets.

12.5.66

FCA PRA

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In addition to realising a *firm's* marketable assets, a *firm* can meet its outflows in part by expected inflows from maturing non-marketable assets such as retail loans. Inflows from these assets (principal and interest) may in stressed conditions be affected by counterparty behaviour, exposing that *firm* to non-marketable assets risk.

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12.5.67

FCA PRA

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For the purpose of assessing its exposure to non-marketable assets risk a *firm* must assess the extent to which the behaviour of inflows from retail loans under the liquidity stresses required by ■ BIPRU 12.5.6R may differ from that suggested by their contractual terms.

- 12.5.68** FCA PRA G For the purpose of the assessment in ■ BIPRU 12.5.67R, a *firm* should ensure that it assesses repayment behaviour at a level of granularity sufficient to enable it to draw informed conclusions about its liquidity exposure. The *appropriate regulator* would expect a *firm's* assessment to analyse separately the non-marketable assets risk associated with each of its relevant products and with each type of counterparty from whom it is expecting repayments.
- 12.5.69** FCA PRA G For the purpose of the assessment in ■ BIPRU 12.5.67R, a *firm* should in particular have regard to the risk associated with:
- (1) repayment defaults; and
 - (2) exercise by its counterparties of contractual rights to repay before the expected maturity date or to delay repayment beyond that date.
- 12.5.70** FCA PRA G A *firm* may also use its unsecured wholesale assets to generate liquidity, otherwise than by outright sale or *repo*. A *firm* may, for example, choose to generate funding from some of the assets included in its liquidity resources by using them in securitisation or covered bond programmes. Assets that are typically used to raise liquidity in this manner include residential mortgage loans; commercial mortgage and other loans; credit card and automobile receivables, which have been packaged for the wholesale markets. To the extent that the ability to fund from these non-marketable assets may be limited under stressed conditions, a *firm* may be exposed to non-marketable assets risk.
- 12.5.71** FCA PRA G The assessment required by ■ BIPRU 12.5.63R is particularly important for a firm which:
- (1) ordinarily does not raise funding from its non-marketable assets in this way; or
 - (2) places proportionately greater reliance on securitisation programmes as compared to other funding strategies to generate liquidity.
- 12.5.72** FCA PRA R In complying with ■ BIPRU 12.5.63R, a *firm* must in particular assess the non-marketable assets risk associated with asset securitisations, having regard to:
- (1) **the existence of early amortisation triggers and the consequences of their operation; and**
 - (2) **its financing of assets which are warehoused prior to their securitisation.**
- 12.5.73** FCA PRA G A *firm* which chooses to warehouse assets in the way described in ■ BIPRU 12.5.72R should consider the particular risks that arise from the method of financing that it uses to pre-fund those assets. For example, financing of warehoused assets by means of short-term (rather than long-term) funding is more likely to put that *firm* under liquidity pressure in the event that its proposed securitisation is not completed (either at all, or at the expected date).

Funding concentration risk

12.5.74

FCA PRA

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A *firm* with a sufficiently flexible funding strategy should be able to reduce its *liquidity risk* by diversifying its liquidity resources.

12.5.75

FCA PRA

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As part of its *ILAA*, a *firm* must assess the impact on the degree of diversification in its liquidity resources of the stresses required by ■ BIPRU 12.5.6R.

12.5.76

FCA PRA

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For the purpose of ■ BIPRU 12.5.75R, a *firm* should take into account the extent to which its liquidity resources are diversified according to:

- (1) type of instrument and product;
- (2) currency;
- (3) counterparty;
- (4) liability term structure; and
- (5) market for their realisation (provided that such market is open to the *firm* as counterparty).

12.5.77

FCA PRA

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A *firm* should be aware that the degree of diversification in its liquidity resources can be compromised, particularly in periods of stress, by a number of factors, including:

- (1) reduced or terminated funding provision from some counterparties as a result of that *firm's* credit-rating being downgraded or its financial condition deteriorating;
- (2) disputes over the terms of legally binding commitments to lend which delay the provision of funding;
- (3) markets previously used by the *firm* for raising funding ceasing to be open or operating but at reduced capacity;
- (4) reliance on a small number of brokers to access funding sources; and
- (5) positive correlations in the behaviour of different instruments and products.

12.6 Simplified ILAS

12.6.1

FCA PRA

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The *appropriate regulator* recognises that it may not always be appropriate to apply ■ BIPRU 12.5 (Individual Liquidity Adequacy Standards) to every *ILAS BIPRU firm*. For a *firm* which operates a relatively simple business model, it may instead be appropriate to allow the *firm* to calculate the size and content of its liquid assets buffer according to a simplified approach prescribed in the *Handbook* in advance of any review of that *firm's liquidity risk* conducted by the *appropriate regulator*. This section sets out the *simplified ILAS* approach to maintaining a liquid assets buffer and a *firm* that operates that approach is a *simplified ILAS BIPRU firm*.

12.6.2

FCA PRA

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An *ILAS BIPRU firm* that wishes to operate the *simplified ILAS* approach must:

- (1) satisfy the conditions in ■ BIPRU 12.6.6R to ■ BIPRU 12.6.8R; and
- (2) obtain a *simplified ILAS waiver* from the *appropriate regulator*.

12.6.3

FCA PRA

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A *firm* will therefore lose the benefit of its *simplified ILAS waiver* if it ceases to satisfy the conditions in ■ BIPRU 12.6.6R to ■ BIPRU 12.6.8R. Consistent with *Principle 11* (Relations with regulators), if a *firm* anticipates that it may breach those conditions, it should notify the *appropriate regulator* promptly.

12.6.4

FCA PRA

R

A *simplified ILAS BIPRU firm* must calculate the size of its *simplified buffer requirement* in accordance with ■ BIPRU 12.6.9R to ■ BIPRU 12.6.18R.

12.6.5

FCA PRA

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The *appropriate regulator* is likely to regard a *simplified ILAS BIPRU firm* whose liquid assets buffer accords with the *simplified buffer requirement* as having an adequate buffer of assets and a prudent funding profile for the purpose of ■ BIPRU 12.2.8R. However, the *simplified ILAS* approach does not relieve a *simplified ILAS BIPRU firm* from the obligation to hold liquidity resources which are adequate for the purpose of meeting the *overall liquidity adequacy rule* or from the obligation in ■ BIPRU 12.3.4R to assess and maintain on an ongoing basis the adequacy of its liquidity resources. Consequently, where a *firm's* own assessment of the adequacy of its liquidity resources indicates that its liquid assets buffer should be larger in size than that produced by the application of the *simplified buffer requirement*, the *appropriate regulator* will expect that *firm* to maintain a liquid assets buffer which is consistent with the results of its own assessment. Equally, following any review by the *appropriate regulator* of the *liquidity risk* to which a *simplified ILAS BIPRU firm* is exposed, the *appropriate regulator* may give that *firm individual liquidity guidance* advising it that its liquid

assets buffer should be bigger than that which is produced by the application of the *simplified buffer requirement*.

Simplified ILAS conditions

12.6.6

FCA PRA

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The first condition is that:

- (1) no less than 75% of the *firm's* total liabilities are accounted for by retail *deposits* and :
 - (a) the *firm's* total assets do not exceed 250 million; or
 - (b) the *firms* total assets do not exceed 1 billion and no less than 70% of those assets are accounted for by:
 - (i) assets of the kind that fall into ■ BIPRU 12.7.2 R and which the *firm* counts towards its *simplified buffer requirement*; and
 - (ii) retail loans; or
 - (c) no less than 70% of the *firm's* total assets are accounted for by retail loans; or
 - (d) no less than 70% of the *firm's* total assets are accounted for by:
 - (i) *money-market instruments* with a residual contractual maturity of three *months* or less; or
 - (ii) sight *deposits* held with a *credit institution*; or
 - (iii) term *deposits* with a residual contractual maturity of three *months* or less held with a *credit institution*; or
- (2) no less than 80% of the *firm's* total liabilities are accounted for by liabilities owed to its *parent undertaking* and the amount of the *firm's* total assets does not exceed 1 billion.
 - (a) [deleted]
 - (b) [deleted]
 - (c) [deleted]
- (3) [deleted]

12.6.6A

FCA PRA

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For the purpose of ■ BIPRU 12.6.6 R, a *firm* must calculate:

- (1) its total assets by reference to its most recent *FSA001 data item*; and
- (2) its retail loans as the total of its lending to the retail sector recorded in cell 11A in its most recent *FSA015 data item*.

12.6.7

FCA PRA

R In this section :

- (1) a retail *deposit* is a *deposit* accepted from a *consumer*; and
- (2) SME *deposits* are *deposits* accepted from, and account balances where the account holders are, *small and medium-sized enterprises* (or *partnerships* or *sole traders* or *charities* which would be *small and medium-sized enterprises* if they were companies).

12.6.8

FCA PRA

R The second condition is that no less than 99.5% of the *firm's* total assets and no less than 99.5% of its total liabilities are denominated in sterling, euros or United States dollars.**Size of the simplified buffer requirement**

12.6.9

FCA PRA

R (1) A *simplified ILAS BIPRU firm* must ensure that the size of its liquid assets buffer is at all times greater than or equal to 50% of the amount produced by adding:

- (a) the wholesale net cash outflow component;
- (b) the retail and SME *deposit* component; and
- (c) the credit pipeline component.

(2) This is the *simplified buffer requirement*.**The wholesale net cash outflow component**

12.6.10

FCA PRA

R (1) The wholesale net cash outflow component is a *firm's* peak cumulative wholesale net cash outflow over the next three *months* where the peak is established by:

- (a) calculating the daily wholesale net cash flow by reference to a *firm's* wholesale assets maturing that day and its wholesale liabilities falling due on that day;
- (b) for each of the *business days* in the next three *months*, calculating the cumulative total of such daily net cash flows as at the *business day* in question; and
- (c) identifying the minimum cumulative total figure out of all of the cumulative total figures calculated in accordance with (b).

(2) The figure identified in (1)(c) is the peak cumulative wholesale net cash outflow.

(3) For the purpose of calculating the peak cumulative wholesale net cash outflow, a *firm* must:

- (a) exclude from the calculation in (1)(a) cash flows attributable to *repo* and reverse *repo*, forward sales, forward purchases, redemptions and any other transactions entered into by the *firm* where the security leg of the transaction in question is in respect of securities of the type described in ■ BIPRU 12.7.2R (1) and ■ (2);
- (b) include wholesale cash outflows in that calculation according to their earliest contractual maturity;
- (c) exclude wholesale cash flows attributable to reserves in the form of sight deposits with a central bank and *designated money market funds* that it includes in its liquid assets buffer in accordance with the *rules* on asset eligibility in ■ BIPRU 12.7; and
- (d) exclude any retail *deposits* or SME *deposits*.

The retail and SME deposit component

12.6.11

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FCA PRA

(1) The retail and SME *deposit* component is the sum represented by:

- (a) 20% of a *firm's* Type A retail *deposits*;
- (b) 10% of a *firm's* Type B retail *deposits*; and
- (c) 20% of a *firm's* SME *deposits*.

(2) A *firm* must:

- (a) assess the likelihood that retail *deposits* that it holds will be withdrawn in response to actual or perceived changes in the *firm's* credit-worthiness;
- (b) calculate the amount of retail *deposits* that it assesses as having a higher than average likelihood of withdrawal in the circumstances described in (a) (Type A retail *deposits*); and
- (c) class all other of its retail *deposits* as Type B retail *deposits*.

12.6.12

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FCA PRA

In the *appropriate regulator's* view, a Type A retail *deposit* is likely to include one which:

- (1) has been accepted through the internet; or
- (2) is considered to have a more than average sensitivity to interest rate changes (such as a deposit whose acceptance can reasonably be attributed to the use of price-focused advertising by the *firm* accepting the *deposit*); or
- (3) in relation to any individual depositor exceeds to a significant extent the amount of that individual's *deposits* with the accepting *firm* that are covered by a national deposit guarantee scheme; or
- (4) is not accepted from a depositor with whom the *firm* has had a long relationship; or

- (5) is accepted from retail depositors who can access their *deposits* before their residual contractual maturity subject to a loss of interest or payment of another form of early access charge (as a general proposition, the behaviour of liabilities to retail depositors is likely to depend in part on the contractual terms and conditions which give rise to those liabilities); or
- (6) is not held in an account which is maintained for transactional purposes.

12.6.13

FCA PRA

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Before applying for a *simplified ILAS waiver*, a *firm* must prepare a written policy statement recording its approach to assessing the likelihood of withdrawal of its retail *deposits* in the circumstances described in

■ BIPRU 12.6.11R (2)(a) and ensure that:

- (1) the *firm's governing body* approves and conducts appropriate reviews of the policy statement; and
- (2) the *firm* submits a copy of the policy statement to its usual supervisory contact at the *appropriate regulator*.

12.6.14

FCA PRA

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In considering a *firm's* application for a *simplified ILAS waiver*, the *appropriate regulator* will take into account the *firm's* policy statement submitted to it under ■ BIPRU 12.6.13R and form a view about the appropriateness of the assumptions on which the policy statement is based. Where a policy statement submitted after the grant of a *simplified ILAS waiver* reflects a materially different assessment to that set out in the policy statement considered as part of a *firm's waiver* application, a *firm* should expect that the *appropriate regulator* will wish to review the continued appropriateness of the *firm's simplified ILAS waiver* and in so doing will re-examine afresh all matters to which it had regard when the *waiver* in question was granted. The *appropriate regulator* expects a *firm* to review the appropriateness of its policy statement as often as is necessary and in any event no less frequently than annually. A *firm* should always review the continued appropriateness of its policy statement following a material change to the nature of the *firm's* business. Where a *firm* updates or otherwise changes its policy statement it should submit promptly to the *appropriate regulator* the new document.

The credit pipeline component

12.6.15

FCA PRA

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The credit pipeline component is the sum represented by 25% of a *firm's* credit facilities offered to its *customers* but which are yet to be drawn down, including:

- (1) offers to make loans secured on residential property;
- (2) overdraft facilities; and
- (3) credit card facilities.

Buffer securities restriction

12.6.16

FCA PRA

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- (1) A *simplified ILAS BIPRU firm* may only include in its liquid assets buffer eligible government and *designated multilateral*

development bank debt securities up to the value of the *buffer securities restriction*.

- (2) For the purpose of calculating the *buffer securities restriction*, a *firm* must:
 - (a) calculate its daily net flow in government and *designated multilateral development bank* debt securities eligible as classes of assets for inclusion in the *firm's* liquid assets buffer;
 - (b) for each of the *business days* in the next three *months* calculate the cumulative total of such daily securities flows, including the opening balance, as at the *business day* in question; and
 - (c) identify the minimum cumulative total figure out of all of the cumulative total figures calculated in accordance with (b).

- (3) For the purpose of (2)(a), a *firm* must include :
 - (a) all contractual inflows and outflows of eligible debt securities arising from *repo*, reverse *repo*, forward sales, forward purchases, redemptions and any other transactions involving those securities; and
 - (b) those cash flows excluded under ■ BIPRU 12.6.10 R (3)(a).

12.6.17

FCA PRA

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In mathematical terms the calculation in ■ BIPRU 12.6.9R and ■ BIPRU 12.6.16R may be represented as follows:

Liquidity Buffer \geq (Wholesale net cash outflow component + Retail and SME deposit component + Credit pipeline component) $\times 0.5$

Liquidity buffer	$FSA048_{18,1} + FSA048_{19,1} + FSA048_{6,1} + FSA048_{6,2} + FSA048_{25,2} + FSA048_{34,2}$ $+ \inf \{f(x) : x = 1, 2, 3 \dots y\}$ <p>where :</p> $f(x) = \sum_{m=1}^x FSA047_{6,m} + \sum_{m=1}^x FSA047_{25,m} + \sum_{m=1}^x FSA047_{34,m}$
Retail and SME deposit component	$\left(0.2 \times \sum_{n=53}^{54} \sum_{m=1}^{10} FSA048_{n,m} \right) + \left(0.1 \times \sum_{m=1}^{10} FSA048_{55,m} \right)$
Credit pipeline component	$0.25 \times \left(\sum_{n=59}^{69} FSA048_{n,1} \right)$
Wholesale net cash outflow component	$\min \left(0, \left(\sum_{n=20}^{22} FSA048_{n,1} \right) + \left(\sum_{n=26}^{30} FSA048_{n,2} \right) + \left(\sum_{n=35}^{39} FSA048_{n,2} \right) + \left(\sum_{n=44}^{51} FSA048_{n,1} \right) + \left(\sum_{m=1}^5 FSA048_{52,m} \right) + FSA048_{56,1} + \inf \{g(x) : x = 1, 2, 3 \dots y\} \right)$ <p>where :</p> $g(x) = \sum_{m=1}^y \left[\left(\sum_{n=20}^{23} FSA047_{n,m} \right) + \left(\sum_{n=26}^{30} FSA047_{n,m} \right) + \left(\sum_{n=35}^{51} FSA047_{n,m} \right) + FSA047_{57,m} \right]$

Where :

y = number of business days in three months

FSAxxx_{m,n} = The entry in FSAxxx row m column n

inf {f(x) : x = 1, 2, 3} represents the greatest lower bound of the function f(x) over the range x = 1, 2, 3

Foreign currency positions

12.6.18

FCA PRA

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- (1) Subject to (3), a *simplified ILAS BIPRU firm* that has assets or liabilities denominated in either or both euros and United States dollars must carry out separate calculations under ■ BIPRU 12.6.9R in relation to its positions in each of those currencies, in addition to that which it carries out in relation to its sterling positions (if any).
- (2) A *firm* to which (1) applies must ensure that, for the purpose of meeting the *simplified buffer requirement*, it holds in its liquid assets buffer assets denominated in either or both euros and United States dollars (as relevant) greater than or equal to the amount produced by the calculation in the corresponding currency required under (1), in addition to any sterling liquid assets that it is required to hold in its buffer in respect of its sterling positions.
- (3) Paragraph (1) does not apply to a *simplified ILAS BIPRU firm* that hedges fully its positions in either or both euros and United

States dollars such that the *firm* is not exposed to any cross-currency *liquidity risk* in respect of those positions.

Content of the simplified ILAS liquid assets buffer

12.6.19

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FCA PRA

The *rules* in ■ BIPRU 12.7 set out the sorts of assets that are eligible for the liquid assets buffer of an *ILAS BIPRU firm*. Every *ILAS BIPRU firm* may include in its buffer reserves in the form of sight deposits at a central bank and high quality debt securities issued by governments and *designated multilateral development banks* subject to the eligibility rules in ■ BIPRU 12.7. ■ BIPRU 12.7 provides that a *simplified ILAS BIPRU firm* may also include in its buffer investments in a *designated money market fund*.

12.6.20

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FCA PRA

A *simplified ILAS BIPRU firm* may include in the liquid assets buffer any combination of the eligible assets permitted by the *rules* in ■ BIPRU 12.7.

ILSA

12.6.21

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FCA PRA

- (1) A *simplified ILAS BIPRU firm* must regularly carry out an *ILSA* which contains an assessment of the *firm's* compliance with the standards set out in ■ BIPRU 12.3 and ■ BIPRU 12.4, including the results of the stress tests required by the rules in ■ BIPRU 12.4.
- (2) The *firm* must make a written record of its *ILSA*.
- (3) The *ILSA* must be proportionate to the nature, scale and complexity of that *firm's* activities.
- (4) The *ILSA* must take into account *group-wide* liquidity resources only to the extent that reliance on these is permitted by the *appropriate regulator*.

12.6.22

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FCA PRA

For the purpose of ■ BIPRU 12.6.21R, a *firm* should carry out an *ILSA* at least annually, or more frequently if changes in its business or strategy or the nature, scale or complexity of its activities or the operational environment suggest that the current level of liquidity resources is no longer adequate. A *firm* should expect that the *firm's* usual supervisory contact at the *appropriate regulator* will ask for the *ILSA* to be submitted as part of the ongoing supervisory process.

12.7 Liquid assets buffer

12.7.1

FCA PRA

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■ BIPRU 12.2 provides that an *ILAS BIPRU firm* must ensure that its liquidity resources contain an adequate buffer of high quality, unencumbered assets. ■ BIPRU 12.7 describes in more detail the nature of the assets that are eligible for inclusion in that buffer. The *rules* in this section provide that some types of assets are eligible for use only by a *simplified ILAS BIPRU firm*.

12.7.2

FCA PRA

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For the purpose of satisfying ■ BIPRU 12.2.8R, a *firm* to which this section applies may include in its liquid assets buffer only:

- (1) high quality debt securities issued by a government or central bank;
- (2) securities issued by a *designated multilateral development bank*;
- (3) reserves in the form of sight deposits with a central bank of the kind specified in ■ BIPRU 12.7.5R and ■ BIPRU 12.7.6R; and
- (4) in the case of a *simplified ILAS BIPRU firm* only, investments in a *designated money market fund*.

12.7.3

FCA PRA

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Subject to ■ BIPRU 12.7.4R, for the purpose of ■ BIPRU 12.7.2R (1), a *firm* may include only a debt security which is:

- (1) issued by the central government or central bank of an *EEA State*; or
- (2) issued by the central government or central bank of Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.

12.7.4

FCA PRA

R

For the purpose of ■ BIPRU 12.7.3R, a *firm* may not include a debt security unless:

- (1) the central government or central bank in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with credit quality step 1 in the table set out in

■ BIPRU 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps); and

- (2) that debt security is either:
- (a) denominated in the domestic currency of the country in question; or
 - (b) denominated in a currency other than the domestic currency, provided it is denominated in any of Canadian dollars, euros, Japanese yen, sterling, Swiss francs or United States dollars.

12.7.5

FCA PRA

R

Subject to ■ BIPRU 12.7.6R, for the purpose of ■ BIPRU 12.7.2R (3) a *firm* may include only reserves in the form of sight deposits held by the *firm* with the central bank of:

- (1) an *EEA State*; or
- (2) Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.

12.7.6

FCA PRA

R

For the purpose of ■ BIPRU 12.7.5R, a *firm* may not include reserves held at a central bank unless:

- (1) the central bank in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with credit quality step 1 in the table set out in ■ BIPRU 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps); and
- (2) those reserves are denominated in the domestic currency of the central bank in question.

12.7.6A

FCA PRA

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For the purpose of ■ BIPRU 12.7.2R (2), a *firm* may not include securities issued by a *designated multilateral development bank* unless:

- (1) the *designated multilateral development bank* in question has been assessed by at least two *eligible ECAIs* as having a credit rating associated with credit quality step 1 in the table set out in ■ BIPRU 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps); and
- (2) those securities are denominated in any of Canadian dollars, euros, Japanese yen, sterling, Swiss francs or United States dollars.

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49

12.7.7

FCA PRA

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It is important that a *firm* identifies and understands the range of central bank facilities in which it is eligible to participate. A *firm* may be eligible to participate in some facilities of this kind by virtue of its having a *branch* in a particular country. In addition to identifying the central bank facilities to which it has access, a *firm* should ensure that it has in place appropriate legal and administrative arrangements to enable it to draw on those facilities in a timely manner.

12.7.8

FCA PRA

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In deciding on the precise composition of its liquid assets buffer, a *firm* should ensure that it tailors the contents of the buffer to the needs of its business and the *liquidity risk* that it faces. In particular, a *firm* should ensure that it holds assets in its buffer which can be realised with the speed necessary to meet its liabilities as they fall due. In doing so, a *firm* should have regard to the currencies in which its liabilities are denominated and should take into account the potential effect of stressed conditions on its ability to access spot and *swap* foreign exchange markets in a manner consistent with the settlement cycles of foreign exchange settlement systems. A *firm* should have regard to the results of its *ILAA* or, as the case may be, its *ILSA*, in assessing the speed with which its liabilities fall due in stressed and non-stressed conditions.

12.7.9

FCA PRA

R

For the purposes of ■ BIPRU 12.7.2R (1) and ■ (2), a *firm* must only count securities:

- (1) which are unencumbered;
- (2) (a) to which it has legal title; or
 - (b) to which a *central bank* has legal title but which meet the requirements of ■ BIPRU 12.7.9AR (1), subject to ■ BIPRU 12.7.9AR (2); and
- (3) which that *firm* realises on a regular basis.

12.7.9A

FCA PRA

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(1) For the purposes of ■ BIPRU 12.7.9R (2)(b) the requirements are that:

- (a) the securities are in excess of the amount of collateral required to be held by that *central bank*; and
- (b) the *firm* is entitled to regain legal title to such securities without any encumbrance.

(2) The *firm* may only count securities that meet the requirements of ■ BIPRU 12.7.9 R and ■ BIPRU 12.7.9AR (1) from the point in time when the *firm* would regain legal title to the securities from the *central bank*, subsequent to any required notice period.

(3) For the purposes of ■ BIPRU 12.7.9AR (2) any required notice period is deemed to commence on the first *business day* that the *central bank* could receive notice from the *firm*.

12.7.10

FCA PRA

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The *appropriate regulator* regards as encumbered any asset which the *firm* in question has provided as collateral. Therefore, where assets have been used as collateral in this way (for example, in a *repo*), they should not be included in the *firm's* liquid assets buffer. However, any assets provided by the *firm* to a *central bank* as collateral which meet the requirements in ■ BIPRU 12.7.9A R will be recognised as unencumbered by the for the purposes of ■ BIPRU 12.7.9R (1). For the avoidance of doubt, there is no need for notice to have actually been served to meet the requirements in ■ BIPRU 12.7.9AR (2).

12.7.11

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FCA PRA

- (1) For the purpose of ■ BIPRU 12.7.9R (3), a *firm* must periodically realise a proportion of the assets in its liquid assets buffer through *repo* or outright sale to the market.
- (2) [deleted]
- (3) A *firm* must ensure that in carrying out such periodic realisation:
 - (a) it does so without reference to the *firm's* day-to-day liquidity needs;
 - (b) it realises in varying amounts the assets in its liquid assets buffer;
 - (c) the cumulative effect of its periodic realisation over any twelve *month* period is that a significant proportion of the assets in its liquid assets buffer is realised; and
 - (d) in *repo* to the market it enters into transactions of varying durations.
- (4) A *firm* must establish and maintain a written policy setting out its approach to periodic realisation of its assets.
- (5) A *firm* must also ensure that it periodically tests its operational ability to raise funds, through the use of central bank liquidity facilities to which it has access, using a proportion of those of its assets not in its liquid assets buffer.

12.7.12

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FCA PRA

The *appropriate regulator* will, as part of its review of a *firm's* ILAA or, as the case may be, its ILSA, assess the adequacy of a *firm's* periodic realisation policy and its implementation in practice.

12.8 Cross-border and intra-group management of liquidity

12.8.1

FCA PRA

G

Every *firm* subject to ■ BIPRU 12 is subject to the *overall liquidity adequacy rule*. The effect of that rule is that every *firm* is required to be self-sufficient in terms of liquidity adequacy and to be able to satisfy that rule relying on its own liquidity resources. Where the *firm* is an *incoming EEA firm* or *third country BIPRU firm* compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in ■ BIPRU 12.2.3 R.

12.8.2

FCA PRA

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However, the *appropriate regulator* recognises that there may be circumstances in which it would be appropriate for a *firm* to rely on liquidity resources which can be made available to it by other members of its *group*, or for a *firm* to rely on liquidity resources elsewhere in the *firm* for the purposes of ensuring that its *UK branch* has adequate liquidity resources in respect of the activities carried on from the *branch*. Where the *appropriate regulator* is satisfied that the statutory tests in section 138A (Modification or waiver of rules) of the *Act* are met, the *appropriate regulator* will consider modifying the *overall liquidity adequacy rule* to permit reliance on liquidity support of this kind.

12.8.3

FCA PRA

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■ BIPRU 12.8 provides *guidance* on two types of modification to the *overall liquidity adequacy rule* and to other *rules* in ■ BIPRU 12 for which the *appropriate regulator* considers a *firm* may wish to apply, namely:

- (1) an *intra-group liquidity modification*; and
- (2) a *whole-firm liquidity modification*.

12.8.4

FCA PRA

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In considering whether the statutory tests in section 138A of the *Act* have been met, the *appropriate regulator* will, amongst others, have regard to the factors detailed below in relation to an *intra-group liquidity modification* (of the kind permitting the inclusion in a *firm's* liquidity resources of *parent undertaking* liquidity support) and a *whole-firm liquidity modification*. In practice it is likely that the *appropriate regulator* will view these as preconditions to the grant of an *intra-group liquidity modification* of that type or a *whole-firm liquidity modification* and will therefore ordinarily need to be satisfied fully that each has been adequately addressed. They include matters on which the *appropriate regulator* will need to reach agreement with the *Home State regulator*, *third country competent authority*, or other relevant supervisor, and also matters which it will need to agree directly with a *firm* or the *parent undertaking* of a *firm*. It is likely that a number of these matters will be reflected as requirements or conditions in the modification.

12.8.5 FCA PRA G This section represents merely an indication of the matters to which the *appropriate regulator* will have regard in considering an application for a *whole-firm liquidity modification* or an *intra-group liquidity modification*. In considering such an application, the *appropriate regulator* will always take into account anything that it reasonably considers to be relevant for the purposes of assessing whether the statutory tests in section 138A of the *Act* are met. In doing so, it will have regard to the role and importance of a *firm* or *UK branch* in the *UK financial system*.

12.8.6 FCA PRA G The *appropriate regulator* anticipates that an application to modify the *overall liquidity adequacy rule* may be accompanied by an application to waive or modify other rules in ■ BIPRU 12 (for example, the stress testing and *contingency funding plan rules* in ■ BIPRU 12.4). The *appropriate regulator* offers some *guidance* in this section on applications of this type.

Intra-group liquidity modification: general

12.8.7 FCA PRA G The *appropriate regulator* recognises that a *firm* may be part of a wider *group* which manages its liquidity on a *group-wide* basis. A *firm* which considers that the statutory tests in section 138A of the *Act* are met may apply for an *intra-group liquidity modification* permitting it to rely on liquidity support from elsewhere in its *group*. Until a *firm* has such a modification it will need to meet the *overall liquidity adequacy rule* from its own liquidity resources. The effect of an *intra-group liquidity modification* is to modify the *overall liquidity adequacy rule* to recognise the extent to which the *appropriate regulator* is prepared to accept liquidity resources from other entities in a *firm's* group for the purposes of the *firm's* own compliance with the *overall liquidity adequacy rule*. ■ BIPRU 12.8.11G offers additional *guidance* on the likely extent of this recognition.

12.8.8 FCA PRA G ■ BIPRU 12.8.14 G to ■ BIPRU 12.8.20 G set out the *appropriate regulator's* likely approach in considering an application for an *intra-group liquidity modification* in which a *firm* seeks to rely on support from a *parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom*.

12.8.9 FCA PRA G The *appropriate regulator* may also consider an application for an *intra-group liquidity modification* where a *firm* wishes to rely on liquidity resources from an entity in its *group* other than an *overseas parent undertaking*. The *appropriate regulator* recognises that a *firm* incorporated in the *United Kingdom* and to which ■ BIPRU 12 applies may wish to rely on liquidity support from another such *firm*. In practice, the *appropriate regulator* anticipates that a *firm* applying for an *intra-group liquidity modification* in these circumstances will be asking for permission to rely on support from its *parent undertaking* in the *United Kingdom*. In any event, the *appropriate regulator* will consider such applications on a case-by-case basis and will apply the approach outlined in ■ BIPRU 12.8.14 G to ■ BIPRU 12.8.20 G where relevant and by analogy.

12.8.10 FCA PRA G The *appropriate regulator* also recognises that a *firm* incorporated in the *United Kingdom* and to which ■ BIPRU 12 applies may wish to rely on liquidity support from a *subsidiary undertaking* of that *firm* which is incorporated in a country or territory outside the *United Kingdom*. The *appropriate regulator* is, however, likely to consider that an application for an *intra-group liquidity modification* that contemplates reliance for liquidity support on only, or mostly, an applicant *firm's* overseas *subsidiary undertakings* is unlikely to satisfy the tests in section 138A of the *Act*. As a general principle, and unless persuaded otherwise by an applicant *firm's* arguments in support of its application for an *intra-group liquidity modification*, the *appropriate regulator* is likely to take the view that a *firm's*

overseas *subsidiary undertakings* are likely to be constrained in their ability to provide meaningful levels of liquidity support to their *parent undertaking*.

12.8.11

FCA PRA

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In each application for an *intra-group liquidity modification*, the *appropriate regulator* will consider the extent to which it is appropriate to modify the *overall liquidity adequacy rule* to allow reliance by an applicant *firm* on liquidity resources elsewhere in a *firm's group*. However, it is unlikely that the *appropriate regulator* would consider the conditions in section 138A of the *Act* to be met in circumstances in which the *overall liquidity adequacy rule* was modified to allow unlimited reliance on liquidity resources that are not the applicant *firm's* own. As a general principle, the *appropriate regulator* is likely to wish to ensure that, having regard to the results of an applicant *firm's* ILAA:

- (1) once modified, the *overall liquidity adequacy rule* still requires the *firm* to have adequate liquidity resources to enable it to wind down its business in an orderly and controlled manner in circumstances in which its business ceases to be viable; and
- (2) the amount of liquidity support permitted in the modification is a reasonable one having regard to the total liquidity resources of the *group* entity on which it is proposed that reliance should be placed.

12.8.12

FCA PRA

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In determining the appropriate duration of an *intra-group liquidity modification*, the *appropriate regulator* will have regard to the role and importance of the *firm* in question in the *UK financial system*. In some cases, the *appropriate regulator* may take the view that an *intra-group liquidity modification* covering a *firm* whose role and importance in the *UK financial system* are significant ought to be reviewed more regularly than one granted in respect of a less systemically significant *firm*. The *appropriate regulator* will consider this issue in determining the appropriate duration of such a modification.

12.8.13

FCA PRA

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In modifying the *overall liquidity adequacy rule* by means of an *intra-group liquidity modification*, the *appropriate regulator* may also modify the stress testing and *contingency funding plan rules* in ■ BIPRU 12.4 such that an applicant *firm* may achieve compliance with those *rules* by its *parent undertaking* conducting *group-wide* stress testing and preparing a *group-wide contingency funding plan* which gives adequate recognition to the position of the applicant *firm*.

Consideration of an application for an intra-group liquidity modification

12.8.14

FCA PRA

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■ BIPRU 12.8.15 G to ■ BIPRU 12.8.20 G set out some of the matters on which the *appropriate regulator* will expect to be satisfied before granting an *intra-group liquidity modification* where permission is sought to rely on support from an *overseas parent undertaking* which is itself subject to a regime of liquidity regulation.

12.8.15

FCA PRA

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In relation to the regime of liquidity regulation imposed by the authority that regulates for liquidity purposes an applicant *firm's parent undertaking* which is constituted under the law of a country or territory outside the *United Kingdom*, the *appropriate regulator* will ordinarily expect to be satisfied that:

- (1) the regime of liquidity regulation to which that *undertaking* is subject delivers outcomes as regards the regulation of that *undertaking's liquidity risk* that are broadly equivalent to those intended by ■ BIPRU 12; and

- (2) there is clarity as to any legal constraints imposed by the authority which regulates that *undertaking* for liquidity purposes on the provision of liquidity from that *undertaking* to the applicant *firm*.

12.8.16

FCA PRA

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It will not always be the case that an applicant *firm* wishes to rely on a *parent undertaking*, or other *group* entity, that is itself subject to a regime of liquidity regulation, whether or not equivalent to the *appropriate regulator's*. In assessing a *firm's* application for an *intra-group liquidity modification*, the *appropriate regulator* will always have regard to the regulatory framework to which the entity on which it is proposed to rely for liquidity support is subject. Other things being equal, however, the *appropriate regulator* is more likely to be persuaded that the tests in section 138A of the *Act* are met in circumstances in which the entity on which it is proposed to rely for liquidity support is itself subject to an appropriate degree of regulation. Even where the *parent undertaking*, or other *group* entity, in question is subject to a regime of liquidity regulation, the *appropriate regulator* will in principle be more likely to grant an *intra-group liquidity modification* in circumstances in which the applicant *firm* does not accept a significant amount of retail *deposits*.

12.8.17

FCA PRA

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In relation to an applicant *firm* wishing to rely on liquidity support from a *parent undertaking* constituted under the law of a country or territory outside the *United Kingdom*, the *appropriate regulator* will ordinarily expect to reach agreement with the authority that regulates that *undertaking* for liquidity purposes in a number of areas, including agreement that:

- (1) it will notify the *appropriate regulator* of any material or persistent breaches by that *undertaking* of that authority's liquidity rules, or of risks that such breaches are imminent;
- (2) it is satisfied with the adequacy of the *parent undertaking's* arrangements for *liquidity risk* management;
- (3) it is satisfied as to the adequacy of the *parent undertaking's* liquidity resources including:
 - (a) the size and quality of its liquid assets buffer; and
 - (b) the size and quality of any liquidity resources that are held in the *United Kingdom* for the purpose of meeting the liabilities of an applicant *firm* as they fall due;
- (4) it does not object to any undertakings given by that *parent undertaking* in respect of an applicant *firm* to ensure that the *firm* has adequate liquidity resources; and
- (5) it will have due regard to the views of the *appropriate regulator* in its supervision of the liquidity position of that *parent undertaking*.

12.8.18

FCA PRA

G

In relation to an applicant *firm* wishing to rely on liquidity support from a *parent undertaking* constituted under the law of a country or territory outside the *United Kingdom*, the *appropriate regulator* will, before granting an *intra-group liquidity modification*, ordinarily expect to have reached agreement with that *parent undertaking* that:

- (1) it will make available liquidity resources at all times to that applicant *firm* if needed;
- (2) it will enter into an undertaking in a suitable form with an applicant *firm* committing it to provide liquidity support to that *firm* on the occurrence of certain defined events;
- (3) it will ensure that the applicant *firm* maintains liquidity resources of appropriate size and quality in the *United Kingdom* for the purposes of meeting the liquidity needs of that *firm*;
- (4) it will maintain arrangements, including having adequate liquidity resources, to ensure that it, the applicant *firm* and any other entities in its *group* to which it provides liquidity support are able to wind down their businesses in an orderly and controlled manner in circumstances where its, or their, businesses cease to be viable;
- (5) it will make available to the *appropriate regulator* information in an appropriate format on *group* liquidity; and
- (6) it will participate in the *appropriate regulator's* thematic supervisory work in relation to liquidity when requested to do so by the *appropriate regulator*.

12.8.19

FCA PRA

G

The *appropriate regulator* will wish to ensure that it has adequate data at the time of consideration of the *intra-group liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of any *group* entity on which the applicant *firm* proposes to rely for liquidity purposes. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant liquidity *data items* populated by the entities on which the applicant *firm* proposes to rely. It is also likely that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that the entities on which it is given permission to rely for the purpose of meeting the *overall liquidity adequacy rule* provide completed relevant *data items* to the *appropriate regulator* on a continuing basis. The frequency of *data item* submission will be determined as part of the *appropriate regulator's* consideration of the applicant *firm's* case but is in any event likely to be reflective of the *appropriate regulator's* assessment of the *liquidity risk* profile of the entities on which liquidity support is permitted.

12.8.20

FCA PRA

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In addition, the *appropriate regulator* will also wish to understand in relation to any *group* entity on which an applicant *firm* proposes to rely for liquidity support the legal structure of the *group* and the extent to which that structure, or any relevant legal principles, may restrict the provision of timely liquidity support in appropriate amounts to the applicant *firm* when required.

Ongoing requirements

12.8.21

FCA PRA

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The *appropriate regulator* also anticipates that an *intra-group liquidity modification* would be made subject to a number of ongoing conditions and requirements. These are likely to include:

- (1) the *appropriate regulator* receiving annual confirmation from the authority that regulates an applicant *firm's parent undertaking* for liquidity purposes that it remains satisfied with the arrangements in respect of that *undertaking* for liquidity supervision and their operation; and

- (2) an annual meeting with the same authority to discuss liquidity supervision of that *undertaking*.

Whole-firm liquidity modification: general

12.8.22

FCA PRA

G

In relation to an *incoming EEA firm* or *third country BIPRU firm*, the *overall liquidity adequacy rule* provides that, for the purpose of complying with that *rule*, a *firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in ■ BIPRU 12.2.3 R. Those conditions seek to ensure that a *firm* of this kind has a reserve of liquidity for operational purposes that is under the control of, and available for use by, that *firm's UK branch*. Further *guidance* is given in ■ BIPRU 12.5.39 G in relation to the local operational liquidity reserve. In addition, ■ BIPRU 12.9.10 G explains how the *appropriate regulator* will approach the giving of *individual liquidity guidance* to an *incoming EEA firm* or *third country BIPRU firm*. The *appropriate regulator* does, however, recognise that there are circumstances in which it may be appropriate for a *UK branch* to rely on the availability of liquidity resources from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind for its *UK branch* may apply for a modification to the *overall liquidity adequacy rule* where it considers that the statutory tests in section 138A of the *Act* are met.

12.8.23

FCA PRA

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Although an *incoming EEA firm* or *third country BIPRU firm* may apply to modify the *overall liquidity adequacy rule* and other *rules* in ■ BIPRU 12, in relation to its *UK branch*, the *appropriate regulator* anticipates that many such *firms* will wish to apply for a modification in the form which the *appropriate regulator* defines as a *whole-firm liquidity modification*. In the *appropriate regulator's* view, a modification to the *overall liquidity adequacy rule* for a *firm* of this kind will tend to be appropriate where an applicant *firm* manages its liquidity on an integrated, whole-firm basis. Where that is the case, and having regard to the matters outlined in the *guidance* in this section, the *appropriate regulator* is likely to consider it more appropriate for the *UK branch* to be subject, in large part, to the same regulatory liquidity regime which applies to the rest of the *firm*. In granting a *whole-firm liquidity modification* the *appropriate regulator* therefore recognises that in certain circumstances a *UK branch* can have adequate liquidity resources in circumstances where the liquidity resources upon which the *firm* seeks to rely do not meet the criteria set out in ■ BIPRU 12.2.3 R.

12.8.24

FCA PRA

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Accordingly, a *whole-firm liquidity modification* envisages:

- (1) a modification to the *overall liquidity adequacy rule* so as to permit reliance by the *firm*, in relation to its *UK branch*, on liquidity resources wherever held in the *firm* for the purposes of meeting that *rule*; and
- (2) a *waiver* of the remainder of the substantive *rules* in ■ BIPRU 12, with the effect that the *UK branch* of the applicant *firm* becomes subject for the purpose of day-to-day liquidity supervision to the liquidity regime of the *Home State regulator* or *third country competent authority* in question.

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12.8.25

FCA PRA

G

The effect of a *whole-firm liquidity modification* is that the *appropriate regulator* will in its supervision of the liquidity of the *UK branch* place reliance on the liquidity regime of the *Home State regulator* or *third country competent authority* in question. The *appropriate regulator* will wish to ensure that it has adequate data at the time of consideration of the *whole-firm liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of the *firm* as a whole. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant

liquidity *data items* covering the liquidity position of the *firm* as a whole. It is also likely that an applicant *firm* will be asked, as part of its application, to provide an appropriately detailed account as to the activities conducted by its *UK branch* as at the date of the application. In addition, the *appropriate regulator* anticipates that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that it provides relevant *data items*, covering the whole-*firm* liquidity position, to the *appropriate regulator* on a continuing basis at a frequency to be determined as part of the *appropriate regulator's* consideration of the applicant *firm's* case but in any event likely to be reflective of the *appropriate regulator's* assessment of the *liquidity risk* profile of the *firm*.

Consideration of an application for a whole-firm liquidity modification

12.8.26

FCA PRA

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In relation to the *Home State regulator's* or *third country competent authority's* regime of liquidity regulation, the *appropriate regulator* will, before granting a *whole-firm liquidity modification*, ordinarily expect to be satisfied that:

- (1) the regime in question delivers outcomes as regards the regulation of the applicant *firm's liquidity risk* that are broadly equivalent to those intended by this chapter; and
- (2) there is clarity as to any legal constraints imposed by the *Home State regulator* or *third country competent authority* on the provision of liquidity by a *firm* to its *UK branch*, as well as the potential for such restrictions to be imposed in the future.

12.8.27

FCA PRA

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In relation to the applicant *firm* in question, the *appropriate regulator* will, before granting a *whole-firm liquidity modification*, ordinarily expect to have reached agreement with the *Home State regulator* or *third country competent authority* in a number of areas, including agreement that:

- (1) it will notify the *appropriate regulator* promptly of any material or persistent breaches by that *firm* of its liquidity rules, or of risks that such breaches are imminent;
- (2) it is satisfied with the adequacy of the arrangements in place for *firm-wide liquidity risk* management;
- (3) it is satisfied as to the adequacy of that *firm's* liquidity resources including the size and quality of its liquid assets buffer;
- (4) it does not object to any undertakings given by that *firm* in respect of its *UK branch* to ensure that the *branch* has adequate liquidity resources; and
- (5) it will have due regard to the views of the *appropriate regulator* in its supervision of that *firm's* liquidity position.

12.8.28

FCA PRA

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In relation to the applicant *firm* in question, the *appropriate regulator* will, before granting a *whole-firm liquidity modification*, ordinarily expect to have reached agreement with that *firm* in a number of areas, including agreement that:

- (1) it will make available liquidity resources at all times to its *UK branch* if needed;

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- (2) it will make available to the *appropriate regulator* information in an appropriate format on *firm-wide* liquidity;
- (3) it will notify the *appropriate regulator* at the same time as it notifies the *Home State regulator* or *third country competent authority* of any issues relevant to the liquidity position of its *UK branch* or compliance with the rules to which it is subject in respect of its liquidity (including with the terms of its *whole-firm liquidity modification*);
- (4) its *UK branch* will continue to be fully integrated with the rest of the *firm* for *liquidity risk* management purposes; and
- (5) it will participate in the *appropriate regulator's* thematic supervisory work in relation to liquidity when requested to do so by the *appropriate regulator*.

Ongoing requirements

12.8.29

FCA PRA

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The *appropriate regulator* also anticipates that a *whole-firm liquidity modification* would be made subject to a number of ongoing conditions and requirements. These are likely to include:

- (1) the *appropriate regulator* receiving annual confirmation from the *Home State regulator* or *third country competent authority* that it remains satisfied with the arrangements in respect of that *firm* for liquidity supervision and their operation;
- (2) an annual meeting with the *Home State regulator* or *third country competent authority* to discuss liquidity supervision of that *firm*;
- (3) the *appropriate regulator* receiving annual confirmation from the *firm*, approved by its *governing body*, that it remains in full compliance with the terms of its *whole-firm liquidity modification*; and
- (4) as at the first anniversary of the grant of the *whole-firm liquidity modification* and on each anniversary thereafter, the *appropriate regulator* receiving from the *firm*:
 - (a) an appropriate account of the activities conducted by the *UK branch* over the previous year; and
 - (b) a copy of the *firm's* latest business plan where this differs from that previously sent to the *appropriate regulator* after grant of its *whole-firm liquidity modification*.

12.8.30

FCA PRA

G

In determining the appropriate duration of a *whole-firm liquidity modification*, the *appropriate regulator* will have regard to the role and importance of the *UK branch* in question in the *UK financial system*. In some cases, the *appropriate regulator* may take the view that a *whole-firm liquidity modification*, covering a *UK branch* whose role and importance in the *UK financial system* are significant, ought to be reviewed more regularly than one granted in respect of a less systemically significant *branch*. The *appropriate regulator* will consider this issue in determining the appropriate duration of such a modification. The *appropriate regulator* is also likely to consider it appropriate in modifications other than those of short duration to reflect in the terms of the modification representations made either in an applicant *firm's* business plan or direct to the *appropriate regulator* as part of the application process, but in either case as to the expected nature

and size of the *UK branch's* activities over the course of the duration of the modification. Where requirements are included in a modification in relation to these matters, a *firm* that anticipates that it will breach those requirements will need to apply in advance of any such event for a variation to its then existing *whole-firm liquidity modification*. In considering an application to vary, the *appropriate regulator* will consider afresh whether the tests in section 138A of the *Act* continue to be met for the grant of a *whole-firm liquidity modification* to the *firm* in question.

12.9 Individual liquidity guidance and regulatory intervention points

Appropriate regulator assessment process

12.9.1

FCA PRA

G

The *appropriate regulator* will give *individual liquidity guidance* to a *standard ILAS BIPRU firm*. Ordinarily, the *appropriate regulator* will give *individual liquidity guidance* after a review of a *standard ILAS BIPRU firm's ILAA*. The *appropriate regulator* will, however, issue *individual liquidity guidance* to such a *firm* whenever it is considered appropriate.

12.9.2

FCA PRA

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In assessing the adequacy of an *ILAS BIPRU firm's* liquidity resources, the *appropriate regulator* draws on more than just a review of the submitted *ILAA*, or in the case of a *simplified ILAS BIPRU firm*, the submitted *ILSA*. Use is made of wider supervisory knowledge of a *firm* and of wider market developments and practices. When forming a view of the *individual liquidity guidance* to be given to an *ILAS BIPRU firm*, the *appropriate regulator* will also consider the regulator's firm risk assessment and any other issues arising from day-to-day supervision.

12.9.3

FCA PRA

G

The *appropriate regulator* will take a risk-based and proportionate approach to the review of a *firm's ILAA* or *ILSA*, focusing where appropriate on that *firm's* approach to dealing with the risks it faces.

12.9.4

FCA PRA

G

As part of the *SLRP*, the *appropriate regulator* will give a *standard ILAS BIPRU firm individual liquidity guidance* advising it of the amount and quality of liquidity resources which the *appropriate regulator* considers are appropriate, having regard to the *liquidity risk* profile of that *firm*. In giving *individual liquidity guidance*, the *appropriate regulator* will also advise the *firm* of what it considers to be a prudent funding profile for the *firm*. In giving the *firm individual liquidity guidance* as to its funding profile, the *appropriate regulator* will consider the extent to which the *firm's* liabilities are adequately matched by assets of appropriate maturities. In both cases, the *appropriate regulator* will have regard to the adequacy of a *firm's* systems and controls in relation to *liquidity risk* when judged against the standard described in the *rules and guidance* in ■ BIPRU 12.3 and ■ BIPRU 12.4. *Individual liquidity guidance* will therefore have two components:

- (1) *guidance* about the *firm's* liquid assets buffer; and
- (2) *guidance* about the *firm's* funding profile.

12.9.5

FCA PRA

G

The *appropriate regulator* will ordinarily not expect to give *individual liquidity guidance* to a *simplified ILAS BIPRU firm*. However, if after review of such a *firm's ILSA*, the *appropriate regulator* is not satisfied that the *simplified buffer requirement* delivers an

adequate amount and quality of liquidity resources for that *firm*, having regard to its *liquidity risk* profile, the *appropriate regulator* will issue the *firm* with *individual liquidity guidance* and may also consider revoking the *firm's simplified ILAS waiver*.

12.9.6

FCA PRA

G

In giving *individual liquidity guidance*, the *appropriate regulator* seeks a balance between delivering consistent outcomes across the *individual liquidity guidance* that it gives to every *ILAS BIPRU firm* and recognising that such *guidance* should reflect the individual features of a *firm*. Comparison with the assumptions used by other *firms* will be used to trigger further enquiry.

12.9.7

FCA PRA

G

Following an internal validation process, the *appropriate regulator* will write to the *standard ILAS BIPRU firm* whose *ILAA* it has reviewed, providing both quantitative and qualitative feedback on the results of the *appropriate regulator's* assessment. This letter will notify that *firm* of the *individual liquidity guidance* that the *appropriate regulator* considers appropriate together with its reasons for concluding that such *guidance* is appropriate. The *appropriate regulator* will adopt the same process where it chooses to give *individual liquidity guidance* to a *simplified ILAS BIPRU* following a review of that *firm's ILSA*.

12.9.8

FCA PRA

G

Where the amount and quality of liquidity resources which the *appropriate regulator* considers a *firm* needs having regard to its *liquidity risk* profile are not the same as the *firm's* own assessment of those resources under its *ILAA*, the *appropriate regulator* expects to discuss any such difference with the *firm*.

12.9.9

FCA PRA

G

Consistent with *Principle 11* (Relations with regulators), the *appropriate regulator* will expect a *firm* to notify it if the *firm* does not propose to follow its *individual liquidity guidance*. The *appropriate regulator* will expect any such notification to be accompanied by a clear account of the *firm's* reasons for considering the *individual liquidity guidance* to be inappropriate. The *appropriate regulator* will expect to receive any such notification within one *month* from the date on which it gives *individual liquidity guidance* to the *firm*. If agreement through further analysis and discussion cannot be reached (including through use of the *appropriate regulator's* powers under section 166 (Reports by skilled persons) of the *Act*), then the *appropriate regulator* will consider using its powers under the *Act* (for example, its power under section 55J to vary, on its own initiative, a *firm's Part IV permission* or its *power of intervention* under section 196) so as to require a *firm* to hold such liquidity resources as the *appropriate regulator* considers are adequate having regard to the *liquidity risk* profile of the *firm*.

Additional guidance for branches

12.9.10

FCA PRA

G

In relation to an *incoming EEA firm* or *third country BIPRU firm*, where the *appropriate regulator* gives that *firm individual liquidity guidance* in relation to its *UK branch*, it will have regard to the *liquidity risk* profile of the *branch*. In the absence of a *whole-firm liquidity modification*, the effect of ■ BIPRU 12.2.1R (2)(b) and ■ BIPRU 12.2.3 R is to require the *firm* to hold a liquid assets buffer of the amount identified as appropriate in its *individual liquidity guidance* (or in the case of a *simplified ILAS BIPRU firm*, the amount of its *simplified buffer requirement* unless this has been superseded by the *appropriate regulator* issuing *individual liquidity guidance* to the *firm* in question) in the form of a local operational liquidity reserve. Further *guidance* is given in ■ BIPRU 12.5.39 G in relation to the local operational liquidity reserve. In determining the appropriate size of such a *firm's* liquid assets buffer the *appropriate regulator* will have regard to all relevant factors, including the extent to which the

appropriate regulator has adequate data to enable it to assess accurately the *liquidity risk* elsewhere in the *firm* beyond its *UK branch*.

Regulatory intervention points for ILAS BIPRU firms

12.9.11

FCA PRA

G

■ BIPRU 12.2.9 G records the *appropriate regulator's* recognition that in periods of stress a *firm's* liquid assets buffer may be eroded. It may also be the case that in such periods a *firm's* funding profile deteriorates such that it no longer conforms to the prudent liquidity profile described in the *individual liquidity guidance* given to the *firm*. Deviation by a *firm* from the terms of the *individual liquidity guidance* given to it by the *appropriate regulator* or, as the case may be, from the *simplified buffer requirement*, does not automatically mean that the *appropriate regulator* will consider that the *firm* is in breach of, or likely to breach, *threshold conditions*.

12.9.12

FCA PRA

G

The *appropriate regulator* will examine any deviation on its own facts and will always want to understand clearly the reasons for that deviation and the *firm's* plans for remedying it. Deviation is, however, likely to prompt a re-examination by the *appropriate regulator* of the *firm's* compliance, and likely future compliance, with *threshold conditions*. The *appropriate regulator* will have regard to the information provided by the *firm* and to any other relevant factors in assessing the *firm's* continuing ability to satisfy *threshold conditions*. ■ BIPRU 12.9.13 R to ■ BIPRU 12.9.18 R set out a number of requirements which apply to an *ILAS BIPRU firm* that deviates from its *individual liquidity guidance*, or as the case may be, from the *simplified buffer requirement*.

12.9.12A

FCA PRA

G

The *appropriate regulator* expects that a *firm* will respond dynamically to any deterioration in its liquidity position and will take contingent action as set out in its *contingency funding plan* well in advance of a potential event.

12.9.13

FCA PRA

R

As soon as a *firm* becomes aware of the occurrence or expected occurrence of the events identified in ■ BIPRU 12.9.14 R, it must immediately provide to the *appropriate regulator* :

- (1) notification in writing of the event;
- (2) an adequately reasoned explanation for the event; and
- (3) an indication of the management actions the *firm* has taken to date to address the event, including actions from its *contingency funding plan*.

12.9.14

FCA PRA

R

For the purpose of ■ BIPRU 12.9.13 R, the events in question are:

- (1) in the case of a *simplified ILAS BIPRU firm* only, breach of the *simplified buffer requirement* unless this has been superseded by *individual liquidity guidance* that it has accepted;
- (2) in the case of a *standard ILAS BIPRU firm* or a *simplified ILAS BIPRU firm*, being a *firm* which in either case has accepted *individual liquidity guidance* given to it by the *appropriate regulator*:

- (a) its liquid assets buffer falling below the level advised in the *guidance*; or
- (b) its funding profile ceasing to conform to that advised in the *guidance*.

12.9.15

FCA PRA

G

As part of the *appropriate regulator's* enquiry into the reasons for a *firm's* deviation, or expected deviation, from its *individual liquidity guidance* or, as the case may be, its *simplified buffer requirement*, the *appropriate regulator* may ask for further assessments and analyses of a *firm's* liquidity resources and the risks faced by the *firm*. The *appropriate regulator* may consider the use of its powers under section 166 of the *Act* to assist in such circumstances.

12.9.16

FCA PRA

G

Consistent with *Principle 11* of the *appropriate regulator's Principles for Businesses* (Relations with regulators), if a *firm* has not accepted *individual liquidity guidance* given by the *appropriate regulator* it should, nevertheless, notify the *appropriate regulator* as soon as it becomes aware of either of the events identified in

■ BIPRU 12.9.14R (2)(a) or ■ (b).

12.9.17

FCA PRA

R

No later than two *days* after the *day* on which a *firm* notifies the *appropriate regulator* under ■ BIPRU 12.9.13R (1), the *firm* must submit a liquidity remediation plan to the *appropriate regulator*.

12.9.18

FCA PRA

R

For the purposes of ■ BIPRU 12.9.17 R, a *firm's* liquidity remediation plan must:

- (1) be communicated in writing;
- (2) detail the *firm's* forward estimates of the evolution of the size of the *firm's* liquid assets buffer and of its funding profile;
- (3) in relation to any of the events identified in ■ BIPRU 12.9.14 R that has occurred, or is expected to occur, detail the actions that the *firm* intends to take to remedy the event, or avoid the expected event, as the case may be, including information about:
 - (a) the amount of funding that it is intended to raise;
 - (b) the intended funding providers; and
 - (c) the maturity profile of the intended funding;
- (4) identify clear timescales for achieving each of the actions that it details in accordance with ■ BIPRU 12.9.18R (3); and
- (5) include an adequately reasoned assessment of the likelihood of the timely achievement of the actions that it details in accordance with ■ BIPRU 12.9.18R (3).

12.9.19 FCA PRA G The *appropriate regulator* will assess the adequacy of the liquidity remediation plan submitted by a *firm*, including the likelihood of its success. A *firm* should expect that the *appropriate regulator* will want to discuss the terms of the liquidity remediation plan submitted to it under ■ BIPRU 12.9.18 R. In its re-examination of the *firm's* compliance, and likely future compliance, with *threshold conditions* taken as a whole, the *appropriate regulator* will have regard to the adequacy of the *firm's* liquidity remediation plan.

12.9.20 FCA PRA G Other things being equal, the *appropriate regulator* will expect a *firm* which is not experiencing a period of stress to restore its liquidity resources more rapidly than one which is under stress at the time that it deviates from its *individual liquidity guidance* or, as the case may be, from its *simplified buffer requirement*.

12.9.21 FCA PRA G If agreement through discussion with the *appropriate regulator* cannot be reached as to the necessary actions and timescales to remedy deviation from that *guidance*, the *appropriate regulator* will consider using its powers under the *Act* (for example, its power under section 55J to vary, on its own initiative, a *firm's Part 4A permission* or its *power of intervention* under section 196) so as to require the *firm* to take such actions as the *appropriate regulator* considers are necessary to return the *firm* to conformity with the terms of its *individual liquidity guidance* or, as the case may be, with its *simplified buffer requirement*.

12.9.22 FCA PRA G Although ■ BIPRU 12.9.17 R to ■ BIPRU 12.9.21 G set out the *appropriate regulator's* likely approach, the *appropriate regulator* will take whatever action it considers appropriate in the particular circumstances of a given case.

12.9.23 FCA PRA G A *firm* that deviates from current *individual liquidity guidance* that it has accepted or, as the case may be, from its *simplified buffer requirement*, will be experiencing a *firm-specific liquidity stress* for the purpose of the reporting rules in ■ SUP 16 (Reporting requirements). Those rules require the *firm* to report specified *data items* more frequently than would otherwise be the case. Additionally, a *firm* that is implementing a liquidity remediation plan should expect that the *appropriate regulator* will wish to monitor its implementation of that plan. The *firm's* progress in achieving the remedial actions identified in its plan is a matter to which the *appropriate regulator* will have regard in considering the *firm's* compliance, and likely future compliance, with *threshold conditions*.

Monitoring requirement

12.9.24 FCA PRA R An *ILAS BIPRU firm* must monitor on each *business day* whether it is in conformity with *individual liquidity guidance* that it has accepted or, as the case may be, with the *simplified buffer requirement*.

Mode of notification

12.9.25 FCA PRA R Notification to the *appropriate regulator* under ■ BIPRU 12.9.13R (1) and submission to the *appropriate regulator* under ■ BIPRU 12.9.17 R must be made to the following *appropriate regulator* email address:
data_collection@fca.org.uk .

12.9.26 FCA PRA G Although ■ BIPRU 12.9.25 R requires notification and submission in the way prescribed in that rule, the *appropriate regulator* expects that a *firm* would also bring to the attention of its usual supervisory contact at the *appropriate regulator* the fact that it had made such a notification or submission.

12.9.27

FCA PRA

G

For the purpose of the notification expected under ■ BIPRU 12.9.26 G, the *appropriate regulator* would expect any such notification to be made in the way envisaged in ■ BIPRU 12.9.25 R.

Mapping of credit assessments of ECAs to credit quality steps

FCA **PRA**

Credit Quality Step	Fitch's assessment	Moody's assessments	S&P's assessments	DBRS' assessments
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AAL
2	A+ to A-	A1 to A3	A+ to A-	AH to AL
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL
5	B+ to B-	B1 to B3	B+ to B-	BH to BL
6	CCC+ and below	Caa1 and below	CCC+ and below	CCCH and below

Chapter 13

The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions



13.1 Application and Purpose

Application

13.1.1

FCA

R

■ BIPRU 13 applies to a *BIPRU firm*.

13.1.2

FCA

R

(1) ■ BIPRU 13 applies to items in the *non-trading book*.

(2) ■ BIPRU 13 applies to *trading book* items for the purposes of ■ BIPRU 14.

13.1.3

FCA

G

The requirement to calculate the *counterparty credit risk* capital charge for *trading book* items is set out in ■ BIPRU 14.

Purpose

13.1.4

FCA

G

Pursuant to the third paragraph of article 95(2) of the *EU CRR*, ■ BIPRU 13 implements:

(1) Article 78(2) and (4);

(2) point 3 of Part 1, and Parts 2, 3, 5, 6 and 7 of Annex III; and

(3) Annex IV;

of the *Banking Consolidation Directive*.

13.1.5

FCA

G

■ BIPRU 13.3 sets out the calculations of *exposure* values for *financial derivative instrument*, *long settlement transactions* and certain other transactions under the *standardised approach* and, subject to ■ BIPRU 4, under the *IRB approach*. ■ BIPRU 13.4, ■ 13.5 and ■ 13.6 set out the provisions relating to the *CCR mark to market method*, the *CCR standardised method* and the *CCR internal model method* in turn.

13.1.6

FCA

G

■ BIPRU 13.8 sets out a summary of the treatment of *securities financing transactions*.



13.2 Unusual Transactions

13.2.1

FCA

R

If the calculation of the amount of an *exposure* or of a combination of *exposures* under ■ BIPRU 13 would materially understate the amount of the *counterparty credit risk* the *firm* must increase the amount of the *credit risk capital requirement* by an amount sufficient to compensate for that understatement.

13.2.2

FCA

R

If a *firm* in relation to an *exposure* covered by ■ BIPRU 13:

- (1) has an *exposure* of a non-standard type; or
- (2) an *exposure* that is part of a non-standard arrangement; or
- (3) has an *exposure* that, taken together with other *exposures* (whether or not they are subject to ■ BIPRU 13), gives rise to a non-standard *counterparty credit risk*; or
- (4) is subject to the *rule* in ■ BIPRU 13.2.1 R;

it must notify the *appropriate regulator* as soon as practicable of that fact, the counterparty involved, the nature of the *exposure* or arrangement and the treatment of those *exposures* it has adopted for the purpose of the calculation of the *credit risk capital requirement*.

13.2.3

FCA

R

■ BIPRU 13.2.2 R does not apply to *exposures* which are within the scope of a *firm's CCR internal model method permission*.

13.2.4

FCA

R

A *firm* must judge the question of what is non-standard for the purposes of ■ BIPRU 13.2.2 R by reference to the standards:

- (1) prevailing at the time the *rule* is being applied; and
- (2) of *firms* generally who carry on business which might give rise to *exposures* covered by ■ BIPRU 13 rather than merely by reference to the *firm's* own business.

13.2.5

FCA

G

The methodologies which have been developed assume instruments with standard characteristics. There are many examples, however, of instruments which, although based

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

...a standard contract, contain structural features which make the *rules*, as stated, inappropriate. In such circumstances a *firm* should consult the *appropriate regulator*.



13.3 Calculation of exposure values for financial derivatives and long settlement transactions: General provisions

Financial derivative instruments

13.3.1

FCA

R

A *firm* must determine the *exposure* value of a *financial derivative instrument* in accordance with ■ BIPRU 13, with the effects of contracts of novation and other netting agreements taken into account for the purposes of those methods in accordance with ■ BIPRU 13.

[Note: BCD Article 78(2) first sentence]

13.3.2

FCA

R

Subject to ■ BIPRU 13.3, a *firm* must determine the *exposure* value for *financial derivative instruments* with the *CCR mark to market method*, the *CCR standardised method* or the *CCR internal model method*.

[Note: BCD Annex III, Part 2 point 1]

Definition of financial derivative instrument

13.3.3

FCA

R

Each of the following is a *financial derivative instrument*:

- (1) an interest-rate contract, being:
 - (a) a single-currency interest rate swap;
 - (b) a basis-swap;
 - (c) a forward rate agreement;
 - (d) an interest-rate future;
 - (e) a purchased interest-rate *option*; and
 - (f) other contracts of similar nature.

- (2) a *foreign currency* contract or contract concerning gold, being:
 - (a) a cross-currency interest-rate swap;
 - (b) a forward *foreign currency* contract;
 - (c) a currency future;
 - (d) a currency *option* purchased;

- (e) other contracts of a similar nature; and
 - (f) a contract concerning gold of a nature similar to (2)(a) to (e).
- (3) a contract of a nature similar to those in 1(a) to (e) and 2(a) to (d) concerning other reference items or indices, including as a minimum all instruments specified in points 4 to 7, 9 and 10 of Section C of Annex I to the *MIFID* not otherwise included in (1) or (2).

[Note: *BCD* Annex IV]

Long settlement transactions

13.3.4
FCA

R *Long settlement transaction* means a transaction where a counterparty undertakes to deliver a *security*, a *commodity*, or a *foreign currency* amount against cash, other *financial instruments*, or *commodities*, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of the market standard for this particular transaction and five business days after the date on which the *firm* enters into the transaction.

[Note: *BCD* Annex III Part 1 point 3]

13.3.5
FCA

R A *firm* must calculate the *exposure* value of a *long settlement transaction* in accordance with either:

- (1) ■ BIPRU 13; or
- (2) the *master netting agreement internal models approach*, if it has a *master netting agreement internal models approach waiver* which permits it to apply that approach.

[Note: *BCD* Article 78(2) second sentence, in respect of *long settlement transaction*]

13.3.6
FCA

R A *firm* may determine *exposures* arising from *long settlement transactions* using any of the *CCR mark to market method*, the *CCR standardised method* and the *CCR internal model method*, regardless of the methods chosen for treating *financial derivatives instruments* and *repurchase transactions*, *securities or commodities lending or borrowing transactions*, and *margin lending transactions*. In calculating capital requirements for *long settlement transactions*, a *firm* that uses the *IRB approach* may apply the *risk weights* under the *standardised approach* on a permanent basis and irrespective of the materiality of such positions.

[Note: *BCD* Annex III Part 2 point 7]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

Section 13.3 : Calculation of exposure values for financial derivatives and long settlement transactions: General provisions

FCA

required to calculate the *exposure* value of a transaction as a *long settlement transaction* for the purposes of BIPRU 13 if the transaction is a *financial derivative instrument* or a *securities financing transaction* and the *firm* chooses to calculate the capital requirement for the transaction according to the methods applicable to those *exposures*.

General netting

13.3.8

FCA

R

Under the *CCR mark to market method*, the *CCR standardised method* and the *CCR internal model method*, a *firm* must determine the *exposure* value for a given counterparty as equal to the sum of the *exposure* values calculated for each *netting set* with that counterparty.

[Note: BCD Annex III Part 2 point 5]

13.3.9

FCA

R

A *firm* may only recognise netting for the purposes of ■ BIPRU 13.4, ■ BIPRU 13.5 and ■ BIPRU 13.6 if the requirements in ■ BIPRU 13.7 are met.

Combined use

13.3.10

FCA

R

The combined use of the *CCR mark to market method*, the *CCR standardised method* and the *CCR internal model method* is not permitted. The combined use of the *CCR mark to market method* and the *CCR standardised method* is permitted where one of the methods is used for the cases set out in ■ BIPRU 13.5.9 R to ■ BIPRU 13.5.10 R.

[Note: BCD Annex III Part 2 point 1(part)]

13.3.11

FCA

G

The combined use of different approaches may be used across a group as described in ■ BIPRU 8.7.8 G and ■ BIPRU 8.7.9 G.

Exposure to a central counterparty

13.3.12

FCA

R

Notwithstanding ■ BIPRU 13.3.1 R and ■ BIPRU 13.3.5 R, a *firm* may determine the *exposure* value of a credit risk *exposure* outstanding with a *central counterparty* in accordance with ■ BIPRU 13.3.13 R, provided that the *central counterparty's counterparty credit risk exposure* with all participants in its arrangements are fully collateralised on a daily basis.

[Note: BCD Article 78(4) in respect of *financial derivatives* and *long settlement transactions*]

13.3.13

FCA

R

A *firm* may attribute an *exposure* value of zero for CCR to derivative contracts and *long settlement transactions*, or to other *exposures* arising in respect of those contracts or transactions (but excluding an *exposure* arising from collateral held to mitigate losses in the event of the default of other participants in the *central counterparty's* arrangements) where they are outstanding with a *central counterparty* and have not been rejected by the *central counterparty*.

[Note: BCD Annex III Part 2 point 6 in respect of *financial derivatives and long settlement transactions*]

Exceptions

13.3.14

FCA

R

When a *firm* purchases credit derivative protection against a *non-trading book*, *exposure* or against a *CCR exposure*, it must compute its capital requirement for the hedged asset in accordance with:

- (1) ■ BIPRU 5.7.16 R to ■ BIPRU 5.7.25 R and ■ BIPRU 4.10.49 R (4) to ■ (6) (Unfunded credit protection: Valuation and calculation of risk-weighted exposure amounts and expected loss amounts); or
- (2) where a *firm* calculates *risk weighted exposure amounts* in accordance with the *IRB approach*:
 - (a) ■ BIPRU 4.4.79 R (Double default); or
 - (b) ■ BIPRU 4.10.40 R to ■ BIPRU 4.10.48 R. (Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives).
- (3) [deleted]

[Note: BCD Annex III Part 2 point 3 (part)]

13.3.15

FCA

R

- (1) In the cases in ■ BIPRU 13.3.14R, and where the option in the second sentence of ■ BIPRU 14.2.10 R is not applied, the *exposure* value for *CCR* for these *credit derivatives* is set to zero.
- (2) However, a *firm* may choose consistently to include for the purposes of calculating capital requirements for *counterparty credit risk* all credit derivatives not included in the *trading book* and purchased as protection against a *non-trading exposure* or against a *CCR exposure* where the credit protection is recognised under the *BCD*.

[Note: BCD Annex III Part 2 point 3 (part)]

13.3.16

FCA

R

A *firm* must set the *exposure* value for *CCR* from sold credit default swaps in the *non-trading book*, where they are treated as credit protection provided by the *firm* and subject to a capital requirement for credit risk for the full notional amount, to zero.

[Note: BCD Annex III Part 2 point 4]



13.4 CCR mark to market method

General

13.4.1

R

The rules in ■ BIPRU 13.4 set out the *CCR mark to market method*.

FCA

13.4.2

R

A firm must obtain the current replacement cost of all contracts with positive values by attaching current market values to contracts (marking to market).

FCA

[Note: BCD Annex III Part 3, Step (a)]

13.4.3

R

A firm must obtain a figure for potential future credit *exposure* by multiplying the notional principal amounts or underlying values by the percentages in the table in ■ BIPRU 13.4.5 R.

FCA

[Note: BCD Annex III Part 3, Step (b) (part)]

13.4.4

R

■ BIPRU 13.4.3 R does not apply in the case of single-currency "floating/floating" interest rate swaps.

FCA

[Note: BCD Annex III Part 3, Step (b) (part)]

Table: multiples to be applied to notional principal amounts or underlying values

13.4.5

R

This table belongs to ■ BIPRU 13.4.5 R

FCA

Residual maturity	Interest-rate contracts	Contracts concerning foreign currency rates and gold	Contracts concerning equities	Contracts concerning precious metals except gold	Contracts concerning commodities other than precious metals
One year or less	0%	1%	6%	7%	10%
Over one year, not	0,5%	5%	8%	7%	12%

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Residual maturity	Interest-rate contracts	Contracts concerning foreign currency rates and gold	Contracts concerning equities	Contracts concerning precious metals except gold	Contracts concerning commodities other than precious metals
exceeding five years					
Over five years	1.5%	7.5%	10%	8%	15%

[Note: BCD Annex III Part 3, Table 1]

13.4.6
FCA

R A *firm* must treat a contract which does not fall within one of the five categories indicated in the table in ■ BIPRU 13.4.5 R as a contract concerning *commodities* other than precious metals.

[Note: BCD Annex III Part 3, Table 1 footnote 25]

13.4.7
FCA

R For contracts with multiple exchanges of principal, a *firm* must multiply the percentages in the table in ■ BIPRU 13.4.5 R by the number of remaining payments still to be made according to the contract.

[Note: BCD Annex III Part 3, Table 1 footnote 26]

13.4.8
FCA

R For contracts that are structured to settle outstanding *exposure* following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, a *firm* must treat the residual maturity as equal to the time until the next reset date.

[Note: BCD Annex III Part 3, Table 1 footnote 27 (part)]

13.4.9
FCA

R In the case of interest-rate contracts that meet the criteria in ■ BIPRU 13.4.8 R and have a remaining maturity of over one year, a *firm* must apply a percentage no lower than 0.5%.

[Note: BCD Annex III Part 3, Table 1 footnote 27 (part)]

13.4.10
FCA

R For the purpose of calculating the potential future credit *exposure* in accordance with ■ BIPRU 13.4.3 R a *firm* may apply the percentages in the table in ■ BIPRU 13.4.11 R instead of those prescribed in the table in ■ BIPRU 13.4.5 R provided that it makes use of the *commodity extended maturity ladder approach* for contracts relating to commodities other than gold.

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Alternative multiples to be applied to notional principal amounts or underlying values

13.4.11

FCA

R

This table belongs to ■ BIPRU 13.4.10 R

Residual maturity	Precious metals (except gold)	Base metals	Agricultural products (softs)	Other, including energy products
One year or less	2%	2,5%	3%	4%
Over one year, not exceeding five years	5%	4%	5%	6%
Over five years	7.5%	8%	9%	10%

[Note: BCD Annex III Part 3, Table 2]

13.4.12

FCA

R

A *firm* must calculate the *exposure* value as the sum of:

- (1) the current replacement cost calculated under ■ BIPRU 13.4.2 R; and
- (2) the potential future credit *exposure* calculated under ■ BIPRU 13.4.3 R.

[Note: BCD Annex III Part 3, Step (c)]

13.4.13

FCA

G

Contracts with a negative replacement cost should still be subject to an add-on if there is a possibility of the replacement costs becoming positive before maturity. Written options should therefore be exempt from add-ons.

13.4.14

FCA

G

For the purposes of calculating the replacement cost, where an *exposure* relates to collateral posted to cover a negative mark to market position on a derivative contract, the negative mark to market *exposure* may be offset against the collateral *exposure* if the requirements in ■ BIPRU 5 are met.

Alternative approach

13.4.15

FCA

R

A *firm* must ensure that the notional amount to be taken into account is an appropriate yardstick for the risk inherent in the contract. Where, for instance, the contract provides for a multiplication of cash flows, a *firm* must adjust the notional amount in order to take into account the effects of the multiplication on the risk structure of that contract.

[Note: BCD Annex III Part 2 point 8]

Netting: Contracts for novation

13.4.16

FCA

R

The single net amounts fixed by contracts for novation, rather than the gross amounts involved, may be weighted. For the purposes of the *CCR mark to market method*, a *firm* may obtain:

- (1) in ■ BIPRU 13.4.2 R, the current replacement cost; and
- (2) in ■ BIPRU 13.4.3 R, the notional principal amounts or underlying values;

by taking account of the contract for novation.

[Note: *BCD Annex III Part 7 point c(i)*]

Netting: Other netting agreements

13.4.17

FCA

R

In application of the *CCR mark to market method*:

- (1) in ■ BIPRU 13.4.2 R a *firm* may obtain the current replacement cost for the contracts included in a netting agreement by taking account of the actual hypothetical net replacement cost which results from the agreement; in the case where netting leads to a net obligation for the *firm* calculating the net replacement cost, the current replacement cost is calculated as "0"; and
- (2) in ■ BIPRU 13.4.3 R a *firm* may reduce the figure for potential future credit *exposure* for all contracts included in a netting agreement according to the following formula:

$$PCE_{red} = 0.4 * PCE_{gross} + 0.6 * NGR * PCE_{gross}$$

where:

- (a) PCE_{red} = the reduced figure for potential future credit *exposure* for all contracts with a given counterparty included in a legally valid bilateral netting agreement;
- (b) PCE_{gross} = the sum of the figures for potential future credit *exposure* for all contracts with a given counterparty which are included in a legally valid bilateral netting agreement and are calculated by multiplying their notional principal amounts by the percentages set out in the table in ■ BIPRU 13.4.5 R; and
- (c) NGR = "net-to-gross ratio": the quotient of the net replacement cost for all contracts included in a legally valid bilateral netting agreement with a given counterparty (numerator) and the gross replacement cost for all contracts included in a legally valid bilateral netting agreement with that counterparty (denominator).

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions [Note: *BCD* Annex III Part 7 point c(ii) (part)]

13.4.18

FCA

R

For the calculation of the potential future credit exposure according to the formula in ■ BIPRU 13.4.17 R perfectly matching contracts included in the netting agreement may be taken into account as a single contract with a notional principal equivalent to the net receipts.

[Note: *BCD* Annex III Part 7 point c(ii) (part)]

13.4.19

FCA

R

For the purposes of ■ BIPRU 13.4.18 R a perfectly matching contract is a forward *foreign currency* contract or similar contract in which a notional principal is equivalent to cash flows if the cash flows fall due on the same value date and fully or partly in the same currency.

[Note: *BCD* Annex III Part 7 point c(ii) (part)]

13.5 CCR standardised method

Scope

13.5.1
FCA

R

A firm may use the *CCR standardised method* only for *financial derivative instruments* and *long settlement transactions*.

[Note: *BCD Annex III Part 5 point 1 (part)*]

Derivation of risk position: payment legs

13.5.2
FCA

R

- (1) When a *financial derivative instrument* transaction with a linear risk profile stipulates the exchange of a *financial instrument* for a payment, the payment Part is referred to as the *payment leg*.
- (2) Transactions that stipulate the exchange of payment against payment consist of two *payment legs*.
- (3) The *payment legs* consist of the contractually agreed gross payments, including the notional amount of the transaction.
- (4) A firm may disregard the *interest rate risk* from *payment legs* with a remaining maturity of less than one year for the purposes of the calculations in ■ BIPRU 13.5.
- (5) A firm may treat transactions that consist of two *payment legs* that are denominated in the same currency, such as interest rate swaps, as a single aggregate transaction. The treatment for *payment legs* applies to the aggregate transaction.

[Note: *BCD Annex III Part 5 point 2*]

Derivation of risk position: mapping

13.5.3
FCA

R

- (1) Transactions with a linear risk profile with equities (including equity indices), gold, other precious metals or other *commodities* as the underlying financial instruments must be mapped to a *risk position* in the respective equity (or equity index) or *commodity* (including gold and other precious metals) and an *interest rate risk position* for the *payment leg*.

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

(1) If the *payment leg* is denominated in a *foreign currency*, it must be additionally mapped to a *risk position* in the respective currency.

[Note: BCD Annex III Part 5 point 3]

13.5.4
FCA

R

- (1) Transactions with a linear risk profile with a debt instrument as the underlying instrument must be mapped to an interest rate *risk position* for the debt instrument and another interest rate *risk position* for the *payment leg*.
- (2) Transactions with a linear risk profile that stipulate the exchange of payment against payment, including *foreign exchange forwards*, must be mapped to an interest rate *risk position* for each of the *payment legs*.
- (3) If the underlying debt instrument is denominated in a *foreign currency*, the debt instrument must be mapped to a *risk position* in that *foreign currency*.
- (4) If a *payment leg* is denominated in *foreign currency*, the *payment leg* must be again mapped to a *risk position* in that *foreign currency*.
- (5) The *exposure* value to be assigned to a *foreign exchange* basis swap transaction is zero.

[Note: BCD Annex III Part 5 point 4]

Derivation of risk position: calculating the size of the risk position

13.5.5
FCA

R

A *firm* must calculate the *risk position* of the transaction or instrument in column 1 of the table in ■ BIPRU 13.5.6 R in accordance with column 2 of that table.

13.5.6
FCA

R

This table belongs to ■ BIPRU 13.5.5 R.

Transaction or instrument	Calculation of size of <i>risk position</i>
Transaction with linear risk profile except for debt instruments.	The effective notional value (market price multiplied by quantity) of the underlying <i>financial instruments</i> (including <i>commodities</i>) converted to the <i>firm's</i> domestic currency.
Debt instruments and <i>payment legs</i> .	The effective notional value of the outstanding gross payments (including the notional amount) converted to the <i>firm's base currency</i> , multiplied by the modified duration of the debt instrument, or <i>payment leg</i> , respectively.

Transaction or instrument	Calculation of size of <i>risk position</i>
Credit default swap	The notional value of the reference debt instrument multiplied by the remaining maturity of the credit default swap.
Nth to default credit default swap	The effective notional value of the reference debt instrument, multiplied by the modified duration of the nth to default derivative with respect to a change in the credit spread of the reference debt instrument.
Subject to BIPRU 13.5.9 R to BIPRU 13.5.10 R, <i>financial derivative instrument with a non-linear risk profile, including options and swaptions except in the case of an underlying debt instrument.</i>	Equal to the delta equivalent effective notional value of the <i>financial instrument</i> that underlies the transaction.
Subject to BIPRU 13.5.9 R to BIPRU 13.5.10 R, <i>financial derivative instrument with a non-linear risk profile, including options and swaptions, of which the underlying is a debt instrument or a payment leg.</i>	Equal to the delta equivalent effective notional value of the <i>financial instrument</i> or <i>payment leg</i> multiplied by the modified duration of the debt instrument, or <i>payment leg</i> , respectively.

[Note: BCD Annex III Part 5 points 5 to 9 and 15 (part)]

Derivation of risk position: effective notional value

13.5.7
FCA

R

A *firm* may use the following formulae to determine the size and sign of a *risk position*:

(1) for all instruments other than debt instruments:

effective notional value, or delta equivalent

$$\text{notional value} = p_{\text{ref}}((V)/(p))$$

where:

- (a) P_{ref} = price of the underlying instrument, expressed in the reference currency;
- (b) V = value of the financial instrument (in the case of an option this is the option price; in the case of a transaction with a linear risk profile this is the value of the underlying instrument itself);

p = price of the underlying instrument, expressed in the same currency as V ;

(2) for debt instruments and the *payment legs* of all transactions:

effective notional value multiplied by the modified duration, or delta equivalent in notional value multiplied by the modified duration

$(V)/(r)$

where:

(a) V = value of the financial instrument (in the case of an option this is the option price; in the case of a transaction with a linear risk profile this is the value of the underlying instrument itself or of the *payment leg*, respectively);

(b) r = interest rate level.

(3) If V is denominated in a currency other than the reference currency, the derivative must be converted into the reference currency by multiplication with the relevant exchange rate.

[Note: *BCD Annex III Part 5 point 11*]

Derivation of risk position: treatment of collateral

13.5.8

FCA

R

For the determination of *risk positions*, a *firm* must treat collateral received from a counterparty like a claim on the counterparty under a derivative contract (long position) that is due today, while collateral posted must be treated as an obligation to the counterparty (short position) that is due today.

[Note: *BCD Annex III Part 5 point 10*]

Derivation of risk position: non-linear risks

13.5.9

FCA

R

A *firm* must apply the *CCR mark to market method* to transactions with a non-linear risk profile or for *payment legs* and transactions with debt instruments as underlying if:

(1) the *firm* does not have a *CAD 1 model permission* or a *VaR model permission*; or

(2) where the *firm* does have a *CAD 1 model permission* or a *VaR model permission* but cannot determine the delta or the modified duration, respectively, with its *CAD 1 model permission* or *VaR model permission*.

[Note: *BCD Annex III Part 5 point 19 (part)*]

FCA

A firm must not recognise netting for the purpose of applying the CCR *mark to market method* to an *exposure* treated under ■ BIPRU 13.5.9 R (that is, the *exposure* value must be determined as if there were a *netting set* that comprises just the individual transaction).

[Note: BCD Annex III Part 5 point 19 (part)]

Hedging sets: assignment

13.5.11

R

FCA

A firm must group the *risk positions* into *hedging sets* and, for each *hedging set*, compute the absolute value amount of the sum of the resulting *risk positions*. This sum is termed the net *risk position* and is represented by:

$$((i)(RPT_{ij}) - (i)(RPC_{ij}))$$

in the formulae set out in ■ BIPRU 13.5.24 R.

[Note: BCD Annex III Part 5 point 12]

Hedging sets: description

13.5.12

R

FCA

For interest rate *risk positions* from money deposits received from the counterparty as collateral, from *payment leg* and from underlying debt instruments, to which according to the table in BIPRU 7.2.44R a capital charge of 1.60% or less applies, there are six *hedging sets* for each currency, as set out in the table in ■ BIPRU 13.5.13 R. *Hedging sets* are defined by a combination of the criteria maturity and referenced interest rates.

[Note: BCD Annex III Part 5 point 13]

Table: Hedging sets

13.5.13

R

FCA

This table belongs to ■ BIPRU 13.5.12 R:

	Government referenced interest rates	Non-government referenced interest rates
Maturity	<= 1 year	<= 1 year
Maturity	>1 <= 5 years	>1 <= 5 years
Maturity	> 5 years	> 5 years

[Note: BCD Annex III Part 5 Table 4]

13.5.14

R

FCA

For interest rate *risk positions* from underlying debt instruments or *payment legs* for which the interest rate is linked to a reference interest rate that represents a general market interest level, the remaining maturity is the length of the time interval up to the next re-adjustment of the interest rate. In all other cases, it is the remaining life of the underlying

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

reference instrument, or in the case of a *payment leg* the remaining life of the transaction.

[Note: *BCD* Annex III Part 5 point 14]

13.5.15

FCA

R

There is one *hedging set* for each issuer of a reference debt instrument that underlies a credit default swap. Nth to default basket credit default swaps must be treated as follows:

- (1) the size of a *risk position* in a reference debt instrument in a basket underlying an nth to default credit default swap is the effective notional value of the reference debt instrument, multiplied by the modified duration of the nth to default derivative, with respect to a change in the credit spread of the reference debt instrument;
- (2) there is one *hedging set* for each reference debt instrument in a basket underlying a given nth to default credit default swap; *risk positions* from different nth to default credit default swaps must not be included in the same *hedging set*; and
- (3) the *CCR* multiplier applicable to each *hedging set* created for one of the reference debt instruments of an nth to default derivative is 0.3% for reference debt instruments that have a credit assessment from a recognised *ECAI* equivalent to *credit quality step* 1 to 3, and 0.6% for other debt instruments.

[Note: *BCD* Annex III Part 5 point 15]

13.5.16

FCA

R

Underlying financial instruments other than debt instruments must be assigned by a *firm* to the same respective *hedging sets* only if they are identical or similar instruments. In all other cases a *firm* must assign them to separate *hedging sets*.

[Note: *BCD* Annex III Part 5 point 17 (part)]

13.5.17

FCA

R

- (1) The similarity of instruments for the purposes of ■ BIPRU 13.5.16 R is established in accordance with (2) to (5).
- (2) For equities, similar instruments are those of the same issuer. An equity index is treated as a separate issuer.
- (3) For precious metals, similar instruments are those of the same metal. A precious metal index is treated as a separate precious metal.
- (4) For electric power, similar instruments are those delivery rights and obligations that refer to the same peak or off-peak load time interval within any 24 hour interval.

(5) For *commodities*, similar instruments are those of the same *commodity*. A *commodity* index is treated as a separate *commodity*.

[Note: BCD Annex III Part 5 point 17 (part)]

Hedging sets: collateral

13.5.18

FCA

R

- (1) For interest rate *risk positions* from money deposits that are posted with a counterparty as collateral when that counterparty does not have debt obligations of low *specific risk* outstanding and from underlying debt instruments, to which according to the table in ■ BIPRU 7.2.44 R a capital charge of more than 1.60% applies, there is one *hedging set* for each issuer.
- (2) When a *payment leg* emulates such a debt instrument, there is also one *hedging set* for each issuer of the reference debt instrument.
- (3) A *firm* may assign *risk positions* that arise from debt instruments of a certain issuer, or from reference debt instruments of the same issuer that are emulated by *payment legs*, or that underlie a credit default swap, to the same *hedging set*.

[Note: BCD Annex III Part 5 point 16]

13.5.19

FCA

R

A *firm* that makes use of collateral to mitigate its CCR must have internal procedures to verify that, prior to recognising the effect of collateral in its calculations, the collateral meets the legal certainty standards set out in ■ BIPRU 5 modified, where relevant, by ■ BIPRU 4.10.

[Note: BCD Annex III Part 5 point 21]

Hedging sets: netting

13.5.20

FCA

R

A *firm* must have internal procedures to verify that, prior to including a transaction in a *hedging set*, the transaction is covered by a legally enforceable netting contract that meets the requirements set out in ■ BIPRU 13.7.

[Note: BCD Annex III Part 5 point 20]

Credit conversion factors : Table

13.5.21

FCA

R

A *firm* must apply the CCR multipliers for the different *hedging set* categories according to the Table in ■ BIPRU 13.5.22 R.

[Note: BCD Annex III Part 5 point 18]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

FCA

The table belongs to ■ BIPRU 13.5.21 R.

Hedging set categories	CCR Multiplier (CCRM)
(1) Interest Rates	0.2%
(2) Interest Rates for <i>risk positions</i> from a reference debt instrument that underlies a credit default swap and to which a capital charge of 1.60%, or less, applies under BIPRU 7.2.44 R.	0.3%
(3) Interest Rates for <i>risk positions</i> from a debt instrument or reference debt instrument to which a capital charge of more than 1.60% applies under BIPRU 7.2.44 R.	0.6%
(4) Exchange Rates	2.5%
(5) Electric power	4.0%
(6) Gold	5.0%
(7) Equity	7.0%
(8) Precious Metals (except gold)	8.5%
(9) Other <i>commodities</i> (excluding precious metals and electricity power)	10.0%
(10) Reference debt instruments of an nth to default derivative that have a credit assessment from a recognised <i>ECAI</i> equivalent to <i>credit quality step 1 to 3</i>	0.3%
(11) Reference debt instruments of an nth to default derivative that do not have a credit assessment from a recognised <i>ECAI</i> equivalent to <i>credit quality step 1 to 3</i>	0.6%

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

<i>Hedging set categories</i>	<i>CCR Multiplier (CCRM)</i>
(12)	Underlying instruments of <i>financial derivative instrument</i> that are not in any of the above categories. 10.0%

[Note: BCD Annex III Part 5 Table 5 and Part 5 point 15 (c)]

13.5.23

FCA

R

A *firm* must assign underlying instruments of *financial derivatives instruments* (in line 10 of the Table in ■ BIPRU 13.5.22 R) to separate individual *hedging sets* for each category of underlying instrument.

Exposure value

13.5.24

FCA

R

A *firm* must calculate the *exposure* value separately for each *netting set*.

[Note: BCD Annex III Part 5 point 1, second sentence]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

FCA

to determine the *exposure* value net of collateral, as follows:

$$exposure\ value = *max(CMV-CMC;_{(j)}((_{(i)}(RPT_{ij})-(_{(l)}(RPC_{lj}))*CCRM_j)$$

where:

CMV = *current market value* of the portfolio of transactions within the *netting set* with a counterparty gross of collateral.

That is, where:

$$CMV = (_{(i)})(CMV_i)$$

where:

CMV_i = the *current market value* of transaction *i*;

CMC = the *current market value* of the collateral assigned to the *netting set*.

That is, where: $CMC = (_{(l)})(CMC_l)$

where

CMC_l = the *current market value* of collateral *l*;

i = index designating transaction;

l = index designating collateral;

j = index designating *hedging set* category. These *hedging sets* correspond to risk factors for which *risk positions* of opposite sign can be offset to yield a net *risk position* on which the *exposure* measure is then based;

RPT_{ij} = *risk position* from transaction *i* with respect to *hedging set j*;

RPC_{lj} = *risk position* from collateral *l* with respect to *hedging set j*;

CCRM_j = CCR Multiplier set out in the Table in BIPRU 13.5.22R with respect to the *hedging set j*;

= 1.4.

[Note: BCD Annex III Part 5 point 1 (part)]

13.5.26

R

Collateral received from a counterparty has a positive sign; collateral posted to a counterparty has a negative sign.

FCA

[Note: BCD Annex III Part 5 point 1 (part)]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

FCA

A *firm* may only recognise collateral for this method if it is collateral that is eligible under ■ BIPRU 5.4.8 R and ■ BIPRU 14.2.12 G to ■ BIPRU 14.2.13 R.

[Note: *BCD* Annex III Part 5 point 1 (part)]

13.5.28

FCA

G

A worked example showing a US Dollar (USD)-based *firm*, single counterparty, single netting set, Risk-positions RP_{ij} by hedging sets j is set out in ■ BIPRU 13 Annex 1 G

13.6 CCR internal model method

Introduction

13.6.1 **R** ■ BIPRU 13.6 sets out the *rules* relating to the *CCR internal model method*.

FCA

13.6.2 **R** A *firm* may only use the *CCR internal model method* if it has a *CCR internal model method permission*.

FCA

13.6.3 **G** ■ BIPRU 1.3 sets out the process for applying for a *CCR internal model method permission*.

FCA

13.6.4 **G** A *firm's CCR internal model method permission* will modify ■ BIPRU 13.6.2 R and will require the *firm* to use only the *CCR internal model method*, except to the extent that ■ BIPRU 13 permits the *firm* to combine the use of the *CCR internal model method* with one or more other methods.

FCA

13.6.5 **R** (1) A reference in the *Handbook* to a provision of the *CCR internal model method*, in relation to a *firm*:

FCA

- (a) excludes any provision of the *CCR internal model method* set out in the *Handbook* which is not applied to that *firm* by its *CCR internal model method permission*;
- (b) includes any additional provision contained in the *CCR internal model method permission*; and
- (c) takes into account any other amendments made to the provisions in the *Handbook* relating to the *CCR internal model method* made by the *CCR internal model method permission*.

(2) To the extent that a *firm's CCR internal model method permission* does not allow it to use a particular approach in the *Handbook* relating to the *CCR internal model method*, the *Handbook* provision does not apply to the *firm*.

Scope

13.6.6 **R** A *firm* may determine the *exposure* value for:

FCA

- (1) *financial derivative instruments*;

- (2) *repurchase transactions;*
- (3) *securities or commodities lending or borrowing transactions;*
- (4) *margin lending transactions;* and
- (5) *long settlement transactions*

using the *CCR internal model method*.

[Note: BCD Annex III Part 2 point 2]

13.6.7

FCA

R

A *firm* may use the *CCR internal model method* to calculate the *exposure value* for:

- (1) the transactions in ■ BIPRU 13.6.6 R (1); or
- (2) the transactions in ■ BIPRU 13.6.6 R (2), ■ (3) and ■ (4); or
- (3) the transactions in ■ BIPRU 13.6.6 R (1) to ■ (4).

[Note: BCD Annex III Part 6 point 1 (part)]

13.6.8

FCA

R

In each of ■ BIPRU 13.6.7 R (1), ■ (2) and ■ (3), a *firm* may include *long settlement transactions* as well.

[Note: BCD Annex III Part 6 point 1 (part)]

Use of other models

13.6.9

FCA

G

Point 2 of Part 6 of Annex III of the *Banking Consolidation Directive* provides that a *firm* using the *CCR internal model method* may use a type of model other than the type set out in ■ BIPRU 13.6. If the *appropriate regulator* agrees to this the details of the model and the necessary calculations will be set out in the *CCR internal model method permission*, which will modify ■ BIPRU 13.6 to the extent necessary. The *appropriate regulator* would not expect to agree to such a request unless the *firm* was able to satisfy the *appropriate regulator* that the method was at least as conservative as the method set out in BIPRU 13.6 and in particular that, for every *counterparty*, any method was more conservative than alpha multiplied by *effective EPE* calculated according to the equation in ■ BIPRU 13.6.27 R.

[Note: BCD Annex III Part 6 point 2 (second sentence) and point 11]

Partial use

13.6.10

FCA

R

For all *financial derivative instruments* and for *long settlement transactions* which are outside the scope of a *firm's CCR internal model method permission*, a *firm* must use the *CCR mark to market method* or the *CCR standardised method*.

[Note: BCD Annex III Part 6 point 3 first sentence]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

FCA

Under BIPRU 13.6.10 R, combined use of the *CCR mark to market method* and the *CCR standardised method* is only permitted where one of the methods is used for the cases set out in ■ BIPRU 13.5.9 R to ■ BIPRU 13.5.10 R.

[Note: BCD Annex III Part 6 point 3 second sentence]

13.6.12

R

Notwithstanding ■ BIPRU 13.3.10 R (Combined use), a *firm* may choose not to apply the *CCR internal model method* to *exposures* that are immaterial in size and risk.

FCA

[Note: BCD Annex III Part 6 point 1 third sentence]

13.6.13

R

If permitted by its *CCR internal model method permission*, and subject to its terms, a *firm* may carry out the implementation of the *CCR internal model method* sequentially across different transaction types; and during this period the *firm* may use the *CCR mark to market method* or the *CCR standardised method*.

FCA

[Note: BCD Annex III Part 6 point 2]

13.6.14

G

After the initial period following the granting of its *CCR internal model method permission*, as referred to in ■ BIPRU 13.6.13 R, a *firm* should extend the use of the *CCR internal model method* to cover any new business within a product category covered by its *CCR internal model method permission*. Subject to ■ BIPRU 13.6.10 R to ■ BIPRU 13.6.13 R, the *firm* should do so within a reasonable period of time. If the *firm* decides to exclude any business on, for example, the basis of materiality, it should document its reasons clearly.

FCA

13.6.15

G

In principle, the use of different measures of *exposure* within the *CCR internal model method* is possible within the same product category, including on a permanent basis. The *appropriate regulator* may allow a *firm*, through the *CCR internal model method permission*, to use a more conservative measure of *exposure* that is less risk sensitive (for instance a measure based on conservative haircuts) for certain parts of the business if justified on a cost-benefit basis. However, a *firm* would still need to meet the use test for these more conservative measures and would need to demonstrate that the aggregation of *CCR exposures* that come from different approaches and have different degrees of conservatism makes sense and is used for its *CCR* management purposes.

FCA

13.6.16

G

The *appropriate regulator* may, through the *CCR internal model method permission*, require a *firm* to apply a multiplier to the measures of *exposures* coming out of a less risk-sensitive approach to calculating *exposures* as referred to in ■ BIPRU 13.6.15 G where the *appropriate regulator* considers this to be appropriate due to the complexity of the business or the nature of the risks involved.

FCA

Use of CCR internal model method

13.6.17

R

Subject to ■ BIPRU 13.6.10 R to ■ BIPRU 13.6.16 G, a *firm* that has a *CCR internal model method permission* must not use the *CCR mark to market method* or the *CCR standardised method* for transactions within the scope of the *firm's CCR internal model method permission*.

FCA

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

[Note: BCD Annex III Part 6 point 4 (part)]

13.6.18

FCA

G

A *firm* which wishes to revert to the *CCR mark to market method* or the *CCR standardised method* will need to request the *appropriate regulator* to revoke or vary its *CCR internal model method permission*.

[Note: BCD Annex III Part 6 point 4 (part)]

13.6.19

FCA

G

The *appropriate regulator* will not agree to a *firm's* request to revoke or vary its *CCR internal model method permission* except for demonstrated good cause.

[Note: BCD Annex III Part 6 point 4 (part)]

13.6.20

FCA

R

If a *firm* ceases to comply with the requirements set out in ■ BIPRU 13.6, it must either present to the *appropriate regulator* a plan for a timely return to compliance or demonstrate that the effect of non-compliance is immaterial.

[Note: BCD Annex III Part 6 point 4 (part)]

13.6.21

FCA

G

If a *firm* ceases to comply with the requirements set out in ■ BIPRU 13.6, the *appropriate regulator* may revoke the *CCR internal model method permission* or take other appropriate supervisory action.

[Note: BCD Annex III Part 6 point 4 (part)]

Exposure value

13.6.22

FCA

R

- (1) A *firm* must measure the *exposure value* at the level of the *netting set*.
- (2) The model must specify the forecasting distribution for changes in the market value of the *netting set* attributable to changes in market variables, such as interest rates, *foreign exchange rates*.
- (3) The model must then compute the *exposure value* for the *netting set* at each future date given the changes in the market variables.
- (4) For margined counterparties, the model may also capture future collateral movements.

[Note: BCD Annex III Part 6 point 5]

13.6.23

FCA

R

A *firm* may include eligible financial collateral as defined in ■ BIPRU 5.4.8 R (Eligible collateral under financial collateral comprehensive method) and ■ BIPRU 14.2.15 R to ■ BIPRU 14.2.17 R in its forecasting distributions for changes in the market value of the *netting set*, if the quantitative, qualitative and data requirements for the *CCR internal model method* are met for the collateral.

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

[Note: BCD Annex III Part 6 point 6]

13.6.24
FCA

R A firm must calculate the *exposure* value as the product of alpha (α), as set out in ■ BIPRU 13.6.31 R, times *effective EPE*:

$$\text{Exposure value} = \text{effective EPE}$$

[Note: BCD Annex III Part 6 point 7 first part]

Effective EPE

13.6.25
FCA

R A firm must compute *effective EPE* by estimating *expected exposure (EE_t)* as the average *exposure* at future date t , where the average is taken across possible future values of relevant *market risk* factors. The model estimates *EE* at a series of future dates t_1, t_2, t_3 , etc.

[Note: BCD Annex III Part 6 point 7 third part]

13.6.26
FCA

R A firm must compute *effective EE* recursively as:

$$\text{Effective EE}_k = \max(\text{effective EE}_{k-1}; \text{EE}_k)$$

where:

the current date is denoted as t_0 and *Effective EE_{t0}* equals *current exposure*.

[Note: BCD Annex III Part 6 point 8]

13.6.27
FCA

R For the purposes of ■ BIPRU 13.6.25 R :

- (1) *effective EPE* is the average *effective EE* during the first year of future *exposure*;
- (2) if all contracts in the *netting set* mature within less than one year, *effective EPE* is the average of *effective EE* until all contracts in the *netting set* mature.

[Note: BCD Annex III Part 6 point 9, first part]

13.6.28
FCA

R A firm must compute *effective EPE* as a weighted average of *effective EE*:

$$\text{Effective EPE} = \sum_{k=1}^{\min(1 \text{ year}; \text{maturity})} ((\text{Effective EE}_{t_k}) * (t_k))$$

where:

the weights $\lambda_k = t_k - t_{k-1}$ allow for the case when future *exposure* is calculated at dates that are not equally spaced over time.

[Note: BCD Annex III Part 6 point 9, second part]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

FCA

A firm must calculate *EE* or *peak exposure* measures based on a *distribution of exposures* that accounts for the possible non-normality of the *distribution of exposures*.

[Note: BCD Annex III Part 6 point 10]

13.6.30

R

[deleted]

Alpha

13.6.31

R

For the purposes of ■ BIPRU 13.6.24 R, alpha () is 1.4 or any higher amount specified in the *firm's CCR internal model method permission*.

FCA

[Note: BCD Annex III Part 6 point 7 second part]

13.6.32

G

If the *appropriate regulator* does specify an alpha greater than 1.4, the reasons will be set out in the *firm's CCR internal model method permission*.

FCA

13.6.33

R

If a *firm's CCR internal model method permission* permits it, the *firm* may use its own estimates of , subject to a floor of 1.2, where must equal the ratio of internal capital from a full simulation of *CCR exposure* across counterparties (numerator) and internal capital based on *EPE* (denominator).

FCA

[Note: BCD Annex III Part 6 point 12 (part)]

13.6.34

R

For the purposes of ■ BIPRU 13.6.33 R:

FCA

- (1) in the denominator, *EPE* must be used as if it were a fixed outstanding amount;
- (2) a *firm* must be able to demonstrate that its internal estimates of capture in the numerator material sources of stochastic dependency of *distribution of market values* of transactions or of portfolios of transactions across counterparties;
- (3) internal estimates of must take account of the granularity of portfolios.

[Note: BCD Annex III Part 6 point 12 (part)]

13.6.35

R

A *firm* must ensure that the numerator and denominator of are computed in a consistent fashion with respect to the modelling methodology, parameter specifications and portfolio composition. The approach used must be based on the *firm's* internal capital approach, be well-documented and be subject to independent validation. In addition, a *firm* must review their estimates on at least a quarterly basis, and more frequently when the composition of the portfolio varies over time. A *firm* must also assess the model risk.

FCA

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

[Note: BCD Annex III Part 6 point 13]

13.6.35A

FCA

R

Where appropriate, volatilities and correlations of *market risk* factors used in the joint simulation of *market risk* and credit risk must be conditioned on the credit risk factor to reflect potential increases in volatility or correlation in an economic downturn.

[Note: BCD Annex III Part 6 point 14]

13.6.36

FCA

G

In reviewing its estimate of , a *firm* may not need to perform a full recalculation each quarter if it can demonstrate by other means that the estimate would not be materially different. A full recalculation should however be performed at least annually. If there is a structural change in the *firm's* portfolio that is likely to have the effect that the existing estimate of will be inappropriate, the *firm* should also recalculate it. A *firm* should have procedures in place to identify any such structural changes.

Maturity adjustment

13.6.37

FCA

G

A *firm* using the *IRB approach* for risk weighting of exposures arising from a *CCR internal model method* should also apply a different maturity adjustment as set out in

■ BIPRU 4.4.67 R ■ BIPRU 4.4.70 R.

Margin agreement

13.6.38

FCA

R

If the *netting set* is subject to a *margin agreement*, a *firm* must use one of the following *EPE* measures:

- (1) *effective EPE* without taking into account the *margin agreement*;
- (2) the *margin threshold*, if positive, under the *margin agreement* plus an add-on that reflects the potential increase in *exposure* over the *margin period of risk*:
 - (a) the add-on is computed as the expected increase in the *netting set's exposure* beginning from a *current exposure* of zero over the *margin period of risk*;
 - (b) a floor of five business days for *netting sets* consisting only of repo-style transactions subject to daily remargining and daily mark-to-market, and ten business days for all other *netting sets* is imposed on the *margin period of risk* used for this purpose.
- (3) if the model captures the effects of margining when estimating *EE*, the model's *EE* measure may be used directly in the equation in ■ BIPRU 13.6.28 R (Computation of effective EE), unless the *firm's CCR internal model method permission* does not apply this provision or does not permit that use.

[Note: BCD Annex III Part 6 point 15]

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

FCA

where the effects of margining are captured by the model itself, the *appropriate regulator* does not prescribe any floors for the *margin period of risk* but will challenge a *firm* that looks to use periods shorter than 5 days for *repurchase agreements* or *reverse repurchase agreements* or 10 days for *financial derivative instruments*.

Operational requirements: General

13.6.40

FCA

R

A *firm's* EPE model must meet the operational requirements set out in

■ BIPRU 13.6.41 R to ■ BIPRU 13.6.66 R.

[Note: BCD Annex III Part 6 point 16]

Operational requirements: CCR control

13.6.41

FCA

R

- (1) The *firm* must have a control unit that is responsible for the design and implementation of its CCR management system, including the initial and on-going validation of the model.
- (2) This unit must control input data integrity and produce and analyse reports on the output of the *firm's* risk measurement model, including an evaluation of the relationship between measures of risk *exposure* and credit and trading limits.
- (3) This unit must be:
 - (a) independent from units responsible for originating, renewing or trading *exposures* and free from undue influence;
 - (b) it must be adequately staffed; and
 - (c) it must report directly to the senior management of the *firm*.
- (4) The work of this unit must be closely integrated into the day-to-day credit risk management process of the *firm*; its output must, accordingly, be an integral part of the process of planning, monitoring and controlling the *firm's* credit and overall risk profile.

[Note: BCD Annex III Part 6 point 17]

13.6.42

FCA

R

- (1) A *firm* must have CCR management policies, processes and systems that are conceptually sound and implemented with integrity.
- (2) A sound CCR management framework must include the identification, measurement, management, approval and internal reporting of CCR.

[Note: BCD Annex III Part 6 point 18]

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FCA

A *firm's* risk management policies must take account of *market risk, liquidity risk*, and legal and *operational risk* that can be associated with *CCR*.

- (2) The *firm* must not undertake business with a counterparty without assessing its creditworthiness and must take due account of settlement and pre-settlement credit risk.
- (3) These risks must be managed as comprehensively as practicable at the counterparty level (aggregating *CCR exposures* with other credit *exposures*) and at the *firm-wide* level.

[Note: *BCD Annex III Part 6 point 19*]

13.6.44

FCA

R

A *firm's governing body* and senior management must be actively involved in the *CCR control process* and must regard this as an essential aspect of the business to which significant resources need to be devoted. Senior management must be aware of the limitations and assumptions of the model used and the impact these can have on the reliability of the output. Senior management must also consider the uncertainties of the market environment and operational issues and be aware of how these are reflected in the model.

[Note: *BCD Annex III Part 6 point 20*]

13.6.45

FCA

R

A *firm* must ensure that the daily reports prepared on its *exposures to CCR* are reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual credit managers or traders and reductions in the *firm's overall CCR exposure*.

[Note: *BCD Annex III Part 6 point 21*]

13.6.46

FCA

R

- (1) A *firm's CCR management system* must be used in conjunction with internal credit and trading limits.
- (2) A *firm* must ensure that its credit and trading limits are related to its risk measurement model in a manner that is:
 - (a) consistent over time; and
 - (b) well understood by credit managers, traders and senior management.

[Note: *BCD Annex III Part 6 point 22*]

PAGE
33

13.6.47

FCA

R

- (1) A *firm's measurement of CCR* must include measuring daily and intra-day usage of credit lines.
- (2) The *firm* must measure *current exposure* gross and net of collateral.

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(3) At portfolio and counterparty level, the *firm* must calculate and monitor *peak exposure* or potential future *exposure* (PFE) at the confidence interval chosen by the *firm*.

(4) The *firm* must take account of large or concentrated positions, including by groups of related counterparties, by industry, by market, etc.

[Note: BCD Annex III Part 6 point 23]

13.6.48

FCA

R

(1) A *firm* must have a routine and rigorous program of stress testing in place as a supplement to the CCR analysis based on the day-to-day output of the *firm's* risk measurement model.

(2) The results of this stress testing must be reviewed periodically by senior management and must be reflected in the CCR policies and limits set by management and the *governing body*.

(3) Where stress tests reveal particular vulnerability to a given set of circumstances, prompt steps must be taken to manage those risks appropriately.

[Note: BCD Annex III Part 6 point 24]

13.6.49

FCA

R

(1) A *firm* must have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the CCR management system.

(2) The *firm's* CCR management system must be well documented and must provide an explanation of the empirical techniques used to measure CCR.

[Note: BCD Annex III Part 6 point 25]

13.6.50

FCA

R

A *firm* must conduct an independent review of the CCR management system regularly through its own internal auditing process. This review must include both the activities of the business units referred to in ■ BIPRU 13.6.41 R and of the independent CCR control unit. A review of the overall CCR management process must take place at regular intervals and must specifically address, at a minimum:

(1) the adequacy of the documentation of the CCR management system and process;

(2) the organisation of the CCR control unit;

(3) the integration of CCR measures into daily risk management;

- (4) the approval process for risk pricing models and valuation systems used by front and back-office personnel;
- (5) the validation of any significant change in the CCR measurement process;
- (6) the scope of CCR captured by the risk measurement model;
- (7) the integrity of the management information system;
- (8) the accuracy and completeness of CCR data;
- (9) the verification of the consistency, timeliness and reliability of data sources used to run models, including the independence of such data sources;
- (10) the accuracy and appropriateness of volatility and correlation assumptions;
- (11) the accuracy of valuation and risk transformation calculations; and
- (12) the verification of the model's accuracy through frequent back-testing.

[Note: BCD Annex III Part 6 point 26]

Operational requirements: Use test

13.6.51

FCA

R

The *distribution of exposures* generated by the model used to calculate *effective EPE* must be closely integrated into the day-to-day CCR management process of the *firm*. The model's output must accordingly play an essential role in the credit approval, CCR management, internal capital allocation, and corporate governance of the *firm*.

[Note: BCD Annex III Part 6 point 27]

13.6.52

FCA

R

A *firm* must have a track record in the use of models that generate a *distribution of exposures* to CCR. Thus, the *firm* must be able to demonstrate that it has been using a model to calculate the *distribution of exposures* upon which the *EPE* calculation is based that meets, broadly, the minimum requirements set out in ■ BIPRU 13.6 for at least one year prior to the date of its *CCR internal model method permission*.

[Note: BCD Annex III Part 6 point 28]

13.6.53

FCA

R

- (1) A *firm* must ensure that the model used to generate a *distribution of exposures* to CCR is part of a CCR management framework that includes the identification, measurement, management, approval and internal reporting of CCR. This framework must

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include the measurement of usage of credit lines (aggregating *CCR exposures* with other credit *exposures*) and internal capital allocation.

- (2) In addition to *EPE*, a *firm* must measure and manage *current exposures*.
- (3) Where appropriate, the *firm* must measure *current exposure* gross and net of collateral.
- (4) The use test is satisfied if a *firm* uses other *CCR* measures, such as *peak exposure* or *PFE* (see ■ BIPRU 13.6.47 R), based on the *distribution of exposures* generated by the same model to compute *EPE*.

[Note: BCD Annex III Part 6 point 29]

13.6.54
FCA

R

A *firm* must have the systems capability to estimate *EE* daily if necessary, unless it is able to demonstrate to the *appropriate regulator* that its *exposures* to *CCR* warrant less frequent calculation. The *firm* must compute *EE* along a time profile of forecasting horizons that adequately reflects the time structure of future cash flows and maturity of the contracts and in a manner that is consistent with the materiality and composition of the *exposures*.

[Note: BCD Annex III Part 6 point 30]

13.6.55
FCA

R

- (1) *Exposure* must be measured, monitored and controlled over the life of all contracts in the *netting set* (not just to the one year horizon).
- (2) A *firm* must have procedures in place to identify and control the risks for counterparties where the *exposure* rises beyond the one-year horizon.
- (3) A *firm* must input the forecast increase in *exposure* into the *firm's* internal capital model.

[Note: BCD Annex III Part 6 point 31]

Operational requirements: Stress testing

13.6.56
FCA

R

- (1) A *firm* must have in place sound stress testing processes for use in the assessment of capital adequacy for *CCR*.
- (2) These stress measures must be compared with the measure of *EPE* and considered by the *firm* as part of the process set out in ■ GENPRU 1.2.42 R.

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(5) Stress testing must also involve identifying possible events or future changes in economic conditions that could have unfavourable effects on a *firm's* credit *exposures* and an assessment of the *firm's* ability to withstand such changes.

[Note: BCD Annex III Part 6 point 32]

13.6.57

FCA

R

- (1) A *firm* must stress test its *CCR exposures*, including jointly stressing *market risk* and credit risk factors.
- (2) In its stress tests of *CCR*, a *firm* must consider concentration risk (to a single counterparty or groups of counterparties), correlation risk across *market risk* and credit risk, and the risk that liquidating the counterparty's positions could move the market.
- (3) In its stress tests a *firm* must also consider the impact on its own positions of such market moves and integrate that impact in its assessment of *CCR*.

[Note: BCD Annex III Part 6 point 33]

Operational requirements: Wrong-way risk

13.6.58

FCA

R

A *firm* must give due consideration to *exposures* that give rise to a significant degree of *general wrong-way risk*.

[Note: BCD Annex III Part 6 point 34]

13.6.59

FCA

R

A *firm* must have procedures in place to identify, monitor and control cases of *specific wrong-way risk*, beginning at the inception of a transaction and continuing through the life of the transaction.

[Note: BCD Annex III Part 6 point 35]

Operational requirements: Integrity of modelling process

13.6.60

FCA

R

A *firm* must ensure that:

- (1) the model reflects transaction terms and specifications in a timely, complete, and conservative fashion;
- (2) such terms include at least:
 - (a) contract notional amounts;
 - (b) maturity;
 - (c) reference assets;
 - (d) margining arrangements; and
 - (e) netting arrangements;

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- (3) the terms and specifications are maintained in a database that is subject to formal and periodic audit;
- (4) the process for recognising netting arrangements requires:
 - (a) signoff by legal staff to verify the legal enforceability of netting and
 - (b) input into the database by an independent unit;
- (5) the transmission of transaction terms and specifications data to the model is also subject to internal audit; and
- (6) formal reconciliation processes are in place between the model and source data systems to verify on an ongoing basis that transaction terms and specifications are being reflected in *EPE* correctly or at least conservatively.

[Note: *BCD* Annex III Part 6 point 36]

13.6.61

FCA

R

A *firm* must ensure that:

- (1) the model employs current market data to compute *current exposures*;
- (2) when using historical data to estimate volatility and correlations, at least three years of historical data are used and updated quarterly or more frequently if market conditions warrant;
- (3) the data covers a full range of economic conditions, such as a full business cycle;
- (4) a unit independent from the business unit validates the price supplied by the business unit;
- (5) the data is acquired independently of the lines of business, fed into the model in a timely and complete fashion, and maintained in a database subject to formal and periodic audit;
- (6) it has a well-developed data integrity process to clean the data of erroneous and/or anomalous observations; and
- (7) to the extent that the model relies on proxy market data, including for new products where three years of historical data may not be available, internal policies identify suitable proxies and the *firm* demonstrates empirically that the proxy provides a conservative representation of the underlying risk under adverse market conditions.

[Note: *BCD* Annex III Part 6 point 37]

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FCA

includes the effect of collateral on changes in the market value of the *netting set*, a *firm* must have adequate historical data to model the volatility of the collateral.

13.6.63

R

A *firm* must ensure that the model is subject to a validation process which:

FCA

- (1) is clearly articulated in *firms'* policies and procedures;
- (2) specifies the kind of testing needed to ensure model integrity
- (3) identifies conditions under which assumptions are violated and may result in an understatement of *EPE*; and
- (4) includes a review of the comprehensiveness of the model.

[Note: BCD Annex III Part 6 point 38]

13.6.64

R

A *firm* must monitor the appropriate risks and have processes in place to adjust its estimation of *EPE* when those risks become significant. This includes the following:

FCA

- (1) the *firm* must identify and manage its *exposures to specific wrong-way risk*;
- (2) for *exposures* with a rising risk profile after one year, the *firm* must compare on a regular basis the estimate of *EPE* over one year with *EPE* over the life of the *exposure*; and
- (3) for *exposures* with a residual maturity below one year, the *firm* must compare on a regular basis the replacement cost (*current exposure*) and the realised *exposure* profile, and/or store data that would allow such a comparison.

[Note: BCD Annex III Part 6 point 39]

13.6.65

R

A *firm* must have internal procedures to verify that, prior to including a transaction in a *netting set*, the transaction is covered by a legally enforceable netting contract that meets the requirements set out in ■ BIPRU 13.7.

FCA

[Note: BCD Annex III Part 6 point 40]

13.6.66

R

A *firm* that makes use of collateral to mitigate its CCR must have internal procedures to verify that, prior to recognising the effect of collateral in its calculations, the collateral meets the legal certainty standards set out in ■ BIPRU 5 as modified, where relevant, by ■ BIPRU 4.10.

FCA

[Note: BCD Annex III Part 6 point 41]

Validation requirements

13.6.67

FCA

R

- (1) A *firm's CCR internal model method* model must meet the validation requirements in (2) to (8).
- (2) The qualitative validation requirements set out in ■ BIPRU 7.10 must be met.
- (3) Interest rates, *foreign currency* rates, equity prices, *commodities*, and other *market risk* factors must be forecast over long time horizons for measuring *CCR exposure*. The performance of the forecasting model for *market risk* factors must be validated over a long time horizon.
- (4) The pricing models used to calculate *CCR exposure* for a given scenario of future shocks to *market risk* factors must be tested as part of the *CCR internal model method* model validation process. Pricing models for *options* must account for the nonlinearity of option value with respect to *market risk* factors.
- (5) The *CCR internal model method* model must capture transaction-specific information in order to aggregate *exposures* at the level of the *netting set*. A *firm* must verify that transactions are assigned to the appropriate *netting set* within the model.
- (6) The *CCR internal model method* model must also include transaction-specific information to capture the effects of margining. It must take into account both the current amount of margin and margin that would be passed between counterparties in the future. Such a model must account for the nature of *margin agreements* (unilateral or bilateral), the frequency of margin calls, the *margin period of risk*, the minimum threshold of unmargined *exposure* the *firm* is willing to accept, and the minimum transfer amount. Such a model must either model the mark-to-market change in the value of collateral posted or apply the *rules* set out in ■ BIPRU 5 as modified, where relevant, by ■ BIPRU 4.10.
- (7) Static, historical backtesting on representative counterparty portfolios must be part of the *CCR internal model method* model validation process. At regular intervals, a *firm* must conduct such backtesting on a number of representative counterparty portfolios (actual or hypothetical). These representative portfolios must be chosen based on their sensitivity to the material risk factors and correlations to which the *firm* is exposed.
- (8) If backtesting indicates that the *CCR internal model method* model is not sufficiently accurate, a *firm* must increase the *credit*

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risk capital component and, where ■ BIPRU 13 is applied for the purposes of ■ BIPRU 14, the *counterparty risk capital component* by an amount which is conservatively estimated to compensate for the inaccuracy of the model.

[Note: BCD Annex III Part 6 point 42 (part)]

13.6.68

FCA

G

If backtesting indicates that the *CCR internal model method* model is not sufficiently accurate, the *appropriate regulator* may revoke a *firm's CCR internal model method permission* or take appropriate measures to ensure that the model is improved promptly. Measures taken by the *appropriate regulator* may include the use of its *own-initiative power* to require the *firm* to hold more *capital resources*.

[Note: BCD Annex III Part 6 point 42 (part)]



13.7 Contractual netting

Scope

13.7.1

FCA

R

■ BIPRU 13.7 applies for the purpose of:

- (1) the *CCR mark to market method*;
- (2) the *CCR standardised method*;
- (3) if the *firm* has a *CCR internal model method permission*, the *CCR internal model method*.

Types of netting recognised

13.7.2

FCA

R

For the purpose of ■ BIPRU 13.7:

- (1) counterparty means any entity (including natural *persons*) that has the power to conclude a contractual netting agreement; and
- (2) *contractual cross product netting agreement* means a written bilateral agreement between a *firm* and a counterparty which creates a single legal obligation covering all included bilateral master agreements and transactions belonging to different product categories.

[Note: *BCD Annex III Part 7 point (a) (part)*]

13.7.3

FCA

R

Contractual cross product netting agreements do not cover netting other than on a bilateral basis.

[Note: *BCD Annex III Part 7 point (a) (part)*]

13.7.4

FCA

R

For the purposes of *cross product netting*, the following are considered different product categories:

- (1) *repurchase transactions, reverse repurchase transactions, securities or commodities lending or borrowing transactions*;
- (2) *margin lending transactions*; and

(5) *financial derivative instruments.*

[Note: BCD Annex III Part 7 point (a) (part)]

13.7.5

FCA

R

A *firm* may recognise as risk-reducing the following types of contractual netting:

- (1) bilateral contracts for novation between a *firm* and its counterparty under which mutual claims and obligations are automatically amalgamated in such a way that this novation fixes one single net amount each time novation applies and thus creates a legally binding, single new contract extinguishing former contracts;
- (2) other bilateral agreements between a *firm* and its counterparty; and
- (3) a *firm* that has a *CCR internal model method permission* may recognise *Contractual cross product netting agreements* for transactions falling within the scope of its *CCR internal model method permission*; netting across transactions entered by members of a *group* is not recognised for the purposes of calculating capital requirements.

[Note: BCD Annex III Part 7 point (a) (part)]

Conditions for recognition

13.7.6

FCA

R

A *firm* may treat contractual netting as risk-reducing only under the following conditions:

- (1) the *firm* must have a contractual netting agreement with its counterparty which creates a single legal obligation, covering all included transactions, such that, in the event of a counterparty's failure to perform owing to default, bankruptcy, liquidation or any other similar circumstance, the *firm* would have a claim to receive or an obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions;
- (2) the *firm* must be in a position to provide to the *appropriate regulator*, if requested, written and reasoned legal opinions to the effect that, in the event of a legal challenge, the relevant courts and administrative authorities would, in the cases described under (1), find that the *firm's* claims and obligations would be limited to the net sum, as described in (1), under:
 - (a) the law of the jurisdiction in which the counterparty is incorporated and, if a foreign *branch* of an *undertaking* is involved, also under the law of the jurisdiction in which the *branch* is located;
 - (b) the law that governs the individual transactions included; and

(c) the law that governs any contract or agreement necessary to effect the contractual netting;

- (3) the *firm* must have procedures in place to ensure that the legal validity of its contractual netting is kept under review in the light of possible changes in the relevant laws;
- (4) the *firm* must maintain all required documentation in its files;
- (5) the effects of netting must be factored into the *firm's* measurement of each counterparty's aggregate credit risk *exposure* and the *firm* must manage its *CCR* on such a basis; and
- (6) the *firm* must aggregate credit risk to each counterparty to arrive at a single legal *exposure* across transactions; this aggregation must be factored into credit limit purposes and internal capital purposes.

[Note: *BCD* Annex III Part 7 point (b) (part)]

13.7.7

FCA

R

If any of the *competent authorities* concerned is not satisfied that the contractual netting is legally valid under the law of each of the relevant jurisdictions, the *firm* must not treat the contractual netting agreement as risk-reducing.

[Note: *BCD* Annex III Part 7 point (b) (part)]

13.7.8

FCA

R

A legal opinion required under ■ BIPRU 13.7.6 R (2) may be in the form of a reasoned legal opinion drawn up by type of contractual netting.

[Note: *BCD* Annex III Part 7 point (b) (part)]

13.7.9

FCA

R

A *firm* must not recognise as risk-reducing any contract containing a provision which permits a non-defaulting counterparty to make limited payments only, or no payments at all, to the estate of the defaulter, even if the defaulter is a net creditor (a "walkaway" clause).

[Note: *BCD* Annex III Part 7 point (b) (part)]

13.7.10

FCA

R

In addition to the requirements in ■ BIPRU 13.7.2 R to ■ BIPRU 13.7.9 R, for *contractual cross product netting agreements* the following criteria must be met:

- (1) the net sum referred to in ■ BIPRU 13.7.6 R (1) must be the net sum of the positive and negative close out values of any included individual bilateral master agreement and of the positive and negative mark-to-market value of the individual transactions (the Cross-Product Net Amount);

- the written and reasoned legal opinions referred to in
- BIPRU 13.7.6 R (2) must address the validity and enforceability of the entire *contractual cross product netting agreement* under its terms and the impact of the netting arrangement on the material provisions of any included individual bilateral master agreement; a legal opinion must be generally recognised as such by the legal community in the *United Kingdom* or a memorandum of law that addresses all relevant issues in a reasoned manner;
- (3) the *firm* must have procedures in place under ■ BIPRU 13.7.6 R (3) to verify that any transaction which is to be included in a *netting set* is covered by a legal opinion; and
- (4) taking into account the *contractual cross product netting agreement*, the *firm* must continue to comply with the requirements for the recognition of bilateral netting and the requirements of ■ BIPRU 4.10 and ■ BIPRU 5 for the recognition of *credit risk mitigation*, as applicable, with respect to each included individual bilateral master agreement and transaction.

[Note: BCD Annex III Part 7 point (b) (part)]

Effects of recognition

13.7.11

FCA

R

For the purposes of the *CCR mark to market method*, the *CCR standardised method* and the *CCR internal model method* a *firm* must recognise netting as set out in ■ BIPRU 13.3 and ■ BIPRU 13.6.

[Note: BCD Annex III Part 7 point (b) (part)]

13.8 Securities financing transactions

Purpose

13.8.1
FCA

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■ BIPRU 13.8 summarises the treatment for *securities financing transactions*.

Calculation of exposure value for SFTs

13.8.2
FCA

R

Subject to ■ BIPRU 13.8.3 R, in respect of a *securities financing transaction*, if a *firm*:

- (1) has a *CCR internal model method permission* which covers the transaction; or
- (2) has a *master netting agreement internal models approach permission* which covers the transaction;

then the *firm* must use the *CCR internal model method approach* or the *master netting agreement internal models approach*, as applicable, to calculate the *exposure* value for that transaction unless an exception in ■ BIPRU 13 or ■ BIPRU 5 allows the *firm* to use another method.

[Note: *BCD* Article 78(2), second sentence, in respect of *SFTs*]

13.8.3
FCA

R

If a *firm* has a *CCR internal model method permission* and a *master netting agreement internal models approach permission*, and both cover a *securities financing transaction*, then the *firm* may choose which of those approaches it wishes to use to calculate the *exposure* value for that transaction.

13.8.4
FCA

R

Where ■ BIPRU 13.8.2 R does not apply, a *firm* must use one of the following approaches to determine the *exposure* value of a *securities financing transaction*, as appropriate:

- (1) if the transaction is covered by a master netting agreement which satisfies the requirements for recognition set out in ■ BIPRU 5.6.1 R to ■ BIPRU 5.6.3 R, a *firm* may calculate the *exposure* value under the master netting agreement method set out in ■ BIPRU 5.6.5 R to ■ BIPRU 5.6.11 R (Calculation of the fully adjusted exposure value: the supervisory volatility

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adjustments approach and the own estimates of volatility adjustments approach);

- (2) otherwise, a *firm* must calculate the *exposure* value of the transaction as its on-balance sheet value.

13.8.5

FCA

G

A *firm* calculating *risk weighted exposure amounts* under the *standardised approach* to credit risk will not be eligible to use the approach in ■ BIPRU 13.8.4 R (1) if it is using the *financial collateral simple method* to determine the effects of *credit risk mitigation*, as set out in ■ BIPRU 5.4.16 R.

13.8.6

FCA

G

If a *firm* calculates the *exposure* value of a *securities financing transaction* as its on-balance sheet value, in accordance with ■ BIPRU 13.8.4 R (2), it may recognise the effects of financial collateral in the same way as for its other exposures, for example by using either the *financial collateral simple method* or the *financial collateral comprehensive method*. However *firms* should note that the *financial collateral simple method* is not available:

- (1) to a *firm* using the *IRB approach* (■ BIPRU 5.4.16 R); or
- (2) for *securities financing transactions* in the *trading book* (■ BIPRU 14.2.11 R).

Exposure to a central counterparty

13.8.7

FCA

R

Notwithstanding ■ BIPRU 13.8.2 R, a *firm* must determine the *exposure* value of a credit risk *exposure* outstanding with a *central counterparty* in accordance with ■ BIPRU 13.8.8 R, provided that the *central counterparty's counterparty credit risk exposures* with all participants in its arrangements are fully collateralised on a daily basis.

[Note: BCD Article 78(4) in respect of SFTs]

13.8.8

FCA

R

A *firm* may attribute an *exposure* value of zero for CCR to a *securities financing transaction* or to any other *exposures* in respect of that transaction (but excluding an *exposure* arising from collateral held to mitigate losses in the event of the default of other participants in the *central counterparty's* arrangements) which is outstanding with a *central counterparty* and has not been rejected by the *central counterparty*.

[Note: BCD Annex III Part 2 point 6 in respect of SFTs]

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BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

							Interest rate risk hedging sets					FX risk hedging sets		Equity risk
i	Transaction type			Effective notional	Modified duration	CMV	USD non-gov M<1	USD non-gov M>5	EUR non-gov M<1	EUR non-gov M>5	JPY non-gov M>5	EURUSD	JPYUSD	DAX
			\$ million	years	\$ million	effective notional x modified	effective notional x modified duration	effective notional x modified duration	effective notional x modified duration	effective notional x modified duration	effective notional (+ = long, - = short)	effective notional (+ = long, - = short)	effective notional (+ = long, - = short)	
1	USD	IR swap	receiver leg	80	8	-6		640						
1	USD	IR swap	payer leg	80	-0.25		-20							
2	USD	IR swap	receiver leg	300	0.125		37.5							
2	USD	IR swap	payer leg	300	-6	2	-1800							
3	EUR	FX swap	receiver leg	100	15	0			1500		100			
3	USD	FX swap	payer leg	100	-0.125		-12.5							
4	EUR	cross ccy swap	receiver leg	60	7	1			420		60			
4	JPY	cross ccy swap	payer leg	60	-7					-420		-60		
5	DAX	Total return swap in EUR	receiver leg	150	0.125	4			18.75		150			
5	DAX	Total return swap in EUR	payer leg	150	not applicable								-150	
Sum of risk positions RPTij by hedging setj							5	-1160	18.75	1920	-420	310	-60	-150
Absolute amount sum of RPTij of risk positions by hedging setj							5	1160	18.75	1920	420	310	60	150
Credit conversion factors CCFj by hedging setj							0.20%	0.20%	0.20%	0.20%	0.20%	2.50%	2.50%	7%

BIPRU 13 : The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

	Interest rate risk hedging sets			FX risk hedging sets	Equity risk			
CCF _j x sum of RPT _{ij} : CCF-weighted absolute amounts of risk positions by hedging set	0.0100	2.3200	0.0375	3.8400	0.8400	7.7500	1.5000	105000
Sum of (CCF _j x sum of RPT _{ij})								26.7975
CMV: sum of <i>current market values</i> CMV _i of the transactions								1.000
Max(CMV, sum of (CCF _j x sum of RPT _{ij}))								26.7975
Beta:								1.4000
EAD								37.5165

Chapter 14

Capital requirements for settlement and counterparty risk



14.1 Application and purpose

Application

14.1.1

FCA

R

■ BIPRU 14 applies to a *BIPRU firm*.

14.1.2

FCA

G

- (1) ■ BIPRU 14.2 deals with the calculation of the capital requirement for *CCR* for *trading book* positions arising from *financial derivative instruments*, *securities financing transactions* and *long settlement transactions*. The approaches used to calculate *exposure* values and *risk weighted exposure amounts* for these positions are largely based on the approaches applicable to *non-trading book* positions (■ BIPRU 3, ■ BIPRU 4, ■ BIPRU 5 and ■ BIPRU 13). However, there are some treatments that are specific to the *trading book*. These are set out in ■ BIPRU 14.2.
- (2) The calculation of the capital requirement for *CCR* for *trading book* positions is the first element of the *counterparty risk capital component* in ■ BIPRU 14.2.1 R. The second element of the *counterparty risk capital component* is for unsettled transactions in both the *trading book* and the *non-trading book*. It is calculated under ■ BIPRU 14.3.
- (3) ■ BIPRU 14.4 sets out the treatment for *free deliveries*.

14.1.3

FCA

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Purpose

Pursuant to the third paragraph of article 95(2) of the *EU CRR*, ■ BIPRU 14 implements:

- (1) Article 3(1)(h), Article 17(1), and Article 40; and
- (2) Annex II;

of the *Capital Adequacy Directive*.



14.2 Calculation of the capital requirement for CCR

Calculation of the counterparty risk capital component

14.2.1
FCA

R A *firm* must calculate the *counterparty risk capital component* as the sum of:

- (1) the capital requirement calculated under ■ BIPRU 14.2.13 R; and
- (2) the amount calculated under ■ BIPRU 14.3.

14.2.2
FCA

R A *firm* must hold capital calculated in accordance with ■ BIPRU 14.2.13 R against the CCR arising from *exposures* arising in the *trading book* due to the following:

- (1) *free deliveries* (where ■ BIPRU 14.4 requires it to be treated as an *exposure*);
- (2) *financial derivative instruments* and credit derivatives;
- (3) *repurchase agreements, reverse repurchase agreements, securities or commodities lending or borrowing transaction* based on *securities or commodities* included in the *trading book*;
- (4) *margin lending transactions* based on *securities or commodities*; and
- (5) *long settlement transactions*.

[Note: CAD Annex II point 5]

Credit derivatives

14.2.3
FCA

R For the purposes of the calculation of the *counterparty risk capital component*, a *financial derivative instrument* means:

- (1) an item falling within ■ BIPRU 13.3.3 R other than an item to which an *exposure* value of zero is attributed under ■ BIPRU 13.3.13 R or ■ BIPRU 13.8.8 R (Exposure to a central counterparty); and

(2) a credit derivative.

[Note: CAD Article 3(1)(h) and Annex II point 7 first sentence]

14.2.4

FCA

R

■ BIPRU 14.2.5 R to ■ BIPRU 14.2.8 R apply for the purposes of ■ BIPRU 13.4 (CCR mark to market method).

14.2.5

FCA

R

In the case of total return swap credit derivatives and credit default swap credit derivatives, a *firm* must obtain a figure for potential future credit *exposure* by multiplying the nominal amount of the instrument by the following percentages:

- (1) 5% where the reference obligation is one that if it gave rise to a direct *exposure* of the *firm* would be a *qualifying debt security* for the purposes of ■ BIPRU 7.2;
- (2) 10 % where the reference obligation is one that if it gave rise to a direct *exposure* of the *firm* would not be a *qualifying debt security* for the purposes of ■ BIPRU 7.2.

[Note: CAD Annex II point 7 (part)]

14.2.6

FCA

R

In the case of a credit default swap, a *firm* the *exposure* of which arising from the swap represents a long position in the underlying may use a figure of 0% for potential future credit *exposure*, unless the credit default swap is subject to closeout upon the insolvency of the entity the *exposure* of which arising from the swap represents a short position in the underlying, even though the underlying has not defaulted, in which case the potential for future credit *exposure* of the *firm* must be limited to the amount of premia which are not yet paid by the entity to the *firm*.

[Note: CAD Annex II point 7]

14.2.7

FCA

G

■ BIPRU 14.2.6 R permits the seller of credit protection to determine potential future credit *exposure* as 0%, unless the protection is subject to close-out on the insolvency of the buyer.

14.2.8

FCA

R

Where the credit derivative provides protection in relation to 'nth to default' amongst a number of underlying obligations, a *firm* must apply the percentage figure in ■ BIPRU 14.2.5 R applicable to the obligation with the nth lowest credit quality determined by whether it is one that if incurred by the *firm* would be a *qualifying debt security* for the purposes of ■ BIPRU 7.2.

14.2.9

FCA

G

The operation of ■ BIPRU 14.2.8 R can be illustrated by an example as follows: where the credit derivative is a first to default transaction, the appropriate percentage for the potential future credit *exposure* will be determined by the lowest credit quality of the underlying obligations in the basket. If there are non-qualifying items in the basket, the percentage applicable to the non-qualifying reference obligation should be used. For second and subsequent to default transactions, underlying assets should continue

to be allocated according to credit quality: i.e. for a second to default transaction, the applicable percentage figure is the percentage applicable to the second lowest credit quality.

14.2.10

FCA

R

Where a credit derivative included in the *trading book* forms part of an internal hedge and the credit protection is recognised under the *BCD*, there is deemed to be no counterparty risk arising from the position in the credit derivative. Alternatively, a *firm* may consistently include for the purposes of calculating *capital requirements* for *counterparty credit risk* all credit derivatives included in the *trading book* forming part of internal hedges or purchased as protection against *CCR exposure* where the credit protection is recognised under the *BCD*.

[Note: CAD Annex II point 11]

Calculation

14.2.11

FCA

R

Subject to ■ BIPRU 14.2.3 R to ■ BIPRU 14.2.5 R and ■ BIPRU 14.2.14 R to ■ BIPRU 14.2.17 R, a *firm* must calculate *exposure* values and *risk weighted exposure amounts* for the *exposures* falling under ■ BIPRU 14.2.2 R (1) to ■ BIPRU 14.2.2R (5) in accordance with:

- (1) the *standardised approach* to credit risk; or
- (2) if the *firm* has an *IRB permission*, the *IRB approach* in accordance with the terms of the *firm's IRB permission*.

[Note: CAD Annex II point 6]

14.2.12

FCA

G

For the purpose of calculating counterparty *exposure* values for *financial derivative instruments*, *securities financing transactions* and *long settlement transactions*, or for *credit risk mitigation*, the effect of ■ BIPRU 14.2.11 R is to direct a *firm* to ■ BIPRU 13 or ■ BIPRU 5 as appropriate.

14.2.13

FCA

R

A *firm* must calculate the capital requirement for the purposes of ■ BIPRU 14.2.2 R as 8% of the total *risk weighted exposure amounts*.

[Note: CAD Annex II point 12]

Collateral

14.2.14

FCA

R

For the purposes of ■ BIPRU 14.2.11 R, in calculating *risk weighted exposure amounts* a *firm* must not use the *financial collateral simple method* for the recognition of the effects of financial collateral.

[Note: CAD Annex II point 8]

14.2.15

FCA

R

For the purposes of ■ BIPRU 14.2.11 R:

- (1) in the case of *repurchase transactions* and *securities or commodities lending or borrowing transactions* booked in the

trading book, all *CRD financial instruments* and *commodities* that are eligible to be included in the *trading book* may be recognised as eligible collateral;

- (2) for *exposures* due to *financial derivative instruments* and *long settlement transactions* booked in the *trading book*, *commodities* that are eligible to be included in the *trading book* may also be recognised as eligible collateral;
- (3) for the purposes of calculating volatility adjustments where such *CAD financial instruments* or *commodities* which are not eligible under ■ BIPRU 5 and ■ BIPRU 4.10 are lent, sold or provided, or borrowed, purchased or received by way of collateral or otherwise under such a transaction, and the *firm* is using the *supervisory volatility adjustments approach*, such instruments and *commodities* must be treated in the same way as non-main index equities listed on a *recognised investment exchange* or a *designated investment exchange*.

[Note: CAD Annex II point 9 (part)]

14.2.16

FCA

R

- (1) Where a *firm* is using the *own estimates of volatility adjustments approach* in respect of *CAD financial instruments* or *commodities* which are not eligible under ■ BIPRU 5 and ■ BIPRU 4.10 it must calculate volatility adjustments for each individual item.
- (2) Where a *firm* is using the *master netting agreement internal models approach* set out in ■ BIPRU 5, it may also apply this approach in the *trading book*.

[Note: CAD Annex II point 9 (part)]

14.2.17

FCA

R

For the purposes of ■ BIPRU 14.2.11 R, in relation to the recognition of master netting agreements covering *repurchase transactions* and/or *securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions* netting across positions in the *trading book* and the *non-trading book* may only be recognised when the netted transactions fulfil the following conditions:

- (1) all transactions are marked to market daily;
- (2) any items borrowed, purchased or received under the transactions may be recognised as eligible financial collateral under ■ BIPRU 5 and ■ BIPRU 4.10 without the application of ■ BIPRU 14.2.14 R to ■ BIPRU 14.2.15 R.

[Note: CAD Annex II point 9 (part)]

14.2.18	R	<p>Treatment of expected loss amounts under the IRB approach</p> <p>Where a <i>firm</i> calculates <i>risk weighted exposure amounts</i> for the purposes of ■ BIPRU 14 in accordance with the <i>IRB approach</i>, then for the purposes of the calculation provided for in ■ BIPRU 4.3.8 R, the following will apply:</p> <ol style="list-style-type: none"> (1) value adjustments made to take account of the credit quality of the counterparty may be included in the sum of value adjustments and provisions made for the <i>exposures</i> indicated in ■ BIPRU 14; and (2) unless the <i>firm's IRB permission</i> does not permit it, if the credit risk of the counterparty is adequately taken into account in the valuation of a position included in the <i>trading book</i> the <i>expected loss amount</i> for the counterparty risk <i>exposure</i> must be zero. <p>[Note: CAD Article 17(1)]</p>
14.2.19	R	<p>[deleted]</p> <p>Exposures to recognised third-country investment firms, recognised clearing houses and designated investment exchanges</p>
14.2.20	R	<p>For the purposes of the calculation of the <i>counterparty risk capital component</i>, without prejudice to ■ BIPRU 13.3.13 R and ■ BIPRU 13.8.8 R (Exposure to a central counterparty) <i>exposures to recognised third-country investment firms</i> and <i>exposures</i> incurred to <i>recognised clearing houses</i> and <i>designated investment exchanges</i> must be treated as exposures to <i>institutions</i>.</p> <p>[Note: CAD Article 40]</p> <p>Netting of trading book exposures against non-trading book exposures</p>
14.2.21	R	<p>For the purposes of <i>counterparty credit risk</i>, a <i>firm</i> may net <i>exposures</i> arising from items in the <i>trading book</i> against <i>exposures</i> arising from items in the <i>non-trading book</i>.</p>
14.2.22	R	<p>Where a <i>firm</i> carries out netting under ■ BIPRU 14.2.21 R, it must allocate the net <i>exposure</i> to:</p> <ol style="list-style-type: none"> (1) the <i>trading book</i> for the purposes of the calculation under ■ BIPRU 14.2.11 R, if the gross <i>trading book exposures</i> exceed gross <i>non-trading book exposures</i>; and (2) the <i>non-trading book</i> for the purposes of ■ BIPRU 13, if the gross <i>non-trading book exposures</i> exceed gross <i>trading book exposures</i>.
14.2.23	R	<p>A <i>firm</i> may only net <i>exposures</i> under ■ BIPRU 14.2.21 R if it continues to meet other <i>GENPRU</i> and <i>BIPRU</i> requirements applicable to the <i>trading book</i> or <i>non-trading book</i> in respect of those <i>exposures</i>.</p>

14.2.18
FCA

14.2.19

14.2.20
FCA

14.2.21
FCA

14.2.22
FCA

14.2.23
FCA

14.2.24

FCA

G

For example, in relation to ■ BIPRU 14.2.23 R, collateral which is eligible only against *trading book exposures* will not be applicable against *non-trading book exposures*; and the large *exposures* limits on *non-trading book* positions will also remain applicable.



14.3 Unsettled transactions

Scope

14.3.1
FCA

R

■ BIPRU 14.3 applies in respect of items in the *trading book* and the *non-trading book*.

14.3.2
FCA

G

The capital requirement for unsettled transactions is an element of the *counterparty risk capital component* set out in ■ BIPRU 14.2.1 R.

Calculation

14.3.3
FCA

R

In the case of transactions in which debt instruments, equities, *foreign currencies* and *commodities* (excluding *repurchase agreements* and *reverse repurchase agreements* and *securities or commodities lending* and *securities or commodities borrowing*) are unsettled after their due delivery dates, a *firm* must calculate the price difference to which it is exposed, being the difference between the agreed settlement price for the debt instrument, equity, *foreign currency* or *commodity* in question and its *current market value*, where the difference could involve a loss for the *firm*.

[Note: CAD Annex II point 1 (part)]

14.3.4
FCA

R

A *firm* must multiply the price difference calculated under ■ BIPRU 14.3.3 R by the appropriate factor in column A of the Table in ■ BIPRU 14.3.4 R in order to calculate its capital requirement for the purposes of ■ BIPRU 14.3.

[Note: CAD Annex II point 1 (part)]

Table: Factors for the multiplication of price differences

14.3.5
FCA

R

This table belongs to ■ BIPRU 14.3.4 R

Number of working days after due settlement date	Column A (%)
5 - 15	8
16 - 30	50
31 - 45	75
46 or more	100

[Note: CAD Annex II Table 1]

14.3.5

FCA

G

In cases of a system wide failure of a settlement or clearing system, a *firm* should refer to the emergency provisions in ■ GEN 1.3. Where the requirements of ■ GEN 1.3.2 R are met, until the situation is rectified failure of a counterparty to settle a trade will not be deemed a default for purposes of credit risk.

[Note: CAD Annex II point 4]



14.4 Free deliveries

Scope

14.4.1
FCA

R

■ BIPRU 14.4 applies in respect of items in the *trading book* and the *non-trading book*.

14.4.2
FCA

R

A *firm* must hold *capital resources* with respect to a *free delivery*, as set out in the Table in ■ BIPRU 14.4.3 R, if:

- (1) it has paid for *securities, foreign currencies* or *commodities* before receiving them or it has delivered *securities foreign currencies* or *commodities* before receiving payment for them; and
- (2) in the case of cross-border transactions, one day or more has elapsed since it made that payment or delivery.

[Note: CAD Annex II point 2]

Exposure

14.4.3
FCA

R

Table: Capital treatment for free deliveries

This table belongs to ■ BIPRU 14.4.2 R.

Transaction Type	Up to first contractual <i>payment leg</i> or <i>delivery leg</i>	From first contractual <i>payment leg</i> or <i>delivery leg</i> up to four days after second contractual <i>payment leg</i> or <i>delivery leg</i>	From 5 business days post second contractual <i>payment leg</i> or <i>delivery leg</i> until extinction of the transaction
<i>Free delivery</i>	No capital charge in the <i>trading book</i>	Treat as an <i>exposure</i>	Deduct value transferred plus current positive <i>exposure</i> from <i>capital resources</i>

[Note: CAD Annex II Table 2]

14.4.4
FCA

R

- (1) In the case of the *non-trading book*, a *firm* must treat an *exposure* falling into columns 2 and 3 of the table in ■ BIPRU 14.4.3 R in accordance with the relevant provisions of the *standardised approach* to credit risk or the *IRB approach*, as the case may be.
- (2) In the case of the *trading book*, a *firm* must apply the treatment set out in ■ BIPRU 14.4.5 R.

[Note: CAD Annex II point 3 (part)]

14.4.5
FCA

R

- (1) In applying a *risk weight* to *free delivery exposures* treated according to column 3 of the table in ■ BIPRU 14.4.3 R, a *firm* using the *IRB approach* may assign *PD* to *counterparties*, for which they have no other *non-trading book exposure*, on the basis of the counterparty's external rating.
- (2) A *firm* using own estimates of *LGDs* may apply the *LGD* set out in ■ BIPRU 4.4.34 R to ■ BIPRU 4.4.35 R ■ BIPRU 4.4.35 R (IRB foundation approach: *LGDs*) to *free delivery exposures* treated according to column 3 of the table in ■ BIPRU 14.4.3 R, provided that it applies it to all such *exposures*.
- (3) Alternatively, a *firm* using the *IRB approach* may apply the *risk weights*, as set out in the *standardised approach* to credit risk provided that it applies them to all such *exposures* or may apply a 100% *risk weight* to all such *exposures*.

[Note: CAD Annex II point 3 (part)]

14.4.6
FCA

R

If the amount of positive *exposure* resulting from *free delivery* transactions is not material, a *firm* may apply a *risk weight* of 100% to these *exposures*.

14.4.7
FCA

G

In cases of a system wide failure of a settlement or clearing system, a *firm* should refer to the emergency provisions in ■ GEN 1.3. Where the requirements of ■ GEN 1.3.2 R are met, until the situation is rectified failure of a counterparty to settle a trade will not be deemed a default for purposes of credit risk.

[Note: CAD Annex II point 4]

Prudential sourcebook for Banks, Building Societies and Investment Firms

BIPRU TP 1 [Deleted]

Prudential sourcebook for Banks, Building Societies and Investment Firms

BIPRU TP 2 Capital floors for a firm using the IRB approach

FCA

			Application
2.1	R		Subject to <i>BIPRU</i> TP 2.2R, this section applies to a <i>BIPRU</i> firm that applies the <i>IRB</i> approach.
2.2	R		<i>BIPRU</i> TP 2.30R to <i>BIPRU</i> TP 2.34G apply to any firm to which <i>BIPRU</i> 8 (Group risk - consolidation) applies and which applies the <i>IRB</i> approach on a consolidated basis.
			Purpose
2.3	G		Pursuant to the third paragraph of article 95(2) of the <i>EU CRR</i> , this section in part implements Articles 152(1) - (7) of the <i>Banking Consolidation Directive</i> and Article 43 of the <i>Capital Adequacy Directive</i> .
2.4	G		The purpose of this section is to limit the amount of capital reduction arising from the implementation of the <i>Banking Consolidation Directive</i> and the <i>Capital Adequacy Directive</i> compared with the requirements arising from the previous versions of those Directives. As such it is effectively a comparison of the capital resource requirements arising from <i>BIPRU</i> with those arising from the appropriate <i>IPRU</i> sourcebook that would have applied as at 31 December 2006. However the effect of changes to the market risk requirements is removed by requiring <i>BIPRU</i> 7 (Market risk) to be used for both sides of the comparison.
			How to apply the capital floors
2.5	G		This section does not require a firm to continue to have capital resources equal to a fixed percentage of the capital requirement that applied to it as at 31 December 2006. Instead a firm should apply the requirements in this section to its business as it

2.6	G	<p>changes over time. So for example if a <i>firm</i> is calculating its capital requirements as at 31 December 2008 it will have two calculations. The first is carried out under <i>BIPRU</i> and <i>GENPRU</i>. The second is carried out under <i>IPRU</i> and this section. Both sets of requirements are applied to the <i>firm's</i> figures as at 31 December 2008.</p> <p>The Directive provisions on which this section is based are written as a floor on a <i>firm's</i> capital resources requirement. This section however is written as a second capital resources requirement that sits beside the general capital resources requirements of <i>BIPRU</i> and <i>GENPRU</i>. The reason for this is that a <i>firm</i> should meet the general capital resources requirements of <i>BIPRU</i> and <i>GENPRU</i> using <i>capital resources</i> calculated under <i>GENPRU</i> 2.2 (Capital resources). On the other hand a <i>firm</i> should meet the capital resources requirements of this section (which are based on <i>IPRU</i>) using the relevant <i>IPRU</i> definition. In practice the two sets of definitions of capital resources are similar apart from the provisions about <i>expected loss</i>. Therefore as shown by the example in <i>BIPRU</i> TP 2.12G and <i>BIPRU</i> TP 2.13G, in practice a <i>firm</i> is subject to a single capital resources requirement.</p>
2.7	G	[deleted]
2.8	R	<p>Capital floors: solo</p> <p>A <i>firm</i> calculating <i>risk weighted exposure amounts</i> in accordance with the <i>IRB approach</i> must during the following twelve-month periods after 31 December 2006 provide capital resources that equal or exceed the following amounts:</p> <ol style="list-style-type: none"> <li data-bbox="772 1576 1350 1644">(1) for the first twelve-month period, 95%; <li data-bbox="772 1666 1398 1733">(2) for the second twelve-month period, 90%; and <li data-bbox="772 1756 1366 1868">(3) for the third and each subsequent twelve-month period, 80%; <p>of the solo capital resources requirement that applies to the <i>firm</i> under whichever part of <i>IPRU</i> applies under <i>BIPRU</i> TP 1.4R.</p>
2.9	R	[deleted]

			Capital resources: solo
2.10	R		A <i>firm</i> must calculate its capital resources in accordance with whichever part of <i>IPRU</i> applies under <i>BIPRU</i> TP 1.4R.
2.11	R		Compliance with the requirements of this section must be on the basis of amounts of capital resources fully adjusted to reflect differences in the calculation of capital resources under <i>IPRU</i> and the calculation of <i>capital resources</i> under <i>GENPRU</i> and <i>BIPRU</i> deriving from the separate treatments of <i>expected loss</i> and <i>unexpected loss</i> under the <i>IRB approach</i> .
			Waiver from IPRU capital resources requirement
2.11A	G		Article 152(5d) and (5e) of the <i>Banking Consolidation Directive</i> allows the <i>appropriate regulator</i> to waive the capital floor calculation based on the <i>IPRU</i> capital resources requirement in <i>BIPRU</i> TP 2.8R(3) on a case-by-case basis only if a <i>firm</i> started to use the <i>IRB approach</i> on or after 1 January 2010. The <i>appropriate regulator</i> will consider an application for such a <i>waiver</i> in the light of the criteria in section 138A of the <i>Act</i> (Modification or waiver of rules).
2.11B	R		If a <i>firm</i> has a <i>waiver</i> referred to in <i>BIPRU</i> TP 2.11AG, it must provide <i>capital resources</i> that equal or exceed 80% of the <i>capital resources requirement</i> that the <i>firm</i> would be required to provide under the relevant sections of <i>BIPRU</i> applicable to it immediately before it started to use the <i>IRB approach</i> as those sections were in force on 31 December 2010.
2.12	G		[deleted]
2.13	G		[deleted]
			Adjustments to the calculation of capital resources
2.14	R		A <i>firm</i> may treat any <i>capital instrument</i> that complies with the requirements of <i>GENPRU</i> 2.2 (Capital resources) as complying with the corresponding requirements of <i>IPRU</i> .
2.15	G		An example of <i>BIPRU</i> TP 2.14R is that a <i>firm</i> may treat subordinated debt with a term of five years or over that qualifies as <i>lower tier two capital</i> for the purposes of <i>GENPRU</i> as complying with the corre-

			<p>sponding provisions for five year subordinated debt under <i>IPRU</i>.</p> <p>Market risk</p>
2.16	R		<p>A <i>firm</i> must substitute the requirements in <i>BIPRU</i> for the calculation of the <i>market risk capital requirement</i> (excluding those provisions to the extent that they would involve using the <i>IRB approach</i>) for the corresponding provisions of <i>IPRU</i>.</p>
2.17	G		<p>BIPRU TP 4 to BIPRU TP 9 (Pre CRD capital requirements applying on a solo basis during 2007) explain which parts of <i>IPRU</i> correspond to the <i>market risk capital requirement</i>.</p> <p>CAD 1 model and VaR model</p>
2.18	R		<p>If a <i>firm</i> has a <i>CAD 1 permission</i> or a <i>VaR model permission</i> it must also use it for the purposes of the capital floor calculations in this section.</p>
2.19	G		<p>In applying <i>BIPRU TP 2.18R</i>, a <i>firm</i> should not adjust the <i>CAD 1 permission approach</i> or <i>VaR model approach</i> (including the scope of the <i>CAD 1 permission</i> or <i>VaR model permission</i>) so that it is consistent with Directive 93/6 (the Capital Adequacy Directive) as it stood on 31 December 2006.</p> <p>Individual capital guidance</p>
2.20	R		[deleted]
2.21	G		<p>Any further capital resource requirements that a <i>firm</i> is required to meet under GENPRU 1.2 (Adequacy of financial resources) (i.e. Pillar 2) should not be taken into account.</p> <p>How to apply IPRU</p>
2.22	R		<p>If the part of <i>IPRU</i> that applies to a <i>firm</i> applies different calculations to different types of <i>firm</i> the <i>firm</i> must use the calculations that it would have to use under BIPRU TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as applicable before its expiry .</p>
2.23	R		<p>If the part of <i>IPRU</i> that applies to a <i>firm</i> gives the <i>firm</i> a choice between methods of calculating capital resources or capital resources requirements it must exercise that choice consistently with the corresponding choices it makes in calculating <i>capital resources</i> or <i>capital resources requirement</i> under <i>GENPRU</i> and <i>BIPRU</i>.</p>

2.24	G	BIPRU TP 4 to BIPRU TP 9 (Pre CRD capital requirements applying on a solo basis during 2007) as applicable before their expiry explain how concepts in <i>IPRU</i> and <i>GENPRU</i> map onto the ones in <i>IPRU</i> . This will enable a <i>firm</i> to decide which calculations it should use for the purposes of <i>BIPRU</i> TP 2.22R and <i>BIPRU</i> TP 2.23R.
2.25	G	[deleted]
2.26	R	[deleted]
2.27	G	The <i>concentration risk capital component</i> is the capital requirement for a <i>firm</i> that chooses to have <i>trading book exposures</i> that exceed the <i>large exposure</i> limits for the <i>non-trading book</i> . In most cases <i>IPRU</i> has a similar capital requirement. The purpose of <i>BIPRU</i> TP 2.26R is to allow a <i>firm</i> to calculate the amount of the excess <i>trading book exposures</i> for which it calculates the additional capital charge using <i>BIPRU</i> 10 (Large exposures requirements) in order to avoid having to apply the <i>IPRU</i> large exposure requirements for this purpose only.
2.28	R	The calculations under this section do not take into account the <i>base capital resources requirement</i> or the part of the <i>IPRU</i> solo capital resources requirement that corresponds to the <i>base capital resources requirement</i> . Solo consolidation
2.29	R	If a <i>firm</i> has a <i>solo consolidation waiver</i> it also applies for the purpose of this section in place of any corresponding provision of <i>IPRU</i> . Capital floors: consolidation
2.30	R	If a <i>firm</i> calculates <i>risk weighted exposure amounts</i> on a consolidated basis in accordance with the <i>IRB approach</i> on a consolidated basis, <i>BIPRU</i> TP 2.8R to <i>BIPRU</i> TP 2.27G apply on a consolidated basis in accordance with <i>BIPRU</i> TP 2.30R to <i>BIPRU</i> TP 2.31R.
2.31	R	A <i>firm</i> must calculate the consolidation requirements under <i>BIPRU</i> TP 2.30R for the group in question (the group in question is specified in <i>BIPRU</i> TP 2.32R) in accordance with the following: (1) [deleted] (2) [deleted]

2.32	R	<p>(3) if the group is an investment firm group as defined in <i>BIPRU</i> TP 1.7R, chapter 14 of <i>IPRU(INV)</i> applies.</p> <p>The scope of the consolidation under <i>BIPRU</i> TP 2.30R and any exemption from consolidation is determined in accordance with <i>BIPRU</i> 8 (Group risk - consolidation) rather than <i>IPRU</i>. In particular, the following adjustments apply:</p>
		<p>(1) if a <i>firm</i> is a member of a <i>UK consolidation group</i> and applies the <i>IRB approach</i> with respect to that <i>UK consolidation group</i>, <i>BIPRU</i> TP 2.30R applies with respect to that <i>UK consolidation group</i>; and</p>
		<p>(2) if a <i>firm</i> is a member of a <i>non-EEA sub-group</i> and applies the <i>IRB approach</i> with respect to that <i>non-EEA sub-group</i>, <i>BIPRU</i> TP 2.30R applies with respect to that <i>non-EEA sub-group</i>.</p>
2.33	G	<p>If for example the consolidation <i>rules</i> that apply for the purposes of this section are those in chapter 14 of <i>IPRU(INV)</i> (Consolidated supervision of <i>investment firms</i>) then <i>IPRU(INV)</i> 14.1 (Application) and 14.2 (Scope of consolidation) do not apply. <i>BIPRU</i> 8.2 (Scope and basic consolidation requirements for UK consolidation groups), <i>BIPRU</i> 8.3 (Scope and basic consolidation requirements for non-EEA sub-groups), <i>BIPRU</i> 8.4 (CAD Article 22 groups and investment firm consolidation waiver) and <i>BIPRU</i> 8.5 (Basis of consolidation) apply instead.</p>
2.34	G	<p>Capital floors: waiver from consolidation</p> <p>If a <i>firm</i> has an <i>investment firm consolidation waiver</i> and it is applying the <i>IRB approach</i>, the <i>waiver</i> will explain how the <i>investment firm con-</i></p>

solidation waiver applies for the purpose of this section.

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BIPRU TP 4 [Deleted]

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BIPRU TP 14 [Deleted]

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BIPRU TP 15 Commodities firm transitionals: Exemption from capital requirements

FCA

		Application
15.1	R	<p>Subject to <i>BIPRU</i> TP 15.2R, <i>BIPRU</i> TP 15 applies to a <i>BIPRU</i> firm:</p> <p>(1) whose main business consists exclusively of the provision of investment services or investment activities in relation to the financial instruments set out in points 5, 6, 7, 9 and 10 of Section C of Annex I to the <i>MI-FID</i>; and</p> <p>(2) to whom the <i>ISD</i> would not have applied if it had remained in force in the form it was in on 31 December 2006.</p>
15.2	R	<p><i>BIPRU</i> TP 15.13R to <i>BIPRU</i> TP 15.14G apply to any firm to which <i>BIPRU</i> 8 (Group risk - consolidation) applies.</p> <p>Purpose</p>
15.3	G	<p><i>BIPRU</i> TP 15 implements Article 48(1) of the <i>Capital Adequacy Directive</i> as applied pursuant to the discretion in the third paragraph of article 95(2) of the <i>EU CRR</i>.</p> <p>Duration of exemption</p>
15.4	R	<p><i>BIPRU</i> TP 15 applies until the entry into force of any amendments to <i>BIPRU</i> TP 15 under any legislative amendments to <i>CRD</i> and <i>EU CRR</i> following from the Commission's report under article 508(3) of the <i>EU CRR</i> on an appropriate prudential regime for the prudential supervision of investment firms and firms referred to in article 4(1)(2)(b) and (c) of the <i>EU CRR</i>.</p>
15.5	G	<p>[deleted]</p> <p>Exemption</p>

15.6	R	The provisions of <i>GENPRU</i> and <i>BIPRU</i> on capital requirements and <i>GENPRU</i> 1.2 (Adequacy of financial resources) do not apply to a <i>firm</i> to which <i>BIPRU</i> TP 15 applies.
15.7	G	[deleted]
15.8	G	An <i>exempt BIPRU commodities firm</i> (which is the name in the <i>Glossary</i> given to a <i>firm</i> with the benefit of the exemption in <i>BIPRU</i> TP 15.6R) may be subject to the requirements of Chapter 3 of <i>IPRU(INV)</i> . Details of which <i>exempt BIPRU commodities firm</i> are subject to those requirements can be found in Chapter 3 of <i>IPRU(INV)</i> .
15.9	G	The table in <i>BIPRU</i> TP 15.10G provides an indication of which parts of <i>GENPRU</i> and <i>BIPRU</i> generally apply to an <i>exempt BIPRU commodities firm</i> and which parts in general do not apply. If a section is shown as not in general applying the table also identifies any significant aspects of that section that do apply.

FCA

15.10	G	Table: Parts of <i>GENPRU</i> and <i>BIPRU</i> that apply to exempt <i>BIPRU</i> commodities firms
This table belongs to <i>BIPRU</i> TP 15.9G		

<i>GENPRU</i> and <i>BIPRU</i> provisions	A Y denotes that the provision generally does apply	Remarks
	An N denotes that generally it does not apply	
<i>GENPRU</i> TP (Transitional provisions)	Y	
<i>GENPRU</i> 1.1 (Application and scope)	Y	
<i>GENPRU</i> 1.2 (Adequacy of financial resources)	N	
<i>GENPRU</i> 1.3 (Valuation)	Y	
<i>GENPRU</i> 1.4 (Actions for damages)	Y	
<i>GENPRU</i> 1.5 (Application of <i>GENPRU</i> 1 to Lloyd's)		Not applicable as does not apply to <i>BIPRU firms</i>
<i>GENPRU</i> 2.1 (Calculation of capital resources requirements)	N	
<i>GENPRU</i> 2.2 (Capital resources)	N	

<i>GENPRU</i> and <i>BIPRU</i> provisions	A Y denotes that the provision generally does apply An N denotes that generally it does not apply	Remarks
<i>GENPRU</i> 2.3 (Application of <i>GENPRU</i> 2 to Lloyd's)	Not applicable as does not apply to <i>BIPRU</i> firms	
<i>GENPRU</i> 3.1 (Cross sector groups)	Y	Only applies if the <i>firm</i> is a member of a <i>financial conglomerate</i>
<i>GENPRU</i> 3.2 (Third-country groups)	Y	Provisions about <i>financial conglomerate</i> only apply if the <i>firm</i> is a member of a <i>financial conglomerate</i> See remarks on <i>BIPRU</i> 8 for provisions about a <i>third-country banking and investment group</i>
<i>BIPRU</i> TP (Transitional provisions)	Y	
<i>BIPRU</i> 1.1 (Application and scope)	Y	
<i>BIPRU</i> 1.2 (Definition of the trading book)	Y	
<i>BIPRU</i> 1.3 (Application for advanced approaches)	N	Provisions about <i>BIPRU</i> 2.1 and <i>BIPRU</i> 8 apply to the extent those parts of <i>BIPRU</i> apply. Otherwise does not apply.
<i>BIPRU</i> 1.4 (Actions for damages)	Y	
<i>BIPRU</i> 2.1 (Solo consolidation)	N	
<i>BIPRU</i> 2.2 (Adequacy of financial resources)	N	
<i>BIPRU</i> 2.3 (Interest rate risk in the non-trading book)	N	
<i>BIPRU</i> 3 (Standardised approach to credit risk)	N	
<i>BIPRU</i> 4 (The IRB approach)	N	
<i>BIPRU</i> 5 (Credit risk mitigation)	N	
<i>BIPRU</i> 6 (Operational risk)	N	
<i>BIPRU</i> 7 (Market risk)	N	<i>BIPRU</i> 7.8.38 R and <i>BIPRU</i> 7.3.39 R (Risk management systems and controls) apply in theory although

<i>GENPRU</i> and <i>BIPRU</i> provisions	A Y denotes that the provision generally does apply An N denotes that generally it does not apply	Remarks
		it is unlikely that a <i>firm</i> will be able to carry out these activities without losing the exemption in <i>BIPRU TP 15</i> .
<i>BIPRU 8</i> (Group risk - consolidation)	Y	See <i>BIPRU TP 15.13R</i> to <i>BIPRU TP 15.14G</i>
<i>BIPRU 9</i> (Securitisation)	N	<i>BIPRU 9.1.6R</i> to <i>BIPRU 9.1.8G</i> (Risk systems) apply
<i>BIPRU 11</i> (Disclosure)	Y	
<i>BIPRU 12</i>		Chapter does not yet exist
<i>BIPRU 13</i> (Financial derivatives, SFTs and long settlement transactions)	N	
<i>BIPRU 14</i> (Capital requirements for settlement and counterparty risk)	N	

FCA

15.11	G	<i>SYSC</i> applies to an <i>exempt BIPRU commodities firm</i> .
		Definitions
15.12	R	The terms financial instrument, investment services and investment activities have the same meaning as they do in the <i>MIFID</i> .
		Consolidation
15.13	R	<i>BIPRU TP 15</i> does not apply for the purposes of <i>BIPRU 8</i> with respect to a <i>firm's UK consolidation group</i> or, as the case may be, <i>non-EEA sub-group</i> unless the following conditions are satisfied:
		(1) there is no <i>credit institution</i> in that group;
		(2) each <i>CAD investment firm</i> in the group meets the conditions in <i>BIPRU TP 15.1R(1)</i> ;
		(3) each <i>CAD investment firm</i> whose head office is in an <i>EEA State</i> satisfies the conditions in <i>BIPRU TP 15.1R(2)</i> ; and

		(4)	any <i>CAD investment firm</i> whose head office is outside the <i>EEA</i> would have fallen into <i>BIPRU</i> TP 15.1R(2) if: <ul style="list-style-type: none">(a) its head office had been in an <i>EEA State</i>; and(b) it had carried on all its business in the <i>EEA</i> and had obtained whatever authorisations for doing so were required under the <i>ISD</i> in the form that Directive was in on 31 December 2006.
15.14	G		If an <i>exempt BIPRU commodities firm</i> is a member of a group that meets the conditions in <i>BIPRU</i> TP 15.13R, <i>BIPRU</i> 8 will not apply to the group. Chapter 14 of <i>IPRU</i> (INV) (Consolidation) applies instead.

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BIPRU TP 16 [Deleted]

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BIPRU TP 20
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BIPRU TP 21 Close substitutes for commodities

FCA

21.1	R	<p>Application</p> <p>This section applies to a <i>BIPRU firm</i> that on 31 December 2006 was applying the approach referred to in the first column of the table in <i>BIPRU TP 21.3R</i> with respect to particular grades or brands of the same <i>commodity</i>-class.</p>
21.2	R	<p>Commodities: close substitutes</p> <p>A notice given under the <i>IPRU</i> provision in the second column of the table in <i>BIPRU TP 21.3R</i> is treated as having been given under <i>BIPRU 7.4.23 R</i> (Notice to the <i>appropriate regulator</i> about treatment of different grades or brands of the same <i>commodity</i>) for the purposes of <i>BIPRU 7.4.22 R</i> (Treatment of different grades or brands of the same <i>commodity</i>) with respect to the <i>commodity</i> grades or brands referred to in <i>BIPRU TP 21.1R</i>.</p>
21.3	R	<p>Table: Commodity treatments under <i>IPRU</i></p> <p>This table belongs to <i>BIPRU TP 21.2R</i></p>
<p><i>IPRU</i> provisions setting out <i>commodity</i> approach</p> <p>Paragraph 22(2) of appendix 6 of chapter 10 of <i>IPRU(INV)</i></p> <p>[deleted]</p>		<p><i>IPRU</i> provisions under which notice given</p> <p>Paragraph 23 of appendix 6 of chapter 10 of <i>IPRU(INV)</i></p>

21.4

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Explanation

BIPRU 7.4.22 R (1)(b) says that a *firm* should treat *positions* in different grades or brands of the same *commodity*-class as different *commodities* unless they are close substitutes and have price movements which have exhibited a stable correlation coefficient of at least 0.9 over the last 12 months. BIPRU 7.4.23 R says that a *firm* should notify the *FCA* in writing at least 20 *business days* prior to the date the *firm* starts relying on this treatment. The purpose of this section is to allow a notice given under the corresponding provisions of chapter 10 of *IPRU(INV)* to continue to have effect without the *firm* having to serve a new notice under BIPRU 7.4.23 R.

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BIPRU TP 22
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BIPRU TP 23
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BIPRU TP 26
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BIPRU TP 27 [Deleted]

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BIPRU TP 28
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BIPRU TP 29

Liquid assets buffer scalar: simplified ILAS BIPRU firms

Application

29.1 R [deleted]

Duration of transitional provisions

29.2 R [deleted]

Transitional provisions

29.3 R [deleted]

29.4 G [deleted]

29.5 G [deleted]

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BIPRU TP 30
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BIPRU TP 31
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BIPRU TP 32
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BIPRU TP 34
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BIPRU TP 35
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Schedule 1 [Deleted]

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Schedule 2 [Deleted]

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Schedule 3 Fees and other requirement payments

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FCA PRA

There are no requirements for fees or other payments in *BIPRU*.

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Schedule 4 Powers exercised

4.1 G

[deleted]

Sch 4.2 G

[deleted]

Sch 4.3 G

[deleted]

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Schedule 5 Rights of action for damages

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FCA

1. The table below sets out the rules in *BIPRU* contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a person who suffers loss as a result of the contravention.
2. If a "Yes" appears in the column headed "For private person", the rule may be actionable by a private person under section 138D (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). A "Yes" in the column headed "Removed" indicates that the *appropriate regulator* has removed the right of action under section 138D(3) of the Act. If so, a reference to the rule in which it is removed is also given.
3. The column headed "For other person" indicates whether the rule may be actionable by a person other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of person by whom the rule may be actionable is given.

Chapter/Appendix	Section/Annex	Right of action under section 138D		
		For private person	Removed	For other person
All rules in <i>BIPRU</i>		No	Yes - BIPRU 1.4.1 R	No

Prudential sourcebook for Banks, Building Societies and Investment Firms

Schedule 6 Rules than can be waived

G**FCA** **PRA**

The rules in *BIPRU* may be waived by the *appropriate regulator* under section 138A of the *Act* (Modification or waiver of rules). However, if the *rules* incorporate requirements laid down in European directives, it will not be possible for the *appropriate regulator* to grant a *waiver* that would be incompatible with the *United Kingdom's* responsibilities under those directives. It therefore follows that if a *rule* in *BIPRU* contains provisions which derive partly from a directive, and partly not, the *appropriate regulator* will be able to consider a *waiver* of the latter requirements only, unless the directive provisions are optional rather than mandatory.

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IFPRU 1	Application
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1.2	Significant IFPRU firm
1.3	Supervisory benchmarking of internal approaches for calculating own funds requirements
1.4	EU CRR permissions
1.5	Notification of FINREP reporting
1.6	Actions for damages
IFPRU 2	Supervisory processes and governance
2.1	Application and purpose
2.2	Internal capital adequacy assessment process
2.3	Supervisory review and evaluation process: internal capital adequacy standards
2.4	Reporting of breaches
2.5	Recovery and resolution plans
IFPRU 3	Own funds
3.1	Base own funds requirement
3.2	Capital
3.3	Basel 1 floor
IFPRU 4	Credit risk
4.1	Application and purpose
4.2	Standardised approach
4.3	Guidance on internal ratings based approach: high level material
4.4	Internal ratings based approach: overall requirements for estimation
4.5	Internal ratings based approach: definition of default
4.6	Internal ratings based approach: probability of default
4.7	Internal ratings based approach: loss given default
4.8	Internal ratings based approach: own estimates of exposure at default (EAD)
4.9	Stress tests
4.10	Validation
4.11	Income-producing real estate portfolios
4.12	Securitisation
4.13	Settlement risk
4.14	Counterparty credit risk
4.15	Credit risk mitigation
4 Annex 1G	4 Annex 1G Slotting criteria

4 Annex 2G	4 Annex 2G Wholesale LGD and EAD framework
IFPRU 5	Operational risk
5.1	Application and purpose
5.2	Advanced Measurement Approach permission
IFPRU 6	Market risk
6.1	Market risk requirements
6.2	Guidance on market risk
6.3	Expectations relating to internal models
IFPRU 7	Liquidity
7.1	Application
IFPRU 8	Prudential consolidation and large exposures
8.1	Prudential consolidation
8.2	Large Exposures
IFPRU 9	Public disclosure
9.1	Application and Purpose
	Transitional Provisions and Schedules
TP 1	GENPRU and BIPRU waivers: transitional
TP 2	Own funds requirements
TP 3	Gains and losses
TP 4	Deductions from own funds
TP 5	Own funds: other transitionals
TP 6	Leverage
Sch 1	Record-keeping requirements
Sch 2	Notification and reporting requirements
Sch 3	Fees and other requirement payments
Sch 4	Intentionally left blank
Sch 5	Rights of action for damages
Sch 6	Rules that can be waived

Chapter 1

Application

1.1 Application and Purpose

Application

1.1.1
FCA

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There is no overall application for *IFPRU*. Each chapter or section has its own application statement. However, *IFPRU* broadly applies in the following manner:

- (1) only ■ IFPRU 7 (Liquidity) and ■ IFPRU 9 (Public disclosure) apply to an *exempt IFPRU commodities firm* and ■ IFPRU 8.1 (Prudential consolidation) may apply subject to the conditions in that section; and
- (2) other than in (1), the whole of *IFPRU* applies to an *IFPRU investment firm*.

1.1.2
FCA

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***IFPRU* applies to a *firm* for the whole of its business, except where a particular provision provides for a narrower scope.**

1.1.3
FCA

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- (1) *IFPRU* applies to a *collective portfolio management investment firm* that is an *IFPRU investment firm* in parallel with ■ IPRU(INV) 11 (see ■ IPRU(INV) 11.6).
- (2) Generally, *IFPRU* only applies to a *collective portfolio management investment firm's designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However, IFPRU 2.2 (Internal capital adequacy assessment process) and IFPRU 2.3 (Supervisory review and evaluation process: Internal capital adequacy standards) apply to the whole of its business.

Purpose

1.1.4
FCA

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- (1) The purpose of *IFPRU* is to implement, in part, *CRD* and certain national discretions afforded to the *FCA* as *competent authority* under *EU CRR*.
- (2) Save as provided in the *Glossary*, any expression in the *Handbook* for the purpose of *IFPRU* which is defined or used in *EU CRR* shall have the meaning given by, or used in, those Regulations.

Exclusion of certain types of firms

1.1.5
FCA

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None of the following is an *IFPRU investment firm*:

- (1) an *incoming EEA firm*;

- (2) an *incoming Treaty firm*;
- (3) any other *overseas firm*;
- (4) a *designated investment firm*;
- (5) a *BIPRU firm*;
- (6) an *insurer*; and
- (7) an *ICVC*.

Types of IFPRU investment firm

1.1.6

FCA

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An *IFPRU investment firm* includes a *collective portfolio management investment firm* that is not excluded under ■ IFPRU 1.1.5 R (Exclusion of certain types of firms).

1.1.7

FCA

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In accordance with articles 95 and 96 of *EU CRR*, *IFPRU investment firms* are divided into the following categories:

- (1) *full-scope IFPRU investment firm*;
- (2) *IFPRU limited licence firm*; and
- (3) *IFPRU limited activity firm*.

Alternative classification of IFPRU investment firms

1.1.8

FCA

R

IFPRU investment firms are divided into the following classes for the calculation of the *base own funds requirement* and any other provision of the *Handbook* that applies this classification:

- (1) an *IFPRU 50K firm*;
- (2) an *IFPRU 125K firm*;
- (3) an *IFPRU 730K firm*; and
- (4) a *collective portfolio management investment firm*.

Types of IFPRU investment firm: IFPRU 125K firm

1.1.9

FCA

R

An *IFPRU 125K firm* means an *IFPRU investment firm* that satisfies the following conditions:

- (1) it does not:
 - (a) *deal on own account*; or
 - (b) underwrite issues of *financial instruments* (as referred to in Section A of Annex I of *MiFID*) on a firm commitment basis;

- 1
- (2) it holds clients' money or securities for *investment services* it provides or is authorised to do so;
 - (3) it offers one or more of the following services (all as referred to in Section A of Annex I of *MiFID*):
 - (a) reception and transmission of investors' orders for *financial instruments*; or
 - (b) the execution of investors' orders for *financial instruments*; or
 - (c) the management of individual portfolios of investments in *financial instruments*;
 - (4) it is not a *collective portfolio management investment firm*; and
 - (5) it does not operate a *multilateral trading facility*.

[Note: article 29(1) of *CRD*]

Types of IFPRU investment firm: IFPRU 50K firm

1.1.10

FCA

R

An *IFPRU 50K firm* is a *IFPRU investment firm* that satisfies the following conditions:

- (1) the conditions in ■ IFPRU 1.1.9 R(1) and (3);
- (2) it does not hold clients' money or securities for *investment services* it provides and is not authorised to do so;
- (3) it is not a *collective portfolio management investment firm*; and
- (4) it does not operate a *multilateral trading facility*.

[Note: article 29(3) of *CRD*]

Types of IFPRU investment firm: IFPRU 730K firm

1.1.11

FCA

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(1) An *IFPRU investment firm* that is not a *collective portfolio management investment firm*, an *IFPRU 125K firm* or an *IFPRU 50K firm* is an *IFPRU 730K firm*.

(2) An *IFPRU investment firm* that operates a *multilateral trading facility* is an *IFPRU 730K firm*.

[Note: article 28(2) of *CRD*]

Meaning of dealing on own account

1.1.12

FCA

R

(1) For the purpose of *IFPRU* and the *EU CRR*, *dealing on own account* means the service of dealing in any *financial instruments* for own account as referred to in point 3 of Section A of Annex I to *MiFID*, subject to (2) and (3).

- (2) In accordance with article 29(2) of CRD (Definition of dealing on own account), an *investment firm* that executes investors' orders for *financial instruments* and holds such *financial instruments* for its own account does not, for that reason, *deal on own account* if the following conditions are met:
- (a) such *position* only arise as a result of the *investment firm's* failure to match investors' orders precisely;
 - (b) the total market value of all such *positions* is no higher than 15% of the *investment firm's initial capital*;
 - (c) (for an *investment firm* that is an IFPRU investment firm or an EEA firm) it complies with the requirements in articles 92 to 95 (Own funds requirements for investment firms with limited authorisation to provide investment services) and Part Four (Large exposures) of the EU CRR;
 - (d) (for any other *investment firm*) it would comply with the requirements in (2)(c) if it had been an *investment firm* on the basis of the assumptions in ■ IFPRU 1.1.13 G (1)(a) and (b); and
 - (e) such *positions* are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.
- (3) In accordance with article 29(4) of CRD, the holding on *non-trading book positions in financial instruments* in order to invest in *own funds* is not *dealing on own account* for the purposes of ■ IFPRU 1.1.9 R (Types of IFPRU investment firm: IFPRU 125K firm) and ■ IFPRU 1.1.10 R (Types of IFPRU investment firm: IFPRU 50K firm).

Interpretation of the definition of types of firm and undertaking

1.1.13

FCA

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A firm whose head office is not in an EEA State is an *investment firm* if it would have been subject to the requirements imposed by MiFID (but it is not a *bank, building society, credit institution, local, exempt CAD firm* and *BIPRU firm*) if:

- (1) its head office had been in an EEA State; and
- (2) it had carried on all its business in the EEA and had obtained whatever authorisations for doing so as are required under MiFID.

1.1.14

FCA

G

A firm also falls into one of the categories of an IFPRU investment firm listed in ■ IFPRU 1.1.7 G (Types of IFPRU investment firm) or ■ IFPRU 1.1.8 R (Alternative classification of IFPRU investment firms) if its *Part 4A permission* contains a *requirement* that it must comply with the *rules* in IFPRU applicable to that category of firm. If a firm is subject to such a *requirement*, and it would otherwise also fall into another category of IFPRU investment firm, it does not fall into that other category.

1.1.15

FCA

G

For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* does any of the activities referred to in *IFPRU* and the *EU CRR* if:

- (1) it does that activity anywhere in the world; or
- (2) its *permission* includes that activity; or
- (3) (for an *EEA firm*) it is authorised by its *Home State regulator* to do that activity; or
- (4) (if the carrying on of that activity is prohibited in a state or territory without an authorisation in that state or territory) that *firm* has such an authorisation.

1.1.16

FCA

G

For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* offers any of the services referred to in articles 95 and 96 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services) if:

- (1) it offers that service anywhere in the world; or
- (2) any of ■ IFPRU 1.1.15 G(1) to (4) apply.

1.1.17

FCA

G

For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* has an authorisation to do any of the activities referred to in articles 95 and 96 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services) if any of ■ IFPRU 1.1.15 G(1) to (4) apply.

1.2 Significant IFPRU firm

Purpose

1.2.1

FCA

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Throughout *CRD* and the *EU CRR* there are various policies which have restricted application based on a *firm's* scope, nature, scale, internal organisation and complexity. These policies are provided in the following:

- (1) article 76 of *CRD* on the establishment of an independent risk committee;
- (2) article 88 of *CRD* on the establishment of an independent nominations committee;
- (3) article 91 of *CRD* on the limitations on the number of directorships an individual may hold;
- (4) article 95 of *CRD* on the establishment of an independent remuneration committee;
- (5) article 100 of *CRD* on supervisory stress testing to facilitate the *SREP* under article 97 of *CRD*;
- (6) articles 129 and 130 of *CRD* on applicability of the *capital conservation buffer* and the *countercyclical capital buffer* (provided that an exemption from the application of these articles does not threaten the stability of the financial system of the *EEA State*);
- (7) article 6(4) of the *EU CRR* on the scope of liquidity reporting on an individual basis;
- (8) article 11(3) of the *EU CRR* on the scope of liquidity reporting on a consolidated basis; and
- (9) article 450 of the *EU CRR* on disclosure on *remuneration*.

1.2.2

FCA

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The articles in ■ IFPRU 1.2.1 G do not always carry the same wording in describing what may be significant in terms of a *firm's* scope, nature, scale, internal organisation and complexity, but the articles have a general policy to restrict the application of those requirements to *institutions* which pose higher risks by virtue of broadly their size, types of business and complexity of activities. The *FCA's* policy is to apply an objective definition with pre-defined thresholds to determine which *firms* are considered as significant for the purpose of these articles. In order to clarify which *firms* these policies apply to,

■ IFPRU 1.2.3 R defines the factors which determine if a *firm* is a *significant IFPRU firm*.

1.2.3

FCA

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Definition of significant IFPRU firm

A *firm* is a *significant IFPRU firm* if it meets, at any time, one or more of the following conditions:

- (1) its total assets exceeds £530 million;
- (2) its total liabilities exceeds £380 million;
- (3) the annual fees and commission income it receives in relation to the *regulated activities* carried on by the *firm* exceeds £160 million in the 12-month period immediately preceding the date the *firm* carries out the assessment under this *rule* on a rolling basis;
- (4) the *client money* that it receives or holds exceeds £425 million; and
- (5) the assets belonging to its *clients* that it holds in the course of, or connected with, its *regulated activities* exceeds £7.8 billion.

1.2.4

FCA

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- (1) This *rule* defines some of the terms used in ■ IFPRU 1.2.3 R.
- (2) "Total assets" means the *firm's* total assets
 - (a) set out in the most recent relevant report submitted to the *FCA* under ■ SUP 16.12 (Integrated regulatory reporting); or
 - (b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- (3) "Total liabilities" means the *firm's* total liabilities:
 - (a) set out in the most recent relevant report submitted to the *FCA* under ■ SUP 16.12 (Integrated regulatory reporting); or
 - (b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- (4) The *client money* means the *money* that a *firm* receives or holds in the course of, or in connection with, all of the *regulated activities* defined in paragraphs (1) to (4) of the *Glossary* that it carries on:

- (a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP*, as applies to the *firm* in ■ SUP 16.12 (Integrated regulatory reporting); or
 - (b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.
- (5) "Assets belonging to its *clients*" means the assets to which the *custody rules* apply:
- (a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP*, as applies to the *firm* in ■ SUP 16.12 (Integrated regulatory reporting); or
 - (b) (if the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

1.2.5

FCA

R

A *firm* must regularly assess whether it, at any time, becomes a *significant IFPRU firm*.

1.2.6

FCA

R

- (1) If a *firm*, at any time, becomes aware that it is likely to become a *significant IFPRU firm*, it must forthwith make arrangements to establish and have in place sound, effective and comprehensive strategies, processes and systems to achieve compliance with the requirements that apply to a *significant IFPRU firm*.
- (2) The *firm* in (1) must comply with the requirements that apply to a *significant IFPRU firm* on the expiry of a period of three *months* from the date it meets any one of the conditions in ■ IFPRU 1.2.3 R.

1.2.7

FCA

R

If a *firm* that is a *significant IFPRU firm* ceases to meet any of the conditions in ■ IFPRU 1.2.3 R, it must continue to comply with the *rules* and requirements applicable to a *significant IFPRU firm* until the first anniversary of the date on which the *firm* ceased to be a *significant IFPRU firm*.

1.2.8

FCA

G

The *FCA* may, on a case-by-case basis, require a *firm* which does not meet any of the conditions in ■ IFPRU 1.2.3 R to comply with the *rules* and requirements that apply to a *significant IFPRU firm* if the *FCA* considers it appropriate to do so to meet its strategic objective or to advance one or more of its operational objectives under the *Act*.

1.2.9

FCA

G

- (1) A *firm* may apply to the *FCA* under section 138A of the *Act* to *waive* any one or more of the conditions in ■ IFPRU 1.2.3 R if it believes that one or more of the governance requirements in (2) that apply to a *significant IFPRU firm* may be

disproportionate to it. In its application for such *waiver*, the *FCA* expects the *firm* to demonstrate, taking into account size, nature, scope and complexity of its activities in the context of it being a member of a *group* and the internal organisation of the *group*, that it should not be considered as significant.

- (2) The governance requirements referred to in (1) are:
 - (a) ■ SYSC 4.3A.6 R on the limitations in the number of directorships; or
 - (b) ■ SYSC 4.3A.8 R on the nomination committee; or
 - (c) ■ SYSC 7.1.18 R on the risk committee; or
 - (d) ■ SYSC 19A.3.12 R on the remuneration committee.

- (3) The effect of such *waiver* is that the *firm* would not be a *significant IFPRU firm* only for the purpose of the particular governance requirement in (2) that the *waiver* is expressed to apply to. For the avoidance of doubt, such *firm* would still be a *significant IFPRU firm* for the purpose of the other *rules* in the *FCA Handbook* that apply to a *significant IFPRU firm*.



1.3 Supervisory benchmarking of internal approaches for calculating own funds requirements

1.3.1 **R** Except for *operational risk*, a *firm* that is permitted to use *internal approaches* for the calculation of risk weighted exposure amounts or *own fund requirements* must report annually to the *FCA*:

- (1) the results of the calculations of its *internal approaches* for its *exposures* or positions that are included in the benchmark portfolios; and
- (2) an explanation of the methodologies used to produce those calculations in (1).

[Note: article 78(1) of *CRD*]

1.3.2 **G**
FCA A *firm* must submit the results of the calculations referred to in **■** IFPRU 1.3.1 R (1), in line with the template set out in the Commission Regulation adopted under article 78(8) of *CRD*, to the *FCA* and to *EBA*.

1.3.3 **R**
FCA Where the *FCA* has chosen to develop specific portfolios in accordance with article 78(2) of *CRD*, a *firm* must report the results of the calculations separately from the results of the calculations for *EBA* portfolios.

[Note: article 78(2) of *CRD*]

 1.4 EU CRR permissions

1.4.1

FCA

R

A *firm* which has applied for, or has been granted, a permission under the *EU CRR* must notify the *FCA* immediately if it becomes aware of any matter which could affect the continuing relevance or appropriateness of the application or permission.

1.4.2

FCA

G

The reference to 'permission' in ■ IFPRU 1.4.1 R includes any approval, consent or agreement referred to under the *EU CRR* for which the *FCA* has been conferred powers as *competent authority* by the *EU CRR*.



1.5 Notification of FINREP reporting

1.5.1

FCA

R A n *IFPRU investment firm* must notify the *FCA*:

- (1) if it is, or becomes, a *FINREP firm*; and
- (2) when it ceases to be a *FINREP firm*.

1.5.2

FCA

R A *firm* must notify the *FCA* if it adjusts its *firm's accounting reference date* under the Commission Regulation made under article 99 of the *EU CRR*.



1.6 **Actions for damages**

1.6.1

FCA

R

A contravention of the *rules* in *IFPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision given rise to no such right of action).

Chapter 2

Supervisory processes and governance

2.1 Application and purpose

Application

2.1.1
FCA

R ■ IFPRU 2 applies in the following manner:

- (1) to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*; and
- (2) the *general stress and scenario testing rule* (and related *rules and guidance*) applies only to a *significant IFPRU firm*.

Purpose

2.1.2
FCA

G This chapter implements certain provisions of CRD relating to governance and contains *guidance* related to Section III of Chapter 2, Title VII of CRD (Supervisory review and evaluation process).

2.1.3
FCA

G This section amplifies *Principle 4*, under which a *firm* must maintain adequate financial resources. It is concerned with the adequacy of the financial resources that a *firm* needs to hold in order to meet its liabilities as they fall due. These resources include both capital and liquidity resources.

2.1.4
FCA

G This section has *rules* requiring a *firm* to identify and assess risks to its ability to meet its liabilities as they fall due, how it intends to deal with those risks, and the amount and nature of financial resources that the *firm* considers necessary. ■ IFPRU 2.2.43 R (Documentation of risk assessment) provides that a firm should document that assessment. The *FCA* will review that assessment as part of its own assessment of the adequacy of a *firm's* capital under its *supervisory review and evaluation process (SREP)*. When forming a view of any *individual capital guidance* to be given to the *firm*, the *FCA* will also review the regulator's risk assessment and any other issues arising from day-to-day supervision.

2.1.5
FCA

G This section has *rules* requiring a *firm* to carry out appropriate stress tests and scenario analyses for the risks it has previously identified and to establish the amount of financial resources and internal capital needed in each of the circumstances and events considered in that analyses. The *FCA* will consider, as part of its *SREP*, whether the *firm* should hold a *capital planning buffer* and the amount and quality of that buffer. The *capital planning buffer* is an amount separate, though related to, the *individual capital guidance* in so far as its purpose is to ensure that a *firm* is able to continue to meet the *overall financial adequacy rule* throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions. Therefore,

when forming its view on a *firm's capital planning buffer*, the *FCA* will take into account the assessment made in relation to the *firm's ICG*.



2.2 Internal capital adequacy assessment process

Adequacy of financial resources

- 2.2.1
FCA

R

A *firm* must, at all times, maintain overall financial resources and internal capital, including *own funds* and liquidity resources which are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due.
- 2.2.2
FCA

G

■ BIPRU 12 contains *rules* and *guidance* relating to the adequacy of a *firm's* liquidity resources. In assessing the adequacy of its liquidity resources, a *firm* should do so by reference to the *overall liquidity adequacy rule*, rather than the *overall financial adequacy rule*.
- 2.2.3
FCA

G

The effective management of prudential risk relies on the adequacy of a *firm's* financial resources, systems and controls. These need to be assessed in relation to all the activities of the *firm* and the risks to which they give rise, and so this chapter applies to a *firm* for the whole of its business. For a *collective portfolio management investment firm*, this means that this section also applies to its activities in relation to the management of AIFs and/or UCITS.
- 2.2.4
FCA

G

The liabilities referred to in the *overall financial adequacy rule* include a *firm's* contingent and prospective liabilities. They exclude liabilities that might arise from transactions that a *firm* has not entered into and which it could avoid (eg, by taking realistic management actions such as ceasing to transact new business after a suitable period of time has elapsed). They include liabilities or costs that arise in scenarios where the *firm* is a going concern and those where the *firm* ceases to be a going concern. They also include claims that could be made against a *firm*, which ought to be paid in accordance with fair treatment of *customers*, even if such claims could not be legally enforced.
- 2.2.5
FCA

G

In the light of ■ IFPRU 2.2.4 G, a *firm* should make its assessment of adequate financial resources on realistic valuation bases for assets and liabilities, taking into account the actual amounts and timing of cash flows under realistic adverse projections.
- 2.2.6
FCA

G

Risks may be addressed through holding capital to absorb losses that unexpectedly materialise. The ability to pay liabilities as they fall due also requires liquidity. Therefore, in assessing the adequacy of a *firm's* financial resources, both capital and liquidity needs should be considered. A *firm* should also consider the quality of its financial resources, such as the loss-absorbency of different types of capital and the time required to liquidate different types of asset.

Strategies, processes and systems

2.2.7

FCA

R

A *firm* must have in place sound, effective and comprehensive strategies, processes and systems:

- (1) to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources, *own funds* and internal capital that it considers adequate to cover:
 - (a) the nature and level of the risks to which it is, or might be, exposed;
 - (b) the risk in the *overall financial adequacy rule*;
 - (c) the risk that the *firm* might not be able to meet the obligations in Part Three of the *EU CRR* (Capital Requirements) in the future; and
- (2) that enable it to identify and manage the major sources of risks referred to in (1), including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:
 - (a) credit and counterparty risk;
 - (b) *market risk*;
 - (c) *liquidity risk*;
 - (d) *operational risk*;
 - (e) concentration risk;
 - (f) residual risk;
 - (g) *securitisation* risk;
 - (h) business risk;
 - (i) interest rate risk, including interest-rate risk in the *non-trading book*;
 - (j) *risk of excessive leverage*;
 - (k) pension obligation risk; and
 - (l) group risk.

[Note: article 73 first paragraph and article 74(1) of *CRD*]

2.2.8

FCA

R

- (1) This *rule* defines some of the terms used in the *overall Pillar 2 rule*.
- (2) Residual risk means the risk that *credit risk mitigation* techniques used by the *firm* prove less effective than expected.

- (3) *Securitisation* risk includes the risk that the *own funds* held by a *firm* for assets which it has *securitised* are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.
- (4) Business risk means any risk to a *firm* arising from:
 - (a) changes in its business, including:
 - (i) the acute risk to earnings posed by falling or volatile income;
 - (ii) the broader risk of a *firm's* business model or strategy proving inappropriate due to macro-economic, geopolitical, industry, regulatory or other factors; and
 - (iii) the risk that a *firm* may not be able to carry out its business plan and desired strategy; and
 - (b) its remuneration policy (see also the *Remuneration Code* which applies to *IFPRU investment firms* and the detailed application of which is set out in ■ SYSC 19A.1).
- (5) Pension obligation risk is the risk to a *firm* caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related *company* or otherwise). It also means the risk that the *firm* will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the *firm* considers that it needs to do so for some other reason.
- (6) Interest-rate risk in the non-*trading book* means:
 - (a) risks related to the mismatch of re-pricing of assets and liabilities and off balance sheet short- and long-term positions ("re-pricing risk");
 - (b) risks arising from hedging exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions ("basis risk");
 - (c) risk related to the uncertainties of occurrence of transactions, for example, when expected future transactions do not equal the actual transactions ("pipeline risk"); and
 - (d) risks arising from consumers redeeming fixed rate products when market rates change ("optionality risk").
- (7) Group risk is the risk that the financial position of a *firm* may be adversely affected by its relationships (financial or non-financial) with other entities in the same *group* or by risks

which may affect the financial position of the whole *group* (eg, reputational contagion).

2.2.9
FCA

G

- (1) This paragraph gives *guidance* on some of the terms used in the *overall Pillar 2 rule*.
- (2) In a narrow sense, business risk is the risk to a *firm* that it suffers losses because its income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might deflect a *firm* from its desired strategy and business plan. ■ IFPRU 2.3.47 G to ■ IFPRU 2.3.54 G provides further *guidance* on business risk.
- (3) Interest-rate risk in the non-*trading book* is explained in ■ IFPRU 2.3.39 G (Interest rate risk in the non-trading book).

2.2.10
FCA

G

In the *overall Pillar 2 rule*, internal capital refers to the financial resources of a *firm* which it treats as being held against the risks listed in the *overall Pillar 2 rule*. The obligation in that *rule* to assess the distribution of such capital refers, in relation to a *firm* making an assessment on an individual basis, for example, to the need to take account of circumstances where part of a *firm's* financial resources are held by a *branch* of that *firm* which are subject to restrictions on its ability to transfer that capital. An assessment of internal capital distribution might also take account of such of a *firm's* financial resources as may be ring-fenced in the event of its insolvency.

2.2.11
FCA

R

As part of its obligations under the *overall Pillar 2 rule*, a *firm* must identify separately the amount of *common equity tier 1 capital*, *additional tier 1 capital* and *tier 2 capital* and each category of capital (if any) that is not eligible to form part of its *own funds* which it considers adequate for the purposes described in the *overall Pillar 2 rule*.

2.2.12
FCA

R

The processes, strategies and systems required by the *overall Pillar 2 rule* must be comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

[Note: article 73 second paragraph (part) of *CRD*]

2.2.13
FCA

R

A *firm* must:

- (1) carry out regularly the assessments required by the *overall Pillar 2 rule*; and
- (2) carry out regular assessments of the processes, strategies and systems required by the *overall Pillar 2 rule* to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

[Note: article 73 second paragraph (part) of *CRD*]

2.2.14

FCA

R As part of its obligations under the *overall Pillar 2 rule*, a firm must :

- (1) make an assessment of the *firm-wide* impact of the risks identified in line with that *rule*, to which end a *firm* must aggregate the risks across its various business lines and units, taking appropriate account of the correlation between risks;
- (2) take into account the stress tests that the *firm* is required to carry out as follows:
 - (a) (for a *significant IFPRU firm*) under the *general stress and scenario testing rule* (including ■ SYSC 20 (Reverse stress testing));
 - (b) (except a *firm* in (a)) under ■ SYSC 20 (Reverse stress testing);

and any stress tests that the *firm* is required to carry out under the *EU CRR*;
- (3) have processes and systems that:
 - (a) include an assessment of how the *firm* intends to deal with each of the major sources of risk identified in line with ■ IFPRU 2.2.7 R (2); and
 - (b) take account of the impact of the diversification effects and how such effects are factored into the *firm's* systems for measuring and managing risks.

2.2.15

FCA

G Certain risks, such as systems and controls weaknesses, may not be adequately addressed by, for example, holding additional capital and a more appropriate response would be to rectify the weakness. In such circumstances, the amount of financial resources required to address these risks might be zero. However, a *firm* should consider whether holding additional capital might be an appropriate response until the identified weaknesses are rectified. A *firm*, should, in line with ■ IFPRU 2.2.43 R to ■ IFPRU 2.2.44 R (Documentation of risk assessments), document the approaches taken to manage these risks.

2.2.16

FCA

G A *firm* should carry out assessments of the sort described in the *overall Pillar 2 rule* and ■ IFPRU 2.2.13 R at least annually, or more frequently if changes in the business, strategy, nature or scale of its activities or operational environment suggest that the current level of financial resources is no longer adequate. The appropriateness of the internal process, and the degree of involvement of *senior management* in the process, will be taken into account by the *FCA* when reviewing a *firm's* assessment as part of the *FCA's* own assessment of the adequacy of a *firm's* financial resources and internal capital. The processes and systems should ensure that the assessment of the adequacy of a *firm's* financial resources and internal capital is reported to its *senior management* as often as is necessary.

Credit and counterparty risk

2.2.17
FCA

R A *firm* must base credit-granting on sound and well-defined criteria and clearly establish the process for approving, amending, renewing and re-financing credits.

[Note: article 79(a) of CRD]

2.2.18
FCA

R A *firm* must have internal methodologies that:

- (1) enable it to assess the credit risk of exposures to individual obligors, securities or *securitisation positions* and credit risk at the portfolio level;
- (2) do not rely solely or mechanistically on external credit ratings;
- (3) where its *own funds requirements* under Part Three of the EU CRR (Capital Requirements) are based on a rating by an ECAI or based on the fact that an exposure is unrated, enable the *firm* to consider other relevant information for assessing its allocation of financial resources and internal capital.

[Note: article 79(b) of CRD]

2.2.19
FCA

R A *firm* must operate through effective systems the ongoing administration and monitoring of its various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions.

[Note: article 79(c) of CRD]

2.2.20
FCA

R A *firm* must adequately diversify credit portfolios given its target markets and overall credit strategy.

[Note: article 79(d) of CRD]

Residual risk

2.2.21
FCA

R A *firm* must address and control, by means which include written policies and procedures, residual risk (see ■ IFPRU 2.2.8 R (2) and ■ IFPRU 2.3.41 G).

[Note: article 80 of CRD]

Concentration risk

2.2.22
FCA

R A *firm* must address and control, by means which include written policies and procedures, the concentration risk arising from:

- (1) exposures to each counterparty, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, geographic region or from the same activity or commodity;
- (2) the application of *credit risk mitigation* techniques; and

- (3) risks associated with large indirect credit exposures, such as a single collateral issuer.

[Note: article 81 of *CRD*]

2.2.23

FCA

R

In ■ IFPRU 2.2.22 R, the processes, strategies and systems relating to concentration risk must include those necessary to ensure compliance with Part Four of the *EU CRR* (Large exposures).

Securitisation risk

2.2.24

FCA

R

A *firm* must evaluate and address through appropriate policies and procedures the risks arising from *securitisation* transactions in relation to which a *firm* is investor, *originator* or *sponsor*, including reputational risks, to ensure, in particular, that the economic substance of the transaction is fully reflected in risk assessment and management decisions.

[Note: article 82(1) of *CRD*]

2.2.25

FCA

R

A *firm* which is an *originator* of a revolving *securitisation* transaction involving *early amortisation provisions* must have liquidity plans to address the implications of both scheduled and early amortisation.

[Note: article 82(2) of *CRD*]

Market risk

2.2.26

FCA

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A *firm* must implement policies and processes for the identification measurement and management of all material sources and effects of *market risks*.

[Note: article 83(1) of *CRD*]

2.2.27

FCA

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A *firm* must take measures against the risk of a shortage of liquidity if the short position falls before due before the long position.

[Note: article 83(2) of *CRD*]

2.2.28

FCA

R

(1) A *firm's* financial resources and internal capital must be adequate for material *market risk* that are not subject to an *own funds requirement* under Part Three of the *EU CRR* (Capital Requirements).

(2) A *firm* which has, in calculating *own funds requirements* for position risk in accordance with Part Three, Title IV, Chapter 2 of the *EU CRR* (Own funds requirements for position risk), netted off its positions in one or more of the equities constituting a stock-index against one or more positions in the stock index future or other stock-index product, must have adequate financial resources and internal capital to cover the basis risk of loss caused by the future's or other product's value not moving fully in line with that of its constituent equities.

- (3) A *firm* using the treatment in article 345 of the *EU CRR* (Underwriting: Reduction of net positions) must ensure that it holds sufficient financial resources and internal capital against the risk of loss which exists between the time of the initial commitment and the following working day.

[Note: article 83(3) of *CRD*]

2.2.29
FCA

R As part of its obligations under the *overall Pillar 2 rule*, a *firm* must consider whether the value adjustments and provisions taken for *positions* and portfolios in the *trading book* enable the *firm* to sell or hedge out its *positions* within a short period without incurring material losses under normal market conditions.

[Note: article 98(4) of *CRD*]

Interest risk arising from non-trading book activities

2.2.30
FCA

R A *firm* must implement systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect a *firm's* non-trading activities.

[Note: article 84 of *CRD*]

2.2.31
FCA

- R** (1) As part of its obligations under the *overall Pillar 2 rule*, a *firm* must carry out an evaluation of its exposure to the interest-rate risk arising from its non-trading activities.
- (2) The evaluation under (1) must cover the effect of a sudden and unexpected parallel change in interest rates of 200 basis points in both directions.
- (3) A *firm* must immediately notify the *FCA* if any evaluation under this *rule* suggests that, as a result of the change in interest rates described in (2), the economic value of the *firm* would decline by more than 20% of its *own funds*.
- (4) A *firm* must carry out the evaluation under (1) as frequently as necessary for it to be reasonably satisfied that it has at all times a sufficient understanding of the degree to which it is exposed to the risks referred to in (1) and the nature of that exposure. In any case it must carry out those evaluations no less frequently than once a year.

[Note: article 98(5) of *CRD*]

Operational risk

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2.2.32
FCA

R A *firm* must implement policies and processes to evaluate and manage the exposure to operational risk, including model risk and to cover low-frequency high severity events. Without prejudice to the definition of *operational risk*, a *firm* must articulate what constitutes *operational risk* for the purposes of those policies and procedures.

2.2.33
FCA

R A *firm* must have adequate contingency and business continuity plans in place aimed at ensuring that, in the case of a severe business disruption, the *firm* is able to operate on an ongoing basis and that any losses are limited.

[Note: article 85(1) of *CRD*]

[Note: article 85(2) of *CRD*]

Risk of excessive leverage

2.2.34
FCA

R (1) A *firm* must have policies and procedures in place for the identification, management and monitoring of the *risk of excessive leverage*.

(2) Those policies and procedures must include, as an indicator for the *risk of excessive leverage*, the leverage ratio determined in accordance with article 429 of the *EU CRR* (Calculation of the leverage ratio) and mismatches between assets and obligations.

[Note: article 87(1) of *CRD*]

2.2.35
FCA

R A *firm* must address the *risk of excessive leverage* in a precautionary manner by taking due account of potential increases in that risk caused by reductions of the *firm's own funds* through expected or realised losses, depending on the applicable accounting rules. To that end, a *firm* must be able to withstand a range of different stress events with respect to the *risk of excessive leverage*.

[Note: article 87(2) of *CRD*]

General stress and scenario testing

2.2.36
FCA

R The *general stress and scenario testing rule* in ■ IFPRU 2.2.37 R and related *rules* and *guidance* apply to a *significant IFPRU firm*.

2.2.37
FCA

R (1) As part of its obligation under the *overall Pillar 2 rule*, a *firm* that is a *significant IFPRU firm* must:

(a) for the major sources of risk identified in line with IFPRU 2.2.7R(2), carry out stress tests and scenario analyses that are appropriate to the nature, scale and complexity of those major sources of risk and to the nature, scale and complexity of the *firm's* business; and

(b) carry out the reverse stress testing under ■ SYSC 20 (Reverse stress testing).

(2) In carrying out the stress tests and scenario analyses in (1), a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the exposure of the *firm* to those circumstances, including:

- (a) circumstances and events occurring over a protracted period of time;
 - (b) sudden and severe events, such as market shocks or other similar events; and
 - (c) some combination of the circumstances and events described in (a) and (b), which may include a sudden and severe market event followed by an economic recession.
- (3) In carrying out the stress tests and scenario analyses in (1), the *firm* must estimate the financial resources that it would need in order to continue to meet the *overall financial adequacy rule* and the *own funds requirements* under the obligations laid down in Part Three of the *EU CRR* (Capital requirements) in the adverse circumstances being considered.
- (4) In carrying out the stress tests and scenario analyses in (1), the *firm* must assess how risks aggregate across business lines or units, any material non-linear or contingent risks and how risk correlations may increase in stressed conditions.
- (5) A *firm* must carry out the stress tests and scenario analyses at least annually, unless:
- (a) it is notified by the *FCA* to carry out more frequent or ad-hoc stress tests and scenario analyses; or
 - (b) the nature, scale and complexity of the major sources of risk identified by it under the *overall Pillar 2 rule* make it appropriate to carry out more frequent stress tests and scenario analyses.
- (6) A *firm* must report to the *FCA* the results of the stress tests and scenario analysis annually and not later than three *months* after its annual reporting date.

[Note: article 100 of *CRD*]

2.2.38

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To comply with the *general stress and scenario testing rule*, a *firm* should undertake a broad range of stress tests which reflect a variety of perspectives, including sensitivity analysis, scenario analysis and stress testing on an individual portfolio, as well as a *firm*-wide level.

2.2.39

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A *firm* with an IRB permission which has any material credit *exposures* excluded from its IRB models should also include these *exposures* in its stress and scenario testing to meet its obligations under the *general stress and scenario testing rule*. A *firm* without IRB permission should conduct analyses to assess risks to the credit quality of its counterparties, including any protection sellers, considering both on and off-balance sheet exposures.

2.2.40
FCA

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In carrying out the stress tests and scenario analyses under ■ IFPRU 2.2.37 R (1), a *firm* should also consider any impact of the adverse circumstances on its *own funds*. In particular, a *firm* should consider the capital ratios in article 92 of the *EU CRR* (Own funds requirements) where its *common equity tier 1 capital* and *additional tier 1 capital* is eroded by the event.

2.2.41
FCA

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A *firm* should assign adequate resources, including IT systems, to stress testing and scenario analysis, taking into account the stress testing techniques used, in order to accommodate different and changing stress tests at an appropriate level of granularity.

2.2.42
FCA

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For the purpose of ■ IFPRU 2.2.37 R (5), a *firm* should consider whether the nature of the major sources of risks identified by it, in line with ■ IFPRU 2.2.7 R (2) (Main requirement relating to risk strategies, processes and systems), and their possible impact on its financial resources suggest that such tests and analyses should be carried out more frequently. For instance, a sudden change in the economic outlook may prompt a *firm* to revise the parameters of some of its stress tests and scenario analyses. Similarly, if a *firm* has recently become exposed to a particular sectoral concentration, it may wish to add some stress tests and scenario analyses to reflect that concentration.

Documentation of risk assessments

2.2.43
FCA

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A *firm* must make a written record of the assessments required under this chapter. These assessments include those carried out on a consolidated basis and on an individual basis. In particular, it must make a written record of:

- (1) the major sources of risk identified in accordance with the *overall Pillar 2 rule*;
- (2) how it intends to deal with those risks; and
- (3) details of the stress tests and scenario analyses carried out, including any assumptions made in relation to scenario design and the resulting financial resources estimated to be required in accordance with the *general stress and scenario testing rule*.

2.2.44
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A *firm* must maintain the records in ■ IFPRU 2.2.43 R for at least three years.

Level of application: ICAAP rules

2.2.45
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A *firm* must apply the *ICAAP rules* on an individual basis if it is not:

- (1) a *subsidiary undertaking* of a *parent undertaking* incorporated in, or formed under the law of any part of, the *United Kingdom*; and
- (2) a *parent undertaking*.

2.2.46 **R** A *firm* that is not a member of a *FCA consolidation group* must apply the ICAAP rules on an individual basis.

FCA

[Note: article 108(1) of CRD]

2.2.47 **R** A *firm* which is a *parent institution in a Member State* must comply with the ICAAP rules on a *consolidated basis*.

FCA

[Note: article 108(2) of CRD]

2.2.48 **R** A *firm* controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* must comply with the ICAAP rules on the basis of the *consolidated situation* of that holding company, if the *FCA* is responsible for supervision of the *firm* on a *consolidated basis* under article 111 of CRD.

FCA

[Note: article 108(3) of CRD]

2.2.49 **R** A *firm* that is a *subsidiary* must apply the ICAAP rules on a *sub-consolidated basis* if the *firm*, or the *parent undertaking* where it is a *financial holding company* or *mixed financial holding company*, have an *institution* or *financial institution* or an *asset management company* as a *subsidiary* in a *third country* or hold a *participation* in such an undertaking as members of a *non-EEA sub-group*.

FCA

[Note: article 108(4) of CRD]

Extent and manner of prudential consolidation

2.2.50 **R** If the ICAAP rules apply to a *firm* on a *consolidated basis*, the *firm* must carry out consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, section 2 of the *EU CRR* (Methods for prudential consolidation) and ■ IFPRU 8.1(Prudential consolidation).

FCA

2.2.51 **R** For the purpose of the ICAAP rules as they apply on a *consolidated basis* or on a *sub-consolidated basis*:

FCA

- (1) the *firm* must ensure that the *FCA consolidation group* has the processes, strategies and systems required by the *overall Pillar 2 rule*;
- (2) the risks to which the *overall Pillar 2 rule* and the *general stress and scenario testing rule* refer are those risks as they apply to each member of the *FCA consolidation group*;
- (3) the reference in the *overall Pillar 2 rule* to amounts and types of financial resources, *own funds* and internal capital (referred to in this *rule* as resources) must be read as being to the amounts and types that the *firm* considers should be held by the members of the *FCA consolidation group*;

2.2.52

FCA

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- (4) other references to resources must be read as being to resources of the members of the *FCA consolidation group*;
- (5) the reference in the *overall Pillar 2 rule* to the distribution of resources must be read as including a reference to the distribution between members of the *FCA consolidation group*; and
- (6) the reference in the *overall Pillar 2 rule* to the *overall financial adequacy rule* must be read as being to that *rule* as adjusted under ■ IFPRU 2.2.63 R (Application of the *overall financial adequacy rule* on a consolidated basis).

(1) This *rule* relates to the assessment of the amounts, types and distribution of financial resources, *own funds* and internal capital (referred to in this *rule* as "resources") under the *overall Pillar 2 rule* as applied on a *consolidated basis* and to the assessment of diversification effects as referred to in ■ IFPRU 2.2.14 R (3)(b) as applied on a *consolidated basis*.

(2) A *firm* must be able to explain how it has aggregated the risks referred to in the *overall Pillar 2 rule* and the financial resources, *own funds* and internal capital required by each member of the *FCA consolidation group* and how it has taken into account any diversification benefits for the group in question.

(3) In particular, to the extent that the transferability of resources affects the assessment in (2), a *significant IFPRU firm* must be able to explain how it is satisfied that resources are transferable between members of the group in question in the stressed cases and the scenarios referred to in the *general stress and scenario testing rule*.

2.2.53

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(1) A *firm* must allocate the total amount of financial resources, *own funds* and internal capital identified as necessary under the *overall Pillar 2 rule* (as applied on a consolidated basis) between different parts of the *FCA consolidation group*. ■ IFPRU 2.2.11 R (Identifying different tiers of capital) does not apply to this allocation

(2) The *firm* must carry out the allocation in (1) in a way that adequately reflects the nature, level and distribution of the risks to which the group is subject and the effect of any diversification benefits.

2.2.54

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A *firm* must also allocate the total amount of financial resources, *own funds* and internal capital (referred to in this *rule* as "resources") identified as necessary under the *overall Pillar 2 rule* as applied on a

consolidated basis or *sub-consolidated basis* between each *firm* which is a member of the *FCA consolidation group* on the following basis:

- (1) the amount allocated to each *firm* must be decided on the basis of the principles in ■ IFPRU 2.2.53 R (2); and
- (2) if the process in (1) were carried out for each group member, the total so allocated would equal the total amount of resources identified as necessary under the *overall Pillar 2 rule*, as applied on a *consolidated basis* or *sub-consolidated basis*.

2.2.55

FCA

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A *firm* to which the *ICAAP rules* apply on a *consolidated basis* need not prepare a *consolidated basis* assessment if such an assessment has been prepared by another member of its *FCA consolidation group*. In such cases, a *firm* may adopt such an assessment as its own. A *firm* nevertheless remains responsible for the assessment.

2.2.56

FCA

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The purpose of ■ IFPRU 2.2.52 R to ■ IFPRU 2.2.55 G is to enable the *FCA* to assess the extent, if any, to which a *firm's* assessment, calculated on a *consolidated basis*, is lower than it would be if each separate legal entity were to assess the amount of capital it would require to mitigate its risks (to the same level of confidence) were it not part of a group subject to consolidated supervision under Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation). The reason the *FCA* wishes to make this assessment is so that *individual capital guidance* which it gives is fair and comparable between different *firms* and groups. Group diversification benefits which a *firm* might assert exist can be a material consideration in a capital adequacy assessment. Understanding the methods used to aggregate the different risks (eg, the correlation assumptions) is crucial to a proper evaluation of such benefits.

2.2.57

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Whereas a single legal entity can generally use its capital to absorb losses wherever they arise, there are often practical and legal restrictions on the ability of a group to do so. For instance:

- (1) capital which is held by overseas regulated *firms* may not be capable of being remitted to a *firm* in the *UK* which has suffered a loss;
- (2) a *firm* which is, or likely to become, insolvent may be obliged to look to the interests of its creditors first before transferring capital to other group *companies*; and
- (3) a parent *company* may have to balance the interests of its shareholders against the protection of the creditors of a *subsidiary* which is, or might become, insolvent and may, rationally, conclude that a *subsidiary* should be allowed to fail rather than provide capital to support it.

Level of application: risk control rules

2.2.58

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The *risk control rules* apply to a *firm* on an individual basis whether or not they also apply to the firm on a *consolidated basis*.

[Note: article 109(1) of *CRD*]

2.2.59 **R** Where a *firm* is a member of a *FCA consolidation group* or a *non-EEA sub-group*, the *firm* must ensure that the risk management processes and internal control mechanisms at those levels comply with the obligations set out in the *risk control rules* on a *consolidated basis* (or a *sub-consolidated basis*).

FCA

[Note: article 109(2) of *CRD*]

2.2.60 **R** Compliance with the obligations in **IFPRU 2.2.59 R** must enable the *FCA consolidation group* or the *non-EEA sub-group* to have arrangements, processes and mechanisms that are consistent, well integrated and ensure that data relevant to the purpose of supervision can be produced.

FCA

[Note: article 109(2) of *CRD*]

Level of application: overall financial adequacy rule

2.2.61 **R** The *overall financial adequacy rule* applies to a *firm* on an individual basis, whether or not it also applies to the firm on a *consolidated basis* or *sub-consolidated basis*.

FCA

2.2.62 **R** The *overall financial adequacy rule* applies to a *firm* on a *consolidated basis* if the *ICAAP rules* apply to it on a *consolidated basis* and applies to a *firm* on a *sub-consolidated basis* if the *ICAAP rules* apply to it on a *sub-consolidated basis*.

FCA

2.2.63 **R** When the *overall financial adequacy rule* applies on a *consolidated basis* or *sub-consolidated basis*, the *firm* must ensure that at all times its *FCA consolidation group* maintains overall financial resources and internal capital, including *own funds* and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that the liabilities of any members of its *FCA consolidation group* cannot be met as they fall due.

FCA

Additional guidance on stress tests and scenario analyses

2.2.64 **G** The *general stress and scenario testing rule* requires a *firm* to carry out stress tests and scenario analyses as part of its obligations under the *overall Pillar 2 rule*. Both stress tests and scenario analyses are undertaken by a *firm* to further a better understanding of the vulnerabilities that it faces under adverse conditions. They are based on the analysis of the impact of a range of events of varying nature, severity and duration. These events can be financial, operational or legal or relate to any other risk that might have an economic impact on the *firm*.

FCA

2.2.65 **G** Stress testing typically refers to shifting the values of individual parameters that affect the financial position of a *firm* and determining the effect on the *firm's* financial position.

FCA

2.2.66 **G** Scenario analysis typically refers to a wider range of parameters being varied at the same time. Scenario analyses often examine the impact of adverse events on the *firm's* financial position, for example, simultaneous movements in a number of risk categories

FCA

affecting all of a *firm's* business operations, such as business volumes, investment values and interest rate movements.

2.2.67

FCA

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There are three broad purposes of stress testing and scenario analysis:

- (1) it can be used as a means of quantifying how much capital might be absorbed if an adverse event or events occurs (ie, a simple 'what if' approach to estimating exposure to risks), this might be a proportionate approach to risk management for an unsophisticated business;
- (2) it can be used to provide a check on the outputs and accuracy of risk models, particularly in identifying non-linear effects when aggregating risks; and
- (3) it can be used to explore the sensitivities in longer term business plans and how capital needs might change over time

2.2.68

FCA

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One of the main purposes of stress tests and scenario analyses under the *general stress and scenario testing rule* is to test the adequacy of overall financial resources. Scenarios need only be identified, and their impact assessed, in so far as this facilitates that purpose. In particular, the nature, depth and detail of the analysis depend, in part, upon the *firm's* capital strength and the robustness of its risk prevention and risk mitigation measures.

2.2.69

FCA

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Both stress testing and scenario analyses are forward-looking analysis techniques which seek to anticipate possible losses that might occur if an identified risk crystallises. In applying them, a *firm* should decide how far forward to look. This should depend upon:

- (1) how quickly it would be able to identify events or changes in circumstances that might lead to a risk crystallising resulting in a loss; and
- (2) after it has identified the event or circumstance, how quickly and effectively it could act to prevent or mitigate any loss resulting from the risk crystallising and to reduce exposure to any further adverse event or change in circumstance.

2.2.70

FCA

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Where a *firm* is exposed to *market risk*, the time horizon over which stress tests and scenario analyses should be carried out will depend on, among other things, the maturity and liquidity of the *positions* stressed. For example, for the *market risk* arising from the holding of investments, this will depend upon:

- (1) the extent to which there is a regular, open and transparent market in those assets, which would allow fluctuations in the value of the investment to be more readily and quickly identified; and
- (2) the extent to which the market in those assets is sufficiently liquid (and would remain liquid in the changed circumstances contemplated in the stress test or scenario analysis) to allow the *firm*, if needed, to sell, hedge or otherwise mitigate the risks relating to its holding so as to prevent or reduce exposure to future price fluctuations. In devising stress tests and scenario analyses for *market risk*, a *firm* should also take into account the following:
 - (a) the *general stress and scenario testing rule* should include a regular programme of stress testing and scenario analysis of its *trading book positions*, both at the trading desk level and on a *firm-wide* basis, with the

results of these tests being reviewed by *senior management* and reflected in the policies and limits the *firm* sets;

- (b) the *firm's* stress testing programme should be comprehensive in both risk and *firm* coverage, and appropriate to the size and complexity of *trading book positions* held;
- (c) for the purpose ■ IFPRU 2.2.37 R (5)(b), the frequency of stress testing of *trading book positions* should be determined by the nature of the *positions*;
- (d) the stress testing should include shocks which reflect the nature of the portfolio and the time it could take to hedge out or manage risks under severe market conditions;
- (e) the *firm* should have procedures in place to assess and respond to the results of the stress testing programme, in particular, stress testing should be used to evaluate the *firm's* capacity to absorb losses or to identify steps to be taken by the *firm* to reduce risk;
- (f) as part of its stress testing programme, the *firm* should consider how prudent valuation requirements in article 105 of the *EU CRR* will be met in a stressed scenario.

2.2.71
FCA

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In identifying scenarios and assessing their impact, a *firm* should take into account, where material, how changes in circumstances might impact upon:

- (1) the nature, scale and mix of its future activities; and
- (2) the behaviour of *counterparties*, and of the *firm* itself, including the exercise of choices (eg, options embedded in financial instruments or *contracts of insurance*).

2.2.72
FCA

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In determining whether it would have adequate financial resources in the event of each identified realistic adverse scenario, a *firm* should:

- (1) only include financial resources that could reasonably be relied upon as being available in the circumstances of the identified scenario; and
- (2) take account of any legal or other restriction on the use of financial resources.

Capital planning

2.2.73
FCA

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- (1) In identifying an appropriate range of adverse circumstances and events in accordance with ■ IFPRU 2.2.37 R (2):
 - (a) a *firm* will need to consider the cycles it is most exposed to and whether these are general economic cycles or specific to particular markets, sectors or industries;
 - (b) for the purposes of ■ IFPRU 2.2.37 R (2)(a), the amplitude and duration of the relevant cycle should include a severe downturn scenario based on forward-looking hypothetical events, calibrated against the most adverse movements in individual risk drivers experienced over a long historical period;

- (c) the adverse scenarios considered should in general be acyclical and, accordingly, the scenario should not become more severe during a downturn and less severe during an upturn. However, the *FCA* does expect scenarios to be updated with relevant new economic data on a pragmatic basis to ensure that the scenario continues to be relevant; and
 - (d) the adverse scenarios considered should reflect a *firm's* risk tolerance of the adverse conditions through which it expects to remain a going concern.
- (2) In making the estimate required by ■ IFPRU 2.2.37 R (3), a *firm* should project its *own funds* and required *own funds* over a time horizon of three to five years, taking account of its business plan and the impact of relevant adverse scenarios. In making the estimate, the *firm* should consider both the *own funds* required to meet its *own funds requirements* and the *own funds* needed to meet the *overall financial adequacy rule*. Those projections should be made in a manner consistent with its risk management processes and systems in IFPRU 2.2.7R.
- (3) In projecting its financial position over the relevant time horizon, the *firm* should:
- (a) reflect how its business plan would "flex" in response to the adverse events being considered, taking into account factors such as changing consumer demand and changes to new business assumptions;
 - (b) consider the potential impact on its stress testing of dynamic feedback effects and second order effects of the major sources of risk identified in accordance with ■ IFPRU 2.2.7 R (2);
 - (c) estimate the effects on the *firm's* financial position of the adverse event without adjusting for management actions;
 - (d) separately, identify any realistic management actions that the *firm* could, and would, take to mitigate the adverse effects of the stress scenario; and
 - (e) estimate the effects of the stress scenario on the *firm's* financial position after taking account of realistic management actions.
- (4) A *firm* should identify any realistic management actions intended to maintain or restore its capital adequacy. These could include ceasing to transact new business after a suitable period, balance sheet shrinkage, restricting distribution of profits or raising additional capital. A *firm* should reflect management actions in its projections only where it could, and would, take such actions, taking account of factors such as market conditions in the stress scenario and its effects upon the *firm's* reputation with its counterparties and investors. The combined effect on capital and retained earnings should be estimated. To assess whether prospective management actions in a stress scenario would be realistic and to determine which actions the *firm* would and could take, the *firm* should take into account any pre-conditions that might affect the value of management actions as risk mitigants and analyse the difference between the estimates in (3)(c) and (3)(e) in sufficient detail to understand the implications of taking different management actions at different times, particularly where they represent a significant divergence from the *firm's* business plan.
- (5) The *firm* should document its stress testing and scenario analysis policies and procedures, as well as the results of its tests in accordance with ■ IFPRU 2.2.43 R to ■ IFPRU 2.2.44 R (Documentation of risk assessments). These records should be included within the *firm's* ICAAP submission document.

- (6) The *FCA* will review the *firm's* records in (5) as part of its *SREP*. The purpose of examining these is to enable the *FCA* to judge whether a *firm* will be able to continue to meet its *own funds requirements* and the *overall financial adequacy rule* throughout the projection period.
- (7) If, after taking account of realistic management actions, a *firm's* stress-testing management plan shows that the *firm's* projected *own funds* are less than those required to continue to meet its *EU CRR* or needed to continue to meet the *overall financial adequacy rule* over the projection period, the *FCA* may require the *firm* to set out additional countervailing measures and off-setting actions to reduce such difference or to restore the *firm's* capital adequacy after the stress event.
- (8) The *firm's senior management* or *governing body* should be actively involved and engaged in all relevant stages of the *firm's* stress testing and scenario analysis programme. This would include establishing an appropriate stress testing programme, reviewing the programme's implementation (including the design of scenarios) and challenging, approving and actioning the results of the stress tests.

2.2.74
FCA

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The *FCA* may formulate macroeconomic and financial market scenarios which a *firm* may use as an additional input to its *ICAAP* submission. In addition, the *FCA* may also ask a *firm* to apply specific scenarios directly in its *ICAAP* submission.

2.2.75
FCA

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A *firm* may consider scenarios in which expected future profits will provide capital reserves against future risks. However, it would only be appropriate to take into account profits that can be foreseen with a reasonable degree of certainty as arising before the risk against which they are being held could possibly arise. In estimating future reserves, a *firm* should deduct future dividend payment estimates from projections of future profits.

2.2.76
FCA

G

- (1) Stress and scenario analyses should, in the first instance, be aligned with the risk appetite of the *firm*, as well as the nature, scale and complexity of its business and of the risks that it bears. The calibration of the stress and scenario analyses should be reconciled to a clear statement setting out the premise upon which the *firm's* internal capital assessment under the *overall Pillar 2 rule* is based.
- (2) In identifying adverse circumstances and events in line with ■ IFPRU 2.2.37 R (2), a *firm* should consider the results of any reverse stress testing conducted under ■ SYSC 20. Reverse stress testing may be expected to provide useful information about the *firm's* vulnerabilities and variations around the most likely ruin scenarios for the purpose of meeting the *firm's* obligations under ■ IFPRU 2.2.37 R. In addition, such comparison may help a *firm* to assess the sensitivity of its financial position to different stress calibrations.

2.2.77
FCA

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A *firm* should use the results of its stress testing and scenario analysis not only to assess capital needs, but also to decide if measures should be put in place to minimise the adverse effect on the *firm* if the risk covered by the stress or scenario test actually materialises. Such measures might be a contingency plan or might be more concrete risk mitigation steps.

Pension obligation risk

2.2.78

FCA

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This section contains guidance on the assessment required by ■ IFPRU 2.2.7 R (2)(k) for a *firm* exposed to pension obligation risk as defined in ■ IFPRU 2.2.8 R (5).

2.2.79

FCA

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The focus of the risk assessment is on the *firm's* obligations towards the pension scheme, not of the pension scheme itself (ie, the scheme's assets and liabilities). A *firm* should include in its estimate of financial resources both its expected obligations to the pension scheme and any increase in obligations that may arise in a stress scenario.

2.2.80

FCA

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If a *firm* has a current funding obligation in excess of normal contributions or there is a risk that such a funding obligation will arise then, when calculating available capital resources, it should reverse out any accounting deficit and replace this in its capital adequacy assessment with its best estimate, calculated in discussion with the scheme's actuaries or trustees, of the cash that will need to be paid into the scheme in addition to normal contributions over the foreseeable future. This may differ from the approach taken in assessing pension scheme risks for the purposes of calculating *own funds* to meet the *own funds requirements*.

2.2.81

FCA

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A *firm* may wish to consider the following scenarios:

- (1) one in which the *firm* gets into difficulties with an effect on its ability to fund the pension scheme; and
- (2) one in which the pension scheme position deteriorates (eg, because investment returns fall below expected returns or because of increases in life expectancy) with an effect on the *firm's* funding obligations; taking into account the management actions the *firm* could and would take.

2.2.82

FCA

G

A *firm* is expected to determine where the scope of any stress test impacts upon its pension obligation risk and estimate how the relevant measure of pension obligation risk will change in that scenario. For example, in carrying out stress tests under ■ IFPRU 2.2.37 R, a *firm* must consider how a stress scenario, such as an economic recession, would impact on the *firm's* current obligations towards its pension scheme and any potential increase in those obligations. Risks such as interest-rate risk or reduced investment returns may have a direct impact on a *firm's* financial position as well as an indirect impact resulting from an increase in the *firm's* pension scheme obligations. Both effects should be taken into account in a *firm's* estimate of financial resources under ■ IFPRU 2.2.7 R (Overall Pillar 2 rule).

2.2.83

FCA

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A *firm* should consider issues such as:

- (1) the extent to which trustees of the pension scheme or a pension regulator (such as the one created under the Pensions Act 2004) can compel a certain level of contributions or a one-off payment in adverse financial situations or to meet the minimum legal requirements under the scheme's trust deed and rules or applicable laws relating to the pension scheme;
- (2) whether the valuation bases used to set pension scheme contribution rates are consistent with the *firm's* current business plans and anticipated changes in the workforce; and

(3) which valuation basis is appropriate, given the expected investment return on scheme assets and actions the *firm* can take if those returns do not materialise.

2.2.84
FCA

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A *firm* should carry out analyses only to a degree of sophistication and complexity which is commensurate with the materiality of its pension risks.

Group risk

2.2.85
FCA

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This section contains additional guidance on the assessment required by ■ IFPRU 2.2.7 R (2)(l) (Group risk).

2.2.86
FCA

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A *firm* should include in the written record in ■ IFPRU 2.2.43 R (Documentation of risk assessments) a description of the broad business strategy of the *FCA consolidation group* or the *non-EEA sub-group* of which it is a member, the group's view of its principal risks and its approach to measuring, managing and controlling the risks. This description should include the role of stress testing, scenario analysis and contingency planning in managing risk on an individual basis and *consolidated basis*.

2.2.87
FCA

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A *firm* should satisfy itself that the systems (including IT) of the *FCA consolidation group* or the *non-EEA sub-group* of which it is a member are sufficiently sound to support the effective management and, where applicable, the quantification of the risks that could affect the *FCA consolidation group* or the *non-EEA sub-group*, as the case may be.

2.2.88
FCA

G

In performing stress tests and scenario analyses, a *firm* should take into account the risk that its *group* may have to bring back on to its consolidated balance sheet the assets and liabilities of off-balance sheet entities as a result of reputational contagion, notwithstanding the appearance of legal risk transfer.

2.2.89
FCA

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A *firm* should carry out stress tests and scenario analyses to a degree of sophistication which is commensurate with the complexity of its group and the nature of its *group* risk.



2.3 Supervisory review and evaluation process: internal capital adequacy standards

Purpose

2.3.1
FCA

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- (1) ■ IFPRU 2.3 sets out guidance on ■ IFPRU 2.2 (Adequacy of financial resources) so far as it applies to an *IFPRU investment firm*. In particular, *guidance* on how a *firm* should carry out its *ICAAP*, as well as some factors the *FCA* will take into consideration when undertaking a *SREP*. The terms *ICAAP* and *SREP* are explained in ■ IFPRU 2.3.3 G. ■ IFPRU 2.3.48 G to ■ IFPRU 2.3.52 R are *rules* that apply to a *firm* with an IRB permission.
- (2) ■ IFPRU 2.3 is mainly written on the basis that ■ IFPRU 2.2 (Adequacy of financial resources) applies to a *firm* on an individual basis. However, it is still relevant when ■ IFPRU 2.2 applies on a *consolidated basis*. When ■ IFPRU 2.2 applies on a *consolidated basis*, ■ IFPRU 2.3 should be read with appropriate adjustments.

Meaning of capital

2.3.2
FCA

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For the purpose of ■ IFPRU 2.3, "capital" refers to a *firm's* financial resources, *own funds* and internal capital, all as referred to in the *overall Pillar 2 rule*.

The ICAAP and the SREP: introduction

2.3.3
FCA

G

The adequacy of a *firm's* capital needs to be assessed both by a *firm* and the *FCA*. This process involves:

- (1) an *internal capital adequacy assessment process (ICAAP)*, which a *firm* is obliged to carry out in accordance with the *ICAAP rules*; and
- (2) a *supervisory review and evaluation process (SREP)*, which is conducted by the *FCA*.

The ICAAP and the SREP: the ICAAP

2.3.4
FCA

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The obligation to conduct an *ICAAP* includes requirements on a *firm* to:

- (1) carry out regularly assessments of the amounts, types and distribution of financial resources, *own funds* and internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed (■ IFPRU 2.2.1 R to ■ IFPRU 2.2.6 G (the *overall Pillar 2 rule* and related *rules*));

- (2) identify the major sources of risk to its ability to meet its liabilities as they fall due (the *overall Pillar 2 rule*);
- (3) conduct stress and scenario tests (the *general stress and scenario testing rule* if it is a *significant IFPRU firm* or ■ SYSC 20 (Reverse stress testing) if it is not a *significant IFPRU firm*) taking into account, for a *firm* with an IRB permission, the stress test required by the *EU CRR*;
- (4) ensure that the processes, strategies and systems required by the *overall Pillar 2 rule* and used in its *ICAAP*, are both comprehensive and proportionate to the nature, scale and complexity of that *firm's* activities (■ IFPRU 2.2.12 R); and
- (5) document its *ICAAP* (■ IFPRU 2.2.43 R to ■ IFPRU 2.2.44 R (Documentation of risk assessments)).

2.3.5
FCA

G Where a *firm* is a member of a group, it should base its *ICAAP* on the consolidated financial position of the group. The group assessment should include information on diversification benefits and transferability of resources between members of the group and an apportionment of the capital required by the group as a whole to the *firm* (■ IFPRU 2.2.45 R to ■ IFPRU 2.2.57 G (Application of ■ IFPRU 2.2 on an individual and consolidated basis)). A *firm* may, instead of preparing the *ICAAP* itself, adopt as its *ICAAP* an assessment prepared by other group members.

2.3.6
FCA

G A *firm* should ensure that its *ICAAP* is:

- (1) the responsibility of the *firm's governing body*;
- (2) reported to the *firm's governing body*; and
- (3) forms an integral part of the *firm's* management process and decision-making culture.

The ICAAP and the SREP: the SREP

2.3.7
FCA

G The *FCA* will review a *firm's ICAAP*, including the results of the *firm's* stress tests carried out under *IFPRU* and the *EU CRR*, as part of its *SREP*. Provided that the *FCA* is satisfied with the appropriateness of a *firm's* capital assessment, the *FCA* will take into account that *firm's ICAAP* and stress tests in its *SREP*. More material on stress tests for a *firm* with an IRB permission can be found in ■ IFPRU 2.3.50 R to ■ IFPRU 2.3.54 G.

2.3.8
FCA

G The *SREP* is a process under which the *FCA*:

- (1) reviews the arrangements, strategies, processes and mechanisms implemented by a *firm* to comply with *IFPRU*, *SYSC* and with requirements imposed by or under the *EU CRR* and wider *regulatory system* and evaluates the risks to which the *firm* is, or might be, exposed;
- (2) determines whether the arrangements, strategies, processes and mechanisms implemented by the *firm* and the capital held by the *firm* ensures a sound management and coverage of the risks in (1); and

(3) (if necessary) requires the *firm* to take the necessary actions or steps at an early stage to address any failure to meet the requirements in (1).

2.3.9
FCA

G

As part of its *SREP*, the *FCA* may ask a *firm* to provide it with the results of that *firm's ICAAP*, together with an explanation of the process used. Where appropriate, the *FCA* will ask for additional information on the *ICAAP*.

2.3.10
FCA

G

As part of its *SREP*, the *FCA* will consider whether the amount and quality of capital which a *firm* should hold to meet its *own funds requirements* in the *EU CRR* is sufficient for that *firm* to comply with the *overall financial adequacy rule*.

2.3.11
FCA

G

After completing a review as part of the *SREP*, the *FCA* will normally give that *firm* individual *guidance (individual capital guidance)*, advising it of the amount and quality of capital which it should hold to meet the *overall financial adequacy rule*.

2.3.12
FCA

G

As part of its *SREP*, the *FCA* will also consider whether a *firm* should hold a *capital planning buffer* and the amount and quality of such *capital planning buffer*. In making these assessments, the *FCA* will have regard to the nature, scale and complexity of a *firm's* business and of the major sources of risks relevant to such business as referred to in the *general stress and scenario testing rule* and ■ SYSC 20 (Reverse stress testing), as applicable. Accordingly, a *firm's capital planning buffer* should be of sufficient amount and adequate quality to allow the *firm* to continue to meet the *overall financial adequacy rule* in the face of adverse circumstances, after allowing for realistic management actions.

2.3.13
FCA

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After completing a review as part of the *SREP*, the *FCA* may notify the *firm* of the amount and quality of capital which it should hold as a *capital planning buffer* over and above the level of capital recommended as its *ICG*. The *FCA* may set a *firm's capital planning buffer* either as an amount and quality of capital which it should hold now (ie, at the time of the *FCA* notification following the *firm's SREP*) or, in exceptional cases, as a forward-looking target that the *firm* should build up over time.

2.3.14
FCA

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Where the amount or quality of capital which the *FCA* considers a *firm* should hold to meet the *overall financial adequacy rule* or as a *capital planning buffer* is not the same as that which results from a *firm's ICAAP*, the *FCA* usually expects to discuss any such difference with the *firm*. Where necessary, the *FCA* may consider the use of its powers under section 166 of the *Act* (Reports by skilled persons) to assist in such circumstances.

2.3.15
FCA

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If a *firm* considers that the *individual capital guidance* given to it is inappropriate to its circumstances it should, consistent with *Principle 11* (Relations with regulators), inform the *FCA* that it disagrees with that *guidance*. The *FCA* may reissue the *individual capital guidance* if, after discussion with the *firm*, the *FCA* concludes that the amount or quality of capital that the *firm* should hold to meet the *overall financial adequacy rule* is different from the amount or quality initially suggested by the *FCA*.

2.3.16
FCA

G

If a *firm* disagrees with the *FCA's* assessment as to the amount or quality of *capital planning buffer* that it should hold, it should, consistent with *Principle 11* (Relations with regulators), notify the *FCA* of its disagreement. The *FCA* may reconsider its initial assessment if, after discussion with the *firm*, the *FCA* concludes that the amount or quality of capital that the *firm* should hold as *capital planning buffer* is different from the amount or quality initially suggested.

2.3.17
FCA

G

The FCA will not give *individual capital guidance* to the effect that the amount of capital advised in that *guidance* is lower than the amount of capital which a *firm* should hold to meet its *own funds requirements*.

2.3.18
FCA

G

If, after discussion, the FCA and a *firm* still do not agree on an adequate level of capital, the FCA may consider using its powers under section 55L of the *Act* on its own initiative to require the *firm* to hold capital in line with the FCA's view of the capital necessary to comply with the *overall financial adequacy rule*. In deciding whether it should use its powers under section 55L, the FCA will take into account the amount and quality of the *capital planning buffer* which the *firm* should hold as referred to in

■ IFPRU 2.3.13 G and ■ IFPRU 2.3.14 G. ■ SUP 7 provides further information about the FCA's powers under section 55L.

The drafting of individual capital guidance and capital planning buffer

2.3.19
FCA

G

If the FCA gives *individual capital guidance* to a *firm*, the FCA will state what amount and quality of capital the FCA considers the *firm* needs to hold in order to comply with the *overall financial adequacy rule*. It will generally do so by saying that the *firm* should hold *own funds* of an amount which is at least equal to a specified percentage of that *firm's own funds requirements* plus one or more static add-ons for specific risks, in line with the *overall Pillar 2 rule*.

2.3.20
FCA

G

Individual capital guidance may refer to two types of *own funds*:

- (1) General capital. It refers to total *common equity tier 1 capital* and *additional tier 1 capital* after applying deductions and prudential filters under the EU CRR.
- (2) Total capital. It refers to total *common equity tier 1 capital*, *additional tier 1 capital* and *tier 2 capital* after applying deductions and prudential filters under the EU CRR.

2.3.21
FCA

G

Where the FCA notifies a *firm* that it should hold a *capital planning buffer*, the notification will state what amount and quality of capital the FCA considers is adequate for the *firm* to hold. This will normally be notified to the *firm*, together with its *individual capital guidance* and expressed as a separate amount of *own funds* that the *firm* should hold in excess of the amount of *own funds* indicated as its *individual capital guidance*.

2.3.22
FCA

G

For the purposes of ■ IFPRU 2.3.21 G, ■ IFPRU 2.3.20 G applies as it applies to *individual capital guidance*. References in those provisions to *individual capital guidance* should be read as if they were references to *capital planning buffer*. In relation to

■ IFPRU 2.2.62 R, where the *general stress and scenario testing rule* or ■ SYSC 20 (Reverse stress testing), as part of the ICAAP rules, applies to a *firm* on a *consolidated basis*, the FCA may notify the *firm* that it should hold a group *capital planning buffer*. In these cases, the *firm* should ensure that the group holds a *capital planning buffer* of sufficient amount and adequate quality to allow it to continue to meet the *overall financial adequacy rule* in the face of adverse circumstances, after allowing for realistic management actions.

Failure to meet individual capital guidance and monitoring and reporting on the capital planning buffer

2.3.23

FCA

G

A *firm* continuing to hold capital in accordance with its *individual capital guidance* and its ability to carry on doing so is a fundamental part of the *FCA*'s supervision of that *firm*. Therefore, if a *firm's own funds* have fallen, or are expected to fall, below the level advised in *individual capital guidance*, then, consistent with *Principle 11* (Relations with regulators), a *firm* should inform the *FCA* of this fact as soon as practicable, explaining why this has happened or is expected to happen and:

- (1) what action the *firm* intends to take to increase its own funds or to reduce its risks and hence its own funds requirements; or
- (2) what modification the *firm* considers should be made to the *individual capital guidance* which it has been given.

2.3.24

FCA

G

In the circumstance in ■ IFPRU 2.3.23 G, the *FCA* may ask a *firm* for alternative or more detailed proposals and plans or further assessments and analyses of capital adequacy and risks faced by the *firm*. The *FCA* will seek to agree with the *firm* appropriate timescales and scope for any such additional work, in the light of the circumstances which have arisen.

2.3.25

FCA

G

If a *firm* has not accepted *individual capital guidance* given by the *FCA* it should, nevertheless, inform the *FCA* as soon as practicable if its *own funds* have fallen, or are expected to fall, below the level suggested by that *individual capital guidance*.

2.3.26

FCA

G

Monitoring the use of a *firm's capital planning buffer* is also a fundamental part of the *FCA*'s supervision of that *firm*. A *firm* should only use its *capital planning buffer* to absorb losses or meet increased own funds requirements if certain adverse circumstances materialise. These should be circumstances beyond the *firm's* normal and direct control, whether relating to a deteriorating external environment or periods of stress, such as macroeconomic downturns or financial/market shocks, or firm-specific circumstances.

2.3.27

FCA

G

Consistent with *Principle 11* (Relations with regulators), a *firm* should notify the *FCA* as early as possible in advance where it has identified that it would need to use its *capital planning buffer*. The *firm's* notification should at least state:

- (1) what adverse circumstances are likely to force the *firm* to draw down its *capital planning buffer*;
- (2) how the *capital planning buffer* will be used up in line with the *firm's* capital planning projections; and
- (3) what plan is in place for the eventual restoration of the *capital planning buffer*.

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2.3.28

FCA

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Following discussions with the *firm* on the items listed in ■ IFPRU 2.3.27 G, the *FCA* may put in place additional reporting arrangements to monitor the *firm's* use of its *capital planning buffer* in accordance with the plan referred to in ■ IFPRU 2.3.27 G (3). The *FCA* may also identify specific trigger points as the *capital planning buffer* is being used up by the *firm*, which could lead to additional supervisory actions.

2.3.29
FCA

G

Where a *firm's capital planning buffer* is being drawn down due to circumstances other than those in ■ IFPRU 2.3.26 G, such as poor planning or mismanagement, the *FCA* may ask the *firm* for more detailed plans for it to restore its *capital planning buffer*. In the light of the relevant circumstances, the *FCA* may consider taking other remedial actions, which may include using its powers under section 55L of the *Act* on its own initiative, to impose a *requirement* on a *firm*.

2.3.30
FCA

G

A *firm* should inform the *FCA* where its *capital planning buffer* is likely to start being drawn down, even if it has not accepted the *FCA's* assessment as to the amount or quality of its *capital planning buffer*.

2.3.31
FCA

G

Where a *firm* has started to use its *capital planning buffer* in circumstances where it was not possible to notify in advance, it should notify the *FCA* and provide the information referred to in ■ IFPRU 2.3.27 G as soon as practicable afterwards.

2.3.32
FCA

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■ IFPRU 2.3.23 G to ■ IFPRU 2.3.31 G also apply to *individual capital guidance* and to *capital planning buffer* on a *consolidated basis*.

Proportionality of an ICAAP

2.3.33
FCA

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■ IFPRU 2.3.34 G to IFPRU 2.3.36G set out what the *FCA* considers to be a proportional approach to preparing an *ICAAP* as referred to in ■ IFPRU 2.2.12 R (The processes, strategies and systems required by the *overall Pillar 2 rule* should be comprehensive and proportionate), according to the relative degree of complexity of a *firm's* activities. If a *firm* adopts the appropriate approach, it may enable the *FCA* more easily to review a *firm's ICAAP* when the *FCA* undertakes its *SREP*. The *FCA* is also likely to place more reliance on an *ICAAP* which takes the appropriate form described in ■ IFPRU 2.3.34 G to ■ IFPRU 2.3.36 G than would otherwise be the case, although there may also be circumstances in which the *FCA* will be able to rely on an *ICAAP* that is not drawn up in that form.

2.3.34
FCA

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- (1) This paragraph applies to a *firm* that is not a *significant IFPRU firm* (see ■ IFPRU 1.2.3 R) whose activities are simple and primarily not credit-related.
- (2) In carrying out its *ICAAP* it could:
 - (a) identify and consider that *firm's* largest losses over the last three to five years and whether those losses are likely to recur;
 - (b) prepare a short list of the most significant risks to which that *firm* is exposed;
 - (c) consider how that *firm* would act, and the amount of capital that would be absorbed, in the event that each of the risks identified were to materialise;
 - (d) consider how that *firm's own funds requirements* might alter under the scenarios in (c) and how its *own funds requirements* might alter in line with its business plans for the next three to five years;
 - (e) consider whether any of the risks in the *overall Pillar 2 rule* is applicable to the *firm* (it is unlikely that any of those risks not already identified in (a) or (b) will apply to a *firm* whose activities are simple);

- (f) document the ranges of capital required in the scenarios identified and form an overall view on the amount and quality of capital which that *firm* should hold, ensuring that its *senior management* is involved in arriving at that view; and
 - (g) (to determine the amount of capital that would be absorbed in the circumstances in (c)) carry out simple sensitivity tests where the *firm* analyses the impact of a shift in the key risk parameters identified in (b) on the earnings of the *firm*.
- (3) A *firm* is also expected to form a view on the consolidated amount of capital it should hold, as well as the capital required to be held for each of the individual risks identified under the *overall Pillar 2 rule*. For that purpose, it may conservatively sum the results of the individual tests performed in (2)(c). However, if the *firm* chooses to reduce that sum on the understanding that not all risks will materialise at the same time, then the *firm* should perform scenario tests that demonstrate that a reduction in capital is legitimate.
- (4) A *firm* should conduct stress tests and scenario analyses in accordance with ■ SYSC 20 (Reverse stress testing) to assess how that *firm's* capital and *own funds requirements* would alter and what that *firm's* reaction might be to a range of adverse scenarios, including operational and market events. Where relevant, a *firm* should also consider the impact of a severe economic or industry downturn on its future earnings, *own funds* and *own funds requirements*, taking into account its business plans. The downturn scenario should be based on forward-looking hypothetical events calibrated against the most adverse movements in individual risk drivers experienced over a long historical period.

2.3.35

FCA

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For a *firm* that is a *significant IFPRU firm* (see ■ IFPRU 1.2.3 R) and whose activities are moderately complex, in carrying out its ICAAP, ■ IFPRU 2.3.34 G (2) to ■ IFPRU 2.3.34 G (4) apply. In addition, it could:

- (1) having consulted the management in each major business line, prepare a comprehensive list of the major risks to which the business is exposed;
- (2) estimate, with the aid of historical data, where available, the range and distribution of possible losses which might arise from each of those risks and consider using shock stress tests to provide risk estimates;
- (3) consider the extent to which that *firm's own funds requirements* adequately captures the risks identified in (1) and (2);
- (4) for areas in which the *own funds requirements* is either inadequate or does not address a risk, estimate the additional capital (if any) needed to protect that *firm* and its *customers*, in addition to any other risk mitigation action that *firm* plans to take;
- (5) consider the risk that that *firm's* own analyses of capital adequacy may be inaccurate and that it may suffer from management weaknesses, which affect the effectiveness of its risk management and mitigation;
- (6) project that *firm's* business activities forward in detail for one year and in less detail for the next three to five years and estimate how that *firm's* capital and *own funds requirements* would alter, assuming that business develops as expected;

2.3.36
FCA

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- (7) assume that business does not develop as expected and consider how that *firm's* capital and *own funds requirements* would alter and what that *firm's* reaction to a range of adverse economic scenarios might be (see ■ IFPRU 2.2.7 R to ■ IFPRU 2.2.44 R (the *overall Pillar 2 rule* and related *rules* and *guidance*)). Where appropriate, the adverse scenarios should consider the impact of market events that are instantaneous or occur over an extended period of time but which are nevertheless still co-dependent on movements in economic conditions;
 - (8) document the results obtained from the analyses in (2), (4), (6) and (7) in a detailed report for that *firm's senior management* and, where relevant, its *governing body*; and
 - (9) ensure that systems and processes are in place to review against performance the accuracy of the estimates made in (2), (4), (6) and (7).
- (1) This paragraph applies to a proportional ICAAP in the case of a *firm* that is a *significant IFPRU firm* (see ■ IFPRU 1.2.3 R) whose activities are complex.
 - (2) A proportional approach to that *firm's ICAAP* should cover the matters identified in ■ IFPRU 2.3.34 G and ■ IFPRU 2.3.35 G, but is likely also to involve the use of models, most of which will be integrated into its day-to-day management and operation.
 - (3) Models of the kind referred to in (2) may be linked to generate an overall estimate of the amount of capital that a *firm* considers appropriate to hold for its business needs. For example, a *firm* is likely to use value-at-risk models for market risk (see Part Three, Title IV, Chapter 5 of the *EU CRR* (Use of internal models to calculate own funds requirements for market risk)), advanced modelling approaches for credit risk (see Part Three, Title II, Chapter 3 of the *EU CRR* (Internal Ratings Based Approach)) and, possibly, advanced measurement approaches for *operational risk* (see Part Three, Title III, Chapter 4 of the *EU CRR* (Advanced measurement approaches)). A *firm* might also use economic scenario generators to model stochastically its business forecasts and risks. A *firm* may also link such models to generate information on the economic capital desirable for that *firm*. A model which a *firm* uses to generate its target amount of economic capital is known as an economic capital model (ECM). Economic capital is the target amount of capital which maximises the return for a *firm's* stakeholders for a desired level of risk.
 - (4) A *firm* is also likely to be part of a *group* and to be operating internationally. There is likely to be centralised control over the models used throughout the *group*, the assumptions made and their overall calibration.
 - (5) The more a *firm* integrates into its business such economic capital modelling, the more it is likely to focus on managing risks for the benefit of its stakeholders. Consequently, ECMs may produce capital estimates that differ from the amount of capital needed for regulatory purposes. For the FCA to rely on the results of a *firm's* models, including ECMs, a *firm* should be able to explain the basis and results of its models and how the amount of capital produced reflects the amount of capital needed for regulatory purposes. Where they are not equal, the FCA will expect a *firm* to explain any differences. However, it may prove difficult to reconcile the outcome of a *firm's* modelling with the FCA's own assessment of the adequacy of that

firm's capital. For example, when matters of judgment are involved in arriving at a *firm's* capital assessment or the FCA relies on information which cannot be fully disclosed to the *firm* (eg, comparisons with the *firm's* peers). Nevertheless, a *firm* whose ECM produces a different amount of capital to that required for regulatory purposes is still obliged to comply with the *overall Pillar 2 rule*. A *firm* should, therefore, be able to explain to the FCA how the outcome of its ECM is adjusted so that it complies with the *overall financial adequacy rule* and the *overall Pillar 2 rule*.

- (6) Stress testing carried out under the general *stress and scenario testing rule* should provide *senior management* with a consolidated view of the amount of risk the *firm* is, or might be, exposed to under the chosen stress events. *Senior management* should be presented with information that considers the possibility of the risks materialising simultaneously in various proportions. For instance, it would be misrepresentative to simulate *market risk* stressed events without considering that, in those circumstances, market *counterparties* may be more likely to default. Accordingly, a *firm* could:
 - (a) carry out combined stress tests where assets and liabilities are individually subjected to simultaneous changes in two or more risk drivers; for instance, the change in value of each loan made by a *firm* may be estimated using simultaneous changes to both interest rates and stock market or property values;
 - (b) integrate the results of market and credit risk models, rather than aggregating the results of each model separately; and
 - (c) consider scenarios which include systemic effects on the *firm* of wider failures in the *firm's* market or systems upon which the *firm* depends and also any possible systemic effects caused by the *firm* itself suffering losses which affect other market participants which, in turn, exacerbate the *firm's* position.

- (7) Furthermore, if a complex *firm* uses an ECM it should validate the assumptions of the model through a comprehensive stress testing programme. In particular, this validation should:
 - (a) test correlation assumptions (where risks are aggregated in this way) using combined stresses and scenario analyses;
 - (b) use stress tests to identify the extent to which the *firm's* risk models omit non-linear effects, for instance the behaviour of derivatives in market risk models; and
 - (c) consider not just the effect of parallel shifts in interest-rate curves, but also the effect of curves becoming steeper or flatter.

Guidance on risks to be covered in an ICAAP

■ IFPRU 2.3.37 G to ■ IFPRU 2.3.47 G set out *guidance* on some of the sources of risk identified in the *overall Pillar 2 rule*. ■ IFPRU 2.3.50 R to ■ IFPRU 2.3.54 G contain material relating to a *firm* with an IRB permission.

- (1) A *firm* may take into account factors other than those identified in the *overall Pillar 2 rule* when it assesses the level of capital it wishes to hold. These factors might include external rating goals, market reputation and its strategic goals. However, a *firm* should be able to distinguish, for the purpose of its dialogue

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with the *FCA*, between capital it holds to comply with the *overall financial adequacy rule*, capital it holds as a *capital planning buffer* and capital held for other purposes.

- (2) The calibration of the *own funds requirements* assumes that a *firm's* business is well diversified, well managed with assets matching its liabilities and good controls, and stable with no large, unusual or high risk transactions. A *firm* may find it helpful to assess the extent to which its business in fact differs from these assumptions and, therefore, what adjustments it might be reasonable for it to make to the *own funds requirements* to arrive at an adequate level of *own funds*.

Interest-rate risk arising from non-trading book activities

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A *firm* should assess its exposure to changes in interest rates, particularly risks arising from the effect of interest-rate changes on non-trading book activities that are not captured by the *own funds requirements*. In doing so, a *firm* may wish to use stress tests to determine the impact on its balance sheet of a change in market conditions.

Securitisation risk

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A *firm* should assess its exposure to risks transferred through the *securitisation* of assets should those transfers fail for whatever reason. A *firm* should consider the effect on its financial position of a *securitisation* arrangement failing to operate as anticipated or of the values and risks transferred not emerging as expected.

Residual risk

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A *firm* should assess its exposure to residual risks that may result from the partial performance or failure of *credit risk mitigation* techniques for reasons that are unconnected with their intrinsic value. This could result from, for instance, ineffective documentation, a delay in payment or the inability to realise payment from a guarantor in a timely manner. Given that residual risks can always be present, a *firm* should assess the appropriateness of its *own funds requirements* against its assumptions which underlie any risk mitigation measures it may have in place.

Concentration risk

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A *firm* should assess and monitor, in detail, its exposure to sectoral, geographic, liability and asset concentrations. The *FCA* considers that concentrations in these areas increase a *firm's* exposure to credit risk. Where a *firm* identifies such concentrations it should consider the adequacy of its *own funds requirements*.

Liquidity risk

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Under the *overall Pillar 2 rule*, a *firm* should consider its exposure to *liquidity risk* and assess its response should that risk materialise.

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When assessing *liquidity risk*, a *firm* should consider the extent to which there is a mismatch between assets and liabilities.

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A *firm* should also, when assessing *liquidity risk*, consider the amount of assets it holds in highly liquid, marketable forms that are available should unexpected cash flows

lead to a liquidity problem. The price concession of liquidating assets is of prime concern when assessing such liquidity risk and should, therefore, be built into a *firm's ICAAP*.

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Some further areas to consider in developing the *liquidity risk* scenario might include:

- (1) any mismatching between expected asset and liability cash flows;
- (2) the inability to sell assets quickly;
- (3) the extent to which a *firm's* assets have been pledged; and
- (4) the possible need to reduce large asset positions at different levels of market liquidity and the related potential costs and timing constraints.

Business risk: general

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A *firm's own funds requirements*, being risk-sensitive, may vary as business cycles and economic conditions fluctuate over time. Deterioration in business or economic conditions could require a *firm* to raise capital or, alternatively, to contract its businesses at a time when market conditions are most unfavourable to raising capital. Such an effect is known as procyclicality.

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To reduce the impact of cyclical effects, a *firm* should aim to maintain an adequate *capital planning buffer* during an upturn in business and economic cycles such that it has sufficient capital available to protect itself in unfavourable market conditions.

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To assess its expected capital requirements over the economic and business cycles, a *firm* may wish to project forward its financial position taking account of its business strategy and expected growth, according to a range of assumptions regarding the economic or business environment which it faces. For example, an *ICAAP* should include an analysis of the impact that the actions of a *firm's* competitors might have on its performance, in order to see what changes in its environment the *firm* could sustain. Projections over a three- to five-year period would be appropriate in most circumstances. A *firm* may then calculate its projected *own funds requirements* and assess whether it could be met from expected financial resources. Additional *guidance* on capital planning over an economic and business cycle can be found in ■ IFPRU 2.2.73 G (Capital planning).

Business risk: stress tests for firms using the IRB approach

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A *firm* with an IRB permission must ensure that there is no significant risk of it being unable to meet its own funds requirements for credit risk under Part Three, Title II of the *EU CRR* (Capital requirements for credit risk) at all times throughout an economic cycle, including the *own funds requirements* for credit risk indicated by any stress test carried out under article 177 of the *EU CRR* (Stress tests used in assessment of capital adequacy for a *firm* with an IRB permission) as being likely to apply in the scenario tested. To decide what *own funds* are, or will be, available to meet those credit risk requirements, a *firm* must exclude *own funds* that are likely to be required to meet its other capital requirements under the *EU CRR* at the relevant time. A *firm* must also be able to demonstrate to the *FCA*, at any time, that it is complying with this *rule*.

2.3.51
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R ■ IFPRU 2.3.50 R applies to a *firm* on an individual basis if Part Three, Title II, Chapter 3 of the *EU CRR* (IRB approach) applies to it on an individual basis and applies on a *consolidated basis* if the *EU CRR* does.

2.3.52
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R If ■ IFPRU 2.3.50 R applies to a *firm* on a *consolidated basis*, the following adjustments are made to ■ IFPRU 2.3.50 R in accordance with the general principles of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation):

- (1) references to *own funds* are to the consolidated *own funds* of the *firm's FCA consolidation group* or, as the case may be, its *non-EEA sub-group*; and
- (2) references to the capital requirements in Part Three of the *EU CRR* (Capital requirements) are to the consolidated capital requirements with respect to the *firm's FCA consolidation group* or, as the case may be, its *non-EEA sub-group* under Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation).

2.3.53
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G If a *firm's* current available *own funds* are less than the own funds requirements indicated by the stress test, that does not necessarily mean there is a breach of ■ IFPRU 2.3.50 R. The *firm* may wish to set out any countervailing effects and off-setting actions that can be demonstrated to the satisfaction of the *FCA* as being likely to reduce that difference. The *FCA* is only likely to consider a demonstration of such actions as credible if those actions are set out in a capital management plan based on the procedures in ■ IFPRU 2.2.73 G (Capital planning) and include a plan of the type referred to in ■ IFPRU 2.2.73 G (7) that has been approved by the *firm's senior management* or *governing body*.

2.3.54
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G The countervailing factors and off-setting actions that a *firm* may rely on as referred to in ■ IFPRU 2.3.53 G include, but are not limited to, projected balance sheet shrinkage, growth in *own funds* resulting from retained profits between the date of the stress test and the projected start of the economic downturn, the possibility of raising new capital in a downturn, the ability to reduce dividend payments or other distributions, and the ability to allocate capital from other risks which can be shown to be negatively correlated with the *firm's* credit risk profile.

Systems and controls

2.3.55
FCA

G A *firm* may decide to hold additional capital to mitigate any weaknesses in its overall control environment. These weaknesses might be indicated by the following:

- (1) a failure by a *firm* to complete an assessment of its systems and controls to establish whether they comply with SYSC; or
- (2) a failure by a *firm's senior management* to approve its financial results; or
- (3) a failure by a *firm* to consider an analysis of relevant internal and external information on its business and control environment.

2.3.56

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In considering if there are any systems and control weaknesses, and their effect on the adequacy of the *own funds requirements*, a *firm* should be able to demonstrate to the FCA that all the issues identified in SYSC have been considered and that appropriate plans and procedures exist to deal adequately with adverse scenarios.

Risks which may be considered according to the nature of the activities of a firm

2.3.57

FCA

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- (1) ■ IFPRU 2.3.58 G to ■ IFPRU 2.3.67 G set out *guidance* for:
 - (a) an asset management *firm*; and
 - (b) a securities *firm*;
- (2) ■ IFPRU 2.3.58 G to ■ IFPRU 2.3.67 G provide examples of the sorts of risks which such a *firm* might typically face and of stress tests or scenario analyses which it might carry out as part of its ICAAP.
- (3) The material on securities *firms* is also relevant to a *commodities firm*.

An asset management firm

2.3.58

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An asset manager is primarily exposed to *operational risk* and reputational risk.

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When assessing reputational risk, an asset manager should consider issues such as:

- (1) how poor performance can affect its ability to generate profits;
- (2) the effect on its financial position should one or more of its key fund managers leave that *firm*;
- (3) the effect on its financial position should it lose some of its largest customers; and
- (4) how poor customer services can affect its financial position; for example, a *firm* which has outsourced the management of customer accounts may want to consider the impact on its own reputation of the service provider failing to deliver the service.

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As an asset manager's mandates become more complex, the risk of it failing to comply fully with the terms of its contracts increases. In the event of such failure, a *firm* can be exposed to substantial losses resulting from customers' claims and legal actions. Although the FCA would expect an asset manager to have adequate controls in place to mitigate that risk, it may also like to consider the potential cost to it if customers claim that it has not adhered to mandates. Past claims and compensation may provide a useful benchmark for an asset manager to assess its sensitivity to future legal action. In assessing the adequacy of its capital, an asset manager may, therefore, consider whether it could absorb the highest operational loss it has suffered over the last three to five years.

2.3.61
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In relation to the issues identified in ■ IFPRU 2.3.60 G, an asset manager should consider, for example:

- (1) the direct cost to it resulting from fraud or theft;
- (2) the direct cost arising from customers' claims and legal action in the future ? an asset manager could consider the impact on its financial position if a legal precedent were to encourage its customers to take legal action against it for failing to advise correctly on a certain type of product, the relevance of which is likely to depend on whether the asset manager is acting on a discretionary basis or solely as advisor; and
- (3) where it has obtained professional indemnity insurance, the deductibles and individual or aggregate limits on the sums insured.

2.3.62
FCA

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The FCA expects an asset manager to consider the impact of economic factors on its ability to meet its liabilities as they fall due. Therefore, an asset manager should develop scenarios which relate to its strategic and business plan. An asset manager might consider:

- (1) the effect of a market downturn that affects both transaction volumes and the market values of assets in its funds - in assessing the impact of such a scenario, an asset manager may consider the extent to which it can remain profitable (eg, by rapidly scaling down its activities and reducing its costs);
- (2) the impact on current levels of capital if it plans to undertake a significant restructuring; and
- (3) the impact on current levels of capital if it plans to enter a new market or launch a new product ? it should assess the amount of capital it needs to hold when operating for the first time in a market in which it lacks expertise.

A securities firm

2.3.63
FCA

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- (1) A securities *firm* may consider the impact of the following situations on its capital levels when assessing its exposure to concentration risk:
 - (a) the potential loss that could arise from large exposures to a single *counterparty*;
 - (b) the potential loss that could arise from exposures to large transactions or to a product type; and
 - (c) the potential loss resulting from a combination of events such as a sudden increase in volatility leaving a hitherto fully-margined client unable to meet the margin calls due to the large size of the underlying *position* and the subsequent difficulties involved in liquidating its *position*.
- (2) An example of (1)(b) relates to a securities *firm* which relies on the income generated by a large, one-off corporate finance transaction. It may want to consider the possibility of legal action arising from that transaction which prevents the payment of its fees. Additionally, an underwriting *firm* may, as a matter of routine, commit to place a large amount of securities. Therefore, it may like to assess the impact of losses arising from a failure to place the securities successfully.

2.3.64

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Where a securities *firm* deals in illiquid securities (eg, unlisted securities or securities listed on illiquid markets) or holds illiquid assets, potentially large losses can arise from trades that have failed to settle or because of large unrealised market losses. Therefore, a securities *firm* may consider the impact of *liquidity risk* on its exposure to:

- (1) credit risk; and
- (2) *market risk*.

2.3.65

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Counterparty risk requirements only partially capture the risk of settlement failure, as the quantification of risk is only based on mark-to-market values and does not take account of the volatility of the securities over the settlement period. A securities *firm's* assessment of its exposure to counterparty risk should take into account:

- (1) whether it acts as arranger only or whether it also executes trades;
- (2) the types of execution venues which it uses - for example, the London Stock Exchange or a retail service provider (RSP) have more depth than *multilateral trading facilities*; and
- (3) whether it offers extended settlements and free delivery compared to delivery versus payment business.

2.3.66

FCA

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A securities *firm* should also consider the impact of external factors on the levels of capital it needs to hold. Scenarios covering such external factors should relate to its strategy and business plan. A securities *firm* might wish to consider the following factors:

- (1) whether it plans to participate in a one-off transaction that might strain temporarily or permanently its capital;
- (2) whether the unevenness of its revenue suggests that it should hold a capital buffer. Such an assessment could be based, for instance, on an analysis of past revenue and the volatility of its capital;
- (3) how its income might alter as interest rates fluctuate where it is obliged to pay interest to its clients in excess of interest it earns on client money deposits;
- (4) how its capital would be affected by a market downturn. For instance, how sensitive that *firm* is to a sharp reduction of trading volumes;
- (5) how political and economic factors will affect that *firm's* business. For instance, a *commodity firm* may wish to consider the impact of a sharp increase in prices on initial margins and, consequently, on its liquidity;
- (6) whether it anticipates expanding its activities (eg, by offering clearing services) and, if so, the impact on its capital.

2.3.67

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A securities *firm* may also want to assess the impact of its internal credit limits on its levels of capital. For instance, a *firm* whose internal procedures authorise dealing without cash in the account, or without pre-set dealing limits, might consider more capital is required than if it operated stricter internal credit limits.

Capital models

2.3.68
FCA

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A *firm* may approach its assessment of adequate capital by developing a model, including an ECM (see ■ IFPRU 2.3.36 G), for some or all of its business risks. The assumptions required to aggregate risks modelled and the confidence levels adopted should be considered by a *firm's senior management*. A *firm* should also consider whether any relevant risks, including systems and control risks, are not captured by the model.

2.3.69
FCA

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A *firm* should not expect the FCA to accept as adequate any particular model that it develops, or automatically to reflect the results from the model in any *individual capital guidance* or *capital planning buffer*. However, the FCA will take into account the results of a sound and prudent model when giving *individual capital guidance* or when dealing with the *firm* in relation to its *capital planning buffer*.

2.3.70
FCA

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There is no prescribed approach as to how a *firm* should develop its internal capital model. However, a *firm* should be able to demonstrate:

- (1) the confidence levels set and whether these are linked to its corporate strategy;
- (2) the time horizons set for the different types of business that it undertakes;
- (3) the extent of historic data used and back-testing carried out;
- (4) that it has a process to verify the correctness of the model's outputs; and
- (5) that it has the skills and resources to operate, maintain and develop the model.

2.3.71
FCA

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In relation to the use of an ECM (see ■ IFPRU 2.3.36 G), the FCA is likely to place more reliance on a *firm's ICAAP* if the *firm* provides the following information:

- (1) a comparison of the amount of capital that the ECM generates in respect of each of the risks captured in the *own funds requirements* before aggregation with the corresponding components of the *own funds requirements* calculation; and
- (2) evidence that the *guidance* in ■ IFPRU 2.3.68 G to ■ IFPRU 2.3.75 G has been followed.

2.3.72
FCA

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If a *firm* adopts a top-down approach to developing its internal model, it should be able to allocate the outcome of the internal model to risks it has previously identified in relation to each separate legal entity, business unit or business activity, as appropriate. For a *firm* which is a member of a group, ■ IFPRU 2.2.54 R (Application of ■ IFPRU 2.2 on an individual basis and consolidated basis) sets out how internal capital identified as necessary by that *firm's ICAAP* should be allocated.

2.3.73
FCA

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If a *firm's* internal model makes explicit or implicit assumptions in relation to correlations within or between risk types, or diversification benefits between business types, the *firm* should be able to explain to the FCA, with the support of empirical evidence, the basis of those assumptions.

2.3.74

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A *firm's* model should also reflect the past experience of both the *firm* and the sectors in which it operates.

2.3.75

FCA

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The values assigned to inputs into a *firm's* model should be derived either stochastically, by assuming the value of an item can follow an appropriate probability distribution and by selecting appropriate values at the tail of the distribution, or deterministically, using appropriate prudent assumptions. For options or guarantees which change in value significantly in certain economic or demographic circumstances, a stochastic approach would normally be appropriate.

2



2.4 Reporting of breaches

2.4.1
FCA

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- (1) A *firm* must have appropriate procedures in place for its employees to report breaches internally through a specific, independent and autonomous channel.
- (2) The channel in (1) may be provided through arrangements provided for by social partners, subject to the Public Interest Disclosure Act 1998 and the Employment Rights Act 1996 to the extent that they apply.

[Note: article 71(3) of CRD]

2.4.2
FCA

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■ SYSC 18 (Guidance on Public Interest Disclosure Act: Whistleblowing) contains further *guidance* on the effect of the Public Interest Disclosure Act 1998 in the context of the relationship between *firms* and the FCA.



2.5 Recovery and resolution plans

2.5.1

FCA

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A *firm* must have in place:

- (1) recovery plans for the restoration of its financial situation following a significant deterioration; and
- (2) viable resolution plans setting out options for the orderly resolution of the *firm* in the case of failure.

2.5.2

FCA

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For the purpose of ■ IFPRU 2.5.1 R, a *firm* must:

- (1) cooperate closely with resolution authorities; and
- (2) provide the resolution authorities with all information necessary for their preparation and drafting of the resolution plans.

Note: article 74(4) of CRD]

Chapter 3

Own funds

3.1 Base own funds requirement

Application

- 3.1.1** **R** This section applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.
FCA
- 3.1.2** **R** This section applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.
FCA
- 3.1.3** **G** The adequacy of a *firm's own funds* needs to be assessed in relation to all the activities of the *firm* and risks to which they give rise.
FCA

Purpose

- 3.1.4** **G** This section implements EC standards for the *base own funds requirement* to be held by an *IFPRU investment firm*. In particular, it implements articles 28 and 29 of *CRD*.
FCA
- 3.1.5** **G** *Principle 4* requires a *firm* to maintain adequate financial resources. ■ **IFPRU 3** sets out provisions that deal specifically with the adequacy of that part of a *firm's* financial resources that consists of *own funds* in addition to Parts Two (Own Funds) and Three (Capital requirements) of the *EU CRR*.
FCA

Main requirement

- 3.1.6** **R** (1) Subject to (2), an *IFPRU investment firm* must maintain, at all times, *common equity tier 1 capital* equal to, or in excess of, the *base own funds requirement*.
FCA
- (2) For the purpose of (1), the *common equity tier 1 capital* of an *IFPRU investment firm* must comprise only of one or more of the items referred to in article 26(1)(a) to (e) of the *EU CRR* (Common equity tier 1 items).

[Note: article 28(1) of *CRD*]

- 3.1.7** **R** At the time that it first becomes an *IFPRU investment firm*, a *firm* must hold *initial capital* of not less than the *base own funds requirement* applicable to that *firm*.
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Calculation of the base own funds requirement

3.1.8
FCA

R The amount of an *IFPRU investment firm's base own funds requirement* is set out in the table in ■ IFPRU 3.1.9 R.

Table: Base own funds requirement

3.1.9
FCA

R This table belongs to ■ IFPRU 3.1.8 R.

Firm Category	Amount: Currency equivalent of
<i>IFPRU 730K firm</i>	€730,000
<i>IFPRU 125K firm</i>	€125,000
<i>IFPRU 50K firm</i>	€50,000

[Note: articles 28(2), 29(1) and 29(3) of CRD]

3.1.10
FCA

G A *collective portfolio management investment firm* is required to maintain *base own funds requirement* of €125,000 (in line with ■ IPRU(INV) 11.3.1R(1)).

3.2 Capital

Application

3.2.1

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■ IFPRU 3 applies to an *IFPRU investment firm*, unless it is an exempt *IFPRU commodities firm*.

Purpose

3.2.2

FCA

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This chapter:

- (1) contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 89 of the *EU CRR*;
- (2) contains the *guidance* in relation to articles 4(1)(126) and 28 of the *EU CRR*; and
- (3) contains the *rules* on notification to the *FCA* of intended issuance, or amendment to, *own funds* instruments and specified terms that meet the conditions for qualification as *own funds*.

Qualifying holding outside the financial sector

3.2.3

FCA

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In respect of the qualifying holdings described in article 89(1) and (2) of the *EU CRR*, a *firm* must, in accordance with article 89(3) of the *EU CRR*, comply with the requirement in article 89(3)(a) of the *EU CRR*.

Indirect or synthetic holdings

3.2.4

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For the purposes of article 4(1)(126) (Definition of synthetic holding) and Part Two (Own funds) of the *EU CRR*, the *FCA* considers the holdings described in ■IFPRU 3.2.5 G to be examples of indirect or synthetic holdings by an *IFPRU investment firm* of own *common equity tier 1 instruments*.

3.2.5

FCA

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An indirect or synthetic holding includes a holding of a *firm* of *shares*, any other interest in the capital and subordinated debt, whether in the *trading book* or *non-trading book*, in:

- (1) an *institution* ; or
- (2) a *financial institution*;

that satisfies the following conditions:

- (3) the holding is the subject of an agreement or arrangement between the *firm* and either the issuer of the instrument in question or a member of the *group* to which the issuer belongs;
- (4) under the terms of the agreement or arrangement described in (3), the issuer invests in the *firm* or in a member of the *group* to which the *firm* belongs;
- (5) the effect of that agreement or arrangement on the capital position of the *firm*, the issuer or any member of a *group* to which either belongs, under any relevant rule is significantly more beneficial than in economic terms, taking into account the agreement or arrangement as a whole.

For this purpose, a relevant rule means a *rule* in *GENPRU*, *BIPRU*, *INSPRU* or *IFPRU* or any other capital adequacy or solvency requirements of the *FCA* or any other regulator, territory or country.

Connected transactions

3.2.6 **R** In determining whether an item of capital qualifies as *common equity tier 1 capital*, *additional tier 1 capital* or *tier 2 capital*, a *firm* must take into account any connected transaction which, when taken together with the item of capital, would cause it not to display the characteristics of *common equity tier 1 capital*, *additional tier 1 capital* or *tier 2 capital*.

3.2.7 **R** A *firm* must report to the *FCA* all connected transactions described in **IFPRU 3.2.6 R** at least one *month* in advance of entry into the relevant transaction and identify each relevant transaction with sufficient detail to allow the *FCA* to evaluate it.

Own funds instruments issued under third country law

3.2.8 **R** A *firm* must demonstrate to the *FCA* that any *additional tier 1 instrument* or *tier 2 instrument* issued by it that is governed by the law of a *third country* is by its terms capable, as part of a resolution of the *firm*, of being written down or converted into a *common equity tier 1 instrument* of the *firm* to the same extent as an equivalent *own funds* instrument issued under the law of the UK.

3.2.9 **R** A *firm* must include, in the materials it provides to the *FCA* under **IFPRU 3.2.8 R**, a properly reasoned legal opinion from an individual appropriately qualified in the relevant *third country*.

Notification of issuance of own funds instruments

3.2.10 **R** A *firm* must notify the *FCA* of the following:

- (1) its intention; or
- (2) the intention of another member of its *group* that is not a *firm*, but is included in the supervision on a *consolidated basis* of the *firm*;

to issue a capital instrument that it believes will qualify under the *EU CRR* as *own funds* other than a *common equity tier 1 capital* at least one *month* before the intended date of issue.

3.2.11 **R** A *firm* does not have to give notice under ■ IFPRU 3.2.10 R if the capital instrument is:

- (1) an ordinary *share*; or
- (2) a debt instrument issued under a debt securities programme under which the *firm* or *group* member has previously issued and the *firm* has notified the *FCA*, in accordance with ■ IFPRU 3.2.10 R, prior to a previous issuance under the programme.

3.2.12 **R** When giving notice, the *firm* must provide:

- (1) details of the amount and type of *own funds* the *firm* is seeking to raise through the intended issue and whether the capital instrument is intended to be issued to external investors or other members of its *group*;
- (2) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;
- (3) confirmation from a member of the *firm's senior management* responsible for authorising the intended issue or, in the case of an issue by another *group* member, for the issue's inclusion in the *firm's consolidated own funds*, that the capital instrument meets the conditions for qualification as an *own funds* item; and
- (4) a properly reasoned legal opinion from an appropriately qualified individual confirming that the capital instrument meets the conditions for qualification as the relevant type of *own funds*.

3.2.13 **R** A *firm* must notify the *FCA* in writing, no later than the date of issue of its intention, or the intention of another member of its *group* that is not a *firm* included in the supervision on a *consolidated basis* of the *firm*, to issue a capital instrument described in ■ IFPRU 3.2.11 R.

3.2.14 **R** When giving notice under ■ IFPRU 3.2.13 R, the *firm* must provide:

- (1) confirmation that the terms of the capital instrument have not changed since the previous issue by the *firm* of that type of capital instrument; and

(2) the information in ■ IFPRU 3.2.12 R (1) and ■ IFPRU 3.2.12 R (3).

3.2.15

FCA

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The *firm* must promptly notify the *FCA* of any change to the intended date of issue, amount of issue, type of investors, type of *own funds* or any other feature of the capital instrument to that previously notified to the *FCA* under ■ IFPRU 3.2.10 R or ■ IFPRU 3.2.13 R.

Notification of amendments to own funds instruments

3.2.16

R

A *firm* must notify the *FCA* of its intention, or the intention of another member of its *group* that is not a *firm* included in the supervision on a *consolidated basis* of the *firm*, to amend or otherwise vary the terms of any *own funds* instrument included in its *own funds* or the *own funds* of its consolidated *group* at least one *month* before the intended date of such amendment or other variation.

Notification of reduction of own funds

3.2.17

FCA

R

A *firm* must notify the *FCA* of its intention, or the intention of another member of its *group* included in the supervision on a *consolidated basis* of the *firm*, to carry out any of the actions described in article 77 of the *EU CRR* (Conditions for reducing own funds) for an *own funds* instrument.

Common equity tier 1 capital: partnership capital account

3.2.18

FCA

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A partner's account of a *firm* that is a partnership:

- (1) into which capital contributed by partners is paid; and
- (2) from which under the terms of the partnership agreement an amount representing capital may be withdrawn by a partner only if:
 - (a) he ceases to be a partner and an equal amount is transferred to another such account by his former partners or any *person* replacing him as their partner; or
 - (b) the partnership is wound up or otherwise dissolved; or
 - (c) the *firm* has ceased to be *authorised* or no longer has a *Part 4A permission*; may be considered as meeting the purposes of article 28(1)(e) (perpetual) and (f) (reduction or repayment) of the *EU CRR*.

Common equity tier 1 capital: eligible LLP members' capital

3.2.19

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A member's account of a *firm* that is a *limited liability partnership*:

- (1) into which capital contributed by the members is paid; and
- (2) from which, under the terms of the *limited liability partnership* agreement, an amount representing capital may be withdrawn by a partner only if:
 - (a) he ceases to be a member and an equal amount is transferred to another such account by his former fellow members or any *person* replacing him as a member;
 - (b) the *limited liability partnership* is wound up or otherwise dissolved; or

(c) the *firm* has ceased to be *authorised* or no longer has a *Part 4A permission*;

may be considered as meeting the purposes of article 28(1)(e) (perpetual) and (f) (reduction or repayment) of the *EU CRR*.

Variable capital calculation for collective portfolio management investment firms

3.2.20

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When a *collective portfolio management investment firm* calculates the total risk exposure amount in article 92(3) of the *EU CRR*, the *own funds requirements* referred to in article 92(3)(a) (Risk-weighted exposure amount for credit risk and dilution risk) and article 92(3)(b) (Risk-weighted exposure amount for position risk) should include only those arising from its *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.



3.3 Basel 1 floor

3.3.1

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Permission not to apply the Basel 1 floor

The *FCA* does not expect that it will waive the application of the Basel 1 floor as contemplated in article 500(2) of the *EU CRR*.

Chapter 4

Credit risk

4.1 Application and purpose

Application

4.1.1

FCA

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IFPRU 4 applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

4.1.2

FCA

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This chapter:

- (1) implements article 78 of *CRD*;
- (2) contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under articles 115, 119(5), 124(2), 125(3), 126(2), 178(1)(b), 243(2), 244(2), 286(2), 298(4) and 380 of the *EU CRR*; and
- (3) contains the *guidance* in relation to the *IRB* approach, *securitisation*, counterparty credit risk and *credit risk mitigation*.

4.2 Standardised approach

Standardised approach

4.2.1

FCA

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For the purposes of article 115 of the *EU CRR* (Exposures to regional governments or local authorities), a *firm* may treat *exposures* to the following regional governments as *exposures* to the *UK* central government:

- (1) The Scottish Parliament;
- (2) The National Assembly for Wales; and
- (3) The Northern Ireland Assembly.

Risk weights

4.2.2

FCA

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Where the *FCA* has published evidence showing that a well-developed and long-established residential property market is present in that territory with loss rates which do not exceed the limits in article 125(3) of the *EU CRR* (Exposures fully and completely secured by mortgages on residential property), a *firm* does not need to meet the condition in article 125(2)(b) of the *EU CRR* in order to consider an *exposure*, or any part of an *exposure*, as fully and completely secured for the purposes of article 125(1) of the *EU CRR*.

Criteria for certain exposures secured by mortgages on commercial immovable property

4.2.3

FCA

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For the purposes of articles 124(2) and 126(2) of the *EU CRR*, and in addition to the conditions in those regulations, a *firm* may only treat *exposures* as fully and completely secured by mortgages on commercial immovable property in line with article 126 where annual average losses stemming from lending secured by mortgages on commercial property in the *UK* did not exceed 0.5% of risk-weighted exposure amounts over a representative period. A *firm* must calculate the *loss* level in this *rule* on the basis of the aggregate market data for commercial property lending published by the *FCA* in line with article 101(3) of the *EU CRR*.

PAGE
3

4.2.4

FCA

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For the purpose of this *rule*, a representative period shall be a time horizon of sufficient length and which includes a mix of good and bad years.

4.2.5

FCA

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Exposures to institutions

The FCA confirms that, in relation to the concessionary treatment set out in article 119(5) of the EU CRR, there are no *financial institutions* currently authorised and supervised by it (other than those to which the EU CRR applies directly) that are subject to prudential requirements that it considers to be comparable in terms of robustness to those applied to *institutions* under the EU CRR.

[Note: article 119(5) of the EU CRR]

4.2.6

FCA

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Retail exposures

Where an *exposure* is denominated in a currency other than the euro, the FCA expects a *firm* to use appropriate and consistent exchange rates to determine compliance with relevant thresholds in the EU CRR. Accordingly, a *firm* should calculate the euro equivalent value of the *exposure* for the purposes of establishing compliance with the aggregate monetary limit of €1 million for retail *exposures* using a set of exchange rates the *firm* considers to be appropriate. The FCA expects a *firm's* choice of exchange rate to have no obvious bias and to be derived on the basis of a consistent approach (see article 123(c) of the EU CRR).

4.2.7

FCA

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Exposures fully and completely secured by mortgages on residential property: Ijara mortgages

The FCA considers an Ijara mortgage to be an example of an *exposure* to a tenant under a property leasing transaction concerning residential property under which the *firm* is the lessor and the tenant has an option to purchase. Accordingly, the FCA expects *exposures* to Ijara mortgages to be subject to all of the requirements that apply to *exposures* secured by mortgages on residential property, including in respect of periodic property revaluation (see articles 124 and 125 of the EU CRR).

4.2.8

FCA

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Lifetime mortgages

The FCA expects a *firm* with exposure to a *lifetime mortgage* to inform the FCA of the difference in the *own funds requirements* on those *exposures* under the EU CRR and the credit risk capital requirement that would have applied under

■ BIPRU 3.4.56A R. The FCA will use this information in its consideration of relevant risks in its supervisory assessment of the *firm* (see articles 124, 125 and 208 of the EU CRR).

4.2.9

FCA

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Exposures in default

When determining the portion of a past due item that is secured, the FCA expects the secured portion of an *exposure* covered by a mortgage indemnity product that is eligible for *credit risk mitigation* purposes under Part Three, Title II, Chapter 4 of the EU CRR (Credit risk mitigation) to qualify as an eligible guarantee (see article 129(2) of the EU CRR).

Items associated with particularly high risk

4.2.10

FCA

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When determining whether *exposures* in the form of units or shares in a *CIU* are associated with particularly high risk, the *FCA* expects the following features would be likely to give rise to such risk:

- (1) an absence of external credit assessment of such *CIU* from an *ECAI* recognised under article 132(2) of the *EU CRR* (Items representing securitisation positions) and where such *CIU* has specific features (such as high levels of leverage or lack of transparency) that prevent it from meeting the eligibility criteria in article 132(3) of the *EU CRR* (Items associated with particular high risk); or
- (2) a substantial element of the *CIU*'s property is made up of items that would be subject to a risk weight of more than 100%, or the mandate of a *CIU* would permit it to invest in a substantial amount of such items.

4.2.11

FCA

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The *FCA* expects a *firm*'s assessment of whether types of *exposure* referred to in article 128(3) of the *EU CRR* are associated with particularly high risk to include consideration of *exposures* arising out of a venture capital business (whether the *firm* itself carries on the venture capital business or not) . The *FCA* considers "venture capital business" to include the business of carrying on any of the following:

- (1) *advising on investments, managing investments, arranging (bringing about) deals in investments in or making arrangements with a view to transactions in investments in venture capital investments;*
- (2) *advising on investments or managing investments in relation to portfolios, or establishing, operating or winding up a collective investment scheme, where the portfolios or collective investment schemes (apart from funds awaiting investment) invest only in venture capital investments;*
- (3) any *custody* activities provided in connection with the activities in (1) or (2); and
- (4) any related *ancillary activities*.

Mapping of ECAIs credit assessments

4.2.12

FCA

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Until such time as the European Commission adopts implementing technical standards drafted by the European Supervisory Authorities Joint Committee to specify for all *ECAIs* the relevant credit assessments of the *ECAI* that correspond to credit quality steps, the *FCA* expects a *firm* to continue to have regard to the table mapping the credit assessments of certain *ECAIs* to credit quality steps produced in accordance with regulation 22(3) of the *Capital Requirements Regulations 2006*. For mapping of the credit quality step to the credit assessments of eligible *ECAIs*, refer to: <http://www.fca.org.uk>.

4.3 Guidance on internal ratings based approach: high level material

4.3.1 **G** Responsibility for ensuring that internal models are appropriately conservative and that approaches are compliant with the *EU CRR* rests with the *firm* itself.

FCA

4.3.2 **G** A *significant IFPRU firm* should consider developing internal credit risk assessment capacity and to increase use of the internal ratings based approach for calculating *own funds requirements* for credit risk where its *exposures* are material in absolute terms and where it has at the same time a large number of material counterparties. This provision is without prejudice to the fulfilment of criteria laid down in Part Three, Title I, Chapter 3, Section 1 of the *EU CRR* (IRB approach).

[Note: article 77(1) of *CRD*]

4.3.3 **G** The *FCA* will, taking into account the nature, scale and complexity of a *firm's* activities, monitor that it does not solely or mechanistically rely on external credit ratings for assessing the creditworthiness of an entity or *financial instrument*.

[Note: article 77(2) of *CRD*]

Application of requirements to EEA groups applying the IRB approach on a unified basis

4.3.4 **G** Article 20(6) of the *EU CRR* states that, where the IRB approach is used on a unified basis by those entities which fall within the scope of article 20(6) (EEA group), the *FCA* is required to permit certain IRB requirements to be met on a collective basis by members of that group. In particular, the *FCA* considers that, where a *firm* is reliant upon a rating system or data provided by another member of its group, it will not meet the condition that it is using the IRB approach on a unified basis unless:

FCA

- (1) the *firm* only does so to the extent that it is appropriate, given the nature and scale of the *firm's* business and portfolios and the *firm's* position within the group;
- (2) the integrity of the *firm's* systems and controls is not adversely affected;
- (3) the outsourcing of these functions meets the requirements of *SYSC*; and
- (4) the abilities of the *FCA* and the *consolidating supervisor* of the group to carry out their responsibilities under the *EU CRR* are not adversely affected.

4.3.5 **G** Prior to reliance being placed by a *firm* on a rating system or data provided by another member of the group, the *FCA* expects the proposed arrangements to have been explicitly considered, and found to be appropriate, by the *governing body* of the *firm*.

4.3.6 **G** If a *firm* uses a rating system or data provided by another group member, the *FCA* would expect the *firm's governing body* to delegate those functions formally to the persons or bodies that are to carry them out.

Materiality of non-compliance

4.3.7 **G** **FCA** Where a *firm* seeks to demonstrate to the *FCA* that the effect of its non-compliance with the requirements of Part Three, Title II Chapter 3 of the *EU CRR* (Internal ratings based approach) is immaterial under article 146(b) of the *EU CRR* (Measures to be taken where the requirements cease to be met), the *FCA* expects the *firm* to have taken into account all instances of non-compliance with the requirements of the IRB approach and to have demonstrated that the overall effect of non-compliance is immaterial.

Corporate governance

- 4.3.8 **G** **FCA**
- (1) Where the *firm's* rating systems are used on a unified basis under article 20(6) of the *EU CRR*, the *FCA* considers that the governance requirements in article 189 of the *EU CRR* can only be met if the subsidiaries have delegated to the *governing body* or designated committee of the *EEA parent institution*, *EEA parent financial holding company* or *EEA parent mixed financial holding company* responsibility for approval of the *firm's* rating systems.
 - (2) The *FCA* expects an appropriate individual in a *significant-influence function* role to provide to the *FCA* on an annual basis written attestation that the rating system permissions required by the *EU CRR* have been carried out appropriately.

[Note: see articles 189 and 20(6) of the *EU CRR* and article 3(1)(7) of *CRD*]

Permanent partial use: policy for identifying exposures

4.3.9 **G** **FCA** The *FCA* expects a *firm* seeking to apply the Standardised Approach on a permanent basis to certain *exposures* to have a well-documented policy explaining the basis on which *exposures* are to be selected for permanent exemption from the IRB approach. This policy should be provided to the *FCA* when the *firm* applies for permission to use the IRB approach and maintained thereafter. Where a *firm* also wishes to undertake sequential implementation, the *FCA* expects the *firm's* roll-out plan to provide for the continuing application of that policy on a consistent basis over time.

Permanent partial use: exposures to sovereigns and institutions

- 4.3.10 **G** **FCA**
- (1) The *FCA* may permit the exemption of *exposures* to sovereigns and *institutions* under article 150(1)(a) and (b) of the *EU CRR* respectively only if the number of material counterparties is limited and it would be unduly burdensome to implement a rating system for such counterparties.
 - (2) The *FCA* considers that the 'limited number of material counterparties' test is unlikely to be met if for the UK group total outstandings to 'higher risk' sovereigns and institutions exceed either £1bn or 5% of total assets (other than for temporary fluctuations above these levels). For these purposes, 'higher risk' sovereigns and *institutions* are considered to be those that are unrated or carry

ratings of BBB+ (or equivalent) or lower. In determining whether to grant this exemption, the *FCA* will also consider whether a *firm* incurs *exposures* to 'higher risk' counterparties which are below the levels set out but are outside the scope of its core activities.

- (3) In respect of the 'unduly burdensome' condition, the *FCA* considers that an adequate, but not perfect, proxy for the likely level of expertise available to a *firm* is whether its group has a *trading book*. Accordingly, if a *firm's* group does not have a *trading book*, the *FCA* is likely to accept the argument that it would be unduly burdensome to implement a rating system.

Permanent partial use: non-significant business units and immaterial exposure classes and types

4.3.11
FCA

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Where a *firm* wishes permanently to apply the Standardised Approach to certain business units on the grounds that they are non-significant and/or certain *exposure* classes or types of *exposures* on the grounds that they are immaterial in terms of size and perceived risk profile, the *FCA* expects to permit a *firm* to make use of this exemption only to the extent that the risk-weighted exposure amount calculated under article 92(3)(a) and (f) of the *EU CRR* that are based on the Standardised Approach (insofar as they are attributable to the *exposures* to which the Standardised Approach is permanently applied) would be no more than 15% of the risk-weighted exposure amount calculated under article 92(3)(a) and (f) of the *EU CRR*, based on whichever of the Standardised Approach and the IRB Approach would apply to the *exposures* at the time when the calculation is being made.

4.3.12

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The following points set out the level at which the *FCA* expects the 15% test to be applied for a *firm* that is a member of a *group*:

- (1) if a *firm* is part of a group subject to consolidated supervision in the *EEA* and for which the *FCA* is the *consolidating supervisor*, the calculations in (1) are carried out with respect to the wider *group*;
- (2) if a *firm* is part of a group subject to consolidated supervision in the *EEA* and for which the *FCA* is not the *consolidating supervisor* the calculation in (1) would not apply but the requirements of the *consolidating supervisor* relating to materiality will need to be met for the wider *group*;
- (3) if the *firm* is part of a sub-group subject to consolidated supervision in the *EEA* and part of a wider third-country group subject to equivalent supervision by a regulatory authority outside of the *EEA*, the calculation in (1) would not apply but the requirements of the consolidating or lead regulator relating to materiality would need to be met for both the sub-group and the wider *group*; and
- (4) if the *firm* is part of a sub-group subject to consolidated supervision in the *EEA* and is part of a wider third-country group that is not subject to equivalent supervision by a regulatory authority outside of the *EEA*, then the calculation in (1) would apply for the wider *group* if supervision by analogy is applied and for the sub-group if other alternative supervisory techniques are applied.

4.3.13
FCA

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Whether a third-country group is subject to equivalent supervision, whether it is subject to supervision by analogy or whether other alternative supervisory techniques apply,

is decided in accordance with article 127 of *CRD* (Assessment of equivalence of third countries' consolidated supervision). (See article 150(1)(c) of the *EU CRR*.)

Permanent partial use: identification of connected counterparties

4.3.14

FCA

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Where a *firm* wishes to permanently apply the Standardised Approach to *exposures* to connected counterparties in accordance with article 150(1)(e) of the *EU CRR*, the *FCA* would normally expect to grant permission to do so only if the *firm* had a policy that provided for the identification of connected counterparties *exposures* that would be permanently exempted from the IRB approach and also identified connected counterparty *exposures* (if any) that would not be permanently exempted from the IRB approach. The *FCA* expects a *firm* to use the IRB approach either for all of its intra-group *exposures* or none of them (see article 150(1)(e) of the *EU CRR*).

Sequential implementation following significant acquisition

4.3.15

FCA

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In the event that a *firm* with IRB permission acquires a significant new business, it should discuss with the *FCA* whether sequential roll-out of the *firm's* IRB approach to these *exposures* would be appropriate. In addition, the *FCA* would expect to review any existing time period and conditions for sequential roll-out and determine whether these remain appropriate (see article 148 of the *EU CRR*).

Classification of retail exposures: qualifying revolving retail exposures (QRRE)

4.3.16

FCA

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- (1) Article 154(4)(d) of the *EU CRR* (Risk-weighted exposure amounts for retail exposures) specifies that, for an *exposure* to be treated as a qualifying revolving retail *exposure* (QRRE), it needs to exhibit relatively low volatility of loss rates. A *firm* should assess the volatility of loss rates for the QRRE portfolio relative to the volatilities of loss rates of other relevant types of retail *exposures* for these purposes. Low volatility should be demonstrated by reference to data on the mean and standard deviation of loss rates over a time period that can be regarded as representative of the long-run performance of the portfolios concerned.
- (2) Article 154(4)(e) of the *EU CRR* specifies that, for an *exposure* to be treated as a QRRE, this treatment should be consistent with the underlying risk characteristic of the sub-portfolio. The *FCA* considers that a sub-portfolio consisting of credit card or overdraft obligations will usually meet this condition and that it is unlikely that any other type of retail *exposure* will do so. If a *firm* wishes to apply the treatment in article 154 (4) of the *EU CRR* to product types other than credit card or overdraft obligations, the *FCA* expects it to discuss this with the *FCA* before doing so.

Documentation

4.3.17

FCA

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The *FCA* expects a *firm* to ensure that all documentation relating to its rating systems (including any documentation referenced in this chapter or required by the *EU CRR* that relate to the IRB approach) is stored, arranged and indexed in such a way that it could make them all, or any subset thereof, available to the *FCA* immediately on demand or within a short time thereafter.

4.4 Internal ratings based approach: overall requirements for estimation

High-level expectations

- 4.4.1** **FCA** **G** In order to be able to determine that the requirements in article 144(1) of the *EU CRR* have been met, the *FCA* would typically have the high-level expectations set out in this section.
- 4.4.2** **G** The information that a *firm* produces or uses for the IRB approach should be reliable and take proper account of the different users of the information produced (customers, shareholders, regulators and other market participants).
- 4.4.3** **G** A *firm* should establish quantified and documented targets and standards, against which it should test the accuracy of data used in its rating systems. Such tests should cover:
- (1) a report and accounts reconciliation, including whether every *exposure* has a PD, LGD and, if applicable, conversion factor for reporting purposes;
 - (2) whether the *firm's* risk control environment has key risk indicators for the purpose of monitoring and ensuring data accuracy;
 - (3) whether the *firm* has an adequate business and information technology infrastructure with fully documented processes;
 - (4) whether the *firm* has clear and documented standards on ownership of data (including inputs and manipulation) and timeliness of current data (daily, monthly, real time); and
 - (5) whether the *firm* has a comprehensive quantitative audit programme.
- 4.4.4** **FCA** **G** In respect of data inputs, the testing for accuracy of data (including the reconciliation referred to above) should be sufficiently detailed so that, together with other available evidence, it gives reasonable assurance that data input into the rating system is accurate, complete and appropriate. The *FCA* considers that input data fails to meet the required standard if it gives rise to a serious risk of material misstatement in the *own funds requirement* either immediately or subsequently.
- 4.4.5** **FCA** **G** In respect of data outputs, a *firm* (as part of the reconciliation referred to above) should be able to identify and explain material differences between the outputs produced under accounting standards and those produced under the requirements of the IRB

approach, including in relation to areas that address similar concepts in different ways (eg, expected loss and accounting provisions).

4.4.6

FCA

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A *firm* should have clear and documented standards and policies about the use of data in practice (including information technology standards) which should, in particular, cover the *firm's* approach to the following:

- (1) data access and security;
- (2) data integrity, including the accuracy, completeness, appropriateness and testing of data; and
- (3) data availability.

[Note: article 144(1)(a) of the *EU CRR*]

Rating systems: policies

4.4.7

FCA

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For the *FCA* to be satisfied that a *firm* documents its ratings systems appropriately, in accordance with article 144(1)(e) of the *EU CRR*, it would expect a *firm* to be able to demonstrate that it has an appropriate policy for any ratings system in relation to:

- (1) any deficiencies caused by its not being sensitive to movements in fundamental risk drivers or for any other reason;
- (2) the periodic review and action in the light of such review;
- (3) providing appropriate internal guidance to staff to ensure consistency in the use of the rating system, including the assignment of *exposures* or facilities to pools or grades;
- (4) dealing with potential weaknesses of the rating system;
- (5) identifying appropriate and inappropriate uses of the rating system and acting on that identification;
- (6) novel or narrow rating approaches; and
- (7) ensuring the appropriate level of stability over time of the rating system.

[Note: article 144(1)(a) and (e) of the *EU CRR*]

Collection of data

4.4.8

FCA

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To be satisfied that the requirements in article 179(1) of the *EU CRR* are met, the *FCA* expects a *firm* to collect data on what it considers to be the main drivers of the risk parameters of probability of default (PD), loss given default (LGD), conversion factors (CFs) and expected loss (EL) for each group of obligors or facilities, to document the identification of the main drivers of risk parameters, and be able to demonstrate that the process of identification is reasonable and appropriate.

4.4.9
FCA

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In its processes for identifying the main drivers of risk parameters, the *FCA* expects that a *firm* should set out its reasons for concluding that the data sources chosen provide in themselves sufficient discriminative power and accuracy and why additional potential data sources do not provide relevant and reliable information that would be expected materially to improve the discriminative power and accuracy of its estimates of the risk parameter in question. This process need not necessarily require an intensive analysis of all factors.

[Note: article 179(1)(a), (d) and (e) of the *EU CRR*]

Data quality

4.4.10
FCA

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To demonstrate that rating systems provide for meaningful assessment, the *FCA* expects that a *firm's* documentation relating to data should include clear identification of responsibility for data quality. A *firm* should set standards for data quality, aim to improve them over time and measure its performance against those standards. Furthermore, a *firm* should ensure that its data is of high enough quality to support its risk management processes and the calculation of its *own funds requirements* (see article 175(1) of the *EU CRR*).

Use of models and mechanical methods to produce estimates of parameters

4.4.11
FCA

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Further detail of standards that the *FCA* would expect a *firm* to meet when it assesses compliance with article 174 of *EU CRR* are set out in the sections on probability of default (PD), loss given default (LGD) and exposure at default (EAD).

4.4.12

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In assessing whether the external data used by a *firm* to build models is representative of its actual obligors or *exposures*, the *FCA* expects a *firm* to consider whether this data is appropriate to its own experience and whether adjustments are necessary (see article 174 of the *EU CRR*).

Calculation of long averages PD, LGD and EAD

4.4.13
FCA

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To estimate PDs that are long run averages of one-year default rates for obligor grades or pools, the *FCA* expects a *firm* to estimate expected default rates for the grade/pool over a representative mix of good and bad economic periods, rather than simply taking the historic average of default rates actually incurred by the *firm* over a period of years. The *FCA* expects that a long run estimate would be changed when there is reason to believe that the existing long run estimate is no longer accurate, but that it would not be automatically updated to incorporate the experience of additional years as these may not be representative of the long run average (see article 180 of the *EU CRR*).

4.4.14
FCA

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To demonstrate compliance with article 144(1) of the *EU CRR*, the *FCA* expects a *firm* to take into account the following factors in understanding differences between their historic default rates and their PD estimates, and in adjusting the calibration of their estimates as appropriate:

- (1) the rating philosophy of the system and the economic conditions in the period over which the defaults have been observed;
- (2) the number of defaults, as a low number is less likely to be representative of a long run average. Moreover, where the number of internal defaults is low,

there is likely to be a greater need to base PDs on external default data as opposed to purely internal data;

- (3) the potential for under-recording of actual defaults; and
- (4) the level of conservatism applied.

4.4.15

FCA

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The *FCA* expects a *firm* that is unable to produce a long run estimate, as described above, to consider what action it would be appropriate for it to take to comply with article 180(1)(a) of the *EU CRR*. In some circumstances, it may be appropriate for a *firm* to need to amend its rating system so that the PD used as an input into the IRB *own funds requirement* is an appropriately conservative estimate of the actual default rate expected over the next year. However, such an approach is not likely to be appropriate where default rates are dependent on the performance of volatile collateral. (See articles 179(1)(f) and 180(1)(a) of the *EU CRR*).

4.4.16

FCA

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In accordance with articles 181(1)(b) and 182(1)(b) of the *EU CRR*, where the estimates appropriate for an economic downturn are more conservative than the long run average, the *FCA* expects the estimate for each of these parameters to represent the LGD or CF expected, weighted by the number of defaults, over the downturn period. Where this is not the case, the *FCA* expects the estimate to be used to be the expected LGD or CF, weighted by the number of defaults, over a representative mix of good and bad economic periods (see articles 179, 181 and 182 of the *EU CRR*).

Assignment to grades or pools

4.4.17

FCA

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To demonstrate that a rating system provides for a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk, the *FCA* expects a *firm* would have regard to the sensitivity of the rating to movements in fundamental risk drivers, in assigning *exposures* to grades or pools within a rating system (see article 171 of the *EU CRR*).

4.5 Internal ratings based approach: definition of default

Identification of obligors

4.5.1
FCA

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The FCA expects that if a *firm* ordinarily assigns *exposures* in the corporate, *institution* or central government and central bank *exposure* classes to a member of a *group*, substantially on the basis of membership of that *group* and a common group rating, and the *firm* does so in the case of a particular obligor group, the *firm* should consider whether members of that *group* should be treated as a single obligor for the purpose of the definition of default in article 178(1) of the *EU CRR*.

4.5.2
FCA

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The FCA would not expect a *firm* to treat an obligor as part of a single obligor under ■ IFPRU 4.5.1 G if the *firm* rates its *exposures* on a standalone basis or if its rating is notched. (For these purposes, a rating is notched if it takes into account individual risk factors or otherwise reflects risk factors that are not applied on a common group basis.) Accordingly, if a *group* has two members which are separately rated, the FCA will not expect that the default of one will necessarily imply the default of the other.

Days past due

4.5.3
FCA

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Under article 178(1)(b) of the *EU CRR*, the FCA is empowered to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential or SME commercial real estate in the retail exposure class, as well as *exposures* to public sector entities (PSEs).

4.5.4
FCA

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The FCA would expect to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential real estate in the retail *exposure* class, and/or for *exposures* to PSEs, where this was requested by the *firm*. Where this occurred, it would be specified in the *firm's* IRB permission.

Unlikelihood to pay in distressed restructuring

4.5.5
FCA

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The FCA expects that a credit obligation be considered as a distressed restructuring if an independent third party, with expertise in the relevant area, would not be prepared to provide financing on substantially the same terms and conditions (see article 178(2)(d) of the *EU CRR*).

Returning to performing status

4.5.6
FCA

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To be satisfied that a *firm* complies with the documentation requirements in article 175(3) of the *EU CRR*, the FCA expects a *firm* should have a clear and documented

policy for determining whether an exposure that has been in default should subsequently be returned to performing status (see article 175(3) of the *EU CRR*).

4.6 Internal ratings based approach: probability of default

Rating system philosophy

4.6.1
FCA

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'Rating philosophy' describes the point at which a rating system sits on the spectrum between the stylised extremes of a point in time (PiT) rating system and a through-the-cycle (TTC) rating system. To explain these concepts:

- (1) PiT: a *firm* seeks to explicitly estimate default risk over a fixed period, typically one year. Under such an approach, the increase in default risk in a downturn results in a general tendency for migration to lower grades. When combined with the fixed estimate of the long-run default rate for the grade, the result is a higher *own funds requirement*. Where data are sufficient, grade level default rates tend to be stable and relatively close to the PD estimates; and
- (2) TTC: a *firm* seeks to remove cyclical volatility from the estimation of default risk, by assessing borrowers' performance across the economic cycle. TTC ratings do not react to changes in the cycle, so there is no consequent volatility in capital requirements. Actual default rates in each grade diverge from the PD estimate for the grade, with actual default rates relatively higher at weak points in the cycle and relatively lower at strong points.

4.6.2
FCA

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Most rating systems sit between these two extremes. Rating philosophy is determined by the cyclicity of the drivers/criteria used in the rating assessment and should not be confused with the requirement for grade level PDs to be "long run". The calibration of even the most PiT rating system needs to be targeted at the long run default rates for its grades; the use of long run default rates does not convert such a system into one producing TTC ratings or PDs

4.6.3
FCA

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A *firm* should understand where its rating systems lie on the PiT/TTC spectrum to enable it to estimate how changes in economic conditions will affect its IRB *own funds requirements* and it should be able to compare the actual default rates incurred against the default rate expected over the same period given the economic conditions pertaining, as implied by its PD estimate.

Use of variable scalar approaches

4.6.4
FCA

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The term "variable scalar" is used to describe approaches in which the outputs of an underlying, relatively PiT, rating system are transformed to produce final PD estimates used for regulatory capital requirements that are relatively non-cyclical. Typically, this involves basing the resulting requirement on the long run default rate of the portfolio or its segments.

4.6.5

FCA

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Article 169(3) of the *EU CRR* allows the use of direct estimates of PDs, although such a measure could be assessed over a variety of different time horizons which the *EU CRR* does not specify. Accordingly, the *FCA* considers that it acceptable in principle to use methodologies of this type in lieu of estimation of long-run averages for the grade/pool/score of the underlying rating system, where the following conditions are met. Meeting these conditions requires a *firm* using the variable scalar approach to have a deep understanding of how and why its default rates vary over time:

- (1) a *firm* meets the following four principles which address the considerable conceptual and technical challenges to be overcome in order to carry out variable scalar adjustments in an appropriate way:

Principle 1: both the initial calculations of, and subsequent changes to, the scalar must be able to take account of changes in default risk that are not purely related to the changes in the cycle;

Principle 2: a *firm* must be able accurately to measure the long-run default risk of its portfolio; this must include an assumption that there are no changes in the business written;

Principle 3: a *firm* must use a data series of appropriate length in order to provide a reasonable estimate of the long-run default rate in ■ IFPRU 4.4.13 G (Calculation of long averages PD, LGD and EAD); and

Principle 4: a *firm* must be able to demonstrate the appropriateness of the scaling factor being used across a portfolio;

- (2) stress testing includes a stress test covering the downturn scenario outlined in IFPRU 2.2 (Internal capital adequacy assessment process)] based on the PDs of the underlying PiT rating system, in addition to the stress test based on the parameters used in the Pillar 1 *own funds requirements* calculation (ie, the portfolio level average long-run default rates); and
- (3) a *firm* is able to understand and articulate upfront how the scaling factor would vary over time in order to achieve the intended effect.

4.6.6

FCA

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The *FCA* will not permit a *firm* using a variable scalar approach to revert to using a PiT approach during more benign economic conditions.

4.6.7

FCA

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Principle 1 (in ■ IFPRU 4.6.5 G) is the most important and challenging to achieve as it requires an ability to be able to distinguish movements not related to the economic cycle, from changes purely related to the economic cycle, and not to average these away. This is because a variable scalar approach removes the ability of a rating system to take account automatically of changes in risk through migration between its grades.

4.6.8

FCA

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Accordingly, the *FCA* expects a *firm* using a variable scalar approach should adopt a PD that is the long-run default rate expected over a representative mix of good and bad economic periods, assuming that the current lending conditions including borrower mix and attitudes and the *firm's* lending policies remain unchanged. If the relevant lending conditions or policies change, then the *FCA* would expect the long-run default rate to change (see article 180(1)(a), (b) and (2)(a) of the *EU CRR*).

Variable scalar considerations for retail portfolios

4.6.9

FCA

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The FCA considers that, until more promising account level arrears data is collected, enabling *firms* to better explain the movement in their arrears rate over time, the likelihood of *firms* being able to develop a compliant variable scalar approach for non-mortgage retail portfolios is low. This is because of the difficulty that *firms* have in distinguishing between movements in default rates that result from cyclical factors and those that result from non-cyclical reasons for these portfolios. In practice, the rest of this section applies to residential mortgage portfolios.

4.6.10

FCA

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For the purposes of this subsection 'non-mortgage retail portfolios' refers to non-mortgage lending to individuals (eg, credit cards, unsecured personal loans, auto-finance) but does not include portfolio of *exposures* to small and medium-sized entities (SMEs in the retail *exposure* class).

4.6.11

FCA

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The FCA considers that one variable scalar approach, potentially compliant with the four principles in ■ IFPRU 4.6.5 G, could involve:

- (1) segmenting a portfolio by its underlying drivers of default risk; and
- (2) estimating separate long-run default rates for each of these segmented pools.

Segmentation

4.6.12

FCA

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A *firm* that applied the segmentation approach properly could satisfy both Principle 1 and Principle 4 (■ IFPRU 4.6.5 G). The choice of the basis of segmentation and the calibration of the estimated long-run default rate for the segments would both be of critical importance.

4.6.13

FCA

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Segmentation should be done on the basis of the main drivers of both willingness and ability to pay. In the context of residential mortgages, an example of the former is the amount of equity in the property and an example of the latter is the ratio of debt to income. The FCA expects a *firm* to:

- (1) incorporate an appropriate number of drivers of risk within the segmentation to maximise the accuracy of the system;
- (2) provide detailed explanations supporting its choices of drivers, including an explanation of the drivers it has considered and chosen not to use; and
- (3) ensure that the drivers reflect its risk processes and lending policy, and is therefore not chosen using only statistical criteria (ie a judgemental assessment of the drivers chosen must be applied).

[Note: article 179(1)(d) of the EU CRR]

4.6.14

FCA

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To the extent that the basis of segmentation is not sufficient completely to explain movements in non-cyclical default risk, the long-run default rate for that segment will not be stable (eg, a change in the mix of the portfolio within the segment could change the long-run default rate). In such cases, the FCA would expect a *firm* to make a conservative compensating adjustment to the calibration of the long-run average PD for the affected segments and be able to demonstrate that the amount of judgement

required to make such adjustments is not excessive. Where judgement is used, considerable conservatism may be required. The *FCA* expects conservatism applied for this reason not to be removed as the cycle changes.

Long-run default rate

4.6.15

FCA

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The *FCA* expects a *firm* to review and amend as necessary the long run default rate to be applied to each segment on a regular (at least an annual) basis. When reviewing the long run default rate to be applied to each segment, the *FCA* expects a *firm* to consider the extent to which:

- (1) realised default rates are changing due to cyclical factors and the scaling factors needs to be changed;
- (2) new information suggests that both the PiT PDs and the long run PDs should be changed; and
- (3) new information suggests that the basis of segmentation should be amended.

4.6.16

FCA

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The *FCA* expects that, over time, the actual default rates incurred in each segment would form the basis of PD estimates for the segments. However, at the outset, the key calibration issue is likely to be the setting of the initial long-run default rate for each segment, as this will underpin the PD of the entire portfolio for some years to come. A *firm* should apply conservatism in this area and this is something on which the *FCA* is likely to focus on in model reviews.

Governance

4.6.17

FCA

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A *firm* should put in place a governance process to provide a judgemental overlay to assess its choices of segments, PD estimates and scalars, both initially and on a continuing basis. Moreover, where the basis of its estimation is a formulaic approach, the *FCA* considers that the act of either accepting or adjusting the estimate suggested by the formula would represent the exercise of judgement.

4.6.18

FCA

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A *firm* should consider what use it can make of industry information. However, the *firm* should be seeking to measure the absolute level of, and changes to, its own default risk, rather than changes in default risk relative to the industry. Given the potential for conditions to change across in the market as a whole, a *firm* should not draw undue comfort from the observation that its default risk is changing in the same way as the industry as a whole. Doing so would not allow it to meet Principle 1 in ■ IFPRU 4.6.5 G.

Data considerations

4.6.19

FCA

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The *FCA* expects a *firm* to consider the following issues when seeking to apply a variable scalar approach for UK mortgages:

- (1) in respect of Principle 2 (■ IFPRU 4.6.5 G), the commonly used Council for Mortgage Lenders database was based on arrears data and not defaults during a period, and the use of these data without further analysis and adjustment can undermine the accuracy of any calculations; and

- (2) in respect of Principle 3 (■ IFPRU 4.6.5 G), the historical data time period chosen for use in the calculations will vary the long-run PDs, and thus *own funds requirements*, when there is no change in the underlying risk.

4.6.20

FCA

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The FCA expects a *firm* that is including mortgage arrears data as a proxy for default data to:

- (1) carry out sensitivity analysis identifying the circumstances in which the assumption that arrears may be used as a proxy for default would produce inaccuracy in long-run PD estimates;
- (2) set a standard for what might constitute a potentially significant level of inaccuracy, and demonstrate why, in practice, the use of this proxy would not result in any significant inaccuracy;
- (3) establish a process for assessing the ongoing potential for inaccuracy, including thresholds beyond which the level of inaccuracy may no longer be insignificant; and
- (4) consider the use of conservative adjustments to address the potential inaccuracy.

4.6.21

FCA

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When using historical mortgage data as a key input into variable scalar models, the FCA expects a *firm* to:

- (1) carry out sensitivity analysis identifying the implications of using different cut-off dates for the start of the reference data set; and
- (2) justify the appropriateness of its choice of cut-off date.

Retail exposures: obligor level definition of default

4.6.22

FCA

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Where a *firm* has not chosen to apply the definition of default at the level of an individual credit facility in accordance with article 178(1) of the *EU CRR*, the FCA expects it to ensure that the PD associated with unsecured *exposures* is not understated as a result of the presence of any collateralised *exposures*.

4.6.23

FCA

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The FCA expects the PD of a residential mortgage would typically be lower than the PD of an unsecured loan to the same borrower (see article 178(1) of the *EU CRR*).

Retail exposures: facility level definition of default

4.6.24

FCA

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Where a *firm* chooses to apply the definition of default at the level of an individual credit facility, in accordance with article 178(1) of the *EU CRR*, and a customer has defaulted on a facility, then default on that facility is likely to influence the PD assigned to that customer on other facilities. The FCA expects a *firm* to take this into account in its estimates of PD (see article 178(1) of the *EU CRR*).

Multi-country mid-market corporate PD models

4.6.25

FCA

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To ensure that a rating system provides a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk, the FCA expects a *firm* to develop

country-specific mid-market PD models. Where a *firm* develops multi-country mid-market PD models, the *FCA* expects the *firm* to be able to demonstrate that the model rank orders risk and predicts default rates for each country where it is to be used for *own funds requirements* calculation.

4.6.26

FCA

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The *FCA* expects a *firm* to have challenging standards in place to meaningfully assess whether a model rank orders risk and accurately predict default rates. These standards should specify the number of defaults that are needed for a meaningful assessment to be done.

4.6.27

FCA

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The *FCA* expects a *firm* to assess the model's ability to predict default rates using a time series of data (ie, not only based on one year of default data).

4.6.28

FCA

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In the *FCA*'s view, a model is not likely to be compliant where the *firm* cannot demonstrate that it rank orders risk and predicts default rates for each country, regardless of any apparent conservatism in the model. Use of external rating agency grades

Use of external rating agency grades

4.6.29

FCA

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The *FCA* expects a *firm* using a rating agency grades as the primary driver in its IRB models to be able to demonstrate (and document) compliance with the following criteria:

- (1) the *firm* has its own internal rating scale;
- (2) the *firm* has a system and processes in place that allow it to continuously collect and analyse all relevant information, and the 'other relevant information' considered by the *firm* in accordance with article 171(2) of the *EU CRR* reflects the information collected and analysed by the *firm* when extending credit to new or existing obligors;
- (3) the 'other relevant information' considered by the *firm* is included in an IRB model in a transparent and objective way and is subject to challenge. The *FCA* expects the *firm* to be able to demonstrate what information was used and why, how it was included and, if no additional information is included, to be able to document what information was discarded and why;
- (4) the development of final grades includes the following steps:
 - (a) the *firm* takes into account all available information (eg, external agency grades and any 'other relevant information') prior to allocating obligors to internal grades and does not automatically assign obligors to grades based on the rating agency grade;
 - (b) any overrides are applied to these grades; and
 - (c) the *firm* has a system and processes in place that allows it to continuously collect and analyse final rating overrides;
- (5) the grades to which obligors are assigned is reassessed at least annually. The *firm* is able to demonstrate how the grades are reassessed on a more frequent than annual basis when new relevant information becomes available;
- (6) the *firm* can demonstrate that a modelling approach is being applied, both in terms of the choice of the rating agency grade as the primary driver and, where

information is found materially and consistently to add to the internal rating grade, that they have incorporated this information as an additional driver. The *FCA* expects this work to be analytical (rather than entirely subjective) and could form part of the annual independent review of the model.

4.6.30

FCA

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In the *FCA*'s view, if a *firm* does not have any additional information to add to the external ratings for the significant part of its portfolio then it will not be meeting the requirements for using an IRB approach.

Low default portfolios

4.6.31

FCA

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The *FCA* expects a *firm* to estimate PD for a rating system in line with this section where the *firm*'s internal experience of defaults for that rating system was 20 defaults or fewer, and reliable estimates of PD cannot be derived from external sources of default data, including the use of market price-related data. In PD estimation for all *exposures* covered by the rating system, the *FCA* expects the *firm* to:

- (1) use a statistical technique to derive the distribution of defaults implied by the *firm*'s experience, estimating PDs (the "statistical PD") from the upper bound of a confidence interval set by the *firm* to produce conservative estimates of PDs in accordance with article 179(f) of the *EU CRR*;
- (2) use a statistical techniques to derive the distribution of default which takes account, as a minimum, of the following modelling issues:
 - (a) the number of defaults and number of obligor years in the sample;
 - (b) the number of years from which the sample was drawn;
 - (c) the interdependence between default events for individual obligors;
 - (d) the interdependence between default rates for different years; and
 - (e) the choice of the statistical estimators and the associated distributions and confidence intervals;
- (3) further adjust the statistical PD to the extent necessary to take account of the following:
 - (a) any likely differences between the observed default rates over the period covered by the *firm*'s default experience and the long-run PD for each grade required by article 180(1)(a) and (2)(a) of the *EU CRR*; and
 - (b) any other information that indicates (taking into account the robustness and cogency of that information) that the statistical PD is likely to be an inaccurate estimate of PD.

4.6.32

FCA

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The *FCA* expects a *firm* to take into account only defaults that occurred during periods that are relevant to the validation under the *EU CRR* of the model or other rating system in question when determining whether there are 20 defaults or fewer.

Supervisory slotting criteria for specialised lending

4.6.33

FCA

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The *FCA* expects a *firm* to assign *exposures* to the risk weight category for specialised lending *exposures* based on the criteria set out in the tables in ■ IFPRU 4 Annex 1G (Slotting criteria).

4.7 Internal ratings based approach: loss given default

Negative LGDs

4.7.1 G The *FCA* expects a *firm* to ensure that no LGD estimate is less than zero.

FCA

Low LGDs

4.7.2 G The *FCA* does not expect a *firm* to be using zero LGD estimates in cases other than where it had cash collateral supporting the *exposures*.

FCA

4.7.3 G The *FCA* expects a *firm* to justify any low LGD estimates using analysis on volatility of sources of recovery, notably on collateral, and cures (see ■ IFPRU 4.7.5 G). This includes:

FCA

- (1) recognising that the impact of collateral volatility on low LGDs is asymmetric, as surpluses over amounts owed need to be returned to borrowers and that this effect may be more pronounced when estimating downturn, rather than normal period LGDs; and
- (2) recognising the costs and discount rate associated with realisations and the requirements of article 181(1)(e) of the *EU CRR*.

4.7.4 G To ensure that the impact of collateral volatility is taken into account, the *FCA* expects a *firm's* LGD framework to include non-zero LGD floors which are not solely related to administration costs (see article 179(1)(f) of the *EU CRR*).

FCA

Treatment of cures

4.7.5 G Where a *firm* wishes to include cures in its LGD estimates, the *FCA* expects it to do this on a cautious basis, with reference to both its current experience and how this is expected to change in downturn conditions. In particular, this involves being able to articulate clearly both the precise course of events that will allow such cures to take place and any consequences of such actions for other elements of its risk quantification. For example:

FCA

- (1) where cures are driven by the *firm's* own policies, the *FCA* expects the *firm* to consider whether this is likely to result in longer realisation periods and larger forced sale discounts for those *exposures* that do not cure, and higher default rates on the book as a whole, relative to those that might be expected to result from a less accommodating attitude. To the extent feasible, the *FCA* expects cure assumptions in a downturn to be supported by relevant historical data;

- (2) the *FCA* expects a *firm* to be aware of, and properly account for, the link between cures and subsequent defaults. In particular, an earlier cure definition is, other things being equal, likely to result in a higher level of subsequent defaults.

[Note: article 5(2) of the *EU CRR*]

Incomplete workouts

4.7.6

FCA

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To ensure that estimates of LGDs take into account the most up-to-date experience, the *FCA* expects a *firm* to take account of data for relevant incomplete workouts (ie, defaulted *exposures* for which the recovery process is still in progress, with the result that the final realised losses in respect of those *exposures* are not yet certain) (see article 179(1)(c) of the *EU CRR*).

LGD: sovereign floor

4.7.7

FCA

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To ensure that sovereign LGD models are sufficiently conservative in view of the estimation error that may arise from the lack of data on losses to sovereigns, the *FCA* expects a *firm* to apply a 45% LGD floor to each unsecured *exposure* in the sovereign asset class (see article 179(1)(a) of the *EU CRR*).

LGD: UK retail mortgage property sales reference point

4.7.8

FCA

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The *FCA* believes that an average reduction in property sales prices of 40% from their peak price, prior to the market downturn, forms an appropriate reference point when assessing downturn LGD for *UK* mortgage portfolios. This reduction captures both a fall in the value of the property due to house price deflation, as well as a distressed forced sale discount.

4.7.9

FCA

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Where a *firm* adjusts assumed house price values within its LGD models to take account of current market conditions (for example, appropriate house price indices), the *FCA* recognises that realised falls in market values may be captured automatically. A *firm* adopting such approaches may remove observed house price falls from its downturn house price adjustment so as not to double count. A *firm* wishing to apply such an approach must seek the consent of the *FCA* and be able to demonstrate that the following criteria are met:

- (1) the adjustment applied to the market value decline element of a *firm's* LGD model is explicitly derived from the decrease in indexed property prices (ie, the process is formulaic, not judgemental);
- (2) the output from the adjusted model has been assessed against the 40% peak-to-trough property sales prices decrease reference point (after inclusion of a forced sale discount);
- (3) a minimum 5% market value decline applies at all times in the LGD model; and
- (4) the *firm* has set a level for reassessment of the property market price decline from its peak. For example, if a *firm* had initially assumed a peak-to-trough market decline of 15%, then it will have set a level of market value decline where this assumption will be reassessed (see article 181(1)(b) of the *EU CRR*).

Downturn LGDs

4.7.10

FCA

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To ensure that its LGD estimates are oriented towards downturn conditions, the *FCA* expects a *firm* to have a process through which it:

- (1) identifies appropriate downturn conditions for each IRB *exposure* class within each jurisdiction;
- (2) identifies adverse dependencies, if any, between default rates and recovery rates; and
- (3) incorporates adverse dependencies, if identified, between default rates and recovery rates in the *firm's* estimates of LGD in a manner that meets the requirements relating to an economic downturn (see article 181(1)(b) of the *EU CRR*).

Discounting cashflows

4.7.11

FCA

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To ensure that its LGD estimates incorporate material discount effects, the *FCA* expects a *firm's* methods for discounting cash flows to take account of the uncertainties associated with the receipt of recoveries for a defaulted *exposure*. For example, by adjusting cash flows to certainty-equivalents or by using a discount rate that embodies an appropriate risk premium; or by a combination of the two.

4.7.12

FCA

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If a *firm* intends to use a discount rate that does not take full account of the uncertainty in recoveries, the *FCA* expects it to be able to explain how it has otherwise taken into account that uncertainty for the purposes of calculating LGDs. This can be addressed by adjusting cash flows to certainty-equivalents or by using a discount rate that embodies an appropriate risk premium for defaulted assets, or by a combination of the two (see article 5(2) of the *EU CRR*).

Wholesale LGD

4.7.13

FCA

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The *FCA* expects a *firm* using advanced IRB approaches to have done the following in respect of wholesale LGD estimates:

- (1) applied LGD estimates at transaction level;
- (2) ensured that all LGD estimates (both downturn and non-downturn) are cautious, conservative and justifiable, given the paucity of observations. Under article 179(1)(a) of the *EU CRR*, estimates must be derived using both historical experience and empirical evidence, and not be based purely on judgemental consideration. The *FCA* expects the justification as to why the *firm* thinks the estimates are conservative to be documented;
- (3) identified and explained at a granular level how each estimate has been derived. This should include an explanation of how internal data, external data, expert judgement or a combination of these has been used to produce the estimate;
- (4) clearly documented the process for determining and reviewing estimates, and the parties involved in this process in cases where expert judgement has been used;

- (5) demonstrated an understanding of the impact of the economic cycle on collateral values and be able to use that understanding in deriving their downturn LGD estimates;
- (6) demonstrated sufficient understanding of any external benchmarks used and identified the extent of their relevance and suitability to the extent that the *firm* can satisfy itself that they are fit for purpose;
- (7) evidenced that it is aware of any weaknesses in its estimation process and have set standards, for example related to accuracy, that their estimates are designed to meet;
- (8) demonstrated that it has sought and utilised relevant and appropriate external data, including through identifying all relevant drivers of LGD and how these will be affected by a downturn;
- (9) ensured, in most cases, estimates incorporate effective discrimination on the basis of at least security-type and geography. In cases where these drivers are not incorporated into LGD estimates, the *FCA* expects the *firm* to be able to demonstrate why they are not relevant;
- (10) have an ongoing data collection framework to collect all relevant internal loss and *exposure* data required for estimating LGD and a framework to start using these data as soon as any meaningful information becomes available;
- (11) ensure it can articulate the data the *firm* intends to use from any industry-wide data collection exercises that it is participating in, and how the data will be used.

4.7.14

FCA

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The *FCA* uses a framework for assessing the conservatism of a *firm's* wholesale LGD models for which there are a low number of defaults. This framework is set out in ■ IFPRU 4 Annex 2G (Wholesale LGD and EAD framework) and does not apply to sovereign LGD estimates which are floored at 45%. This framework is also in the process of being used to assess the calibration of a *firm's* material LGD-models for low-default portfolios.

4.7.15

FCA

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In the following cases, the *FCA* expects a *firm* to determine the effect of applying the framework in ■ IFPRU 4 Annex 2G (Wholesale LGD and EAD framework) to models which include LGD values that are based on fewer than 20 'relevant' data points (as defined in ■ IFPRU 4 Annex 2G):

- (1) the model is identified for review by the *FCA*; or
- (2) the *firm* submits a request for approval for a material change to its LGD model.

Unexpected loss on defaulted assets

4.7.16

FCA

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The *FCA* considers that both of the following approaches in relation to calculating unexpected loss of defaulted assets are acceptable in principle:

- (1) the independent calculation approach ; and

(2) subtraction of the best estimate of expected loss from post-default LGD.

4.7.17

FCA

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Where an independent calculation approach is adopted for the calculation of unexpected loss on defaulted assets, the *FCA* expects a *firm* to ensure that estimates are at least equal, at a portfolio level, to a 100% risk weight, ie, 8% capital requirement on the amount outstanding net of provisions (see article 181(1)(h) of the *EU CRR*).

Unsecured LGDs where the borrowers' assets are substantially collateralised

4.7.18

FCA

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The extent to which a borrower's assets are already given as collateral will clearly affect the recoveries available to unsecured creditors. If the degree to which assets are pledged is substantial, this will be a material driver of LGDs on such *exposures*. Although potentially present in all transactions, the *FCA* expects a *firm* to be particularly aware of this driver in situations in which borrowing on a secured basis is the normal form of financing, leaving relatively few assets available for the unsecured debt. Specialist lending (including property), hedge fund, and some SME/mid-market lending can be considered such cases.

4.7.19

FCA

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The *FCA* expects a *firm* to take into account the effect of assets being substantially used as collateral for other obligations estimating LGDs for borrowers for which this is the case. The *FCA* expects a *firm* not to use unadjusted data sets that ignore this impact, and note that it is an estimate for downturn conditions that is normally required. In the absence of relevant data to estimate this effect, conservative LGDs potentially of 100% are expected to be used (see articles 171(2) and 179(1)(a) of the *EU CRR*).

4.8 Internal ratings based approach: own estimates of exposure at default (EAD)

Estimation of EAD in place of conversion factors

- 4.8.1 FCA G The *FCA* considers that a *firm* may provide own estimates of *exposure* at default (EAD) in place of the own estimates of conversion factors (CFs) that it is permitted or required to provide under article 151 of the *EU CRR*.
- 4.8.2 FCA G For the purpose of this section, references to EAD refer to both direct estimates of EAD and CFs, unless specified otherwise (see article 151 of the *EU CRR*).

General expectations for estimating EAD

- 4.8.3 FCA G The *FCA* expects that EAD estimates should not be less than current drawings (including interest accrued to date). Consequently, CF estimates should not be less than zero.
- 4.8.4 FCA G The EAD required for IRB purposes is the *exposure* expected to be outstanding under a borrower's current facilities should it go into default in the next year, assuming that economic downturn conditions occur in the next year and a *firm's* policies and practices for controlling *exposures* remain unchanged other than changes that result for the economic downturn conditions.
- 4.8.5 FCA G To achieve sufficient coverage of the EAD, the *FCA* expects *firms* to take into account all facility types that may result in an *exposure* when an obligor defaults, including uncommitted facilities.
- 4.8.6 FCA G To the extent that a *firm* makes available multiple facilities, the *FCA* expects the *firm* to be able to demonstrate:
- (1) how they deal with the fact that *exposures* on one facility may become *exposures* under another on which the losses are ultimately incurred; and
 - (2) the impact of its approach on its *own funds requirements*.
- 4.8.7 FCA G The *FCA* expects *firms* using own estimates of EAD to have done the following in respect of EAD estimates:
- (1) applied EAD estimates at the level of the individual facility;

- (2) where there is a paucity of observations, ensured that all EAD estimates are cautious, conservative and justifiable. In accordance with article 179(1)(a) of the *EU CRR*, estimates must be derived using both historical experience and empirical evidence, and must not be based purely on judgemental consideration. The *FCA* expects the justification as to why the *firm* thinks the estimates are conservative to be documented;
- (3) identified and explained at a granular level how each estimate has been derived. This should include an explanation of how internal data, any external data, expert judgement or a combination of these has been used to produce the estimate;
- (4) ensured that where expert judgement has been used there is clear communication of the process for arriving at and reviewing the estimates, and identifying the parties involved;
- (5) demonstrated an understanding of the impact of the economic cycle on exposure values and be able to use that understanding in deriving downturn EAD estimates;
- (6) demonstrated sufficient understanding of any external benchmarks used and identified the extent of their relevance and suitability to the extent that the *firm* can satisfy itself that they are fit for purpose;
- (7) evidenced that they are aware of any weaknesses in their estimation process and have set standards that their estimates are designed to meet (eg, related to accuracy);
- (8) ensured, in most cases, that estimates incorporate effective discrimination on the basis of at least product features and customer type. In cases where these drivers are not incorporated into EAD estimates, the *FCA* expects the *firm* to be able to demonstrate why they are not relevant;
- (9) have an ongoing data collection framework to collect all relevant internal *exposure* data required for estimating EAD and a framework to start using this data as soon as any meaningful information becomes available;
- (10) made use of the data they are collecting to identify all relevant drivers of EAD and to understand how these drivers will be affected by a downturn; and
- (11) identified dependencies between default rates and conversion factors for various products and markets when estimating downturn EADs. *Firms* are expected to consider how they expect their own policies regarding exposure management to evolve in a downturn.

4.8.8

FCA

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The *FCA* uses a framework for assessing the conservatism of *firms'* wholesale EAD models for which there are a low number of defaults. This framework is set out in ■ IFPRU 4 Annex 2G (Wholesale LGD and EAD framework). This framework is in the process of being used to assess the calibration of *firms'* material EAD models for low-default portfolios.

4.8.9

FCA

G

In the following cases, the *FCA* expects *firms* to determine the effect of applying the framework in ■ IFPRU 4 Annex 2G (Wholesale LGD and EAD framework) to models which

include EAD values that are based on fewer than 20 'relevant' data points (as defined in ■ IFPRU 4 Annex 2G):

- (1) the model is identified for review by the *FCA*; or
- (2) the *firm* submits a request for approval for a material change to its EAD model.

Time horizon

4.8.10

FCA

G

The *FCA* expects *firms* to use a time horizon of one year for EAD estimates, unless they can demonstrate that another period would be more conservative.

4.8.11

FCA

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EAD estimates can be undertaken on the basis that default occurs at any time during the time horizon (the 'cohort approach') or at the end of the time horizon (the 'fixed-horizon approach'). The *FCA* considers that either approach is acceptable in principle.

4.8.12

FCA

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The *FCA* expects the time horizon for additional drawings to be the same as the time horizon for defaults. This means that EAD estimation need cover only additional drawings that might take place in the next year, such that:

- (1) no *own funds requirements* need be held against facilities, or proportions of facilities that cannot be drawn down within the next year; and
- (2) where facilities can be drawn down within the next year, *firms* may, in principle, reduce their estimates to the extent that they can demonstrate that they are able and willing, based on a combination of empirical evidence, current policies, and documentary protection to prevent further drawings (see article 182 of the *EU CRR*).

Direct estimates of EAD

4.8.13

FCA

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There are a range of approaches that focus on the total amount that will be drawn down at the time of default and directly estimate EAD. Typically, but not in all cases, these will estimate EAD as a percentage of total limit. These approaches can be described collectively as 'momentum' approaches.

4.8.14

FCA

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A 'momentum' approach can be used either:

- (1) by using the drawings/limit percentage to formulaically derive a conversion factor on the undrawn portion of the limit; or
- (2) by using the higher of percentage of the limit and the current balance as the EAD.

4.8.15

FCA

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The *FCA* considers that the use of momentum approaches in both of the ways outlined above is acceptable in principle as an alternative to direct estimation of conversion factors (see article 4(56) of the *EU CRR*).

Distortions to conversion factor estimates caused by low undrawn limits

4.8.16

FCA

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In cases where *firms* estimate conversion factors (CFs) directly using a reference data set that includes a significant number of high CFs as a result of very low undrawn limits at the observation date, the *FCA* expects *firms* to:

- (1) investigate the distribution of realised CFs in the reference data set;
- (2) base the estimated CF on an appropriate point along that distribution, that results in the choice of a CF appropriate for the *exposures* to which it is being applied and consistent with the requirement in article 179 of the *EU CRR* for estimates to include a margin of conservatism related to errors; and
- (3) be cognisant that, while the median of the distribution might be a starting point, they should not assume without analysis that the median represents a reasonable unbiased estimate. The *FCA* expects *firms* to consider whether the pattern of distribution in realised CFs means that some further segmentation is needed (eg, treating facilities that are close to full utilisations differently) (see article 182(1)(a) of the *EU CRR*).

Identification of exposures for which an EAD must be estimated

4.8.17

FCA

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The *FCA* expects *firms* to treat a facility as an *exposure* from the earliest date at which a customer is able to make drawings under it.

4.8.18

FCA

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Where the facility is of the type that it is customary not to advise the borrower of its availability, the *FCA* expects an EAD/CF to be applied from the time that the existence of the facility is recorded on the *firm's* systems in a way that would allow the borrower to make a drawing.

4.8.19

FCA

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If the availability of a facility is subject to a further credit assessment by the *firm*, an EAD/CF may not be required. However, the *FCA* expects this to be the case only if the subsequent credit assessment was of substantially equivalent rigour to that of the initial credit approval and if this includes a re-rating or a confirmation of the rating of the borrower.

4.8.20

FCA

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Firms are not expected to include in their EAD/CF estimates the probability of increases in limits between observation and default date. If the reference data set includes the impact of such increases, the *FCA* expects *firms* to be able to adjust their estimates accordingly with the aim of assessing what the *exposure* would have been at default if the limit had not been increased.

4.8.21

FCA

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The *FCA* expects *firms* to investigate the incidence of *exposures* existing at default that arise from products or relationships that are not intended to result in a credit exposure and, consequently, have no credit limit established against them and are not reflected in their estimates of EAD. Unless such *exposures* are immaterial, the *FCA* expects *firms* to estimate a Pillar 1 *own funds requirement* on a portfolio basis to such *exposures*.

4.8.22

FCA

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The *FCA* expects *firms* to investigate how their EAD estimates are impacted by exposures that are in excess of limits at either the observation date (if in the reference data set) or at the current reporting date (for the existing book to which estimates need to be applied). Unless a momentum approach is being used, exposures in excess of limit should be excluded

from the reference data set (as the undrawn limit is negative and nonsensical answers would result from their inclusion). The *FCA* expects *firms* to ensure that their EAD estimation includes the risk of further drawings on accounts that are in excess of their limits (see article 4(56) of the *EU CRR*).

Accrued interest

4.8.23

FCA

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Exposures include not only principal amounts borrowed under facilities but also interest accrued which will fluctuate between payment dates. To ensure proper coverage of interest, the *FCA* expects *firms* to take the following approach:

- (1) accrued interest to date should be included in current *exposure* for performing *exposures*;
- (2) *firms* may choose whether estimated increases in accrued interest up to the time of default should be included in LGD or EAD;
- (3) in the estimation of EAD, increases in accrued interest may be offset against reductions in other outstandings;
- (4) estimation of changes in accrued interest needs to take account of changes in the contractual interest rate over the time horizon up to default and in a way consistent with the scenario envisaged in the calculation of the downturn/default weighted average;
- (5) inclusion of estimates of future post-default interest is not necessary in either EAD or LGD; and
- (6) *firms'* accounting policies will determine the extent to which interest accrued to date is reflected in current exposure as opposed to LGD for defaulted *exposures* (see article 166(1) of the *EU CRR*).

Netting

4.8.24

FCA

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The *FCA* considers that there is scope within the *EU CRR* for a *firm* to recognise on-balance sheet netting (including in respect of cross-currency balances) through EAD as an alternative to LGD in cases where a *firm* meets the general conditions for on-balance sheet netting, as set out in article 205 of the *EU CRR*.

4.8.25

FCA

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For the CF on undrawn limits, this may be applied on the basis of the net limit, provided the conditions in the *EU CRR* for the use of net limits are met. However, *firms* are reminded that the purpose of the measure is to estimate the amount that would be outstanding in the event of a default. This implies that their ability, in practice, to constrain the drawdown of credit balances will be particularly tested. Moreover, the *FCA* expects the appropriate conversion factor to be higher as a percentage of a net limit than of a gross limit.

4.8.26

FCA

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The lower the net limit as a percentage of gross limits or *exposures*, the greater will be the need on the part of the *firm* to ensure that it is restricting *exposures* below net limits in practice and that it will be able to continue to do so should borrowers encounter difficulties. The application of a zero net limit is acceptable in principle but there is, consequently, a very high obligation on the *firm* to ensure that breaches of this are not tolerated (see article 166(3) of the *EU CRR*).

Underwriting commitments

4.8.27

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Estimation of CFs on underwritten facilities in the course of primary market syndication may take account of anticipated sell down to other parties.

4.8.28

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FCA

Firms are reminded that, since the basis of EAD estimation is that default by the borrower is expected to take place in a one-year time horizon and quite possibly in downturn conditions, the *FCA* expects any reduction in their CF in anticipation of syndication to take account of this scenario (see article 4(56) of the *EU CRR*).



4.9 Stress tests

4

4.9.1

FCA

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Stress tests used in assessment of capital adequacy

To be satisfied that the credit risk stress test undertaken by a *firm* under article 177(2) of the *EU CRR* is meaningful and considers the effects of severe, but plausible, recession scenarios, the *FCA* would expect the stress test to be based on an economic cycle that is consistent with IFPRU 2.2.73G(1)(b) (see article 177(2) of the *EU CRR*)

4.10 Validation

4.10.1

FCA

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The FCA expects a *firm* to have a validation process that includes the following:

- (1) standards of objectivity, accuracy, stability and conservatism that it designs its ratings systems to meet and processes that establish whether its rating systems meet those standards;
- (2) standards of accuracy of calibration (ie, whether outcomes are consistent with estimates) and discriminative power (ie, the ability to rank-order risk) that it designs its rating systems to meet and processes that establish whether its rating systems meet those standards;
- (3) policies and standards that specify the actions to be taken when a rating system fails to meet its specified standards of accuracy and discriminative power;
- (4) a mix of developmental evidence, benchmarking and process verification and policies on how this mixture varies between different rating systems;
- (5) use of both quantitative and qualitative techniques;
- (6) policies on how validation procedures are expected to vary over time; and
- (7) ensuring independent input into, and review of, its rating systems (see article 188 of the *EU CRR*).

4.10.2

FCA

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In ■ IFPRU 4.10.1 G:

- (1) developmental evidence means evidence that substantiates whether the logic and quality of a rating system (including the quantification process) adequately discriminates between different levels of, and delivers accurate estimates of, PD, EL, LGD and conversion factors (as applicable); and
- (2) process verification means the process of establishing whether the methods used in a rating system to discriminate between different levels of risk and to quantify PD, EL, LGD and conversion factors are being used, monitored and updated in the way intended in the design of the rating system (see article 188 of the *EU CRR*).

4.10.3

FCA

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The FCA expects a *firm* to be able to explain the performance of its rating systems against its chosen measure (or measures) of discriminative power. In making this comparison, a *firm* should rely primarily on actual historic default experience where this is available. In

particular, the *FCA* expects a *firm* to be able to explain the extent of any potential inaccuracy in these measures, caused, in particular, by small sample size and the potential for divergence in the future, whether caused by changing economic conditions or other factors. *Firms'* assessment of discriminative power should include appropriate use of external benchmarks where available.

4.10.4

FCA

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The *FCA* will take into consideration the sophistication of the measure of discrimination chosen when assessing the adequacy of a rating system's performance.

4.10.5

G

In the case of a portfolio for which there is insufficient default experience to provide any confidence in statistical measures of discriminative power, the *FCA* expects a *firm* to use other methods. For example, analysis of whether the *firm's* rating systems and an external measurement approach (eg, external ratings) rank common obligors in broadly similar ways. Where such an approach is used, the *FCA* would expect a *firm* to ensure it does not systematically adjust its individual ratings with the objective of making them closer to the external ratings as this would be counter to the philosophy of an internal rating approach. The *FCA* expects a *firm* to be able to explain the methodology it uses and the rationale for its use.

4.11 Income-producing real estate portfolios

Compliance with EU CRR

- 4.11.1** **FCA** **G** The *FCA* considers that income-producing real estate (IPRE) is a particularly difficult asset class for which to build effective rating systems that are compliant with the requirements of the internal ratings based (IRB) approach.
- 4.11.2** **G** As with all asset classes, *firms* should assess whether their IPRE model is *EU CRR* compliant and not whether it is the nearest they can get to compliance given the constraints imposed on their model development (eg, lack of data or resource constraints).
- 4.11.3** **FCA** **G** Where material non-compliance is identified and cannot be remediated in a timely fashion, *firms* should adopt a compliant approach for calculating *own funds requirements*. In most cases, this is likely to be the slotting approach (see article 144(1) of the *EU CRR*).
- 4.11.4** **FCA** **G** *Firms* should be able to demonstrate that the model drivers selected offer sufficient discriminatory power and to justify why other potential data sources are not expected to materially improve the discriminatory power and accuracy of estimates.
- 4.11.5** **FCA** **G** The *FCA* expects that an IPRE rating system will only be compliant if a *firm* is able to demonstrate the following in respect of its treatment of cash flows (except where the *firm* can demonstrate that this is not an appropriate risk driver):

- (1) the difference in deal ratings when tenant ratings are altered is intuitive;
- (2) the transformation of ratings into non-rent payment probability is intuitive. Even where tenants are rated by the *firm* the PD will not usually represent a direct read across to probability of non-payment due to, for example, model philosophy issues. Addressing this is likely to be a key area since many *firms* struggle with defining what divergence is expected between observed default rate and PD in different economic conditions in the mid corporate space;
- (3) the selection of parameter values and/or distributions, and their impact on deal ratings, is well supported and intuitive;
- (4) the impact on the deal rating is intuitive for such features as type of building, geographical location and building quality; and
- (5) where data are missing or unavailable the treatment is conservative.

4.11.6

FCA

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The FCA expects that an IPRE rating system will only be compliant if a *firm* is able to demonstrate the following in respect of its treatment of interest-rate risk (IRR):

- (1) IRR is included as a relevant risk driver (unless the portfolio is exclusively hedged);
- (2) the way in which IRR is included in the deal rating is intuitive with respect to model philosophy. For example, a 'point in time' rating should consider the current interest rate and likely change over a one-year time horizon, whereas a 'through-the-cycle' model needs to consider the IRR averaged over an economic cycle; and
- (3) the model rates deals where IRR is hedged by the *firm* differently from deals where IRR is unhedged and the magnitude of the difference in these ratings is intuitive.

4.11.7

FCA

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The FCA expects that an IPRE rating system will only be compliant if a *firm* is able to demonstrate the following in respect of its treatment of refinance risk:

- (1) refinance risk is included as a relevant risk driver (unless the portfolio contains only amortising loans);
- (2) the model rates interest only and amortising deals differently in the final year and that the magnitude of the difference in these ratings is intuitive;
- (3) given the time horizon associated with IRB estimates (ie 12 months), the refinance risk could have a zero weight until the deal enters its final year for point-in-time models. In these cases, the risk should be captured in stress testing and Pillar 2; and
- (4) the *firm* is able to report by borrowers that have previously had a distressed restructuring unlikelihood to pay indicator (even if they are now performing) by number, EAD and risk weighted exposure amounts.

Calibration

4.11.8

FCA

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The FCA expects that *firms* will not be compliant with the calibration requirements relating to use of a long-run default rate, unless it can demonstrate that:

- (1) the internal data series is the longest relevant and accurate data series, on a EU CRR compliant definition of default, that is available;
- (2) the determination of long-run default rate includes reference to an appropriate source of downturn data (this may require the use of external data);
- (3) the relevance of any external data used is analysed, and the relationship between internal default data and the external data used is considered over a multi-year period; and
- (4) where uncertainty is introduced due to, for example, the quality of internal data or shortcomings in the relevance of external data, a conservative adjustment to the estimates should be made.

4.11.9

FCA

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The *FCA* expects that a *firm* will only be compliant with the calibration requirements relating to model philosophy if it can demonstrate that:

- (1) the model philosophy is clearly articulated and justified. Justification should include analysis of the performance of assets, and the corresponding ratings assigned, over a change in economic conditions (ie, as long as period as possible); and
- (2) in addition to encapsulating this information in a coherent way in the calibration, the impact of capturing risks such as IRR and refinance risk is clearly documented.

Low default portfolios

4.11.10

FCA

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Where the rating system is classed as a low default portfolio in accordance with the *guidance* in this section, a *firm* should be able to demonstrate that the framework applied adequately considers:

- (1) economic environment of data used;
- (2) changes in portfolio composition over time;
- (3) parameter choices; and
- (4) model philosophy.

Constructed theoretically

4.11.11

FCA

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Under article 144(1) of the *EU CRR*, all models, including those constructed from a theoretical basis without reference to any empirical default data (such as Monte-Carlo cash-flow simulation models), must meet the IRB requirements that are set out in Title II Chapter 3 of Part Three of the *EU CRR* (IRB approach).

4.11.12

FCA

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The *FCA* considers that, to meet the requirements referred to in ■ IFPRU 4.11.1 G, it will be necessary for *firms* to demonstrate that a *firm* has a good understanding of PD models that are constructed theoretically and that the parameter estimates reflect a one-year PD. In addition, even if empirical data were not used to determine the PD estimate it should, where available, be used to back-test the estimates.

4.11.13

FCA

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The *FCA* expects that, as most models of this type will be able to produce one-year estimates of PD that correspond closely to point-in-time estimates, *firms* should conduct robust back-testing of such estimates by comparing them with realised default rates. *Firms* would need to demonstrate that the results of such back-testing meet pre-defined and stringent standards in order for the *FCA* to be satisfied that the IRB requirements are met.

4.11.14

FCA

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Because assumptions in the model build process are likely to materially impact the resulting PDs, the *FCA* would expect these choices to be clearly justified in the model documentation and to have been independently reviewed. To be satisfied that a *firm* is complying with article 176(1)(d) of the *EU CRR*, the *FCA* expects a *firm* to support justification for all assumptions with analysis of the sensitivity of the model outputs to changes in the assumptions.

4.11.15

FCA

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Where the *firm* has fewer than 20 defaults in their internal data set, the *FCA* expects it to be necessary for *firms* to perform a statistical low default portfolio calibration, as set out in the *guidance* in this section.

Validation

4.11.16

FCA

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The *FCA* expects that a *firm* will be compliant with the validation requirements only whereit can demonstrate, in respect of discriminatory power, that:

- (1) appropriate minimum standards that the rating system is expected to reach are defined, together with reasoning behind the adoption of such standards and that the factors considered when determining the tests are clearly documented;
- (2) an objective rank-ordering metric, measured using an appropriate time horizon (eg, using ratings one year prior to default) or cohort approach, such as Gini or Accuracy Ratio of 50% is achieved over time;
- (3) where there are sufficient defaults from different time periods the discriminatory power is shown to have reached the appropriate minimum standard over an extended time period (ie, longest period possible, including most recent data); and
- (4) any concentrations in ratings from the model are demonstrated to be appropriate.

4.11.17

FCA

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The *FCA* expects that a *firm* will be compliant with the validation requirements only whereit can demonstrate in respect of the calibration that:

- (1) observed default rate versus PD is considered at grade level and across a range of economic environments (ie, as long as period as possible);
- (2) where the PD does not relate to a pure point-in-time estimate, either the PD or the observed default rate is transformed such that comparison between the two is meaningful. This transformation should be consistent with the model philosophy and calibration technique applied; and
- (3) pre-defined tolerances for the degree of divergence, and the associated actions for what should happen when they are not met, are set.

4.11.18

FCA

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The *FCA* also expects that a *firm* will be compliant with the validation requirements only whereit can demonstrate that:

- (1) appropriate stability metrics should be considered across a range of economic environments (ie, longest period possible including most recent data);
- (2) the tolerances for the degree of divergence, and associated actions for what should happen when they are not met, is pre-defined; and
- (3) subsections of portfolios by characteristics affecting risk profile, and therefore potentially model performance, are investigated. Such subsections could include:
 - (a) loan type (amortising/interest only);

- (b) degree of hedging;
- (c) building type; and
- (d) other factors such as non-SPV (special purpose vehicle) lending in a predominately SPV lending book or vice versa (see article 188 of the *EU CRR*).

Other requirements

4.11.19

FCA

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The *FCA* expects that a *firm* will be able to comply with certain other *EU CRR* requirements only where it can demonstrate that:

- (1) in relation to article 144(1)(e) of the *EU CRR*, where more than one model is used, the rationale, and the associated boundary issues, is clearly articulated and justified and the criteria for assigning an asset to a rating model are objective and clear;
- (2) in relation to article 173(1)(c) of the *EU CRR*, the *firm* has a process in place to ensure valuations of the property are appropriate and up to date;
- (3) in relation to article 171(2) of the *EU CRR*, the *firm* makes reference to information available from the Investment Property Databank where relevant. Where this data is utilised at a broad level when more granular data is available this is fully justified with appropriate analysis;
- (4) in relation to article 173(1)(b) of the *EU CRR*, the rating histories demonstrate that deals are re-rated every time material information becomes available, for example where the deal enters its final year (and refinance risk becomes relevant) or a tenant defaults, is replaced or has their rating changed;
- (5) in relation to article 189(3) of the *EU CRR*, management information covering all aspects required by the *EU CRR* is produced and reviewed regularly by *senior management* and the tolerances for the degree of divergence, and associated actions for what should happen when they are not met, are pre-defined; and
- (6) in relation to article 177(2) of the *EU CRR*, the impact on PDs and risk-weighted exposure amounts in a *firm's* credit risk stress test is consistent with model philosophy (although ratings should be affected by events such as tenant defaults even if they are TTC) and impairment projections are justified with reference to past internal data.

4.12 Securitisation

Recognition of significant risk transfer

4.12.1

FCA

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- (1) A *firm* must notify the *FCA* that it is relying on the deemed transfer of significant credit risk under article 243(2) of the *EU CRR* (Traditional securitisation) or article 244(2) of the *EU CRR* (Synthetic securitisation), including when this is for the purposes of article 337(5) of the *EU CRR*, no later than one month after the date of the transfer.
- (2) The notification in (1) must include sufficient information to allow the *FCA* to assess whether the possible reduction in risk-weighted exposure amounts which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties.

Significant risk transfer notifications and permissions

4.12.2

FCA

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An *originator* of *securitisations* is able to use the *securitisation* risk weights (and not calculate *own funds requirements* on the assets underlying its *securitisation*) in either of the following cases:

- (1) the *firm* transfers significant credit risk associated with the *securitised exposures* to third parties; or
- (2) the *firm* deducts from *common equity tier 1 capital* or applies a 1250% risk weight to all positions it holds in the *securitisation*.

4.12.3

FCA

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The significant risk transfer requirements in articles 243 (Traditional securitisation) or 244 (Synthetic securitisation) of the *EU CRR* provide three options for a *firm* to demonstrate how it transfers significant credit risk for any given transaction:

- (1) the *originator* does not retain more than 50% of the risk-weighted exposure amounts of mezzanine *securitisation positions*, where these are:
 - (a) *securitisation positions* to which a risk weight lower than 1250% applies; and
 - (b) more junior than the most senior position in the *securitisation* and more junior than any position in the *securitisation* rated credit quality step 1 or 2;

- (2) where there is no mezzanine position, the *originator* does not hold more than 20% of the *exposure* values of *securitisation positions* that are subject to a deduction or 1250% risk weight and where the *originator* can demonstrate that the *exposure* value of such *securitisation positions* exceeds a reasoned estimate of the expected loss on the *securitised exposures* by a substantial margin; and
- (3) the *competent authority* may grant permission to an *originator* to make its own assessment if it is satisfied that the *originator* can meet certain requirements.

Significant risk transfer under options 1 and 2

4.12.4

FCA

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■ IFPRU 4.12.1 R requires a *firm* to notify the *FCA* of each transaction on which it seeks capital relief under the options in ■ IFPRU 4.12.3 G (1) (option 1) and (2) (option 2).

4.12.5

FCA

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Where the *FCA* considers that the possible reduction in risk-weighted exposure amounts (RWEA) achieved via the *securitisation* is not justified by a commensurate transfer of credit risk to third parties, significant risk transfer will be considered to not have been achieved. Consequently, a *firm* will not be able to recognise any reduction in RWEA due to the transaction.

Option 3

4.12.6

FCA

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For ■ IFPRU 4.12.3 G (3) (option 3), the *FCA* intends to grant permission for an *originator* to make its own assessment of significant risk transfer only where it is satisfied that:

- (1) in every relevant case, the reduction in *own funds requirements* achieved would be justified by a commensurate transfer of risk to third parties;
- (2) the *firm* has appropriately risk-sensitive policies and methodologies in place to assess the transfer of risk; and
- (3) such transfer of risk to third parties is also recognised for the purposes of the *firm's* internal risk management and internal capital allocation.

4.12.7

FCA

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Where the *FCA* grants permission for multiple transactions, then that permission is expected to cover a defined scope of potential transactions. The permission is expected to enable a *firm* (within certain limits) to carry out these transactions without notifying the *FCA* in each individual instance.

Deduction or 1250% risk weighting

4.12.8

FCA

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A *firm* seeking to achieve capital relief by deducting or applying a 1250% risk weight where permitted under articles 243 or 244 of the *EU CRR* does not need to make the notification in ■ IFPRU 4.12.1 R. However, in such cases, a *firm* should consider whether the characteristics of the transaction are such that the *FCA* would reasonably expect prior notice of it.

Significant risk transfer notifications

4.12.9

FCA

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Under I ■ IFPRU 4.12.1 G, within one *month* of a *securitisation* transaction closing, a *firm* must notify the *FCA* of the transaction if it has relied on options 1 or 2 to achieve significant risk transfer.

4.12.10

FCA

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Notification under ■ IFPRU 4.12.1 G should include sufficient information to enable the FCA to assess whether the possible reduction in RWEA which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties. The FCA expects this to include the following:

- (1) details of the *securitisation positions*, including rating, *exposure* value and RWEA broken down by *securitisation positions* sold and retained;
- (2) key transaction documentation and any relevant supporting documents (eg, a summary of the transaction);
- (3) details of the governance process for the transaction, including details of any committees involved in approving the transaction;
- (4) a copy of the significant risk transfer policy applied to the transaction, including details of the methodology and any models used to assess risk transfer;
- (5) a statement of how all relevant risks are incorporated into the significant risk transfer assessment and how the full economic substance of the transaction is taken into consideration;
- (6) the significant risk transfer calculation, setting out why the *firm* believes the capital relief proposed is commensurate with the credit risk transferred to third parties;
- (7) the *EU CRR* requirements the *firm* is relying on;
- (8) copies of investor and internal presentations on the transaction;
- (9) the rationale for the transaction;
- (10) details of the underlying assets (including asset class, geography, tenor, rating, spread, collateral, *exposure* size);
- (11) details of the transaction structure;
- (12) description of the risks being retained;
- (13) details of the cashflow between parties involved in the transaction;
- (14) details of the ratings and pricing of bonds issued in the transaction;
- (15) details of any connected parties involved in the transaction;
- (16) details of any termination options (for example, call options); and
- (17) details of reliance on *ECAIs* in the significant risk transfer assessment.

4.12.11

FCA

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The FCA's review will focus on the proportion of credit risk transferred, compared to the proportion by which RWEA are reduced in the transaction. Where the FCA judges that the reduction in RWEA is not justified by a commensurate transfer of credit risk to third parties, it will inform the *firm* that significant risk transfer has not been

achieved by this transaction. Otherwise, the *FCA* will inform the *firm* that it does not object to the transaction.

4.12.12

FCA

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The *FCA* does not intend to pre-approve transactions. The *FCA* will provide a view on whether it considers that commensurate risk transfer has been achieved at a point in time, which may be provided after a transaction has closed. The *FCA* may reassess its judgement of the achievement of commensurate risk transfer if the level of credit risk transfer in a transaction changes materially.

Significant risk transfer permissions

4.12.13

FCA

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A *firm* may apply for permissions under articles 243 (Traditional securitisation) or 244 (Synthetic securitisation) of the *EU CRR* to consider significant risk transfer to have been achieved without needing to rely on options (1) or (2). The scope of such permission maybe defined to cover a number of transactions or an individual transaction.

Multiple transaction permissions

4.12.14

FCA

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Where a *firm* applies for such permission, the *FCA* would expect the scope should be defined according to a range of characteristics, including the type of asset class and the structural features of the transaction. The characteristics the *FCA* would expect a *firm* to consider when scoping a permission application include:

- (1) asset class (eg, residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium-sized enterprises (SMEs), consumer loans, trade receivables, *securitisations*, private finance initiative (PFI), insurance, other assets, covered bonds);
- (2) further asset class distinction (eg, geography and asset quality); and
- (3) structural features (eg, by distinguishing between securitisation and re-securitisation, traditional and synthetic securitisation and non-revolving structures and revolving structures).

4.12.15

FCA

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It is likely for it to be more straightforward for the *FCA* to assess relatively narrowly scoped permissions than those covering a wide range of assets and/or with complex structural features.

Areas of review and information to be submitted for permission

4.12.16

FCA

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To assess a *firm's* ability to use its own policies and methodologies for assessing significant risk transfer, the *FCA's* permission reviews will focus on:

- (1) the *firm's* understanding of the risk of any potential transactions within permission scope, including for potential underlying assets, *securitisation* structures and other relevant factors that affect the economic substance of risk transfer;
- (2) the governance around significant risk transfer assessment (including sign-off procedures) and systems and controls relating to risk-transfer assessment and determination of significant risk transfer;

- (3) significant risk transfer calculation policies and methodologies, including any models used;
- (4) the *firm's* historical experience with relevant *securitisation* origination; and
- (5) the use of third-party risk assessments (eg, *ECAI* ratings) and the relationship with internal assessments.

4.12.17

FCA

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The information the *FCA* expects a *firm* to provide in a permission application includes the following:

- (1) details of the *firm's* governance processes for significant risk transfer, including details of any relevant committees and the seniority and expertise of key persons involved in sign-off;
- (2) a copy of the *firm's* significant risk transfer policy, including details of the significant risk transfer calculation policies, methodologies and any models used to assess risk transfer (this should set out how the *firm* ensures it only takes capital relief in proportion to the amount of risk transferred on any given transaction);
- (3) a statement of how all relevant risks are incorporated in the significant risk transfer calculations and how the full economic substance of transactions is taken into consideration;
- (4) details of the *firm's* systems and controls regarding risk transfer in *securitisations*;
- (5) a copy of the *firm's* capital allocation strategy;
- (6) details of any *securitised* assets that have come back on the *firm's* balance sheet and the reason why; and
- (7) details of reliance on *ECAIs* in determining significant risk transfer.

Limits attached to multiple transaction permissions: materiality

4.12.18

FCA

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The *FCA* intends to apply two materiality limits to the proportion of risk-weighted exposure amount (RWEA) relief that can be taken under any permission covering multiple transactions:

- (1) transaction level limit any transaction that would, in principle, be within the scope of the permission, but that resulted in an RWEA reduction exceeding 1% of the *firm's* credit risk-related RWEAs as at the date of the *firm's* most recent regulatory return, will fall outside the scope of a multiple transaction permission and will require a separate permission or require notification (if the transaction would satisfy option 1 or 2); and
- (2) aggregate limit once the aggregate RWEA reduction taken on all significant risk transfer transactions executed within the scope of a permission exceeds 5% of the *firm's* credit risk-related RWEAs as at the date of the *firm's* most recent regulatory return, no additional transactions may be executed within scope of the permission. In such circumstances, a *firm* should take one of the following actions:

- (a) reapply to renew the multiple transaction permission; or
- (b) apply for a new permission covering the specific transactions exceeding the RWEA limit; or
- (c) notify the *FCA* of the transaction, following the significant risk transfer notification procedure (if the transactions would satisfy option 1 or 2).

Limits attached to multiple transaction permissions: duration of permission

4.12.19

FCA

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Multiple transaction permissions can be expected to be granted for a period of one year. The *FCA*'s review of permission renewal will focus on any changes to the *firm*'s significant risk transfer policies and methodologies since the previous review.

Individual transaction permission

4.12.20

FCA

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Permissions relating to individual transactions do not need to be granted prior to the execution of a transaction. The *FCA* does not intend to specify the timeframe in which a *firm* should submit an individual transaction permission, but the *firm* should note that capital relief from a specific transaction will not be available until a *firm* has obtained permission covering the significant risk transfer assessment and capital treatment (unless the transaction is being notified under option 1 or 2, or falls within scope of a multiple transaction permission).

4.12.21

FCA

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The information the *FCA* expects to receive in an individual transaction permission includes that in ■ IFPRU 4.12.10G (2) and ■ IFPRU 4.12.10 G (6) to ■ IFPRU 4.12.10 G (17), as well as that in ■ IFPRU 4.12.17G (1) to ■ (3).

Limits attached to individual transaction permissions

4.12.22

FCA

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Depending on the nature of a transaction, the *FCA* may grant an individual permission for the duration of the transaction, or may impose a time limit on the permission. Where a *firm* sought to take capital relief on a transaction beyond the expiry date of the relevant permission, the *firm* would need to renew the permission prior to its expiry date.

4.12.23

FCA

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Given that significant risk transfer should be met on a continuing basis, permissions will typically include a requirement to notify the *FCA* of any change in circumstances from those under which the permission was granted (eg, where the amount of credit risk transfer had changed materially). Any reduction in credit risk transfer subsequent to the permission being granted will require the *firm* to take a commensurate reduction in RWEA relief. If a *firm* does not effect a commensurate reduction in the RWEA relief, the *FCA* may revoke the relevant permission.

Regulatory capital calculation methodology and significant risk transfer

4.12.24

FCA

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An *originator* must transfer a significant amount of credit risk associated with *securitised exposures* to third parties to be able to apply the *securitisation* risk weights set out in Part Three, Title II, Chapter 5 of the *EU CRR* (Securitisation), and any associated reduction in *own funds requirements* must be matched by a commensurate transfer of risk to third parties.

4.12.25

FCA

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As part of the notification and permissions process, the *FCA* expects the *firm* to inform it of the methodology it intends to use to calculate *securitisation* capital requirements.

Implicit support and significant risk transfer

4.12.26

FCA

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As part of a *firm's* ongoing consideration of risk transfer, the *FCA* expects it to consider the support it has provided to *securitisation* transactions.

4.12.27

FCA

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- (1) If a *firm* is found to have provided support to a *securitisation*, the expectation that the *firm* will provide future support to its securitisations is increased. The *FCA* will take account of this increased expectation in future assessments of commensurate risk transfer to that firm.
- (2) The *FCA* expects *securitisation* documentation to make clear, where applicable, that repurchase of *securitisation positions* by the *originator* beyond its contractual obligations is not mandatory and may only be made at fair market value.
- (3) Where a *firm* provides support which it is entitled, but not obliged, to provide under the contractual documentation of the *securitisation*, the *FCA* will consider the following factors in assessing if that support has been appropriately reflected in the assessment of significant risk transfer:
 - (a) whether the fact that the *firm* may provide such support was expressly set out in the contractual and marketing documents for the *securitisation*;
 - (b) whether the nature of the support that the *firm* may give is precisely described in the documentation;
 - (c) whether the maximum degree of support that could be provided could be ascertained at the time of the *securitisation* by the *firm* and by a person whose only information came from the marketing documents for the *securitisation*;
 - (d) whether the assessment of whether significant risk transfer was achieved and the amount of that risk transferred was made on the basis that the *firm* would provide support to the maximum degree possible; and
 - (e) whether the *firm's own funds* and *own funds requirements* were appropriately adjusted at the time of the *securitisation* on the basis that the *firm* provided support to the maximum degree possible.
- (4) If a *firm* fails to comply with article 248(1) of the *EU CRR*, the *FCA* may require it to disclose publicly that it has provided non-contractual support to the transaction.

High-cost credit protection and other significant risk transfer considerations

4.12.28

FCA

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Some transactions can transfer little or no economic risk from the protection buyer to the protection seller, but may still result in a reduction in *own funds requirements*. A particular example of a transaction-type of concern involves protection being purchased on a junior tranche and a high premium is paid for that transaction.

4.12.29 **G** Generally, the amount of premium paid will not materially affect the assessment of whether significant risk transfer has occurred. This is because either:

FCA

- (1) the protection payment payable upon default from protection seller to protection buyer is significantly larger than the overall premium payable to the protection seller; or
- (2) the payment of premium leads to an immediate incurred cost.

4.12.30 **G** However, there comes a point at which the premium payable for the protection can reduce significantly the actual economic risk that is transferred from the protection buyer to protection seller. A premium payable of 100% of the protection amount could leave the protection buyer in a position over the life of the transaction that was no better than if protection had not been purchased.

FCA

4.12.31 **G** The *FCA* expects *originators* seeking to apply the *securitisation* risk weights to synthetic *securitisations* to take into account all relevant factors to assess the amount of risk transferred. As well as the size and timing of amounts payable to the protection seller, the circumstances in which those amounts are payable can undermine the effectiveness of risk transfer. The *FCA* expects a *firm* seeking capital relief through synthetic securitisations to incorporate premiums in their assessment of significant risk transfer. In particular, the following transaction features may have a significant impact on the amount of risk transfer:

FCA

- (1) premium which is guaranteed in all or almost all circumstances, for example, premium which is payable upfront or deferred; or
- (2) those that could result in the amount of premium payable for protection being significantly greater than the spread income on the assets in the portfolio or similar to the size of the hedged position; or
- (3) those under which the protection buyer retains the expected loss through higher transaction costs to the counterparty, in the form of premium or otherwise.

4.12.32 **G** Article 238 of the *EU CRR* (Maturity of credit protection) requires maturity to be assessed in considering significant risk transfer. When considering the effective maturity of synthetic *securitisations*, the *FCA* expects a *firm* to consider whether the transaction contained an option to terminate the protection at the discretion of the protection buyer.

FCA

4.12.33 **G** The *FCA* considers the following to be examples of features which generally indicate a positive incentive to call or, at least, to constitute grounds for discussion with the *FCA* prior to the conclusion of the transaction:

FCA

- (1) the transaction contains terms, such as payments at maturity or payments upon early termination or significant premiums, which may reduce risk transfer;
- (2) the transaction includes a requirement for the protection buyer to incur additional costs or obligations if they do not exercise their option to terminate the protection; and
- (3) there are pre-agreed mechanisms, for example 'at-market unwinds', where the protection seller and protection buyer agree that the transaction can be

terminated in the future at a 'market' value and specifies aspects of how the value is calculated.

High-level significant risk transfer considerations

4.12.34

FCA

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Significant risk transfer is an ongoing requirement. Accordingly, the *FCA* expects *firms* to ensure that any reduction in *own funds requirements* achieved through *securitisation* continues to be matched by a commensurate transfer of risk throughout the life of the transaction. The *FCA* expects *firms* to take a substance over form approach to assessing significant risk transfer. *Firms* should be able to demonstrate that the capital relief post-transaction adequately captures the economic substance of the entire transaction, and is commensurate to retained risk.

4.12.35

FCA

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When risk transfer transactions are structured as a group of linked transactions rather than a single transaction, the *FCA* expects the aggregate effect of linked transactions to comply with the *EU CRR*. The *FCA* expects *firms* to ensure that analysis of risk transfer incorporates all linked transactions, particularly if certain transactions within a group of linked transactions are undertaken at off-market rates.

4.12.36

FCA

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The *FCA* expects the instruments used to transfer credit risk not to contain provisions which limit the amount of risk transferred. For example, should losses or defaults on the *securitised exposures* occur (ie, deterioration in the credit quality of the underlying pool) the *FCA* expects the *originator's* net cost of protection or the yield payable to investors should not increase as a result.

4.12.37

FCA

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To ensure continued appropriateness, the *FCA* expects *firms* to update the opinions of qualified legal counsel, required by the *EU CRR*, as necessary to ensure their continuing validity. For example, an opinion may need to be updated if relevant statutory provisions are amended, or where a new decision or judgment of a court has a bearing on the continuing validity of counsel's opinion.

4.12.38

FCA

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The *FCA* expects relevant *senior management* of a *firm* to be appropriately engaged in the execution of *securitisation* transactions that lead to a reduction in RWEA where the *firm* is providing or purchasing structured trades.

4.12.39

FCA

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The *FCA* does not operate a pre-approval process for transactions. The *FCA* expects a *firm* to discuss with its supervisor at any early stage *securitisation* transactions that are material or have complex features. Where a *firm* claims a regulatory capital reduction from *securitisation* transactions in its disclosures to the market, the *FCA* expects such disclosures to include caveats making clear the risk of full or partial re-characterisation where this risk is material in the light of the *FCA's* stated policy.

4.12.40

FCA

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Although this section sets out the *FCA's* expectations regarding *securitisations*, these expectations are also relevant for other similar credit protection arrangements.

4.12.41

FCA

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The *FCA* will seek to ensure that the *securitisation* framework is not used to undermine or arbitrage other parts of the prudential framework. For other similar credit protection arrangements (eg, those subject *credit risk mitigation* or *trading book* requirements), the impact of certain features (such as significant premiums or call options) may cast doubt on the extent of risk transferred and the resulting capital assessment. Features

which result in inadequate *own funds requirements* compared to the risks a *firm* is running may result in the credit protection not being recognised or the *firm* being subject to extra capital charges in their *ICG* in Pillar 2 add-ons. Credit protection arrangements in general are subject to the same overarching principles as those in the *securitisation* framework.

4.12.42

FCA

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Where a *firm* achieves significant risk transfer for a particular transaction, the *FCA* expects it to continue to monitor risks related to the transaction to which it may still be exposed. The *firm* should consider capital planning implications of *securitised* assets returning to its balance sheet. The *EU CRR* requires a *firm* to conduct regular stress testing of its *securitisation* activities and off-balance sheet *exposures*. The stress tests should consider the *firm*-wide impact of stressed market conditions on those activities and *exposures* and the implications for other sources of risk (eg, credit risk, concentration risk, counterparty risk, *market risk*, *liquidity risk* and reputational risk). Stress testing of *securitisation* activities should take into account both existing *securitisations* and pipeline transactions. A *firm* should have procedures in place to assess and respond to the results of that stress testing and these should be taken into account under the *overall Pillar 2 rule*.

4

4.13.1

FCA

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Where a system wide failure of a settlement system, a clearing system or a *CCP* occurs, the *own funds requirements* calculated in articles 378 (Settlement/delivery risk) and 379 (Free deliveries) of the *EU CRR* are waived until the situation is rectified. In this case, the failure of a counterparty to settle a trade shall not be deemed a default for purposes of credit risk.

[Note: article 380 of the *EU CRR*]

4.13 Settlement risk

4.14 Counterparty credit risk

Hedging sets

4.14.1

FCA

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For the purpose of article 282(6) of the *EU CRR* (Hedging sets), a *firm* must apply the CCR Mark-to-market method as set out in Part Three, Title II, Chapter 6, Section 3 (Mark-to-market method) of the *EU CRR* to:

- (1) transactions with non-linear risk profile; or
- (2) *payment legs* and transactions with debt instruments as underlying;

for which it cannot determine the delta or the modified duration, as the case may be, using an internal model approved by the *FCA* under Part Three Title IV of the *EU CRR* for the purposes of determining *own funds requirements* for market risk.

Recognition of netting: interest rate derivatives

4.14.2

FCA

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For the purpose of article 298(4) of the *EU CRR* (Effects of recognition of netting as risk-reducing), a *firm* must use the original maturity of the *interest-rate contract*.

4.14.3

FCA

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A *firm* may apply to the *FCA* under section 138A of the *Act* to waive ■ IFPRU 4.14.2 R if it wishes to use the residual maturity of the *interest-rate contract*.

Use of internal CVA model for calculation of the maturity factor 'M'

4.14.4

FCA

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- (1) This *guidance* sets out the *FCA*'s expectations for granting permission to a *firm* to use its own one-sided credit valuation adjustment internal models (an "internal CVA model") for the purpose of estimating the maturity factor "M", as proposed under article 162(2)(h) of the *EU CRR* (Maturity).
- (2) In the context of counterparty credit risk, the maturity factor "M" is intended to increase the *own funds requirements* to reflect potential higher risks associated with medium and long-term OTC derivative portfolios, more specifically when the exposure profile of these contracts is significant beyond one year. This adjustment is only applicable to a *firm* using the Internal Model Method for the calculation of *exposure* values.
- (3) A *firm* is permitted to replace the formula for the maturity factor "M", as set out in article 162(2)(g) of the *EU CRR* with the 'effective credit duration' derived

by a *firm's* internal CVA model, subject to permission being granted by the *FCA*, as the *competent authority*.

- (4) Internal CVA models are complex by nature and modelling practises vary significantly across the industry. The *FCA* considers the creation of an acceptable model resulting in an appropriate credit duration to be challenging, and so would require extensive review. Accordingly, the *FCA* expects a *firm* to demonstrate a strong case for the granting of such permission.
- (5) A *firm* that wishes to make an application under article 162(2)(h) should provide a satisfactory justification for the use of an internal CVA model for estimating the maturity factor "M". The purpose of reducing the *own funds requirements* for counterparty credit risk will not, on its own, be considered as a reasonable justification. The *FCA* will also expect highly conservative modelling assumptions within a *firm's* internal CVA model for the purpose of article 162(2)(h).

Permission to set the maturity factor 'M' to 1 for the counterparty credit risk default charge

4.14.5

FCA

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- (1) This *guidance* sets out the *FCA's* expectations for permitting a *firm* with the permission to use the Internal Model Method set out in Part Three, Title II, Chapter 6, Section 6 (Internal model method) and the permission to use an internal VaR model for specific risk set out in Part Three, Title IV, Chapter 5 (Use of internal models) associated with traded debt instruments to set to 1 the maturity factor "M" defined in article 162 of the *EU CRR*.
- (2) In the context of counterparty credit risk, the maturity factor "M" is intended to increase the *own funds requirements* to reflect the potential higher risks associated with medium and long-term *OTC derivative* portfolios, more specifically when the exposure profile of these contracts is significant beyond one year. This adjustment is only applicable to *firms* using the Internal Model Method for the calculation of *exposure* values.
- (3) Article 162(2)(i) of the *EU CRR* allows a *firm* to set the maturity factor "M" to 1 for a *firm* using the Internal Model Method provided that the *firm's* internal value-at-risk (VaR) model for specific risk associated with traded debt instruments reflects the effect of rating migration and subject to the permission of the *FCA*, as the *competent authority*.
- (4) Internal VaR models for specific risk associated with traded debt instruments are not specifically designed to capture the effects of rating migrations. The risk captured by these models is based on a 10-day time horizon which cannot appropriately reflect the dynamics of rating migrations, which occur on an irregular, infrequent basis. This deficiency was one of the main reasons underlying the introduction of a separate risk measure for the capture of both credit default and rating migration risks, based on a one-year time horizon (the IRC models in article 372 of the *EU CRR* (Internal IRC model)).
- (5) Since the challenges of appropriately capturing credit-rating migrations in an internal VaR model are high, the *FCA* expects a *firm* to demonstrate a strong case for the granting of the permission set out in article 162(2)(i) of the *EU CRR*.
- (6) A *firm* that wishes to make an application under article 162(2)(i) of the *EU CRR* should provide a satisfactory justification for use of its internal VaR

model to capture the risks associated with ratings migration. The purpose of reducing the *own funds requirements* for counterparty credit risk will not be considered as a reasonable justification.

- (7) The *FCA* expects highly conservative modelling assumptions for the capture of rating migrations within a *firm's* internal VaR models for specific risk associated with traded debt instruments under article 162(2)(i) of the *EU CRR* (Maturity).



4.15 Credit risk mitigation

4.15.1

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Conditions for applying 0% volatility adjustment under the Financial Collateral Comprehensive Method

For purposes of repurchase transactions and securities lending or borrowing transactions, the *FCA* does not consider that there are any core market participants apart from those entities listed in article 227(3) of the *EU CRR*.

4 Annex 1G Slotting criteria

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Table 1 - Supervisory rating grades for project finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Market conditions	Few competing suppliers or substantial and durable advantage in location, cost, or technology. Demand is strong and growing	Few competing suppliers or better than average location, cost, or technology but this situation may not last. Demand is strong and stable	Project has no advantage in location, cost, or technology. Demand is adequate and stable	Project has worse than average location, cost, or technology. Demand is weak and declining
Financial ratios (eg, debt service coverage ratio (DSCR), loan life coverage ratio (LLCR), project life coverage ratio (PLCR), and debt-to-equity ratio)	Strong financial ratios considering the level of project risk; very robust economic assumptions	Strong to acceptable financial ratios considering the level of project risk; robust project economic assumptions	Standard financial ratios considering the level of project risk	Aggressive financial ratios considering the level of project risk
Stress analysis	The project can meet its financial obligations under sustained, severely stressed economic or sectoral conditions	The project can meet its financial obligations under normal stressed economic or sectoral conditions. The project is only likely to default under severe economic conditions	The project is vulnerable to stresses that are not uncommon through an economic cycle, and may default in a normal downturn	The project is likely to default unless conditions improve soon
Duration of the credit compared to the duration of the project	Useful life of the project significantly exceeds tenor of the loan	Useful life of the project exceeds tenor of the loan	Useful life of the project exceeds tenor of the loan	Useful life of the project may not exceed tenor of the loan
Amortisation schedule	Amortising debt	Amortising debt	Amortising debt repayments with limited bullet payment	Bullet repayment or amortising debt repayments with high bullet repayment
Political and legal environment				
Political risk, including transfer risk, considering project type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Force majeure risk (war, civil unrest, etc)	Low exposure	Acceptable exposure	Standard protection	Significant risks, not fully mitigated

Table 1 - Supervisory rating grades for project finance exposures

	Strong	Good	Satisfactory	Weak
Government support and project's importance for the country over the long term	Project of strategic importance for the country (preferably export-oriented). Strong support from Government	Project considered important for the country. Good level of support from Government	Project may not be strategic but brings unquestionable benefits for the country. Support from Government may not be explicit	Project not key to the country. No or weak support from Government
Stability of legal and regulatory environment (risk of change in law)	Favourable and stable regulatory environment over the long term	Favourable and stable regulatory environment over the medium term	Regulatory changes can be predicted with a fair level of certainty	Current or future regulatory issues may affect the project
Acquisition of all necessary supports and approvals for such relief from local content laws	Strong	Satisfactory	Fair	Weak
Enforceability of contracts, collateral and security	Contracts, collateral and security are enforceable	Contracts, collateral and security are enforceable	Contracts, collateral and security are considered enforceable even if certain non-key issues may exist	There are unresolved key issues for actual enforcement of contracts, collateral and security
Transaction characteristics				
Design and technology risk	Fully proven technology and design	Fully proven technology and design	Proven technology and design and start-up issues are mitigated by a strong completion package	Unproven technology and design; technology issues exist and/or complex design
Construction risk				
Permitting and siting	All permits have been obtained	Some permits are still outstanding but their receipt is considered very likely	Some permits are still outstanding but the permitting process is well defined and they are considered routine	Key permits still need to be obtained and are not considered routine. Significant conditions may be attached
Type of construction contract	Fixed-price date-certain turnkey construction EPC (engineering and procurement contract)	Fixed-price date-certain turnkey construction EPC	Fixed-price date-certain turnkey construction contract with one or several contractors	No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors
Completion guarantees	Substantial liquidated damages, supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages, supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages, supported by financial substance and/or completion guarantee from sponsors with good financial standing	Inadequate liquidated damages or not supported by financial substance or weak completion guarantees
Track record and financial strength of contractor in constructing similar projects	Strong	Good	Satisfactory	Weak
Operating risk				

Table 1 - Supervisory rating grades for project finance exposures

	Strong	Good	Satisfactory	Weak
Scope and nature of operations and maintenance (O & M) contracts	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts	Long-term O&M contract, and/or O&M reserve accounts	Limited O&M contract or O&M reserve account	No O&M contract risk of high operational cost overruns beyond mitigants
Operator's expertise, track record, and financial strength	Very strong, or committed technical assistance of the sponsors	Strong	Acceptable	Limited/weak, or local operator dependent on local authorities
Off-take risk				
(a) If there is a take-or-pay or fixed-price off-take contract:	Excellent creditworthiness of off-taker; strong termination clauses; tenor of contract comfortably exceeds the maturity of the debt	Good creditworthiness of off-taker; strong termination clauses; tenor of contract exceeds the maturity of the debt	Acceptable financial standing of off-taker; normal termination clauses; tenor of contract generally matches the maturity of the debt	Weak off-taker; weak termination clauses; tenor of contract does not exceed the maturity of the debt
(b) If there is no take-or-pay or fixed-price off-take contract:	Project produces essential services or a commodity sold widely on a world market; output can readily be absorbed at projected prices, even at lower than historic market growth rates	Project produces essential services or a commodity sold widely on a regional market that will absorb it at projected prices at historical growth rates	Commodity is sold on a limited market that may absorb it only at lower than projected prices	Project output is demanded by only one or a few buyers or is not generally sold on an organised market
Supply risk				
Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength	Long-term supply contract with supplier of excellent financial standing	Long-term supply contract with supplier of good financial standing	Long-term supply contract with supplier of good financial standing - a degree of price risk may remain	Short-term supply contract or long-term supply contract with financially weak supplier - a degree of price risk definitely remains
Reserve risks (eg, natural resource development)	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Independently audited, proven and developed reserves in excess of requirements over the lifetime of the project	Proven reserves can supply the project adequately through the maturity of the debt	Project relies to some extent on potential and undeveloped reserves
Strength of sponsor				
Sponsor's track record, financial strength, and country/sector experience	Strong sponsor with excellent track record and high financial standing	Good sponsor with satisfactory track record and good financial standing	Adequate sponsor with adequate track record and good financial standing	Weak sponsor with no or questionable track record and/or financial weaknesses
Sponsor support, as evidenced by equity, ownership clause and incentive to inject additional cash if necessary	Strong. Project is highly strategic for the sponsor (core business - long-term strategy)	Good. Project is strategic for the sponsor (core business - long-term strategy)	Acceptable. Project is considered important for the sponsor (core business)	Limited. Project is not key to sponsor's long-term strategy or core business
Security package				

Table 1 - Supervisory rating grades for project finance exposures

	Strong	Good	Satisfactory	Weak
Assignment of contracts and accounts	Fully comprehensive	Comprehensive	Acceptable	Weak
Pledge of assets, taking into account quality, value and liquidity of assets	First perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Acceptable security interest in all project assets, contracts, permits and accounts necessary to run the project	Little security or collateral for lenders; weak negative pledge clause
Lender's control over cash flow (eg, cash sweeps, independent escrow accounts)	Strong	Satisfactory	Fair	Weak
Strength of the covenant package (mandatory prepayments, payment deferrals, payment cascade, dividend restrictions, etc)	Covenant package is strong for this type of project	Covenant package is satisfactory for this type of project	Covenant package is fair for this type of project	Covenant package is insufficient for this type of project
Reserve funds (debt service, O&M, renewal and replacement, unforeseen events, etc)	Longer than average coverage period, all reserve funds fully funded in cash or letters of credit from highly rated bank	Average coverage period, all reserve funds fully funded	Average coverage period, all reserve funds fully funded	Shorter than average coverage period, reserve funds funded from operating cash flows

Table 2 - Supervisory rating grades for income-producing real estate exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Market conditions	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is equal or lower than forecasted demand	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand	Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The project's design and capabilities may not be state of the art compared to new projects	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The project is losing tenants at lease expiration. New lease terms are less favourable compared to those expiring
Financial ratios and advance rate	The property's debt service coverage ratio (DSCR) is considered strong (DSCR is not relevant for the construction phase) and its loan-to-value ratio (LTV) is considered low given its property type. Where a sec-	The DSCR (not relevant for development real estate) and LTV are satisfactory. Where a secondary market exists, the transaction is underwritten to market standards	The property's DSCR has deteriorated and its value has fallen, increasing its LTV	The property's DSCR has deteriorated significantly and its LTV is well above underwriting standards for new loans

Table 2 - Supervisory rating grades for income-producing real estate exposures

	Strong	Good	Satisfactory	Weak
	ondary market exists, the transaction is underwritten to market standards			
Stress analysis	The property's resources, contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress (eg, interest rates, economic growth)	The property can meet its financial obligations under a sustained period of financial stress (eg, interest rates, economic growth). The property is likely to default only under severe economic conditions	During an economic downturn, the property would suffer a decline in revenue that would limit its ability to fund capital expenditures and significantly increase the risk of default	The property's financial condition is strained and is likely to default unless conditions improve in the near term
Cash-flow predictability				
(a) For complete and stabilised property	The property's leases are long-term with creditworthy tenants and their maturity dates are scattered. The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (maintenance, insurance, security and property taxes) are predictable	Most of the property's leases are long term, with tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable	Most of the property's leases are medium rather than long term, with tenants that range in creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue	The property's leases are of various terms with tenants that range in creditworthiness. The property experiences a very high level of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred preparing space for new tenants
(b) For complete but not stabilised property	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future	Most leasing activity is within projections; however, stabilisation will not occur for some time	Market rents do not meet expectations. Despite achieving target occupancy rate, cash flow coverage is tight due to disappointing revenue
(c) For construction phase	The property is entirely pre-leased through the tenor of the loan or pre-sold to an investment grade tenant or buyer, or the bank has a binding commitment for take-out financing from an investment grade lender	The property is entirely pre-leased or pre-sold to a creditworthy tenant or buyer, or the bank has a binding commitment for permanent financing from a creditworthy lender	Leasing activity is within projections but the building may not be pre-leased and there may not exist a take-out financing. The bank may be the permanent lender	The property is deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may be a dispute with the party providing the permanent financing
Asset characteristics				
Location	Property is located in highly desirable location that is convenient to services that tenants desire	Property is located in desirable location that is convenient to services that tenants desire	The property location lacks a competitive advantage	The property's location, configuration, design and maintenance have contributed to the property's difficulties

Table 2 - Supervisory rating grades for income-producing real estate exposures

	Strong	Good	Satisfactory	Weak
Design and condition	Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties	Property is adequate in terms of its configuration, design and maintenance	Weaknesses exist in the property's configuration, design or maintenance
Property is under construction	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified	Construction budget is adequate and contractors are ordinarily qualified	Project is over budget or unrealistic given its technical hazards. Contractors may be under qualified
Strength of sponsor/ developer				
Financial capacity and willingness to support the property	The sponsor/ developer made a substantial cash contribution to the construction or purchase of the property. The sponsor/ developer has substantial resources and limited direct and contingent liabilities. The sponsor/ developer's properties are diversified geographically and by property type	The sponsor/ developer made a material cash contribution to the construction or purchase of the property. The sponsor/ developer's financial condition allows it to support the property in the event of a cash flow shortfall. The sponsor/ developer's properties are located in several geographic region	The sponsor/ developer's contribution may be immaterial or non-cash. The sponsor/ developer is average to below-average in financial resources	The sponsor/ developer lacks capacity or willingness to support the property
Reputation and track record with similar properties	Experienced management and high sponsor quality. Strong reputation and lengthy and successful record with similar properties	Appropriate management and sponsor quality. The sponsor or management has a successful record with similar properties	Moderate management and sponsor quality. Management or sponsor track record does not raise serious concerns	Ineffective management and substandard sponsor quality. Management and sponsor difficulties have contributed to difficulties in managing properties in the past
Relationships with relevant real estate actors	Strong relationships with leading actors, such as leasing agents	Proven relationships with leading actors, such as leasing agents	Adequate relationships with leasing agents and other parties providing important real estate services	Poor relationships with leasing agents and/or other parties providing important real estate services
Security package				
Nature of lien	Perfected first lien (Note 1)	Perfected first lien (Note 1)	Perfected first lien (Note 1)	Ability of lender to foreclose is constrained
Assignment of rents (for projects leased to long-term tenants)	The lender has obtained an assignment. They maintain current tenant information that would facilitate providing no-	The lender has obtained an assignment. They maintain current tenant information that would facilitate providing no-	The lender has obtained an assignment. They maintain current tenant information that would facilitate providing no-	The lender has not obtained an assignment of the leases or has not maintained the information necessary to readi-

Table 2 - Supervisory rating grades for income-producing real estate exposures

	Strong	Good	Satisfactory	Weak
	Notice to remit rents directly to the lender, such as a current rent roll and copies of the project's leases	Notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases	Notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases	Notice to the building's tenants
Quality of the insurance coverage	Appropriate	Appropriate	Appropriate	Substandard

Note 1: Lenders in some markets extensively use loan structures that include junior liens. Junior liens may be indicative of this level of risk if the total LTV inclusive of all senior positions does not exceed a typical first loan LTV.

Table 3 - Supervisory rating grades for object finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Market conditions	Demand is strong and growing, strong entry barriers, low sensitivity to changes in technology and economic outlook	Demand is strong and stable. Some entry barriers, some sensitivity to changes in technology and economic outlook	Demand is adequate and stable, limited entry barriers, significant sensitivity to changes in technology and economic outlook	Demand is weak and declining, vulnerable to changes in technology and economic outlook, highly uncertain environment
Financial ratios (debt service coverage ratio and loan-to-value ratio)	Strong financial ratios considering the type of asset. Very robust economic assumptions	Strong / acceptable financial ratios considering the type of asset. Robust project economic assumptions	Standard financial ratios for the asset type	Aggressive financial ratios considering the type of asset
Stress analysis	Stable long-term revenues, capable of withstanding severely stressed conditions through an economic cycle	Satisfactory short-term revenues. Loan can withstand some financial adversity. Default is only likely under severe economic conditions	Uncertain short-term revenues. Cash flows are vulnerable to stresses that are not uncommon through an economic cycle. The loan may default in a normal downturn	Revenues subject to strong uncertainties; even in normal economic conditions the asset may default, unless conditions improve
Market liquidity	Market is structured on a worldwide basis; assets are highly liquid	Market is worldwide or regional; assets are relatively liquid	Market is regional with limited prospects in the short term, implying lower liquidity	Local market and/or poor visibility. Low or no liquidity, particularly on niche markets
Political and legal environment				
Political risk, including transfer risk	Very low; strong mitigation instruments, if needed	Low; satisfactory mitigation instruments, if needed	Moderate; fair mitigation instruments	High; no or weak mitigation instruments
Legal and regulatory risks	Jurisdiction is favourable to repossession and enforcement of contracts	Jurisdiction is favourable to repossession and enforcement of contracts	Jurisdiction is generally favourable to repossession and enforcement of contracts, even if repossession might be long and/or difficult	Poor or unstable legal and regulatory environment. Jurisdiction may make repossession and enforcement of contracts lengthy or impossible

Table 3 - Supervisory rating grades for object finance exposures

	Strong	Good	Satisfactory	Weak
Transaction characteristics				
Financing term compared to the economic life of the asset	Full pay-out profile/minimum balloon. No grace period	Balloon more significant, but still at satisfactory levels	Important balloon with potentially grace periods	Repayment in fine or high balloon
Operating risk				
Permits / licensing	All permits have been obtained; asset meets current and foreseeable safety regulations	All permits obtained or in the process of being obtained; asset meets current and foreseeable safety regulations	Most permits obtained or in process of being obtained, outstanding ones considered routine, asset meets current safety regulations	Problems in obtaining all required permits, part of the planned configuration and/or planned operations might need to be revised
Scope and nature of O & M contracts	Strong long-term O & M contract, preferably with contractual performance incentives, and/or O & M reserve accounts (if needed)	Long-term O & M contract, and/or O & M reserve accounts (if needed)	Limited O & M contract or O & M reserve account (if needed)	No O & M contract: risk of high operational cost overruns beyond mitigants
Operator's financial strength, track record in managing the asset type and capability to re-market asset when it comes off-lease	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing capability	No or unknown track record and inability to re-market the asset
Asset characteristics				
Configuration, size, design and maintenance (ie, age, size for a plane) compared to other assets on the same market	Strong advantage in design and maintenance. Configuration is standard such that the object meets a liquid market	Above average design and maintenance. Standard configuration, maybe with very limited exceptions - such that the object meets a liquid market	Average design and maintenance. Configuration is somewhat specific, and thus might cause a narrower market for the object	Below average design and maintenance. Asset is near the end of its economic life. Configuration is very specific; the market for the object is very narrow
Resale value	Current resale value is well above debt value	Resale value is moderately above debt value	Resale value is slightly above debt value	Resale value is below debt value
Sensitivity of the asset value and liquidity to economic cycles	Asset value and liquidity are relatively insensitive to economic cycles	Asset value and liquidity are sensitive to economic cycles	Asset value and liquidity are quite sensitive to economic cycles	Asset value and liquidity are highly sensitive to economic cycles
Strength of sponsor				
Operator's financial strength, track record in managing the asset type and capability to re-market asset when it comes off-lease	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing capability	No or unknown track record and inability to re-market the asset
Sponsors' track record and financial strength	Sponsors with excellent track record and high financial standing	Sponsors with good track record and good financial standing	Sponsors with adequate track record and good financial standing	Sponsors with no or questionable track record and/or financial weaknesses

Table 3 - Supervisory rating grades for object finance exposures

	Strong	Good	Satisfactory	Weak
Security package				
Asset control	Legal documentation provides the lender effective control (eg, a first perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	Legal documentation provides the lender effective control (eg, a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	Legal documentation provides the lender effective control (eg, a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	The contract provides little security to the lender and leaves room to some risk of losing control on the asset
Rights and means at the lender's disposal to monitor the location and condition of the asset	The lender is able to monitor the location and condition of the asset, at any time and place (regular reports, possibility to lead inspections)	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is able to monitor the location and condition of the asset are limited
Insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

Table 4 - Supervisory rating grades for commodities finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Degree of over-collateralisation of trade	Strong	Good	Satisfactory	Weak
Political and legal environment				
Country risk	No country risk	Limited exposure to country risk (in particular, offshore location of reserves in an emerging country)	Exposure to country risk (in particular, offshore location of reserves in an emerging country)	Strong exposure to country risk (in particular, inland reserves in an emerging country)
Mitigation of country risks	Very strong mitigation: Strong offshore mechanisms Strategic commodity 1st class buyer	Strong mitigation: Offshore mechanisms Strategic commodity Strong buyer	Acceptable mitigation: Offshore mechanisms Less strategic commodity Acceptable buyer	Only partial mitigation: No offshore mechanisms Non-strategic commodity Weak buyer
Asset characteristics				
Liquidity and susceptibility to damage	Commodity is quoted and can be hedged	Commodity is quoted and can be hedged	Commodity is not quoted but is liquid.	Commodity is not quoted. Liquidity is

Table 4 - Supervisory rating grades for commodities finance exposures

	Strong	Good	Satisfactory	Weak
	through futures or OTC instruments. Commodity is not susceptible to damage	through OTC instruments. Commodity is not susceptible to damage	There is uncertainty about the possibility of hedging. Commodity is not susceptible to damage	limited given the size and depth of the market. No appropriate hedging instruments. Commodity is susceptible to damage
Strength of sponsor				
Financial strength of trader	Very strong, relative to trading philosophy and risks	Strong	Adequate	Weak
Track record, including ability to manage the logistic process	Extensive experience with the type of transaction in question. Strong record of operating success and cost efficiency	Sufficient experience with the type of transaction in question. Above average record of operating success and cost efficiency	Limited experience with the type of transaction in question. Average record of operating success and cost efficiency	Limited or uncertain track record in general. Volatile costs and profits
Trading controls and hedging policies	Strong standards for counterparty selection, hedging, and monitoring	Adequate standards for counterparty selection, hedging, and monitoring	Past deals have experienced no or minor problems	Trader has experienced significant losses on past deals
Quality of financial disclosure	Excellent	Good	Satisfactory	Financial disclosure contains some uncertainties or is insufficient
Security package				
Asset control	First perfected security interest provides the lender legal control of the assets at any time if needed	First perfected security interest provides the lender legal control of the assets at any time if needed	At some point in the process, there is a rupture in the control of the assets by the lender. The rupture is mitigated by knowledge of the trade process or a third party undertaking as the case may be	Contract leaves room for some risk of losing control over the assets. Recovery could be jeopardised
Insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

4 Annex 2G Wholesale LGD and EAD framework

1. The following framework should be used to assess wholesale LGD models in the circumstances set out in IFPRU 4.7.15 G:
 - (a) For unsecured recoveries if a *firm* has fewer than 20 relevant default observations of recoveries in a specific country for an individual type of *exposure*, then the maximum recovery a *firm* can assume should be equivalent to that which would give a 45% LGD for senior unsecured *exposures*, 75% for subordinated *exposures* and 11.25% for covered bonds.
 - (b) If a *firm* is taking account of non-financial collateral which is not eligible under the foundation approach where it does not have 20 or more relevant data points of recovery values for that type of collateral or does not have a reliable time series of market price data for the collateral in a specific country, then the LGD for the *exposure* to which the collateral is applied should be floored at 45%.
 - (c) If a *firm* is taking account of non-financial collateral which is eligible under the foundation approach, where it does not have 20 or more relevant data points of recovery values for that type of collateral or does not have a reliable time series of market price data for that collateral in a specific country, then the LGD for the *exposure* to which the collateral is applied should be floored at 35%.
2. *Firms* should note the following when applying the framework to LGD models:
 - (a) The 20 or more relevant data points can include internal or external data. However, the *FCA* expects *firms* to ensure that each data point is independent, representative and an accurate record of the recovery for that exposure or collateral type in that specific country.
 - (b) The *FCA* anticipates that *firms* are able to use market price data within the framework where they have less than 20 defaults only in exceptional circumstances. As a minimum, *firms* need to demonstrate that the market price data being used is representative of their collateral and that it is over a long enough time period to ensure that an appropriate downturn and forced sale haircut can be estimated.
 - (c) The framework does not affect the use of financial collateral.
 - (d) The framework does not affect the use of unfunded credit protection.
 - (e) Where a model takes account of multiple collateral types, if this only includes collateral that is eligible under the foundation approach then LGDs should be floored at 35%, and if any collateral type is not eligible under the foundation approach then LGDs should be floored at 45%.
 - (f) The effect of this framework is to floor bank and non-bank financial institution (NBFI) *exposures* at foundation values unless sufficient country-specific recovery data is available. This floor should be applied where the *exposures* are to types of banks and NBFIs that are not sufficiently represented in the available historic data (eg, if the historic recovery data only relates to small banks then the floor will affect large banks).
 - (g) When applying the framework, the *FCA* expects *firms* to assess whether the 11.25% LGD floor for covered bonds is sufficient given the quality of the underlying assets
3. *Firms* should select the most appropriate of the following three options when using the framework to assess wholesale EAD models in the circumstances set out in IFPRU 4.8.9 G:
 - (a) rank-order the off balance sheet product types (separately for lending and trade finance) according to their drawdown risk. The EAD parameter for a product with 20 or more default observations can then be applied to low-default products with a lower drawdown risk; or
 - (b) for product types where the *firm* has the defaults needed to estimate the EAD for committed credit lines (or an estimate derived from the option above) but less than 20 defaults for uncommitted credit lines, use

50% of the committed credit line conversion factor as an estimate of the uncommitted credit line conversion factor; or

- (c) apply the foundation parameters.

4. *Firms* should note the following when applying the framework to EAD models:

- (a) *Firms* may select more than one option when applying the framework, providing that they can demonstrate that their chosen combination is appropriate, reflecting their particular mix of products and risks, and is not selected to minimise their *own funds requirements*.
- (b) As the *FCA* believes that the EAD experienced by *firms* is dependent on their own credit management processes it would expect only internal data to be used to estimate EAD. However, where *firms* can convincingly demonstrate to the *FCA's* satisfaction that the credit process are consistent across countries then the *FCA* would accept that data sourced from these countries could be combined to estimate the EAD for each product (ie, the 20 default data points do not have to be country specific for the purposes of estimating EAD).
- (c) *Firms* using the option in (a), above, should be able to demonstrate that a sufficiently robust approach has been taken to rank-ordering their product types by drawdown risk. This approach must be fully documented and assessed by an independent reviewer.

Chapter 5

Operational risk



5.1 Application and purpose

Application

5.1.1

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■ IFPRU 5 applies to a *full-scope IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

5.1.2

FCA

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This chapter contains *guidance* to help a *firm* understand the *FCA*'s expectations on the extent to which the Advanced Measurement Approach (AMA) should capture its *operational risks* where the *firm* has, or is about to, implement AMA.

 5.2 Advanced Measurement Approach permission

5.2.1

FCA

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This is relevant where the AMA is applied across only part of a *firm's* operations and is used in conjunction with either the Basic Indicator Approach (BIA), or the Standardised Approach (TSA).

5.2.2

FCA

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A *firm* may use an AMA in combination with the BIA or TSA, provided it obtains permission from the *FCA*. In granting such permission, the *FCA* is required by article 314(3) of the *EU CRR* (Combined use of different approaches) to impose the following conditions when the AMA is used in combination with BIA or TSA:

- (1) on the date of first implementation of the AMA, a 'significant' part of the *institution's operational risk* are captured by that approach; and
- (2) the *institution* to commit to apply the AMA across a 'material' part of its operations within a time schedule approved by the *FCA*.

5.2.3

FCA

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For the purposes of these conditions, the *FCA* considers that:

- (1) a "significant" part of *operational risk* shall be approximately 50% (or more);
and
- (2) a 'material' part of its operations shall be around 85% (or more).

Chapter 6

Market risk

6.1 Market risk requirements

6.1.1

FCA

R

■ IFPRU 6 applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

6.1.2

FCA

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This chapter:

- (1) implements article 101 of *CRD*;
- (2) contains the rule that exercises the discretion afforded to the *FCA* as *competent authority* under article 327(2) of the *EU CRR*; and
- (3) contains the *guidance* for market risk.

Instruments for which no treatment specified

6.1.3

FCA

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- (1) Where a *firm* has a position in a *financial instrument* for which no treatment has been specified in the *EU CRR*, it must calculate its *own funds requirement* by applying the most appropriate requirement relating to positions that are specified in the *EU CRR*, if doing so is prudent and appropriate, and if the position is sufficiently similar to those covered by the relevant requirement.
- (2) A *firm* must document its policies and procedures for calculating *own funds* for such positions in its *trading book policy statement*.
- (3) If there are no appropriate treatments, the *firm* must calculate an *own funds requirement* of an appropriate percentage of the current value of the position. An appropriate percentage is either 100%, or a percentage that takes into account the characteristics of the position.

6.1.4

FCA

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Use of internal models: risk capture

A *firm* which has a permission to use internal models in accordance with Part Three, Title IV, Chapter 5 of the *EU CRR* (Own funds requirements for market risk):

- (1) must identify any material risk, or risks that when considered in aggregate are material, which are not captured by those models;
- (2) must ensure that it holds *own funds* to cover those risk(s) in addition to those required to meet its *own funds requirement* calculated in accordance with Part Three, Title IV, Chapter 5 of the *EU CRR*; and
- (3) (where applicable) must ensure that it holds additional *own funds requirements* for VaR and stressed VaR models.

[Note: article 101 of CRD]

6.1.5

FCA

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- (1) The methodology for the identification of the risks in ■ IFPRU 6.1.4 R and the calculation of those additional *own funds* for value-at-risk (VaR) and stressed value-at-risk (stressed VaR) models is called the "RNIV framework". A *firm* is responsible for identifying these additional risks and this should be an opportunity for risk managers and management to better understand the shortcomings of the *firm's* models. Following this initial assessment, the *FCA* will engage with the *firm* to provide challenge and ensure an appropriate outcome.
- (2) The RNIV framework is intended to ensure that *own funds* are held to meet all risks which are not captured or not captured adequately, by the *firm's* VaR and stressed VaR models. These include, but are not limited to, missing and/or illiquid risk factors such as cross-risks, basis risks, higher-order risks, and calibration parameters. The RNIV framework is also intended to cover event risks that could adversely affect the relevant business.
- (3) A *firm* should systematically identify and measure all non-captured or poorly captured risks. This analysis should be updated at least quarterly, or more frequently at the request of the *FCA*. The measurement of these risks should capture the losses that could arise due to the risk factor(s) of all products that are within the scope of the relevant internal model permission, but are not adequately captured by the relevant internal models.
- (4) On a quarterly basis, the *firm* should identify and assess individual risk factors covered by the RNIV framework. The *FCA* will review the results of this exercise and may require that *firms* identify additional risk factors as being eligible for measurement.
- (5) (a) Where sufficient data is available, and where it is appropriate to do so, the *FCA* expects a *firm* to calculate a VaR and stressed VaR metric for each risk factor within scope of the framework. The stressed period for the RNIV framework should be consistent with that used for stressed VaR. No offsetting or diversification may be recognised across risk factors included in the RNIV framework. The multipliers used for VaR and stressed VaR should be applied to generate an *own funds requirement*.

- (b) If it is not appropriate to calculate a VaR and stressed VaR metric for a risk factor, a *firm* should instead measure the size of the risk based on a stress test. The confidence level and capital horizon of the stress test should be commensurate with the liquidity of the risk, and should be at least as conservative as comparable risk factors under the internal model approach. The capital charge should be at least equal to the losses arising from the stress test.

Standardised approach for options

6.1.6
FCA

G

A *firm* that wishes to use own estimates for delta for the purposes of the standardised approach for options, should provide the FCA with confirmation that it meets the minimum standards set out in ■ IFPRU 6.1.8 G to ■ IFPRU 6.1.15 R (Minimum standards for own estimates of delta) for each type of option for which it calculates delta. Where a *firm* meets the minimum standards, it can expect to be permitted to use own estimates of delta for the relevant option.

6.1.7
FCA

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If a *firm* is unable to provide assurance with regard to a particular option type which is currently within its permissions, a capital add-on may be applied and a rectification plan agreed. If a *firm* is unable to comply with the rectification plan within the mandated time-frame, further supervisory measures may be taken. This may include variation of a *firm's Part 4A permission* so that it is no longer allowed to trade those particular types of options for which it does not meet the minimum standards.

Minimum standards for own estimates of delta

6.1.8
FCA

G

The level of sophistication of the pricing models used to calculate own estimates of delta for use in the standardised approach for options should be proportionate to the complexity and risk of each option, and the overall risk of the *firm's* options trading business. In general, it is considered that the risk of sold options will be higher than the risk of the same options when bought.

6.1.9
FCA

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Delta should be re-calculated at least daily. A *firm* should also recalculate delta promptly following significant movements in the market parameters used as inputs to calculate delta.

6.1.10
FCA

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The pricing model used to calculate delta should be:

- (1) based on appropriate assumptions which have been assessed and challenged by suitably qualified parties independent of the development process;
- (2) independently tested, including validation of the mathematics, assumptions, and software implementation; and
- (3) developed or approved independently of the trading desk.

6.1.11
FCA

G

A *firm* should use generally accepted industry standard pricing models for the calculation of own deltas where these are available, such as for relatively simple options.

- 6.1.12**
FCA **G** The IT systems used to calculate delta should be sufficient to ensure that delta can be reliably calculated accurately and reliably.
- 6.1.13**
FCA **G** A *firm* should have adequate systems and controls in place when using pricing models to calculate deltas. This should include the following documented policies and procedures:
- (1) clearly defined responsibilities of the various areas involved in the calculation;
 - (2) frequency of independent testing of the accuracy of the model used to calculate delta; and
 - (3) guidelines for the use of unobservable inputs, where relevant.
- 6.1.14**
FCA **G** A *firm* should ensure its risk management functions are aware of weaknesses of the model used to calculate deltas. Where weaknesses are identified, the *firm* should ensure that estimates of delta result in prudent *own funds requirements* being held. The outcome should be prudent across the whole portfolio of options and underlying positions at a given time.
- Netting: convertible**
- 6.1.15**
FCA **R** Under article 327(2) of the *EU CRR (Netting)*, the netting of a *convertible* and an offsetting position in the underlying instrument is permitted.
- 6.1.16**
FCA **G** For the purpose of ■ IFPRU 6.1.15 R, the *convertible* should be:
- (1) treated as a position in the *equity* into which it converts; and
 - (2) the *firm's own funds requirement* for the general and specific risk in its *equity* instruments should be adjusted by making:
 - (a) an addition equal to the current value of any loss which the *firm* would make if it did convert to *equity*; or
 - (b) a deduction equal to the current value of any profit which the *firm* would make if it did convert to *equity* (subject to a maximum deduction equal to the *own funds requirements* on the notional position underlying the convertible).
- Use of internal approaches**
- 6.1.17**
FCA **G** A *significant IFPRU firm* should consider developing internal specific risk assessment capacity and to increase use of internal models for calculating *own funds requirements* for specific risk of debt instruments in the *trading book*, together with internal models to calculate *own funds requirements* for default and migration risk where its exposures to specific risk are material in absolute terms and where it holds a large number of material positions in debt instruments of different issuers. This provision is without prejudice to the fulfilment of the criteria laid down in Part Three, Title IV, Chapter 5, Sections 1 to 5, of the *EU CRR (Market risk)*.

[Note: article 77(3) of *CRD*]

6.2 Guidance on market risk

Offsetting derivative instruments

6.2.1
FCA

G

Article 331(2) of the *EU CRR* (Interest rate risk in derivative instruments) states conditions that must be met before a *firm* not using interest rate pre-processing models can fully offset interest-rate risk on derivative instruments. One of the conditions is that the reference rate (for floating-rate positions) or coupon (for fixed-rate positions) should be 'closely matched'. The *FCA* will normally consider a difference of less than 15 basis points as indicative of the reference rate or coupon being 'closely matched' for the purposes of this requirement.

Exclusion of overshootings when determining multiplication factor addends

6.2.2
FCA

G

- (1) The *FCA*'s starting assumption is that all overshootings should be taken into account for the purpose of the calculation of addends. If a *firm* believes that an overshooting should not count for that purpose, then it should seek a variation of its VaR model permission under article 363 of the *EU CRR* (Permission to use internal models) in order to exclude that particular overshooting. The *FCA* would then decide whether to agree to such a variation.
- (2) One example of when a *firm*'s overshooting might properly be disregarded is when it has arisen as a result of a risk that is not captured in its VaR model but against which *own funds* are already held.

Derivation of notional positions for standardised approaches

6.2.3
FCA

G

The rest of this section sets out the *guidance* for the derivation of notional positions for standardised approaches.

Futures and forwards on a basket or index of debt securities

6.2.4
FCA

G

Futures or forwards on a basket or index of debt securities should be converted into forwards on single debt securities as follows:

- (1) futures or forwards on a single currency basket or index of debt securities should be treated as either:
 - (a) a series of forwards, one for each of the constituent debt securities in the basket or index, of an amount which is a proportionate part of the total underlying the contract, according to the weighting of the relevant debt security in the basket; or

(b) a single forward on a notional debt security; and

(2) futures or forwards on multiple currency baskets or indices of debt securities should be treated as either:

(a) a series of forwards (using the method in (1)(a)); or

(b) a series of forwards, each one on a notional debt security to represent one of the currencies in the basket or index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant currency in the basket.

6.2.5

FCA

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Notional debt securities derived through this treatment should be assigned a specific risk position risk adjustment and a general market risk position risk adjustment equal to the highest that would apply to the debt securities in the basket or index.

6.2.6

FCA

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The debt security with the highest specific risk position risk adjustment within the basket might not be the same as the one with the highest general market risk position risk adjustment. A *firm* should select the highest percentages, even where they relate to different debt securities in the basket or index, and regardless of the proportion of those debt securities in the basket or index.

Bonds where coupons and principal are paid in different currencies

6.2.7

FCA

G

Where a debt security pays coupons in one currency but will be redeemed in a different currency, it should be treated as:

(1) a debt security denominated in the coupon's currency; and

(2) a foreign currency forward to capture the fact that the debt security's principal will be repaid in a different currency from that in which it pays coupons, specifically:

(a) a notional forward sale of the coupon currency and purchase of the redemption currency, in the case of a long position in the debt security; or

(b) a notional forward purchase of the coupon currency and sale of the redemption currency, in the case of a short position in the debt security.

Interest-rate risk on other futures, forwards and swaps

6.2.8

FCA

G

Other futures, forwards, and swaps where a treatment is not specified in article 328 of the *EU CRR* ((Interest rate futures and forwards) should be treated as positions in zero specific risk securities, each of which:

(1) has a zero coupon;

(2) has a maturity equal to that of the relevant contract; and

(3) is long or short according to the table in ■ IFPRU 6.2.9 G.

6.2.9

FCA

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This table belongs to ■ IFPRU 6.2.8 G.

Instrument	Notional positions	
Foreign currency forward or future	A long position denominated in the currency purchased and	A short position denominated in the currency sold
Gold forward or future	A long position if the forward or future involves an actual (or notional) sale of gold	A short position if the forward or future involves an actual (or notional) purchase of gold
Equity forward or future	A long position if the contract involves an actual (or notional) sale of the underlying equity	A short position if the contract involves an actual (or notional) purchase of the underlying equity

Deferred start interest rate swaps or foreign currency swaps

6.2.10

FCA

G

Interest-rate swaps or foreign currency swaps with a deferred start should be treated as the two notional positions (one long, one short). The paying leg should be treated as a short position in a zero specific risk security with a coupon equal to the fixed rate of the swap. The receiving leg should be treated as a long position in a zero specific risk security, which also has a coupon equal to the fixed rate of the swap.

6.2.11

FCA

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The maturities of the notional positions are shown in the table in ■ IFPRU 6.2.12 G.

6.2.12

FCA

G

This table belongs to ■ IFPRU 6.2.11 G.

	Paying leg	Receiving leg
Receiving fixed and paying floating	The maturity equals the start date of the swap	The maturity equals the end date of the swap
Paying fixed and receiving floating	The maturity equals the end date of the swap	The maturity equals the start date of the swap

Swaps where only one leg is an interest-rate leg

6.2.13

FCA

G

For interest-rate risk, a *firm* should treat a swap (such as an equity swap) with only one interest rate leg as a notional position in a zero specific risk security:

- (1) with a coupon equal to that on the interest rate leg;
- (2) with a maturity equal to the date that the interest rate will be reset; and
- (3) which is a long position if the *firm* is receiving interest payments and short if making interest payments.

Foreign exchange forwards, futures and CFDs

6.2.14

FCA

G

- (1) A *firm* should treat a foreign currency forward, future or CFD as two notional currency positions as follows:
 - (a) a long notional position in the currency which the *firm* has contracted to buy; and

(b) a short notional position in the currency which the *firm* has contracted to sell.

(2) In (1), the notional positions should have a value equal to either:

- (a) the contracted amount of each currency to be exchanged in a forward, future or CFD held in the *non-trading book*; or
- (b) the present value of the amount of each currency to be exchanged in a forward, future or CFD held in the *trading book*.

Foreign currency swaps

6.2.15

FCA

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(1) A *firm* should treat a foreign currency swap as:

- (a) a long notional position in the currency in which the *firm* has contracted to receive interest and principal; and
- (b) a short notional position in the currency in which the *firm* has contracted to pay interest and principal.

(2) In (1), the notional positions should have a value equal to either:

- (a) the nominal amount of each currency underlying the swap if it is held in the *non-trading book*; or
- (b) the present value amount of all cash flows in the relevant currency in the case of a swap held in the *trading book*.

Futures, forwards and CFDs on a single commodity

6.2.16

FCA

G

Where a forward, future or CFD settles according to:

(1) the difference between the price set on trade date and that prevailing at contract expiry, then the notional position should:

- (a) equal the total quantity underlying the contract; and
- (b) have a maturity equal to the expiry date of the contract; and

(2) the difference between the price set on trade date and the average of prices prevailing over a certain period up to contract expiry, then a notional position should be derived for each of the reference dates used in the averaging period to calculate the average price, which:

- (a) equals a fractional share of the total quantity underlying the contract; and
- (b) has a maturity equal to the relevant reference date.

6.2.17

FCA

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Buying or selling a single commodity at an average of spot prices prevailing in the future

Commitments to buy or sell at the average spot price of the commodity prevailing over some period between trade date and maturity should be treated as a combination of:

- (1) a position equal to the full amount underlying the contract with a maturity equal to the maturity date of the contract, which should be:
 - (a) long, where the *firm* will buy at the average price; or
 - (b) short, where the *firm* will sell at the average price; and
- (2) a series of notional positions, one for each of the reference dates where the contract price remains unfixed, each of which should:
 - (a) be long if the position under (1) is short, or short if the position under (1) is long;
 - (b) equal to a fractional share of the total quantity underlying the contract; and
 - (c) have a maturity date of the relevant reference date.

Cash legs of repurchase agreements and reverse repurchase agreements

The forward cash leg of a repurchase agreement or reverse repurchase agreement should be treated as a notional position in a zero specific risk security which:

- (1) is a short notional position in the case of a repurchase agreement and a long notional position in the case of a reverse repurchase agreement;
- (2) has a value equal to the market value of the borrowing or deposit;
- (3) has a maturity equal to that of the borrowing or deposit, or the next date the interest rate is reset (if earlier); and
- (4) has a coupon equal to:
 - (a) zero, if the next interest payment date coincides with the maturity date; or
 - (b) the interest rate on the borrowing or deposit, if any interest is due to be paid before the maturity date.

6.2.18

FCA

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6.3 Expectations relating to internal models

6.3.1

FCA

G

Article 363 of the *EU CRR* (Permission to use internal models) states that permission for an *institution* to use internal models to calculate *own funds requirements* is subject to *competent authorities* verifying compliance with:

- (1) the general requirements;
- (2) requirements particular to specific risk modelling; and
- (3) requirements for an internal model for incremental default and migration risk.

6.3.2

FCA

G

This section describes some of the standards that the *FCA* expects to be met for it to consider that a *firm* is compliant with the requirements in ■ IFPRU 6.3.1 G.

High-level standards

6.3.3

FCA

G

A *firm* should be able to demonstrate that it meets the risk management standards in article 368 of the *EU CRR* (Qualitative requirements) on a legal entity and business-line basis where appropriate. This is particularly important for a *subsidiary* in a *group* subject to matrix management where the business lines cut across legal entity boundaries.

Categories of position

6.3.4

FCA

G

A VaR model permission will generally set out the broad classes of position within each risk category in its scope. It may also specify how individual products within one of those broad classes may be brought into or taken out of scope of the VaR model permission. These broad classes of permission are as follows:

- (1) linear products, which comprise securities with linear pay-offs (such as bonds and *equities*) and derivative products which have linear pay-offs in the underlying risk factor (such as interest rate swaps, *FRAs*, and total return swaps);
- (2) European, American and Bermudan put and call options (including caps, floors, and swaptions) and investments with these features;
- (3) Asian options, digital options, single barrier options, double barrier options, look-back options, forward-starting options, compound options and investments with these features; and

- (4) all other option-based products (such as basket options, quantos, outperformance options, timing options, and correlation-based products) and investments with these features.

Data standards

6.3.5
FCA

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A *firm* should ensure that the data series used by its VaR model is reliable. Where a reliable data series is not available, proxies or any other reasonable value-at-risk measurement may be used when the *firm* demonstrates that the requirements of article 367(2)(e) of the *EU CRR* (Requirements for risk measurement) are met. A *firm* should demonstrate that the technique is appropriate and does not materially understate the modelled risks

6.3.6
FCA

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Data may be deemed insufficient if, for example, it contains missing data points, or data points which contain stale data. With regard to less liquid risk factors or positions, the *FCA* expects the *firm* to make a conservative assessment of those risks, using a combination of prudent valuation techniques and alternative VaR estimation techniques to ensure there is a sufficient cushion against risk over the close-out period, which takes account of the illiquidity of the risk factor or position.

6.3.7
FCA

G

A *firm* is expected to update data sets to ensure standards of reliability are maintained in accordance with the frequency set out in its VaR model permission, or more frequently if volatility in market prices or rates necessitates more frequent updating. This is in order to ensure a prudent calculation of the VaR measure.

Aggregating VaR measures

6.3.8
FCA

G

- (1) In determining whether it is appropriate for a *firm* to use empirical correlations within risk categories and across risk categories within a model, the *FCA* expects certain features to be observed in assessing whether such an approach is sound and implemented with integrity. In general, the *FCA* expects a *firm* to determine the aggregate VaR measure by adding the relevant VaR measure for each category, unless the *firm's* permission provides for a different method of aggregating VaR measures which is empirically sound.
- (2) The *FCA* does not expect a *firm* to use the square root of the sum of the squares approach when aggregating measures across risk categories unless the assumption of zero correlation between these categories is empirically justified. If correlations between risk categories are not empirically justified, the VaR measures for each category should simply be added to determine its aggregate VaR measure. However, to the extent that a *firm's* VaR model permission provides for a different way of aggregating VaR measures:
 - (a) that method applies instead; and
 - (b) if the correlations between risk categories used for that purpose cease to be empirically justified then the *firm* is expected to notify the *FCA* at once.

Testing prior to model validation

6.3.9
FCA

G

A *firm* is expected to provide evidence of its ability to comply with the requirements for a VaR model permission. In general, it will be required to demonstrate this by

having a back-testing programme in place and should provide three months of back-testing history.

6.3.10

FCA

G

A period of initial monitoring or live testing is required before a VaR model can be recognised. This will be agreed on a *firm-by-firm* basis.

6.3.11

FCA

G

In assessing the *firm's* VaR model and risk management, the results of internal model validation procedures used by the *firm* to assess the VaR model will be taken into account.

Back-testing

6.3.12

FCA

G

For clarity, the back-testing requirements of article 366 of the *EU CRR* (Regulatory back testing and multiplication factors) should be implemented in the manner of ■ IFPRU 6.3.13 G and ■ IFPRU 6.3.14 G.

6.3.13

FCA

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If the day on which a loss is made is day *n*, the value-at-risk measure for that day will be calculated on day *n-1*, or overnight between day *n-1* and day *n*. Profit and loss figures are produced on day *n+1*, and back-testing also takes place on day *n+1*. The *firm's* supervisor should be notified of any overshootings by close of business on day *n+2*.

6.3.14

FCA

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Any overshooting initially counts for the purpose of the calculation of the plus factor, even if subsequently the *FCA* agrees to exclude it. Thus, where the *firm* experiences an overshooting and already has four or more overshootings for the previous 250 *business days*, changes to the multiplication factor arising from changes to the plus factor become effective at day *n+3*.

6.3.15

FCA

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A longer time period generally improves the power of back-testing. However, a longer time period may not be desirable if the VaR model or market conditions have changed to the extent that historical data is no longer relevant.

6.3.16

FCA

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The *FCA*, will review as part of a *firm's* VaR model permission application, the processes and documentation relating to the derivation of profit and loss used for back-testing. A *firm's* documentation should clearly set out the basis for cleaning profit and loss. To the extent that certain profit and loss elements are not updated every day (for example, certain reserve calculations) the documentation should clearly set out how such elements are included in the profit and loss series.

Planned changes to the VaR model

6.3.17

FCA

G

In accordance with article 363(3) of the *EU CRR* (Permission to use internal models), the *FCA* expects a *firm* to provide and discuss with us details of any significant planned changes to the VaR model before those changes are implemented. These details must include detailed information about the nature of the change, including an estimate of the impact on VaR numbers and the incremental risk charge.

Bias from overlapping intervals for 10-day VaR and stressed VaR

6.3.18

FCA

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The use of overlapping intervals of 10-day holding periods for article 365 of the *EU CRR* (VaR and stressed VaR calculation) introduces an autocorrelation into the data that would not exist should truly independent 10-day periods be used. This may give rise to an

under-estimation of the volatility and the VaR at the 99% confidence level. To obtain clarity on the materiality of the bias, a *firm* should measure the bias arising from the use of overlapping intervals for 10-day VaR and stressed VaR when compared to using independent intervals. A report on the analysis, including a proposal for a multiplier on VaR and stressed VaR to adjust for the bias, should be submitted to the *FCA* for review and approval.

Stressed VaR calculation

6.3.19

FCA

G

Article 365 of the *EU CRR* requires a *firm* that uses an internal model for calculating its *own funds requirement* to calculate, at least weekly, a stressed VaR (sVaR) of their current portfolio. When the *FCA* considers a *firm's* application to use a sVaR internal model it would expect the features in ■ IFPRU 6.3.20 G to ■ IFPRU 6.3.24 G to be present prior to permission being granted, as indicative that the conditions for granting permission have been met.

Quantile estimator

6.3.20

FCA

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The *firm* should calculate the sVaR measure to be greater than or equal to the average of the 2nd and 3rd worst loss in a 12-month time series comprising of 250 observations. The *FCA* expects, as a minimum, that a corresponding linear weighting scheme should be applied if the *firm* uses a larger number of observations.

Meaning of 'period of significant financial stress relevant to the institution's portfolio'

6.3.21

FCA

G

The *firm* should ensure that the sVaR period chosen is equivalent to the period that would maximise VaR, given the *firm's* portfolio. There is an expectation that a stressed period should be identified at each legal entity level at which capital is reported. Therefore, group level sVaR measures should be based on a period that maximises the group level VaR, whereas entity level sVaR should be based on a period that maximises VaR for that entity.

Antithetic data

6.3.22

FCA

G

The *firm* should consider whether the use of antithetic data in the calculation of the sVaR measure is appropriate to the *firm's* portfolio. A justification for using or not using antithetic data should be provided to the *FCA*.

Absolute and relative shifts

6.3.23

FCA

G

The *firm* should explain the rationale for the choice of absolute or relative shifts for both VaR and sVaR methodologies. In particular, statistical processes driving the risk factor changes need to be evidenced for both VaR and sVaR.

6.3.24

FCA

G

The following information is expected to be submitted quarterly:

- (1) analysis to support the equivalence of the *firm's* current approach to a VaR-maximising approach on an ongoing basis;
- (2) the rationale behind the selection of key major risk factors used to find the period of significant financial stress;

- (3) summary of ongoing internal monitoring of stressed period selection with respect to current portfolio;
- (4) analysis to support capital equivalence of upscaled 1-day VaR and sVaR measures to corresponding full 10-day VaR and sVaR measures;
- (5) graphed history of sVaR/VaR ratio;
- (6) analysis to demonstrate accuracy of partial revaluation approaches specifically for sVaR purposes (for *firms* using revaluation ladders or spot/vol-matrices), which should include a review of the ladders/matrices or spot/vol-matrices, ensuring that they are extended to include wider shocks to risk factors that incur in stress scenarios; and
- (7) minutes of risk committee meeting or other form of evidence to reflect governance and *senior management* oversight of stressed VaR methodology.

Requirement to have an internal IRC model

6.3.25

FCA

G

Article 372 of the *EU CRR* (Requirement to have an internal IRC model) requires a *firm* that use an internal model for calculating *own funds requirements* for specific risk of traded debt instruments to also have an internal incremental default and migration risk (IRC) model in place to capture the default and migration risk of its *trading book* positions that are incremental to the risks captured by its VaR model. When the *FCA* considers a *firm's* application to use an IRC internal model, it expects that the matters in ■ IFPRU 6.3.26 G to ■ IFPRU 6.3.28 G will be included as demonstrating compliance with the standards in article 372.

Basis risks for migration

6.3.26

FCA

G

The *FCA* expects the IRC model to capitalise pre-default basis risk. In this respect, the model should reflect that in periods of stress the basis could widen substantially. The *firm* should disclose to the *FCA* its material basis risks that are incremental to those already captured in existing market risk capital measures (VaR-based and others). This must take actual close-out periods during periods of illiquidity into account.

Price/spread change model

6.3.27

FCA

G

The price/spread change model used to capture the profit and loss impact of migration should calibrate spread changes to long-term averages of differences between spreads for relevant ratings. These should either be conditioned on actual rating events, or using the entire history of spreads regardless of migration. Point-in-time estimates are not considered acceptable, unless they can be shown to be as conservative as using long-term averages.

Dependence of the recovery rate on the economic cycle

6.3.28

FCA

G

To achieve a soundness standard comparable to those under the IRB approach, LGD estimates should reflect the economic cycle. Therefore, the *FCA* expects a *firm* to incorporate dependence of the recovery rate on the economic cycle into the IRC model. Should the *firm* use a conservative parameterisation to comply with the IRB standard of the use of downturn estimates, evidence of this should be submitted in quarterly reporting to the *FCA*, bearing in mind that for trading portfolios, which contain long and short positions, downturn estimates would not in all cases be a conservative choice.

Chapter 7

Liquidity

7.1 Application

7.1.1

FCA

R ■ IFPRU 7 applies to an *IFPRU investment firm*.

Purpose

7.1.2

FCA

G This section contains *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 6(4) of the *EU CRR* (Exemption for certain investment firms).

Application of BIPRU 12 (Liquidity standards)

7.1.3

FCA

G The *FCA*'s liquidity regime and liquidity reporting in ■ BIPRU 12 (Liquidity standards) and ■ SUP 16 (Reporting requirements) continue to apply to an *IFPRU investment firm* until the liquidity coverage requirement in article 412 of the *EU CRR* becomes applicable in 2015.

7.1.4

FCA

G Pending specification of a uniform definition under article 460 of the *EU CRR* (Liquidity) of high and extremely high liquidity and credit quality, a *firm* should be guided by ■ BIPRU 12 (Liquidity standards) when complying with article 416 of the *EU CRR* (Reporting on liquid assets).

Exemption from Part Six of EU CRR on individual basis

7.1.5

FCA

R For the purpose of article 6(4) of the *EU CRR*, a *firm* is exempt from compliance with the obligations in Part Six of the *EU CRR* (Liquidity) on an individual basis unless it meets both the following conditions:

- (1) it is an *ILAS BIPRU firm*; and
- (2) it is a *significant IFPRU firm*.

Exemption from Part Six of EU CRR on consolidated basis

7.1.6

FCA

R For the purpose of article 11(3) of the *EU CRR*, a *FCA consolidation group* that meets the condition in ■ IFPRU 7.1.7 R is exempt from compliance with the obligations in Part Six of the *EU CRR* (Liquidity) on a *consolidated basis*.

7.1.7

FCA

R The members of the *FCA consolidation group* comprise only *firms* that are exempt under ■ IFPRU 7.1.5 R.

Chapter 8

Prudential consolidation and large exposures



8.1 Prudential consolidation

Application

8.1.1
FCA

R

- (1) This section applies to an *IFPRU investment firm*.
- (2) This section does not apply to an *exempt IFPRU commodities firm* if the conditions in (2) are met.
- (3) The conditions are:
 - (a) article 498 of the *EU CRR* (Exemptions for commodities dealers) applies to it;
 - (b) the *exempt IFPRU commodities firm* is not a member of a *FCA consolidation group* or *non-EEA sub-group*;
 - (c) each *investment firm* in the group that the *exempt IFPRU commodities firm* belongs to meets the conditions in article 498 of the *EU CRR*; and
 - (d) any *investment firm* in the group that the *exempt IFPRU commodities firm* belongs to whose head office is outside the *EEA* would have been a *firm* to whom article 498 would have applied if its head office had been in an *EEA State*.

Purpose

8.1.2
FCA

G

This section contains:

- (1) *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 18 of the *EU CRR* (Methods of prudential consolidation); and
- (2) *guidance* on the criteria that the *FCA* will take into account when considering whether to grant a permission to a *firm* on a case-by-case basis for the individual consolidation method under article 9 of the *EU CRR* (Individual consolidation method).

Methods of prudential consolidation: proportional consolidation

8.1.3

R

- (1) In carrying out the calculations for the purposes of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation),

a *firm* must include the relevant proportion of an *undertaking* with whom it has:

- (a) a *consolidation Article 12(1) relationship*; or
- (b) an *article 18(6) relationship*.

(2) In (1), the relevant proportion is such proportion (if any) as stated in a *requirement* imposed on the *firm*.

[Note: article 18(3) and (6) of the *EU CRR*]

8.1.4

FCA

R

In carrying out the calculations for the purposes of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation), a *firm* (for whom the *FCA* is the *consolidating supervisor*) must include the proportion according to the share of capital held of *participations* in *institutions* and *financial institutions* managed by an *undertaking* included in the consolidation together with one or more *undertakings* not included in the consolidation, where those *undertakings'* liability is limited to the share of capital they hold.

[Note: article 18(4) of the *EU CRR*]

8.1.5

R

In carrying out the calculations for the purposes of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation), a *firm* (for whom the *FCA* is the *consolidating supervisor*) must carry out a full consolidation of any *undertaking* with whom it has an *article 18(5) relationship*.

[Note: article 18(5) of the *EU CRR*]

Individual consolidation method

8.1.6

G

Article 9(2) of the *EU CRR* (Individual consolidation method) requires a *firm*, which is a parent institution, to demonstrate fully to the *FCA*, as *competent authority*, that there are no material practical or legal impediments to the prompt transfer of *own funds* of the *subsidiary* referred to in article 9(1) of the *EU CRR*, or repayment of liabilities when due by that *subsidiary* to the *firm*.

8.1.7

FCA

G

The *FCA* will assess an application for individual consolidation against articles 9 and 396(2) (Compliance with large exposure requirements) of the *EU CRR* on a case-by-case basis. The *FCA* will assess whether it is still appropriate to permit the treatment if doing so risks conflict with its statutory objectives. The *FCA* will apply a high level of scrutiny to applications under article 9 of the *EU CRR*, consistent with the previous solo consolidation regime.

Application of criteria for individual consolidation method

8.1.8

FCA

G

When making its assessment, the *FCA* will consider whether any minority interest may represent an impediment of any kind to the prompt transfer of *own funds* or repayment of liabilities from the *subsidiary* to the *parent undertaking*. To reassure the *FCA*, the parent institution should demonstrate that any minority interest in a *subsidiary* will not result in the potential blocking or delay of prompt transfer of *own funds* or repayment

of liabilities. Therefore, it may be possible for a *firm* to meet the condition in article 7(1)(d) of the *EU CRR* but not meet the condition in article 9(2).

8.1.9

FCA

G

The *FCA* will consider the non-exhaustive criteria below when determining whether the condition in article 9(2) of the *EU CRR* is met:

- (1) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment;
- (2) whether there are any interests other than those of the *firm* in the *subsidiary* and what impact those other interests may have on the *firm's* control over the *subsidiary* and the ability of the *firm* to require a transfer of funds or repayment of liabilities. As part of the *FCA's* overall assessment, it would consider ownership of 75% or more of the *subsidiary* as one of the indicators that prompt transfer of *own funds* is likely to be achieved;
- (3) whether the prompt transfer of funds or repayment of liabilities to the *firm* might harm the reputation of the *firm* or its *subsidiary*;
- (4) whether there are any tax disadvantages for the *firm* or the *subsidiary* as a result of the transfer of funds or repayment of liabilities;
- (5) whether there are any exchange controls that may have an impact on the transfer of funds or repayment of liabilities;
- (6) whether there are assets in the *subsidiary* available either to be transferred or liquidated for the purposes of the transfer of funds or repayment of liabilities;
- (7) whether any regulatory requirements impact on the ability of the *subsidiary* to transfer funds or repay liabilities promptly;
- (8) whether the purpose of the *subsidiary* prejudices the prompt transfer of funds or repayment of liabilities;
- (9) whether the legal structure of the *subsidiary* prejudices the prompt transfer of funds or repayment of liabilities;
- (10) whether the contractual relationships of the *subsidiary* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities;
- (11) whether past and proposed flows of funds between the *subsidiary* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities; and
- (12) whether the degree of individual consolidation by the *firm* undermines the *FCA's* ability to assess the soundness of the *firm* as a legal entity (taking into account any other *subsidiary* to which the individual consolidation method under article 9(1) of the *EU CRR* is being applied).

Entities excluded from the scope of prudential consolidation

8.1.10 G The *FCA* will assess applications to exclude entities from the scope of prudential consolidation against article 19(2) of the *EU CRR* on a case-by-case basis. The *FCA* will only grant this treatment with respect to undertakings where one of the conditions in article 19(2) is met. The *FCA* will still make a judgement as to whether it is appropriate to grant this treatment even where one of the conditions in article 19(2) is met.

Application of criteria for exclusion

8.1.11 G Article 19(2) of the *EU CRR* allows the *consolidating supervisor* to decide in the following cases that an *institution, financial institution or ancillary services undertaking* which is a *subsidiary* or in which a *participation* is held need not be included in the consolidation in the following cases:

FCA

- (1) where the *undertaking* concerned is situated in a third country where there are legal impediments to the transfer of necessary information;
- (2) where the *undertaking* concerned is of negligible interest only with respect to the objectives of monitoring *institutions*;
- (3) where, in the opinion of the *competent authorities* responsible for exercising supervision on a *consolidated basis*, the consolidation of the financial situation of the *undertaking* concerned would be inappropriate or misleading as far as the objectives of the supervision of *credit institutions* are concerned.

8.1.12 G If several *undertakings* meet the criteria in ■ IFPRU 8.1.11 G (2) and are collectively of non-negligible interest with respect to the specified objectives, the *FCA* will not agree to exclude them all from the consolidation.

FCA

8.1.13 G The *FCA* may request a *firm* to provide information about the *undertakings* excluded from consolidation.

FCA

Core UK groups

8.1.14 G Article 113(6) of the *EU CRR* (Intra-group credit risk exemption) permits a *firm*, subject to conditions, to apply a 0% risk-weighting for *exposures* to certain entities within its *FCA consolidation group*, namely its *parent undertaking*, its own *subsidiaries* and *subsidiaries* of its *parent undertaking*. Article 400(1)(f) of the *EU CRR* then fully exempts such *exposures* from the *large exposures* limit stipulated in article 395(1) of the *EU CRR* (Limits to large exposures).

FCA

8.1.15 G The *FCA* will assess *core UK group* applications against article 113(6) on a case-by-case basis. The *FCA* expects to approve this treatment for *core UK group undertakings* if the conditions stipulated in article 113(6) are met. A *firm* should note that the *FCA* will still make a wider judgement whether it is appropriate to grant this treatment even where the conditions in article 113(6) are met. It is the *FCA's* intention to continue to apply a high level of scrutiny to applications under this article.

FCA

8.1.16
FCA

G

In relation to article 113(6)(d), the *FCA* expects the condition to be satisfied if the counterparty is:

- (1) incorporated in the *UK*; or
- (2) an *undertaking* of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC) and it is established in the *UK* other than by incorporation, and if the *firm* can demonstrate that the counterparty's centre of main interests is situated in the *UK* within the meaning of that Regulation.

8.1.17
FCA

G

In relation to article 113(6)(e), the *FCA* will consider the following non-exhaustive criteria when assessing whether this condition has been met:

- (1) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment. As part of the *FCA*'s overall assessment, it would consider ownership of 100% of the *subsidiary* as one of the indicators that prompt transfer of *own funds* is likely to be achieved;
- (2) whether there are any interests other than those of the *firm* in undertaking and what impact those other interests may have on the *firm*'s control over the *undertaking* and the ability of the *firm* to require a transfer of funds or repayment of liabilities;
- (3) whether there are any tax disadvantages for the *firm* or the counterparty as a result of the transfer of funds or repayment of liabilities;
- (4) whether the purpose of the *undertaking* prejudices the prompt transfer of funds or repayment of liabilities;
- (5) whether the legal structure of the *undertaking* prejudices the prompt transfer of funds or repayment of liabilities;
- (6) whether the contractual relationships of the *undertaking* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and
- (7) whether past and proposed flows of funds between the *undertaking* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities.

8.1.18
FCA

G

For the purpose of article 113(6)(e) of the *EU CRR*, for an *undertaking* that is a *firm*, the requirement for the prompt transfer of funds refers to *own funds* in excess of the capital and financial resources requirements to which it is subject under the *regulatory system*.

8.1.19
FCA

G

When demonstrating how article 113(6)(e) of the *EU CRR* is met, the *FCA* considers that, for a counterparty which is not a *firm*, the application should include a legally binding agreement between the *firm* and the counterparty. This agreement will be to promptly, on demand, by the *firm* increase the *firm*'s *own funds* by an amount required to ensure that the *firm* complies with the provisions contained in Part Two of the *EU*

CRR (Own funds) and any other requirements relating to capital resources concentration risk imposed on the *firm* by, or under, the *regulatory system*.

8.1.20

FCA

G

For the purpose of article 113(6)(e), the *FCA* considers that the agreement to increase the *firm's own funds* may be limited to capital resources available to the *undertaking* and may reasonably exclude such amount of capital resources that, if transferred to the *firm*, would cause the *undertaking* to become balance sheet insolvent in the manner contemplated in section 123(2) of the Insolvency Act 1986.

8.1.21

G

The *FCA* will expect a *firm* to which this section applies not to use any member of its *core UK group* (which is not a *firm*) to route lending or to have exposures to any third party in excess of the limits stipulated in article 395(1) of the *EU CRR* (Limits to large exposures).



8.2 Large Exposures

Application

8.2.1
FCA

R This section applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm* to which article 493 of the *EU CRR* applies.

8.2.2
FCA

R This section does not apply to a *FCA consolidation group* on the basis of its *consolidated situation* if the *group* only contains *limited activity firms* or *limited licence firms*.

Purpose

8.2.3
FCA

G This section contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 400(2)(c) and (3) of the *EU CRR* (Large exposures: exemptions). The *FCA* does not intend to exercise its discretion for any of the other exemptions in article 400(2).

Intra-group exposures: non-core large exposures group

8.2.4
FCA

G Article 400(2) of the *EU CRR* permits the *FCA* to fully or partially exempt *exposures* incurred by a *firm* to intra-group *undertakings* that meet the specified criteria from the limit stipulated in article 395(1) of the *EU CRR* in relation to a *firm's group of connected clients* that represent its wider group. The *FCA* will consider exempting non-trading book and trading book *exposures* to intra-group *undertakings* if specified conditions throughout ■ IFPRU 8.2 are met.

8.2.5
FCA

G The *FCA* expects that applications for exemptions under article 400(2)(c) of the *EU CRR* will be for *firms* established in the *UK* where the intra-group *undertakings* to which they have *exposures* meet the criteria for the *core UK group* in article 113(6) of the *EU CRR*, except for article 113(6)(d) (established in the same *EEA State* as the *firm*).

8.2.6

R A *firm* with a *non-core large exposures group permission* may (in line with that permission) exempt, from the application of article 395(1) of the *EU CRR* (Limits to large exposures), *exposures*, including *participations* or other kinds of holdings, incurred by a *firm* to:

- (1) its *parent undertaking*; or
- (2) other *subsidiary undertakings* of that *parent undertaking*; or

- (3) its own *subsidiary undertakings*;

in so far as those *undertakings* are covered by the supervision on a *consolidated basis* to which the *firm* itself is subject, in accordance with the *EU CRR*, Directive 2002/87/EC regarding the supplementary supervision of financial entities in a *financial conglomerate* or with equivalent standards in force in a *third country*; *exposures* that do not meet these criteria, whether or not exempted from article 395(1), shall be treated as *exposures* to a third party.

[Note: article 400(2) of the *EU CRR*]

8.2.7

FCA

R

A *firm* may only make use of the *non-core large exposure group exemption* where the following conditions are met:

- (1) the total amount of the *non-trading book exposures* from the *firm* to its *non-core large exposures group* does not exceed 100% of the *firm's eligible capital*; or

(if the *firm* has a *core UK group permission*) the total amount of *non-trading book exposures* from its *core UK group* (including the *firm*) to its *non-core large exposures group* does not exceed 100% of the *core UK group eligible capital*;

- (2) the total amount of *trading book exposures* from the *firm* to its *non-core large exposures group* does not exceed 500% of the *firm's eligible capital*; or

(if the *firm* has a *core UK group permission*) the total amount of *trading book exposures* from its *core UK group* (including the *firm*) to its *non-core large exposures group* does not exceed 500% of the *core UK group eligible capital*;

- (3) (if the *firm* has a *core UK group permission*) it gives the *FCA* prior written notice if it intends to concentrate its intra-group exposure to a particular member of its *non-core large exposures group* in excess of 25% of *core UK group eligible capital*.

The written notice must contain the following:

- (a) an explanation of how the *firm* will ensure that it will still meet the condition in (1) on a continuing basis;
- (b) details of the counterparty, the size of the *exposure* and the expected duration of the *exposure*; and
- (c) an explanation of the reason for the *exposure*;

- (4) if the *firm* stops concentrating its intra-group exposure to a particular member of its *non-core large exposures group* in excess

of 25% of *core UK group eligible capital*, it gives the *FCA* prior written notice as set out in (3) if it intends to start to do so again; and

- (5) the *firm* submits FSA018 under SUP 16.12 (Integrated regulatory reporting) as applicable to it.

[Note: article 400(2)(c) of the *EU CRR*]

8.2.8
FCA

R A *firm* may calculate limits in ■ IFPRU 8.2.7 R after taking into account the effect of *credit risk mitigation* in line with articles 399 to 403 of the *EU CRR*.

Core UK group eligible capital

8.2.9
FCA

R For the purposes of the conditions in ■ IFPRU 8.2.7 R, a *firm* must calculate *core UK group eligible capital* in line with the deduction and aggregation method in ■ IFPRU 8.2.10 R.

8.2.10
FCA

- R**
- (1) *Core UK group eligible capital* is equal to the sum of the following amounts for each member of the *core UK group* and the *firm* (the sub-group):
 - (a) for ultimate *parent undertaking* of the sub-group, the amount calculated in line with article 6 of the *EU CRR* (or other prudential requirements that apply);
 - (b) for any other member of the sub-group, the amount calculated in line with article 6 of the *EU CRR* (or other prudential requirements that apply) less the book value of the sub-group's holdings of capital instruments in that member, to the extent not already deducted in calculations in line with article 6 of the *EU CRR* (or other prudential requirements that apply) for:
 - (i) the ultimate *parent undertaking* of the sub-group; or
 - (ii) any other member of the sub-group.
 - (c) The deduction in (1)(b) must be carried out separately for each type of capital instrument eligible as *own funds*.

8.2.11

G The *FCA* will assess *core UK group* and *non-core large exposure group* applications against article 400(2)(c) on a case-by-case basis. The *FCA* will only approve this treatment for *non-core large exposure group* undertakings where the conditions in article 400(2)(c) are met. A *firm* should note that the *FCA* will still make a wider judgement whether it is appropriate to grant this treatment even where the conditions in article 400(2)(c) are met.

Notification

8.2.12

FCA

R

A *firm* must immediately notify the *FCA* in writing if it becomes aware that any *exposure* that it has treated as exempt under ■ IFPRU 8.2.6 R or any counterparty that it has been treating as a member of its *non-core large exposures group* has ceased to meet the conditions for application of the treatment in this section.

Conditions for exemptions

8.2.13

FCA

R

A *firm* may only make use of the exemptions provided in this section where the following conditions are met:

- (1) the specific nature of the *exposure*, the counterparty or the relationship between the *firm* and the counterparty eliminate or reduce the risk of the *exposure*; and
- (2) any remaining concentration risk can be addressed by other equally effective means, such as the arrangements, processes and mechanisms in article 81 of *CRD* (Concentration risk).

[Note: article 400(3) of the *EU CRR*]

Exposures to trustees

8.2.14

FCA

G

If a *firm* has an *exposure* to a person ('A') when A is acting on his own behalf, and also an *exposure* to A when A acts in his capacity as trustee, custodian or general partner of an investment trust, unit trust, venture capital or other investment fund, pension fund or a similar fund (a "fund"), the *firm* may treat the latter *exposure* as if it was to the fund, unless such a treatment would be misleading.

8.2.15

FCA

G

When considering whether the treatment described is misleading, factors a *firm* should consider include:

- (1) the degree of independence of control of the fund, including the relation of the fund's board and senior management to the *firm* or to other funds or to both;
- (2) the terms on which the counterparty, when acting as trustee, is able to satisfy its obligation to the *firm* out of the fund of which it is trustee;
- (3) whether the beneficial owners of the fund are connected to the *firm*, or related to other funds managed within the *firm's group*, or both; and
- (4) for a counterparty that is connected to the *firm* itself, whether the *exposure* arises from a transaction entered into on an arm's length basis.

8.2.16

FCA

G

In deciding whether a transaction is at arm's length, the following factors should be taken into account:

- (1) the extent to which the person to whom the *firm* has an *exposure* ('A') can influence the *firm's* operations through, for example, the exercise of voting rights;

- (2) the management role of A where A is also a director of the *firm*; and
- (3) whether the *exposure* would be subject to the *firm's* usual monitoring and recovery procedures if repayment difficulties emerged.

Chapter 9

Public disclosure



9.1 Application and Purpose

Application

9.1.1

R

■ IFPRU 9 applies to an *IFPRU investment firm*.

FCA

Purpose

9.1.2

G

This chapter implements article 90 (Public disclosure on return on assets) of *CRD*.

FCA

Public disclosure on return of assets

9.1.3

R

A *firm* must disclose in its *annual report and accounts* among the key indicators their return on assets, calculated as their net profit divided by their total balance sheet.

FCA

[Note: article 90 of *CRD*]

Prudential sourcebook for Investment Firms

IFPRU TP 1 GENPRU and BIPRU waivers: transitional

FCA

Application

- 1.1 R *IFPRU* TP 1 applies to an *IFPRU investment firm*.
- 1.2 R *IFPRU* TP 1 applies where immediately before 1 January 2014, a *waiver* given in relation to a *rule* listed in column A of the tables in *IFPRU* 1.9R (Internal model waivers) and TP 1.10R (Other waivers) has effect.

Duration of transitional

- 1.3 R This section applies to each *waiver* in *IFPRU* 1.2 R, until the direction given in respect of that *waiver* ceases to have effect on its terms, or is revoked, whichever is the earlier.

Transitional

- 1.4 R Subject to *IFPRU* TP 1.7R, each waiver given in relation to a *FCA rule* listed in column A of the tables in *IFPRU* TP 1.9R (Internal model waivers) and TP 1.10R (Other waivers) is treated as a permission from the *FCA* to the *firm* under the *EU CRR* article listed in the same row in column B of those tables.
- 1.5 R Each permission under *IFPRU* TP 1.4R shall continue to have effect until the expiry date specified in the direction of the relevant *waiver*.
- 1.6 R Where a *waiver* listed in *IFPRU* TP 1.9R (Internal model waivers) and TP 1.10R (Other waivers) specifies that it applies to a *firm* on a consolidated basis in accordance with a relevant provision in *BIPRU* 8 (Group risk consolidation), the permission applies to the *firm* on the basis of its *consolidated situation* in accordance with article 11 of the *EU CRR* (Application of requirements on a consolidated basis: general treatment).
- 1.7 R A *waiver* listed in *IFPRU* TP 1.9R (Internal model waivers) only has effect in accordance with this TP where the *firm* has confirmed to the *FCA* that it materially complies with the requirements relevant to the *rules* listed in Column A of the table, as waived or modified by the *waiver*, and any conditions relevant to the application of the *waiver* or the *firm* has a remediation plan.

Interpretation

- 1.8 R For the purpose of *IFPRU* TP 1:
- (1) "permission" includes a consent, approval or agreement conferred on the *FCA* as a *competent authority* under any *EU CRR* article listed in column B of the tables in *IFPRU* 1.9R (Internal waivers) and *IFPRU* TP 1.10R (Other waivers);

② any expression used in *IFPRU* TP 1.9R (Internal model waivers) and TP 1.10R (Other waivers) which are defined in the *Glossary* has the meaning in the version of the *Glossary* in force on 31 December 2013; and

③ any reference to *GENPRU* and *BIPRU* is to the version in force on 31 December 2013.

Tables

1.9 R Table on internal model waivers

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR reference
1	Internal Ratings Based (IRB) permission for credit risk	<p>- BIPRU 4 applies to a <i>firm</i> with an <i>IRB</i> permission</p> <p>- Rules waived or modified:</p> <p>(a) GENPRU 2.1.51 R</p> <p>(b) BIPRU 3.1.1 R</p>	<p>- Part Three, Title II, Chapter 3</p> <p>- Art 143</p> <p>- Art 178(1)(b)</p> <p>(where a <i>firm</i> is authorised to replace 90 days with 180 days for <i>exposures</i> secured by residential or SME commercial real estate in the retail <i>exposure</i> class)</p>
2	Eligibility of physical collateral under the IRB Approach	<p>- BIPRU 4.10.16 R</p> <p>(Where authorised by the <i>firm's</i> <i>IRB</i> permission)</p>	Art 199(6)
3	Master netting agreement internal models approach	- BIPRU 5.6.1 R, in accordance with BIPRU 5.6.12 R	Art 221
4	Supervisory formula method for <i>securitisation</i> transactions	<p>- BIPRU 9.12.3 R</p> <p>- BIPRU 9.12.5 R</p> <p>- BIPRU 9.12.21 R</p> <p>(Where authorised by the <i>firm's</i> <i>IRB</i> permission)</p>	<p>Art 259(1)(b)</p> <p>Art 262</p>

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR reference
5	ABCP internal assessment approach	- BIPRU 9.12.20 R (Where authorised by the <i>firm's IRB permission</i>)	Art 259(3)
6	Exceptional treatment for liquidity facilities where pre- <i>securitisation</i> risk-weighted exposure amount cannot be calculated	- BIPRU 9.11.10 R as modified in accordance with BIPRU 9.12.28 G (Where authorised by the <i>firm's IRB permission</i>)	Art 263(2)
7	Advanced Measurement Approach (AMA) permission	- BIPRU 6.5 applies to a <i>firm</i> with an <i>AMA permission</i> - <i>Rule</i> waived or modified: BIPRU 6.2.1 R	- Art. 312(2) - Part Three, Title III, Chapter 4
8	Combined use of different approaches for operational risk - AMA and Standardised Approach or Basic Indicator Approach	- BIPRU 6.2.9 R (in accordance with BIPRU 6.2.10 G and the <i>firm's AMA permission</i>)	Art 314(2) and (3)
9	Permission to use internal models to calculate <i>own funds requirements</i> for market risk (Value at Risk)	- BIPRU 7.10 applies to a <i>firm</i> with a <i>VaR model permission</i> - <i>Standard market risk PRR rules</i> as specified and waived or modified by the <i>firm's VaR model permission waiver</i> - GENPRU 2.1.52 R	- Art. 363 - Part Three; Title IV; Chapter 5; Sections 2, 3 and 4
10	Permission to use internal models to calculate <i>own fund requirements</i> for the correlation trading portfolio	BIPRU 7.10.55T R to BIPRU 7.10.55ZA R (Where the <i>firm</i> is authorised to use the <i>all price risk measure</i> in its <i>VaR model permission waiver</i>)	Art 377

1.10 R Table on other waivers and requirements

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR Reference
1	Individual consolidation method	- BIPRU 2.1.7 R (<i>Solo consolidation waivers</i>)	Art 9
2	Derogation to the application of <i>own funds requirements on a consolidated basis</i> for groups of <i>investment firms</i>	- BIPRU 8.4 applies to a <i>firm with an investment firm consolidation waiver</i> - Rules waived: (a) BIPRU 8.2.1 R (b) BIPRU 8.2.2 R (c) BIPRU 8.3.1 R (d) BIPRU 8.3.2 R	Art 15 Art 17
3	Entities excluded from the scope of prudential consolidation	- BIPRU 8.5.9 R - BIPRU 8.5.10 R	Art 19(2)
4	Permission to revert to the use of a less sophisticated approach for credit risk	- BIPRU 4.2.23 R (as modified in accordance with BIPRU 4.2.25 G) - BIPRU 4.2.24 R (as modified in accordance with BIPRU 4.2.25 G)	Art 149
5	Traditional <i>securitisation</i> - recognition of significant risk transfer	- BIPRU 9.4.11 R - BIPRU 9.4.12 R (subject to conditions in BIPRU 9.4.15 D)	Art 243(2), (3), (4) and (5)
6	Synthetic <i>securitisation</i> - recognition of significant risk transfer	- BIPRU 9.5.1 R (6) and (7) (subject to conditions in BIPRU 9.5.1B D)	Art 244(2), (3), (4) and (5)

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR Reference
7	Securitisations of revolving exposures with <i>early amortisation provisions</i> -similar transactions	- BIPRU 9.3.11 D - BIPRU 9.13.13 R - BIPRU 9.13.14 R - BIPRU 9.13.15 R - BIPRU 9.13.16 R - BIPRU 9.13.17 R (subject to conditions in BIPRU 9.13.18 G)	Art 256(7)
8	Permission to revert to the use of a less sophisticated approach for <i>operational risk</i>	- BIPRU 6.2.5 R (as modified in accordance with BIPRU 6.2.6 G) - BIPRU 6.2.7 R (as modified in accordance with BIPRU 6.2.8 G)	Art 313
9	Combined use of different approaches for <i>operational risk</i> -Standardised Approach and Basic Indicator Approach	- BIPRU 6.2.12 R (as modified in accordance with BIPRU 6.2.13 G)	Art 314(4)
10	Waiver of the three-year average for calculating the <i>own funds requirement</i> under the Basic Indicator Approach for <i>operational risk</i>	- BIPRU 6.3.2 R (as modified in accordance with BIPRU 6.3.9 G)	Art. 315
11	Waiver of the three-year average for calculating the <i>own funds requirement</i> under the Standardised Approach for <i>operational risk</i>	- BIPRU 6.4.5 R (as modified in accordance with BIPRU 6.4.8 G)	Art. 317(4)

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR Reference
12	<i>Own funds requirements</i> for position risk for options and warrants on: (a) interest rates; (b) debt instruments; (c) equities; (d) equity indices; (e) financial futures; (f) swaps; and (g) foreign currencies	- BIPRU 7.9 applies to a firm with a <i>CADI model waiver</i> . - Rules waived or modified: (a) GENPRU 2.1.52 R (b) BIPRU 7.6.1 R	Art 329
13	<i>Own funds requirements</i> for commodities risk for options and warrants on: (a) commodities; and (b) commodities derivatives	- BIPRU 7.9 applies to a firm with a <i>CADI model waiver</i> . - Rules waived or modified: (a) GENPRU 2.1.52 R (b) BIPRU 7.4.1 R	Art 358(3)
14	Interest rate risk on derivative instruments	- <i>CAD I model waiver</i> for the use of an interest rate pre-processing model in line with BIPRU 7.9.44 G - Rule waived: GENPRU 2.1.52 R	Art 331 Art 340
15	Waiver of 100% large exposure limits where the €150 million limit applies	- BIPRU 10.6.32 R (as waived in accordance with BIPRU 10.6.33 G) - SUP 15.3.11 R	Art 396 in relation to the 100% large exposure limit set out in Art 395(1)

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR Reference
16	Waiver of large exposure limits in relation to intra-group exposures: core group waivers	- BIPRU 3.2.25 R (2) - BIPRU 10.8A	Art 113(6) Art 400(1)(f)
17	Waiver of large exposure limits in relation to intra-group exposures: non-core group waivers	- BIPRU 10.9A	Art 400(2)(c), as implemented by <i>IFPRU</i> 8.2.4R to 8.2.13R (Intra-group exposures: non-core large exposures group)

1.11 G The *requirement* imposed in relation to a *FCA* rule listed in column A of the table in *IFPRU* 1.12G (Requirements) is treated as imposed under the *EU CRR* article listed in the same row in column B of the table.

1.12 G Table on requirements

	Requirement	Column A FCA Rule	Column B EU CRR Reference
1	Methods of prudential consolidation -art. 12(1) relationship	- BIPRU 8.5.6 R (2)	Art 18(3)
2	Methods of prudential consolidation- Significant influence or single management relationship	- BIPRU 8.5.6 R (2) - " <i>Article 134 relationship</i> "	Art 18(6)

Prudential sourcebook for Investment Firms

IFPRU TP 2 Own funds requirements

FCA

Application

- 2.1 R *IFPRU TP 2 applies to an IFPRU investment firm, unless it is an exempt IFPRU commodities firm.*

Purpose

- 2.2 G *IFPRU TP 2 contains the rules that exercise the discretion afforded to the FCA as competent authority under article 465 of the EU CRR. IFPRU TP 2 applies instead of article 92(1)(a) and (b) of the EU CRR (Own funds requirements) for the duration of the transitional.*

Duration of transitional

- 2.3 R *IFPRU TP 2 applies until 31 December 2014.*

Common equity tier 1 ratio

- 2.4 R *The common equity tier 1 capital ratio which a firm must meet or exceed for the period from 1 January 2014 until 31 December 2014 is 4%.*

[**Note:** article 465(1)(a) of the EU CRR]

Tier 1 capital ratio

- 2.5 R *The tier 1 capital ratio which a firm must meet or exceed for the period from 1 January 2014 until 31 December 2014 is 5.5%.*

[**Note:** article 465(1)(b) of the EU CRR]

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IFPRU TP 3 Gains and losses

FCA

Application

- 3.1 R *IFPRU TP 3 applies to an IFPRU investment firm, unless it is an exempt IFPRU commodities firm.*

Purpose

- 3.2 G *IFPRU TP 3 contains the rules that exercise the discretion afforded to the FCA as competent authority under articles 467 and 468 of the EU CRR. The applicable percentages in IFPRU TP 3 apply instead of articles 33(1)(c) (Changes in the value of own liabilities) and 35 (Unrealised gains and losses measured at fair value) of the EU CRR for the duration of the transitional.*

Duration of transitional

- 3.3 R *IFPRU TP 3 applies until 31 December 2017.*

Inclusion of unrealised losses at fair value

- 3.4 R For the purposes of article 467(1) of the *EU CRR*, the applicable percentages are:
- 1 20% during the period from 1 January 2014 to 31 December 2014;
 - 2 40% during the period from 1 January 2015 to 31 December 2015;
 - 3 60% during the period from 1 January 2016 to 31 December 2016; and
 - 4 80% for the period from 1 January 2017 to 31 December 2017.

[Note: article 467(2) of the *EU CRR*]

Removal of unrealised gains at fair value

- 3.5 R For the purposes of article 468(1) of the *EU CRR*, the applicable percentages are:
- 1 60% during the period from 1 January 2015 to 31 December 2015;
 - 2 40% during the period from 1 January 2016 to 31 December 2016; and
 - 3 20% for the period from 1 January 2017 to 31 December 2017.

[Note: article 468(2) of the *EU CRR*]

Inclusion of fair value gains and losses

- 3.6 R For the purposes of article 468(4) of the *EU CRR*, the applicable percentages are:
- 1 20% during the period from 1 January 2014 to 31 December 2014;
 - 2 40% during the period from 1 January 2015 to 31 December 2015;

-
- 3 60% during the period from 1 January 2016 to 31 December 2016; and
 - 4 80% for the period from 1 January 2017 to 31 December 2017.

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IFPRU TP 4 Deductions from own funds

FCA

Application

- 4.1 R *IFPRU TP 4 applies to an IFPRU investment firm, unless it is an exempt IFPRU commodities firm.*

Purpose

- 4.2 G *IFPRU TP 4 contains the rules that exercise the discretion afforded to the FCA as competent authority under articles 469, 474 and 477 of the EU CRR. The applicable percentages in IFPRU TP 4 apply instead of articles 36(1), 56 (1)(c) and 66 of the EU CRR for the duration of the transitional.*

Duration of transitional

- 4.3 R *IFPRU TP 4 applies until 31 December 2023.*

Deduction from common equity tier 1

- 4.4 R For the purposes of article 469(1)(a) of the *EU CRR*, as it applies to the items in points (b), (d), (f), (g) and (h) of article 36(1) of the *EU CRR* (Deductions from Common Equity Tier 1 items), the applicable percentages are:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

- 4.5 R For the purposes of article 469(1)(a) of the *EU CRR* as it applies to the items in points (a), (e) and (i) of article 36(1) of the *EU CRR* (Deductions from Common Equity Tier 1 items), the applicable percentages are:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

- 4.6 R For the purposes of article 469(1)(c) of the *EU CRR*, as it applies to the items in point (c) of article 36(1) of the *EU CRR* (Deductions from Common Equity Tier 1 items) that existed prior to 1 January 2014, the applicable percentages are:

- (1) 0% for the period from 1 January 2014 to 31 December 2014;

- (2) 10% for the period from 1 January 2015 to 31 December 2015;
- (3) 20% for the period from 1 January 2016 to 31 December 2016;
- (4) 30% for the period from 1 January 2017 to 31 December 2017;
- (5) 40% for the period from 1 January 2018 to 31 December 2018;
- (6) 50% for the period from 1 January 2019 to 31 December 2019;
- (7) 60% for the period from 1 January 2020 to 31 December 2020;
- (8) 70% for the period from 1 January 2021 to 31 December 2021;
- (9) 80% for the period from 1 January 2022 to 31 December 2022; and
- (10) 90% for the period from 1 January 2023 to 31 December 2023.

4.7 R For the purposes of article 469(1)(c) of the *EU CRR*, as it applies to the items in point (c) of article 36(1)) of the *EU CRR* (Deductions from Common Equity Tier 1 items) that did not exist prior to 1 January 2014, the applicable percentages are:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

Deductions from additional tier 1 items

4.8 R For the purposes of article 474(a) of the *EU CRR*, the applicable percentages are:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

Deductions from tier 2 items

4.9 R For the purposes of article 476(a) of the *EU CRR*, the applicable percentages are:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

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IFPRU TP 5 Own funds: other transitionals

FCA

Application

- 5.1 R *IFPRU TP 5 applies to an IFPRU investment firm, unless it is an exempt IFPRU commodities firm.*

Purpose

- 5.2 G *IFPRU TP 5 contains the rules that exercise the discretion afforded to the FCA as competent authority under articles 479 to 480 of the EU CRR. The applicable percentages in IFPRU TP 5 apply for the duration of the transitional.*

Duration of transitional

- 5.3 R *IFPRU TP 5 applies until 31 December 2021.*

Recognition of instruments and items not qualifying as minority interests

- 5.4 R For the purposes of article 479(2) of the *EU CRR*, the applicable percentages are:
- (1) 0% during the period from 1 January 2014 to 31 December 2014;
 - (2) 0% during the period from 1 January 2015 to 31 December 2015;
 - (3) 0% during the period from 1 January 2016 to 31 December 2016; and
 - (4) 0% for the period from 1 January 2017 to 31 December 2017.

Recognition of minority interests and qualifying additional tier 1 and tier 2 capital

- 5.5 R For the purposes of article 480(1) of the *EU CRR*, the applicable factors are:
- (1) 0.2 during the period from 1 January 2014 to 31 December 2014;
 - (2) 0.4 during the period from 1 January 2015 to 31 December 2015;
 - (3) 0.6 during the period from 1 January 2016 to 31 December 2016; and
 - (4) 0.8 for the period from 1 January 2017 to 31 December 2017.

Additional filters and deductions

- 5.6 R For the purposes of article 481(1) of the *EU CRR*, the applicable percentages are:
- (1) 0% during the period from 1 January 2014 to 31 December 2014;
 - (2) 0% during the period from 1 January 2015 to 31 December 2015;
 - (3) 0% during the period from 1 January 2016 to 31 December 2016; and
 - (4) 0% for the period from 1 January 2017 to 31 December 2017.

Limits on grandfathering

- 5.7 R For the purposes of article 486 of the *EU CRR* the applicable factors are:
- (1) 80% during the period from 1 January 2014 to 31 December 2014;
 - (2) 70% during the period from 1 January 2015 to 31 December 2015;
 - (3) 60% during the period from 1 January 2016 to 31 December 2016;
 - (4) 50% during the period from 1 January 2017 to 31 December 2017;
 - (5) 40% during the period from 1 January 2018 to 31 December 2018;
 - (6) 30% during the period from 1 January 2019 to 31 December 2019;
 - (7) 20% during the period from 1 January 2020 to 31 December 2020; and
 - (8) 10% during the period from 1 January 2021 to 31 December 2021.

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IFPRU TP 6 Leverage

FCA

Application

- 6.1 R *IFPRU* TP 6 applies to an *IFPRU investment firm*.

Purpose

- 6.2 G *IFPRU* TP 6 contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 499(3) of the *EU CRR*. *IFPRU* TP 6 applies instead of article 429(2) of the *EU CRR* (Leverage) for the duration of the transitional.

Duration of transitional

- 6.3 R *IFPRU* TP 6 applies until 31 December 2017.

End-of-quarter level ratio

- 6.4 R A *firm* may calculate the end-of-quarter leverage ratio instead of the leverage ratio that is an arithmetic mean of the monthly leverage ratios over a quarter.

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Schedule 1 Record-keeping requirements

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FCA

- (1) The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant record keeping requirements.
- (2) It is not a complete statement of those requirements and should not be relied on as if it were.
- (3) Table

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
IFPRU 2.2.43R and 2.2.44R	<i>Firm's</i> assessment of its financial resources	<p>(1) The major sources of risk the <i>firm</i> has identified</p> <p>(2) How the <i>firm</i> intends to deal with those risks</p> <p>(3) Details of the stress and scenario analyses carried out and the resulting financial resources estimated to be required</p>	Not specified	At least three years
IFPRU 4.3.17 G	Documents relating to rating systems	All documentation relating to a <i>firm's</i> rating systems (including any document referenced in IFPRU 4 or required by the <i>EU CRR</i> that relate to the IRB approach)	Not specified	At least three years

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Schedule 2 Notification and reporting requirements

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FCA

- (1) The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant notification requirements.
- (2) It is not a complete statement of those requirements and should not be relied on as if it were.
- (3) Table

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
IFPRU 1.3	Results of calculations for supervisory benchmarking of internal approaches	Results of the calculations of a <i>firm's internal approaches</i> for its <i>exposures</i> or positions included in benchmark portfolios and an explanation of the methodologies uses	Calculation of the results of its <i>internal approaches</i>	Annually
IFPRU 1.5.1 R	Notification of FINREP reporting	Matters as described in IFPRU 1.5.1 R	Matters as described in IFPRU 1.5.1 R	No later than five <i>business days</i> from when an <i>IFPRU investment firm</i> identifies that it is a <i>FINREP firm</i> that is required to report FINREP or that is no longer required to submit FINREP.
IFPRU 2.2.31R	Changes to evaluation as a result of change in interest rates	Decline in economic value of the firm by more than 20% of its <i>own funds</i>	Change in interest rates	Not specified
IFPRU 2.2.37R(6)	Results of stress test and scenario analysis	Results of stress test and scenario analysis	Completion of stress test and scenario analysis	Annually, not later than three <i>months</i> of its annual reporting date
IFPRU 3.2.6 R	Intention to enter into a connected transaction	Fact of intention and details of each connected transaction sufficient to allow evaluation	Intention to enter into a connected transaction	At least one <i>month</i> prior to entry into the relevant transaction
IFPRU 3.2.8 R	<i>Additional tier 1 instrument</i> or <i>tier 2 instru-</i>	Information sufficient to demonstrate that any <i>addi-</i>	Intention to issue	Not specified

	<i>ment</i> governed by the law of <i>third country</i> are capable of being written down or converted into <i>common equity tier 1 instrument</i>	<i>tional tier 1 instrument or tier 2 instrument</i> issued by the <i>firm</i> that are governed by the law of <i>third country</i> are capable of being written down or converted into <i>common equity tier 1 instrument</i> to the same extent as an equivalent <i>own funds</i> instrument, including a properly reasoned legal opinion from an individual appropriately qualified in the relevant <i>third country</i>		
IFPRU 3.2.10 R	Intention by <i>firm</i> or member of its <i>group</i> to issue a capital instrument, other than <i>common equity tier 1 capital</i> , for inclusion in <i>own funds</i>	Fact of intention and information in IFPRU 3.2.12 R, eg, details of intended amount, issue date, type of investor, stage of capital, features of instrument and confirmation of compliance with the conditions for qualification as <i>own funds</i>	Intention to issue	One <i>month</i> prior to issue
IFPRU 3.2.12 R	Intention by <i>firm</i> or member of its <i>group</i> to issue ordinary <i>shares</i> or debt instrument issued under a debt securities programme previously issued	Confirmation that terms of the capital instrument have not changed since the previous issue of that type of capital instrument and information in IFPRU 3.2.12 R (1) and (3), eg, details of intended amount, issue date, type of investor, stage of capital, features of instrument and confirmation of compliance with the conditions for qualification as <i>own funds</i>	Intention to issue	No later than the date of issue
IFPRU 3.2.15 R	Proposed changes to details of the issue of a capital instrument notified	Proposed change to intended date of issue, amount of issue, type of investors, type of <i>own funds</i> or other feature	Intention to change any details of the issue previously notified to the <i>FCA</i>	As soon as changes are proposed
IFPRU 3.2.16 R	Intention by <i>firm</i> or member of its <i>group</i> member to amend or vary details of a capital instrument included in <i>own funds</i> or consolidated <i>own funds</i>	Proposed change and all information required under IFPRU 3.2.12 R (1) to IFPRU 3.2.12 R (4)	Intention to change any details of the issue previously notified to the <i>FCA</i>	One <i>month</i> prior to intended date of amendment
IFPRU 3.2.17 R	Intention by <i>firm</i> or member of its <i>group</i> member to reduce <i>own funds</i> or consolidated <i>own funds</i>	Actions described in article 77 of the <i>EU CRR</i>	Intention to carry out the actions described in article 77 of the <i>EU CRR</i>	As soon as intention is formed

IFPRU 4.12.1 R	Reliance on deemed transfer of significant risk under articles 243(2) and 244(2) of the <i>EU CRR</i> , including for the purposes of article 337(5) of the <i>EU CRR</i>	Sufficient information to allow the <i>FCA</i> to assess whether the possible reduction in risk-weighted exposure amounts achieved by the <i>securitisation</i> is justified by a commensurate transfer of credit risk to third parties	Intention to rely on deemed transfer of significant risk	Within a reasonable period before or after a relevant transfer, not being later than one <i>month</i> after the date of transfer
IFPRU 8.2.5 GIF- IFPRU 8.2.5R(4)	Intention to concentrate intra-group <i>exposures</i> to <i>group</i> members in excess of 25% of <i>core UK group eligible capital</i>	Explanation of how IFPRU 8.2.5R(1) is met on a continuing basis and details of the counterparty, the size and expected duration of the <i>exposure</i>	Intention to concentrate intra-group <i>exposures</i> to <i>group</i> members in excess of 25% of <i>core UK group eligible capital</i>	Prior written notice before the <i>exposures</i> are concentrated
IFPRU 8.2.5R(6)	After ceasing to have concentration intra-group <i>exposures</i> in excess of 25% of <i>core UK group eligible capital</i> , intention to start to do so again	Explanation of how IFPRU 8.2.5R(1) is met on a continuing basis, details of the counterparty, the size and expected duration of the <i>exposure</i> and the reason for the <i>exposure</i>	Intention to start to concentrate intra-group <i>exposures</i> to <i>group</i> members in excess of 25% of <i>core UK group eligible capital</i>	Prior written notice before the start of concentrating <i>exposures</i> again

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Schedule 3 Fees and other requirement payments

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FCA

There are no requirements for fees or other payments in *IFPRU*.

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Schedule 4 Intentionally left blank

FCA

Intentionally left blank

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Schedule 5 Rights of action for damages

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FCA

- (1) The table below sets out the rules in *IFPRU* contravention of which by an *authorised person* may be actionable under section 138D of the Act (Actions for damages) by a person who suffers loss as a result of the contravention.
- (2) If a "Yes" appears in the column headed "For private person", the *rule* may be actionable by a private person under section 138D (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). A "Yes" in the column headed "Removed" indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the rule in which it is removed is also given.
- (3) The column headed "For other person" indicates whether the *rule* may be actionable by a *person* other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	Section/Annex	Right of action under section 138D		
		For private person	Removed	For other person
All <i>rules</i> in <i>IFPRU</i>		No	Yes - IFPRU 1.6.1 R	No

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Schedule 6 Rules that can be waived

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FCA

The rules in *IFPRU* may be waived by the *FCA* under section 138A of the *Act* (Modification or waiver of rules). However, if the *rules* incorporate requirements laid down in European directives or regulations, it will not be possible for the *FCA* to grant a *waiver* that would be incompatible with the *UK*'s responsibilities under those directives and regulations. It therefore follows that if a *rule* in *IFPRU* contains provisions which derive partly from a directive or regulation, and partly not, the *FCA* will be able to consider a *waiver* of the latter requirements only, unless the directive or regulation provisions are optional rather than mandatory

Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries

4.1.17 G There is a greater risk to consumers, and a greater adverse impact on market confidence, if a *firm* holding *client money* or other *client* assets fails. For this reason, the capital resources *rules* in this chapter clearly distinguish between *firms* holding *client* assets and those that do not.

FCA PRA

Purpose: social housing firms

4.1.18 G *Social housing firms* undertake small amounts of home finance business even though their main business consists of activities other than *regulated activities*. Their *home financing* is only done as an adjunct to their primary purpose (usually the provision of housing) and is substantially different in character to that done by commercial lenders. Furthermore, they are *subsidiaries* of local authorities or registered social landlords which are already subject to separate regulation. The FCA does not consider that it would be proportionate to the risks involved with such business to impose significant capital requirements for these *firms*. The capital resources requirement for *social housing firms* therefore simply provides that, where their *Part 4A permission* is limited to *home financing* and *home finance administration*, their net tangible assets must be greater than zero.

FCA

4.1.19 G A registered social landlord is a non-profit organisation which provides and manages homes for rent and sale for people who might not otherwise be able to rent or buy on the open market. It can be a housing association, a housing society or a non-profit making housing company. The Homes and Communities Agency and the Tenant Services Authority were set up by Parliament in 2008 and cooperate in providing financial assistance for social housing.

FCA

4.2 Capital resources requirements

General solvency requirement

4.2.1

FCA PRA

R

A *firm* must at all times ensure that it is able to meet its liabilities as they fall due.

General capital resource requirement

4.2.2

FCA PRA

R

A *firm* must at all times maintain capital resources equal to or in excess of its relevant capital resources requirement.

Capital resources: relevant accounting principles

4.2.3

FCA PRA

R

A *firm* must recognise an asset or liability, and measure its amount, in accordance with the relevant accounting principles applicable to it for the purpose of preparing its annual financial statements unless a *rule* requires otherwise.

Capital resources: client assets

4.2.4

FCA PRA

R

In this chapter, "*client assets*" includes a *document* only if it has value, or is capable of having value, in itself (such as a bearer instrument)

Capital resources requirement: firms carrying on regulated activities including designated investment business

4.2.5

FCA PRA

R

The capital resources requirement for a *firm* (other than a *credit union*) carrying on *regulated activities*, including *designated investment business*, is the higher of:

- (1) the requirement which is applied by this chapter according to the activity or activities of the *firm* (treating the relevant *rules* as applying to the *firm* by disregarding its *designated investment business*); and
- (2) the financial resource requirement which is applied by the Interim Prudential sourcebook for investment businesses, the Prudential sourcebook for Investment Firms and the *EU CRR* or the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms.



4.4 Calculation of capital resources

The calculation of a firm's capital resources

4.4.1

FCA PRA

R

- (1) A *firm* must calculate its capital resources only from the items which are eligible to contribute to a *firm's* capital resources from which it must deduct certain items (see ■ MIPRU 4.4.4 R).
- (2) If the *firm* is subject to the Interim Prudential sourcebook for investment businesses , the Prudential sourcebook for Investment Firms and the *EU CRR*, the General Prudential sourcebook , the Prudential sourcebook for Banks, Building Societies and Investment Firms or the Credit Unions sourcebook, the capital resources are the higher of:
 - (a) the amount calculated under (1); and
 - (b) the financial resources calculated under those sourcebooks and regulations .

4.4.2

FCA PRA

R

Table: Items which are eligible to contribute to the capital resources of a firm

Item	Additional explanation
1. <i>Share capital</i>	<p>This must be fully paid and may include:</p> <ol style="list-style-type: none"> (1) <i>ordinary share capital</i>; or (2) <i>preference share capital</i> (excluding preference <i>shares</i> redeemable by shareholders within two years).
2. <i>Capital other than share capital</i> (for example, the capital of a <i>sole trader</i> , <i>partnership</i> or <i>limited liability partnership</i>)	<p>The capital of a <i>sole trader</i> is the net balance on the <i>firm's</i> capital account and current account. The capital of a <i>partnership</i> is the capital made up of the <i>partners'</i>:</p> <ol style="list-style-type: none"> (1) <i>capital account</i>, that is the account:

Item	Additional explanation
	<p>(a) into which capital contributed by the <i>partners</i> is paid; and</p> <p>(b) from which, under the terms of the <i>partnership</i> agreement, an amount representing capital may be withdrawn by a <i>partner</i> only if:</p> <p>(i) he ceases to be a <i>partner</i> and an equal amount is transferred to another such account by his former <i>partners</i> or any <i>person</i> replacing him as their <i>partner</i>; or</p> <p>(ii) the <i>partnership</i> is otherwise dissolved or wound up; and</p> <p>(2) current accounts according to the most recent financial statement.</p>
	<p>For the purpose of the calculation of capital resources, in respect of a <i>defined benefit occupational pension scheme</i>:</p> <p>(1) a <i>firm</i> must derecognise any <i>defined benefit asset</i>;</p> <p>(2) a <i>firm</i> may substitute for a <i>defined benefit liability</i> the <i>firm's deficit reduction amount</i>, provided that the election is applied consistently in respect of any one financial year.</p>
<p>3. Reserves (Note 1)</p>	<p>These are, subject to Note 1, the audited accumulated profits retained by the <i>firm</i> (after deduction of tax, dividends and proprietors' or <i>partners'</i> drawings) and other reserves created by appropriations of share premiums and similar realised appropriations. Reserves also include gifts of capital, for example, from a <i>parent undertaking</i>.</p> <p>For the purposes of calculating capital resources, a <i>firm</i> must make the following adjustments to its reserves, where appropriate:</p> <p>(1) a <i>firm</i> must deduct any unrealised gains or, where applicable, add back in any unrealised losses on debt instruments held, or formerly held, in the available-for-sale financial assets category;</p> <p>(2) a <i>firm</i> must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of fi-</p>

Item	Additional explanation
	<p>financial instruments measured at cost or amortised cost;</p> <p>(3) in respect of a <i>defined benefit occupational pension scheme</i>:</p> <p>(a) a <i>firm</i> must derecognise any <i>defined benefit asset</i>;</p> <p>(b) a <i>firm</i> may substitute for a <i>defined benefit liability</i> the <i>firm's deficit reduction amount</i>, provided that the election is applied consistently in respect of any one financial year.</p>
4. Interim net profits (Note 1)	If a <i>firm</i> seeks to include interim net profits in the calculation of its capital resources, the profits have, subject to Note 1, to be verified by the <i>firm's</i> external auditor, net of tax, anticipated dividends or proprietors' drawings and other appropriations.
5. Revaluation reserves	
6. General/collective provisions (Note 1)	These are provisions that a <i>firm</i> carrying on <i>home financing</i> or <i>home finance administration</i> holds against potential losses that have not yet been identified but which experience indicates are present in the <i>firm's</i> portfolio of assets. Such provisions must be freely available to meet these unidentified losses wherever they arise. Subject to Note 1, general/collective provisions must be verified by external auditors and disclosed in the <i>firm's</i> annual report and accounts.
7. Subordinated loans	Subordinated loans must be included in capital on the basis of the provisions in this chapter that apply to subordinated loans.
Note:	
1	Reserves must be audited and interim net profits, general and collective provisions must be verified by the <i>firm's</i> external auditor unless the <i>firm</i> is exempt from the provisions of Part VII of the Companies Act 1985 (section 249A (Exemptions from audit)) or, where applicable, Part 16 of the Companies Act 2006 (section 477 (Small companies: Conditions for exemption from audit)) relating to the audit of accounts .

4.4.3

FCA PRA

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A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *appropriate regulator* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

4.4.4

FCA PRA

R

Table: Items which must be deducted from capital resources

1	<i>Investments in own shares</i>
2	Intangible assets (Note 1)
3	Interim net losses (Note 2)
4	Excess of drawings over profits for a <i>sole trader</i> or a <i>partnership</i> (Note 2)
Notes	<p>Notes 1. Intangible assets are the full balance sheet value of goodwill (but not until 14 January 2008 - see transitional provision 1), capitalised development costs, brand names, trademarks and similar rights and licences.</p> <p>2. The interim net losses in row 3, and the excess of drawings in row 4, are in relation to the period following the date as at which the capital resources are being computed.</p>

Personal assets

4.4.5

FCA PRA

R

In relation to a *sole trader's firm* or a *firm* which is a *partnership*, the *sole trader* or a *partner* in the *firm* may use personal assets to meet the general solvency requirement and the general capital resource requirement, to the extent necessary to make up any shortfall in meeting those requirements, unless:

- (1) those assets are needed to meet other liabilities arising from:
 - (a) personal activities; or
 - (b) another business activity not regulated by the *appropriate regulator*; or
- (2) the *firm* holds *client money* or other *client* assets.

4.4.6

FCA PRA

G

A *sole trader* or a *partner* may use any personal assets, including property, to meet the capital requirements of this chapter, but only to the extent necessary to make up a shortfall.

Prudential sourcebook for UCITS Firm

Chapter 1

UCITS firms

1.1 Introduction

Application

1.1.1
FCA

R Subject to 1.1.4R, this sourcebook and any provisions of the Interim Prudential sourcebook for investment businesses incorporated into this sourcebook by reference, apply to every *UCITS firm*.

1.1.2
FCA

G Firms are reminded that a *UCITS management company* can be either:

- (1) a *UCITS firm*; or
- (2) a *UCITS investment firm*.

1.1.3
FCA

G This sourcebook only applies to *UCITS firms*. *UCITS investment firms* may be either:

- (1) *BIPRU firms* (see ■ BIPRU 1.1.7A G) and the prudential requirements for those firms are set out in;
 - (a) the Prudential sourcebook for Banks, Building Societies and Investment Firms and the General Prudential sourcebook.; and
 - (b) the Interim Prudential sourcebook for Investment Businesses; or
- (2) *IFPRU limited licence firms* and the prudential requirements for those *firms* are set out in the Prudential sourcebook for Investment Firms and the *EU CRR*.

The difference between the two types of *UCITS management companies* is that a *UCITS investment firms* in addition to carrying on the activities permitted by Article 6(2) of the *UCITS Directive* (scheme management), may also carry on the activities permitted by Article 6(3) such as portfolio management.

1.1.4
FCA

R This sourcebook does not apply to a *UCITS firm* to which ■ IPRU (INV) 11 (Collective Portfolio Management Firms) applies.

1.1.5
FCA

G ■ IPRU (INV) TP 5 allows a *UCITS firm* that is *authorised* as such on or before 21 July 2013 to continue to comply, if it so wishes, with *UPRU* rather than ■ IPRU (INV) 11 until 21 July 2014 or the date it becomes a *UK AIFM* (if earlier).

1.1.6

FCA

G

This sourcebook will be deleted in its entirety on 22 July 2014 and, from this date, a *UCITS firm* must comply with ■ IPRU (INV) 11.

1

1.2 Purpose

1.2.1

FCA

G

- (1) The purpose of this sourcebook is to amplify *Principle 4* (Financial prudence) which requires a *firm* to maintain adequate financial resources to meet its *designated investment business* commitments and to withstand the risks to which its business is subject. This assists in the achievement of the *statutory objectives* of consumer protection and protecting and enhancing the integrity of the *UK financial system*.
- (2) This sourcebook also implements certain requirements of the *UCITS Directive* which among other matters imposes capital requirements on a *UCITS management company*.
- (3) The *UCITS Directive* incorporates references to provisions of the *Banking Consolidation Directive* and the *Capital Adequacy Directive* in relation to *initial capital, own funds* and fixed overheads. However, in line with article 163 of the *CRD*, the *Banking Consolidation Directive* and the *Capital Adequacy Directive* are repealed from 1 January 2014 and references to these directives are replaced with references to the *CRD* and the *EU CRR* in line with the correlation table set out in Annex II to the *CRD* and in Annex IV to the *EU CRR*.

Chapter 2

Prudential requirements

2.1 Financial resources and financial resources requirements

Financial resources

2.1.1
FCA

R A *firm* must ensure that it has at all times *financial resources* which equal or exceed the applicable *financial resources requirement*.

Financial resources requirement

2.1.2
FCA

R The *financial resources requirement* for a *firm* is the higher of:

- (1) subject to a maximum requirement of €10,000,000:
 - (a) *initial capital* requirement of €125,000; plus
 - (b) if the *funds under management* exceed €250,000,000, an additional amount of 0.02% of the excess; or
- (2) the amount specified in article 97 of the *EU CRR* (Own funds based on fixed overheads) (as replicated in ■ UPRU 2.1.2A EU).

2.1.2A
FCA



Own Funds based on Fixed Overheads

- 1 In accordance with Articles 95 and 96, an investment firm and firms referred to in point (2)(c) of Article 4(1) that provide the investment services and activities listed in points (2) and (4) of Section A of Annex I to Directive 2004/39/EC shall hold eligible capital of at least one quarter of the fixed overheads of the preceding year.
- 2 Where there is a change in the business of an investment firm since the preceding year that the competent authority considers to be material, the competent authority may adjust the requirement laid down in paragraph 1.
- 3 Where an investment firm has not completed business for one year, starting from the day it starts up, an investment firm shall hold eligible capital of at least one quarter of the fixed overheads projected in its business plan, except where the competent authority requires the business plan to be adjusted.

[Note Article 97(1) to (3) of the *EU CRR*]

2.1.3

R [deleted]

2.1.4

FCA**G**

A firm's *financial resources requirement* will be recalculated annually when its fourth *quarterly financial return* is prepared. The firm should maintain *financial resources* sufficient to meet its new *financial resources requirement* from the date on which the fourth *quarterly financial return* is prepared (and no later than 80 business days after the *accounting reference date*). The expenditure based requirement applicable at the *accounting reference date* will be based on the four *quarterly financial returns* prepared up to and on that date.

2

2.2 Method of calculation of financial resources

2.2.1
FCA

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PART I			
A firm must calculate its <i>financial resources</i> as shown below, subject to the detailed requirements set out in Part II.			
Financial resources	Category	Part II	
Para			
(1) [deleted]			
(2) [deleted]			
(3) [deleted]			
(4) [deleted]			
(5) [deleted]			
(6) [deleted]			
(7) [deleted]			
(8) [deleted]			
(8A) [deleted]			
(9) [deleted]			
(10) [deleted]			
(11) [deleted]			
(12) [deleted]			
(13) [deleted]			
(14) [deleted]			
Own funds	E		
(15) Illiquid assets	F		11

PART I

Financial resources = (E - F) =

G

PART II

DETAILED REQUIREMENTS

1 [deleted]

2 [deleted]

3 [deleted]

4 [deleted]

5 [deleted]

6 [deleted]

7 [deleted]

8 [deleted]

9 [deleted]

10 [deleted]

11 **Illiquid assets (Item 15)**

Illiquid assets comprise:

(a) **tangible fixed assets;**

Note

In respect of tangible fixed assets purchased under finance leases the amount to be deducted as an illiquid asset shall be limited to the excess of the asset over the amount of the related liability shown on the balance sheet.

(b) **holdings in, including subordinated loans to, *credit or financial institutions* which may be included in the *own funds* of such *institutions* unless they have been deducted under item 9;**

(c) **any *investment* in undertakings other than *credit institutions* and other *financial institutions* where such *investments* are not readily realisable;**

(d) **any deficiency in net assets of a *subsidiary*;**

(e) **deposits not available for repayment within 90 days or less (except for payments in connection with margined futures or options contracts);**

Note

2

Where cash is placed on deposit with a maturity of more than 90 days but is repayable on demand subject to the payment of a penalty, then this is not required to be deducted as an illiquid asset but a deduction is required for the amount of the penalty.

- (f) loans, other debtors and accruals not falling due to be repaid within 90 days or which are more than one month overdue by reference to the contractual payment date;
- (g) physical stocks;
- (h) prepayments to the extent that the period of prepayment exceeds thirteen weeks; and
- (i) if not otherwise covered, any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a *subsidiary or participation*. Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under *GENPRU 2* or, as the case may be, *INSPRU 7*.



2.3

[Deleted]



2.4 Records

2.4.1

FCA

R

A *firm* must ensure that proper accounting records are kept in English to show and explain the *firm's own account transactions*.

Interim Prudential Sourcebook Insurers

Interim Prudential Sourcebook

Insurers

Volume One Rules

THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS INSTRUMENT 2001

INTRODUCTION

- 1 The FSA makes the rules and guidance in this instrument on 21 June 2001.
- 2 [deleted]
- 3 This instrument will come into force at the beginning of the day on which section 19 of the *Act* (the general prohibition) comes into force.
- 4 This instrument is to be interpreted in accordance with, and applies subject to, the general provisions contained in the General Provisions Instrument 2001.
- 5 This instrument may be cited as the Interim Prudential Sourcebook for Insurers Instrument 2001.
- 6 This instrument, excluding the provisions in this Introduction, may be cited as the Interim Prudential Sourcebook for Insurers.

By Order of the Board

21 June 2001

**INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS
GUIDANCE**

**THE PURPOSE OF THE PRUDENTIAL RULES FOR INSURERS AND
AN OVERALL DESCRIPTION**

[deleted text]

INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

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	Part V Group Capital Adequacy
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Chapter 9	Financial reporting
Part I	Accounts and statements
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Guidance: FSA 'Dear Director' Letters

DD1 [deleted]

Other Material: 'Dear Appointed Actuary' Letters

DAA8 [deleted]

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DAA11 [deleted]

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DAA14 [deleted]

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Appendix 9.1 (rules 9.12 and 9.13)

Balance Sheet and Profit and Loss Account

(Forms 1 to 3 and 10 to 19)

Introduction

- 1 (1) All the forms included in the part of the *return* to which this Appendix relates (*Forms 1 to 3 and 10 to 19*) are to be laid out as shown in this Appendix, except that the instructions for the completion of the forms need not be reproduced.
- PRA
- (2) All amounts, descriptions or other text required to be shown as supplementary notes to a form must not be presented on the face of that form, but must be presented as a separate statement. The title of that statement must identify the form to which it relates.
- 3 (1) An *insurer* making a *return* must complete the 'company registration number box' using the full registration number given by the Registrar of Companies. If the insurer does not have such a number, it must agree a suitable number with the FSA. An *overseas insurer* must use its F-series number issued by the Registrar of Companies.
- PRA
- (2) Boxes marked 'GL/UK/CM' must be completed by inserting –
- (a) 'UK' in the case of a form which is -
- (i) prepared by *EEA-deposit insurer* in respect of *long-term or general insurance business* carried on through a branch in the United Kingdom;
- (ii) prepared by an *external insurer* (other than a *non-EEA insurer* whose *insurance business* in the United Kingdom is restricted to *reinsurance* or an *insurer* whose head office is in any *EEA State* except the United Kingdom whose *insurance business* in the *EEA* is restricted to *reinsurance*) in respect of *long-term or general insurance business* carried on through a branch in the United Kingdom; or
- (iii) prepared by a *Swiss general insurer* in respect of *general insurance business* carried on through a branch in the United Kingdom;
- (b) 'CM' in the case of a form which is prepared by a *UK-deposit insurer* in respect of *long-term or general insurance business* carried on through branches in the *EEA States* concerned; or
- (c) 'GL' in any other case.
- (3) Boxes marked 'Period ended' must be completed so as to show, in

numerals, the date of the last day of the *financial year in question*.

- (4) No entry should be made in a box which is shaded or is not labelled.
- (5) In the forms 'this financial year' means the *financial year in question*.

Currency

4 The value of any asset or the amount of any liability denominated in a currency other than sterling must be expressed in sterling as if conversion had taken place at the closing middle rate on the last day for which the appropriate rate is available in the financial year to which the asset or liability relates.

PRA

5 (1) The amount of any income or expenditure must be expressed in sterling using such bases of conversion as are in accordance with generally accepted accounting practice.

PRA

(2) The bases of conversion adopted must be stated by way of supplementary note (code 1601) to *Form 16* or, if there is no *Form 16*, by way of supplementary note (code 4005) to *Form 40*.

Presentation of amounts

6 Negative amounts must be shown between round brackets.

PRA

7 Firms should not normally restate comparatives unless restatement is necessary in order to allow the appropriate comparison to be made. Where in any Form an amount which is a comparative (i.e. shown in a "previous year" column) or shown brought forward from a previous year differs from the corresponding amount shown in a "this financial year" column in a return for a previous year or as carried forward from that year, as the case may be, and the difference is not due solely to the use of a different rate to express other currencies in sterling, an explanation of the reason for the difference must be given by way of a supplementary note to that form. (For *Forms 1, 2, 3, 10, 11, 12, 13, 14, 15, 16, 18* and *19* the code for the supplementary note is 0111, 0211, 0311, 1011, 1111, 1211, 1311, 1411, 1511, 1611, 1811 and 1911 respectively.)

PRA

8 (1) Except to the extent permitted by (2), amounts due to or from the *insurer* must be shown gross.

PRA

(2) In calculating amounts due to or from the *insurer* –

- (a) amounts due from any person may, unless expressly provided otherwise, be included net of amounts which are due to that person, provided that such amounts may be set off against each other under generally accepted accounting practice; and
- (b) amounts due to any person may, unless expressly provided otherwise, be included net of amounts which are due from that person, provided that such amounts may be set off against each other under generally accepted accounting practice.

(3) If amounts shown include amounts calculated on the basis set out in (2), a supplementary note to *Form 13* (code 1304 for other than *long-term insurance business* and code 1310 for *long-term insurance business*) to that effect must be provided.

(4) This paragraph does not apply to *Form 17*.

9 All amounts are to be shown to the nearer £1,000. Calculations must be performed using unrounded figures. Figures which are determined from other figures (whether or not on the same form) must be rounded after performing calculations on the unrounded component figures.

PRA

Premiums

10 (1) Notwithstanding the requirements of the *insurance accounts rules*, amounts included in *Forms 11* and *12* in respect of –

PRA

- (a) *gross written premiums*;
- (b) *gross earned premiums*;
- (c) *claims paid*;
- (d) *claims outstanding*; and
- (e) *reinsurance recoveries*,

must be determined in accordance with *INSPRU 1.1.66R* and *INSPRU 1.1.71R*.

(2) Where any amount included in *Form 11* or *12* pursuant to (1) differs from the aggregate of the corresponding amounts included in *Forms 21, 22, 24* and *25*, there must be stated by way of supplementary note to *Form 11* or *12* (code 1105 or 1205), as the case may be –

- (a) the amount of such difference; and
- (b) an explanation for such difference.

Counterparty exposure

11 (1) There must be given by way of a supplementary note to *Form 13* (code 1305 for other than *long-term insurance business* and code 1319 for *long-term insurance business*) –

PRA

- (a) the maximum extent to which, in accordance with any investment guidelines operated by the *insurer*, it was permitted to be exposed to any one *counterparty* during the *financial year in question*;
- (b) the maximum extent to which, in accordance with such guidelines, it was permitted to be exposed to any one *counterparty*, other than by way of exposure to an *approved*

counterparty, during the *financial year in question*; and

(c) an account of any occasions during the *financial year* on which either of those amounts was exceeded.

(2) In each case where a *counterparty exposure* of the *insurer* which is subject to any of the limits in *INSPRU 2.1.22R(3)* exceeds at the end of the *financial year in question*:

(a) 5% of the sum of its *base capital resources requirement* and its *long-term insurance liabilities*, excluding *property linked liabilities* and net of *reinsurance ceded*, or

(b) the sum of 20,000 Euro and 5% of its liabilities arising from its *general insurance business*, net of *reinsurance ceded*,

as appropriate –

(a) the amount of that *exposure*; and

(b) the nature of the assets held which give rise to that *exposure*,

must be stated by way of a supplementary note to *Form 13* (code 1306 for other than *long-term insurance business* and code 1312 for *long-term insurance business*).

(3) There must be stated by way of supplementary note to *Form 13* (code 1307 for other than *long-term insurance business* and code 1313 for *long-term insurance business*) the aggregate value of any rights to which *INSPRU 2.1.35R* or *INSPRU 2.1.36R* and *INSPRU 2.1.37R* relates.

Provision for reasonably foreseeable adverse variations

12 There must be stated by way of supplementary note to *Form 14* (code 1401) or *15* (code 1501) the methods and assumptions used to determine the amount of any adjustment or provision made pursuant to *GENPRU 1.3.30R* to *GENPRU 1.3.33R* or *INSPRU 3.2.17R* to *INSPRU 3.2.18R* or, if there is no such adjustment or provision, the methods and assumptions used to determine that no adjustment or provision is required.

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Liabilities

13 (1) Subject to (3), the following information must be given by way of a supplementary note to *Form 14* (code 1402) or *15* (code 1502) –

PRA

(a) in the case of any ‘charge’ over assets of the *insurer*, the particulars specified in (2) or a statement that there are no such ‘charges’;

(b) the total potential liability, and the amount provided for that liability, to taxation on capital gains which might arise if the *insurer* disposed of its assets, or a statement that there is no such potential liability;

- (c) a brief description of any other liabilities being contingent liabilities not included in *Form 14* or *15* (other than liabilities arising under an inwards *contract of insurance* or *reinsurance*) including, where practicable, the amounts or estimated amounts of those liabilities, or a statement that there are no such contingent liabilities;
 - (d) a brief description of any guarantee, indemnity or other contractual commitment, effected by the *insurer* other than in the ordinary course of its *insurance business*, in respect of the existing or future liabilities of any *related companies*, including –
 - (i) the maximum liability of the *company* specified in such guarantee, indemnity or contractual commitment or, where no such amount is specified, a statement to that effect,
 - (ii) the amount of any provision made in respect of such liability, and
 - (iii) the amount reported under (c) in respect of such liability, or a statement that there are no such guarantees, indemnities or contractual commitments; and
 - (e) a description of any other uncertainty where such a description is, in the opinion of the directors, necessary for a proper understanding of the financial position of the *insurer*.
- (2) The particulars referred to in (1)(a) are –
- (a) the nature of the ‘charge’, including a brief description of the terms which are relevant to securing the prior claim of any person to assets which are subject to the ‘charge’;
 - (b) for each line in *Form 13*, the amount included in respect of assets which are subject to the ‘charge’; and
 - (c) for each line in *Form 14* or *15*, the amount included in respect of liabilities which are secured by the ‘charge’.
- (3) (1)(a) and (c) may be disregarded by an *insurer* in the case of –
- (a) one or more ‘charges’ over assets which are attributable to either the *long-term insurance assets* or the ‘other assets’ and whose aggregate value (as shown on *Form 13*) does not exceed 2.5% of the *long-term insurance assets* (other than reinsurance recoveries and assets required to match *property linked liabilities*) or the ‘other assets’ (other than *reinsurance recoveries*), as the case may be; or
 - (b) one or more contingent liabilities whose aggregate value does not exceed 2.5% of the *long-term insurance assets* (other than *reinsurance recoveries* and assets required to match *property*

linked liabilities) or the 'other assets' (other than *reinsurance recoveries*), as the case may be.

- (4) (1)(d) may be disregarded by an *insurer* in respect of one or more guarantees, indemnities or contractual commitments where the aggregate of the maximum liabilities specified in such guarantees, indemnities or contractual commitments does not exceed 2.5% of the *long-term insurance assets* (other than *reinsurance recoveries* and assets required to match *property linked liabilities*) or the 'other assets' (other than *reinsurance recoveries*), as the case may be.
- (5) For the purposes of this paragraph, *charge* includes any arrangement whatsoever, whether contractual or otherwise, which operates to secure the prior claim of any person over general creditors to any assets on a winding up of the *insurer*, and other assets means assets that are not *long-term insurance assets*.

Derivative contracts

15 Any *derivative contract* entered into by an *insurer* –

PRA

- (a) the value of which is taken into account for the purposes of calculating benefits payable to *policy holders* under *property linked contracts*; or
- (b) in order to match its liabilities in respect of the payment of *index linked benefits*,

must be excluded from *Form 17*.

16 Where, in respect of any *derivative contract* included in *Form 17*, assets have been transferred to or for the benefit of the *insurer* by way of *variation margin* there must be stated by way of supplementary note (code 1701) to *Form 17* –

PRA

- (a) the aggregate amount of any liability to repay such assets or equivalent assets;
- (b) for each line in *Form 13*, the amount included in respect of such assets; and
- (c) to what extent any amounts included in *Form 13* have taken account of any requirement to repay such assets or equivalent assets.

17 If –

PRA

- (a) the aggregate value of rights under contracts or in respect of assets, either of which have the effect of derivative contracts, exceeds 2.5% of the aggregate value of assets shown at line 89 of *Form 13*; or
- (b) the aggregate amount of liabilities under contracts or in respect of assets, either of which have the effect of derivative contracts, exceeds 2.5% of the aggregate of the amounts shown in lines 17 to 39 of *Form 14* or lines 31 to 51 of *Form 15*, as appropriate,

the corresponding value, if not zero, must be stated (by way of supplementary note (code 1702) to Form 17) for each line in *Form 13, 14 or 15* and paragraph 16 applies to the insurer as if such contracts or assets had been included in *Form 17*.

FORMS

[Forms 1-3 and 10-19 to follow]

Statement of solvency – general insurance business

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

Solo solvency calculation / Adjusted solo solvency calculation

	Company registration number	GL/UK/CM	day	month	year	units
	R1					£000
					As at end of this financial year 1	As at end of the previous year 2

Capital resources

Capital resources arising outside the long-term insurance fund	11		
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12		
Capital resources available to cover general insurance business capital resources requirement (11-12)	13		

Guarantee fund

Guarantee fund requirement	21		
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22		

Minimum capital requirement (MCR)

General insurance capital requirement	31		
Base capital resources requirement	33		
Individual minimum capital requirement	34		
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34 + 35)	36		
Excess (deficiency) of available capital resources to cover 50% of MCR	37		
Excess (deficiency) of available capital resources to cover 75% of MCR	38		

Capital resources requirement (CRR)

Capital resources requirement	41		
Excess (deficiency) of available capital resources to cover general insurance business CRR (13-41)	42		

Contingent liabilities

Quantifiable contingent liabilities in respect of other than long-term insurance business as shown in a supplementary note to Form 15	51		
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Instructions for completion of Form 1

PRA

- 1 An insurer (other than a Swiss general insurer or an EEA-deposit insurer) carrying on general insurance business must complete Form 1 in respect of its entire general insurance business. An external insurer (other than a non-EEA insurer whose insurance business in the United Kingdom is restricted to reinsurance or an insurer whose head office is in any EEA State except the United Kingdom whose insurance business in the EEA is restricted to reinsurance) that is carrying on general insurance business must complete Form 1 in respect of business carried on through a branch in the United Kingdom. An UK-deposit insurer that is carrying on general insurance business must complete Form 1 in respect of business carried on through its branches in EEA States taken together. Form 1 is not required for Swiss general insurers or EEA-deposit insurers.
- 2 In the case of a *marine mutual* completing an abbreviated *return* under rule 9.36A, units must be the same as those used in Form M1.
- 3 For *financial years* commencing on or before 31 December 2004 lines 11 to 42, column 2 must be blank.
- 4 The entry at line 13 must be equal to the *total capital resources* after deductions at line 79, column 1 on Form 3. The entry at line 11 includes also *capital resources* allocated towards the *long-term insurance business* (and included in column 2 on Form 3) that arise outside the *long-term insurance fund*. For a *branch* the entry at line 11 is equal to Form 10 line 23.
- 5 For a *firm* carrying on *long-term insurance business* the entry at line 12 on Form 1 must equal the entry at line 12 on Form 2. For a *firm* not carrying on *long-term insurance business* the entry at line 12 on Form 1 is nil.

Instructions 6-12 only apply to firms that do not meet the conditions specified in GENPRU 2.1.13R(2), i.e. that are not required to perform an adjusted solo calculation under INSPRU 6.1.

- 6 For an *insurer* other than a *pure reinsurer* writing both non-life and life business, the *guarantee fund* requirement at line 21 is calculated by reference to *GENPRU 2.2.34R* as the higher of line 33 and 1/3 of line 31. For a *pure reinsurer* writing both non-life and life business, the *guarantee fund* calculated by reference to *GENPRU 2.2.34AR* must be allocated between F1.21 and F2.21 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.
- 7 The excess (deficiency) of available *capital resources* to cover the *guarantee fund* requirement at line 22 is equal to line 81 on Form 3 less line 21, except for a branch. For a *branch* this is equal to line 13 less line 21 less an adjustment because assets held to cover the *guarantee fund* must be held in the *United Kingdom* (or for *UK-deposit insurers*, in the *EEA States* where the *firm* carries on *insurance business*); the adjustment is the difference between Form 13 line 89 for categories 1 and 3 (or 5), except for *branches* carrying on both *long-term insurance business* and *general insurance business* (composite branches); composite *branches* will need to state

how the difference is allocated between *general insurance business* and *long-term insurance business* in a note to the Form (Note 0102).

- 8 The *general insurance capital requirement* at line 31 must be equal to the amount shown at line 43 of Form 12, which is calculated in accordance with *GENPRU 2.1.34R*.
- 9 The *base capital resources requirement* at line 33 must be taken from *GENPRU 2.1.30R*. For a branch, this figure should be halved. For a *pure reinsurer* writing both non-life and life business, the *base capital resources requirement* must be allocated between F1.33 and F2.33 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.
- 9A The individual *minimum capital requirement* at line 34 is calculated in accordance with *GENPRU 2.1.24R* and is the higher of lines 31 and 33.
- 9B The capital requirements of *regulated related undertakings* at line 35 must be nil.
- 9C The *minimum capital requirement* at line 36 is equal to the sum of lines 34 and 35.
- 10 The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 37 is equal to line 82, column 1 on Form 3 less 50% of line 36. For a *branch*, line 37 is to be left blank.
- 11 The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 38 is equal to line 83, column 1 on Form 3 less 75% of line 36. For a *branch*, line 38 is to be left blank.
- 12 The *capital resources requirement* at line 41 is calculated in accordance with *GENPRU 2.1.17R* and is equal to line 36.

Instructions 13-20 only apply to firms that meet the conditions specified in GENPRU 2.1.9 R(2), i.e. that perform the adjusted solo solvency calculation in accordance with INSPRU 6.1.

- 13 The *guarantee fund requirement* at line 21 is calculated as the share of the *general insurance business* of
 $\frac{1}{3}X + (R - S - U - X)$ by reference to *INSPRU 6.1.45R*.
- 14 The excess (deficiency) of available *capital resources* to cover the *guarantee fund requirement* at line 22 is equal to line 81, column 1 on Form 3 less line 21.
- 15 The *general insurance capital requirement* at line 31 is taken from the amount shown at line 43 of Form 12, which is calculated in accordance with *GENPRU 2.1.34R*.
- 16 The *base capital resources requirement* at line 33 must be taken from *GENPRU 2.1.30R*. For a *branch* this figure should be halved. For a *pure reinsurer* writing both non-life and life business, the *base capital resources requirement* must be allocated between F1.33 and F2.33 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.

- 16A The *individual minimum capital requirement* at line 34 is calculated in accordance with *GENPRU 2.1.24R* and is the higher of lines 31 and 33.
- 16B The capital requirements of *regulated related undertakings* at line 35 is line 36 less line 34.
- 17 The *minimum capital requirement* at line 36 must equal the amount represented by (R-S) with reference to *INSPRU 6.1.45R*.
- 18 The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 37 is equal to line 82, column 1 on Form 3 less 50% of line 36.
- 19 The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 38 is equal to line 83, column 1 on Form 3 less 75% of line 36.
- 20 The entry at line 41 must equal the amount represented by R with reference to *INSPRU 6.1.45R*.

Instructions 21 onwards apply to all firms

- 21 The entry at line 51 must not include provision for any liability to tax on capital gains referred to in paragraph 13(1)(b) of Appendix 9.1. Amounts in *related undertakings* must not be included.
- 22 Where a direction under section 138A of the Act has been issued disapplying or modifying any of the provisions of the *Accounts and Statements Rules*, a note to *Form 1* explaining the effect of the order is usually required. The requirement for such a note would be specified in the direction itself. [Code 0101].

Statement of solvency – long-term insurance business

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

Solo solvency calculation / Adjusted solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	units
R2						£000
					As at end of this financial year 1	As at end of the previous year 2

Capital resources

Capital resources arising within the long-term insurance fund	11		
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12		
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13		

Guarantee fund

Guarantee fund requirement	21		
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22		

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31		
Resilience capital requirement	32		
Base capital resources requirement	33		
Individual minimum capital requirement	34		
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36		
Excess (deficiency) of available capital resources to cover 50% of MCR	37		
Excess (deficiency) of available capital resources to cover 75% of MCR	38		

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40		

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41		
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42		

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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Instructions for completion of Form 2

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- 1 An insurer (other than an EEA-deposit insurer) carrying on long-term insurance business must complete Form 2 in respect of its entire long-term insurance business. An external insurer (other than a non-EEA insurer whose insurance business in the United Kingdom is restricted to reinsurance or an insurer whose head office is in any EEA State except the United Kingdom whose insurance business in the EEA is restricted to reinsurance) or EEA-deposit insurer that is carrying on long-term insurance business must complete Form 2 in respect of business carried on through a branch in the United Kingdom. An UK-deposit insurer that is carrying on long-term insurance business must complete Form 2 in respect of business carried on through its branches in EEA States taken together.
- 2 The entry at line 13 must be equal to the *total capital resources* after deductions at line 79, column 2 on Form 3. The entry at line 11 represents items relating to the *long-term insurance fund*, and that at line 12 represents amounts arising outside the *long-term insurance fund*. For a *branch*, line 11 is equal to the sum of any *implicit items* plus Form 10 line 11 less the sum of lines 11, 12 and 49 in Form 14: when there are implicit items an analysis of line 11 must be given in a supplementary note (code 0202); if the *insurer* is not carrying on *general insurance business* through the *branch*, line 12 will be equal to Form 10 line 23.
- 3 For *financial years* commencing on or before 31 December 2004 lines 11 to 42, column 2 must be blank.
- 4 For *EEA-deposit insurers*, lines 21 to 42 must be blank.

Instructions 5-14 only apply to firms that do not meet the conditions specified in GENPRU 2.1.13 R(2), i.e. that are not required to perform an adjusted solo calculation under INSPRU 6.1.

- 5 For an *insurer* other than a *pure reinsurer* writing both non-life and life business, the *guarantee fund* requirement at line 21 is calculated by reference to *GENPRU 2.2.33R* as the higher of line 33 and 1/3 of line 31. For a *pure reinsurer* writing both non-life and life business, the *guarantee fund* calculated by reference to *GENPRU 2.2.34AR* must be allocated between F1.21 and F2.21 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.
- 6 The excess (deficiency) of available *capital resources* to cover the *guarantee fund* requirement at line 22 is equal to line 81, column 2 on Form 3 less line 21, except for a *branch*. For a *branch* this is equal to line 13 less line 21 less an adjustment because assets held to cover the *guarantee fund* must be held in the *United Kingdom* (or for *UK-deposit insurers*, in the *EEA States* where the *firm* carries on *insurance business*) and cannot include *implicit items*; an analysis would be appropriate in a note (code 0203) to the Form.
- 7 The *long-term insurance capital requirement* at line 31 must be equal to the amount shown at line 51 of Form 60, which is calculated in accordance with *GENPRU*

2.1.36R.

- 8 The *resilience capital requirement* at line 32 is calculated in accordance with the rules in *INSPRU 3.1*.
- 9 The *base capital resources requirement* at line 33 must be taken from *GENPRU 2.1.30R*. For a branch, this figure should be halved. For a *pure reinsurer* writing both non-life and life business, the *base capital resources requirement* must be allocated between F1.33 and F2.33 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.
- 9A The individual *minimum capital requirement* at line 34 is calculated in accordance with *GENPRU 2.1.24AR* or *GENPRU 2.1.25R* and is the greater of line 33 and the sum of lines 31 and 32.
- 9B The capital requirements of *regulated related undertakings* at line 35 must be nil.
- 9C The *minimum capital requirement* at line 36 is equal to the sum of lines 34 and 35.
- 10 The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 37 is equal to line 82, column 1 on Form 3 less 50% of line 36. For a *branch*, line 37 must be blank.
- 11 The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 38 is equal to line 83, column 1 on Form 3 less 75% of line 36. For a *branch*, line 38 is to be left blank.
- 12 The *with-profits insurance capital component* at line 39 must be the total of the amounts shown at line 66 on Forms 18, calculated in accordance with the rules in *INSPRU 1.3*.
- 13 The *enhanced capital requirement* at line 40 is calculated as the sum of lines 31, 32 and 39.
- 14 The *capital resources requirement* at line 41 is calculated in accordance with *GENPRU 2.1.18R*.
- Instructions 15-23 only apply to firms that meet the conditions specified in GENPRU 2.1.13R(2), i.e. that perform the adjusted solo solvency calculation in accordance with INSPRU 6.1.*
- 15 The *guarantee fund requirement* at line 21 is calculated as the share of the *general insurance business* of $\frac{1}{3}X + (R - S - U - X)$ by reference to *INSPRU 6.1.45R*.
- 16 The excess (deficiency) of available *capital resources* to cover the *guarantee fund requirement* at line 22 is equal to line 81, column 2 on Form 3 less line 21.
- 17 The *long-term insurance capital requirement* at line 31 is taken from the amount shown at line 51 of Form 60, which is calculated in accordance with *GENPRU 2.1.36R*.
- 17A The *resilience capital requirement* at line 32 is calculated in accordance with the rules in *INSPRU 3.1*.

- 17B The *base capital resources requirement* at line 33 must be taken from *GENPRU 2.1.30R*. For a *branch* this figure should be halved. For a *pure reinsurer* writing both non-life and life business, the *base capital resources requirement* must be allocated between F1.33 and F2.33 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.
- 17C The individual *minimum capital requirement* at line 34 is the greater of line 33 and the sum of lines 31 and 32.
- 17D The capital requirements of *regulated related undertakings* at line 35 is the amount shown at line 36 less line 34.
- 18 The entry at line 36 must include the amount represented by (R-S) with reference to *INSPRU 6.1.45R*.
- 19 The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 37 is equal to line 82, column 2 on Form 3 less 50% of line 36.
- 20 The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 38 is equal to line 83, column 2 on Form 3 less 75% of line 36.
- 21 The *with-profits insurance capital component* at line 39 must be the total of 'S' with reference to *INSPRU 6.1.45R*.
- 22 The entry at line 40 must be the sum of lines 36 and 39.
- 23 The entry at line 41 must equal the amount represented by R with reference to *INSPRU 6.1.45R*.

Instructions 24 onwards apply to all firms

- 24 The entry at line 51 must not include provision for any liability to tax on capital gains referred to in paragraph 13(1)(b) of Appendix 9.1. Amounts in *related undertakings* must not be included.
- 25 Where a direction under section 138A of the *Act* has been issued disapplying or modifying any of the provisions of the *Accounts and Statements Rules*, a note to Form 2 explaining the effect of the direction is usually required. The requirement for such a note would be specified in the direction itself. (Code 0201).

Components of capital resources

Name of insurer
Global business
Financial year ended

	Company registration number	GL/UK/CM	day	month	year	units
	R3					£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2 3		4	
Core tier one capital						
Permanent share capital	11					
Profit and loss account and other reserves	12					
Share premium account	13					
Positive valuation differences	14					
Fund for future appropriations	15					
Core tier one capital in related undertakings	16					
Core tier one capital (sum of 11 to 16)	19					
Tier one waivers						
Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21					
Implicit items	22					
Tier one waivers in related undertakings	23					
Total tier one waivers as restricted (21+22+23)	24					
Other tier one capital						
Perpetual non-cumulative preference shares as restricted	25					
Perpetual non-cumulative preference shares in related undertakings	26					
Innovative tier one capital as restricted	27					
Innovative tier one capital in related undertakings	28					
Total tier one capital before deductions (19+24+25+26+27+28)	31					
Investments in own shares	32					
Intangible assets	33					
Amounts deducted from technical provisions for discounting	34					
Other negative valuation differences	35					
Deductions in related undertakings	36					
Deductions from tier one (32 to 36)	37					
Total tier one capital after deductions (31-37)	39					

Components of capital resources

Name of insurer
Global business
Financial year ended

	Company registration number	GL/UK/CM	day	month	year	units
R3						£000
		General insurance business		Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
		1		2 3		4

Tier two capital

Implicit items, (tier two waivers and amounts excluded from line 22)	41				
Perpetual non-cumulative preference shares excluded from line 25	42				
Innovative tier one capital excluded from line 27	43				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	44				
Perpetual cumulative preference shares	45				
Perpetual subordinated debt and securities	46				
Upper tier two capital in related undertakings	47				
Upper tier two capital (44 to 47)	49				

Fixed term preference shares	51				
Other tier two instruments	52				
Lower tier two capital in related undertakings	53				
Lower tier two capital (51+52+53)	59				

Total tier two capital before restrictions (49+59)	61				
Excess tier two capital	62				
Further excess lower tier two capital	63				
Total tier two capital after restrictions, before deductions (61-62-63)	69				

Components of capital resources

Name of insurer
Global business
Financial year ended

	Company registration number	GL/UK/CM	day	month	year	units
	R3					£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2 3			4

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72				
Inadmissible assets other than intangibles and own shares	73				
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79				

Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81				
Available capital resources for 50% MCR requirement	82				
Available capital resources for 75% MCR requirement	83				

Financial engineering adjustments

Implicit items	91				
Financial reinsurance – ceded	92				
Financial reinsurance – accepted	93				
Outstanding contingent loans	94				
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	96				

Instructions for completion of Form 3

PRA

- 1 **An insurer (other than a Swiss general insurer or an EEA-deposit insurer) must complete Form 3 in respect of its entire business. An external insurer (other than a non-EEA insurer whose insurance business in the United Kingdom is restricted to reinsurance or an insurer whose head office is in any EEA State except the United Kingdom whose insurance business in the EEA is restricted to reinsurance), an EEA-deposit insurer or a Swiss general insurer must complete Form 10 in respect of business carried on through a branch in the United Kingdom. An UK-deposit insurer must complete Form 10 in respect of business carried on through its branches in EEA States taken together.**
- 2 **An insurer that is carrying on long-term insurance business, other than a mutual not carrying on general insurance business, that includes within its capital resources any capital instruments issued by its long-term insurance fund, must include a supplementary note (code 0302) analysing those instruments.**
- 3 **In the case of a marine mutual completing an abbreviated return under rule 9.36A, units must be the same as those used in Form M1. If units are in US\$ or US\$000, then the bases of conversion used in determining the base capital resources requirement must be those used in Forms 11 and 12.**
- 4 **Amounts in columns 1 and 2 refer to capital supporting the general insurance business and the long-term insurance business respectively. For a firm carrying on only general insurance business column 2 should be blank. For a firm carrying on only long-term insurance business column 1 should be blank. All items relating to the long-term insurance fund should be included in column 2. For a composite firm capital items arising outside the long-term insurance fund should be allocated between general insurance business and long-term insurance business in a manner consistent with the firm's view of what business that capital supports. Where there is a material change in way capital items are allocated from one year to the next, the firm should explain the change in a supplementary note (code 0303).**
- 5 **Column 3 is the sum of columns 1 and 2.**
- 6 **For financial years commencing on or before 31 December 2004 column 4 must be blank.**
- 7 **Amounts at lines 11-13 should be taken from the firm's stand-alone accounts prepared under the Companies Acts 1985 or 2006, as appropriate, or (for firms not preparing accounts under the Companies Act legislation) equivalent overseas legislation or the applicable UK legislation.**
- 8 **The entry at line 15.2 must be the FFA taken from the firm's stand-alone accounts prepared under the Companies Acts 1985 or 2006, as appropriate, or (for firms not preparing accounts under the Companies Act legislation) equivalent overseas**

legislation or the applicable *United Kingdom* legislation. The entry at line 15 column 1 must be blank.

- 9 **GENPRU 2.2.105R and 2.2.106G explain how to calculate the valuation differences for inclusion at line 14 or 35. Inadmissible assets or assets in excess of *market risk* and *counterparty* limits are not to be included in the valuation differences. Net valuation differences are shown at line 14 if positive or in line 35 if negative. The *firm* must state in a supplementary note (code 0310) to this form –**
- (a) The amount of positive valuation differences included within line 14 or 35 in respect of assets where valuation in *GENPRU* and *INSPRU* exceeds the valuation that the *firm* uses for external financial reporting purposes, together with a brief explanation indicating the nature of those assets;
 - (b) The amount of positive valuation differences included within line 14 or 35 in respect of liabilities where valuation in *GENPRU* and *INSPRU* is lower than the valuation that the *firm* uses for external financial reporting purposes, together with a brief explanation indicating the nature of those liabilities;
 - (c) The amount of negative valuation included within line 14 or 35 in respect of assets where valuation in *GENPRU* and *INSPRU* is lower than the valuation that the *firm* uses for external financial reporting purposes (excluding inadmissible assets and assets in excess of *market risk* and *counterparty* limits), together with a brief explanation indicating the nature of those assets; and
 - (d) The amount of negative valuation included within line 14 or 35 in respect of liabilities where valuation in *GENPRU* and *INSPRU* exceeds the valuation that the *firm* uses for external financial reporting purposes (excluding amounts deducted from *technical provisions* for discounting shown at line 34), together with a brief explanation indicating the nature of those liabilities.

The amount in (a) plus the amount in (b) less the amount in (c) less the amount in (d) should equal the amount shown at line 14 if positive or at line 35 if negative."

Instructions 10-32 only apply to firms that do not meet the conditions specified in GENPRU 2.1.9R(2), i.e. that are not required to perform an adjusted solo calculation under INSPRU 6.1.

- 10 The entries at line 16 must be nil.
- 11 Amounts may only appear in lines 21 and 22 if the *FSA* has issued a *waiver* permitting these amounts to count as *tier one capital* (tier one waivers). These amounts are restricted by *GENPRU 2.2.29R (1)*, so that amounts in line 24 may not be greater than the sum of the corresponding amounts in lines 19 and 37. If the *FSA* has issued a *waiver* permitting amounts to count as *tier two capital* (tier two waivers), these are to be included at line 41, together with any amounts that arise from the restriction at *GENPRU 2.2.29R(1)*.
- 12 The entries at line 23 must be nil.
- 13 The entries at lines 25 and 27 must be restricted to comply with *GENPRU 2.2.29R* and *2.2.30R*, so that the total of the amounts in lines 24, 25 and 27 is not greater than the total amount in line 19 plus line 37, and the amount in line 27 is not greater

than 15/85 of the total of the amounts in lines 19, 24 and 25 minus line 37. Amounts in excess of the limits are entered at lines 42 and 43 respectively.

- 14 The entries at lines 26 and 28 must be nil.
- 15 The entries at line 32 for investments in own *shares* should, in the majority of cases, be zero.
- 16 For the purpose of completing line 33, the *firm* should refer to *GENPRU 2.2.155R* and *GENPRU 2.2.156G*.
- 17 The amounts in line 34 must be calculated in accordance with *GENPRU 2.2.107R(1)* and *GENPRU 2.2.107R(2)*.
- 18 The entries at line 36 must be nil.
- 19 The entries at lines 45 and 46 for perpetual cumulative *preference shares*, subordinated *debt* and *securities* must be the total, unrestricted, amounts that the *firm* can include in *upper tier two capital* in accordance with *GENPRU 2.2.159R* to *2.2.174R*, *GENPRU 2.2.177R* to *2.2.181R* and *GENPRU 2.2.270R* to *2.2.271R*.
- 20 The entries at line 47 must be nil.
- 21 The types of capital instrument that a *firm* can include within its *lower tier two capital* are set out at *GENPRU 2.2.159R* to *2.2.174R*, *GENPRU 2.2.194R* to *2.2.196R* and *GENPRU 2.2.270R* to *2.2.271R*. These should be split between fixed term *preference shares* and other *tier two instruments* and entered at lines 51 and 52 respectively.
- 22 The entries at line 53 must be nil.
- 23 The effect of the restrictions at *GENPRU 2.2.37R* applying to *tier two capital* are shown at lines 62 and 63. Line 62 relates to *tier two capital* as a whole and equals the excess (if any) of line 61 over line 39. Line 63 relates to *lower tier two capital* and equals the excess (if any) of line 59 over the sum of line 62 and 1/2 line 39.
- 24 Line 71 must show positive adjustments for *related undertakings* that are *regulated related undertakings* (other than *insurance undertakings*) required by *GENPRU 2.2.256R*.
- 25 Line 73 must show the deductions for assets that are not *admissible assets* required by *GENPRU 2.2.251R*.
- 26 Line 74 must show the assets in excess of *market risk* and *counterparty limits* in *INSPRU 2.1.22R*.
- 27 Line 75 must show negative adjustments for *related undertakings* that are *ancillary services undertakings* required by *GENPRU 2.2.255R*.
- 28 Line 76 must show negative adjustments for *related undertakings* that are *regulated related undertakings* (other than *insurance undertakings*) required by *GENPRU 2.2.256R*.

- 29 The entries at line 77 must be nil.
- 30 The entry at line 81 is determined as the amount of the *firm's capital resources* available to meet its *guarantee fund* requirement, having regard to *GENPRU 2.2.33R*, *GENPRU 2.2.34R*, *GENPRU 2.2.34AR* and *GENPRU 2.2.35R*. Unless some *innovative tier one capital* does not meet the conditions for it to be treated as *upper tier two capital* (when an adjustment may be needed), line 81 must be either:
- line 79; or
 - (if less) the sum of lines 19, 25, 27, 42, 43, 45, 46 and 59 less the sum of lines 37, 62 and 63 less the greatest of:
 - zero;
 - the sum of lines 27, 37, 43, 45, 46, 59, 73, 74, 75 and 76 less the sum of lines 19, 25, 42, 62, 63 and 71; and
 - line 59 plus one-third of the sum of lines 37, 73, 74, 75 and 76 less the sum of lines 62 and 63 less one-third of the sum of lines 19, 25, 27, 42, 43, 45, 46 and 71
- 31 The entry at line 82 is determined as the amount of the *firm's capital resources* available to meet 50% of its *minimum capital requirement*, having regard to *GENPRU 2.2.32R*. Line 82 must be either:
- line 79; or
 - (if less) the sum of lines 19, 24, 25 and 42 less line 37.
- 32 The entry at line 83 is determined as the amount of the *firm's capital resources* available to meet 75% of its *minimum capital requirement*, having regard to *GENPRU 2.2.38R* and *GENPRU 2.2.39R*. Unless some *innovative tier one capital* does not meet the conditions for it to be treated as *upper tier two capital* (when an adjustment may be needed), line 83 must be either:
- line 79; or
 - (if less) the sum of lines 19, 24, 25, 27, 41, 42, 43, 45 and 46 less the sum of line 37 and any excess of the sum of lines 27, 37, 41, 43, 45 and 46 over the sum of lines 19, 24, 25 and 42.

Instructions 33-57 only apply to firms that meet the conditions specified in GENPRU 2.1.13R(2), i.e. that perform the adjusted solo solvency calculation in accordance with INSPRU 6.1.

- 33 *Tier one capital resources* must be calculated in accordance with the *rules* in *INSPRU 6.1.41R* in relation to restricted assets.
- 34 The entries at line 16 must equal the net contribution to core *tier one capital resources* of the *firm's related undertakings* in accordance with the calculation in *INSPRU 6.1.55R (2)*.
- 35 Amounts may only appear in lines 21-23 if the *FSA* has issued a *waiver* permitting these amounts to count as *tier one capital* (tier one waivers). These amounts are

restricted by *INSPRU* 6.1.45R (1)(c), so the amounts in line 24 may not be greater than the sum of the corresponding amounts in lines 19 and 37. If the *FSA* has issued a *waiver* permitting amounts to count as *tier two capital* (tier two waivers), these are to be included at line 41, together with any amounts that arise from the restriction at *INSPRU* 6.1.45R (1)(c).

- 36 The entries at line 26 must include the net contribution to the *firm* of perpetual non-cumulative *preference shares* issued by the *firm's related undertakings* – ie. the capital represented by perpetual non-cumulative *preference shares* of each of the *firm's related undertakings* that is a *regulated related undertaking* after deduction of the sum of the book value of the investments by the *firm* in the perpetual non-cumulative *preference shares* of each of its *related undertakings* that is a *regulated related undertaking* and the book value of the investments by *related undertakings* of the *firm* in the perpetual non-cumulative *preference shares* of each of its *related undertakings* that is a *regulated related undertaking* – in a manner consistent with the calculation of *GCR* in *INSPRU* 6.1.
- 37 The entries at line 28 must equal the net contribution to innovative *tier one capital resources* of the *firm's related undertakings* in accordance with the calculation in *INSPRU* 6.1.53R (2).
- 38 The entries at lines 25-28 must be restricted to comply with *INSPRU* 6.1.45R, so that the total of the amounts in lines 24-28 is not greater than the total amount in line 19 plus line 37, and the total amount in lines 27 and 28 is not greater than 15/85 of the total of the amounts in lines 19, 24, 25, and 26 minus line 37. Amounts in excess of the limits are entered at lines 42 and 43 as appropriate. If line 42 or 43 includes amounts excluded from line 26 or 28, these amounts must be stated in a supplementary note (code 0304).
- 39 The entries at line 32 for investments in own *shares* should, in the majority of cases, be zero.
- 40 For the purpose of completing line 33, the *firm* should refer to *GENPRU* 2.2.155R and 2.2.156R.
- 41 The amounts in line 34 must be calculated in accordance with *GENPRU* 2.2.107R(1) and 2.2.107R(2).
- 42 The entries at line 36 must equal the total of any of the deductions of the type specified in lines 32-35 that apply to the *firm's related undertakings*.
- 43 The entries at lines 45 and 46 for perpetual cumulative *preference shares*, subordinated *debt* and *securities* must be the total, unrestricted, amounts that the *firm* can include in *upper tier two capital* in accordance with *GENPRU* 2.2.159R to 2.2.174R, *GENPRU* 2.2.177R to 2.2.181R and *GENPRU* 2.2.270R to 2.2.271R.
- 44 The entries at line 47 must equal the net contribution to *upper tier two capital resources* of the *firm's related undertakings* – ie. the sum of the *firm's* share of the *upper tier two capital resources* of each *related undertaking* less the book value of the *firm's* investment in the *upper tier two capital* of its *related undertakings* – in a manner consistent with the calculation of *GCR* in *INSPRU* 6.1.
- 45 The types of capital instrument that a *firm* can include within its *lower tier two capital* are set out at *GENPRU* 2.2.159R to 2.2.174R, *GENPRU* 2.2.194R to 2.2.196R

and *GENPRU 2.2.271R*. These should be split between fixed term *preference shares* and other *tier two instruments* and entered at lines 51 and 52 respectively.

- 46 The entries at line 53 must equal the net contribution to *lower tier two capital resources* of the *insurer's related undertakings* in accordance with the calculation in *INSPRU 6.1.57R(2)*.
- 47 The effect of the restrictions at *INSPRU 6.1.45R* applying to *tier two capital* are shown at lines 62 and 63. Line 62 relates to *tier two capital* as a whole and equals the excess (if any) of line 61 over line 39. Line 63 relates to *lower tier two capital* and equals the excess (if any) of line 59 over the sum of line 62 and 1/2 line 39.
- 48 The entries at line 71 must be nil.
- 49 Line 73 must show the deductions for inadmissible assets required by *INSPRU 6.1.59R*.
- 50 Line 74 must show the assets in excess of *market risk* and *counterparty* limits in *INSPRU 6.1.70R*.
- 51 Line 75 must show negative adjustments for *related undertakings* that are *ancillary services undertakings* required by *INSPRU 6.1.62R*.
- 52 The entries at line 76 must be nil.
- 53 The entries in line 77 must show the total amount calculated in respect of ineligible surplus in accordance with *INSPRU 6.1.65R*.
- 54 The entry at line 81 is determined as the amount of the *firm's capital resources* available to meet its *guarantee fund* requirement, having regard to *INSPRU 6.1.45R(2)*. Unless some innovative tier one capital does not meet the conditions for it to be treated as *upper tier two capital* (when an adjustment may be needed), line 81 must be either:
- line 79; or
 - (if less) the sum of lines 39 and 69 less the sum of lines 24 and 41 less the greatest of:
 - zero;
 - the sum of lines 27, 28, 37, 43, 45, 46, 47, 59 and 72 less the sum of lines 19, 25, 26, 42, 62, 63, 71 and 79.
 - line 59 plus one-third of the sum of lines 24, 41 and 72 less the sum of lines 62 and 63 less one-third of the sum of lines 49, 71 and 79.
- 55 The entry at line 82 is determined as the amount of the *firm's capital resources* available to meet 50% of its *minimum capital requirement*, having regard to *INSPRU 6.1.45R(1)(a)*. Line 82 must be either:
- line 79; or

- (if less) sum of lines 19, 24, 25, 26 and 42 less line 37.

56 The entry at line 83 is determined as the amount of the *firm's capital resources* available to meet 75% of its *minimum capital requirement*, having regard to INSPRU 6.1.45R(1)(b). Line 83 must be either:

- line 79; or
- (if less) the sum of lines 19, 24, 25, 26, 41, 42, 45, 46 and 47 less line 37 and any excess of line 62 over line 59.

57 Amounts relating to financial engineering shown in lines 91-96 must not include amounts in *related undertakings*.

Instructions 58 onwards apply to all firms

58 Any arrangement relating to *long-term insurance business* which is not entered in lines 91 to 95, but which falls within the definition of financing arrangement in paragraph 9(3) of Appendix 9.4 (Abstract of valuation report) must be disclosed in a supplementary note (code 0305) to this Form.

59 The entry at line 91 (implicit items) must equal the sum of the entries at lines 22 and 41. Lines 92 to 95 do not apply to *general insurance business* and line 91 is only likely to apply to *long-term insurance business*.

60 The entry at line 92 must equal the gross amount of any contingent liability to repay a *debt* to or recapture a liability from a *reinsurer* not already recognised in Form 14. The *firm* must provide in a supplementary note (code 0306) to this Form the following information on each material *reinsurance* arrangement:

- the amount of any *reinsurance* offset (i.e. the amount of the difference between the *mathematical reserves* at the end of the *financial year in question* were that *reinsurance* to be ignored and the amount of the *mathematical reserves* after deducting the *mathematical reserves* reinsured);
- the amount of the contingent liability for payment to the *reinsurer*; and
- the commutation value at the end of the *financial year in question* of the *reinsurance* arrangement.

61 The entry at line 93 must equal the amount of any contingent asset receivable from a *cedant* not already recognised in Form 13 or 14. The *firm* must provide in a supplementary note (code 0307) to this Form the following information on each material outgoing *reinsurance* arrangement:

- the amount of any *reinsurance* liability (i.e. the amount of the difference between the *mathematical reserves* at the end of the *financial year in question* including the *mathematical reserves* reinsured 'in', and the amount of the *mathematical reserves* were that *reinsurance* to be ignored);
- the amount of the contingent asset for payments from *cedants*; and
- the commutation value at the end of the *financial year in question* of the

reinsurance arrangement.

- 62 The amount to be shown for contingent loans at line 94 must be the amount, including any interest accrued, still to be repaid from future profits under the arrangements, as at the end of the *financial year in question*, not already recognised in Form 14.
- 63 Line 95 must include the potential charge against future profits in respect of any other types of financial engineering not included in lines 91 to 94 where the gross amount of any contingent liability is not already recognised in Form 14.
- 64 The *firm* must provide an explanation of the nature of the adjustments in line 94 and 95 in a supplementary note (code 0308) to this Form, together with the amount of the adjustment for each material arrangement. As part of this note, the commutation value of each of the items included at lines 94 and 95, to the extent that value is not already a component of line 79, must be disclosed.
- 65 Details of any promises to *long-term insurance business policyholders* conditional upon future profits (other than bonuses not yet declared), or other charges to future profits not already disclosed, must be provided in a supplementary note (code 0309) to this Form.
- 66 A reconciliation of net *admissible assets* to *total capital resources* after deductions (line 79) must be provided as a supplementary note (code 0301). The reconciliation must contain the following items:
- (i) Net *admissible assets* [Form 13 line 89 (other than long-term business) plus Form 13 line 89 (long-term) less the sum of lines 11, 12 and 49 in Form 14 less Form 15 line 69]
 - (ii) Any components of *capital resources* that are treated as a liability in Form 14 or 15 (each to be specified and identified to the entries on Forms 3 and 14/15). (In particular this would include any subordinated loan capital.) [These items would be added to net *admissible assets* in the reconciliation]
 - (iii) Any components of *capital resources*, not included in (ii), that arise as a result of a *waiver* and are not represented by *admissible assets* included in Form 13 (each to be specified and identified to the entries on Form 3). (In particular this would include any *implicit items* included as a result of a *waiver* within *capital resources*.) [These items would be added to net *admissible assets* in the reconciliation]
 - (iv) Any other items, each such item to be separately specified. An explanation of each such item is to be provided together with, if applicable, the reference to where the item is included elsewhere in the *return* or in the *firm's* stand-alone accounts prepared under the Companies Acts 1985 or 2006, as appropriate, or (for *firms* not preparing accounts under the Companies Act legislation) equivalent overseas legislation or the applicable *United Kingdom* legislation). [These items would be added to or deducted from net *admissible assets* in the reconciliation as appropriate.]

The net *admissible assets* in item (i) plus or minus the additions and deductions in items (ii) to (iv), should equal line 79 (Total capital resources after deductions).

- 67 **Where a direction under section 138A of the Act has been issued to an *insurer* permitting it to take into account *implicit items on long-term insurance business*, that direction may specify that a note is to be included in the *return* explaining such items. That note must be included as a note to *Form 3* (Code 0312).**
- 68 **A reconciliation of profit and loss account and other reserves (line 12) as at the end of this financial year and the end of the previous financial year (columns 3 and 4) to the profit and loss retained (*Form 16* line 59) must be provided as a supplementary note (code 0313).**

Statement of net assets

Name of insurer

UK branch business/EEA branch business

Financial year ended

	Company registration number	GL/ UK/ CM	day	month	year	units
R10						£000
					As at end of this financial year 1	As at end of the previous year 2
Long term insurance business - admissible assets		11				
Long term insurance business - liabilities and margins		12				
Other than long term insurance business - admissible assets		21				
Other than long term insurance business - liabilities		22				
Net admissible assets (21-22)		23				

Movement of balance of net admissible assets as per line 23

Balance brought forward at the beginning of the financial year	61			
Retained profit / (loss) for the financial year	62			
Movement in asset valuation differences	63			
Decrease (increase) in the provision for "reasonably foreseeable adverse variations"	64			
Other movements (particulars to be specified by way of supplementary note)	65			
Balance carried forward at the end of the financial year (61 to 65)	69			

Instructions for completion of Form 10

PRA

- 1 **An external insurer (other than a non-EEA insurer whose insurance business in the United Kingdom is restricted to reinsurance or an insurer whose head office is in any EEA State except the United Kingdom whose insurance business in the EEA is restricted to reinsurance), an EEA-deposit insurer or a Swiss general insurer must complete Form 10 in respect of business carried on through a branch in the United Kingdom. An UK-deposit insurer must complete Form 10 in respect of business carried on through its branches in EEA States taken together.**
- 2 [deleted]
- 3 [deleted]
- 4 **Line 64 must be Form 15.61.2 less 15.61.1.**
- 5 **Line 65 should include transfers from or to head office (note 1002).**

Calculation of general insurance capital requirement– premiums amount and brought forward amount

Form 11

Name of insurer
 Global business / UK branch business / EEA branch business
 Financial year ended
 General/long-term insurance business

	Company registration number	GL/UK/CM	day	month	year	units
R11						£000
					This financial year	Previous year
					1	2

Gross premiums written		11		
Premium taxes and levies (included in line 11)		12		
Premiums written net of taxes and levies (11-12)		13		
Premiums for classes 11, 12 or 13 (included in line 13)		14		
Premiums for "actuarial health insurance" (included in line 13)		15		
Sub-total A (13 + ½ 14 - ²/₃ 15)		16		
Gross premiums earned		21		
Premium taxes and levies (included in line 21)		22		
Premiums earned net of taxes and levies (21-22)		23		
Premiums for classes 11, 12 or 13 (included in line 23)		24		
Premiums for "actuarial health insurance" (included in line 23)		25		
Sub-total H (23 + ½ 24 - ²/₃ 25)		26		
Sub-total I (higher of sub-total A and sub-total H)		30		
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure		31		
Division of gross adjusted premiums amount: x 0.18		32		
sub-total I (or adjusted sub-total I if appropriate) Excess (if any) over 61.3M EURO x 0.02		33		
Sub-total J (32-33)		34		
Claims paid in period of 3 financial years		41		
Claims outstanding brought forward at the beginning of the 3 year period For insurance business accounted for on an underwriting year basis		42		
For insurance business accounted for on an accident year basis		43		
Claims outstanding brought forward at the beginning of the 3 year period For insurance business accounted for on an underwriting year basis		44		
For insurance business accounted for on an accident year basis		45		
Sub-total C (41+42+43-44-45)		46		
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		47		
Sub-total D (46-47)		48		
Reinsurance ratio (Sub-total D / sub-total C or, if more, 0.50 or, if less, 1.00)		49		
Premiums amount (Sub-total J x reinsurance ratio)		50		
Provision for claims outstanding (before discounting and net of reinsurance)		51		
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero.		52		
Brought forward amount (See instruction 4)		53		
Greater of lines 50 and 53		54		

Calculation of general insurance capital requirement– claims amount and result

Form 12

Name of insurer
 Global business / UK branch business / EEA branch business
 Financial year ended
 General/long-term insurance business

	Company registration number	GL/UK/CM	day	month	year	units
R12						£000
						This financial year 1
						Previous year 2
Reference period (No. of months) See <i>INSPRU</i> 1.1.63R			11			
Claims paid in reference period			21			
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis		22			
	For insurance business accounted for on an accident year basis		23			
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis		24			
	For insurance business accounted for on an accident year basis		25			
Claims incurred in reference period (21+22+23-24-25)			26			
Claims incurred for classes 11, 12 or 13 (included in 26)			27			
Claims incurred for "actuarial health insurance" (included in 26)			27			
Sub-total E (26 + $\frac{1}{2}$ 27 - $\frac{2}{3}$ 28)			27			
Sub-total F – Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)			31			
Division of sub-total F (gross adjusted claims amount)	x 0.26		32			
	Excess (if any) over 42.9M EURO x 0.03		33			
Sub-total G (32 - 33)			39			
Claims amount Sub-total G x reinsurance ratio (11.49)			41			
Higher of premiums amount and brought forward amount (11.54)			42			
General insurance capital requirement (higher of lines 41 and 42)			43			

Instructions for completion of Forms 11 and 12

PRA

Long-term insurance business

- 1 For a **composite firm**, Forms 11 and 12 must be completed separately for the total **general insurance business** and for the total **long-term insurance business** which is **class IV** or supplementary accident and sickness insurance business or **life protection reinsurance business** written by a **pure reinsurer** or a **mixed insurer**. For other **firms**, the forms must be completed for the total **general insurance business** or for the total **long-term insurance business** which is **class IV**, or supplementary accident and sickness insurance business or **life protection reinsurance business** written by a **pure reinsurer** or a **mixed insurer**, as appropriate.
- 2 Notwithstanding instruction 1, if the gross annual office premiums for **class IV** business, **life protection reinsurance business** written by a **pure reinsurer** or a **mixed insurer** and supplementary accident and sickness insurance in force on the 'valuation date' do not exceed 1% of the gross annual office **premiums** in force on that date for all **long-term insurance business**, Forms 11 and 12 need not be completed for **long-term insurance business** as long as it can be stated that the entry in line 21 of Form 60 exceeds the amount that would be obtained if Forms 11 and 12 were to be completed for **long-term insurance business**. In this circumstance, the method of estimating the entry in line 21 of Form 60, together with a statement of the gross annual office **premiums** in force at the 'valuation date' in respect of **Class IV** business, **life protection reinsurance business** written by a **pure reinsurer** or a **mixed insurer** and supplementary accident and sickness insurance, must be given in a supplementary note (code 6001).
- 3 When completing Forms 11 and 12 for **long-term insurance business** the accounting conventions for **general insurance business** should be followed, but reasonable approximations may be used if they are unlikely to result in an underestimate of the **insurance health risk and life protection reinsurance capital component**.

Marine mutuals

- 4 In the case of a **marine mutual** completing an abbreviated **return** under rule 9.36A, units must be the same as those used in Form M1. If units are in US\$ or US\$000, then references to the sterling equivalent of Euro in line 33 of Form 11 and lines 33 of Form 12 must be taken to be references to the US\$ equivalent of the specified amount of Euro and the Forms must be amended to reflect the use of US\$. The bases of conversion adopted must be stated by way of a supplementary note to Form 11 (code 1101).

Pure reinsurers

- 5 Lines 14 and 24 of Form 11 and line 27 of Form 12 must be left blank for a **pure reinsurer** which became a **firm in run-off** before 31 December 2006 and whose **Part IV permission** has not subsequently been varied to add back the **regulated activity of effecting contracts of insurance**.

Prior year figures

- 6 ***INSPRU 1.1.71R*** requires recalculation of the ***gross adjusted premiums amount*** and the ***gross adjusted claims amount*** (but not during *financial years* beginning before 31 December 2004, because of the transitional provisions) if there has been a significant change to the business portfolio. This may alter the *claims amount* or the *premiums amount* used in calculating the ***general insurance capital requirement*** for the *financial year* in question. For this reason, entries in column 2 (but not the ***brought forward amount***: this should (errors excepted) equal the ***brought forward amount*** calculated in the previous year's return) may differ from the corresponding entries from the previous year. Any restatement of the figures should be explained by way of a supplementary note to Form 11 (code 1102) and Form 12 (code 1202).

Prior year figures

- 7 If the *financial year* ends after 30 December 2006, the amounts to be shown in column 2 must be the amounts shown in column 1 for the previous *financial year*, unless Forms 11 and 12 were not completed for the previous *financial year*. In that event column 2 must be left blank, apart from the amounts in 11.51.2, 11.52.2 and 12.43.2. The amounts in 11.51.2 and 12.43.2 must be calculated in accordance with the rules in force at the date to which they relate, so for a previous *financial year* ending prior to 31 December 2006 they must exclude ***life protection re insurance business***.
- 8 Where the *financial year* began between 1 January 2004 and 31 December 2004 (inclusive), the previous *financial year's* figures would normally be those sent to the FSA under rule 9.6(1B) and may be unaudited.
- 9 If the *financial year* began before 1 January 2005:
- the treatment of "actuarial health insurance" in the calculation will have changed and prior year figures in lines 32 and 33 of Form 11 and lines 32 and 33 of Form 12 may be inappropriate because the form does not represent the calculation at the time. If so, these figures should be left blank and an explanation should be provided by way of a supplementary note to Form 11 (code 1103) and Form 12 (code 1203).
 - the *firm* would not have had a reference period in relation to the ***previous financial year*** if it had been in existence for less than 3 or 7 *financial years* (as appropriate). If it had no reference period, then lines 11 to 41, column 2, of Form 12 should be left blank.

Premiums and claims

- 10 ***Premiums and claims*** are defined by references to ***contracts of insurance*** and these themselves are defined by the ***Regulated Activities Order*** so that ***premiums*** or ***claims*** may be included for contracts that would not be treated as insurance under normal accounting conventions. All direct and indirect costs related to the ***claims*** must be included. For ***life protection reinsurance business*** and ***permanent health reinsurance business*** the discount to the ***premium***, during any initial period, to allow for acquisition expenses of the cedant must be ignored, i.e. an adjustment must be made to ***premiums*** written and ***premiums*** earned as if the ***premium*** is the amount excluding the discount and the discount had been accounted for as an

expense.

Euro

- 11 The Euro amounts in the calculation of line 33 of Form 11 and line 33 of Form 12 will change from time to time as the result of indexation in accordance with *INSPRU 1.1.49R*. The conversion rate to be used is described in *INSPRU 1.1.50R*. Changes in the Euro amounts or conversion rates will not affect prior year figures.

Actuarial health insurance

- 12 "Actuarial health insurance" refers to health insurance business that meets the conditions of *INSPRU 1.1.72R* or for *class IV insurance business* those conditions as modified by *INSPRU 1.1.86R*.

Instructions for completion of Form 11

- 1 Line 30 represents the *gross adjusted premiums amount* calculated in accordance with *INSPRU 1.1.56R*, if the *financial year* has 12 months. Otherwise line 31 represents the *gross adjusted premiums amount*.
- 2 In accordance with *INSPRU 1.1.54R*, the reinsurance ratio calculated at line 49 must be:
- 1.00 if sub-total C is zero
 - 1.00 if sub-total D / sub-total C exceeds 1.00;
 - 0.50 if sub-total D / sub-total C is less than 0.50; and
 - sub-total D / sub-total C, otherwise.

The ratio at line 49 must be shown to two decimal places, but the unrounded ratio must be used for calculating *Form 11* line 50 and *Form 12* line 41.

- 3 The provisions in line 51 must be net of *reinsurance* and must not be discounted or reduced to take account of investment income, except for:
- risks in *classes 1* or *2*;
 - reductions to reflect the discounting of annuities; and
 - a *pure reinsurer* that does not have *permission* under the *Act* to effect *contracts of insurance*.

For these exceptions, the discount must be calculated in accordance with *GENPRU 1.3.4R* and, if any amounts in line 51 are discounted, a supplementary note to the *Form 11* (code 1104) must describe the items that are discounted.

- 4 *Form 11* line 53 column 1 is determined as follows:
- If *Form 11* line 51 columns 1 and 2 and line 52 column 2 are all zero then *Form 11* line 53 column 1 equals *Form 12* line 43 column 2.
 - If *Form 11* line 51 columns 1 and 2 are both zero but line 52 column 2 is non-

zero then *Form 11* line 53 column 1 equals the lesser of *Form 12* line 43 column 2 and (*Form 12* line 43 column 2 multiplied by the ratio of *Form 11* line 52 column 1 to line 52 column 2).

- If *Form 11* line 51 column 2 is zero but line 51 column 1 is non-zero then *Form 11* line 53 column 1 equals *Form 12* line 43 column 2.
- If *Form 11* line 51 column 2 is non-zero then *Form 11* line 53 column 1 equals the lesser of *Form 12* line 43 column 2 and (*Form 12* line 43 column 2 multiplied by the ratio of *Form 11* line 51 column 1 to line 51 column 2)

Instructions for completion of Form 12

- 1** The reference period in line 11 is specified in ***INSPRU 1.1.63R***.
- 2** Statistical methods may be used to allocate the ***claims***, provisions and recoveries in respect of ***classes 11, 12 and 13*** in line 27.
- 3** Line 31 represents the ***gross adjusted claims amount*** calculated in accordance with ***INSPRU 1.1.60R***.

Line 43 represents the ***general insurance capital requirement*** that relates to the following ***financial year***: that is the year commencing on the day after the year end to which the ***returns*** relate.

Analysis of admissible assets

Name of insurer
Global business/UK branch business/EEA branch business
Financial year ended
Category of assets

R13	Company registration number	GL/UK/CM	day	month	year	units	Category of assets
						£000	
						As at end of this financial year 1	As at end of the previous year 2
Land and buildings				11			

Investments in group undertakings and participating interests

UK insurance dependants	shares	21		
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non- insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27		
	debts and loans	28		
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43		
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	
	Other	46	
Variable interest securities	Approved	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	
	More than one month withdrawal	55	
Other financial investments	56		

Analysis of admissible assets

Name of insurer
Global business/UK branch business/EEA branch business
Financial year ended
Category of assets

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets
	R13					£000	
						As at end of this financial year 1	As at end of the previous year 2
Deposits with ceding undertakings					57		
Assets held to match linked liabilities	Index linked				58		
	Property linked				59		
Reinsurers' share of technical provisions							
Provision for unearned premiums					60		
Claims outstanding					61		
Provision for unexpired risks					62		
Other					63		
Debtors and salvage							
Direct insurance business	Policyholders				71		
	Intermediaries				72		
Salvage and subrogation recoveries					73		
Reinsurance	Accepted				74		
	Ceded				75		
Dependants	due in 12 months or less				76		
	due in more than 12 months				77		
Other	due in 12 months or less				78		
	due in more than 12 months				79		
Other assets							
Tangible assets					80		
Deposits not subject to time restriction on withdrawal with approved institutions					81		
Cash in hand					82		
Other assets (particulars to be specified by way of supplementary note)					83		
Accrued interest and rent					84		
Deferred acquisition costs (general business only)					85		
Other prepayments and accrued income					86		
Deductions from the aggregate value of assets					87		
Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)					89		

Analysis of admissible assets

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

Category of assets

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets
R13						£000	
						As at end of this financial year 1	As at end of the previous year 2

Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91		
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102		
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Instructions for completion of Form 13

PRA

- 1** Form 13 must be completed for the total *long-term insurance business assets* of the *insurer* or *branch* and for each fund or group of funds for which separate assets are appropriated. The words "total *long-term insurance business assets*" or the name of the fund must be shown against the heading "Category of assets". The corresponding code box must contain "10" for the total assets and, in the case of separate funds, code numbers allocated sequentially beginning with code "11".
- 2** Form 13 must be completed in respect of the total assets of the *insurer* or *branch* other than any *long-term insurance business assets*. The words "total other than *long-term insurance business assets*" must be shown against the heading "Category of assets", and the corresponding code box must contain "1".
- 3** (a) In the case of the *United Kingdom branch return* of an *external insurer* (other than a *non-EEA insurer* whose *insurance business* in the *United Kingdom* is restricted to *reinsurance* or an *insurer* whose head office is in any *EEA State* except the *United Kingdom* whose *insurance business* in the *EEA* is restricted to *reinsurance*) Form 13 must be completed for the following categories of assets –

Category	Code – other than <i>long-term insurance business assets</i>	Code – <i>long-term insurance business assets</i>
In the case of a <i>non-EEA insurer</i> , assets deposited under <i>INSPRU 1.5.54R</i>	2	6
Assets maintained in the <i>United Kingdom</i>	3	7
Assets maintained in the <i>United Kingdom</i> and the other <i>EEA States</i>	4	8

- (b) In the case of an *EEA branch return* of a *UK-deposit insurer* which has made a deposit under *INSPRU 1.5.54R*, Form 13 must be completed for the following categories of assets –

Category	Code – other than <i>long-term insurance business assets</i>	Code – <i>long-term insurance business assets</i>
Assets deposited under <i>INSPRU 1.5.54R</i>	2	6
Assets maintained in the <i>United Kingdom</i> and the other <i>EEA States</i>	4	8
Assets maintained in the <i>United Kingdom</i> and the <i>EEA</i>	5	9

States where *insurance business* is carried on

4 In lines 11 to 86 –

- (a) for the purpose of classifying (but not valuing) assets, headings and descriptions used above, wherever they also occur in the balance sheet format in Schedule 9A to the Companies Act 1985, where applicable, otherwise Schedule 3 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), must have the same meaning as in those Schedules,
- (b) *dependants* of the *firm* must be valued in accordance with *GENPRU* 1.3.47R,
- (c) a *related undertaking* that is not a *dependant* of the *firm* must be valued in accordance with *GENPRU* 1.3.47R unless:
 - It is an *ancillary services undertaking* which must be valued at zero;
 - It is a *related undertaking* that is not a *regulated related undertaking* which must be valued in accordance with *GENPRU* 1.3.41R; or
 - [deleted]
- (d) other assets must be valued in accordance with rule 9.10,
- (e) assets of any particular description must be shown after deduction of assets of that description which (for any reason) fall to be left out of account under *INSPRU* 2.1.22R(3)(a), (b), (c), (g) and (h). Negative amounts should not be shown at lines 11 to 86. If a deduction is more than the value of the assets to which it relates, the excess element of the deduction should be shown at line 87; and
- (f) deductions in respect of *market risk* and *counterparty risk* are to be shown in line 87, to the extent that (e) does not require them to be recognised in other lines.

5 The aggregate value of those investments which are:

- (a) *unlisted* investments falling within any of lines 41, 42, 46 or 48 which have been valued in accordance with the *rules* in *GENPRU* 1.3;
- (b) *listed* investments falling within any of lines 41, 42, 46 or 48 which have been valued in accordance with the *rules* in *GENPRU* 1.3 and which are not *readily realisable*;
- (c) units or other beneficial interests in *collective investment schemes* that:
 - (i) are not schemes falling within the *UCITS Directive*;
 - (ii) are not authorised unit trust schemes or recognised schemes within the meaning of Part XVII of the *Act*;
 - (iii) do not employ *derivative contracts* unless they meet the criteria in

INSPRU 3.2.5R;

- (iv) do not employ contracts or assets having the effect of *derivative contracts* unless they have the effect of *derivative contracts* that meet the criteria in *INSPRU 3.2.5R*; and
- (v) do not include assets other than *admissible assets* among their property; or
- (d) reversionary interests or remainders in property other than land or buildings,

must be stated by way of a supplementary note (code 1301 for other than *long-term insurance business* and code 1308 for *long-term insurance business*) to this Form, together with a description of such investments.

- 6 The aggregate value of those investments falling within lines 46 or 48 which are *hybrid securities* are to be stated by way of a supplementary note (code 1302 for other than *long-term insurance business* and code 1309 for *long-term insurance business*) to this Form.
- 7 Amounts in respect of salvage or subrogation included above other than at line 73 are to be stated by way of a supplementary note (code 1303) to this Form.
- 8 The entry at line 85 must be gross of any related reinsurance commission.
- 9 The amount to be shown in line 93 must equal the total of the relevant proportions in accordance with *GENPRU 1.3.49R* and *GENPRU 1.3.50R* of the *individual capital resources requirements* of the *regulated related undertakings*.
- 10 The amount to be shown in line 94 must equal the ineligible surplus capital and any restricted assets of any *regulated related undertaking* that is an *insurance undertaking* that are deducted in accordance with *GENPRU 1.3.47R (3)(b)*.
- 11 Lines 60 to 63 and 85 relate only to *general insurance business*. The amount in lines 60-62 recoverable from *Insurance Special Purpose Vehicles* must be disclosed in a supplementary note (code 1320).
- 12 Lines 60 to 63 and 85 must be left blank for "Category of assets" code "2".
- 13 Since the *technical provisions* for *claims* outstanding shown in *Form 15* may only be discounted or reduced to take account of investment income in limited circumstances, the amount shown at line 12 of *Form 15* may need to be increased (see instruction 4 to *Form 15*). In such cases, the reinsurers' share shown at line 61 must be adjusted to be consistent with the amount shown in line 12.
- 14 The amount of any tangible leased asset included at line 80 must be disclosed by way of a supplementary note (code 1314 for other than *long-term insurance business* and code 1316 for *long-term insurance business*) to this Form.
- 15 Particulars of any other assets included at line 83 must be stated by way of a supplementary note (code 1315 for other than *long-term insurance business* and code 1317 for *long-term insurance business*) to this Form.

- 16** Lines 99-102 must be completed in accordance with the *insurance account rules* or *international accounting standards* as applicable to the *firm* for the purpose of its external financial reporting if the *firm* is required to produce such accounts. Otherwise these lines must be left blank. Line 100 includes the discounting adjustment for the *reinsurers'* share of claims outstanding – see instruction 4 of *Form 15*. Details of amounts in line 101 must be disclosed in a supplementary note (code 1318). For years ending on or before 30 December 2008, the previous year figure for line 93 must be left blank and that for line 101 must equal line 100 from the previous *return*.

Long term insurance business liabilities and margins

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

Total business / subfund

Units

		As at end of this financial year 1	As at end of the previous year 2
Mathematical reserves, after distribution of surplus	11		
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus / (valuation deficit)	13		
Long term insurance business fund carried forward (11 to 13)	14		
Claims outstanding	Gross	15	
	Reinsurers' share	16	
	Net (15-16)	17	
Provisions	Taxation	21	
	Other risks and charges	22	
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	
	Other	38	
Accruals and deferred income	39		
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49		
Excess of the value of net admissible assets	51		
Total liabilities and margins	59		
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		
Total liabilities (11+12+49)	71		
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76		

Instructions for completion of Form 14

PRA

- 1** The Form must be completed for the total *long-term insurance business liabilities* and margins of the *insurer* or *branch* and for each fund or group of funds for which separate assets are appropriated and each *with-profits fund*.
- 2** The entry at line 11 must equal the sum of lines 21, 43, 44 and 45 of the appropriate Form or Forms 58.
- 3** The entry at line 12 must equal line 42 of the appropriate Form or Forms 58.
- 4** The entry at line 13 must equal line 49 of the appropriate Form or Forms 58.
- 5** The entry at line 14 must equal line 59 of the appropriate Form or Forms 40.
- 6** Where the provision required by *INSPRU 3.2.17R(3)* is implicit (i.e. the obligation to pay the monetary amount is recognised under the *rules* in *GENPRU 1.3*), *insurers* must state the amount of the provision, in a supplementary note (code 1404).
- 7** The entry at line 51 must be:
 - (a)** the value of the *admissible assets* (as included in line 89 of the appropriate Form 13) representing the *long-term insurance funds*, fund or group of funds to which the Form relates, less
 - (b)** the amount of those funds, fund or group of funds, being the sum of the amounts shown at lines 14 and 49.
- 8** Lines 72-76 must be completed in accordance with the *insurance accounts rules* or *international accounting standards* as applicable to the *insurer* for the purpose of its external financial reporting if the *insurer* is required to produce such accounts. Otherwise, and for *Forms 14* at subfund level, these lines must be left blank. The amount of DAC in line 72 must be adjusted for any associated deferred tax. Details of amounts in line 74 must be disclosed in a supplementary note (code 1405). The previous year figures must be left blank for financial years ending on or before 30 December 2006.
- 9** The amount of each provision, included in line 22, in respect of a deficit in a *regulated related undertaking* and the identity of the *undertaking* must be disclosed in a supplementary note (code 1403) to this Form.

Liabilities (other than long term insurance business)

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

	Company registration number	GL/ UK/ CM	day	month	year	units
	R15					£000
			As at end of this financial year 1		As at end of the previous year 2	

Technical provisions (gross amount)

Provisions for unearned premiums	11		
Claims outstanding	12		
Provision for unexpired risks	13		
Equalisation provisions	Credit business	14	
	Other than credit business	15	
Other technical provisions	16		
Total gross technical provisions (11 to 16)	19		

Provisions and creditors

Provisions	Taxation	21	
	Other risks and charges	22	
Deposits received from reinsurers	31		
Creditors	Direct insurance business	41	
	Reinsurance accepted	42	
	Reinsurance ceded	43	
Debenture loans	Secured	44	
	Unsecured	45	
Amounts owed to credit institutions	46		
Creditors	Taxation	47	
	Foreseeable dividend	48	
	Other	49	
Accruals and deferred income	51		
Total (19 to 51)	59		
Provision for "reasonably foreseeable adverse variations"	61		
Cumulative preference share capital	62		
Subordinated loan capital	63		
Total (59 to 63)	69		

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		
Capital and reserves	84		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85		

Instructions for completion of Form 15

PRA

- 1 Amounts in lines 11 to 13 and 16 must be stated gross of *reinsurers' share*.
- 2 The aggregate amount of any accrued dividend in respect of cumulative *preference shares* issued by the *insurer* must be shown by way of a supplementary note (code 1503) to this Form.
- 3 Only equalisation provisions that are created as a result of a regulatory requirement are to be included at lines 14 and 15
- 4 The amount shown in line 12 may only be discounted or reduced to take account of investment income:
 - (a) for *Class 1 or 2 business*; or
 - (b) in respect of annuities; or
 - (c) if the *insurer* is a *pure reinsurer* which became a *firm in run-off* before 31 December 2006 and whose *Part IV permission* has not subsequently been varied to add back the *regulated activity of effecting contracts of insurance*.

So, if the *technical provisions* for *claims* outstanding for other business are discounted or reduced to take account of investment income, then they must be increased by the difference between the undiscounted and the discounted provisions. If the *technical provisions* are increased the amount of the increase must be shown in line 82 and the corresponding increase in the *reinsurers' share* must be included as a negative item in line 99 of *Form 13*.

- 5 The amount of each provision, included in line 22, in respect of a deficit in a *regulated related undertaking* and the identity of the *undertaking* must be disclosed in a supplementary note (code 1504).
- 6 Where the provision required by *INSPRU 3.2.17R(3)* is implicit (i.e. the obligation to pay the monetary amount is recognised under the *rules* in *GENPRU 1.3*), the amount of the provision must be stated in a supplementary note (code 1506).
- 7 The amount shown in line 51 must include reinsurance commissions related to *deferred acquisition costs* corresponding to the allowance included in *Form 13* line 85.
- 8 Lines 82-85 must be completed in accordance with the *insurance accounts rules* or *international accounting standards* as applicable to the *insurer* for the purpose of its external financial reporting if the *insurer* is required to produce such accounts. Otherwise these lines must be left blank. Details of amounts in line 83 must be disclosed in a supplementary note (code 1507).
- 9 The amount at line 48 column 1 is dividends which are foreseeable in accordance with *GENPRU 2.2.87AG*. Where the previous financial year ends before 31

December 2007 the amount shown in column 2 must be the amount shown in the previous annual return (where a different definition for this item may have been used).

Profit and loss account (non-technical account)

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

		Company registration number	GL/ UK/ CM	day	month	year	units
R16							£000
			This financial year 1	Previous year 2			
Transfer (to) / from the general insurance business technical account	From Form 20	11					
	Equalisation provisions	12					
Transfer from the long term insurance business revenue account		13					
Investment income	Income	14					
	Value re-adjustments on investments	15					
	Gains on the realisation of investments	16					
Investment charges	Investment management charges, including interest	17					
	Value re-adjustments on investments	18					
	Loss on the realisation of investments	19					
Allocated investment return transferred to the general insurance business technical account		20					
Other income and charges (particulars to be specified by way of supplementary note)		21					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29					
Tax on profit or loss on ordinary activities		31					
Profit or loss on ordinary activities after tax (29-31)		39					
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		41					
Tax on extraordinary profit or loss		42					
Other taxes not shown under the preceding items		43					
Profit or loss for the financial year (39+41-(42+43))		49					
Dividends (paid or foreseeable)		51					
Profit or loss retained for the financial year (49-51)		59					

Instructions for completion of Form 16

PRA

- 1** In addition to the supplementary note (code 1601) required under *Appendix 9.1* paragraph 5(2), where any brought forward amounts on any Form are restated due to currency reversion it would be appropriate to briefly state this fact in a supplementary note (code 1602) to this Form in order to facilitate the FSA's computerised validation of the *return*. This fact may be stated by a simple statement, e.g. 'Some of the brought forward amounts shown in the forms xx to xx have been restated from the corresponding carried forward amounts included in the previous year's *return* due to the reversion of foreign currency amounts at a different rate of exchange'. No further details need be given.
- 1a** Unrealised gains and losses on investments (other than for investments in the long term fund) must be included in their entirety at lines 15 and 18, even if a different accounting treatment is adopted in the Companies Act accounts. Unrealised gains and losses must be measured by reference to the value included for the investment at line 102 on Form 13, i.e. the Companies Act accounts value.
- 2** Particulars of any amounts included at lines 21 must be stated by way of a supplementary note (code 1603) to this Form.
- 3** Particulars of any amounts included at lines 41 must be stated by way of a supplementary note (code 1604) to this Form.
- 4** The amount at line 51 column 1 includes dividends which are foreseeable in accordance with *GENPRU 2.2.87AG*. Where the previous financial year ends before 31 December 2007 the amount shown in column 2 must be the amount shown in the previous annual return (where a different definition for this item may have been used).

Form 17

Analysis of derivative contracts

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

Category of assets

		Company registration number	GL/UK/CM	day	month	year	units	Category of assets
		R17					£000	
Derivative contracts			Value as at the end of this financial year		Notional amount as at the end of this financial year			
			Assets 1	Liabilities 2	Bought / Long 3	Sold / Short 4		
Futures and contracts for differences	Fixed-interest securities	11						
	Interest rates	12						
	Inflation	13						
	Credit index / basket	14						
	Credit single name	15						
	Equity index	16						
	Equity stock	17						
	Land	18						
	Currencies	19						
	Mortality	20						
	Other	21						
In the money options	Swaptions	31						
	Equity index calls	32						
	Equity stock calls	33						
	Equity index puts	34						
	Equity stock puts	35						
	Other	36						
Out of the money options	Swaptions	41						
	Equity index calls	42						
	Equity stock calls	43						
	Equity index puts	44						
	Equity stock puts	45						
	Other	46						
Total (11 to 46)		51						
Adjustment for variation margin		52						
Total (51 + 52)		53						

Instructions for completion of Form 17

PRA

- 1 Where the year end total notional amount (line 51.3 + line 51.4) exceeds the lesser of £100m and 5% of assets not held to match linked liabilities (Form 13 line 89.1 – Form 13 line 58.1 – Form 13 line 59.1) for the total *long-term insurance business* assets or the total assets other than *long-term insurance business* assets, Form 17 must be completed in respect of that total category of assets of the *insurer* or branch. Form 17 must also be completed for each fund or group of funds referred to in instruction 1 to Form 13 if Form 17 must be completed in respect of the total *long-term insurance business* assets.
- 2 The codes specified in instructions 1 to 3 to Form 13 must be used as appropriate.
- 3 *Derivative contracts* must be analysed according to the description of assets shown in the second column of Form 17 which represents the principal subject of the contract. Credit derivatives include credit default swaps and total return swaps. An option is in the money (and conversely out of the money) if it could be exercised based on market conditions as at the end of the financial year.
- 4 *Derivative contracts* must be reported as assets in column 1 of Form 17 if their value to the *insurer* (gross of *variation margin*) is positive and as liabilities in column 2 of Form 17 if their value (gross of *variation margin*) to the *insurer* is negative.
- 5 All amounts included at lines 11 to 51 columns 1 and 2 of Form 17 in respect of *derivative contracts* must be determined without making any allowance for *variation margin*.
- 6 Amounts in respect of a derivative contract may only be included net of amounts in respect of any other derivative contract if -
 - (a) obligations of the *insurer* under the contracts may be set off against each other under generally accepted accounting practice; and
 - (b) such other contract has the effect (in whole or in part) of closing out the obligations of the *insurer* under the first mentioned contract.
- 7 The effect of any *variation margin* upon amounts included at lines 11 to 51 of Form 17 and columns 1 and 2 must be shown at line 52 columns 1 and 2.
- 8 The entry at 17.53.1 must be included at 13.44.1.
- 9 The entry at 17.53.2 must be included at 14.38.1 or 15.49.1. as appropriate.
- 10 Rights to recover assets transferred by way of *initial margin* must not be shown on Form 17.
- 11 In columns 3 and 4, the notional amount is:

- (a) For interest rate and inflation *swaps*, the cash amount on which the *swap* is based.
- (b) For *credit default swaps*, the nominal value of the bonds on which the *swap* is based.
- (c) For mortality *swaps*, the market value of the fixed future payments.
- (d) For *swaptions*, the nominal amount on which conversion to a fixed interest rate will be applied.
- (e) For *options* other than *swaptions*, the market value of the assets subject to the *option*.
- (f) For *futures*, the market value of the asset that is contracted to be bought / sold.
- (g) For other *contracts for differences*, the nominal value of the property, index or other value referenced by the contract.

12 For the purposes of columns 3 and 4, a contract is bought / long (and conversely sold / short) if it is:

- (a) For currency *futures* and *contracts for differences*, a contract where the *insurer* pays sterling. Currency contracts not involving sterling must be replicated as a contract into sterling and a contract out of sterling. For example, a *future* to buy a currency other than sterling at a price expressed in another non-sterling currency must be replicated by a long *future* to buy the first currency with sterling and a short *future* to sell the second currency for sterling.
- (b) For interest rate and inflation *swaps*, a contract where the *insurer* receives a fixed rate in exchange for paying a variable (short term deposit) rate. A *swap* between a short term deposit rate and inflation must be replicated as a deposit / fixed and a fixed / inflation *swap*.
- (c) For *credit default swaps*, a contract where the *insurer* receives a fixed payment in exchange for taking on credit risk.
- (d) For mortality *swaps*, a contract where the *insurer* receives a fixed payment in exchange for taking on mortality risk.
- (e) For *options*, a contract where the *insurer* has the option to buy the underlying or has provided the option to a counterparty to sell the underlying.

With-profits insurance capital component for the fund

Name of insurer
 With-profits fund
 Financial year ended
 Units

	As at end of this financial year 1	As at end of the previous year 2
--	---	---

Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11		
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13		
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19		
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21		
	Regulatory current liabilities of the fund	22		
	Total (21+22)	29		
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31		
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39		
Regulatory excess capital (19-39)		49		

Realistic excess capital

Realistic excess capital	51		
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61		
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64		
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero; else greater of 61-64-65 and zero)	66		

Instructions for completion of Form 18

PRA

- 1** The entries at lines 11, 12, 13 and 14 must equal the values determined in accordance with *INSPRU* 1.3.24R. The entry at line 15 must be left blank for financial years ending on or after 31 December 2006.
- 2** The entry at line 19 must equal the value determined in accordance with *INSPRU* 1.3.23R(1).
- 3** The entries at lines 21 and 22 must equal the values determined in accordance with *INSPRU* 1.3.29R.
- 4** The entries at lines 29 and 31 must equal the values determined in accordance with *INSPRU* 1.3.23R(2)(a) and (b) respectively. The entry at line 32 must be left blank for financial years ending on or after 31 December 2006.
- 5** The entry at line 39 must equal the value determined in accordance with *INSPRU* 1.3.23R(2).
- 6** The entry at line 49 must equal the value determined in accordance with *INSPRU* 1.3.23R.
- 7** The entry at line 51 must equal the value at Form 19, Line 66.
- 8** The entry at line 62 must equal C, determined in accordance with *INSPRU* 1.3.7R(3)(a).
- 9** The entry at line 63 must equal D, determined in accordance with *INSPRU* 1.3.7R(3)(b).
- 10** The entry at line 64 must equal the value determined in accordance with *INSPRU* 1.3.7R(2)(b)(ii). The previous year figure must be left blank for financial years ending on or before 30 December 2007.
- 11** The entry at line 65 must equal the amount determined in accordance with *INSPRU* 1.3.7R(2)(b)(iii). The previous year figure must be left blank for financial years ending on or before 30 December 2007.
- 12** The entry at line 66 must equal the contribution in respect of the fund to the aggregate value determined in accordance with *INSPRU* 1.3.7R(1).

Realistic balance sheet

Name of insurer
With-profits fund
Financial year ended
Units

		As at end of this financial year 1	As at end of the previous year 2
Realistic value of assets available to the fund			
Regulatory value of assets		11	
Implicit items allocated to the fund		12	
Value of shares in subsidiaries held in fund (regulatory)		13	
Excess admissible assets		21	
Present value of future profits (or losses) on non-profit insurance contracts written in the fund		22	
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22		23	
Value of shares in subsidiaries held in fund (realistic)		24	
Prepayments made from the fund		25	
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))		26	
Support arrangement assets		27	
Assets available to the fund (26+27)		29	
Realistic value of liabilities of fund			
With-profits benefit reserve		31	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	
	Future costs of contractual guarantees (other than financial options)	41	
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	
	Future costs of smoothing (possibly negative)	44	
	Financing costs	45	
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	
Realistic current liabilities of the fund		51	
Realistic value of liabilities of fund (31+49+51)		59	

Realistic balance sheet

**Form 19
(Sheet 2)**

Name of insurer
With-profits fund
Financial year ended
Units

	As at end of this financial year 1	As at end of the previous year 2
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Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62		
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64		
Risk capital margin for fund (62-59)	65		
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67		
Working capital for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		

Other assets potentially available if required to cover the fund's risk capital margin

Additional amount potentially available for inclusion in line 62	81		
Additional amount potentially available for inclusion in line 63	82		

Instructions for completion of Form 19

PRA

- 1 The entry at line 11 must equal the value at Form 18, Line 19.
- 2 The entry at line 12 must equal the value at Form 18, Line 12.
- 3 The entry at line 13 must be the amount determined in accordance with *GENPRU* 1.3 and excluded from the amount calculated in accordance with *INSPRU* 1.3.33R(1)(a).
- 4 The entry at line 21 must be the amount of the fund's excess *admissible assets*, determined in accordance with *INSPRU* 1.3.33R(1)(b).
- 5 The entry at line 22 must be the present value of future profits (or losses) on any *non-profit insurance contracts* written in the *with-profits fund*, determined in accordance with *INSPRU* 1.3.33R(1)(c).
- 6 The entry at line 23 must be the market value of any *derivative* or *quasi-derivative* determined in accordance with *INSPRU* 1.3.33R(1)(d).
- 7 The entry at line 24 must be the amount determined in accordance with *INSPRU* 1.3.33R(1)(e).
- 8 The entry at line 25 must be the amount determined in accordance with *INSPRU* 1.3.33R(1)(f).
- 9 The entry at line 26 must be the amount determined in accordance with *INSPRU* 1.3.32R(1).
- 10 The entry at line 27 must be any other amount providing capital support to the fund under a support arrangement, included with the prior agreement of the *FSA*.
- 11 The entry at line 31 must be the amount determined in accordance with *INSPRU* 1.3.40R(1).
- 12 The entries at lines 32, 33, 34, 35, 36, 41, 42, 43, 44, 45, 46 and 47 must be the amounts determined in accordance with *INSPRU* 1.3.137R(1) to (11).
- 13 The entry at line 32 is the (positive) amount determined in accordance with *INSPRU* 1.3.137R(1) if this represents a surplus.
- 14 The entry at line 33 is the (positive) amount determined in accordance with *INSPRU* 1.3.137R(1) if this represents a deficit.
- 15 The entries at lines 34, 35, 36, 41, 42, 43, 44 and 45 are the amounts determined in accordance with *INSPRU* 1.3.137R(2) to (9) respectively.
- 16 The entries at lines 46 and 47 are the values determined in accordance with

INSPRU 1.3.137R(10) and (11).

- 17** The entry at line 49 must be the amount determined in accordance with *INSPRU 1.3.40R(2)*.
- 18** The entry at line 51 must be the amount determined in accordance with *INSPRU 1.3.40R(3)*.
- 19** The entry at line 59 must be the amount determined in accordance with *INSPRU 1.3.32R(2)(a)*.
- 20** The entry at line 62 must be the amount described as *A* and determined in accordance with *INSPRU 1.3.43R(3)(a)* adjusted to exclude any amount taken into consideration under *INSPRU 1.3.45R(2)(c)*.
- 21** The entry at line 63 must be any amount taken into consideration under *INSPRU 1.3.45R(2)(c)* in determining the amount described as *A* in accordance with *INSPRU 1.3.43R(3)(a)*.
- 22** The entry at line 64 must be the amount described as *A* and determined in accordance with *INSPRU 1.3.43R(3)(a)*.
- 23** The entry at line 65 must be the amount determined in accordance with *INSPRU 1.3.32R(2)(b)*.
- 24** The entry at line 66 must be the amount determined in accordance with *INSPRU 1.3.32R*.
- 24A** The entry at line 69 must be shown as a percentage to two decimal places.
- 25** The entry at line 81 must be an amount not exceeding the sum of the value of the net shareholders assets of the *firm* and the surplus assets of the *firm's non-profit funds*, to the extent not included at any Form 19 line 27 or at any Form 19 line 62 and to the extent not required to meet regulatory capital requirements in respect of any business written outside the fund.
- 26** The entry at line 82 must be an amount not exceeding 50% of the present value of future profits arising from insurance contracts written by the firm outside its *with-profits funds* reduced by the sum of any amounts included at any Form 19 line 63.

Conduct of Business Sourcebook

relation to *MiFID or equivalent third country business*, all communications that are marketing communications within the meaning of *MiFID*.

- (2) In the case of *MiFID or equivalent third country business*, certain requirements in this chapter are subject to an exemption for the communication of a *third party prospectus* in certain circumstances. This has a similar effect to the exemption in article 70(1)(c) of the *Financial Promotion Order*, which is referred to in the definition of an *excluded communication*.
- (3) In this chapter "*financial promotion*" and "*direct offer financial promotion*" include communications that are marketing communications for the purposes of the *UCITS Directive*.

4.1.5

FCA

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- (1) A *firm* communicating with an *eligible counterparty* should have regard to the application of *COBS* to *eligible counterparty business* (■ *COBS 1 Annex 1 Part 1*).
- (2) This chapter does not apply in relation to communicating with an *eligible counterparty* other than the section on compensation information (see ■ *COBS 4.4*) but elements of the requirements in *PRIN* may apply.

4.1.6

FCA

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Approving a financial promotion without communicating it (which includes causing it to be communicated) is not *MiFID or equivalent third country business*. *Communicating a financial promotion to a person*, such as a *corporate finance contact* or a *venture capital contact*, who is not a *client* within the meaning of ■ *COBS 3.2.1 R (1)*, ■ *COBS 3.2.1 R (2)* or ■ *COBS 3.2.1 R (4)* in respect of the *MiFID or equivalent third country business* to which the *financial promotion* relates, is also not *MiFID or equivalent third country business*. Further *guidance* on what amounts to *MiFID business* may be found in ■ *PERG 13*.

4.1.7

FCA

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A reference in this chapter to *MiFID or equivalent third country business* includes a reference to communications that occur before an agreement to perform services in relation to *MiFID or equivalent third country business*.

[Note: see recital 82 to the *MiFID implementing Directive*]

Where? General position

4.1.8

FCA

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- (1) In relation to communications by a *firm* to a *client* in relation to its *designated investment business* this chapter applies in accordance with the *general application rule* and the *rule on business with UK clients* from an overseas establishment (■ *COBS 1 Annex 1 Part 2 paragraph 2.1R*).
- (2) In addition, the *financial promotion rules* apply to a *firm* in relation to:
 - (a) the *communication of a financial promotion to a person inside the United Kingdom*;
 - (b) the *communication of a cold call to a person outside the United Kingdom*, unless:
 - (i) it is made from a place outside the *United Kingdom*; and

(ii) it is made for the purposes of a business which is carried on outside the *United Kingdom* and which is not carried on in the *United Kingdom*; and

(c) the *approval* of a *financial promotion* for *communication* to a *person* inside the *United Kingdom*.

Where? Modifications to comply with EU law

4.1.9

FCA

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(1) The *EEA territorial scope rule* modifies the general territorial scope of the *rules* in this chapter to the extent necessary to be compatible with European law. This means that in a number of cases, the *rules* in this chapter will apply to *communications* made by *UK firms* to *persons* located outside the *United Kingdom* and will not apply to *communications* made to *persons* inside the *United Kingdom* by *EEA firms*. Further *guidance* on this is located in

■ COBS 1 Annex 1.

(2) One effect of the *EEA territorial scope rule* is that the *rules* in this chapter will not generally apply to an *EEA key investor information document* but will, for example, apply to a *firm* (including an *EEA UCITS management company*) when *marketing* in the *United Kingdom* the *units* of an *EEA UCITS scheme* that is a *recognised scheme*.

(3) The *financial promotion rules* do not apply to incoming communications in relation to the *MiFID business* of an *investment firm* from another *EEA State* that are, in its *home member state*, regulated under *MiFID* other than to the extent ■ COBS 4.12 (Restrictions on the promotion of *non-mainstream pooled investments*) applies.

4.1.10

FCA

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Firms should note the territorial scope of this chapter is also affected by:

(1) the disapplication for *financial promotions* originating outside the *United Kingdom* that are not capable of having an effect within the *United Kingdom* (section 21(3) of the *Act* (Restrictions on financial promotion)) (see the defined term "*excluded communication*");

(2) the exemptions for overseas communicators (see the defined term "*excluded communication*"); and

(3) the *rules* on *financial promotions* with an overseas element (see ■ COBS 4.9).

- (i) the *financial promotion* has not ceased to be fair, clear and not misleading since that time; and
- (ii) B has not withdrawn the *financial promotion*.

(2) This *rule* does not apply in relation to *MiFID* or equivalent *third country business*.

4.10.11

FCA

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A *firm* should inform anyone relying on its confirmation of compliance if it becomes aware that the *financial promotion* no longer complies with the *rules* in this chapter.

4

4.11.1

FCA

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4.11 Record keeping: financial promotion

- (1) A *firm* must make an adequate record of any *financial promotion* it *communicates* or *approves*, other than a *financial promotion* made in the course of a personal visit, telephone conversation or other interactive dialogue.
- (2) For a telemarketing campaign, a *firm* must make an adequate record of copies of any scripts used.
- (2A) If a *firm communicates* or *approves* an invitation or inducement to participate in, acquire, or underwrite a *non-mainstream pooled investment* which is addressed to or disseminated in such a way that it is likely to be received by a *retail client*:
 - (a) the *person* allocated the *compliance oversight function* in the *firm* must make a record at or near the time of the communication or approval certifying that the invitation or inducement complies with the restrictions set out in section 238 of the *Act* and in ■ COBS 4.12.3 R, as applicable;
 - (b) the making of the record required in (a) may be delegated to one or more *employees* of the *firm* who report to and are supervised by the *person* allocated the *compliance oversight function*, provided the process for certification of compliance has been reviewed and approved by the *person* allocated the *compliance oversight function* no more than 12 months before the date of the invitation or inducement;
 - (c) when making the record required in (a), the *firm* must make a record of which exemption was relied on for the purposes of the invitation or inducement, together with the reason why the *firm* is satisfied that that exemption applies;
 - (d) where the *firm* relies on an exemption that requires investor certification and warnings to investors, the record required in (a) must include a record of any certificate or investor statement (as signed by the investor) and of any warnings or indications required by the exemption;
 - (e) if the exemption relied on is that for an *excluded communication* under ■ COBS 4.12.4 R (5), the *firm* must

identify in the record required in (a) which type of *financial promotion* defined as an *excluded communication* corresponds to the invitation or inducement being made, including, where applicable, which article in the *Financial Promotion Order* or in the *Promotion of Collective Investment Schemes Order* was relied on for the purposes of the invitation or inducement, together with the reason why the *firm* is satisfied that the exemption applies;

- (3) A *firm* must retain the record in relation to a *financial promotion* relating to:
- (a) a *pension transfer, pension opt-out* or *FSAVC*, indefinitely;
 - (b) a *life policy, occupational pension scheme, SSAS, personal pension scheme* or *stakeholder pension scheme*, for six years;
 - (c) *MiFID* or *equivalent third country business*, for five years; and
 - (d) any other case, for three years.
- (4) If a communication relates to a *firm's MiFID* or *equivalent third country business*, this section does not apply:
- (a) to the extent that the communication is a *third party prospectus*;
 - (b) if it is *image advertising*;
 - (c) if it is a *non-retail communication*.
- (5) If a communication relates to a *firm's* business that is not *MiFID* or *equivalent third country business*, this section does not apply:
- (a) to the extent that it is an *excluded communication*;
 - (b) to the extent that it is a prospectus advertisement to which ■ PR 3.3 applies;
 - (c) if it is *image advertising*;
 - (d) if it is a *non-retail communication*;
 - (e) [deleted]
 - (f) to the extent that it relates to a *pure protection contract* that is a *long-term care insurance contract*.

[Note: see article 51(3) of the *MiFID implementing Directive*]

A *firm* should consider maintaining a record of why it is satisfied that the *financial promotion* complies with the *financial promotion rules*.

4.11.3

FCA

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If the *financial promotion* includes market information that is updated continuously in line with the relevant market, the record-keeping *rules* do not require a firm to record that information.



4.12 Restrictions on the promotion of non-mainstream pooled investments

4.12.1

[Deleted]

4.12.2

[Deleted]

Restrictions on the promotion of non-mainstream pooled investments

4.12.3

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FCA

- (1) A *firm* must not *communicate* or *approve* an invitation or inducement to participate in, acquire, or underwrite a *non-mainstream pooled investment* where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a *retail client*.
- (2) The restriction in (1) is subject to **COBS 4.12.4 R** and does not apply to *units* in *unregulated collective investment schemes*, which are subject to a statutory restriction on promotion in section 238 of the *Act*.

Exemptions from the restrictions on the promotion of non-mainstream pooled investments

4.12.4

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FCA

- (1) The restriction in **COBS 4.12.3 R** does not apply if the promotion falls within an exemption in the table in (5) below.
- (2) A *firm* may communicate an invitation or inducement to participate in an *unregulated collective investment scheme* without breaching the restriction on promotion in section 238 of the *Act* if the promotion falls within an exemption in the table in (5) below.
- (3) Where the middle column in the table in (5) refers to promotion to a category of *person*, this means that the invitation or inducement:
 - (a) is made only to recipients who the *firm* has taken reasonable steps to establish are *persons* in that category; or
 - (b) is directed at recipients in a way that may reasonably be regarded as designed to reduce, so far as possible, the risk of participation in, acquisition or underwriting of the *non-mainstream pooled investment* by *persons* who are not in that category.

(4) A *firm* may rely on more than one exemption in relation to the same invitation or inducement.

(5)	Title of Exemption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
	<p>1. Replacement products and rights issues</p>	<p><i>A person who already participates in, owns, holds rights to or interests in, a non-mainstream pooled investment that is being liquidated or wound down or which is undergoing a rights issue. [See Note 1.]</i></p>	<p>1. A non-mainstream pooled investment which is intended by the operator or manager to absorb or take over the assets of that non-mainstream pooled investment, or which is being offered by the operator or manager of that non-mainstream pooled investment as an alternative to cash on its liquidation;</p> <p>or</p> <p>2. Securities offered by the existing non-mainstream pooled investment as part of a rights issue.</p>
	<p>2. Certified high net worth investors</p>	<p>An individual who meets the requirements set out in COBS 4.12.6 R, or a person (or persons)</p>	<p>Any non-mainstream pooled investment the firm considers is likely to be suitable for</p>

Title of Exemption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
<p>3. Enterprise and charitable funds</p>	<p>legally empowered to make investment decisions on behalf of such individual .</p> <p><i>A person who is eligible to participate or invest in an arrangement constituted under:</i></p> <p>(1) the Church Funds Investment Measure 1958;</p> <p>(2) section 96 or 100 of the Charities Act 2011;</p> <p>(3) section 25 of the Charities Act (Northern Ireland) 1964;</p> <p>(4) the Regulation on European Venture Capital Funds ('EuVECA's'); or</p> <p>(5) the Regulation on European Social Entrepreneurship Funds ('EuSEFs').</p>	<p>that individual , based on a preliminary assessment of the <i>client's</i> profile and objectives.</p> <p>[See COBS 4.12.5G (2).]</p> <p>Any <i>non-mainstream pooled investment</i> which is such an arrangement.</p>

Title of Ex-emption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
<p>4. Eligible employees</p>	<p>An eligible <i>employee</i>, that is, a <i>person</i> who is:</p> <p>(1) an officer;</p> <p>(2) an <i>employee</i>;</p> <p>(3) a former officer or <i>employee</i>; or</p> <p>(4) a member of the immediate family of any of (1) - (3), of an employer which is (or is in the same <i>group</i> as) the <i>firm</i>, or which has accepted responsibility for the activities of the <i>firm</i> in carrying out the <i>designated investment business</i> in question.</p>	<p>1. A <i>non-mainstream pooled investment</i>, the instrument constituting which:</p> <p>A. restricts the property of the <i>non-mainstream pooled investment</i>, apart from cash and near cash, to:</p> <p>(1) (where the employer is a company) <i>shares</i> in and <i>debentures</i> of the <i>company</i> or any other connected <i>company</i>; [See Note 2.]</p> <p>(2) (in any case), any property, provided that the <i>non-mainstream pooled investment</i> takes the form of:</p> <p>(i) a limited <i>partnership</i>, under the terms of which the employer (or connected</p>

Title of Exemption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
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company) will be the unlimited partner and the eligible employees will be some or all of the limited partners; or

(ii) a trust which the *firm* reasonably believes not to contain any risk that any eligible employee may be liable to make any further payments (other than *charges*) for *investment* transactions earlier entered into, which the eligible *employee* was not aware of at the time he entered into them; and

B. (in a case falling within A(1) above) restricts participation in the *non-mainstream pooled investment* to eligible *employees*, the employer and any connected *company*.

Title of Ex-emption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
		<p>2. Any non-mainstream pooled investment, provided that the participation of eligible employees is to facilitate their co-investment:</p> <p>(i) with one or more <i>companies</i> in the same <i>group</i> as their employer (which may include the employer); or</p> <p>(ii) with one or more <i>clients</i> of such a <i>company</i>.</p>
<p>5. Mem- bers of the So- ciety of Lloyd's</p>	<p><i>A person</i> ad- mitted to membership of the Society of Lloyd's or any <i>person</i> by law entitled or bound to ad- minister his affairs.</p>	<p><i>A scheme</i> in the form of a limited <i>part- nership</i> which is established for the sole purpose of underwriting <i>insurance business</i> at Lloyd's.</p>
<p>6. Ex- empt per- sons</p>	<p>An exempt <i>person</i> (other than a <i>person</i> exempted only by section 39 of the <i>Act</i> (Ex- emption of ap- pointed repre-</p>	<p>Any non- mainstream pooled invest- ment.</p>

Title of Exemption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
7. Non-retail clients	<p>representatives)) if the <i>financial promotion</i> relates to a <i>regulated activity</i> in respect of which the <i>person</i> is exempt from the <i>general prohibition</i>.</p> <p>An <i>eligible counterparty</i> or a <i>professional client</i>.</p>	<p>Any <i>non-mainstream pooled investment</i> in relation to which the <i>client</i> is categorised as a <i>professional client</i> or <i>eligible counterparty</i>.</p> <p>[See Note 4.]</p>
8. Certified sophisticated investors	<p>An individual who meets the requirements set out in COBS 4.12.7 R, including an individual who is legally empowered (solely or jointly with others) to make investment decisions on behalf of another <i>person</i> who is the <i>firm's client</i>.</p>	<p>Any <i>non-mainstream pooled investment</i>.</p>
9. Self-certified sophisticated	<p>An individual who meets the requirements set out in COBS</p>	<p>Any <i>non-mainstream pooled investment</i> the <i>firm</i> considers</p>

Title of Ex-emption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
<p>cated in-vestors</p>	<p>4.12.8 R, including an individual who is legally empowered (solely or jointly with others) to make investment decisions on behalf of another person who is the firm's client.</p>	<p>is likely to be suitable for that client, based on a preliminary assessment of the client's profile and objectives.</p> <p>[See COBS 4.12.5G (2)]</p>
<p>10. Solicited advice</p>	<p>Any person.</p>	<p>Any non-mainstream pooled investment, provided the communication meets all of the following requirements:</p> <p>(a) the communication only amounts to a financial promotion because it is a personal recommendation on a non-mainstream pooled investment;</p> <p>(b) the personal recommendation is made following a specific request by that client for advice on the</p>

Title of Exemption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
<p>11. Excluded communications</p>	<p><i>Any person.</i></p>	<p>merits of investing in the <i>non-mainstream pooled investment</i>; and</p> <p>(c) the <i>client</i> has not previously received a <i>financial promotion</i> or any other communication from the <i>firm</i> (or from a <i>person</i> connected to the <i>firm</i>) which is intended to influence the <i>client</i> in relation to that <i>non-mainstream pooled investment</i>. [See Note 3.]</p> <p>Any <i>non-mainstream pooled investment</i>, provided the <i>financial promotion</i> is an <i>excluded communication</i>.</p> <p>[See COBS 4.12.12 G and COBS 4.12.13 G.]</p>
<p>12. Non-recognised UCITS</p>	<p><i>Any person.</i></p>	<p>Any <i>EEA UCITS scheme</i> which is not a <i>recognised scheme</i>, provided the following requirements are met:</p>

Title of Ex-emption	Promotion to:	Promotion of a non-mainstream pooled investment which is:
<p>13. US persons</p>	<p>A <i>person</i> who is classified as a United States person for tax purposes under United States legislation or who owns a US qualified re-tirement plan.</p>	<p>(1) the <i>firm</i> considers it is likely to be suitable for that <i>client</i> based on a preliminary assessment of the <i>client's</i> profile and objectives; and</p> <p>(2) the <i>firm</i> provides that <i>client</i> with the same product information as it would be required to provide by COBS 14.2 if the scheme was a <i>recognised scheme</i>.</p> <p>[See COBS 4.12.5G (2).]</p> <p>Any invest-ment <i>company</i> registered and operated in the United States under the Invest-ment Compa-ny Act 1940.</p>

The following Notes explain certain words and phrases used in the table above.

Note 1 Promotion of *non-mainstream pooled investments* to a category of person includes

Note 2	<p>any nominee company acting for such a person.</p> <p>A <i>company</i> is 'connected' with another <i>company</i> if:</p> <p>(a) they are both in the same <i>group</i>; or</p> <p>(b) one <i>company</i> is entitled, either alone or with another <i>company</i> in the same <i>group</i>, to exercise or control the exercise of a majority of the voting rights attributable to the <i>share capital</i>, which are exercisable in all circumstances at any general meeting of the other <i>company</i> or of its <i>holding company</i>.</p>
Note 3	<p>A <i>person</i> is connected with a <i>firm</i> if it acts as an <i>introducer</i> or <i>appointed representative</i> for that <i>firm</i> or if it is any other <i>person</i>, regardless of <i>authorisation</i> status, who has a relevant business relationship with the <i>firm</i>.</p>
Note 4	<p>In deciding whether a promotion is permitted under the rules of this section or under section 238 of the Act, <i>firms</i> may use the <i>client</i> categorisation regime that applies to business other than <i>MiFID</i> or <i>equivalent third country business</i>. (This is the case even if the <i>firm</i> will be carrying on a <i>MiFID</i> activity at the same time as or following the promotion.)</p>

Advice and preliminary assessment of suitability

4.12.5

FCA

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- (1) Where a *firm* communicates any promotion of a *non-mainstream pooled investment* in the context of advice, it should have regard to and comply with its obligations under ■ COBS 9. *Firms* should also be mindful of the appropriateness requirements in ■ COBS 10 which apply to a wide range of non-advised services.
- (2) (a) A *firm* which wishes to rely on exemptions 2 (certified high net worth investors), 9 (self-certified sophisticated investors) or 12 (non-recognised UCITS), as provided under ■ COBS 4.12.4 R (5), should note that these exemptions require a preliminary assessment of suitability before promotion of the *non-mainstream pooled investment* to clients (in addition to other requirements).
- (b) There is no duty to communicate the preliminary assessment of suitability to the *client*. If the *firm* does so, it must not do so in a way that amounts to making a *personal recommendation* unless it complies with the rules in ■ COBS 9 on suitability.
- (c) The requirement for a preliminary assessment of suitability does not extend to a full suitability assessment, unless advice is being offered in relation to the *non-mainstream pooled investment* being promoted, in which case the

requirements in ■ COBS 9 apply. However, it requires that the *firm* take reasonable steps to acquaint itself with the *client's* profile and objectives in order to ascertain whether the *non-mainstream pooled investment* under contemplation is likely to be suitable for that *client*. The *firm* should not promote the *non-mainstream pooled investment* to the *client* if it does not consider it likely to be suitable for that *client* following such preliminary assessment.

Definition of sophisticated and high net worth investors

4.12.6

FCA

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A *certified high net worth investor* is an individual who has signed, within the period of twelve months ending with the day on which the communication is made, a statement in the following terms:

"HIGH NET WORTH INVESTOR STATEMENT

I make this statement so that I can receive promotional communications which are exempt from the restriction on promotion of non-mainstream pooled investments. The exemption relates to certified high net worth investors and I declare that I qualify as such because at least one of the following applies to me:

- I had, throughout the financial year immediately preceding the date below, an annual income to the value of £100,000 or more;
- I held, throughout the financial year immediately preceding the date below, net assets to the value of £250,000 or more. Net assets for these purposes do not include:
 - (a) the property which is my primary residence or any money raised through a loan secured on that property;
 - (b) any rights of mine under a qualifying contract of insurance; or
 - (c) any benefits (in the form of pensions or otherwise) which are payable on the termination of my service or on my death or retirement and to which I am (or my dependants are), or may be, entitled.

I accept that the investments to which the promotions will relate may expose me to a significant risk of losing all of the money or other property invested. I am aware that it is open to me to seek advice from an authorised person who specialises in advising on non-mainstream pooled investments.

Signature:

Date: "

4.12.7

FCA

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A *certified sophisticated investor* is an individual:

- (1) who has a written certificate signed within the last 36 months by a *firm* confirming he has been assessed by that *firm* as sufficiently knowledgeable to understand the risks associated

with engaging in investment activity in *non-mainstream pooled investments*; and

- (2) who has signed, within the period of twelve months ending with the day on which the communication is made, a statement in the following terms:

"SOPHISTICATED INVESTOR STATEMENT

I make this statement so that I can receive promotional communications which are exempt from the restriction on promotion of non-mainstream pooled investments. The exemption relates to certified sophisticated investors and I declare that I qualify as such.

I accept that the investments to which the promotions will relate may expose me to a significant risk of losing all of the money or other property invested. I am aware that it is open to me to seek advice from an authorised person who specialises in advising on non-mainstream pooled investments.

Signature:

Date: "

4.12.8

FCA

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A *self-certified sophisticated investor* is an individual who has signed, within the period of twelve months ending with the day on which the communication is made, a statement in the following terms:

"SELF-CERTIFIED SOPHISTICATED INVESTOR STATEMENT

I declare that I am a self-certified sophisticated investor for the purposes of the restriction on promotion of non-mainstream pooled investments. I understand that this means:

- (i) I can receive promotional communications made by a person who is authorised by the Financial Conduct Authority which relate to investment activity in non-mainstream pooled investments;
- (ii) the investments to which the promotions will relate may expose me to a significant risk of losing all of the property invested.

I am a self-certified sophisticated investor because at least one of the following applies:

- (a) I am a member of a network or syndicate of business angels and have been so for at least the last six months prior to the date below;
- (b) I have made more than one investment in an unlisted company in the two years prior to the date below;

- (c) I am working, or have worked in the two years prior to the date below, in a professional capacity in the private equity sector, or in the provision of finance for small and medium enterprises;
- (d) I am currently, or have been in the two years prior to the date below, a director of a company with an annual turnover of at least £1 million.

I accept that the investments to which the promotions will relate may expose me to a significant risk of losing all of the money or other property invested. I am aware that it is open to me seek advice from someone who specialises in advising on non-mainstream pooled investments.

Signature:

Date: "

Sophisticated and high net worth investors: guidance on certification by authorised person and reliance on self-certification

4.12.9

FCA

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- (1) A firm which wishes to rely on any of the *certified high net worth investor* exemptions (see Part I of the Schedule to the *Promotion of Collective Investment Schemes Order*, Part I of Schedule 5 to the *Financial Promotions Order* and ■ COBS 4.12.6 R) should have regard to its duties under the *Principles* and the *client's best interests rule*. In particular, the firm should take reasonable steps to ascertain that the *retail client* does, in fact, meet the income and net assets criteria set out in the relevant statement for *certified high net worth investors*.
- (2) In addition, the firm should consider whether the promotion of the *non-mainstream pooled investment* is in the interests of the *retail client* and whether it is fair to make the promotion to that *client* on the basis that the *client* is a *certified high net worth investor*, having regard to the generally complex nature of *non-mainstream pooled investments*. A *retail client* who meets the criteria for a *certified high net worth investor* but not for a *certified sophisticated investor* may be unable to properly understand and evaluate the risks of the *non-mainstream pooled investment* in question.

4.12.10

FCA

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- (1) A firm which is asked to or proposes to assess and certify a *retail client* as a *certified sophisticated investor* (see article 23 of the *Promotion of Collective Investment Schemes Order*, article 50 of the *Financial Promotions Order* and ■ COBS 4.12.7 R) should have regard to its duties under the *Principles* and the *client's best interests rule*. In particular, the firm should carry out that assessment with due skill, care and diligence, having regard to the generally complex nature of *non-mainstream pooled investments* and the level of experience, knowledge and expertise the *retail client* being assessed must possess in order to be fairly and reasonably assessed and certified as a sophisticated investor.
- (2) (a) For example, a *retail client* whose *investment* experience is limited to mainstream *investments* such as *securities* issued by *listed companies*, *life policies* or *units* in *regulated collective investment schemes* (other than *qualified investor schemes*) is generally unlikely to possess the requisite knowledge to adequately understand the risks associated with investing in *non-mainstream pooled investments*.

(b) In exceptional circumstances, however, the *retail client* may have acquired the requisite knowledge through means other than his own investment experience, for example, if the *retail client* is a professional of several years' experience with the design, operation or marketing of complex investments such as *options, futures, contracts for differences* or *non-mainstream pooled investments*.

4.12.11

FCA

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- (1) A *firm* which wishes to rely on any of the *self-certified sophisticated investor* exemptions (see Part II of the Schedule to the *Promotion of Collective Investment Schemes Order*, Part II of Schedule 5 to the *Financial Promotions Order* and ■ COBS 4.12.8 R) should have regard to its duties under the *Principles* and the *client's best interests rule*. In particular, the *firm* should consider whether the promotion of the *non-mainstream pooled investment* is in the interests of the *client* and whether it is fair to make the promotion to that *client* on the basis of self-certification.
- (2) For example, it is unlikely to be appropriate for a *firm* to make a promotion under any of the *self-certified sophisticated investor* exemption without first taking reasonable steps to satisfy itself that the investor does in fact have the requisite experience, knowledge or expertise to understand the risks of the *non-mainstream pooled investment* in question. A *retail client* who meets the criteria for a *self-certified sophisticated investor* but not for a *certified sophisticated investor* may be unable to properly understand and evaluate the risks of a *non-mainstream pooled investment* which invests wholly or predominantly in assets other than *shares* in or *debentures* of unlisted *companies*.

One-off promotions

4.12.12

FCA

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- (1) A *firm* which wishes to rely on one of the *one-off promotion* exemptions provided by the *Promotion of Collective Investment Schemes* or the *Financial Promotion Order* to promote a *non-mainstream pooled investment* to a *retail client* should have regard to its duties under the *Principles* and the *client's best interests rule*. In particular, the *firm* should consider whether the promotion of the *non-mainstream pooled investment* is in the interests of the *client* and whether it is fair to make the promotion to that *client* on the basis of a *one-off promotion* exemption.
- (2) The *one-off promotion* exemptions permit the promotion of investments to clients under certain conditions (see ■ PERG 8.14.3 G to ■ PERG 8.14.13 G for guidance on the scope of the one-off exemptions in the *Financial Promotion Order*). *Firms* should note that, in the FCA's view, promotion of a *non-mainstream pooled investment* to a *retail client* who is not a *certified high net worth investor*, a *certified sophisticated investor* or a *self-certified sophisticated investor* is unlikely to be appropriate or in that *client's* best interests.

Qualified investor schemes

PAGE
45

4.12.13

FCA

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- (1) A *firm* which wishes to rely on the *excluded communications* exemption in ■ COBS 4.12.4 R (5) to promote *units* in a *qualified investor scheme* to a *retail client* should have regard to its duties under the *Principles* and the *client's best interests rule*.

- (2) As explained in ■ COLL 8.1, *qualified investor schemes* are intended only for *professional clients* and *retail clients* who are sophisticated investors. *Firms* should note that, in the *FCA's* view, promotion of *units* in a *qualified investor scheme* to a *retail client* who is not a *certified sophisticated investor* or a *self-certified sophisticated investor* is unlikely to be appropriate or in that client's best interests.



4.13 UCITS

Application

4.13.1

FCA

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- (1) This section applies to a *firm* in relation to a communication to a *client*, including an *excluded communication*, that is a marketing communication within the meaning of the *UCITS Directive*.
- (2) This section does not apply to:
 - (a) *image advertising*; or
 - (b) the *instrument constituting the scheme*, the *prospectus*, the *key investor information* (or alternatively the *simplified prospectus* or *EEA simplified prospectus*) or the periodic reports and accounts of either a *UCITS scheme* or an *EEA UCITS scheme*.

[Note: recital (58) of the *UCITS Directive*]

Marketing communications relating to UCITS schemes or EEA UCITS schemes

4.13.2

FCA

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- (1) A *firm* must ensure that a marketing communication that comprises an invitation to purchase *units* in a *UCITS scheme* or *EEA UCITS scheme* and that contains specific information about the *scheme*:
 - (a) makes no statement that contradicts or diminishes the significance of the information contained in the *prospectus* and the *key investor information document* or *EEA key investor information document* for the *scheme*;
 - (b) indicates that a *prospectus* exists for the *scheme* and that the *key investor information document* or *EEA key investor information document* is available; and
 - (c) specifies where and in which language such information or *documents* may be obtained by investors or potential investors or how they may obtain access to them.
- (2) Where a *UCITS scheme* or an *EEA UCITS scheme* may invest more than 35% of its *scheme property* in *transferable securities* and money market instruments issued or guaranteed by an *EEA State*, one or more of its local authorities, a third country or a public

international body to which one or more *EEA States* belong, the *firm* must ensure that a marketing communication relating to the *scheme* contains a prominent statement drawing attention to the investment policy and indicating the particular *EEA States*, local authorities, third countries or public international bodies in the *securities* of which the *scheme* intends to invest or has invested more than 35% of its *scheme property*.

- (3) Where a *UCITS scheme* or *EEA UCITS scheme* invests principally in *units* in *collective investment schemes*, *deposits* or *derivatives*, or replicates a stock or debt securities index in accordance with ■ COLL 5.2.31 R (Schemes replicating an index) or equivalent national measures implementing article 53 of the *UCITS Directive*, the *firm* must ensure that a marketing communication relating to the *scheme* contains a prominent statement drawing attention to the investment policy.
- (4) Where the net asset value of a *UCITS scheme* or *EEA UCITS scheme* has, or is likely to have, high volatility owing to its portfolio composition or the portfolio management techniques that are or may be used, the *firm* must ensure that a marketing communication relating to the *scheme* contains a prominent statement drawing attention to that characteristic.

[Note: articles 54(3), 70(2), 70(3) and 77 of the *UCITS Directive*]

Marketing communications relating to a feeder UCITS

4.13.3

FCA

R

A *firm* must ensure that a marketing communication (other than a *key investor information document* or *EEA key investor information document*) relating to a *feeder UCITS* contains a statement that the *feeder UCITS* permanently invests at least 85% in value of its assets in *units* of its *master UCITS*.

[Note: article 63(4) of the *UCITS Directive*]

9.3 Guidance on assessing suitability

9.3.1

FCA

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- (1) A transaction may be unsuitable for a *client* because of the risks of the *designated investments* involved, the type of transaction, the characteristics of the order or the frequency of the trading.
- (2) In the case of *managing investments*, a transaction might also be unsuitable if it would result in an unsuitable portfolio.

[Note: recital 57 to the *MiFID implementing Directive*]

Churning and switching

9.3.2

FCA

G

- (1) A series of transactions that are each suitable when viewed in isolation may be unsuitable if the recommendation or the decisions to trade are made with a frequency that is not in the best interests of the *client*.
- (2) A *firm* should have regard to the *client's* agreed investment strategy in determining the frequency of transactions. This would include, for example, the need to switch a *client* within or between *packaged products*.

[Note: recital 57 to the *MiFID implementing Directive*]

Income withdrawals and short-term annuities

9.3.3

FCA

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When a *firm* is making a *personal recommendation* to a *retail client* about *income withdrawals* or purchase of *short-term annuities*, it should consider all the relevant circumstances including:

- (1) the *client's investment* objectives, need for tax-free cash and state of health;
- (2) current and future income requirements, existing pension assets and the relative importance of the plan, given the *client's* financial circumstances;
- (3) the *client's* attitude to risk, ensuring that any discrepancy is clearly explained between his attitude to an *income withdrawal* or purchase of a *short-term annuity* and other *investments*.

Loans and mortgages

9.3.4

FCA

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When considering the suitability of a particular *investment* product which is linked directly or indirectly to any form of loan, mortgage or *home reversion plan*, a *firm* should take account of the suitability of the overall transaction. The *firm* should also have regard to any applicable suitability *rules* in *MCOB*.

9.3.5

FCA

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Non-mainstream pooled investments

- (1) *Firms* should note that section 238 of the *Act* and ■ COBS 4.12.3 R set out restrictions on the promotion of *non-mainstream pooled investments* to *retail clients*.
- (2) (a) *Firms* should bear in mind that the provision of advice or information may involve the communication of a *financial promotion* (see ■ PERG 8). In particular, making a *personal recommendation* that a client should enter into a *non-mainstream pooled investment* will generally amount to a *financial promotion* of that investment because a *personal recommendation* typically includes an invitation or inducement to engage in investment activity.

(b) Due to the restrictions in section 238 of the *Act* and ■ COBS 4.12.3 R, the promotion of a *non-mainstream pooled investment* to a *retail client* is not permitted except where a valid exemption is available and relied on by the *firm* communicating the promotion. *Firms* should therefore first satisfy themselves that an exemption is available in relation to the promotion of the *non-mainstream pooled investment* before recommending the investment to a *retail client*.
- (3) (a) In addition to assessing whether the promotion is permitted, a *firm* giving advice on a *non-mainstream pooled investment* should comply with their obligations in ■ COBS 9 and ensure any *personal recommendation* is suitable for its client.

(b) In considering its obligations under ■ COBS 9, a *firm* purchasing a *non-mainstream pooled investment* on behalf of a *client* as part of a discretionary management agreement should have regard to whether that *client* is a *person* to whom promotion of that *non-mainstream pooled investment* is permissible under ■ COBS 4.12.4 R (5). Whilst the restriction in ■ COBS 4.12.3 R does not affect transactions where there is no prior communication with the *client* in connection with the transaction, a *discretionary investment manager* should exercise particular care to satisfy himself that the transaction is suitable for the *client* and that it is in that *client's* best interests, if promotion of the investment would not have been permitted.

9.4 Suitability reports

Providing a suitability report

9.4.1

FCA

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A *firm* must provide a *suitability report* to a *retail client* if the *firm* makes a *personal recommendation* to the *client* and the *client*:

- (1) acquires a holding in, or *sells* all or part of a holding in:
 - (a) a *regulated collective investment scheme*;
 - (b) an *investment trust* where the relevant *shares* have been or are to be acquired through an *investment trust savings scheme*;
 - (c) an *investment trust* where the relevant *shares* are to be held within an *ISA* which has been promoted as the means for investing in one or more specific *investment trusts*; or
- (2) *buys, sells, surrenders, converts or cancels rights under, or suspends contributions to, a personal pension scheme or a stakeholder pension scheme*; or
- (3) elects to make *income withdrawals* or purchase a *short-term annuity*; or
- (4) enters into a *pension transfer* or *pension opt-out*.

[Note: article 19(8) of *MiFID*]

9.4.2

FCA

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If a *firm* makes a *personal recommendation* in relation to a *life policy*, it must provide the *client* with a *suitability report*.

[Note: article 12(3) of the *Insurance Mediation Directive*]

9.4.3

FCA

R

The obligation to provide a *suitability report* does not apply:

- (1) if the *firm*, acting as an *investment manager* for a *retail client*, makes a *personal recommendation* relating to a *regulated collective investment scheme*;
- (2) if the *client* is habitually resident outside the *EEA* and the *client* is not present in the *United Kingdom* at the time of acknowledging

consent to the proposal form to which the *personal recommendation* relates;

- (3) to any *personal recommendation* by a *friendly society* for a small *life policy* sold by it with a *premium* not exceeding £50 a year or, if payable weekly, £1 a week;
- (4) if the *personal recommendation* is to increase a regular *premium* to an existing contract;
- (5) if the *personal recommendation* is to invest additional single *premiums* or single contributions to an existing *packaged product* to which a single *premium* or single contribution has previously been paid.

Timing

9.4.4

FCA

R

A *firm* must provide the *suitability report* to the *client*:

- (1) in the case of a *life policy*, before the contract is concluded unless the necessary information is provided orally or immediate cover is necessary; or
- (2) in the case of a *personal pension scheme* or *stakeholder pension scheme*, where the *rules* on cancellation (■ COBS 15) require notification of the right to cancel, no later than the fourteenth day after the contract is concluded; or
- (3) in any other case, when or as soon as possible after the transaction is effected or executed.

[Note: article 12(3) of the *Insurance Mediation Directive*]

9.4.5

FCA

R

If, in respect of a *life policy*, the *firm* gives necessary information orally or gives immediate cover, it must provide a *suitability report* to the *client* in a *durable medium* immediately after the contract is concluded.

[Note: article 13(2) of the *Insurance Mediation Directive*]

9.4.6

FCA

R

In the case of telephone selling of a *life policy*, when the only contact between a *firm* and its *client* before conclusion of a contract is by telephone, the *suitability report* must:

- (1) comply with the distance marketing disclosure *rules* (■ COBS 5.1);
- (2) be provided immediately after the conclusion of the contract; and
- (3) be in a *durable medium*.

[Note: article 13(3) of the *Insurance Mediation Directive*]

Contents

9.4.7

FCA

R

The *suitability report* must, at least:

- (1) specify the *client's* demands and needs;
- (2) explain why the *firm* has concluded that the recommended transaction is suitable for the *client* having regard to the information provided by the *client*; and
- (3) explain any possible disadvantages of the transaction for the *client*.

[Note: article 12(3) of the *Insurance Mediation Directive*]

9.4.8

FCA

G

A *firm* should give the *client* such details as are appropriate according to the complexity of the transaction.

[Note: article 12(3) of the *Insurance Mediation Directive*]

9.4.9

FCA

R

If a *firm* is providing a *suitability report* in the course of *insurance mediation activity*, the information must be provided:

- (1) in a *durable medium* which is available and accessible to the *client*;
- (2) in a clear and accurate manner, comprehensible to the *client*; and
- (3) in an official language of the *State of the commitment* in which the *contract of insurance* is made or in any other language agreed by the parties.

[Note: article 13 of the *Insurance Mediation Directive*]

Additional content for income withdrawals

9.4.10

FCA

G

When a *firm* is making a *personal recommendation* to a *retail client* about *income withdrawals* or purchase of *short-term annuities*, explanation of possible disadvantages in the *suitability report* should include the risk factors involved in entering into an *income withdrawal* or purchase of a *short-term annuity*. These may include:

- (1) the capital value of the fund may be eroded;
- (2) the *investment* returns may be less than those shown in the illustrations;
- (3) annuity or *scheme pension* rates may be at a worse level in the future;
- (4) when maximum withdrawals are taken or the maximum *short-term annuity* is purchased, high levels of income may not be sustainable;
- (5) [deleted]

9.5 Record keeping and retention periods for suitability records

9.5.1
FCA

G

A *firm* to which ■ SYSC 9 applies is required to keep orderly records of its business and internal organisation (see ■ SYSC 9, General rules on record-keeping). Other *firms* are required to take reasonable care to establish and maintain such systems and controls as are appropriate to their business (see ■ SYSC 3, Systems and controls). The records may be expected to reflect the different effect of the *rules* in this chapter depending on whether the *client* is a *retail client* or a *professional client*: for example, in respect of the information about the *client* which the *firm* must obtain and whether the *firm* is required to provide a *suitability report*.

9.5.2
FCA

R

A *firm* must retain its records relating to suitability for a minimum of the following periods:

- (1) if relating to a *pension transfer, pension opt-out* or *FSAVC*, indefinitely;
- (2) if relating to a *life policy, personal pension scheme* or *stakeholder pension scheme*, five years;
- (3) if relating to *MiFID* or *equivalent third country business*, five years; and
- (4) in any other case, three years.

9.5.3
FCA

R

A *firm* need not retain its records relating to suitability if:

- (1) the *client* does not proceed with the recommendation; and
- (2) they do not relate to *MiFID* or *equivalent third country business*.

9.6 Special rules for giving basic advice on a stakeholder product

9.6.1

FCA

G

This section applies to a *firm* giving *basic advice*, which has chosen to comply with the *rules* in this section instead of the other *rules* in this chapter (see ■ COBS 9.1.2 R).

Range

9.6.2

FCA

R

A *firm* is permitted to maintain more than one *range of stakeholder products*.

9.6.3

FCA

R

A *range of stakeholder products*:

- (1) may include more than one *deposit-based stakeholder product*;
- (2) may include the *stakeholder products* of more than one *stakeholder product provider*;
- (3) must not include any more than one:
 - (a) *CIS stakeholder product* or *linked life stakeholder product*;
or
 - (b) *stakeholder CTF*; or
 - (c) *stakeholder pension scheme*.

9.6.4

FCA

R

When a *firm* provides *basic advice* it must:

- (1) explain why it chose the *stakeholder products* and *stakeholder product providers* that appear in the relevant *range*; and
- (2) give the *client* a list of the *stakeholder products* and *stakeholder product providers* that appear in that *range*;

if the *client* asks it do so.

Requirements on first contact

9.6.5
FCA

R

When a *firm* first has contact with a retail client with a view to giving *basic advice* on a *stakeholder product*, it must give the *retail client*:

- (1) the *basic advice* initial disclosure information (
 - COBS 9 Annex 1 R), in a *durable medium*, together with an explanation of that information, unless:
 - (a) it has already done so and the *basic advice* initial disclosure information is likely still to be accurate and appropriate; or
 - (b) the contact is not face to face and is using a means of communication which makes it not practicable to provide the *basic advice* initial disclosure information in a *durable medium*; and
- (2) an explanation of how the advice will be paid for and the fact that any commission will be disclosed.

9.6.6
FCA

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- (1) A *firm* may give a *retail client* the *basic advice* initial disclosure information (
 - COBS 9 Annex 1 R) as part of :
 - (a) a *services and costs disclosure document*; or
 - (b) a *combined initial disclosure document* if it has reasonable grounds to believe that it will provide services relating to a *stakeholder product* and a *non-investment insurance contract*, a *regulated mortgage contract*, an *equity release transaction* or a *home purchase plan*.
- (2) If a *firm* provides a *services and costs disclosure document* or *combined initial disclosure document* to a *retail client* it will comply with the requirements under:
 - (a) ■ COBS 2.2.1 R (1)(a) and ■ COBS 2.2.1 R (1)(d);
 - (b) ■ COBS 9.6.5 R (1) and ■ COBS 9 Annex 1 R;
 - (c) the items of distance marketing information set out in paragraphs (1), (2), (4), (5) (19) and (20) of ■ COBS 5 Annex 1 R; and
 - (d) any duties that apply to it under the *rule* on information to be provided by the insurance intermediary (■ COBS 7.2.1 R (1) and ■ (2)).

9.6.6A
FCA

G

A *firm* will meet the requirements in respect of its obligation to provide written disclosure in the *rules* on describing the breadth of advice (■ COBS 6.2A.5 R) and content and wording of disclosure (■ COBS 6.2A.6 R) by providing its *basic advice* initial disclosure information (in ■ COBS 9 Annex 1 R).

9.6.7
FCA

R

For the purposes of ■ GEN 5, a *firm* may not use the keyfacts logo in relation to any *document* that is designed to comply with *rules* in ■ COBS 9.6 or ■ COBS 7 unless it is a *services and costs disclosure*

document or a *combined initial disclosure document* produced in accordance with the templates and notes in the annexes to ■ COBS 6.

9.6.8

FCA

R If a *firm's* first contact with a *retail client* is not face to face, it must:

- (1) inform the *client* at the outset:
 - (a) (if the communication is initiated by or on behalf of a *firm*), of the name of the *firm* and the commercial purpose of the communication;
 - (b) [deleted]
 - (c) that the *firm* will provide the *retail client* with *basic advice* without carrying out a full assessment of the *retail client's* needs and circumstances; and
 - (d) that such information will be confirmed in writing; and
- (2) (if not provided at first contact) send the *client* the *basic advice* initial disclosure information (■ COBS 9 Annex 1 R) in a *durable medium* as soon as reasonably practicable following the conclusion of the first contact ;
- (3) (unless the relevant product is a *deposit-based stakeholder product*) if the contact is by spoken interaction, provide the *client* with the disclosure required by the *rules* on additional oral disclosure for firms providing restricted advice (■ COBS 6.2A.9 R).

Sales process

9.6.9

FCA

R When a *firm* gives *basic advice*, it must do so using:

- (1) a single range of *stakeholder products*; and
- (2) a sales process that includes putting pre-scripted questions to the *client*.

9.6.10

FCA

R When a *firm* gives *basic advice* it must not:

- (1) describe or recommend a *stakeholder product* outside the *firm's* range; or
- (2) describe or recommend a *smoothed linked long term stakeholder product*; or
- (3) describe fund choice, or recommend a particular fund, if a *stakeholder product* offers a choice of funds; or

(4) recommend the level of contributions required to be made to a *stakeholder pension scheme* to achieve a specific income in retirement; or

(5) recommend or agree that a *client* makes a contribution to an *ISA* which exceeds the HM Revenue & Customs *ISA* limits.

9.6.11
FCA

R

(1) If a *firm* starts the sales process for a *stakeholder product* that is not a *deposit-based stakeholder product*, it must not depart from that process unless it has advised the *retail client* that it will not provide *basic advice* on *stakeholder products* during the period of departure. A *firm* that does that must not provide *basic advice* during the departure period.

(2) Before a *firm* returns to the sales process for *stakeholder products*, it must tell the *retail client* that that process is about to recommence.

Suitability of recommendations

9.6.12
FCA

R

A *firm* must only recommend a *stakeholder product* to a *retail client* if:

(1) it has taken reasonable steps to assess the client's answers to the scripted questions and any other facts, circumstances or information disclosed by the *client* during the sales process;

(2) (unless the relevant product is a *deposit-based stakeholder product*) having done so, it has reasonable grounds for believing that the *stakeholder product* is suitable for the *client*; and

(3) the *firm* reasonably believes that the client understands the *firm's* advice and the basis on which it was provided.

9.6.13
FCA

G

■ COBS 9 Annex 2 G gives *guidance* on the steps a *firm* could take to help it meet these suitability obligations.

9.6.14
FCA

R

If a *firm* giving *basic advice* recommends to a *retail client* to acquire a *stakeholder product*, it must ensure that, before the conclusion of the contract, its *representative*:

(1) (unless the relevant product is a *deposit-based stakeholder product*) explains to the *client*, if necessary in summary form, but always in a way that will allow the client to make an informed decision about the *firm's* recommendation:

(a) the nature of the *stakeholder product*; and

(b) the "aims", "commitment" and "risks" sections of the appropriate *key features document*;

- (2) provides the *client* with a summary sheet, which is in a *durable medium* and sets out, for each product it recommends:
 - (a) the specific amount the *client* wishes to pay into the product; and
 - (b) the reasons for the recommendation, including the *client's* attitude to risk and any information provided by the *client* on which the recommendation is based; and
- (3) informs the *client* that in determining any subsequent complaint, the *Ombudsman* may take into account the limited information on which the recommendation was based and the fact that it was not tailored to take account of those aspects of the *client's* financial needs and circumstances not covered by the *firm's* sales process.

9.6.15

FCA

R

Notwithstanding ■ COBS 9.6.14 R (2) a *firm* may provide the summary sheet (■ COBS 9.6.14 R (2)) as soon as reasonably practicable after the conclusion of the contract if the *client* asks it to do so, or the contract will be concluded using a means of distance communication that does not enable the provision of the summary sheet in a *durable medium* before the conclusion of the contract, but only if the *firm*:

- (1) reads the summary sheet to the *client* before it concludes the contract; and
- (2) sends the summary sheet to the *client* as soon as practicable after the conclusion of the contract.

Concluding the contract

9.6.16

FCA

R

If a *firm* concludes a contract for a *stakeholder product* with or for a *retail client* it must provide a copy of the completed questions and answers to the *client* in a *durable medium* as soon as reasonably practicable afterwards.

Basic advice on stakeholder products: other issues

9.6.17

FCA

R

- (1) [deleted]
- (2) When a *firm* provides *basic advice* on a *stakeholder product*, it may use the facilities and stationery it uses for other business in respect of which it does hold itself out as acting or advising independently.

9.6.18

FCA

R

A *firm* must ensure that none of its *representatives*:

- (1) is likely to be influenced by the structure of his or her *remuneration* to give unsuitable *basic advice* on *stakeholder products* to a *retail client*; or

- (2) refers a *retail client* to another *firm* in circumstances which would amount to the provision of any fee, commission or non-monetary benefit.

Records

9.6.19

FCA

R

A *firm* must record that it has chosen to give *basic advice* to a *retail client* and make a record of the *range* used and the summary sheet (■ COBS 9.6.14 R (2)) prepared for each *retail client*. That record must be retained for at least five years from the date of the relevant *basic advice*.

9.6.20

FCA

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- (1) A *firm* must make an up-to-date record of:
 - (a) its *scope of basic advice*, and the *scope of basic advice* used by its *appointed representatives* (if any); and
 - (b) its *range* (or *ranges*) of *stakeholder products*, and the *range* (or *ranges*) used by its *appointed representatives* (if any).
- (2) Those records must be retained for five years from the date on which they are replaced by a more up-to-date record.



14.4 Provision of information by an intermediate unitholder

Provision of information to the beneficial owner

Information requests by authorised fund managers for liquidity management purposes

14.4.10

FCA

R

If an *intermediate unitholder* receives a reasonable request from an *authorised fund manager* for information relating to the beneficial owners of the *units* of a *scheme* that it operates which the *authorised fund manager* reasonably needs for the purposes of liquidity management, the *intermediate unitholder* must provide that information to the *authorised fund manager* as soon as is reasonably practicable.

14.4.11

FCA

G

Examples of information which may be reasonably requested by an *authorised fund manager* include:

- (1) a breakdown of the total number of *units* held by the *intermediate unitholder* in each *scheme* to indicate the number of *units* attributable to individual beneficial owners; and
- (2) information about the types of distribution channel which have been used to sell the *units* to the relevant beneficial owners.

14.4.12

FCA

G

In determining whether a request from an *authorised fund manager* is reasonable, an *intermediate unitholder* may take into account the frequency with which such requests have been received from that *authorised fund manager*.

Conduct of Business Sourcebook

Schedule 1 Record keeping requirements

Sch 1.1 G

FCA

The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant record keeping requirements.

Sch 1.2 G

FCA

It is not a complete statement of those requirements and should not be relied on as if it were.

Sch 1.3 G

FCA

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
COBS 2.3.17 R (1)	Information disclosed to the <i>client</i> in accordance with COBS 2.3.1 R (2)(b)	The information disclosed	When information is disclosed	5 years from date information is given
COBS 2.3.17 R (2)	Each benefit given to another <i>firm</i> which does not have to be disclosed to the <i>client</i> in accordance with COBS 2.3.1 R (2)(b)(ii)	Each benefit given	When benefit is given	5 years from date of benefit
COBS 3.8.2 R (1)	Standard form notice to <i>clients</i> and agreements under COBS 3	Each standard form notice and agreement	When standard form is first used	Relevant period from when the <i>firm</i> ceases to carry on business with clients under that standard form (see COBS 3.8.2 R (3))
COBS 3.8.2 R (2)	<i>Client</i> categorisation	<i>Client</i> categorisation and supporting information, evidence of dispatch to client of any notice (the notice	From time of categorisation	Relevant period from when the <i>firm</i> ceases to carry on business with or for that client (see COBS 3.8.2 R (3))

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
COBS 4.11.1 R (1)	<i>Financial promotion</i>	itself where this differs from standard form) and a copy of any agreement entered into A <i>financial promotion communicated or approved</i> (subject to exemptions)	When <i>communicated</i> or <i>approved</i>	See COBS 4.11.1 R (3)
COBS 4.11.1 R (2)	Telemarketing scripts	Copy of any script used	Date script used	See COBS 4.11.1 R (3)
COBS 4.11.1 R (2A)	<i>Non-mainstream pooled investments</i> : certification of compliance	(1) Certification by the <i>person</i> allocated the <i>compliance oversight function</i> or <i>employees</i> of the <i>firm</i> reporting to and supervised by that <i>person</i> confirming that the <i>financial promotion</i> is compliant with the restrictions in section 238 of the <i>Act</i> and COBS 4.12.3 R, as applicable. (2) Which exemption applies and the reason why that exemption applies. Where the exemption requires a certificate, investor statement, warning or indication, a copy of that certificate, investment statement, warning or indication.	(1) Date of certification (2) Date the invitation or inducement is communicated or approved	
COBS 4.11.2 G	Compliance of <i>financial promotions</i>	<i>Firms</i> encouraged to consider recording why a <i>financial promotion</i> is considered compliant.	Date of assessment of compliance	
COBS 6.1A.27 R	Adviser charging and remuneration	(1) the <i>firm's</i> charging structure; (2) the total adviser charge payable by each retail client; (3) if the total <i>adviser charge</i> paid by a <i>retail client</i> has varied	(1) when the charging structure is first used; (2) from the date of disclosure; (3) from the date of disclosure;	See COBS 6.1A.27 R (1) to (3)

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
		materially from the charge indicated for that service in the <i>firm's</i> charging structure, the reasons for that difference.		
COBS 6.1C.21 R	Consultancy charging and remuneration	(1) the firm's charging structure; (2) the total <i>consultancy charge</i> payable by each employer. (3) if the total <i>consultancy charge</i> for a particular service has varied materially from that indicated in the <i>firm's</i> charging structure, the reasons for that difference.	(1) when the charging structure is first used; (2) from the date of disclosure;	See COBS 6.1C.21 R
COBS 6.3.11 R	<i>Menu</i>	Copy of each <i>menu</i>	From date on which it was updated or replaced	5 years
COBS 8.1.4 R	<i>Client agreements</i>	Documents setting out rights and obligations of the <i>firm</i> and the <i>client</i>	From date of agreement	From whichever is the longer of 5 years or the duration of the relationship with the <i>client</i> . Records relating to a <i>pension transfer</i> , <i>pension opt-out</i> or <i>FSAVC</i> must be retained indefinitely
COBS 9.2.9 R	Recommendations on <i>friendly society life policies</i> .	Why the recommendation is considered suitable	Date of recommendation.	5 years.
COBS 9.5.1 G	Suitability	<i>Client</i> information for <i>suitability report</i> and <i>suitability report</i>	From date of <i>suitability report</i>	See COBS 9.5.2 R.
COBS 9.6.19 R	<i>Basic advice</i>	Decision to give <i>basic advice</i> , <i>range</i> used and <i>basic advice</i> summary prepared for <i>retail client</i>	Date on which <i>basic advice</i> given	5 years
COBS 9.6.20 R	<i>Scope of basic advice (stakeholder products)</i>	<i>Scope of basic advice</i> and its <i>range</i> (or <i>ranges</i>) of <i>stakeholder products</i>	Date on which the <i>scope</i> and <i>range</i> becomes relevant	5 years from the date replaced by more up-to-date record
COBS 10.7.1 G	Appropriateness	<i>Client</i> information obtained in making as-	Date of assessment	5 years

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
		assessment of appropriateness and the appropriateness assessment		
COBS 11.3.2 R	Client orders	Orders executed for <i>clients</i>	See COBS 11.5	5 years
COBS 11.5.1 EU	<i>Client</i> orders and decisions to deal in <i>portfolio management</i>	Orders received from <i>clients</i> and decisions taken - details in COBS 11.5.1 EU	See COBS 11.5.1 EU	5 years
COBS 11.5.2 EU	<i>Client</i> orders	Execution of orders	See COBS 11.5.1 EU	5 years
COBS 11.5.3 EU	<i>Client</i> orders	Transmission details (see COBS 11.5.3 EU)	Date of transmission	5 years
COBS 11.6.19 R	Prior and periodic disclosure	Prior and periodic disclosure on use of dealing commission	From date of disclosure to <i>customers</i>	5 years
COBS 11.7.4 R	Personal account dealing	Notifications by outsourcing provider and authorisation or prohibition.	Date of notification or decision.	5 years
COBS 11.8.5 R	Telephone conversations and electronic communications subject to the taping obligation (see COBS 11.8.5 R)	Telephone conversations and electronic communications recorded under COBS 11.8.5 R	When the conversation or electronic communication is made, sent or received	6 months
COBS 12.4.6 R	<i>Research recommendations</i>	Basis of substantiation of <i>research recommendation</i>	Date of recommendation	5 years
COBS 15.3.4 R	Cancellation: exercise of right	Exercise of the right to cancel or withdraw	Date of exercise	As specified in COBS 15.3.4 R(1), (2) and (3)
COBS 16.2.7 R	Confirmation to <i>clients</i>	Copy of a confirmation	From date of despatch to <i>client</i>	<i>MiFID or equivalent</i> third country business - 5 years Other business - 3 years
COBS 16.3.11 R	<i>Periodic statements</i>	A copy of a <i>periodic statement</i> sent to a <i>client</i>	From date of despatch to <i>client</i>	<i>MiFID or equivalent</i> third country business - 5 years Other business - 3 years
COBS 16.6.6 R	Life insurance contracts	Information to be provided during the terms of the contract	When information is given	5 years after information given
COBS 18.5.14R	Collective investment scheme operators	<i>Periodic statement</i> to be provided to <i>participants</i>	When provided	3 years

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
COBS 19.1.5 R	Execution only pension transfer or opt out	That no <i>personal recommendation</i> was given to the <i>client</i>	Date of transaction	5 years
COBS 19.2.3 R	Promotion of personal pension scheme	Why the promotion was justified	When promoted	5 years
COBS 20.2.36A R	<i>strategic investments</i>	A description of the strategic purpose for which a <i>strategic investment</i> has been purchased or retained	Before making a <i>strategic investment</i> or when reviewing whether to retain a <i>strategic investment</i>	Until the <i>firm</i> ceases to hold the <i>strategic investment</i> in question
COBS 20.3.1 R	<i>PPFMs</i>	Each version of the <i>PPFM</i>	Date on which the <i>PPFM</i> is relevant	5 years
COBS TP 1	<i>Client</i> categorisation transitional	Categorisation or re-categorisation under TP1	Date of categorisation/ re-categorisation	See COBS 3.8.2 R (2)
COBS TP 2	<i>Investment research</i> transitional	Election to comply with COBS 12.2 - COBS 12.3 sooner than 1 May 2008	Date of decision and date from which election is to be effective	5 years
COBS TP 2	Specialist regimes	Election to comply with COBS 18 sooner than 1 May 2008	Date of decision and date from which election is to be effective	5 years

Client Assets

Credit institutions and approved banks

7.1.8

FCA

R

The *client money rules* do not apply to a *CRD credit institution* in relation to deposits within the meaning of the *CRD* held by that *institution*.

[Note: article 13(8) of *MiFID* and article 18(1) of the *MiFID implementing Directive*]

7.1.9

FCA

G

If a *credit institution* that holds *money* as a deposit with itself is subject to the requirement to disclose information before providing services, it should, in compliance with that obligation, notify the *client* that:

- (1) *money* held for that *client* in an account with the *credit institution* will be held by the *firm* as banker and not as trustee (or in Scotland as agent); and
- (2) as a result, the *money* will not be held in accordance with the *client money rules*.

7.1.10

FCA

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Pursuant to *Principle 10* (Clients' assets), a *credit institution* that holds *money* as a deposit with itself should be able to account to all of its *clients* for amounts held on their behalf at all times. A bank account opened with the *firm* that is in the name of the *client* would generally be sufficient. When *money* from *clients* deposited with the *firm* is held in a pooled account, this account should be clearly identified as an account for *clients*. The *firm* should also be able to demonstrate that an amount owed to a specific *client* that is held within the pool can be reconciled with a record showing that individual's *client* balance and is, therefore, identifiable at any time. Similarly, where that *money* is reflected only in a *firm's* bank account with other banks (nostro accounts), the *firm* should be able to reconcile amounts owed to that *client* within a reasonable period of time.

7.1.11

FCA

G

A *credit institution* is reminded that the exemption for deposits is not an absolute exemption from the *client money rules*.

7.1.11A

FCA

R

- (1) This *rule* applies to a *firm* which is an *approved bank* but not a *CRD credit institution*.
- (2) The *client money rules* do not apply to money held by the *approved bank* if it is undertaking business which is not *MiFID business* but only when the money is held in an account with itself, in which case the *firm* must notify the *client* in writing that:
 - (a) *money* held for that *client* in an account with the *approved bank* will be held by the *firm* as banker and not as trustee (or in Scotland as agent); and
 - (b) as a result, the *money* will not be held in accordance with the *client money rules*.

Affiliated companies - MiFID business

7.1.12

FCA

G

A *firm* that holds *money* on behalf of, or receives *money* from, an *affiliated company* in respect of *MiFID business* must treat the *affiliated company* as any other *client* of the *firm* for the purposes of this chapter.

Affiliated companies - non-MiFID business

7.1.12A

FCA

R

A *firm* that holds *money* on behalf of, or receives *money* from, an *affiliated company* in respect of *designated investment business* which is not *MiFID business* must not treat the *money* as *client money* unless:

- (1) the *firm* has been notified by the *affiliated company* that the *money* belongs to a *client* of the *affiliated company*; or
- (2) the *affiliated company* is a *client* dealt with at arm's length; or
- (3) the *affiliated company* is a manager of an *occupational pension scheme* or is an overseas company; and
 - (a) the *money* is given to the *firm* in order to carry on *designated investment business* for or on behalf of the *clients* of the *affiliated company*; and
 - (b) the *firm* has been notified by the *affiliated company* that the *money* is to be treated as *client money*.

7.1.13

G

[deleted]

Coins

7.1.14

FCA

R

The *client money rules* do not apply with respect to coins held on behalf of a *client* if the *firm* and the *client* have agreed that the *money* (or *money* of that type) is to be held by the *firm* for the intrinsic value of the metal which constitutes the coin.

Solicitors

7.1.15

FCA

R

- (1) An *authorised professional firm* regulated by the Law Society (of England and Wales), the Law Society of Scotland or the Law Society of Northern Ireland that, with respect to its *regulated activities*, is subject to the following rules of its *designated professional body*, must comply with those rules and, where relevant paragraph (3), and if it does so, it will be deemed to comply with the *client money rules*.
- (2) The relevant rules are:
 - (a) if the *firm* is regulated by the Law Society (of England and Wales):
 - (i) the Solicitors' Accounts Rules 1998; or
 - (ii) where applicable, the Solicitors Overseas Practice Rules 1990;
 - (b) if the *firm* is regulated by the Law Society of Scotland, the Solicitors' (Scotland) Accounts, Accounts Certificate, Professional Practice and Guarantee Fund Rules 2001; and

7.4 Segregation of client money

Depositing client money

7.4.1
FCA

R A *firm*, on receiving any *client money*, must promptly place this *money* into one or more accounts opened with any of the following:

- (1) a central bank;
- (2) a *CRD credit institution*;
- (3) a bank authorised in a third country;
- (4) a *qualifying money market fund*.

[Note: article 18(1) of the *MiFID implementing Directive*]

7.4.2
FCA

G An account with a central bank, a *CRD credit institution* or a bank authorised in a third country in which *client money* is placed is a *client bank account*.

Qualifying money market funds

7.4.3
FCA

G Where a *firm* deposits *client money* with a *qualifying money market fund*, the units in that fund should be held in accordance with ■ CASS 6.

[Note: recital 23 to the *MiFID implementing Directive*]

7.4.4
FCA

G A *firm* that places *client money* in a *qualifying money market fund* should ensure that it has the *permissions* required to invest in and hold units in that fund and must comply with the *rules* that are relevant for those activities.

7.4.5
FCA

R A *firm* must give a *client* the right to oppose the placement of his *money* in a *qualifying money market fund*.

[Note: article 18(3) of the *MiFID implementing Directive*]

7.4.6
FCA

G If a *firm* that intends to place *client money* in a *qualifying money market fund* is subject to the requirement to disclose information before providing services, it should, in compliance with that obligation, notify the *client* that:

- (1) *money* held for that *client* will be held in a *qualifying money market fund*; and

- (2) as a result, the *money* will not be held in accordance with the *client money rules* but in accordance with the *custody rules*.

A firm's selection of a credit institution, bank or money market fund

7.4.7

FCA

R

A *firm* that does not deposit *client money* with a central bank must exercise all due skill, care and diligence in the selection, appointment and periodic review of the *credit institution*, bank or *qualifying money market fund* where the *money* is deposited and the arrangements for the holding of this *money*.

[Note: article 18(3) of the *MiFID implementing Directive*]

7.4.8

FCA

R

When a *firm* makes the selection, appointment and conducts the periodic review of a *credit institution*, a bank or a *qualifying money market fund*, it must take into account:

- (1) the expertise and market reputation of the third party; and
- (2) any legal requirements or market practices related to the holding of *client money* that could adversely affect *clients'* rights.

[Note: article 18(3) of the *MiFID implementing Directive*]

7.4.9

FCA

G

In discharging its obligations when selecting, appointing and reviewing the appointment of a *credit institution*, a bank or a *qualifying money market fund*, a *firm* should also consider, together with any other relevant matters:

- (1) the need for diversification of risks;
- (2) the capital of the *credit institution* or bank;
- (3) the amount of *client money* placed, as a proportion of the *credit institution* or bank's capital and *deposits*, and, in the case of a *qualifying money market fund*, compared to any limit the fund may place on the volume of redemptions in any period;
- (4) the credit rating of the *credit institution* or bank; and
- (5) to the extent that the information is available, the level of risk in the investment and loan activities undertaken by the *credit institution* or bank and *affiliated companies*.

7.4.9A

FCA

R

A *firm* must limit the funds that it deposits or holds with a relevant group entity or combination of such entities so that those funds do not at any point in time exceed 20 per cent of the balance on:

- (1) all of its *general client bank accounts* considered in aggregate;
- (2) each of its *designated client bank accounts*; and

(3) each of its *designated client fund accounts*.

7.4.9B

FCA

R

For the purpose of ■ CASS 7.4.9A R an entity is a relevant group entity if it is:

- (1) a *CRD credit institution*, a bank authorised in a third country, a *qualifying money market fund*, or the entity operating or managing a *qualifying money market fund*; and
- (2) a member of the same *group* as that *firm*.

7.4.9C

FCA

G

The *rules* in ■ SUP 16.14 provide that a *firm* must report to the *FCA* in relation to the identity of the entities with which it deposits *client money* and the amounts of *client money* deposited with them. The *FCA* will use that information to monitor compliance with the diversification *rule* in ■ CASS 7.4.9A R.

7.4.10

FCA

R

A *firm* must make a record of the grounds upon which it satisfies itself as to the appropriateness of its selection of a *credit institution*, a bank or a *qualifying money market fund*. The *firm* must make the record on the date it makes the selection and must keep it from the date of such selection until five years after the *firm* ceases to use the third party to hold *client money*.

Client bank accounts

7.4.11

FCA

R

A *firm* must take the necessary steps to ensure that *client money* deposited, in accordance with ■ CASS 7.4.1 R, in a central bank, a *credit institution*, a bank authorised in a third country or a *qualifying money market fund* is held in an account or accounts identified separately from any accounts used to hold *money* belonging to the *firm*.

[Note: article 16(1)(e) of the *MiFID implementing Directive*]

7.4.12

FCA

G

A *firm* may open one or more *client bank accounts* in the form of a *general client bank account*, a *designated client bank account* or a *designated client fund account* (see ■ CASS 7A.2.1 G (Failure of the authorised firm: primary pooling event)).

7.4.13

FCA

G

A *designated client fund account* may be used for a *client* only where that *client* has consented to the use of that account and all other *designated client fund accounts* which may be pooled with it. For example, a *client* who consents to the use of bank A and bank B should have his *money* held in a different *designated client fund account* at bank B from a *client* who has consented to the use of banks B and C.

Payment of client money into a client bank account

7.4.14

FCA

G

Two approaches that a *firm* can adopt in discharging its obligations under the *client money segregation requirements* are:

- (1) the 'normal approach'; or
- (2) the 'alternative approach'.

7.4.15

FCA

R

A *firm* that does not adopt the normal approach must first send a written confirmation to the FCA from the *firm's* auditor that the *firm* has in place systems and controls which are adequate to enable it to operate another approach effectively.

7.4.16

FCA

G

The alternative approach would be appropriate for a *firm* that operates in a multi-product, multi-currency environment for which adopting the normal approach would be unduly burdensome and would not achieve the *client* protection objective. Under the alternative approach, *client money* is received into and paid out of a *firm's* own bank accounts; consequently the *firm* should have systems and controls that are capable of monitoring the *client money* flows so that the *firm* can comply with its obligations to perform reconciliations of records and accounts (see ■ CASS 7.6.2 R). A *firm* that adopts the alternative approach will segregate *client money* into a *client bank account* on a daily basis, after having performed a reconciliation of records and accounts of the entitlement of each *client* for whom the *firm* holds *client money* with the records and accounts of the *client money* the *firm* holds in *client bank accounts* and *client transaction accounts* to determine what the *client money* requirement was at the close of the previous *business day*.

7.4.17

FCA

G

Under the normal approach, a *firm* that receives *client money* should either:

- (1) pay it promptly, and in any event no later than the next *business day* after receipt, into a *client bank account*; or
- (2) pay it out in accordance with the *rule* regarding the discharge of a *firm's* fiduciary duty to the *client* (see ■ CASS 7.2.15 R).

7.4.18

FCA

G

Under the alternative approach, a *firm* that receives *client money* should:

- (1) (a) pay any *money* to or on behalf of *clients* out of its own account; and
 (b) perform a reconciliation of records and accounts required under ■ CASS 7.6.2 R (Records and accounts), and where relevant ■ SYSC 4.1.1 R (General requirements) and ■ SYSC 6.1.1 R (Compliance), adjust the balance held in its *client bank accounts* and then segregate the *money* in the *client bank account* until the calculation is re-performed on the next *business day*; or
- (2) pay it out in accordance with the *rule* regarding the discharge of a *firm's* fiduciary duty to the *client* (see ■ CASS 7.2.15 R).

7.4.19

FCA

G

A *firm* that adopts the alternative approach may:

- (1) receive all *client money* into its own bank account;
- (2) choose to operate the alternative approach for some types of business (for example, overseas equities transactions) and operate the normal approach for other types of business (for example, *contingent liability investments*) if the *firm* can demonstrate that its systems and controls are adequate (see ■ CASS 7.4.15 R); and

Market Conduct



5.2 Purpose

5.2.1

FCA

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The purpose of this chapter is to implement the provisions of *MiFID* relating to *firms* operating *MTFs*, specifically articles 14, 26, 29 and 30 of *MiFID*. This chapter does not apply to bilateral systems, which are excluded from the *MTF* definition. It sets out for reference other provisions of the *MiFID Regulation* relevant to the articles being implemented.

5.2.2

[Deleted]

5.2.3

[Deleted]

5.2.4

[Deleted]

5.2.5

[Deleted]

5.2.6

[Deleted]

5.2.7

[Deleted]

5.2.8

[Deleted]

5.3.1

FCA

R

A firm operating an *MTF* must have:

- (1) transparent and non-discretionary rules and procedures for fair and orderly trading;

[Note: Article 14(1) of *MiFID*]

- (2) objective criteria for the efficient execution of orders;

[Note: Article 14(1) of *MiFID*]

- (3) transparent rules regarding the criteria for determining the *financial instruments* that can be traded under its systems;

[Note: Subparagraph 1 of Article 14(2) of *MiFID*]

- (4) transparent rules, based on objective criteria, governing access to its facility, which rules must provide that its members or participants are *investment firms*, *CRD credit institutions* or other persons who:

- (a) are fit and proper;
- (b) have a sufficient level of trading ability and competence;
- (c) where applicable, have adequate organisational arrangements;
- (d) have sufficient resources for the role they are to perform, taking into account the different financial arrangements that the *firm* operating the *MTF* may have established in order to guarantee the adequate settlement of transactions; and

[Note: Article 14(4) and 42(3) of *MiFID*]

- (5) where applicable must provide, or be satisfied that there is access to, sufficient publicly available information to enable its users to form an investment judgment, taking into account both the nature of the users and the types of instrument traded.

Supervision

3.1.10 G Table Other relevant sections of the Handbook (see ■ SUP 3.1.9 G)

FCA PRA

<i>Friendly society</i>	<i>IPRU(FSOC)</i>
<i>Insurer (other than a friendly society)</i>	<i>IPRU(INS)</i>
<i>Investment management firm, personal investment firm, securities and futures firm (other than IFPRU investment firms and BIPRU firms)</i>	<i>IPRU(INV)</i>
<i>UCITS firm</i>	<i>(UPRU)</i>
<i>Society of Lloyd's and Lloyd's managing agents</i>	<i>IPRU(INS)</i>

Lloyd's

Enabling provision and application

3.1.11 G The *insurance market direction* in this chapter is given under section 316(1) of the Act (Direction by a regulator) and applies to *members*.

PRA

Purpose

3.1.12 G The *insurance market direction* in this chapter is intended to enable the *rules* in ■ SUP 3 and ■ SUP 4 to be applied to a *managing agent* in respect of the *insurance business* of each *syndicate* which it manages.

PRA

Insurance market direction on rules concerning auditors and actuaries

- 3.1.13 D
- (1) With effect from 1 January 2005, Part XXII of the *Act* (Auditors and Actuaries) applies to the carrying on of *insurance business* by *members* as modified by paragraph (3).
 - (2) For the purposes of (1) "insurance business" means the *regulated activities of effecting or carrying out contracts of insurance* written at Lloyd's.
 - (3) Regulations made by the Treasury under section 342(5) and section 343(5) of Part XXII of the *Act* apply only to *actuaries* appointed by a *managing agent* in respect of the *insurance business* of a *syndicate*, in relation to the *long-term insurance business* of that *syndicate*.
 - (4) In Part XXII of the *Act* (Auditors and Actuaries) as applied by this *insurance market direction*:
 - (a) a reference to an auditor of an *authorised person* is to be read as including an auditor appointed by a *managing agent* in respect of the *insurance business* of a *syndicate*; and
 - (b) a reference to an *actuary* acting for an *authorised person* is to be read as including an *actuary* appointed by a *managing agent* in respect of the *insurance business* of a *syndicate*.

PRA

3.1.14 G Part XXII (Auditors and Actuaries) is a *core provision* mentioned in section 317(1) of the *Act* (The core provisions).

PRA

3.1.15

PRA

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Section 317(2) of the *Act* (The core provisions) provides that references in an applied *core provision* to an *authorised person* are to be read as references to a *person* in the class to which the *insurance market direction* applies. The effect of this, and of the *insurance market direction* set out at ■ SUP 3.1.13 D, is that Part XXII of the *Act* (Auditors and Actuaries), applies also to auditors and *actuaries* who are appointed to report on the underwriting business of *members*. Part XXII is modified in its application to *members* by paragraph (3) of ■ SUP 3.1.13 D with the effect that the regulations made under sections 342(5) and 343(5) of the *Act* relating to communications by *actuaries* will only apply where the *actuary* is appointed to evaluate the *long-term insurance business* of the *syndicate*. The regulations made under sections 342(5) and 343(5) in relation to communications by auditors will apply in relation to both *general insurance business* and *long-term insurance business*.

3.1.16

PRA

G

■ SUP 3.3 sets out *rules* the effect of which is to require a *managing agent* to appoint an auditor in respect of its own business and the *insurance business* of each *syndicate* which it manages.

3.1.17

PRA

G

References in ■ SUP 3, as applied by ■ SUP 3.1.2 R, to a *firm* include, where appropriate:

- (1) a *managing agent*; and
- (2) one or more *members* carrying on *insurance business* at Lloyd's through a *syndicate*,

and references to an *actuary* of a *firm* should be read accordingly.

3.1.18

PRA

G

■ SUP 4.6 sets out *rules* the effect of which is to require a *managing agent* to appoint an *actuary* in respect of the *insurance business* of each *syndicate* which it manages.

3.10.4A

FCA

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- (1) For the purpose of ■ SUP 3.10.4 R (1), an auditor must ensure that the report is prepared in accordance with the terms of a *reasonable assurance engagement*.
- (2) For the purpose of ■ SUP 3.10.4 R (2), an auditor must ensure that the report is prepared in accordance with the terms of a *limited assurance engagement*.

3.10.5

FCA

R

Table Client assets report

Whether in the auditor's opinion

- (1) the *firm* has maintained systems adequate to enable it to comply with the *custody rules*, the *collateral rules*, the *client money rules* (except CASS 5.2) and the *mandate rules* throughout the period ;
- (2) the *firm* was in compliance with the *custody rules*, the *collateral rules*, the *client money rules* (except CASS 5.2) and the *mandate rules*, at the date as at which the report has been made;
- (3) in the case of an *investment management firm*, *personal investment firm*, a *UCITS firm*, *securities and futures firm*, *firm acting as trustee or depositary of an AIF*, *firm acting as trustee or depositary of a UCITS* or *IFPRU investment firm* or *BIPRU firm*, when a *subsidiary* of the *firm* is during the period a *nominee company* in whose name *custody assets* of the *firm* are registered during the period, that *nominee company* has maintained throughout the period systems for the custody, identification and control of *custody assets* which:
 - (a) were adequate; and
 - (b) included reconciliations at appropriate intervals between the records maintained (whether by the *firm* or the *nominee company*) and statements or confirmations from *custodians* or from the *person* who maintained the record of legal entitlement; and
- (4) if there has been a *secondary pooling event* during the period, the *firm* has complied with the *rules* CASS 5.6 and CASS 7A (Client money distribution) in relation to that pooling event.

PAGE 27

3.10.5A

FCA

R

In relation to a client assets report provided in accordance with ■ SUP 3.10.4 R, an auditor must ensure that it:

- (1) is submitted in the form prescribed by ■ SUP 3 Annex 1 R; and

(2) is signed on behalf of the audit firm by the individual with primary responsibility for a *firm's* client assets report and in that individual's own name.

3.10.5B
FCA

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■ SUP 3.10.4 R provides that an auditor must ensure that a client assets report is prepared in accordance with the terms of, as the case may be, a *reasonable assurance engagement* or a *limited assurance engagement*. However, the *FCA* also expects an auditor to have regard, where relevant, to material published by the Auditing Practices Board that deals specifically with the client assets report which the auditor is required to submit to the *FCA* . In the *FCA's* view, a client assets report that is prepared in accordance with that material is likely to comply with ■ SUP 3.10.4 R and ■ SUP 3.10.5 R where that report is prepared for a *firm* within the scope of the material in question.

3.10.5C
FCA

R

- (1) An auditor must ensure that the information provided to it by a *firm* in accordance with ■ SUP 3.11.1 G is included in the client assets report.
- (2) If by the date at which the report is due for submission in accordance with ■ SUP 3.10.7 R or ■ SUP 3.10.8A R an auditor has not received the information prescribed in ■ SUP 3.11.1 G it must submit the report without that information, together with an explanation for its absence.

Client assets report: period covered

3.10.6
FCA

R

The period covered by a report under ■ SUP 3.10.4 R must end not more than 53 weeks after the period covered by the previous report on such matters, or, if none, after the *firm* is *authorised* or becomes subject to ■ SUP 3.11 and its auditor becomes subject to ■ SUP 3.10.

Client assets report: timing of submission

3.10.7
FCA

R

An auditor must deliver a client assets report under ■ SUP 3.10.4 R to the *FCA* within four months from the end of each period covered , unless it is the auditor of a *firm* falling within category (10) of ■ SUP 3.1.2 R.

3.10.7A

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[deleted]

3.10.8
FCA

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- (1) If an auditor expects that it will fail to comply with ■ SUP 3.10.7 R, it must no later than the end of the four month period in question:
 - (a) notify the *FCA* that it expects that it will be unable to deliver a client assets report by the end of that period; and
 - (b) ensure that the notification in (a) is accompanied by a full account of the reasons for its expected failure to comply with ■ SUP 3.10.7 R.

9.3 Giving individual guidance to a firm on the FCA's own initiative

9.3.1

FCA

G

Business and internal control risks vary from *firm* to *firm*, according to the nature and complexity of the business. The *FCA*'s assessment of these risks is reflected in how its *rules* apply to different categories of *firm* as well as in the use of its other regulatory tools. One of the tools the *FCA* has available is to give a *firm* individual *guidance* on the application of the requirements or standards under the *regulatory system* in the *firm*'s particular circumstances.

9.3.2

FCA

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The *FCA* may give individual *guidance* to a *firm* on its own initiative if it considers it appropriate to do so. For example:

- (1) the *FCA* may consider that general *guidance* in the *Handbook* does not appropriately fit a *firm*'s particular circumstances (which may be permanent or temporary) and therefore decide to give additional individual *guidance* to the *firm*;
- (2) some of the *FCA*'s requirements are expressed in general terms; however, there may be times when the *FCA* will wish to respond to a *firm*'s particular circumstances by giving individual *guidance* on the application of the general requirement in these circumstances;
- (3) the *FCA* may consider that a *firm* should be given more detailed *guidance* than that contained in the *FCA Handbook* ; for example, where a *firm* holds positions in instruments of a non-standard form it may be appropriate to give the *firm* additional or more detailed *guidance* on how the *FCA* considers that it should calculate its financial resources requirement;
- (4) in some instances a *rule* allows a *firm* to select which requirement, within a range of alternative requirements, a *firm* should comply with; in many instances, the *FCA Handbook* gives *guidance* setting out the circumstances in which compliance with a particular requirement is appropriate; the *FCA* may sometimes consider it necessary to give additional individual *guidance* to tell a *firm* which requirement it considers appropriate;
- (5) in relation to the maintenance of adequate financial resources, the *FCA* may give a *firm* individual *guidance* on the amount or type of financial resources the *FCA* considers appropriate, for example *individual capital guidance* for *IFPRU investment firms* or *BIPRU firms*; further *guidance* on how and when the *FCA* may give *individual capital guidance* on financial resources is contained in the Prudential Standards part of the *Handbook*:
 - (a) for a *BIPRU firm*: ■ GENPRU 1.2 and ■ BIPRU 2.2;

- (b) [deleted]
- (c) for a *securities and futures firm* (or other *firm* required to comply with IPRU(INV) 3): IPRU(INV) 3-79R ; and
- (d) [deleted]
- (e) for an *IFPRU investment firm*: IFPRU 2.2. and 2.3.

9.3.3

FCA

G

If the *FCA* intends to give a *firm* individual *guidance* on its own initiative, it will normally seek to discuss the issue with the *firm* and agree suitable individual *guidance*.

9.3.4

FCA

G

Individual *guidance* given to a *firm* on the *FCA*'s own initiative will normally be given in writing.



9.4 Reliance on individual guidance

Reliance by recipient of individual guidance

9.4.1

FCA

G

If a *person* acts in accordance with current individual written *guidance* given to him by the *FCA* in the circumstances contemplated by that *guidance*, then the *FCA* will proceed on the footing that the *person* has complied with the aspects of the *rule* or other requirement to which the *guidance* relates.

9.4.2

FCA

G

The extent to which a *person* can rely on individual *guidance* given to him will depend on many factors. These could include, for example, the degree of formality of the original query and the *guidance* given, and whether all relevant information was submitted with the request. Individual *guidance* is usually given in relation to a set of particular circumstances which exist when the *guidance* is given. If the circumstances later change, for example, because of a change in the circumstances of the *person* or a change in the underlying *rule* or other requirement, and the premises upon which individual *guidance* was given no longer apply, the *guidance* will cease to be effective.

9.4.3

FCA

G

If the circumstances relating to individual *guidance* change it will be open to a *person* to ask for further *guidance*.

Effect on rights of third parties

9.4.4

FCA

G

Rights conferred on third parties (such as a *firm's* clients) cannot be affected by *guidance* given by the *FCA*. *Guidance* on rules, the *Act* or other legislation represents the *FCA* view, and does not bind the courts, for example in relation to an action for damages brought by a *private person* for breach of a *rule* (section 138D of the *Act* (Actions for damages)) or in relation to enforceability of a contract if the *general prohibition* is breached (sections 26 and 27 of the *Act* (Enforceability of agreements)). A *person* may need to seek his own legal advice.



9.5

[Deleted]

11.8 Changes in the circumstances of existing controllers

11.8.1 **R** A *firm* must notify the *appropriate regulator* immediately it becomes aware of any of the following matters in respect of one or more of its *controllers*:

FCA **PRA**

- (1) if a *controller*, or any entity subject to his *control*, is or has been the subject of any legal action or investigation which might put into question the integrity of the *controller*;
- (2) if there is a significant deterioration in the financial position of a *controller*;
- (3) if a corporate *controller* undergoes a substantial change or series of changes in its *governing body*;
- (4) if a *controller*, who is authorised in another *EEA State* as a *MiFID investment firm*, *CRD credit institution* or *UCITS management company* or under the *Insurance Directives* or the *Insurance Mediation Directive*, ceases to be so authorised (registered in the case of an *IMD insurance intermediary*).

11.8.2 **G** In assessing whether a matter should be notified to the *appropriate regulator* under **■** SUP 11.8.1 R (1), **■** SUP 11.8.1 R (2) or **■** SUP 11.8.1 R (3), a *firm* should have regard to the *guidance* on satisfying the *threshold conditions* set out in paragraphs 2E and 3D of Schedule 6 to the *Act* contained in **■** COND 2.5.

FCA

11.8.3 **G** In respect of **■** SUP 11.8.1 R (3), the *appropriate regulator* considers that, in particular, the removal or replacement of a majority of the members of a *governing body* (in a single event or a series of connected events) is a substantial change and should be notified.

FCA **PRA**

11.8.4 **G** If a matter has already been notified to the *appropriate regulator* (for example, as part of the *firm's* application for a *Part 4A permission*), the *firm* need only inform the *appropriate regulator* of any significant developments.

FCA **PRA**

11.8.5 **G** The level of a *firm's* awareness of its *controller's* circumstances will depend on its relationship with that *controller*. The *appropriate regulator* does not expect *firms* to implement systems or procedures so as to be certain of any changes in its *controllers'* circumstances. However, the *appropriate regulator* does expect *firms* to notify it of such matters if the *firm* becomes aware of them, and it expects *firms* to make enquiries of its

FCA **PRA**

controllers if it becomes aware that one of the events in ■ SUP 11.8.1 R may occur or has occurred.

11.8.6

FCA PRA

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The *appropriate regulator* may ask the *firm* for additional information following a notification under ■ SUP 11.8.1 R in order to satisfy itself that the *controller* continues to be suitable (see ■ SUP 2: Information gathering by the appropriate regulator on its own initiative).



11.9 Changes in close links

Requirement to notify changes in close links

11.9.1

R

- (1) [deleted]
- (2) [deleted]

11.9.1A

FCA

R

- (1) A *firm* must notify the *FCA* that it has become or ceased to be *closely linked* with any *person* . The notification must be made by completing the Close Links Notification Form (see ■ SUP 11.9.3B G).
- (2) If a *group* includes more than one *firm*, a single close links notification may be made by completing the Close Links Notification Form and so satisfy the notification requirement for all *firms* in the *group*. Nevertheless, the requirement to notify, and the responsibility for notifying, remains with each *firm* in the *group*.

11.9.1B

PRA

R

- (1) A *firm* must notify the *PRA* that it has become or ceased to be *closely linked* with any *person*. The notification must be made by completing the Close Links Notification Form (see ■ SUP 11.9.3C G)
- (2) If a *group* includes more than one *firm*, a single close links notification may be made by completing the Close Links Notification Form and so satisfy the notification requirement for all *firms* in the *group*. Nevertheless, the requirement to notify, and the responsibility for notifying, remains with each *firm* in the *group*.

11.9.2

FCA

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Guidance on what constitutes a *close link* is provided in ■ COND 2.3.

11.9.2A

FCA

PRA

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A *firm* may elect not to include the following *close links* in the notification submitted under ■ SUP 11.9.1 R, ■ SUP 11.9.5 R or ■ SUP 16.5:

- (1) *shares* held in its capacity as custodian provided it can only exercise any voting rights attached to such *shares* under instructions given in writing or by *electronic means*;
- (2) *shares* held in its capacity as collateral taker under a collateral transaction which involves the outright transfer of *securities* provided it does not declare any

intention of exercising (and does not exercise) the voting rights attaching to such *shares*.

11.9.3 G [deleted]

11.9.3-A G The *FCA* may ask the *firm* for additional information following a notification under FCA ■ SUP 11.9.1A R in order to satisfy itself that the *firm* continues to satisfy the *threshold conditions* (see ■ SUP 2: Information gathering by the *FCA* and *PRA* on their own initiative).

11.9.3-B G The *PRA* may ask the *firm* for additional information following a notification under PRA ■ SUP 11.9.1B R in order to satisfy itself that the *firm* continues to satisfy the *threshold conditions* (see ■ SUP 2: Information gathering by the *FCA* and *PRA* on their own initiative).

Form of notification

11.9.3A G [deleted]

11.9.3B G The Close Links Notification Form approved by the *FCA* for notifications under FCA ■ SUP 11.9.1A R, ■ SUP 11.9.5A R may be found at the *FCA* website.

11.9.3C G The Close Links Notification Form approved by the *PRA* for notifications under PRA ■ SUP 11.9.1B R, and ■ SUP 11.9.5B R may be found at the *PRA* website.

Timing of notification requirement

11.9.4 R [deleted]

11.9.4A R The *firm* must make a notification to the *FCA* under FCA ■ SUP 11.9.1A R:

- (1) as soon as reasonably practicable and no later than one *month* after it becomes aware that it has become or ceased to be closely linked with any *person*; or
- (2) where a *firm* has elected to report on a *monthly* basis, within fifteen *business days* of the end of each *month* by completing the Close Links Notification Form for that *month* and must submit the *group* organisation chart on a quarterly basis unless there have been no changes since the submission of the previous organisation chart to the *FCA*, in which case the *group* organisation chart is not required.

- 11.9.4B **R** The *firm* must make a notification to the *PRA* under ■ SUP 11.9.1B R:
PRA
- (1) as soon as reasonably practicable and no later than one *month* after it becomes aware that it has become or ceased to be closely linked with any *person*; or
 - (2) where a *firm* has elected to report on a *monthly* basis, within fifteen *business days* of the end of each *month* by completing the Close Links Notification Form for that *month* and must submit the *group* organisation chart on a quarterly basis unless there have been no changes since the submission of the previous organisation chart to the *PRA*, in which case the *group* organisation chart is not required.

Electing to notify changes in close links monthly

- 11.9.5 **R** (1) [deleted]
 (2) [deleted]
- 11.9.5A **R** (1) A *firm* elects to report changes in *close links* on a *monthly* basis by sending a written notice of election to the *firm's* usual supervisory contact at the *FCA*.
FCA
- (2) An election to report changes in *close links* on a *monthly* basis will stand until such time as the *firm* gives its usual supervisory contact at the *FCA* at least one *month's* written notice of its intention to cease reporting changes in *close links* on a *monthly* basis.
- 11.9.5B **R** (1) A *firm* elects to report changes in *close links* on a *monthly* basis by sending a written notice of election to the *firm's* usual supervisory contacts at both the *PRA* and *FCA*.
PRA
- (2) An election to report changes in *close links* on a *monthly* basis will stand until such time as the *firm* gives its usual supervisory contacts at both the *PRA* and *FCA* at least one *month's* written notice of its intention to cease reporting changes in *close links* on a *monthly* basis.
- 11.9.6 **G** [deleted]
- 11.9.6A **G** The *FCA* considers that *monthly* reporting of changes in *close links* will ordinarily only be appropriate for *firms* forming part of large *groups*.
FCA
- 11.9.6B **G** The *PRA* considers that *monthly* reporting of changes in *close links* will ordinarily only be appropriate for *firms* forming part of large *groups*.
PRA

does not apply to a *UK firm* in relation to its exercise of an *EEA right* under the *auction regulation* to provide services or establish a branch in another *EEA state*. This is because a *UK firm* is not subject to the requirements in Schedule 3 to the *Act* in respect of its exercise of that *EEA right*.

13.1.4

FCA PRA

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■ SUP App 3 contains *guidance* on the *Single Market Directives*.

Purpose

13.1.5

FCA PRA

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This chapter gives *guidance* on Schedule 3 to the *Act* for a *UK firm* which wishes to exercise its *EEA right* and establish a *branch* in, or provide *cross border services* into, another *EEA State*. That is, when a *UK firm* wishes to establish its first *branch* in, or provide *cross border services* for the first time into, a particular *EEA State*.

















13.1.6

FCA PRA

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The chapter also explains how a *UK firm* which has already established a *branch* in, or is providing *cross border services* into, another *EEA State*, may change the details of its *branch* or of the *cross border services* it is providing: for example, where a *UK firm* wishes to establish additional *branches* in an *EEA State* in which it has already established a *branch* where this would result in a change to the details provided previously. Such changes are governed by the *EEA Passport Rights Regulations*.

13.2 Introduction

- 13.2.1**  This chapter gives *guidance* to *UK firms*. In most cases *UK firms* will be *authorised persons* under the *Act*. However, under the *CRD*, a subsidiary of a *firm* which is a *credit institution* which meets the criteria set out in that Directive also has an *EEA right*. Such an unauthorised subsidiary is known as a *financial institution*. References in this chapter to a *UK firm* include a *financial institution*.
 
- 13.2.2**  A *UK firm* should be aware that the *guidance* is the *FSA's* interpretation of the *Single Market Directives*, the *Act* and the legislation made under the *Act*. The *guidance* is not exhaustive and is not a substitute for *firms* consulting the legislation or taking their own legal advice in the *United Kingdom* and in the relevant *EEA States*.
 
- 13.2.3**  In some circumstances, a *UK firm* that is carrying on business which is outside the scope of the *Single Market Directives* has a right under the *Treaty* to carry on that business. For example, for an *insurer* carrying on both direct insurance and *reinsurance* business, the *authorisation* of *reinsurance* business is not covered by the *Insurance Directives*. The *firm* may, however, have rights under the *Treaty* in respect of its *reinsurance* business. Such *UK firms* may wish to consult with the *appropriate UK regulator* on their particular circumstances (see  SUP 13.12.2 G).
 
- 13.2.4**  In  SUP 13 the "appropriate UK regulator" amounts to whichever of the *FCA* and the *PRA* is the competent authority for *authorising* the relevant *UK firm*.
 
- 13.2.5**  A *UK firm* that is an *AIFM* will only be entitled to carry on an activity under *AIFMD* under a passport in another *EEA State* if it is a *full-scope UK AIFM*.




13.3 Establishing a branch in another EEA State

What constitutes a branch

13.3.1

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FCA PRA

Guidance on what constitutes a *branch* is given in ■ SUP App 3 . Note that if a UK MiFID investment firm is seeking to use a *tied agent* established in another EEA State, the rules in ■ SUP 13 will apply as if that firm were seeking to establish a *branch* in that EEA State unless the firm has already established a *branch* in that EEA State (paragraph 20A of Schedule 3 to the Act).

The conditions for establishing a branch

13.3.2

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FCA PRA

A UK firm other than a UK pure reinsurer cannot establish a *branch* in another EEA State for the first time under an EEA right unless the relevant conditions in paragraphs 19(2), (4) and (5) of Part III of Schedule 3 to the Act are satisfied. It is an offence for a UK firm which is not an *authorised person* to contravene this prohibition (paragraph 21 of Part III of Schedule 3 to the Act). These conditions are that:

- (1) the UK firm has given the *appropriate UK regulator*, in accordance with the *appropriate UK regulator's rules* (see ■ SUP 13.5.1 R) or the directly applicable regulations made under the CRD (see ■ SUP 13.5.1 R), notice of its intention to establish a *branch* (known as a *notice of intention*) which :
 - (a) identifies the activities which it seeks to carry on through the *branch*; and
 - (b) includes such other information as may be specified by the *appropriate UK regulator* (see ■ SUP 13.5.1 R) or by the directly applicable regulations made under the CRD (see ■ SUP 13.5.1 R) ;
- (2) the *appropriate UK regulator* has given notice (known as a *consent notice*) to the *Host State regulator*;
- (2A) if the UK firm's EEA right relates to providing *collective portfolio management services* under the UCITS Directive , the FCA has provided to the *Host State regulator*:
 - (a) confirmation that the firm has been *authorised* as a *management company* under the provisions of the UCITS Directive;
 - (b) a description of the scope of the firm's *authorisation*; and
 - (c) details of any restriction on the types of EEA UCITS scheme that the firm is *authorised* to manage; and

- (3) (a) if the UK firm's EEA right derives from the *Insurance Mediation Directive* one month has elapsed beginning on the date on which the UK firm received notice that the appropriate UK regulator had given a consent notice as described in ■ SUP 13.3.6 G (1) (see ■ SUP 13.3.2A G);
- (b) in any other case (except for a firm passporting under AIFMD):
 - (i) the Host State regulator has notified the UK firm (or, where the UK firm is passporting under the *Insurance Directives*, the PRA) of the applicable provisions or, in the case of a UK firm passporting under MiFID or the *UCITS Directive*, that the branch may be established ; or
 - (ii) two months have elapsed beginning with the date on which the appropriate UK regulator gave the consent notice.

13.3.2A
FCA PRA

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If the UK firm is passporting under the *Insurance Mediation Directive* and the EEA State in which the UK firm is seeking to establish a branch has not notified the European Commission of its wish to be informed of the intention of persons to establish a branch in its territory in accordance with article 6(2) of that directive, ■ SUP 13.3.2 G (2) and ■ SUP 13.3.2 G (3) do not apply. Accordingly, the UK firm may establish the branch to which its notice of intention relates as soon as the conditions referred to in ■ SUP 13.3.2 G (1) are satisfied. The list of EEA States that have notified the European Commission of their wish to be informed in accordance with article 6(2) of the *Insurance Mediation Directive* is published on the FCA's website at www.fca.org.uk

13.3.2B
FCA PRA

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An appointed representative appointed by a firm to carry on insurance mediation activity on its behalf may establish a branch in another EEA State under the *Insurance Mediation Directive*. In this case, the notice of intention in ■ SUP 13.3.2 G (1) should be given to the appropriate UK regulator by the firm on behalf of the appointed representative.

13.3.2C
FCA

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An exempt professional firm which is included in the record of unauthorised persons carrying on insurance mediation activity maintained by the FCA under article 93 of the *Regulated Activities Order* may establish a branch in another EEA State under the *Insurance Mediation Directive* (see ■ PROF 7.2).

13.3.2D
FCA PRA

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A tied agent appointed by a MiFID investment firm to carry on investment services and activities (and ancillary services where relevant) does not have its own passporting right to establish a branch in another EEA State. However, a MiFID investment firm remains free to appoint a tied agent to do business in another EEA State and where it does so, the tied agent will benefit from its passport.

13.3.2E
PRA

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Once authorised in the United Kingdom, a UK pure reinsurer has an automatic EEA right to carry on reinsurance business in another EEA State by establishing a branch in that state or providing cross border services into that state. There are no additional requirements to be satisfied before the firm can commence business in that state.

13.3.3
PRA

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Where the UK firm is passporting under the *Insurance Directives* and the Host State regulator has notified the PRA of the applicable provisions, then under paragraph

19(9) of Part III of Schedule 3 to the *Act*, the *PRA* is required to inform the *firm* of these provisions.

13.3.3A PRA G

- (1) ■ SUP 13.3.3 G does not apply to *UK pure reinsurers* as they have automatic passport rights on the basis of their *Home State authorisation* under the *Reinsurance Directive*.
- (2) Under section 3 of Part III of the *General Protocol*, *Home State regulators* have agreed to inform *Host State regulators* if a *pure reinsurer* for which the *Home State* is responsible carries on business through a *branch* in the *Host State*. Therefore ■ SUP 13.5.1A R requires a *UK firm* passporting under the *Reinsurance Directive* to notify the *PRA* of certain information relating to the *branch*.

13.3.4 G [deleted]

13.3.4-A FCA G

If a *UK firm* is passporting under *AIFMD*, it may establish a *branch* in another *EEA State* as soon as the conditions in ■ SUP 13.3.2 G (1) and ■ SUP 13.3.2 G (2) are met.

13.3.4A G [deleted]

Issue of a consent notice to the Host State regulator

13.3.5 FCA PRA G

- (1) If the *UK firm's EEA right* derives from the *CRD* or *MiFID*, the *appropriate UK regulator* will give the *Host State regulator* a *consent notice* within three *months* unless it has reason to doubt the adequacy of a *UK firm's* resources or its administrative structure. The *Host State regulator* then has a further two *months* to notify the *applicable provisions* (if any) and prepare for the supervision, as appropriate, of the *UK firm*, or in the case of a *MiFID investment firm*, to inform the *UK firm* that a *branch* can be established.
- (1A) If the *UK firm's EEA right* derives from the *UCITS Directive*, the *FCA* will give the *Host State regulator* a *consent notice* within two *months* unless it has reason to doubt the adequacy of the *UK firm's* resources or its administrative structure. The *Host State regulator* then has a further two *months* to prepare for the supervision of the *UK firm*.
- (1B) Where the *UK firm's EEA right* derives from *AIFMD*, the *FCA* will give the *Host State regulator* a *consent notice* within two *months* of having received the *notice of intention* and immediately inform the *UK firm* pursuant to ■ SUP 13.3.6 G (1) if the *FCA* is satisfied that the *firm* complies, and continues to comply with:
 - (a) the provisions implementing the *AIFMD*; and
 - (b) any directly applicable EU regulation made under that directive.
- (2) (a) If the *UK firm's EEA right* derives from the *Insurance Directives*, the *PRA* will give the *Host State regulator* a *consent notice* within three *months* unless it has reason to:
 - (i) doubt the adequacy of the *UK firm's* resources or its administrative structure; or

- (ii) question the reputation, qualifications or experience of the *directors* or managers of the *UK firm* or its proposed authorised agent;

in relation to the business the *UK firm* intends to conduct through the proposed *branch*. The *Host State regulator* then has a further two *months* to notify the *applicable provisions* (if any) and prepare for the supervision, as appropriate, of the *UK firm*.
- (b) In assessing the matters in (2)(a), the *PRA* may, in particular, seek further information from the *firm* or require a report from a *skilled person* (see ■ SUP 5 (skilled persons)).
- (c) If the *PRA* has required a financial recovery plan of a *UK firm* of the kind mentioned in paragraph 1 of article 38 of the *Consolidated Life Directive* or paragraph 1 of article 20a of the *First Non-Life Directive*, the *PRA* will not give a *consent notice* for so long as it considers that *policyholders* are threatened within the meaning of those provisions.
- (d) If the *UK firm's EEA right* derives from the *Insurance Mediation Directive* and ■ SUP 13.3.2 G (2) applies, the *appropriate UK regulator* will give the *Host State regulator* a *consent notice* within one *month* of the date on which it received the *UK firm's notice of intention*. In cases where ■ SUP 13.3.2 G (2) does not apply (see ■ SUP 13.3.2A G), the *UK firm* may establish a *branch* as soon as it satisfies the conditions referred to in ■ SUP 13.3.2 G.

13.3.5A
FCA PRA

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Where the *PRA* is the *appropriate UK regulator*, it will consult the *FCA* before deciding whether to give a *consent notice*, except where paragraph 19(7A) of Part III of Schedule 3 to the *Act* applies. Where the *FCA* is the *appropriate UK regulator*, it will consult the *PRA* before deciding whether to give a *consent notice* in relation to a *UK firm* whose immediate group includes a *PRA-authorised person*.

13.3.6
FCA PRA

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- (1) If the *appropriate UK regulator* gives a *consent notice*, it will inform the *UK firm* in writing that it has done so.
- (2) The *consent notice* will contain, among other matters, the *requisite details* or, if the *firm* is passporting under the *Insurance Directives*, the *relevant EEA details* (see ■ SUP 13 Annex 1 R) provided by the *UK firm* in its *notice of intention* (see ■ SUP 13.5 (Notices of intention)).
- (3) Where a *consent notice* is given under the *UCITS Directive*, the *FCA* will at the same time:
 - (a) communicate to the *Host State regulator* details of the *compensation scheme* intended to protect investors; and
 - (b) enclose the information described at ■ SUP 13.3.2 G (2A).
- (4) Where a *consent notice* is given under the *AIFMD* it must include confirmation that the *UK firm* has been *authorised* by the *FCA* under *AIFMD*.

13.3.7

FCA PRA

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- (1) If the *appropriate UK regulator* proposes to refuse to give a *consent notice*, then paragraph 19(8) of Part III of Schedule 3 to the *Act* requires the *appropriate UK regulator* to give the *UK firm* a *warning notice*.
- (2) If the *appropriate UK regulator* decides to refuse to give a *consent notice*, then paragraph 19(12) of Part III of Schedule 3 to the *Act* requires the *appropriate UK regulator* to give the *UK firm* a *decision notice* within three *months* of the date on which it received the *UK firm's notice of intention* (two *months* in the case of a *UK firm* which is a *UCITS management company* or an *AIFM*). The *UK firm* may refer the matter to the *Tribunal*.
- (3) [deleted]

13.3.7A

FCA

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For details of the *FCA's* procedures for the giving of *warning notices* or *decision notices* see ■ DEPP 2 (Statutory notices and the allocation of decision making).

UCITS management companies: other information to be provided to the Host State

13.3.8

FCA

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A *UK firm* seeking to provide *collective portfolio management* services from a *branch* in another *EEA State*, is advised that it will need to refer to the rules of the *competent authority* of the *UCITS Home State* implementing article 20 of the *UCITS Directive* which will require it to submit to that *competent authority* information relating to its depositary agreement and certain delegation arrangements.

13.4 Providing cross border services into another EEA State

Where is the service provided?

13.4.1

G

Guidance on where a *cross border service* is provided is given in ■ SUP App 3 .

The conditions for providing cross border services into another EEA State

13.4.2

G

FCA PRA

A *UK firm*, other than a *UK pure reinsurer* or an *AIFM* exercising an *EEA right* to market an *AIF* under *AIFMD*, cannot start providing *cross border services* into another *EEA State* under an *EEA right* unless it satisfies the conditions in paragraphs 20(1) of Part III of Schedule 3 to the *Act* and, if it derives its *EEA right* from the *Insurance Directives*, *AIFMD*, *MiFID* or the *UCITS Directive*, paragraph 20(4B) of Part III of Schedule 3 to the *Act*. It is an offence for a *UK firm* which is not an *authorised person* to breach this prohibition (paragraph 21 of Part III of Schedule 3 to the *Act*). The conditions are that:

- (1) the *UK firm* has given the *appropriate UK regulator*, in the way specified by *appropriate UK regulator's rules* (see ■ SUP 13.5.2 R), notice of its intention to provide *cross border services* (known as a *notice of intention*) which:
 - (a) identifies the activities which it seeks to carry on by way of provision of *cross border services*; and
 - (b) includes such other information as may be specified by the *appropriate UK regulator* (see ■ SUP 13.5.2 R); and
- (2) if the *UK firm* is passporting under the *Insurance Directives*, the *firm* has received written notice from the *PRA* as described in ■ SUP 13.4.6 G; or
- (3) if the *UK firm* is passporting under the *Insurance Mediation Directive* and the *EEA State* in which the *UK firm* is seeking to provide services has notified the European Commission of its wish to be informed of the intention of *persons* to provide *cross border services* in its territory in accordance with article 6(2) of that directive, one *month* has elapsed beginning with the date on which the *UK firm* received written notice from the *appropriate UK regulator* as described in ■ SUP 13.4.5 G (paragraph 20 (3B)(c) of Schedule 3 to the *Act*) ; or
- (4) if the *UK firm* is passporting under *AIFMD*, the *firm* has received written notice from the *FCA* as described in ■ SUP 13.4.4A G (1)(c).

13.4.2A G An *appointed representative* appointed by a *firm* to carry on *insurance mediation activity* on its behalf may provide *cross border services* in another *EEA State* under the *Insurance Mediation Directive*. In this case, the *notice of intention* in ■ SUP 13.4.2 G (1) should be given to the *appropriate UK regulator* by the *firm* on behalf of the *appointed representative*.

FCA PRA

13.4.2B G An *exempt professional firm* which is included in the record of *unauthorised persons* carrying on *insurance mediation activity* maintained by the *FCA* under article 93 of the *Regulated Activities Order* may provide *cross border services* in another *EEA State* under the *Insurance Mediation Directive* (see ■ PROF 7.2).

FCA

13.4.2C G A *tied agent* appointed by a *MiFID investment firm* to carry on *investment services and activities* (and *ancillary services* where relevant) does not have its own passporting right to provide *cross border services* in another *EEA State*. However, a *MiFID investment firm* remains free to appoint a *tied agent* to do business in another *EEA State* and where it does so, the *tied agent* will benefit from its passport.

FCA PRA

13.4.2D G A *MiFID investment firm* that wishes to obtain a passport for the activity of *operating an MTF* should follow the procedures described in this chapter. A *UK market operator* that operates a *recognised investment exchange*, a *recognised auction platform* (pursuant to the *RAP regulations*, the definition of *regulated market* in the *Act* is read for these purposes as including a *recognised auction platform*) or an *MTF* and wishes to provide *cross border services* into another *EEA State* should follow the procedure described in ■ REC 4.2B.

FCA PRA

13.4.2E G ■ SUP 13.4.2 G does not apply to *UK pure reinsurers* as they have automatic passport rights on the basis of their *Home State authorisation* under the *Reinsurance Directive*. No notification is required from *UK pure reinsurers* in respect of the provision of *cross border services*.

PRA

13.4.2F G A *UK firm* that is an *AIFM* may exercise an *EEA right to market* a *UK AIF* or *EEA AIF* managed by it under *AIFMD* when the following conditions are satisfied:

FCA

- (1) the *UK firm* has given the *FCA* a *notice of intention* to *market* the *AIF* under ■ SUP 13.5.2 R; and
- (2) the *FCA* has sent a copy of the *notice of intention* to the *Host State regulator* where the *AIF* will be *marketed* and has given the *UK firm* written notice that it has done so.

13.4.3 G [deleted]

13.4.3A G [deleted]

13.4.4 G **Issuing a consent notice or notifying the Host State regulator**
 (1) If the *UK firm's EEA right* derives from *MiFID*, the *CRD* or the *UCITS Directive*, paragraph 20(3) of Part III of Schedule 3 to the *Act* requires the *appropriate UK regulator* to send a copy of the *notice of intention* to the *Host State Regulator*

FCA PRA

within one *month* of receipt . A *UK firm* passporting under the *CRD* may start providing *cross border services* as soon as it satisfies the relevant conditions (see ■ SUP 13.4.2 G).

- (2) (a) If the *UK firm's EEA right* derives from the *Insurance Directives*, paragraph 20(3A) of Part III of Schedule 3 to the *Act* requires the *PRA*, within one *month* of receiving the *notice of intention* , to:
- (i) give notice in a specified form (known as a *consent notice*) to the *Host State regulator*; or
 - (ii) give written notice to the *UK firm* of its refusal to give a *consent notice* and the reasons for that refusal.
- (b) The issue or refusal of a *consent notice* under paragraph 20(3A) of Part III of Schedule 3 to the *Act* is the consequence of a regulatory decision, and this *consent notice* (unlike the *consent notice* for establishment of a *branch*) is not a *statutory notice* as set out in section 395 of the *Act*. A *UK firm* that receives notice that the *PRA* refuses to give a *consent notice* may refer the matter to the *Tribunal* under paragraph 20(4A) of Part III of Schedule 3 to the *Act*.
- (c) If the *PRA* has required of a *UK firm* a financial recovery plan of the kind mentioned in paragraph 1 of article 38 of the *Consolidated Life Directive* or paragraph 1 of article 20a of the *First Non-Life Directive*, the *PRA* will not give a *consent notice* for so long as it considers that *policyholders'* rights are threatened within the meaning of those provisions.
- (2A) (a) If the *UK firm's EEA right* derives from the *Insurance Mediation Directive*, and the *EEA State* in which the *UK firm* is seeking to provide services has notified the European Commission of its wish to be informed of the intention of *persons* to provide *cross border services* in its territory in accordance with article 6(2) of that directive, paragraph 20(3B)(a) of Part III of Schedule 3 to the *Act* requires the *appropriate UK regulator* to send a copy of the *notice of intention* to the *Host State regulator* within one *month* of receipt. Otherwise, the *UK firm* may start providing *cross border services* as soon as it satisfies the relevant conditions (see ■ SUP 13.4.2 G).
- (b) The list of the *EEA States* that have notified the European Commission of their wish to be informed in accordance with article 6(2) of the *Insurance Mediation Directive* is published on the *FCA's* website at www.fca.org.uk.
- (2B) Where a *consent notice* is given under the *UCITS Directive*, the *FCA* will at the same time:
- (a) communicate to the *Host State regulator* details of the *compensation scheme* intended to protect investors; and
 - (b) provide to the *Host State regulator*:
 - (i) confirmation that the *firm* has been *authorised* as a *management company* under the provisions of the *UCITS Directive*;
 - (ii) a description of the scope of the *firm's authorisation*; and

13.4.4-A

FCA

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(iii) details of any restriction on the types of *EEA UCITS scheme* that the *firm* is *authorised* to manage.

- (1) If the *UK firm's EEA right* derives from *AIFMD* (other than the *EEA right to market an AIF* (referred to in (3))) and the condition in (2) is met, paragraph 20(3D) of Part III of Schedule 3 to the *Act* requires the *FCA* to:
 - (a) send a copy of the *notice of intention* to the *Host State regulator* within one month of receipt;
 - (b) include confirmation that the *UK firm* has been *authorised* by the *FCA* under *AIFMD*; and
 - (c) immediately inform the *UK firm* that the *notice of intention* and confirmation have been sent to the *Host State regulator*;
- (2) The condition referred to in (1) is that the *FCA* is satisfied that the *firm* complies and will continue to comply with:
 - (a) the provisions implementing *AIFMD*, and
 - (b) any directly applicable EU regulation made under *AIFMD*.
- (3) If the *UK firm's EEA right* derives from *AIFMD* and relates to the *EEA right to market an AIF* and both the conditions in (4) are met, paragraph 20C of Part III of Schedule 3 to the *Act* requires the *FCA* to:
 - (a) send a copy of the *notice of intention* to the *Host State regulator* within 20 working days of receipt;
 - (b) include confirmation that the *UK firm* has been authorised by the *FCA* to manage *AIFs* with a particular investment strategy; and
 - (c) where the *notice of intention* relates to an *EEA AIF*, inform the *competent authority* of the *EEA AIF* that the *UK firm* may start *marketing* the *AIF* in the *EEA States* covered by the *notice of intention*.
- (4) The conditions referred to in (3) are that:
 - (a) the *FCA* is satisfied that the *UK firm* complies, and will continue to comply with, *AIFMD* and any directly applicable EU regulation made under *AIFMD*; and
 - (b) where the *AIF* is a *feeder AIF*, its *master AIF* is a *UK AIF* or *EEA AIF* that is managed by a *full-scope UK AIFM* or a *full-scope EEA AIFM*.
- (5) If the *FCA* refuses to send a copy of the *notice of intention* to the *Host State regulator* it must notify the *AIFM* in writing and include the reasons for such refusal. In such case, the *AIFM* may refer the matter to the *Tribunal*.

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13.4.4A

FCA PRA

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Where the *PRA* is the *appropriate UK regulator*, it will consult the *FCA* before deciding whether to give a consent notice and where the *FCA* is the *appropriate UK regulator*, it will consult the *PRA* before deciding whether to give a consent notice in relation to a *UK firm* whose immediate group includes a *PRA-authorised person*.

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13.4.5
FCA PRA

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When the *appropriate UK regulator* sends a copy of a *notice of intention*, or if it gives a *consent notice* to the *Host State regulator*, it must inform the *UK firm* in writing that it has done so (paragraphs 20 (3B)(b), (3D)(a)(iii) and (4) and 20C(9) of Schedule 3 to the *Act*).

13.4.6
PRA

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Applicable provisions for cross border services

- (1) [deleted]
- (2) If the *UK firm* is passporting under the *Insurance Directives*, then the *Host State regulator* may notify the *PRA* if there are any *applicable provisions*. If so, the *PRA* will inform the *UK firm* of the *applicable provisions*.
- (3) If a *UK firm* is not notified of the *applicable provisions*, it should, for its own protection, take all reasonable steps to determine the *applicable provisions* for itself.

13.4.7
FCA

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UCITS management companies: other information to be provided to the Host State

A *UK firm* seeking to provide *collective portfolio management* services in another *EEA State* under the freedom to provide *cross border services*, is advised that it will need to refer to the rules of the *competent authority* of the *UCITS Home State* implementing article 20 of the *UCITS Directive* which will require it to submit to that *competent authority* information relating to its depositary agreement and certain delegation arrangements.



13.5 Notices of intention

Specified contents: notice of intention to establish a branch

13.5.1

FCA PRA

R

A UK firm, other than a UK pure reinsurer, or a CRD credit institution wishing to establish a branch in a particular EEA State for the first time under an EEA right other than under the auction regulation must submit a notice of intention in the form set out in ■ SUP 13 Annex 1 R.

(1) [deleted]

(2) [deleted]

13.5.1A

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A UK pure reinsurer establishing a branch in a particular EEA state for the first time under the Reinsurance Directive must submit a notice in the form set out in ■ SUP 13 Annex 1 R. Whenever possible, this notification must be made as soon as the information specified in that form is known by the firm.

13.5.1AA

FCA

R

A UK firm establishing a branch in a particular EEA state for the first time under the auction regulation must submit a notice of intention in the form set out in ■ SUP 13 Annex 7R prior to its establishment of that branch or whenever possible thereafter.

13.5.1B

PRA

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■ SUP 13.5.1 R does not apply to UK pure reinsurers or a UK firm exercising an EEA right under the auction regulation as they have automatic passport rights on the basis of their Home State authorisation under the Reinsurance Directive or the auction regulation. However, the information required by ■ SUP 13.5.1A R and ■ SUP 13.5.1AA R assists the FSA's supervision of a branch in another EEA state.

Specified contents: notice of intention to provide cross border services

13.5.2

FCA PRA

R

A UK firm wishing to provide cross border services into a particular EEA State for the first time under an EEA right other than under the auction regulation must submit a notice in the form set out in:

(1) ■ SUP 13 Annex 2 R if the UK firm is passporting under MiFID; or

(1A) ■ SUP 13 Annex 3 R if the UK firm is passporting under the Insurance Directives; or

13.5.2-A
FCA

R

- (2) ■ SUP 13 Annex 4 R if the *UK firm* is passporting under the CRD; or
 - (3) ■ SUP 13 Annex 5 R if the *UK firm* is passporting under the *Insurance Mediation Directive*
 - (4) ■ SUP 13 Annex 6 R, if the *UK firm* is a *management company* passporting under the *UCITS Directive*.
 - (5) ■ SUP 13 Annex 8AR, if the *UK firm* is providing *cross-border services* under AIFMD to manage an AIF in another *EEA State*.
 - (6) ■ SUP 13 Annex 8BR, if the *UK firm* is providing *cross-border services* under AIFMD to market an AIF in another *EEA State*.
- (1) A *UK firm* wishing to provide a service into a particular *EEA State* for the first time under the *auction regulation* must inform the *appropriate UK regulator* of the information in (2) by email to emissionstrading@fca.org.uk prior to its provision of that service or whenever possible thereafter.
- (2) The information required by (1) is:
- (a) name of the *firm* and the *firm* reference number;
 - (b) *EEA state* in which the service is or will be provided; and
 - (c) the proposed commencement date of the service or the date on which the service commenced.

13.5.2A
FCA

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■ SUP 13.5.2 R does not apply to *UK pure reinsurers* or a *UK firm* exercising an *EEA right* under the *auction regulation* as they have automatic passport rights on the basis of their *Home State authorisation* under the *Reinsurance Directive* or the *auction regulation*. However, the information required by ■ SUP 13.5.2-A R assists the FSA's supervision of a *UK firm's* provision of a service in another *EEA state* under the *auction regulation*.

Method of submission of notices

13.5.3
FCA PRA

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- (1) A *UK firm*, other than a *credit union*, must submit any notice under ■ SUP 13.5.1 R (1), ■ SUP 13.5.1A R or ■ SUP 13.5.2 R online at www.fca.org.uk using the ONA system.
- (a) [deleted]
 - (b) [deleted]
- (2) [deleted]
- (a) [deleted]
 - (b) [deleted]

- (c) [deleted]
- (d) [deleted]
- (e) [deleted]
- (f) [deleted]

(3) Where a *firm* is obliged to submit a notice in accordance with (1), if the information technology systems fail and online submission is unavailable for 24 hours or more, until such time as facilities for online submission are restored, a *firm* must submit that notice in the way set out in ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification).

(4) [deleted]

13.5.3A

PRA

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A *credit union* must submit any notice under ■ SUP 13.5.1 R (1), ■ SUP 13.5.1A R or ■ SUP 13.5.2 R in the way set out in ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification).

13.5.4

FCA PRA

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- (1) If the information technology systems fail and online submission is unavailable for 24 hours or more, the *appropriate UK regulator* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in ■ SUP 13.5.3 R (3) and ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification) should be used.
- (2) Where ■ SUP 13.5.3 R (3) applies to a *firm*, ■ GEN 1.3.2 R (Emergency) does not apply.

13.5.4A

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[deleted]

Unregulated activities

13.5.5

FCA PRA

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A *notice of intention* (other than one to establish a branch or provide services in another EEA state under the *auction regulation*) may include activities within the scope of the relevant *Single Market Directive* which are not *regulated activities* (paragraphs 19(3) and 20(2) of Part III of Schedule 3 to the *Act*), although in the case of a *MiFID investment firm* a notice of intention may only include *ancillary services* which are to be carried on with one or more *investment services and activities* (paragraphs 19(5B) and 20(2A) of Part III of Schedule 3 to the *Act*). Regulation 19 of the *EEA Passport Rights Regulations* states that where a *UK firm* is able to carry on such an *unregulated activity* in the EEA State in question without contravening any law of the *United Kingdom* (or any part of the *United Kingdom*) the *UK firm* is treated, for the purposes of the exercise of its EEA right, as being *authorised* to carry on that activity.

Translations

13.5.6

PRA

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- (1) A *UK firm* passporting under the *CRD*, the *Insurance Directives* or the *Reinsurance Directive* may have to submit the *requisite details* or relevant details in the language of the *Host State* as well as in English. For a *UK firm* passporting

under the *Insurance Directives* this translated document will not include the relevant UK details. Further information is available from the PRA authorisations team .

- (2) A *UK firm* may wish to discuss with the PRA authorisations team the appropriate time for providing the translations in (1), given that further information or clarification of the details provided may be required by the PRA.
- (3) A *UK firm* passporting under the *Insurance Directives* should keep the EEA and UK relevant details separate as, if the application is approved, only the former will be sent to the *Host State regulator*.

Notifications to more than one EEA State

13.5.7

FCA PRA

G

If a *UK firm* wishes to establish *branches* in, or provide *cross border services* into, more than one *EEA State*, a single notification may be provided but the relevant information for each *EEA State* should be clearly identifiable.



13.6 Changes to branches

13.6.1

FCA PRA

G

Where a *UK firm* is exercising an *EEA right*, other than under the *Insurance Mediation Directive* (see ■ SUP 13.6.9A G) or the *Reinsurance Directive* (see ■ SUP 13.6.9B R) or the *CRD*, and has established a *branch* in another *EEA State*, any changes to the details of the *branch* are governed by the *EEA Passport Rights Regulations*. References to regulations in this section are to the *EEA Passport Rights Regulations*. A *UK firm* which is not an *authorised person* should note that, under regulation 18, contravention of the prohibition imposed by regulation 11(1), 13(1) or 15(1) is an offence. It is a defence, however, for the *UK firm* to show that it took all reasonable precautions and exercised due diligence to avoid committing the offence.

13.6.2

FCA PRA

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UK firms should note that if a *branch* in another *EEA State* ceases to provide services, this may represent a change in *requisite details* or, if the *firm* is passporting under the *Insurance Directives*, the *relevant EEA details* or *relevant UK details*.

13.6.3

FCA PRA

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UK firms should also note that changes to the details of *branches* may lead to changes to the *applicable provisions* to which the *UK firm* is subject. These changes should be communicated to the *UK firm* either by the *Host State regulator*, or, if the *firm* is passporting under *Insurance Directives*, via the *PRA*.

Firms passporting under CRD and the UCITS Directive.

13.6.4

FCA PRA

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If a *UK firm* has exercised an *EEA right*, under the *CRD* or the *UCITS Directive*, and established a *branch* in another *EEA State*, regulation 11(1) states that the *UK firm* must not make a change in the *requisite details* of the *branch* (see ■ SUP 13 Annex 1), unless it has satisfied the requirements of regulation 11(2), or, where the change arises from circumstances beyond the *UK firm's* control, regulation 11(3) (see ■ SUP 13.6.10 G).

13.6.5

FCA PRA

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Where the change arises from circumstances within the control of the *UK firm*, the requirements in regulation 11(2) are that:

- (1) the *UK firm* has given notice to the *appropriate UK regulator* and to the *Host State regulator* stating the details of the proposed change;
- (2) the *appropriate UK regulator* has given the *Host State regulator* a notice informing it of the details of the change; and
- (3) either the *Host State regulator* has informed the *UK firm* that it may make the change, or the period of one *month* beginning with the day on which the *UK firm* gave the *Host State regulator* the notice in (1) has elapsed.

Firms passporting under MiFID

13.6.5A
FCA PRA

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If a *UK firm* has exercised an *EEA right* to establish a *branch* under *MiFID*, it must not make a change in the *requisite details* of the *branch* (see ■ SUP 13 Annex 1 R), use, for the first time, a *tiered agent* established in the *EEA State* in which the *branch* is established, or cease to use a *tiered agent* established in the *EEA State* in which the *branch* is established, unless it has satisfied the requirements of regulation 11A(2) (see ■ SUP 13.6.5B G).

13.6.5B
FCA PRA

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The requirements of regulation 11A(2) are that:

- (1) the *UK firm* has given a notice to the *appropriate UK regulator* stating the details of the proposed change; and
- (2) the period of one *month* beginning with the day on which the *UK firm* gave the notice has elapsed.

Firms passporting under the Insurance Directives

13.6.6
PRA

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If a *UK firm* has exercised an *EEA right* under the *Insurance Directives* and established a *branch* in another *EEA State*, regulation 13(1) states that the *UK firm* must not make a change in the *relevant EEA details*, unless it has satisfied the requirements of regulation 13(2), or, where the change arises from circumstances beyond the *UK firm's* control, regulation 13(3) (see ■ SUP 13.6.10 G).

13.6.7
PRA

G

Where the change arises from circumstances within the control of the *UK firm*, the requirements in regulation 13(2) are that:

- (1) the *UK firm* has given notice to the *PRA* and to the *Host State regulator* stating the details of the proposed change;
- (2) the *PRA* has given the *Host State regulator* a notice informing it of the details of the proposed change;
- (3) the period of at least one *month* beginning on the day on which the *UK firm* gave the *PRA* the notice in (1) has elapsed; and
- (4) either:
 - (a) a further period of one *month* has elapsed; or
 - (b) the *PRA* has informed the *UK firm* of any consequential changes in the *applicable provisions* of which the *PRA* has been notified by the *Host State regulator*.

13.6.8
PRA

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If a *UK firm* has exercised an *EEA right* under the *Insurance Directives* and established a *branch* in another *EEA State*, regulation 15(1) states that the *UK firm* cannot make a change in any of the *relevant UK details* unless the *UK firm* has given a notice to the *PRA* stating the details of the proposed change at least one *month* before the change is effected.

13.6.9

PRA

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Where a UK firm with Part 4A permission to carry on both long-term and general insurance business, is passporting under the Insurance Directives and wishes to extend its general insurance business to include long term insurance business (or vice versa), it should complete a new notice of intention and not a change to details notice .

Firms passporting under the Insurance Mediation Directive

13.6.9A

FCA PRA

G

A UK firm exercising its EEA right under the Insurance Mediation Directive to establish a branch in another EEA State is not required to supply a change to the details of branches notice .

Firms passporting under the Reinsurance Directive

13.6.9B

PRA

R

A UK firm exercising its EEA right under the Reinsurance Directive to establish a branch in another EEA State must notify the PRA of any changes in the information specified in ■ SUP 13 Annex 1 R. Whenever possible, this notification must be made as soon as the change in information is known by the firm.

Firms passporting under AIFMD

13.6.9C

FCA

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- (1) If a UK firm has exercised an EEA right under AIFMD and established a branch in another EEA State, the UK firm must not make a material change in the requisite details of the branch or the identity of the AIFs it manages in the EEA State in which it has established a branch (see ■ SUP 13 Annex 1 R), unless:
 - (a) it has complied with regulation 17A(4) for a planned change; or
 - (b) it has complied with regulation 17A(5) for an unplanned change.
- (2) The requirements in regulation 17A(4) for a planned change are that:
 - (a) the UK firm has given notice to the FCA stating the details of the proposed change; and
 - (b) either the FCA:
 - (i) has consented to the change; or
 - (ii) has not objected to the change in the period of one month beginning on the day on which the UK firm gave notice.
- (3) The requirements in regulation 17A(5) for an unplanned change are that:
 - (a) the UK firm has given notice to the FCA immediately after an unplanned change has occurred; and
 - (b) the FCA has consented to the change.

Changes arising from circumstances beyond the control of a UK firm

13.6.10

FCA PRA

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- (1) If the change arises from circumstances beyond the UK firm's control, the UK firm:

- (a) is required by regulation 11(3) or regulation 13(3) to give a notice to the *appropriate UK regulator* and to the *Host State regulator* stating the details of the change as soon as reasonably practicable;
 - (b) may, if it is passporting under the *Insurance Directives*, make a change to its *relevant UK details* under regulation 15(1) if it has, as soon as practicable (whether before or after the change), given notice to the *PRA* stating the details of the change.
- (2) The *appropriate UK regulator* believes that for a change to arise from circumstances beyond the control of a *UK firm*, the circumstances should be outside the control of the *firm* as a whole and not just the *branch* in the *EEA State*.
- (3) This *guidance* is not applicable to *MiFID investment firms* or *AIFMs*.

The process

13.6.11
FCA PRA

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When the *appropriate UK regulator* receives a notice from a *UK firm* other than a *MiFID investment firm* (see ■ SUP 13.6.5 G (1) and ■ SUP 13.6.7 G (1)) a *pure reinsurer* (see ■ SUP 13.6.9B R) or an *AIFM* (see ■ SUP 13.6.9C G) it is required by regulations 11(4) and 13(4) to either refuse, or consent to the change within a period of one *month* from the day on which it received the notice.

13.6.12
FCA PRA

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If the *appropriate UK regulator* consents to the change, then under regulations 11(5) and 13(5) it will:

- (1) give a notice to the *Host State regulator* informing it of the details of the change; and
- (2) inform the *UK firm* that it has given the notice, stating the date on which it did so.

13.6.12A
FCA PRA

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Where the *PRA* is the *appropriate UK regulator*, it will consult the *FCA* before deciding whether to give consent to a change (or proposed change) and where the *FCA* is the *appropriate UK regulator*, it will consult the *PRA* before deciding whether to give consent in relation to a *UK firm* whose immediate group includes a *PRA-authorized person*.

13.6.13
PRA

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If a *UK firm* is passporting under the *CRD*, then regulation 11(7) provides that the *PRA* may not refuse to consent to a change unless, having regard to the change and to the *EEA* activities the *UK firm* is seeking to carry on, it doubts the adequacy of the administrative structure or the financial situation of the *UK firm*. In reaching its determination, the *PRA* may have regard to the adequacy of management, systems and the presence of relevant skills needed for the *EEA* activities to be carried on.

13.6.14
PRA

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If a *UK firm* is passporting under the *Insurance Directives*, then regulation 13(7) provides that the *PRA* may not refuse to consent to a change unless, having regard to the change, the *PRA* has reason:

- (1) to doubt the adequacy of the *UK firm's* administrative structure or financial situation; or

(2) to question the reputation, qualifications or experience of the directors or managers of the firm or the authorised agent;
in relation to the business conducted, or to be conducted, through the branch.

13.6.15

FCA PRA

G

If the *appropriate UK regulator* refuses to consent to a change, then under regulations 11(6) and 13(6):

- (1) the *appropriate UK regulator* will give notice of the refusal to the *UK firm*, stating its reasons and giving an indication of the *UK firm's* right to refer the matter to the *Tribunal* and the procedures on such a reference; and
- (2) the *UK firm* may refer the matter to the *Tribunal*.

13.6.16

FCA PRA

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Standard forms are available from the *FCA* and *PRA* authorisations teams (see ■ SUP 13.12 (Sources of further information)) to give the notices to the *appropriate UK regulator* described in ■ SUP 13.6.5 G (1), ■ SUP 13.6.5B G, ■ SUP 13.6.7 G (1), ■ SUP 13.6.8 G and ■ SUP 13.6.10 G (1).

The process: MiFID investment firms

13.6.17

FCA PRA

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When the *appropriate UK regulator* receives a notice from a *UK MiFID investment firm* (see ■ SUP 13.6.5B G (1)), it is required by regulation 11A(3) to inform the relevant *Host State regulator* of the proposed change as soon as reasonably practicable. The *firm* in question may make the change once the period of one *month* beginning with the day on which it gave notice has elapsed.

The process: AIFMs

13.6.18

FCA

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- (1) When the *FCA* receives a notice from an *AIFM* (see ■ SUP 13.6.9C G) for a planned change and such change means the *AIFM* no longer complies with *AIFMD*, the *FCA* must inform the *AIFM* without undue delay that:
 - (a) the *FCA* objects to the change, including reasons for its decision; and
 - (b) the *AIFM* must not implement the change.

In these circumstances the *AIFM* may refer the matter to the *Tribunal*.

- (2) If a planned change is implemented or an unplanned change takes place and results in the *AIFM* no longer complying with an implementing provision of *AIFMD*, the *FCA* must:
 - (a) take steps to ensure that the *AIFM* complies with that provision or ceases to exercise the *EEA right*; and
 - (b) give notice to the *AIFM* with reasons for taking such steps.

In these circumstances, the *AIFM* may refer the matter to the *Tribunal*.

- (3) If a planned change is implemented or an unplanned change takes place and results in no change to the *AIFM's* compliance with an implementing provision, the *FCA* must:
 - (a) give a notice to the *Host State regulator* informing it of the change; and

-
- (b) inform the *firm* that it has given the notice, stating the date on which it did so.



13.7 Changes to cross border services

13.7.1

FCA PRA

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Where a *UK firm* is exercising an *EEA right* under the *UCITS Directive*, *MiFID*, the *Insurance Directives* or *AIFMD* and is providing *cross border services* into another *EEA State*, any changes to the details of the services are governed by the *EEA Passport Rights Regulations*. References to regulations in this section are to the *EEA Passport Rights Regulations*. A *UK firm* which is not an *authorised person* should note that contravention of the prohibition imposed by regulation 12(1), 12A(1) or 16(1) is an offence. It is a defence, however, for the *UK firm* to show that it took all reasonable precautions and exercised due diligence to avoid committing the offence.

13.7.2

FCA PRA

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UK firms should also note that changes to the details of *cross border services* may lead to changes to the *applicable provisions* to which the *UK firm* is subject.

Firms passporting under the UCITS Directive

13.7.3

FCA

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If a *UK firm* is passporting under the *UCITS Directive*, regulation 12(1) states that the *UK firm* must not make a change in its programme of operations, or the activities to be carried on under its *EEA right*, unless the relevant requirements in regulation 12(2) have been complied with. These requirements are:

- (1) the *UK firm* has given a notice to the *FCA* and to the *Host State regulator* stating the details of the proposed change; or
- (2) if the change arises as a result of circumstances beyond the *UK firm's* control, the *UK firm* has as soon as practicable (whether before or after the change) given a notice to the *FCA* and to the *Host State regulator*, stating the details of the change.

Standard forms are available from the *FCA* authorisations team (see ■ SUP 13.12 (Sources of further information)) to give the notices to the *FCA* referred to in ■ SUP 13.7.3 G (1) and ■ SUP 13.7.3A G.

Firms passporting under MiFID

13.7.3A

FCA PRA

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If a *UK firm* is providing *cross border services* in a particular *EEA State* in exercise of an *EEA right* deriving from *MiFID*, the *UK firm* must comply with the requirements of regulation 12A(2) before it makes a change to its programme of operations, including:

- (1) changing the activities to be carried on in exercise that *EEA right*;
- (2) using, for the first time, any *tied agent* to provide services in the territory of that *EEA State*; or

- (3) ceasing to use any *tier agent* to provide services in the territory of that *EEA State*.

13.7.3B
FCA PRA

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The requirements of regulation 12A(2) are that:

- (1) the *UK firm* has given notice to the *appropriate UK regulator* stating the details of the proposed change; and
- (2) the period of one *month* beginning with the day on which the *UK firm* gave the notice mentioned in (1) has elapsed.

Firms passporting under the Insurance Directives

13.7.4
PRA

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If a *UK firm* has exercised an *EEA right* under the *Insurance Directives* and is providing *cross border services* into another *EEA State*, regulation 16(1) states that the *UK firm* must not make a change in the relevant details (as defined in regulation 17 - see also ■ SUP 13 Annex 3) unless the relevant requirements in regulation 16(3) or, where the change arises from circumstances beyond the *UK firm's* control, regulation 16(4), have been complied with.

13.7.5
PRA

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Regulation 16(3) provides that:

- (1) the *UK firm* has given a notice to the *PRA* stating the details of the proposed change; and
- (2) the *PRA* has given the *Host State regulator* a notice informing it of the details of the proposed change.

13.7.6
PRA

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If the change arises from circumstances beyond the *UK firm's* control, the *UK firm* is required by regulation 16(4) to give a notice to the *PRA* stating the details of the change as soon as reasonably practicable (whether before or after the change). See also ■ SUP 13.6.10 G(2), as relevant to *cross border services*.

13.7.6A
FCA PRA

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For further details on giving the notices to the *appropriate UK regulator*, as described in ■ SUP 13.7.3 G (1), ■ SUP 13.7.3A G, ■ SUP 13.7.3B G, ■ SUP 13.7.5 G (1) and ■ SUP 13.7.6 G, *UK firms* may wish to use the standard electronic form available from the *FCA* and *PRA* authorisation teams (see ■ SUP 13.12 (Sources of further information)) .

13.7.7
PRA

G

When the *appropriate UK regulator* receives a notice from a *UK firm* (see ■ SUP 13.7.5 G (1) and ■ SUP 13.7.6 G), it is required by regulations 16(5) to (6) either to refuse or consent to the change within one *month* of receipt.

13.7.7A
FCA PRA

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Where the *PRA* is the *appropriate UK regulator*, it will consult the *FCA* before deciding whether to give consent to a change (or proposed change) and where the *FCA* is the *appropriate UK regulator*, it will consult the *PRA* before deciding whether to give consent in relation to a *UK firm* whose immediate group includes a *PRA-authorised person*.

13.7.8 PRA G If the *appropriate UK regulator* consents to the change it will:

- (1) give a notice to the *Host State regulator* informing it of the details of the proposed change; and
- (2) inform the *UK firm* that it has given the notice, stating the date on which it did so.

13.7.9 PRA G If the *appropriate UK regulator* refuses to consent to a change it is required by regulation 16(7) to give notice of the refusal to the *UK firm*, stating its reasons and giving an indication of the *UK firm's* right to refer the matter to the *Tribunal* and the procedures that apply to such a reference.

13.7.10 PRA G Where a *UK firm* with *Part 4A permission* to carry on both *long-term* and *general insurance business* is passporting under the *Insurance Directives* and wishes to extend its *general insurance business* to include *long term insurance business* (or vice versa), it should complete a new *notice of intention* and not a change to details notice .

Firms passporting under the CRD and Insurance Mediation Directive

13.7.11 FCA PRA G A *UK firm* providing *cross border services* under the *CRD* or *Insurance Mediation Directive* is not required to supply a change to the details of *cross border services* notice .

Firms passporting under the Reinsurance Directive

13.7.12 PRA G A *UK firm* providing *cross border services* under the *Reinsurance Directive* is not required to supply notification of, or a change to the details of, its *cross border services*.

Liaison between regulators

13.7.13A FCA PRA G Where the *PRA* is the *appropriate UK regulator*, it will consult the *FCA* before deciding whether to give consent to a change (or proposed change) and where the *FCA* is the *appropriate UK regulator*, it will consult the *PRA* before deciding whether to give consent in relation to a *UK firm* whose immediate group includes a *PRA-authorised person*.

Firms passporting under AIFMD

13.7.13B FCA G If a *UK firm* has exercised an *EEA right* under *AIFMD* to provide *cross-border services* to manage an *AIF*, regulation 17A(2) states that the *UK firm* must not make a material change to:

- (1) the programme of operations, or the *EEA* activities, to be carried out in exercise of that right; or
- (2) the *EEA States* in which it manages *AIFs*; or
- (3) the identity of the *AIFs* it manages in those *EEA States*;

unless the *UK firm* complies with the relevant requirements in regulation 17A(4) for a planned change or regulation 17A(5) for an unplanned change (see ■ SUP 13.6.9C G (2) and ■ SUP 13.6.9C G (3)).

13.7.14

FCA

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If a UK firm has exercised an EEA right deriving from AIFMD to provide cross-border services to market an AIF, regulation 17A(3) states that it must not make a material change to any of the following:

- (1) the programme of operations identifying the AIF the AIFM intends to market and information on where the AIF is established;
- (2) the AIF rules or instruments of incorporation;
- (3) the depositary of the AIF;
- (4) the description of, or information on, the AIF available to investors;
- (5) if the AIF is a feeder AIF, the jurisdiction where the master AIF is established;
- (6) any additional information referred to in ■ FUND 3.2.2 R (Prior disclosure of information to investors), for each AIF the AIFM intends to market;
- (7) the EEA States in which the AIFM intends to market the units or shares of the AIF to an investor that is a professional client; and
- (8) information about arrangements made for the marketing of the AIF and, where relevant, arrangements to prevent the AIF from being marketed to an investor that is a retail client, including where the AIFM relies on the activities of independent entities to provide investment services for the AIF;

unless the UK firm complies with regulation 17A(4) for a planned change or regulation 17A(5) for an unplanned change (see ■ SUP 13.6.9C G (2) and ■ SUP 13.6.9C G (3)).



13.8 Changes of details: provision of notices to the appropriate UK regulator

13.8.1

R

FCA PRA

(1) Where a *firm* is required to submit a notice of a change to a *branch* referred to in ■ SUP 13.6.5 G (1), ■ SUP 13.6.5B G (1), ■ SUP 13.6.7 G (1), ■ SUP 13.6.8 G , ■ SUP 13.6.9B R ■ SUP 13.6.10 G (1) and ■ SUP 13.6.9C G or a notice of a change to *cross border services* referred to in ■ SUP 13.7.3 G (1) , ■ SUP 13.7.3A G (1), ■ SUP 13.7.5 G (1) ■ SUP 13.7.6 G, ■ SUP 13.7.13B G and ■ SUP 13.7.14 G it must complete and submit that notice in accordance with the procedures set out in ■ SUP 13.5 for notifying the establishing of a *branch* or the provision of *cross border services*.

(a) [deleted]

(b) [deleted]

(2) [deleted]

(a) [deleted]

(b) [deleted]

(c) [deleted]

(d) [deleted]

(e) [deleted]

(f) [deleted]

(3) [deleted]

(4) [deleted]

13.8.1A

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FCA PRA

The effect of ■ SUP 13.8.1 R (1) is that a *firm* should submit any form, notice or application under ■ SUP 13.8.1 R (1) in the following ways:

(1) A UK *firm*, other than a *credit union*, should submit it online at www.fca.org.uk using the ONA system.

(2) If the information technology systems fail and online submission is unavailable for 24 hours or more, until such time as facilities for online submission are

restored, a *firm* should submit it in the way set out in ■ SUP 13.5.3 R (3) and ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification). ■ GEN 1.3.2 R (Emergency) does not apply in these circumstances.

(3) If the information technology systems fail and online submission is unavailable for 24 hours or more, the *appropriate UK regulator* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission should be used.

(4) [deleted]

13.8.1B

PRA

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A *credit union* should submit any form, notice or application under ■ SUP 13.8.1 R (1) in the way set out in ■ SUP 13.5.3 R (3) and ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification).

13.8.2

FCA PRA

G

UK firms passporting under the *CRD* or the *Insurance Directives* may be required to submit the change to details notice in the language of the *Host State* as well as in English.



13.9 [Deleted]

13.10 Applicable provisions

13.10.1

FCA PRA

G

UK firms are reminded that conduct of business rules, and other rules made for the general good, may apply to business carried on in the *Host State* by a *UK firm*. These are known in the *Act* as the *applicable provisions* (paragraph 19(13) of Part III of Schedule 3 to the *Act*).

13.10.2

PRA

G

UK firms passporting under the *CRD* should note that, under the Directive, the *Host State* is responsible, together with the *PRA*, for monitoring the liquidity of a *branch* established by a *UK firm* in another *EEA State*.

13.10.3

FCA PRA

G

These *Host State* provisions often have requirements about the soliciting of business, for example, advertising and cold-calling rules. A *UK firm* should ensure it is familiar with, and acts in compliance with, the relevant requirements of its *Host State regulator*.

Passporting: Notification of intention to establish a branch in another EEA state

FCA **PRA**

This annex consists of only one or more forms. Forms can be completed online now by visiting:
<http://www.bankofengland.co.uk/pr/Pages/authorisations/passporting/notifying.aspx>

The forms are also to be found through the following address:

Passporting: Notification of intention to establish a branch in another EEA state - SUP 13
Annex 1

Passporting: Capital Requirements Directive

PRA

<http://www.bankofengland.co.uk/pr/Pages/authorisations/passporting/notifying.aspx>

The forms are also to be found through the following address:

Passporting: Capital Requirements Directive SUP 13 Annex 4

- (b) pursuant to a *community co-insurance operation* in which the *firm* is participating otherwise than as *leading insurer* (see Article 11 of the *Regulated Activities Order*); or
- (3) a *Treaty firm* that wishes to provide *electronic commerce activities* into the *United Kingdom* ; or
- (4) a *market operator* that operates a *regulated market* or an *MTF* in an *EEA State* other than the *UK* and wishes to make appropriate arrangements so as to facilitate access to and use of its system by remote users or participants in the *UK*. See ■ SUP App 3.6.25 G for *guidance*.

13A.1.3

G

FCA PRA

- (1) Under the *Gibraltar Order* made under section 409 of the *Act* , a *Gibraltar firm* is treated as an *EEA firm* under Schedule 3 to the *Act* if it is:
 - (a) authorised in Gibraltar under the *Insurance Directives*; or
 - (aA) authorised in Gibraltar under the *Reinsurance Directive*; or
 - (b) authorised in Gibraltar under the *CRD* ; or
 - (c) authorised in Gibraltar under the *Insurance Mediation Directive*; or
 - (d) authorised in Gibraltar under the *MiFID* ;
 - (e) authorised in Gibraltar under the *UCITS Directive*.
- (1A) Similarly, an *EEA firm* which:
 - (a) has satisfied the Gibraltar establishment conditions and has established a *branch* in the *UK*; or
 - (b) has satisfied the Gibraltar service conditions and is providing *cross border services* into the *UK*;

is treated as having satisfied the *establishment conditions* or *service conditions* (as appropriate) under Schedule 3 to the *Act*. Regulations 4 to 7 of the *EEA Passport Rights Regulations* will apply to the establishment of the *branch* or the provision of *cross border services*.
- (2) Gibraltar insurance companies, *credit institutions*, *insurance intermediaries* and *investment firms* are allowed to passport their services into the *United Kingdom* if they comply with the relevant notification procedures. So, any references in this chapter to *EEA State* or *EEA right* include references to Gibraltar and the entitlement under the *Gibraltar Order* where appropriate.
- (3) [deleted]

Purpose

13A.1.4

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FCA PRA

- (1) This chapter explains how an *EEA firm* and a *Treaty firm* can qualify for *authorisation* under Schedules 3 and 4 to the *Act* and how a *UCITS qualifier* is *authorised* under Schedule 5 to the *Act*.
- (2) This chapter also provides *guidance* on Schedule 3 to the *Act* for an *incoming EEA firm* that wishes to establish a *branch* in the *United Kingdom* instead of, or in addition to, providing *cross border services* into the *United Kingdom* or vice versa.

13A.1.5

FCA PRA

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- (1) *EEA firms* should note that this chapter only addresses the procedures which the *appropriate UK regulator* will follow under the *Act*. So, an *EEA firm* should consider this *guidance* in conjunction with the requirements with which it will have to comply in its *Home State*.
- (2) The *guidance* in this chapter represents the *appropriate UK regulator's* interpretation of the *Single Market Directives*, the *auction regulation*, the *Act* and the secondary legislation made under the *Act*. The *guidance* is not exhaustive and should not be seen as a substitute for a *person* consulting the legislation or taking legal advice.

within two *months* of the notice date .

- (1A) The notice date is:
 - (a) for a *MiFID investment firm*, the date on which the *Home State* gave the consent notice; and
 - (b) in any other case, the date on which the *appropriate UK regulator* received the consent notice.

- (2) Although the *appropriate UK regulator* is not required to notify the *applicable provisions* to an *EEA firm* passporting under the *Insurance Mediation Directive*, *MIFID* or *AIFMD*, these provisions are set out in ■ SUP 13A Annex 1 G (Application of the Handbook to Incoming EEA Firms).

13A.4.4A
FCA PRA

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- (1) Where the *PRA* receives a consent notice, it will give a copy to the *FCA* without delay, and where the *FCA* receives a consent notice it will give a copy to the *PRA*, where relevant, without delay.

- (2) In a case where the *FCA* is the *appropriate UK regulator*, the consent of the *PRA* is required for any notification by the *FCA* which relates to:
 - (a) a *PRA-regulated activity*;
 - (b) a *PRA-authorised person*; or
 - (c) a *person* whose immediate group includes a *PRA-authorised person*.

Auction regulation bidding: notification rule and applicable provisions

13A.4.5
FCA

R

An *incoming EEA firm* that is exercising an *EEA right* under the *auction regulation* to establish a branch in the *United Kingdom* must submit the form in ■ SUP 13A Annex 4 R prior to its establishment of that branch or whenever possible thereafter.

13A.4.6
FCA

G

The sole purpose of the notification in ■ SUP 13A.4.5 R is to enable the *FSA* to supervise the *UK branch* of the *incoming EEA firm's* compliance with the *applicable provisions* on an ongoing basis. The *applicable provisions* that apply to that branch are set out in ■ SUP 13A Annex 1 G (Application of the Handbook to Incoming EEA Firms).



13A.5 EEA firms providing cross border services into the United Kingdom

Is the service provided within the United Kingdom?

13A.5.1
FCA PRA

G

There is *guidance* for UK firms in ■ SUP Appendix 3.6 on when a service is provided cross border. EEA firms may find this of interest although they should follow the guidance of their *Home State regulators*.

13A.5.2
FCA PRA

G

An EEA firm (other than an EEA pure reinsurer or an EEA firm that received authorisation under article 18 of the *auction regulation*) should note that the requirement under the *Single Market Directives* to give a notice of intention to provide *cross border services* applies whether or not:

- (1) it has established a *branch* in the *United Kingdom*; or
- (2) those *cross border services* are *regulated activities*.

The conditions for providing cross border services into the United Kingdom

13A.5.3
FCA PRA

G

- (1) Before an EEA firm (other than an EEA pure reinsurer or an EEA firm that has received authorisation under article 18 of the *auction regulation*) exercises an EEA right to provide *cross border services* into the *United Kingdom*, the Act requires it to satisfy the *service conditions*, as set out in paragraph 14 of Part II of Schedule 3 to the Act.
- (2) For the purposes of paragraph 14(1)(b) of Part II of Schedule 3 to the Act, the information to be contained in the regulator's notice has been prescribed under regulation 3 of the *EEA Passport Rights Regulations* and in the case of CRD, the information has been prescribed in the technical standards issued pursuant to and under Article 39 of the CRD.
- (3) An EEA UCITS management company may not exercise an EEA right to provide *collective portfolio management services* for a UCITS scheme on a *cross border services* basis until approved by the FCA to do so (see ■ SUP 13A.3.1C G).
- (4) An EEA firm that has received authorisation under article 18 of the *auction regulation* is not subject to the service conditions in its exercise of an EEA right under the *auction regulation* to provide services in the *United Kingdom*. The notification procedure in ■ SUP 13A.5.4 G does not apply to it and it does not need to notify the FCA prior to providing services into the *United Kingdom* because there are presently no *applicable provisions* that apply in

these circumstances. Instead, its provision of these services is supervised by its *Home State regulator*.

The notification procedure

13A.5.4
FCA PRA

G

- (1) Unless the *EEA firm* (other than an *EEA pure reinsurer* or an *EEA firm* that received authorisation under article 18 of the *auction regulation*) is passporting under the *Insurance Mediation Directive*, if the *appropriate UK regulator* receives a regulator's notice or, where no notice is required, is informed of the *EEA firm's* intention to provide *cross border services* into the *United Kingdom*, the *appropriate UK regulator* will, under paragraphs 14(2) and 14(3) of Part II of Schedule 3 to the *Act*, notify the *EEA firm* of the *applicable provisions* (if any) within two *months* of the *day* on which the *appropriate UK regulator* received the regulator's notice or was informed of the *EEA firm's* intention.

- (2) Although the *appropriate UK regulator* is not required to notify the *applicable provisions* to an *EEA Firm* passporting under the *Insurance Mediation Directive*, *MIFID* or *AIFMD* these provisions are set out in ■ SUP 13A Annex 1 G (Application of the Handbook to Incoming EEA Firms).

13A.5.4A
FCA PRA

G

Where the *PRA* receives a notice, it will give a copy to the *FCA* without delay and where the *FCA* receives a notice, it will give a copy to the *PRA* without delay, where relevant.

13A.5.5
FCA PRA

G

An *EEA firm* (other than an *EEA UCITS management company*) that has satisfied the *service conditions* in paragraph 14 of Part II of Schedule 3 to the *Act* is entitled to start providing *cross border services* into the *United Kingdom*. In the case of an *EEA UCITS management company*, *FCA* approval must first be obtained, as explained in ■ SUP 13A.5.3 G (see also ■ SUP 13A.3.1C G). However, an *EEA firm* that wishes to start providing *cross border services* but has not yet received notification of the *applicable provisions* may wish to contact the authorisations team in the *FCA* or *PRA*, as appropriate (see ■ SUP 13A.8.1 G (2)).



13A.6 Which rules will an incoming EEA firm be subject to?

13A.6.1 G
FCA PRA

- (1) ■ SUP 13A Annex 1 G summarises how the *Handbook* applies to *incoming EEA firms*.
- (2) ■ SUP 13A Annex 2 G summarises the matters that are reserved to a *firm's Home State regulator*.

13A.6.2 G
FCA PRA

An *incoming EEA firm* (other than an *EEA pure reinsurer* or an *EEA firm* that has received authorisation under article 18 of the *auction regulation* and only provides services in the *United Kingdom*) or *incoming Treaty firm* carrying on business in the *United Kingdom* must comply with the *applicable provisions* (see ■ SUP 13A.4.4 G, ■ SUP 13A.4.6 G, and ■ SUP 13A.5.4 G) and other relevant *UK legislation*. For example where the business includes:

- (1) business covered by the Consumer Credit Act 1974, then an *incoming EEA firm* or *incoming Treaty firm* must comply with the provisions of that Act, as modified by paragraph 15(3) of Schedule 3 to the *Act*; or
- (2) effecting or carrying out contracts covering motor vehicle third party liability risks as part of direct *insurance business*, then an *incoming EEA firm* or *incoming Treaty firm* is required to become a member of the Motor Insurers' Bureau.

13A.6.3 G
FCA PRA

In particular, an *EEA firm* (other than an *EEA pure reinsurer*) or *Treaty firm* must comply with the *applicable provisions* in ■ SUP 10 (Approved persons). An *EEA firm* or *Treaty firm* should also refer to ■ SUP 10.1 (Application) which sets out the territorial provisions of the *approved persons* regime.

13A.6.4 G
FCA PRA

Under the *EEA Passport Rights Regulations*, references in section 60 of the *Act* (applications for approval for persons to perform controlled functions) to "the authorised person concerned" include :

- (1) an *EEA MiFID investment firm* whose *Home State regulator* has given a consent notice under paragraph 13 of Schedule 3 to the *Act* (see ■ SUP 13A.4.1G (1) and ■ SUP 13A.4.2 G) or a regulator's notice under paragraph 14 of that Schedule (see ■ SUP 13A.5.3G (1)), and which will be the *authorised person* concerned if the *EEA firm* qualifies for *authorisation* under that Schedule; and

Application of the Handbook to Incoming EEA Firms

FCA **PRA**

1. The table below summarises the application of the *Handbook* to an *incoming EEA firm*. Where the table indicates that a particular module of the *Handbook* may apply, its application in relation to any particular activity is dependent on the detailed application provisions in that module. The table does not apply to *incoming ECA providers*. These should refer to COBS 1 Annex 1 Part 3 section 7 for *guidance* on how *COBS* applies to them. The table does not apply to *EEA pure reinsurers* or to an *EEA firm* in relation to its exercise of an *EEA right* under the *auction regulation* to provide services in the *United Kingdom*.

2. In some cases, the application of the *Handbook* depends on whether responsibility for a matter is reserved under an *EU* instrument to the *incoming EEA firm's Home State regulator*. *Guidance* on the reservation of responsibility is contained in SUP 13A Annex 2 G (Matters reserved to a Home State regulator). *Guidance* on the territorial application of *MiFID* is contained in PERG 13.6 and PERG 13.7 and SUP 13A Annex 2 G.

3. For an *incoming EEA firm* which has *permission* for *cross-border services* only, many parts of the *Handbook* apply only if the *firm* carries on *regulated activities* in the *United Kingdom*. Those parts of the *Handbook* will therefore not apply if the *firm* confines its activities to those within the *overseas persons* exclusions in article 72 of the *Regulated Activities Order*, or which would not be regarded as carried on in the *United Kingdom*. Further *guidance* may be found in PERG 2.4 (Link between activities and the *United Kingdom*) and PERG 2.9.15 G to PERG 2.9.17 G (Overseas persons).

4. An *EEA firm* that exercises an *EEA right* under the *auction regulation* to establish a branch in the *United Kingdom* to provide *auction regulation bidding* is subject to a limited set of requirements in the *Handbook* that apply to that activity. These are the *rules* listed in paragraph 2.6A of SYSC 1 Annex 1, GEN 4 and SUP (in particular, the *money laundering reporting function* in SUP 10A and requirements to notify the *FCA*). Aside from this note, the table does not apply to those firms.

5. An *EEA firm* that exercises an *EEA right* under *MiFID* to carry on *MiFID business bidding* is subject to the *applicable provisions* relating to its carrying on of *MiFID business*.

(1) Module of Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
PRIN	<p>The <i>Principles</i> apply only in so far as responsibility for the matter in question is not reserved by an <i>EU</i> instrument to the <i>firm's Home State regulator</i> (PRIN 3.1.1 R (1)).</p> <p>For an <i>incoming EEA firm</i> which is a <i>CRD credit institution</i> without</p>	<p>The <i>Principles</i> do not apply if the <i>firm</i> has <i>permission</i> only for <i>cross-border services</i> and does not carry on <i>regulated activities</i> in the <i>United Kingdom</i> (PRIN 3.1.1 R (2)).</p> <p>The <i>Principles</i> have limited application for activities which are not carried on from a <i>UK</i> establishment (see PRIN 3.1.1 R).</p>

SYSC

a *top-up permission*, Principle 4 applies only in relation to the liquidity of a branch established in the *United Kingdom* (PRIN 3.1.1 R (2)).

Otherwise, see column (2).

SYSC 1 and SYSC 1 Annex 1 (Application of SYSC 2 and SYSC 3) contain application provisions only. SYSC 2 and SYSC 3 apply only to an *insurer*, a *managing agent* and the *Society* as set out in SYSC 1 Annex 1.1.1R, which include the following exceptions:

SYSC 2 and SYSC 3 do not apply if the *firm* has *permission* only for *cross-border services* and does not carry on *regulated activities* in the *United Kingdom* (SYSC 1 Annex 1.1.1 R). SYSC 2 and SYSC 3 have limited application for activities which are not carried on from a *UK* establishment (see SYSC 1 Annex 1.1.1 R (2A)).

(1) SYSC 2.1.1 R (1) and SYSC 2.1.2 G do not apply;

Otherwise, see column (2).

(2) SYSC 2.1.3 R to SYSC 2.2.3 G apply, but only in relation to allocation of the function in SYSC 2.1.3 R (2) and only in so far as responsibility for the matter in question is not reserved by an *EU* instrument to the *firm's Home State regulator*; and

The *common platform requirements* in SYSC 4 - SYSC 10 apply as set out in SYSC 1 Annex 1.2.2R.

SYSC 11 - SYSC 17 do not apply.

SYSC 18 applies.

(3) SYSC 3 applies, but only in so far as responsibility for the matter in question is not reserved by an *EU* instrument to the *firm's Home State regulator*.

SYSC 19A does not apply.

SYSC 1 Annex 1, Part 1, 1.8 R(Where?) further restricts the territorial application of SYSC 1 to SYSC 3 for an *incoming EEA firm*. Further *guidance* is contained in SYSC 2.1.6 G, Question 12. SYSC 18 applies to the extent that the Public Interest Disclosure Act 1998 applies to the *firm*.

The *common platform requirements* in SYSC 4 - 10 apply as set out in Part 2 of SYSC 1 Annex 1 (Application of the common platform requirement).

SYSC 1 Annex 1 row 2.6F provides that the *common platform requirements* do not apply to an *incoming EEA AIFM branch*, except the *AIFMD Host State requirements* and certain requirements regarding *financial crime*.

SYSC 1 Annex 1.2.7G reminds *EEA MiFID investment firms* that they must comply with the *common platform record-keeping requirements* in relation to a *branch* in the *United Kingdom*.

SYSC 1 Annex 1, Part 2, 2.7AG provides guidance on the application of the *common platform requirements* to the *UK branch* of an *EEA UCITS management company*.

SYSC 9 applies to activities carried on from an establishment in the *United Kingdom*, unless another applicable *rule* which is relevant to the activity has a wider territorial scope, in which case the *common platform record-keeping requirements* apply with that wider scope in relation to the activity described in that *rule* (SYSC 1 Annex 1.2.17R).

SYSC 12 does not apply (SYSC 12.1.3 R).

SYSC 13 does not apply (SYSC 13.1.1 G).

SYSC 14 does not apply (SYSC 14.1.1 R).

SYSC 15 does not apply (SYSC 15.1.1 G).

SYSC 16 does not apply (SYSC 16.1.1 G).

SYSC 17 does not apply (SYSC 17.1.1 G).

SYSC 18 applies.

SYSC 19A and 19B do not apply .

COND *COND* does not apply if the *firm* As column (2). does not have, or apply for, a *top-up permission*.

Otherwise, the threshold conditions apply in a limited way

(1) in the case of a *top-up permission* under Part 4A of the *Act* (that

is, a *permission* to carry on *regulated activities* in addition to those permitted through its *authorisation* under Schedule 3 to the *Act* (EEA Passport Rights)); and

(2) the exercise of the *FCA's* powers under sections 55J and 55L of the *Act* in relation to the *top-up permission*. (COND 1.2.4 G)

APER *APER* applies to *approved persons* (*APER 1.1.1 G*). See below under *SUP 10* as to whether *controlled functions* are performed, and approval therefore required. Not relevant because *SUP 10* does not apply.

FIT *FIT* applies to a *firm* wishing to establish a *branch* in the *United Kingdom* or to apply for a *top-up permission* in respect of any application that it makes for the approval of a *person* to perform a *controlled function* (*FIT 1.1*). See under *SUP 10* below as to whether such approval is required. Does not apply.

FIT applies in a limited way in relation to an incoming *MiFID investment firm* (see *FIT 1.2.4A G*).

GEN *GEN* applies (*GEN 1.1*, *GEN 2.1*, *GEN 4.1*, *GEN 5.1* and *GEN 6.1*). However, (a) *GEN 4* does not apply to the extent that the *firm* is subject to equivalent *rules* imposed by its *Home State* (*GEN 4.1.1 R (3)*), and (b) *GEN 6* only applies to business that *GEN 4* does not apply if the *firm* has *permission* only for *cross-border services* and does not carry on *regulated activities* in the *United Kingdom* (see *GEN 4.1.1 R*).

Otherwise, as column (2).
 can be regulated under sections 137A and 137G of the *Act* (The *FCA's* General rules) and (The *PRA's* General rules), respectively. It does not therefore apply if, or to the extent that, responsibility has been reserved to an *incoming firm's Home State regulator* by an *EU instrument*. Only *GEN 4.5* applies in relation to *MiFID or equivalent third country business* (see *GEN 4.1.1 R*).

FEES Applies to the extent a *firm* is required to pay a fee in regards to carrying out any *regulated activity* in the *UK*, normally this would be the case when the *firm* holds a *top-up permission* As column (2)

<p>GENPRU</p>	<p>Does not apply.</p>	<p>Does not apply if the <i>firm</i> has <i>permission</i> only for <i>cross border services</i> and does not carry on <i>regulated activities</i> in the <i>United Kingdom</i>.</p>
<p>BIPRU</p>	<p><i>EEA firms</i> that are <i>CAD investment firms</i> are subject to the prudential standards of their home state regulator (BIPRU 1.1.7 R). However, BIPRU 12 applies to an <i>EEA firm</i> that is an <i>IFPRU investment firm</i> or <i>BIPRU firm</i> as respects the activities of its <i>UK branch</i>, but in relation to <i>liquidity risk</i> only.</p>	
<p>IFPRU</p>	<p><i>EEA firms</i> that are <i>investment firms</i> (as defined in the <i>EU CRR</i>) are subject to the <i>EU CRR</i> as implemented by their home state regulator (IFPRU 1.1.5R).</p>	<p>Does not apply if the <i>firm</i> has <i>permission</i> only for <i>cross border services</i> and does not carry on <i>regulated activities</i> in the <i>United Kingdom</i>.</p>
<p>MIPRU</p>	<p>MIPRU 1 (Application and general provisions) does not apply unless the <i>firm</i> has a <i>top-up permission</i>.</p> <p>MIPRU 2 (Responsibility for insurance mediation activity) does not apply unless the <i>firm</i> has a <i>top-up permission</i>.</p> <p>MIPRU 3 (Requirement to hold professional indemnity insurance) does not apply unless the <i>firm</i> has a <i>top-up permission</i>.</p> <p>MIPRU 4 (Requirement to hold capital resources) does not apply unless the <i>firm</i> has a <i>top-up permission</i>.</p> <p>See MIPRU 4.1.2 G for more detailed guidance.</p> <p>MIPRU 5 (Insurance undertakings and mortgage lenders using insurance or mortgage mediation services) does not apply unless the <i>firm</i> has a <i>top-up permission</i>.</p>	<p>As column (2)</p>
<p>INSPRU</p>	<p>INSPRU does not apply unless the <i>firm</i> is an <i>insurer</i> to which INSPRU 1.5.33R applies.</p>	
<p>IPRU(FSOC)</p>	<p>Does not apply because an <i>incoming EEA firm</i> cannot be a <i>friendly society</i> (IPRU(FSOC) 1.1).</p>	<p>Does not apply because an <i>incoming EEA firm</i> cannot be a <i>friendly society</i> (IPRU(FSOC) 1.1).</p>

<i>IPRU(INV)</i>	<p><i>IPRU(INV)</i> does not apply unless the <i>firm</i>:</p> <p>(1) has a <i>top-up permission</i>;</p> <p>(2) is an <i>authorised professional firm, investment management firm, members' adviser, personal investment firm, securities and futures firm, service company</i> or <i>underwriting agent</i>; and</p> <p>(3) is not a <i>lead regulated firm</i> , a <i>media firm</i> or a <i>BIPRU investment firm</i>.</p> <p>(<i>IPRU(INV)</i> 1.1.1R and 1.2R)</p>	<p>As column (2).</p>
<i>COBS</i>	<p><i>Guidance</i> on the territorial application of <i>COBS</i> is contained in <i>COBS 1 Annex 1 Part 3</i>.</p>	<p><i>Guidance</i> on the territorial application of <i>COBS</i> is contained in <i>COBS 1 Annex 1 Part 3</i>.</p>
<i>ICOBS</i>	<p><i>ICOBS</i> applies except to the extent necessary to be compatible with European law. <i>Guidance</i> on the territorial application of <i>ICOBS</i> is contained in <i>ICOBS 1 Annex 1 G Part 4</i>.</p>	<p><i>ICOBS 8.4</i> applies except to the extent necessary to be compatible with European law. Other chapters of <i>ICOBS</i> do not apply, except to the extent necessary to be compatible with European law. <i>Guidance</i> on the territorial application of <i>ICOBS</i> is contained in <i>ICOBS 1 Annex 1 G Part 4</i>.</p>
<i>MCOB</i>	<p>Applies where the activity is carried on with or for a <i>customer</i> resident in the <i>United Kingdom</i> or another <i>EEA State</i> at the time that the activity is carried on, but see the territorial scope in <i>MCOB 3.3</i> (Application: where?).</p>	<p>Applies where the activity is carried on with or for a <i>customer</i> resident in the <i>United Kingdom</i> at the time that the activity is carried on but see <i>MCOB 1.3.4 R</i> (Distance contracts entered into from an establishment in another EEA State) and <i>MCOB 3.3</i> (Application: where?).</p>
<i>CASS</i>	<p><i>CASS</i> does not apply with respect to the <i>firm's passported activities</i> unless the <i>firm</i> is an <i>insurer</i> (<i>CASS 1.2.3 R (2)</i>).</p>	<p>As column (2).</p>
<i>MAR</i>	<p>MAR 1 (Code of market conduct)</p> <p>Applies if the <i>firm</i> is seeking <i>guidance</i> as to whether or not <i>behaviour</i> amounts to <i>market abuse</i> (<i>MAR 1.1.1 G</i>).</p> <p>MAR 2 (Price stabilising rules)</p> <p>Applies if the <i>firm</i> undertakes <i>stabilising action</i> and wishes to show that it has acted in conformity with <i>price stabilising rules</i>, or that its <i>behaviour</i> conforms with <i>rules</i> in</p>	<p>MAR 1 (Code of market conduct)</p> <p>As column (2).</p> <p>MAR 2 (Price stabilising rules)</p> <p>Only applies in so far as the <i>firm</i> undertakes <i>stabilising action</i> and wishes to rely on a defence that it has acted in conformity with <i>price stabilising rules</i>, or that its <i>behaviour</i></p>

	accordance with section 118A(5)(a) of the <i>Act</i> (Market abuse) (MAR 2.1 Application).	conforms with <i>rules</i> in accordance with section 118A(5)(a) of the <i>Act</i> (Market abuse) (MAR 2.1 and in particular MAR 2.1.3 R).
	[deleted]	[deleted]
	MAR 4 (Endorsement of the Take-over Code)	MAR 4 (Endorsement of the Take-over Code)
	Applies to <i>firms</i> whose <i>permission</i> includes, or ought to include, any <i>designated investment business</i> , except as set out in MAR 4.4.1 R.	Does not apply (MAR 4.4.1 R (4)(b)).
	MAR 5 (Multilateral Trading Facilities)	MAR 5 (Multilateral Trading Facilities)
	Does not apply (MAR 5.1.1 R).	Does not apply (MAR 5.1.1 R).
	MAR 8 (Benchmarks)	MAR 8 (Benchmarks)
	Applies only to <i>firms</i> whose <i>top-up permission</i> includes <i>providing information in relation to a regulated benchmark</i> .	As column (2)
TC	TC applies, but only in so far as responsibility for any matter it covers is not reserved by an <i>EU instrument</i> to the <i>firm's Home State regulator</i> .	TC Appendix 1 sets out the activities to which TC applies. TC Appendix 2 sets out the source-book's territorial scope. TC Appendix 3 sets out the limitations on TC App 2.
SUP	SUP 1A (The FCA's approach to supervision)	SUP 1A (The FCA's approach to supervision)
	Applies, but contains only <i>guidance</i> .	As column (2).
	SUP 2 (Information gathering by the [FCA & PRA] on its own initiative)	SUP 2 (Information gathering by the [FCA & PRA] on its own initiative).
	The application of this chapter is the same as for <i>Principle 11</i> (see under <i>PRIN</i> above).	As column (2)
	SUP 3 (Auditors)	SUP 3 (Auditors)
	Applies to the <i>firm</i> (and its auditor) only if the <i>firm</i> has a <i>top-up permission</i> .	As column (2)
	SUP 4 (Actuaries)	SUP 4 (Actuaries)
	Does not apply.	Does not apply.

SUP 5 (Skilled persons)	SUP 5 (Skilled persons)
Applies only if the <i>firm</i> is required by the <i>FCA</i> or <i>PRA</i> to provide a report under section 166 of the <i>Act</i> (Reports by skilled persons).	As column (2).
SUP 6 (Applications to vary and cancel Part 4A permission)	SUP 6 (Applications to vary and cancel Part 4A permission)
Applies only if the <i>firm</i> has a <i>top-up permission</i>	As column (2).
SUP 7 (Individual requirements)	SUP 7 (Individual requirements)
Applies only if the <i>firm</i> has a <i>top-up permission</i> . It contains only <i>guidance</i> on the exercise of the <i>FCA's</i> powers under sections 55J and 55L of the <i>Act</i> . The <i>FCA</i> has similar, but more limited, powers of intervention under Part 13 of the <i>Act</i> in relation to the <i>permission</i> of the <i>firm</i> under Schedule 3 to the <i>Act</i> (see EG 8).	As column (2).
SUP 8 (Waiver and modification of rules)	SUP 8 (Waiver and modification of rules)
Applies only if the <i>firm</i> wishes to apply for, or consent to, or has been given, a <i>waiver</i> of the <i>appropriate regulator's</i> rules (SUP 8.1.1 R).	As column (2).
SUP 9 (Individual guidance)	SUP 9 (Individual guidance)
Applies only if the <i>firm</i> wishes to obtain individual <i>guidance</i> from the <i>FCA</i> or if the <i>FCA</i> gives the <i>firm</i> individual <i>guidance</i> on its own initiative (SUP 9.1.1 G).	As column (2).
SUP 10A (Approved persons)	SUP 10A (Approved persons)
Applies, but the applicable <i>controlled functions</i> are limited. See SUP 10A.1 (Application) for more detailed <i>guidance</i> .	Does not apply (SUP 10A.1.6 R).
SUP 10B (Approved Persons)	SUP 10B (Approved Persons)
Does not apply	As column (2)
SUP 11 (Controllers and close links)	SUP 11 (Controllers and close links)
Does not apply (SUP 11.1.1 R (2)).	Does not apply (SUP 11.1.1 R (2)).

<p>SUP 12 (Appointed representatives)</p>	<p>SUP 12 (Appointed representatives)</p>
<p>Applies only if the <i>firm</i> has <i>permission</i> to carry on <i>designated investment business, insurance mediation activity or mortgage mediation activity</i> and wishes to appoint, or has appointed, an <i>appointed representative</i> (SUP 12.1.1 R (1)).</p>	<p>As column (2).</p>
<p>SUP 13 (Exercise of passport rights by UK firms)</p>	<p>SUP 13 (Exercise of passport rights by UK firms)</p>
<p>Does not apply.</p>	<p>Does not apply.</p>
<p>SUP 13A (Qualifying for authorisation under the Act)</p>	<p>SUP 13A (Qualifying for authorisation under the Act)</p>
<p>SUP 13A applies to the <i>firm</i> if it:</p>	<p>As column (2).</p>
<p>(1) is considering carrying on activities in the <i>United Kingdom</i> which may fall within the scope of the <i>Act</i> and is seeking <i>guidance</i> on whether it needs a <i>top-up permission</i>; or</p>	
<p>(2) is, or is considering, applying to the <i>appropriate regulator</i> to carry on <i>regulated activities</i> in the <i>United Kingdom</i> under a <i>top-up permission</i>; or</p>	
<p>(3) is, or is considering, establishing a <i>branch</i> or providing <i>cross-border services</i> into the <i>United Kingdom</i> using <i>EEA rights</i>.</p>	
<p>SUP 14 (Incoming EEA Firms: Changing detail and cancelling qualifications for authorisation)</p>	<p>SUP 14 (Incoming EEA Firms: Changing detail and cancelling qualifications for authorisation)</p>
<p>Applies.</p>	<p>Applies.</p>
<p>SUP 15 (Notifications to the FCA or PRA)</p>	<p>SUP 15 (Notifications to the FCA or PRA)</p>
<p>Applies in full if the <i>firm</i> has a <i>top-up permission</i>. Otherwise, the application is modified as set out in SUP 15 Annex 1 R.</p>	<p>Does not apply if the <i>firm</i> has <i>permission</i> only for <i>cross border services</i> and does not carry on <i>regulated activities</i> in the <i>United Kingdom</i> (SUP 15 Annex 1 R).</p>
	<p>Otherwise, as column (2).</p>

SUP 16 (Reporting requirements) SUP 16 (Reporting requirements)

Parts of this chapter may apply if the *firm* has a *top-up permission* or if the *firm* is: Parts of this chapter may apply if the *firm* has a *top-up permission* or if the *firm* is:

- | | |
|---|--|
| <ul style="list-style-type: none"> (a) a <i>bank</i>; or (b) a <i>depository</i> of an <i>ICVC</i>; or (c) an <i>OPS firm</i>; or (d) a <i>trustee</i> of an <i>AUT</i>; or (da) a <i>depository</i> of an <i>ACS</i>; or (e) an <i>insurer</i> with <i>permission</i> to effect or carry out <i>life policies</i>; or (f) a <i>firm</i> with <i>permission</i> to establish, operate or wind up a <i>personal pension scheme</i> or a <i>stakeholder pension scheme</i>; or (g) a <i>firm</i> with <i>permission</i> to advise on investments, arrange (bring about) deals in investments, make arrangements with a view to transactions in investments, or arrange safeguarding and administration of assets. | <ul style="list-style-type: none"> (a) a <i>depository</i> of an <i>ICVC</i>; or (b) an <i>OPS firm</i>; or (c) a <i>trustee</i> of an <i>AUT</i>; or (ca) a <i>depository</i> of an <i>ACS</i>; or (d) an <i>insurer</i> with <i>permission</i> to effect or carry out <i>life policies</i>; or (e) a <i>firm</i> with <i>permission</i> to establish, operate or wind up a <i>personal pension scheme</i> or a <i>stakeholder pension scheme</i>; or (f) a <i>firm</i> with <i>permission</i> to advise on investments, arrange (bring about) deals in investments, make arrangements with a view to transactions in investments, or arrange safeguarding and administration of assets. |
|---|--|

(SUP 16.1)

(SUP 16.1)

SUP 17 (Transaction reporting) SUP 17 (Transaction reporting)

<p>Applies to <i>UK</i> branches of <i>incoming EEA firms</i> which are <i>MiFID investment firms</i> in respect of reportable <i>transactions</i> executed in the course of services provided, whether within in the <i>United Kingdom</i> and outside. (SUP 17.1.2 G and SUP 17.1.3A G)</p>	<p>Applies as appropriate to <i>incoming EEA firms</i> which are <i>MiFID investment firms</i> in respect of reportable <i>transactions</i>. (SUP 17.1.1 R and SUP 17.1.4 R).</p>
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SUP 18 (Transfers of business) SUP 18 (Transfers of business)

<p>SUP 18.4 does not apply. SUP 18.1, SUP 18.2 and SUP 18.3 may be relevant if the <i>firm</i> proposes to transfer the whole or part of its business by an <i>insurance business transfer scheme</i> or to accept such a transfer or proposes to accept certain transfers of <i>insurance business</i> taking place outside the <i>United Kingdom</i>.</p>	<p>As column (2).</p>
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	SUP App 2 (Insurers: Scheme of operations)	SUP App 2 (Insurers: Scheme of operations)
	Does not apply (SUP App 2.1.1 R).	Does not apply (SUP App 2.1.1 R).
DEPP	DEPP applies and contains a description of the FCA's procedures for taking statutory notice decisions, the FCA's policy on the imposition and amount of penalties and the conduct of interviews to which a direction under section 169(7) of the Act has been given or the FCA is considering giving.	DEPP applies and contains a description of the FCA's procedures for taking statutory notice decisions, the FCA's policy on the imposition and amount of penalties and the conduct of interviews to which a direction under section 169(7) of the Act has been given or the FCA is considering giving.
DISP	Generally applies (DISP 1.1.1 G) but in a limited way in relation to MiFID business . For an incoming EEA AIFM branch DISP applies (subject to some limitations, see DISP 1.1.3 R), except for an incoming EEA AIFM branch of a closed-ended corporate AIF, when DISP does not apply.	Generally does not apply (DISP 1.1.1 G). However, for an incoming EEA firm which is a UCITS management company managing a UCITS scheme or an AIFM managing an authorised AIF, DISP applies (subject to some limitations, see DISP 1.1.3 R).
COMP	Applies, except in relation to the passported activities of a MiFID investment firm, a CRD credit institution (other than an electronic money institution within the meaning of article 1(3)(a) of the E-Money Directive that has the right to benefit from the mutual recognition arrangements under the CRD), an IMD insurance intermediary . a UCITS management company carrying on non-core services under article 6.3 of the UCITS Directive and an incoming AIFM branch carrying on either AIFM management functions for an unauthorised AIF or non-core services under article 6.4 of AIFMD (see the definition of "participant firm"). However, a firm specified above may be able to apply for top-up cover in relation to its passported activities (see COMP 14 (Participation by EEA Firms)).	Does not apply in relation to the passported activities of an MiFID investment firm, a CRD credit institution, an IMD insurance intermediary or a UCITS management company carrying on non-core services under article 6.3 of the UCITS Directive or an incoming EEA AIFM regarding AIFM management functions carried on for an unauthorised AIF or non-core services under article 6.4. Otherwise, COMP may apply, but the coverage of the compensation scheme is limited for non-UK activities (see COMP 5).
COLL	A. The following provisions of COLL apply to an EEA UCITS management company providing collective portfolio management services for a UCITS scheme:	For an EEA UCITS management company providing collective portfolio management services for a UCITS scheme, as column (2)A.(d), (e), (f)

(a) COLL 6.6A.2 R (Duties of AFMs of UCITS schemes and EEA UCITS schemes to act in the best interests of the scheme and its unitholders); and (g) and the other parts of *COLL* specified.
For an *incoming EEA AIFM*, as column (2) B.

(b) COLL 6.6A.4 R (Due diligence requirements of AFMs of UCITS schemes and EEA UCITS schemes);

(c) COLL 6.6A.5 R (Compliance with the regulatory requirements applicable to the conduct of business activities of a UCITS management company);

(d) COLL 12.3.4 R (Provision of documentation to the FSA: EEA UCITS management companies);

(e) the *fund application rules* (see COLL 12.3.5 R (COLL fund rules under the management company passport: the fund application rules));

(f) COLL 12.3.6 R (Requirement to make information available to the public or the FSA);

(g) COLL 12.3.7 G (EEA UCITS management companies: compliance with FSA rules); and

(h) COLL 12.3.8 G (EEA UCITS management companies: conduct of business rules).

An *EEA UCITS management company* providing *collective portfolio management* services for a *UCITS scheme* should be aware that it will be expected to comply with the above *rules* in relation to all aspects of the functioning of the relevant *UCITS scheme* where, for example, the *firm*:

(a) [deleted]

(b) wishes to apply for an *authorisation order* to establish an *AUT*, *ACS* or *ICVC* as a *UCITS scheme*; or

Matters reserved to a Home State regulator

FCA **PRA**

Introduction

1[FCA/PRA] The application of certain provisions in the *Handbook* to an *incoming EEA firm* or *incoming Treaty firm* depends on whether responsibility for the matter in question is reserved to the *firm's Home State regulator*. This annex contains *guidance* designed to assist such *firms* in understanding the application of those provisions. This annex is not concerned with the *FCA* or the *PRA's* rights to take enforcement action against an *incoming EEA firm* or an *incoming Treaty firm*, which, in the case of the *FCA*, are covered in the Enforcement Guide (*EG*), or with the position of a *firm* with a *top-up permission*.

Requirements in the interest of the general good

2[FCA/PRA] The *Single Market Directives*, and the *Treaty* (as interpreted by the European Court of Justice) adopt broadly similar approaches to reserving responsibility to the *Home State regulator*. To summarise, the *FCA* or *PRA*, as *Host State regulator*, is entitled to impose requirements with respect to activities carried on within the *United Kingdom* if these can be justified in the interests of the "general good" and are imposed in a non-discriminatory way. This general proposition is subject to the following in relation to activities passported under the *Single Market Directives*:

- (1) the *Single Market Directives* expressly reserve responsibility for the prudential supervision of a *MiFID investment firm*, *CRD credit institution*, *UCITS management company AIFM* or passporting *insurance undertaking* to the *Firm's Home State regulator*. The *Insurance Mediation Directive* reaches the same position without expressly referring to the concept of prudential supervision. Accordingly, the *FCA*, as *Host State regulator*, is entitled to regulate only the conduct of the firm's business within the *United Kingdom*;
- (2) there is no explicit "general good" provision in *MiFID* or *AIFMD*. Rather, the responsibilities for a *Host State regulator* under *MiFID* are contained in paragraphs 8 to 10 and under *AIFMD* are contained in paragraphs 11G to 11J;
- (3) for a *CRD credit institution*, the *PRA* or *FCA*, as *Host State regulator*, is jointly responsible with the *Home State regulator* under article 156 of the *CRD* for supervision of the liquidity of a *branch* in the *United Kingdom*;
- (4) for a *MiFID investment firm* including a *CRD credit institutions* which is a *MiFID investment firm*), the protection of *clients' money* and *clients' assets* is reserved to the *Home State regulator* under *MiFID*; and
- (5) responsibility for participation in compensation schemes for *CRD credit institutions* and *MiFID investment firm* is reserved in most cases to the *Home State regulator* under the *Deposit Guarantee Directive* and the *Investor Compensation Directive*.

3. It is necessary to refer to the case law of the European Court of Justice to interpret the concept of the "general good". To summarise, to satisfy the general good test, *Host State* rules must come within a field which has not been harmonised at *EU* level, satisfy the general requirements that they pursue an objective of the general good, be non-discriminatory, be objectively necessary, be proportionate to the objective pursued and not already be safeguarded by rules to which the *firm* is subject in its *Home State*.

[FCA/PRA]

Application of SYSC 2 and SYSC 3

4. SYSC 2 and SYSC 3 only apply to an *insurer*, a *managing agent* and the *Society*. See paragraph 8 below for a discussion of how the *common platform requirements* apply. SYSC 2.1.1 R and SYSC 2.1.2 G do not apply for a relevant *incoming Treaty firm*. The *FCA* and *PRA* consider that they are entitled, in the interests of the general good, to impose the requirements in SYSC 2.1.3 R to SYSC 2.2.3 G (in relation to the allocation of the function in

[FCA/PRA]

SYSC 2.1.3 R (2)) and SYSC 3 on an *incoming EEA firm* and an *incoming Treaty firm*; but only in so far as they relate to those categories of matter responsibility for which is not reserved to the *firm's Home State regulator*.

5. Should the *FCA* or *PRA* become aware of anything relating to an *incoming EEA firm* or *incoming Treaty firm* (whether or not relevant to a matter for which responsibility is reserved to the *Home State regulator*), the *PRA* or *FCA* may disclose it to the *Home State regulator* in accordance with any directive and the applicable restrictions in Part 23 of the Act (Public Record, Disclosure of Information and Co-operation).

6. This Annex represents the *FCA's* and *PRA's* views, but a *firm* is also advised to consult the relevant *EU* instrument and, where necessary, seek legal advice. The views of the European Commission in the banking and insurance sectors are contained in two Commission Interpretative Communications (Nos. 97/C209/04 and C(1999)5046).

7. [deleted]

Application of the common platform requirements in SYSC to *EEA MiFID investment firms*

8. Whilst the *common platform requirements* (located in SYSC 4 - SYSC 10) do not generally apply to *incoming EEA firms* (but for *EEA UCITS management companies*, see 8A below), *EEA MiFID investment firms* must comply with the *common platform record-keeping requirements* in relation to a *branch* in the *United Kingdom*.

Application of SYSC to *EEA UCITS management companies*

8A. SYSC 1 Annex 1 (Detailed application of SYSC), Part 2, 2.7AG provides guidance on the application of the *common platform requirements* to the *UK branch* of an *EEA UCITS management company*.

[FCA]

Requirements under MiFID

9. Article 31(1) of *MiFID* prohibits Member States from imposing additional requirements on a *MiFID investment firm* in relation to matters covered by *MiFID* if the *firm* is providing services on a cross-border basis. Such firms will be supervised by their Home State regulator.

10. Article 32 of *MiFID* requires the *FSA* as the *Host State regulator* to apply certain obligations to an *incoming EEA firm* with an establishment in the *UK*. In summary, these are Articles:

[FCA/PRA]

- (1) 19 (conduct of business obligations);
- (2) 21 (execution of orders on terms most favourable to the client);
- (3) 22 (client order handling);
- (4) 25 (upholding the integrity of markets, reporting transactions and maintaining records);
- (5) 27 (making public firm quotes); and
- (6) 28 (post-trade disclosure).

The remaining obligations under *MiFID* are reserved to the Home State regulator.

11. *MiFID* is more highly harmonising than other *Single Market Directives*. Article 4 of the *MiFID implementing Directive* permits Member States to impose additional requirements only where certain tests are met. The *FSA* has made certain requirements that fall within the scope of Article 4. These requirements apply to an *EEA MiFID investment firm* with an establishment in the *United Kingdom* as they apply to a *UK MiFID investment firm*, in the circumstances contemplated by article 32(7) *MiFID*.

[FCA/PRA]

Requirements under the UCITS Directive

11A Article 19(8) of the *UCITS Directive* prohibits an *EEA State* from imposing additional requirements on a *management company* providing *collective portfolio management* services for a *UCITS* in its territory on a cross-border basis by establishing a *branch* or under the freedom to provide *cross border services* in respect of the subject matter of the *UCITS Directive*, except in the cases expressly permitted (see 11C below).

[FCA]

11B A *management company* which provides *collective portfolio management* services on a cross-border basis by establishing a *branch* in another *EEA State* or under the freedom to provide services must comply with the *rules* of the *UCITS Home State* which relate to the constitution and functioning of the *UCITS*. Where the *UCITS Home State* is the *United Kingdom*, the applicable *rules* that the *EEA UCITS management company* must comply with are as follows:

[FCA]

- (1) COLL 12.3.4 R (Provision of documentation to the FCA: EEA UCITS management companies);
- (2) the *fund application rules* (see COLL 12.3.5 R (COLL fund rules under the management company passport: the fund application rules)); and
- (3) COLL 12.3.6 R (Requirement to make information available to the public or the FCA).

11C [FCA] A *management company*, however, which provides *collective portfolio management* services from a *branch* in another *EEA State*, is obliged under article 17(4) to comply with the applicable rules of the *Host State regulator* drawn up under article 14(1) that require a *management company* to:

- (1) act honestly and fairly in conducting its business activities in the best interests of the *UCITS* it manages and the integrity of the market;
- (2) act with due skill, care and diligence, in the best interests of the *UCITS* it manages and the integrity of the market;
- (3) have and employ effectively the resources and procedures that are necessary for the proper performance of its business activities;
- (4) try to avoid conflicts of interests and, when they cannot be avoided, to ensure that the *UCITS* it manages is fairly treated; and
- (5) comply with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of its investors and the integrity of the market.

11D The *rules* implementing the requirements set out in paragraph 11C (1) to (5) are as follows:

[FCA]

- (1) SYSC, to the extent indicated in column A+ (Application to management company) of Part 3 of SYSC 1 Annex 1 (Detailed application of SYSC); and
- (2) COBS, to the extent indicated at paragraph 9.1 of Part 3 of COBS 1 Annex 1 (Application).
- (3) COLL 6.6A.2 R (Duties of AFMs of UCITS schemes and EEA UCITS schemes to act in the best interests of the scheme and its unitholders) (*branch* only);
- (4) COLL 6.6A.4 R (Due diligence requirements of AFMs of UCITS schemes and EEA UCITS schemes) (*branch* only); and
- (5) COLL 6.6A.5 R (Compliance with the regulatory requirements applicable to the conduct of business activities of a UCITS management company) (*branch* only).

Territorial application of the *Handbook*

The auction regulation

11E [FCA/PRA] Where an *incoming EEA firm* exercises an *EEA right* under the *auction regulation* to provide services or establish a *branch* in the *United Kingdom*, it is carrying on *auction regulation bidding*. Authorisation and supervision of a *firm* under the *auction regulation* are almost exclusively matters reserved to the *Home State regulator*. The only requirements which the *FCA* has applied as *Host State regulator* under the *auction regulation* in respect of *auction regulation bidding* is on a *UK branch* in relation to safeguards against money laundering and financial crime as well as a statutory status disclosure obligation and requirements to notify the *FCA* (see Note 4 of SUP 13A Annex 1 G).

11F [FCA] An *incoming EEA firm* that carries on *MiFID business bidding* is exercising an *EEA right* under *MiFID* and is subject to the *applicable provisions* relating to its carrying on of *MiFID business*. The respective responsibilities of the *Home State regulator* and *Host State regulator* are the same as under *MiFID*.

Requirements under *AIFMD*

11G [FCA] Article 33(5) of *AIFMD* prohibits *Host States* from imposing additional requirements on an *AIFM* to matters covered by *AIFMD* if the *firm* is managing an *AIF* on a cross-border basis by establishing a *branch* or providing *cross-border services* to manage an *AIF* in that *EEA State*, except as expressly permitted (see 11H below).

- 11H Under article 45(2) (Responsibility of competent authorities in Member States) of *AIFMD* the supervision of an *AIFM's* compliance with articles 12 (General principles) and 14 (Conflicts of interest) are the responsibility of the *Host State* of the *AIFM* where the *AIFM* manages and/or markets an *AIF* through a *branch* in that *EEA State*.
[FCA]
- 11I As a result, an *incoming EEA AIFM branch* is required to comply with the *AIFMD Host State requirements* (as set out below):
[FCA]
- (a) FUND 3.8;
 - (b) SYSC 4.1.2C R;
 - (c) SYSC 10.1.22 R to SYSC 10.1.26 R; and
 - (d) COBS 2.1.4 R.
- 11J Under article 32(5) of *AIFMD*, arrangements in point (h) of Annex IV of *AIFMD* for the *marketing* of *AIFs* is subject to the laws and supervision of the *Host State* of the *AIFM*.
[FCA]
- 11K A *full-scope EEA AIFM* that is *marketing* an *AIF* in the *UK* using the *marketing* passport should have regard to the *financial promotions* regime, as explained in PERG 8.37.5 G (2) (Communications with investors in relation to draft documentation).
[FCA]
12. Further *guidance* on the territorial application of the *Handbook* can be found at PERG 13.6 and PERG 13.7.
[FCA/PRA]
13. Examples of how SYSC 3 and/or the common platform provisions apply in practice.
[FCA/PRA]
- (1) The Prudential Standards part of the *Handbook* (with the exception of INSPRU 1.5.33 R on the payment of financial penalties and the Interim Prudential sourcebook (insurers) (IPRU(INS)) (rules 3.6 and 3.7) do not apply to an *insurer* which is an *incoming EEA firm*. Similarly, SYSC 3 does not require such a *firm*:
 - (a) to establish systems and controls in relation to financial resources (SYSC 3.1.1 R); or
 - (b) to establish systems and controls for compliance with that Prudential Standards part of the *Handbook* (SYSC 3.2.6 R); or
 - (c) to make and retain records in relation to financial resources (SYSC 3.2.20 R and SYSC 9.1.1 R to 9.1.4 G).
 - (2) The Conduct of Business sourcebook (*COBS*) applies to an *incoming EEA firm*. Similarly, SYSC 3 and SYSC 4- 10 do require such a *firm*:
 - (a) to establish systems and controls in relation to those aspects of the conduct of its business covered by applicable sections of *COBS* (SYSC 3.1.1 R and SYSC 4.1.1 R);
 - (b) to establish systems and controls for compliance with the applicable sections of *COBS* (SYSC 3.2.6 R and SYSC 6.1.1 R); and
 - (c) to make and retain records in relation to those aspects of the conduct of its business (SYSC 3.2.20 R and SYSC 9.1.1 R to 9.1.4 G).

See also Question 12 in SYSC 2.1.6 G for guidance on the application of SYSC 2.1.3 R (2)

Chapter 14

Incoming EEA firms changing details, and cancelling qualification for authorisation

14.1 Application and purpose

Application

14.1.1

FCA PRA

G

This chapter applies to an *incoming EEA firm* other than an *EEA pure reinsurer* which has established a *branch* in, or is providing *cross border services* into, the *United Kingdom* under one of the *Single Market Directives* or the *auction regulation* and, therefore, qualifies for *authorisation* under Schedule 3 to the *Act*.

14.1.1A

FCA

G

The *guidance* in ■ SUP 14.2 and ■ SUP 14.3 covers the *EEA Passport Rights Regulations*. It is not, however, relevant to an *EEA firm* exercising an *EEA right* under the *auction regulation*, except for ■ SUP 14.2.14 R which applies a separate notification requirement. Additionally, where an *EEA firm* is carrying on *MiFID business bidding*, that *firm* is exercising an *EEA right* under *MiFID* and so this chapter applies to that activity because it is *MiFID business*.

14.1.2

FCA PRA

G

■ SUP 14.6 (Cancelling qualification for authorisation), which sets out how to cancel qualification for *authorisation* under the *Act*, also applies to:

- (1) an *incoming Treaty firm* that qualifies for *authorisation* under Schedule 4 to the *Act*; and
- (2) a *UCITS qualifier* that is an *authorised person* under Schedule 5 to the *Act*; a *UCITS qualifier* should, however, refer to ■ COLLG 3.1.11 G for full details of applicable *rules* and *guidance*.

14.1.3

FCA PRA

G

- (1) Under the *Gibraltar Order* made under section 409 of the *Act*, a *Gibraltar firm* is treated as an *EEA firm* under Schedule 3 to the *Act* if it is:
 - (a) authorised in *Gibraltar* under the *Insurance Directives*; or
 - (b) authorised in *Gibraltar* under the *CRD*; or ;
 - (c) authorised in *Gibraltar* under the *Insurance Mediation Directive*; or
 - (d) authorised in *Gibraltar* under the *Investment Services Directive*.

(1A) Similarly, an *EEA firm* which:

- (a) has satisfied the *Gibraltar establishment conditions* and has established a *branch* in the *UK*; or
- (b) has satisfied the *Gibraltar service conditions* and is providing *cross border services* into the *UK*;

is treated as having satisfied the *establishment conditions* or *service conditions* (as appropriate) under Schedule 3 to the *Act*.

- (2) Gibraltar insurance companies, *credit institutions*, *insurance intermediaries* and *investment firms* are allowed to passport their services into the *United Kingdom* if they comply with the relevant notification procedures. So, any references in ■ SUP 14 to *EEA State* or *EEA right* include references to Gibraltar and the entitlement under the *Gibraltar Order* where appropriate.

Purpose

14.1.4

FCA PRA

G

This chapter gives *guidance* on the *Act* and the *EEA Passport Rights Regulations* made under the *Act*, for an *incoming EEA firm* which has established a *branch* in, or is providing *cross border services* into, the *United Kingdom* and wishes to change the details of the *branch* or *cross border services*.

[Note: An *EEA bank* is required to comply with the requirements set out in the directly applicable regulations adopted under Articles 35, 36 and 39 *CRD*.]

14.1.5

FCA PRA

G

This chapter also explains how an *incoming EEA firm*, an *incoming Treaty firm* or a *UCITS qualifier* may cancel its qualification for *authorisation* under the *Act*.

14.1.6

FCA PRA

G

This chapter does not, however, give *guidance* on the procedures for the establishment of a *branch* in, or the providing of *cross border services* into, the *United Kingdom* for the first time. So, an *incoming EEA firm* that wishes to change or supplement the nature of its operations in the *United Kingdom* from the providing of *cross border services* to the establishment of a *branch* (or vice versa) should refer to ■ SUP 13A (Qualifying for authorisation under the *Act*).

14.1.7

FCA PRA

G

In addition, the chapter does not give *guidance* on the procedures for making an application for *top-up permission*, to carry on *regulated activities* in the *United Kingdom* which are outside the scope of the *Single Market Directives* and for which the firm cannot exercise *Treaty rights*. *Incoming EEA firms* seeking a *top-up permission* should refer to ■ SUP 13A.

14.1.8

FCA PRA

G

The *FCA* and *PRA* will share with each other relevant information received, as necessary, in order to perform their respective functions.

14.2 Changes to branch details

14.2.1

FCA PRA

G

Where an *incoming EEA firm* is exercising an *EEA right*, other than under the *Insurance Mediation Directive*, and has established a *branch* in the United Kingdom, the *EEA Passport Rights Regulations* govern any changes to the details of that *branch*. Where an *incoming EEA firm* has complied with the relevant requirements in the *EEA Passport Rights Regulations*, then the *firm's permission* given under Schedule 3 to the *Act* is to be treated as varied accordingly. All references to regulations in ■ SUP 14 are to the *EEA Passport Rights Regulations*.

14.2.2

FCA PRA

G

Firms passporting under the CRD and the UCITS Directive

- (1) Where an *incoming EEA firm* passporting under the *CRD* or the *UCITS Directive* has established a *branch* in the *United Kingdom*, regulation 4 states that it must not make a change in the *requisite details* of the *branch* unless it has complied with the relevant requirements.
- (2) The relevant requirements are set out in regulation 4(4) or, where the change arises from circumstances beyond the *incoming EEA firm's* control, in regulation 4(5) (see ■ SUP 14.2.8 G).

14.2.3

FCA PRA

G

Where the change arises from circumstances within the control of the *incoming EEA firm*, the requirements in regulation 4(4) are that:

- (1) the *incoming EEA firm* has given notice to the *appropriate UK regulator* (see ■ SUP 14.4.1 G) and to its *Home State regulator* stating the details of the proposed change;
- (2) the *appropriate UK regulator* has received a notice stating those details; and
- (3) either:
 - (a) the *appropriate UK regulator* has informed the firm that it may make the change; or
 - (b) the period of one month beginning with the date on which the *incoming EEA firm* gave the *appropriate UK regulator* the notice mentioned in (1) has elapsed.

14.2.4

FCA PRA

G

Changes to the *requisite details* may lead to changes to the *applicable provisions* to which the *incoming EEA firm* is subject. The *appropriate UK regulator* will, as soon as practicable after receiving a notice in ■ SUP 14.2.3 G or ■ SUP 14.2.8 G, inform the

incoming *EEA firm* of any consequential changes in the *applicable provisions* (regulation 4(6)).

Firms passporting under the Insurance Directives

14.2.5

PRA

G

- (1) Where an *incoming EEA firm*, passporting under the *Insurance Directives* has established a *branch* in the *United Kingdom*, regulation 6 states that it must not make a change to the information referred to in regulation 2(5)(a) to (c) unless it has complied with the relevant requirements.
- (2) The relevant requirements are set out in regulation 6(4) or, where the change arises from circumstances beyond the *incoming EEA firm's* control, regulation 6(5) (see ■ SUP 14.2.8 G).

14.2.6

PRA

G

Where the change arises from circumstances within the control of the *incoming EEA firm*, the relevant requirements in regulation 6(4) are that:

- (1) the *incoming EEA firm* has given a notice to the *PRA* (see ■ SUP 14.4.1 G) and to its *Home State regulator* stating the details of the proposed change;
- (2) the *PRA* has received from the *Home State regulator* a notice stating that it has approved the proposed change;
- (3) the period of at least one month beginning with the day on which the *incoming EEA firm* gave the *PRA* the notice in (1) has elapsed; and
- (4) either:
 - (a) a further period of one month has elapsed; or
 - (b) the *PRA* has informed the *Home State regulator* of any consequential changes in the *applicable provisions*.

14.2.7

PRA

G

Under regulation 6(6) the *FSA* is required, as soon as practicable, to:

- (1) acknowledge receipt of the documents sent under regulation 6(4) or 6(5); and
- (2) in the case of a notice under regulation 6(5), inform the *incoming EEA firm's Home State regulator* of any consequential changes in the *applicable provisions*.

Changes arising from circumstances beyond the control of an incoming EEA firm passporting under the CRD, UCITS Directive or Insurance Directive

14.2.8

FCA

PRA

G

If the change arises from circumstances beyond the *incoming EEA firm's* control, the *firm* is required by regulation 4(5) (see ■ SUP 14.2.2 G) or regulation 6(5) (see ■ SUP 14.2.5 G (2)) to give a notice to the *appropriate UK regulator* (see ■ SUP 14.4.1 G) and to its *Home State regulator* stating the details of the change as soon as reasonably practicable.

14.2.9

FCA

PRA

G

The *appropriate UK regulator* believes that for a change to arise from circumstances beyond the control of an *incoming EEA firm*, the circumstances should be outside the control of the *firm* as a whole and not just its UK branch. For example, the *appropriate UK regulator* considers that this provision would be unlikely to apply to circumstances

in which lack of planning at the *incoming EEA firm's* head office resulted in a problem arising in a *UK branch* which was outside its control. In practice, therefore, use of this provision is likely to be rare.

Firms passporting under MiFID

14.2.10
FCA PRA

G

Where an *EEA MiFID investment firm* has established a *branch* in the *UK*, regulation 4A states that it must not:

- (1) make a change in the requisite details of the *branch*; or
- (2) use, for the first time, any *tied agent* established in the *United Kingdom*; or
- (3) cease to use *tied agents* established in the *United Kingdom*;

unless it has complied with the relevant requirements in regulation 4A(3).

14.2.11
FCA PRA

G

The relevant requirements in regulation 4A(3) are that:

- (1) the *EEA MiFID investment firm* has given notice to its *Home State regulator* stating the details of the proposed change; and
- (2) the period of one *month* beginning with the date on which the *EEA MiFID investment firm* gave the notice mentioned in (1) has elapsed.

14.2.12
FCA PRA

G

Changes to the *requisite details* may lead to changes to the applicable provisions to which the *EEA MiFID investment firm* is subject. The *appropriate UK regulator* will, as soon as practicable after receiving a notice in ■ SUP 14.2.11 G inform the *EEA MiFID investment firm* of any consequential changes in the applicable provisions.

14.2.13
FCA PRA

G

■ SUP 14.2.10 G does not apply to a change occasioned by circumstances beyond the *incoming EEA firm's* control.

Firms passporting under the auction regulation

14.2.14
FCA

R

An *EEA firm* that is exercising an *EEA right* to provide *auction regulation bidding* from a *branch* in the *United Kingdom* must notify the *FSA* of any change to the information submitted under ■ SUP 13A.4.5 R by email to emissionstrading@fsa.gov.uk prior to the change or whenever possible thereafter.

Firms passporting under AIFMD

14.2.15
FCA

G

Where an *EEA AIFM* has established a *branch* in the *UK*, it must not make a material change to:

- (1) the requisite details of the *branch*; or
- (2) the identity of the *AIFs* that the *EEA AIFM* intends to manage;

unless it has complied with the relevant requirement in regulation 7A(3).

14.2.16

FCA

G

The relevant requirement in regulation 7A(3) is that the *Home State regulator* has informed the *FCA* that it has approved the proposed change.

14.3 Changes to cross border services

14.3.1

FCA PRA

G

Where an *incoming EEA firm* passporting under the *MiFID*, *UCITS Directive*, *Insurance Directives* or *AIFMD* is exercising an *EEA right* and is providing *cross border services* into the *United Kingdom*, the *EEA Passport Rights Regulations* govern any changes to the details of those services. Where an *incoming EEA firm* has complied with the *EEA Passport Rights Regulations*, then the *firm's permission* under Schedule 3 to the *Act* is to be treated as varied .

14.3.2

FCA

G

Where an *incoming EEA firm* passporting under the *UCITS Directive* is providing *cross border services* into the *United Kingdom*, it must not make a change in the details referred to in regulation 5(1A) unless it has complied with the relevant requirements in regulation 5(3).

14.3.3

FCA

G

The relevant requirements in regulation 5(3) are that:

- (1) the *incoming EEA firm* has given a notice to the *FCA* (see ■ SUP 14.4.1 G) and to its *Home State regulator* stating the details of the proposed change;
- (2) if the change arises from circumstances beyond the *incoming EEA firm's* control, that firm has, as soon as practicable, given to the *appropriate UK regulator* and to its *Home State regulator* the notice in (1).

14.3.3A

G

[deleted]

14.3.4

FCA PRA

G

Under regulation 5(4), the *FCA* is required, as soon as practicable after receiving the notice in ■ SUP 14.3.3 G, to inform the *incoming EEA firm* of any consequential changes in the *applicable provisions*.

Firms passporting under MiFID

14.3.4A

FCA PRA

G

Where an *incoming EEA firm* passporting under *MiFID* is providing *cross border services* into the *United Kingdom*, it must not:

- (1) make a change in the details referred to in regulation 5A(1)(a); or
- (2) use, for the first time, any *tiered agent* to provide services in the *United Kingdom*; or

14.6 Cancelling qualification for authorisation

Incoming EEA firms

14.6.1

FCA PRA

G

Section 34 of the *Act* states that an *incoming EEA firm* no longer qualifies for *authorisation* under Schedule 3 to the *Act* if it ceases to be an *incoming EEA firm* as a result of:

- (1) having its *EEA authorisation* withdrawn by its *Home State regulator*; or
- (2) ceasing to have an *EEA right* in circumstances in which *EEA* authorisation is not required; this is relevant to a *financial institution* that is a subsidiary of a *credit institution* (of the kind mentioned in Article 34 of the *CRD*) which fulfils the conditions in articles 33 and 34 of that *Directive*.

14.6.2

FCA PRA

G

In addition, under section 34(2) an *incoming EEA firm* may ask the *appropriate UK regulator* to give a direction cancelling its *authorisation* under Schedule 3 to the *Act*.

14.6.3

FCA PRA

G

Regulation 8 states that where an *incoming EEA firm* which qualifies for *authorisation* under Schedule 3:

- (1) has ceased, or is to cease, to carry on *regulated activities* in the *United Kingdom*; and
- (2) gives notice of that fact to the *appropriate UK regulator* ;

the notice is treated under regulation 8 as a request for cancellation of the *incoming EEA firm's* qualification for *authorisation* under Schedule 3 to the *Act* and so as a request under section 34(2) of the *Act*.

Auction regulation bidding: notification rule

14.6.3A

FCA

R

An *EEA firm* that has exercised an *EEA right* under the *auction regulation* to establish a branch in the *United Kingdom* must notify the *FCA* by email to emissionstrading@fca.org.uk when it ceases to carry on *regulated activities* through a branch passport in the *United Kingdom* or whenever possible thereafter.

14.6.3B

FCA

G

The sole purpose of the notification in ■ SUP 14.6.3A R is to inform the *FCA* that it may discontinue its supervision of the *UK* branch of the *incoming EEA firm's* compliance with the *applicable provisions*. The *applicable provisions* that apply to that branch are set out in ■ SUP 13A Annex 1 G (Application of the Handbook to Incoming EEA Firms).

14.6.4
PRA

G

Financial institutions giving up right to authorisation

Where a *financial institution* (that is, a subsidiary of a *credit institution*) is passporting under the *CRD* (see ■ SUP 14.6.1 G (2)), regulation 9(1) states that the *incoming EEA firm* may request the *PRA* to direct that its qualification for *authorisation* under Schedule 3 to the *Act* is cancelled from such date as may be specified in the direction.

14.6.5
PRA

G

The *PRA* may not, however, give a direction referred to in ■ SUP 14.6.4 G unless:

- (1) the *incoming EEA firm* has given notice to its *Home State regulator*; and
- (2) the *PRA* has agreed with the *Home State regulator* that the direction should be given.

14.6.6
PRA

G

Regulation 9(3) requires that the date specified by the *PRA* in a direction referred to in ■ SUP 14.6.4 G:

- (1) must not be earlier than the date requested in the application; but
- (2) subject to (1), is as agreed between the *PRA* and the *incoming EEA firm's Home State regulator*.

14.6.7
PRA

G

The *PRA* is required to send, as soon as practicable, a copy of the direction to the *incoming EEA firm* and to its *Home State regulator* (regulation 9(4)).

14.6.8
PRA

G

Where the *PRA* gives a direction referred to in ■ SUP 14.6.4 G, the *incoming EEA firm* may apply for *Part 4A permission* (see the *PRA* website www.bankofengland.co.uk/pr/Pages/authorisations/newfirm/default.aspx) to take effect not earlier than the date that its qualification for *authorisation* is cancelled (as specified in the direction).

Incoming Treaty firms

14.6.9
FCA PRA

G

Section 35 of the *Act* states that an *incoming Treaty firm* no longer qualifies for *authorisation* under Schedule 4 to the *Act* if its *Home State* authorisation is withdrawn.

14.6.10
FCA PRA

G

In addition, under section 35(2) an *incoming Treaty firm* may ask the *appropriate UK regulator* to give a direction cancelling its *authorisation* under Schedule 4 to the *Act*.

UCITS qualifiers

14.6.11
FCA

G

Section 36 of the *Act* states that a *UCITS qualifier* may ask the *FCA* to give a direction cancelling its *authorisation* under paragraph 1(1) of Schedule 5 to the *Act*. *UCITS qualifiers* should also refer to ■ COLLG 3.1.11 G (Revocation of recognition of overseas schemes (section 279)).

Chapter 15

Notifications to the FCA or PRA



15.1 Application

Who?

15.1.1

FCA PRA

R

This chapter applies to every *firm* except that:

- (1) only ■ SUP 15.10 applies to an *ICVC* or a *UCITS qualifier*; and
- (2) ■ SUP 15.3.22 D to ■ SUP 15.3.25 D apply only to the *Society*.

15.1.2

FCA PRA

R

The application of this chapter to an *incoming EEA firm* or an *incoming Treaty firm* is set out in ■ SUP 15 Annex 1.

15.1.3

FCA PRA

G

In some cases, the application of provisions set out in ■ SUP 15 Annex 1 depends on whether responsibility is reserved to a *Home State regulator*.

What?

15.1.4

FCA PRA

R

This chapter:

- (1) applies with respect to the carrying on of both *regulated activities* and *unregulated activities*; and
- (2) takes into account any activity of other members of a *group* of which the *firm* is a member.

Where?

15.1.5

FCA PRA

G

Firms are reminded that , unless expressly stated otherwise, where a *rule* or *guidance* includes a reference to a *firm* this includes all *UK* and overseas branches and representative offices of that *firm*, whether or not those branches or offices carry on any *regulated activities*.

15.1.6

FCA

R

This chapter does not apply to an *incoming ECA provider* acting as such.



15.2 Purpose

15.2.1

FCA PRA

G

A *firm* is required to provide the *appropriate regulator* with a wide range of information to enable the *appropriate regulator* to meet its responsibilities for monitoring the *firm's* compliance with requirements imposed by or under the *Act*. Some of this information is provided through regular reports, including those set out in ■ SUP 16 (Reporting requirements) and ■ SUP 17 (Transaction reporting). In addition, other chapters in the *Handbook* set out specific notification and reporting requirements. *Principle 11* includes a requirement for a *firm* to disclose to the *appropriate regulator* appropriately anything relating to the *firm* of which the *appropriate regulator* would reasonably expect notice.

15.2.2

FCA PRA

G

This chapter sets out:

- (1) *guidance* on the type of event or change in condition which a *firm* should consider notifying in accordance with *Principle 11*; the purpose of this *guidance* is to set out examples and not to give comprehensive advice to *firms* on what they should notify in order to be in compliance with *Principle 11*;
- (2) *rules* on events and changes in condition that a *firm* must notify; these are the types of event that the *appropriate regulator* must be informed about, usually as soon as possible, if it is to be able to carry out its monitoring function effectively and react in good time to developments that may require a regulatory response;
- (3) *rules* on the core information that a *firm* must provide to the *appropriate regulator*, for example its name and address and the names of its other regulators, so that the *appropriate regulator* is able to maintain a relationship with the *firm* and with those regulators;
- (4) *rules* requiring a *firm* to ensure that information provided to the *appropriate regulator* is accurate and complete; section 398 of the *Act* makes it an offence knowingly or recklessly to provide the *appropriate regulator* with information which is false or misleading in a material particular, in purported compliance with any requirement imposed by or under the *Act*; the purpose of the *rules* in ■ SUP 15.6 is to ensure that *firms* take due care to ensure the accuracy of information and to require them to ensure that information is not only accurate but also complete ; and
- (5) material (in ■ SUP 15.10 (Notification of suspicious transactions (market abuse))) to implement the provisions of the *Market Abuse Directive* for the reporting of transactions about which there is reasonable suspicion of *market abuse*.

- 15.2.3 FCA PRA G *Rules and guidance* have also been included to set out how *firms* should make a notification and to determine when it may be appropriate to discuss matters with their usual supervisory contact at the *appropriate regulator* by telephone (■ SUP 15.7).
- 15.2.4 FCA G Schedule 2 contains a consolidated summary of all the *notification rules* applicable to *firms* set out in the *Handbook*.
- 15.2.5 PRA G Where a *PRA-authorised person* is required to notify (a) the *appropriate regulator* by a *PRA Handbook* provision and (b) the *FCA* by the equivalent provision in the *FCA Handbook*, the *PRA-authorised person* is expected to comply with both provisions.

with *operating a dormant account fund* on a continuous and satisfactory basis;

- (2) any significant failure in the *firm's* systems or controls, including those reported to the *firm* by the *firm's* auditor;
- (3) any action which a *firm* proposes to take which would result in a material change in its capital adequacy or solvency, including, but not limited to:
 - (a) any action which would result in a material change in the *firm's* financial resources or financial resources requirement; or
 - (b) a material change resulting from the payment of a special or unusual dividend or the repayment of *share* capital or a subordinated loan; or
 - (c) for *firms* which are subject to the *rules* on consolidated financial supervision, any proposal under which another *group company* may be considering such an action; or
 - (d) significant trading or non-trading losses (whether recognised or unrecognised).

15.3.9

FCA PRA

G

The period of notice given to the *appropriate regulator* will depend on the event, although the *appropriate regulator* expects a *firm* to discuss relevant matters with it at an early stage, before making any internal or external commitments.

15.3.10

FCA PRA

G

A notification under *Principle 11* may be given orally or in writing (as set out in ■ SUP 15.7.1 R and ■ SUP 15.7.2 G), although the *appropriate regulator* may request written confirmation of a matter. However, it is the responsibility of a *firm* to ensure that matters are properly and clearly communicated to the *appropriate regulator*. A *firm* should provide a written notification if a matter either is complex or may be such as to make it necessary for the *appropriate regulator* to take action. A *firm* should also have regard to *Principle 11* and the *guidance* in ■ SUP 15.7.2 G in respect of providing important information promptly.

Breaches of rules and other requirements in or under the Act

15.3.11

FCA PRA

R

- (1) A *firm* must notify the *appropriate regulator* of:
 - (a) a significant breach of a *rule* (which includes a *Principle*) or *Statement of Principle*; or
 - (b) a breach of any requirement imposed by the *Act* or by regulations or an order made under the *Act* by the Treasury (except if the breach is an *offence*, in which case (c) applies);
 - (c) the bringing of a prosecution for, or a conviction of, any *offence* under the *Act*;
 - (d) a breach of a directly applicable provision in the *MiFID Regulation*; or
 - (dA) a breach of a directly applicable provision in *the EU CRR* or any directly applicable regulations made under *CRD* or the *EU CRR*; or

- (e) a breach of any requirement in regulation 4C(3) (or any successor provision) of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2007; or
- (ea) a breach of a directly applicable provision in the *auction regulation*; or
- (f) it exceeding (or becoming aware that it will exceed) the limit in ■ BIPRU 10.5.6 R; or
- (g) a breach of the *AIFMD UK regulation*; or
- (h) a breach of any directly applicable EU regulation made under *AIFMD*;

by (or as regards (c) against) the *firm* or any of its *directors, officers, employees, approved persons, or appointed representatives* or, where applicable, *tied agents*.

- (2) A *firm* must make the notification in (1) immediately it becomes aware, or has information which reasonably suggests, that any of the matters in (1) has occurred, may have occurred or may occur in the foreseeable future.

15.3.11A
FCA PRA

G

■ SUP 15.3.11 R (1)(e) relates to the standard requirement in the *permission* of those *firms* which fall outside *MiFID* because of the Treasury's implementation of Article 3 of *MiFID*. *Guidance* on how the Treasury has exercised the Article 3 exemption for the *United Kingdom* is given in Q48 and the following questions and answers in ■ PERG 13.5 (Exemptions from MiFID).

15.3.12
FCA PRA

G

In ■ SUP 15.3.11 R(1)(a), significance should be determined having regard to potential financial losses to *customers* or to the *firm*, frequency of the breach, implications for the *firm's* systems and controls and if there were delays in identifying or rectifying the breach.

15.3.13
FCA PRA

G

In assessing whether an event that may occur in the foreseeable future should be notified to the *appropriate regulator*, a *firm* should consider the *guidance* in ■ SUP 15.3.3 G.

15.3.14
FCA PRA

G

A notification under ■ SUP 15.3.11 R should include:

- (1) information about any circumstances relevant to the breach or *offence*;
- (2) identification of the *rule* or requirement or *offence*; and
- (3) information about any steps which a *firm* or other *person* has taken or intends to take to rectify or remedy the breach or prevent any future potential occurrence.

15.3.15

FCA PRA

R

Civil, criminal or disciplinary proceedings against a firm

A *firm* must notify the *appropriate regulator* immediately if:

- (1) civil proceedings are brought against the *firm* and the amount of the claim is significant in relation to the *firm's* financial resources or its reputation; or
- (2) any action is brought against the *firm* under section 71 of the *Act* (Actions for damages) or section 150 (Actions for damages); or
- (3) disciplinary measures or sanctions have been imposed on the *firm* by any statutory or regulatory authority, professional organisation or trade body (other than the *appropriate regulator*) or the *firm* becomes aware that one of those bodies has started an investigation into its affairs; or
- (4) the *firm* is prosecuted for, or convicted of, any *offence* involving fraud or dishonesty, or any penalties are imposed on it for tax evasion; or
- (5) it is an *OPS firm*, which is a trustee, and is removed as trustee by a court order.

15.3.16

FCA PRA

G

A notification under ■ SUP 15.3.15 R should include details of the matter and an estimate of the likely financial consequences, if any.

Fraud, errors and other irregularities

15.3.17

FCA PRA

R

A *firm* must notify the *appropriate regulator* immediately if one of the following events arises and the event is significant:

- (1) it becomes aware that an *employee* may have committed a fraud against one of its *customers*; or
- (2) it becomes aware that a *person*, whether or not employed by it, may have committed a fraud against it; or
- (3) it considers that any *person*, whether or not employed by it, is acting with intent to commit a fraud against it; or
- (4) it identifies irregularities in its accounting or other records, whether or not there is evidence of fraud; or
- (5) it suspects that one of its *employees* may be guilty of serious misconduct concerning his honesty or integrity and which is connected with the *firm's regulated activities* or *ancillary activities*.

15.3.18
FCA PRA

G

In determining whether a matter is significant, a *firm* should have regard to:

- (1) the size of any monetary loss or potential monetary loss to itself or its *customers* (either in terms of a single incident or group of similar or related incidents);
- (2) the risk of reputational loss to the *firm*; and
- (3) whether the incident or a pattern of incidents reflects weaknesses in the *firm's internal controls*.

15.3.19
FCA PRA

G

The notifications under ■ SUP 15.3.17 R are required as the *appropriate regulator* needs to be aware of the types of fraudulent and irregular activity which are being attempted or undertaken, and to act, if necessary, to prevent effects on *consumers* or other *firms*. A notification under ■ SUP 15.7.3 G should provide all relevant and significant details of the incident or suspected incident of which the *firm* is aware.

15.3.20
FCA PRA

G

In addition, the *firm* may have suffered significant financial losses as a result of the incident, or may suffer reputational loss, and the *appropriate regulator* will wish to consider this and whether the incident suggests weaknesses in the *firm's internal controls*.

Insolvency, bankruptcy and winding up

15.3.21
FCA PRA

R

A *firm* must notify the *appropriate regulator* immediately of any of the following events:

- (1) the calling of a meeting to consider a resolution for winding up the *firm*; or
- (2) an application to dissolve the *firm* or to strike it off the Register of Companies; or
- (3) the presentation of a petition for the winding up of the *firm*; or
- (4) the making of, or any proposals for the making of, a composition or arrangement with any one or more of its creditors; or
- (5) an application for the appointment of an administrator or trustee in bankruptcy to the *firm*; or
- (6) the appointment of a receiver to the *firm* (whether an administrative receiver or a receiver appointed over particular property); or
- (7) an application for an interim order against the *firm* under section 252 of the Insolvency Act 1986 (or, in Northern Ireland, section 227 of the Insolvency (Northern Ireland) Order 1989); or

- (8) if the *firm* is a *sole trader*:
 - (a) an application for a sequestration order on the *firm*; or
 - (b) the presentation of a petition for bankruptcy; or
- (9) anything equivalent to (1) to (8) above occurring in respect of the *firm* in a jurisdiction outside the *United Kingdom*.

Lloyd's of London

15.3.22

FCA PRA

D

■ SUP 15.3.23 D to ■ SUP 15.3.25 D are given in relation to the exercise of the powers of the *Society* and of the *Council* generally, with a view to achieving the objective of enabling the *appropriate regulator* to:

- (1) comply with its general duty under section 314 of the *Act* (Regulators' general duty);
- (2) determine whether *underwriting agents*, or *approved persons* acting for them or on their behalf, are complying with the requirements imposed on them by or under the *Act*;
- (3) enforce the provisions of the *Act*, or requirements made under the *Act*, by enabling the *appropriate regulator* to consider, where appropriate, whether it should use its powers, for example, to:
 - (a) vary or cancel the *permission* of an *underwriting agent*, under section 55J of the *Act* (Variation or cancellation on initiative of regulator);
 - (b) withdraw approval from an *approved person* acting for or on behalf of an *underwriting agent*, under section 63 of the *Act* (Withdrawal of approval) (see ■ EG 9);
 - (c) prohibit an individual acting for or on behalf of an *underwriting agent* from involvement in *regulated activities*, under section 56 of the *Act* (Prohibition orders) (see ■ EG 9);
 - (d) require an *underwriting agent* to make restitution, under section 384 of the *Act* (Power of FCA or PRA to require restitution) (see ■ EG 11);
 - (e) discipline an *underwriting agent*, or an *approved person* acting for it or on its behalf, for a breach of a requirement made under the *Act*, including the *Principles*, *Statements of Principle* and *rules* (see ■ DEPP 6 and ■ EG 7);
 - (f) apply to court for an *injunction*, restitution order or *insolvency order* (see ■ EG 10, ■ EG 11 and ■ EG 13); and
 - (g) prosecute any criminal offence that the *appropriate regulator* has power to prosecute under the *Act* (see ■ EG 12).

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11

15.3.23

FCA PRA

D

The *Society* must immediately inform the *appropriate regulator* in writing if it becomes aware that any matter likely to be of material concern to the *appropriate regulator* may have arisen in relation to:

- (1) the *regulated activities* for which the *Society* has *permission*; or

- (2) *underwriting agents*; or
- (3) *approved persons* or individuals acting for or on behalf of *underwriting agents*.

15.3.24
FCA PRA

D

The *Society* must inform the *appropriate regulator* if it commences investigations or disciplinary proceedings relating to apparent breaches:

- (1) of the *Act* or requirements made under the *Act*, including the *threshold conditions* or the *Principles* or other *rules*, by an *underwriting agent*; or
- (2) of the *Statements of Principle* by an individual or other *person* who carries out *controlled functions* for or on behalf of an *underwriting agent*.

15.3.25
FCA PRA

D

The *Society* must inform the *appropriate regulator* if it commences investigations or disciplinary proceedings which do not fall within the scope of ■ SUP 15.3.24 D but which:

- (1) involve an *underwriting agent*, or an *approved person* who carries out *controlled functions* for it or on its behalf; or
- (2) may indicate that an individual acting for or on behalf of an *underwriting agent* may not be a fit and proper *person* to perform functions in relation to *regulated activities*.

UK AIFMs

15.3.26
FCA

R

A *full-scope UK AIFM* must notify the *FCA* before implementing any material changes to the conditions under which it was granted *permission to manage an AIF*, in particular to the information it provided in its application for that *permission*.

[Note: article 10(1) of *AIFMD*]

15.3.27
FCA

G

Changes that the *FCA* would expect to be notified of under ■ SUP 15.3.26 R include:

- (1) an *AIFM* being appointed to manage another *AIF*;
- (2) the appointment of a different *depository* for an *AIF* the *AIFM* manages; and
- (3) the appointment of any new *senior personnel* if the *AIFM* is not required to apply for the *FCA*'s approval for that appointment under section 59 of the *Act*.

15.3.28
FCA

R

Where a *small authorised UK AIFM* no longer meets the conditions in regulation 9 of the *AIFMD UK regulation* (within the meaning of Chapter II of the *AIFMD level 2 regulation*) it must:

- (1) immediately notify the *FCA*; and

-
- (2) within 30 calendar days, apply to the *FCA* for a variation of its *permission* to become a *full-scope UK AIFM*.

[Note: article 3(3) second and third paragraphs of *AIFMD*]



15.4 Notified persons

15.4.1

FCA PRA

R

- (1) An *overseas firm*, which is not an *incoming firm*, must notify the *appropriate regulator* within 30 *business days* of any *person* taking up or ceasing to hold the following positions:
 - (a) the *firm's* worldwide chief executive (that is, the *person* who, alone or jointly with one or more others, is responsible under the immediate authority of the *directors* for the whole of its business) if the *person* is based outside the *United Kingdom*;
 - (b) the *person* within the *overseas firm* with a purely strategic responsibility for *UK* operations (see ■ SUP 10.7.4 G);
 - (c) for a *bank*: the two or more *persons* who effectively direct its business in accordance with ■ SYSC 4.2.2 R ;
 - (d) for an *insurer*: the *authorised UK representative*.
- (2) The notification in (1) must be submitted in the form set out in Form F (■ SUP 15 Ann 2 R). However, if the *person* is an *approved person*, notification giving details of his name, the *approved person's* individual reference number and the position to which the notification relates, is sufficient.

15.4.2

FCA PRA

G

■ SUP 15.4.1 R is not made under the powers conferred on the *appropriate regulator* by Part V of the *Act* (Performance of Regulated Activities). A *person* notified to the *appropriate regulator* under ■ SUP 15.4.1 R is not subject to the *Statements of Principle* or *Code of Practice for Approved Persons*, unless he is also an *approved person*.

15.4.3

FCA PRA

R

- (1) A *firm* other than a *credit union* must submit the form in ■ SUP 15 Ann 2 R online _ using the *appropriate regulator's* ONA system.
- (2) A *credit union* must submit the form in ■ SUP 15 Ann 2 R in the way set out in ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification).

(3) Where a *firm* is obliged to submit an application online under (1), if the *appropriate regulator's* information technology systems fail and online submission is unavailable for 24 hours or more, until such time as facilities for online submission are restored, a *firm* must submit the form in ■ SUP 15 Ann 2 R, in the way set out in ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification).

15.4.3A

FCA PRA

G

(1) If the *appropriate regulator's* information technology systems fail and online submission is unavailable for 24 hours or more, the *appropriate regulator* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in ■ SUP 15.4.3R(3) and ■ SUP 15.7.4R to ■ SUP 15.7.9G (Form and method of notification) should be used.

(2) Where ■ SUP 15.4.3R (3) applies to a *firm*, ■ GEN 1.3.2 R (Emergency) does not apply.

15.4.4

FCA PRA

G

If adverse information is revealed about a *person* notified to the *appropriate regulator* under ■ SUP 15.4.1 R, the *appropriate regulator* may exercise its *own-initiative power* against the *firm* (see ■ SUP 7 (Individual requirements)).



15.5 Core information requirements

Change in name

15.5.1

FCA PRA

R

A *firm* must give the *appropriate regulator* reasonable advance notice of a change in:

- (1) the *firm's* name (which is the registered name if the *firm* is a *body corporate*);
- (2) any business name under which the *firm* carries on a *regulated activity* or *ancillary activity* either from an establishment in the *United Kingdom* or with or for clients in the *United Kingdom*.

15.5.2

FCA PRA

G

A notification under ■ SUP 15.5.1 R should include the details of the proposed new name and the date on which the *firm* intends to implement the change of name.

15.5.3

FCA PRA

G

Firms are reminded that certain name changes (for example, to include 'Limited') may also require a notification under . ■ SUP 5.5.1 R

Change in address

15.5.4

FCA PRA

R

A *firm* must give the *appropriate regulator* reasonable advance notice of a change in any of the following addresses, and give details of the new address and the date of the change:

- (1) the *firm's* principal place of business in the *United Kingdom*;
- (2) in the case of an *overseas firm*, its registered office (or head office) address.

Change in telephone numbers

15.5.5

FCA PRA

R

A *firm* must give the *appropriate regulator* reasonable advance notice of a change in any of the following telephone numbers, and give details of the new telephone number and the date of the change:

- (1) the number of the *firm's* principal place of business in the *United Kingdom*;

(2) in the case of an *overseas firm*, the number of its head office.

15.5.6

FCA PRA

G

■ SUP 15.5.4 R and ■ SUP 15.5.5 R mean that a *firm* should notify the *appropriate regulator* of a change in telephone number even if the address of the office is not changing.

Other regulators

15.5.7

FCA PRA

R

A *firm* must notify the *appropriate regulator* immediately if it becomes subject to or ceases to be subject to the supervision of any *overseas regulator* (including a *Home State regulator*).

15.5.8

FCA PRA

G

The *appropriate regulator's* approach to the supervision of a *firm* is influenced by the regulatory regime and any legislative or foreign provisions to which that *firm*, including its branches, is subject.

Submitting notifications to the appropriate regulator

15.5.9

FCA PRA

R

- (1) A *firm* other than a *credit union* must submit any notice under ■ SUP 15.5.1R, ■ SUP 15.5.4R and ■ SUP 15.5.5 R by submitting the form in ■ SUP 15 Ann 3R online at the *appropriate regulator's* website.
- (2) A *credit union* must submit any notice under ■ SUP 15.5.1R, ■ SUP 15.5.4R, ■ SUP 15.5.5 R and ■ SUP 15.5.7R by submitting the form in ■ SUP 15 Ann 3R in the way set out in ■ SUP 15.7.4R to ■ SUP 15.7.9G (Form and method of notification).
- (3) Where a *firm* is obliged to submit a notice online under (1), if the *appropriate regulator's* information technology systems fail and online submission is unavailable for 24 hours or more, until such time as facilities for online submission are restored, a *firm* must submit any notice under ■ SUP 15.5.1R, ■ SUP 15.5.4R and ■ SUP 15.5.5 R in the form in ■ SUP 15 Ann 3R and in the way set out in ■ SUP 15.7.4R to ■ SUP 15.7.9G (Form and method of notification).
- (4) A *firm* must submit any notice required under ■ SUP 15.5.7 R by submitting the form in ■ SUP 15 Ann 4 R in the way set out in ■ SUP 15.7.4 R to ■ SUP 15.7.9 G (Form and method of notification).

15.5.10

FCA PRA

G

- (1) If the *appropriate regulator's* information technology systems fail and online submission is unavailable for 24 hours or more, the *appropriate regulator* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in ■ SUP 15.5.9R(3) and ■ SUP 15.7.4R to ■ SUP 15.7.9G (Form and method of notification) should be used.
- (2) Where ■ SUP 15.5.9 R (2) applies to a *firm*, ■ GEN 1.3.2 R (Emergency) does not apply.



15.6 Inaccurate, false or misleading information

15.6.1

FCA PRA

R

A *firm* must take reasonable steps to ensure that all information it gives to the *appropriate regulator* in accordance with a *rule* in any part of the *Handbook* (including *Principle 11*) is:

- (1) factually accurate or, in the case of estimates and judgments, fairly and properly based after appropriate enquiries have been made by the *firm*; and
- (2) complete, in that it should include anything of which the *appropriate regulator* would reasonably expect notice.

15.6.2

FCA PRA

G

■ SUP 15.6.1 R applies also in relation to *rules* outside this chapter, and even if they are not *notification rules*. Examples of *rules* and chapters to which ■ SUP 15.6.1 R is relevant, are:

- (1) *Principle 11*, and the guidance on *Principle 11* in ■ SUP 2 (Information gathering by the FCA and PRA on their own initiative);
- (2) ■ SUP 15 (Notifications to the *appropriate regulator*);
- (3) ■ SUP 16 (Reporting requirements);
- (4) ■ SUP 17 (Transaction reporting);
- (5) any *notification rule* (see Schedule 2 which contains a consolidated summary of such *rules*);
- (6) ■ DISP 1.9 (Complaints record rule); and
- (7) ■ DISP 1.10 (Complaints reporting rule).

15.6.3

FCA PRA

G

If a *firm* is unable to obtain the information required in ■ SUP 15.6.1 R(2), then it should inform the *appropriate regulator* that the scope of the information provided is, or may be, limited.

15.6.4

FCA PRA

R

If a *firm* becomes aware, or has information that reasonably suggests that it has or may have provided the *appropriate regulator* with

information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material particular, it must notify the *appropriate regulator* immediately. Subject to ■ SUP 15.6.5 R, the notification must include:

- (1) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;
- (2) an explanation why such information was or may have been provided; and
- (3) the correct information.

15.6.5

FCA PRA

R

If the information in ■ SUP 15.6.4 R (3) cannot be submitted with the notification (because it is not immediately available), it must instead be submitted as soon as possible afterwards.

15.6.6

FCA PRA

G

The *appropriate regulator* may request the *firm* to provide revised documentation containing the correct information, if appropriate.

15.6.7

FCA PRA

G

Firms are reminded that section 398 of the *Act* (Misleading the FCA or PRA: residual cases) makes it an *offence* for a *firm* knowingly or recklessly to provide the *appropriate regulator* with information which is false or misleading in a material particular in purported compliance with the *appropriate regulator's rules* or any other requirement imposed by or under the *Act*. An offence by a *body corporate, partnership* or unincorporated association may be attributed to an *officer* or certain other *persons* (section 400 of the *Act* (Offences by bodies corporate etc)).



15.7 Form and method of notification

Form of notification: oral or written

15.7.1

FCA PRA

R

A notification required from a *firm* under any *notification rule* must be given in writing, and in English, and must be submitted on the form specified for that *notification rule*, or if no form is specified, on the form in ■ SUP 15 Ann 4 R (Notification form), and must give the *firm's* Firm Reference Number unless:

- (1) the *notification rule* states otherwise; or
- (2) the notification is provided solely in compliance with *Principle 11* (see ■ SUP 15.3.7 G).

15.7.2

FCA PRA

G

A *firm* should have regard to the urgency and significance of a matter and, if appropriate, should also notify its usual supervisory contact at the *appropriate regulator* by telephone or by other prompt means of communication, before submitting a written notification. Oral notifications should be given directly to the *firm's* usual supervisory contact at the *appropriate regulator*. An oral notification left with another person or left on a voicemail or other automatic messaging service is unlikely to have been given appropriately.

15.7.3

FCA PRA

G

The *appropriate regulator* is entitled to rely on any information it receives from a *firm* and to consider any notification received as being made by a *person* authorised by the *firm* to do so. A *firm* should therefore consider whether it needs to put procedures in place to ensure that only appropriate *employees* make notifications to the *appropriate regulator* on its behalf.

Method of notification

15.7.4

FCA PRA

R

Unless stated in the *notification rule*, or on the relevant form (if specified), a written notification required from a *firm* under any *notification rule* must be:

- (1) given to or addressed for the attention of the *firm's* usual supervisory contact at the *appropriate regulator*; and
- (2) delivered to the *appropriate regulator* by one of the methods in ■ SUP 15.7.5A R or ■ SUP 15.7.5B R as applicable:

15.7.5 **R** Table

[deleted]

15.7.5A **R** Methods of notification

FCA

Method of delivery

1. **Post to the appropriate address in SUP 15.7.6A G**
2. **Leaving the notification at the appropriate address in SUP 15.7.6A G and obtaining a time-stamped receipt**
3. **Electronic mail to an address for the *firm's* usual supervisory contact at the *FCA* and obtaining an electronic confirmation of receipt**
4. **Hand delivery to the *firm's* usual supervisory contact at the *FCA***
5. **Fax to a fax number for the *firm's* usual supervisory contact at the *FCA* and receiving a successful transmission report for all pages of the notification**
6. **Online submission via the *FCA's* website at www.fca.org.uk**

15.7.5B **R** Methods of notification

PRA

Method of delivery

1. **Post to the appropriate address in SUP 15.7.6B G**
2. **Leaving the notification at the appropriate address in SUP 15.7.6B G and obtaining a time-stamped receipt**
3. **Electronic mail to an address for the *firm's* usual supervisory contact at the *PRA* and obtaining an electronic confirmation of receipt**
4. **Hand delivery to the *firm's* usual supervisory contact at the *PRA***
5. **Fax to a fax number for the *firm's* usual supervisory contact at the *PRA* and receiving a successful transmission report for all pages of the notification**
6. **Online submission via the *PRA's* website at www.bankofengland.co.uk/pr/.**

15.7.6 **G** [deleted]

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15.7.6A **G** The current published address of the *FCA* for postal submission or hand delivery of notifications is:

FCA

- (1) if the *firm's* usual supervisory contact at the *FCA* is based in London, or

(2) The Financial Conduct Authority
 Quayside House 127
 Fountainbridge
 Edinburgh EH3 8DJ

if the *firm's* usual supervisory contact at the *FCA* is based in Edinburgh.

15.7.6B PRA G The current published address of the *PRA* for postal submission or hand delivery of notifications is:

15.7.7 FCA PRA G If the *firm* or its *group* is subject to lead supervision arrangements by the *appropriate regulator*, the *firm* or *group* may give or address a notice under ■ SUP 15.7.4 R(1) to the supervisory contact at the *appropriate regulator*, designated as lead supervisor, if the *firm* has chosen to make use of the lead supervisor as a central point of contact (see ■ SUP 1.5).

15.7.8 FCA PRA G If a *firm* is a member of a *group* which includes more than one *firm*, any one *undertaking* in the *group* may notify the *appropriate regulator* on behalf of all *firms* in the *group* to which the notification applies. In this way, that *undertaking* may satisfy the obligation of all relevant *firms* in the *group* to notify the *appropriate regulator*. Nevertheless, the obligation to make the notification remains the responsibility of the individual *firm* itself. See also ■ SUP 15.7.3 G.

15.7.9 FCA PRA G *Firms* wishing to communicate with the *appropriate regulator* by electronic mail or fax should obtain the appropriate address or number from the *appropriate regulator*.

Timely notification

15.7.10 FCA PRA R If a *notification rule* requires notification within a specified period:

- (1) the *firm* must give the notification so as to be received by the *appropriate regulator* no later than the end of that period; and
- (2) if the end of that period falls on a *day* which is not a *business day*, the notification must be given so as to be received by the *appropriate regulator* no later than the first *business day* after the end of that period.

15.7.11 FCA PRA G If a *notification rule* does not require notification within a specified period, the *firm* should act reasonably in deciding when to notify.

Underwriting agents: notification to the Society of Lloyd's

15.7.12 R (1) [deleted]

(2) [deleted]

15.7.13 G [deleted]

15.7.14

FCA PRA

G

The *appropriate regulator* has made arrangements with the *Society of Lloyd's* with respect to the monitoring of *underwriting agents*. *Underwriting agents* should check whether these arrangements provide for any notifications required under this chapter to be sent to the *Society* instead of to the *appropriate regulator*. [For further details see the *appropriate regulator's* website.]

Consequences of breach of form and method rules

15.7.15

FCA PRA

G

If a *firm* fails to comply with the *rules* in this section then the notification is invalid and there may be a breach of the *rule* that required the notification to be given.

Service of Notices Regulations

15.7.16

FCA PRA

G

The Financial Services and Markets Act 2000 (Service of Notices) Regulations 2001 (SI 2001/1420) contain provisions relating to the service of documents on the *appropriate regulator*. They do not apply to notifications required under *notification rules* because of the specific *rules* in this section.



15.8 Notification in respect of particular products and services

Management of occupational pension scheme assets

15.8.1
FCA

R

A *firm* which manages the assets of an *occupational pension scheme* must notify the *FCA* as soon as reasonably practicable if it receives any request or instruction from a trustee which it:

- (1) knows; or
- (2) on substantial grounds:
 - (a) suspects; or
 - (b) has cause reasonably to suspect;

is at material variance with the trustee's duties.

Individual Pension Accounts

15.8.2
FCA

R

If a *firm* begins or ceases to administer *individual pension accounts*, it must notify the *FCA* as soon as reasonably practicable that it has done so.

Insurers' commission clawback

15.8.3
FCA

R

- (1) An *insurer* must notify the *FCA* in respect of any *firm* (the "intermediary") as soon as reasonably practicable if:
 - (a) any amount of *commission* due from the intermediary to the *insurer* in accordance with an indemnity commission clawback arrangement remains outstanding for four *months* after the date when the *insurer* gave notice to the intermediary that the relevant *premium* had not been paid; or
 - (b) any amount of *commission* due from the intermediary to the *insurer* as a result of either the cancellation of an investment agreement or overpayment of *commission* remains outstanding for four *months* after the date on which the *insurer* gave notice to the intermediary that cancellation or overpayment had occurred.

- (2) A notification in (1):
 - (a) need not be given unless the total amounts outstanding under (1)(a) and (b) in respect of the intermediary exceed £1,000; and
 - (b) must give the identity of the intermediary and the amount of *commission* which remains outstanding.
- (3) In (1) an "indemnity commission clawback arrangement" is an arrangement under which:
 - (a) an insurer pays *commission* to an intermediary before the date on which the *premium* is due under the relevant *investment agreement*; and
 - (b) the *insurer* requires repayment of the *commission*, if the *investment agreement* is terminated by reason of a failure to pay a premium.

Money service business and trust or company service providers

15.8.4
FCA

G

- (1) In accordance with article 31 of the *Money Laundering Regulations*, with effect from 15 December 2007, a *firm* is required to notify the *FCA*:
 - (a) before it begins or within 28 days of it beginning; and
 - (b) immediately after it ceases;
 to operate a money service business or a trust or company service provider.
- (2) The notification referred to in (1) should be made in accordance with the requirements in ■ SUP 15.7 (Form and method of notification)

15.8.5
FCA

G

A *firm* which is already operating a money service business or a trust or company service provider as at 15 December 2007 is required by the *Money Laundering Regulations* to notify the *FCA* of that fact and should do so in the manner specified in ■ SUP 15.8.4 G(2) before 15 January 2008.

Delegation by UK UCITS management companies

15.8.6
FCA

R

If a *UK UCITS management company* intends to delegate to a third party any one or more of its functions for the more efficient conduct of its business, it must first inform the *FCA* in an appropriate manner.

[Note: article 13(1)(a) of the *UCITS Directive*]

15.8.7
FCA

G

A *UK UCITS management company* which delegates any of its functions to a third party must, as well as complying with ■ SUP 15.8.6 R, comply with the requirements in ■ SYSC 8.1.13 R (Additional requirements for a management company) and ■ COLL 6.6.15 A R.

CTF providers

15.8.8

FCA

R

- (1) If a *firm* begins or ceases to hold itself out as acting as a *CTF provider*, it must notify the *FCA* as soon as reasonably practicable that it has done so.
- (2) A *firm* that acts as a *CTF provider* must provide the *FCA*, as soon as reasonably practicable, with details of:
 - (a) any third party administrator that it engages;
 - (b) details of whether it intends to offer *HMRC allocated CTFs* ; and
 - (c) whether it intends to provide its own *stakeholder CTF* account.

15.8.9

FCA PRA

R

A *BIPRU firm* must report to the *appropriate regulator* immediately any case in which its counterparty in a *repurchase agreement* or *reverse repurchase agreement* or *securities or commodities lending or borrowing transaction* defaults on its obligations.



15.9 Notifications by members of financial conglomerates

15.9.1

FCA PRA

R

A *firm* that is a *regulated entity* must notify the *appropriate regulator* immediately it becomes aware that any *consolidation group* of which it is a member:

- (1) is a *financial conglomerate*; or
- (2) has ceased to be a *financial conglomerate*.

15.9.2

FCA PRA

R

(1) A *firm* that is a *regulated entity* must establish whether or not any *consolidation group* of which it is a member:

- (a) is a *financial conglomerate*; or
- (b) has ceased to be a *financial conglomerate*;

if:

- (c) the *firm* believes; or
- (d) a reasonable *firm* that is complying with the requirements of the *regulatory system* would believe;

that it is likely that (a) or (b) is true.

(2) A *firm* does not need to determine whether (1)(a) is the case if the *consolidation group* is already being regulated as a *financial conglomerate*.

(3) A *firm* does not need to determine whether (1)(b) is the case if notification has already been given as contemplated by

■ SUP 15.9.4 R.

15.9.3

FCA PRA

G

A *firm* should consider the requirements in ■ SUP 15.9.2 R on a continuing basis, and in particular, when the *group* prepares its financial statements and on the occurrence of an event affecting the consolidated *group*. Such events include, but are not limited to, an acquisition, merger or sale.

15.9.4

FCA PRA

R

A *firm* does not have to give notice to the *appropriate regulator* under ■ SUP 15.9.1 R if it or another member of the *consolidation group* has already given notice of the relevant fact to:

- (1) the *appropriate regulator*; or
- (2) (if another *competent authority* is *co-ordinator* of the *financial conglomerate*) that *competent authority*; or
- (3) (in the case of a *financial conglomerate* that does not yet have a *co-ordinator*) the *competent authority* who would be *co-ordinator* under Article 10(2) of the *Financial Groups Directive* (Competent authority responsible for exercising supplementary supervision (the *co-ordinator*)).

15.9.5

FCA

R

- (1) A *firm* must, at the level of the *EEA financial conglomerate*, regularly provide the *appropriate regulator* with details on the *financial conglomerate's* legal structure and governance and organisational structure, including all *regulated entities*, non-regulated subsidiaries and significant *branches*.
- (2) A *firm* must disclose publicly, at the level of the *EEA financial conglomerate*, on an annual basis, either in full or by way of references to equivalent information, a description of the *financial conglomerate's* legal structure and governance and organisational structure.
- (3) For the purposes of (1) and (2), where a *firm* is a member of an *EEA financial conglomerate* which is part of a wider *UK regulated EEA financial conglomerate*, reporting applies only at the level of the *EEA parent mixed financial holding company* or *ultimate EEA mixed financial holding company*.



15.10 Reporting suspicious transactions (market abuse)

Application: where

15.10.1

R

FCA

This section applies in relation to activities carried on from an establishment maintained by the *firm* or its *appointed representative* in the *United Kingdom*. [Note: Article 7 2004/72/EC]

Notification of suspicious transactions: general

15.10.2

R

FCA

A *firm* which *arranges* or *executes* a transaction with or for a client and which has reasonable grounds to suspect that the transaction might constitute *market abuse* must notify the *FCA* without delay.

[Note: Article 6(9) *Market Abuse Directive*]

Notification of suspicious transactions: investment firms and credit institutions

15.10.3

R

FCA

A *firm*, that is an *investment firm* or a *credit institution*, must decide on a case-by-case basis whether there are reasonable grounds for suspecting that a transaction involves *market abuse*, taking into account the elements constituting *market abuse*. [Note: Articles 1(3) and 7 2004/72/EC]

15.10.4

G

FCA

- (1) Notification of suspicious transactions to the *FCA* requires sufficient indications (which may not be apparent until after the transaction has taken place) that the transaction might constitute *market abuse*. In particular a *firm* will need to be able to explain the basis for its suspicion when notifying the *FCA* (see ■ SUP 15.10). Certain transactions by themselves may seem completely devoid of anything suspicious, but might deliver such indications of possible *market abuse*, when seen in perspective with other transactions, certain behaviour or other information (though *firms* are not expected to breach effective information barriers put in place to prevent and avoid conflicts of interest so as actively to seek to detect suspicious transactions). [Note: Recital 9 2004/72/EC]
- (2) Assistance in identifying the elements constituting *market abuse* may be derived from the *Code of Market Conduct* (■ MAR 1), and some example indications of *market abuse* are set out in ■ SUP 15 Ann 5 G. A fuller set of example indications is published by the Committee of European Securities Regulators ([CESR](#)).

15.10.5
FCA

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Timeframe for notification: investment firms and credit institutions

If an *investment firm* or a *credit institution* becomes aware of a fact or information that gives reasonable ground for suspicion concerning a transaction, it must make its notification under this section without delay. [Note: Article 8 2004/72/EC]

15.10.6
FCA

R

Content of notification: investment firms and credit institutions

- (1) If an *investment firm* or a *credit institution* is obliged to make a notification to the *FCA* under this section, it must transmit to the *FCA* the following information:
 - (a) a description of the transaction, including the type of order (such as limit order, market order or other characteristics of the order) and the type of trading market (such as block trade); and
 - (b) the reasons for suspicion that the transaction might constitute *market abuse*.
- (2) In addition the following information must be provided to the *FCA*s soon as it becomes available:
 - (a) the means for identification of the *persons* on behalf of whom the transaction has been carried out, and of other *persons* involved in the relevant transaction;
 - (b) the capacity in which the *firm* operates (such as for own account or on behalf of third parties); and
 - (c) any other information which may have significance in reviewing the suspicious transaction. [Note: Article 9 2004/72/EC]

15.10.7
FCA

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Means of notification: investment firms and credit institutions

An *investment firm* or a *credit institution* making a notification to the *FCA* under this section may do so:

- (1) by mail to:

Market Conduct Team

25 The North Colonnade

Canary Wharf London E14 5HS; or
- (2) by electronic mail to market.abuse@fca.org.uk;
- (3) by facsimile to the Market Conduct Team on 020 7066 4091 ; or

15.10.8

FCA

G

(4) by telephone to the market abuse helpline 020 7066 4900 . [Note: Article 10 2004/72/EC]

(1) If a notification is made by telephone, the *FCA* may subsequently request confirmation of the notification in writing. [Note: Article 10 2004/72/EC]

(2) When making a notification in writing it may be convenient to use the form for suspicious transaction reports provided on the *FCA*'s website. This form follows the common standard approved by *ESMA* (formerly known as CESR).

Liability and professional secrecy: investment firms and credit institutions

15.10.9

FCA

R

(1) An *investment firm* or a *credit institution* which notifies the *FCA* under this section must not inform any other *person*, in particular the *persons* on behalf of whom the transaction has been carried out or parties related to those persons, of this notification, except in accordance with an obligation imposed by or under statute.

(2) Notwithstanding any other provision of the *Handbook* a notification in good faith under this section to the *FCA* does not constitute a breach of any restriction on disclosure of information imposed by the *Handbook*. [Note: Article 11 2004/72/EC]

Note: Section 131A of the *Act* sets out additional protections from liability for a *person* who makes a notification to the *FCA* under this section (or who passes the relevant information to someone designated by his employer to do so).

Application of SUP 15 to incoming EEA firms and incoming Treaty firms

FCA **PRA**

- 1 . SUP 15 applies in full to an *incoming EEA firm*, or *incoming Treaty firm* , which has a *top-up permission*.
- 2 . [deleted]
- 2A [deleted]
- 3 . For any other *incoming EEA firm* or *incoming Treaty firm*, SUP 15 applies as set out in the following table.

Applicable sections		Application
SUP 15.1, SUP 15.2	Application, Purpose	Apply in full
SUP 15.3.1 R to SUP 15.3.6 G	Matters having a serious regulatory impact	Apply in so far as responsibility for the matter in question is not reserved by an <i>EU</i> instrument to the <i>firm's Home State regulator</i>
SUP 15.3.7 G to SUP 15.3.10 G	Communication with the <i>appropriate regulator</i> in accordance with Principle 11	Apply in so far as responsibility for the matter in question is not reserved by an <i>EU</i> instrument to the <i>firm's Home State regulator</i>
SUP 15.3.11 R to SUP 15.3.14 G	Breaches of rules and other requirements in or under the Act	Apply in full
SUP 15.3.15 R to SUP 15.3.16 G	Civil, criminal or disciplinary proceedings against a firm	Apply in so far as responsibility for the matter in question is not reserved by an <i>EU</i> instrument to the <i>firm's Home State regulator</i>
SUP 15.3.17 R to SUP 15.3.20 G	Fraud, errors and other irregularities	Apply in so far as responsibility for the matter in question is not reserved by an <i>EU</i> instrument to the <i>firm's Home State regulator</i>
SUP 15.3.2 G	Insolvency, bankruptcy and winding up	Apply in so far as responsibility for the matter in question is not reserved by an <i>EU</i> instrument to the <i>firm's Home State regulator</i>
SUP 15	Notified persons	Does not apply
SUP 15.5.1 R to SUP 15.5.3 G	Change in name	Apply in full

Applicable sections		Application
SUP 15.5.4 R	Change in address: principal place of business in the UK	Applies in full
SUP 15.5.4 R (2)	Change in address: registered office	Applies to an <i>incoming Treaty firm</i> . Does not apply to an <i>incoming EEA firm</i> , but see SUP 14 (Incoming EEA firms: changing authorisation and cancelling qualification for authorisation).
SUP 15.5.5 R to SUP 15.5.6 G	Change in telephone numbers	Applies in full
SUP 15.5.7 R and SUP 15.5.8 G	Other regulators	Apply in so far as responsibility for the matter in question is not reserved by an <i>EU instrument</i> to the <i>firm's Home State regulator</i>
SUP 15.6	Inaccurate, false or misleading information	Applies in full
SUP 15.7	Form and method of notification	Applies in full
SUP 15.8	Notifications in respect of particular products and services	Applies in full
SUP 15.10	Reporting suspicious transactions (market abuse)	Applies in relation to activities carried on from an establishment maintained by the firm or its <i>appointed representative in the United Kingdom</i> . [Note: Article 7 2004/72/EC]

FCA

(1) ■ SUP 15 does not apply to an *incoming EEA firm* which has *permission* for *cross border services* only and which does not carry on *regulated activities* in the *United Kingdom*.

(2) ■ SUP 15 does not apply to an *EEA pure reinsurer* which does not have a *top-up permission*.

Chapter 15A

Application and notifications under EMIR



15A.1 Application and notifications under EMIR

- 15A.1.1** FCA G Where a *person* intends to rely on article 4(2), 10(2) or 89(2) of *EMIR* for an exemption from the clearing obligation set out in article 4(1) or 10(1) of *EMIR*, the *person* should make their application or notification to the *FCA* in such manner, and by providing such information, as the *FCA* directs or requires.
- 15A.1.2** FCA G Where a *person* makes a notification in respect of the obligation set out in article 10(1)(a) of *EMIR*, the *person* should make the notification to the *FCA* in such manner, and by providing such information, as the *FCA* directs or requires.
- 15A.1.3** FCA G Where a *person* intends to rely on article 11(6), (7), (8), 9) or (10) for an exemption from the obligation to implement risk management procedures set out in article 11(3) of *EMIR*, the *person* should make their application or notification to the *FCA* in accordance with *EMIR requirements* , including (where relevant) those set out in the *EMIR technical standards on OTC derivatives* .
- 15A.1.3A** FCA G Where a *person* is required to make a notification to the *FCA* in accordance with article 12(4) or article 15(2) of the *EMIR technical standards on OTC derivatives*, that notification should be made in accordance with the *EMIR requirements* set out in the *EMIR technical standards on OTC derivatives*.
- 15A.1.4** FCA G The *FCA* may require any information referred to in ■ SUP 15A.1.1 G to ■ SUP 15A.1.3A G to be provided in such form, or to be verified in such as a way, as the *FCA* may reasonably direct.
- 15A.1.5** FCA G At any time after receiving an application or notification for exemption from, or a notification in respect of, *EMIR requirements*, the *FCA* may require the *person* concerned to provide it with such further information as it reasonably considers necessary to enable it to determine the application or consider the notification.

16.3.18 G ■ SUP 16.2.1 G emphasises the importance to the *appropriate regulator* of timely and accurate information. The extension of a *firm's* accounting period to more than 15 months may hinder the timely provision of relevant and important information to the *appropriate regulator* . This is because many due dates for reporting to the *appropriate regulator* are linked to *firms' accounting reference dates*. Indeed, for some categories of *firm*, the only reports required by the *appropriate regulator* have due dates for submission which are linked to the *firm's accounting reference date*. If the extension of a *firm's* accounting period appears likely to impair the effectiveness of the *appropriate regulator's* supervisory work, the *appropriate regulator* may take action to ensure that it continues to receive the information it requires on a timely basis. This may include the use of any of the tools of supervision set out in ■ SUP 1.4.5 G.

FCA PRA

16.3.19 G If more than one *firm* in a *group* intends to change its *accounting reference date* at the same time, a single notification may be given to the *appropriate regulator* , as described in ■ SUP 15.7.8 G.

FCA PRA

Notifications regarding financial information reporting under the EU CRR

16.3.19A R

PRA

(1) A *firm* must notify the *PRA* if it is required to report financial information in accordance with Article 99 (2) of the *EU CRR*.

(2) A *firm* must notify the *PRA* when it ceases to report financial information in accordance with Article 99 (2) of the *EU CRR*.

16.3.19B R A *firm* must notify the *PRA* if it adjusts its reporting reference dates for financial information under Article 99 of the *EU CRR* from the calendar year to its accounting year-end.

PRA

Underwriting agents: submission to the Society of Lloyd's

16.3.20 R

(1) [deleted]

(2) [deleted]

16.3.21 G [deleted]

Service of Notices Regulations

16.3.22 G The Financial Services and Markets Act 2000 (Service of Notices) Regulations 2001 (SI 2001/1420) contain provisions relating to the service of documents on the *appropriate regulator* . They do not apply to reports required under SUP 16, because of the specific *rules* in this section.

FCA PRA

Confidentiality and sharing of information

16.3.23 G When the *appropriate regulator* receives a report which contains confidential information and whose submission is required under this chapter, it is obliged under Part 23 of the Act (Public Record, Disclosure of Information and Co-operation) to treat that information as confidential. (See ■ SUP 2.2.4 G for the *FCA* and ■ SUP 2.2.4A G for the *PRA*)

FCA PRA

16.3.24
FCA PRA

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■ SUP 2.3.12A G and ■ SUP 2.3.12B G state that the *appropriate regulator* may pass to other regulators information which it has in its possession. Such information includes information contained in reports submitted under this chapter. The *appropriate regulator's* disclosure of information to other regulators is subject to ■ SUP 2.2.4 G or ■ SUP 2.2.4A G (Confidentiality of information).

Reports from groups

16.3.25
FCA PRA

G

If this chapter requires the submission of a report or *data item* covering a *group*, a single report or *data item* may be submitted, and so satisfy the requirements of all *firms* in the *group*. Such a report or *data item* should contain the information required from all of them, meet all relevant due dates and indicate all the *firms* on whose behalf it is submitted; if necessary a separate covering sheet should list the *firms* on whose behalf a report or *data item* is submitted. Nevertheless, the requirement to provide a report or *data item*, and the responsibility for the report or *data item*, remains with each *firm* in the *group*. However, reporting requirements that apply to a *firm*, by reason of the *firm* being a member of a *financial conglomerate*, are imposed on only one member of the *financial conglomerate* (see, for example, ■ SUP 16.12.32 R).

16.3.26
FCA PRA

G

Examples of reports covering a *group* are:

- (1) the compliance reports required from *banks* under ■ SUP 16.6.4 R;
- (2) annual controllers reports required under ■ SUP 16.4.5 R ;
- (3) annual close links reports required under ■ SUP 16.5.4 R
- (4) consolidated financial reports required from *banks* under ■ SUP 16.12.5 R;
- (5) consolidated reporting statements required from *securities and futures firms* under ■ SUP 16.12.11 R ;
- (6) reporting in relation to *defined liquidity groups* under ■ SUP 16.12.



16.4 Annual controllers report

Application

16.4.1

FCA PRA

G

This section applies to every *firm* except those *firms* excluded from its operation by ■ SUP 16.1.1 R and ■ SUP 16.1.3 R.

16.4.2

FCA PRA

G

This section may be of relevance to a *directive friendly society*:

- (1) if it has 10 members or less;
- (2) if it has a delegate voting system and has 10 delegates or less; or
- (3) if it has 20 members or less and effects or carries out group insurance contracts where one person may exercise one vote on behalf of the members of a group and one vote in their private capacity; or

where a member or delegate, whether alone or acting in concert, is entitled to exercise, or control the exercise of, 10% or more of the total voting power.

16.4.2A

FCA PRA

G

This section may be of relevance to *non-directive firms*.

16.4.3

FCA PRA

G

Requirements for notifications of a change in *control* can be found in ■ SUP 11 (Controllers and close links).

Purpose

16.4.4

FCA PRA

G

A *firm* and its *controllers* are required to notify certain changes in *control* (see ■ SUP 11 (Controllers and close links)). The purpose of the *rules* and *guidance* in this section is:

- (1) to ensure that, in addition to such notifications, the *appropriate regulator* receives regular and comprehensive information about the identities of all of the *controllers* of a *firm*, which is relevant to a *firm's* continuing to satisfy the effective supervision *threshold conditions* ;
- (2) to implement certain requirements relating to annual reporting of *controllers* which must be imposed on *firms* under the *Investment Services Directive*, the *Banking Consolidation Directive*, the *Consolidated Life Directive* and the *Third Non-Life Directive*; and

(3) to support the regulatory functions under Part 12 of the *Act* (Notices of acquisitions of control over UK authorised persons) (see SUP 11 (Controllers and close links)).

Reporting requirement

16.4.5
FCA PRA

R

- (1) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]
- (4A) [deleted]
- (4B) [deleted]
- (5) [deleted]
- (6) A *firm* must submit annually by electronic means to the *appropriate regulator* the Controllers Report which contains the information specified in the form in ■ SUP 16 Annex 37A, within four months of the *firm's accounting reference date*.

16.4.6
16.4.7
FCA PRA

G

If a *group* includes more than one *firm*, a single annual controllers report may be submitted, and so satisfy the requirements of all *firms* in the *group*. Such a report should contain the information required from all of them, meet all relevant due dates, indicate all the *firms* on whose behalf it is submitted and give their firm reference numbers. Nevertheless, the requirement to provide a report, and the responsibility for the report, remain with each *firm* in the *group*.

16.4.8
16.4.9
FCA PRA

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[deleted]

G

Firms are reminded of the requirement in ■ SUP 11.4.10 R to take reasonable steps to keep themselves informed about the identity of their *controllers*.

Exceptions: friendly societies and building societies

16.4.10
FCA PRA

R

If a *firm* is a *friendly society* or a *building society*, then it is required to submit a report under ■ SUP 16.4.5 R only if it is aware that it has a *controller*.

16.4.11
FCA PRA

R

In ■ SUP 16.4.5 R and ■ SUP 16.4.10 R, a *building society* may regard a *person* as not being a *controller* if that *person* is exempt from the obligation to notify a change in *control* under The Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774) (see ■ SUP 11.3.2A G (2)).

16.4.12

FCA PRA

R

Exception: insurers

An *insurer* need not submit a report under ■ SUP 16.4.5 R to the extent that the information has already been provided to the *appropriate regulator* under IPRU(INS) 9.30R (Additional information on controllers).



16.5 Annual Close Links Reports

Application

16.5.1

FCA PRA

G

This section applies to every *firm* listed in ■ SUP 11.1.1 R (1) to ■ SUP 11.1.1 R (6), except those *firms* excluded from its operation by ■ SUP 16.1.1 R and ■ SUP 16.1.3 R or which have elected to report on a monthly basis in accordance with ■ SUP 11.9.5 R.

Purpose

16.5.2

FCA PRA

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A *firm* is required to notify the *appropriate regulator* of changes to its *close links* (see ■ SUP 11.9). The effective supervision *threshold conditions* provide that, if a *firm* has *close links* with another *person*, the matters which are relevant in determining whether a *firm* satisfies the condition of being capable of being effectively supervised include:

- (1) the nature of the relationship between the *firm* and that *person*;
- (2) whether those links or that relationship are likely to prevent the *appropriate regulator's* effective supervision of the *firm*; and
- (3) if the *person* is subject to the laws, regulations or administrative provisions of a territory which is not an *EEA State*, whether those foreign provisions, or any deficiency in their enforcement, would prevent the *appropriate regulator's* effective supervision of the *firm*.

16.5.3

FCA PRA

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The purposes of the *rules* and *guidance* in this section are:

- (1) to ensure that, in addition to such notifications, the *appropriate regulator* receives regular and comprehensive information about the identities of all persons with whom a *firm* has *close links*, which is relevant to a *firm's* continuing to satisfy the effective supervision *threshold conditions* and to the protection of *consumers*; and
- (2) to implement certain requirements relating to the provision of information on *close links* which must be imposed on *firms* under the '*Post-BCCI Directive*'.

Report

16.5.4

FCA PRA

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- (1) [deleted]
- (2) [deleted]

(3) [deleted]

(4) [deleted]

(5) [deleted]

(6) A *firm* must submit a report to the *appropriate regulator* annually by completing the Close Links Annual Report in ■ SUP 16 Annex 36A which must be sent electronically to the *appropriate regulator* within four months of the firm's *accounting reference date*.

16.5.4A

FCA PRA

R

If a *group* includes more than one *firm*, a single close links notification may be made by completing the Annual Close Links Report and so satisfy the notification requirement for all *firms* in the *group*. Nevertheless, the requirement to notify, and the responsibility for notifying, remains with each *firm* in the *group*.

16.5.5

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[deleted]

16.5.6

FCA PRA

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If a *group* includes more than one *firm*, a single annual close links report may be submitted and so satisfy the requirements of all *firms* in the *group*. Such a report should contain the information required from all of them, meet all relevant due dates, indicate all the *firms* on whose behalf it is submitted and give their firm reference numbers. Nevertheless, the requirement to provide a report, and the responsibility for the report, remain with each *firm* in the *group*.

16.5.7

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[deleted]

16.5.8

FCA PRA

R

If a *firm* is an unincorporated *friendly society*, then it is only required to submit a report under ■ SUP 16.5.4 R if it is aware that it has *close links*.

16.6 Compliance reports

Application

16.6.1 G The effect of ■ SUP 16.1.1 R is that this section applies to every *firm* within a category listed in the left hand column of the table in ■ SUP 16.6.2 G.

FCA PRA

16.6.1A D The directions and *guidance* in SUP 16.13 apply to an *authorised payment institution* and a *small payment institution*.

FCA

16.6.2 G Table Applicable provisions of this section (see ■ SUP 16.6.1 G)

FCA PRA

Category of firm	Applicable provisions
<i>Bank</i>	SUP 16.6.4 R - SUP 16.6.5 R
<i>Trustee of an AUT</i>	SUP 16.6.6 R - SUP 16.6.9 G
<i>Depository of an ICVC</i>	
<i>Depository of an ACS</i>	
<i>OPS firm</i>	SUP 16.6.6 R - SUP 16.6.8 R

Purpose

16.6.3 G [deleted]

16.6.3A G The *FCA* performs part of its supervision work by reviewing and analysing information about *firms'* records of compliance with the requirements and standards under the *regulatory system*. The type of report the *FCA* requires will vary, depending on the type of business a *firm* undertakes. This information helps the *FCA* to determine whether a *firm* is complying with the requirements applicable to its business, and what procedures it is operating to ensure its compliance.

FCA

16.6.3B G The *PRA* performs part of its supervision work by reviewing and analysing information about *firms'* records of compliance with prudential requirements and standards. The type of report the *PRA* requires will vary, depending on the type of business a *firm* undertakes. This information helps the *PRA* to determine whether a *firm* is complying with the requirements applicable to its business, and what procedures it is operating to ensure its compliance.

PRA

16.12 Integrated Regulatory Reporting

Application

16.12.1

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FCA PRA

The effect of ■ SUP 16.1.1 R is that this section applies to every *firm* carrying on business set out in column (1) of ■ SUP 16.12.4 R except:

- (1) an *incoming EEA firm* with *permission* for *cross border services* only;
- (1A) an *incoming EEA firm* in relation to its carrying on of *bidding in emissions auctions*;
- (2) an *oil market participant* that is not subject to the requirements of *IPRU(INV)* Chapter 3;
- (3) an *authorised professional firm* (other than one that must comply with *IPRU(INV)* 3, 5 or 13 in accordance with *IPRU(INV)* 2.1.4R, where ■ SUP 16.12.4 R will apply in respect of the business the firm undertakes), which must comply with ■ SUP 16.12.30 R and ■ SUP 16.12.31 R; and
- (4) a *financial conglomerate*, which must comply with ■ SUP 16.12.32 R: *firms* that are members of a *financial conglomerate* will have their own reporting requirements under ■ SUP 16.12.32 R.

Purpose

16.12.2

G

FCA PRA

- (1) *Principle 4* requires *firms* to maintain adequate financial resources. The Interim Prudential sourcebooks, *BIPRU*, *GENPRU* and *IFPRU* set out the *appropriate regulator's* detailed capital adequacy requirements. By submitting regular data, *firms* enable the *appropriate regulator* to monitor their compliance with *Principle 4* and their prudential requirements .
- (2) The *data items* submitted help the *appropriate regulator* analyse *firms'* financial and other conditions and performance and to understand their business. By means of further collation and review of the data which the *data items* provide, the *appropriate regulator* also uses the *data items* to identify developments across the financial services industry and its constituent sectors.
- (3) The requirements in this section differ according to a *firm's regulated activity group (RAG)*, as different information is required to reflect different types of business. Standard formats are used for reporting, to assist compatibility between *firms* which carry on similar types of business. Timely submission is important to ensure the *appropriate regulator* has up-to-date information.

16.12.3

FCA PRA

R

Reporting requirement

- (1) Any *firm* permitted to carry on any of the activities within each of the RAGs set out in column (1) of the table in ■ SUP 16.12.4 R must:
- (a) (i) unless (ii) or (iii) applies, submit to the *appropriate regulator* the duly completed *data items* or other items applicable to the *firm* as set out in the provision referred to in column (2) of that table;
 - (ii) unless (iii) applies, where a *firm* is required to submit completed *data items* for more than one RAG, that *firm* must only submit the *data item* of the same name and purpose in respect of the lowest numbered RAG applicable to it, RAG 1 being the lowest and RAG 10 the highest;
 - (iii) where a *firm* is, but for this *rule*, required to submit *data items* for more than one RAG and this includes the submission of *data items* in respect of fees, the FOS or FSCS levy, or threshold conditions, that *firm* must only submit these *data items* if they belong to the lowest numbered of the RAGs applicable to it;
 - (iv) in the case of a *non-EEA bank*, or an *EEA bank* (whether or not it has *permission for accepting deposits*) other than one with *permission for cross border services* only, any *data items* submitted should, unless indicated otherwise, only cover the activities of the branch operation in the *United Kingdom*;
in the format specified as applicable to the *firm* in the provision referred to in column (2);
- (b) submit this information at the frequency and in respect of the periods set out in the provision referred to in column (3); and
- (c) submit this information by the due date referred to in the provision referred to in column (4).
- (2) Unless (3) applies, any *data item* in (1) must be submitted by electronic means made available by the *appropriate regulator* ;
- (3) Paragraph (2) does not apply to:
- (a) *credit unions* solely in relation to the reporting requirement for RAG 1 activities where the following submission methods apply:
 - (i) *Post* to the Bank of England for postal submission:

Regulatory Data Group

Statistics and Regulatory Data Division (HO5 A-B)

Bank of England

Threadneedle Street

London

EC2R 8AH

(ii) Leaving the report marked for the attention of "Regulatory Data Group, Statistics and Regulatory Data Division (HO 5 A-B) at the Bank of England, Threadneedle Street, London, EC2R 8AH, and obtaining a dated receipt

(iii) Electronic mail

(CreditUnionReporting@BankofEngland.co.uk) or fax (020 7601 3334) to the Regulatory Data Group of the Bank of England

(iv) Online submission via the appropriate systems accessible from the *appropriate regulator's* website;

(b) *firms* in RAG 2 in relation to the reporting requirements for RAG 2 activities; and

(c) those data items specified as "No standard format", where ■ SUP 16.3.6 R to ■ SUP 16.3.10 G will apply.

(4) A *firm* that is a member of a *financial conglomerate* must also submit financial reports as required by ■ SUP 16.12.32 R.

16.12.3-A

G

FCA

(1) *Investment firms* subject to the *EU CRR* should refer to any relevant technical standards to determine their specific reporting obligations, as those obligations may extend beyond those specified in this chapter.

(2) Where a *firm* submits a *data item* pursuant any applicable provision of the *EU CRR* any *data item* with the same name and purpose does not have to be submitted again regardless of *RAG*.

16.12.3-B

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FCA

In relation to an *investment firm* subject to the *EU CRR*, where an expression appearing in italics in this chapter is also used in the *EU CRR*, the italicised expression:

(1) has the same meaning as the corresponding expression used in the *EU CRR*; or

(2) is interpreted in the context of the risk or requirement in the *EU CRR* that corresponds to the risk or requirement referred to in the italicised expression.

16.12.3A

PRA

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The following is designed to assist *firms* to understand how the reporting requirements set out in this chapter operate when the circumstances set out in ■ SUP 16.12.3 R (1)(a)(ii) apply.

(1) Example 1

A UK designated investment firm that undertakes activities in both RAG 3 and RAG 7

Overlaying the requirements of RAG 3 (*data items*) with the requirements of RAG 7 shows the following:

RAG 3 (SUP 16.12.11 R) data items	RAG 7 (SUP 16.12.22A R) data items
<i>Annual reports and accounts</i>	<i>Annual reports and accounts</i>
<i>Annual report and accounts of the mixed-activity holding company</i>	<i>Annual report and accounts of the mixed-activity holding company (note 10)</i>
Solvency statement	Solvency statement
Balance sheet	Balance Sheet
Income statement	Income statement
Market risk	Market risk
Market risk - supplementary	Market risk - supplementary
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>
Solo consolidation data	Solo consolidation data
Pillar 2 questionnaire	Pillar 2 questionnaire
	Professional indemnity insurance
	Threshold Conditions
	Training and Competence
	COBS data
Client money and client assets	Client money and client assets
	Fees and levies
CFTC	
IRB portfolio risk	IRB portfolio risk
Daily Flows (if it is an <i>ILAS BIPRU firm</i>)	
Enhanced Mismatch Report (if it is an <i>ILAS BIPRU firm</i>)	

RAG 3 (SUP 16.12.11 R) data items	RAG 7 (SUP 16.12.22A R) data items
Liquidity Buffer Qualifying Securities (if it is an <i>ILAS BIPRU firm</i>) Funding Concentration (if it is an <i>ILAS BIPRU firm</i>) Pricing data (if it is an <i>ILAS BIPRU firm</i>) Retail and corporate funding (if it is an <i>ILAS BIPRU firm</i>) Currency Analysis (if it is a <i>ILAS BIPRU firm</i>) Systems and Controls Questionnaire (if it is a <i>non-ILAS BIPRU firm</i>)	

From this, the additional reports that are required are:

- (a) [deleted]
- (b) Professional indemnity insurance, where *RAG 7 firms* complete Section E of the *RMAR*, and therefore a *RAG 3 firm* should complete that;
- (c) [deleted]
- (d) Training and competence data, where *RAG 3 firms* should also complete Section G of *RMAR*;
- (e) Conduct of business data, where *RAG 3 firms* should complete Section H of *RMAR* .
- (f) [deleted]
- (g) [deleted]

The reporting frequency and submission times for items (b), (d) and (e) above are then derived from the rules applicable to *firms* in ■ SUP 16.12.23 R and ■ SUP 16.12.24 R. Threshold conditions and fees and levies reports do not need to be submitted as they are not required under the lowest numbered of the two *RAGs* in this example, see ■ SUP 16.12.3 R (1)(a)(iii).

(2) Example 2

A *UK bank* that is not a *FINREP firm* in *RAG 1* that also carries on activities in *RAG 5*

Again, overlaying the *RAG 1* reporting requirements with the requirements for a *RAG 5 firm* gives the following :

RAG 1 requirements (SUP 16.12.5 R)	RAG 5 requirements (SUP 16.12.18A R)
<i>Annual report and accounts</i>	<i>Annual report and accounts</i>

RAG 1 requirements (SUP 16.12.5 R)	RAG 5 requirements (SUP 16.12.18A R)
<i>Annual report and accounts of the mixed-activity holding company (note 9)</i>	
Solvency statement (note 10)	
Balance sheet	Balance Sheet
Income statement	Income statement
Market risk	
Market risk -supplementary	
<i>Exposures between core UK group and non-core large exposures group</i>	
Liquidity (other than stock)	
Liquidity - stock	
Forecast data	
Solo consolidation data	
Interest rate gap report	
[deleted]	
Sectoral information, including arrears and impairment	
IRB portfolio risk	
<i>Daily Flows (if it is an ILAS BIPRU firm)</i>	
<i>Enhanced Mismatch Report (if it is an ILAS BIPRU firm)</i>	
<i>Liquidity Buffer Qualifying Securities (if it is an ILAS BIPRU firm)</i>	
<i>Funding Concentration (if it is an ILAS BIPRU firm)</i>	
<i>Pricing data (if it is an ILAS BIPRU firm)</i>	
<i>Retail and corporate funding (if it is an ILAS BIPRU firm)</i>	
<i>Currency Analysis (if it is an ILAS BIPRU firm)</i>	
	Lending - Business flow and rates
	Residential Lending to individuals - New business profile
	Lending - Arrears analysis

RAG 1 requirements (SUP 16.12.5 R)	RAG 5 requirements (SUP 16.12.18A R)
	Mortgage administration - Business profile Mortgage Administration - Arrears analysis Analysis of loans to customers Provisions analysis Fees and levies

In this case, it is more obvious that the firm's reporting requirement in RAG 1 is not all the data items listed above. However, for the purposes of this exercise, it is the list of potential data items that is important. Thus comparing RAG 1 with RAG 5, the additional reporting requirements are:

- (a) Lending - Business flow and rates, where Section D MLAR is required;
- (b) Residential Lending to individuals - New business profile, where Section E MLAR is required;
- (c) Lending - Arrears analysis, where Section F MLAR is required;
- (d) Mortgage administration - Business profile, where Section G MLAR is required;
- (e) Mortgage Administration - Arrears analysis, where Section H MLAR is required
- (f) Analysis of loans to customers, where section A3 of MLAR is required
- (g) Provisions analysis, where Section B2 of MLAR is required; and

Fees and levies are not applicable as they are not required to be submitted under the lowest numbered RAG in this example. The reporting frequency and submission times for items (a) to (g) above are then derived from the rules applicable to RAG 5 firms in ■ SUP 16.12.18 R.

16.12.3B

FCA PRA

G

Firms' attention is drawn to ■ SUP 16.3.25 G regarding a single submission for all firms in the group.

16.12.4
FCA PRA

R

Table of applicable rules containing *data items*, frequency and submission periods

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Provisions containing:		
		applicable <i>data items</i>	reporting frequency/ period	due date
RAG 1	<ul style="list-style-type: none"> • accepting deposits • <i>meeting of repayment claims</i> • <i>managing dormant account funds (including the investment of such funds)</i> 	SUP 16.12.5 R	SUP 16.12.6 R	SUP 16.12.7 R
RAG 2.1	<ul style="list-style-type: none"> • effecting contracts of insurance • carrying out contracts of insurance • entering as provider into a funeral plan contract 	SUP 16.12.8 R	SUP 16.12.8 R	SUP 16.12.8 R
RAG 2.2	<ul style="list-style-type: none"> • managing the under-writing capacity of a Lloyds syndicate as a managing agent at Lloyds • advising on syndicate 	SUP 16.12.9 R	SUP 16.12.9 R	SUP 16.12.9 R

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Provisions containing:		
		applicable data items	reporting frequency/ period	due date
RAG 3	<p>participation at Lloyds</p> <ul style="list-style-type: none"> • arranging deals in contracts of insurance written at Lloyds 			
	<ul style="list-style-type: none"> • dealing in investment as principal • dealing in investments as agent • advising on investments (excluding retail investment activities) • arranging (bringing about) deals in investments (excluding retail investment activities) 	<p>SUP 16.12.10 R SUP 16.12.11 R or SUP 16.12.11B R for <i>UK designated investment firms</i></p>	<p>SUP 16.12.10 R SUP 16.12.12 R or SUP 16.12.12A R for <i>UK designated investment firms</i></p>	<p>SUP 16.12.10 R SUP 16.12.13 R</p>
RAG 4	<ul style="list-style-type: none"> • managing investments • establishing, operating or winding up a collective investment scheme 	<p>SUP 16.12.14 R SUP 16.12.15 R or SUP 16.12.15B R for <i>UK designated investment firms</i></p>	<p>SUP 16.12.14 R SUP 16.12.16 R or SUP 16.12.16A R for <i>UK designated investment firm</i></p>	<p>SUP 16.12.14 R SUP 16.12.17 R</p>

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Provisions containing:		
		applicable data items	reporting frequency/ period	due date
	<ul style="list-style-type: none"> • establishing, operating or winding up a stakeholder pension scheme • establishing, operating or winding up a personal pension scheme • managing an AIF • managing a UCITS 			
RAG 5	<ul style="list-style-type: none"> • home finance administration or home finance providing activity 	SUP 16.12.18A R and SUP 16.12.18BR	SUP 16.12.18A R and SUP 16.12.18BR	SUP 16.12.18A R and SUP 16.12.18BR
RAG 6	<ul style="list-style-type: none"> • acting as the depositary of an authorised contractual scheme • safeguarding and administration of assets (without arranging) 	SUP 16.12.19 R	SUP 16.12.20 R	SUP 16.12.21 R

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Provisions containing:		
		applicable data items	reporting frequency/ period	due date
	<ul style="list-style-type: none"> • arranging safeguarding and administration of assets • acting as trustee or depositary of an AIF • acting as trustee or depositary of a UCITS 			
RAG 7	<ul style="list-style-type: none"> • retail investment activities • advising on pensions transfers & opt-outs • arranging (bringing about deals) in retail investments 	SUP 16.12.22A R or SUP 16.12.22C R for UK designated investment firms	SUP 16.12.23A R and SUP 16.12.23 R for UK designated investment firms	SUP 16.12.24 R
RAG 8	<ul style="list-style-type: none"> • making arrangements with a view to transactions in investments • operating a multilateral trading facility 	SUP 16.12.25A R or SUP 16.12.25C R for UK designated investment firms	SUP 16.12.26 R	SUP 16.12.27 R

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Provisions containing:		
		applicable data items	reporting frequency/ period	due date
RAG 9	<ul style="list-style-type: none"> • <i>home finance mediation activity</i> • <i>insurance mediation activity (non-investment insurance contracts)</i> 	SUP 16.12.28A R	SUP 16.12.28A R	SUP 16.12.28A R
RAG 10	• <i>the activities of an RIE</i>	SUP 16.12.29 G	SUP 16.12.29 G	SUP 16.12.29 G
RAG 11	<i>bidding in emissions auctions</i>	SUP 16.12.29A R	SUP 16.12.29A R	SUP 16.12.29A R

16.12.4A G
PRA

RAG 1 includes an *incoming EEA firm* exercising a *BCD* right through a *UK branch*.

16.12.4B G
FCA PRA

Group liquidity reporting

Reporting at group level for liquidity purposes by *firms* falling within BIPRU 12 (Liquidity) is by reference to *defined liquidity groups*. *Guidance* about the different types of *defined liquidity groups* and related material is set out in ■ SUP 16 Annex 26 (Guidance on designated liquidity groups in ■ SUP 16.12).

16.12.5

FCA PRA

R

Regulated Activity Group 1

The applicable *data items* and forms or reports referred to in ■ SUP 16.12.4 R are set out according to *firm* type in the table below:

De- scrip- tion of da- ta item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	<i>UK bank</i>	<i>Build- ing soci- ety</i>	<i>Non- EEA bank</i>	<i>EEA bank that has per- mis- sion to accept de- posits, other than one with permis- sion for cross border services only</i>	<i>EEA bank that does not have permis- sion to accept de- posits, other than one with permis- sion for cross border services only</i>	[the ed]	<i>Cred- it union</i>	<i>Dor- mant ac- count fund opera- tor</i> (note 15)
<i>Annual report and ac- counts</i>	No stan- dard format		No stan- dard for- mat, but in En- glish					No stan- dard format
<i>Annual report and ac- counts of the mixed- activity holding compa- ny (note 9)</i>	No stan- dard format							

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De- scrip- tion of <i>data item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and report- ing format (Note 1)							
	<i>UK bank</i>	<i>Build- ing soci- ety</i>	<i>Non- EEA bank</i>	<i>EEA bank that has permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	<i>EEA bank that does not have permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	[de- let- ed]	<i>Cred- it union</i>	<i>Dor- mant ac- count fund opera- tor</i> (note 15)
Solven- cy stan- dard state- ment (note 10)	No stan- dard for- mat							
Bal- ance sheet	FSA001 (note 2)	FSA001 (note 2)					CQ; CY	
In- come state- ment	FSA002 (note 2)	FSA002 (note 2)	FSA002				CQ; CY	
Capi- tal ade- quacy							CQ; CY	
	[delet- ed]	[delet- ed]						

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has <i>permission</i> to accept deposits, other than one with <i>permission</i> for cross border services only	EEA bank that does not have <i>permission</i> to accept deposits, other than one with <i>permission</i> for cross border services only	[dit ed]	Credit union	Dormant account fund operator (note 15)
Market risk	FSA005 (notes 2, 4)	FSA005 (notes 2, 4)						
Market risk - supplementary	FSA006 (note 5)							
Large exposures							CQ; CY	
Exposures between core UK group and non-core	FSA018 (note 12)	FSA018 (note 12)						

De- scrip- tion of <i>data</i> <i>item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and report- ing format (Note 1)							
	<i>UK bank</i>	<i>Build- ing soci- ety</i>	<i>Non- EEA bank</i>	<i>EEA bank that has permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	<i>EEA bank that does not have permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	the ed]	<i>Cred- it union</i>	<i>Dor- mant ac- count fund opera- tor</i> (note 15)
<i>large expo- sures group</i>								
Liquid- ity (other than stock)		FSA011					CQ; CY	
Fore- cast data	FSA014 (note 11)	FSA014 (note 11)						
Solo consoli- dation data	FSA016 (note 7)	FSA016 (note 7)						
Inter- est rate	FSA017	FSA017						

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[dit ed]	Credit union	Dormant account fund operator (note 15)

gap report								
Sec-toral infor-ma-tion, in-cluding arrears and im-pair-ment	FSA015 (Note 2)	FSA015 (Note 2)						
IRB portfo-lio risk	FSA045 (note 13)	FSA045 (note 13)						
Daily Flows	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)			

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[tick ed]	Credit union	Dormant account fund operator (note 15)
Enhanced Mismatch Report	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)			
Liquidity Buffer Qualifying Securities	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 19, 21 and 22)	FSA050 (Notes 17, 19, 21 and 22)	FSA050 (Notes 17, 19, 21 and 22)			
Funding Concentration	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 19, 21 and 22)	FSA051 (Notes 17, 19, 21 and 22)	FSA051 (Notes 17, 19, 21 and 22)			
Pricing data	FSA052 (Notes 17, 22)	FSA052 (Notes 17, 22)	FSA052 (Notes 17, 19, 17, 19,	FSA052 (Notes 17, 19, 17, 19,	FSA052 (Notes 17, 19,			

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[file ed]	Credit union	Dormant account fund operator (note 15)

	and 24)	and 24)	22 and 24)	22 and 24)	22 and 24)			
Retail and corporate funding	FSA053 (Notes 17, 21 and 22)	FSA053 (Notes 17, 21 and 22)	FSA053 (Notes 17, 19, 21 and 22)	FSA053 (Notes 17, 19, 21 and 22)	FSA053 (Notes 17, 19, 21 and 22)			
Currency Analysis	FSA054 (Notes 17, 21 and 22)	FSA054 (Notes 17, 21 and 22)	FSA054 (Notes 17, 19, 21 and 22)	FSA054 (Notes 17, 19, 21 and 22)	FSA054 (Notes 17, 19, 21 and 22)			
Note 1	When submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 24 R, except for credit union reports that are in SUP 16 Annex 14 R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25 G (or Ann 15 G for credit unions).							
Note 2	<i>Firms</i> that are members of a <i>UK consolidation group</i> subject to the capital resources requirement at stage 1 of BIPRU 8 Annex 5 R are also required to submit this data item on a <i>UK consolidation group</i>							

De- scrip- tion of <i>data</i> <i>item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	<i>UK bank</i>	<i>Build- ing soci- ety</i>	<i>Non- EEA bank</i>	<i>EEA bank that has permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	<i>EEA bank that does not have permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	[the ed]	<i>Cred- it union</i>	<i>Dor- mant ac- count fund opera- tor</i> (note 15)

basis. *Firms'* attention is drawn to SUP 16.3.25 G regarding a single submission for all *firms* in the *group*.

Note 3 [deleted]

Note 4 For *PRA-authorized persons* lines 62 to 64 only are applicable. These lines apply to a *firm* that applies add-ons to their market risk capital calculation under the RNIV framework. For further guidance on how to complete the form *PRA-authorized persons* may refer to SUP 16.12.25A R.

Note 5 Only applicable to *firms* with a *VaR model permission*

Note 6 [deleted]

Note 7 Only applicable to a *firm* that has a *solo consolidation waiver*.

Note 8 This will be applicable to *firms* (other than building societies) that are members of a *UK consolidation group* on the reporting date.

Note 9 Only applicable to a *firm* whose ultimate parent is a *mixed-activity holding company*.

Note 10 Only applicable to a *firm* that is a *partnership*, when the report must be submitted by each *partner*.

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[deleted]	Credit union	Dormant account fund operator (note 15)

Note 11 Members of a *UK consolidation group* should only submit this *data item* at the *UK consolidation group* level.

Note 12 Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.

Note 13 Only applicable to *firms* that have an *IRB permission*

Note 14 [deleted]

Note 15 Only applies to a *dormant account fund operator* that does not fall into any of the other prudential categories in this table.

Note 16 A *firm* must complete this item separately on each of the following bases that are applicable.

(1) It must complete it on a solo basis (including on the basis of the *firm's UK branch*). Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[the ed]	Credit union	Dormant account fund operator (note 15)

(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.

Note 17 A *firm* must complete this item separately on each of the following bases that are applicable.

(1) It must complete it on a solo basis (including on the basis of the *firm's UK branch*) unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

Note 18 (1) If the *firm* has a *whole-firm liquidity modification* it must complete this item on the basis of the whole *firm* (or at any other reporting level the *whole-firm liquidity modification* may require) and not just its *UK branch*.

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[dit ed]	Credit union	Dormant account fund operator (note 15)

(2) Otherwise the *firm* must complete this item by reference to the activities of its branch operation in the *United Kingdom* in accordance with SUP 16.12.3R (1)(a)(iv).

Note 19

(1) If the *firm* has a *whole-firm liquidity modification* there is no obligation to report this item.

(2) Otherwise the *firm* must complete this item by reference to the activities of its branch operation in the *United Kingdom* in accordance with SUP 16.12.3R (1)(a)(iv).

De- scrip- tion of <i>data</i> <i>item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	<i>UK bank</i>	<i>Build- ing soci- ety</i>	<i>Non- EEA bank</i>	<i>EEA bank that has permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	<i>EEA bank that does not have permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	[the ed]	<i>Cred- it union</i>	<i>Dor- mant ac- count fund opera- tor</i> (note 15)

Note 20

(1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

Description of data item	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	UK bank	Building society	Non-EEA bank	EEA bank that has permission to accept deposits, other than one with permission for cross border services only	EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only	[deleted]	Credit union	Dormant account fund operator (note 15)

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Note 21 Note 20 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that *material currencies* must not be recorded separately.

Note 22 Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* or a *whole-firm liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification, whole-firm liquidity modification*

De- scrip- tion of <i>data</i> <i>item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	<i>UK bank</i>	<i>Build- ing soci- ety</i>	<i>Non- EEA bank</i>	<i>EEA bank that has permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	<i>EEA bank that does not have permis- sion to accept de- posits, other than one with permis- sion for cross border ser- vices only</i>	[the ed]	<i>Cred- it union</i>	<i>Dor- mant ac- count fund opera- tor</i> (note 15)

or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* or a *whole-firm liquidity modification* says to the contrary.

Note 23 Only applicable to *firms* that hold *securitisation positions* in the *trading book* and/ or are the *originator* or *sponsor* of *securitisations* held in the *trading book*.

Note 24 This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

16.12.6
FCA PRA

R

The applicable reporting frequencies for submission of *data items* and periods referred to in ■ SUP 16.12.5 R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Unconsolidated UK banks and building societies	Solo consolidated UK banks and building societies	Report on a consolidation group or, as applicable, defined liquidity group basis by UK banks and building societies	Other members of RAG 1
<i>Annual report and accounts</i>	Annual			Annual
<i>Annual report and accounts of the mixed-activity holding company</i>	Annual			
Solvency statement	Annual			
CQ				Quarterly
CY				Annually (note 2)
FSA001	Quarterly		Half yearly	
FSA002	Quarterly		Half yearly	Half yearly
FSA005	Quarterly		Half yearly	
FSA006	Quarterly			
FSA011	Quarterly			
FSA014	Half yearly			
FSA015	Quarterly		Half yearly	
FSA016		Half yearly		
FSA017	Quarterly		Half yearly	
FSA018	Quarterly			
FSA045	Quarterly		Half yearly	

<i>Data item</i>	Unconsolidated <i>UK banks and building societies</i>	Solo consolidated <i>UK banks and building societies</i>	Report on a <i>consolidation group</i> or, as applicable, <i>defined liquidity group</i> basis by <i>UK banks and building societies</i>	Other members of <i>RAG 1</i>
FSA047	Daily, weekly, monthly or quarterly (Notes 4, 6 and 9)	Daily, weekly, monthly or quarterly (Notes 4,5, 6 and 9)	Daily, weekly, monthly or quarterly (Notes 4, 8 and 9)	Daily, weekly, monthly or quarterly (Notes 4,7 and 9)
FSA048	Daily, weekly, monthly or quarterly (Notes 4, 6 and 9)	Daily, weekly, monthly or quarterly (Notes 4,5, 6 and 9)	Daily, weekly, monthly or quarterly (Notes 4, 8 and 9)	Daily, weekly, monthly or quarterly (Notes 4,7 and 9)
FSA050	Monthly (Note 4)	Monthly (Notes 4 and 5)	Monthly (Note 4)	Monthly (Note 4)
FSA051	Monthly (Note 4)	Monthly (Notes 4 and 5)	Monthly (Note 4)	Monthly (Note 4)
FSA052	Weekly or monthly (Notes 4 and 10)	Weekly or monthly (Notes 4, 5 and 10)	Weekly or monthly (Notes 4 and 11)	Weekly or monthly (Notes 4 and 10)
FSA053	Quarterly (Note 4)	Quarterly (Notes 4 and 5)	Quarterly (Note 4)	Quarterly (Note 4)
FSA054	Quarterly (Note 4)	Quarterly (Notes 4 and 5)	Quarterly (Note 4)	Quarterly (Note 4)
Note 1	[deleted]			
Note 2	The annual report required from a <i>credit union</i> by SUP 16.12.5 R must be made up for the same period as the audited accounts published by the <i>credit union</i> in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order			

<i>Data item</i>	Unconsolidated <i>UK banks and building societies</i>	Solo consolidated <i>UK banks and building societies</i>	Report on a <i>consolidation group</i> or, as applicable, <i>defined liquidity group</i> basis by <i>UK banks and building societies</i>	Other members of <i>RAG 1</i>
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1985 (as appropriate). CREDS 8.2.6 R (2)(a) states that the audited accounts referred to in SUP 16.12.5 R are to be made up for the period beginning with the date of the *credit union's* registration or with the date to which the *credit union's* last annual accounts were made up, and ending on the *credit union's* most recent financial year end.

Note 3

[deleted]

Note 4

Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:

(1) A week means the period beginning on Saturday and ending on Friday.

(2) A month begins on the first day of the calendar month and ends on the last day of that month.

(3) Quarters end on 31 March, 30 June, 30 September and 31 December.

(4) Daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* or a *whole-firm liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the firm receives that *intra-group liquidity modification*, *whole-firm liquidity modification* or variation part of the way through such a period, unless the *whole-firm liquidity modification* or *intra-group liquidity modification* says otherwise.

Note 5

As specified in SUP 16.12.5 R, solo consolidation has no application to liquidity reporting. Therefore it does not make

<i>Data item</i>	Unconsolidated <i>UK banks and building societies</i>	Solo consolidated <i>UK banks and building societies</i>	Report on a <i>consolidation group</i> or, as applicable, <i>defined liquidity group</i> basis by <i>UK banks and building societies</i>	Other members of <i>RAG 1</i>
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any difference to the reporting of this item whether or not the *firm* is solo consolidated.

Note 6 If the report is on a solo basis (and the *firm* is a *UK firm*) the reporting frequency is as follows:

(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*.

Note 7 (1) If the report is on a solo basis (and the *firm* is not a *UK firm*) the reporting frequency is as follows:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*.

(2) If the *firm* has a *whole-firm liquidity modification* (1) does not apply and instead the frequency of solo reporting

<i>Data item</i>	Unconsolidated <i>UK banks and building societies</i>	Solo consolidated <i>UK banks and building societies</i>	Report on a <i>consolidation group</i> or, as applicable, <i>defined liquidity group</i> basis by <i>UK banks and building societies</i>	Other members of <i>RAG 1</i>
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is quarterly (or whatever other frequency the *whole-firm liquidity modification* requires).

Note 8

(1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.

Note 9

(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm, branch* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm, branch* or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under

<i>Data item</i>	Unconsolidated <i>UK banks and building societies</i>	Solo consolidated <i>UK banks and building societies</i>	Report on a <i>consolidation group</i> or, as applicable, <i>defined liquidity group</i> basis by <i>UK banks and building societies</i>	Other members of RAG 1
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paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

Note 10 If the report is on a solo basis (including by reference to the *firm's UK branch*) the reporting frequency is as follows:

(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(2) monthly if the *firm* is a *low frequency liquidity reporting firm*.

Note 11 If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

(1) weekly if the *group liquidity standard frequency reporting conditions* are met;

(2) monthly if the *group liquidity low frequency reporting conditions* are met.

16.12.7
FCA PRA

R

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.6 R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
<i>Annual report and accounts</i>						80 <i>business days</i> (note 1)
						7 months (note 2)
<i>Annual report</i>						7 months

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
<i>and accounts of the mixed-activity holding company</i>						
Solvency statement						3 months
CQ				1 month		
CY						6 months
FSA001				20 business days	45 business days	
FSA002				20 business days	45 business days	
FSA005				20 business days	45 business days	
FSA006				20 business days		
[deleted]				[deleted]		
FSA011				15 business days		
[deleted]					[deleted]	
[deleted]				[deleted]		
FSA014					30 business days (note 3);	
					45 business days (note 4)	
FSA015				30 business days	45 business days	
FSA016					30 business days	
FSA017				20 business days	45 business days	

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
FSA018				45 business days		
FSA045				20 business days	45 business days	
FSA047	22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question	15 business days	15 business days or one Month (Note 5)		
FSA048	22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question	15 business days	15 business days or one Month (Note 5)		
FSA050			15 business days			

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
FSA051			15 business days			
FSA052		22.00 hours (London time) on the second business day immediately following the last day of the reporting period for the item in question	15 business days			
FSA053			15 business days			
FSA054			15 business days			
Note 1	Applicable to UK banks and dormant account fund operators.					
Note 2	Applicable to non-EEA banks					
Note 3	Applicable to unconsolidated and solo consolidated reports					
Note 4	Applicable to UK consolidation group reports					
Note 5	It is one Month if the report relates to a non-UK DLG by modification or the firm has a whole-firm liquidity modification.					

Regulated Activity Group 2.1

16.12.8

PRA

R

- (1) The financial reporting requirements for RAG 2.1 activities for *insurers*, excluding *friendly societies*, are set out in *IPRU(INS)*.
- (2) The financial reporting requirements for RAG 2.1 activities for *friendly societies* are set out in *IPRU(FSOC)*.
- (3) A UK insurance special purpose vehicle must submit a copy of its annual audited financial statements within 3 months of its *accounting reference date*, but the report is only required if it was audited as a result of a statutory provision other than under the *Act*.

16.12.9
FCA

R

Regulated Activity Group 2.2

The applicable *data items* referred to in ■ SUP 16.12.4 R are set out according to type of *firm* in the table below .

The applicable reporting frequencies for submission of *data items* and periods referred to in ■ SUP 16.12.4 R are set out in the table below and are calculated from a *firm's accounting reference date*, unless indicated otherwise.

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

<i>Member's adviser</i>			<i>the Society (note 1)</i>		
Description of <i>data item</i> and <i>data item</i>	Frequency	Submission deadline	Description of <i>data item</i>	Frequency	Submission deadline
			<i>Annual report and accounts</i>	Annually	6 month's after the <i>Society's accounting reference date</i>
			Annual Lloyd's return	Annually	6 months after the <i>Society's accounting reference date</i>
			Syndicate accounts and reports (note 2)	Annually	6 months after the <i>Society's accounting reference date</i>
Quarterly reporting statement	Quarterly	15 <i>business days</i> after the quarter end			
Balance Sheet					
FSA001 (notes 15, 20) or	Quarterly or half yearly	(note 14)			

	<i>Member's adviser</i>	<i>the Society (note 1)</i>
FSA029	Quarterly (note 14)	
	(note 14)	
Income Statement		
FSA002	Quarterly (note 14)	
(note 20),	or half	
or	yearly	
	(note 14)	
FSA030	Quarterly (note 14)	
Capital Adequacy		
FSA003	Monthly, (note 14)	
(notes 4,	quarterly	
20) or	or half	
	yearly	
	(note 14)	
FSA033	Quarterly (note 14)	
(note 12) or		
FSA034	Quarterly (note 14)	
(note 13) or		
FSA035	Quarterly (note 14)	
(note 13)		
Credit Risk		
FSA004	Quarterly (note 14)	
(notes 5,	or half	
20)	yearly	
	(note 14)	
Market Risk		
FSA005	Quarterly (note 14)	
(notes 6,	or half	
20)	yearly	
	(note 14)	
Large Exposures		
FSA008	Quarterly	20 business
(Notes 20,		days (note
21)		19)

	<i>Member's adviser</i>	the <i>Society</i> (note 1)
Note 1	The <i>Society</i> must prepare its reports in the format specified in <i>IPRU(INS)</i> Appendix 9.11, unless Note 2 applies.	
Note 2	The <i>Society</i> must ensure that the annual syndicate accounts and reports are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (S.I. 2008/1950).	
Note 3	[deleted]	
Note 4	Only <i>firms</i> subject to <i>IPRU(INV)</i> 4 report <i>data item</i> FSA003.	
Note 5	<p>This applies to a <i>firm</i> that is required to submit <i>data item</i> FSA003 and, at anytime within the 12 <i>months</i> up to its latest <i>accounting reference date</i> ("the relevant period"), was reporting <i>data item</i> FSA004 ("Firm A") or not reporting this item ("Firm B").</p> <p>In the case of Firm A it must report this <i>data item</i> if one or both of its last two submissions in the relevant period show that the threshold was exceeded.</p> <p>In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.</p> <p>The threshold is exceeded where <i>data element</i> 77A in <i>data item</i> FSA003 is greater than £10 million, or its currency equivalent, at the relevant reporting date for the <i>firm</i>.</p>	
Note 6	<p>This applies to a <i>firm</i> that is required to submit <i>data item</i> FSA003 and, at anytime within the 12 <i>months</i> up to its latest <i>accounting reference date</i> ("the relevant period"), was reporting <i>data item</i> FSA005 ("Firm A") or not reporting this item ("Firm B").</p> <p>In the case of Firm A it must report this <i>data item</i> if one or both of its last two submissions in the relevant period show that the threshold was exceeded.</p> <p>In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.</p> <p>The threshold is exceeded where <i>data element</i> 93A in <i>data item</i> FSA003 is greater than £50 million, or its currency equivalent, at the relevant reporting date for the <i>firm</i>.</p>	
Note 7	[deleted]	
Note 8	[deleted]	

	<i>Member's adviser</i>	<i>the Society (note 1)</i>
Note 9	[deleted]	
Note 10	[deleted]	
Note 11	[deleted]	
Note 12	FSA033 is only applicable to <i>firms</i> subject to <i>IPRU(INV) 3</i>	
Note 13	Only applicable to <i>firms</i> subject to <i>IPRU(INV) 5</i> . FSA034 must be completed by a <i>firm</i> not subject to the exemption in <i>IPRU(INV) 5.2.3(2)R</i> . FSA035 must be completed by a <i>firm</i> subject to the exemption in <i>IPRU(INV) 5.2.3(2)R</i> .	
Note 14	<i>BIPRU firms</i> report half yearly on 30 <i>business days</i> submission . All UK <i>consolidation group</i> reports report half yearly on 45 <i>business days</i> submission. All other <i>firms</i> report monthly on 20 <i>business days</i> submission.	
Note 15	This <i>data item</i> only applies to <i>BIPRU firms</i> .	
Note 16	[deleted]	
Note 17	[deleted]	
Note 18	[deleted]	
Note 19	<i>UK consolidation group</i> reports have 45 <i>business days</i> submission.	
Note 20	<i>Firms</i> that are members of a <i>UK consolidation group</i> are also required to submit FSA001, FSA002, FSA003, FSA004, FSA005 and FSA008 on a <i>UK consolidation group</i> basis.	
Note 21	This will not be applicable to <i>BIPRU firms</i> .	

16.12.9A

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A *Member's adviser* that is also an *IFPRU investment firm* will also fall under one of the higher number *RAGs* that apply to *IFPRU investment firms* . That means that it will have to report a number of *data items* in addition to the ones that it has to supply under *RAG 2.2*.

16.12.10

FCA PRA

R

Regulated Activity Group 3

(1) ■ SUP 16.12.11 R to ■ SUP 16.12.13 R do not apply to:

- (a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));
- (b) an *OPS firm*;
- (c) a local authority;
- (d) a *service company*.

- (2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.
- (3) A *service company* must submit a copy of its annual audited financial statements within 6 months from its *accounting reference date*. However, the *firm* need only submit this if the report was audited as a result of a statutory provision other than the *Act*.

16.12.11

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R

The applicable *data items* referred to in ■ SUP 16.12.4 R are set out according to *firm* type in the table below:

De- scrip- tion of <i>data</i> <i>item</i>	Firms' prudential category and applicable <i>data items</i> (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	IRNY Chap- ter 3	IRNY Chap- ter 5	IRNY Chap- ter 9	IRNY Chap- ter 13	UP- RU
<i>Annual report and accounts</i>	No standard format		No stan- dard for- mat (note 19)	No standard format		No stan- dard for- mat (Note 13)	No stan- dard for- mat
<i>Annual report and accounts of the mixed-activity holding company</i> (note 10)	No standard format						
<i>Solvency state- ment</i>	No standard format (note 11)		No stan- dard for- mat	No stan- dard for- mat			No stan- dard for- mat

De- scrip- tion of <i>data item</i>	Firms' prudential category and applicable <i>data items</i> (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	IR/N Chap- ter 3	IR/N Chap- ter 5	IR/N Chap- ter 9	IR/N Chap- ter 13	UP- RU
			(note 20)	(note 11)			(note 11)
Balance sheet	FSA001/FIN-REP (note 36)	FSA001 (Note 2)	FSA029 (note 18)	FSA029	FSA029	FSA029 (note 15) or Section A RMAR (note 15)	FSA029
Income statement	FSA001/FIN-REP (note 36)	FSA002 (Note 2)	FSA030 (note 18)	FSA030	FSA030	FSA030 (note 15) or Section B RMAR (note 15)	FSA030
Capital adequacy	COREP (Note 36)	FSA003 (Note 2)	FSA033 (note 18)	FSA034 or FSA035 (note 14)	FSA031	FSA032 (note 15) or Section D6 RMAR (note 15)	FSA036
Supplementary capital data for collective portfolio management in-	FIN067 (Note 35)	FIN068 (Note 35)					

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(N) Chapter 3</i>	<i>IR(N) Chapter 5</i>	<i>IR(N) Chapter 9</i>	<i>IR(N) Chapter 13</i>	<i>UP-RU</i>
<i>vestment firms</i>							
Credit risk	COREP (Note 36)	FSA004 (Notes 2, 3)					
Market risk	COREP (Note 36)	FSA005 (Notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)	FSA006 (Note 5)					
Operational risk	COREP (Note 36)						
Large exposures	COREP (Note 36)						
Exposures between core UK group and non-core large exposures group	FSA018 (note 12)						
Solo consolidation data	FSA016 (note 25)	FSA016 (Note 25)					
Pillar 2 questionnaire	FSA019 (note 8)	FSA019 (Note 8)					

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IRU</i> Chap- ter 3	<i>IRU</i> Chap- ter 5	<i>IRU</i> Chap- ter 9	<i>IRU</i> Chap- ter 13	<i>UP- RU</i>
Non-EEA sub-group	COREP (Note 36)	FSA028 (Note 9)					
Threshold conditions						Section F RMAR (Note 15)	
Client money and client assets	FSA039	FSA039	FSA039 (note 18)	FSA039	FSA039	FSA039	Section C RMAR (Note 15) or FSA039
CFTC	FSA040 (note 24)	FSA040 (Note 24)	FSA040 (note 24)	FSA040 (note 24)	FSA040 (note 24)	FSA040 (note 24)	FSA040 (note 24)
IRB portfolio risk	FSA045 (note 22)	FSA045 (Note 22)					
Securiti- sation: non- trading book	COREP (Note 36)	FSA046 (Note 23)					
Daily Flows	FSA047 COREP (Notes 26, 29, 31, 33, and 36)						
En- hanced Mis-	FSA048 COREP (Notes 26, 29, 31, 33, and 36)						

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR/N/ Chapter 3</i>	<i>IR/N/ Chapter 5</i>	<i>IR/N/ Chapter 9</i>	<i>IR/N/ Chapter 13</i>	<i>UP-RU</i>

match Report						
Liquidity Buffer Qualifying Securities	FSA05COREP (Notes 27, 30, 31, 33, and 36)					
Funding Concentration	FSA05COREP (Notes 27, 30, 31, 33, and 36)					
Pricing data	FSA05COREP (Notes 27, 31, 33, 34, and 36)					
Retail and corporate funding	FSA05COREP (Notes 27, 30, 31, 33, and 36)					
Currentcy Analysis	FSA05COREP (Notes 27, 30, 31, 33, and 36)					
Systems and Controls Questionnaire	FSA05COREP (Notes 28, 33, and 36)	FSA055 (Notes 28 and 33)				
Securitized trading book	COREP (Note 36)					

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms'</i> prudential category and applicable <i>data items</i> (note 1)						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(N)</i> Chap- ter 3	<i>IR(N)</i> Chap- ter 5	<i>IR(N)</i> Chap- ter 9	<i>IR(N)</i> Chap- ter 13	<i>UP- RU</i>

Note 1 All *firms*, except *IFPRU investment firms* in relation to *data items* reported under the *EU CRR*, when submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in SUP 16 Annex 24 R. Guidance notes for completion of the *data items* are contained in SUP 16 Annex 25 G.

Note 2 *Firms* that are members of a *UK consolidation group* are also required to submit this report on a *UK consolidation group* basis.

Note 3 This applies to a *firm* that is required to submit *data item* FSA003 and, at any time within the 12 *months* up to its latest *accounting reference date* ("the relevant period"), was reporting *data item* FSA004 ("Firm A") or not reporting this item ("Firm B").

In the case of Firm A it must report this *data item* if one or both of its last two submissions in the relevant period show that the threshold was exceeded.

In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.

The threshold is exceeded where *data element* 77A in *data item* FSA003 is greater than £10 million, or its currency equivalent, at the relevant reporting date for the *firm*.

Note 4 This applies to a *firm* that is required to submit *data item* FSA003 and, at anytime within the 12 *months* up to its latest *accounting reference date* ("the relevant period"), was reporting *data item* FSA005 ("Firm A") or not reporting this item ("Firm B").

In the case of Firm A it must report this *data item* if one or both of its last two submissions in the relevant period show that the threshold was exceeded.

In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms'</i> prudential category and applicable <i>data items</i> (note 1)						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IPRU</i> Chapter 3	<i>IPRU</i> Chapter 5	<i>IPRU</i> Chapter 9	<i>IPRU</i> Chapter 13	<i>UP-RU</i>

The threshold is exceeded where *data element 93A in data item FSA003* is greater than £50 million, or its currency equivalent, at the relevant reporting date for the *firm*.

Note 5 Only applicable to *firms* with a *VaR model permission*.

Note 6 [deleted]

Note 7 [deleted]

Note 8 Only applicable to *IFPRU investment firms* and *BIPRU firms* that:

(a) are subject to consolidated supervision under **BIPRU 8**, except those that are either included within the consolidated supervision of a group that includes a *UK credit institution*, or that have been granted an *investment firm consolidation waiver*; or

(b) have been granted an *investment firm consolidation waiver*; or

(c) are not subject to consolidated supervision under **BIPRU 8**.

An *IFPRU investment firm* and a *BIPRU firm* under (a) must complete the report on the basis of its *UK consolidation group*. An *IFPRU investment firm* and a *BIPRU firm* under (b) or (c) must complete the report on the basis of its solo position.

Note 9 This will be applicable to firms that are members of a *UK consolidation group* on the reporting date.

Note 10 Only applicable to a *firm* whose ultimate parent is a *mixed activity holding company*.

Note 11 Only applicable to a *firm* that is a *sole trader* or a *partnership*, when the report must be submitted by each *partner*.

Note 12 This is only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.

Note 13 This does not apply to a *firm* subject to *IPRU(INV) Chapter 13* which is not an *exempt CAD firm*.

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms'</i> prudential category and applicable <i>data items</i> (note 1)						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IPRU</i> Chapter 3	<i>IPRU</i> Chapter 5	<i>IPRU</i> Chapter 9	<i>IPRU</i> Chapter 13	<i>UP-RU</i>

Note 14 FSA034 must be completed by a *firm* not subject to the exemption in *IPRU(INV)* 5.2.3(2)R.

FSA035 must be completed by a *firm* subject to the exemption in *IPRU(INV)* 5.2.3(2)R.

Note 15 FSA029, FSA030, FSA032 and FSA039 only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*. Sections A, B, C, D1, D6 and F RMAR only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*. Where a *firm* submits data items for both *RAG 3* and *RAG 9*, the *firm* must complete both Sections D1 and D6 RMAR.

Note 16 [deleted]

Note 17 An *exempt BIPRU commodity firm* will, by virtue of the definition of *BIPRU TP 15*, be exempt from completing FSA003 (and thus FSA004, FSA005, FSA006 and FSA007) for the duration of the transitional provision. It is however required to submit all other *data items* applicable according to the *firm's BIPRU* classification including, for the avoidance of doubt, *BIPRU TP 16*.

Note 18 Except if the *firm* is an *adviser, local* or traded options market maker (as referred to in *IPRU(INV)* 3-60(4)R).

Note 19 In the case of an *adviser, local* or traded options market maker (as referred to in *IPRU(INV)* 3-60(4)R), it is only required from *partnerships* and *bodies corporate*, and then only if the report was audited as a result of a statutory provision other than under the *Act*.

Note 20 Only required in the case of an *adviser, local* or traded options market maker (as referred to in *IPRU(INV)* 3-60(4)R) that is a *sole trader*.

Note 21 [deleted]

Note 22 Only applicable to *firms* that have an *IRB permission*.

Note 23 Only applicable to *firms* that hold *securitisation positions*, or are the *originator* or *sponsor* of *securitisations*. of *non-trading book exposures*.

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>			<i>Firms other than BIPRU firms or IFPRU investment firms</i>			
	<i>IFPRU</i>	<i>BIPRU</i>	<i>ILAS</i> Chapter 3	<i>ILAS</i> Chapter 5	<i>ILAS</i> Chapter 9	<i>ILAS</i> Chapter 13	<i>UP-RU</i>

Note 24 Only applicable to *firms* granted a *Part 30 exemption order* and operating an arrangement to cover forward profits on the London Metals Exchange.

Note 25 Only applicable to a *firm* that has a *solo consolidation waiver*.

Note 26 A *firm* must complete this item separately on each of the following bases (if applicable).

(1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.

(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.

Note 27 A *firm* must complete this item separately on each of the following bases that are applicable.

(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

Note 28 If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms'</i> prudential category and applicable <i>data items</i> (note 1)						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IRU</i> Chapter 3	<i>IRU</i> Chapter 5	<i>IRU</i> Chapter 9	<i>IRU</i> Chapter 13	<i>UP-RU</i>

must complete the item on an unconsolidated basis by reference to the *firm* alone.

Note 29 (1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms'</i> prudential category and applicable <i>data items</i> (note 1)						
	<i>IFPRU investment firms and BIPRU firms</i>			<i>Firms other than BIPRU firms or IFPRU investment firms</i>			
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IRU</i> Chap- ter 3	<i>IRU</i> Chap- ter 5	<i>IRU</i> Chap- ter 9	<i>IRU</i> Chap- ter 13	<i>UP- RU</i>

Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Note 30 Note 29 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that *material currencies* must not be recorded separately.

Note 31 Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary.

Note 32 Only applicable to *firms* that hold *securitisation positions* in the trading book and/or are the *originator* or *sponsor* of *securitisations* held in the *trading book*.

Note 33 FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an *ILAS BIPRU firm*. An *ILAS BIPRU firm* does not need to complete FSA055. A *non-ILAS BIPRU firm* must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.

Note 34 This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

Note 35 Only applicable to *firms* that are *collective portfolio management investment firms*.

Description of data item	Firms' prudential category and applicable data items (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	ILAS Chapter 3	ILAS Chapter 5	ILAS Chapter 9	ILAS Chapter 13	UP-RU

Note 36 Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

16.12.11A

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FCA

The column in the table in ■ SUP 16.12.11 R that deals with *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm* (please see notes 28 and 33)

16.12.11B

R

PRA

The applicable *data items* referred to in ■ SUP 16.12.4 R for *UK designated investment firms* are set out below:

Description of data item	Applicable data items (Note 1)
<i>Annual report and accounts</i>	No standard format
<i>Annual report and accounts of the mixed-activity holding company (note 5)</i>	No standard format
Solvency statement	No standard format (Note 6)
Balance sheet	FSA001 (Note 2)
Income statement	FSA002 (Note 2)
Market risk	FSA005 (notes 2, 19)
Market risk-supplementary	FSA006 (Note 3)
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (Note 7)
Solo consolidation data	FSA016 (Note 9)
Pillar 2 questionnaire	FSA019 (Note 4)
IRB portfolio risk	FSA045 (Note 18)
Daily flows	FSA047 (Notes 10, 13, 15 and 16)
Enhanced Mismatch Report	FSA048 (Notes 10, 13, 15 and 16)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 11, 14, 15 and 16)
Funding Concentration	FSA051 (Notes 11, 14, 15 and 16)
Pricing data	FSA052 (Notes 11, 15, 16 and 17)
Retail and corporate funding	FSA053 (Notes 11, 14, 15 and 16)

Currency Analysis	FSA054 (Notes 11, 14, 15 and 16)
Systems and Controls Questionnaire	FSA055 (Notes 12 and 16)

Note 1 When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in SUP 16 Annex 24 R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25AG.

Note 2 *Firms* that are members of a *consolidation group* are also required to submit this report on a *consolidation group* basis.

Note 3 Only applicable to *firms* with a *VaR model permission*.

Note 4 Only applicable to *UK designated investment firms* that:

(a) are subject to consolidated supervision under the *EU CRR*, except those that are either included within the consolidated supervision of a group that includes a *UK credit institution*, or

(b) are not subject to consolidated supervision under the *EU CRR*.

A *UK designated investment firm* under (a) must complete the report on the basis of its *consolidation group*. A *UK designated investment firm* under (b) must complete the report on the basis of its solo position.

Note 5 Only applicable to a *firm* whose ultimate parent is a *mixed activity holding company*.

Note 6 Only applicable to a *firm* that is a *sole trader* or a *partnership*, when the report must be submitted by each *partner*.

Note 7 Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.

Note 9 Only applicable to a *firm* with an *individual consolidation permission*

Note 10 A *firm* must complete this item separately on each of the following bases (if applicable).

(1) It must complete it on a solo basis. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.

Note 11	<p>(3) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group.</p> <p>(4) If it is a <i>group liquidity reporting firm</i> in a <i>non-UK DLG by modification</i>, it must complete the item on the basis of that group.</p> <p>A <i>firm</i> must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group.</p>
Note 12	<p>If it is a <i>non-ILAS BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p>
Note 13	<p>(1) This item must be reported in the reporting currency.</p> <p>(2) If any <i>data element</i> is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.</p> <p>(3) In addition, all <i>material currencies</i> (which may include the reporting currency) must each be recorded separately (translated into the reporting currency).</p> <p>However if:</p> <p>(a) the reporting frequency is (whether under a <i>rule</i> or under a <i>waiver</i>) quarterly or less than quarterly; or</p> <p>(b) the only <i>material currency</i> is the reporting currency;</p> <p>(3) does not apply.</p> <p>(4) If there are more than three <i>material currencies</i> for this <i>data item</i>, (3) only applies to the three largest in amount. A <i>firm</i> must identify the largest in amount in accordance with the following procedure.</p>

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Note 14 Note 13 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that *material currencies* must not be recorded separately.

Note 15 Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary.

Note 16 FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an *ILAS BIPRU firm*. An *ILAS BIPRU firm* does not need to complete FSA055. A *non-ILAS BIPRU firm* must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.

Note 17 This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

Note 18 Only applicable to *firms* that have an *IRB permission*.

Note 19 Lines 62 to 64 only are applicable. These lines apply to a *firm* that applies add-ons to their market risk capital calculation under the RNIV framework. For further guidance on how to complete the form refer to SUP 16 Annex 25A G.

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R

The applicable reporting frequencies for *data items* referred to in ■ SUP 16.12.4 R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CORFIN-REP	Refer to EU CRR and applicable technical standards			Refer to EU CRR and applicable technical standards		
<i>Annual report and accounts</i>	Annually	Annually	Annually	Annually		Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually	Annually	Annually	Annually		
Solvency statement	Annually	Annually	Annually	Annually		Annually
FSA001	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	

Data Item	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA002	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA003				Half yearly	Half yearly	
FSA004				Half yearly	Half yearly	
FSA005				Half yearly	Half yearly	
FSA006	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	
FSA007				Annual (note 4)	Annual (note 4)	
FSA008					Quarterly	
FSA016	Half yearly	Half yearly	Half yearly	Half yearly		
FSA018	Quarterly	Quarterly	Quarterly			
FSA019	Annually	Annually	Annually	Annually	Annually	
FSA028				Half yearly		

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CORRIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA029						Quarterly
FSA030						Quarterly
FSA031						Quarterly
FSA032						Quarterly
FSA033						Quarterly
FSA034						Quarterly
FSA035						Quarterly
FSA036						Quarterly
FSA039	Half yearly	Half yearly	Half yearly	Half yearly		Half yearly
FSA040	Quarterly	Quarterly	Quarterly	Quarterly		Quarterly
FSA045	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA046				Quarterly	Quarterly	
FSA047	Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)					Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)

Data Item	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA048	Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)				Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)	
FSA050	Monthly (Note 5)				Monthly (Note 5)	
FSA051	Monthly (Note 5)				Monthly (Note 5)	
FSA052	Weekly or monthly (Notes 5 and 9)				Weekly or monthly (Notes 5 and 10)	
FSA053	Quarterly (Note 5)				Quarterly (Note 5)	
FSA054	Quarterly (Note 5)				Quarterly (Note 5)	
FSA055	Annually (Note 5)				Annually (Note 5)	

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards			Refer to <i>EU CRR</i> and applicable technical standards		
FSA058				Quarterly	Quarterly	
FIN067		Quarterly (note 5)				
FIN068				Half yearly		
Section A RMAR						Half yearly (note 2) Quarterly (note 3)
Section B RMAR						Half yearly (note 2) Quarterly (note 3)
Section C RMAR						Half yearly (note 2) Quarterly (note 3)
Section D1 and D2 RMAR						Half yearly (note 2) Quarterly (note 3)
Section F RMAR						Half yearly
Note 1	[deleted]					

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CRR/REP	Refer to EU CRR and applicable technical standards			Refer to EU CRR and applicable technical standards		
Note 2	Annual regulated business revenue up to and including £5 million.					
Note 3	Annual regulated business revenue over £5 million.					
Note 4	The reporting date for this <i>data item</i> is six months after a <i>firm's</i> most recent <i>accounting reference date</i> .					
Note 5	Reporting frequencies and reporting periods for this <i>data item</i> are calculated on a calendar year basis and not from a <i>firm's</i> <i>accounting reference date</i> . In particular:					
	(1) A week means the period beginning on Saturday and ending on Friday.					
	(2) A month begins on the first day of the calendar month and ends on the last day of that month.					
	(3) Quarters end on 31 March, 30 June, 30 September and 31 December.					
	(4) Daily means each <i>business day</i> .					
	All periods are calculated by reference to London time.					
	Any changes to reporting requirements caused by a <i>firm</i> receiving an <i>intra-group liquidity modification</i> (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements					

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
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COREFIN-REP	Refer to EU CRR and applicable technical standards	Refer to EU CRR and applicable technical standards
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Note 6 **if the firm receives that intra-group liquidity modification or variation part of the way through such a period, unless the intra-group liquidity modification says otherwise.**

If the report is on a solo basis the reporting frequency is as follows:

(1) if the firm does not have an intra-group liquidity modification the frequency is:

(a) weekly if the firm is a standard frequency liquidity reporting firm; and

(b) monthly if the firm is a low frequency liquidity reporting firm;

(2) if the firm is a group liquidity reporting firm in a non-UK DLG by modification (firm level) the frequency is:

(a) weekly if the firm is a standard frequency liquidity reporting firm; and

(b) monthly if the firm is a low frequency liquidity reporting firm;

(3) the frequency is quarterly if the firm is a group liquidity reporting firm in a UK DLG by modification.

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CRR/REP	Refer to EU CRR and applicable technical standards			Refer to EU CRR and applicable technical standards		

Note 7 (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (b) monthly if the *group liquidity low frequency reporting conditions* are met.

(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.

Note 8 (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-*

Data Item	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
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CORFIN-REP	Refer to EU CRR and applicable technical standards	Refer to EU CRR and applicable technical standards
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specific liquidity stress or market liquidity stress in relation to the firm or group in question.

(3) A firm must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no firm-specific liquidity stress or market liquidity stress and none is expected.

Note 9 If the report is on a solo basis the reporting frequency is as follows:

(1) weekly if the firm is a standard frequency liquidity reporting firm; and

(2) monthly if the firm is a low frequency liquidity reporting firm.

Note 10 If the report is by reference to the firm's UK DLG by modification the reporting frequency is:

(1) weekly if the group liquidity standard frequency reporting conditions are met;

(2) monthly if the group liquidity low frequency reporting conditions are met.

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The applicable reporting frequencies for *data items* referred to in ■ SUP 16.12.4 R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Reporting frequency
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<i>Annual report and accounts</i>	Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually
Solvency statement	Annually
FSA001	Quarterly
FSA002	Quarterly
FSA005	Quarterly
FSA006	Quarterly
FSA016	Half yearly
FSA018	Quarterly
FSA019	Annually
FSA045	Quarterly
FSA047	Daily, weekly, monthly or quarterly (Notes 1, 2 and 3)
FSA048	Daily, weekly, monthly or quarterly (Notes 1, 2 and 3)
FSA050	Monthly (Note 1)
FSA051	Monthly (Note 1)
FSA502	Weekly or monthly (Notes 1 and 4)
FSA053	Quarterly (Note 1)
FSA054	Quarterly (Note 1)
FSA055	Annually (Note 1)

Note 1 Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:

(1) A week means the period beginning on Saturday and ending on Friday.

(2) A month begins on the first day of the calendar month and ends on the last day of that month.

(3) Quarters end on 31 March, 30 June, 30 September and 31 December.

(4) Daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.

Note 2

If the report is on a solo basis the reporting frequency is as follows:

(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*.

Note 3

(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

Note 4 If the report is on a solo basis the reporting frequency is:

(1) Weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(2) Monthly if the *firm* is a *low frequency liquidity reporting firm*.

16.12.13 **R**
FCA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.12 R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
Annual report and accounts						80 <i>business days</i>
Annual report and accounts of the mixed-activity holding company						7 months
Solvency statement						3 months
FSA001				20 <i>business days</i>	30 <i>business days</i> (note 1)	45 <i>business days</i> (note 2)

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA002				20 <i>business days</i>	30 <i>business days</i> (note 1)	
					45 <i>business days</i> (note 2)	
FSA003			15 <i>business days</i>	20 <i>business days</i>	30 <i>business days</i> (note 1)	
					45 <i>business days</i> (note 2)	
FSA004				20 <i>business days</i>	30 <i>business days</i> (note 1)	
					45 <i>business days</i> (note 2)	
FSA005				20 <i>business days</i>	30 <i>business days</i> (note 1)	
					45 <i>business days</i> (note 2)	
FSA006				20 <i>business days</i>		
FSA007						2 months
FSA008				20 <i>business days</i> (note 1);		
				45 <i>business days</i> (note 2)		
FSA016					30 <i>business days</i>	

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA018				45 business days		
FSA019						2 months
FSA028					30 business days	
FSA029				20 business days		
FSA030				20 business days		
FSA031				20 business days		
FSA032				20 business days		
FSA033				20 business days		
FSA034				20 business days		
FSA035				20 business days		
FSA036				20 business days		
FSA039					30 business days	
FSA040				15 business days		
FSA045				20 business days	30 business days (note 1), 45 business days (note 2)	
FSA046				20 business days (Note 1), 45 business days (Note 2)		

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
CORE REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA047	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		
FSA048	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		
FSA050			15 <i>business days</i>			
FSA051			15 <i>business days</i>			
FSA052		22.00 hours (London time) on the second <i>busi-</i>	15 <i>business days</i>			

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
	<i>ness day immediately following the last day of the reporting period for the item in question</i>					
FSA053				15 <i>business days</i>		
FSA054				15 <i>business days</i>		
FSA055						15 <i>business days</i>
FSA058				20 <i>business days</i> (Note 1), 45 <i>business days</i> (Note 2)		
FIN067				30 <i>days</i>		
FIN068					30 <i>business days</i>	
Section A RMAR				30 <i>business days</i>	30 <i>business days</i>	
Section B RMAR				30 <i>business days</i>	30 <i>business days</i>	
Section C RMAR				30 <i>business days</i>	30 <i>business days</i>	
Section D6 RMAR				30 <i>business days</i>	30 <i>business days</i>	

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREFIN REP	Refer to <i>EU CRR</i> and applicable technical standards					
Section F RMAR						30 business days
Note 1	For unconsolidated and solo-consolidated reports.					
Note 2	For UK consolidation group reports.					
Note 3	It is one <i>Month</i> if the report relates to a <i>non-UK DLG</i> by <i>modification</i>.					

16.12.13A **R**
PRA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.12A R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Halfyearly	Annual
Annual report and accounts						80 business days
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months
Solvency statement						3 months
FSA001				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA002				20 business days	30 business days (Note 1); 45 business days (Note 2)	

FSA005				<i>20 business days</i>	<i>30 business days (Note 1); 45 business days (Note 2)</i>
FSA006				<i>20 business days</i>	
FSA016					<i>30 business days</i>
FSA018				<i>45 business days</i>	
FSA019					2 months
FSA045				<i>20 business days</i>	<i>30 business days (Note 1); 45 business days (Note 2)</i>
FSA047	22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question		<i>15 business days</i>	<i>15 business days or one month (Note 3)</i>
FSA048	22.00 hours (London time) on the business day immediately following the last	22.00 hours (London time) on the business day immediately following the last		<i>15 business days</i>	<i>15 business days or one month (Note 3)</i>

	day of the reporting period for the item in question	day of the reporting period for the item in question	
FSA050			15 <i>business days</i>
FSA051			15 <i>business days</i>
FSA052	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question		15 <i>business days</i>
FSA053			15 <i>business days</i>
FSA054			15 <i>business days</i>
FSA055			15 <i>business days</i>
Note 1: For unconsolidated and solo-consolidated reports			
Note 1: For unconsolidated and solo-consolidated reports			
Note 3: It is one <i>Month</i> if the report relates to a <i>non-UK DLG by modification</i>.			

Regulated Activity Group 4

- (1) ■ SUP 16.12.15 R to ■ SUP 16.12.17 R do not apply to:
- (a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));
 - (b) an *OPS firm*;
 - (c) a local authority.

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R

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(2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.

16.12.15 **R**
FCA

The applicable *data items* referred to in ■ SUP 16.12.4 R according to type of *firm* are set out in the table below:

De- scrip- tion of <i>data</i> <i>item</i>	Firms' prudential category and applicable <i>data items</i> (note 1)							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	IR(N) Chap- ter 3	IR(N) Chap- ter 5	IR(N) Chap- ter 9	IR(N) Chap- ter 11	IR(N) Chap- ter 13	<i>UP- RU</i>
<i>Annual re- port and ac- counts</i>	No standard format (note 13)		No standard format (note 13)					No standard format (note 13)
<i>Annual re- port and ac- counts of the (note 10)</i>	No standard format (note 13)		No standard format (note 13)					
<i>Sol- vency state- ment</i>	No stan- dard for- mat	No standard format (Note 11)	No stan- dard for- mat	No stan- dard for- mat	No stan- dard for- mat	No stan- dard for- mat	No stan- dard for- mat	

Description of data item	Firms' prudential category and applicable data items (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IR(N) Chapter 3	IR(N) Chapter 5	IR(N) Chapter 9	IR(N) Chapter 11 (collective portfolio management firms only)	IR(N) Chapter 13	UP-RU
Balance sheet	FSA001/FIN-REP (Notes 2 and 34)	FSA001 (Note 2)	FSA029	FSA029	FSA029	FSA029	FSA029 (note 15) or Section A RMAR (note 15)	FSA029
Income statement	FSA002/FIN-REP (Notes 2 and 34)	FSA002 (Note 2)	FSA080	FSA080	FSA080	FSA080	FSA080 (note 15) or Section B RMAR (note 15)	FSA080
Capital adequacy	COREP (Note 34)	FSA003 (Note 2)	FSA083	FSA084 or FSA085 (note 14)	FSA081	FIN066	Section D6 RMAR or FSA082 (note 15)	FSA086

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IF- PRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(N)</i> Chap- ter 3	<i>IR(N)</i> Chap- ter 5	<i>IR(N)</i> Chap- ter 9	<i>IR(N)</i> Chap- ter 11	<i>IR(N)</i> Chap- ter 13	<i>UP- RU</i>
								<i>(col- lec- tive port- fo- lio man- age- ment firms on- ly)</i>
Sup- ple- men- tary cap- ital da- ta for <i>collec- tive portfo- lio man- age- ment invest- ment firms</i>	FIN067 (Note 32)	FIN068 (Note 32)						
Cred- it risk	COREP (Note 34)	FSA004 (Notes 2, 3)						
Mar- ket risk	FSA005 (Notes 2, 4)	FSA005 (Notes 2, 4)						
Mar- ket risk - sup-	FSA006 (note 5)	FSA006 (note 5)						

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IF-PRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(N) Chap- ter 3</i>	<i>IR(N) Chap- ter 5</i>	<i>IR(N) Chap- ter 9</i>	<i>IR(N) Chap- ter 11</i>	<i>IR(N) Chap- ter 13</i>	<i>UP- RU</i>
						<i>(col- lec- tive port- folio man- age- ment firms on- ly)</i>		

ple- men- tary								
Opera- tional risk	COREP (Note 34)							
Large expo- sures	COREP (Note 34)							
Expo- sures be- tween <i>core UK group and non- core large expo- sures group</i>	FSA018 (note 12)							
Solo consol- ida-	FSA016 (note 20)	FSA016 (Note 20)						

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(U)</i> Chap- ter 3	<i>IR(U)</i> Chap- ter 5	<i>IR(U)</i> Chap- ter 9	<i>IR(U)</i> Chap- ter 11	<i>IR(U)</i> Chap- ter 13	<i>UP- RU</i>
tion data								
Pillar 2 ques- tion- naire	FSA019 (note 8)	FSA019 (Note 8)						
Non- EEA sub- group	COREP (Note 34)	FSA028 (Note 9)						
Thresh- old condi- tions								Sec- tion F RMAR (note 15)
Vol- umes and types of busi- ness (note 21)	FSA038	FSA038	FSA038	FSA038	FSA038	FSA038	FSA038	FSA038

Description of data item	Firms' prudential category and applicable data items (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IR(N) Chapter 3	IR(N) Chapter 5	IR(N) Chapter 9	IR(N) Chapter 11	IR(N) Chapter 13	UP-RU
Client money and client assets	FSA039	FSA039	FSA039	FSA039	FSA039	FSA039	Section C RMAR (note 15) or FSA039	FSA039
UCITS (note 22)						FSA042		FSA042
IRB portfolio risk	FSA045 (note 18)	FSA045 (Note 18)						
Securitisation: non-trading book	COREP (Note 34)	FSA046 (Note 19)						
Daily Flows	FSA047 COREP (Notes 23, 26, 28, 30 and 34)							

Description of data item	Firms' prudential category and applicable <i>data items</i> (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IR(U) Chapter 3	IR(U) Chapter 5	IR(U) Chapter 9	IR(U) Chapter 11	IR(U) Chapter 13	
Enhanced Match Report								
Mismatch								
Liquidity Buffer								
Qualifying Securities								
Funding Concentration								
Pricing data								
Retail and								

Description of data item	Firms' prudential category and applicable data items (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IR(N) Chapter 3	IR(N) Chapter 5	IR(N) Chapter 9	IR(N) Chapter 11	IR(N) Chapter 13	UP-RU
							(collective portfolio management firms only)	

corporate funding	27, 28, 30 and 34)							
Currency Analysis	FSA054	COREP						
	(Notes 24, 27, 28, 30 and 34)							
Systems and Controls Questionnaire	FSA055	COREP	FSA055					
	(Notes 25, 30 and 34)		(Notes 25 and 30)					
Securitisation: trading book	COREP	FSA058						
	(Note 34)		(Note 29)					
Note 1	All firms, except <i>IFPRU investment firms</i> in relation to <i>data items</i> reported under the <i>EU CRR</i> , when submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 24 R . Guidance notes for completion of the <i>data items</i> are contained in SUP 16 Annex 25 G .							

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(N)</i> Chap- ter 3	<i>IR(N)</i> Chap- ter 5	<i>IR(N)</i> Chap- ter 9	<i>IR(N)</i> Chap- ter 11	<i>IR(N)</i> Chap- ter 13	<i>UP- RU</i>
								<i>(col- lec- tive port- fo- lio man- age- ment firms on- ly)</i>

Note 2 *Firms that are members of a UK consolidation group are also required to submit this report on a UK consolidation group basis.*

Note 3 *This applies to a firm that is required to submit data item FSA003 and at anytime within the 12 months up to its latest accounting reference date ("the relevant period"), was reporting data item FSA004 ("Firm A") or not reporting this item ("Firm B").*

In the case of Firm A it must report this data item if one or both of its last two submissions in the relevant period show that the threshold was exceeded.

In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.

The threshold is exceeded where data element 77A in data item FSA003 is greater than £10 million, or its currency equivalent, at the relevant reporting date for the firm.

Note 4 *This applies to a firm that is required to submit data item FSA003 and at any time within the 12 months up to its latest accounting reference date ("the relevant period"), was reporting data item FSA005 ("Firm A") or not reporting this item ("Firm B").*

In the case of Firm A it must report this data item if one or both of its last two submissions in the relevant period show that the threshold was exceeded.

Description of data item	Firms' prudential category and applicable <i>data items</i> (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IR(N) Chapter 3	IR(N) Chapter 5	IR(N) Chapter 9	IR(N) Chapter 11	IR(N) Chapter 13	UP-RU
							(col- lec- tive port- folio man- age- ment firms on- ly)	

In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.

The threshold is exceeded where data element 93A in *data item* FSA003 is greater than £50 million, or its currency equivalent, at the relevant reporting date for the *firm*.

Note 5 Only applicable to *firms* with a *VaR model permission*.

Note 6 [deleted]

Note 7 [deleted]

Note 8 Only applicable to *IFPRU investment firms* and *BIPRU firms* that :

(a) are subject to consolidated supervision under **BIPRU 8**, except those that are either included within the consolidated supervision of a group that includes a UK *credit institution*, or that have been granted an *investment firm consolidation waiver*; or

(b) have been granted an *investment firm consolidation waiver*;

or

(c) are not subject to consolidated supervision under **BIPRU 8**.

An *IFPRU investment firm* and a *BIPRU firm* under (a) must complete the report on the basis of its *UK consolidation group*. An *IF-*

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IF- PRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IPRU</i> Chap- ter 3	<i>IPRU</i> Chap- ter 5	<i>IPRU</i> Chap- ter 9	<i>IPRU</i> Chap- ter 11	<i>IPRU</i> Chap- ter 13	<i>UP- RU</i>
								<i>(col- lec- tive port- fo- lio man- age- ment firms on- ly)</i>

PRU investment firm and a BIPRU firm under (b) or (c) must complete the report on the basis of its solo position.

Note 9 This will be applicable to firms that are members of a *UK consolidation group* on the reporting date.

Note 10 Only applicable to a *firm* whose ultimate parent is a *mixed-activity holding company*.

Note 11 Only applicable to a *firm* that is a *sole trader* or a *partnership*, when the report must be submitted by each *partner*.

Note 12 Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.

Note 13 This *data item* is applicable to all *firms* in this table except a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*.

Note 14 FSA034 must be completed by a *firm* not subject to the exemption in *IPRU(INV)* 5.2.3(2)R.

FSA035 must be completed by a *firm* subject to the exemption in *IPRU(INV)* 5.2.3(2)R.

Note 15 FSA029, FSA030, FSA032 and FSA039 only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*.

Sections A, B, C, D1, D6 and F RMAR only apply to a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*.

Description of data item	Firms' prudential category and applicable <i>data items</i> (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	IRB Chapter 3	IRB Chapter 5	IRB Chapter 9	IRB Chapter 11	IRB Chapter 13	UPRU
						(collective portfolio management firms only)		
Note 16	[deleted]							
Note 17	[deleted]							
Note 18	Only applicable to <i>firms</i> that have an <i>IRB permission</i> .							
Note 19	Only applicable to <i>firms</i> that hold <i>securitisation positions</i> , or are the <i>originator</i> or <i>sponsor</i> of <i>securitisations of non-trading book exposures</i> .							
Note 20	Only applicable to a <i>firm</i> that has a <i>solo consolidation waiver</i> .							
Note 21	[deleted]							
Note 22	Only applicable to <i>firms</i> that have <i>permission for managing a UCITS</i> .							

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(N)</i> <i>Chap- ter 3</i>	<i>IR(N)</i> <i>Chap- ter 5</i>	<i>IR(N)</i> <i>Chap- ter 9</i>	<i>IR(N)</i> <i>Chap- ter 11</i>	<i>IR(N)</i> <i>Chap- ter 13</i>	
							<i>(col- lec- tive port- fo- lio man- age- ment firms on- ly)</i>	

Note 23 A *firm* must complete this item separately on each of the following bases (if applicable).

(1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.

(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.

Note 24 A *firm* must complete this item separately on each of the following bases that are applicable.

(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

Description of data item	Firms' prudential category and applicable <i>data items</i> (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	ILAS Chap- ter 3	ILAS Chap- ter 5	ILAS Chap- ter 9	ILAS Chap- ter 11	ILAS Chap- ter 13	UP- RU
							(col- lec- tive port- folio man- age- ment firms on- ly)	

Note 25 If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

Note 26 (1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data items (note 1)</i>							
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>					
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IR(U)</i> Chap- ter 3	<i>IR(U)</i> Chap- ter 5	<i>IR(U)</i> Chap- ter 9	<i>IR(U)</i> Chap- ter 11	<i>IR(U)</i> Chap- ter 13	
								<i>(col- lec- tive port- fo- lio man- age- ment firms on- ly)</i>

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Note 27 Note 26 applies, except that paragraphs (3), (4), and (5) do not apply, meaning that *material currencies* must not be recorded separately.

Note 28 Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the firm receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular data item or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary.

Description of data item	Firms' prudential category and applicable <i>data items</i> (note 1)							
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms					
	IFPRU	BIPRU	ILAS Chapter 3	ILAS Chapter 5	ILAS Chapter 9	ILAS Chapter 11	ILAS Chapter 13	UP-RU
								(collective portfolio management firms only)

- Note 29** Only applicable to *firms* that hold *securitisation positions* in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* held in the *trading book*.
- Note 30** FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an *ILAS BIPRU firm*. An *ILAS BIPRU firm* does not need to complete FSA055. A *non-ILAS BIPRU firm* must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.
- Note 31** This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.
- Note 32** Only applicable to *firms* that are *collective portfolio management investment firms*.
- Note 33** Only applicable to *firms* that have a *managing investments permission*.
- Note 34** Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

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The column in the table in ■ SUP 16.12.15 R that deals with *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm*(please see notes 25 and 30).

16.12.15B **R**
PRA

The applicable *data items* referred to in ■ SUP 16.12.4 R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable data items (Note 1)
<i>Annual report and accounts</i>	No standard format
<i>Annual report and accounts of the mixed-activity holding company</i> (Note 19)	No standard format
Solvency statement (Note 20)	No standard format
Balance sheet	FSA001 (Note 2)
Income statement	FSA002 (Note 2)
Market risk	FSA005 (notes 2, 18)
Market risk ? supplementary	FSA006 (Note 3)
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (Note 5)
Solo consolidation data	FSA016 (Note 6)
Pillar 2 questionnaire	FSA019 (Note 4)
Volumes and type of business (Note 15)	FSA038
UCITS (Note 16)	FSA042
IRB portfolio risk	FSA045 (note 17)
Daily Flows	FSA047 (Notes 7,10, 12 and 13)
Enhanced Mismatch Report	FSA048 (Notes 7, 10, 12 and 13)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 8, 11, 12 and 13)
Funding Concentration	FSA051 (Notes 8, 11, 12 and 13)
Pricing data	FSA052 (Notes 8, 12, 13 and 14)
Retail and corporate funding	FSA053 (Notes 8, 11, 12 and 13)
Currency Analysis	FSA054 (Notes 8, 11, 12 and 13)
Systems and Control Questionnaire	FSA055 (Notes 9 and 13)

Note 1 When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in SUP 16 Annex 24 R. Guidance notes for completion of the *data items* are contained in SUP 16 Annex 25AG.

Note 2 *Firms* that are members of a *consolidation group* are also required to submit this report on a *consolidation group* basis.

Note 3 Only applicable to *firms* with a *VaR model permission*.

- Note 4** Only applicable to *UK designated investment firms* that:
- (a) are subject to consolidated supervision under the *EU CRR*, except those that are either included within the consolidated supervision of a group that includes a *UK credit institution*,
- or
- (b) are not subject to consolidated supervision under the *EU CRR*.
- A *UK designated investment firm* under (a) must complete the report on the basis of its *consolidation group*. A *UK designated investment firm* under (b) must complete the report on the basis of its solo position.
- Note 5** Only applicable to a firm that has both a *core UK group* and a *non-core large exposures group*.
- Note 6** Only applicable to a *firm* that has an *individual consolidation permission*.
- Note 7** A *firm* must complete this item separately on each of the following bases (if applicable).
- (1) It must complete it on a solo basis. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
- (2) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.
- (3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.
- (4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.
- Note 8** A *firm* must complete this item separately on each of the following bases that are applicable.
- (1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

	<p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group.</p>
Note 9	<p>If it is a <i>non-ILAS BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p>
Note 10	<p>(1) This item must be reported in the reporting currency.</p> <p>(2) If any <i>data element</i> is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.</p> <p>(3) In addition, all <i>material currencies</i> (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:</p> <p>(a) the reporting frequency is (whether under a <i>rule</i> or under a <i>waiver</i>) quarterly or less than quarterly; or</p> <p>(b) the only <i>material currency</i> is the reporting currency;</p> <p>(3) does not apply.</p> <p>(4) If there are more than three <i>material currencies</i> for this <i>data item</i>, (3) only applies to the three largest in amount. A <i>firm</i> must identify the largest in amount in accordance with the following procedure.</p> <p>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of <i>material currency</i>.</p> <p>(b) Take the three largest figures from the resulting list of amounts.</p> <p>(5) The date as at which the calculations for the purposes of the definition of <i>material currency</i> are carried out is the last day of the reporting period in question.</p> <p>(6) The reporting currency for this <i>data item</i> is whichever of the following currencies the <i>firm</i> chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).</p>

Note 11	Note 10 applies, except that paragraphs (3), (4), and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately.
Note 12	Any changes to reporting requirements caused by a <i>firm</i> receiving an <i>intra-group liquidity modification</i> (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the <i>data item</i> in question if the firm receives that <i>intra-group liquidity modification</i> or variation part of the way through such a period. If the change is that the <i>firm</i> does not have to report a particular <i>data item</i> or does not have to report it at a particular <i>reporting level</i> , the <i>firm</i> must nevertheless report that item or at that <i>reporting level</i> for any reporting period that has already begun. This paragraph is subject to anything that the <i>intra-group liquidity modification</i> says to the contrary.
Note 13	FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i> . An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A <i>non-ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.
Note 14	This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.
Note 15	Only applicable to <i>firms</i> that have a <i>managing investments permission</i> .
Note 16	Only applicable to <i>firms</i> that have <i>permission</i> for <i>establishing, operating or winding up a regulated collective investment scheme</i> .
Note 17	Only applicable to <i>firms</i> that have an <i>IRB permission</i> .
Note 18	Lines 63 to 64 only are applicable. These lines apply to a <i>firm</i> that applies add-ons to their market risk capital calculation under the RNIV framework.
Note 19	Only applicable to a <i>firm</i> whose ultimate parent is a <i>mixed activity holding company</i> .
Note 20	Only applicable to a <i>firm</i> that is a <i>sole trader</i> or a <i>partnership</i> , when the report must be submitted by each <i>partner</i> .

The applicable reporting frequencies for *data items* referred to in
 ■ SUP 16.12.15 R are set out in the table below according to *firm* type.

Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
Annual report and accounts	Annually	Annually	Annually	Annually	Annually	
Annual report and accounts of the mixed-activity holding company	Annually	Annually	Annually	Annually	Annually	
Solvency statement	Annually	Annually	Annually	Annually	Annually	

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA001	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA002	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA003				Half yearly	Half yearly	
FSA004				Half yearly	Half yearly	
FSA005				Half yearly	Half yearly	
FSA006	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	
FSA007				Annual (note 4)	Annual (note 4)	

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA008						Quarterly
FSA016	Half yearly	Half yearly	Half yearly	Half yearly		
FSA018	Quarterly	Quarterly	Quarterly			
FSA019	Annually	Annually	Annually	Annually	Annually	
FSA028						Half yearly
FSA029						Quarterly
FSA030						Quarterly
FSA031						Quarterly
FSA032						Quarterly
FSA033						Quarterly

Data item	Firms' prudential category						
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms	
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards		
FSA034						Quarterly	
FSA035						Quarterly	
FSA036						Quarterly	
FSA038	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly		
FSA039	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly		
FSA042						Quarterly	
FSA045	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly		
FSA046						Quarterly	Quarterly
FSA047	Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)					Daily, weekly, month-	

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA048	Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)				ly or quarterly (Notes 5, 7 and 8) Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)	
FSA050	Monthly (Note 5)				Monthly	

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA051	Monthly (Note 5)				(Note 5) Monthly (Note 5)	
FSA052	Weekly or monthly (Notes 5 and 9)				Weekly or monthly (Notes 5 and 10)	
FSA053	Quarterly (Note 5)				Quarterly (Note 5)	
FSA054	Quarterly (Note 5)				Quarterly	

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA055	Annually (Note 5)			Annually (Note 5)	Annually (Note 5)	(Note 5)
FSA058				Quarterly	Quarterly	
FIN066						Quarterly
FIN067	Quarterly (Note 5)					
FIN068				Half yearly		
Section A RMAR						Half yearly (note 2) Quarterly (note 3)

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
Section B RMAR						Half yearly (note 2) Quarterly (note 3)
Section C RMAR						Half yearly (note 2) Quarterly (note 3)
Section D6 RMAR						Half yearly (note 2) Quarterly (note 3)
Section F RMAR						Half yearly
Note 1	[deleted]					
Note 2	Annual regulated business revenue up to and including £5 million.					
Note 3	Annual regulated business revenue over £5 million.					
Note 4	The reporting date for this <i>data item</i> is six months after a <i>firm's</i> most recent <i>accounting reference date</i>.					

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	

Note 5 Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:

- (1) A week means the period beginning on Saturday and ending on Friday.
- (2) A month begins on the first day of the calendar month and ends on the last day of that month.
- (3) Quarters end on 31 March, 30 June, 30 September and 31 December.
- (4) Daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
<p>one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the <i>firm</i> receives that <i>intra-group liquidity modification</i> or variation part of the way through such a period, unless the <i>intra-group liquidity modification</i> says otherwise.</p>						

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CRR/REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	

Note 6 If the report is on a solo basis the reporting frequency is as follows:

(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(2) if the *firm* is a *group liquidity reporting firm in a non-UK DLG by modification (firm level)* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting*

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
<p><i>firm;</i></p> <p>(3) the frequency is quarterly if the <i>firm</i> is a <i>group liquidity reporting firm</i> in a <i>UK DLG</i> by modification.</p>						

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CRR/REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	

Note 7 (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (b) monthly if the *group liquidity low frequency reporting conditions* are met.

(3) If the report is by reference to the *firm's non-UK DLG by*

<i>Data item</i>	<i>Firms' prudential category</i>					
	<i>IFPRU 730K firm</i>	<i>IFPRU 125K firm and collective portfolio management investment firm</i>	<i>IFPRU 50K firm</i>	<i>BIPRU firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms or IFPRU investment firms</i>
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	

Note 8 *modification* the reporting frequency is quarterly.

(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm and collective portfolio management investment firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firm other than BIPRU firms or IFPRU investment firms
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	

Note 9 If the report is on a solo basis the reporting frequency is as follows:

- (1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
- (2) monthly if the *firm* is a *low frequency liquidity reporting firm*.

Note 10 If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

- (1) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (2) monthly if the *group liquidity low frequency reporting conditions* are met.

16.12.16A **R**
PRA

The applicable reporting frequencies for *data items* referred to in **SUP 16.12.15B R** are set out in the table below. Reporting frequencies

are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	<i>Reporting frequency</i>
<i>Annual report and accounts</i>	Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually
Solvency statement	Annually
FSA001	Quarterly
FSA002	Quarterly
FSA005	Quarterly
FSA006	Quarterly
FSA016	Half yearly
FSA018	Quarterly
FSA019	Annually
FSA038	Half yearly
FSA042	Quarterly
FSA045	Quarterly
FSA047	Daily, weekly, monthly or quarterly (Notes 1, 2 and 3)
FSA048	Daily, weekly, monthly or quarterly (Notes 1, 2 and 3)
FSA050	Monthly (Note 1)
FSA051	Monthly (Note 1)
FSA052	Weekly or monthly (Notes 1 and 4)
FSA053	Quarterly (Note 1)
FSA054	Quarterly (Note 1)
FSA055	Annually (Note 1)

- Note 1** Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:
- (1) A week means the period beginning on Saturday and ending on Friday.
 - (2) A month begins on the first day of the calendar month and ends on the last day of that month.
 - (3) Quarters end on 31 March, 30 June, 30 September and 31 December.
 - (4) Daily means each *business day*.
- All periods are calculated by reference to London time.
- Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.
- Note 2** If the report is on a solo basis the reporting frequency is as follows:
- (1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:
 - (a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (b) monthly if the *firm* is a *low frequency liquidity reporting firm*;
 - (2) if the *firm* is a *group liquidity reporting firm in a non-UK DLG by modification (firm level)* the frequency is:
 - (a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (b) monthly if the *firm* is a *low frequency liquidity reporting firm*;
 - (3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm in a UK DLG by modification*.

Note 3 (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

Note 4 If the report is on a solo basis the reporting frequency is as follows:

(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(2) monthly if the *firm* is a *low frequency liquidity reporting firm*.

16.12.17 **R**
FCA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.16 R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREFIN REP	Refer to <i>EU CRR</i> and applicable technical standards					
<i>Annual report and accounts</i>						80 business days
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
Solvency state-ment						3 months
FSA001				20 busi-ness days	30 busi-ness days (note 2); 45 busi-ness days (note 3)	
FSA002				20 busi-ness days	30 busi-ness days (note 2); 45 busi-ness days (note 3)	
FSA003			15 busi-ness days	20 busi-ness days	30 busi-ness days (note 2); 45 busi-ness days (note 3)	
FSA004				20 busi-ness days	30 busi-ness days (note 2); 45 busi-ness days (note 3)	
FSA005				20 busi-ness days	30 busi-ness days (note 2); 45 busi-ness days (note 3)	
FSA006				20 busi-ness days		
FSA007						2 months
FSA008				20 busi-ness days (note 2); 45 busi-		

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREIN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA016				<i>20 business days (note 3)</i>		
FSA018				<i>30 business days</i>		
FSA019						<i>2 months</i>
FSA028					<i>30 business days</i>	
FSA029				<i>20 business days</i>		
FSA030				<i>20 business days</i>		
FSA031				<i>20 business days</i>		
FSA032				<i>20 business days</i>		
FSA033				<i>20 business days</i>		
FSA034				<i>20 business days</i>		
FSA035				<i>20 business days</i>		
FSA036				<i>20 business days</i>		
FSA038					<i>30 business days</i>	
FSA039					<i>30 business days</i>	
FSA042				<i>20 business days</i>		
FSA045				<i>20 business days</i>	<i>30 business days (note 2); 45 business days (note 3)</i>	

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA046				20 busi-ness days (Note 2), 45 busi-ness days (Note 3)		
FSA047	22.00 hours (London time) on the busi-ness day immedi-ately fol-lowing the last day of the re-ported period for the item in question	22.00 hours (London time) on the busi-ness day immedi-ately fol-lowing the last day of the re-ported period for the item in question	15 busi-ness days	15 busi-ness days or one Month (Note 4)		
FSA048	22.00 hours (London time) on the busi-ness day immedi-ately fol-lowing the last day of the re-ported period for the item in question	22.00 hours (London time) on the busi-ness day immedi-ately fol-lowing the last day of the re-ported period for the item in question	15 busi-ness days	15 busi-ness days or one Month (Note 4)		
FSA050			15 busi-ness days			

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREIN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA051				15 business days		
FSA052	22.00 hours (London time) on the second business day immediately following the last day of the reporting period for the item in question			15 business days		
FSA053				15 business days		
FSA054				15 business days		
FSA055					15 business days	
FSA058				20 business days (Note 2), 45 business days (Note 3)		
FIN066				20 business days		
FIN067				30 days		
FIN068					30 business days	
Section A RMAR				30 business days	30 business days	

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
Section B RMAR				30 <i>busi-ness days</i>	30 <i>busi-ness days</i>	
Section C RMAR				30 <i>busi-ness days</i>	30 <i>busi-ness days</i>	
Section D6 RMAR				30 <i>busi-ness days</i>	30 <i>busi-ness days</i>	
Section F RMAR					30 <i>busi-ness days</i>	
Note 1	[deleted]					
Note 2	For unconsolidated and solo-consolidated reports.					
Note 3	For UK consolidation group reports.					
Note 4	It is one <i>Month</i> if the report relates to a <i>non-UK DLG</i> by <i>modification.</i>					

16.12.17A **R**
PRA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.16A R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
Annual report and accounts						80 <i>busi-ness days</i>
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months
Solvency statement						3 months

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
FSA001				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA002				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA005				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA006				20 business days		
FSA016				30 business days		
FSA018				45 business days		
FSA019						2 months
FSA042				20 business days		
FSA045				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA047	22.00 hours (London time) on the business day immediately following the last	22.00 hours (London time) on the business day immediately following the last	15 business days	15 business days or one month (Note 3)		

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
	day of the reporting period for the item in question	day of the reporting period for the item in question				
FSA048	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>month</i> (Note 3)		
FSA050			15 <i>business days</i>			
FSA051			15 <i>business days</i>			
FSA052		22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>			

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
FSA053				15 <i>business days</i>		
FSA054				15 <i>business days</i>		
FSA055						15 <i>business days</i>
<p>Note 1: For unconsolidated and solo-consolidated reports</p> <p>Note 2: For consolidation group reports</p> <p>Note 3: It is one <i>Month</i> if the report relates to a <i>non-UK DLG by modification</i>.</p>						

Regulated Activity Group 5

16.12.18
FCA PRA

R

- (1) ■ SUP 16.12.18A R does not apply to:
 - (a) a *lead regulated firm*;
 - (b) an *OPS firm*;
 - (c) a local authority.

- (2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.

16.12.18A
FCA PRA

R

The applicable *data items*, reporting frequencies and submission deadlines referred to in ■ SUP 16.12.4 R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

Description of <i>data item</i>	<i>Data item</i> (note 1)	Frequency	Submission deadline
<i>Annual report and accounts</i>	No standard format	Annually	80 <i>business days</i>
Balance Sheet	Sections A.1 and A.2 MLAR	Quarterly	20 <i>business days</i>
Income Statement	Sections B.0 and B.1 MLAR	Quarterly	20 <i>business days</i>
Capital Adequacy	Section C MLAR Note 2	Quarterly	20 <i>business days</i>
Lending - Business flow and rates	Section D MLAR	Quarterly	20 <i>business days</i>

Description of <i>data item</i>	<i>Data item</i> (note 1)	Frequency	Submission deadline
Residential Lending to individuals - New business profile	Section E MLAR	Quarterly	20 <i>business days</i>
Lending - Ar-rears analysis	Section F MLAR	Quarterly	20 <i>business days</i>
Mortgage administration - Business profile	Section G MLAR	Quarterly	20 <i>business days</i>
Mortgage Administration - Ar-rears analysis	Section H MLAR	Quarterly	20 <i>business days</i>
Analysis of loans to customers	Section A3 MLAR	Quarterly	20 <i>business days</i>
Provisions analysis	Section B2 MLAR	Quarterly	20 <i>business days</i>
Fees and levies	Section J MLAR	Annually	30 <i>business days</i>
Sale and rent back	Section K MLAR	Annually	30 <i>business days</i>
Note 1	When submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 19A R. Guidance notes for the completion of the <i>data items</i> is set out in SUP 16 Annex 19B G.		
Note 2	If a <i>firm</i> is subject to <i>IFPRU</i> then that <i>firm</i> should submit COREP instead of MLA-C. If a <i>firm</i> is subject to <i>BIPRU</i> then that <i>firm</i> should submit FSA003.		

Regulated Activity Group 6

16.12.19 **R**
FCA

- (1) ■ SUP 16.12.19A R to ■ SUP 16.12.21 R do not apply to:
 - (a) a *lead regulated firm*;
 - (b) an *OPS firm*;
 - (c) a local authority.

- (2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.

16.12.19A **R**
FCA

The applicable *data items* referred to in ■ SUP 16.12.4 R are set out according to type of *firm* in the table below:

Description of <i>data item</i>	<i>Firm's</i> prudential category and applicable data item (note 1)				
	<i>IPRU(INV)</i> Chapter 3	<i>IPRU(INV)</i> Chapter 5	<i>IPRU(INV)</i> Chapter 9	<i>IPRU(INV)</i> Chapter 13	<i>UPRU</i>
Annual re-report and accounts	No standard format				
Solvency statement (note 6)		No standard format			No standard format
Balance sheet	FSA029	FSA029	FSA029	FSA029 or Section A RMAR (note 7)	FSA029
Income statement	FSA030	FSA030	FSA030	FSA030 or Section B RMAR (note 7)	FSA030
Capital adequacy	FSA033	FSA034 or FSA035 (note 4)	FSA031	FSA032 or Section D6 RMAR (notes 5 and 7)	FSA036
Threshold conditions				Section F RMAR (Note 7)	
Client money and client assets	FSA039	FSA039	FSA039	Section C RMAR (note 7) or FSA039	FSA039
Note 1	When submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 24 R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25 G.				
Note 2	[deleted]				
Note 3	[deleted]				

Description of data item	Firm's prudential category and applicable data item (note 1)				
	IPRU(INV) Chapter 3	IPRU(INV) Chapter 5	IPRU(INV) Chapter 9	IPRU(INV) Chapter 13	UPRU
Note 4	FSA034 must be completed by a <i>firm</i> not subject to the exemption in IPRU(INV) 5.2.3(2)R. FSA035 must be completed by a <i>firm</i> subject to the exemption in IPRU(INV) 5.2.3(2)R.				
Note 5	FSA032 must be completed by a <i>firm</i> subject to IPRU(INV) Chapter 13 which is an <i>exempt CAD firm</i> . Section D6 RMAR applies to a <i>firm</i> which is not an <i>exempt CAD firm</i> .				
Note 6	Only applicable to a <i>firm</i> that is a <i>partnership</i> , when the report must be submitted by each <i>partner</i> .				
Note 7	FSA029 , FSA030, FSA032 and FSA039 only apply to a <i>firm</i> subject to IPRU(INV) Chapter 13 which is an <i>exempt CAD firm</i> . Sections A, B, C, D1, D2 and F RMAR only apply to a <i>firm</i> subject to IPRU(INV) Chapter 13 which is not an <i>exempt CAD firm</i> .				

16.12.20

FCA

R

The applicable reporting frequencies for submission of *data items* referred to in ■ SUP 16.12.4 R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Annual report and accounts</i>	Annually
Solvency statement	Annually
FSA029	Quarterly
FSA030	Quarterly
FSA031	Quarterly
FSA032	Quarterly
FSA033	Quarterly
FSA034	Quarterly
FSA035	Quarterly
FSA036	Quarterly
FSA039	Half yearly
Section A RMAR	Half yearly (note 2)
	Quarterly (note 3)

Section B RMAR	Half yearly (note 2)
	Quarterly (note 3)
Section C RMAR	Half yearly (note 2)
	Quarterly (note 3)
Section D6 RMAR	Half yearly (note 2)
	Quarterly (note 3)
Section F RMAR	Half yearly
Note 1	[deleted]
Note 2	Annual regulated business revenue up to and including £5 million.
Note 3	Annual regulated business revenue over £5 million.

16.12.21 **R**
FCA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.20 R.

<i>Data item</i>	Quarterly	Half yearly	Annual
<i>Annual report and accounts</i>			80 business days
<i>Solvency statement</i>			3 months
FSA029	<i>20 business days</i>		
FSA030	<i>20 business days</i>		
FSA031	<i>20 business days</i>		
FSA032	<i>20 business days</i>		
FSA033	<i>20 business days</i>		
FSA034	<i>20 business days</i>		
FSA035	<i>20 business days</i>		
FSA036	<i>20 business days</i>		
FSA039		<i>30 business days</i>	
FSA040	<i>15 business days</i>		
Section A RMAR	<i>30 business days</i>	<i>30 business days</i>	
Section B RMAR	<i>30 business days</i>	<i>30 business days</i>	
Section C RMAR	<i>30 business days</i>	<i>30 business days</i>	

<i>Data item</i>	Quarterly	Half yearly	Annual
Section D6 RMAR	30 <i>business days</i>	30 <i>business days</i>	
Section F RMAR		30 <i>business days</i>	

Regulated Activity Group 7

16.12.22 **R**
FCA

- (1) ■ SUP 16.12.22A R to ■ SUP 16.12.24 R do not apply to:
- (a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));
 - (b) an *OPS firm*;
 - (c) a local authority.
- (2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.

16.12.22A **R**
FCA

The applicable *data items* referred to in ■ SUP 16.12.4 R are set out according to type of *firm* in the table below:

De- scrip- tion of <i>Data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>				
	<i>IFPRU</i>	<i>BIPRU firm</i>	<i>Ex-empt CAD firms</i>	<i>Firms (other than exempt CAD firms) subject to IPRU(INV) Chapter 13</i>	<i>Firms that are also in one or more of RAGs 1 to 6 and not subject to IPRU(INV) Chapter 13</i>
<i>Annual report and accounts</i>	No standard format		No standard format		
<i>Annual report and accounts of the mixed-activity</i>	No standard format				

Description of Data item	<i>Firms' prudential category and applicable data item (note 1)</i>		
holding company (note 10)			
Solvency statement	No standard format (note 11)		
Balance Sheet	FSA001/FIN-REP (Notes 2 and 29)	FSA001 (Note 2)	FSA029 Section A RMAR
Income Statement	FSA002/FIN-REP (Notes 2 and 29)	FSA002 (Note 2)	FSA030 Section B RMAR
Capital Adequacy	COREP (Note 29)	FSA003 (Note 2)	FSA032 Section D6 RMAR (Note 23)
Credit risk	COREP (Note 29)	FSA004 (Notes 2, 3)	
Market risk	COREP (Note 29)	FSA005 (Notes 2, 4)	
Market risk - supplementary	FSA006 (note 5)	FSA006 (Note 5)	
Operational risk	COREP (Note 29)		
Large exposures	COREP (Note 29)		
Exposures between core UK group and non-core large exposures group	FSA018 (note 12)		
Solo consolidation data	FSA016	FSA016	

De- scrip- tion of <i>Data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>				
Pillar 2 question-naire	FSA019 (note 8)	FSA019 (Note 8)			
Non-EEA sub-group	COREP (Note 29)	FSA028 (Note 9)			
Profes-sional in-demnity insur-ance (note 15)	Section E RMAR	Section E RMAR		Section E RMAR	Section E RMAR
Thresh-old Con-ditions			Sec-tion F RMAR	Section F RMAR	
Training and Com-pe-tence	Section G RMAR	Section G RMAR	Sec-tion G RMAR	Section G RMAR	Section G RMAR
COBS data	Section H RMAR	Section H RMAR	Sec-tion H RMAR	Section H RMAR	Section H RMAR
Client money and client as-sets	Section C RMAR	Section C RMAR	Sec-tion C RMAR	Section C RMAR	
Fees and levies	Section J RMAR	Section J RMAR	Sec-tion J RMAR	Section J RMAR	
Adviser charges	Section K RMAR (Note 26)	Section K RMAR (Note 26)	Sec-tion K RMAR (Note 26)	Section K RMAR (Note 26)	Section K RMAR (Note 26)
Consul-tancy charges	Section L RMAR (Note 27)	Section L RMAR (Note 27)	Sec-tion L RMAR	Section L RMAR (Note 27)	Section L RMAR (Note 27)

Description of Data item	<i>Firms' prudential category and applicable data item (note 1)</i>	
		(Note 27)
IRB portfolio risk	FSA045 (note 13)	FSA045 (Note 13)
Securitisation: non-trading book	COREP (note 29)	FSA046 (Note 14)
Daily Flows	FSA047/COREP (Notes 16, 19, 21, 24 and 29)	
Enhanced Mismatch Report	FSA048/COREP (Notes 16, 19, 21, 24 and 29)	
Liquidity Buffer Qualifying Securities	FSA050/COREP (Notes 17, 20, 21, 24 and 29)	
Funding Concentration	FSA051/COREP (Notes 17, 20, 21, 24 and 29)	
Pricing data	FSA052/COREP (Notes 17, 20, 21, 24 and 29)	
Retail and corporate funding	FSA053/COREP (Notes 17, 20, 21, 24 and 29)	
Currency Analysis	FSA054/COREP (Notes 17, 20, 21, 24 and 29)	

De- scrip- tion of <i>Data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>	
Systems and Controls Questionnaire	FSA055 (Notes 18, 24 and 29)	COREP FSA055 (Notes 18 and 24)
Securiti- sation: trading book	COREP (Note 29)	FSA058 (Note 22)
Supple- mentary capital data for <i>collective portfolio manage- ment in- vestment firms</i>	FIN067 (Note 28)	FIN068 (Note 28)
Note 1	<p>When submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 24 R, or SUP 16 Annex 18A R in the case of the RMAR. Guidance notes for completion of the data items are contained in SUP 16 Annex 25 G, or SUP 16 Annex 18B G in the case of the RMAR.</p>	
Note 2	<p><i>Firms</i> that are members of a <i>UK consolidation group</i> are also required to submit this report on a <i>UK consolidation group</i> basis.</p>	
Note 3	<p>This applies to a <i>firm</i> that is required to submit <i>data item</i> FSA003 and, at any time within the 12 <i>months</i> up to its latest <i>accounting reference date</i> ("the relevant period"), was reporting <i>data item</i> FSA004 ("Firm A") or not reporting this item ("Firm B").</p> <p>In the case of Firm A it must report this <i>data item</i> if one or both of its last two submissions in the relevant period show that the threshold was exceeded.</p> <p>In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.</p>	

Description of Data item	Firms' prudential category and applicable <i>data item</i> (note 1)
<p>Note 4</p>	<p>The threshold is exceeded where <i>data element 77A</i> in <i>data item FSA003</i> is greater than £10 million, or its currency equivalent, at the relevant reporting date for the <i>firm</i>.</p> <p>This applies to a <i>firm</i> that is required to submit <i>data item FSA003</i> and, at any time within the 12 months up to its latest <i>accounting reference date</i> ("the relevant period"), was reporting <i>data item FSA005</i> ("Firm A") or not reporting this item ("Firm B").</p> <p>In the case of Firm A it must report this <i>data item</i> if one or both of its last two submissions in the relevant period show that the threshold was exceeded.</p> <p>In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.</p> <p>The threshold is exceeded where <i>data element 93A</i> in <i>data item FSA003</i> is greater than £50 million, or its currency equivalent, at the relevant reporting date for the <i>firm</i>.</p> <p>Note 5 Only applicable to <i>firms</i> with a <i>VaR model permission</i>.</p> <p>Note 6 [deleted]</p> <p>Note 7 [deleted]</p> <p>Note 8 Only applicable to <i>IFPRU investment firms</i> and <i>BIPRU firms</i> that:</p> <ul style="list-style-type: none"> (a) are subject to consolidated supervision under BIPRU 8, except those that are either included within the consolidated supervision of a group that includes a <i>UK credit institution</i>, or that have been granted an <i>investment firm consolidation waiver</i>; or (b) have been granted an <i>investment firm consolidation waiver</i>; or (c) are not subject to consolidated supervision under BIPRU 8. <p>An <i>IFPRU investment firm</i> and a <i>BIPRU firm</i> under (a) must complete the report on the basis of its <i>UK consolidation group</i>. An <i>IFPRU investment firm</i> and a <i>BIPRU firm</i> under (b) or (c) must complete the report on the basis of its solo position.</p> <p>Note 9 This will be applicable to <i>firms</i> that are members of a <i>UK consolidation group</i> on the reporting date.</p>

De- scrip- tion of <i>Data item</i>	<i>Firms'</i> prudential category and applicable <i>data item</i> (note 1)
Note 10	Only applicable to a <i>firm</i> whose ultimate parent is a <i>mixed-activity holding company</i>.
Note 11	Only applicable to a <i>firm</i> that is a <i>sole trader</i> or a <i>partnership</i>, when the report must be submitted by each <i>partner</i>.
Note 12	Only applicable to a <i>firm</i> that has both a <i>core UK group</i> and a <i>non-core large exposures group</i>.
Note 13	Only applicable to <i>firms</i> that have an <i>IRB permission</i>.
Note 14	Only applicable to <i>firms</i> that hold <i>securitisation positions</i>, or are the <i>originator</i> or <i>sponsor</i> of <i>securitisations</i> of <i>non-trading book exposures</i>.
Note 15	This item only applies to <i>firms</i> that are subject to an <i>FCA</i> requirement to hold professional indemnity insurance and are not <i>exempt CAD firms</i>.
Note 16	<p>A <i>firm</i> must complete this item separately on each of the following bases (if applicable).</p> <p>(1) It must complete it on a solo basis. Therefore even if it has a <i>solo consolidation waiver</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>DLG by default</i> and is a <i>UK lead regulated firm</i>, it must complete the item on the basis of that group.</p> <p>(3) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group.</p> <p>(4) If it is a <i>group liquidity reporting firm</i> in a <i>non-UK DLG by modification</i>, it must complete the item on the basis of that group.</p>
Note 17	<p>A <i>firm</i> must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has a <i>solo consolidation waiver</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p>

Description of Data item	Firms' prudential category and applicable <i>data item</i> (note 1)
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Note 18 (2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

Note 18 If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

Note 19 (1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese

De- scrip- tion of <i>Data item</i>	<i>Firms'</i> prudential category and applicable <i>data item</i> (note 1)
	Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).
Note 20	Note 19 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately.
Note 21	Any changes to reporting requirements caused by a <i>firm</i> receiving an <i>intra-group liquidity modification</i> (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the <i>data item</i> in question if the <i>firm</i> receives that <i>intra-group liquidity modification</i> or variation part of the way through such a period. If the change is that the <i>firm</i> does not have to report a particular <i>data item</i> or does not have to report it at a particular <i>reporting level</i> , the <i>firm</i> must nevertheless report that item or at that <i>reporting level</i> for any reporting period that has already begun. This paragraph is subject to anything that the <i>intra-group liquidity modification</i> says to the contrary.
Note 22	Only applicable to <i>firms</i> that hold <i>securitisation positions</i> in the <i>trading book</i> and/ or are the <i>originator</i> or <i>sponsor</i> of <i>securitisations</i> held in the <i>trading book</i> .
Note 23	Where a <i>firm</i> submits data items for both <i>RAG 7</i> and <i>RAG 9</i> , the <i>firm</i> must complete both Sections D1 and D6 RMAR.
Note 24	FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i> . An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A <i>non-ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.
Note 25	This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.
Note 26	This item only applies to <i>firms</i> that provide advice on <i>retail investment products</i> .
Note 27	This item applies only to firms that provide advice and related services to employers on <i>group personal pension schemes</i> and/or <i>group stakeholder pension schemes</i> .

Description of <i>Data item</i>	<i>Firms'</i> prudential category and applicable <i>data item</i> (note 1)
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Note 28 Only applicable to *firms* that are *collective portfolio management investment firms*.

Note 29 Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

16.12.22B G
FCA

The column in the table in ■ SUP 16.12.22A R that deals with *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm*. (see notes 18 and 24).

16.12.22C R
PRA

The applicable *data items* referred to in ■ SUP 16.12.4 R for *UK designated investment firms* are set out in the table below:

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
<i>Annual report and accounts</i>	No standard format
<i>Annual report and accounts of the mixed-activity holding company</i> (note 16)	No standard format
Solvency statement	No standard format (Note 17)
Balance sheet	FSA001 (Note 2)
Income statement	FSA 002 (note 2)
Market risk	FSA005 (notes 2, 20)
Market risk - supplementary	FSA006 (note 3)
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (note 18)
Solo consolidation data	FSA016
Pillar 2 questionnaire	FSA019 (note 4)
IRB portfolio risk	FSA045 (note 19)
Daily Flows	FSA047 (Notes 6, 9, 11 and 12)
Enhanced Mismatch Report	FSA048 (Notes 6, 9, 11 and 12)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 7, 10, 11 and 12)
Funding Concentration	FSA051 (Notes 7, 10, 11 and 12)
Pricing Data	FSA052 (Note 7, 10, 12 and 13)
Retail and corporate funding	FSA053 (Notes 7, 10, 11 and 12)
Currency Analysis	FSA054 (Notes 7, 10, 11 and 12)
Systems and Controls Questionnaire	FSA055 (Notes 8 and 12)

Note 1	<p>When submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 24 R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25A.</p>
Note 2	<p><i>Firms</i> that are members of a <i>consolidation group</i> are also required to submit this report on a <i>consolidation group</i> basis.</p>
Note 3	<p>Only applicable to <i>firms</i> with a <i>VaR model permission</i>.</p>
Note 4	<p>Only applicable to <i>UK designated investment firms</i> that: (a) are subject to consolidated supervision under the <i>EU CRR</i>, except those that are either included within the consolidated supervision of a group that includes a <i>UK credit institution</i></p> <p>or</p> <p>(b) are not subject to consolidated supervision under the <i>EU CRR</i>.</p> <p>A <i>UK designated investment firm</i> under (a) must complete the report on the basis of its <i>consolidation group</i>. A <i>UK designated investment firm</i> under (b) or must complete the report on the basis of its solo position.</p>
Note 6	<p>A <i>firm</i> must complete this item separately on each of the following bases (if applicable).</p> <p>(1) It must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>DLG</i> by default and is a <i>UK lead regulated firm</i>, it must complete the item on the basis of that group.</p>

Note 7

(3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

(4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group

A *firm* must complete this item separately on each of the following bases that are applicable.

(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

Note 8

If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

Note 9

(1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Note 10

Note 9 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that *material currencies* must not be recorded separately.

Note 11

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification*

(or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary.

Note 12

FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an *ILAS BIPRU firm*. An *ILAS BIPRU firm* does not need to complete FSA055. A *non-ILAS BIPRU firm* must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.

Note 13

This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

Note 15

This item applies only to firms that provide advice and related services to employers on *group personal pension schemes* and/or *group stakeholder pension schemes*.

Note 16

Only applicable to a *firm* whose ultimate parent is a *mixed-activity holding company*.

Note 17

Only applicable to a *firm* that is a *sole trader* or a *partnership*, when the re-

port must be submitted by each partner.

Note 18 Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.

Note 19 Only applicable to *firms* that have an *IRB permission*.

Note 20 Lines 62 to 64 only are applicable. These lines apply to a *firm* that applies add-ons to their market risk capital calculation under the RNIV framework. For further guidance on how to complete the form refer to SUP 16 Annex 25A.

16.12.23 **R**
PRA

The applicable reporting frequencies for *data items* referred to in ■ SUP 16.12.22A R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Frequency				
	Unconsolidated UK designated investment firm	UK designated investment firm with an individual consolidation permission	Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
<i>Annual reports and accounts</i>	Annually			Annually	Annually
<i>Annual accounts of the mixed-activity holding company</i>	Annually			Annually	Annually
<i>Solvency statement</i>	Annually				
FSA001	Quarterly or half	Quarterly or half	Half yearly		

<i>Data item</i>	Frequency				
	<i>Unconsolidated UK designated investment firm</i>	<i>UK designated investment firm with an individual consolidation permission</i>	<i>Consolidation Group or defined liquidity group</i>	<i>Annual regulated business revenue up to and including £5 million</i>	<i>Annual regulated business revenue over £5 million</i>
	yearly (note 1)	yearly (note 1)			
FSA002	Quarterly or half yearly (note 1)	Quarterly or half yearly (note 1)	Half yearly		
[deleted]					
[deleted]					
FSA005	Quarterly or half yearly (note 1)	Quarterly or half yearly (note 1)	Half yearly		
FSA006	Quarterly	Quarterly	Quarterly		
[deleted]					
[deleted]					
FSA016		Half yearly			
FSA018	Quarterly	Quarterly	Quarterly		
FSA019	Annually	Annually	Annually		
[deleted]					
FSA032				Quarterly	Quarterly
FSA045	Quarterly or half yearly (note 1)	Quarterly or half yearly (note 1)	Half yearly		
[deleted]					
FSA047	Daily, weekly, monthly or quarterly	Daily, weekly, monthly or quarterly	Daily, weekly, monthly or quarterly		

<i>Data item</i>	Frequency				
	Uncon- solidated <i>UK desig- nated in- vestment firm</i>	<i>UK desig- nated in- vestment firm</i> with an individu- al consol- idation permis- sion	<i>Consoli- dation Group</i> or <i>de- fined liq- uidity group</i>	Annual regulated business revenue up to and in- clud- ing £5 mil- lion	Annual regulated business revenue over £5 million
FSA048	(Notes 4, 5 and 7) Daily, weekly, monthly or quarterly (Notes 4, 5 and 7)	(Notes 4, 5, 7 and 10) Daily, weekly, monthly or quarterly (Notes 4, 5, 7 and 10)	(Notes 4, 6 and 7) Daily, weekly, monthly or quarterly (Notes 4, 6 and 7)		
FSA050	Monthly (Note 4)	Monthly (Notes 4 and 10)	Monthly (Note 4)		
FSA051	Monthly (Note 4)	Monthly (Notes 4 and 10)	Monthly (Note 4)		
FSA052	Weekly or monthly (Notes 4 and 8)	Weekly or monthly (Notes 4, 8 and 10)	Weekly or monthly (Notes 4 and 9)		
FSA053	Quarterly (Note 4)	Quarterly (Notes 4 and 10)	Quarterly (Note 4)		
FSA054	Quarterly (Note 4)	Quarterly (Notes 4 and 10)	Quarterly (Note 4)		
FSA055	Annually (Note 4)	Annually (Notes 4 and 10)	Annually (Note 4)		
[deleted]					
FIN067	Quarterly				
Section A RMAR				Half yearly	Quarterly

Data item	Frequency				
	Unconsolidated UK designated investment firm	UK designated investment firm with an individual consolidation permission	Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
Section B RMAR				Half yearly	Quarterly
Section C RMAR				Half yearly	Quarterly
Section D6 RMAR				Half yearly	Quarterly
Section E RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Quarterly
Section F RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section G RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section H RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section J RMAR	Annually	Annually	Annually	Annually	Annually
Section K RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section L RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Note 1:	<i>UK designated investment firms - quarterly.</i>				
Note 2	[deleted]				
Note 3	[deleted]				

Data item	Frequency				
	Unconsolidated UK designated investment firm	UK designated investment firm with an individual consolidation permission	Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million

Note 4 Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:

- (1) A week means the period beginning on Saturday and ending on Friday.
- (2) A month begins on the first day of the calendar month and ends on the last day of that month.
- (3) Quarters end on 31 March, 30 June, 30 September and 31 December.
- (4) Daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.

Data item	Frequency				
	Unconsolidated UK designated investment firm	UK designated investment firm with an individual consolidation permission	Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million

Note 5 If the report is on a solo basis the reporting frequency is as follows:

(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(2) if the *firm* is a *group liquidity reporting firm in a non-UK DLG by modification (firm level)* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm in a UK DLG by modification*.

Data item	Frequency				
	Unconsolidated UK designated investment firm	UK designated investment firm with an individual consolidation permission	Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million

Note 6

(1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
- (b) monthly if the *group liquidity low frequency reporting conditions* are met.

(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.

Note 7

(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

<i>Data item</i>	Frequency				
	Unconsolidated <i>UK designated investment firm</i>	<i>UK designated investment firm</i> with an individual consolidation permission	<i>Consolidation Group or defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
Note 8	<p>If the report is on a solo basis the reporting frequency is as follows:</p> <p>(1) weekly if the firm is a <i>standard frequency liquidity reporting firm</i>; and</p> <p>(2) monthly if the firm is a <i>low frequency liquidity reporting firm</i>.</p>				
Note 9	<p>If the report is by reference to the firm's <i>UK DLG by modification</i> the reporting frequency is:</p> <p>(1) weekly if the <i>group liquidity standard frequency reporting conditions</i> are met;</p> <p>(2) monthly if the <i>group liquidity low frequency reporting conditions</i> are met.</p>				
Note 10	<p>As specified in SUP 16.12.22A R, solo consolidation has no application to liquidity reporting. Therefore it does not make any difference to the reporting of this item whether or not the firm is solo consolidated.</p>				

16.12.23A **R**
FCA

The applicable reporting frequencies for *data items* referred to in SUP 16.12.22A R are set out in the table below. Reporting frequencies are calculated from a firm's *accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Frequency				
	Unconsolidated BIPRU investment firm and IFPRU investment firm	Solo consolidated BIPRU investment firm and IFPRU investment firm	UK Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
CORE/EN-REP	Refer to <i>EU CRR</i> and applicable technical standards				
Annual reports and accounts	Annually			Annually	Annually
Annual accounts of the mixed-activity holding company	Annually			Annually	Annually
Solvency statement	Annually				
FSA001	Quarterly or half yearly (Note 1)	Quarterly or half yearly (Note 1)	Half yearly		
FSA002	Quarterly or half yearly (Note 1)	Quarterly or half yearly (Note 1)	Half yearly		
FSA003	Monthly, quarterly or half yearly (Notes 2 and 11)	Monthly, quarterly or half yearly (Notes 2 and 11)	Half yearly		
FSA004	Quarterly or half yearly (Notes 1 and 11)	Quarterly or half yearly (Notes 1 and 11)	Half yearly		

<i>Data item</i>	<i>Frequency</i>				
	Unconsolidated BIPRU investment firm and IFPRU investment firm	Solo consolidated BIPRU investment firm and IFPRU investment firm	UK Consolidation Group or defined liquidity group	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/IN-REP	Refer to EU CRR and applicable technical standards				
FSA005	Quarterly or half yearly (Notes 1 and 11)	Quarterly or half yearly (Notes 1 and 11)	Half yearly		
FSA006	Quarterly	Quarterly	Quarterly		
FSA007	Annually				
FSA008	Quarterly (Note 11)	Quarterly (Note 11)	Quarterly		
FSA016		Half yearly			
FSA018	Quarterly	Quarterly	Quarterly		
FSA019	Annually	Annually	Annually		
FSA028	Half yearly (Note 11)	Half yearly (Note 11)			
FSA032				Quarterly	Quarterly
FSA045	Quarterly or half yearly (Note 1)	Quarterly or half yearly (Note 1)	Half yearly		
FSA046	Quarterly	Quarterly	Quarterly		
FSA047	Daily, weekly, monthly or quarterly (Notes 4, 5 and 7)	Daily, weekly, monthly or quarterly (Notes 4, 5, 7 and 10)	Daily, weekly, monthly or quarterly (Notes 4, 6 and 7)		
FSA048	Daily, weekly, monthly or quarterly	Daily, weekly, monthly or quarterly	Daily, weekly, monthly or quarterly		

<i>Data item</i>	<i>Frequency</i>				
	Unconsolidated <i>BIPRU investment firm</i> and <i>IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm</i> and <i>IFPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
CORE/EN-REP	Refer to <i>EU CRR</i> and applicable technical standards				
FSA050	(Notes 4, 5 and 7) Monthly (Note 4)	(Notes 4, 5, 7 and 10) Monthly (Notes 4 and 10)	(Notes 4, 6 and 7) Monthly (Note 4)		
FSA051	Monthly (Note 4)	Monthly (Notes 4 and 10)	Monthly (Note 4)		
FSA052	Weekly or monthly (Notes 4 and 8)	Weekly or monthly (Notes 4, 8 and 10)	Weekly or monthly (Notes 4 and 9)		
FSA053	Quarterly (Note 4)	Quarterly (Notes 4 and 10)	Quarterly (Note 4)		
FSA054	Quarterly (Note 4)	Quarterly (Notes 4 and 10)	Quarterly (Note 4)		
FSA055	Annually (Note 4)	Annually (Notes 4 and 10)	Annually (Note 4)		
FSA058	Quarterly (Note 11)	Quarterly (Note 11)	Quarterly		
FIN067	Quarterly (Note 4)	Quarterly (Note 4)			
FIN068	Half yearly	Half yearly			
Section A RMAR				Half yearly	Quarterly

<i>Data item</i>	<i>Frequency</i>				
	Unconsolidated <i>BIPRU investment firm and IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm and IFPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/IN-REP	Refer to <i>EU CRR</i> and applicable technical standards				
Section B RMAR				Half yearly	Quarterly
Section C RMAR				Half yearly	Quarterly
Section D6 RMAR				Half yearly	Quarterly
Section E RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Quarterly
Section F RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section G RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section H RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section J RMAR	Annually	Annually	Annually	Annually	Annually
Section K RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section L RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Note 1	<i>IFPRU 730K firms and IFPRU 125K firms - quarterly;</i>				
	<i>IFPRU 50K firms and BIPRU firms - half yearly.</i>				
Note 2	<i>IFPRU 730K firms - monthly;</i>				
	<i>IFPRU 125K firms - quarterly</i>				
	<i>IFPRU 50K firms and BIPRU firms - half yearly.</i>				

<i>Data item</i>	Frequency				
	Unconsolidated <i>BIPRU investment firm and IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm and IFPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million

CORE/EN-REP Refer to *EU CRR* and applicable technical standards

Note 3 The reporting date for this *data item* is six months after a *firm's* most recent *accounting reference date*.

Note 4 Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's* *accounting reference date*. In particular:

- (1) a week means the period beginning on Saturday and ending on Friday;
- (2) a month begins on the first day of the calendar month and ends on the last day of that month;
- (3) quarters end on 31 March, 30 June, 30 September and 31 December;
- (4) daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.

<i>Data item</i>	<i>Frequency</i>				
<i>Unconsolidated BIPRU investment firm and IFPRU investment firm</i>	<i>Solo consolidated BIPRU investment firm and IFPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	<i>Annual regulated business revenue up to and including £5 million</i>	<i>Annual regulated business revenue over £5 million</i>	

COREP/FIN-REP Refer to *EU CRR* and applicable technical standards

Note 5 **If the report is on a solo basis the reporting frequency is as follows:**

(1) if the firm does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the firm is a *standard frequency liquidity reporting firm*; and

(b) monthly if the firm is a *low frequency liquidity reporting firm*;

(2) if the firm is a *group liquidity reporting firm in a non-UK DLG by modification (firm level)* the frequency is:

(a) weekly if the firm is a *standard frequency liquidity reporting firm*; and

(b) monthly if the firm is a *low frequency liquidity reporting firm*;

(3) the frequency is quarterly if the firm is a *group liquidity reporting firm in a UK DLG by modification*.

<i>Data item</i>	<i>Frequency</i>				
	Unconsolidated <i>BIPRU investment firm and IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm and IFPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million

CORE/EN-REP Refer to *EU CRR* and applicable technical standards

Note 6

(1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.

Note 7

(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under

<i>Data item</i>	<i>Frequency</i>				
	Unconsolidated <i>BIPRU investment firm and IFPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm and IFPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/IN-REP	Refer to <i>EU CRR</i> and applicable technical standards				
Note 8	<p>(1) or (2) even if there is no <i>firm-specific liquidity stress</i> or <i>market liquidity stress</i> and none is expected.</p> <p>If the report is on a solo basis the reporting frequency is as follows:</p> <p>(1) weekly if the <i>firm</i> is a <i>standard frequency liquidity reporting firm</i>; and</p> <p>(2) monthly if the <i>firm</i> is a <i>low frequency liquidity reporting firm</i>.</p>				
Note 9	<p>If the report is by reference to the <i>firm's UK DLG by modification</i> the reporting frequency is:</p> <p>(1) weekly if the <i>group liquidity standard frequency reporting conditions</i> are met;</p> <p>(2) monthly if the <i>group liquidity low frequency reporting conditions</i> are met.</p>				
Note 10	As specified in SUP 16.12.22A R, solo consolidation has no application to liquidity reporting. Therefore, it does not make any difference to the reporting of this item whether or not the <i>firm</i> is solo consolidated.				
Note 11	Only applicable to <i>firms</i> that are not required to report a <i>data item</i> with a similar name and purpose under the <i>EU CRR</i> and applicable technical standards.				

16.12.24

R

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PRA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.23 R, unless indicated otherwise.

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
<i>Annual reports and accounts</i>						80 business days
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months
Solvency statement						3 months
FSA001				20 business days	30 business days (note 1); 45 business days (note 2)	
FSA002				20 business days	30 business days (note 1); 45 business days (note 2)	
[deleted]						
[deleted]						
FSA005				20 business days	30 business days (note 1); 45 business days (note 2)	
FSA006				20 business days		
[deleted]						
[deleted]						
FSA016					30 business days	

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
FSA018				45 <i>business days</i>		
FSA019						2 months
[deleted]						
FSA032				20 <i>business days</i>		
FSA045				20 <i>business days</i>	30 <i>business days</i> (note 1), 45 <i>business days</i> (note 2)	
[deleted]						
FSA047	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		
FSA048	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
	for the item in question	period for the item in question				
FSA050			15 busi- ness days			
FSA051			15 busi- ness days			
FSA052		22.00 hours (London time) on the sec- ond busi- ness day immedi- ately fol- lowing the last day of the re- porting period for the item in question	15 busi- ness days			
FSA053				15 busi- ness days		
FSA054				15 busi- ness days		
FSA055						15 busi- ness days
[deleted]						
FIN067	20 busi- ness days					
Section A RMAR				30 busi- ness days	30 busi- ness days	
Section B RMAR				30 busi- ness days	30 busi- ness days	

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
Section C RMAR				30 busi-ness days	30 busi-ness days	
Section D6 RMAR				30 busi-ness days	30 busi-ness days	
Section E RMAR				30 busi-ness days	30 busi-ness days	
Section F RMAR					30 busi-ness days	
Section G RMAR					30 busi-ness days	
Section H RMAR					30 busi-ness days	
Section J RMAR						30 busi-ness days
Section K RMAR					30 busi-ness days	
Section L RMAR					30 busi-ness days	
Note 1	For unconsolidated and solo consolidated reports					
Note 2	For UK consolidation group reports					
Note 3	It is one <i>Month</i> if the report relates to a <i>non-UK DLG by modification</i>.					

16.12.24A **R**
FCA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.23A R, unless indicated otherwise.

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
Annual reports and accounts						80 busi-ness days
Annual report and ac-						7 months

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
<i>counts of the mixed-activity holding company</i>						
Solvency statement						3 months
FSA001				20 <i>business days</i>	30 <i>business days</i> (note 1); 45 <i>business days</i> (note 2)	
FSA002				20 <i>business days</i>	30 <i>business days</i> (note 1); 45 <i>business days</i> (note 2)	
FSA003	15 <i>business days</i>			20 <i>business days</i>		
FSA004				20 <i>business days</i>	30 <i>business days</i> (note 1); 45 <i>business days</i> (note 2)	
FSA005				20 <i>business days</i>	30 <i>business days</i> (note 1); 45 <i>business days</i> (note 2)	
FSA006				20 <i>business days</i>		
FSA008						
FSA016					30 <i>business days</i>	

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CORE REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA018				45 <i>business days</i>		
FSA019						2 months
FSA028						
FSA032				20 <i>business days</i>		
FSA045				20 <i>business days</i>	30 <i>business days</i> (note 1), 45 <i>business days</i> (note 2)	
FSA046						
FSA047	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		
FSA048	22.00 hours (London time) on the <i>business day</i> immediately following the last	22.00 hours (London time) on the <i>business day</i> immediately following the last	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		

<i>Data Item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
	day of the reporting period for the item in question	day of the reporting period for the item in question				
FSA050				15 <i>business days</i>		
FSA051				15 <i>business days</i>		
FSA052		22.00 hours (London time) on the second <i>business day</i> immediately following the last day of the reporting period for the item in question		15 <i>business days</i>		
FSA053				15 <i>business days</i>		
FSA054				15 <i>business days</i>		
FSA055						15 <i>business days</i>
FSA058				20 <i>business days</i> (Note 1), 45 <i>busi-</i>		

<i>Data Item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CORFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
FIN067					30 business days (Note 2)	
FIN068					30 days	
Section A RMAR				30 business days	30 business days	
Section B RMAR				30 business days	30 business days	
Section C RMAR				30 business days	30 business days	
Section D6 RMAR				30 business days	30 business days	
Section E RMAR				30 business days	30 business days	
Section F RMAR					30 business days	
Section G RMAR					30 business days	
Section H RMAR					30 business days	
Section J RMAR						30 business days
Section K RMAR					30 business days	
Section L RMAR					30 business days	
Note 1	For unconsolidated and solo consolidated reports					
Note 2	For UK consolidation group reports					
Note 3	It is one <i>Month</i> if the report relates to a <i>non-UK DLG</i> by <i>modification</i> .					

Regulated Activity Group 8

(1) ■ SUP 16.12.25A R does not apply to:

- (a) a *lead regulated firm* (except in relation to *data items* 47 to 55 (inclusive));

- (b) an *OPS firm*;
 - (c) a local authority;
 - (d) a *service company*.
- (2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.
- (3) A *service company* must submit a copy of its annual audited financial statements (only if the report was audited as a result of a statutory provision other than under the *Act*) within 6 months from its *accounting reference date*.

16.12.25A **R**
FCA

The applicable *data items* referred to in ■ SUP 16.12.4 R are set out according to type of *firm* in the table below:

De- scrip- tion of <i>data</i> <i>item</i>	Firms' prudential category and applicable <i>data item</i> (note 1)						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IRU</i> Chap- ter 3	<i>IRU</i> Chap- ter 5	<i>IRU</i> Chap- ter 9	<i>IRU</i> Chap- ter 13	<i>UP- RU</i>
<i>Annual re- port and ac- counts</i>	No standard format						
<i>Annual re- port and ac- counts of the mixed- activity hold- ing compa- ny (note 10)</i>	No standard format						No stan- dard
<i>Solven- cy state-</i>	No standard format						No stan- dard

Description of data item	Firms' prudential category and applicable data item (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	BRU Chapter 3	BRU Chapter 5	BRU Chapter 9	BRU Chapter 13	UPRU
ment (note 11)							format
Balance sheet	FSA001/FIN-REP (Notes 2 and 30)	FSA001 (Note 2)	FSA029	FSA029	FSA029	Section A RMAR (note 17) or FSA029	
Income statement	FSA002/FIN-REP (Notes 2 and 30)	FSA002 (Note 2)	FSA030	FSA030	FSA030	Section B RMAR (note 17) or FSA030	
Capital adequacy	COREP (Note 30)	FSA003 (Note 2)	FSA033	FSA034 or FSA035 (note 14)	FSA031	Section D6 RMAR (note 17) or FSA032 (note 15)	FSA036
Credit risk	COREP (Note 30)	FSA004 (Notes 2, 3)					
Market risk	COREP (Note 30)	FSA005 (Notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)	FSA006 (Note 5)					

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>ILINJ</i> Chap- ter 3	<i>ILINJ</i> Chap- ter 5	<i>ILINJ</i> Chap- ter 9	<i>ILINJ</i> Chap- ter 13	<i>UP- RU</i>
Opera- tional risk	COREP (Note 30)						
Large expo- sures	COREP (Note 30)						
UK In- tegrat- ed group large expo- sures	FSA018 (note 12)						
Expo- sures be- tween <i>core UK group and non- core large expo- sures group</i>	FSA016 (note 20)						
Solo consoli- dation data	FSA016 (note 20)						
Pillar 2 ques- tion- naire	FSA019 (note 8)	FSA019 (Note 8)					
Non- EEA	COREP (Note 30)	FSA028 (Note 9)					

De- scrip- tion of da- ta item	Firms' prudential category and applicable <i>data item</i> (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	IRU Chap- ter 3	IRU Chap- ter 5	IRU Chap- ter 9	IRU Chap- ter 13	UP- RU
sub- group							
Thresh- old condi- tions							Section F RMAR (note 17)
Client money and client assets	FSA039	FSA039	FSA039	FSA039	FSA039	FSA039	Section C RMAR (Note 13) or FSA039
IRB portfo- lio risk	FSA045 (note 18)	FSA045 (Note 18)					
Securi- tisa- tion: non- trad- ing book	COREP (Note 30)	FSA046 (Note 19)					
Daily Flows	FSA047/COREP (Notes 21, 24, 26, 28 and 30)						
En- hanced Mis- match Report	FSA048/COREP (Notes 21, 24, 26, 28 and 30)						
Liquid- ity Buffer Quali- fying	FSA050/COREP (Notes 22, 25, 26, 28 and 30)						

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>RLN</i> Chap- ter 3	<i>RLN</i> Chap- ter 5	<i>RLN</i> Chap- ter 9	<i>RLN</i> Chap- ter 13	<i>UP- RU</i>
Securi- ties							
Fund- ing Con- centra- tion	FSA051	COREP					
	(Notes 22, 25, 26, 28 and 30)						
Pric- ing da- ta	FSA052	COREP					
	(Notes 22, 26, 28, 29 and 30)						
Retail and corpo- rate fund- ing	FSA053	COREP					
	(Notes 22, 25, 26, 28 and 30)						
Cur- rency Analy- sis	FSA054	COREP					
	(Notes 22, 25, 26, 28 and 30)						
Sys- tems and Con- trols Ques- tion- naire	FSA055	COREP	FSA055				
	(Notes 23, 28 and 30)		(notes 23 and 28)				
Securi- tisa- tion: trad- ing book	COREP	FSA058					
	(Note 30)	(Note 27)					

Description of data item	Firms' prudential category and applicable <i>data item</i> (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	IRU/ Chapter 3	IRU/ Chapter 5	IRU/ Chapter 9	IRU/ Chapter 13	UP-RU

Note 1: When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in SUP 16 Annex 24 R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25 G.

Note 2 *Firms* that are members of a *UK consolidation group* are also required to submit this report on a *UK consolidation group* basis.

Note 3 This applies to a *firm* that is required to submit *data item* FSA003 and, at any time within the 12 months up to its latest *accounting reference date* ("the relevant period"), was reporting *data item* FSA004 ("Firm A") or not reporting this item ("Firm B").

In the case of Firm A it must report this *data item* if one or both of its last two submissions in the relevant period show that the threshold was exceeded.

In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.

The threshold is exceeded where *data element* 77A in *data item* FSA003 is greater than £10 million, or its currency equivalent, at the relevant reporting date for the *firm*.

Note 4 This applies to a *firm* that is required to submit *data item* FSA003 and, at any time within the 12 months up to its latest *accounting reference date* ("the relevant period"), was reporting *data item* FSA005 ("Firm A") or not reporting this item ("Firm B").

In the case of Firm A it must report this *data item* if one or both of its last two submissions in the relevant period show that the threshold was exceeded.

In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded.

The threshold is exceeded where *data element* 93A in *data item* FSA003 is greater than £50 million, or its currency equivalent, at the relevant reporting date for the *firm*.

De- scrip- tion of <i>data item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>IPRU</i> Chap- ter 3	<i>IPRU</i> Chap- ter 5	<i>IPRU</i> Chap- ter 9	<i>IPRU</i> Chap- ter 13	<i>UP- RU</i>

Note 5 Only applicable to *firms with a VaR model permission*.

Note 6 [deleted]

Note 7 [deleted]

Note 8 Only applicable to *IFPRU investment firms and BIPRU firms* that:

(a) are subject to consolidated supervision under **BIPRU 8**, those that are either included within the consolidated supervision of a group that includes a *UK credit institution*, or that have been granted an *investment firm consolidation waiver*; or

(b) have been granted an *investment firm consolidation waiver*; or

(c) are not subject to consolidated supervision under **BIPRU 8**.

An *IFPRU investment firm* and *BIPRU firm* under (a) must complete the report on the basis of its *UK consolidation group*. An *IFPRU investment firm* and *BIPRU firm* under (b) or (c) must complete the report on the basis of its solo position.

Note 9 This will be applicable to firms that are members of a *UK consolidation group* on the reporting date.

Note 10 Only applicable to a *firm* whose ultimate parent is a *mixed-activity holding company*.

Note 11 Only applicable to a *firm* that is a *sole trader* or a *partnership*, when the report must be submitted by each *partner*.

Note 12 Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.

Note 13 FSA039 must only be completed by a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*. Section C RMAR must only be completed by a *firm* subject to *IPRU(INV)* Chapter 13 which is not an *exempt CAD firm*.

De- scrip- tion of da- ta item	Firms' prudential category and applicable <i>data item</i> (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IF-PRU investment firms				
	IFPRU	BIPRU	IRU Chap- ter 3	IRU Chap- ter 5	IRU Chap- ter 9	IRU Chap- ter 13	UP- RU

- Note 14** FSA034 must be completed by a *firm* not subject to the exemption in *IPRU(INV)* 5.2.3(2)R.
- FSA035 must be completed by a *firm* subject to the exemption in *IPRU(INV)* 5.2.3(2) R.
- Note 15** FSA032 must be completed by a *firm* subject to *IPRU(INV)* Chapter 13 which is an *exempt CAD firm*.
- Note 16** [deleted]
- Note 17** This is only applicable to a *firm* subject to *IPRU(INV)* Chapter 13 that is not an *exempt CAD firm*.
- Note 18** Only applicable to *firms* that have an *IRB permission*.
- Note 19** Only applicable to *firms* that hold *securitisation positions*, or are the *originator* or *sponsor* of *securitisations* of *non-trading book exposures*.
- Note 20** Only applicable to a *firm* that has a *solo consolidation waiver*.
- Note 21** A *firm* must complete this item separately on each of the following bases (if applicable).
- (1) It must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
- (2) If it a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.
- (3) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.
- (4) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.

De- scrip- tion of <i>data</i> <i>item</i>	Firms' prudential category and applicable <i>data item</i> (note 1)						
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IFPRU investment firms				
	IFPRU	BIPRU	ILAS Chap- ter 3	ILAS Chap- ter 5	ILAS Chap- ter 9	ILAS Chap- ter 13	UP- RU

Note 22 A *firm* must complete this item separately on each of the following bases that are applicable.

(1) It must complete it on a solo basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

Note 23 If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has a *solo consolidation waiver* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

Note 24 (1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

De- scrip- tion of da- ta item	Firms' prudential category and applicable <i>data item</i> (note 1)					
	IFPRU investment firms and BIPRU firms		Firms other than BIPRU firms or IF-PRU investment firms			
	IFPRU	BIPRU	ILAS Chap- ter 3	ILAS Chap- ter 5	ILAS Chap- ter 9	UP- RU

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(b) Take the three largest figures from the resulting list of amounts.

(5) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

(6) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

Note 25 Note 24 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that *material currencies* must not be recorded separately.

Note 26 Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun. This paragraph is subject to anything that the *intra-group liquidity modification* says to the contrary.

Note 27 Only applicable to *firms* that hold *securitisation positions* in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* held in the *trading book*.

Note 28 FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an *ILAS BIPRU firm*. An *ILAS BIPRU firm* does not need to complete FSA055. A *non-ILAS BIPRU firm* must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.

De- scrip- tion of <i>data</i> <i>item</i>	<i>Firms' prudential category and applicable data item (note 1)</i>						
	<i>IFPRU investment firms and BIPRU firms</i>		<i>Firms other than BIPRU firms or IFPRU investment firms</i>				
	<i>IFPRU</i>	<i>BIPRU</i>	<i>ILAS</i> Chap- ter 3	<i>ILAS</i> Chap- ter 5	<i>ILAS</i> Chap- ter 9	<i>ILAS</i> Chap- ter 13	<i>UP- RU</i>
Note 29	This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.						
Note 30	Requirements under COREP and FINREP should be determined with reference to the <i>EU CRR</i> and applicable technical standards.						

16.12.25B G
FCA

The column in the table in ■ SUP 16.12.25A R that deals with *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm* (see notes 23 and 28).

16.12.25C R
PRA

The applicable *data items* referred to in ■ SUP 16.12.4 R are set out in the table below:

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
<i>Annual report and accounts</i>	No standard format
<i>Annual report and accounts of the mixed-activity holding company (Note 5)</i>	No standard format
Solvency statement (Note 6)	No standard format
Balance sheet	FSA001 (note 2)
Income statement	FSA002 (note 2)
Market risk	FSA005 (notes 2, 18)
Market risk - supplementary	FSA006 (Note 3)
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (note 7)
Solo consolidation data	FSA016 (note 8)
Pillar 2 questionnaire	FSA019 (note 4)
IRB portfolio risk	FSA045 (note 17)
Daily flows	FSA047 (Notes 9, 12, 14 and 15)
Enhanced Mismatch Report	FSA048 (Notes 9, 12, 14 and 15)

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 10, 13, 14 and 15)
Funding Concentration	FSA051 (Notes 10, 13, 14 and 15)
Pricing data	FSA052 (Notes 10, 14, 15 and 16)
Retail and corporate funding	FSA053 (Notes 10, 13, 14 and 15)
Currency Analysis	FSA054 (Notes 10, 13, 14 and 15)
Systems and Controls Questionnaire	FSA055 (Notes 11 and 15)

Note 1 When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in SUP 16 Annex 24 R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25A.

Note 2 *Firms* that are members of a *consolidation group* are also required to submit this report on a consolidation group basis.

Note 3 Only applicable to *firms* with a *VaR model permission*.

Note 4 Only applicable to *UK designated investment firms* that:

(a) are subject to consolidated supervision under the *EU CRR*, except those that are either included within the consolidated supervision of a group that includes a *UK credit institution*; or

(c) are not subject to consolidated supervision under the *EU CRR*.

A *UK designated investment firm* under (a) must complete the report on the basis of its *consolidation group*. A *UK designated investment firm* under (b) must complete the report on the basis of its solo position.

Note 5 Only applicable to a *firm* whose ultimate parent is a *mixed-activity holding company*.

Note 6	Only applicable to a firm that is a <i>sole trader</i> or a <i>partnership</i> , when the report must be submitted by each <i>partner</i> .
Note 7	Only applicable to a <i>firm</i> that has both a <i>core UK group</i> and a <i>non-core large exposures group</i>
Note 8	Only applicable to a <i>firm</i> that has an <i>individual consolidation permission</i> .
Note 9	<p>A <i>firm</i> must complete this item separately on each of the following bases (if applicable).</p> <p>(1) It must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it a <i>group liquidity reporting firm</i> in a <i>DLG by default</i> and is a <i>UK lead regulated firm</i>, it must complete the item on the basis of that group.</p> <p>(3) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group.</p> <p>(4) If it is a <i>group liquidity reporting firm</i> in a <i>non-UK DLG by modification</i>, it must complete the item on the basis of that group.</p>
Note 10	<p>A <i>firm</i> must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p>

Note 11

(2) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.

If it is a *non-ILAS BIPRU firm*, it must complete it on a solo basis. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

Note 12

(1) This item must be reported in the reporting currency.

(2) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

(3) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:

(a) the reporting frequency is (whether under a *rule* or under a *waiver*) quarterly or less than quarterly; or

(b) the only *material currency* is the reporting currency;

(3) does not apply.

(4) If there are more than three *material currencies* for this *data item*, (3) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

	<p>(b) Take the three largest figures from the resulting list of amounts.</p> <p>(5) The date as at which the calculations for the purposes of the definition of <i>material currency</i> are carried out is the last day of the reporting period in question.</p> <p>(6) The reporting currency for this <i>data item</i> is whichever of the following currencies the <i>firm</i> chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).</p>
<p>Note 13</p>	<p>Note 24 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately.</p>
<p>Note 14</p>	<p>Any changes to reporting requirements caused by a <i>firm</i> receiving an <i>intra-group liquidity modification</i> (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the <i>data item</i> in question if the <i>firm</i> receives that <i>intra-group liquidity modification</i> or variation part of the way through such a period. If the change is that the <i>firm</i> does not have to report a particular <i>data item</i> or does not have to report it at a particular <i>reporting level</i>, the <i>firm</i> must nevertheless report that item or at that <i>reporting level</i> for any reporting period that has already begun. This paragraph is subject to anything that the <i>intra-group liquidity modification</i> says to the contrary.</p>
<p>Note 15</p>	<p>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i>. An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A non-</p>

<p>Note 16</p>	<p><i>ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.</p> <p>This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.</p>
<p>Note 17</p>	<p>Only applicable to <i>firms</i> that have an <i>IRB permission</i>.</p>
<p>Note 18</p>	<p>Lines 63 and 64 only are applicable. These lines apply to a <i>firm</i> that applies add-ons to their market risk capital calculation under the RNIV framework.</p>

16.12.26

FCA

R

The applicable reporting frequencies for *data items* referred to in ■ SUP 16.12.25A R are set out according to the type of *firm* in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
CRR REP	Refer to EU CRR and applicable technical standards				Refer to EU CRR and applicable technical standards	
<i>Annual reports and accounts</i>	Annually	Annually	Annually	Annually		Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually	Annually	Annually	Annually	Annually	
Solvency statement	Annually	Annually	Annually	Annually		Annually
FSA001	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA002	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA003				Half yearly	Half yearly	
FSA004				Half yearly	Half yearly	
FSA005				Half yearly	Half yearly	

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA006	Quarterly	Quarterly	Quarterly	Quarterly		
FSA007				Annual (note 4)	Annually (note 4)	
FSA008					Quarterly	
FSA016	Half yearly	Half yearly	Half yearly	Half yearly		
FSA018	Quarterly	Quarterly	Quarterly			
FSA019	Annually	Annually	Annually	Annually	Annually	
FSA028				Half yearly		
FSA029						Quarterly
FSA030						Quarterly
FSA031						Quarterly
FSA032						Quarterly
FSA033						Quarterly

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA034						Quarterly
FSA035						Quarterly
FSA036						Quarterly
FSA039	Half yearly	Half yearly	Half yearly	Half yearly		Half yearly
FSA045	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA046						Quarterly
FSA047	Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)					Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)
FSA048	Daily, weekly, monthly or quarterly (Notes 5, 6 and 8)					Daily, weekly, monthly or quarterly (Notes 5, 7 and 8)

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
FSA050	Monthly (Note 5)				Monthly (Note 5)	
FSA051	Monthly (Note 5)				Monthly (Note 5)	
FSA052	Weekly or monthly (Notes 5 and 9)				Weekly or monthly (Notes 5 and 10)	
FSA053	Quarterly (Note 5)				Quarterly (Note 5)	
FSA054	Quarterly (Note 5)				Quarterly (Note 5)	
FSA055	Annually (Note 5)			Annually (Note 5)	Annually (Note 5)	
FSA058	[deleted]	[deleted]	[deleted]	Quarterly	Quarterly	
Section A RMAR					Half-yearly (note 2) Quarterly (note 3)	
Section B RMAR					Half-yearly (note	

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
Section C RMAR						2) Quarterly (note 3) Half yearly (note 2) Quarterly (note 3)
Section D6 RMAR						Half yearly (note 2) Quarterly (note 3)
Section F RMAR						Half yearly
Note 1	[deleted]					
Note 2	Annual regulated business revenue up to and including £5 million.					
Note 3	Annual regulated business revenue over £5 million.					
Note 4	The reporting date for this <i>data item</i> is six months after a <i>firm's</i> most recent <i>accounting reference date</i> .					

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards			Refer to <i>EU CRR</i> and applicable technical standards		

Note 5 Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:

- (1) A week means the period beginning on Saturday and ending on Friday.
- (2) A month begins on the first day of the calendar month and ends on the last day of that month.
- (3) Quarters end on 31 March, 30 June, 30 September and 31 December.
- (4) Daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	

Note 6 If the report is on a solo basis the reporting frequency is as follows:

(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(2) if the *firm* is a *group liquidity reporting firm in a non-UK DLG by modification (firm level)* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm in a UK DLG by modification*.

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards			Refer to <i>EU CRR</i> and applicable technical standards		

Note 7 (1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.

Note 8 (1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-spe-*

Data item	Firms' prudential category					
	IFPRU 730K firm	IFPRU 125K firm	IFPRU 50K firm	BIPRU firm	UK consolidation group or defined liquidity group	Firms other than BIPRU firms or IFPRU investment firm
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards				Refer to <i>EU CRR</i> and applicable technical standards	
	<p><i>cific liquidity stress or market liquidity stress in relation to the firm or group in question.</i></p> <p>(3) A <i>firm</i> must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no <i>firm-specific liquidity stress or market liquidity stress</i> and none is expected.</p> <p>Note 9 If the report is on a solo basis the reporting frequency is as follows:</p> <p>(1) weekly if the <i>firm</i> is a <i>standard frequency liquidity reporting firm</i>; and</p> <p>(2) monthly if the <i>firm</i> is a <i>low frequency liquidity reporting firm</i>.</p> <p>Note 10 If the report is by reference to the <i>firm's UK DLG by modification</i> the reporting frequency is:</p> <p>(1) weekly if the <i>group liquidity standard frequency reporting conditions</i> are met;</p> <p>(2) monthly if the <i>group liquidity low frequency reporting conditions</i> are met.</p>					

16.12.26A **R**
PRA

The applicable reporting frequencies for *data items* referred to in **SUP 16.12.25C R** are set out in the table below. Reporting frequencies

are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	<i>UK designated investment firm</i>	<i>consolidation group or defined liquidity group</i>
<i>Annual reports and accounts</i>	Annually	Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually	Annually
Solvency statement	Annually	
FSA001	Quarterly	Half yearly
FSA002	Quarterly	Half yearly
FSA005	Quarterly	Quarterly
FSA006	Quarterly	
FSA016	Half yearly	
FSA018	Quarterly	
FSA019	Annually	Annually
FSA045	Quarterly	Half yearly
FSA047	Daily, weekly, monthly or quarterly (Notes 1, 2 and 4)	Daily, weekly, monthly or quarterly (Notes 1, 3 and 4)
FSA048	Daily, weekly, monthly or quarterly (Notes 1, 2 and 4)	Daily, weekly, monthly or quarterly (Notes 1, 3 and 4)
FSA050	Monthly (Note 1)	Monthly (Note 1)
FSA051	Monthly (Note 1)	Monthly (Note 1)
FSA052	Weekly or monthly (Notes 1 and 5)	Weekly or monthly (notes 1 and 6)
FSA053	Quarterly (Note 1)	Quarterly (Note 1)
FSA054	Quarterly (Note 1)	Quarterly (Note 1)
FSA055	Annually (Note 1)	Annually (Note 1)

Note 1 Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:

(1) A week means the period beginning on Saturday and ending on Friday.

(2) A month begins on the first day of the calendar month and ends on the last day of that month.

(3) Quarters end on 31 March, 30 June, 30 September and 31 December.

(4) Daily means each *business day*.

All periods are calculated by reference to London time. Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.

Note 2

If the report is on a solo basis the reporting frequency is as follows:

(1) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:

Note 3

(a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*.

(1) If the report is by reference to the *firm's DLG by default* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *group liquidity low frequency reporting conditions* are met.

(2) If the report is by reference to the *firm's DLG by modification* the reporting frequency is:

(a) weekly if the *group liquidity standard frequency reporting conditions* are met;

(b) monthly if the *firm* is a *low frequency liquidity reporting firm*;

(3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.

Note 4

(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.

(2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress*

or *market liquidity stress* in relation to the firm or group in question.

(3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.

Note 5 If the report is on a solo basis the reporting frequency is as follows:

(1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

(2) monthly if the *firm* is a *low frequency liquidity reporting firm*.

Note 6 If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:

(1) weekly if the *group liquidity standard frequency reporting conditions* are met;

(2) monthly if the *group liquidity low frequency reporting conditions* are met.

16.12.27 **R**
FCA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.26 R, unless indicated otherwise

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
<i>Annual accounts</i>						80 <i>business days</i>
<i>Annual reconciliation</i>						80 <i>business days</i>

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
Annual reports and accounts of the mixed-activity holding company						7 months
Solvency statement						3 months
FSA001				20 business days	30 business days (note 1);45 business days (note 2)	
FSA002				20 business days	30 business days (note 1);45 business days (note 2)	
FSA003				20 business days	30 business days (note 1);45 business days (note 2)	
FSA004				20 business days	30 business days note 1);45 business days (note 2)	
FSA005				20 business days	30 business days (note	

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA006				20 <i>business days</i>	1);45 <i>business days</i> (note 2) 30 <i>business days</i> (note 1);45 <i>business days</i> (note 2)	
FSA007						2 months
FSA008				20 <i>business days</i> (note 1);45 <i>business days</i> (note 2)		
FSA016					30 <i>business days</i>	
FSA018				45 <i>business days</i>		
FSA019						2 months
FSA028					30 <i>business days</i>	
FSA029				20 <i>business days</i>		
FSA030				20 <i>business days</i>		
FSA031				20 <i>business days</i>		
FSA032				20 <i>business days</i>		
FSA033				20 <i>business days</i>		
FSA034				20 <i>business days</i>		

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREN REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA035				20 <i>business days</i>		
FSA036				20 <i>business days</i>		
FSA039					30 <i>business days</i>	
FSA040				15 <i>business days</i>		
FSA045			20 <i>business days</i>	30 <i>business days</i> (note 1); 45 <i>business days</i> (note 2)		
FSA046				20 <i>business days</i> (Note 1), 45 <i>business days</i> (Note 2)		
FSA047	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (Note 3)		
FSA048	22.00 hours (London	22.00 hours (London	15 <i>business days</i>	15 <i>business days</i> or one		

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
CRR REP	Refer to <i>EU CRR</i> and applicable technical standards					
	time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question		<i>Month</i> (Note 3)		
FSA050				15 <i>business days</i>		
FSA051				15 <i>business days</i>		
FSA052		22.00 hours (London time) on the second <i>business day</i> immediately following the last day of the reporting period for the item in question		15 <i>business days</i>		
FSA053				15 <i>business days</i>		
FSA054				15 <i>business days</i>		

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
COREFIN-REP	Refer to <i>EU CRR</i> and applicable technical standards					
FSA055						15 business days
FSA058				20 business days (Note 1), 45 business days (Note 2)		
Section A RMAR				30 business days	30 business days	
Section B RMAR				30 business days	30 business days	
Section C RMAR				30 business days	30 business days	
Section D6 RMAR				30 business days	30 business days	
Section F RMAR					30 business days	
Note 1	For unconsolidated and solo consolidated reports.					
Note 2	For <i>UK consolidation group reports</i>					
Note 3	It is one <i>Month</i> if the report relates to a <i>non-UK DLG by modification</i>.					

16.12.27A **R**
PRA

The applicable due dates for submission referred to in ■ SUP 16.12.4 R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in ■ SUP 16.12.26 R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
Annual report and accounts						80 business days
Annual reconciliation						80 business days

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months
Solvency statement						3 months
FSA001				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA002				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA005				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA006				20 business days	30 business days (Note 1); 45 business days (Note 2)	
FSA016					30 business days	
FSA 018				45 business days		
FSA 019						2 months
FSA045				20 business days	30 business days	

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
					(Note 1); 45 <i>busi-ness days</i> (Note 2)	
FSA047	22.00 hours (London time) on the <i>busi-ness day</i> immedi-ately fol- lowing the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>busi-ness day</i> immedi-ately fol- lowing the last day of the reporting period for the item in question	15 <i>busi-ness days</i>	15 <i>busi-ness days</i> or one <i>month</i> (Note 3)		
FSA048	22.00 hours (London time) on the <i>busi-ness day</i> immedi-ately fol- lowing the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>busi-ness day</i> immedi-ately fol- lowing the last day of the reporting period for the item in question	15 <i>busi-ness days</i>	15 <i>busi-ness days</i> or one <i>month</i> (Note 3)		
FSA050			15 <i>busi-ness days</i>			
FSA051			15 <i>busi-ness days</i>			
FSA052		22.00 hours (London time) on	15 <i>busi-ness days</i>			

<i>Data item</i>	Daily	Weekly	Month-ly	Quarter-ly	Half yearly	Annual
		the <i>business day</i> immediately following the last day of the reporting period for the item in question				
FSA053				15 <i>business days</i>		
FSA054				15 <i>business days</i>		
FSA055						15 <i>business days</i>
Note 1: For unconsolidated and solo-consolidated reports						
Note 2: For consolidation group reports						
Note 3: It is one <i>Month</i> if the report relates to a <i>non-UK DLG</i> by <i>modification</i>.						

Regulated Activity Group 9

16.12.28 **R**
FCA

- (1) ■ SUP 16.12.28A R does not apply to:
 - (a) a *lead regulated firm*;
 - (b) an *OPS firm*;
 - (c) a local authority;
 - (d) a *third party processor* in respect of any *home finance activity*.
- (2) A *lead regulated firm* and an *OPS firm* must submit a copy of its annual report and audited accounts within 80 *business days* from its *accounting reference date*.

16.12.28A **R**
FCA

The applicable *data items*, reporting frequencies and submission deadlines referred to in ■ SUP 16.12.4 R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise. The due dates are the last day of the

periods given in the table below following the relevant reporting frequency period.

Description of <i>data item</i>	<i>Data item</i> (note 1)	Frequency		Submission deadline
		Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million	
Balance Sheet	Section A RMAR	Half yearly	Quarterly	30 <i>business days</i>
Income Statement	Section B RMAR	Half yearly	Quarterly	30 <i>business days</i>
Capital Adequacy	Section D1 RMAR	Half yearly	Quarterly	30 <i>business days</i>
Professional indemnity insurance	Section E RMAR	Half yearly	Quarterly	30 <i>business days</i>
(note 2)				
Threshold Conditions	Section F RMAR	Half yearly	Half yearly	30 <i>business days</i>
Training and Competence	Section G RMAR	Half yearly	Half yearly	30 <i>business days</i>
COBS data	Section H RMAR	Half yearly	Half yearly	30 <i>business days</i>
Supplementary product sales data	Section I RMAR	Half yearly	Annually	30 <i>business days</i>
Client money and client assets	Section C RMAR	Half yearly	Quarterly	30 <i>business days</i>
Fees and levies	Section J RMAR	Annually	Annually	30 <i>business days</i>
Note 1	When submitting the completed <i>data item</i> required, a <i>firm</i> must use the format of the <i>data item</i> set out in SUP 16 Annex 18A R. Guidance notes for the completion of the data items is set out in SUP 16 Annex 18B G.			
Note 2	This item only applies to <i>firms</i> that may be subject to an FSA requirement to hold professional indemnity insurance and are not <i>exempt CAD firms</i> .			

16.12.29 **G**
FCA

Regulated Activity Group 10

RIEs have separate reporting as set out in *REC*.

16.12.29A **R**
FCA

Regulated Activity Group 11

A *firm* must submit the form contained in ■ SUP 16 Annex 32 R (Bidding in emissions auctions return) annually within 30 *business days* from its *accounting reference date* unless the *firm* did not carry on any *auction regulation bidding* during the year to which that form relates.

16.12.30 **R**
FCA

Authorised professional firms

- (1) An *authorised professional firm*, other than one that must comply with *IPRU(INV)* 3, 5 or 13 in accordance with *IPRU(INV)* 2.1.4R, must submit an annual questionnaire, contained in ■ SUP 16 Annex 9 R, unless:
 - (a) its only *regulated activities* are one or more of:
 - (i) *insurance mediation*;
 - (ii) *mortgage mediation*;
 - (iii) *retail investment*;
 - (iv) *mortgage lending*;
 - (v) *mortgage administration*; or
 - (b) its "main business" as determined by *IPRU(INV)* 2.1.2R(3) is advising on, or *arranging deals in, packaged products, or managing investments for private customers*;

in which case the *authorised professional firm* must complete the appropriate report specified in ■ SUP 16.12.31 R.
- (2) The due date for submission of the annual questionnaire is four months after the *firm's accounting reference date*.
- (3) An *authorised professional firm* must also, where applicable, submit the other report to the *FCA* in accordance with ■ SUP 16.12.31 R in respect of the other *regulated activities* it undertakes under (1)(a).

16.12.30A **R**
FCA

An *authorised professional firm* that must comply with *IPRU(INV)* 3, 5, 10 or 13 in accordance with *IPRU(INV)* 2.1.4R must submit the relevant reports in ■ SUP 16.12.4 R to ■ SUP 16.12.29 G, according to the *regulated activity groups* that its business falls into.

16.12.31

R

Table of data items from an *authorised professional firm*

FCA

16

Report	Return (note 1)	Frequency (Note 4)	Due date
<p>Adequate information relating to the following activities:</p> <p>(1) <i>insurance mediation activity</i>;</p> <p>(2) <i>mortgage mediation activity</i>;</p> <p>(3) <i>retail investment activity</i>;</p> <p>(4) advising on, or arranging deals in, <i>packaged products</i>, or <i>managing investments</i> for <i>private customers</i> where these activities are the <i>authorised professional firm's "main business"</i> as determined by <i>IPRU(INV) 2.1.2 R (3)</i></p>	RMAR (Note 3)	Half yearly (quarterly for sections A to E for larger firms, subject to Note 3 exemptions) (note 2)	For half yearly report: 30 <i>business days</i> after period end For quarterly report: 30 <i>business days</i> after quarter end
<p>Adequate information relating to mortgage lending and mortgage administration.</p>	MLAR	Quarterly	20 <i>business days</i> after quarter end
Note 1	When giving the report required, a <i>firm</i> must use the return indicated. The RMAR and MLAR are located at SUP 16 Annex 18A R and SUP 16 Annex 19A R respectively. Guidance on the completion of the <i>data items</i> are located at SUP 16 Annex 18B G and SUP 16 Annex 19B G respectively.		
Note 2	For the purposes of RMAR reporting, a larger <i>firm</i> is a <i>firm</i> whose annual regulated business revenue in its previous financial year was greater than £5m. Annual regulated business revenue for these purposes is a <i>firm's</i> total revenue relating to <i>insurance mediation activity</i> , <i>mortgage mediation activity</i> and <i>retail investment activity</i> .		
Note 3	A <i>firm</i> which submits an MLAR is not required to submit sections A and B of the RMAR.		

Report	Return (note 1)	Frequency (Note 4)	Due date
Note 4 Reporting dates are calculated from a <i>firm's accounting reference date</i> .			

Financial conglomerates

16.12.32 **R**
 FCA PRA

- (1) A *firm* that is a member of a *financial conglomerate* must submit financial reports to the *appropriate regulator* in accordance with the table in ■ SUP 16.12.33 R if:
 - (a) it is at the head of a *UK-regulated EEA financial conglomerate* ; or
 - (b) its *Part 4A permission* contains a relevant *requirement*.

- (2) In (1)(b), a relevant *requirement* is one which:
 - (a) applies ■ SUP 16.12.33 R to the *firm*; or
 - (b) applies ■ SUP 16.12.33 R to the *firm* unless the *mixed financial holding company* of the *financial conglomerate* to which the *firm* belongs submits the report required under this *rule* (as if the *rule* applied to it).

16.12.33 **R**
 FCA PRA

Financial reports from a member of a financial conglomerate (see ■ SUP 16.12.32 R)

Content of Report	Form (Note 1)	Frequency	Due Date
Calculation of supplementary capital adequacy requirements in accordance with one of the three technical calculation methods	Note 2	Note 5 Yearly	Note 5
Identification of significant <i>risk concentration</i> levels	Note 3	Yearly	4 months after year end
Identification of significant <i>intra-group transactions</i>	Note 4	Yearly	4 months after year end
Report on compliance with	Note 6	Note 5	Note 5

Content of Report	Form (Note 1)	Frequency	Due Date
<p>GENPRU 3.1.35 R where it applies</p>			
<p>Note 1</p>	<p>When giving the report required, a <i>firm</i> must use the form indicated, if any.</p>		
<p>Note 2</p>	<p>If Part 1 of GENPRU 3 Annex 1 R (method 1), or Part 2 of GENPRU 3 Annex 1 R (method 2), or Part 3 of GENPRU 3 Annex 1 R (method 3) applies, there is no specific form. Adequate information must be provided, specifying the calculation method used and each <i>financial conglomerate</i> for which the <i>appropriate regulator</i> is the <i>co-ordinator</i> must discuss with the <i>appropriate regulator</i> the form which this reporting will take and the extent to which verification by an auditor will be required.</p> <p>For the purposes of the above, where relevant to the agreed reporting arrangements, <i>rules</i> 9.40(1), 9.40(1A), 9.40(3) and 9.40(4) of <i>IPRU(INS)</i> apply as they would if the <i>financial conglomerate</i> were an <i>insurance group</i>.</p>		
<p>Note 3</p>	<p>Rather than specifying a standard format for each <i>financial conglomerate</i> to use, each <i>financial conglomerate</i> for which the <i>appropriate regulator</i> is the <i>co-ordinator</i> must discuss with the <i>appropriate regulator</i> the form of the information to be reported. This should mean that usual information management systems of the <i>financial conglomerate</i> can be used to the extent possible to generate and analyse the information required.</p> <p>When reviewing the <i>risk concentration</i> levels, the <i>appropriate regulator</i> will in particular monitor the possible risk of contagion in the <i>financial conglomerate</i>, the risk of a conflict of interests, the risk of circumvention of sectoral <i>rules</i>, and the level or volume of risks.</p>		
<p>Note 4</p>	<p>For the purposes of this reporting requirement, an <i>intra-group transaction</i> will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the <i>financial conglomerate</i>.</p> <p>Rather than specifying a standard format for each <i>financial conglomerate</i> to use, each <i>financial conglomerate</i> for which the <i>appropriate regulator</i> is the <i>co-ordinator</i> must discuss with the <i>appropriate regulator</i> the form of the information to be reported. This should mean that usual</p>		

Content of Report	Form (Note 1)	Frequency	Due Date
<p>Note 5</p>	<p>information management systems of the <i>financial conglomerate</i> can be used to the extent possible to generate and analyse the information required.</p> <p>When reviewing the <i>intra-group transactions</i>, the <i>appropriate regulator</i> will in particular monitor the possible risk of contagion in the <i>financial conglomerate</i>, the risk of a conflict of interest, the risk of circumvention of <i>sectoral rules</i>, and the level or volume of risks.</p>	<p>The frequency and due date will be as follows:</p> <p>(1) <i>banking and investment services conglomerate</i>: frequency is yearly with due date 45 <i>business days</i> after period end;</p> <p>(2) <i>insurance conglomerate</i>: frequency is yearly with due date four months after period end for the capital adequacy return and three months after period end for the report on compliance with GENPRU 3.1.35 R where it applies.</p>	<p>Note 6</p> <p>Adequate information must be added as a separate item to the relevant form for sectoral reporting.</p>



16.13 Reporting under the Payment Services Regulations

Application

16.13.1
FCA

G

This section applies to *authorised payment institutions* and *small payment institutions* (see ■ SUP 16.1.1A D).

Purpose

16.13.2
FCA

G

The purpose of this section is to give directions to *authorised payment institutions* and *small payment institutions* under regulation 82 (Reporting requirements) of the *Payment Services Regulations* in relation to:

- (1) the information in respect of their provision of *payment services* and their compliance with requirements imposed by or under Parts 2 to 6 of the *Payment Services Regulations* that they must provide to the *FCA*; and
- (2) the time at which and the form in which they must provide that information.

16.13.2A
FCA

G

The purpose of this section is also to set out the rules applicable to *authorised payment institutions* and *small payment institutions* in relation to complete and timely reporting and failure to submit reports.

Reporting requirement

16.13.3
FCA

D

- (1) An *authorised payment institution* or a *small payment institution* must submit to the *FCA* the duly completed return applicable to it as set out in column (2) of the table in ■ SUP 16.13.4D.
- (2) An *authorised payment institution* or a *small payment institution* must submit the return referred to in (1):
 - (a) in the format specified as applicable in column (3) of the table in ■ SUP 16.13.4D;
 - (b) at the frequency and in respect of the periods specified in column (4) of that table;
 - (c) by the due date specified in column (5) of that table; and
 - (d) by electronic means made available by the *FCA*.

16.13.3A
FCA

D

■ SUP 16.3.11 R (Complete reporting) and ■ SUP 16.3.13 R (Timely reporting) also apply to *authorised payment institutions* and *small payment institutions* as if a

reference to *firm* in these *rules* were a reference to *authorised payments institutions* and *small payment institutions*.

16.13.3B **R**
FCA

■ SUP 16.3.14 R (Failure to submit reports) also applies to *authorised payment institutions* and *small payment institutions* as if a reference to *firm* in this *rule* were a reference to *authorised payments institutions* and *small payment institutions*.

16.13.4 **D**
FCA

The table below sets out the format, reporting frequency and due date for submission in relation to regulatory returns that apply to *authorised payment institutions* and *small payment institutions*.

(1)	(2)	(3)	(4)	(5)
Type of firm	Return	Format	Reporting Frequency	Due date
<i>Authorised Payment Institution</i>	Authorised Payment Institution Capital Adequacy Return	FSA056 (Note 1)	Annual (Note 2)	30 <i>business days</i> (Note 3)
<i>Small Payment Institution</i>	Payment Services Directive Transactions	FSA057 (Note 4)	Annual (Note 5)	1 month (Note 3)
Note 1	When submitting the completed return required, the <i>authorised payment institution</i> must use the format of the return set out in SUP 16 Annex 27A D. Guidance notes for the completion of the return are set out in SUP 16 Annex 27B G.			
Note 2	This reporting frequency is calculated from an <i>authorised payment institution's accounting reference date</i> .			
Note 3	The due dates are the last day of the periods given in column (5) of the table above following the relevant reporting frequency period set out in column (4) of the table above.			
Note 4	When submitting the completed return required, the <i>small payment institution</i> must use the format of the return set out in SUP 16 Annex 28A D. Guidance notes for the completion of the return are set out in SUP 16 Annex 28B G.			
Note 5	This reporting frequency is calculated from 31 December each calendar year.			

16.14 Client money and asset return

Application

16.14.1

R

This section applies to a *CASS large firm* and a *CASS medium firm*.

FCA

Purpose

16.14.2

G

The purpose of the *rules* and *guidance* in this section is to ensure that the *FCA* receives regular and comprehensive information from a *firm* which is able to hold *client money* and *safe custody assets* on behalf of its *clients*.

FCA

Report

16.14.3

R

- (1) Subject to (3), a *firm* must submit a completed *CMAR* to the *FCA* within 15 *business days* of the end of each month.
- (2) In this *rule* month means a calendar month and ■ SUP 16.3.13 R (4) does not apply.
- (3) A *firm* which changes its 'CASS firm type' and notifies the *FCA* that it is a *CASS medium firm* or a *CASS large firm* in accordance with ■ CASS 1A.2.9 R is not required to submit a *CMAR* in respect of the month in which the change to its 'CASS firm type' takes effect in accordance with ■ CASS 1A.2.12 R, unless it was a *firm* to which the requirement in (1) applied immediately prior to that change taking effect.

FCA

16.14.4

R

For the purposes of the *CMAR*:

FCA

- (1) *client money* is that to which the *client money rules* in ■ CASS 7 apply; and
- (2) *safe custody assets* are those to which the *custody rules* in ■ CASS 6 apply but only in relation to the holding of *financial instruments* (in the course of *MiFID business*) , the *safeguarding and administration of assets (without arranging)* (in the course of business that is not *MiFID business*) , *acting as trustee or depositary of an AIF* and *acting as trustee or depositary of a UCITS*.

16.14.5

FCA

G

For the avoidance of doubt, the effect of ■ SUP 16.14.4 R is that the following are to be excluded from any calculations which the *CMAR* requires :

- (1) any *client money* held by the *firm* in accordance with ■ CASS 5;
- (2) any *safe custody assets* in respect of which the *firm* is merely *arranging safeguarding and administration of assets* in accordance with ■ CASS 6; and
- (3) any *client money* or *safe custody assets* in respect of which the *firm* merely has a *mandate* in accordance with ■ CASS 8.

Method of submission
.....

16.14.6

FCA

R

A *CMAR* must be submitted by electronic means made available by the *FCA*.



16.15 Reporting under the Electronic Money Regulations

Application

16.15.1
FCA

G

This section applies to *electronic money issuers* that are not *credit institutions* (see ■ SUP 16.1.1B D).

Purpose

16.15.2
FCA

G

The purpose of this section is to give directions to the *electronic money issuers* referred to in ■ SUP 16.1.1B D under regulation 49 (Reporting requirements) of the *Electronic Money Regulations* in relation to:

- (1) the information in respect of their issuance of *electronic money* and provision of *payment services* and their compliance with requirements imposed by or under Parts 2 to 5 of the *Electronic Money Regulations* that they must provide to the *FCA*; and
- (2) the time at which and the form in which they must provide that information.

16.15.3
FCA

G

The purpose of this section is also to set out the rules applicable to these types of *electronic money issuers* in relation to complete and timely reporting and, where relevant, the failure to submit reports.

Reporting requirement

16.15.4
FCA

D

An *electronic money issuer* that is not a *credit institution* must submit to the *FCA*:

- (1) the duly completed return applicable to it as set out in column (2) of the table in ■ SUP 16.15.8 D; and
- (2) the return referred to in (1):
 - (a) in the format specified as applicable in column (3) of the table in ■ SUP 16.15.8 D;
 - (b) at the frequency and in respect of the periods specified in column (4) of that table;
 - (c) by the due date specified in column (5) of that table; and
 - (d) by electronic means made available by the *FCA* where necessary.

16.15.5
FCA

D

■ SUP 16.4.5 R (Annual Controllers Report) and ■ SUP 16.5.4 R (Annual Close Links Reports) apply to an *authorised electronic money institution* as if a reference to *firm* in these rules were a reference to an *authorised electronic money institution*.

16.15.6
FCA

D

■ SUP 16.3.11 R (Complete reporting) and ■ SUP 16.3.13 R (Timely reporting) apply to an *authorised electronic money institution* and a *small electronic money institution* as if a reference to *firm* in these rules were a reference to an *authorised electronic money institution* and a *small electronic money institution*.

16.15.7
FCA

R

■ SUP 16.3.14 R (Failure to submit reports) also applies to an *authorised electronic money institution* and a *small electronic money institution* as if a reference to *firm* in these rules were a reference to an *authorised electronic money institution* and a *small electronic money institution*.

16.15.8
FCA

D

The table below sets out the format, reporting frequency and due date for submission in relation to regulatory returns that apply to *electronic money issuers* that are not *credit institutions*.

(1)	(2)	(3)	(4)	(5)
Type of <i>electronic money issuer</i>	Return	Format	Reporting Frequency	Due date (Note 4)
<i>Authorised electronic money institution</i> (Note 1)	Balance sheet	FSA059	Half yearly (Note 3)	30 <i>business days</i>
	Income statement	FSA060	Half yearly (Note 3)	30 <i>business days</i>
	Capital requirements	FSA061	Half yearly (Note 3)	30 <i>business days</i>
	Safeguarding	FSA062	Half yearly (Note 3)	30 <i>business days</i>
	Supplementary information	FSA063	Half yearly (Note 3)	30 <i>business days</i>
<i>Small electronic money institutions</i> (Note 2)	<i>Annual report and accounts</i>	No standard format	Annual (Note 3)	80 <i>business days</i>
	Return	FSA064	Half yearly (note 5)	30 <i>business days</i>
	Total electronic money outstanding @ 31st December	FSA065	Annual (Note 5)	1 month
(a) the Post Office Limited	<i>Annual report and accounts</i>	No standard format	Annual (Note 5)	80 <i>business days</i>
	<i>Average outstanding electronic money</i>	No standard format	Half yearly (Note 6)	30 <i>business days</i>

(1)	(2)	(3)	(4)	(5)
Type of <i>elec- tronic mon- ey issuer</i>	Return	Format	Reporting Frequency	Due date (Note 4)
(b) the Bank of England, the ECB and the national central banks of <i>EEA States</i> other than the <i>United Kingdom</i>				
(c) Government departments and local authorities				
(d) <i>credit unions</i>				
(e) municipal banks				
(f) the National Savings Bank				
Note 1	When submitting the completed returns required, the <i>authorised electronic money institution</i> must use the format of the returns set out in SUP 16 Annex 30A D to SUP 16 Annex 30E D.			
Note 2	When submitting the completed returns required, the <i>small electronic money institution</i> must use the format of the returns set out in SUP 16 Annex 30F D to SUP 16 Annex 30G D.			
Note 3	Where the <i>authorised electronic money institution's</i> reporting frequency is half yearly or annual, this field is calculated from the <i>authorised electronic money institution's accounting reference date</i> .			
Note 4	The due dates for returns are the last day of the periods given in column (5) of the table above following the relevant reporting frequency period set out in column (4) of the table above.			
Note 5	The reporting frequency in relation to FSA065 is calculated from 31 December each calendar year. Otherwise, where the <i>small electronic money institution's</i> reporting frequency is half yearly or annual, this field is calculated from the <i>small electronic money institution's accounting reference date</i> .			
Note 6	This is calculated from 31 December each calendar year.			

16.16 Prudent valuation reporting

Application

16.16.1 **R** This section applies to a *UK bank*, a *UK designated investment firm* or a *full-scope IFPRU investment firm* which meets the condition in **■ SUP 16.16.2 R**.

FCA **PRA**

16.16.2 **R** The condition referred to in **■ SUP 16.16.1 R** is that, on its last *accounting reference date*, the *firm* had balance sheet positions measured at fair value which, on a gross basis (the sum of the absolute value of each of the assets and liabilities), exceeded £3 billion.

FCA **PRA**

Purpose

- 16.16.3** **G**
- (1) The purpose of this section is to set out the requirements for a *firm* specified in **■ SUP 16.16.1 R** to report the outcomes of its prudent valuation assessments to the *appropriate regulator* and to do so in a standard format.
 - (2) The purpose of collecting this data on the prudent valuation assessments made by a *firm* is to assist the *appropriate regulator* in assessing the capital resources of *firms*, to enable the *appropriate regulator* to gain a wider understanding of the nature and sources of measurement uncertainty in fair-valued financial instruments, and to enable comparison of the nature and level of that measurement uncertainty across *firms* and over time.

FCA **PRA**

[Note: articles 24 and 105 of the *EU CRR*]

Reporting requirement

- 16.16.4** **R**
- (1) **■** A *firm* to which this section applies must submit to the *appropriate regulator* quarterly (on a calendar year basis and not from a *firm's accounting reference date*), within six weeks of each quarter end, a Prudent Valuation Return in respect of its fair-value assessments in the format set out in **■ SUP 16 Annex 31A R**.
 - (2) A PRA-authorized person to which this section applies must submit the report via electronic mail to prudentvaluationreturns@bankofengland.co.uk or via post or hand delivery to Regulatory Data Group, Statistics and Regulatory Data Division (HO5 A-B), Bank of England,

FCA **PRA**

Threadneedle Street, London EC2R 8AH; or via fax to the
Regulatory Data Group of the Bank of England (020 7601 3334)

16.16.5

PRA

R

Where a *firm* to which ■ SUP 16.16.4 R applies is a member of a *consolidation group*, the *firm* must comply with ■ SUP 16.16.4 R:

- (1) on an individual consolidation basis if the *firm* has an individual consolidation permission, or on an unconsolidated basis if the *firm* does not have an individual consolidation permission ; and
- (2) separately, on the basis of the consolidated financial position of the *consolidation group*. (*Firms'* attention is drawn to ■ SUP 16.3.25 G regarding a single submission for all *firms* in the *group*.)

16.16.5A

FCA

R

Where a *firm* to which ■ SUP 16.16.4 R applies is a member of a *FCA consolidation group*, the *firm* must comply with ■ SUP 16.16.4 R:

- (1) on a solo-consolidation basis if the *firm* has an individual consolidation/solo consolidation permission, or on an unconsolidated basis if the *firm* does not have an individual consolidation/solo consolidation permission; and
- (2) separately, on the basis of the consolidated financial position of the *FCA consolidation group*. (*Firms'* attention is drawn to ■ SUP 16.3.25 G regarding a single submission for all *firms* in the *group*.)



16.17 Remuneration reporting

Purpose.....

16.17.1 G
FCA PRA

The purpose of this section is to ensure that the *appropriate regulator* receives regular and comprehensive information about *remuneration* in a standard format to assist it to benchmark *remuneration* trends and practices and to collect *remuneration* information on *high earners*. It also takes account of the Capital Requirements (Amendment) Regulations 2012 (SI 2012/917) together with the European Banking Authority's Guidelines to article 22(3) and (5) of the *Banking Consolidation Directive*.

Interpretation.....

16.17.2 R
FCA PRA

In this section "UK lead regulated group" means a *UK consolidation group* that is headed either by an *EEA parent institution* or by an *EEA parent financial holding company*.

Remuneration Benchmarking Reporting Requirements.....

16.17.3 R
PRA

- (1) A *firm* to which this *rule* applies must submit a Remuneration Benchmarking Information Report to the *PRA* annually.
- (2) The *firm* must complete that report in the format set out in ■ SUP 16 Annex 33A R.
- (3) The *firm* must submit that report to the *PRA* within four months of the *firm's accounting reference date*.
- (4) A *firm* that:
 - (a) is not part of a UK lead regulated group must complete that report on an unconsolidated basis in respect of *remuneration* awarded to *employees* of the *firm* in the last completed financial year;
 - (b) is part of a UK lead regulated group must not complete that report on either a solo consolidation basis or an unconsolidated basis. The *firm* must complete that report on a consolidated basis in respect of *remuneration* awarded to all *employees* in the UK lead regulated group in the last completed financial year.

- (5) The *firm* must complete the report in the currency of its annual audited accounts.
- (6) A *firm* to which this *rule* applies on the date it comes into effect must submit two reports by 31 December 2012: one for each of the previous two complete financial years that ended before this *rule* came into effect.
- (7) This *rule* applies to:
- (a) a *building society*;
 - (b) a *bank*;
 - (c) a *designated investment firm*; and
 - (d) an *overseas firm* that:
 - (i) is not an *EEA firm*;
 - (ii) has its head office outside the *EEA*; and
 - (iii) would be a *bank, building society* or a *designated investment firm*, if it had been a *UK domestic firm*, had carried on all of its business in the United Kingdom and had obtained whatever authorisations for doing so as are required under the Act.

that

- (e) is not, and does not have, an *EEA parent institution* or an *EEA parent financial holding company*;

and that *firm* had total assets equal to or greater than £50 billion on an unconsolidated basis on the *accounting reference date* immediately prior to the *firm's* last complete financial year.

- (8) This *rule* also applies to:
- (a) a *building society*;
 - (b) a *bank*;
 - (c) a *designated investment firm*; and
 - (d) an *overseas firm* that:
 - (i) is not an *EEA firm*;
 - (ii) has its head office outside the *EEA*; and;
 - (iii) would be a *bank, building society* or a *designated investment firm*, if it had been a *UK domestic firm*, had carried on all of its business in the United Kingdom and

had obtained whatever authorisations for doing so as are required under the Act.

that:

- (e) is part of a UK lead regulated group;

and that *firm* had total assets equal to or greater than £50 billion on an unconsolidated basis on the *accounting reference date* immediately prior to the *firm's* last complete financial year.

- (9) In this rule "total assets" means

- (a) in relation to a *bank, building society or designated investment firm, its*, total assets as set out in its balance sheet on the relevant *accounting reference date*; and
- (b) in relation to an *overseas firm*, the total assets of the *overseas firm* as set out in its balance sheet on the relevant *accounting reference date* that cover the activities of the branch operation in the *United Kingdom*.

High Earners Reporting Requirements

16.17.4

FCA PRA

R

- (1) A *firm* to which this *rule* applies must submit a High Earners Report to the *appropriate regulator* annually.
- (2) The *firm* must submit that report to the *appropriate regulator* within four months of the end of the *firm's accounting reference date*.
- (3) A *firm* that is not part of a UK lead regulated group must complete that report on an unconsolidated basis in respect of *remuneration* awarded in the last completed financial year to all *high earners* of the *firm* who mainly undertook their professional activities within the *EEA*.
- (4) A *firm* that is part of a UK lead regulated group must not complete that report on either a solo consolidation basis or an unconsolidated basis. The *firm* must complete that report on a consolidated basis in respect of *remuneration* awarded in the last completed financial year to all *high earners* who mainly undertook their professional activities within the *EEA* at:
- (a) the *EEA parent institution* or *EEA parent financial holding company* of the UK lead regulated group; and
- (b) each *subsidiary* of the UK lead regulated group that has its registered office (or, if it has no registered office, its head office) in an *EEA State*; and

- (c) each *branch* of the UK lead regulated group that is established or operating in an *EEA State*.
- (5) The *firm* must complete a separate template, in the format set out in ■ SUP 16 Annex 34A R, for each *EEA State* in which there is a *high earner*. Those templates together form the report.
- (6) *High earners* who carried out their professional activities in an *EEA State* should be classified under that *EEA State*.
- (7) *High earners* who carried out their professional activities in more than one *EEA State* should be classified under the *EEA State* where they mainly undertook their professional activities.
- (8) [deleted]
- (9) The information in the report must be denominated in euros determined, if necessary, by reference to the conversion rate table specified from time to time by the European Banking Authority as applicable to that year's High Earners Report.
- (10) This *rule* applies to a *bank, building society* and an *investment firm* that:
 - (a) is not a *IFPRU limited licence firm* or a *IFPRU limited activity firm*; and
 - (b) is not, and does not have, an *EEA parent institution* or an *EEA parent financial holding company*.
- (11) This *rule* also applies to a *bank, building society* and an *investment firm* that:
 - (a) is not a *IFPRU limited licence firm* or a *IFPRU limited activity firm*; and
 - (b) is part of a UK lead regulated group.
- (12) This *rule* also applies to a *IFPRU limited licence firm* or a *IFPRU limited activity firm*:
 - (a) that is part of a UK lead regulated group; and
 - (b) where that UK lead regulated group contains either:
 - (i) a *bank, building society* or an *investment firm* that is not an *IFPRU limited licence firm* or an *IFPRU limited activity firm*; or
 - (ii) an *overseas firm* that;
is not an *EEA firm*;

has its head office outside the *EEA*; and
would be a *bank, building society* or an *investment firm* that is not a *IFPRU limited licence firm* or *IFPRU limited activity firm*, if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the *Act*.

(13) This *rule* also applies to an *overseas firm* that:

- (a) is not an *EEA firm*;
- (b) has its head office outside the *EEA*;
- (c) would be a *bank, building society* or an *investment firm* that is not a *IFPRU limited licence firm* or *IFPRU limited activity firm*, if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the *Act*,

and either

- (d) is not, and does not have, an *EEA parent institution* or an *EEA parent financial holding company*; or
- (e) is part of a *UK lead regulated group*.

16.17.5

FCA PRA

G

Firms' attention is drawn to ■ SUP 16.3.25 G regarding a single submission for all *firms* in a *group*.



16.18 AIFMD reporting

Application

16.18.1

FCA

G

This section applies to the following types of *AIFM* in line with ■ SUP 16.18.2 G:

- (1) a *full-scope UK AIFM*;
- (2) a *small authorised UK AIFM*;
- (3) a *small registered UK AIFM*;
- (4) an *above-threshold non-EEA AIFM marketing in the UK*; and
- (5) a *small non-EEA AIFM marketing in the UK*.

16.18.2

FCA

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Type of AIFM	Rules	Directions	Guidance	AIFMD level 2 regulation
<i>full-scope UK AIFM</i>	FUND 3.4 (Reporting obligation to the FCA) and SUP 16.18.5 R			Article 110 (Reporting to competent authorities) (as replicated in SUP 16.18.4 EU)
<i>small authorised UK AIFM</i>	SUP 16.18.6 R			Article 110 (Reporting to competent authorities) (as replicated in SUP 16.18.4 EU)
<i>small registered UK AIFM</i>		SUP 16.18.7 D		Article 110 (Reporting to competent authorities) (as replicated in SUP 16.18.4 EU)
<i>above-threshold non-EEA AIFM marketing in the UK</i>			SUP 16.18.8 G	Article 110 (Reporting to competent authorities) (as replicated in SUP 16.18.4 EU)

Type of AIFM	Rules	Directions	Guidance	AIFMD level 2 regulation
<i>small non-EEA AIFM marketing in the UK</i>		SUP 16.18.9 D		Article 110 (Reporting to competent authorities) (as replicated in SUP 16.18.4 EU)

16.18.3

FCA

G

Purpose

This section specifies the end dates for reporting periods for *AIFMs* and the reporting period for *small AIFMs* for the types of *AIFM* to whom this section applies. Although article 110 of the *AIFMD level 2 regulations* (Reporting to competent authorities) (as replicated in SUP 16.18.4 EU) applies certain reporting requirements directly to *AIFMs*, it does not specify the end dates for reporting periods for an *AIFM* and, for *small AIFMs*, it does not specify the reporting period. Therefore, *competent authorities* are required to specify these requirements.

16.18.4



Article 110 of the AIFMD level 2 regulation

Reporting to competent authorities

1. In order to comply with the requirements of the second subparagraph of Article 24(1) and of point (d) of Article 3(3) of Directive 2011/61/EU, an AIFM shall provide the following information when reporting to competent authorities:

- (a) the main instruments in which it is trading, including a break-down of financial instruments and other assets, including the AIF's investment strategies and their geographical and sectoral investment focus;
- (b) the markets of which it is a member or where it actively trades;
- (c) the diversification of the AIF's portfolio, including, but not limited to, its principal exposures and most important concentrations.

The information shall be provided as soon as possible and not later than one month after the end of the period referred to in paragraph 3. Where the AIF is a fund of funds this period may be extended by the AIFM by 15 days.

2. For each of the EU AIFs they manage and for each of the AIFs they market in the Union, AIFMs shall provide to the competent authorities of their home Member State the following information in accordance with Article 24(2) of Directive 2011/61/EU:

- (a) the percentage of the AIF's assets which are subject to special arrangements as defined in Article 1(5) of this Regula-

Reporting to competent authorities

- tion arising from their illiquid nature as referred to in point (a) of Article 23(4) of Directive 2011/61/EU;
- (b) any new arrangements for managing the liquidity of the AIF;
 - (c) the risk management systems employed by the AIFM to manage the market risk, liquidity risk, counterparty risk and other risks including operational risk;
 - (d) the current risk profile of the AIF, including:
 - (i) the market risk profile of the investments of the AIF, including the expected return and volatility of the AIF in normal market conditions;
 - (ii) the liquidity profile of the investments of the AIF, including the liquidity profile of the AIF's assets, the profile of redemption terms and the terms of financing provided by counterparties to the AIF;
 - (e) information on the main categories of assets in which the AIF invested including the corresponding short market value and long market value, the turnover and performance during the reporting period; and
 - (f) the results of periodic stress tests, under normal and exceptional circumstances, performed in accordance with point (b) of Article 15(3) and the second subparagraph of Article 16(1) of Directive 2011/61/EU.
3. The information referred to in paragraphs 1 and 2 shall be reported as follows:
- (a) on a half-yearly basis by AIFMs managing portfolios of AIFs whose assets under management calculated in accordance with Article 2 in total exceed the threshold of either EUR 100 million or EUR 500 million laid down in points (a) and (b) respectively of Article 3(2) of Directive 2011/61/EU but do not exceed EUR 1 billion, for each of the EU AIFs they manage and for each of the AIFs they market in the Union;
 - (b) on a quarterly basis by AIFMs managing portfolios of AIFs whose assets under management calculated in accordance with Article 2 in total exceed EUR 1 billion, for each of the EU AIFs they manage, and for each of the AIFs they market in the Union;
 - (c) on a quarterly basis by AIFMs which are subject to the requirements referred to in point (a) of this paragraph, for each AIF whose assets under management, including any assets acquired through use of leverage, in total exceed EUR 500 million, in respect of that AIF;

Reporting to competent authorities

- (d) on an annual basis by AIFMs in respect of each unleveraged AIF under their management which, in accordance with its core investment policy, invests in non-listed companies and issuers in order to acquire control.
- 4. By way of derogation from paragraph 3, the competent authority of the home Member State of the AIFM may deem it appropriate and necessary for the exercise of its function to require all or part of the information to be reported on a more frequent basis.
- 5. AIFMs managing one or more AIFs which they have assessed to be employing leverage on a substantial basis in accordance with Article 111 of this Regulation shall provide the information required under Article 24(4) of Directive 2011/61/EU at the same time as that required under paragraph 2 of this Article.
- 6. AIFMs shall provide the information specified under paragraphs 1, 2 and 5 in accordance with the pro-forma reporting template set out in the Annex IV.
- 7. In accordance with point (a) of Article 42(1) of Directive 2011/61/EU, for non-EU AIFMs, any reference to the competent authorities of the home Member State shall mean the competent authority of the Member State of reference.

[Note: Article 110 of the *AIFMD level 2 regulation*]

Reporting periods and end dates

16.18.5
FCA

R The reporting period of a *full-scope UK AIFM* must end on the following dates:

- (1) for *AIFMs* that are required to report annually, on 31 December each calendar year;
- (2) for *AIFMs* that are required to report half-yearly, on 30 June and 31 December in each calendar year; and
- (3) for *AIFMs* that are required to report quarterly, on 31 March, 30 June, 30 September and 31 December in each calendar year.

16.18.6
FCA

R A *small authorised UK AIFM* must report annually and its reporting period must end on 31 December in each calendar year.

16.18.7
FCA

D A *small registered UK AIFM* must report annually and its reporting period must end on 31 December in each calendar year.

16.18.8
FCA

G In accordance with regulation 59(3)(a) of the *AIFMD UK regulation*, an *above-threshold non-EEA AIFM* that is *marketing* in the *UK* is required to comply with the implementing provisions of the *AIFMD UK regulation* that apply to a *full-scope UK AIFM* and relate to articles 22 to 24 *AIFMD* in so far as such provisions

are relevant to the *AIFM* and the *AIF*. Therefore, such an *AIFM* should comply with the provisions in ■ SUP 16.18.5 R that are applicable to a *full-scope UK AIFM*.

16.18.9

FCA

D

A *small non-EEA AIFM marketing* in the *UK* must report annually and its reporting period must end on 31 December in each calendar year.

16.18.10

FCA

G

All periods in this section should be calculated by reference to London time.

Retail Mediation Activities Return ('RMAR')

FCA

This annex consists only of one or more forms. Forms are to be found through the following address:

Retail Mediation Activities Return ('RMAR') - SUP Chapter 16 Annex 18A R

Notes for Completion of the Retail Mediation Activities Return ('RMAR')

FCA

This annex consists only of one or more forms. Forms are to be found through the following address:

Notes for Completion of the Retail Mediation Activities Return ('RMAR') - SUP Chapter 16 Annex 18b G

Mortgage Lenders & Administrators Return ('MLAR')

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

Mortgage Lenders and Administrators Return ('MLAR') - Forms/sup/sup_Chapter16_annex19ar_20130401.pdf

Notes for completion of the Mortgage Lenders & Administrators Return ('MLAR')

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

Notes for Completion of the Mortgage Lenders and Administrators Return ('MLAR')
Forms/sup/sup_chapter16_annex19bg_20140201.pdf

Data items for SUP 16.12

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

Data items for SUP 16.12 Forms/sup/sup_chapter16_annex24r_20130723.pdf

Guidance notes for data items in SUP 16 Annex 24R

FCA

This annex consists only of one or more forms. Forms are to be found through the following address:

Guidance notes for data items in SUP 16 Annex 24R - Forms/sup/sup_chapter16_annex25g_20140120.pdf

Guidance notes for data items in SUP 16 Annex 24R

PRA

This annex consists only of one or more forms. Forms are to be found through the following address:

Guidance notes for data items in SUP 16 Annex 24R - Forms/sup/SUP16_Annex25A.pdf

Authorised Payment Institution Capital Adequacy Return

FCA

This annex consists only of one or more forms. Forms are to be found through the following address:

*Authorised Payment Institution Capital Adequacy Return -
Forms/sup/sup_chapter16_annex27ad_20131231.pdf*

Notes on Completing FSA056 (Authorised Payment Institution Capital Adequacy Return - SUP 16 Annex 27 AD)

FCA

This annex consists only of one or more forms. Forms are to be found through the following address:

Notes on Completing FSA056 (Authorised Payment Institution Capital Adequacy Return - SUP 16 Annex 27 AD)
- Forms/sup/sup_chapter16_annex27bg_20131231.pdf

Guidance notes for data items in SUP 16 Annex 31AR

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

Guidance notes for data items in SUP 16 Annex 31AR - SUP 16 Annex 31BG

[to follow]

FCA PRA

[to follow]

[to follow]

FCA **PRA**

[to follow]

Guidance notes for completion of close links annual report in SUP 16 Annex 36AR

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

SUP 16 Annex 36BG

Controllers Report

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

SUP 16 Annex 37AR

Guidance notes for completion of controllers report in SUP 16 Annex 37AR

FCA **PRA**

This annex consists only of one or more forms. Forms are to be found through the following address:

SUP 16 Annex 37BG

Appendix 3

Guidance on passporting issues

3.1 Application

App 3.1.1 G
FCA PRA

This appendix applies to all *firms* when carrying on a *passporting activity*, except for a *firm* which is only carrying on a *passporting activity* under the *auction regulation*.

3.2 Purpose

App 3.2.1 G
FCA PRA

The purpose of this appendix is to give *guidance*:

- (1) to *UK firms* on some of the issues that arise when carrying on *passporting activities* (see ■ SUP App 3.5 and ■ SUP App 3.6);
- (2) to all *firms* on the relationship between *regulated activities* and activities passported under the *Single Market Directives* (see ■ SUP App 3.9 and ■ SUP App 3.10).

3.3 Background

The Treaty on the Functioning of the European Union

App 3.3.1 G
FCA PRA

- (1) The *Treaty* establishes in *EU law* the rights of freedom of establishment and freedom to provide services in the *EU*.
- (2) The *Treaty* lays down central principles governing the legal framework for freedom of establishment and the free movement of services in the *EU*. There are, however, a number of areas where the legal position is not clear. This includes, for example, identifying whether a service is provided through an establishment, where the issues involved are complex. Therefore, this Appendix is intended to provide *guidance* but

cannot be regarded as comprehensive. Ultimately, the construction of the *Treaty* and relevant Directive provisions is a matter for the European Court of Justice.

App 3.3.2 **G**
FCA PRA

The *Treaty* provides the framework for the provision of banking, insurance business, investment business, UCITS management services and insurance mediation, while the *Single Market Directives* clarify the rights and freedoms within that framework.

EU and EEA

App 3.3.3 **G**
FCA PRA

The agreement on the *European Economic Area*, signed at Oporto on 2 May 1992, extends certain *EU* legislation to those *EEA States* that are not Member States of the *EU*.

Interpretative communications

App 3.3.4 **G**
FCA PRA

In 1997, the European Commission published an interpretative communication (Freedom to provide services and the interests of the general good in the Second Banking Directive (97/C 209/04)) (the text of this directive and the First Banking Directive is now consolidated in the *Banking Consolidation Directive*). The European Commission's objective in publishing this communication was to explain and clarify the *EU* rules. The European Commission deemed it desirable "to restate in a Communication the principles laid down by the Court of Justice and to set out its position regarding the application of these Principles to the specific problems raised by the Second Banking Directive".

App 3.3.5 **G**
FCA PRA

In 2000, the European Commission published a further interpretative communication (Freedom to provide services and the general good in the insurance sector (2000/C43/03)). This allowed the European Commission to publicise its own interpretation of the rules on the freedom to provide services.

App 3.3.6 **G**
FCA PRA

- (1) The European Commission has not produced an interpretative communication on *MiFID*. It is arguable, however, that the principles in the communication on the Second Banking Directive can be applied to *investment services and activities*. This is because Chapter II of Title II of *MiFID* (containing provisions relating to operating conditions for investment firms) also applies to the *investment services and activities* of firms operating under the *Banking Consolidation Directive*, which is repealed and replaced by the *CRD*.
- (2) The European Commission has not produced an interpretative communication on either the *Insurance Mediation Directive* or on the *UCITS Directive*.

App 3.3.7 **G**
FCA PRA

In giving its views, communications made by the European Commission have the status of guidance and are not binding on the national courts of *EEA States*. This is because it is the European Court of Justice that has ultimate responsibility for interpreting the *Treaty* and secondary legislation. Accordingly, the communications "do not prejudge the interpretation that the Court of Justice ..., which is responsible in the final instance for interpreting the *Treaty* and secondary legislation, might place on the matter at issue." (European Commission interpretative communication: Freedom to provide services and the general good in the insurance sector (C(99) 5046). However, the Courts may take account of European Commission communications when interpreting the *Treaty* and secondary legislation.

App 3.3.8 **G**
FCA PRA

Firms should also note that European Commission communications do not necessarily represent the views taken by all *EEA States*.

the same principles as in the 'characteristic performance' test should apply. Under this test, the fact that a *UK firm* has a screen displaying the *regulated market's* or the *MTF's* prices in its UK office does not mean that it is *dealing* within the territory of the *Home State* of the *regulated market* or of the *MTF*.

- (2) In such a case, the *FCA* and *PRA* would consider that:
- (a) the *market operator* operating the *regulated market* or the *MTF* is providing a *cross-border service* into the *UK* and so, provided it has given notice to its *Home State regulator* in accordance with articles 42(6) or 31(5) *MiFID*, it will be exempt from the *general prohibition* in respect of any *regulated activity* carried on as part of the business of the *regulated market* or of *operating an MTF* (see section 312A of the *Act*);
 - (b) the *MiFID investment firm* operating the *MTF* is providing a *cross-border service* into the *UK* and so needs to comply with ■ SUP 13A.

App 3.6.26 G *Firms* are reminded of their rights, under article 33 of *MiFID*, to become members of, or have access to, the *regulated markets* in other Member States.

FCA PRA

App 3.6.27 G *Firms* should note that, in circumstances where the *FCA* or *PRA* take the view that a notification would not be required, other *EEA States* may take a different view.

FCA PRA

App 3.6.28 G [deleted]

App 3.6.29 G [deleted]

App 3.6.30 G [deleted]

App 3.6.31 G [deleted]

3.7 [Deleted]

3.8 [Deleted]

3.9 Mapping of MiFID, CRD, UCITS Directive and Insurance Mediation Directive to the Regulated Activities Order

App 3.9.1 G
FCA PRA

The following Tables 1, 2, 2A and 2B provide an outline of the *regulated activities* and *specified investments* that may be of relevance to *firms* considering undertaking *passporting activities* under the *CRD*, *MiFID*, the *UCITS Directive* and the *Insurance Mediation Directive*. The tables may be of assistance to *UK firms* that are thinking of offering financial services in another *EEA State* and to *EEA firms* that may offer those services in the *United Kingdom*.

App 3.9.2 G
FCA PRA

The tables provide a general indication of the *investments* and activities specified in the *Regulated Activities Order* that may correspond to categories provided for in the *CRD*, *MiFID*, the *UCITS Directive* or the *Insurance Mediation Directive*. The tables do not provide definitive *guidance* as to whether a *firm* is carrying on an activity that is capable of being passported, nor do the tables take account of exceptions that remove the effect of articles. Whether a *firm* is carrying on a *passporting activity* will depend on the particular circumstances of the *firm*. If a *firm's* activities give rise to potential passporting issues, it should obtain specialist advice on the relevant issues.

App 3.9.3 G
FCA PRA

In considering the issues raised in the tables, *firms* should note that:

- (1) article 64 of the *Regulated Activities Order* (Agreeing to carry on specific kinds of activity) applies in respect of agreeing to undertake the specified activity; and
- (2) article 89 of the *Regulated Activities Order* (Rights to or interests in investments) applies in respect of rights to and interests in the types of *investments* to which the category applies.

App 3.9.4 G
FCA PRA

Table Activities set out in Annex 1 of the CRD

Table 1: CRD activities	Part II RAO Activities	Part III RAO Investments
1. Taking deposits and other repayable funds from the public	Article 5	Article 74
2. Lending	Article 61, 64	Article 88
3. Financial leasing		

Table 1: CRD activities	Part II RAO Activities	Part III RAO Investments
4. Money transmission services		
5. Issuing and administering means of payment (eg credit cards, travellers' cheques and bankers' drafts)		
6. Guarantees and commitments		
7. Trading for own account or for account of customers in:	Article 14, 21, 25 (see Note 1), 64	Article 77, 78, 80, 83-85, 89
(a) money market instruments	Article 14, 21, 25, 64	Article 83-85, 89
(b) foreign exchange	Article 14, 21, 25, 64	Article 83-85, 89
(c) financial futures and options	Article 14, 21, 25, 64	Article 83-85, 89
(d) exchange and interest rate instruments	Article 14, 21, 25, 64	Article 76-81, 89
(e) transferable securities		
8. Participation in share issues and the provision of services relating to such issues	Article 14, 21, 25, 53, 64	Article 76-81, 89
9. Advice to undertakings on capital structure, industrial strategy and related questions and advice and services relating to mergers and the purchase of undertakings	Article 14, 21, 25, 53, 64	Article 76-80, 83-85, 89
10. Money broking	Article 25, 64	Article 77, 78, 89
11. Portfolio management and advice	Article 14, 21, 25, 37, 53, 64	Article 76-81, 83-85, 89
12. Safekeeping and administration of securities	Article 40, 45, 64	Article 76-81, 83-85, 89
13. Credit reference services		
14. Safe custody services		
15. Issuing electric money	Article 9B	Article 74A

Note 1: The services and activities provided for in Sections A and B of Annex I of *MiFID* when referring to the *financial instruments* provided for in Section C of Annex I of that Directive are subject to mutual recognition according to the CRD from 1 January 2013. See the table at SUP App 3.9.5 G below for mapping of *MiFID investment services and activities*. For further details relating to this residual category, please see the "CRD" section of the passporting forms entitled "Notification of intention to establish a branch in another EEA State" and "Notification of intention to provide cross border services in another EEA State".

PAGE 9 App 3.9.5 G

Table Services set out in Annex I to MiFID

Table 2: <i>MiFID investment services and activities</i>	Part II RAO Investments	Part III RAO Investments
<i>A MiFID investment services and activities</i>		

1.	Reception and transmission of orders in relation to one or more financial instruments	Article 25	Article 76-81, 83-85, 89
2.	Execution of orders on behalf of clients	Article 14, 21	A Article 76-81, 83-85, 89
3.	Dealing on own account	Article 14	Article 76-81, 83-85, 89
4.	Portfolio management	Article 37 (14, 21, 25 - see Note 1)	Article 76-81, 83-85, 89
5.	Investment advice	Article 53	Article 76-81, 83-85, 89
6.	Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	Article 14, 21	Article 76-81, 83-85, 89
7.	Placing of financial instruments without a firm commitment basis	Article 21, 25	Article 76-81, 83-85, 89
8.	Operation of Multilateral Trading Facilities	Article 25D (see Note 2)	Article 76-81, 83-85, 89
	Ancillary services	Part II RAO Activities	Part III RAO Investments
1.	Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management	Article 40, 45, 64	Article 76-81, 83-85, 89
2.	Granting credits or loans to an investor to allow him to carry out a transaction in one or more of the relevant instruments where the firm granting the credit or loan is involved		
3.	Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings	Article 14, 21, 25, 53, 64	Article 76-80, 83-85, 89
4.	Foreign exchange services where these are connected with the provision of investment services	Article 14, 21, 25, 53, 64	Article 83-85, 89
5.	Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments	Article 53, 64	Article 76-81, 83-85, 89
6.	Services related to underwriting	Article 25, 53, 64	Article 76-81, 83-85, 89
7.	Investment services and activities as well as ancillary ser-	Article 14, 21, 25, 25D, 37, 53, 64	Article 83 and 84

1	R	(1)	A <i>firm</i> may, in the written contract with its <i>introducer appointed representative</i> , extend the scope of appointment to include:
		(a)	receiving and forwarding to an <i>insurer</i> or <i>insurance intermediary</i> an application by a <i>customer</i> for a <i>connected travel insurance contract</i> together with any associated documentation; and
		(b)	receiving <i>client money</i> from a <i>customer</i> in respect of a <i>connected travel insurance contract</i> , and holding that <i>client money</i> .
		(2)	The extension of the scope of the appointment must apply only where the receipt of an application or of <i>client money</i> results from documentation given to a <i>customer</i> , where the deadline for submission of this documentation to the publishers for publishing was on or before 15 November 2008.
		(3)	This <i>rule</i> applies until 31 December 2009.

FCA PRA FCA PRA FCA FCA

6 [deleted]

FCA

7 Client assets report

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional Provision	Transitional provision: dates in force	Handbook provision: coming into force
1	The <i>rules and guidance</i> in SUP 3.10	R	In relation to an auditor of a <i>firm</i> whose client assets report period ends on or before 29 September 2011, that auditor may comply with SUP 3.10 as it was in force on 31 May 2011.	From 1 June 2011	1 June 2011
2	The <i>rules and guidance</i> in SUP 3.11	R	In relation to a <i>firm</i> whose client assets report period ends on or before 29 September 2011, the <i>rules and guidance</i> to which	From 1 June 2011	1 June 2011

(1)	(2)	(3)	(4)	(5)	(6)
			column (2) refers do not apply.		

FCA

8 AIFMD

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: date in force	Handbook provisions: coming into force
1	The changes to SUP 16.12 set out in Annex M of the Alternative Investment Fund Managers Directive Instrument 2013, other than those relating to FSA041 and Annex D of the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instruments 2013.	R	<p>(1) Where a <i>firm</i> meets the conditions in (2) the changes effected by the Annexes listed in column (2) do not apply and, therefore, the provisions in SUP 16.12 amended by that Annex will continue to apply as they were in force as at 21 July 2013.</p> <p>(2) The conditions are: (a) the <i>firm</i> falls within regulation 73(1) of the <i>AIFMD UK regulation</i>; and (b) the <i>firm</i> does not have a <i>Part 4A permission to manage an AIF</i>.</p>	From 22 July 2013 until 21 July 2014	22 July 2013

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: date in force	Handbook provisions: coming into force
2	<p>The changes to SUP 16.12 set out in Annex M of the Alternative Investment Fund Managers Directive Instrument 2013, other than those relating to FSA041 and Annex D of the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instruments 2013.</p>	R	<p>(1) Where a <i>firm</i> meets the conditions in (2) the changes effected by the Annexes listed in column (2) do not apply provided that:</p> <p>(a) for a <i>firm</i> which is an existing <i>firm</i> on 21 July 2013, it continues to comply with the requirements applicable to that <i>firm</i> on 21 July 2013; or</p> <p>(b) for a <i>firm</i> that was not an existing <i>firm</i> on 21 July 2013, it complies with the requirements applicable to a <i>firm</i> that was establishing, operating or winding up a regulated collective investment scheme on 21 July 2013 (with the exception of FSA042 if the firm does not <i>manage a UCITS</i>).</p>	From 22 July 2013 until 22 July 2014	22 July 2013

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: date in force	(6) Handbook provisions: coming into force
			(2) The conditions are that the <i>firm</i> has a <i>Part 4A permission</i> to (a) <i>manage an AIF</i> ; and/or (b) <i>manage a UCITS</i> .		

Compensation

1.4 EEA Firms

- 1.4.1** FCA PRA G *Incoming EEA firms* which are conducting *regulated activities* in the *United Kingdom* under a *CRD, IMD or MiFID* passport are not required to participate in the *compensation scheme* in relation to those *passporting activities*. They may apply to obtain the cover of, or 'top-up' into, the *compensation scheme* if there is no cover provided by the *incoming EEA firm's Home State* compensation scheme or if the level or scope of the cover is less than that provided by the *compensation scheme*. This is covered by ■ COMP 14.
- 1.4.2** FCA PRA G If an *incoming EEA firm* "tops-up", and then becomes insolvent, the *Home State* compensation scheme will pay compensation for *claims* up to the limit and scope of the *Home State* compensation scheme, with the *FSCS* paying compensation for the additional amount in accordance with the provisions in this sourcebook.
- 1.4.3** FCA PRA G The *Deposit Guarantee Directive* and *Investor Compensation Directives* require the *FSCS* to make arrangements with the relevant *Home State* compensation scheme regarding the payment of compensation (COMP 14.3.1R).
- 1.4.4** FCA G *Incoming EEA firms* which are passporting into the *UK* under the *UCITS Directive* or *AIFMD* passport, to manage a *UCITS scheme* or *authorised AIF*, are required to participate in the *compensation scheme*.
- 1.4.5** FCA G *Incoming EEA firms* which are passporting into the *UK* under an *AIFMD* passport, to manage an *unauthorised AIF* or to provide the services in article 6(4) of *AIFMD*, are not required to participate in the *compensation scheme* for those activities, but may choose to 'top-up' into the *compensation scheme* if they carry on those activities from a *branch* in the *UK* and there is no cover provided by the *incoming EEA firm's Home State* compensation scheme, or if the level or scope of the cover is less than provided by the *compensation scheme*.

1.5 Application to Lloyd's

1.5.1

PRA

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The PRA has exercised its power under section 316 of the *Act* (Direction by Authority) to direct in ■ COMP 1.5.4 G - ■ COMP 1.5.6 G that certain *core provisions* in the *Act* should apply to *members* of the *Society* of Lloyd's (an "*insurance market direction*"). The effect of the direction is that the PRA may, in relation to *members*, and in respect of *insurance market activities* carried on by them, exercise any of the statutory powers conferred by the provisions which are applied by the direction. Those include the powers in Part 9A to make general *rules* and give *guidance* and also the powers in Part XV to make *rules* for the establishment and operation of a compensation scheme. Accordingly this sourcebook makes provision for the payment of compensation by the FSCS in certain cases arising from *insurance business* carried on by *members*, and for raising levies on the *Society*.

1.5.2

PRA

R

Notwithstanding anything to the contrary in this sourcebook, in relation to the *Society*, *members* and *Lloyd's policies* FSCS must act, so far as is reasonably practicable, to ensure that:

- (1) *Eligible claimants* have protection under this sourcebook in relation to *Lloyd's policies* equivalent to that otherwise afforded to *eligible claimants* by the FSCS;
- (2) FSCS does not meet *claims* in relation to *Lloyd's policies* unless the *Central Fund* is unlikely to be able to meet them;
- (3) *Claims* against *members* under the *compensation scheme* which arise from the same loss under the same *Lloyd's policy* must be treated as a single *claim*;
- (4) any recovery resulting from the exercise of any rights assigned to the FSCS in connection with the payment of compensation to an *eligible claimant*, is treated by the FSCS in accordance with ■ COMP 7.2.4 R, and any such recovery which is not paid to the claimant in accordance with that rule, is used for the benefit of FSCS in priority to any interest that the *Society* may have.

1.5.3

PRA

G

The effect of ■ COMP 1.5.2 R(4) and ■ COMP 7.2.4A R, and subject to ■ COMP 7.2.4 R(2), is that any recovery obtained by FSCS is retained by FSCS up to an amount equal to the cost to FSCS of paying compensation. To the extent that the *Society* is entitled to



4.2 Who is eligible to benefit from the protection provided by the FSCS?

4.2.1

FCA PRA

R

Unless ■ COMP 4.2.3 R applies, an *eligible claimant* is any *person* who at any material time:

- (1) did not come within ■ COMP 4.2.2 R; or
- (2) did come within ■ COMP 4.2.2 R, but satisfied the relevant exception in ■ COMP 4.3 or ■ COMP 4.4.

4.2.2

FCA PRA

R

Table Table COMP 4.2.2R Persons not eligible to claim unless COMP 4.3 applies (see COMP 4.2.1R)

This table belongs to COMP 4.2.1R

- (1) *Firms (other than a sole trader firm ; a credit union; a trustee of a stakeholder pension scheme (which is not an occupational pension scheme) or personal pension scheme; a firm carrying on the regulated activity of operating, or winding up, a stakeholder pension scheme (which is not an occupational pension scheme) or personal pension scheme; or a small business ; in each case, whose claim arises out of a regulated activity for which they do not have a permission)*
- (2) *Overseas financial services institutions*
- (3) *Collective investment schemes, and anyone who is the operator or trustee of such a scheme*
- (4) *Pension and retirement funds, and anyone who is a trustee of such a fund. However, this exclusion does not apply to:*
 - (a) *a trustee of a personal pension scheme or a stakeholder pension scheme (which is not an occupational pension scheme); or*
 - (b) *a trustee of a small self-administered scheme or an occupational pension scheme of an employer which is not a large company, large partnership or large mutual association.*
- (5) *Supranational institutions, governments, and central administrative authorities*
- (6) *Provincial, regional, local and municipal authorities*

- (7) **Directors of the relevant person in default.** However, this exclusion does not apply if:
- (a) both of the following apply:
 - (i) the *relevant person in default* is a mutual association which is not a *large mutual association*; and
 - (ii) the *directors* do not receive a salary or other remuneration for services performed by them for the *relevant person in default*, or
 - (b) the *relevant person in default* is a *credit union*.
- (8) [deleted]
- (9) **Bodies corporate in the same group as the relevant person in default unless that body corporate is:**
- (a) a trustee of:
 - (i) a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme* (but in each case if the trustee is a *firm* it will only be an *eligible claimant* if its *claim* arises out of a *regulated activity* for which it does not have a permission);
 - (ii) (if the *claim* is with respect to a *long-term insurance contract*) a *small self-administered scheme* or an *occupational pension scheme*; or
 - (iii) (if the *claim* is not with respect to a *long-term insurance contract*) a *small self-administered scheme* or an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*; or
 - (b) carrying on the *regulated activity* of *operating or winding up a stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*.
- (10) [deleted]
- (11) [deleted]
- (12) **Persons who, in the opinion of the FSCS, are responsible for, or have contributed to, the relevant person's default**
- (13) **Large companies**
- (14) **Large partnerships**
- (15) **Persons whose claim arises from transactions in connection with which they have been convicted of an offence of money laundering.**
- (16) **Persons whose claim arises under the Third Parties (Rights against Insurers) Act 1930**

- (17) Where the *claim* is in relation to a *protected contract of insurance* or *protected non-investment insurance mediation, body corporate, partnerships, mutual associations* and *unincorporated associations* which are not *small businesses*.
- (18) *Alternative investment funds*, and anyone who is the *AIFM* or *depository of an alternative investment fund*.
- (19) *Large mutual associations*

4.2.3

FCA PRA

R

A *person* who is a *small business* is an *eligible claimant* in respect of a *relevant general insurance contract* entered into before *commencement* only if the *person* is a *partnership*.

4

4.3 Exceptions: Circumstances where a person coming within COMP 4.2.2R may receive compensation

Deposits (and balances in dormant accounts)

4.3.1

PRA

R

A person is eligible to claim compensation in respect of a *protected deposit* or a *protected dormant account* if, at the date on which the *relevant person* is determined to be *in default*:

- (1) he came within category (14) of COMP 4.2.2R; or
- (2) he came within any of categories (1)-(3), (7) or (12) of COMP 4.2.2R, and was not a *large company* or a *credit institution* ; or
- (3) he was a *credit union*.
- (4) he came within category (19) of ■ COMP 4.2.2 R

Long term insurance

4.3.2

FCA PRA

R

A person other than one which comes within any of categories (7), (9), (12) or (15) of COMP 4.2.2R is eligible to claim compensation in respect of a *long term insurance contract*.

Relevant general insurance contracts

4.3.3

FCA PRA

R

- (1) A person falling within categories (1)-(4) of ■ COMP 4.2.2 R is eligible to claim compensation in respect of a *relevant general insurance contract* if, at the date the contract commenced he was a *small business*.
- (2) Where the contract has been renewed, the last renewal date shall be taken as the commencement date.

4.3.4

FCA PRA

R

A *partnership* which falls within category 14, or category 17, or both of COMP 4.2.2R is eligible to claim compensation in respect of a *relevant general insurance contract* entered into before *commencement*.

4.3.5

PRA

R

A *person* who comes within category (16) of COMP 4.2.2R (a 'category 16 *person*') is eligible to claim compensation if:

- (1) the *person* insured would have been an *eligible claimant* at the time that his rights against the insurer were transferred to and vested in the category 16 *person*; or
- (2) the liability of the *person* insured in respect of the category 16 *person* was a liability under a contract of employer's liability insurance which would have been a *liability subject to compulsory insurance* had the contract been entered into after 1 January 1972 or (for contracts in Northern Ireland) 29 December 1975; or
- (3) the extent of the liability of the *person* insured in respect of the category 16 *person* had been agreed in writing by the insurer, or determined by a court or arbitrator, before the date on which the insurer is determined to be *in default*.

Liability subject to compulsory insurance

4.3.6

FCA PRA

R

A *person* who comes within COMP 4.2.2R is eligible to claim compensation in respect of a *liability subject to compulsory insurance* if the *claim* is:

- (1) a *claim* under a *protected contract of insurance*; or
- (2) a *claim* in connection with *protected non-investment insurance mediation*.

Protected home finance mediation

4.3.7

FCA

G

There are no exceptions to COMP 4.2.2R for *claims* made in connection with *protected home finance mediation*.

Eligibility to claim in specified circumstances

4.3.8

FCA PRA

R

The FSCS may treat a *person* who comes within category (7) or (12) of COMP 4.2.2 R as eligible to claim compensation where:

- (1) this is desirable to achieve the efficient performance of any of its functions, including without limitation, to facilitate a transfer of business or any part thereof, to secure the issue of policies by another *firm* to *eligible claimants* in substitution for their existing policies, to achieve the efficient payment of compensation, to secure under COMP 3.3.2C R the payment of benefits under a *long term insurance contract*; and
- (2) treating these *persons* as eligible to claim compensation would, in the opinion of the FSCS, be beneficial to the generality of *eligible claimants* who will be affected by the action in (1).

4.3.9

FCA

R

Protected investment business

A person is eligible to claim compensation for claims made in connection with protected investment business if, at the date at which the relevant person is deemed to be in default, he:

- (1) came within category (14) of ■ COMP 4.2.2 R and he does not exceed the limits for a *body corporate* which qualifies as a small company under section 247 of the Companies Act 1985 or section 382 of the Companies Act 2006 as applicable; or
- (2) came within category (19) of ■ COMP 4.2.2 R.

-
- (3) the unexpired portion of any *premium* in relation to *relevant general insurance contracts* which are not *reinsurance contracts*;
or
 - (4) *claims* by *persons* entitled to the benefit of a judgement under section 151 of the Road Traffic Act 1988 or Article 98 of the Road Traffic (Northern Ireland) Order 1981.

5.5 Protected investment business

5.5.1

FCA

R *Protected investment business is:*

- (1) *designated investment business* carried on by the *relevant person* with , or for the benefit of, the claimant (so long as that claimant has a *claim*), or as agent on the claimant's behalf;
- (2) the activities of the manager or *trustee* of an *AUT*, provided that the *claim* is made by a *holder*;
- (3) the activities of the *ACD* or *depository* of an *ICVC*, provided that the *claim* is made by a *holder*;
- (4) the activities of the *authorised contractual scheme manager* or *depository* of an *ACS*, provided that the *claim* is made by a *holder*;

provided that the territorial scope condition in ■ COMP 5.5.2 R is satisfied and, for a *firm* acting as the manager or *depository* of a *fund*, one of the conditions in ■ COMP 5.5.3 R is satisfied.

Territorial scope condition

5.5.2

FCA

R The territorial scope condition is that the *protected investment business* was carried on from:

- (1) an establishment of the *relevant person* in the *United Kingdom*;
or
- (2) a *branch* of a *UK firm* which is:
 - (a) a *MiFID investment firm* established in another *EEA State*;
or
 - (b) a *UCITS management company* established in another *EEA State* (but only in relation to *managing investments* (other than *advising on investments* or *safeguarding and administering investments*);

and the *claim* is an *ICD claim*; or

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional Provision	Transitional provision: dates in force	Handbook Provisions: coming into force
[FCA] [PRA]	Part 1 of Annex B of the Compensation Sourcebook (Amendment No 9) Instrument 2012.		<p>fore 1 October 2012. Notwithstanding the above:</p> <p>(a) to the extent that the provisions changed apply to <i>protected deposits</i>, all the changes in (2); and</p> <p>(b) the changes to COMP 12.2.10 R;</p> <p>apply irrespective of when the default occurred.</p>		
34 [FCA]	Amendments introduced by the Compensation Sourcebook (Investments by Large Unincorporated Associations and Certain Large Partnerships) Instrument 2013	R	The changes referred to in (2) do not apply in relation to a <i>claim</i> against a <i>relevant person</i> that was <i>in default</i> before 13 December 2013.	From 13 December 2013 indefinitely	From 13 December 2013
35[PRA]	Amendments introduced by the Compensation Sourcebook (Large unincorporated associations) Instrument 2013	R	The changes referred to in (2) do not apply in relation to a <i>claim</i> against a <i>relevant person</i> that was <i>in default</i> before 17 December 2013.	From 17 December 2013 indefinitely	From 17 December 2013.
36 [PRA]	COMP 17.2.1 R and COMP 17.2.3 R	R R	The rules referred to in (2) only apply on or after 18 March 2014 in relation to changes to <i>eligible claimants</i> resulting from the Compensation Sourcebook (Large unincorporated associations) Instrument 2013.	From 17 December 2013 to 17 March 2014	16 December 2013

Collective Investment Schemes

(b) money-market instruments which are liquid and have a value which can be determined accurately at any time.

5.6.5A

FCA

R

Transferable securities held within a *non-UCITS retail scheme* must also satisfy the criteria in ■ COLL 5.2.7A R, ■ COLL 5.2.7C R and ■ COLL 5.2.7E R for the purposes of investment by a *UCITS scheme*.

5.6.5B

FCA

G

■ COLL 5.2.7A R to ■ COLL 5.2.7E R contain *rules* and *guidance* relating to the criteria that need to be satisfied for the purposes of investment in *transferable securities*.

5.6.5C

FCA

R

Where a *scheme* is a *short-term money market fund* or a *money market fund*, the ability to hold up to 20% of *scheme property* in ineligible assets under ■ COLL 5.6.5 R (2) is limited to high quality *approved money-market instruments* as determined under ■ COLL 5.9.6 R (High quality money market instruments).

Money Market funds

5.6.5D

FCA

R

Approved money-market instruments held within a *non-UCITS retail scheme* which is a *short-term money market fund* or *money market fund* must also satisfy the criteria in ■ COLL 5.2.7F R to ■ COLL 5.2.7H R (Approved money-market instruments).

Valuation

5.6.6

FCA

R

In this section the value of the *scheme property* means the value of the *scheme property* determined in accordance with ■ COLL 5.2.5 R (Valuation).

Spread: general

5.6.7

FCA

R

- (1) This *rule* does not apply in respect of *government and public securities*.
- (2) Not more than 20% in value of the *scheme property* is to consist of *deposits* with a single body.
- (3) Not more than 10% in value of the *scheme property* is to consist of *transferable securities* or money-market instruments issued by any single body subject to ■ COLL 5.6.23 R (Schemes replicating an index).
 - (3A) The limit of 10% in (3) is raised to 25% in value of the *scheme property* in respect of *covered bonds*.
- (4) In applying (3) *certificates representing certain securities* are to be treated as equivalent to the underlying *security*.
- (5) The exposure to any one counterparty in an *OTC derivative* transaction must not exceed 10% in value of the *scheme*.

- (6) Except for a *feeder fund*, a *feeder NURS* or a *scheme dedicated to units* in a single *property authorised investment fund*, not more than 35% in value of the *scheme* is to consist of the *units* of any one *scheme*.
- (6A) *Schemes* which (in respect of investment in *units* in *collective investment schemes*) are *dedicated to units* in a single *property authorised investment fund* or *qualifying master scheme* must, in addition to the investment in the *property authorised investment fund* or *qualifying master scheme*, only hold cash or *near cash* to maintain sufficient liquidity to enable the *scheme* to meet its commitments, such as *redemptions*. *Schemes* may also use techniques and instruments for the purpose of *efficient portfolio management*, where appropriate, such as forward foreign exchange transactions entered into for the purpose of reducing the effect of fluctuations in the rate of exchange between relevant currencies.
- (7) For the purpose of calculating the limit in (5), the exposure in respect of an *OTC derivative* may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the conditions specified in (8).
- (8) The conditions referred to in (7) are that the collateral:
- (a) is marked-to-market on a daily basis and exceeds the value of the amount at risk;
 - (b) is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
 - (c) is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
 - (d) can be fully enforced by the *non-UCITS retail scheme* at any time.
- (9) For the purpose of calculating the limit in (5), *OTC derivative* positions with the same counterparty may be netted provided that the netting procedures:
- (a) comply with the conditions set out in Part Three, Title II, Chapter 6, Section 7 (Contractual netting (Contracts for novation and other netting agreements)) of the *EU CRR*; and
 - (b) are based on legally binding agreements.
- (10) In applying this rule, all *derivatives* transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:

- (a) it is backed by an appropriate performance guarantee; and
- (b) it is characterised by a daily mark-to-market valuation of the *derivative* positions and an at least daily margining.

(11) For the purposes of this *rule* a single body is:

- (a) in relation to *transferable securities* and money market instruments, the *person* by whom they are issued; and
- (b) in relation to *deposits*, the *person* with whom they are placed.

Guidance on spread: general

5.6.7A
FCA

G

- (1) ■ COLL 5.6.7 R (7) to ■ (10) replicate the provisions of Article 5 of the Commission Recommendation 2004/383/EC of 27 April 2004 on the use of financial derivative instruments for undertakings for collective investment in transferable securities, so as to enable *non-UCITS retail schemes* to benefit from the same flexibility.
- (2) The attention of *authorised fund managers* is specifically drawn to condition (d) in ■ COLL 5.6.7 R (8) under which the collateral has to be legally enforceable at any time. It is the *FCA*'s view that it is advisable for an *authorised fund manager* to undertake a legal due diligence exercise before entering into any financial collateral arrangement. This is particularly important where the collateral arrangements in question have a cross-border dimension. The *depository* will also need to exercise reasonable care to review the collateral arrangements in accordance with its duties under ■ COLL 6.6.4 R (General duties of the depository).
- (3) In applying the spread limit of 20% in value of *scheme property* which may consist of *deposits* with a single body, all uninvested cash comprising *capital property* that the *depository* holds should be included in calculating the total sum of the *deposits* held by it on behalf of the *scheme*.

5

Spread: government and public securities

5.6.8
FCA

R

- (1) This *rule* applies in respect of *government and public securities*.
- (2) The requirements in ■ COLL 5.2.12 R (Spread: government and public securities) apply to investment in *government and public securities* by a *non-UCITS retail scheme* , except for ■ COLL 5.2.12 R (4) which will apply to such a *scheme* only to the extent that it concerns the most recently published *prospectus* of the *scheme* .

Investment in nil and partly paid securities

PAGE
59

5.6.9
FCA

R

A *non-UCITS retail scheme* must not invest in nil and partly paid securities unless the investment complies with the conditions in ■ COLL 5.2.17 R (Investment in nil and partly paid securities).

5.6.10
FCA

R

Investment in collective investment schemes

A *non-UCITS retail scheme*, except for a *feeder NURS* (which must instead comply with ■ COLL 5.6.26 R), must not invest in *units* in a *collective investment scheme* (second *scheme*) unless the second *scheme* meets each of the requirements at (1) to (5) :

- (1) the second *scheme*:
 - (a) satisfies the conditions necessary for it to enjoy the rights conferred by the *UCITS Directive*; or
 - (b) is a *non-UCITS retail scheme*; or
 - (c) is a *recognised scheme*; or
 - (d) is constituted outside the *United Kingdom* and the investment and borrowing powers of which are the same or more restrictive than those of a *non-UCITS retail scheme*; or
 - (e) is a *scheme* not falling within (a) to (d) and in respect of which no more than 20% in value of the *scheme property* (including any *transferable securities* which are not *approved securities*) is invested;
- (2) the second *scheme* operates on the principle of the prudent spread of risk;
- (3) the second *scheme* is prohibited from having more than 15% in value of the property of that *scheme* consisting of *units* in *collective investment schemes*;
- (4) the *participants* in the second *scheme* must be entitled to have their *units* redeemed in accordance with the *scheme* at a *price*:
 - (a) related to the net value of the property to which the *units* relate; and
 - (b) determined in accordance with the *scheme* ; and
- (5) where the second *scheme* is an *umbrella*, the provisions in (2) to (4) and ■ COLL 5.6.7 R (Spread: general) apply to each *sub-fund* as if it were a separate *scheme*.

Investment in associated collective investment schemes

5.6.11
FCA

R

- (1) *Units* in a *scheme* do not fall within ■ COLL 5.6.10 R if that *scheme* is managed or operated by (or, if it is an *ICVC*, has as its *ACD*) the *authorised fund manager* of the investing *non-UCITS retail scheme* or by an *associate* of that *authorised fund manager*, unless:

- (a) the *prospectus* of the investing *authorised fund* clearly states that the property of that investing fund may include such *units*; and
 - (b) the conditions in ■ COLL 5.2.16 R (Investment in other group schemes) are complied with.
- (2) Where a *sub-fund* of a *non-UCITS retail scheme* which is an *umbrella* invests in or disposes of *units* in another *sub-fund* of the same *umbrella* (the second *sub-fund*), the requirement in:
- (a) ■ COLL 5.6.11 R (1)(a) is modified as follows - the *prospectus* of the *umbrella* must clearly state that the *scheme property* attributable to the investing or disposing *sub-fund* may include *units* in another *sub-fund* of the same *umbrella*; and
 - (b) ■ COLL 5.6.11 R (1)(b) is modified as follows - ■ COLL 5.2.16 R (Investment in other group schemes) must be complied with, modified such that references to the "*UCITS scheme*" are taken to be references to the investing or disposing *sub-fund* and references to the "*second scheme*" are taken to be references to the second *sub-fund*.

Derivatives: general

5.6.12

FCA

R

- (1) A transaction in *derivatives* or a forward transaction must not be effected for a *non-UCITS retail scheme* unless the transaction is:
 - (a) of a kind specified in ■ COLL 5.6.13 R (Permitted transactions (derivatives and forwards)); and
 - (b) covered, as required by ■ COLL 5.3.3A R (Cover for investment in derivatives and forward transactions).
- (2) Where a *scheme* invests in *derivatives*, the exposure to the underlying assets must not exceed the limits in ■ COLL 5.6.7 R (Spread: general) and ■ COLL 5.6.8 R (Spread: government and public securities) except as provided in (4).
- (3) Where a *transferable security* or money-market instrument embeds a *derivative*, this must be taken into account for the purposes of calculating any limit in this section.
- (4) Where a *scheme* invests in an index-based *derivative*, provided the relevant index falls within ■ COLL 5.6.23 R (Schemes replicating an index) the underlying constituents of the index do not have to be taken into account for the purposes of ■ COLL 5.6.7 R and ■ COLL 5.6.8 R.
- (5) The relaxation in (4) is subject to the *authorised fund manager* taking account of ■ COLL 5.6.3 R (Prudent spread of risk).

5.6.13
FCA

R

Permitted transactions (derivatives and forwards)

- (1) A transaction in a *derivative* must be within ■ COLL 5.2.20 R (1) (Permitted transactions (derivatives and forwards)) and:
 - (a) the underlying must be within ■ COLL 5.6.4 R (5) (Investment powers: general) or ■ COLL 5.2.20 R (2)(f) to ■ (i) ; and
 - (b) the exposure to the underlying must not exceed the limits in ■ COLL 5.6.7 R (Spread: general), ■ COLL 5.6.8 R (Spread: government and public securities) and ■ COLL 5.6.5 R (2).
- (2) A transaction in an *approved derivative* must be effected on or under the rules of an *eligible derivatives* market.
- (3) A transaction in a *derivative* must not cause a *scheme* to diverge from its investment objectives as stated in the *instrument constituting the scheme* and the most recently published *prospectus*.
- (4) transaction in a *derivative* must not be effected if the intended effect is to create the potential for an uncovered sale of:
 - (a) *transferable securities*;
 - (b) *money-market instruments*;
 - (c) *units in collective investment schemes*; or
 - (d) *derivatives*.
- (5) Any forward transaction must be made with an *eligible institution* or an *approved bank*.
- (6) The *authorised fund manager* must ensure compliance with ■ COLL 5.3.3A R (Cover for investment in derivatives and forward transactions), ■ COLL 5.3.3B R and ■ COLL 5.3.3C R (Daily calculation of global exposure).

5.6.14
FCA

R

Transactions for the purchase or disposal of property

The requirements of ■ COLL 5.2.21 R (Transactions for the purchase of property) and ■ COLL 5.2.22 R (Requirement to cover sales) apply to *non-UCITS retail schemes* in the same manner as to *UCITS schemes*.

5.6.15
FCA

R

OTC transactions in derivatives

Any transaction in an *OTC derivative* under ■ COLL 5.6.13 R (Permitted transactions (derivatives and forwards)) must comply with the requirements of ■ COLL 5.2.23 R (OTC transactions in derivatives).

Risk management

5.6.16

FCA

R

An authorised fund manager must use a risk management process enabling it to monitor and measure as frequently as appropriate the risk associated with a non-UCITS retail scheme's positions and their contribution to the overall risk profile of the scheme.

Risk management process

5.6.17

FCA

G

- (1) The risk management process should take account of the investment objectives and policy of the *non-UCITS retail scheme* as stated in its most recent *prospectus*.
- (2) The *depository* should take reasonable care to review the appropriateness of the risk management process in line with its duties under ■ COLL 6.6.4 R (General duties of the depository) and ■ COLL 6.6.14 R (Duties of the depository and authorised fund manager: investment and borrowing powers) , as appropriate.
- (3) An *authorised fund manager* is expected to demonstrate more sophistication in its risk management process for a *non-UCITS retail scheme* with a complex risk profile than for one with a simple risk profile. In particular, the risk management process should take account of any characteristic of non-linear dependence in the value of a position to its underlying.
- (4) An *authorised fund manager* should take reasonable care to establish and maintain such systems and controls as are appropriate to its business as required by ■ SYSC 4.1 (General requirements).
- (5) The risk management process should enable the analysis required by ■ COLL 5.6.16 R (Risk management) to be undertaken at least daily or at each *valuation point* whichever is the more frequent.

Investment in property

5.6.18

FCA

R

- (1) Any investment in land or a building held within the *scheme property* of a *non-UCITS retail scheme* must be an immovable within (2) to (5).
- (2) An immovable must:
 - (a) be situated in a country or territory identified in the *prospectus* for the purpose of this *rule*; and
 - (b) if situated in:
 - (i) England and Wales or Northern Ireland, be a freehold or leasehold interest; or
 - (ii) Scotland, be any interest or estate in or over land or heritable right including a long lease; or
 - (c) if not situated in the jurisdictions referred to in (b)(i) or (ii), be equivalent to any of the interests in (b)(i) or (ii) or, if no such equivalent interest is available in the jurisdiction, be an interest that grants beneficial ownership of the immovable to

the *scheme* and provides as good a title as any of the interests in (b)(i) or (ii).

- (3) The *authorised fund manager* must have taken reasonable care to determine that the title to the immovable is a good marketable title.
- (4) The *authorised fund manager* of an *AUT* or *ACS* or the *ICVC* must:
 - (a) have received a report from an *appropriate valuer* which:
 - (i) contains a valuation of the immovable (with and without any relevant subsisting mortgage); and
 - (ii) states that in the *appropriate valuer's* opinion the immovable would, if acquired by the *scheme*, be capable of being disposed of reasonably quickly at that valuation; or
 - (b) have received a report from an *appropriate valuer* as required by (4)(a)(i) and stating that:
 - (i) the immovable is adjacent to or in the vicinity of another immovable included in the *scheme property* or is another legal interest as defined in (2)(b) or (c) in an immovable which is already included in the *scheme property*; and
 - (ii) in the opinion of the *appropriate valuer*, the total value of both immovables would at least equal the sum of the price payable for the immovable and the existing value of the other immovable.
- (5) An immovable must:
 - (a) be bought or be agreed by enforceable contract to be bought within six *months* after receipt of the report of the *appropriate valuer* under (4);
 - (b) not be bought, if it is apparent to the *authorised fund manager* that the report in (a) could no longer reasonably be relied upon; and
 - (c) not be bought at more than 105% of the valuation for the relevant immovable in the report in (4).
- (6) Any furniture, fittings or other contents of any building may be regarded as part of the relevant immovable.
- (7) An *appropriate valuer* must be a *person* who:

- (a) has knowledge of and experience in the valuation of immovables of the relevant kind in the relevant area;
- (b) is qualified to be a *standing independent valuer* of a *non-UCITS retail scheme* or is considered by the *scheme's standing independent valuer* to hold an equivalent qualification;
- (c) is independent of the *ICVC*, the *depository* and each of the *directors* of the *ICVC* or of the *authorised fund manager* and *depository* of the *AUT* or *ACS*; and
- (d) has not engaged himself or any of his *associates* in relation to the finding of the immovable for the *scheme* or the finding of the *scheme* for the immovable.

Investment in overseas property through an intermediate holding vehicle

5.6.18A

FCA

R

- (1) An overseas immovable may be held by a *scheme* through an *intermediate holding vehicle* whose purpose is to enable the holding of immovables by the *scheme* or a series of such *intermediate holding vehicles*, provided that the interests of *unitholders* are adequately protected. Any investment in an *intermediate holding vehicle* for the purpose of holding an overseas immovable shall be treated for the purposes of this chapter as if it were a direct investment in that immovable.
- (2) An *intermediate holding vehicle* must be wholly owned by the *scheme* or another *intermediate holding vehicle* or series of *intermediate holding vehicles* wholly owned by the *scheme*, unless and to the extent that local legislation or regulation relating to the *intermediate holding vehicle* holding the immovable requires a proportion of local ownership.

5.6.18B

FCA

G

- (1) The *authorised fund manager* may transfer capital and income between an *intermediate holding vehicle* and the *scheme* by the use of inter-company debt if the purpose of this is for investment in immovables and repatriation of income generated by such investment. In using inter-company debt, the *authorised fund manager* should ensure the following:
 - (a) a record of inter-company debt is kept in order to provide an accurate audit trail; and
 - (b) interest paid out on the debt instruments is equivalent to the net rental income earned from the immovables after deduction of the *intermediate holding vehicle's* reasonable running costs (including tax).
- (2) An *intermediate holding vehicle* should undertake the purchase, sale and management of immovables on behalf the *scheme* in accordance with the *scheme's* investment objectives and policy.
- (3) Wherever reasonably practicable, an *intermediate holding vehicle* should have the same auditor and accounting reference date as the *scheme*.

- (4) The accounts of any *intermediate holding vehicle* should be consolidated into the annual and interim reports of the *scheme*.
- (5) The *authorised fund manager* should provide sufficient information to enable the *depository* to fulfil its duties under *COLL* in relation to the immovables held through an *intermediate holding vehicle*.

Investment limits for immovables

5.6.19
FCA

R

The following limits apply in respect of immovables held as part of *scheme property* of a *scheme*:

- (1) not more than 15% in value of the *scheme property* is to consist of any one immovable;
- (2) in (1), immovables within ■ COLL 5.6.18 R (4) (b) (Investment in property) must be regarded as one immovable;
- (3) the figure of 15% in (1) may be increased to 25% once the immovable has been included in the *scheme property* in compliance with (1);
- (4) the income receivable from any one *group* in any accounting period must not be attributable to immovables comprising;
 - (a) more than 25%; or
 - (b) in the case of a government or public body more than 35%; of the value of the *scheme property*;
- (5) not more than 20% in value of the *scheme property* is to consist of immovables that are subject to a mortgage and any mortgage must not secure more than 100% of the value in ■ COLL 5.6.18 R (4) (on the assumption the immovable is not mortgaged);
- (6) the aggregate value of:
 - (a) mortgages secured on immovables under (5);
 - (b) borrowing of the *scheme* under ■ COLL 5.6.22 R (5); and
 - (c) any *transferable securities* that are not *approved securities*; must not at any time exceed 20% of the value of the *scheme property*;
- (7) not more than 50% in value of the *scheme property* is to consist of *immovables* which are unoccupied and non-income producing or in the course of substantial development, redevelopment or refurbishment; and

- (8) no option may be granted to a third party to buy any immovable comprised in the *scheme property* unless the value of the relevant immovable does not exceed 20% of the value of the *scheme property* together with, where appropriate, the value of investments in:
 - (a) *unregulated collective investment schemes*; and
 - (b) any *transferable securities* which are not *approved securities*.

Standing independent valuer and valuation

5.6.20

FCA

R

- (1) The following requirements apply in relation to the appointment of a valuer:
 - (a) the *authorised fund manager* must ensure that any immovables in the *scheme property* are valued by an *appropriate valuer (standing independent valuer)* appointed by the *authorised fund manager*; and
 - (b) the appointment must be made with the approval of the *depository* at the outset and upon any vacancy.
- (2) The standing independent valuer in (1) must be:
 - (a) for an *AUT* or *ACS*, independent of the *authorised fund manager* and *depository*; and
 - (b) for an *ICVC*, independent of the *ICVC*, the *directors* and the *depository*.
- (3) The following requirements apply in relation to the functions of the *standing independent valuer*:
 - (a) the *authorised fund manager* must ensure that the *standing independent valuer* values all the immovables held within the *scheme property*, on the basis of a full valuation with physical inspection (including, where the immovable is or includes a building, internal inspection), at least once a year;
 - (b) for the purposes of (a) any inspection in relation to adjacent properties of a similar nature may be limited to that of only one such representative property;
 - (c) the *authorised fund manager* must ensure that the *standing independent valuer* values the immovables, on the basis of a review of the last full valuation, at least once a *month*;
 - (d) if either the *authorised fund manager* or the *depository* becomes aware of any matters that appear likely to:
 - (i) affect the outcome of a valuation of an immovable; or
 - (ii) cause the valuer to decide to value under (a) instead of under (c);

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it must immediately inform the *standing independent valuer* of that matter;

- (e) the *authorised fund manager* must use its best endeavours to ensure that any other *affected person* reports to the *standing independent valuer* immediately upon that *person* becoming aware of any matter within (d); and
- (f) any valuation by the *standing independent valuer* must be undertaken in accordance with UKPS 2.3 of the RICS Valuation Standards (The Red Book) (6th edition published January 2008), or in the case of overseas immovables on an appropriate basis, but subject to ■ COLL 6.3 (Valuation and pricing).

(4) In relation to an immovable:

- (a) any valuation under ■ COLL 6.3 (Valuation and pricing) has effect, until the next valuation under that *rule*, for the purposes of the value of immovables; and
- (b) an agreement to transfer an immovable or an interest in an immovable is to be disregarded for the purpose of the valuation of the *scheme property* unless it reasonably appears to the *authorised fund manager* to be legally enforceable.

5.6.20A
FCA

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In considering whether a valuation of overseas immovables by the *standing independent valuer* is made on an appropriate basis for the purpose of ■ COLL 5.6.20 R (3) (f), the *authorised fund manager* should consider whether that valuation was made in accordance with internationally accepted valuation principles, procedures and definitions as set out in the International Valuation Standards published by the International Valuation Standards Committee.

Stock lending

5.6.21
FCA

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A *non-UCITS retail scheme* may undertake *stock lending* in accordance with ■ COLL 5.4 (Stock lending).

Cash, borrowing, lending and other provisions

5.6.22
FCA

R

The following *rules* in Chapter 5 apply to a *non-UCITS retail scheme*:

- (1) ■ COLL 5.2.7 R (Transferable securities);
- (2) ■ COLL 5.5.1 R (Application) and ■ COLL 5.5.2 R (Table of application) ;
- (3) ■ COLL 5.5.3 R (Cash and near cash);

- (4) ■ COLL 5.5.4 R (1), ■ COLL 5.5.4 R (2), ■ COLL 5.5.4 R (3) and ■ COLL 5.5.4 R (8) (General power to borrow);
- (5) ■ COLL 5.5.5 R (1) and ■ COLL 5.5.5 R (2) (Borrowing limits);
- (6) ■ COLL 5.5.6 R (Restrictions on lending of money) ;
- (7) ■ COLL 5.5.7 R (1) , ■ (2) and ■ (4) (Restrictions on lending of property other than money);
- (8) ■ COLL 5.5.8 R (General power to accept or underwrite placings); and
- (9) ■ COLL 5.5.9 R (Guarantees and indemnities).

Schemes replicating an index

5.6.23

FCA

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- (1) A *non-UCITS retail scheme* may invest up to 20% in value of the *scheme property* in *shares* and *debentures* which are issued by the same body where the aim of the investment policy of that *scheme* as stated in its most recently published *prospectus* is to replicate the performance or composition of an index within (2).
- (2) The index must:
 - (a) have a sufficiently diversified composition;
 - (b) be a representative benchmark for the market to which it refers; and
 - (c) be published in an appropriate manner.
- (3) The limit in (1) may be raised for a particular *scheme* up to 35% in value of the *scheme property*, but only in respect of one body and where justified by exceptional market conditions.

5.6.23A

FCA

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- (1) Replication of the composition of an index shall be understood to be a reference to replication of the composition of the underlying assets of that index, including the use of techniques and instruments for the purpose of *efficient portfolio management*.
- (2) The composition of an index is sufficiently diversified if its components adhere to the spread requirements in this section.
- (3) An index is a representative benchmark if its provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers.
- (4) An index is published in an appropriate manner if:
 - (a) it is accessible to the public;
 - (b) the index provider is independent from the index-replicating *scheme*; this does not preclude index providers and the *scheme* from forming part of

the same *group*, provided that effective arrangements for the management of conflicts of interest are in place.

Non-UCITS retail schemes that are umbrellas

5.6.24

FCA

R

- (1) In relation to a *scheme* which is an *umbrella*, the provisions in this section apply to each *sub-fund* as they would for a *non-UCITS retail scheme*.
- (2) A *sub-fund* may invest in or dispose of *units* of another *sub-fund* of the same *umbrella* (the second *sub-fund*) only if the following conditions are satisfied:
 - (a) the second *sub-fund* does not hold *units* in any other *sub-fund* of the same *umbrella*;
 - (b) the conditions in ■ COLL 5.2.16 R (Investment in other group schemes) and ■ COLL 5.6.11 R (Investment in associated collective investment schemes) are complied with (for the purposes of this *rule*, ■ COLL 5.2.16 R and ■ COLL 5.6.11 R are to be read as modified by ■ COLL 5.6.11 R (2));
 - (c) not more than 35% in value of the investing or disposing *sub-fund* is to consist of *units* of the second *sub-fund* ; and
 - (d) the investing or disposing *sub-fund* must not be a *feeder NURS* to the second *sub-fund*.

Guidance on syndicated loans

5.6.25

FCA

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- (1) ■ COLL 5.2.35 G (Guidance on syndicated loans) is equally applicable to investment by a *non-UCITS retail scheme* in a syndicated loan.
- (2) Where a loan falls within the *Glossary* definition of a *transferable security*, investment in such a loan in the case of a *non-UCITS retail scheme* is subject to the spread requirements in ■ COLL 5.6.7 R (Spread: general). *AFMs* also need to bear in mind that where such a *transferable security* does not meet the requirements of ■ COLL 5.6.5 R (1) (Eligibility of transferable securities and money-market instruments for investment by a non-UCITS retail scheme), the *scheme's* overall exposure to such loans will count towards the limit in ■ COLL 5.6.5 R (2).

Qualifying collective investment schemes for feeder NURS

5.6.26

FCA

R

The *authorised fund manager* of a *feeder NURS* must ensure that the *feeder NURS* does not invest in the *qualifying master scheme*, unless the *qualifying master scheme* meets both of the requirements in (1) and (2):

- (1) the *qualifying master scheme*:

- (a) satisfies the conditions necessary for it to enjoy the rights conferred by the *UCITS Directive*; or
 - (b) is a *recognised scheme*; or
 - (c) is a *non-UCITS retail scheme*; and
- (2) where the *qualifying master scheme* is an *umbrella*, the provisions in ■ COLL 5.6.7 R (Spread: general) apply to each *sub-fund* as if it were a separate *scheme*.



5.7 Investment powers and borrowing limits for NURS operating as FAIFs

Application

5.7.1

FCA

R

- (1) This section applies to the *authorised fund manager* and the *depository* of a *non-UCITS retail scheme* operating as a *FAIF* and to an *ICVC* which is a *non-UCITS retail scheme* operating as a *FAIF*.
- (2) Where this section refers to:
 - (a) a *rule* or *guidance* in ■ COLL 5.1 to ■ COLL 5.6, these *rules* and *guidance*, and any *rules* and *guidance* to which they refer, must be read as if a reference to a *UCITS scheme* or *non-UCITS retail scheme* were a reference to a *non-UCITS retail scheme* operating as a *FAIF*;
 - (b) a second *scheme*, and the second *scheme* is a *feeder scheme* which (in respect of investment in *units* in *collective investment schemes*) is *dedicated* to *units* in a single *collective investment scheme*, the reference in this section to the second *scheme* must be read as if it were a reference to any *scheme* into which the *feeder scheme's* master *scheme* invests; and
 - (c) a second *scheme*, and the second *scheme* is a *master scheme* to which (in respect of investment in *units* in *collective investment schemes*) the relevant *non-UCITS retail scheme* operating as a *FAIF* is *dedicated*, the reference in this section to the second *scheme* must be read as if it were a reference to any *scheme* into which that master *scheme* invests.

Purpose

5.7.2

FCA

G

- (1) This section contains *rules* on the types of permitted investments and any relevant limits with which *non-UCITS retail schemes* operating as *FAIFs* must comply. These *rules* allow for the relaxation of certain investment and borrowing powers from the requirements for *non-UCITS retail schemes* under ■ COLL 5.6 .
- (2) One example of the different investment and borrowing powers under the *rules* in this section for *non-UCITS retail schemes* operating as *FAIFs* is the

power to invest up to 100% of the value of the *scheme property* in *schemes* to which ■ COLL 5.7.7 R (Investment in collective investment schemes) applies.

- (3) In order to ensure adequate *unitholder* protection, the *authorised fund manager* is required to implement certain due diligence procedures in respect of investment in second *schemes*.

Applicable rules in COLL 5.6

5.7.3
FCA

R The following *rules* and *guidance* in ■ COLL 5.6 (Investment powers and borrowing limits for non-UCITS retail schemes) apply to the *authorised fund manager* and the *depository* of a *non-UCITS retail scheme* operating as a *FAIF* and to an *ICVC* which is a *non-UCITS retail scheme* operating as a *FAIF*:

- (1) ■ COLL 5.6.3 R;
- (2) ■ COLL 5.6.5 R to ■ 5.6.6 R;
- (3) ■ COLL 5.6.8 R to ■ 5.6.9 R; and
- (4) ■ COLL 5.6.11 R to ■ 5.6.24 R.

Investment powers: general

5.7.4
FCA

- R**
- (1) The *scheme property* of a *non-UCITS retail scheme* operating as a *FAIF* may, subject to the *rules* in this section, comprise any assets or *investments* to which it is *dedicated*.
 - (2) For an *ICVC*, the *scheme property* may also include movable or immovable property that is necessary for the direct pursuit of the *ICVC*'s business of investing in those assets or *investments*.
 - (3) The *scheme property* must be invested only in accordance with the relevant provisions in this section that are applicable to that *non-UCITS retail scheme* operating as a *FAIF* and within any upper limit specified in this section.
 - (4) The *instrument constituting the scheme* may restrict the investment powers of a *scheme* further than the relevant restrictions in this section.
 - (5) The *scheme property* may only, except where otherwise provided in the *rules* in this section, consist of any one or more of:
 - (a) *transferable securities*;
 - (b) money market instruments;
 - (c) *units in collective investment schemes* permitted under ■ COLL 5.7.7 R (Investment in collective investment schemes);

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- (d) *derivatives* and forward transactions permitted under ■ COLL 5.6.13 R (Permitted transactions (derivatives and forwards));
- (e) *deposits* permitted under ■ COLL 5.2.26 R (Investment in deposits);
- (f) immovables permitted under ■ COLL 5.6.18 R (Investment in property) to ■ COLL 5.6.19 R (Investment limits for immovables); and
- (g) gold up to a limit of 10% in value of the *scheme property*.

Spread: general

- (1) This *rule* does not apply in respect of *government and public securities*.
- (2) Not more than 20% in value of the *scheme property* is to consist of *deposits* with a single body.
- (3) Not more than 10% in value of the *scheme property* is to consist of *transferable securities* or *approved money-market instruments* issued by any single body subject to ■ COLL 5.6.23 R (Schemes replicating an index).
- (4) The limit of 10% in (3) is raised to 25% in value of the *scheme property* in respect of *covered bonds*.
- (5) In applying (3) *certificates representing certain securities* are to be treated as equivalent to the underlying *security*.
- (6) The exposure to any one counterparty in an *OTC derivative* transaction must not exceed 10% in value of the *scheme*.
- (7) Except for a feeder *scheme* which (in respect of investment in *units* in *collective investment schemes*) is *dedicated* to the *units* of a master *scheme*, not more than 35% in value of the *scheme* is to consist of the *units* of any one *scheme*.
- (8) For the purpose of calculating the limit in (6), the exposure in respect of an *OTC derivative* may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the conditions specified in (9).
- (9) The conditions referred to in (8) are that the collateral:
 - (a) is marked-to-market on a daily basis and exceeds the value of the amount at risk;
 - (b) is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;

5.7.5
FCA

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- (c) is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
 - (d) can be fully enforced by the *non-UCITS retail scheme* operating as a *FAIF* at any time.
- (10) For the purpose of calculating the limit in (6), *OTC derivative* positions with the same counterparty may be netted provided that the netting procedures:
- (a) comply with the conditions set out in Part Three, Title II, Chapter 6, Section 7 (Contractual netting (Contracts for novation and other netting agreements)) of the *EU CRR*; and
 - (b) are based on legally binding agreements.
- (11) In applying this *rule*, all *derivatives* transactions are deemed to be free of counterparty risk if they are performed on an exchange where the *clearing house* meets each of the following conditions:
- (a) it is backed by an appropriate performance guarantee; and
 - (b) it is characterised by a daily mark-to-market valuation of the *derivative* positions and an at least daily margining.
- (12) For the purposes of this *rule* a single body is:
- (a) in relation to *transferable securities* and money market instruments, the *person* by whom they are issued; and
 - (b) in relation to *deposits*, the *person* with whom they are placed.

Guidance on spread: general

- (1) ■ COLL 5.7.5R (8) to ■ (11) replicate the provisions of Article 5 of the Commission Recommendation 2004/383/EC of 27 April 2004 on the use of financial derivative instruments for undertakings for collective investment in transferable securities, so as to enable *non-UCITS retail schemes* to benefit from the same flexibility.
- (2) The attention of *authorised fund managers* is specifically drawn to condition (d) in ■ COLL 5.7.5R (9) under which the collateral has to be legally enforceable at any time. It is the *FCA*'s view that it is advisable for an *authorised fund manager* to undertake a legal due diligence exercise before entering into any financial collateral arrangement. This is particularly important where the collateral arrangements in question have a cross-border dimension. The *depository* will also need to exercise reasonable care to review the collateral arrangements in accordance with its duties under ■ COLL 6.6.4 R (General duties of the depository).
- (3) In applying the spread limit of 20% in value of *scheme property* which may consist of *deposits* with a single body, all uninvested cash comprising *capital*

5.7.6
FCA

G

property that the *depository* holds should be included in calculating the total sum of the *deposits* held by it on behalf of the *scheme*.

Investment in collective investment schemes

5.7.7
FCA

R

A *non-UCITS retail scheme* operating as a *FAIF* must not invest in *units* in a *collective investment scheme* (second *scheme*) unless the second *scheme* is a *scheme* which satisfies the criteria in ■ COLL 5.6.10 R (1) (a) to ■ (d) or meets each of the requirements at (1) to (4):

- (1) the second *scheme* operates on the principle of the prudent spread of risk;
- (2) the second *scheme* is prohibited from investing more than 15% in value of the property of that *scheme* in *units* in *collective investment schemes* or, if there is no such prohibition, the *non-UCITS retail scheme's authorised fund manager* is satisfied, on reasonable grounds and after making all reasonable enquiries, that no such investment will be made;
- (3) the *participants* in the second *scheme* must be entitled to have their *units* redeemed in accordance with the *scheme* at a *price*:
 - (a) related to the net value of the property to which the *units* relate; and
 - (b) determined in accordance with the *scheme*; and
- (4) where the second *scheme* is an *umbrella*, the provisions in (1) to (3) and ■ COLL 5.7.5 R (Spread: general) apply to each *sub-fund* as if it were a separate *scheme*.

5.7.8
FCA

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Feeder schemes which (in respect of investment in *units* in *collective investment schemes*) are *dedicated* to *units* in a single *collective investment scheme* must, in addition to the investment in the master *scheme*, only hold cash or *near cash* to maintain sufficient liquidity to enable the *scheme* to meet its commitments, such as *redemptions*. *Feeder schemes* may also use techniques and instruments for the purpose of *efficient portfolio management*, where appropriate, such as forward foreign exchange transactions entered into for the purpose of reducing the effect of fluctuations in the rate of exchange between relevant currencies.

Due diligence requirements

5.7.9
FCA

R

- (1) A *non-UCITS retail scheme* operating as a *FAIF* must not invest in *units* in *schemes* in ■ COLL 5.7.7R (1) to ■ (3) ('second *schemes*') unless the *authorised fund manager* has carried out appropriate due diligence on each of the second *schemes* and:

Chapter 8

Qualified investor schemes

8.1 Introduction

Application

8.1.1

FCA

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- (1) This chapter applies to:
- (a) an *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
 - (b) any other *director* of an *ICVC*;
 - (c) a *depository* of an *AUT*, *ACS* or an *ICVC*; and
 - (d) an *ICVC*,
- which is a *qualified investor scheme*.

- (2) Where this chapter refers to *rules* in any other chapter of this sourcebook, those *rules* and any relevant *guidance* should be applied as if they referred to *qualified investor schemes*.

Purpose

8.1.2

FCA

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- (1) This chapter assists in achieving the *statutory objective* of protecting *consumers* by providing an appropriate degree of protection in respect of *authorised funds* that are only intended for investors that are, in general, prepared to accept a higher degree of risk in their investments or have a higher degree of experience and expertise than investors in *retail schemes*.
- (2) This section ceases to apply where a *qualified investor scheme* has converted to be authorised as a *UCITS scheme* or a *non-UCITS retail scheme*.

Qualified investor schemes: eligible investors

8.1.3

FCA

R

- (1) Subject to (3), the *authorised fund manager* of a *qualified investor scheme* must take reasonable care to ensure that ownership of *units* in that *scheme* is recorded in the *register* only for a *person* to whom such *units* may be promoted under COBS 4.12.4R .
- (2) The *authorised fund manager* will be regarded as complying with (1) and (3) to the extent that it can show that it was reasonable for it to rely on relevant information provided by another *person*.

- (3) In addition to (1), the *authorised contractual scheme manager* of a *qualified investor scheme* which is an ACS must take reasonable care to ensure that ownership of *units* in that *scheme* is only recorded in the *register* for a *person* that meets the criteria set out in ■ COLL 8 Annex 2 R (ACS Qualified Investor Schemes: eligible investors).

Qualified investor schemes - explanation

8.1.4

FCA

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- (1) *Qualified investor schemes* are *authorised funds* which are intended only for *professional clients* and for *retail clients* who are sophisticated investors. For this reason, *qualified investor schemes* are subject to a restriction on promotion under ■ COBS 4.12.3 R. See also ■ COBS 4.12.13 G.
- (1A) The *authorised contractual scheme manager* of a *qualified investor scheme* which is an must take reasonable care to ensure that subscription in relation to the of this type of should only be in relation to a *person* to whom such *units* may be promoted under ■ COBS 4.12.4 R and who also meets the criteria in ■ COLL 8 Annex 2 R.
- (2) Accordingly, *qualified investor schemes* have a more relaxed set of *rules* governing their operation and in particular their investment powers than for *retail schemes*. A *qualified investor scheme* is essentially a mixed asset type of *scheme* where different types of permitted asset may be included as part of the *scheme property*, depending on the investment objectives and policy of that *scheme* and within any restrictions in the *rules*.

Application and notification procedures

8.1.5

FCA

G

Details of the application procedures in respect of *qualified investor schemes* are contained in ■ COLL 2.1 (Authorised fund applications). COLLG provides details on how notifications may be made to the FCA .

8.2 Constitution

Application

8.2.1
FCA

R This section applies to an *authorised fund manager* in respect of a *qualified investor scheme*.

Classes of unit

8.2.2
FCA

R A *qualified investor scheme* may issue such *classes of unit* as are set out in the *instrument constituting the scheme*, provided the rights of any *class* are not unfairly prejudicial as against the interests of the *unitholders* of any other *class of units* in that *scheme*.

Names of schemes, sub-funds, and classes of units

8.2.3
FCA

- R**
- (1) The *authorised fund manager* must ensure that the name of the *scheme*, a *sub-fund* or a *class of unit* is not undesirable or misleading.
 - (2) An *authorised fund* or a *sub-fund* may only be named or marketed as a 'money market fund' if it is:
 - (a) a *short-term money market fund*; or
 - (b) a *money market fund*.

[Note: Box 1, paragraph 2 of CESR's guidelines on a common definition of European money market funds]

Undesirable and misleading names

8.2.4
FCA

G ■ COLL 6.9.6 G (Undesirable or misleading names) contains *guidance* as to names which may be undesirable or misleading.

Instrument constituting the scheme

8.2.5
FCA

R The statements and provisions required by ■ COLL 8.2.6 R must be included in the *instrument constituting the scheme* of a *qualified investor scheme*.

8.2.6

FCA

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Table: contents of the instrument constituting the scheme

This table belongs to ■ COLL 8.2.5 R

- 1 Description of the authorised fund**
- Information detailing:**
- (1) the name of the *authorised fund*;
 - (2) that the *authorised fund* is a *qualified investor scheme*; and
 - (3) in the case of an *ICVC*, whether the head office of the *company* is situated in England and Wales or Wales or Scotland or Northern Ireland.
- Property Authorised Investment Funds**
- 1A For a *property authorised investment fund*, a statement that:**
- (1) it is a *property authorised investment fund*;
 - (2) no *body corporate* may seek to obtain or intentionally maintain a holding of more than 10% of the net asset value of the fund; and
 - (3) in the event that the *authorised fund manager* reasonably considers that a *body corporate* holds more than 10% of the net asset value of the fund, the *authorised fund manager* is entitled to delay any redemption or cancellation of *units* in accordance with 6A if the *authorised fund manager* reasonably considers such action to be:
 - (a) necessary in order to enable an orderly reduction of the holding to below 10%; and
 - (b) in the interests of the *unitholders* as a whole.
- 2 Constitution**
- The following statements:**
- (1) the *scheme property* of the *scheme* is entrusted to a *depository* for safekeeping (subject to any exception permitted by the *rules*);
 - (2) if relevant, the duration of the *scheme* is limited and, if so, for how long;
 - (3) charges and expenses of the *scheme* may be taken out of *scheme property*;
 - (4) for an *ICVC*:
 - (a) what the maximum and minimum sizes of the *scheme's* capital are; and
 - (b) the *unitholders* are not liable for the debts of the *company*;
 - (4A) for an *ICVC* which is an *umbrella*, a statement that the assets of a *sub-fund* belong exclusively to that *sub-fund* and shall not be used to discharge directly or indirectly the liabilities

of, or claims against, any other *person* or body, including the *umbrella*, or any other *sub-fund*, and shall not be available for any such purpose;

- (4B) for a *co-ownership scheme* which is an *umbrella*, the property subject to a *sub-fund* is beneficially owned by the participants in that *sub-fund* as tenants in common (or, in Scotland, is the common property of the *participants* in that *sub-fund*) and must not be used to discharge any liabilities of, or meet any claims against, any *person* other than the *participants* in that *sub-fund*;
- (4C) for a *limited partnership scheme*, that the *scheme* prohibits pooling as is mentioned in section 235(3)(a) of the *Act* in relation to separate parts of the *scheme property*, with the effect that the *scheme* cannot be an *umbrella*;
- (5) for an *AUT*:
- (a) the *trust deed*:
- (i) is made under and governed by the law of England and Wales, or the law of Scotland or the law of Northern Ireland;
- (ii) is binding on each *unitholder* as if he had been a party to it and that he is bound by its provisions; and
- (iii) authorises and requires the *trustee* and the *manager* to do the things required or permitted of them by its terms;
- (b) subject to the provisions of the *trust deed* and all the *rules* made under section 247 of the *Act* (Trust scheme rules):
- (i) the *scheme* (other than sums held to the credit of the distribution account) is held by the *trustee* on trust for the *unitholders* according to the number of *units* held by each *unitholder* or, where relevant, according to the number of individual shares in the *scheme property* represented by the *units* held by each *unitholder*; and
- (ii) the sums standing to the credit of any *distribution account* are held by the *trustee* on trust to distribute or apply in accordance with COLL 8.5.15 R (Income);
- (c) a *unitholder* is not liable to make any further payment after he has paid the *price* of his *units* and that no further liability can be imposed on him in respect of the *units* he holds; and

- (d) payments to the *trustee* by way of *remuneration* are authorised to be paid (in whole or in part) out of the *scheme property*; and
- (6) for an *ACS*:
 - (a) the *contractual scheme deed*:
 - (i) is made under and governed by the law of England and Wales, or the law of Scotland or the law of Northern Ireland;
 - (ii) is binding on each *unitholder* as if he had been a party to it and that he is bound by its provisions;
 - (iii) authorises and requires the *depository* and the *authorised contractual scheme manager* to do the things required or permitted of them by its terms; and
 - (iv) states that *units* may not be *issued* to a *person* other than a *person* :
 - (A) who is a:
 - (i) *professional ACS investor*;
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
 - (B) to whom *units* in a *qualified investor scheme* may be promoted under **COBS 4.12.4 R**;
 - (v) states that the *authorised contractual scheme manager* of an *ACS* must *redeem units* as soon as practicable after becoming aware that those *units* are vested in anyone (whether as a result of subscription or transfer of *units*) other than a *person* meeting the criteria in (iv)(A) and (B);
 - (vi) states that for a *co-ownership scheme*:
 - (A) the *scheme property* is beneficially owned by the *participants* as tenants in common (or, in Scotland, is the common property of the *participants*);
 - (B) the arrangements constituting the *scheme* are intended to constitute a *co-ownership scheme* as defined in section 235A(2) of the *Act*; and
 - (C) the *operator* and *depository* are required to wind up the *scheme* if directed to do so by the *FCA* in exercise of its power

under section 261X (Directions) or section 261Z (Winding up or merger of master UCITS) of the *Act*;

(vii) states:

(A) whether the transfer of *units* in the *ACS* scheme or, for a *co-ownership scheme* which is an *umbrella (sub-funds)* of which pursue differing policies in relation to transfer of *units*, in each particular *sub-fund*, is either:

(i) prohibited; or

(ii) allowed;

(B) where transfer of *units* is allowed by the *scheme* or, where appropriate the *sub-fund*, in accordance with (A)(ii), *units* may only be transferred in accordance with the conditions specified by *FCA rules*, including that *units* may not be transferred to a *person* other than a *person* :

(i) who is a:

(1) *professional ACS investor*; or

(2) *large ACS investor*; or

(3) *person* who already holds *units* in the *scheme*; and

(ii) to whom *units* in a *qualified investor scheme* may be promoted under COBS 4.12.4 R; and

(viii) states that for a *limited partnership scheme*, the *scheme* is not dissolved on any *person* ceasing to be a *limited partner* or *nominated partner* provided that there remains at least one *limited partner*;

(b) subject to the provisions of the *contractual scheme deed* and all the *rules* made under section 261I of the *Act* (Contractual scheme rules) and for the time being in force:

(i) the *scheme property* (other than sums standing to the credit of the *distribution account*) is held by, or to the order of, the *depository* for and on behalf of the *unitholders* according to the number of *units* held by each

unitholder or, where relevant, according to the number of individual shares in the *scheme property* represented by the *units* held by each *unitholder*; and

- (ii) the sums standing to the credit of any *distribution account* are held by the *depository* to distribute or apply them in accordance with COLL 8.5.15 R(Income); and
- (c) a *unitholder* in a *co-ownership scheme* is not liable to make any further payment after he has paid the price of his *units* and that no further liability can be imposed on him in respect of the *units* he holds;
- (d) a *unitholder* in a *limited partnership scheme* is not liable for the debts or obligations of the *limited partnership scheme* beyond the amount of the *scheme property* which is available to the *authorised contractual scheme manager* to meet such debts or obligations, provided that the *unitholder* does not take part in the management of the partnership business;
- (e) the exercise of rights conferred on *limited partners* by *FCA* rules does not constitute taking part in the management of the partnership business;
- (f) the *limited partners*, other than the *nominated partner*, are to be the *participants* in the *scheme*; and
- (g) the *operator* of a *co-ownership scheme* is authorised to:
 - (i) acquire, manage and dispose of the *scheme property*; and
 - (ii) enter into contracts which are binding on *unitholders* for the purposes of, or in connection with, the acquisition, management or disposal of *scheme property*.

3 Investment objectives

A statement of the object of the *scheme*, in particular the types of *investments* and assets in which it and each *sub-fund* (where applicable) may invest and that the object of the *scheme* is to invest in property of that kind with the aim of spreading investment risk.

4 Units in the scheme

A statement of:

- (1) the *classes* of *units* which the *scheme* may issue, indicating, for a *scheme* which is an *umbrella*, which *class* or *classes* may be issued in respect of each *sub-fund*; and

(2) the rights attaching to *units* of each *class* (including any provisions for the expression in two denominations of such rights).

5 Limitation on issue of and redemption of units

Details as to:

- (1) the provisions relating to any restrictions on the right to redeem *units* in any *class*; and
- (2) the circumstances in which the issue of the *units* of any particular *class* may be limited.

6 Income and distribution

Details of the *person* responsible for the calculation, transfer, allocation and distribution of income for any *class* of *unit* in issue during the accounting period.

Redemption or cancellation of units on breach of law or rules

6A A statement that where any holding of *units* by a *unitholder* is (or is reasonably considered by the *authorised fund manager* to be) an infringement of any law, governmental regulation or rule, those *units* must be redeemed or cancelled.

7 Base currency

A statement of the *base currency* of the *scheme*.

8 Meetings

Details of the procedures for the convening of meetings and the procedures relating to resolutions, voting and the voting rights for *unitholders*.

9 Powers and duties of the authorised fund manager and depositary

Where relevant, details of any function to be undertaken by the *authorised fund manager* and *depositary* which the *rules* in *COLL* require to be stated in the *instrument constituting the scheme*.

10 Termination and suspension

Details of:

- (1) the grounds under which the *authorised fund manager* may initiate a suspension of the *scheme* and any associated procedures; and
- (2) the methodology for determining the rights of *unitholders* to participate in the *scheme property* on winding up.

10A Investment in overseas property through an intermediate holding vehicle

If investment in an overseas immovable is to be made through an *intermediate holding vehicle* or a series of *intermediate holding vehicles*, a statement that the purpose of that *intermediate holding*

- (1) for determining and applying income (including how any distributable income is paid); and
- (2) relating to unclaimed distributions.

5 The characteristics of units in the authorised fund

Information as to:

- (1) the names of the *classes of units* in issue or available for *issue* and the rights attached to them in so far as they vary from the rights attached to other *classes*;
- (2) how *unitholders* may exercise their voting rights and what these are; and
- (3) the circumstances where a mandatory *redemption, cancellation* or conversion of *units* from one *class* to another may be required.

5A Issue of units in ACSs: eligible investors

- (1) A statement that *units* may not be *issued* to a *person* other than to a *person* :
 - (a) who is a:
 - (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
 - (b) to whom *units* in a *qualified investor scheme* may be promoted under **COBS 4.12.4 R**.
- (2) A statement that the *authorised contractual scheme manager* of an *ACS* must *redeem units* as soon as practicable after becoming aware that those *units* are vested in anyone (whether as a result of subscription or transfer of *units*) other than a *person* meeting the criteria in (1).

5B Transfer of units in ACSs

- (1) A statement whether the transfer of *units* in the *ACS scheme* is either:
 - (a) prohibited; or
 - (b) allowed;
 by the *instrument constituting the scheme* and prospectus.
- (2) A statement that where transfer of *units* is allowed by the *instrument constituting the scheme* and *prospectus* in accordance with (1)(b), *units* may only be transferred in accordance with the conditions specified by *FCA rules*, including that *units* may not be transferred to a *person* other than a *person* :
 - (a) who is a:

(i) *professional ACS investor*; or

(ii) *large ACS investor*; or

(iii) *person* who already holds *units* in the *scheme*; and

(b) to whom *units* in a *qualified investor scheme* may be promoted under **COBS 4.12.4 R**.

(3) For a *co-ownership scheme* which is an *umbrella*, a statement in accordance with (1)(a) or (1)(b) and, where appropriate, a statement in accordance with (2), must also be made for the *sub-funds*. Where individual *sub-funds* have differing policies in relation to transfer of *units*, separate statements are required.

6 The authorised fund manager

The following particulars of the *authorised fund manager*:

- (1) its name and the nature of its corporate form;
- (2) the country or territory of its incorporation;
- (3) the date of its incorporation and if the duration of its corporate status is limited, when that status will or may cease;
- (4) if it is a *subsidiary*, the name of its ultimate *holding company* and the country or territory in which that *holding company* is incorporated;
- (5) the address of its registered office, its head office, and, if different, the address of its principal place of business in the *United Kingdom*;
- (6) the amount of its issued share capital and how much of it is paid up;
- (7) for an *ICVC*, a summary of the material provisions of the contract between the *ICVC* and the *authorised fund manager* which may be relevant to *unitholders* including provisions (if any) relating to termination, compensation on termination and indemnity; and
- (8) for an *AUT*, the names of the *directors* of the *authorised fund manager*.

7 Directors of an ICVC, other than the ACD

Other than for the *ACD*:

- (1) the names and positions in the *ICVC* of the *directors*; and
- (2) the manner, amount and calculation of the *remuneration* of the *directors*.

8 The depositary

The following particulars of the *depository*:

- (1) its name and the nature of its corporate form;
- (2) the country or territory of its incorporation;
- (3) the address of its registered office and the address of its head office if that is different from the address of its registered office; and
- (4) if neither its registered office nor its head office is in the *United Kingdom*, the address of its principal place of business in the *United Kingdom*.

9 The investment adviser

If an *investment adviser* is retained in connection with the business of the *authorised fund*, its name and whether or not it is authorised by the *FCA*.

10 The auditor

The name of the auditor of the *authorised fund*.

11 The register of unitholders

Details of the address in the *United Kingdom* where the *register of unitholders* is kept and can be inspected by *unitholders*.

12 Payments out of the scheme property

The payments that may be made out of the *scheme property* to any *person* whether by way of *remuneration* for services, or reimbursement of expense and for each category of *remuneration* or expense, the following should be specified:

- (1) the current rates or amounts of such *remuneration*;
- (2) how the *remuneration* will be calculated and accrue and when it will be paid;
- (3) if notice has been given to *unitholders* of the *authorised fund manager's* intention to:
 - (a) introduce a new category of *remuneration* for its services; or
 - (b) increase the basis of any current charge; or
 - (c) change the basis of the treatment of a payment from the *capital property* set out in **COLL 8.5.13 R (2)** (Payments);

particulars of that introduction or increase and when it will take place;

- (4) the types of any other charges and expenses that may be taken out of the *scheme property*; and
- (5) if, in accordance with **COLL 8.5.13 R (2)**, all or part of the *remuneration* or expense are to be treated as a capital charge:

- (a) that fact; and
- (b) the basis of the charge which may be so treated.
- 13 Dealing**
- Details of:**
- (1) the *dealing days* and times in the *dealing day* on which the *authorised fund manager* will receive requests for the *sale* and *redemption* of *units*;
 - (2) the procedures for effecting:
 - (a) the *issue* and *cancellation* of *units*;
 - (b) the *sale* and *redemption* of *units*; and
 - (c) the settlement of transactions;
 - (3) the steps required to be taken by a *unitholder* in redeeming *units* before he can receive the proceeds including any relevant notice periods and the circumstances and periods where a deferral of payment as provided in **COLL 8.5.11 R (3) (Sale and redemption)** may be applied;
 - (4) the circumstances in which the *redemption* of *units* may be suspended;
 - (5) the *days* and times in the *day* on which recalculation of the *price* will commence;
 - (6) details of the minimum number or value of each type of *unit* in the *authorised fund* which:
 - (a) any one *person* may hold; and
 - (b) may be the subject of any one transaction of *sale* or *redemption*;
 - (7) the circumstances in which the *authorised fund manager* may arrange for, and the procedure for, a *redemption* of *units* in specie;
 - (8) the circumstances in which the further *issue* of *units* in any particular *class* may be limited and the procedures relating to this;
 - (9) the circumstances in which direct *issue* or *cancellation* of *units* by the *ICVC* or the *depository* of an *AUT* or *ACS* (as appropriate) may occur and the relevant procedures for such *issues* and *cancellations*; and
 - (10) whether a *unitholder* may effect transfer of title to *units* on the authority of an *electronic communication* and if so the conditions that must be satisfied in order to effect a transfer.
- 14 Valuation of scheme property**
- Details as to:**

- (1) how frequently and at what times of the *day* the *scheme property* will be regularly valued to determine the *price* at which *units* in the *scheme* may be purchased from or redeemed by the *authorised fund manager* and a description of any circumstance where the *scheme property* may be specially valued;
- (2) in relation to each purpose for which the *scheme property* must be valued, the basis on which it will be valued; and
- (3) how the *price* of *units* of each *class* will be determined, including whether a forward or *historic price* basis is to be applied.

15 Sale and redemption charges

If the *authorised fund manager* makes any charges on *sale* or *redemption* of *units*, details of the charging structure and how notice will be provided to *unitholders* of any increase.

15A Property Authorised Investment Funds

For a *property authorised investment fund*, a statement that:

- (1) it is a *property authorised investment fund*;
- (2) no *body corporate* may seek to obtain or intentionally maintain a holding of more than 10% of the net asset value of the fund; and
- (3) in the event that the *authorised fund manager* reasonably considers that a *body corporate* holds more than 10% of the net asset value of the fund, the *authorised fund manager* is entitled to delay any redemption or cancellation of *units* if the *authorised fund manager* reasonably considers such action to be:
 - (a) necessary in order to enable an orderly reduction of the holding to below 10%; and
 - (b) in the interests of the *unitholders* as a whole.

16 General information

Details as to:

- (1) when annual and half- yearly reports will be published; and
- (2) the address at which copies of the *instrument constituting the scheme*, any amending instrument and the most recent annual reports may be inspected and from which copies may be obtained.

17 Information on the umbrella

In the case of a *scheme* which is an *umbrella*, the following information:

- (1) that a *unitholder* may exchange *units* in one *sub-fund* for *units* in another *sub-fund* and that such an exchange is treated as a *redemption and sale*;
- (2) what charges may be made on exchanging *units* in one *sub-fund* for *units* in other *sub-funds*;
- (3) the policy for allocating between *sub-funds* any assets of, or costs, charges and expenses payable out of, the *scheme property* which are not attributable to any particular *sub-fund*;
- (4) in respect of each *sub-fund*, the currency in which the *scheme property* allocated to it will be valued and the *price of units* calculated and payments made, if this currency is not the *base currency* of the *umbrella*; and
- (5) for an *ICVC* or a *co-ownership scheme*, that:
 - (a) for an *ICVC*, its *sub-funds* are segregated portfolios of assets and, accordingly, the assets of a *sub-fund* belong exclusively to that *sub-fund* and shall not be used to discharge directly or indirectly the liabilities of, or claims against, any other *person* or body, including the *umbrella*, or any other *sub-fund*, and shall not be available for any such purpose;
 - (aa) for a *co-ownership scheme*, the property subject to a *sub-fund* is beneficially owned by the *participants* in that *sub-fund* as tenants in common (or, in Scotland, is the common property of the *participants* in that *sub-fund*) and must not be used to discharge any liabilities of, or meet any claims against, any *person* other than the participants in that *sub-fund*; and
 - (b) for an *ICVC* or a *co-ownership scheme*, while the provisions of the *OEIC Regulations*, and section 261P (Segregated liability in relation to umbrella co-ownership schemes) of the *Act* in the case of *co-ownership schemes*, provide for segregated liability between *sub-funds*, the concept of segregated liability is relatively new. Accordingly, where claims are brought by local creditors in foreign courts or under *foreign law contracts*, it is not yet known how those foreign courts will react to regulations 11A and 11B of the *OEIC Regulations* or, as the case may be, section 261P of the *Act*.

18 Application of the prospectus contents to an umbrella

For a *scheme* which is an *umbrella*, information required must be stated:

- (1) in relation to each *sub-fund* where the information for any *sub-fund* differs from that for any other; and
- (2) for the *umbrella* as a whole, but only where the information is relevant to the *umbrella* as a whole.

18A Investment in overseas property through an intermediate holding vehicle

If investment in an overseas immovable is to be made through an *intermediate holding vehicle* or a series of *intermediate holding vehicles* a statement disclosing the existence of that *intermediate holding vehicle* or series of *intermediate holding vehicles* and confirming that the purpose of that *intermediate holding vehicle* or series of *intermediate holding vehicles* is to enable the holding of overseas immovables by the *scheme*.

18B Information on authorised contractual schemes

A statement that:

- (1) a *unitholder* in a *co-ownership scheme* is not liable to make any further payment after he has paid the price of his *units* and that no further liability can be imposed on him in respect of the *units* he holds;
- (2) a *unitholder* in a *limited partnership scheme* is not liable for the debts or obligations of the *limited partnership scheme* beyond the amount of the *scheme property* which is available to the *authorised contractual scheme manager* to meet such debts or obligations, provided that the *unitholder* does not take part in the management of the partnership business;
- (3) the exercise of rights conferred on *limited partners* by *FCA rules* does not constitute taking part in the management of the partnership business; and
- (4) the *scheme property* of a *co-ownership scheme* is beneficially owned by the *participants* as tenants in common (or, in Scotland, is the common property of the *participants*).

19 Additional information

Any other material information which is within the knowledge of the *directors* of an *ICVC* or the *authorised fund manager* of an *AUT* or *ACS*, or which the *directors* or *authorised fund manager* would have obtained by the making of reasonable enquiries which investors and their professional advisers would reasonably require, and reasonably expect to find in the *prospectus*, for the purpose of making an informed judgement about the merits of investing in the *authorised fund* and the extent and characteristics of the risks accepted by so participating.

8.3.5

FCA

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Report and accounts

- (1) The *authorised fund manager* must prepare a report in respect of each *annual accounting period* and *half-yearly accounting period*.
- (2) [deleted]
- (2A) Where the first *annual accounting period* of a *scheme* is less than 12 *months*, a half-yearly report need not be prepared.
- (3) The *authorised fund manager* must within a reasonable time after the end of each relevant accounting period, publish the annual report and half-yearly report and provide a copy free of charge on request to any *unitholder*.
- (4) [deleted]
- (5) The *authorised fund manager* must provide free of charge on the request of any *person* eligible to invest in the *scheme* a copy of the latest annual or half-yearly report before the conclusion of any sale to such *person*.
- (6) The *authorised fund manager* must provide a copy of each annual and half-yearly report to the *FCA*.
- (7) For a *scheme* which is an *umbrella*, any annual report provided under (3) or (5) may be a report prepared under ■ COLL 8.3.5A R (3), but the *authorised fund manager* must nevertheless provide free of charge the report prepared under ■ COLL 8.3.5A R (2) if a *unitholder* or any other *person* eligible to invest in the *scheme* requests it.

Contents of the annual report

8.3.5A

FCA

R

- (1) An annual report, other than for a *scheme* which is an *umbrella*, must contain:
 - (a) the accounts for the *annual accounting period* prepared in accordance with the requirements of the *IMA SORP*;
 - (b) the report of the *authorised fund manager* in accordance with ■ COLL 8.3.5C R (Authorised fund manager's report);
 - (c) the report of the *depository* in accordance with ■ COLL 8.3.5D R (Report of the depository); and
 - (d) the report of the auditor in accordance with ■ COLL 4.5.12 R (Report of the auditor).
- (2) An annual report on a *scheme* which is an *umbrella* must be prepared for the *umbrella* as a whole and must contain:

- (a) for each *sub-fund*, the accounts required by (1)(a) and the report of the *authorised fund manager* in accordance with ■ COLL 8.3.5C R;
 - (b) an aggregation of the accounts required by (a);
 - (c) the report of the *depository* in accordance with ■ COLL 8.3.5D R; and
 - (d) the report of the auditor in accordance with ■ COLL 4.5.12 R.
- (3) The *authorised fund manager* of a *scheme* which is an *umbrella* may, in addition to complying with (2), prepare a further annual report for any one or more individual *sub-funds* of the *umbrella*, in which case it must contain:
- (a) for the *sub-fund*, the accounts required by (1)(a) and the report of the *authorised fund manager* in accordance with ■ COLL 8.3.5C R;
 - (b) the report of the *depository* in accordance with ■ COLL 8.3.5D R; and
 - (c) the report of the auditor in accordance with ■ COLL 4.5.12 R.
- (4) The *directors* of an *ICVC* or the *authorised fund manager* of an *AUT* or *ACS* must ensure that the accounts referred to in (1)(a), (2)(a) and (3)(a) give a true and fair view of the net revenue and the net capital gains or losses on the *scheme property* of the *authorised fund* or *sub-fund* for the relevant *annual accounting period*, and of the financial position of the *authorised fund* or *sub-fund* as at the end of that period.

Contents of the half-yearly report

8.3.5B

FCA

R

- (1) A half-yearly report on an *authorised fund* or *sub-fund* must contain:
 - (a) the accounts for the *half-yearly accounting period* which must be prepared in accordance with the requirements of the *IMA SORP*; and
 - (b) the report of the *authorised fund manager* in accordance with ■ COLL 8.3.5C R.
- (2) For a *scheme* which is an *umbrella*, the *authorised fund manager* may choose whether the half-yearly report is prepared for the *umbrella* as a whole, or for each individual *sub-fund*, or both.

8.3.5C

FCA

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Authorised fund manager's report

The report of the *authorised fund manager* must include:

- (1) a review of the investment activities during the period to which the report relates;
- (2) particulars of any fundamental or significant change to the *authorised fund* made since the date of the last report; and
- (3) any other information which would enable *unitholders* to make an informed judgement on the development of the activities of the *authorised fund* during the period and the results of those activities as at the end of the period.

Report of the depositary

8.3.5D

FCA

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- (1) The *depositary* must make an annual report to *unitholders* which must be included in the annual report.
- (2) The *depositary's* report must contain:
 - (a) a description, which may be in summary form, of the duties of the *depositary* under ■ COLL 8.5.4 R (Duties of the depositary) and in respect of the safekeeping of the *scheme property*; and
 - (b) a statement whether in any material respect:
 - (i) the *issue, sale, redemption and cancellation* and calculation of the *price* of the *units* and the application of the *authorised fund's* revenue, have not been carried out in accordance with the *rules* in this sourcebook and, where applicable, the *OEIC Regulations* and the *instrument constituting the scheme*; and
 - (ii) the investment and borrowing powers and restrictions applicable to the *authorised fund* have been exceeded.

Signing of annual and half-yearly reports

8.3.5E

FCA

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The annual reports in ■ COLL 8.3.5AR (1) and ■ (2) and the half-yearly reports in ■ COLL 8.3.5BR (1) must:

- (1) in the case of an *ICVC*, if there is:
 - (a) more than one *director*, be approved by the board of *directors* and signed on their behalf by the *ACD* and at least one other *director*; or
 - (b) no *director* other than the *ACD*, be signed by the *ACD*;

- (2) in the case of an *AUT* or *ACS*, if the *authorised fund manager* has:
 - (a) more than one director, be signed by at least two directors of the *authorised fund manager*; or
 - (b) only one director, be signed by the director of the *authorised fund manager*.

Alterations to the scheme and notices to unitholders

8.3.6

FCA

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- (1) Any proposed change which would be reasonably considered to be a fundamental change to the *scheme* requires the prior sanction of an ordinary resolution of the *unitholders*.
- (2) Any proposed change to the *scheme* which is not within (1) but which would be reasonably considered to be significant, requires the giving of reasonable notice to *unitholders* to become effective.
- (3) Alterations affecting only a particular *sub-fund* or *class of units* may be approved in accordance with (1) or (2) for the particular *sub-fund* or *class of units*, with the consent of, or, as the case may be, notice to, the relevant *unitholders*.
- (4) This *rule* and ■ COLL 8.3.8 R (Meetings) will apply (unless the context requires otherwise) to alterations concerning *unitholders* of a particular *sub-fund* or *class of units* rather than the *scheme* or *sub-fund* as a whole.

Alterations to the scheme and notices to unitholders: guidance

8.3.7

FCA

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Although account should be taken of the *guidance* on fundamental changes (■ COLL 4.3.5 G (Guidance on fundamental changes)) and significant changes (■ COLL 4.3.7 G (Guidance on significant changes)) the impact of any change to the *scheme* should be assessed individually based on the nature of the *scheme* and its investor profile.

Meetings

8.3.8

FCA

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- (1) Details of the procedures for the convening and conducting of meetings and resolutions must be set out in the *instrument constituting the scheme* and be reasonable and fair as between all relevant parties.
- (2) The *authorised fund manager* must record and keep minutes for six years of all proceedings to which ■ COLL 8.3.6 R (Alterations to the scheme and notices to unitholders) and this *rule* are relevant.
- (3) The provisions in ■ COLL 4.4.12 R (Notices to unitholders), ■ COLL 4.4.13 R (Other notices) and ■ COLL 4.4.14 G (References to writing and electronic documents) apply in relation to *qualified investor schemes*.

8.4 Investment and borrowing powers

Application

8.4.1
FCA

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This section applies to an *ICVC* which is a *qualified investor scheme* and an *authorised fund manager* and a *depository* of a *qualified investor scheme*.

8.4.1A
FCA

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- (1) Where this section refers to a second *scheme*, and the second *scheme* is a feeder *scheme*, which (in respect of investment in *units* in *collective investment schemes*) is *dedicated* to *units* in a single *collective investment scheme*, the reference in this section to the second *scheme* must be read as if it were a reference to any *scheme* into which the feeder *scheme's* master *scheme* invests.
- (2) Where this section refers to a second *scheme*, and the second *scheme* is a master *scheme* to which (in respect of investment in *units* in *collective investment schemes*) the relevant *qualified investor scheme* is *dedicated*, the reference in this section to the second *scheme* must be read as if it were a reference to any *scheme* into which that master *scheme* invests.

Spread of risk

8.4.2
FCA

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An *authorised fund manager* must take reasonable steps to ensure that the *scheme property* of a *qualified investor scheme* provides a spread of risk, taking into account the investment objectives and policy of the *scheme* as stated in the most recently published *prospectus*, and in particular, any investment objective as regards return to the *unitholders* (whether through capital appreciation or income or both).

Investment powers: general

8.4.3
FCA

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- (1) The *scheme property* of a *qualified investor scheme* may, subject to the *rules* in this chapter, comprise any assets or *investments* to which it is *dedicated*.
- (2) The *instrument constituting the scheme* and the *prospectus* may further restrict:

- (a) the kinds of assets in which the *scheme property* may be invested;
- (b) the types of transactions permitted and any relevant limits; and
- (c) the borrowing powers of the *scheme*.

Qualified investor schemes: general

8.4.4

FCA

R

The *scheme property* of a *qualified investor scheme* must, except where otherwise provided by the *rules* in this chapter, consist only of one or more of the following to which it is *dedicated*:

- (1) any *specified investment*:
 - (a) within articles 74 to 86 of the *Regulated Activities Order*; and
 - (b) within article 89 (Rights to or interests in investments) of the *Regulated Activities Order* where the right or interest relates to a *specified investment* within (a);
- (2) an interest in an immovable under ■ COLL 8.4.11 R (Investment in property);
- (3) *precious metals*; or
- (4) a *commodity contract* traded on an *RIE* or a *recognised overseas investment exchange*.

Money market funds

8.4.4A

FCA

R

The *authorised fund manager* of a *qualified investor scheme* which operates as a *money market fund* or *short-term money market fund* must satisfy the conditions in ■ COLL 5.9.3 R (Investment conditions: short-term money market funds) and ■ COLL 5.9.5 R (Investment conditions: money market funds) respectively.

[Note: box 2 and box 3 of *CESR's guidelines on a common definition of European money market funds*]

8.4.4B

FCA

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Approved money market instruments held within a *qualified investor scheme* which is a *short-term money market fund* or *money market fund* must also satisfy the criteria in ■ COLL 5.2.7F R to ■ COLL 5.2.7H R (*Approved money-market instruments*).

Investment in collective investment schemes

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8.4.5

FCA

R

- (1) A *qualified investor scheme* may invest in *units* in a *scheme* (a '*second scheme*') only if the *second scheme* is:
 - (a) a *regulated collective investment scheme*; or
 - (b) a *scheme* not within (a) where the *authorised fund manager* has taken reasonable care to determine that:

- (i) it is the subject of an independent annual audit conducted in accordance with international standards on auditing;
- (ii) the calculation of the net asset value of each of the second *schemes* and the maintenance of their accounting records is segregated from the investment management function;
- (iii) (unless it is a master *scheme* to whose *units* the relevant *qualified investor scheme* is dedicated) it is prohibited from investing more than 15% of its value in *units* of *schemes* or, if there is no such prohibition, the *qualified investor scheme's authorised fund manager* is satisfied, on reasonable grounds and after making all reasonable enquiries, that no such investment will be made; and
- (iv) it operates in accordance with the principle of risk spreading as described in ■ COLL 8.4.2 R.

(2) A *qualified investor scheme* must not invest more than 20% in value of the *scheme property* in *units* in second *schemes* which are unregulated *schemes* or *qualified investor schemes* unless the *authorised fund manager* has carried out appropriate due diligence on each of the second *schemes* and has taken reasonable care to determine that, after making all reasonable enquiries and on reasonable grounds, the second *scheme* complies with relevant legal and regulatory requirements.

(3) The *authorised fund manager* of a *qualified investor scheme* with more than 20% in value of the *scheme property* invested in one or more second *schemes* which are unregulated *schemes* or *qualified investor schemes* must carry out appropriate due diligence on those *schemes* on an ongoing basis.

Investment in a collective investment scheme that is an umbrella

8.4.5A

FCA

R

Where the second *scheme* in ■ COLL 8.4.5 R is an *umbrella*, the provisions apply to each *sub-fund* as if it were a separate *scheme*.

8.4.5B

FCA

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- (1) The *guidance* at ■ COLL 5.7.11 G applies to an *authorised fund manager* of a *qualified investor scheme* carrying out due diligence for the purpose of ■ COLL 8.4.5 R, as if that *guidance* related to ■ COLL 8.4.5 R.
- (2) Where ■ COLL 5.7.11 G (10) refers to ■ COLL 6.3 (Valuation and pricing), that reference should be read as if it were a reference to ■ COLL 8.5.9 R (Valuation, pricing and dealing).
- (3) In addition to the *guidance* at ■ COLL 5.7.11 G the *authorised fund manager* should, as part of its due diligence process, consider whether the property of each of the second *schemes* is held in safekeeping by a third party, which

is subject to prudential regulation and independent of the investment manager of the second *scheme* and, if not, what controls over the property of the second *scheme* are in place to protect investors.

Delivery of property under a transaction in derivatives or a commodities contract

8.4.6

FCA

R

- (1) An *authorised fund manager* must take reasonable care to determine the following when entering into any transaction in *derivatives* or any *commodity* contract which may result in any asset becoming part of the *scheme property*:
 - (a) if it is an asset in which the *scheme property* could be invested, that the transaction:
 - (i) can be readily closed out; or
 - (ii) would at the expected time of delivery relate to an asset which could be included in the *scheme property* under the *rules* in this chapter; or
 - (b) in any other case that the transaction can be readily closed out.
- (2) An *authorised fund manager* may acquire an asset within (1) if its determination has proved incorrect and if it determines that acquisition is in the interests of the *unitholders*, provided it has the consent of the *depository*.
- (3) Any asset within (1) acquired in accordance with (2) may form part of the *scheme property* despite any other *rule* in this chapter until the position can be rectified.

Cover for transactions in derivatives and forward transactions

8.4.7

FCA

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- (1) A transaction in *derivatives* or a forward transaction may be entered into only if the maximum exposure, in terms of the *principal* or *notional principal* created by the transaction to which the *scheme* is or may be committed by another *person*, is covered globally under (2).
- (2) Exposure is globally covered if adequate cover from within the *scheme property* is available to meet the *scheme's* total exposure taking into account any reasonably foreseeable market movement.
- (3) The total exposure relating to *derivatives* held in a *qualified investor scheme* may not exceed the net value of the *scheme property*.
- (4) No element of cover may be used more than once.

8.4.7A

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Valuation of an OTC derivative

A transaction in an *OTC derivative* must be capable of valuation which it will only be if the *authorised fund manager* having taken reasonable care determines that, throughout the life of the *derivative* (if the transaction is entered into), it will be able to value the *investment* concerned with reasonable accuracy:

- (1) on the basis of the pricing model; or
- (2) on some other reliable basis reflecting an up-to-date market value;

which has been agreed between the *authorised fund manager* and the *depository*.

8.4.8

FCA

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Continuing nature of limits and requirements

- (1) An *authorised fund manager* must, as frequently as necessary to ensure compliance with ■ COLL 8.4.7 R (2) and ■ COLL 8.4.7 R (4), re-calculate the amount of cover required in respect of *derivatives* and forwards positions in existence under this chapter.
- (2) *Derivatives* and forwards positions may be retained in the *scheme property* only so long as they remain covered globally under ■ COLL 8.4.7 R.
- (3) An *authorised fund manager* must use a risk management process enabling it to monitor and measure as frequently as appropriate the risk of a *scheme's derivatives* positions and their contribution to the overall risk profile of the *scheme*.

8.4.9

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Permitted stock lending

- (1) The *ICVC*, or the *depository* at the request of the *ICVC*, or the *depository* of an *AUT* or *ACS* at the request of the *authorised fund manager*, may enter into a *repo* contract or a *stock lending* arrangement within section 263B of the Taxation of Chargeable Gains Act 1992 (without extension by section 263C).
- (2) The *depository* must ensure that the value of any *collateral*, for the *stock lending* arrangement is at all times at least equal to the value of the securities transferred by the *depository*.
- (3) In the case of the expiry of validity of any *collateral*, the duty in (2) is satisfied if the *depository* or the *authorised fund manager*, as appropriate, takes reasonable care to determine that sufficient *collateral* will be transferred by close of business on the *day* of expiry.

8.4.10

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General power to borrow

- (1) The *ICVC* or *depository* of an *AUT* or *ACS* (on the instructions of the *authorised fund manager*) may borrow money for the use of the *authorised fund* on terms that the borrowing is to be repayable out of the *scheme property*.
- (2) The *authorised fund manager* must ensure that the *authorised fund's* borrowing does not, on any day, exceed 100 % of the net value of the *scheme property* and must take reasonable care to ensure that arrangements are in place that will enable borrowings to be closed out to ensure such compliance.
- (3) In this rule "borrowing" also includes any arrangement (including a combination of *derivatives*) designed to achieve a temporary injection of money into the *scheme property* in the expectation that the sum will be repaid.
- (4) Where the limit in (2) is breached, the *authorised fund manager* must take action in accordance with the principles set out in ■ COLL 8.5.3 R (3) to ■ COLL 8.5.3 R (5) (Duties of the authorised fund manager: investment and borrowing powers) to deal with that breach.

Investment in property

8.4.11

FCA

R

- (1) Any investment in land or a building held within the *scheme property* of a *qualified investor scheme* must be in an immovable within (2).
- (2) For an immovable :
 - (a) it must be situated in a country or territory identified in the *prospectus*;
 - (b) the *authorised fund manager* must have taken reasonable care to determine that the title to the interest in the immovable is a good marketable title; and
 - (c) the *authorised fund manager* of an *AUT* or *ACS* or the *ICVC* must have received a report from the *appropriate valuer* that:
 - (i) contains a valuation of the interest in the immovable (with and without any relevant existing mortgage); and
 - (ii) states that in the *appropriate valuer's* opinion the interest in the immovable would if acquired by the *scheme*, be capable of being disposed of reasonably expeditiously at that valuation;
 - (d) unless (c) is satisfied, the *authorised fund manager* of an *AUT* or *ACS* or the *ICVC* must have received a report from an

appropriate valuer valuing the interest in the immovable and stating that:

- (i) the immovable is adjacent to or in the vicinity of another immovable included in the *scheme property*; and
 - (ii) in the opinion of the *appropriate valuer*, the total value of the interests in both immovables would at least equal the sum of the price payable for the interest in the immovable and the existing value of the interest in the other immovable; and
- (e) it must not be bought:
- (i) if it becomes apparent to the *authorised fund manager* that the report in either (c) or (d) could no longer reasonably be relied upon; or
 - (ii) at a price more than 105% of the valuation relevant to the interest for that immovable in the report in either (c) or (d).
- (3) Any contents of any building may be regarded as part of the relevant immovable.
- (4) An *appropriate valuer* must be a *person* who:
- (a) has knowledge of and experience in the valuation of immovables of the relevant kind in the relevant area;
 - (b) is qualified to be a *standing independent valuer* of an *authorised fund* or is considered by the *scheme's standing independent valuer* to hold an equivalent qualification;
 - (c) is independent of the *ICVC*, the *depository* and each of the *directors* of the *ICVC* or of the *authorised fund manager* and *depository* of the *AUT* or *ACS*; and
 - (d) has not engaged himself or any of his *associates* in relation to the finding of the immovable for the *scheme* or the finding of the *scheme* for the immovable.

Investment in overseas property through an intermediate holding vehicle

- (1) An overseas immovable may be held by a *scheme* through an *intermediate holding vehicle* whose purpose is to enable the holding of immovables by the *scheme* or a series of such *intermediate holding vehicles*, provided that the interests of *unitholders* are adequately protected. Any investment in an *intermediate holding vehicle* for the purpose of holding an overseas immovable shall be treated for the purposes of this section as if it were a direct investment in that immovable.

8.4.11A

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8.4.11B

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- (2) An *intermediate holding vehicle* must be wholly owned by the *scheme* or another *intermediate holding vehicle* or series of *intermediate holding vehicles* wholly owned by the *scheme*, unless and to the extent that local legislation or regulation relating to the *intermediate holding vehicle* holding the immovable requires a proportion of local ownership.
- (1) The *authorised fund manager* may transfer capital and income between an *intermediate holding vehicle* and the *scheme* by the use of inter-company debt if the purpose of this is for investment in immovables and repatriation of income generated by such investment. In using inter-company debt, the *authorised fund manager* should ensure the following:
- (a) a record of inter-company debt is kept in order to provide an accurate audit trail; and
 - (b) interest paid out on the debt instruments is equivalent to the net rental income earned from the immovables after deduction of the *intermediate holding vehicle's* reasonable running costs (including tax).
- (2) An *intermediate holding vehicle* should undertake the purchase, sale and management of immovables on behalf the *scheme* in accordance with the *scheme's* investment objectives and policy.
- (3) Wherever reasonably practicable, an *intermediate holding vehicle* should have the same auditor and accounting reference date as the *scheme*.
- (4) The accounts of any *intermediate holding vehicle* should be consolidated into the annual and interim reports of the *scheme*.
- (5) The *authorised fund manager* should provide sufficient information to enable the *depository* to fulfil its duties under *COLL* in relation to the immovables held through an *intermediate holding vehicle*.

Investment limits for immovables

8.4.12

FCA

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The following limits apply in respect of immovables held as part of the *scheme property*:

- (1) the amount secured by mortgages over any immovable must not exceed 100% of the latest valuation by an *appropriate valuer* under ■ COLL 8.4.11 R (2)(c) or ■ COLL 8.4.11 R (2)(d) or ■ COLL 8.4.13 R, as appropriate;
- (2) no option may be granted to a *person* to buy or obtain an interest in any immovable comprised in the *scheme property* if this might unduly prejudice the ability to provide *redemption*; and
- (3) the total of all premiums paid for options to purchase immovables must not exceed 10% of the *scheme value* in any 12 *month* period, calculated at the date of the granting of the option.

8.4.13

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Standing independent valuer and valuation

- (1) In relation to the appointment of a valuer the *authorised fund manager* must:
- (a) at the outset appoint the *standing independent valuer* with the approval of the *depository* and likewise upon any vacancy; and
 - (b) ensure that any immovables in the *scheme property* are valued by an *appropriate valuer* (*standing independent valuer*) appointed by the *authorised fund manager*.
- (2) The following apply in relation to the functions of the *standing independent valuer*:
- (a) the *authorised fund manager* must ensure that the *standing independent valuer* appointed under (1), procures the valuation of all the immovables held within the *scheme property*, on the basis of a full valuation with physical inspection (including, where the immovable is or includes a building, internal inspection) at least once a year;
 - (b) for the purposes of (a), any inspection in relation to adjacent properties of a similar nature and value may be limited to that of only one such representative property;
 - (c) the *authorised fund manager* must ensure that the *standing independent valuer* values the immovables, on the basis of a review of the last full valuation, at least once a *month*;
 - (d) if either the *authorised fund manager* or the *depository* becomes aware of any matter which appears likely to:
 - (i) affect the outcome of a valuation of an immovable; or
 - (ii) cause the valuer to decide to value under (a), instead of under (c),
 it must immediately inform the *standing independent valuer* of that matter;
 - (e) the *authorised fund manager* must use its best endeavours to ensure that any other *affected person* reports to the *standing independent valuer* immediately upon that *person* becoming aware of any matter within (d); and
 - (f) any valuation by the *standing independent valuer* must be undertaken in accordance with UKPS 2.3 of the RICS Valuation Standards (The Red Book) (6th edition published January 2008), or in the case of overseas immovables on an appropriate basis, but is subject to any provisions of the *instrument constituting the scheme*.
- (3) In relation to immovables:

- (a) any valuation under this *rule* has effect, until the next valuation under this *rule*, for the purposes of the value of immovables; and
- (b) an agreement to transfer an immovable or an interest in an immovable is to be disregarded for the purpose of the valuation of the *scheme property* unless it reasonably appears to the *authorised fund manager* to be legally enforceable.

8.4.14

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In considering whether a valuation of overseas immovables by the *standing independent valuer* is made on an appropriate basis for the purpose of ■ COLL 8.4.13 R (2)(f), the *authorised fund manager* should consider whether that valuation was made in accordance with internationally accepted valuation principles, procedures and definitions as set out in the International Valuation Standards published by the International Valuation Standards Committee.



8.5 Powers and responsibilities

Application

8.5.1

FCA

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This section applies to an *ICVC* which is a *qualified investor scheme* and the *authorised fund manager* any other *directors* of an *ICVC* and the *depository* of a *qualified investor scheme*.

Functions of the authorised fund manager

8.5.2

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- (1) The *authorised fund manager* must manage the *scheme* in accordance with:
 - (a) the *instrument constituting the scheme*;
 - (b) the *rules* in this sourcebook;
 - (c) the most recently published *prospectus*; and
 - (d) for an *ICVC*, the *OEIC Regulations*.

- (2) The *authorised fund manager* must carry out such functions as are necessary to ensure compliance with the *rules* in this sourcebook that impose obligations on the *authorised fund manager* or *ICVC*, as appropriate.

- (3) The *authorised fund manager* must:
 - (a) make decisions as to the constituents of the *scheme property* in accordance with the investment objectives and policy of the *scheme*;
 - (b) instruct the *depository* how rights attaching to the ownership of *scheme property* are to be exercised;
 - (c) take action immediately to rectify any breach of the pricing methodology set out in the *prospectus*, which must (unless the *authorised fund manager* determines on reasonable grounds that the breach is of minimal significance) extend to payment of money:
 - (i) by the *authorised fund manager* to *unitholders* and former *unitholders*;
 - (ii) by the *ACD* to the *ICVC*;

- (iii) by the *ICVC* to the *ACD*;
 - (iv) by the *authorised fund manager* of the *AUT* or *ACS* to the *depository*; or
 - (v) by the *depository*; (for the account of the *AUT* or *ACS*) to the *authorised fund manager*;
- (d) ensure where relevant that the *ICVC* complies with the relevant obligations imposed by, and when appropriate, exercises the relevant powers provided under, the *OEIC Regulations*;
 - (e) maintain such records as are necessary to enable the *authorised fund manager* or the *ICVC*, as appropriate, to comply with and demonstrate compliance with the *rules* in this sourcebook and also in the case of an *ICVC*, the *OEIC Regulations*; and
 - (f) maintain for a period of six years a daily record of the *units* held, acquired or disposed of by the *authorised fund manager* including the *classes* of such *units*, and of the balance of any acquisitions and disposals.

Duties of the authorised fund manager: investment and borrowing powers

- (1) An *authorised fund manager* may give instructions to deal in the *scheme property*.
- (2) An *authorised fund manager* must avoid the *scheme property* being used or invested contrary to any provision in ■ COLL 8.4 (Investment and borrowing powers).
- (3) An *authorised fund manager* must immediately on becoming aware of any breach of ■ COLL 8.4 take action, at its own expense, to rectify that breach.
- (4) An *authorised fund manager* must take the action in (3) immediately, except in circumstances where doing so would not be in the best interests of *unitholders*, in which case the action must be taken as soon as such circumstances cease to apply.
- (5) An *authorised fund manager* must not postpone taking action in accordance with (3) unless the *depository* has given its consent.

Duties of the ACD or the authorised contractual scheme manager of a co-ownership scheme: umbrella schemes

Where reasonable grounds exist for an *ACD* of an *ICVC*, or an *authorised contractual scheme manager* of a *co-ownership scheme* which is an *umbrella*, to consider that a *foreign law contract* entered into by the *ICVC* or *authorised contractual scheme manager* on behalf of the *co-ownership scheme* may have become inconsistent with the principle of limited recourse stated in the *instrument constituting the scheme* of the *ICVC* or

8.5.3

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8.5.3A

FCA

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co-ownership scheme (see ■ COLL 8.2.6 R(2)(4A) and ■ COLL 8.2.6 R(2)(4B)) , the ACD or *authorised contractual scheme manager* of the *co-ownership scheme* must:

- (1) promptly investigate whether there is an inconsistency; and
- (2) if the inconsistency still appears to exist, take appropriate steps to remedy that inconsistency.

8.5.3B

FCA

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In deciding what steps are appropriate to remedy the inconsistency, the ACD or *authorised contractual scheme manager* of the *co-ownership scheme* should have regard to the best interests of the *unitholders*. Appropriate steps to remedy the inconsistency may include:

- (1) where possible, renegotiating the *foreign law contract* in a way that remedies the inconsistency; or
- (2) causing the ICVC or the *authorised contractual scheme manager* on behalf of the *co-ownership scheme* to exit the *foreign law contract*.

Duties of the depositary

8.5.4

FCA

R

- (1) The *depositary* is responsible for the safekeeping of all the *scheme property*.
- (2) The *depositary* must:
 - (a) take all steps to ensure that transactions properly entered into for the account of the *scheme* are completed;
 - (b) take all steps to ensure that instructions properly given by the *authorised fund manager* in respect of the exercise of rights related to *scheme property* are carried out;
 - (c) ensure that any *scheme property* in registered form is as soon as reasonably practicable registered in its name or that of its nominee or delegate, as appropriate;
 - (d) take into its custody or control all documents of title of the *scheme property* other than in respect of *derivatives* or forward transactions;
 - (e) ensure that any resulting benefit of a *derivatives* or forward transaction is received by itself in respect of the *scheme*;
 - (f) hold and deal with any income received in respect of the *scheme property* in accordance with ■ COLL 8.5.15 R (Income);
 - (g) take reasonable care to ensure that the *scheme* is managed by the *authorised fund manager* in accordance with:
 - (i) ■ COLL 8.4 (Investment and borrowing powers);
 - (ii) ■ COLL 8.5.9 R (Valuation, pricing and dealing); and

- (iii) ■ COLL 8.5.15 R (Income);
 - (h) keep records so as to comply with the *rules* in this sourcebook and so as to demonstrate such compliance; and
 - (i) be responsible for any other duties as set out in the *instrument constituting the scheme*.
- (3) If a relevant ICVC ceases to have any *directors*, the *depository* may act in accordance with ■ COLL 6.5.6 R (ICVC without a director).

Delegation

8.5.5

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- (1) The *authorised fund manager* (or in addition any other *director* in the case of an ICVC) may delegate any function to any *person*.
- (2) The *depository* has the power to delegate any function to anyone, including in the case of an ICVC a *director*, to assist the *depository* to perform its functions, save that it must not retain the services of the *authorised fund manager* or, in the case of an ICVC, any other *director* to perform any part of its functions of safe custody of the *scheme property*.
- (3) Subject to any provisions of the *OEIC Regulations*, the delegator in (1) and (2) will not be responsible under the *rules* in COLL for any act or omission of the delegate provided that the delegator can show:
 - (a) that it was reasonable for the delegator to obtain assistance to perform the function in question;
 - (b) that the delegate was and remained competent to provide that assistance; and
 - (c) that the delegator took reasonable care to ensure that the assistance was provided in a competent manner.

Delegation and responsibility for regulatory obligations

8.5.6

FCA

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Directors of an ICVC, *authorised fund managers* and *depositories* should also have regard to ■ SYSC 8 (Outsourcing). ■ SYSC 8.1.6 R states that a *firm* remains fully responsible for discharging all of its obligations under the *regulatory system* if it outsources crucial or important operational functions or any relevant services and activities.

Conflicts of interest

PAGE
39

8.5.7

FCA

R

- (1) The *authorised fund manager* and the *depository* must ensure that any transaction in respect of the *scheme property* undertaken with an *affected person* is on terms at least as favourable to the *scheme* as any comparable arrangement on normal commercial terms negotiated at arm's length with an independent third party.

- (2) Paragraph (1) is subject to any provision in the *instrument constituting the scheme* and the *prospectus* imposing a prohibition in relation to any type of transaction.

The register of unitholders: AUTs or ACSs

8.5.8

FCA

R

- (1) The *authorised fund manager* or the *depository* of an AUT or ACS (in accordance with their responsibilities as set out in the *instrument constituting the scheme*) must maintain a *register of unitholders* as a *document* in accordance with this *rule*.
- (2) The *register* must contain:
- (a) the name and address of each *unitholder* (for joint *unitholders* no more than four need to be registered);
 - (b) the number of *units* (including fractions of a *unit*) of each *class* held by each *unitholder*; and
 - (c) the date on which the *unitholder* was registered in the *register* for the *units* standing in his name.
- (3) The *authorised fund manager* or the *depository* of an AUT or ACS (as appropriate) must take all reasonable steps and exercise all due diligence to ensure the *register* is kept complete and up to date.
- (4) Where relevant, the *authorised fund manager* must immediately notify the *depository* of an AUT or ACS of any information he receives which may affect the accuracy of any entry in the *register*.
- (5) In the case of a *limited partnership scheme*, unregistered *units* may be held by the *authorised contractual scheme manager* as the agent for the *scheme* provided the *authorised contractual scheme manager* is not entered in the *register* as the new *unitholder*.

Valuation, pricing and dealing

8.5.9

FCA

R

- (1) The value of the *scheme property* is the net value of the *scheme property* after deducting any outstanding borrowings (including any capital outstanding on a mortgage of an immovable).
- (2) Any part of the *scheme property* which is not an *investment* (save an immovable) must be valued at fair value.
- (3) For the purposes of (2), any charges that were paid, or would be payable, on acquiring or disposing of the asset must be excluded from the value of that asset.

- (4) The value of the *scheme property* of an *authorised fund* must, save as otherwise provided in this section, be determined in accordance with the provisions of the *instrument constituting the scheme* and the *prospectus*, as appropriate.
- (4A) Where a *scheme* operates as a *short-term money market fund*, the value of the *scheme property* must be determined either on an amortised cost or mark to market basis.
- (4B) Where a *scheme* operates as a *money market fund*, the value of the *scheme property* must be determined on a mark to market basis.
- (5) Subject to (5A), the *scheme* must have a *valuation point* on each *dealing day*.
- (5A) Where a *scheme* operates as a *money market fund* or a *short-term money market fund* which is marketed solely through employee savings schemes or to a specific category of investors that are subject to *redemption* restrictions, the *scheme* may have at least one *valuation point* every week.
- (6) The *authorised fund manager* must prepare a valuation in accordance with (4) for each relevant type of *unit* at each relevant *valuation point*.
- (7) The price of a *unit* must be calculated on the basis of the valuation in (6) in a manner that is fair and reasonable as between *unitholders*.
- (8) [deleted]
- (9) The *authorised fund manager* must publish in an appropriate manner the *price* of any type of *unit* based on the valuation carried out in accordance with (6).
- (10) The *authorised fund manager* must also provide on request to any *unitholder* at any time an estimated price for any type of *unit* in the *scheme*.
- (11) The period of any *initial offer* and how it should end must be set out in the *prospectus* and must not be of unreasonable length.

Maintaining the value of a short-term money market fund

8.5.9A

FCA

R

The *authorised fund manager* of a *short-term money market fund* which values *scheme property* on an amortised cost basis must:

- (1) carry out a valuation of the *scheme property* on a mark to market basis at least once a week and at the same *valuation point* used to value the *scheme property* on an amortised cost basis; and
- (2) ensure that the value of the *scheme property* when valued on a mark to market basis, does not differ by more than 0.5% from the value of the *scheme property* when valued on an amortised cost basis.

[Note: paragraph 21 of *CESR's guidelines on a common definition of European money market funds*]

8.5.9B

FCA

G

The *authorised fund manager* should advise the *depository* when the mark to market value of a *short-term money market fund* valuing *scheme property* on an amortised cost basis varies from its amortised cost value by 0.1%, 0.2% and 0.3% respectively. The *authorised fund manager* of a *short-term money market fund* should agree procedures with the *depository* designed to stabilise the value of the *scheme* in these events.

Issues and cancellations of units

8.5.10

FCA

R

- (1) The *authorised fund manager* must:
 - (a) ensure that at each *valuation point* there are at least as many *units* in issue of any *class* as there are *units* registered to *unitholders* of that *class*; and
 - (b) not do, or omit anything that would, or might confer on itself a benefit or advantage at the expense of a *unitholder* or potential *unitholder*.
- (2) For the purposes of (1) the *authorised fund manager* may take into account *sales* and *redemptions* after the *valuation point*, provided it has systems and controls to ensure compliance with (1).
- (3) The *authorised fund manager* must arrange for the *issue* and *cancellation* of *units* and pay money or assets to or from the *depository* for the account of the *scheme* as required by the *prospectus*.
- (4) The *authorised fund manager* must keep a record of *issues* and *cancellations* made under this *rule*.
- (5) The *authorised fund manager* may arrange for the *ICVC*, or instruct the *depository* of the *AUT* or *ACS* to *issue* or *cancel*

units where the *authorised fund manager* would otherwise be obliged to *sell* or *redeem* the *units* in the manner set out in the *prospectus*.

- (6) Where the *authorised fund manager* has not complied with (1), it must correct the error as soon as possible and must reimburse the *scheme* any costs it may have incurred in correcting the position, subject to any reasonable minimum level for such reimbursement as set out in the *prospectus*.

Issue and cancellation of units in multiple classes

8.5.10A

FCA

R

If a *qualified investor scheme* has two or more *classes* of *unit* in *issue*, the *authorised fund manager* may treat any or all of those *classes* as one for the purpose of determining the number of *units* to be *issued* or *cancelled* by reference to a particular *valuation point*, if:

- (1) the *depository* gives its prior agreement; and
- (2) the relevant *classes*:
 - (a) have the same entitlement to participate in, and the same liability for *charges*, expenses and other payments that may be recovered from, the *scheme property*; or
 - (b) differ only as to whether income is distributed or accumulated by periodic credit to capital, provided the *price* of the *units* in each *class* is calculated by reference to undivided shares in the *scheme property*.

Transfer of units in an ACS

8.5.10B

FCA

R

- (1) Where transfer of *units* in an ACS is allowed by its *contractual scheme deed* and *prospectus* in accordance with the conditions specified by *FCA rules*, the *authorised contractual scheme manager* of the ACS must take reasonable care to ensure that *units* are only transferred if the conditions specified by the *FCA* under (2) are met.
- (2) The *FCA* specifies that for the purposes of (1), and for the purposes of ■ COLL 8.2.6R(2)(6)(a)(vii)(B) (Table: contents of the instrument constituting the scheme) and ■ COLL 8.3.4R(5B)(2) (Table: contents of qualified investor scheme prospectus), *units* in the ACS may only be transferred to a *person* :
 - (a) who is a:
 - (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and

- (b) to whom *units* in a *qualified investor scheme* may be promoted under ■ COBS 4.12.4 R.

8.5.10C

FCA

G

The FCA recognises that some transfers of *units* arise by operation of law (such as upon death or bankruptcy of the *unitholder*, or otherwise) and are accordingly outside the control of the *authorised contractual scheme manager*. The *authorised contractual scheme manager* is expected to comply with its responsibilities under ■ COLL 8.5.10E R (Redemption of ACS units in a QIS by an authorised contractual scheme manager) in those cases by redeeming those *units*.

Responsibilities of the authorised contractual scheme manager in relation to ACS units

8.5.10D

FCA

R

- (1) The *authorised contractual scheme manager* of an *authorised contractual scheme* which is a *qualified investor scheme* must take reasonable care to ensure that rights or interests in *units* in the *scheme* are not acquired by any *person* from or through an *intermediate unitholder in a qualified investor scheme*, unless:
- (a) that *person* is a:
- (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
- (b) *units* in a *qualified investor scheme* may be promoted to that *person* under ■ COBS 4.12.4 R.
- (2) The *authorised contractual scheme manager* will be regarded as complying with (1) to the extent that it can show that it was reasonable for it to rely on relevant information provided by another *person*.

Redemption of ACS units in a QIS by an authorised contractual scheme manager

8.5.10E

FCA

R

The *authorised contractual scheme manager* of a *qualified investor scheme* which is an ACS must *redeem units* in the *scheme* as soon as practicable after becoming aware that those *units* are vested in anyone (whether as a result of subscription or transfer of *units*) other than a *person* meeting the criteria in ■ COLL 8 Annex 2 R(1) and (2) (ACS Qualified Investor Schemes: eligible investors).

Sale and redemption

8.5.11

FCA

R

- (1) The *authorised fund manager* must, at all times during the *dealing day*, be willing to effect the *sale* of *units* to any eligible investor (within any conditions in the *instrument constituting the scheme* and the *prospectus* which must be fair and reasonable

as between all *unitholders* and potential *unitholders*) for whom the *authorised fund manager* does not have reasonable grounds to refuse such *sale*.

- (2) The *authorised fund manager* must, at all times during the *dealing day*, effect a *redemption* on the request of any eligible *unitholder* (within any conditions in the *instrument constituting the scheme* and the *prospectus*) of *units* owned by that *unitholder*, unless the *authorised fund manager* has reasonable grounds to refuse such *redemption*.
- (3) On agreeing to a *redemption* of *units* within (2), the *authorised fund manager* must pay the full proceeds of the *redemption* to the *unitholder* within any reasonable period specified in the *instrument constituting the scheme* or the *prospectus*, unless it has reasonable grounds for withholding payment.
- (4) Payment of proceeds on *redemption* must be made by the *authorised fund manager* in any manner provided for in the *prospectus* which must be fair and reasonable as between redeeming *unitholders* and continuing *unitholders*.

Limited redemption periods

8.5.12

FCA

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The maximum period between *dealing days* for a *qualified investor scheme* will depend on the reasonable expectations of the target investor group and the particular investment objectives and policy of the *scheme*. For instance, for a *scheme* aiming to invest in large property developments, the expectation would be that it is reasonable to have a much longer period between *dealing days* for liquidity reasons than for a *scheme* investing predominantly in listed *securities*.

Property Authorised Investment Funds

8.5.12A

FCA

R

- (1) The *authorised fund manager* of a *property authorised investment fund* must take reasonable steps to ensure that no *body corporate* holds more than 10% of the net asset value of that fund (the "maximum allowable").
- (2) Where the *authorised fund manager* of a *property authorised investment fund* becomes aware that a *body corporate* holds more than the maximum allowable, he must:
 - (a) notify the *body corporate* of that event;
 - (b) not pay any income distribution to the *body corporate*; and
 - (c) redeem or cancel the *body corporate's* holding down to the maximum allowable within a reasonable time-frame.
- (3) For the purpose of (2)(c), a reasonable time-frame means the time-frame which the *authorised fund manager* reasonably

8.5.12B

FCA

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considers to be appropriate having regard to the interests of the *unitholders* as a whole.

Reasonable steps to monitor the maximum allowable include:

- (1) regularly reviewing the *register*; and
- (2) taking reasonable steps to ensure that *unitholders* are kept informed of the requirement that no *body corporate* may hold more than 10% of the net asset value of a *property authorised investment fund*.

Payments

8.5.13

FCA

R

- (1) An *ICVC* must not incur any expense in respect of the use of any movable or immovable property unless the *scheme* is *dedicated* to such investment or such property is necessary for the direct pursuit of its business.
- (2) Payments out of the *scheme property* may be made from *capital property* rather than from income, provided the basis for this is set out in the *prospectus*.

Exemption from liability to account for profits

8.5.14

FCA

G

An *affected person* is not liable to account to another *affected person* or to the *unitholders* of the *scheme* for any profits or benefits it makes or receives that are made or derived from or in connection with:

- (1) *dealings* in the *units* of a *scheme*; or
- (2) any transaction in *scheme property*; or
- (3) the supply of services to the *scheme*;

where disclosure of the non-accountability has been made in the *prospectus* of the *scheme*.

Income

8.5.15

FCA

R

- (1) A *qualified investor scheme* must have:
 - (a) an *annual accounting period*;
 - (b) a *half-yearly accounting period*; and
 - (c) an *accounting reference date*;
 the details of which must be set out in the *prospectus*.
- (1A) ■ COLL 6.8.2 R (2) to ■ COLL 6.8.2 R (7) (Accounting periods) also apply to the *half-yearly accounting period* and *annual accounting period* of a *qualified investor scheme*.

- (2) A *qualified investor scheme* must have an *annual income allocation date*, which must be within four months of the *accounting reference date*.
- (3) A *qualified investor scheme* may have an *interim income allocation date* and *interim accounting periods* and if it does, the *interim income allocation date* must be within a reasonable period of the end of the relevant *interim accounting period* as set out in the prospectus.
- (3A) ■ COLL 6.8.3 R (3) (Income allocation and distribution) to
■ COLL 6.8.3A G (Allocation of income to difference classes of unit)
also apply to a *qualified investor scheme*.
- (4) [deleted]
- (5) [deleted]
- (a) [deleted]
- (b) [deleted]
- (c) [deleted]



8.6 Termination, suspension, and schemes of arrangement

Application

8.6.1
FCA

R

This section applies to:

- (1) an *authorised fund manager*, the *directors*, and the *depository* of a *qualified investor scheme*; and
- (2) an *ICVC* which is a *qualified investor scheme*.

Termination

8.6.2
FCA

R

For a *qualified investor scheme* the provisions in ■ COLL 7.3 to ■ COLL 7.5 will apply as appropriate as if ■ COLL 7 applied to *qualified investor schemes*.

Suspension

8.6.3
FCA

R

- (1) The *authorised fund manager* may , with the prior agreement of the *depository*, and must without delay, if the *depository* so requires, within any parameters which are fair and reasonable in respect of all the *unitholders* in the *scheme* and which are set out in the *prospectus*, temporarily suspend *dealings in units* of the *scheme*, a *sub-fund* or a *class*.
- (2) Any suspension within (1) must only be where the *authorised fund manager* has determined on reasonable grounds that there is good and sufficient reason in the interests of *unitholders* or potential *unitholders* and the *authorised fund manager* must have regard to the interests of all the *unitholders* in the *scheme* in reaching such an opinion.
- (3) At the commencement of suspension under (1), the *authorised fund manager* must immediately inform the *FCA* of the suspension and the reasons for it.
- (3A) The *authorised fund manager* must ensure that a notification of the suspension is made to *unitholders* of the *authorised fund* as soon as practicable after suspension commences.

- (3B) The *authorised fund manager* and the *depository* must ensure that the suspension only continues for as long as it is justified having regard to the interests of the *unitholders*.
- (4) The suspension of *dealings* in *units* must cease , as soon as (2) no longer applies.
- (4A) The *authorised fund manager* and the *depository* must formally review the suspension at least every 28 days and inform the *FCA* of the results of this review and any change to the information provided in (3).
- (5) The *authorised fund manager* must inform the *FCA* immediately of the resumption of *dealings*.

8.6.4

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[deleted]

Schemes of arrangement
.....

8.6.5

R

FCA

In relation to an *ICVC* , *ACS* or an *AUT* which is a *qualified investor scheme*, the provisions in ■ COLL 7.6 (Schemes of arrangement) will apply as appropriate to the *authorised fund manager*, any other *directors* of the *ICVC* and the *depository* as if ■ COLL 7.6 applied to a *qualified investor scheme* and did not exclude *unitholders* becoming *unitholders* in another *qualified investor scheme*.

[Deleted]

ACS Qualified Investor Schemes: eligible investors

This Annex belongs to COLL 8.1.3 R and 8.1.4 G.

For the purposes of the *rule* on qualified investors in a *qualified investor scheme* which is an *ACS* (COLL 8.1.3R (3)), the *authorised contractual scheme manager* must take reasonable care to ensure that ownership of *units* in the *scheme* is only recorded in the *register* for a *person* :

- (1) who is a:**
 - (a) *professional ACS investor*; or**
 - (b) *large ACS investor*; or**
 - (c) *person* who already holds *units* in the *scheme*; and**
- (2) to whom *units* in a *qualified investor scheme* may be promoted to that *person* under COBS 4.12.4 R.**

Credit Unions sourcebook

Credit Unions sourcebook

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CREDS 2	Senior management arrangements, systems and controls
2.1	Application and purpose
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Chapter 1

Introduction

1.1 Application and purpose

Application

1.1.1

FCA PRA

G

- (1) The Credit Unions sourcebook, *CREDS* for short, is the specialist sourcebook for *credit unions*.
- (2) [deleted]

1.1.2

FCA PRA

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- (1) *CREDS* covers only the requirements associated with a *Part 4A permission to accept deposits*. The Conduct of Business sourcebook (*COBS*) sets out additional requirements for *credit unions* that are *CTF providers* in relation to *cash deposit CTFs*.
- (2) Other *permissions* are covered elsewhere in the *Handbook*. So, for example, a *credit union* seeking a *permission* to undertake a *regulated mortgage activity* would need to comply with the requirements in the Mortgages and Home Finance: Conduct of Business sourcebook (*MCOB*), and a *credit union* seeking a *permission* to undertake *insurance mediation activity* in relation to *non-investment insurance contracts* would need to comply with the requirements in the Insurance: Conduct of Business sourcebook (*ICOBS*).
- (3) The provisions of the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (*MIPRU*) and the Interim Prudential sourcebook for Investment Businesses (*IPRU(INV)*) may also be relevant to a *credit union* whose *Part 4A permission* includes *insurance mediation activity* or *mortgage mediation activity* or which is a *CTF provider* with permission to carry on *designated investment business*.

1.1.3

FCA PRA

G

Every *credit union* is either a *version 1 credit union* or a *version 2 credit union*. The *rules* relating to, for example, borrowing, the payment of dividends on shares, capital and lending to members are different depending on whether a *credit union* is a *version 1 credit union* or a *version 2 credit union*.

Purpose

1.1.4

FCA PRA

G

CREDS sets out *rules* and *guidance* that are specific to *credit unions*. ■ *CREDS 10* refers to other more generally applicable provisions of the *Handbook* that are likely to be relevant to *credit unions* with *Part 4A permission to accept deposits*. For details of these provisions, we would expect *credit unions* to access the full text in the *Handbook*.

Chapter 2

Senior management arrangements, systems and controls

2.1 Application and purpose

Application

2.1.1

FCA PRA

R

This chapter applies to all *credit unions*.

Purpose

2.1.2

FCA PRA

G

The purpose of this chapter is to provide *rules* and *guidance* relating to senior management arrangements, systems and controls that are specific to *credit unions* with a *permission to accept deposits*.

2.1.3

FCA PRA

G

This chapter is also intended to remind *credit unions* that the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) also contains a number of high level *rules* relating to senior management arrangements, systems and controls designed to have general application to all *firms*, including *credit unions*. ■ SYSC 1 and ■ SYSC 4 to ■ SYSC 10 apply to all *credit unions* in respect of the carrying on of their *regulated activities* and unregulated activities in a *prudential context*. ■ SYSC 18 applies to all *credit unions* without restriction. This chapter does not seek to repeat the requirements of SYSC that are relevant to *firms* more generally.

2.1.4

FCA PRA

G

The purposes of SYSC, which applies to all *credit unions*, are:

- (1) to encourage *directors* and *senior managers* to take appropriate practical responsibility for the arrangements that all *firms* must put in place on matters likely to be of interest to the *appropriate regulator* because they impinge on the *appropriate regulator's* function under the *Act*;
- (2) to reinforce *Principle 3*, under which all *firms* must take reasonable care to organise and control their affairs responsibly and effectively with adequate risk management systems;
- (3) to encourage all *firms* to vest responsibility for effective and responsible organisation in specific *directors* and *senior managers*.



2.2 General provisions

Appropriate systems and controls

2.2.1

FCA PRA

G

■ SYSC 4.1.1 R requires every *firm*, including a *credit union*, to have robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.

2.2.2

FCA PRA

G

For *credit unions*, the arrangements, processes and mechanisms referred to in ■ SYSC 4.1.1 R should be comprehensive and proportionate to the nature, scale, and complexity of the risks inherent in the business model and of the *credit union's* activities. That is the effect of ■ SYSC 4.1.2 R and ■ SYSC 4.1.2A G.

2.2.3

FCA PRA

G

A small *version 1 credit union* will not be expected to have the same systems and controls as a large *version 2 credit union*.

Business plan

2.2.4

FCA PRA

R

A *credit union* must establish, maintain and implement an up-to-date business plan approved by the committee of management and supply a copy on request to the *appropriate regulator*.

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.6.]

2.2.5

FCA PRA

G

Guidance on business planning is given in ■ CREDS 2.2.51 G to ■ CREDS 2.2.58 G.

Policies and procedures manual

2.2.6

FCA PRA

R

A *credit union* must establish, maintain, and implement an up-to-date and fully documented policies and procedures manual, and supply a copy on request to the *appropriate regulator*.

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.6.]

2.2.7

FCA PRA

G

Guidance on documentation of policies and procedures is given in ■ CREDS 2.2.59 G to ■ CREDS 2.2.61 G.

System of control

2.2.8
FCA PRA

R A *credit union* must establish, maintain and implement a fully documented system of control.

[Note: a transitional provision applies to this rule: see ■ CREDS TP 1.6.]

2.2.9
FCA PRA

G Guidance on the documentation of systems of control is given in ■ CREDS 2.2.20 G to ■ CREDS 2.2.23 G.

Internal audit function

2.2.10
FCA PRA

A (1) A *credit union* must have an internal audit function (this may be either in-house or outsourced to a third party).

(2) Contravention of (1) may be relied on as tending to establish contravention of ■ SYSC 4.1.1 R (see ■ CREDS 2.2.1 G).

2.2.11
FCA PRA

G (1) The term 'internal audit function' in ■ CREDS 2.2.10 E refers to the generally understood concept of internal audit within a *firm*, in other words the function of assessing adherence to and the effectiveness of internal systems and controls, procedures and policies. The internal audit function is not a *controlled function* itself, but is part of the *systems and controls function* (CF28).

(2) Guidance on internal audit is given in ■ CREDS 2.2.40 G to ■ CREDS 2.2.50 G.

Segregation of duties

2.2.12
FCA PRA

G A *credit union* should ensure appropriate segregation of duties in order to minimise the risk of *financial crime* or contravention of requirements and standards under the *regulatory system*.

2.2.13
FCA PRA

G Guidance on segregation of duties is given in ■ CREDS 2.2.18 G and ■ CREDS 2.2.19 G.

Committee of management

2.2.14
FCA PRA

G Under section 4(1) of, and Schedule 1 to, the Credit Unions Act 1979 or article 8(1) of, and Schedule 1 to, the Credit Unions (Northern Ireland) Order 1985, as appropriate, a *credit union* is required to have a committee of management. The committee of management should be competent to control the affairs of a *credit union*, and have an appropriate range of skills and experience relevant to the activities carried on by the *credit union*.

2.2.15
FCA PRA

G In accordance with *Statement of Principle 7* of the *Statements of Principle for Approved Persons*, it is the responsibility of each individual member of the committee of management to understand, and ensure that the *credit union* complies with, the requirements of all the relevant Acts, secondary legislation and *rules*.

2.2.16
FCA PRA

(1) As the *credit union's governing body*, the committee of management has responsibility for ensuring that the *credit union* complies with the

Chapter 3

Investment and borrowing



3.1 Application, purpose and interpretation

Application

3.1.1

FCA PRA

R

This chapter applies to all *credit unions*.

Purpose

3.1.2

FCA PRA

G

- (1) The *rules* and *guidance* contained in this chapter are designed to address risks that can arise from the structure of a *credit union's* balance sheet.
- (2) These risks include the risk that a *credit union's* income is not sufficiently large to cover its funding, operational and other costs, and the risk that a *credit union* may not be able to renew or replace wholesale funding at an affordable rate.

Interpretation

3.1.3

FCA PRA

R

For the purposes of this chapter:

- (1) the maturity of a *security* or loan is the last or only date on which it will be repayable by or under its terms; and
- (2) surplus funds means funds not immediately required for a *credit union's accepting deposits, lending and ancillary purposes*.

Chapter 4

Shares and deposits



4.1 Application and purpose

Application

4.1.1

FCA PRA

R

This chapter applies to all *credit unions*.

Purpose

4.1.2

FCA PRA

G

The purpose of this chapter is to provide for limits on holdings of shares and deposits, joint accounts, dividends and insurance cover (based on the aggregate value of shares and deposits).

Chapter 5

Capital



5.1 Application and purpose

Application

- 5.1.1 PRA R This chapter applies to all *credit unions* except for ■ CREDS 5.3, which applies only to *version 1 credit unions*, and ■ CREDS 5.4, which applies only to *version 2 credit unions*.

Purpose

- 5.1.2 PRA G This chapter amplifies *Principle 4*, under which a *firm* must maintain adequate financial resources, and the *threshold condition* that a *firm's* resources must be adequate in relation to the *regulated activities* that it carries on .
- 5.1.3 PRA G The purpose of setting capital requirements is to ensure that a *credit union* has an appropriate level of capital available to absorb unexpected losses.
- 5.1.4 PRA G The capital and net worth requirements set out in this chapter represent the minimum requirements that a *credit union* must comply with. A *credit union* should decide for itself the amount of capital that it needs to hold over and above these minimum standards proportionate to its scale of operations and its risk profile.
- 5.1.5 PRA G The *PRA* may require a *credit union* to hold minimum amounts of capital greater than those set out in this chapter where it considers that particular circumstances make that appropriate.
- 5.1.6 PRA G In addition to the capital requirements set out in this chapter, section 7A of the Credit Unions Act 1979 provides that a *Great Britain credit union* may issue interest-bearing shares only if, among other things, its most recent year end balance sheet shows that it holds reserves of at least £50,000 or 5% of its total assets, whichever is greater, and subject to compliance with any conditions specified by the *PRA* in a direction for the purposes of section 7A(1)(e) of the Credit Unions Act 1979.
- 5.1.7 PRA G The Credit Unions (Northern Ireland) Order 1985 does not provide for a *Northern Ireland credit union* to issue interest-bearing shares or deferred shares.

Chapter 6

Liquidity



6.1 Application and purpose

Application

6.1.1

R

This chapter applies to all *credit unions*.

PRA

Purpose

6.1.2

G

This chapter amplifies *Principle 4*, under which a *credit union* must maintain adequate financial resources, and the *threshold condition for permission* that a *credit union's* resources must be adequate in relation to the *regulated activities* that it carries on.

PRA

6.1.3

G

A central feature of *credit union* business is maturity transformation, in other words taking short-term *deposits* (in the form of share accounts) from members and making comparatively long-term loans. It is important, in order to maintain confidence and protect members, that a *credit union* has adequate liquid assets (liquidity) to enable it to fulfil members' withdrawal requests within expected timeframes.

PRA

Chapter 7

Lending to members

7.1 Application, purpose and interpretation

Application

7.1.1

FCA PRA

R

This chapter applies to all *credit unions*.

Purpose

7.1.2

FCA PRA

G

- (1) This chapter seeks to protect the interests of *credit unions*' members in respect of loans to members under section 11 of the Credit Unions Act 1979 or article 28 of the Credit Unions (Northern Ireland) Order 1985 . *Principle 4* requires *credit unions* to maintain adequate financial resources and ■ CREDS 5 sets out the *PRA*'s detailed capital adequacy requirements in respect of *credit unions*.
- (2) This chapter is not relevant to loans between *credit unions*, except as indicated in ■ CREDS 3.2.6 G (4).

Interpretation

7.1.3

FCA PRA

G

The *rules* and *guidance* in this chapter are in addition to the provisions of (in relation to *Great Britain credit unions*) section 11 of the Credit Unions Act 1979 and (in relation to *Northern Ireland credit unions*) article 28 of the Credit Unions (Northern Ireland) Order 1985 in relation to loans made by *credit unions*. Under these provisions

- (1) a *Great Britain credit union* may make a loan only to:
 - (a) a member of the *credit union* who is an individual; and
 - (b) a corporate member of the *credit union*, if the *credit union's* rules provide that it may make loans to corporate members and making the loan would not result in the aggregate of the outstanding balances on loans made by the *credit union* to corporate members exceeding the percentage of the aggregate of the outstanding balances on all loans made by the *credit union* specified by or under section 11 of the Credit Unions Act 1979;
 - (c) other *credit unions*;
- (1A) a *Northern Ireland credit union* may make a loan only to:
 - (a) a member of the *credit union* who is an individual; and
 - (b) other *credit unions*;

Chapter 8

Supervision



8.1 Application and purpose

Application

8.1.1

FCA PRA

G

This section applies to all *credit unions*.

Purpose

8.1.2

FCA PRA

G

The purpose of this section is to provide additional *rules* and *guidance* relating to reporting requirements that are specific to *credit unions*. *Credit unions* also need to comply with the relevant provisions of *SUP* relating to reporting, including ■ SUP 16.3 and ■ SUP 16.12.

Chapter 9

Complaints reporting rules for credit unions



9.1 Application and purpose

Application

9.1.1

FCA

R This chapter applies to all *credit unions*.

Purpose

9.1.2

FCA

G This chapter sets out *rules* and *guidance* for *credit unions* on completing reports concerning *complaints* received from *eligible complainants*. It replaces **■ DISP 1.10** (Complaints reporting rules) and **■ DISP 1.10A** (Complaints data publication rules), which do not apply to *credit unions* (**■ DISP 1.1.5A R**).

9.1.3

FCA

G The other elements of **■ DISP 1** (**■ DISP 1.2** (Consumer awareness rules), **■ DISP 1.3** (Complaints handling rules), **■ DISP 1.4** to **■ DISP 1.8** (Complaints resolution rules etc.) and **■ DISP 1.9** (Complaints record rule)) apply to *credit unions*.

9.1.4

FCA

G **■ DISP 2** to **■ DISP 4** (which cover jurisdiction and procedures of the *Financial Ombudsman Service*) and **■ FEES 5** (which covers funding of the *Financial Ombudsman Service*) apply to *credit unions*.

Chapter 10

Application of other parts of the Handbook to Credit unions



10.1 Application and purpose

Application

10.1.1 **R**
FCA PRA

This chapter applies to all *credit unions*.

Purpose

10.1.2 **G**
FCA PRA

This chapter is intended to draw *credit unions'* attention to the application of other key parts of the Handbook to *credit unions* as set out in the table at ■ CREDS 10.1.3 G. That table refers only to the parts of the *Handbook* that apply with respect to *Part 4A permission to accept deposits*.

Application of other parts of the Handbook and of Regulatory Guides to Credit Unions

10.1.3 **G**
FCA PRA

Module	Relevance to Credit Unions
The Principles for Businesses (<i>PRIN</i>)	The Principles for Businesses (<i>PRIN</i>) set out, high-level requirements, some of which are imposed by the <i>FCA</i> and some by the <i>PRA</i> . They provide a general statement of regulatory requirements. The <i>Principles</i> apply to all <i>credit unions</i> . In applying the <i>Principles</i> to <i>credit unions</i> , the <i>appropriate regulator</i> will be mindful of proportionality. In practice, the implications are likely to vary according to the size of the <i>credit union</i> .
Senior Management Arrangements, Systems and Controls (<i>SYSC</i>)	<i>SYSC 1</i> and <i>SYSC 4</i> to <i>10</i> apply to all <i>credit unions</i> in respect of their <i>regulated activities</i> and unregulated activities in a <i>prudential context</i> . <i>SYSC 18</i> applies to all <i>credit unions</i> without restriction.
Threshold Conditions (<i>COND</i>)	In order to become <i>authorised</i> under the <i>Act</i> all <i>firms</i> must meet the <i>threshold conditions</i> . The <i>threshold conditions</i> must be met on a continuing basis by <i>credit unions</i> . Failure to meet one of the conditions is sufficient grounds for the exercise by the <i>appropriate regulator</i> of its powers.
Statements of Principle and Code of Practice for Approved Persons (<i>APER</i>)	The purpose of the <i>Statements of Principle</i> contained in <i>APER 2</i> is to provide guidance to <i>approved persons</i> in relation to the conduct expected of them in the performance of a <i>controlled function</i> . The <i>Code of Practice for Approved Persons</i> sets out descriptions of conduct which, in the opinion of the <i>appropriate regulator</i> , do not comply with a <i>Statement of Principle</i> and, in the case of <i>Statement of Principle 3</i> , conduct which tends to show compliance within that statement.

Appendix 1

Key Definitions

1.1 Key Definitions



Note: The following key definitions relevant to CREDS are extracted from the *Glossary*.

attached shares means any shares in the *credit union* (other than any *deferred shares*):

- (a) (in relation to a *Great Britain credit union*) the withdrawal of which is not permitted by section 7 (5) of the Credit Unions Act 1979 or (in relation to a *Northern Ireland credit union*) the withdrawal of which is not permitted by article 23(4) of the Credit Unions (Northern Ireland) Order 1985; or
- (b) (in relation to a *Great Britain credit union*) the withdrawal of which is not permitted by the terms of a loan made to a member; or
- (c) the withdrawal of which is not permitted without seeking and obtaining the permission of the committee of management of the *credit union*.

In relation to a *Great Britain credit union*, paragraph (c) of this definition is relevant only where the *credit union* made a loan to the holder of the shares before the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 came into force.

complaint any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service, which:

- (a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience; and

	(b) relates to an activity of that <i>respondent</i> , or of any other <i>respondent</i> with whom that <i>respondent</i> has some connection in marketing or providing financial services or products, which comes under the jurisdiction of the <i>Financial Ombudsman Service</i> .
CREDS	the Credit Unions sourcebook.
deferred shares	in relation to a <i>Great Britain credit union</i> , means any shares of a class defined as deferred shares by section 31A of the Credit Unions Act 1979.
final response	(in CREDS 9) a written response from a <i>respondent</i> which: <ul style="list-style-type: none"> (a) accepts the <i>complaint</i>, and, where appropriate, offers redress or remedial action; or (b) offers redress or remedial action without accepting the <i>complaint</i>; or (c) rejects the <i>complaint</i> and gives reasons for doing so; and which informs the complainant that, if he remains dissatisfied with the <i>firm's</i> response, he may now refer his complaint to the <i>Financial Ombudsman Service</i> and must do so within six months.
net liability	means the outstanding balance of any loan made to the borrower and any interest or charges on that loan that are due but unpaid, less any <i>attached shares</i> held by the borrower.
total non-deferred shares	means the total of members' share balances in a <i>credit union</i> shown in the most recent annual return to have been sent to the <i>PRA</i> under SUP 16.12.5 R (see CREDS 8.2.3 G), excluding any <i>deferred shares</i> in the <i>credit union</i> .
total relevant liabilities	means the sum of: <ul style="list-style-type: none"> (a) <i>unattached shares</i> in the <i>credit union</i>, and <i>deposits</i> by persons too young to be members of the <i>credit union</i>; and (b) liabilities (other than liabilities for shares) with an original or remaining maturity of less than three <i>months</i> (including overdrafts and instalments of loans).
unattached shares	means the total shares in the <i>credit union</i> other than any <i>attached shares</i> or <i>deferred shares</i> .

Credit Unions sourcebook

CREDS TP 1 Transitional Provision

(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transitional provisions: dates in force	Hand-book provisions: coming in-to force
1 [FCA] [PRA]	CREDS 5.3.1 R	R	A <i>version 1 credit union</i> need not comply with CREDS 5.3.1 R until midnight on 30 September 2014. CREDS 8.3.1 R, as it was in force on 31 December 2011, will apply from the beginning of this transitional period until midnight on 30 September 2012. From midnight on that day until midnight on 30 September 2013, the <i>version 1 credit union</i> must at all times maintain a capital-to-total assets ratio of at least 1%. From midnight on 30 September 2013 until the end of this transitional period at midnight on 30 September 2014, the <i>version 1 credit union</i> must at all times maintain a capital-to-total assets ratio of at least 2%.	From midnight on 30 September 2012 to midnight on 30 September 2014	8 January 2012
2 [FCA] [PRA]	CREDS 6.3.2 R	R	A <i>version 2 credit union</i> need not comply with CREDS 6.3.2 R until midnight on 30 September 2014. From midnight on 30 September 2012 until midnight on 30 September 2013, the <i>version 2 credit union</i> must hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the <i>credit union's</i> liquid assets below 6% of its <i>total relevant liabilities</i> . From midnight on 30 September 2013, until the end of this transitional period at midnight on 30 September 2014, the <i>version 2 credit union</i> must hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the <i>credit union's</i> liquid assets below 8% of its <i>total relevant liabilities</i> .	From midnight on 30 September 2012 to midnight on 30 September 2014	8 January 2012

(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transitional provisions: dates in force	Hand-book provisions: coming into force
3 [FCA] [PRA]	SUP 16.12.7 R	R	The change in the applicable due date for the submission by a <i>credit union</i> of an annual return under SUP 16.12.5 R from 7 months to 6 months does not apply to an annual return in respect of the financial year ending on or before 31 July 2012.	31 July 2012	8 January 2012
4 [FCA] [PRA]	SUP 16 Annex 14 R	R	SUP 16 Annex 14 R, as it was in force on 31 December 2011, continues to apply to: (i) quarterly returns for <i>credit unions</i> in respect of the quarter ending on or before 31 December 2011, and (ii) annual returns in respect of the financial year ending on or before 7 January 2012	8 January 2012	8 January 2012
5 [FCA] [PRA]	CREDS TPs 1, 2, 3 and 4	R	CREDS TPs 1, 2, 3 and 4 do not apply to <i>Northern Ireland credit unions</i> .	From 31 March 2012 for as long as the relevant TPs remain in force	For <i>Northern Ireland credit unions</i> 31 March 2012
6 [FCA] [PRA]	CREDS 2.2.4 R, CREDS 2.2.6 R, CREDS 2.2.8 R, CREDS 3.3.7 R, CREDS 6.2.4 R and CREDS 7.2.1 R	R	A <i>Northern Ireland credit union</i> need not comply with CREDS 2.2.4 R, CREDS 2.2.6 R, CREDS 2.2.8 R, CREDS 3.3.7 R, CREDS 6.2.4 R and CREDS 7.2.1 R.	From 31 March 2012 until 31 December 2012	For <i>Northern Ireland credit unions</i> 31 March 2012
7 [FCA] [PRA]	CREDS 3.2.1 R	R	A <i>Northern Ireland credit union</i> need not comply with CREDS 3.2.1 R with respect to any types of <i>investment</i> invested in prior to <i>credit unions day</i> provided those types of <i>investment</i> were permitted under the Credit Unions (Northern Ireland) Order 1985 and the Credit Unions (Authorised Investments) Regulations (Northern Ireland) 1995 prior to <i>credit unions day</i> .	From 31 March 2012 until 30 March 2013	For <i>Northern Ireland credit unions</i> 31 March 2012

Credit Unions sourcebook

Schedule 1 Record keeping requirements

Sch 1.1 G

FCA **PRA**

There are no requirements relating to record keeping in *CREDS*.

Credit Unions sourcebook

Schedule 2 Notification requirements

Sch 2.1 G

FCA **PRA**

The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant notification requirements.

It is not a complete statement of those requirements and should not be relied on as if it were.

Sch 2.2 G

FCA **PRA**

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
CREDS 2.2.4 R	Business plan	Copy of business plan	Upon request	As soon as reasonably practical
CREDS 2.2.52 G			<i>Version 2 credit unions</i> should submit after adoption and / or amendment	
CREDS 2.2.6 R	Policies and procedures manual	Copy of policies and procedures manual.	Upon request	As soon as reasonably practical
CREDS 2.2.60 G		Wide range of detail as specified as guidance in CREDS 2	<i>Version 2 credit unions</i> should submit after adoption and / or amendment	
CREDS 3.3.10 R	Financial risk Management Policy	Statement of financial risk management policy	<i>Version 2 credit unions</i> must submit after adoption and / or amendment	As soon as reasonably practicable
CREDS 5.2.3 G	General notification	Any proposed repayment of subordinated debt	As soon as <i>credit union</i> aware	At least one <i>month</i> in advance of proposed repayment
CREDS 6.2.5 R	Liquidity	Liquidity Management Policy Statement	<i>Version 2 credit unions</i> must submit after adoption and/or amendment	As soon as reasonably practical
CREDS 7.2.1 R to CREDS 7.2.2 R	Lending policy	Current lending policy statement	<i>Version 2 credit unions</i> must submit	As soon as reasonably practical

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
CREDS 7.4.3 R	Large <i>exposures</i>	The aggregate total of all large <i>exposures</i> will exceed 300% of capital.	Prior to the aggregate total of all large <i>exposures</i> exceeding 300% of capital.	As soon as reasonably practicable.
CREDS 8.2.1 G	Quarterly return	Key financial data	Quarter end	1 <i>month</i> after quarter end
CREDS 8.2.3 G	Annual return	Extended financial data	Financial year end	6 <i>months</i> after financial year end
CREDS 8.2.6 R	Audited accounts	Revenue account and balance sheet	Financial year end	Until submission of annual return
CREDS 9.2.1 R	Complaints report	Analysis of complaints	31 March each year	1 <i>month</i> after period end

Credit Unions sourcebook

Schedule 3 Fees and other required payments

Sch 3.1 G

FCA **PRA**

There are no requirements for fees or other payments in *CREDS*.

The table below summarises the fee requirements for *credit unions* detailed elsewhere.

Sch 3.2 G

FCA **PRA**

Description of fee	Reference
<i>Appropriate regulator rules</i> relating to <i>authorisation</i> fees	FEES 3
Schedule of <i>authorisation</i> fees payable	FEES 3 Annex 1 R
<i>Appropriate regulator fees rules</i> relating to the periodic fee	FEES 4
Schedule of periodic fees payable	FEES 4 Annex 2A R Part 1 and FEES 4 Annex 2B R Part 1
<i>FOS</i> funding rules	FEES 5
<i>FSCS</i> funding rules	FEES 6

Credit Unions sourcebook

Schedule 4 Powers exercised

Sch 4.1 G

[deleted]

Sch 4.2 G

[deleted]

Credit Unions sourcebook

Schedule 5 Rights of actions for damages

Sch 5.1 G

FCA

The table below sets out the *rules* in *CREDS* contravention of which by an *authorised person* may be actionable under Section 138D of the *Act* (Actions for damages) by a *person* who suffers loss as a result of the contravention.

If a "Yes" appears in the column headed "For private person?", the *rule* may be actionable by a "*private person*" under section 138D (or, in certain circumstances, his fiduciary or representative). A "Yes" in the column headed "Removed" indicates that the *FCA* has removed the right of action under Section 138D(3) of the *Act*. If so, a reference to the *rule* in which it is removed is also given.

The column headed "For other person?" indicates whether the *rule* is actionable by a *person* other than a *private person* (or his fiduciary or representative). If so, an indication of the type of *person* by whom the *rule* is actionable is given.

Sch 5.2 G

FCA

Chapter / Appendix	Section / Annex	Paragraph	Right of action under section 138D		
			For private person?	Removed?	For other person?
All <i>rules</i> in <i>CREDS</i> with the status letter 'E'.			No	No	No
All <i>rules</i> in <i>CREDS</i> that require a <i>credit union</i> to have or maintain financial resources.			No	No	No
All other <i>rules</i> in <i>CREDS</i> .			Yes	No	No

Credit Unions sourcebook

Schedule 6 Rules that can be waived

Sch 6.1 G

FCA **PRA**

The *rules* made in *CREDS* can be waived by the *appropriate regulator* under sections 138A and 138B (Modification or waiver of rules) of the *Act*.

CREDS includes *guidance* on *rules* made in other parts of the *Handbook*. Reference should be made to those parts of the *Handbook* concerning *waiver* of those *rules*.

Investment Funds sourcebook



3.3 Annual report of an AIF

Application

3.3.1
FCA

R

This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF marketed* in the *UK*.

Provision of an annual report

3.3.2
FCA

R

An *AIFM* must, for each *UK AIF* and *EEA AIF* it manages and for each *AIF* it *markets* in the *UK*:

- (1) make an annual report available to investors for each financial year;
- (2) provide the annual report to investors on request; and
- (3) make the annual report available to the *FCA* and, in the case of an *EEA AIF*, to the *competent authority* of that *AIF*.

[Note: article 22(1) first paragraph and article 24(3)(a) of *AIFMD*]

3.3.3
FCA

R

Subject to ■ FUND 3.3.4R (2), an *AIFM* must make the annual report available, in line with ■ FUND 3.3.2R (1), no later than six months after the end of the financial year.

[Note: article 22(1) first paragraph of *AIFMD*]

3.3.4
FCA

R

- (1) Where the *AIF* is required to make an annual financial report public under ■ DTR 4.1.3 R (Publication of annual financial reports) or an equivalent provision implementing article 4.1 of the *Transparency Directive* in the *Home State* of the *AIF*, only information referred to in ■ FUND 3.3.5 R that is additional to the annual financial report needs to be provided to investors on request, either separately or as an additional part of the annual financial report.

- (2) Where additional information in (1) is provided as an addition to the annual financial report, that report must be made public no later than four months following the end of the financial year, under ■ DTR 4.1.3 R (Publication of annual financial reports) or an equivalent provision implementing article 4.1 of the *Transparency Directive* in the *Home State* of the AIF.

[Note: second paragraph, article 22(1) of AIFMD]

Contents of the annual report

3.3.5

FCA

R

The annual report must contain:

- (1) a balance sheet or a statement of assets and liabilities;
- (2) an income and expenditure account for the financial year;
- (3) a report on the activities of the financial year;
- (4) any material changes in the information required to be made available to investors under ■ FUND 3.2.2 R (Prior disclosure of information to investors) during the financial year covered by the report;
- (5) (a) the total amount of *remuneration* paid by the AIFM to its staff for the financial year, split into fixed and variable remuneration, including, where relevant, any *carried interest* paid by the AIF; and
(b) the number of beneficiaries; and
- (6) the aggregate amount of *remuneration* of the AIFM *Remuneration Code staff*, broken down by senior management and members of staff.

[Note: article 22(2) of AIFMD]

3.3.5A

FCA

G

The FCA has provided additional *guidance* on the disclosure requirements relating to *remuneration* paid by an AIFM to its staff. The *guidance* can be found at: [...]

Accounting information in the annual report

3.3.6

FCA

R

The accounting information given in the annual report must be:

- (1) prepared in accordance with the accounting standards of the *Home State* of the AIF (or, for a *non-EEA AIF*, the accounting standards of the third country where it is *established*) and with the accounting rules set out in the AIF's *instrument constituting the fund*; and

(2) audited by one or more persons empowered by law to audit accounts under the *Audit Directive* (or for a *non-EEA AIF*, under international auditing standards in force in the country where the *non-EEA AIF* is established).

[Note: article 22(3) of *AIFMD*]

3.3.7

FCA

R

The auditor's report, including any qualifications, must be reproduced in full in the annual report.

[Note: second paragraph article 22(3) of *AIFMD*]

Subordinate measures

3.3.8

FCA

G

Articles 103 to 107 of the *AIFMD level 2 regulation* provide detailed rules supplementing this section.

3.4 Reporting obligations to the FCA

Application

3.4.1
FCA

R This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*.

Reporting obligations

3.4.2
FCA

R An *AIFM* must regularly report to the *FCA* on behalf of each *AIF* it manages:

- (1) the main instruments in which it is trading;
- (2) the principal markets of which it is a member or where it actively trades; and
- (3) the principal exposures and most important concentrations of each *AIF* it manages.

[Note: article 24(1) of *AIFMD*]

Content of reporting information

3.4.3
FCA

R An *AIFM* must, for each *UK AIF* and *EEA AIF* it manages, and for each *AIF* it markets in the *EEA*, provide the following to the *FCA*:

- (1) the percentage of the *AIF*'s assets that are subject to special arrangements arising from their illiquid nature;
- (2) any new arrangements for managing the liquidity of the *AIF*;
- (3) the current risk profile of the *AIF* and the risk management systems employed by the *AIFM* to manage the *market risk*, *liquidity risk*, *counterparty risk* and other risks, including *operational risk*;

(4) information on the main categories of assets in which the *AIF* is invested; and

(5) the results of the stress tests performed in accordance with
 ■ FUND 3.6.3 R (2) (Liquidity systems and procedures) and
 ■ FUND 3.7.5 R (2)(b) (Risk management systems).

[Note: article 24(2) of *AIFMD*]

3.4.4

FCA

R

An *AIFM* must, at the *FCA*'s request, provide at the end of each quarter a detailed list of all *AIFs* which it manages.

[Note: article 24(3)(b) of *AIFMD*]

AIFs that employ leverage on a substantial basis

3.4.5

FCA

R

An *AIFM* managing an *AIF* that employs *leverage* on a substantial basis must make the following information available to the *FCA* about that *AIF*:

- (1) the overall level of leverage employed by the *AIF*;
- (2) a breakdown of *leverage* arising from borrowing of cash or *securities* and *leverage* embedded in financial *derivatives*;
- (3) the extent to which the *AIF*'s assets have been reused under *leveraging* arrangements; and
- (4) the identity of the five largest sources of borrowed cash or *securities* for the *AIF*, and the amounts of *leverage* received from each of those sources.

[Note: article 24(4) of *AIFMD*]

Meaning of employing leverage on a substantial basis

3.4.6

FCA

EU

Use of leverage on a 'substantial basis'

- 1. Leverage shall be considered to be employed on a substantial basis for the purposes of Article 24(4) of Directive 2011/61/EU when the exposure of an *AIF* as calculated according to the commitment method under Article 8 of this Regulation exceeds three times its net asset value.

[Note: article 111(1) of the *AIFMD level 2 regulation*]

PAGE 11

3.4.7

FCA

G

Subordinate measures

Articles 110 and 111 of the *AIFMD level 2 regulation* provide detailed rules supplementing this section.

3.5 Investment in securitisation positions

Application

3.5.1
FCA

G

This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*.

3.5.2
FCA

G

To ensure cross-sectoral consistency and remove misalignment between the interests of firms that repackage loans into tradable securities and *originators* within the meaning of article 4(41) of the *BCD* and *AIFMs* that invest in those securities or other *financial instruments*, the *AIFMD level 2 regulation* sets out:

- (1) requirements that must be met by the *originator*, the *sponsor* or the original lender, for an *AIFM* to be allowed to invest on behalf of the *AIF* in securities or other *financial instruments* of this type issued after 1 January 2011; and
- (2) qualitative requirements that must be met by *AIFMs* which invest in these securities or other *financial instruments* on behalf of the *AIF*.

[Note: article 17 of *AIFMD*]

Subordinate measures

3.5.3
FCA

G

Articles 50 to 56 of the *AIFMD level 2 regulation* provide detailed rules supplementing the provisions in *AIFMD* on investment in securitisation positions.



3.6 Liquidity

Application

3.6.1
FCA

R

This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*.

Alignment of investment strategy, liquidity profile and redemption policy

3.6.2
FCA

R

An *AIFM* must ensure that the investment strategy, liquidity profile and redemption policy of each *AIF* it manages are consistent.

[Note: article 16(2) of *AIFMD*]

Liquidity systems and procedures

3.6.3
FCA

R

An *AIFM* must, for each *AIF* it manages that is not an unleveraged closed-ended *AIF*:

- (1) employ an appropriate liquidity management system and adopt procedures which:
 - (a) enable it to monitor the liquidity risk of the *AIF*; and
 - (b) ensure that the liquidity profile of the investments of the *AIF* complies with the *AIF*'s underlying obligations; and
- (2) regularly conduct stress tests, under normal and exceptional liquidity conditions, which enable it to assess the liquidity risk of the *AIF* and monitor that risk.

[Note: article 16(1) of *AIFMD*]

Subordinate measures

3.6.4
FCA

G

Articles 46 to 49 of the *AIFMD level 2 regulation* provide detailed rules supplementing this section.



3.7 Risk management

Application

3.7.1
FCA

R

This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*.

Functional and hierarchical separation

3.7.2
FCA

R

- (1) An *AIFM* must functionally and hierarchically separate the functions of risk management from the operating units, including from the functions of portfolio management.
- (2) An *AIFM* must, in any event, be able to demonstrate that:
 - (a) specific safeguards against conflicts of interest allow for the independent performance of risk management activities; and
 - (b) the risk management process satisfies the requirements of this section and is consistently effective.

[Note: article 15(1) of *AIFMD*]

3.7.3
FCA



Functional and hierarchical separation of the risk management function

- 1. The risk management function shall be considered as functionally and hierarchically separated from the operating units, including the portfolio management function, only where all the following conditions are satisfied:
 - (a) persons engaged in the performance of the risk management function are not supervised by those responsible for the performance of the operating units, including the portfolio management function, of the *AIFM*;
 - (b) persons engaged in the performance of the risk management function are not engaged in the performance of activities

- within the operating units, including the portfolio management function;
- (c) persons engaged in the performance of the risk management function are compensated in accordance with the achievement of the objectives linked to that function, independently of the performance of the operating units, including the portfolio management function;
2. The functional and hierarchical separation of the risk management function in accordance with paragraph 1 shall be ensured throughout the whole hierarchical structure of the AIFM, up to its governing body. It shall be reviewed by the governing body and, where it exists, the supervisory function of the AIFM.

[Note: article 42(1) and (2) of the *AIFMD level 2 regulation*]

3.7.4

FCA



Safeguards against conflicts of interest

1. The safeguards against conflicts of interest referred to in Article 15(1) of Directive 2011/61/EU shall ensure, at least, that:
- (a) decisions taken by the risk management function are based on reliable data, which are subject to an appropriate degree of control by the risk management function;
 - (b) the remuneration of those engaged in the performance of the risk management function reflects the achievement of the objectives linked to the risk management function, independently of the performance of the business areas in which they are engaged;
 - (c) the risk management function is subject to an appropriate independent review to ensure that decisions are being arrived at independently;
 - (d) the risk management function is represented in the governing body or the supervisory function, where it has been established, at least with the same authority as the portfolio management function;
 - (e) any conflicting duties are properly segregated.
2. Where proportionate, taking into account the nature, scale and complexity of the AIFM, the safeguards referred to in paragraph 1 shall also ensure that:
- (a) the performance of the risk management function is reviewed regularly by the internal audit function, or, if the latter has not been established, by an external party appointed by the governing body;
 - (b) where a risk committee has been established, it is appropriately resourced and its non-independent members do not have undue influence over the performance of the risk management function.

3. The governing body of the AIFM and, where it exists, the supervisory function shall establish the safeguards against conflicts of interest laid down in paragraphs 1 and 2, regularly review their effectiveness and take timely remedial action to address any deficiencies.

[Note: article 43 of the *AIFMD level 2 regulation*]

Risk management systems

3.7.5
FCA

R

- (1) An *AIFM* must implement adequate risk management systems to identify, measure, manage and monitor all risks relevant to each *AIF* investment strategy and to which each *AIF* is, or may be, exposed.
- (2) An *AIFM* must, at least:
 - (a) implement an appropriate, documented and regularly updated due diligence process when investing on behalf of the *AIF*, according to the investment strategy, objectives and risk profile of the *AIF*;
 - (b) ensure that the risks associated with each investment position of the *AIF* and their overall effect on the *AIF*'s portfolio can be properly identified, measured, managed and monitored on an ongoing basis, including through the use of appropriate stress testing procedures; and
 - (c) ensure that the risk profile of the *AIF* corresponds to the size, portfolio structure and investment strategies and objectives of the *AIF* as set out in the *instrument constituting the fund, prospectus* and offering documents.

[Note: article 15(2) first paragraph and article 15(3) of *AIFMD*]

Review of risk management systems

3.7.6
FCA

R

An *AIFM* must:

- (1) review the risk management systems with appropriate frequency and, in any event, at least once a year; and
- (2) adapt them whenever necessary.

[Note: article 15(2) second paragraph of *AIFMD*]

Maximum leverage levels

3.7.7
FCA

R

- (1) An *AIFM* must:
 - (a) set a maximum level of *leveraging* which it may employ on behalf of each *AIF* it manages; and

(b) where the *leverage* arrangement allows the right to reuse *collateral* or the granting of a guarantee, set out the extent of that right or guarantee.

(2) An *AIFM*, in complying with (1), must take into account relevant matters including:

- (a) the type of *AIF*;
- (b) the investment strategy of the *AIF*;
- (c) the sources of *leverage* of the *AIF*;
- (d) any other link or relevant relationship with other financial services institutions which could pose systemic risk;
- (e) the need to limit the exposure to any single counterparty;
- (f) the extent to which the *leverage* is *collateralised*;
- (g) the asset-liability ratio; and
- (h) the scale, nature and extent of the activity of the *AIFM* on the markets concerned.

[Note: article 15(4) of *AIFMD*]

3.7.8

FCA

R

An *AIFM* must demonstrate that the *leverage* limits it sets under ■ FUND 3.7.7R (1)(a) are reasonable and that it complies with those limits at all times.

[Note: article 25(3) first sentence of *AIFMD*]

3.7.9

FCA

G

To comply with ■ FUND 3.7.8 R, an *AIFM* should report to the *FCA* any changes to the leverage limits it sets.

Subordinate measures

3.7.10

FCA

G

Articles 6 to 11 of the *AIFMD level 2 regulation* provide detailed rules on the calculation of levels of leverage, articles 38 to 47 of the *AIFMD level 2 regulation* provide detailed rules on risk management and article 112 of the *AIFMD level 2 regulation* provides detailed rules on circumstances when *competent authorities* may impose leverage limits or other restrictions on the management of *AIFs*.



3.8 Prime brokerage firms

Application

3.8.1
FCA

R

This section applies to:

- (1) a *full-scope UK AIFM* of:
 - (a) a *UK AIF*;
 - (b) an *EEA AIF* managed or *marketed* from an establishment in the *UK*; and
 - (c) a *non-EEA AIF*; and
- (2) an *incoming EEA AIFM branch* which manages or *markets* a *UK AIF*.

Selection of a prime brokerage firm

3.8.2
FCA

R

An *AIFM* must exercise due skill, care and diligence in the selection and appointment of a *prime brokerage firm*.

[Note: article 14(3) second paragraph of the *AIFMD*]

Prime brokerage firm contract

3.8.3
FCA

R

Where the *AIFM*, on behalf of an *AIF*, uses the services of a *prime brokerage firm*, the terms must be in a written contract. In particular, any possibility of transfer and reuse of *AIF* assets must be provided for in that contract and must comply with the *AIF's instrument constituting the fund*. The contract must provide for the *depository* to be informed of the contract.

[Note: article 14(3) first paragraph of the *AIFMD*]



3.9 Valuation

Application

3.9.1

FCA

R

This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*.

Responsibility of the AIFM

3.9.2

FCA

R

An *AIFM* is responsible for the proper valuation of *AIF* assets, the calculation of the net asset value and the publication of that net asset value.

[Note: article 19(10) first sentence first paragraph of *AIFMD*]

Standard of care of the valuation

3.9.3

FCA

R

An *AIFM* must ensure that any valuation of an *AIF*'s assets is performed impartially and with all due skill, care and diligence.

[Note: article 19(8) of *AIFMD*]

Establishment of procedures for valuation of assets

3.9.4

FCA

R

An *AIFM* must ensure that, for each *AIF* it manages, appropriate and consistent procedures are established so that under the rules laid down in the applicable national law of the country where the *AIF* is *established* and the *instrument constituting the fund*:

- (1) a proper and independent valuation of the assets of the *AIF* can be performed; and
- (2) the net asset value per unit or share of the *AIF* is calculated and disclosed to investors.

[Note: article 19(1), (2) and (3) first paragraph of *AIFMD*]

3.9.5
FCA

R

Frequency of valuation of assets and calculation of net asset value

- (1) An *AIFM* must ensure that the valuation procedure in ■ FUND 3.9.4 R provides for the assets of any *AIF* under the *AIFM*'s management to be valued and the net asset value per *unit* or *share* to be calculated at least once a year.
- (2) Where an *AIF* is open-ended, such valuations and calculations must also be carried out at a frequency that is appropriate both to the assets held by the *AIF* and its issuance and redemption frequency.
- (3) Where an *AIF* is closed-ended, such valuations and calculations must also be carried out in case of an increase or decrease of the capital by the relevant *AIF*.

[Note: article 19(3) second, third and fourth paragraphs of *AIFMD*]

Informing investors of valuations of assets and calculations of net asset value

3.9.6
FCA

R

An *AIFM* must ensure that investors in the *AIFs* under its management are informed of the valuations and calculations in the manner set out in the relevant *instrument constituting the fund*.

[Note: article 19(3) fifth paragraph of *AIFMD*]

Performance of the valuation function

3.9.7
FCA

R

- (1) An *AIFM* may perform the valuation itself, provided that:
 - (a) the valuation task is functionally independent from the portfolio management; and
 - (b) the remuneration policy and other measures ensure that conflicts of interest are mitigated and that undue influence upon the employees involved is prevented.
- (2) An *AIFM* that does not perform the valuation function itself must ensure that the function is performed by an *external valuer*.
- (3) An *external valuer* appointed under (2) must be a *person* independent from:
 - (a) the *AIF* in respect of which the valuation function is performed;
 - (b) the *AIFM*; and
 - (c) any other *persons* with *close links* to the *AIF* or the *AIFM*.

[Note: article 19(4) first paragraph of *AIFMD*]

3.9.8
FCA

R

Appointment of the depositary as an external valuer

The *depositary* appointed for an *AIF* may not be appointed as an *external valuer* of that *AIF* unless:

- (1) it has functionally and hierarchically separated the performance of its depositary functions from its tasks as an *external valuer*; and
- (2) the potential conflicts of interests are properly identified, managed, monitored and disclosed to the investors of the *AIF*.

[Note: article 19(4) second paragraph of *AIFMD*]

3.9.9
FCA

R

Appointment of an external valuer

Where an *external valuer* performs the valuation function, the *AIFM* must be able to demonstrate that:

- (1) the *external valuer* is subject to mandatory professional registration recognised by law or legal or regulatory provisions or rules of professional conduct;
- (2) the *external valuer* can provide sufficient professional guarantees to be able to perform the relevant valuation function effectively under this section; and
- (3) the appointment of the *external valuer* complies with the requirements of ■ FUND 3.10.2 R (General delegation arrangements) and the *AIFMD level 2 regulation*.

[Note: article 19(5) of *AIFMD*]

3.9.10
FCA

G

Delegation by an external valuer

AIFMs should be aware that regulation 24(2) of the *AIFMD UK Regulation* prohibits an *external valuer* from delegating valuation to a third party.

3.9.11
FCA

R

Notification of appointment of an external valuer

An *AIFM* must notify the appointment of an *external valuer* to the *FCA*.

[Note: article 19(7) first part of first paragraph of *AIFMD*]

3.9.12
FCA

G

Under regulation 24(3) of the *AIFMD UK regulation*, the *FCA* may require an *AIFM* to appoint another *external valuer* where it considers that the appointment does not comply with ■ FUND 3.9.9 R.

PAGE
21

3.9.13
FCA

G

Subordinate measures

Articles 67 to 74 of the *AIFMD level 2 regulation* provide detailed rules supplementing this section.



3.10 Delegation

Application

3.10.1

FCA

R

This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*;
- (2) an *EEA AIF*; and
- (3) a *non-EEA AIF*

in relation to the delegation of those *AIFM management functions* for which it is responsible, other than supporting tasks such as administrative or technical functions.

[Note: recital 31 of *AIFMD*]

General delegation requirements

3.10.2

FCA

R

An *AIFM* must ensure the following conditions are met when a delegate carries out any function on its behalf:

- (1) the *AIFM* has notified the *FCA* of the delegation before the delegation arrangements become effective; and
- (2) (a) the *AIFM* is able to justify its entire delegation structure with objective reasons;
(b) the delegate has sufficient resources to perform the respective activity and the persons who effectively conduct the business of the delegate are of sufficiently good repute and experience;
- (c) (subject to ■ FUND 3.10.7 G) the delegation of *AIFM investment management functions* is conferred only on a delegate that is authorised or registered for the purpose of asset management and subject to supervision;
- (d) in addition to (c), where the delegation of *AIFM investment management functions* is conferred on a third-country delegate, cooperation between the *FCA* and the supervisory authority of the delegate is ensured;

- (e) the delegation does not prevent the *FCA* from supervising the *AIFM* effectively and, in particular, does not prevent the *AIFM* from acting, or the *AIF* from being managed, in the best interests of its investors; and
- (f) the *AIFM* is able to demonstrate that:
 - (i) the delegate is qualified and capable of undertaking the functions in question;
 - (ii) it was selected with all due care; and
 - (iii) the *AIFM* can monitor the delegated activity effectively at any time, give further instructions to the delegate at any time and withdraw the delegation with immediate effect when this is in the interest of investors.

[Note: article 20(1) of *AIFMD*]

3.10.3

FCA

G

For the purposes of ■ FUND 3.10.2R (2)(d) cooperation is ensured between the *FCA* and the supervisory authorities of a third-country delegate where a cooperation arrangement is in place between the two authorities in accordance with *AIFMD* and article 78(3) of the *AIFMD level 2 regulation*.

Sub-delegation

3.10.4

FCA

R

An *AIFM* must ensure the following conditions are met when any of its delegates carries out a sub-delegation:

- (1) the *AIFM* has consented to the sub-delegation before the sub-delegation arrangements become effective;
- (2) the *AIFM* has notified the *FCA* of the sub-delegation before the sub-delegation arrangements become effective; and
- (3) the conditions in ■ FUND 3.10.2R (2) (General delegation requirements) are satisfied in relation to the sub-delegation, with references to 'delegate' and 'delegation' replaced by references to 'sub-delegate' and 'sub-delegation'.

[Note: article 20(4) of *AIFMD*]

3.10.5

FCA

R

An *AIFM* must comply with the *rules* in this section which are applicable to a sub-delegation in relation to any further sub-delegation of its functions by a sub-delegate.

[Note: article 20(6) of *AIFMD*]

Delegation of AIFM investment management functions

3.10.6
FCA

R

An *AIFM* must not delegate or consent to the sub-delegation of *AIFM investment management functions* to:

- (1) the *depository* or a delegate of the *depository*; or
- (2) any other entity whose interests may conflict with those of the *AIFM* or the investors of the *AIF*, unless:
 - (a) that entity has functionally and hierarchically separated the performance of its *AIFM investment management function* from its other potentially conflicting tasks; and
 - (b) the potential conflicts of interest are properly identified, managed, monitored and disclosed to the investors of the *AIF*.

[Note: article 20(2) and (5) of *AIFMD*]

3.10.7
FCA

G

The *FCA* may consent to the delegation by a *Full-scope UK AIFM* of its *AIFM investment management functions* to an entity which is not authorised or registered for the purpose of asset management and subject to supervision in accordance with regulation 26 of the *AIFMD UK* regulation.

Letterbox entity

3.10.8
FCA

R

An *AIFM* must not delegate its functions to the extent that, in essence, it can no longer be considered to be the *AIFM* of the *AIF* and to the extent that it becomes a letter-box entity.

[Note: article 20(3) of *AIFMD*]

3.10.9
FCA



Letter-box entity and AIFM no longer considered to be managing an AIF

1. An *AIFM* shall be deemed a letter-box entity and shall no longer be considered to be the manager of the *AIF* at least in any of the following situations:
 - (a) the *AIFM* no longer retains the necessary expertise and resources to supervise the delegated tasks effectively and manage the risks associated with the delegation;
 - (b) the *AIFM* no longer has the power to take decisions in key areas which fall under the responsibility of the senior management or no longer has the power to perform senior management functions in particular in relation to the implementation of the general investment policy and investment strategies;
 - (c) the *AIFM* loses its contractual rights to inquire, inspect, have access or give instructions to its delegates or the exercise of such rights becomes impossible in practice;

- (d) **the AIFM delegates the performance of investment management functions to an extent that exceeds by a substantial margin the investment management functions performed by the AIFM itself. When assessing the extent of delegation, competent authorities shall assess the entire delegation structure taking into account not only the assets managed under delegation but also the following qualitative criteria:**
 - (i) **the types of assets the AIF or the AIFM acting on behalf of the AIF is invested in, and the importance of the assets managed under delegation for the risk and return profile of the AIF;**
 - (ii) **the importance of the assets under delegation for the achievement of the investment goals of the AIF;**
 - (iii) **the geographical and sectoral spread of the AIF's investments;**
 - (iv) **the risk profile of the AIF;**
 - (v) **the type of investment strategies pursued by the AIF or the AIFM acting on behalf of the AIF;**
 - (vi) **the types of tasks delegated in relation to those retained; and**
 - (vii) **the configuration of delegates and their sub-delegates, their geographical sphere of operation and their corporate structure, including whether the delegation is conferred on an entity belonging to the same corporate group as the AIFM.**

[Note: Article 82(1) of the *AIFMD level 2 regulation*]

Liability for delegated functions

3.10.10

FCA

G

An *AIFM*'s liability towards the *AIF* and its investors is not affected by the *AIFM* delegating functions to a third party, or by any further sub-delegation (see regulation 28(1) of the *AIFMD UK Regulation*).

Review of delegation and sub-delegation

3.10.11

FCA

R

An *AIFM* must review on an ongoing basis the services provided by each:

- (1) delegate appointed under ■ FUND 3.10.2 R; and
- (2) sub-delegate appointed under ■ FUND 3.10.4 R.

[Note: article 20(1) and 20(4) of *AIFMD*]

3.10.12

FCA

G

An *AIFM* should make each of its delegates aware of the requirement to review the services provided by each of its sub-delegates on an ongoing basis (see regulation 28(2) of the *AIFMD UK Regulation*).

3.10.13

FCA

G

Subordinate measures

Articles 75 to 82 of the *AIFMD level 2 regulation* provide detailed rules supplementing this section.



3.11 Depositaries

Application

3.11.1

FCA

R

This section applies in accordance with the table in ■ FUND 3.11.2 R and ■ FUND 3.11.3 R.

3.11.2

FCA

R

This table belongs to ■ FUND 3.11.1 R.

<i>Rule</i>	<i>Full-scope UK AIFM of a UK AIF or an EEA AIF</i>	<i>Full-scope UK AIFM of a non-EEA AIF which is marketed in the UK</i>	<i>UK depositary of a UK AIF managed by a full-scope UK AIFM or an EEA AIFM</i>	<i>UK depositary of a non-EEA AIF</i>
3.11.4R	x			
3.11.5R	x		x	
3.11.7R	x			
3.11.9R			x	
3.11.10R	x			
3.11.12R	x			
3.11.14R	x			
3.11.16R			x	
3.11.18R	x			
3.11.19R	x		x	
3.11.20R			x	x
3.11.21R			x	x
3.11.23R			x	x
3.11.24R			x	
3.11.25R			x	x
3.11.26R			x	
3.11.28R			x	
3.11.29R			x	

3.11.30R		X
3.11.33R	X	
Note: "x" means "applies".		

3.11.3
FCA

R

A UK depositary of a non-EEA AIF that does not perform all of the functions of cash monitoring, safekeeping and oversight for the AIF need only comply with the following rules that are applicable to the functions it performs:

- (1) ■ FUND 3.11.20 R if it performs only the cash monitoring function;
- (2) ■ FUND 3.11.21 R and ■ FUND 3.11.23 R if it performs only the safekeeping function;
- (3) ■ FUND 3.11.25 R if it performs only the oversight function;
- (4) ■ FUND 3.11.20 R, ■ FUND 3.11.21 R and ■ FUND 3.11.23 R if it performs only the cash monitoring and safekeeping functions;
- (5) ■ FUND 3.11.20 R and ■ FUND 3.11.25 R if it performs only the cash monitoring and oversight functions; and
- (6) ■ FUND 3.11.21 R, ■ FUND 3.11.23 R and ■ FUND 3.11.25 R if it performs only the safekeeping and oversight functions.

Appointment of a single depositary

3.11.4
FCA

R

An AIFM must, for each AIF it manages, ensure that:

- (1) a single *depositary* is appointed; and
- (2) the assets of the AIF are entrusted to the *depositary* for safekeeping in accordance with ■ FUND 3.11.21 R and ■ FUND 3.11.23 R.

[Note: article 21(1) and (8) of AIFMD]

General obligations

3.11.5
FCA

R

An AIFM and a *depositary* must, in the context of their respective roles, act honestly, fairly, professionally, independently and in the interest of the AIF and its investors.

[Note: article 21(10) first paragraph of AIFMD]

3.11.6
FCA

G

The Act specifies that the *trustee* of an AUT and the *depositary* of an ACS must be independent of its *authorised fund manager*, and the OEIC Regulations specify that the *depositary* of an ICVC must be independent of the ICVC and its *directors*. However, these requirements do not apply to AIFs which are not *authorised funds*, and, therefore,

an *AIFM* and a *depositary* of an *unauthorised AIF* may be from within the same *group*, but only if conflicts of interest are avoided and there is sufficient organisational separation between the two entities.

Conflicts of interest: AIFM

3.11.7

FCA

R

To avoid conflicts of interest between the *depositary*, the *AIFM*, the *AIF* and its investors, an *AIFM* must ensure that:

- (1) it does not act as a *depositary* or a delegate of a *depositary*; and
- (2) a *prime brokerage firm* acting as counterparty to an *AIF* does not act as the *depositary* for that *AIF*, unless:
 - (a) the *prime brokerage firm* has functionally and hierarchically separated the performance of its *depositary* functions from its tasks as a *prime brokerage firm*; and
 - (b) potential conflicts of interest are properly identified, managed, monitored and disclosed to the investors of the *AIF* by the *AIFM*.

[Note: article 21(4) of *AIFMD*]

3.11.8

FCA

G

A *depositary* may delegate custody tasks to one or more *prime brokerage firms* provided the *depositary* complies with ■ FUND 3.11.26 R to ■ FUND 3.11.30 R. In addition to the delegated custody tasks, *prime brokerage firms* are allowed to provide *prime brokerage services* to the *AIF*. Those *prime brokerage services* do not form part of the delegation arrangement.

[Note: recital 43 of *AIFMD*]

Conflicts of interest: depositaries

3.11.9

FCA

R

A *depositary* must not carry out activities with regard to the *AIF*, or the *AIFM* on behalf of the *AIF*, that may create conflicts of interest between the *AIF*, the investors in the *AIF*, the *AIFM* and itself, unless:

- (1) the *depositary* has properly identified any such potential conflicts of interest;
- (2) the *depositary* has functionally and hierarchically separated the performance of its *depositary* tasks from its other potentially conflicting tasks; and
- (3) the potential conflicts of interest are properly managed, monitored and disclosed to the investors of the *AIF*.

[Note: article 21(10) second paragraph of *AIFMD*]

Eligible depositories for UK AIFs

3.11.10
FCA

R

Subject to ■ FUND 3.11.12 R, an AIFM must, for each UK AIF it manages, ensure the appointment of a *depository* which is a *firm established in the UK* and which is one of the following:

- (1) a *credit institution*; or
- (2) a *MiFID investment firm* which:
 - (a) has *own funds* of not less than €730,000; and
 - (b) provides the *ancillary service* of safe-keeping and administration of *financial instruments* for the account of clients; or
- (3) another category of institution that is subject to prudential regulation and ongoing supervision and which, on 21 July 2011, fell within the categories of institution eligible to be a *trustee* of an AUT or a *depository* of an ICVC.

[Note: article 21(3)(a) to (c) and (5)(a) of AIFMD]

3.11.11
FCA

G

For a *depository* to be *established* in the UK it must have its registered office or *branch* in the UK. A *MiFID investment firm* that has its registered office in the UK must be a *full-scope IFPRU investment firm* to meet the requirements of ■ FUND 3.11.10R (2). A *MiFID investment firm* that has a *branch* in the UK must meet the capital requirements under the EU CRR for a *CRD full-scope firm* as implemented in its *Home State* to meet the requirements of ■ FUND 3.11.10R (2).

3.11.12
FCA

R

An AIFM that manages a UK AIF which:

- (1) has no redemption rights exercisable during the period of five years from the date of the initial investments; and
- (2) in accordance with its core investment policy:
 - (a) does not generally invest in *AIF custodial assets*; or
 - (b) generally invests in issuers or non-listed companies in order to potentially acquire *control* over such companies in accordance with regulation 35 of the *AIFMD UK regulation*

may appoint, as its *depository*, a firm which is established in the UK and which complies with ■ FUND 3.11.14 R.

3.11.13
FCA

G

For the purposes of ■ FUND 3.11.12R (2)(a), an AIF does not generally invest in *AIF custodial assets* if it invests in such assets on a temporary basis or if those assets do not constitute a significant proportion of its overall assets. However, in line with ■ FUND 3.11.12R (2)(b), an AIF may invest in *AIF custodial assets* if it invests in issuers to acquire control of such companies in accordance with regulation 35 of the AIFMD

UK regulation or if it is in the process of divesting its investment in an issuer which it controls or previously controlled.

3.11.14

FCA

R

An AIFM must ensure that a *depository* appointed in line with

■ FUND 3.11.12 R is a *firm*:

- (1) which has the *Part 4A permission of acting as trustee or depository of an AIF*; and
- (2) which has *own funds* of at least €125,000.

[Note: article 21(3) second paragraph after (c) and (5)(a) of AIFMD]

3.11.15

FCA

G

For certain types of closed-ended AIFs (such as private equity, venture capital and real estate funds) a wider range of entities than those specified in ■ FUND 3.11.10 R may perform the relevant *depository* functions. The FCA requires such entities to obtain authorisation as a *depository* to demonstrate that they can meet the commitments inherent in those functions, but imposes a lower level of capital requirements in recognition of the different degree of risk implied by the characteristics of the AIF. The capital requirements of such *firms* are contained in ■ IPRU-INV 5 (particularly ■ IPRU-INV 5.2.3R(3)(a)(ia) (Own funds requirement)) but if the *firm* also undertakes *MiFID business*, its capital requirements will be contained in IFPRU and the EU CRR or in GENPRU and BIPRU depending on the scope of that *MiFID business*.

[Note: recital 34 of AIFMD]

Additional requirements for depositories of authorised AIFs

3.11.16

FCA

R

A *MiFID investment firm* (other than a *PRA-authorised person*) which is appointed as a *depository* for an *authorised AIF* in accordance with

■ FUND 3.11.10R (2) must maintain *own funds* of at least £4 million.

3.11.17

FCA

G

Where the *firm* referred to in ■ FUND 3.11.16 R is a *full-scope IFPRU investment firm* which is a *depository* for an *authorised AIF* appointed in line with ■ FUND 3.11.10R (2), it is subject to the capital requirements of IFPRU and the EU CRR . However, these requirements are not in addition to ■ FUND 3.11.16 R and, therefore, a *firm* subject to this *rule* may use the *own funds* required under IFPRU and the EU CRR to meet the £4 million requirement.

Eligible depositories for EEA AIFs

3.11.18

FCA

R

An AIFM must, for each *EEA AIF* it manages, ensure the appointment of a *depository* which is *established* in the *Home State* of the AIF and which is eligible to be a *depository* in that *Home State* in accordance with article 21(3) of AIFMD.

[Note: article 21(3) and (5)(a) of AIFMD]

Written contract

3.11.19

FCA

R

An AIFM and a *depository* must ensure that the appointment of the *depository* is evidenced by a written contract. The contract must regulate

the flow of information deemed necessary to allow the *depositary* to perform its functions for the *AIF* for which it has been appointed as *depositary*.

[Note: article 21(2) of *AIFMD*]

Depositary functions: cash monitoring

A *depositary* must ensure that the *AIF*'s cash flows are properly monitored and that:

- (1) all payments made by, or on behalf of, investors upon the subscription of *units* or *shares* of an *AIF* have been received;
- (2) all cash of the *AIF* has been booked in cash accounts opened:
 - (a) in the name of:
 - (i) the *AIF*; or
 - (ii) the *AIFM* acting on behalf of the *AIF*; or
 - (iii) the *depositary* acting on behalf of the *AIF*; and
 - (b) at:
 - (i) a central bank; or
 - (ii) a *CRD credit institution* ; or
 - (iii) a bank authorised in a third country; or
 - (iv) another entity of the same nature, in the relevant market where cash accounts are required, provided such an entity is subject to effective prudential regulation and supervision which have the same effect as *EU* law and are effectively enforced and in accordance with the principles set out in article 16 (safeguarding of client financial instruments and funds) of the *MiFID implementing directive*; and
- (3) where cash accounts are opened in the name of the *depositary* acting on behalf of the *AIF* in accordance with (2)(a)(iii), the *depositary* must ensure that no cash of the entity referred to in (2)(b), and none of the *depositary*'s own cash, is booked on such accounts.

[Note: article 21(7) of *AIFMD*]

Depositary functions: safekeeping of financial instruments

- (1) A *depositary* must hold in custody all *AIF custodial assets*.

- (2) The *depository* must ensure that all *AIF custodial assets* that can be registered in a *financial instruments* account are registered in the *depository's* books within segregated accounts opened in the name of the *AIF*, or the *AIFM* acting on behalf of the *AIF*, so that they can be clearly identified as belonging to the *AIF* at all times in accordance with the applicable law and ■ CASS 6.1.16IA R (Depositories of AIFs).

[Note: article 21(8)(a) of *AIFMD*]

3.11.22



FCA

Financial instruments to be held in custody

1. Financial instruments belonging to the *AIF* or to the *AIFM* acting on behalf of the *AIF* which are not able to be physically delivered to the *depository* shall be included in the scope of the custody duties of the *depository* where all of the following requirements are met:
 - (a) they are transferable securities including those which embed derivatives as referred to in the last subparagraph of Article 51(3) of Directive 2009/65/EC and Article 10 of Commission Directive 2007/16/EC, money market instruments or units of collective investment undertakings;
 - (b) they are capable of being registered or held in an account directly or indirectly in the name of the *depository*.
2. Financial instruments which, in accordance with applicable national law, are only directly registered in the name of the *AIF* with the issuer itself or its agent, such as a registrar or a transfer agent, shall not be held in custody.
3. Financial instruments belonging to the *AIF* or the *AIFM* acting on behalf of the *AIF* which are able to be physically delivered to the *depository* shall always be included in the scope of the custody duties of the *depository*.

[Note: Article 88 of the *AIFMD level 2 regulation*]

Depository functions: safekeeping of other assets

3.11.23



FCA

For assets of the *AIF* that are not *AIF custodial assets*, a *depository* must:

- (1) verify that the *AIF*, or the *AIFM* acting on behalf of the *AIF*, is the owner of the assets based on information or documents provided by the *AIF* or the *AIFM* and, where available, on external evidence; and
- (2) maintain, and keep up to date a record of those assets for which it is satisfied that the *AIF*, or the *AIFM* acting on behalf of the *AIF*, is the owner.

[Note: article 21(8)(b) of *AIFMD*]

Reuse of assets

3.11.24
FCA

R

A depositary must not reuse the assets of the AIF without the prior consent of the AIF or the AIFM acting on behalf of the AIF.

[Note: article 21(10) third paragraph of AIFMD]

Depositary functions: oversight

3.11.25
FCA

R

A depositary must:

- (1) ensure that the sale, issue, repurchase, redemption and cancellation of *units* or *shares* of the AIF are carried out in accordance with the applicable national law and the *instrument constituting the fund*;
- (2) ensure that the value of the *units* or *shares* of the AIF is calculated in accordance with the applicable national law, the *instrument constituting the fund* and ■ FUND 3.9 (Valuation);
- (3) carry out the instructions of the AIFM, unless they conflict with the applicable national law or the *instrument constituting the fund*;
- (4) ensure that in transactions involving the AIF's assets, any consideration is remitted to the AIF within the usual time limits; and
- (5) ensure that an AIF's income is applied in accordance with the applicable national law and the *instrument constituting the fund*.

[Note: article 21(9) of AIFMD]

Delegation: general prohibition

3.11.26
FCA

R

A depositary must not delegate its functions to third parties, except as permitted by ■ FUND 3.11.28 R.

[Note: article 21(11) first paragraph of AIFMD]

3.11.27
FCA

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The use of services provided by securities settlement systems, as specified in the *Settlement Finality Directive*, or similar services provided by third-country securities settlement systems, does not constitute a delegation by the *depositary* of its functions.

[Note: article 21(11) fifth paragraph of AIFMD]

Professional Firms

Chapter 3

The FCA's duties and powers

3.1 The FCA's duty to keep itself informed

3.1.1

FCA

G

325 of the *Act* (Authority's general duty) imposes on the *FCA* a duty to keep itself informed about:

- (1) the way in which *designated professional bodies* supervise and regulate the carrying on of *exempt regulated activities* by *exempt professional firms*; and
- (2) the way in which *exempt professional firms* carry on *exempt regulated activities*.

3.1.2

FCA

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The *FCA* keeps itself informed in a number of ways. A *designated professional body* has a duty under section 325(4) of the *Act* to cooperate with the *FCA*. Article 94 of the *Regulated Activities Order* requires each *designated professional body* to provide the *FCA* with the information it needs to maintain a public record of *persons* that are registered with the *FCA* to conduct *insurance mediation activity*. The *FCA* has made arrangements with each of the *designated professional bodies* about the information they provide to it, to include information about:

- (1) complaints and redress arrangements;
- (2) complaints volumes and their analysis;
- (3) disciplinary action;
- (4) supervisory activity;
- (5) the activities carried on by *exempt professional firms*, the risks arising from them and how they are mitigated, for example by monitoring activity or training and competence arrangements; and
- (6) the names and addresses of each of their *exempt professional firms* that carry on, or are proposing to carry on, *insurance mediation activity*, together with the details of the individuals within the management of the *exempt professional firms* who are responsible for the *insurance mediation activity* and, where relevant, the passporting information required by the *FCA* for the purposes of paragraph 25 of Schedule 3 to the *Act* (EEA Passport Rights).

3.1.3

FCA

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Information may also be obtained from *exempt professional firms*, government departments, trade bodies, consumer organisations and *clients* of *exempt professional firms*. The *FCA* may also commission or carry out reviews of the supervisory and

regulatory activities of a *designated professional body* and commission or carry out research about, or surveys of, *exempt professional firms* or their *clients*.

3.2 The FCA's power to make a direction

3.2.1

FCA

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Section 328 of the *Act* (Directions in relation to the general prohibition) gives the *FCA* power to make a direction that the exemption under section 327 of the *Act* (see ■ PROF 2.1.3 G) does not apply to the extent specified in the direction. Section 328 allows the *FCA* to make a direction in relation to different classes of *person* or different descriptions of *regulated activity*. Section 325(3) of the *Act* requires the *FCA* to keep under review the desirability of exercising its powers under Part XX of the *Act* (Provision of Financial Services by Members of the Professions), including its direction powers under section 328 of the *Act*.

3.2.2

FCA

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If the *FCA* gives a direction in relation to specified classes of *person*, then any *person* within those classes may be in contravention of the *general prohibition* unless:

- (1) it ceases to carry on *regulated activities*; or
- (2) it is an *authorised person*; or
- (3) it is an *exempt person*.

3.2.3

FCA

G

A direction might also cover classes of *persons* who are *members* of different *designated professional bodies*.

3.2.4

FCA

G

Were the *FCA* to give a direction in relation to a description of *regulated activity* (for example, *dealing in investments as agent*), then that activity could no longer be carried on within the terms of the exemption.

3.2.5

FCA

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- (1) The *FCA* may exercise its direction powers under section 328(6) of the *Act* in two situations, as set out in (2) and (3).
- (2) First, the *FCA* may exercise its direction power under section 328(6)(a) of the *Act* if it is satisfied that it is desirable in order to protect the interests of *clients*. In considering whether it is satisfied, the *FCA* is required by section 328(7) of the *Act* to have regard, among other things, to the effectiveness of any arrangements made by a *designated professional body*:
 - (a) for securing compliance with *rules* made under section 332(1) of the *Act* (see ■ PROF 4.1.1 G);

- (b) for dealing with complaints against its *members* in relation to the carrying on by them of *exempt regulated activities* (see ■ PROF 4.1.4 G (2)(d));
 - (c) in order to offer redress to *clients* who suffer, or claim to have suffered, loss as a result of misconduct by its *members* in their carrying on of *exempt regulated activities* (see ■ PROF 4.1.4 G (2)(d)); and
 - (d) for cooperating with the *FCA* under section 325(4) of the *Act* (see ■ PROF 3.1.2 G).
- (3) Second, the *FCA* may exercise its direction power under section 328(6)(b) of the *Act* if it is satisfied that it is necessary to do so in order to comply with an obligation imposed by the *Insurance Mediation Directive* . For example, the *FCA* might wish to do so if it was not receiving from a *designated professional body* the information it needs to maintain the *Financial Services Register* (see PROF 7.1).

3.2.6
FCA

G

Section 330 of the *Act* (Consultation) sets out procedures which the *FCA* must follow if it wishes to make a direction under section 328(6)(a) or (b). Except as specifically provided in section 330:

- (1) the *FCA* must consult publicly on its proposed direction;
- (2) the *FCA* must have regard to any representations made in response to the consultation; and
- (3) if the *FCA* then gives the proposed direction, it must publish an account of the representations made and its response to them.

3.2.7
FCA

G

The directions the *FCA* has made under section 328 (6)(a) are set out in ■ PROF 3 Annex 1 G. Directions made by the *FCA* under section 328(6)(b) of the *Act* are listed in ■ PROF 3 Annex 2 G (The *FCA*'s duties and powers).

The FCA's duties and powers

FCA

Directions made by the FCA under section 328(6)(a) of the *Act* (see ■ PROF 3.2.7 G)

The *FCA* has made no directions under section 328(6)(a) of the *Act*.

The FCA's duties and powers

FCA

Directions made by the FCA under section 328(6)(b) of the *Act* (see ■ PROF 3.2.7 G)

The *FCA* has made no directions under section 328(6)(b) of the *Act*.

Regulated Covered Bonds

Regulated Covered Bonds

Chapter 1

Introduction

1.1 Introduction to sourcebook

Application

- 1.1.1 FCA G This sourcebook applies to *issuers* and *owners* in relation to *regulated covered bonds*.

Purpose

- 1.1.2 FCA G The general purpose of this sourcebook is to set out the guidance, directions and rules made by the *FCA* under the *RCB Regulations*. Those regulations enable bonds to be issued which comply with Article 52(4) of the *UCITS Directive*.

- 1.1.3 FCA G This sourcebook should be read together with the *RCB Regulations*.

Other relevant provisions

- 1.1.4 FCA G This section refers to some of the other parts of the *FCA Handbook* and *PRA Handbook* which may be relevant to *regulated covered bonds*.
- 1.1.5 FCA G Investors in *regulated covered bonds* may be able to take advantage of different regulatory treatments depending on what type of investor they are.
- 1.1.6 FCA G *IFPRU investment firms* which have *exposures* to *covered bonds* which meet the requirements set out in the provisions of article 129 of the *EU CRR* may benefit from reduced *risk weights* as set out in article 129 of the *EU CRR*.
- 1.1.7 FCA G An *insurer* (which is not a *non-directive friendly society*, *incoming EEA firm* or an *incoming Treaty firm*) may benefit from increased counterparty limits under ■ INSPRU 2.1.22 R (3)(b).
- 1.1.8 FCA G *UCITS schemes* and *non-UCITS retail schemes* may benefit from less onerous spread requirements and increased investment limits under ■ COLL 5.2.11 R and ■ COLL 5.6.7 R.
- 1.1.9 FCA G (1) *Issuers* which are subject to an obligation to publish a prospectus under the *Prospectus Directive* are required by Article 3 of the *PD Regulation* to disclose risk factors. These requirements are set out in ■ PR 2.3.1 EU and ■ PR App 3.1.1 EU.

- (2) The more that an *asset pool* consists of loans involving risks such as high loan-to-value ratios, self-certification, borrowers with poor credit profiles, and low borrower affordability, the less likely it is, without other mitigating factors, to be of sufficiently high quality to meet the requirements in Regulations 17(2)(d) (general requirements on *issuer* in relation to the *asset pool*) and 23(2) (requirements on *owner* relating to the *asset pool*) of the *RCB Regulations*.

Covered bonds collateralised by real estate

2.3.13

FCA

G

In assessing whether the *asset pool* is of sufficient quality, the *FCA* will have regard to the requirements in relation to the collateralisation of real estate referred to in article 208 of the *EU CRR* and the valuation rules in article 229(1) of the *EU CRR*.

Rectifying non-compliance

2.3.14

FCA

G

The *FCA* expects the *issuer* to demonstrate that there are provisions in the *covered bond* or *programme* that adequately deal with:

- (1) the identification and rectification of any breach of Regulations 17(2) (general requirements on *issuer* in relation to the *asset pool*) and 24 (requirements on *owner* relating to the *asset pool*) of the *RCB Regulations*;
- (2) the appointment of replacements for parties, for example servicers, cash managers or paying agents; and
- (3) the orderly winding-up of the *asset pool* in the event that breaches of Regulations 17(2) and 24 are not rectified in a timely way.

Representation of bond investors' views and interests

2.3.15

FCA

G

The *FCA* expects the *issuer* to demonstrate, as part of showing that Regulations 17 (general requirements on *issuer* in relation to the *asset pool*) and 24 (requirements on *owner* relating to the *asset pool*) of the *RCB Regulations* will be complied with, that there are provisions in the *covered bond* or *programme* which enable the views and interests of investors in the *regulated covered bond* to be taken account of in an appropriate and timely way by a suitably qualified, adequately resourced, third party who acts independently, such as a bond trustee.

Third party advice and reports

2.3.16

FCA

D

The *issuer* must obtain written advice and reports regarding the compliance of the *issuer* and the relevant *covered bond* or *programme* with the requirements in the *RCB Regulations* and *RCB* from suitable independent third party advisers, such as lawyers and accountants, before making an application.

Legal advice

2.3.17

FCA

G

- (1) The *FCA* expects legal advice to deal adequately with at least the following matters in relation to the actual or proposed arrangements:
 - (a) whether the transfer of the *assets* to the owner would be upheld in the event of liquidation or administration, or similar collective insolvency proceedings, of the *issuer* or the transferor (if different from the *issuer*);
 - (b) the risk of the transfer of an *asset* to the owner being re-characterised as the creation of a security interest;

- (c) the risk of an *asset* transferred to the owner being clawed back under insolvency law provisions (such as rules against preferences, or transactions at an undervalue);
 - (d) whether the contractual arrangements limit eligible property to the items listed in Regulation 2(1) of the *RCB Regulations* (meaning of eligible property);
 - (e) whether the contractual arrangements limit the situation of eligible property to locations permitted under Regulation 2(2) of the *RCB Regulations* (situation of eligible property);
 - (f) whether the contractual arrangements limit the asset pool to items listed in Regulation 3 of the *RCB Regulations* (composition of asset pool);
 - (g) if security is granted over the *asset pool* by the *owner*, the enforceability of that security and any relevant legal limitations;
 - (h) whether the *owner* meets the requirements set out in Regulation 4 of the *RCB Regulations* (meaning of owner);
 - (i) whether the *owner* is a company or limited liability partnership which has its registered office in the *United Kingdom* and whether the contractual arrangements support an analysis that the owner's "centre of main interests" (defined in Regulation 1(2) of the *RCB Regulations* as having the same meaning as in Article 3(1) of Council Regulation (EC) No. 1346/2000 of 29 May 2000 on insolvency proceedings) is also situated in the *United Kingdom*;
 - (j) whether the contractual arrangements are consistent with the obligation of the *issuer* to lend sums derived from the issue of a *regulated covered bond* to the *owner* of the *relevant asset pool* under Regulation 16 of the *RCB Regulations* (sums derived from the issue of *regulated covered bonds*);
 - (k) whether the contractual arrangements provide that if the *owner* is wound up, the *asset pool* will be used to reimburse the claims of investors in *regulated covered bonds* under the priority set out in Regulation 27 of the *RCB Regulations* (priority in a winding-up of an *owner*);
 - (l) whether the contractual arrangements provide for the appointment of a person who will enable the views and interests of investors in the *regulated covered bond* to be taken account of in an appropriate and timely way as explained in ■ RCB 2.3.15 G;
 - (m) whether the contractual arrangements provide for the identification and rectification of breaches of Regulation 17 of the *RCB Regulations* (general requirements on *issuer* relating to the *asset pool*) and Regulations 23 and 24 of the *RCB Regulations* (requirements relating to the *asset pool*) and the orderly winding-up of the *asset pool* in the event that the breaches cannot be rectified; and
 - (n) the enforceability of the contractual arrangements.
- (2) Where *assets* are situated outside England and Wales, the *FCA* expects the *issuer* to obtain advice on whether the law of those jurisdictions impacts on the enforceability of security and the availability of those *assets*. Relevant issues to consider may include true sale, perfection of security, priority and recognition of insolvency proceedings, and foreclosure rights.

Accountancy reports

2.3.18

FCA

G

- (1) The FCA expects the report from the accountants to address at least the following matters:
- (a) that the level of *over collateralisation* meets the limits set out in the *covered bond* arrangements which are designed to ensure compliance with the requirement that the *asset pool* is capable of covering claims attaching to the bond in Regulation 17 (requirements on *issuer* in relation to the *asset pool*) of the *RCB Regulations*; and
 - (b) that appropriate due diligence procedures (which should include an analysis of a representative statistical sample at a 99% confidence level of the *assets* in the *asset pool*) have been carried out to check whether:
 - (i) the attributes of the *asset pool* correspond accurately to supporting information obtained from other sources (for example, in the case of mortgage pools, that information such as the mortgage amount, value, term, type and location correspond to land registry records, valuation reports and loan agreements);
 - (ii) the attributes of the *asset pool* are appropriately reflected on the records which are maintained in order to comply with the requirements of Regulations 17(2)(a) and 24(1)(a)(i) of the *RCB Regulations* (requirement to keep a record of each *asset* in the *asset pool*) and on the *issuer's* systems; and
 - (iii) the *issuer's* analysis of the *assets* provided to the FCA is accurate.

Providing advice and reports to the FCA

2.3.19

FCA

G

The FCA's use of its power under Regulation 12 of the *RCB Regulations* (requirement of further information to determine application) may include requiring the *issuer* to provide copies of the advice or reports referred to in ■ RCB 2.3.16 D to the FCA .

Liquid assets

2.3.20

FCA

G

Assets which would be eligible for inclusion in a liquidity buffer under ■ BIPRU 12.7 can be liquid assets for the purposes of limb (a) of the definition of liquid assets in Regulation 1(2) of the *RCB Regulations*. The FCA will also expect that liquid assets which consist of deposits should be held in the same currency or currencies as the *regulated covered bonds* issued by the *issuer*.

Application for the admission to the register of issuers and register of regulated covered bonds

FCA

This annex consists only of one or more forms. Forms are to be found through the following address:

Application for the admission to the register of issuers and register of regulated covered bonds - rcb_chapter2_annex1d_20140101.doc



Part

GLOSSARY

Links

Title	URL
Legislation.gov.uk	http://www.legislation.gov.uk/
Eur-Lex	http://eur-lex.europa.eu/en/index.htm
CP5/13 Strengthening Capital Standards: Implementing CRD IV and PS	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx
PS7/13 Strengthening Capital Standards: Implementing CRD IV, feedback and final rules	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx

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Glossary

accepting deposits

means the *regulated activity* specified in article 5 of the *Regulated Activities Order* (Accepting deposits).

affiliated company

means (in relation to a *person*) an *undertaking* in the same *group* as that *person*.

body corporate

means any body corporate including a body corporate constituted under the law of a country or territory outside the *UK*.

building society

has the meaning given in section 119 of the Building Societies Act 1986.

CRD

means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

credit union

has the meaning given in section 31 of the Credit Unions Act 1979.

CRR

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

CRR firm

means a *UK bank*, a *building society* or a *UK designated investment firm*.

director

means (in relation to any of the following (whether constituted in the *UK* or under the law of a country or territory outside it)):

- (a) an unincorporated association;
- (b) a *body corporate*;

any *person* appointed to direct its affairs, including a *person* who is a member of its *governing body* and (in accordance with section 417(1) of *FSMA*):

- (i) a *person* occupying in relation to it the position of a director (by whatever name called); and
- (ii) a *person* in accordance with whose directions or instructions (not being advice given in a professional capacity) the directors of that body are accustomed to act.

EBA

means the European Banking Authority.

firm

means a *PRA-authorized person* within the meaning of section 2B(5) of *FSMA*.

FSMA

means the Financial Services and Markets Act 2000.

governing body

means the board of *directors*, committee of management or other governing body of an unincorporated association or *body corporate*.

incoming firm

means an incoming firm within the meaning of section 193 of *FSMA*.

management body

means a *firm's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *firm's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *firm*.

market risk

means the risk that arises from fluctuations in values of, or income from assets, or in interest or exchange rates.

overseas firm

means a *firm* which has its registered office (or, if it has no registered office, its head office) outside the *UK*.

Part 4A permission

means a permission given by the *FCA* or *PRA* under Part 4A of *FSMA* (Permission to carry on regulated activities), or having effect as if so given.

PRA

means the Prudential Regulation Authority.

Regulated Activities Order

means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).

senior management

means those natural *persons* who exercise executive functions within a *firm* and who are responsible, and accountable to the *management body*, for the day-to-day management of the *firm*.

third country

means a territory or country that is not an *EEA State*.

undertaking

means an undertaking within the meaning of section 1161(1) of the Companies Act 2006 (meaning of “undertaking” and related expressions).

UK bank

means a *UK undertaking* that has permission under Part 4A of *FSMA* to carry on the *regulated activity* of accepting deposits and is a *credit institution*, but is not a *credit union*, *friendly society* or a *building society*.

UK designated investment firm

means a *UK undertaking* that is an investment firm that has been designated by the *PRA* under Article 3 of Financial Services and Markets Act 2000 (PRA-regulated Activities) Order (S.I. 2013/556).

UK undertaking

means an undertaking within the meaning of section 1161(1) of the Companies Act 2006 (meaning of “undertaking” and related expressions) whose registered office or, if the undertaking does not have a registered office, whose head office is in any part of the *UK*.

UK

means *United Kingdom*.

unregulated activity

means an activity that is not a *regulated activity*.



Part

GLOSSARY

Externally defined glossary terms

Term	Definition source
<i>EEA State</i>	<i>FSMA s425</i>
<i>The EU</i>	<i>s1(2) Interpretation Act 1978</i>
<i>FCA</i>	<i>FSMA s417</i>
<i>group</i>	<i>FSMA s421</i>
<i>person</i>	<i>Interpretation Act 1978 Schedule 1</i>
<i>regulated activity</i>	<i>FSMA s22</i>
<i>United Kingdom</i>	<i>Interpretation Act 1978 Schedule 1</i>



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Part

INTERPRETATION

Chapter content

- 1 APPLICATION**
- 2 INTERPRETATIVE PROVISIONS**

1 APPLICATION

- 1.1 This Part applies to a *firm*.

2 INTERPRETATIVE PROVISIONS

Purposive interpretation

- 1.1 Every provision in the *PRA* Rulebook must be interpreted in the light of its purpose.

Use of defined expressions

- 2.2 In the *PRA* Rulebook, save as otherwise indicated in a Part of the *PRA* Rulebook, an expression in italics defined:
- (1) in the *PRA* Rulebook Glossary has the meaning given in that glossary;
 - (2) for the purposes of *FSMA* has the meaning given in that Act;
 - (3) in the Interpretation Act 1978 has the meaning given in that Act.

Application of the Interpretation Act 1978

- 2.3 Save as otherwise indicated, the Interpretation Act 1978 applies to the *PRA* Rulebook.

Cross-references in the *PRA* Rulebook

- 2.4 A reference in the *PRA* Rulebook to another provision in the *PRA* Rulebook is a reference to that provision as amended from time to time.

Activities covered by rules

- 1.5 In the *PRA* Rulebook, a rule made by the *PRA* under section 137G of *FSMA* applies to a *firm* with respect to the carrying on of any activities, except to the extent that a contrary intention appears.

Continuity of authorised partnerships and unincorporated associations

- 1.6 If a *firm* is dissolved, but its authorisation continues to have effect under section 32 (Partnerships and unincorporated associations) of *FSMA* in relation to any partnership or unincorporated association that succeeds to the business of the dissolved *firm*, the successor partnership or unincorporated association is to be regarded as the same *firm* for the purposes of the *PRA* Rulebook unless the context otherwise requires.



Part

DEFINITION OF CAPITAL

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 HOLDINGS OF OWN FUNDS INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATED SUPERVISION
- 3 QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR
- 4 CONNECTED FUNDING OF A CAPITAL NATURE
- 5 CONNECTED TRANSACTIONS
- 6 INSTRUMENTS ISSUED UNDER NON-EEA LAW
- 7 NOTIFICATION REGIME – ISSUANCE
- 8 NOTIFICATION REGIME – AMENDMENT
- 9 NOTIFICATION REGIME – REDUCTION OF OWN FUNDS
- 10 BUILDING SOCIETIES – CREDITOR HIERARCHY
- 11 TRANSITIONAL PROVISIONS FOR OWN FUNDS
- 12 BASE CAPITAL RESOURCES REQUIREMENT

Links

General links

Eur-Lex	http://eur-lex.europa.eu/en/index.htm
CP5/13 Strengthening Capital Standards: Implementing CRD IV and PS	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx
PS7/13 Strengthening Capital Standards: Implementing CRD IV, feedback and final rules	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx

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1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

Small specialist bank

a *bank* that has capital resources equal to or in excess of the base capital resources requirement for a *small specialist bank* in 12.1 but less than the base capital resources requirement of a *bank* and that carries out one or more of the following activities:

- (1) provides current and savings accounts;
- (2) lending to *small and medium-sized enterprises*;
- (3) lending secured by mortgages on residential property.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 HOLDINGS OF OWN FUNDS INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATED SUPERVISION

2.1 For the purposes of calculating *own funds* on an individual basis and a *sub-consolidated basis*, *firms* subject to supervision on a *consolidated basis* must deduct at least the relevant percentage of holdings of *own funds instruments* issued by *financial sector entities* included in the scope of consolidated supervision in accordance with Part Two of the *CRR*, except where the exception in 2.3 or 2.6 applies.

2.2 For the purposes of 2.1 the relevant percentage is as follows:

- (1) 50% for the period from 1 January 2014 to 31 December 2014;
- (2) 60% for the period from 1 January 2015 to 31 December 2015;
- (3) 70% for the period from 1 January 2016 to 31 December 2016;
- (4) 80% for the period from 1 January 2017 to 31 December 2017;
- (5) 90% for the period from 1 January 2018 to 31 December 2018; and

- (6) 100% for the period after 31 December 2018.
- 2.3 A *firm* must not apply the deduction in 2.1 to its holdings of *own funds instruments* issued by a venture capital investor that is included in the scope of consolidated supervision of the *firm*.
- 2.4 For the purposes of this Chapter, a venture capital investor is a *financial institution*, in relation to which:
- (1) the sole purpose is to make venture capital investments and carry out unregulated activities in relation to the administration of venture capital investments; and
 - (2) none of its venture capital investments is in a *credit institution* or a *financial institution*, the principal activity of which is to perform any activity other than the acquisition of holdings in other undertakings (within the meaning of section 1161(1) of the Companies Act 2006).
- 2.5 For the purposes of this Chapter, a venture capital investment is a designated investment which, at the time the investment is made, is:
- (1) in a new or developing company or venture; or
 - (2) in a management buy-out or buy-in; or
 - (3) made as a means of financing the investee company or venture and accompanied by a right of consultation, or rights to information, or board representation, or management rights; or
 - (4) acquired with a view to, or in order to, facilitate a transaction falling within (1) to (3).
- 2.6 For the purposes of this Chapter, a designated investment is a security or contractually-based investment specified in Articles 76 to 85 and 89 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
- 2.7 A *firm* must not apply the deduction in 2.1 to that percentage of its holdings of *own funds instruments* issued by a venture capital holding company included in the scope of consolidated supervision of the *firm* that represents the value of the venture capital holding company's investment in venture capital investors.
- 2.8 For the purposes of this Chapter, a venture capital holding company is a *financial institution*, in respect of which:
- (1) it is a *financial institution* solely by reason of its principal activity being the acquiring of holdings;
 - (2) it holds shares (in the meaning of section 76 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) in a venture capital investor; and
 - (3) the proportion of the value of the venture capital holding company attributable to investment in Venture Capital Investors and the proportion of the value of the venture capital holding company attributable to other investments can be identified and valued on a regular basis

[Note: Art 49(2) of the CRR]

3 QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR

- 3.1 In respect of the qualifying holdings described in Article 89(1) and (2) of the *CRR*, a *firm* must, in accordance with Article 89(3), comply with the requirement in Article 89(3)(a).

[Note: Art 89(3) of the *CRR*]

4 CONNECTED FUNDING OF A CAPITAL NATURE

- 4.1 This Chapter applies to every *firm* that is a *UK bank*.
- 4.2 A *firm* must not avoid the requirements of the *CRR* by structuring its investments as connected funding of a capital nature.
- 4.3 A *firm* must treat all connected funding of a capital nature as a holding of capital of the connected party and apply to it the treatment under the *CRR* and the *PRA Rulebook* applicable to such a holding, including any reporting or disclosure requirements in respect of such holding.
- 4.4 If the connected party is a *financial sector entity*, the *firm* must treat the connected funding of a capital nature as a holding of *Common Equity Tier 1 instruments*, *Additional Tier 1 instruments* or *Tier 2 instruments* of the connected party, as appropriate in light of the funding's characteristics when compared to the characteristics of each type of *own funds instruments*.
- 4.5 A *firm* must report to the *PRA* all connected funding of a capital nature at least 30 days in advance of entry into the relevant funding transaction and identify each relevant transaction with sufficient detail to allow the *PRA* to evaluate it.
- 4.6 A loan or other funding transaction is connected funding of a capital nature if it is made by the *firm* to a connected party and:
- (1) based on its terms and other factors of which the *firm* is aware, the connected party would be able to consider it from the point of view of its characteristics as capital as being similar to an *own funds instrument*; or
 - (2) the position of the *firm* from the point of view of maturity and repayment is inferior to that of the senior unsecured and unsubordinated creditors of the connected party.
- 4.7 A loan or other funding transaction is connected funding of a capital nature if it:
- (1) funds directly or indirectly a loan to a connected party that has the characteristics described in 4.6 or of a capital investment in a connected party; or
 - (2) has itself the characteristics described in 4.6.

4.8 A guarantee is connected funding of a capital nature if it is a guarantee by the *firm* of a loan or other funding transaction from a third party to a connected party of the *firm* and:

- (1) the loan or other funding transaction has the characteristics described in 4.6 or the characteristics described in 4.7; or
- (2) the rights that the *firm* would have against the connected party have the characteristics described in 4.6(2).

4.9 For the purposes of this Chapter and in relation to a *firm*, a connected party means another person (“P”) in respect of whom the *firm* has not been permitted to apply the individual consolidation method under Article 8 of the *CRR* and one of the following applies:

- (1) P is closely related to the *firm*;
- (2) P is an associate of the *firm*; or
- (3) the same persons significantly influence the *management body* of P and the *firm*.

4.10 For the purposes of 4.9(1), a *firm* and another person are closely related when:

- (1) the insolvency of one of them is likely to be associated with the insolvency or default of the others;
- (2) it would be prudent when assessing the financial condition or creditworthiness of one to consider that of the other; or
- (3) there is, or there is likely to be, a close relationship between the financial performance of the *firm* and that person.

4.11 For the purposes of 4.9(2), a person is an associate of a *firm* if it is:

- (1) in the same group as the *firm*;
- (2) an appointed representative (in the sense of section 39 of *FSMA*) or tied agent (as described in Article 4(1)(25) of *MiFID*) of the *firm* or a member of the *firm's* group; or
- (3) any other person whose relationship with the *firm* or a member of the *firm's* group might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties.

5 CONNECTED TRANSACTIONS

5.1 In determining whether an item of capital qualifies as a *Common Equity Tier 1 item*, an *Additional Tier 1 item* or a *Tier 2 item* a *firm* must take into account any connected transaction which, when taken together with the item of capital, would cause it not to display the characteristics of a *Common Equity Tier 1 item*, an *Additional Tier 1 item* or a *Tier 2 item*.

5.2 A *firm* must report to the *PRA* all connected transactions described in 5.1 at least 30 days in advance of entry into the relevant transaction and identify each relevant transaction with sufficient detail to allow the *PRA* to evaluate it.

6 OWN FUNDS INSTRUMENTS ISSUED UNDER NON-EEA LAW

6.1 A *firm* must demonstrate to the *PRA* that any *Additional tier 1 instruments* or *Tier 2 instruments* issued by it that are governed by the law of a *third country* are by their terms capable, as part of a resolution of the *firm*, of being written down or converted into *Common Equity Tier 1 instruments* of the *firm* to the same extent as an equivalent *own funds instrument* issued under the law of the United Kingdom.

6.2 A *firm* must include in the materials it provides to the *PRA* under 6.1 a properly reasoned independent legal opinion from an individual appropriately qualified in the relevant *third country*.

7 NOTIFICATION REGIME - ISSUANCE

7.1 A *firm* shall notify the *PRA* in writing of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to issue a capital instrument that it believes will qualify under the *CRR* as an *own funds instrument* at least thirty days before the intended date of issue. This rule does not apply to the capital instruments described in 7.3 below.

7.2 When giving notice under 7.1, the *firm* shall provide:

- (1) details of the amount and type of *own funds* the *firm* is seeking to raise through the intended issue and whether the capital instruments are intended to be issued to external investors or to other members of its *group*;
- (2) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;
- (3) confirmation from a member of the *firm's senior management* responsible for authorising the intended issue or, in the case of an issue by another *group* member, for the issue's inclusion in the *firm's consolidated own funds*, that the capital instrument meets the conditions for qualification as an *own funds instrument*; and
- (4) a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the capital instrument meets the conditions for qualification as the relevant type of *own funds instrument*.

7.3 The *firm* does not have to give notice under 7.1 if the capital instrument is:

- (1) an ordinary share with voting rights and no new or unusual features; or

- (2) a debt instrument issued under a debt securities programme under which the *firm* or *group* member has previously issued and the *firm* has notified the *PRA* in accordance with this Chapter prior to a previous issuance under the programme.

7.4 A *firm* shall notify the *PRA* in writing no later than the date of issue of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to issue a capital instrument described in 7.3.

7.5 When giving notice under 7.4, the *firm* shall provide:

- (1) confirmation that the terms of the capital instrument have not changed since the previous issue by the *firm* of that type of capital instrument; and
- (2) the items described in 7.2(1) and (3).

7.6 The *firm* shall notify the *PRA* in writing of any change to the intended date of issue, amount of issue, type of investors, type of *own funds instrument* or any other feature of the capital instrument to that previously notified to the *PRA* under 7.1 or 7.4.

8 NOTIFICATION REGIME - AMENDMENT

8.1 A *firm* shall notify the *PRA* in writing of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to amend or otherwise vary the terms of any *own funds instrument* included in its *own funds* or the *own funds* of its consolidated group at least thirty days before the intended date of such amendment or other variation.

9 NOTIFICATION REGIME – REDUCTION OF OWN FUNDS

9.1 A *firm* shall notify the *PRA* of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to carry out in respect of an *own funds instrument* any of the actions described in Article 77 of the *CRR*.

10 BUILDING SOCIETIES – CREDITOR HIERARCHY

10.1 This Chapter applies to every *firm* that is a *building society*.

10.2 A *firm* must ensure that any *Additional Tier 1 instrument* or *Tier 2 instrument* issued by it is contractually subordinated to its non-deferred shares.

11 TRANSITIONAL PROVISIONS FOR OWN FUNDS

11.1 The *Common Equity Tier 1 capital ratio* which *firms* must under Article 465(1)(a) of the *CRR* meet or exceed for the period from 1 January 2014 until 31 December 2014 shall be 4.0%.

[Note: Art 465(1)(a) of the CRR]

11.2 The *Tier 1 capital ratio* which *firms* must under Article 465(1)(b) of the *CRR* meet or exceed for the period from 1 January 2014 until 31 December 2014 shall be 5.5%.

[Note: Art 465(1)(b) of the CRR]

11.3 The applicable percentage for the purposes of Article 467(1) of the *CRR* shall be:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 467 of the CRR]

11.4 The applicable percentage for the purposes of Article 468(1) of the *CRR* shall be:

- (1) 0% during the period from 1 January 2015 to 31 December 2015;
- (2) 0% during the period from 1 January 2016 to 31 December 2016; and
- (3) 0% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 468(1)-(3) of the CRR]

11.5 The applicable percentage for the purposes of Article 468(4) of the *CRR* shall be:

- (1) 100% for the period from 1 January 2014 to 31 December 2014;
- (2) 100% for the period from 1 January 2015 to 31 December 2015;
- (3) 100% for the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 468(4), 478(1) of the CRR]

11.6 The applicable percentage for the purposes of Article 469(1)(a) of the *CRR* as it applies to the items referred to in points (a)-(b) and (d)-(h) of Article 36(1) shall be:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 469(1)(a), 478(1) of the CRR]

11.7 The applicable percentage for the purposes of Article 469(1)(c) of the *CRR* as it applies to the items referred to in point (c) of Article 36(1) that existed prior to 1 January 2014 shall be:

- (1) 100% for the period from 1 January 2014 to 31 December 2014;
- (2) 100% for the period from 1 January 2015 to 31 December 2015;
- (3) 100% for the period from 1 January 2016 to 31 December 2016;
- (4) 100% for the period from 1 January 2017 to 31 December 2017;
- (5) 100% for the period from 1 January 2018 to 31 December 2018;
- (6) 100% for the period from 1 January 2019 to 31 December 2019;
- (7) 100% for the period from 1 January 2020 to 31 December 2020;
- (8) 100% for the period from 1 January 2021 to 31 December 2021;
- (9) 100% for the period from 1 January 2022 to 31 December 2022; and
- (10) 100% for the period from 1 January 2023 to 31 December 2023.

[Note: Art 469(1)(c), 478(2) of the *CRR*]

11.8 The applicable percentage for the purposes of Article 469(1)(c) of the *CRR* as it applies to the items referred to in point (c) of Article 36(1) that did not exist prior to 1 January 2014 and the items referred to in point (i) of Article 36(1) shall be:

- (1) 100% during the period from 1 January 2014 to 31 December 2014;
- (2) 100% during the period from 1 January 2015 to 31 December 2015;
- (3) 100% during the period from 1 January 2016 to 31 December 2016; and
- (4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 469(1)(c), 478(1) of the *CRR*]

11.9 The applicable percentage for the purposes of Article 474(a) of the *CRR* shall be:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 474(a), 478(1) of the *CRR*]

11.10 The applicable percentage for the purposes of Article 476(a) of the *CRR* shall be:

- (1) 20% during the period from 1 January 2014 to 31 December 2014;
- (2) 40% during the period from 1 January 2015 to 31 December 2015;
- (3) 60% during the period from 1 January 2016 to 31 December 2016; and
- (4) 80% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 476(a), 478(1) of the CRR]

11.11 The applicable percentage for the purposes of Article 479(2) of the *CRR* shall be:

- (1) 0% for the period from 1 January 2014 to 31 December 2014;
- (2) 0% for the period from 1 January 2015 to 31 December 2015;
- (3) 0% for the period from 1 January 2016 to 31 December 2016; and
- (4) 0% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 479 of the CRR]

11.12 The applicable factor for the purposes of Article 480(1) of the *CRR* as it applies to point (b) of Article 84(1) shall be:

- (1) 1 in the period from 1 January 2014 to 31 December 2014;
- (2) 1 in the period from 1 January 2015 to 31 December 2015;
- (3) 1 in the period from 1 January 2016 to 31 December 2016; and
- (4) 1 in the period from 1 January 2017 to 31 December 2017.

[Note: Art 480 of the CRR]

11.13 The applicable factor for the purposes of Article 480(1) of the *CRR* as it applies to point (b) of Article 85(1) and point (b) of Article 87(1) shall be:

- (1) 0.2 in the period from 1 January 2014 to 31 December 2014;
- (2) 0.4 in the period from 1 January 2015 to 31 December 2015;
- (3) 0.6 in the period from 1 January 2016 to 31 December 2016; and
- (4) 0.8 in the period from 1 January 2017 to 31 December 2017.

[Note: Art 480 of the CRR]

11.14 The applicable percentage for the purposes of Article 481(1) of the *CRR* shall be:

- (1) 0% for the period from 1 January 2014 to 31 December 2014;
- (2) 0% for the period from 1 January 2015 to 31 December 2015;

(3) 0% for the period from 1 January 2016 to 31 December 2016; and

(4) 0% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 481 of the CRR]

11.15 The applicable percentage for the purposes of Article 486(2), (3) and (4) of the CRR shall be:

(1) 80% for the period from 1 January 2014 to 31 December 2014;

(2) 70% for the period from 1 January 2015 to 31 December 2015;

(3) 60% for the period from 1 January 2016 to 31 December 2016;

(4) 50% for the period from 1 January 2017 to 31 December 2017;

(5) 40% for the period from 1 January 2018 to 31 December 2018;

(6) 30% for the period from 1 January 2019 to 31 December 2019;

(7) 20% for the period from 1 January 2020 to 31 December 2020; and

(8) 10% for the period from 1 January 2021 to 31 December 2021.

[Note: Art 486 of the CRR]

12 BASE CAPITAL RESOURCES REQUIREMENT

12.1 A CRR firm must maintain at all times capital resources equal to or in excess of the base capital resources requirement set out in the table below:

<i>Firm category</i>	<i>Amount: Currency equivalent of</i>
<i>bank</i>	€5 million
<i>small specialist bank</i>	The higher of €1 million and £1 million
<i>building society</i>	The higher of €1 million and £1 million
<i>designated investment firm</i>	€730,000



Part

DEFINITION OF CAPITAL

Externally defined glossary terms

Term	Definition source
<i>Additional Tier 1 instruments</i>	<i>Article 52 CRR</i>
<i>Additional Tier 1 item</i>	<i>Article 51 CRR</i>
<i>Common Equity Tier 1 capital ratio</i>	<i>Article 92(2)(a) CRR</i>
<i>Common Equity Tier 1 instruments</i>	<i>Article 28 CRR</i>
<i>Common Equity Tier 1 item</i>	<i>Article 26(1) CRR</i>
<i>consolidated basis</i>	<i>Article 4 (48) CRR</i>
<i>Credit institution</i>	<i>Article 4(1)(1) CRR</i>
<i>discretionary pension benefits</i>	<i>Article 4 (73)CRR</i>
<i>Financial institution</i>	<i>Article 4(1)(26) CRR</i>
<i>Financial sector entities</i>	<i>Article 4(1)(27) CRR</i>
<i>Group</i>	<i>s421 FSMA</i>
<i>management body</i>	<i>Article 4(1)(9) CRR</i>
<i>Own funds</i>	<i>Article 4(1)(118) CRR</i>
<i>Own funds instruments</i>	<i>Article 4(1)(119) CRR</i>
<i>Senior management</i>	<i>Article 4(1)(10) CRR</i>
<i>sub-consolidated basis</i>	<i>Article 4 (49) CRR</i>
<i>Tier 1 capital ratio</i>	<i>Article 92(2)(b) CRR</i>
<i>Tier 2 instruments</i>	<i>Article 63 CRR</i>
<i>Tier 2 item</i>	<i>Article 62 CRR</i>



Part

BENCHMARKING OF INTERNAL APPROACHES

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 SUPERVISORY BENCHMARKING OF INTERNAL APPROACHES FOR CALCULATING OWN FUNDS REQUIREMENTS

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Legislation.gov.uk	http://www.legislation.gov.uk/
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1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to every *firm* that is a *CRR firm*.
- 1.2 Unless otherwise defined, any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD*.

2 SUPERVISORY BENCHMARKING OF INTERNAL APPROACHES FOR CALCULATING OWN FUNDS REQUIREMENTS

- 2.1 Except for *operational risk*, a *firm* that is permitted to use *internal approaches* for the calculation of risk weighted exposure amounts or *own funds* requirements must report annually to the *PRA*:
 - (1) the results of the calculations of their *internal approaches* for their exposures or positions that are included in the benchmark portfolios; and
 - (2) an explanation of the methodologies used to produce those calculations.
- 2.2 A *firm* shall submit the results of the calculations referred to in 2.1 above to the *PRA* and to *EBA* in accordance with the template set out in the Commission Regulation adopted under Article 78(8) of the *CRD*.

[Note: Art 78(1) and (2) of the *CRD*]



Part

BENCHMARKING OF INTERNAL APPROACHES

Externally defined glossary terms

Term	Definition source
internal approaches	Article 3(1)(59) CRD
operational risk	Article 4(1)(52) CRR
own funds	Article 4(1)(118) CRR



Part

CREDIT RISK

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 STANDARDISED APPROACH – TREATMENT OF EXPOSURES TO REGIONAL GOVERNMENTS
- 3 SECURITISATION – RECOGNITION OF SIGNIFICANT RISK TRANSFER
- 4 CRITERIA FOR CERTAIN EXPOSURES SECURED BY MORTGAGES ON COMMERCIAL IMMOVABLE PROPERTY
- 5 SETTLEMENT RISK

Links

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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part, the following definitions shall apply:

exposure

means an asset or off-balance sheet item as defined for credit risk purposes by Article 5(1) of the *CRR*.

loss

means economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument as defined for credit risk purposes by Article 5(2) of the *CRR*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 STANDARDISED APPROACH – TREATMENT OF EXPOSURES TO REGIONAL GOVERNMENTS

2.1 For the purposes of Article 115 of the *CRR*, a *firm* may treat *exposures* to the following regional governments as *exposures* to the *UK* central government:

- (1) The Scottish Parliament;
- (2) The National Assembly for Wales; and
- (3) The Northern Ireland Assembly.

[Note: Art 115 of the *CRR*]

3 SECURITISATION – RECOGNITION OF SIGNIFICANT RISK TRANSFER

3.1 A *firm* must notify the *PRA* that it is relying on the deemed transfer of significant credit risk under paragraph 2 of Article 243 of the *CRR* or paragraph 2 of Article 244 of the *CRR*, including when this is for the purposes of Article 337(5) of the *CRR*, no later than one month after the date of the transfer.

3.2 The notification in 3.1 must include sufficient information to allow the *PRA* to assess whether the possible reduction in risk weighted *exposure* amounts which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties.

4 CRITERIA FOR CERTAIN EXPOSURES SECURED BY MORTGAGES ON COMMERCIAL IMMOVABLE PROPERTY

- 4.1 For the purposes of Articles 124(2) and 126(2) of the *CRR* and in addition to the conditions set out therein, a *firm* may only treat *exposures* as fully and completely secured by mortgages on commercial immovable property located in the *UK* in accordance with Article 126 of the *CRR* where annual average *losses* stemming from lending secured by mortgages on commercial property located in the *UK* did not exceed 0.5% of risk-weighted exposure amounts over a representative period. A firm shall calculate the *loss* level referred to in this rule on the basis of the aggregate market data for commercial property lending published by the *PRA* in accordance with Article 101(3) of the *CRR*.
- 4.2 For the purposes of this rule, a representative period shall be a time horizon of sufficient length and which includes a mix of good and bad years.

[Note: Arts. 124(2) and 126(2) of the *CRR*]

5 SETTLEMENT RISK

- 5.1 In accordance with Article 380 of the *CRR*, where a system wide failure of a settlement system, a clearing system or a *CCP* occurs, the *own funds* requirements calculated as set out in Articles 378 and 379 of the *CRR* are waived until the situation is rectified. In this case, the failure of a counterparty to settle a trade shall not be deemed a default for purposes of credit risk.

[Note: Art. 380 of the *CRR*]



Part

CREDIT RISK

Externally defined glossary terms

Term	Definition source
CCP	Article 2(1) Regulation (EU) No 648/2012
exposure	Article 5(1) CRR
loss	Article 4(1)(52) CRR
own funds	Article 4(1)(118) CRR
securitisation	Article 4(1)(61) CRR



Part

COUNTERPARTY CREDIT RISK

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 HEDGING SETS
- 3 RECOGNITION OF NETTING: INTEREST RATE DERIVATIVES

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PS7/13 Strengthening Capital Standards: Implementing CRD IV, feedback and final rules	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx
SS12/13 Counterparty credit risk	http://www.bankofengland.co.uk/pru/Pages/publications/counterparty.aspx

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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

CCR Mark-to-Market method

means the method set out in in Chapter Six, Section 3 of the *CRR*.

interest-rate contract

means an interest rate contract of a type listed in paragraph 1 of Annex II of the *CRR*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 HEDGING SETS

2.1 For the purpose of Article 282(6) of the *CRR*, a *firm* must apply the *CCR Mark-to-Market method* to:

(a) *transactions* with a non-linear risk profile; or

(b) *payment legs* and *transactions* with debt instruments as underlying

for which it cannot determine the delta or modified duration, as the case may be, using an internal model approved by the *PRA* under Title IV of the *CRR* for the purposes of determining *own funds* requirements for *market risk*.

2.2 For the purposes of 2.1, a *transaction* means a transaction to which Chapter Six of the *CRR* applies.

3 RECOGNITION OF NETTING: INTEREST RATE DERIVATIVES

3.1 For the purpose of Article 298(4) of the *CRR*, a *firm* must use the original maturity of the *interest-rate contract*.



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Part

COUNTERPARTY CREDIT RISK

Externally defined glossary terms

Term	Definition source
<i>payment legs</i>	<i>Article 272(26) CRR</i>



Part

MARKET RISK

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 USE OF INTERNAL MODELS: RISK CAPTURE
- 3 NETTING: CONVERTIBLE BONDS
- 4 INSTRUMENTS FOR WHICH NO TREATMENT SPECIFIED

Links

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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

convertible bond

means a *security* which gives the investor the right to convert the security into a *share* at an agreed price on an agreed basis.

equity

means a *share*.

security

has the meaning specified in Article 3(1) of the *Regulated Activities Order*.

share

means the investment specified in Article 76 of the *Regulated Activities Order*.

1.3 Unless otherwise defined, any italicised expression used in this Part and defined in the *CRR* has the same meaning as in the *CRR*.

2 USE OF INTERNAL MODELS: RISK CAPTURE

2.1 A *firm* which has a permission to use internal models in accordance with Title IV, Chapter 5 of the *CRR*:

- (a) must identify any material risks, or risks that when considered in aggregate are material, which are not captured by those models; and
- (b) must ensure that it holds *own funds* to cover those risk(s) in addition to those required to meet its *own funds* requirement calculated in accordance with Title IV, Chapter 5 of the *CRR*.

3 NETTING: CONVERTIBLE BONDS

3.1 For the purposes of Article 327(2) of the *CRR*, the netting of a *convertible bond* and an offsetting position in the instrument underlying is permitted. The *convertible bond shall* be:

- (a) treated as a position in the *equity* into which it converts; and

- (b) the *firm's own funds* requirement for the general and specific risk in its *equity* instruments shall be adjusted by making:
- (i) an addition equal to the current value of any loss which the *firm* would make if it did convert to *equity*; or
 - (ii) a deduction equal to the current value of any profit which the *firm* would make if it did convert to *equity* (subject to a maximum deduction equal to the *own funds* requirements on the notional position underlying the *convertible bond*).

4 INSTRUMENTS FOR WHICH NO TREATMENT SPECIFIED

- 4.1 Where a *firm* has a position in a *financial instrument* for which no treatment has been specified in the *CRR*, it must calculate its *own funds* requirement for that position by applying the most appropriate *rules* relating to positions that are specified in the *CRR*, if doing so is prudent and appropriate, and if the position is sufficiently similar to those covered by the relevant *rules*.
- 4.2 A *firm* must document its policies and procedures for calculating own funds for such positions in its *trading book policy statement*.
- 4.3 If there are no appropriate treatments the *firm* must calculate an *own funds* requirement of an appropriate percentage of the current value of the position. An appropriate percentage is either 100%, or a percentage that takes into account the characteristics of the position.
- 4.4 For the purposes of this rule, *trading book policy statement* means the statement of policies and procedures relating to the *trading book*.



Part

MARKET RISK

Externally defined glossary terms

Term	Definition source
<i>financial instrument</i>	<i>Article 4(50) CRR</i>
<i>own funds</i>	<i>Article 4(118) CRR</i>
<i>rules</i>	<i>s417(1) FSMA</i>
<i>trading book</i>	<i>Article 4(86) CRR</i>



Part

GROUPS

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 METHODS OF PRUDENTIAL CONSOLIDATION

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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

Article 12(1) relationship

means a relationship where undertakings are linked by a relationship within the meaning of Article 12(1) of Directive 83/349 EEC.

Article 18(5) relationship

means a relationship where undertaking are linked by participations or capital ties other than those referred to in paragraphs (1) and (2) of Article 18 of the *CRR*.

Article 18(6) relationship

means a relationship of one of the following kinds:

- (a) where an *institution* exercises a significant influence over one or more *institutions* or *financial institutions*, but without holding a *participation* or other capital ties in these *institutions*; or
- (b) where two or more *institutions* or *financial institutions* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.

1.3 Unless otherwise defined:

- (1) any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*; and
- (2) any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD*.

2 METHODS OF PRUDENTIAL CONSOLIDATION

- 2.1
- (1) In carrying out the calculations in (Part One, Title II, Chapter 2 of the *CRR*) for the purposes of prudential consolidation, a *firm* must include the relevant proportion of an undertaking with whom it has an:
 - (a) *Article 12(1) relationship*; or
 - (b) *Article 18(6) relationship*.
 - (2) In 2.1(1), the relevant proportion is such proportion (if any) as stated in a requirement imposed on the *firm* in accordance with section 55M of *FSMA*.

[Note: Art 18(3) and (6) of the *CRR*]

2.2 In carrying out the calculations in Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *firm* (for which the *PRA* is the *consolidating supervisor*) must include the proportion of the share of capital held of *participations* in *institutions* and *financial institutions* managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where those undertakings' liability is limited to the share of capital they hold.

[Note: Art 18(4) of the *CRR*]

2.3 In carrying out the calculations in Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *firm* must carry out a full consolidation of any undertaking with whom it has an *Article 18(5) relationship*.

[Note: Art 18(5) of the *CRR*]



Part

GROUPS

Externally defined glossary terms

Term	Definition source
institutions	<i>Article 4(1)(3) CRR</i>
financial institutions	<i>Article 4(1)(26) CRR</i>
consolidating supervisor	<i>Article 4(1)(41) CRR</i>
participations	<i>Article 4(1)(35) CRR</i>



Part

LARGE EXPOSURES

Chapter content

- 1 APPLICATION AND DEFINITIONS**
- 2 INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP EXEMPTIONS**
- 3 SOVEREIGN LARGE EXPOSURES EXEMPTION**
- 4 CONDITIONS FOR THE NON-CORE LARGE EXPOSURES GROUP EXEMPTION AND THE SOVEREIGN LARGE EXPOSURES EXEMPTION**

Links

Legislation.gov.uk	http://www.legislation.gov.uk/
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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

core UK group

means all counterparties that:

- (a) are listed in a *firm's core UK group permission*;
- (b) in relation to a *firm*, satisfy the conditions in Article 113(6) of the *CRR*; and
- (c) in respect of which *exposures* are exempted, under Article 400(1)(f) of the *CRR*, from the application of Article 395(1) of the *CRR*.

core UK group eligible capital

means the sum of the following amounts for each member of the *core UK group* and the *firm* (the sub-group):

- (a) for the ultimate *parent undertaking* of the sub-group, the amount calculated in accordance with Article 6 of the *CRR* (or other applicable prudential requirements);
- (b) for any other member of the sub-group, the amount calculated in accordance with Article 6 of the *CRR* (or other applicable prudential requirements) less the book value of the sub-group's holdings of capital instruments in that member, to the extent not already deducted in calculations done in accordance with Article 6 of the *CRR* (or other applicable prudential requirements) for:
 - (i) the ultimate *parent undertaking* of the sub-group; or
 - (ii) any other member of the sub-group.

The deduction in (b) must be carried out separately for each type of capital instrument eligible as *own funds*.

core UK group permission

means a permission given by the *PRA* under Article 113(6) of the *CRR*.

exposure

has the meaning given to it in Article 389 of the *CRR*.

non-core large exposures group or NCLEG

means all counterparties that:

- (a) are listed in a *firm's NCLEG non-trading book permission* or *NCLEG trading book permission*; and
- (b) in relation to a *firm*, satisfy the conditions in 2.1 or 2.2.

NCLEG non-trading book exemption

means the exemption in 2.1.

NCLEG non-trading book permission

means a permission given by the *PRA* in respect of Article 400(2)(c) of the *CRR* to apply the *NCLEG non-trading book exemption*.

NCLEG trading book exemption

means the exemption in 2.2.

NCLEG trading book permission

means a permission given by the *PRA* in respect of Article 400(2)(c) of the *CRR* to apply the *NCLEG trading book exemption*.

sovereign large exposures exemption

means the exemption in 3.1.

sovereign large exposures permission

means a permission given by the *PRA* in respect of Article 400(2)(g) or (h) of the *CRR* to apply the *sovereign large exposures exemption*.

trading book exposure allocation

means the allocation in 2.2

1.3 Unless otherwise defined:

- (1) any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*; and
- (2) any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD*.

2 INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP EXEMPTIONS

NCLEG non-trading book exemption

2.1 (1) A *firm* with an *NCLEG non-trading book permission* may (in accordance with that permission) exempt, from the application of Article 395(1) of the *CRR*, *non-trading book exposures*, including participations or other kinds of holdings, incurred by the *firm* to members of its *NCLEG* that are:

- (a) its *parent undertaking*;

- (b) other *subsidiaries* of that *parent undertaking*; or
- (c) its own *subsidiaries*,

in so far as those undertakings are covered by the supervision on a *consolidated basis* to which the *firm* itself is subject, in accordance with the *CRR*, Directive 2002/87/EC or with equivalent standards in force in a third country.

(2) A *firm* may only use the *NCLEG non-trading book exemption* where:

- (a) the total amount of *non-trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from the *firm* to its *NCLEG* does not exceed 100% of the *firm's eligible capital*; or
- (b) (if the *firm* has a *core UK group permission*) the total amount of *non-trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from its *core UK group* (and the *firm*) to its *NCLEG* does not exceed 100% of the *core UK group eligible capital*.

A *firm* may calculate the total amount of such *exposures* after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the *CRR*.

[Note: Art 400(2)(c) of the CRR]

NCLEG trading book exemption

2.2 (1) A *firm* with an *NCLEG trading book permission* may (in accordance with that permission) exempt, from the application of Article 395(1) of the *CRR*, *trading book exposures* up to its *trading book exposure allocation*, including *participations* or other kinds of holdings, incurred by the *firm* to members of its *NCLEG* that are:

- (a) its *parent undertaking*;
- (b) other *subsidiaries* of that *parent undertaking*; or
- (c) its own *subsidiaries*,

in so far as those undertakings are covered by the supervision on a *consolidated basis* to which the *firm* itself is subject, in accordance with the *CRR*, Directive 2002/87/EC or with equivalent standards in force in a third country;

(2) The *trading book exposure allocation* for a *firm* that does not have a *core UK group permission* is 100% of the *firm's eligible capital* less the total amount of *non-trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from the *firm* to its *NCLEG*.

(3) The *trading book exposure allocation* for a *firm* (F) that has a *core UK group permission* is equal to RxTTBE where:

- (a) R is F's *trading book exposures* to its *NCLEG* divided by the total *trading book exposures* of the *core UK group* (and F) to F's *NCLEG*; and
- (b) TTBE is 100% of F's *core UK group eligible capital* less the total amount of *non-trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from the *core UK group* (and F) to F's *NCLEG*.

(4) A firm may calculate its *trading book exposure allocation* after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the *CRR*.

(5) A firm must allocate the *trading book exposures* it has to its *NCLEG* to its *trading book exposure allocation* in ascending order of specific-risk requirements in Part Three, Title IV, Chapter 2 and/or requirements in Article 299 and Part Three, Title V of the *CRR*.

[Note: Art 400(2)(c) of the *CRR*]

Notifications and reporting

2.3 (1) A firm with a *core UK group permission* and an *NCLEG trading book permission* or an *NCLEG non-trading book permission* must give the *PRA* written notice whenever the firm:

(a) intends, or becomes aware that a member of its *core UK group* intends, for the total amount of *exposures* from the *core UK group* (and the firm) to a particular member of the firm's *NCLEG* to exceed 25% of its *core UK group eligible capital*;

(b) becomes aware that the total amount of *exposures* from the *core UK group* (and the firm) to a particular member of the firm's *NCLEG* are likely to exceed, or have exceeded, 25% of its *core UK group eligible capital*;

(2) The written notice required under (1) must contain the following:

(a) details of the size and the expected duration of the relevant *exposures*; and

(b) an explanation of the reason for those *exposures*.

(3) A firm with a *core UK group permission* and an *NCLEG trading book permission* or an *NCLEG non-trading book permission* must submit FSA018 in accordance with SUP 16.12.

3 SOVEREIGN LARGE EXPOSURES EXEMPTION

3.1 (1) If a firm has a *sovereign large exposures permission*, the *exposures* specified in that permission are exempt from Article 395(1) of the *CRR* to the extent specified in that permission.

(2) For the purposes of the *sovereign large exposures permission*, and in relation to a firm, the *exposures* referred to in (1) are limited to the following:

(a) asset items constituting claims on *central banks* in the form of required minimum reserves held at those *central banks* which are denominated in their national currencies; and

- (b) asset items constituting claims on central governments in the form of statutory liquidity requirements held in government securities which are denominated and funded in their national currencies provided that, at the discretion of the *PRA*, the credit assessment of those central governments assigned by a *nominated ECAI* is investment grade.

[Note: Art 400(2)(g)-(h) of the *CRR*]

4 CONDITIONS FOR NON-CORE LARGE EXPOSURES GROUP EXEMPTIONS AND THE SOVEREIGN LARGE EXPOSURES EXEMPTION

4.1 A *firm* may only use the *NCLEG non-trading book exemption*, the *NCLEG trading book exemption* or the *sovereign large exposures exemption* where it can demonstrate to the *PRA* that the following conditions are met:

- (1) the specific nature of the *exposure*, the counterparty or the relationship between the *firm* and the counterparty eliminate or reduce the risk of the *exposure*; and
- (2) any remaining concentration risk can be addressed by other equally effective means such as the arrangements, processes and mechanisms provided for in Article 81 of *CRD*.

[Note: Art 400(3) of the *CRR*]



Part

LARGE EXPOSURES

Externally defined glossary terms

Term	Definition source
<i>consolidated basis</i>	<i>Article 4(1)(48) CRR</i>
<i>eligible capital</i>	<i>Article 4(1)(71) CRR</i>
<i>parent undertaking</i>	<i>s420 (1) FSMA</i>
<i>central banks</i>	<i>Article 4(1)(46) CRR</i>
<i>nominated ECAI</i>	<i>Article 4(1)(99) CRR</i>
<i>trading book</i>	<i>Article 4(1)(86) CRR</i>
<i>subsidiary</i>	<i>Article 4(1)(16) CRR</i>



Part

PUBLIC DISCLOSURE

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 PUBLIC DISCLOSURE OF RETURN ON ASSETS

Links

Legislation.gov.uk	http://www.legislation.gov.uk/
Eur-Lex	http://eur-lex.europa.eu/en/index.htm
CP5/13 Strengthening Capital Standards: Implementing CRD IV and PS	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx
PS7/13 Strengthening Capital Standards: Implementing CRD IV, feedback and final rules	http://www.bankofengland.co.uk/pru/Pages/publications/implemcrdiv.aspx

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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

annual report and accounts

- (1) (in relation to a company incorporated in the *UK*) an annual report and annual accounts as those terms are defined in:
 - (a) section 262(1) of the Companies Act 1985, together with an auditor's report prepared in relation to those accounts under section 235 of the same Act where these provisions are applicable; or
 - (b) section 471 of the Companies Act 2006 together with an auditor's report prepared in relation to those accounts under sections 495 to 497 of the same Act;
- (2) (in relation to any other body) any similar or analogous documents which it is required to prepare whether by its constitution or by the law under which it is established.

2 PUBLIC DISCLOSURE OF RETURN ON ASSETS

2.1 A *firm* must disclose in its *annual report and accounts* among the key indicators their return on assets, calculated as their net profit divided by their total balance sheet.

[Note: Art 90 of the *CRD*]



Part

WAIVERS TRANSITIONAL PROVISIONS

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 WAIVERS TRANSITIONAL PROVISIONS
- 3 SCHEDULES

Links

Legislation.gov.uk	http://www.legislation.gov.uk/
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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

CRR permission

means a permission given to a *firm* by the *PRA* under any *CRR Article* listed in column B of the Tables in Schedules 1 and 2 in the exercise of the discretion afforded to it as a *competent authority*.

Waiver

means a direction waiving or modifying a rule given by the *PRA* under section 138A (waiver or modification of rules) *FSMA*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 WAIVERS TRANSITIONAL PROVISIONS

- 2.1 (1) This rule applies where, immediately before 1 January 2014, a *waiver* given in relation to a rule listed in column A of the Tables in Schedules 1 and 2 and any condition relevant to the application of that waiver has effect.
- (2) Subject to paragraph (5), each *waiver* given in relation to a *PRA* rule listed in column A of the Tables in Schedules 1 and 2 is treated as a *CRR permission* given by the *PRA* to the *firm* under the *CRR Article* listed in the same row in column B of the Table.
- (3) Each *CRR permission* given in accordance with paragraph (2) shall continue to have effect until the expiry date specified in the *waiver*.
- (4) Where a *waiver* listed in Schedules 1 and 2 specifies that it applies to a *firm* on a consolidated basis in accordance with a relevant provision in *BIPRU* 8, the *CRR permission* shall apply to the *firm* on the basis of its *consolidated situation* in accordance with Article 11 of the *CRR*.
- (5) Paragraphs (1) to (4) only have effect in relation to a *waiver* listed in Schedule 1 where the *firm* has confirmed to the *PRA* that it materially complies with the requirements relevant to the *rules* listed in Column A of the Table, as waived or modified by the *waiver*, and any conditions relevant to the application of the *waiver* or the *firm* has a *remediation plan*.
- (6) Any condition relevant to the application of the waiver shall have effect on 1 January 2013 until the expiry date specified in the waiver.
- (7) A *waiver* listed in row 1 of the Table in Schedule 2 (individual consolidation method) only includes a deemed *waiver* under the *PRA's* prudential sourcebook for Banks, Building Societies and Investment Firms transitional provision 22.3R where a *firm* has confirmed to

the *PRA* that the solo consolidation minimum standards are met with respect to the relevant *subsidiary undertaking*.

- 2.2 (1) This rule applies where, immediately before 1 January 2014, a *waiver* given in relation to a *rule* in the *PRA's supervision manual* listed in column A of the Table in Schedule 3 has effect.
- (2) Each *waiver* given in relation to a *rule in the PRA's supervision manual* listed in column A of the Table in Schedule 3 is to be treated as a *waiver* given by the *PRA* to the *firm* under the *SUP rule* listed in the same row in column B of the Table.

SCHEDULES

Schedule 1

Internal model waivers

	CRR Permission	Column A PRA/FCA Rule (rule waiver or modification)	Column B CRR Reference
1	Internal Ratings Based (IRB) permission for credit risk	<ul style="list-style-type: none"> - <i>BIPRU 4</i> applies to a <i>firm</i> with an <i>IRB permission</i> - Rules waived or modified: <ul style="list-style-type: none"> (a) <i>GENPRU 2.1.51R</i> (b) <i>BIPRU 3.1.1R</i> 	<ul style="list-style-type: none"> - Part Three, Title II, Chapter 3 - Art. 143 - Art. 178.1(b) (where a <i>firm</i> is authorised by its <i>IRB waiver</i> to use a 180 days definition of default for exposures secured by residential real estate in the retail exposure class, as well as for exposures to public sector entities)
2	Eligibility of physical collateral under the IRB Approach	<ul style="list-style-type: none"> - <i>BIPRU 4.10.16R</i> (Where authorised by the <i>firm's IRB permission</i>) 	Art. 199.6
3	Master netting agreement internal models approach	<ul style="list-style-type: none"> - <i>BIPRU 5.6.1R</i> in accordance with <i>BIPRU 5.6.12R</i> 	Art. 221
4	Supervisory formula method for securitisation transactions	<ul style="list-style-type: none"> - <i>BIPRU 9.12.3R</i> - <i>BIPRU 9.12.5R</i> - <i>BIPRU 9.12.21R</i> (Where authorised by the <i>firm's IRB permission</i>) 	Art. 259.1(b) Art. 262
5	ABCP internal assessment approach	<ul style="list-style-type: none"> - <i>BIPRU 9.12.20R</i> (Where authorised by the <i>firm's IRB permission</i>) 	Art. 259.3
6	Exceptional treatment for liquidity facilities where pre-securitisation RWEA cannot be calculated	<ul style="list-style-type: none"> - <i>BIPRU 9.11.10R</i> as modified in accordance with <i>BIPRU 9.12.28G</i> (Where authorised by the <i>firm's IRB permission</i>) 	Art. 263.2

7	Advanced Measurement Approach (AMA) permission	<ul style="list-style-type: none"> - <i>BIPRU 6.5</i> applies to a firm with an <i>AMA permission</i> - <i>Rule waived or modified: BIPRU 6.2.1R</i> 	<ul style="list-style-type: none"> - Art. 312.2 - Part Three, Title III, Chapter 4
8	Combined use of different approaches for operational risk – AMA and standardised approach or basic indicator approach	<ul style="list-style-type: none"> - <i>BIPRU 6.2.9R</i> (in accordance with <i>BIPRU 6.2.10G</i> and the <i>firm's AMA permission</i>) 	Art. 314, par. 2 and 3
9	Permission to use internal models to calculate own funds requirements for market risk (Value at Risk)	<ul style="list-style-type: none"> - <i>BIPRU 7.10</i> applies to a firm with a <i>VaR model permission</i> - <i>Standard market risk PRR rules</i> as specified and waived or modified by the <i>firm's VaR model permission waiver</i> - <i>GENPRU 2.1.52R</i> 	<ul style="list-style-type: none"> - Art. 363 - Part Three; Title IV; Chapter 5; Sections 2, 3 and 4
10	Permission to use internal models to calculate own fund requirements for the correlation trading portfolio	<ul style="list-style-type: none"> - <i>BIPRU 7.10.55T R</i> to <i>BIPRU 7.10.55ZA R</i> <p>(Where the <i>firm</i> is authorised to use the <i>all price risk measure</i> in its <i>VaR model permission waiver</i>)</p>	Art. 377

Schedule 2

Other Waivers and Requirements

	CRR Permission	Column A	Column B
		PRA/FCA Rule (rule waiver or modification)	CRR Reference
1	Individual consolidation method	- <i>BIPRU 2.1.7R</i> (<i>Solo consolidation waivers</i>)	Art. 9
2	Application of requirements of Part Five (exposures to transferred credit risk) on a consolidated basis	- <i>BIPRU 9.15.16A R</i>	Art. 14.3
3	Entities excluded from the scope of prudential consolidation	- <i>BIPRU 8.5.9R</i> - <i>BIPRU 8.5.10R</i>	Art. 19.2
4	Permission to revert to the use of a less sophisticated approach for credit risk	- <i>BIPRU 4.2.23R</i> (as modified in accordance with <i>BIPRU 4.2.25G</i>) - <i>BIPRU 4.2.24R</i> (as modified in accordance with <i>BIPRU 4.2.25G</i>)	Art. 149
5	Traditional securitisation – recognition of significant risk transfer	- <i>BIPRU 9.4.11R</i> - <i>BIPRU 9.4.12R</i> (subject to conditions in <i>BIPRU 9.4.15D</i>)	Art. 243 par. 2, 3, 4 and 5
6	Synthetic securitisation – recognition of significant risk transfer	- <i>BIPRU 9.5.1R</i> (6) and(7) (subject to conditions in <i>BIPRU 9.5.1B D</i>)	Art. 244, par. 2, 3, 4 and 5
7	Securitisations of revolving exposures with early amortisation provisions – similar transactions	- <i>BIPRU 9.13.11R</i> - <i>BIPRU 9.13.13R</i> - <i>BIPRU 9.13.14R</i> - <i>BIPRU 9.13.15R</i> - <i>BIPRU 9.13.16R</i> - <i>BIPRU 9.13.17R</i> (subject to conditions in <i>BIPRU 9.13.18G</i>)	Art. 256.7
8	Permission to revert to the use of a less sophisticated approach for operational risk	- <i>BIPRU 6.2.5R</i> (as modified in accordance with <i>BIPRU 6.2.6G</i>) - <i>BIPRU 6.2.7R</i> (as modified in accordance with <i>BIPRU 6.2.8G</i>)	Art. 313

9	Combined use of different approaches for operational risk – standardised approach and basic indicator approach	- <i>BIPRU 6.2.12R</i> (as modified in accordance with <i>BIPRU 6.2.13G</i>)	Art. 314.4
10	Waiver of the 3 year average for calculating the own funds requirement under the basic indicator approach for operational risk	- <i>BIPRU 6.3.2R</i> (as modified in accordance with <i>BIPRU 6.3.9G</i>)	Art. 315
11	Waiver of the 3 year average for calculating the own funds requirement under the standardised approach for operational risk	- <i>BIPRU 6.4.5R</i> (as modified in accordance with <i>BIPRU 6.4.8G</i>)	Art. 317.4
12	Own funds requirements for position risk for options and warrants on: (a) interest rates; (b) debt instruments; (c) equities; (d) equity indices; (e) financial futures; (f) swaps; and (g) foreign currencies	- <i>BIPRU 7.9</i> applies to a <i>firm</i> with a <i>CAD1 model waiver</i> . - <i>Rules waived or modified:</i> (a) <i>GENPRU 2.1.52R</i> (b) <i>BIPRU 7.6.1R</i>	Art. 329
13	Own funds requirements for commodities risk for options and warrants on: (a) commodities; and (b) commodities derivatives	- <i>BIPRU 7.9</i> applies to a <i>firm</i> with a <i>CAD1 model waiver</i> . - <i>Rules waived or modified:</i> (a) <i>GENPRU 2.1.52R</i> (b) <i>BIPRU 7.4.1R</i>	Art. 358.3
14	Interest rate risk on derivative instruments	- <i>CAD1 model waiver</i> for the use of an interest rate pre-processing model in accordance with <i>BIPRU 7.9.44G</i> - <i>Rule waived: GENPRU 2.1.52R</i>	Art. 331 Art. 340
15	Waiver of 100% large exposure limit where the €150 million limit applies	- <i>BIPRU 10.6.32R</i> – As waived in accordance with <i>BIPRU 10.6.33G</i> - <i>SUP 15.3.11R</i>	- Art. 396 in relation to the 100% large exposure limit set out in Art. 395(1)
16	Waiver of large exposure limits in relation to intra-group exposures: core group waivers	- <i>BIPRU 3.2.25R(2)</i> - <i>BIPRU 10.8A</i>	Art. 113.6 Art. 400.1(f)

17	Waiver of large exposure limits in relation to intra-group exposures: non-core group waivers	- <i>BIPRU 10.9A</i>	- Art. 400.2(c) as implemented by rule 2 at Annex I of the PRA Rulebook CRR Firms Instrument 2013
18	Waiver of large exposure limits in relation to sovereign exposures	- BIPRU 10.6.34R as waived in accordance with BIPRU 10.6.37G	- Art. 400.2(g) and (h) as implemented by rule 3 at Annex I of the PRA Rulebook CRR Firms Instrument 2013

Schedule 3

Waivers in Supervision Manual (SUP) 16

Column A SUP 16 rule as in force until 31 December 2013	Column B SUP 16 rule as in force from 1 January 2014
SUP 16.12.11R	SUP 16.12.11B R
SUP 16.12.12. R	SUP 16.12.12A R
SUP 16.12.15 R	SUP 16.12.15B R
SUP 16.12.16 R	SUP 16.12.16A R
SUP 16.12.22A R	SUP 16.12.22C R
SUP 16.12.25A R	SUP 16.12.25C R
SUP 16.12.26 R	SUP 16.12.26A R



Part

WAIVERS TRANSITIONAL PROVISIONS

Externally defined glossary terms

Term	Definition source
competent authority	Article 4(1)(40) CRR
consolidated situation	Article 4(1)(47) CRR
subsidiary undertaking	s420(1) FSMA



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Part

PERMISSIONS

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 FORM AND MANNER OF APPLICATION FOR A CRR PERMISSION
- 3 NOTIFICATION OF ALTERED CIRCUMSTANCES

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every firm that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

CRR permission

means a permission given to a *firm* by the *PRA* under powers conferred on the *PRA* by the *CRR*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 FORM AND MANNER OF APPLICATION FOR A CRR PERMISSION

2.1 The *PRA* directs that a *firm* wishing to apply for a *CRR permission* must make a written application to the *PRA*.

2.2 The application must be accompanied by such information and documents as are necessary to demonstrate how the firm complies with the conditions contained in the relevant *CRR* Article.

3 NOTIFICATION OF ALTERED CIRCUMSTANCES

3.1 A *firm* that has applied for or has been granted a *CRR permission* must notify the *PRA* immediately if it becomes aware of any matter which could affect the continuing relevance or appropriateness of the application, the *CRR permission* or any condition to which the *CRR permission* is subject.



Part

RECOVERY AND RESOLUTION

Chapter content

1. APPLICATION AND DEFINITIONS
2. RECOVERY PLANS
3. RESOLUTION PACK
4. REVIEW OF RECOVERY PLAN AND RESOLUTION PACK
5. GOVERNANCE ARRANGEMENTS

Links

Legislation.gov.uk	http://www.legislation.gov.uk/
Eur-Lex	http://eur-lex.europa.eu/en/index.htm
CP 11/16 Recovery and Resolution Plans	http://www.fsa.gov.uk/library/policy/cp/2011/11_16.shtml
PS8/13 Recovery and Resolution Plans	http://www.bankofengland.co.uk/pru/Pages/publications/recoveryresolution.aspx
SS18/13 Recovery Supervisory Statement	http://www.bankofengland.co.uk/pru/Pages/publications/recoveryresolution.aspx
SS19/13 Resolution Supervisory Statement	http://www.bankofengland.co.uk/pru/Pages/publications/recoveryresolution.aspx

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1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Bank*;
- [(2) a *building society*; and
- [(3) a *UK designated investment firm*.

1.2 In this Part, the following definitions shall apply:

group

means A and any *person* who is:

- (a) a *parent undertaking* of A;
- (b) a *subsidiary undertaking* of A;
- (c) a *subsidiary undertaking* of a *parent undertaking* of A;
- (d) a *parent undertaking* of a *subsidiary undertaking* of A;
- (e) if A or an undertaking in (a) or (d) is an incorporated friendly society, a body corporate of which that friendly society has joint control (as defined in section 13(9)(c) or (cc) of the Friendly Societies Act 1992);

recovery plan

means a document containing information which:

- (a) relates to action to be taken to secure that, in the event of specified circumstances affecting the carrying on of business (or any part of the business) of a *firm*:
 - (i) the business of the *firm*; or
 - (ii) a specified part of that business;

is capable of being carried on (whether or not by the *firm* and whether or not in the same way as previously);

- (b) would facilitate the carrying on of the business (or any part of the business) of a *firm* by any other *person*.

[Note: This definition is based on the definition for 'recovery plan' in section 137J of the Act.]

resolution pack

means a document containing information which:

- (a) relates to action to be taken in the event of:
 - (i) circumstances arising in which it is likely that the business (or any part of the business) of a *firm* will fail; or

- (ii) the failure of the business (or any part of the business) of a *firm*;
- (b) would facilitate anything falling to be done by any *person* in consequence of that failure. An example of information within (b) is information that, in the event of that failure, would facilitate:
 - (i) planning by the *Treasury* in relation to the possible exercise of any of its powers under Part 1 of the Banking Act 2009; or
 - (ii) planning by the *Bank of England* in relation to the possible exercise of any of its powers under Part 1, 2 or 3 of that *Act*.

[Note: This definition is based on the definition for ‘resolution plan’ in section 137K of the Act.]

senior personnel

those *persons* who effectively direct the business of the *firm*, which could include a firm's *governing body* and other *persons* who effectively direct the business of the *firm*.

1.3 In this Part:

- (1) references to the taking of action include the taking of action by:
 - (a) the *firm*;
 - (b) any other *person* in the same *group* as the *firm*; and
 - (c) a *partnership* of which the *firm* is a member;
- (2) references to the business of the *firm* include references to the business of:
 - (a) any other *person* in the same *group* as the *firm*; and
 - (b) a *partnership* of which the *firm* is a member.

2 RECOVERY PLANS

- 2.1 (1) Subject to (2), every *firm* must prepare and maintain an adequate *recovery plan*.
- (2) If a *group* has within it more than one *firm* to which this Part applies, only one of those *firms* needs to have a *recovery plan*, so long as that plan contains content for each *firm* in the *group* that complies with 2.3, 2.4, 2.5 and 2.6.
- 2.2 A *firm* must provide its *recovery plan* to the *PRA* by online submission through:
 - (1) email; or
 - (2) the appropriate systems made available to *firms*.
- 2.3 The *recovery plan* must set out the actions that could be taken to secure that:
 - (1) the business of the *firm*; or
 - (2) any part of the business of the *firm*,

is capable of being carried on and returned to a stable and sustainable condition (whether or not by the *firm* and whether or not in the same way as previously) if circumstances arise which adversely affect the carrying on of the business (or any part of the business) of the *firm*.

- 2.4 The *recovery plan* must contain a comprehensive range of options setting out actions that could be taken in a number of different scenarios and stresses, whether by:
- (1) the *firm* alone; or
 - (2) the *firm* in conjunction with other members of its *group*; or
 - (3) by another member of the *group*.
- 2.5 The *recovery plan* must, in particular, include:
- (1) the actions that could be taken to return the *firm* to adequate levels of capital and liquidity; and
 - (2) the applicable governance arrangements, and indicators when options in the *recovery plan* might be employed, and procedures to ensure the timely implementation of the actions.
- 2.6 A *firm* must notify the *PRA* as soon as it becomes aware that the *firm's recovery plan* indicators have been met.
- 2.7 A *firm's recovery plan* must take into account the wider business of the *group* of which the *firm* is a *member*.

[Note: Art 74(4) of the CRD]

3 RESOLUTION PACK

- 3.1 Every *firm* must prepare and maintain a *resolution pack*.
- 3.2 A *firm* must provide its *resolution pack* to the *PRA* by online submission through:
- (1) email; or
 - (2) the appropriate systems made available to *firms*.
- 3.3 (1) A *resolution pack* must contain information and analysis which would facilitate the taking of actions in the event that it is likely that the *firm* will fail, or in the event that the *firm* fails.
- (2) The *resolution pack* must, in particular, contain sufficient information and analysis to facilitate planning by the *Treasury*, the *Bank of England* or the *PRA* in relation to the possible exercise of any of their powers under the Banking Act 2009.
- 3.4 A *firm's resolution pack* must take into account the wider business of the *group* of which the *firm* is a *member*.

[Note: Art 74(4) of the CRD]

4 REVIEW OF RECOVERY PLAN AND RESOLUTION PACK

- 4.1 (1) Every *firm* must review its *recovery plan* at least once a year.
- (2) Every *firm* must keep its *recovery plan* and its *resolution pack* up to date, which includes ensuring that each is updated to reflect any material developments in the *firm's* business and in the business of any member of the *group*.
- 4.2 A *firm* must notify the *PRA* of any material changes made to its *recovery plan* and *resolution pack* promptly and, in any event, within one month of making any such change.

5 GOVERNANCE ARRANGEMENTS

- 5.1 A *firm* must, taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of its *recovery plan* and *resolution pack*.
- 5.2 (1) A *firm's recovery plan* must be subject to oversight and approval by the *firm's governing body*.
- (2) A *firm's governing body* must be responsible for assessing, approving and overseeing the *firm's* arrangements in place to produce the *firm's resolution pack*. The *firm's* audit committee must periodically review these arrangements and the *recovery plan*.
- (3) A *firm* must nominate an executive *director* who is a member of the *firm's governing body* to have responsibility for the *recovery plan* and *resolution pack* and for overseeing the internal processes regarding their governance.



Part

RECOVERY AND RESOLUTION

Externally defined glossary terms

Term	Definition source
<i>Act</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>Bank of England</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>parent undertaking</i>	<i>s420 FSMA</i>
<i>partnership</i>	<i>s417(1) FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>subsidiary undertaking</i>	<i>s420 FSMA</i>
<i>the PRA</i>	<i>s417(1) FSMA</i>
<i>the Treasury</i>	<i>Schedule 1 Interpretation Act 1978</i>



Part

RELATED PARTY TRANSACTION RISK

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 RELATED PARTY TRANSACTION RISK

Links

Legislation.gov.uk	http://www.legislation.gov.uk/
CP8/13 Occasional Consultation Paper	http://www.bankofengland.co.uk/pru/Pages/publications/ocp813.aspx
PS1/14 Responses to CP8/13 (No 2)	http://www.bankofengland.co.uk/pru/Pages/publications/ocp813.aspx

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1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

- (1) a *UK bank*;
- (2) a *building society*; and
- (3) an *overseas firm* that:
 - (a) is not an *incoming firm*; and
 - (b) has a *Part 4A permission* that includes permission to carry out *accepting deposits*.

1.2 In this Part the following definitions shall apply:

close family member

means in relation to a natural *person* ("A"):

- (a) A's spouse or civil partner;
- (b) any other *person* with whom A lives as partner in an enduring family relationship;
- (c) A's children or step-children;
- (d) any children or step-children of a *person* within (b) (and who are not children or step-children of A) who live with A and have not attained the age of 18; and
- (e) A's parents.

related parties

means in relation to a *firm*:

- (a) any *person* that it *controls*;
- (b) its *affiliated companies*;
- (c) its and its *affiliated companies' controllers*;
- (d) its and its *affiliated companies' directors*;
- (e) its and its *affiliated companies' senior management*;
- (f) its and its *affiliated companies' key employees*;
- (g) *close family members* of any natural *person* listed in (a) to (f) above;
- (h) direct and related interests of any *person* listed in (a) to (g) above; and
- (i) any *person* that would fall into (a) to (h) above after the relevant *transaction* has occurred.

transaction

means any transaction or arrangement including:

- (a) any arrangement or circumstance that gives rise to or varies an on-balance sheet or off-balance sheet asset or liability (whether contingent or otherwise);
- (b) dealings such as service contracts, asset acquisitions and disposals, construction contracts, lease agreements, derivative transactions, borrowings and write-offs.

2 RELATED PARTY TRANSACTION RISK

- 2.1 A *firm* must enter into *transactions* with *related parties* at market value or on terms no more favourable than would be agreed if the *transaction* was not with a *related party*.
- 2.2 2.1 does not apply to beneficial terms that are part of an overall remuneration package such as favourable interest rates for employee loans.
- 2.3 A *firm* must establish, implement and maintain effective policies and procedures to identify, evaluate and manage risks arising out of *transactions* with its *related parties*.
- 2.4 In meeting 2.3, a *firm's* policies and procedures on *related party transactions* must:
- (1) prevent a *related party* from taking part in the *firm's* decision making process in relation to any *transactions* with that *related party*;
 - (2) set a materiality threshold above which *transactions* with *related parties* receive prior approval from the *firm's management body*;
 - (3) ensure that the *firm* records and monitors the details and amounts of any *related party transactions* using an independent credit review or audit process; and
 - (4) only permit exceptions to those policies and procedures if reported to the *firm's senior management* or *management body* as appropriate.
- 2.5 A *firm* must provide the *PRA* with details on aggregate exposures to *related parties* if requested by the *PRA*. The details must be provided by the date set by the *PRA* at the time of the request.



Part

RELATED PARTY TRANSACTION RISK

Externally defined glossary terms

Term	Definition source
<i>control/controller</i>	<i>s422 FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>