

THE CRD (CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2006

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 141 (Insurance business rules);
 - (3) section 149 (Evidential provisions);
 - (4) section 150(2) (Actions for damages);
 - (5) section 156 (General supplementary powers);
 - (6) section 157(1) (Guidance);
 - (7) section 316(1) (Direction by Authority);
 - (8) section 340 (Appointment).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force as follows:
- (1) The following provisions come into force on 1 January 2007, except that the words “including the services and activities provided for in Section 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” in the amendment to the definition of financial institution in Annex A do not take effect until 1 November 2007:

Annex A	Parts 1B, 2B and 3B
Annex D	Part 2
Annex E	Whole
Annex F	Whole
Annex H	Whole
Annex I	Part 2
Annex J	Part 2
Annex L	Parts 2 and 4
Annex O	Whole
Annex P	Part 2
Annex Q	Whole
Annex S	Whole
Annex T	Part 2

- (2) The remainder of this instrument comes into force on 31 December 2006.

Amendments to the handbook

- D. (1) The provisions of the Lloyd's sourcebook ("LLD") listed in column (1) of the Table in Annex R to this instrument are:
- (a) redesignated to form part of the Handbook of rules and guidance in accordance with the corresponding entry in column (2) of the Table in Annex R; and
 - (b) restated and amended so that they read as set out in this instrument, in the Annex specified in column (3) of Table 1 in Annex R.
- (2) Other provisions of LLD are deleted in accordance with paragraph 2 of Annex R.
- E. The modules of the Handbook listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Threshold Conditions (COND)	Annex B
Senior Management Arrangements, Systems and Controls (SYSC)	Annex C
Integrated Prudential sourcebook (PRU)	Annex D
Interim Prudential sourcebook for Banks (IPRU(BANK))	Annex E
Interim Prudential sourcebook for Building Societies (IPRU(BSOC))	Annex F
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex G
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex H
Insurance: Conduct of Business sourcebook (ICOB)	Annex I
Mortgages: Conduct of Business sourcebook (MCOB)	Annex J
Market Conduct sourcebook	Annex K
Supervision manual (SUP)	Annex L
Dispute Resolution : Complaints sourcebook (DISP)	Annex M
Compensation sourcebook (COMP)	Annex N
New Collective Investment Schemes sourcebook (COLL)	Annex O
Credit Unions sourcebook (CRED)	Annex P
Electronic Money sourcebook (ELM)	Annex Q
Listing Rules (LR)	Annex S

- F. Other provisions in the FSA's Handbook of rules and guidance are amended in accordance with Annexes T and U to this instrument.

Citation

- G. This instrument may be cited as the CRD (Consequential Amendments) Instrument 2006.

By order of the Board
23 November 2006

Annex A
Amendments to the Glossary

In this Annex, underlining indicates new text and striking through indicates deleted text.

Where entirely new definitions are inserted, or where definitions are deleted, these are not shown underlined or struck through.

Part 1A (New definitions taking effect on 31 December 2006)

Insert the following definitions in the appropriate alphabetical position in the Glossary:

<i>GENPRU</i>	the General Prudential sourcebook
<i>INSPRU</i>	the Prudential sourcebook for Insurers
<i>individual capital guidance</i>	<i>guidance</i> given to a <i>firm</i> about the amount and quality of capital resources that the <i>FSA</i> thinks the <i>firm</i> should hold under the <i>overall financial adequacy rule</i> as it applies on a solo level or a consolidated level.

Part 1B (New definitions taking effect on 1 January 2007)

Insert the following definitions in the appropriate alphabetical position in the Glossary:

ABCP internal assessment approach the method for calculating the *risk weighted exposure amount* for a *securitisation position* in relation to an *asset backed commercial paper programme* as set out in *BIPRU 9.12.20R*.

ABCP programme (for the purposes of *BIPRU 9 (Securitisation)*) an *asset backed commercial paper programme*.

advanced measurement approach one of the following:

- (a) the adjusted method of calculating the *operational risk capital requirement* set out in *BIPRU 6.5 (Operational risk: advanced measurement approaches)*;
- (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 *FSA*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

advanced IRB approach one of the following:

- (a) (in relation to the *sovereign, institutional and corporate IRB exposure class*) the approach under the *IRB approach* under which a *firm* supplies its own estimates of *LGD* and *conversion factors*;
- (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 *FSA*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

advanced prudential calculation approach 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 *FSA*.

advanced prudential calculation approach permission

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*.

alternative standardised approach

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 6.4.19R* (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 *FSA*, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

AMA

the *advanced measurement approach*.

AMA permission

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

<i>appropriate PRA</i>	<p>(1) (in relation to a <i>position</i> treated under <i>BIPRU</i> 7.6 (Option PRR)) the percentage figure applicable to that <i>position</i> under the table in <i>BIPRU</i> 7.6.8R (Appropriate PRR);</p> <p>(2) (for any other purpose and in relation to a <i>position</i>) the <i>PRA</i> applicable to that <i>position</i> under <i>BIPRU</i> 7 (Market risk).</p>
<i>Article 129 implementing measure</i>	<p>any:</p> <p>(a) measure taken by the <i>FSA</i> under regulations 7-9 of the <i>Capital Requirements Regulations 2006</i>; or</p> <p>(b) corresponding measure taken by another <i>competent authority</i> to apply an <i>Article 129 permission</i> as referred to in the last paragraph of Article 129(2) of the <i>Banking Consolidation Directive</i>.</p>
<i>Article 129 permission</i>	a permission of the type referred to in Article 129(2) of the <i>Banking Consolidation Directive</i> (permission to apply the <i>IRB approach</i> , the <i>AMA approach</i> or the <i>CCR internal model method</i> on a consolidated basis) or Article 37(2) of the <i>Capital Adequacy Directive</i> (permission to apply the <i>VaR model approach</i> on a consolidated basis) excluding an <i>Article 129 implementing measure</i> .
<i>Article 129 procedure</i>	the procedure described in Article 129(2) of the <i>Banking Consolidation Directive</i> (permission to apply the <i>IRB approach</i> , the <i>AMA approach</i> or the <i>CCR internal model method</i> on a consolidated basis) or that applies under Article 37(2) of the <i>Capital Adequacy Directive</i> (permission to apply the <i>VaR model approach</i> on a consolidated basis) for the purpose of applying for and granting or refusing an <i>Article 129 permission</i> or the procedure for varying or revoking an <i>Article 129 permission</i> in accordance with the <i>Banking Consolidation Directive</i> or the <i>Capital Adequacy Directive</i> .
<i>Article 134 relationship</i>	<p>(in accordance with Article 134 of the <i>Banking Consolidation Directive</i>) a relationship of one of the following kinds:</p> <p>(a) where a <i>person</i> exercises a significant influence over one or more <i>persons</i>, but without holding a <i>participation</i> or other capital ties in these <i>persons</i> and without being a <i>parent undertaking</i> of these <i>persons</i>; or</p> <p>(b) where two or more <i>persons</i> are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.</p>
<i>asset backed commercial paper programme</i>	(for the purposes of <i>BIPRU</i> 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.

<i>at the money</i>	(for the purposes of <i>BIPRU 7</i> (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 equal to the current market value of the underlying instrument.
<i>backtesting exception</i>	(in <i>BIPRU 7.10</i> (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 <i>BIPRU 7.10.103R</i> .
<i>banking and investment services conglomerate</i>	a <i>financial conglomerate</i> that is identified in paragraph 4.3 of <i>GENPRU 3 Ann 1R</i> (Types of financial conglomerate) as a <i>banking and investment services conglomerate</i>
<i>banking and investment services sector</i>	(in relation to a <i>financial sector</i> in a <i>consolidation group</i> or a <i>financial conglomerate</i> and in accordance with <i>GENPRU 3.1</i> (Cross sector groups)), the <i>investment services sector</i> and the <i>banking sector</i> taken together
<i>basic indicator approach</i>	the approach to calculating the <i>ORCR</i> set out in <i>BIPRU 6.3</i> (Operational risk: Basic indicator approach)
<i>BIPRU</i>	the Prudential sourcebook for Banks, Building Societies and Investment Firms.
<i>BIPRU 50K firm</i>	has the meaning in <i>BIPRU 1.1.20R</i> (Types of investment firm: <i>BIPRU 50K firm</i>) which in summary is a <i>BIPRU investment firm</i> that satisfies the following conditions: <ul style="list-style-type: none"> (a) it satisfies the conditions in <i>BIPRU 1.1.19R(1)</i> (does not <i>deal on own account</i> or underwrite issues of <i>financial instruments</i> on a firm commitment basis) and <i>BIPRU 1.1.19R(3)</i> (offers one or more of certain specified services); (b) it does not hold clients' money or securities in relation to <i>investment services</i> it provides and it is not authorised to do so; and (c) it is not a <i>UCITS investment firm</i>.
<i>BIPRU 125K firm</i>	has the meaning in <i>BIPRU 1.1.19R</i> (Types of investment firm: <i>BIPRU 125K firm</i>) which in summary is a <i>BIPRU investment firm</i> that satisfies the following conditions: <ul style="list-style-type: none"> (1) it does not <i>deal on own account</i> or underwrite issues of <i>financial instruments</i> on a firm commitment basis; (2) it holds clients' money or securities in relation to <i>investment services</i> it provides or is authorised to do so; (3) it offers one or more of certain specified services; and (4) it is not a <i>UCITS investment firm</i>.

<i>BIPRU 730K firm</i>	has the meaning in <i>BIPRU</i> 1.1.21R (Types of investment firm: <i>BIPRU</i> 730K firm) which in summary is a <i>BIPRU investment firm</i> that is not a <i>UCITS investment firm</i> , a <i>BIPRU 50K firm</i> or a <i>BIPRU 125K firm</i> .
<i>BIPRU firm</i>	<p>has the meaning set out <i>BIPRU</i> 1.1.6 (The definition of a <i>BIPRU</i> firm), which is in summary a <i>firm</i> that is:</p> <ul style="list-style-type: none"> (a) a <i>building society</i>; or (b) a <i>bank</i>; or (c) a <i>full scope BIPRU investment firm</i>; or (d) a <i>BIPRU limited licence firm</i>; or (e) a <i>BIPRU limited activity firm</i>; <p>but excluding <i>firms</i> of the type listed in <i>BIPRU</i> 1.1.7R (Exclusion of certain types of <i>firm</i> from the definition of <i>BIPRU firm</i>).</p>
<i>BIPRU investment firm</i>	<p>has the meaning set out <i>BIPRU</i> 1.1.8R (Definition of a <i>BIPRU investment firm</i>), which is in summary one of the following types of <i>BIPRU firm</i>:</p> <ul style="list-style-type: none"> (a) a <i>full scope BIPRU investment firm</i>; or (b) a <i>BIPRU limited licence firm</i>; or (c) a <i>BIPRU limited activity firm</i>; <p>including a <i>UCITS investment firm</i> that is not excluded under <i>BIPRU</i> 1.1.7R (Exclusion of certain types of <i>firm</i> from the definition of <i>BIPRU firm</i>).</p>
<i>BIPRU limited activity firm</i>	<p>has the meaning in <i>BIPRU</i> 1.1.17R (Types of <i>BIPRU investment firm</i>), which is in summary a <i>limited activity firm</i> that meets the following conditions:</p> <ul style="list-style-type: none"> (a) it is a <i>firm</i>; and (b) its head office is in the <i>United Kingdom</i> and it is not otherwise excluded from the definition of <i>BIPRU firm</i> under <i>BIPRU</i> 1.1.7R (Exclusion of certain types of <i>firm</i> from the definition of <i>BIPRU firm</i>).
<i>BIPRU limited licence firm</i>	<p>has the meaning in <i>BIPRU</i> 1.1.17R (Types of <i>BIPRU investment firm</i>), which is in summary a <i>limited licence firm</i> that meets the following conditions:</p> <ul style="list-style-type: none"> (a) it is a <i>firm</i>; and

	(b) its head office is in the <i>United Kingdom</i> and it is not otherwise excluded from the definition of <i>BIPRU firm</i> under <i>BIPRU 1.1.7R</i> (Exclusion of certain types of <i>firm</i> from the definition of <i>BIPRU firm</i>).
<i>CAD 1 model</i>	a risk management model of the type described in <i>BIPRU 7.9</i> (Use of a CAD 1 model).
<i>CAD 1 model approach</i>	one of the following: <ul style="list-style-type: none"> (a) the approach to calculating part of the <i>market risk capital requirement</i> set out in <i>BIPRU 7.9</i> (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 <i>BIPRU 8</i> (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>FSA</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>CAD 1 model waiver</i>	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.
<i>CAD Article 22 group</i>	a <i>UK consolidation group</i> or <i>non-EEA sub-group</i> that meets the conditions in <i>BIPRU 8.4.9R</i> (Definition of a CAD Article 22 group).
<i>CAD full scope firm</i>	has the meaning set out <i>BIPRU 1.1.13R</i> (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> .
<i>CAD investment firm</i>	has the meaning set out <i>BIPRU 1.1.14R</i> (Types of investment firm: CAD investment firm), which in summary is an <i>investment firm</i> that is subject to the requirements imposed by the <i>ISD</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> , an <i>ELMI</i> , a <i>credit institution</i> , a <i>local</i> and an <i>exempt CAD firm</i> .
<i>capital instrument</i>	(in <i>GENPRU</i> and <i>BIPRU</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> .
<i>capital market-driven transaction</i>	(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.
<i>capital resources gearing rules</i>	(1) (in relation to an <i>insurer</i>) <i>GENPRU 2.2.29R</i> , <i>GENPRU 2.2.30R</i> and <i>GENPRU 2.2.32R</i> to <i>GENPRU 2.2.41R</i> .

	(2) (in relation to an <i>bank</i> or <i>building society</i>) GENPRU 2.2.29R, GENPRU 2.2.30R, GENPRU 2.2.46R and GENPRU 2.2.49R.
	(3) (in relation to an <i>BIPRU investment firm</i>) GENPRU 2.2.30R, GENPRU 2.2.46R and GENPRU 2.2.49R to GENPRU 2.2.50R.
<i>capital resources table</i>	(in relation to an <i>insurer</i> or <i>BIPRU firm</i>) the table specified in GENPRU 2.2.19R (Applicable capital resources calculation) which in summary is as follows: <ul style="list-style-type: none"> (1) (in the case of an <i>insurer</i>) GENPRU 2 Annex 1R; (2) (in the case of a <i>bank</i>) GENPRU 2 Annex 2R; (3) (in the case of a <i>building society</i>) GENPRU 2 Annex 3R; and (4) (in relation to a <i>BIPRU investment firm</i>) whichever of the tables in GENPRU 2 Annex 4R, GENPRU 2 Annex 5R or GENPRU 2 Annex 6R applies to the <i>firm</i> under GENPRU 2.2.19R.
<i>cash assimilated instrument</i>	(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> .
<i>CCR</i>	<i>counterparty credit risk</i>
<i>CCR internal model method</i>	one of the following: <ul style="list-style-type: none"> (a) the method of calculating the amount of an <i>exposure</i> set out in <i>BIPRU</i> 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 <i>BIPRU</i> 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>FSA</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>CCR internal model method permission</i>	an <i>Article 129 implementing measure</i> , <i>Article 129 permission</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>CCR internal model method</i> .
<i>CCR mark to market method</i>	the method of calculating the amount of an <i>exposure</i> set out in <i>BIPRU</i> 13.4 (CCR mark to market method).
<i>CCR standardised method</i>	the method of calculating the amount of an <i>exposure</i> set out in <i>BIPRU</i> 13.5 (CCR standardised method).

<i>central bank</i>	(in accordance with Article 4(23) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) includes the European Central Bank unless otherwise indicated.
<i>central counterparty</i>	(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.
<i>CFD</i>	<i>contract for differences</i> .
<i>CIU</i>	collective investment undertaking.
<i>CIU look through method</i>	one of the <i>standard CIU look through method</i> or the <i>modified CIU look through method</i> .
<i>CIU PRR</i>	the <i>collective investment undertaking PRR</i> .
<i>clean hypothetical profit and loss figure</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model) and in relation to a <i>business day</i>) the <i>clean profit and loss figure</i> that would have occurred for that <i>business day</i> if the portfolio on which the <i>VaR number</i> for that <i>business day</i> is based remained unchanged, as more fully defined in <i>BIPRU</i> 7.10.111R (Backtesting: Hypothetical profit and loss).
<i>clean profit and loss figure</i>	(in <i>BIPRU</i> 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 <i>BIPRU</i> 7.10.100R (Backtesting: Calculating the clean profit and loss).
<i>clean-up call option</i>	(for the purposes of <i>BIPRU</i> 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)) 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>closely related</i>	(in <i>GENPRU</i> and <i>BIPRU</i>) describes a relationship between two or more <i>persons</i> under which one or more of the following applies: <ul style="list-style-type: none"> (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*.

<i>CNCOM</i>	the <i>concentration risk capital component</i> .
<i>collective investment undertaking PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.7.5R</i> (Calculation of the collective investment undertaking PRR).
<i>commodity extended maturity ladder approach</i>	the method of calculating the <i>commodity PRR</i> in <i>BIPRU 7.4.32R</i> (Extended maturity ladder approach).
<i>commodity maturity ladder approach</i>	the method of calculating the <i>commodity PRR</i> in <i>BIPRU 7.4.25R</i> (Maturity ladder approach).
<i>commodity PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.4</i> (Commodity PRR) or, in relation to a particular <i>position</i> , the portion of the overall <i>commodity PRR</i> attributable to that <i>position</i> .
<i>commodity simplified approach</i>	the method of calculating the <i>commodity PRR</i> in <i>BIPRU 7.4.24R</i> (Simplified approach).
<i>concentration risk group counterparty</i>	(in accordance with Article 113(2) of the <i>Banking Consolidation Directive</i> (Limits on <i>large exposures</i>) and in relation to a <i>person</i>) a <i>parent undertaking</i> of the <i>person</i> , a <i>subsidiary undertaking</i> of the <i>person</i> or a <i>subsidiary undertaking</i> of the <i>person's parent undertaking</i> , provided that (in each case) both the counterparty and the <i>person</i> satisfy the condition in <i>BIPRU 3.2.27R</i> (Requirement to be subject to the same consolidation for the purposes of applying a zero <i>risk weight</i> to intra-group <i>exposures</i>).
<i>concentration risk capital component</i>	the part of the <i>credit risk capital requirement</i> calculated in accordance with <i>BIPRU 10.5.20R</i> (How to calculate the concentration risk capital component).
<i>connected counterparty</i>	(for the purpose of <i>BIPRU 10</i> (Concentration risk requirements) and in relation to a <i>firm</i>) has the meaning set out in <i>BIPRU 10.3.8R</i> (Connected counterparties), which is in summary a <i>person</i> to whom the <i>firm</i> has an <i>exposure</i> and who fulfils at least one of the conditions set out in <i>BIPRU 10.3.8R</i> .
<i>connected lending of a capital nature</i>	(in accordance with <i>GENPRU 2.2.222R</i> (Deductions from tiers one and two: Connected lending of a capital nature)) all lending within <i>GENPRU 2.2.227R</i> or <i>GENPRU 2.2.229R</i> and guarantees within <i>GENPRU 2.2.231R</i> or <i>GENPRU 2.2.233R</i> .

<i>consolidated capital resources</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) that group's capital resources calculated in accordance with <i>BIPRU</i> 8.6 (Consolidated capital resources).
<i>consolidated capital resources requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) an amount of <i>consolidated capital resources</i> that that group must hold in accordance with <i>BIPRU</i> 8.7 (Consolidated capital resources requirement).
<i>consolidated credit risk requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 8.7 (Consolidated capital resources requirements) which is in summary the part of that group's <i>consolidated capital resources requirement</i> relating to credit risk calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated fixed overheads requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 8.7 (Consolidated capital resources requirements) which is in summary the part of that group's <i>consolidated capital resources requirement</i> relating to the fixed overheads requirement (as referred to Article 21 of the <i>Capital Adequacy Directive</i> and the definition of <i>fixed overheads requirement</i>) calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated indirectly issued capital</i>	has the meaning in <i>BIPRU</i> 8.6.12R (Indirectly issued capital and group capital resources), which is in summary any <i>capital instrument</i> issued by a member of a <i>UK consolidation group</i> or <i>non-EEA sub-group</i> where the conditions in <i>BIPRU</i> 8.6.12R are met.
<i>consolidated market risk requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 8.7 (Consolidated capital resources requirement) which is in summary the part of that group's <i>consolidated capital resources requirement</i> relating to <i>market risk</i> calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated operational risk requirement</i>	(in relation to a <i>UK consolidation group</i> or a <i>non-EEA sub-group</i> and in <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 8.7 (Consolidated capital resources requirements) which is in summary the part of that group's <i>consolidated capital resources requirement</i> relating to <i>operational risk</i> calculated in accordance with <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components) and as adjusted under <i>BIPRU</i> 8.7.
<i>consolidated requirement component</i>	has the meaning in <i>BIPRU</i> 8.7.11R (Calculation of the consolidated requirement components), which in summary is one of the following:

	<p>(a) the <i>consolidated credit risk requirement</i>; or</p> <p>(b) the <i>consolidated fixed overheads requirement</i>; or</p> <p>(c) the <i>consolidated market risk requirement</i>; or</p> <p>(d) the <i>consolidated operational risk requirement</i>.</p>
<i>consolidation concentration risk group counterparty</i>	has the meaning in <i>BIPRU</i> 8.9.11R (UK integrated groups: Definition of consolidation concentration risk group counterparty).
<i>consolidation UK integrated group</i>	(with respect to a <i>UK consolidation group</i> or <i>non-EEA sub-group</i>) all <i>undertakings</i> falling into <i>BIPRU</i> 8.9.9R (UK integrated groups: Definition of consolidation UK integrated group) with respect to that <i>UK consolidation group</i> or <i>non-EEA sub-group</i> .
<i>consolidation wider integrated group</i>	(with respect to a <i>UK consolidation group</i> or <i>non-EEA sub-group</i>) all <i>undertakings</i> falling into <i>BIPRU</i> 8.9.19R (Wider integrated groups: Definition of wider integrated group) with respect to that <i>UK consolidation group</i> or <i>non-EEA sub-group</i> .
<i>contractual cross product netting agreement</i>	(for the purpose of <i>BIPRU</i> 13.7 (Contractual netting)) has the meaning set out in <i>BIPRU</i> 13.7.2R, which is in summary a written bilateral agreement between a <i>firm</i> and a counterparty which creates a single legal obligation covering all included bilateral master agreements and transactions belonging to different product categories.
<i>conversion factor</i>	(in accordance with Article 4(28) of the <i>Banking Consolidation Directive</i> (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.
<i>convertible</i>	(for the purposes of <i>BIPRU</i>) a <i>security</i> which gives the investor the right to convert the <i>security</i> into a <i>share</i> at an agreed price or on an agreed basis.
<i>corporate</i>	(in relation to the <i>IRB approach</i> or the <i>standardised approach</i> to credit risk) a <i>person</i> an <i>exposure</i> to whom is a <i>corporate exposure</i> .
<i>corporate exposure</i>	<p>(1) (in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into <i>BIPRU</i> 4.3.2R(3) (IRB exposure classes).</p> <p>(2) (in relation to the <i>standardised approach</i> to credit risk) an <i>exposure</i> falling into <i>BIPRU</i> 3.2.9R(7) (Standardised approach to credit risk exposure classes).</p>
<i>core market participant</i>	an entity of a type listed in <i>BIPRU</i> 5.4.64R (The financial collateral comprehensive method: Conditions for applying a 0% volatility adjustment).

<i>counterparty credit risk</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)) the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
<i>counterparty exposure</i>	(for the purposes of <i>BIPRU</i> 10 (Concentration risk requirements)) has the meaning in <i>BIPRU</i> 10.4.19R and <i>BIPRU</i> 10.4.20R (Definition of counterparty exposures).
<i>counterparty risk capital component</i>	the part of the <i>credit risk capital requirement</i> calculated in accordance with <i>BIPRU</i> 14.2.1R (Calculation of the counterparty risk capital component).
<i>covered bond</i>	<p>(1) (in accordance with Article 22(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) a covered bond as defined in (1) collateralised in accordance with <i>BIPRU</i> 3.4.107R (Exposures in the form of covered bonds).</p>
<i>CRD financial instrument</i>	has the meaning set out in <i>BIPRU</i> 1.2.7R to <i>BIPRU</i> 1.2.8R (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.
<i>CRD implementation measure</i>	(in relation to an <i>person</i> , a provision of the <i>Banking Consolidation Directive</i> or the <i>Capital Adequacy Directive</i> and an <i>EEA State</i> other than the <i>United Kingdom</i>) a measure implementing that provision of that Directive for that type of <i>person</i> in that <i>EEA State</i> .
<i>credit default swap PRR method</i>	the <i>ordinary credit default swap PRR method</i> or the <i>securitisation credit default swap PRR method</i> .

<i>credit enhancement</i>	(in accordance with Article 4(43) of the <i>Banking Consolidation Directive</i> (Definitions)) a contractual arrangement whereby the credit quality of a <i>position</i> in a <i>securitisation</i> (within the meaning of paragraph (2) of the definition of <i>securitisation</i>) is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior <i>tranches</i> in the <i>securitisation</i> and other types of credit protection.
<i>credit quality assessment scale</i>	<p>the credit quality assessment scale:</p> <ol style="list-style-type: none"> (1) onto which the credit assessments of an export credit agency are mapped under the table in <i>BIPRU 3.4.9R</i> (Exposure for which a credit assessment by an export credit agency is recognised); or (2) published by the <i>FSA</i> in accordance with the <i>Capital Requirements Regulations 2006</i> which determines: <ol style="list-style-type: none"> (a) (in relation to a <i>eligible ECAI</i> whose recognition is for <i>risk weighting</i> purposes other than those in (2)(b)) with which of the <i>credit quality steps</i> set out in <i>BIPRU 3.4</i> (Risk weights under the standardised approach to credit risk) the relevant credit assessments of a <i>recognised ECAI</i> are to be associated; or (b) (in relation to a <i>eligible ECAI</i> whose recognition is for <i>securitisation risk-weighting</i> purposes) with which of the <i>credit quality steps</i> set out in <i>BIPRU 9</i> (Securitisation) the relevant credit assessments of the <i>recognised ECAI</i> are to be associated.
<i>credit quality step</i>	a credit quality step in a <i>credit quality assessment scale</i> as set out in <i>BIPRU 3.4</i> (Risk weights under the standardised approach to credit risk) and <i>BIPRU 9</i> (Securitisation).
<i>credit risk capital component</i>	the part of the <i>credit risk capital requirement</i> calculated in accordance with <i>BIPRU 3.1.5R</i> (Calculation of the credit risk capital component).
<i>credit risk capital requirement</i>	the part of the <i>capital resources requirement</i> of a <i>BIPRU firm</i> in respect of credit risk, calculated in accordance with <i>GENPRU 2.1.51R</i> (Calculation of the credit risk capital requirement).
<i>credit risk mitigation</i>	(in accordance with Article 4(30) of the <i>Banking Consolidation Directive</i> (Definitions)) a technique used by an <i>undertaking</i> to reduce the credit risk associated with an <i>exposure</i> or <i>exposures</i> which the <i>undertaking</i> continues to hold.
<i>credit valuation adjustment</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)) an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty; and so that this adjustment:

	(a)	reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty; and
	(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.
<i>CRM eligibility conditions</i>	(1)	(in relation to the <i>standardised approach</i> to credit risk), <i>BIPRU 5.3.1R-BIPRU 5.3.2R, BIPRU 5.4.1R-BIPRU 5.4.8R, BIPRU 5.5.1R, BIPRU 5.5.4R, BIPRU 5.5.8R, BIPRU 5.6.1R</i> and <i>BIPRU 5.7.1R-BIPRU 5.7.4R</i> ; or
	(2)	(in relation to the <i>IRB approach</i>), the provisions in (1) and <i>BIPRU 4.4.83R, BIPRU 4.10.R-BIPRU 4.10.7R, BIPRU 4.10.9R, BIPRU 4.10.10R-BIPRU 4.10.12R, BIPRU 4.10.14R, BIPRU 4.10.16R, BIPRU 4.10.19R, and BIPRU 4.10.38R-BIPRU 4.10.39R.</i>
<i>CRM minimum requirements</i>	(1)	in relation to the <i>standardised approach</i> to credit risk); <i>BIPRU 5.2.9R-BIPRU 5.2.10R, BIPRU 5.3.3R, BIPRU 5.4.9R-BIPRU 5.4.13R, BIPRU 5.5.2R, BIPRU 5.5.5R-BIPRU 5.5.6R, BIPRU 5.6.2R-BIPRU 5.6.3R, BIPRU 5.7.6R-BIPRU 5.7.14R</i> ; or
	(2)	(in relation to the <i>IRB approach</i>), the provisions in (1) and <i>BIPRU 4.4.85R, BIPRU 4.10.13R, BIPRU 4.10.15R, and BIPRU 4.10.18R-BIPRU 4.10.19R.</i>
<i>cross product netting</i>		(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (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 <i>BIPRU 13</i> .
<i>current exposure</i>		(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (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 <i>netting set</i> with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy.
<i>current market value</i>		(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13.5</i> (CCR standardised method)) the net market value of the portfolio of transactions within the <i>netting set</i> with the counterparty; both positive and negative market values are used in computing <i>current market value</i> .

<i>deal on own account</i>	(for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>BIPRU</i> 1.1.23R (Meaning of dealing on own account) which is in summary the service referred to in paragraph 2 of Schedule A to the Annex to the <i>ISD</i> , subject to the adjustments in <i>BIPRU</i> 1.1.23R(2) and (3) (Implementation of Article 5(2) of the <i>Capital Adequacy Directive</i>).
<i>default</i>	(in relation to the <i>IRB approach</i>) has the meaning in <i>BIPRU</i> 4.3 (The IRB approach: Provisions common to different exposure classes).
<i>designated committee</i>	<p>(in relation to a <i>firm</i>) a management body of the <i>firm</i> with delegated authority from the <i>firm's governing body</i> for approving either:</p> <ul style="list-style-type: none"> (a) (in relation to a <i>firm</i> that uses the <i>IRB approach</i>) all material aspects of the <i>firm's rating systems</i> and material changes to the <i>firm's rating systems</i>; or (b) (in relation to a <i>firm</i> that uses the <i>advanced measurement approach</i>) all material aspects of the <i>advanced measurement approach</i> as carried out by the <i>firm</i> and material changes to the <i>firm's advanced measurement approach</i>; and (c) a policy statement defining the <i>firm's</i> overall approach to material aspects of rating and estimation processes for all <i>rating systems</i> including non-material <i>rating systems</i> in relation to the <i>IRB approach</i>, or its overall approach to the <i>advanced measurement approach</i>, as relevant; <p>at least one of whose members is a member of the <i>firm's governing body</i>.</p>
<i>designated clearing house</i>	<p>one of the following <i>clearing houses</i>:</p> <ul style="list-style-type: none"> (a) ASX Settlement and Transfer Corporation Pty Ltd (ASTC); (b) Austrian Kontroll Bank (OKB); (c) Board of Trade Clearing Corporation; (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).

dilution risk (in accordance with Article 4(24) of the *Banking Consolidation Directive* (Definitions)) the risk that an amount receivable is reduced through cash or non-cash credits to the obligor.

distribution of exposures (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 (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.

diverse block (for the purposes of *BIPRU* 8 (Group risk – consolidation) and *BIPRU* 10 (Concentration risk requirements)):

- (a) (in relation to a *firm* with a *wider integrated group permission* that applies on a solo basis) has the meaning in *BIPRU* 10.9.6R (Definition of diverse block) which is in summary all *undertakings* in the *wider integrated group* designated as a single *diverse block* by the applicable *wider integrated group permission*;

- (b) (in relation to a *firm* with a *wider integrated group permission* that applies on a consolidated basis) has the meaning in *BIPRU* 8.9.22R (Wider integrated groups: Definition of diverse block) which is in summary a group of *exposures* that satisfy specified eligibility conditions and that are to *undertakings* that are designated by the *wider integrated group permission* as being associated with the same *diverse block*.

early amortisation provision

(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.

ECAI

an external credit assessment institution.

EE

expected exposure.

EEA parent financial holding company

(in accordance with Article 4(17) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions)) 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* set up in any *EEA State*.

EEA parent institution

(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* set up in any *EEA State*.

effective EE

effective expected exposure.

effective EPE

effective expected positive exposure.

effective expected exposure

(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.

<i>effective expected positive exposure</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)) the weighted average over time of <i>effective expected exposure</i> over the first year, or, if all the contracts within the <i>netting set</i> mature before one year, over the time period of the longest maturity contract in the <i>netting set</i> , where the weights are the proportion that an individual <i>expected exposure</i> represents of the entire time interval.
<i>effective maturity</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions), for the purpose of the <i>CCR internal model method</i> and with respect to a <i>netting set</i> with maturity greater than one year) the ratio of the sum of <i>expected exposure</i> over the life of the transactions in the <i>netting set</i> discounted at the risk-free rate of return divided by the sum of <i>expected exposure</i> over one year in a <i>netting set</i> discounted at the risk-free rate; this effective maturity may be adjusted to reflect <i>rollover risk</i> by replacing <i>expected exposure</i> with <i>effective expected exposure</i> for forecasting horizons under one year.
<i>EL</i>	<i>expected loss</i> .
<i>eligible ECAI</i>	an <i>ECAI</i> : <ul style="list-style-type: none"> (a) (for <i>exposure risk weighting</i> purposes other than those in (b)) recognised by the <i>FSA</i> under regulation 22 of the <i>Capital Requirements Regulations 2006</i> (Recognition for exposure risk-weighting purposes); or (b) (for <i>securitisation risk weighting</i> purposes) recognised by the <i>FSA</i> under regulation 23 of the <i>Capital Requirements Regulations 2006</i> (Recognition for securitisation risk-weighting purposes).
<i>eligible partnership capital</i>	(in relation to a <i>BIPRU firm</i>) has the meaning in <i>GENPRU 2.2.93R</i> .
<i>EPE</i>	<i>expected positive exposure</i> .
<i>equity</i>	(for the purposes of <i>BIPRU 7</i>) a <i>share</i> .
<i>equity exposure</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into the <i>IRB exposure class</i> referred to in <i>BIPRU 4.3.2R(5)</i> (equity exposures).
<i>equity PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.3</i> (Equity PRR and basic interest rate PRR for equity derivatives) but so that: <ul style="list-style-type: none"> (a) the <i>equity PRR</i> excludes the part of the <i>market risk capital requirement</i> calculated under <i>BIPRU 7.3.45R</i> (Basic interest rate PRR for equity derivatives); and (b) in relation to a particular <i>position</i>, it means the portion of the overall <i>equity PRR</i> attributable to that <i>position</i>.

<i>excess spread</i>	(for the purposes of <i>BIPRU</i> 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)) finance charge collections and other fee income received in respect of the <i>securitised exposures</i> net of costs and expenses.
<i>excess trading book position</i>	has the meaning in <i>GENPRU</i> 2.2.264R (Deductions from total capital: Excess trading book position).
<i>exempt BIPRU commodities firm</i>	a <i>BIPRU firm</i> to which the exemption in <i>BIPRU</i> TP 15.6R (Exemption for a <i>BIPRU firm</i> whose main business relates to <i>commodities</i>) applies.
<i>expected exposure</i>	(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)) the average of the distribution of <i>exposures</i> at any particular future date before the longest maturity transaction in the <i>netting set</i> matures.
<i>expected loss</i>	(in accordance with Article 4(29) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of the <i>IRB approach</i> and the <i>standardised approach</i> to credit risk) the ratio of the amount expected to be lost on an <i>exposure</i> from a potential <i>default</i> of a counterparty or dilution over a one year period to the amount outstanding at <i>default</i> .
<i>expected positive exposure</i>	(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)) the weighted average over time of <i>expected exposures</i> where the weights are the proportion that an individual <i>expected exposure</i> 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 <i>netting set</i> mature before one year, over the time period of the longest-maturity contract in the <i>netting set</i> .
<i>facility grade</i>	(in relation to the <i>advanced IRB approach</i> and the <i>sovereign, institutional and corporate IRB exposure class</i> and in accordance with <i>BIPRU</i> 4.4.49R) a risk category within a <i>rating system's</i> facility scale to which <i>exposures</i> are assigned on the basis of a specified and distinct set of rating criteria from which own estimates of <i>LGDs</i> are derived.
<i>financial collateral comprehensive method</i>	the method for calculating the effects of <i>credit risk mitigation</i> described in those parts of <i>BIPRU</i> 5.4 (Financial collateral) that are expressed to apply to that method.

<i>financial collateral simple method</i>	the method for calculating the effects of <i>credit risk mitigation</i> described in those parts of <i>BIPRU 5.4</i> (Financial collateral) that are expressed to apply to that method.
<i>financial derivative instrument</i>	has the meaning in <i>BIPRU 13.3.3R</i> (Definition of a financial derivative instrument); the definition is adjusted for the purposes of the definition of <i>counterparty risk capital component</i> in accordance with <i>BIPRU 14.2.3R</i> (Credit derivatives).
<i>fixed overheads requirement</i>	the part of the <i>capital resources requirement</i> calculated in accordance with <i>GENPRU 2.1.53R</i> (Calculation of the fixed overheads requirement).
<i>foreign currency PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.5</i> (Foreign currency PRR) or, in relation to a particular <i>position</i> , the portion of the overall <i>foreign currency PRR</i> attributable to that <i>position</i> .
<i>forward</i>	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> .
<i>forward rate agreement</i>	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.
<i>foundation IRB approach</i>	one of the following: <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 <i>BIPRU 4.4</i> (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 <i>BIPRU 4.4</i> 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 <i>BIPRU 8</i> (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>FSA</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>FRA</i>	<i>forward rate agreement</i> .
<i>free delivery</i>	a transaction of the type set out in <i>BIPRU 14.4.2R</i> (Requirement to hold capital resources with respect to free deliveries) which, in summary, is a transaction under which a <i>person</i> :

	<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.
<i>full scope BIPRU investment firm</i>	<p>has the meaning in <i>BIPRU</i> 1.1.17R (Types of BIPRU investment firm) which is in summary a <i>CAD full scope firm</i> that satisfies the following conditions:</p> <ul style="list-style-type: none"> (a) it is a <i>firm</i>; and (b) its head office is in the <i>United Kingdom</i> and it is not otherwise excluded from the definition of <i>BIPRU firm</i> under <i>BIPRU</i> 1.1.7R (Exclusion of certain types of <i>firm</i> from the definition of <i>BIPRU firm</i>).
<i>funded credit protection</i>	<p>(in accordance with Article 4(31) of the <i>Banking Consolidation Directive</i> (Definitions)) a technique of <i>credit risk mitigation</i> where the reduction of the credit risk on the <i>exposure</i> of an <i>undertaking</i> derives from the right of the <i>undertaking</i>, 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 <i>exposure</i> to, or to replace it with, the amount of the difference between the amount of the <i>exposure</i> and the amount of a claim on the <i>undertaking</i>.</p>
<i>general market risk</i>	<p>(in accordance with paragraph 12 of Annex I of the <i>Capital Adequacy Directive</i>) the risk of a price change in an <i>investment</i>:</p> <ul style="list-style-type: none"> (a) (in relation to items that may or must be treated under <i>BIPRU</i> 7.2 (Interest Rate PRR)) owing to a change in the level of interest rates; or (b) (in relation to items that may or must be treated under <i>BIPRU</i> 7.3 (Equity PRR and basic interest rate PRR for equity derivatives) except insofar as <i>BIPRU</i> 7.3 relates to the calculation of the <i>interest rate PRR</i>) owing to a broad equity-market movement unrelated to any specific attributes of individual <i>securities</i>.
<i>general market risk PRA</i>	a <i>PRA</i> with respect to <i>general market risk</i> .
<i>general stress and scenario testing rule</i>	<i>GENPRU</i> 1.2.42R (Stress and scenario tests).

<i>general wrong-way risk</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (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.
<i>GENPRU</i>	the General Prudential sourcebook.
<i>group of connected clients</i>	(in accordance with Article 4(45) of the <i>Banking Consolidation Directive</i> (Definitions)) one of the following: <ul style="list-style-type: none"> (a) two or more <i>persons</i> who, unless it is shown otherwise, constitute a single risk because one of them is the <i>parent undertaking</i>, direct or indirect, of the other or others; or (b) two or more <i>persons</i> between whom there is no relationship as set out in (a) but 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.
<i>hedging set</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a group of <i>risk positions</i> from the transactions within a single <i>netting set</i> for which only their balance is relevant for determining the <i>exposure</i> value under the <i>CCR standardised method</i> .
<i>higher stage of capital</i>	(with respect to a particular item of capital in the <i>capital resources table</i>) a stage in the <i>capital resources table</i> above that in which that item of capital appears.
<i>ICAAP</i>	the <i>internal capital adequacy assessment process</i> .
<i>ICAAP rules</i>	the <i>rules</i> in <i>GENPRU 1.2.30R</i> to <i>GENPRU 1.2.39R</i> (Systems, strategies, processes and reviews), <i>GENPRU 1.2.42R</i> (Main Requirements: Stress and scenario tests) and <i>GENPRU 1.2.60R</i> to <i>GENPRU 1.2.61R</i> (Documentation of risk assessments) as they apply on a solo level and on a consolidated level.
<i>ICG</i>	<i>individual capital guidance</i> .
<i>illiquid asset</i>	has the meaning in <i>GENPRU 2.2.260R</i> (Deductions from total capital: Illiquid assets).

<i>incremental default risk charge</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model)) has the meaning in <i>BIPRU</i> 7.10.116R (Capital calculations for <i>VaR models</i>), which is in summary, in relation to a <i>business day</i> , the incremental default risk charge required under the provisions in <i>BIPRU</i> 7.10 about <i>specific risk</i> , in respect of the previous <i>business day</i> 's close-of-business <i>positions</i> with respect to which those provisions apply.
<i>individual counterparty CNCOM</i>	has the meaning in <i>BIPRU</i> 10.5.20R (How to calculate the concentration risk capital component), which is in summary the sum of a <i>firm's individual CNCOMs</i> with respect to a <i>counterparty</i> or <i>group of connected clients</i> or to its <i>connected counterparties</i> .
<i>individual CNCOM</i>	the amount calculated with respect to an individual <i>exposure</i> under <i>BIPRU</i> 10.5.20R (How to calculate the concentration risk capital component).
<i>initial commitment</i>	(for the purposes of <i>BIPRU</i> and in relation to <i>underwriting</i>) the date specified in <i>BIPRU</i> 7.8.13R (Time of initial commitment).
<i>institution</i>	(in accordance with Article 3(1)(c) of the <i>Capital Adequacy Directive</i> and Article 4(6) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) a <i>credit institution</i> or a <i>CAD investment firm</i> , whether or not it is incorporated in, or has its head office in, an <i>EEA State</i> .
<i>internal capital adequacy assessment process</i>	a <i>firm's</i> assessment of the adequacy of its capital and financial resources, as required by the <i>ICAAP rules</i> .
<i>international organisation</i>	(for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) an organisation referred to in <i>BIPRU</i> 3.4.30R (Exposures to international organisations).
<i>interest rate duration method</i>	the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in <i>BIPRU</i> 7.2.63R (General market risk calculation: Duration method).
<i>interest rate maturity method</i>	the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in <i>BIPRU</i> 7.2.59R (General market risk calculation: The maturity method).
<i>interest rate PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU</i> 7.2 (Interest rate PRR) or <i>BIPRU</i> 7.3.45R (Basic interest rate PRR 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> .
<i>interest rate simplified maturity method</i>	the method of calculating the part of the <i>interest rate PRR</i> that relates to <i>general market risk</i> set out in <i>BIPRU</i> 7.2.56R (General market risk calculation: Simplified maturity method).
<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> 7.6.6R (The in the money percentage).

<i>investment firm consolidation waiver</i>	a <i>waiver</i> (described in <i>BIPRU</i> 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 <i>CAD Article 22 group</i> .
<i>IRB approach</i>	one of the following: <ul style="list-style-type: none"> (a) the adjusted method of calculating the <i>credit risk capital component</i> set out in <i>BIPRU</i> 4 (IRB approach) and <i>BIPRU</i> 9.12 (Calculation of risk weighted exposure amounts under the internal ratings based approach), including that approach as applied under <i>BIPRU</i> 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 <i>BIPRU</i> 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>FSA</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>IRB exposure class</i>	(in relation to the <i>IRB approach</i>) one of the classes of <i>exposure</i> set out in <i>BIPRU</i> 4.3.2R (exposure classes).
<i>IRB permission</i>	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> .
<i>issuer exposure</i>	(for the purposes of <i>BIPRU</i> 10 (Concentration risk requirements)) has the meaning in <i>BIPRU</i> 10.4.5R (Definition of issuer exposures).
K_{IRB}	(for the purposes of <i>BIPRU</i> 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)) 8% of the <i>risk weighted exposure amounts</i> that would be calculated under the <i>IRB approach</i> in respect of the <i>securitised exposures</i> , had they not been <i>securitised</i> , plus the amount of <i>expected losses</i> associated with those <i>exposures</i> calculated under the <i>IRB approach</i> .
<i>large exposure</i>	has the meaning set out in <i>BIPRU</i> 10.5.1R, which in summary is the <i>total exposure</i> of a <i>firm</i> to a <i>counterparty</i> , <i>connected counterparties</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> .
<i>lending firm</i>	(in accordance with Article 90 of the <i>Banking Consolidation Directive</i> (Credit risk mitigation) and for the purposes of <i>rules</i> about <i>credit risk mitigation</i>) a <i>firm</i> that has an <i>exposure</i> , whether or not deriving from a loan.
<i>LGD</i>	<i>loss given default</i> .

<i>limited activity firm</i>	has the meaning set out <i>BIPRU 1.1.11R</i> (Types of investment firm: Limited activity firms).
<i>limited licence firm</i>	has the meaning set out <i>BIPRU 1.1.12R</i> (Types of investment firm: Limited licence firms).
<i>liquidity facility</i>	(for the purposes of <i>BIPRU 9</i> (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 <i>securitisation position</i> arising from a contractual agreement to provide funding to ensure timeliness of cash-flows to investors.
<i>long settlement transaction</i>	(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.
<i>loss</i>	(in accordance with Article 4(26) of the <i>Banking Consolidation Directive</i> (Definitions) and for the purposes of the <i>IRB approach</i> , the <i>standardised approach</i> to credit risk and <i>BIPRU 5</i> (Credit risk mitigation)) economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.
<i>loss given default</i>	(in accordance with Article 4(27) of the <i>Banking Consolidation Directive</i> (Definitions) and in relation to the <i>IRB approach</i>) the ratio of the <i>loss</i> on an <i>exposure</i> due to the <i>default</i> of a counterparty to the amount outstanding at <i>default</i> .
<i>lower stage of capital</i>	(with respect to a particular item of capital in the <i>capital resources table</i>) a stage in the <i>capital resources table</i> below that in which that item of capital appears.
<i>lower tier three capital</i>	an item of capital that is specified in stage P of the <i>capital resources table</i> (Lower tier three).
<i>lower tier three capital resources</i>	the sum calculated at stage P of the <i>capital resources table</i> (Lower tier three).
<i>main BIPRU firm Pillar 1 rules</i>	<i>GENPRU 2.1.40R</i> (Variable capital requirement for <i>BIPRU firms</i>), <i>GENPRU 2.1.41R</i> (Base capital resources requirement for <i>BIPRU firms</i>), <i>GENPRU 2.1.48R</i> (Table: Base capital resources requirement for a <i>BIPRU firm</i>) and, where applicable, <i>GENPRU 2.1.60R</i> (Calculation of base capital resources requirement for banks authorised before 1993).

<i>margin agreement</i>	(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)) 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.
<i>margin lending transaction</i>	(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)) 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.
<i>margin period of risk</i>	(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)) 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.
<i>margin threshold</i>	(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)) the largest amount of an <i>exposure</i> that remains outstanding until one party has the right to call for collateral.
<i>market risk capital requirement</i>	the part of the <i>capital resources requirement</i> of a <i>BIPRU</i> firm in respect of <i>market risk</i> , calculated in accordance with <i>GENPRU</i> 2.1.52R (Calculation of the market risk capital requirement).
<i>master netting agreement internal models approach</i>	one of the following: <ul style="list-style-type: none"> (a) the method of calculating the effect of <i>credit risk mitigation</i> described in <i>BIPRU</i> 5.6.16R to <i>BIPRU</i> 5.6.28G; (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</i> 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>FSA</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.

<i>master netting agreement internal models approach permission</i>	a <i>requirement</i> or a <i>waiver</i> that requires a <i>firm</i> to use the <i>master netting agreement internal models approach</i> on a solo basis or, if the context requires, a consolidated basis.
<i>matched principal exemption conditions</i>	the conditions set out in <i>BIPRU 1.1.23R(2)</i> (Meaning of dealing on own account).
<i>material insurance holding</i>	has the meaning in <i>GENPRU 2.2.212R</i> (Material holdings).
<i>minimum IRB standards</i>	(in relation to the <i>IRB approach</i>) <i>BIPRU 4.3.9R, BIPRU 4.3.11R-BIPRU 4.3.29R, BIPRU 4.3.33R-BIPRU 4.3.40R, BIPRU 4.3.43R-BIPRU 4.3.44R, BIPRU 4.3.46R-BIPRU 4.3.48R, BIPRU 4.3.50R-BIPRU 4.3.51R, BIPRU 4.3.54R, BIPRU 4.3.56R-BIPRU 4.3.57R, BIPRU 4.3.63R, BIPRU 4.3.70R-BIPRU 4.3.71R, BIPRU 4.3.73R-BIPRU 4.3.74R, BIPRU 4.3.83R-BIPRU 4.3.85R, BIPRU 4.3.88R, BIPRU 4.3.90R-BIPRU 4.3.92R, BIPRU 4.3.94R, BIPRU 4.3.99R, BIPRU 4.3.103R, BIPRU 4.3.116R-BIPRU 4.3.123R, BIPRU 4.3.125R-BIPRU 4.3.131R, BIPRU 4.4.6R-BIPRU 4.4.9R, BIPRU 4.4.11R-BIPRU 4.4.13R, BIPRU 4.4.15R-BIPRU 4.4.18R, BIPRU 4.4.21R-BIPRU 4.4.22R, BIPRU 4.4.24R-BIPRU 4.4.25R, BIPRU 4.4.27R-BIPRU 4.4.28R, BIPRU 4.4.30R-BIPRU 4.4.31R, BIPRU 4.4.48R-BIPRU 4.4.51R, BIPRU 4.4.53R, BIPRU 4.4.54R, BIPRU 4.5.5R, BIPRU 4.6.6R-BIPRU 4.6.9R, BIPRU 4.6.11R-BIPRU 4.6.12R, BIPRU 4.6.14R, BIPRU 4.6.18R, BIPRU 4.6.20R-BIPRU 4.6.21R, BIPRU 4.6.24R-BIPRU 4.6.34R, BIPRU 4.6.37R-BIPRU 4.6.39R, BIPRU 4.7.19R, BIPRU 4.7.27R-BIPRU 4.7.35R, BIPRU 4.8.5R-BIPRU 4.8.9R, BIPRU 4.8.11R-BIPRU 4.8.15R, BIPRU 4.10.40R-BIPRU 4.10.48R.</i>
<i>minimum multiplication factor</i>	(in <i>BIPRU 7.10</i> (Use of a value at risk model)) has the meaning in <i>BIPRU 7.10.119R</i> (Capital calculations: Multiplication factors), which is in summary the number three or any higher amount the <i>VaR model permission</i> defines it as.
<i>MIPRU</i>	the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries
<i>model PRR</i>	the part of the <i>market risk capital requirement</i> calculated under a <i>VaR model permission</i> as more fully defined in <i>BIPRU 7.10</i> (Use of a Value at Risk Model).
<i>modified CIU look through method</i>	the method for calculating <i>PRR</i> for a <i>CIU</i> set out in <i>BIPRU 7.7.4R, BIPRU 7.7.7R to BIPRU 7.7.8R</i> and <i>BIPRU 7.7.11R to BIPRU 7.7.12R</i>
<i>multiplication factor</i>	(in <i>BIPRU 7.10</i> (Use of a value at risk model)) a multiplication factor applied to a <i>VaR measure</i> for the purpose of calculating the <i>model PRR</i> made up of the <i>minimum multiplication factor</i> as increased by the <i>plus factor</i> , all as more fully defined in <i>BIPRU 7.10.118R</i> (Capital calculations: Multiplication factors).

<i>netting set</i>	(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)) 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 <i>BIPRU</i> 13.7 (Contractual netting), <i>BIPRU</i> 5 (Credit risk mitigation) and, if applicable, <i>BIPRU</i> 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 <i>BIPRU</i> 13.7 must be interpreted as its own <i>netting set</i> for the purpose of <i>BIPRU</i> 13.
<i>net underwriting exposure</i>	has the meaning in <i>BIPRU</i> 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 <i>BIPRU</i> 7.8.35R to the <i>net underwriting position</i> .
<i>net underwriting position</i>	the net underwriting position calculated under <i>BIPRU</i> 7.8.17R (Calculating the net underwriting position).
<i>nominated ECAI</i>	<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 <i>BIPRU</i> 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 <i>BIPRU</i> 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>
<i>non credit-obligation asset</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> in the form of a non credit-obligation asset or falling under <i>BIPRU</i> 4.9.5R (Non credit-obligation assets).
<i>non-EAA sub-group</i>	a group of <i>undertakings</i> identified as a <i>non-EEA sub-group</i> in <i>BIPRU</i> 8.3.1R (Main consolidation rule for non-EEA sub-groups); however where the provision in question refers to a <i>non-EAA 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> (Non-EAA sub-groups) required to be supervised on a consolidated basis under Article 73(2) of the <i>Banking Consolidation Directive</i> by a <i>competent authority</i> in that <i>EEA State</i> .

<i>non-trading book</i>	<i>positions, exposures</i> , assets and liabilities that are not in the <i>trading book</i> .
<i>obligor grade</i>	(in relation to the <i>IRB approach</i> and the <i>sovereign, institutional and corporate IRB exposure class</i> and in accordance with <i>BIPRU 4.4.8R</i>) 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.
<i>one-day VaR measure</i>	(in <i>BIPRU 7.10</i> (Use of a value at risk model)) has the meaning in <i>BIPRU 7.10.98R</i> (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.
<i>one-sided credit valuation adjustment</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions)) 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.
<i>open currency position</i>	the amount calculated under <i>BIPRU 7.5.19R</i> (Open currency position) as part of the calculation of the <i>foreign currency PRR</i> .
<i>operational risk</i>	(in accordance with Article 4(22) of the <i>Banking Consolidation Directive</i>) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.
<i>operational risk capital requirement</i>	the part of the <i>capital resources requirement</i> of a <i>BIPRU firm</i> falling within <i>BIPRU 6.1.1R</i> in respect of <i>operational risk</i> , calculated in accordance with <i>BIPRU 6.2</i> .
<i>option hedging method</i>	the method of calculating the <i>option PRR</i> in <i>BIPRU 7.6.24R</i> (The hedging method).
<i>option PRR</i>	the part of the <i>market risk capital requirement</i> calculated in accordance with <i>BIPRU 7.6</i> (Option PRR) or, in relation to a particular <i>position</i> , the portion of the overall <i>option PRR</i> attributable to that <i>position</i> .
<i>option standard method</i>	the method of calculating the <i>option PRR</i> in <i>BIPRU 7.6.20R</i> to <i>BIPRU 7.6.22R</i> (The standard method).
<i>ordinary credit default swap PRR method</i>	the method for calculating the <i>specific risk</i> portion of the <i>interest rate PRR</i> for credit default swaps that are not <i>securitisation positions</i> set out in <i>BIPRU 7.11.24R</i> to <i>BIPRU 7.11.37R</i> .
<i>originator</i>	(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:

- (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.

<i>ORCR</i>	the <i>operational risk capital requirement</i> .
<i>out of the money</i>	(for the purposes of <i>BIPRU 7</i> (Market risk) and in relation to an <i>option</i> or <i>warrant</i>) that <i>option</i> or <i>warrant</i> being neither <i>at the money</i> nor <i>in the money</i> .
<i>overall financial adequacy rule</i>	<i>GENPRU 1.2.26R</i> (Requirement for certain <i>firms</i> to have adequate financial resources).
<i>overall Pillar 2 rule</i>	<i>GENPRU 1.2.30R</i> (Systems, strategies, processes and reviews for certain <i>firms</i>).
<i>own estimates of volatility adjustments approach</i>	the approach to calculating volatility adjustments under the <i>financial collateral comprehensive method</i> under which the <i>firm</i> uses its own estimates of such adjustments, as more fully described in <i>BIPRU 5.4</i> (Financial collateral) and including that approach as applied to master netting agreements as described in <i>BIPRU 5.6</i> (Master netting agreements).
<i>parent financial holding company in a Member State</i>	(in accordance with Article 4(15) of the <i>Banking Consolidation Directive</i> (Definitions) and Article 3 of the <i>Capital Adequacy Directive</i> (Definitions)) a <i>financial holding company</i> which is not itself a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in the same <i>EEA State</i> , or of a <i>financial holding company</i> set up in the same <i>EEA State</i> .
<i>parent institution in a Member State</i>	(in accordance with Article 4(14) of the <i>Banking Consolidation Directive</i> and Article 2 of the <i>Capital Adequacy Directive</i> (Definitions)) an <i>institution</i> which has an <i>institution</i> or a <i>financial institution</i> as a <i>subsidiary undertaking</i> or which holds a <i>participation</i> in such an institution, and which is not itself a <i>subsidiary undertaking</i> of another <i>institution</i> authorised in the same <i>EEA State</i> , or of a <i>financial holding company</i> set up in the same <i>EEA State</i> .
<i>payment leg</i>	(for the purposes of the <i>CCR standardised method</i> and as more fully defined in <i>BIPRU 13.5.2R</i> (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.
<i>PD/LGD approach</i>	the method for treating <i>equity exposures</i> under the <i>IRB approach</i> set out in <i>BIPRU 4.7.14R-BIPRU 4.7.22R</i> .

<i>peak exposure</i>	(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)) a high percentile of the distribution of <i>exposures</i> at any particular future date before the maturity date of the longest transaction in the <i>netting set</i> .
<i>permanent interest bearing shares</i>	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 <i>Banking Consolidation Directive</i> .
<i>physical commodities</i>	a physical holding of a <i>commodity</i> , or documents evidencing title to a <i>commodity</i> .
<i>PIBS</i>	<i>permanent interest-bearing shares</i> .
<i>plus factor</i>	(in <i>BIPRU</i> 7.10 (Use of a value at risk model)) an increase to the <i>minimum multiplication factor</i> based on <i>backtesting exceptions</i> as more fully defined in <i>BIPRU</i> 7.10.124R (Capital calculations: Multiplication factors).
<i>position</i>	(in accordance <i>BIPRU</i> 1.2.4 (Definition of the trading book: Positions)) includes proprietary positions and positions arising from client servicing and market making.
<i>position risk requirement</i>	a capital requirement applied to a <i>position</i> treated under <i>BIPRU</i> 7 (Market risk) as part of the calculation of the <i>market risk capital requirement</i> or, if the relevant provision of the <i>Handbook</i> distinguishes between <i>general market risk</i> and <i>specific risk</i> , the portion of that capital requirement with respect to whichever of <i>general market risk</i> or <i>specific risk</i> is specified by that provision.
<i>PRA</i>	a percentage applied to a <i>position</i> as part of the process of calculating the <i>PRR</i> in relation to that <i>position</i> as set out in the tables in <i>BIPRU</i> 7.2.44R (Specific risk PRAs), <i>BIPRU</i> 7.2.57R (General market risk PRAs), <i>BIPRU</i> 7.3.30R (Simplified equity method PRAs), <i>BIPRU</i> 7.3.34R (PRAs for specific risk under the standard equity method) and <i>BIPRU</i> 7.6.8R (The appropriate PRA) and also as set out in <i>BIPRU</i> 7.2.46R to <i>BIPRU</i> 7.2.47R.
<i>probability of default</i>	(in accordance with Article 4(25) of the <i>Banking Consolidation Directive</i> (Definitions)) 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> .
<i>protection buyer</i>	(in relation to a credit derivative and in accordance with paragraph 8 of Annex I of the <i>Capital Adequacy Directive</i> (Calculating capital requirements for position risk)) the <i>person</i> who transfers credit risk.

<i>protection seller</i>	(in relation to a credit derivative and in accordance with paragraph 8 of Annex I of the <i>Capital Adequacy Directive</i> (Calculating capital requirements for position risk)) the <i>person</i> who assumes the credit risk.
<i>PRR</i>	<i>position risk requirement</i> .
<i>PRR charge</i>	one of the following: <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>.
<i>PRR item</i>	a <i>commodity</i> or a <i>CRD financial instrument</i> .
<i>PRR identical product netting rules</i>	the following: <ul style="list-style-type: none"> (a) <i>BIPRU 7.2.37R</i> (Deriving the net position in each debt security: Netting positions in the same debt security); (b) <i>BIPRU 7.2.40R</i> (Deriving the net position in each debt security: Netting zero-specific-risk securities with different maturities); (c) <i>BIPRU 7.3.23R</i> (Deriving the net position in each equity); (d) <i>BIPRU 7.4.20R</i> and <i>BIPRU 7.4.22R</i> (Calculating the PRR for each commodity: General); (e) <i>BIPRU 7.5.19R(1)</i> (Open currency position); and (f) the obligation under <i>BIPRU 7.5.20R</i> (Net gold position) to calculate a separate <i>foreign exchange PRR</i> charge for gold).
<i>PSE</i>	a <i>public sector entity</i> .
<i>public sector entity</i>	(in accordance with Article 4(18) of the <i>Banking Consolidation Directive</i> (Definitions)) any of the following: <ul style="list-style-type: none"> (a) non-commercial administrative bodies responsible to central governments, regional governments or local authorities; or (b) authorities that exercise the same responsibilities as regional and local authorities; or

	(c) non commercial <i>undertakings</i> owned by central governments that have explicit guarantee arrangements; or
	(d) self administered bodies governed by law that are under public supervision.
<i>qualifying equity</i>	a <i>share</i> that satisfies the conditions in <i>BIPRU 7.3.35R</i> (Definition of a qualifying equity).
<i>qualifying equity index</i>	an <i>equity</i> index falling into in <i>BIPRU 7.3.38R</i> (Definition of a qualifying equity index).
<i>qualifying holding</i>	has the meaning in <i>GENPRU 2.2.203R</i> (Qualifying holdings), which is in summary a direct or indirect holding of a <i>bank</i> or <i>building society</i> in a non-financial <i>undertaking</i> 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 <i>undertaking</i> .
<i>qualifying revolving retail exposure</i>	(in relation to the <i>IRB approach</i>) <i>retail exposures</i> falling into <i>BIPRU 4.6.44R(2)</i> (Qualifying revolving retail exposures).
<i>rated position</i>	(for the purposes of <i>BIPRU 9</i> (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> .
<i>ratings based method</i>	(for the purposes of <i>BIPRU 9</i> (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 <i>BIPRU 9.12.10R-BIPRU 9.12.19R</i> and <i>BIPRU 9.14.2R</i> .
<i>rating system</i>	(in relation to the <i>IRB approach</i> and in accordance with <i>BIPRU 4.3.25R</i>) 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> .
<i>reciprocal cross-holding</i>	has the meaning in <i>GENPRU 2.2.219R</i> (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: <ul style="list-style-type: none"> (a) a <i>credit institution</i>; or (b) a <i>financial institution</i>; that satisfies the conditions in <i>GENPRU 2.2.219R</i> .
<i>recognised third country credit institution</i>	a <i>full BCD credit institution</i> 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 6R (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).

reduced net underwriting position

the *net underwriting position* as adjusted under *BIPRU* 7.8.27R (Calculating the reduced net underwriting position).

regulatory high risk category

(for the purposes of the *standardised approach* to credit risk) an item that falls into *BIPRU* 3.4.104R (Items belonging to regulatory high risk categories under the standardised approach to credit risk).

repurchase agreement

see *repurchase transaction*.

repurchase transaction

(in accordance with Article 3(1)(m) of the *Capital Adequacy Directive* and Article 4(33) of the *Banking Consolidation Directive* (Definitions)) 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.

resecuritisation

(in accordance with point 49 of Part 4 of Annex IX of the *Banking Consolidation Directive* (Ratings based method)) *securitisation* of *securitisation exposures* (*securitisation* having the meaning in paragraph (2) of the definition of *securitisation* for these purposes).

residual block

- (1) (for the purposes of *BIPRU* 10 (Concentration risk requirements)):

	(a)	(subject to (b)) has the meaning in <i>BIPRU</i> 10.8.12R (Definition of residual block) which is in summary, in relation to a <i>firm</i> and its <i>UK integrated group</i> , a <i>concentration risk group counterparty</i> of the <i>firm</i> which is not a member of the <i>firm's UK integrated group</i> ;
	(b)	(if a <i>firm</i> has a <i>wider integrated group permission</i>) has the meaning in <i>BIPRU</i> 10.9.7R (Definition of residual block) which is in summary, in relation to a <i>firm</i> and its <i>wider integrated group</i> , a <i>concentration risk group counterparty</i> of the <i>firm</i> which is not a member of the <i>firm's UK integrated group</i> or <i>wider integrated group</i> .
	(2)	(for the purposes of <i>BIPRU</i> 8 (Group risk – consolidation)) has the meaning in <i>BIPRU</i> 8.9.24R (Wider integrated groups: Definition of residual block) which is in summary all <i>exposures</i> to <i>group concentration risk group counterparties</i> falling into <i>BIPRU</i> 8.9.20R(2) not included in a <i>diverse block</i> .
<i>retail exposure</i>	(1)	(in relation to the <i>IRB approach</i> and with respect to an <i>exposure</i>) an <i>exposure</i> falling into the <i>IRB exposure class</i> listed in <i>BIPRU</i> 4.3.2R(4) (Retail exposures).
	(2)	(in relation to the <i>standardised approach</i> to credit risk and with respect to an <i>exposure</i>) an <i>exposure</i> falling into the <i>standardised credit risk exposure class</i> listed in <i>BIPRU</i> 3.2.9R(8) (Retail exposures).
<i>retail SME</i>	(1)	(in relation to the <i>IRB approach</i>) a small or medium sized entity, an <i>exposure</i> to which may be treated as a <i>retail exposure</i> under <i>BIPRU</i> 4.6.2R (Definition of retail exposures).
	(2)	(in relation to the <i>standardised approach</i> to credit risk) a small or medium sized entity, an <i>exposure</i> to which may be treated as a <i>retail exposure</i> under <i>BIPRU</i> 3.2.10R (Definition of retail exposures).
<i>retail SME exposure</i>		(in relation to the <i>IRB approach</i> or the <i>standardised approach</i> to credit risk) an <i>exposure</i> to a <i>retail SME</i> .
<i>reverse repurchase agreement</i>		see <i>repurchase transaction</i> .
<i>revolving exposure</i>		(for the purpose of <i>BIPRU</i> 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 <i>exposure</i> whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.

<i>risk capital requirement</i>	<p>(1) (in relation to the <i>FSA's rules</i>) one of the following:</p> <ul style="list-style-type: none"> (a) the <i>credit risk capital requirement</i>; (b) the <i>fixed overheads requirement</i>; (c) the <i>market risk capital requirement</i>; or (d) the <i>operational risk capital requirement</i>; or <p>(2) (in relation to the rules of another <i>regulatory body</i>) whatever corresponds to the items in (1) under the rules of that <i>regulatory body</i>.</p>
<i>risk position</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (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 <i>CCR standardised method</i> following a predetermined algorithm.
<i>risk weight</i>	(in relation to an <i>exposure</i>) a degree of risk expressed as a percentage assigned to that <i>exposure</i> in accordance with whichever is applicable of the <i>standardised approach</i> to credit risk and the <i>IRB approach</i> , including (in relation to a <i>securitisation position</i>) under <i>BIPRU 9</i> (Securitisation).
<i>risk weighted exposure amount</i>	(in relation to an <i>exposure</i>) the value of an <i>exposure</i> for the purposes of the calculation of the <i>credit risk capital component</i> after application of a <i>risk weight</i> .
<i>rollover risk</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) the amount by which <i>expected positive exposure</i> is understated when future transactions with a counterpart are expected to be conducted on an ongoing basis; the additional <i>exposure</i> generated by those future transactions is not included in calculation of <i>expected positive exposure</i> .
<i>same stage of capital</i>	(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.
<i>secured lending transaction</i>	(in accordance with point 2 of Part 1 of Annex VIII of the <i>Banking Consolidation Directive</i> (Eligibility of credit risk mitigation)) 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.

<i>securities financing transaction</i>	<p>any of the following:</p> <p>(a) a <i>repurchase transaction</i>; or</p> <p>(b) a <i>securities or commodities lending or borrowing transaction</i>; or</p> <p>(c) a <i>margin lending transaction</i>.</p>
<i>securities or commodities borrowing</i>	see <i>securities or commodities lending or borrowing transaction</i> .
<i>securities or commodities lending</i>	see <i>securities or commodities lending or borrowing transaction</i> .
<i>securities or commodities lending or borrowing transaction</i>	(in accordance with Article 4(34) of the <i>Banking Consolidation Directive</i> and Article 3(1)(n) of the <i>Capital Adequacy Directive</i> (Definitions)) any transaction in which an <i>undertaking</i> or its counterparty transfers securities or <i>commodities</i> against appropriate collateral subject to a commitment that the borrower will return equivalent securities or <i>commodities</i> at some future date or when requested to do so by the transferor, that transaction being <i>securities or commodities lending</i> for the <i>undertaking</i> transferring the securities or <i>commodities</i> and being <i>securities or commodities borrowing</i> for the <i>undertaking</i> to which they are transferred.
<i>securities PRR</i>	<p>the <i>interest rate PRR</i>, the <i>equity PRR</i>, the <i>option PRR</i> (but only in relation to <i>positions</i> which under <i>BIPRU 7.6.5R</i> (Table: Appropriate calculation for an option or warrant) may be subject to one of the other <i>PRR</i> charges listed in this definition or which would be subject to such a <i>PRR</i> charge if <i>BIPRU 7.6.5R</i> did not require an <i>option PRR</i> to be calculated), the <i>CIU PRR</i> and the <i>PRR</i> calculated under <i>BIPRU 7.11</i> (Credit derivatives in the trading book) and so that:</p> <p>(a) the <i>securities PRR</i> includes any <i>PRR charge</i> calculated under a <i>CAD 1 permission</i>; and</p> <p>(b) the <i>securities PRR</i> does not include any <i>PRR charge</i> calculated under a <i>VaR model permission</i> unless the provision in question provides otherwise.</p>
<i>securitisation credit default swap PRR method</i>	the method for calculating the <i>specific risk</i> portion of the <i>interest rate PRR</i> for credit default swaps that are <i>securitisation positions</i> set out in <i>BIPRU 7.11.39R</i> to <i>BIPRU 7.11.53R</i> .
<i>securitisation position</i>	(in accordance with Article 4(40) (Definitions) and Article 96 (Securitisation) of the <i>Banking Consolidation Directive</i>) an <i>exposure</i> to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of <i>securitisation</i> ; 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.

securitisation special purpose entity

(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.

securitised exposure

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*.

senior management

(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.

SFT

securities financing transaction.

simple capital issuer

a *BIPRU firm* that meets the following conditions:

- (a) it does not raise capital through a special purpose vehicle;
- (b) it only includes non-convertible and non-exchangeable *capital instruments* in its *capital resources*;
- (c) (if it includes *capital instruments* in its *capital resources* on which *coupons* are payable) such *coupons* are not subject to a *step-up*;
- (d) it only includes *capital instruments* in its *tier one capital resources* consisting of ordinary *shares*, *PIBS*, perpetual non-cumulative preference *shares* or partnership or *limited liability partnership* capital accounts;
- (e) it only includes non-redeemable *capital instruments* in its *tier one capital resources*; and

	(f) (if it includes <i>capital instruments</i> in its <i>tier one capital resources</i> on which <i>coupons</i> are payable) such <i>coupons</i> are non-cumulative, non-mandatory and in cash.
<i>simplified equity method</i>	the method of calculating the <i>equity PRR</i> set out in <i>BIPRU 7.3.29R</i> (Simplified equity method).
<i>solo consolidation waiver</i>	a <i>waiver</i> of the type described in <i>BIPRU 2.1</i> (Solo consolidation).
<i>sovereign, institutional and corporate IRB exposure class</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into the <i>IRB exposure classes</i> referred to in <i>BIPRU 4.3.2R(1)-(3)</i> (Sovereigns, institutions and corporates).
<i>specialised lending exposure</i>	(in relation to the <i>IRB approach</i>) an <i>exposure</i> falling into <i>BIPRU 4.5.3R</i> (Definition of specialised lending).
<i>specific risk PRA</i>	a <i>PRA</i> for <i>specific risk</i> including any such <i>PRA</i> as applied under <i>BIPRU 7.6.8R</i> (Table: Appropriate PRA).
<i>specific risk backtesting exception</i>	(in <i>BIPRU 7.10</i> (Use of a value at risk model) and in relation to a <i>firm</i>) an exception arising out of backtesting a <i>VaR model</i> with respect to <i>specific risk</i> as more fully defined in that <i>firm's VaR model permission</i> .
<i>specific wrong-way risk</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (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 <i>probability of default</i> of the counterparty due to the nature of the transactions with the counterparty; a <i>firm</i> is exposed to <i>specific wrong-way risk</i> if the future exposure to a specific counterparty is expected to be high when the counterparty's <i>probability of default</i> is also high.
<i>SPV</i>	(1) (in <i>GENPRU 2.2</i> (Capital resources)) has the meaning in <i>GENPRU 2.2.126R</i> (Other tier one capital: innovative tier one capital: indirectly issued tier one capital). (2) (in <i>BIPRU 8</i> (Group risk - consolidation)) has the meaning in <i>BIPRU 8.6.15R</i> (Indirectly issued capital and group capital resources).
<i>SREP</i>	the <i>supervisory review and evaluation process</i> .
<i>SSPE</i>	a <i>securitisation special purpose entity</i> .
<i>standard CIU look through method</i>	the method for calculating the <i>PRR</i> for a <i>position</i> in a <i>CIU</i> set out in <i>BIPRU 7.7.4R</i> and <i>BIPRU 7.7.7R</i> to <i>BIPRU 7.7.10R</i> .
<i>standard equity method</i>	the method of calculating the <i>equity PRR</i> set out in <i>BIPRU 7.3.32R</i> (Standard equity method).
<i>standardised approach</i>	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* (Concentration risk 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 *FSA*, whatever corresponds to the approach in (a) to (e), as the case may be, under those rules.

standardised credit risk exposure class

(in relation to the *standardised approach* to credit risk) one of the classes of *exposure* set out in *BIPRU 3.2.9R* (Exposure classes).

standard market risk PRR rules

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*.

stock financing

a transaction where a *physical commodity* is sold forward and the cost of funding is locked in until the date of the forward sale.

supervisory formula method

(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 method of calculating *risk weighted exposure amounts* for *securitisation positions* set out in *BIPRU 9.12.21R-BIPRU 9.12.23R* and *BIPRU 9.14.3R*.

supervisory review and evaluation process

the *FSA*'s assessment of the adequacy of certain *firms'* capital, as more fully described in *BIPRU 2.2.9G* and *INSRU 7.1.8G*.

<i>supervisory volatility adjustments approach</i>	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 <i>BIPRU 5.4</i> (Financial collateral) rather than in its own estimates, as more fully described in <i>BIPRU 5.4</i> and including that approach as applied to master netting agreements as described in <i>BIPRU 5.6</i> (Master netting agreements).
<i>swap</i>	a transaction in which two counterparties agree to exchange streams of payments over time according to a predetermined basis or a <i>contract for differences</i> .
<i>synthetic securitisation</i>	(in accordance with Article 4(38) of the <i>Banking Consolidation Directive</i> (Definitions)) 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> .
<i>third country banking or investment services undertaking</i>	(in <i>BIPRU</i>) an <i>institution</i> , a <i>financial institution</i> or an <i>asset management company</i> in a <i>non-EEA state</i> .
<i>third country BIPRU firm</i>	an <i>overseas firm</i> that: <ul style="list-style-type: none"> (a) is not an <i>EEA firm</i>; (b) has its head office outside the <i>EEA</i>; and (c) would be a <i>BIPRU firm</i> if it had been a <i>UK domestic firm</i>, it had carried on all its business in the <i>United Kingdom</i> and had obtained whatever authorisations for doing so are required under the <i>Act</i>.
<i>third country competent authority</i>	a <i>regulatory body</i> of a state or territory that is not an <i>EEA State</i> .
<i>tier three capital</i>	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>	the sum calculated at stage Q of the <i>capital resources table</i> (Total tier three capital).
<i>tier three instrument</i>	an item of capital that falls into <i>GENPRU 2.2.242R</i> (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>total exposure</i>	(in relation to a <i>counterparty</i> or <i>group of connected clients</i> and a <i>person</i> or in relation to a <i>person</i> and its <i>connected counterparties</i>) all that <i>person's exposures</i> to that <i>counterparty</i> or <i>group of connected clients</i> or to that <i>person's connected counterparties</i> or the total amount of those <i>exposures</i> .
<i>trading book concentration risk excess</i>	has the meaning in <i>BIPRU 10.5.20R</i> (How to calculate the concentration risk capital component).

<i>trading book policy statement</i>	has the meaning in <i>BIPRU</i> 1.2.29R (Trading book policy statements) which is in summary a single document of a <i>person</i> recording the policies and procedures referred to in <i>BIPRU</i> 1.2.26R and <i>BIPRU</i> 1.2.27R.
<i>trading book systems and controls rules</i>	<i>GENPRU</i> 1.3.13R(2) to (3) (General requirements: Methods of valuation and systems and controls), <i>GENPRU</i> 1.3.14R to <i>GENPRU</i> 1.3.16R (Marking to market), <i>GENPRU</i> 1.3.17R to <i>GENPRU</i> 1.3.25R (Marking to model), <i>GENPRU</i> 1.3.26R to <i>GENPRU</i> 1.3.28R (Independent price verification), <i>GENPRU</i> 1.3.30R to <i>GENPRU</i> 1.3.33R (Valuation adjustments or reserves), <i>GENPRU</i> 2.2.86R (Core tier one capital: profit and loss account and other reserves: Losses arising from valuation adjustments) and <i>GENPRU</i> 2.2.248R to <i>GENPRU</i> 2.2.249R (Tier three capital: lower tier three capital resources).
<i>traditional securitisation</i>	<p>(in accordance with Article 4(37) of the <i>Banking Consolidation Directive</i> (Definitions)) 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> <ul style="list-style-type: none"> (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 (b) the securities issued do not represent payment obligations of the <i>originator</i>.
<i>tranche</i>	(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) 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.
<i>UK consolidation group</i>	<p>a group that is identified as a <i>UK consolidation group</i> in accordance with the decision tree in <i>BIPRU</i> 8 Annex 1R (Decision tree identifying a UK consolidation group); the members of that group are:</p> <ul style="list-style-type: none"> (a) where either Test 1A or Test 1B in <i>BIPRU</i> 8 Ann 1R apply, the members of the <i>consolidation group</i> made up of the <i>sub-group</i> of the <i>parent institution in a Member State</i> identified in <i>BIPRU</i> 8 Ann 1R together with any other <i>person</i> who is a member of that <i>consolidation group</i> because of a <i>consolidation Article 12(1) relationship</i> or an <i>Article 134 relationship</i>; or

- (b) where either Test 1C or Test 1D in *BIPRU 8 Ann 1R* apply, the members of the *consolidation group* made up of the *sub-group* of the *parent financial holding company in a Member State* identified in *BIPRU 8 Ann 1R* 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*.

UK integrated group

(in relation to a *firm*) all *undertakings* which, in relation to the *firm*, satisfy the conditions set out in *BIPRU 10.8.4R* (Definition of UK integrated group).

UK parent financial holding company in a Member State

a *parent financial holding company in a Member State* where the *EEA State* in question is the *United Kingdom*.

underwrite

(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*.

unfunded credit protection

(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.

unrated position

(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*.

upper tier three capital

an item of capital that is specified in stage O of the *capital resources table* (Upper tier three).

<i>upper tier three capital resources</i>	the sum calculated at stage O of the <i>capital resources table</i> (Upper tier three).
<i>upper tier three instrument</i>	an item of capital that meets the conditions in <i>GENPRU 2.2.242R</i> (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>value at risk</i>	(in relation to risk modelling or estimation) the measure of risk described in <i>BIPRU 7.10.146R</i> (Requirement to use value at risk methodology).
<i>VaR</i>	<i>value at risk</i> .
<i>VaR measure</i>	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.
<i>VaR model</i>	a value at risk model as described in <i>BIPRU 7.10</i> (Use of a Value at Risk Model).
<i>VaR model approach</i>	one of the following: <ul style="list-style-type: none"> (a) the approach to calculating part of the <i>market risk capital requirement</i> set out in <i>BIPRU 7.10</i> (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 <i>BIPRU 8</i> (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>FSA</i>, whatever corresponds to the approach in (a) or (b), as the case may be, under those rules.
<i>VaR model permission</i>	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.
<i>VaR number</i>	has the meaning in <i>BIPRU 7.10.115R</i> (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's</i> 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 <i>BIPRU 7.10</i> (Use of a Value at Risk Model) and any methodology set out in the <i>VaR model permission</i> .
<i>VaR specific risk minimum requirements</i>	<i>BIPRU 7.10.46R</i> to <i>BIPRU 7.10.52R</i> (Model standards: Risk factors: Specific risk) and <i>BIPRU 7.10.107R</i> (Backtesting: Specific risk backtesting).

<i>wider integrated group</i>	(in relation to a <i>firm</i>) has the meaning in <i>BIPRU</i> 10.9.5R (Definition of wider integrated group), which is in summary each <i>concentration risk group counterparty</i> of the <i>firm</i> that is not a member of the <i>firm's UK integrated group</i> but satisfies all the conditions for membership of the <i>firm's UK integrated group</i> except for <i>BIPRU</i> 10.8.4R(4) (Establishment in the <i>United Kingdom</i>).
<i>wider integrated group waiver</i>	a <i>waiver</i> that has the result of requiring a <i>firm</i> to apply <i>BIPRU</i> 10.9 (Wider Integrated Group) or, if the context requires, <i>BIPRU</i> 8.9.16R to <i>BIPRU</i> 8.9.24R (Wider integrated groups for consolidation purposes) and the other <i>rules</i> in <i>BIPRU</i> 8.9 (Consolidated concentration risk requirements) that relate to those <i>rules</i> .
<i>working day 0</i>	has the meaning in <i>BIPRU</i> 7.8.23R (Working day 0), which is in summary (in relation to an <i>underwriter</i>) the <i>business day</i> on which a <i>firm</i> that is <i>underwriting</i> or <i>sub-underwriting</i> becomes unconditionally committed to accepting a known quantity of <i>securities</i> at a specified price.
<i>zero-specific-risk security</i>	a notional debt <i>security</i> used, for the purpose of calculating <i>PRR</i> , to represent the interest rate <i>general market risk</i> arising from certain <i>derivative</i> and forward transactions as specified in <i>BIPRU</i> 7.2 (Interest rate <i>PRR</i>).

Part 2A (Revised definitions taking effect on 31 December 2006)

Amend the following definitions in the Glossary as shown:

<i>actuarial health insurance</i>	(in PRU) (in the context of the <i>rules in PRU 7.2 INSPRU 1.1 concerning the calculation of the general insurance capital requirement</i>), health insurance which meets all the conditions set out in PRU 7.2.72R <u>INSPRU 1.1.72R</u> .
<i>actuarial valuation date</i>	(in PRU) the date as at which the <i>mathematical reserves</i> are calculated.
<i>admissible asset</i>	<p>(1) (in LLD for the purpose of the rules in GENPRU and INSPRU as they apply to members of the Society of Lloyd's, the Society and managing agents) an asset that falls into one or more categories in <u>GENPRU 2 Ann 74R</u> as modified by LLD 19.3.19R <u>GENPRU 2.3.34R</u>.</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 falls into one or more categories in <u>GENPRU 2 Ann 74R</u>; or</p> <p>(b) ...</p>
<i>ancillary risk</i>	in relation to an <i>insurer</i> with <i>permission</i> under the <i>Act</i> to insure a principal risk belonging to one <i>class</i> (as defined for the purposes of <i>AUTH, PRU, LLD INSPRU</i> and <i>SUP</i>) of <i>general insurance business</i>) a risk included in another such class which is:...
<i>annualised net written premiums</i>	(for the purposes of PRU 7.5 <u>INSPRU 1.4</u>) in relation to a financial year, ...
<i>approved derivative</i>	... (2) (in <u>INSPRU</u>) a <i>derivative</i> in respect of which the conditions in PRU 4.3.5 R <u>INSPRU 3.2.5R</u> are met.
<i>approved quasi-derivative</i>	a <i>quasi-derivative</i> in respect of which the conditions in PRU 4.3.5 R <u>INSPRU 3.2.5R</u> are met.
<i>Approved security</i>	(1) ... (2) (in LLD and <u>INSPRU</u>) any of the following: ...
<i>approved stock lending</i>	a <i>stock lending</i> transaction in respect of which the conditions in PRU 4.3.36 R <u>INSPRU 3.2.36R</u> have been met.

<i>transaction</i>	
<i>assessable mutual</i>	(for the purposes of PRU 7.5 <u>INSPRU 1.4</u>) ...
<i>asset management company</i>	(for the purpose of ELM and PRU and in accordance with Article 2(5) of the <i>Financial Groups Directive</i> (Definitions)) ...
<i>asset-related capital requirement</i>	... as set out in PRU 3.3 <u>INSPRU 2.2</u> .
<i>balancing amount</i>	(in LLD) in respect of a <i>syndicate</i> , ...
<i>Broker</i>	(in <i>MAR</i> and <u>INSPRU</u>) any person when dealing as agent.
<i>brought forward amount</i>	an amount, as defined in PRU 7.2.51R <u>INSPRU 1.1.51R</u> , ...
<i>Byelaw</i>	(in LLD) any Byelaw, direction, regulation or other instrument...
<i>callable contribution</i>	(in LLD) amounts that <i>members</i> are liable to pay ...
<i>central assets</i>	(in LLD) the <i>Society's</i> own assets ...
<i>Central Fund</i>	(in LLD) the Central Fund ...
<i>claim</i>	(1) ... (2) (in <i>COB</i> , <i>ICOB</i> , <u>INSPRU</u> , LLD , <i>SUP</i> and <i>TC</i>) a claim under a <i>contract of insurance</i> .
<i>claims amount</i>	an amount, as defined in PRU 7.2.47R <u>INSPRU 1.1.47R</u> , ...
<i>class</i>	(1) (in <i>AUTH</i> , PRU , LLD <u>GENPRU</u> , <u>INSPRU</u> and <i>SUP</i>) (in relation to a <i>contract of insurance</i>) any class ...
<i>closed</i>	(in LLD) (in relation to a <i>syndicate year</i>) closed by ...
<i>collateral</i>	... (3) (in <u>INSPRU</u>) ...
<i>commitment</i>	a commitment represented by <i>insurance business</i> of any of the <i>classes</i> (as defined for the purposes of <i>AUTH</i> , PRU , LLD <u>INSPRU</u> and <i>SUP</i>) of <i>long-term insurance business</i> .
<i>contingency funding plan</i>	a plan ... prepared under PRU 5.1.86E <u>SYSC 11.1.24E</u> .
<i>core provision</i>	(in LLD) (as defined in section 316(3) of the <i>Act</i> (Direction by Authority)) a provision ...
<i>counterparty</i>	(1) (in LLD) (in relation to the <i>Society</i> , a <i>syndicate</i> or <i>member</i>): (a) any individual; or

- (b) any unincorporated body of *persons*; or
- (c) any company which is not a member of a *group*; or
- (d) any *group* of companies, excluding any companies within the *group* which are *subsidiary undertakings* of the ~~*Society*~~, a *syndicate* or *member*; or
- (e) any government of a State or any public bodies, local authorities or nationalised industries of a State;

in which the ~~*Society*~~, a *syndicate* or *member* has made investments or against which it has rights under a contract entered into by the ~~*Society*~~, *syndicate* or *member*.

(2) (~~in PRU~~ 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 ~~*PRU 3.2*~~ *INSPRU 2.1*) any companies within the *group* which are *subsidiary undertakings* of the ~~*insurer A*~~ and which fall within ~~*PRU 1.3.31R*~~ *GENPRU 1.3.43R*; and
 - (ii) (for all other purposes) any companies within the *group* which are *subsidiary undertakings* of the ~~*insurer A*~~; or
- (e) any government of a State together with all the public bodies, local authorities or nationalised industries of that State,

in which the ~~*insurer 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 the ~~*insurer A*~~ or any of its *subsidiary undertakings*.

credit equalisation provision

the provision required to be established by ~~*PRU 7.5.43R*~~ *INSPRU 1.4.43R*.

<i>Disciplinary Tribunal</i>	(in LLD) a Tribunal appointed ...
<i>discounting</i>	(in PRU) discounting or deductions ...
<i>EEA MCR</i>	the <i>MCR</i> ... in accordance with PRU 7.6.46R <u>INSPRU 1.5.46R</u> .
<i>enhanced capital requirement</i>	(1) (in relation to a <i>firm</i> carrying on <i>general insurance business</i>) the amount calculated in accordance with PRU 2.3.11R <u>INSPRU 7.1.11R</u> . (2) (in relation to a <i>firm</i> carrying on <i>long-term insurance business</i>) the amount of <i>capital resources</i> that a <i>firm</i> must hold as set out in PRU 2.1.34R <u>GENPRU 2.1.38R</u> .
<i>equalisation provision</i>	a provision required to be established under the <i>rules</i> in <u>INSPRU 7.5 1.4</u> .
<i>equity market adjustment ratio</i>	(1) (in relation to the <i>resilience capital requirement</i>) has the meaning set out in PRU 4.2.19R <u>INSPRU 3.1.19R</u> . (2) (in relation to the <i>market risk</i> scenario for the <i>risk capital margin</i> of a <i>with-profits fund</i>) has the meaning set out in PRU 7.4.71 R <u>INSPRU 1.3.71R</u> .
<i>financial year</i>	(1) ... (2) (in LLD) a calendar year (3) (in <u>GENPRU</u> and <u>INSPRU</u>) the period at the end of which the balance of the accounts of the <i>insurer</i> is struck...
<i>financial year in question</i>	(for the purposes of PRU 7.2 <u>INSPRU 1.1</u> and of the definition of <i>non-directive insurer</i>)...
<i>former member</i>	(in LLD) a <i>person</i> who has ceased to be a <i>member</i> , ...
<i>general insurance capital requirement</i>	The highest of the <i>premiums amount</i> , <i>claims amount</i> and <i>brought forward amount</i> as set out in PRU 7.2 <u>INSPRU 1.1</u> .
<i>gross adjusted claims amount</i>	(for the purposes of PRU 7.2 <u>INSPRU 1.1</u>) an amount, as defined in PRU 7.2.60R <u>INSPRU 1.1.60R</u> to PRU 7.2.65G <u>INSPRU 1.1.65G</u> , used in calculating the <i>claims amount</i> .
<i>gross adjusted premiums amount</i>	(for the purposes of PRU 7.2 <u>INSPRU 1.1</u>) an amount as defined in PRU 7.2.56R <u>INSPRU 1.1.56R</u> to PRU 7.2.59G <u>INSPRU 1.1.59G</u> , used in calculating the <i>premiums amount</i> .
<i>group capital resources</i>	in relation to an <i>undertaking</i> in PRU 8.3.17R <u>INSPRU 6.1.17R</u> , that <i>undertaking's</i> group capital resources as calculated in accordance with PRU 8.3.36R <u>INSPRU 6.1.36R</u> .
<i>group capital resources requirement</i>	in relation to an <i>undertaking</i> in PRU 8.3.17R <u>INSPRU 6.1.17R</u> , that <i>undertaking's</i> group capital resources requirement as calculated in

accordance with ~~PRU 8.3.33R~~INSPRU 6.1.33R.

guarantee fund

(1)

(a) ...

(b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under ~~PRU 7.2~~ INSPRU 1.1, for the purposes of that section...

(2)

(a) ...

(b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under ~~PRU 7.6~~ INSPRU 1.5, for the purposes of that section...

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 ~~PRU 2.1.26R~~GENPRU 2.1.29R.

IBNR

(in relation to *claims* (as defined for the purposes of INSPRU, ~~LLD~~, *SUP* and *TC*)) *claims* that have been incurred but not reported...

implicit items

(in relation to *long-term insurance business*) economic reserves arising in respect of future profits, *zillmerising* or hidden reserves as more fully described in GENPRU 2 Annex 2 Ann 8G.

individual capital resources requirement

has the meaning in ~~PRU 8.3.34R~~INSPRU 6.1.34R.

individual member

(~~in LLD~~) a *member*, ...

insurance business grouping

a grouping comprising descriptions of *general insurance business* determined in accordance with ~~PRU 7.5.12R~~INSPRU 1.4.12R.

insurance death risk capital component

one of the components of the *long-term insurance capital requirement* as set out in ~~PRU 7.2.81R~~INSPRU 1.1.81R to ~~PRU 7.2.83R~~INSPRU 1.1.83R.

insurance expense risk capital component

one of the components of the *long-term insurance capital requirement* as set out in ~~PRU 7.2.88R~~INSPRU 1.1.88R.

insurance health risk capital component

one of the components of the *long-term insurance capital requirement* as set out in ~~PRU 7.2.85R~~INSPRU 1.1.85R to ~~PRU 7.2.86R~~INSPRU 1.1.86R.

insurance market risk capital component

one of the components of the *long-term insurance capital requirement* as set out in ~~PRU 7.2.89R~~INSPRU 1.1.89R.

insurance related

a component of the calculation of the *ECR* for a *firm* carrying on

<i>capital requirement</i>	<i>general insurance business</i> as set out in PRU 7.2.76R <u>INSPRU 1.1.76R</u> to PRU 7.2.79R <u>INSPRU 1.1.79R</u> .
<i>listed</i>	(1) (except in <i>LR</i> , <i>ENF</i> 21 and <u>INSPRU</u>) included in an <i>official list</i> . (2) (in <u>INSPRU</u>) ...
<i>Lloyd's member's contribution</i>	(in LLD) assets:...
<i>Lloyd's Return</i>	the financial report that the <i>Society</i> is required to submit to the <i>FSA</i> under LLD 15.2.1R <u>IPRU(INS) 9.48(1)</u> .
<i>Lloyd's trust deed</i>	(in LLD) a trust deed ...
<i>Lloyd's trust fund</i>	(in LLD) a fund held on the terms of ...
<i>long-term insurance asset</i>	has the meaning set out in PRU 7.6.21R <u>INSPRU 1.5.21R</u> .
<i>long-term insurance capital requirement</i>	... the <i>firm</i> must hold calculated in accordance with PRU 2.1.32R <u>GENPRU 2.1.36R</u> .
<i>long-term insurance fund</i>	has the meaning set out in PRU 7.6.22R <u>INSPRU 1.5.22R</u> .
<i>management expenses</i>	(1) (except in <u>INSPRU</u>)... (2) (in <u>INSPRU</u>) ...
<i>minimum capital requirement</i>	an amount of capital resources that a <i>firm</i> must hold as set out in PRU 2.1.21R <u>GENPRU 2.1.24R</u> and PRU 2.1.22R <u>GENPRU 2.1.25R</u> .
<i>minimum guarantee fund</i>	(in LLD) ...
<i>non-credit equalisation provision</i>	the provision required to be established under PRU 7.5.17R <u>INSPRU 1.4.17R</u> .
<i>parent undertaking</i>	... (a) ... (i) (vii) (except in <i>REC</i> and LLD or for the purposes of the <u>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</u>) he is an

individual and would be a *parent undertaking* if he were an *undertaking*; or

- (viii) (except in REC and ~~LLD~~ 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 the implementation of the Seventh Company Law Directive;

...

<i>premiums amount</i>	(for the purposes of PRU 7.2 <u>INSPRU 1.1</u>), an amount, as defined in PRU 7.2.45R <u>INSPRU 1.1.45R</u> ...
<i>real estate market adjustment ratio</i>	has the meaning set out, in relation to the <i>resilience capital requirement</i> , in PRU 4.2.21R <u>INSPRU 3.1.21R</u> .
<i>realistic basis life firm</i>	a <i>firm</i> to which PRU 2.1.15R <u>GENPRU 2.1.18R</u> applies (and which is therefore required to calculate a <i>with-profits insurance capital component</i> in accordance with PRU 7.4 <u>INSPRU 1.3</u>).
<i>realistic current liabilities</i>	(in relation to a <i>with-profits fund</i>) the realistic current liabilities of the <i>with-profits fund</i> calculated in accordance with PRU 7.4.190R <u>INSPRU 1.3.190R</u> .
<i>realistic excess capital</i>	(in relation to a <i>with-profits fund</i>) the excess, if any, of the <i>realistic value of assets</i> for the <i>with-profits fund</i> over the sum of the <i>realistic value of liabilities</i> and the <i>risk capital margin</i> for that fund, calculated in accordance with PRU 7.4.32R <u>INSPRU 1.3.32R</u> .
<i>realistic value of assets</i>	(in relation to a <i>with-profits fund</i>) has the meaning set out in PRU 7.4.33R <u>INSPRU 1.3.33R</u> .
<i>receivable</i>	(in LLD) (in relation to a <i>member</i> , a period and a <i>premium</i>) ...
<i>regulated market</i>	(1) ... (2) (in <u>INSPRU</u>) ...
<i>regulatory current liabilities</i>	(in relation to a <i>with-profits fund</i>) the regulatory current liabilities of the <i>with-profits fund</i> calculated in accordance with PRU 7.4.30R <u>INSPRU 1.3.30R</u> .
<i>regulatory excess capital</i>	(in relation to a <i>with-profits fund</i>) has the meaning set out in PRU 7.4.32R <u>INSPRU 1.3.32R</u> .
<i>regulatory surplus value</i>	has the meaning set out in PRU 1.3.36R <u>GENPRU 1.3.48R</u> .
<i>regulatory value of</i>	(in relation to a <i>with-profits fund</i>) has the meaning set out in PRU

<i>assets</i>	7.4.24R-INSPRU 1.3.24R.
<i>regulatory value of liabilities</i>	(in relation to a <i>with-profits fund</i>) has the meaning set out in PRU 7.4.29R <u>INSPRU 1.3.29R.</u>
<i>relevant capital sum</i>	for the purposes of PRU 7.3.43R-INSPRU 1.3.43R, ...
<i>resilience capital requirement</i>	the capital component for <i>long-term insurance business</i> calculated in accordance with the rules in PRU 4.2.9G-INSPRU 3.1.9G to PRU 4.2.26R-INSPRU 3.1.26R.
<i>risk capital margin</i>	the risk capital margin for a <i>with-profits fund</i> calculated in accordance with the rules in PRU 7.4.43R <u>INSPRU 1.3.43R</u> to PRU 7.4.103G-INSPRU 1.3.103G.
<i>secured debt</i>	(in PRU) a debt fully secured on:...
<i>Society GICR</i>	(in LLD) the <i>general insurance capital requirement</i> calculated by the <i>Society</i> as if it were an <i>insurer</i> under LLD 19.2.13R <u>GENPRU 2.3.13R.</u>
<i>syndicate assets</i>	(in LLD) assets managed by or at the direction of ...
<i>syndicate ICA</i>	(in LLD) the capital assessment performed by a <i>managing agent</i> under PRU 1.2.26R <i>the overall Pillar 2 rule</i> , LLD 18.2.1R(1) <u>GENPRU 1.5.1R(1)</u> , PRU 2.3 <u>INSPRU 7.1</u> and LLD 19.4.1R(1) <u>INSPRU 1.1.57R(1)</u> in respect of each <i>syndicate</i> managed by it.
<i>technical provision</i>	(in PRU) a technical provision established: <ul style="list-style-type: none"> (a) for <i>general insurance business</i>, in accordance with PRU 7.2.12R-INSPRU 1.1.12R; and (b) for <i>long-term insurance business</i>, in accordance with PRU 7.2.16R <u>INSPRU 1.1.16R.</u>
<i>total group tier one capital</i>	the sum calculated at stage A of the calculation in PRU 8.3.43R <u>INSPRU 6.1.43R.</u>
<i>total group tier two capital</i>	the sum calculated at stage B of the calculation in PRU 8.3.43R <u>INSPRU 6.1.43R.</u>
<i>UK MCR</i>	the <i>MCR</i> calculated in accordance with PRU 7.6.44R-INSPRU 1.5.44R ...
<i>unpaid initial fund</i>	part of the <i>initial fund</i> of a <i>mutual</i> which the <i>mutual</i> is prevented from including in its <i>tier one capital resources</i> as <i>permanent share capital</i> by reason of PRU 2.2.29R-GENPRU 2.2.64R because it is not fully paid.
<i>with-profits benefits reserves</i>	(in relation to a <i>with-profits fund</i>) the with-profits benefits reserve for the <i>with-profits fund</i> calculated in accordance with the rules in PRU 7.4.116R-INSPRU 1.3.116R to PRU 7.4.135G-INSPRU

1.3.135G.

with-profits fund

(1) ...

(2) for the purposes of INSPRU, a long-term insurance fund...

*with-profits insurance
capital component*

the capital component for *with-profits insurance business* of a realistic basis life firm calculated in accordance with ~~PRU 7.4~~ INSPRU 1.3.

Part 2B (Revised definitions taking effect on 1 January 2007)

Amend the following definitions in the Glossary as shown:

- ancillary insurance services undertaking* (1) (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*; ~~and~~
 - (d) ~~(for the purpose of PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups) it is not an *ancillary banking services undertaking*.~~
- ancillary services undertaking* (1) ~~an *ancillary insurance services undertaking*, an *ancillary banking services undertaking* or an *ancillary investment services undertaking* (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, subgroup 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 ancillary insurance services undertaking.

applicable sectoral consolidation rules

(in respect of a *financial sector* and in accordance with paragraph 6.940 of GENPRU 38 Ann 1R (Applicable sectoral consolidation rules)) the *FSA's sectoral rules* about capital adequacy and solvency on a consolidated basis applicable to that *financial sector* under the table in paragraph 6.1044 of GENPRU 38 Ann 1R.

applicable sectoral rules

(in respect of a *financial sector*) *applicable sectoral consolidation rules* for that *financial sector* and the *FSA's sectoral rules* about capital adequacy and solvency for: ~~applicable to that *financial sector* under the table in paragraph 6.28 of GENPRU 38 Ann 1R;~~

(a) the banking and investment services sector as set out in paragraph 6.2 of GENPRU 3 Ann 1R; 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.

asset management company

~~(in accordance with Article 2(5) of the *Financial Groups Directive (Definitions)*)~~ a management company within the meaning of Article 1a(2) of the *UCITS Directive*, as well as an *undertaking* the registered office of which is outside the *EEA* and which would require authorisation in accordance with Article 5(1) of the *UCITS Directive* if it had its registered office within the *EEA*.

bank

(a) a *firm* with a *Part IV permission* which includes *accepting deposits*, and:

(i) which is a *credit institution*; or

(ii) whose *Part IV permission* includes a *requirement* that it comply with ~~*IPRU(BANK)*~~ the rules in *GENPRU* and *BIPRU* relating to banks;

but which is not a *building society*, a *friendly society* or a *credit union*;

(b) ...

<i>banking and investment group</i>	<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>FSA'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 <u>GENPRU 38</u> Ann 2R (removing restrictions relating to place of incorporation or head office of members of those <i>financial sectors</i>).
<i>Banking Consolidation Directive</i>	<p>the Council Directive of the <u>European Parliament and the Council of 14 June 2006</u> 20 March 2006 relating to the taking up and pursuit of the business of credit institutions (No 2000/12/2006/48/EC).</p>
<i>banking sector</i>	<p>a sector composed of one or more of the following entities:</p> <ul style="list-style-type: none"> (a) a <i>credit institution</i>; (b) a <i>financial institution</i>; and (c) an <i>ancillary banking services undertaking</i> that is <u>not an ancillary insurance services undertaking</u>.
<i>base capital resources requirement</i>	<p>an amount of <i>capital resources</i> that a firm an <i>insurer</i> must hold as set out in <u>GENPRU 2.1.2630R</u> (Table: Base capital resources requirement for an insurer) or a <i>BIPRU firm</i> must hold under <u>GENPRU 2.1.41R</u> (<i>Base capital resources requirement for a BIPRU firm</i>) and <u>GENPRU 2.1.48R</u> (Table: Base capital resources requirement for a BIPRU firm) or, as the case may be, <u>GENPRU 2.1.60R</u> (Calculation of the base capital resources requirement for banks authorised before 1993).</p>
<i>base currency</i>	<ul style="list-style-type: none"> (1) (in <i>COLL</i> and <i>CIS</i>) the currency specified: <ul style="list-style-type: none"> (a) ... (b) ... (2) (in <i>ELM</i>, <i>GENPRU</i> and <i>BIPRU</i>) (in relation to an <i>ELMI firm</i>) the currency in which that <i>ELMI's firm's</i> books of account are drawn up.

BCD credit institution 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 *BCD* does not apply under article 2(3) of the *BCD* (see also *full BCD credit institution*).

Capital Adequacy Directive the ~~Council~~ Directive of the European Parliament and the Council of 15 March 1993 14 June 2006 on capital adequacy of investment firms and credit institutions (No ~~93/6/EEC~~ 2006/49/EC).

capital resources

- (1) in relation to a *BIPRU firm* or an *insurer*, the *firm's* capital resources as calculated in accordance with the *capital resources table*, ~~PRU 2.2.12R~~ including, in relation to a *BIPRU firm*, as that calculation is adjusted under *BIPRU* 10.5 for the purposes of *BIPRU* 10 (Concentration risk 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 IV 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.

capital resources requirement 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 ~~*PRU* 2.1.14R to *PRU* 2.1.20R~~ *GENPRU* 2.1.17R to *GENPRU* 2.1.23R.

<i>commodity</i>	<p>(1) <u>(except for the purpose of calculating <i>position risk requirements</i>) a physical asset (other than a financial instrument or cash) which is capable of delivery.</u></p> <p>(2) <u>(for the purpose of calculating <i>position risk requirements</i>) any of the following (but excluding gold):</u></p> <p style="margin-left: 2em;">(a) <u>a commodity within the meaning of paragraph (1); and</u></p> <p style="margin-left: 2em;">(b) <u>any:</u></p> <p style="margin-left: 4em;">(i) <u>physical or energy product; or</u></p> <p style="margin-left: 4em;">(ii) <u>of the items referred to in paragraph 10 of Section C of Annex I of the <i>MIFID</i> as an underlying with respect to the <i>derivatives</i> mentioned in that paragraph;</u></p> <p style="margin-left: 4em;"><u>which is, or can be, traded on a secondary market.</u></p>
<i>competent authority</i>	<p>(1) ...</p> <p>...</p> <p>(3) <u>(in relation to a group, and for the purposes of <i>PRU 8-1</i>SYSC 12 (Group risk systems and controls requirement), <i>GENPRU 8.4</i> (Cross sector groups), <i>PRU 8.5</i> (Third country groups), <i>PRU 8 Ann 1R</i> (Capital adequacy calculations for financial conglomerates) and <i>PRU 8 Ann 2R</i>, <i>BIPRU</i> and <i>INSRU</i>, any national authority ...</u></p>
<i>conglomerate capital resources</i>	<p>(in relation to a <i>financial conglomerate</i> with respect to which <i>GENPRU 3.1.298.4.29R</i> (Application of methods 1, 2 or 3 from Annex I of the <i>Financial Groups Directive</i>) applies) capital resources as defined in whichever of paragraphs 1.1, 2.1 or 3.1 of <i>GENPRU 3</i> & Ann 1R (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i>.</p>
<i>conglomerate capital resources requirement</i>	<p>(in relation to a <i>financial conglomerate</i> with respect to which <i>GENPRU 3.1.298.4.29R</i> (Application of methods 1, 2 or 3 from Annex I of the <i>Financial Groups Directive</i>) applies) the capital resources requirement defined in whichever of paragraphs 1.3, 2.4 or 3.3 of <i>GENPRU 3</i> & Ann 1R (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i>.</p>
<i>consolidation group</i>	<p>the following:</p> <p style="margin-left: 2em;">(a) <u>a <i>conventional group</i>; or</u></p>

- (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*.

conventional group

~~for the purposes of PRU 8 (Group Risk))~~ a group of *undertakings* that consists of a *parent undertaking* and the rest of its *sub-group*.

core tier one capital

an item of capital that is stated in stage A of the *capital resources table* ~~table in PRU 2.2.14R~~ (*Core tier one capital*) to be core tier one capital.

counterparty

- (1) (in *UPRU*) ...;
- (2) (for the purposes of the *rules* relating to *insurers* in *GENPRU* and *BIPRU* ...
- (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.

credit institution

~~(as defined in accordance with articles 14(1) and 107 of the BCD);~~

- (1) an *undertaking* whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or
- (2) an electronic money institution within the meaning of the *E-Money Directive*;

but so that:

- (3) ~~(except for the purposes of *GENPRU*, *ELM* and *BIPRU*) excluding~~ an institution within (2) that does not have the right to benefit from the mutual recognition arrangements under *BCD* is excluded; and
- (4) for the purposes of *BIPRU* 10 (Concentration risk requirements) it means:

- (a) a credit institution as defined by (1) to (2) that has been authorised in an EEA State; or
- (b) any private or public undertaking which meets the definition in (1) – (2) and which has been authorised in a non-EEA state.

(see also *BCD credit institution, full credit institution, full BCD credit institution and Zone A credit institution.*)

EEA banking and investment group

...

- (c) it is otherwise required by *EEA prudential sectoral legislation* for the *banking sector* or the *investment services sector* (except Article ~~56a~~ 143 of the *Banking Consolidation Directive* (Third-country parent undertakings)) to be subject to consolidated supervision by a *competent authority*.

EEA firm

...

- (b) a *credit institution* (as defined in article ~~14~~14(1) of the *Banking Consolidation Directive*) which is authorised (within the meaning of article ~~4~~4(2)) by its *Home State regulator*;
- (c) a financial institution (as defined in article ~~14~~14(5) of the *Banking Consolidation Directive*) which is a subsidiary of the kind mentioned in article ~~19~~24 and which fulfils the conditions in articles ~~18~~23 and ~~19~~24;

...

exempt CAD firm

- (1) ~~(in accordance with Article 2(2) of the *Capital Adequacy Directive* (Definitions)) a firm that satisfies the following conditions: (except in SYSC) has the meaning set out BIPRU 1.1.16R (Types of investment firm: exempt CAD firm) which is in summary an investment firm that satisfies certain specified conditions.~~
- (2) (in SYSC) a firm in (1) whose head office (or, if it has a registered office, that office) is in the United Kingdom.
 - (a) ~~it is an ISD investment firm;~~
 - (b) ~~it is not an insurer, a bank, a building society or an ELMF;~~

- (e) ~~its *permission* is subject to a *limitation* or *requirement* preventing it from holding *client money* or *clients' assets* and for that reason it may not at any time place itself in debit with its *clients*; and~~
- (d) ~~the only *core investment service* for which it has *permission* is receiving and transmitting on behalf of investors orders in relation to one or more of the instruments listed in Section B of the Annex to the *ISD*.~~

exposure

- (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* (Concentration risk requirements)) has the meaning in *BIPRU 10.2* (Identification of exposures).

financial conglomerate definition decision tree

the decision tree in *GENPRU 38* Ann 4R.

financial institution

- (1) (in accordance with paragraph 5(c) of Schedule 3 to the *Act* (EEA Passport Rights: EEA firm) and article 14(5) of the *Banking Consolidation Directive* (Definitions), but not for the purposes of *ELM*, *GENPRU*, *BIPRU* and *INSPRU 8* (Group risk)), 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 of Annex I to the *BCD*, which is a subsidiary of the kind mentioned in article 19 24 of the *BCD* and which fulfils the conditions in that articles 18 and 19 of the *BCD*.
- (2) for the purposes of *ELM*, *GENPRU*, *BIPRU* and *INSPRU 8* (Group risk) and in accordance with Articles 1(3) (Scope) and 14(5) (Definitions) and 2(2) (Scope) 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 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 paragraph 2(3) of the Banking Consolidation Directive (Scope), with the exception of the central banks ~~central banks~~ of ~~Member EEA States~~, but so that, so far as this paragraph (b) applies for the purposes of *ELM*, it ~~only applies for the purposes of chapter 7 (Consolidated financial supervision) of ELM~~; and
- (c) ...
- financial instrument*
- (1) (other than for the purposes of BIPRU and GENPRU) 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) ...
- ...
- (2) (for the purposes of BIPRU and GENPRU) an instrument listed in Section B of the Annex to the ISD.
- financial sector*
- (1) ~~one of the banking sector, the insurance sector or the investment services sector.~~ (subject to (2)) one of the banking sector, the insurance sector or the investment services sector.
- (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.
- foreign currency*
- (in *ELM*, *GENPRU* and *BIPRU*) (in relation to an *ELMI firm*) any currency other than the *base currency*.

*FSA regulated EEA
financial conglomerate*

a *financial conglomerate* (other than a *third-country financial conglomerate*) that satisfies one of the following conditions:

- (a) ~~GENPRU 3.1.268-4.26R~~ or ~~GENPRU 3.1.298-4.29R~~ (Capital adequacy calculations for *financial conglomerates*) 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 IV permission* to ensure that that *financial conglomerate* meets levels of capital adequacy based or stated to be based on Annex I of the *Financial Groups Directive*.

group

- (1) (except in relation to an *ICVC* and except for the purposes of ~~PRU 8.1-SYSC 12~~ (Group risk systems and controls requirement) ...

...

- (3) (for the purposes of ~~PRU 8.1-SYSC 12~~ (Group risk systems and controls requirement) ...

immediate group

...

- (2) (in *ELM 7* and *BIPRU* and in relation to *any person*) has the same meaning as in paragraph (1), with the omission of (1)(e).

initial capital

- (1) (in *ELM*) ...

- (2) (in *UPRU*) ...

- ~~(2) (for the purposes of the definition of matched principal dealer, in accordance with Article 2(24) of the Capital Adequacy Directive (Definitions) and with respect to a firm) capital that is recognised for the purpose of the rules about capital adequacy to which that firm is subject but excluding, in accordance with items (1) and (2) of Article 34(2) of the Banking Consolidation Directive (General principles), anything that does not fall within the following classes of capital:~~

- ~~(a) capital within the meaning of Article 22 of the Bank Accounts Directive (Liabilities: Item 9—Subscribed capital), insofar as it has been paid up, plus share premium accounts but excluding cumulative preferential shares; or~~

(b) reserves within the meaning of Article 23 of the Bank Accounts Directive (Liabilities: Item 11—Reserves) and profits and losses brought forward as a result of the application of the final profit or loss. Interim profits can only be included before a formal decision has been taken only if these profits have been verified by persons responsible for the auditing of the accounts and if the amount thereof has been evaluated in accordance with the principles set out in the Bank Accounts Directive and is net of any foreseeable charge or dividend.

(3) (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);

(4) (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); and

(5) (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.

In the case of a firm subject to the rules in chapter 10 of IPRU(INV), initial capital means initial capital as defined in the Glossary to that chapter.

innovative tier one capital an item of capital that is stated in ~~stage C of the table in GENPRU 2.2.14R~~ (Capital resources) to be innovative tier one capital.

innovative tier one capital resources the amount of *capital resources* at stage C of the *capital resources table* ~~table in PRU 2.2.14R~~ (Innovative tier one capital).

innovative tier one instrument a *potential tier one instrument* that is stated in ~~GENPRU 2.2.52R to PRU 2.2.69R~~ (Capital resources) to be an innovative instrument.

<i>insurance conglomerate</i>	<p>a <i>financial conglomerate</i> identified as an insurance conglomerate in the decision tree in paragraph 4.5 of PRU 8 Ann 1R (Decision tree for types of <i>financial conglomerate</i> and definition of <i>most important financial sector</i>) <u>a <i>financial conglomerate</i> that is identified in paragraph 4.3 of GENPRU 3 Ann 1R (Types of financial conglomerate) as an insurance conglomerate.</u></p>
<i>insurance holding company</i>	<p>(1)</p> <p>(2) For the purposes of:</p> <p style="margin-left: 40px;">(a) the definition of the <i>insurance sector</i>; and</p> <p style="margin-left: 40px;">(b) <u>ELM</u>; <u>and</u></p> <p style="margin-left: 40px;">(c) <u>the definition of <i>material insurance holding</i></u>;</p> <p style="margin-left: 80px;">paragraph (1)(b) of this definition does not apply.</p>
<i>insurance sector</i>	<p>a sector composed of one or more of the following entities:</p> <p style="margin-left: 40px;">(a) an <i>insurance undertaking</i>;</p> <p style="margin-left: 40px;">(b) an <i>insurance holding company</i>; and</p> <p style="margin-left: 40px;">(c) (in the circumstances described in <u>GENPRU 3.1.398-4.39R</u> (The financial sectors: Asset management companies)) an <i>asset management company</i>.</p>
<i>in the money</i>	<p>(1) (in <i>LR</i>) (in relation to securitised derivatives):</p> <p style="margin-left: 40px;">(a) ...</p> <p style="margin-left: 40px;">(b) ...</p> <p>(2) <u>(for the purposes of BIPRU 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>).</u></p>
<i>investment management firm</i>	<p>(1) <u>(except in SUP 16 and subject to BIPRU TP 1.3R (Revised definition of investment management firm for certain transitional purposes))</u>, a <i>firm</i> whose <i>permitted activities</i> include <i>designated investment business</i>, which is not an <i>authorised professional firm</i>, bank, <u>BIPRU investment firm</u>, <u>ELMI</u>, <i>building society</i>, <i>credit union</i>, ...</p>

(2) (in SUP 16) as in (1) but excluding the words 'BIPRU investment firm'.

investment services sector 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 3.1.398-4.39R (The financial sectors: Asset management companies)) an *asset management company*.

local (1) (except in BIPRU 1.1 (Application and purpose)) a firm which is a member of a futures and options exchange and whose permission includes a requirement that:

- (a) the *firm* will not conduct *designated investment business* other than:
 - (i) *dealing* for its own account on that *futures* or *options* exchange; or
 - (ii) *dealing* for the accounts of other members of the same *futures* and *options* exchange; or
 - (iii) making a price to other members of the same *futures* and *options* exchange; and
- (b) the performance of the *firm's* contracts must be guaranteed by and must be the responsibility of one or more of the clearing members of the same *futures* and *options* exchange.

(2) (in BIPRU 1.1 (Application and purpose) and in accordance with article 3(1)(p) of the *Capital Adequacy Directive* (Definitions)) an *undertaking* 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 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 *undertaking* 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).

lower tier two capital (1) (in *ELM*) ...

	(2) (in <i>BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stage H of the <i>capital resources table</i> in PRU 2.2.14R (Lower tier two capital).
<i>lower tier two capital resources</i>	the sum calculated at stage H of the calculation in the <i>capital resources table</i> PRU 2.2.14R (Lower tier two capital).
<i>lower tier two instrument</i>	an item of capital that meets the conditions in GENPRU 2.2.10894R (Lower tier two capital) and is eligible to form part of a <i>firm's lower tier two capital resources</i> .
<i>material holdings</i>	(1) (in for the purposes of <i>ELM</i>) the a holdings and or positions set out in ELM <i>ELM</i> 2.4.17R (Material holdings). (2) (for the purposes of <i>GENPRU</i> and <i>BIPRU</i>) has the meaning in <i>GENPRU</i> 2.2.209R (Deductions from tiers one and two: Material holdings).
<i>mixed-activity holding company</i>	one of the following: (a) (in accordance with Article 4(22) 4(20) of the <i>Banking Consolidation Directive</i> (Definitions)) a <i>parent undertaking</i> , other than a <i>financial holding company</i> , a <i>credit institution</i> or a <i>mixed financial holding company</i> , the <i>subsidiary undertakings</i> of which include at least one <i>credit institution</i> ; or (b) (in accordance with Articles 7(3) 2(2) and 37(1) of the <i>Capital Adequacy Directive</i> (Supervision on a consolidated basis) and in relation to a <i>banking</i> and <i>investment group</i> without any <i>credit institutions</i> in it) a <i>parent undertaking</i> , other than a <i>financial holding company</i> , an <i>investment firm</i> or a <i>mixed financial holding company</i> , the <i>subsidiary undertakings</i> of which include at least one <i>investment firm</i> .
<i>mixed financial holding company</i>	(in accordance with Article 2(15) of the <i>Financial Groups Directive</i> (Definitions)) a <i>parent undertaking</i> , other than a <i>regulated entity</i> , which <u>meets the following conditions:</u> (a) <u>it, together with its <i>subsidiary undertakings</i>, at least one of which is an <i>EEA regulated entity</i>, and other entities, constitutes a <i>financial conglomerate</i>;</u> (b) <u>it has been notified by its <i>coordinator</i> that its group is a <i>financial conglomerate</i> in accordance with Article 4(2) of the <i>Financial Groups Directive</i>; and</u>

- (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) of the *Financial Groups Directive*.

most important financial sector

(in relation to a *financial sector* in a *consolidation group* or a *financial conglomerate* and in accordance with GENPRU 3.18.4 (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 ~~(a)~~ the *investment services sector* and the *banking sector* are treated as one for the purposes of the definition of *financial conglomerate* and for any other purpose that GENPRU 3.1 (Cross sector groups) says they are. set out in PRU 8.4.7R (Definition of financial conglomerate: The financial sectors: General); and

- (b) ~~the definition is altered as set out in paragraph 4.4 and the decision tree in paragraph 4.5 of PRU 8 Ann 1R (Types of financial conglomerate and definition of most important financial sector) for the purposes set out in paragraph 4.4 of PRU 8 Ann 1R.~~

multilateral development bank

- (1) any of the following:

- (i) African Development Bank; ~~(AfDB)~~
- (ii) Asian Development Bank; ~~(ASB)~~
- (iii) Caribbean Development Bank; ~~(CDB)~~
- (iv) Council of Europe Development Bank;
- (v) European Bank for Reconstruction & Development; ~~(EBRD)~~
- (vi) European Investment Bank; ~~(EIB)~~
- (vii) European Investment Fund; ~~(EIF)~~
- (viii) Inter-American Development Bank; ~~(IADB)~~
- ~~Inter-American Investment Corporation (IAIC)~~
- (ix) International Bank for Reconstruction & Development ~~(IBRD)~~;
- (x) ~~including~~ International Financial Corporation; ~~(IFC)~~

(xi) Multilateral Investment Guarantee Agency; ~~(MIGA)~~ and

(xii) Nordic Investment Bank; ~~(NIB)~~

(2) 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

oil market participant

a *firm*:

(a) ...

(b) which is not an *authorised professional firm, bank, BIPRU investment firm, building society,* ...

option

the *investment*, specified in article 83 of the *Regulated Activities Order* (Options), which is an option to acquire or dispose of:

(a) ...

(b) ...

(c) ...

(d) an option to acquire or dispose of an option specified in (a), (b) or (c);

but so that for the purposes of calculating capital requirements for BIPRU firms and BIPRU 10 (Concentration risk requirements) it also includes any of the items listed in the table in BIPRU 7.6.18R (Option PRR: methods for different types of option) and any cash settled option.

overall financial sector

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 3.18.4 (Cross sector groups) or GENPRU 38 Ann 1R (Capital adequacy calculations for financial conglomerates) provide otherwise) a *mixed financial holding company*.

- own funds* (1) own funds as described in articles ~~34~~56 to ~~39~~67 of the *Banking Consolidation Directive*.
- ...
- ownership share* (~~in ELM~~) in accordance with the definition of a "share" in section 422(6) of the *Act* (Controller):
- parent undertaking* ...
- (a) (in relation to whether an *undertaking*, other than an *incorporated friendly society*, is a *parent undertaking* and except for the purposes of ~~PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups described in (c))~~ an *undertaking* which has the following relationship to another *undertaking* ("S")):
- (i) ...
- (b) (in relation to whether an *incorporated friendly society* is a parent undertaking and except for the purposes of ~~PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups described in (c))~~ an *incorporated friendly society* which has the following relationship to a *body corporate* ("S")):
- (i) ...
- (c) (for the purposes of BIPRU, GENPRU and INSPRU as they apply on a consolidated basis, for the purposes of BIPRU 10 (Concentration risk requirements) and for the purposes of SYSC 12 (Group risk systems and controls requirement) ~~PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups)~~ 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 S₂;

and so that ~~(e)(ii) applies also~~ (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 -PRU 8.4 (Group risk systems and controls requirement).

<i>participation</i>	(for the purposes of <i>ELM</i> , <i>UPRU</i> and <i>GENPRU-PRU 8 (Group risk)</i> and for the purposes of <i>BIPRU</i> and <i>INSPRU</i> as they apply on a consolidated basis):
	(a) ...
<i>PD</i>	(1) <u>(except in <i>GENPRU</i> and <i>BIPRU</i>) Prospectus Directive.</u> (2) <u>(in <i>GENPRU</i> and <i>BIPRU</i>) probability of default.</u>
<i>permanent share capital</i>	an item of capital that is stated in <u><i>GENPRU</i> 2.2.836R (Core tier one capital: permanent share capital)</u> to be permanent share capital.
<i>personal investment firm</i>	(1) <u>(except in <i>SUP</i> 16 and subject to <i>BIPRU</i> TP 1.3R (Revised definition of personal investment firm for certain transitional purposes)) a firm whose permitted activities include designated investment business, which is not an authorised professional firm, bank, <i>BIPRU</i> investment firm, <i>ELMI</i>, building society, credit union, ...</u> (2) <u>(in <i>SUP</i> 16) as in (1) but excluding the words '<i>BIPRU</i> investment firm'.</u>
<i>potential tier one instrument</i>	an item of capital that falls into <u><i>GENPRU</i> 2.2.2762R (Tier one capital: General)</u> .
<i>qualifying debt security</i>	(1) <u>(for the purposes of <i>ELM</i> in <i>ELM</i>) a security falling into <i>ELM</i> 3.3.9R (Liquid assets).</u> (2) <u>(for the purposes of <i>BIPRU</i>) a debt security that satisfies the conditions in <i>BIPRU</i> 7.2.49R (Definition of a qualifying debt security).</u>
<i>recognised third country investment firm</i>	(in <i>ELM</i>) an <u><i>CAD</i> investment firm</u> that satisfies the following conditions: (a) <u>is subject to the prudential rules of one of the regulatory bodies in Appendix C in section 10 of chapter CS of <i>IPRU</i>(BANK); and its head office is outside the <i>EEA</i>;</u>

- (b) has its registered office (or, if it has no registered office, its head office) in the state in which that regulatory body is established; 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 6R (Non –EEA investment firm regulators' requirements deemed CRD- equivalent for individual risks)*; and
- (d) that *investment 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 *EEA prudential sectoral legislation for the investment services sector*.

regulated entity

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 3.1.128-4.39R* (The financial sectors: asset management companies).

sectoral rules

(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 3.1.128-4.12R* (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* and a *solo capital resources requirement*):

- (i) (to the extent provided for in paragraphs 6.5 to 6.6 of *GENPRU 3* of *PRU 8* Ann 1R) rules and requirements that are referred to in ~~those paragraphs~~ paragraph 6.6 of *PRU 8* Ann 1R (Solo capital resources requirement: Non-EEA firms subject to equivalent regimes); and
- (ii) the rules and requirements in (c); or
- (c) (for all other purposes) rules and requirements: of the *FSA*;
 - (i) ~~of the *FSA*~~; or
 - (ii) ~~of or administered by another competent authority~~;

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 *FSA's sectoral rules* are to *sectoral rules* in the form of *rules*;

~~;~~ and

- (i) ~~(for the purpose of calculating solo capital resources and a solo capital resources requirement) the following undertakings are not subject to sectoral rules for the purposes of paragraphs 6.2, 6.3, 6.5 or 6.6 of *PRU 8* Ann 1R as the case may be and instead fall under paragraph 6.7 of *PRU 8* Ann 1R (Solo capital resources requirement: other members)~~;

- (i) ~~a *regulated entity* that is incorporated in, and has its head office in, one of the states or territories referred to in paragraph 6.5 of Part 6 of PRU 8 Ann 1R (Solo capital resources requirement: non-EEA firms subject to equivalent regimes), a *UK domestic firm* or an *EEA regulated entity* if it has an exemption from the *sectoral rules* referred to in paragraphs 6.2, 6.3 or 6.6 of PRU 8 Ann 1R as the case may be; and~~
- (ii) ~~a *regulated entity* that is incorporated in, and has its head office in, one of the states or territories referred to in paragraph 6.5 of Part 6 of PRU 8 Ann 1R if it is not subject to requirements that are equivalent to *EEA prudential sectoral legislation* applicable to its *financial sector*.~~

securities and futures firm (1) ~~(except in SUP 16 and subject to BIPRU TP 1.3R (Revised definition of securities and futures firm for certain transitional purposes)) a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *BIPRU investment firm*, *ELMI*, *building society*, *credit union*,
....~~

(2) ~~(in SUP 16) as in (1) but excluding the words '*BIPRU investment firm*'.~~

securitisation (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 *tranch*ed 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.

smallest financial sector

(in relation to a *financial sector* in a *consolidation group* or a *financial conglomerate* and in accordance with GENPRU 3.18.4 (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 3.18.4.

solo capital resources

- (1) (for the purposes of GENPRU 3 and INSPRU 6 ~~PRU 8~~ (Group risk) and in relation to a member of a *financial conglomerate* in the overall *financial sector*) 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 6.89 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 (Concentration risk requirements) the definition in (1) is adjusted in accordance with BIPRU 10.8.13R (Calculation of capital resources for a UK integrated 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 8.6.6R to BIPRU 8.6.9R (Consolidated capital resources).

solo capital resources requirement

(for the purpose of PRU 8 (Group risk)) a capital resources requirement calculated on a solo basis as defined in paragraphs 6.2-6.9 of PRU 8 Ann 1R (Solo capital resources requirement: the insurance sector).

- (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) <u>(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.</u>
<i>solvency deficit</i>	(in <u>GENPRU 38 Ann 1R (Capital adequacy calculations with respect to financial conglomerates) and in respect of a member of the overall financial sector</u>) the amount (if any) by which its <i>solo capital resources</i> fall short of its <i>solo capital resources requirement</i> .
<i>specific risk</i>	(1) <u>(in SYSC) unique risk that is due to the individual nature of an asset and can potentially be diversified.</u> (2) <u>(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.</u>
<i>sponsor</i>	(1) <u>(in LR) a person approved, under section 88 of the Act by the FSA, as a sponsor.</u> (2) <u>(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.</u>
<i>step-up</i>	<u>(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:</u> (1) <u>(in relation to a tier one instrument) has the meaning set out in PRU 2.2.74R; and</u> (2) <u>(in relation to a tier two instrument) has the meaning set out in PRU 2.2.118R.</u> (a) <u>includes (in the case of a fixed rate) an increase in that coupon rate;</u> (b) <u>includes (in the case of a floating rate calculated by adding a fixed amount to a fluctuating amount) an increase in that fixed amount;</u>

	(c) <u>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</u>
	(d) <u>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.</u>
<i>tier one capital</i>	(a) (in <i>ELM</i>) ... (b) (in <i>PRU BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stages A (<u>Core tier one capital</u>), B (<u>Perpetual non-cumulative preference shares</u>) or C (<u>Innovative tier one capital</u>) of the <u>capital resources table</u> table in <i>PRU 2.2.14R</i> .
<i>tier one capital resources</i>	the sum calculated at stage F of the calculation in <u>the capital resources table</u> <i>PRU 2.2.14R</i> (Total tier one capital after deductions).
<i>tier one instrument</i>	an item of capital that falls into <i>GENPRU 2.2.2762R</i> (<u>Tier one capital: General</u>) and is eligible to form part of a <i>firm's tier one capital resources</i> .
<i>tier two capital</i>	(a) (in <i>ELM</i>) ... (b) (in <i>PRU BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i>) an item of capital that is specified in stages G (<u>Upper tier two capital</u>) or H (<u>Lower tier two capital</u>) of the <u>capital resources table</u> table in <i>PRU 2.2.14R</i> .
<i>tier two capital resources</i>	the sum calculated at stage I (<u>Total tier two capital</u>) of the calculation in <u>the capital resources table</u> <i>PRU 2.2.14R</i> .
<i>tier two instrument</i>	an item of capital <u>capital instrument</u> that meets the conditions in <i>GENPRU 2.2.10459R</i> (<u>General conditions for eligibility as tier two capital instruments</u>) or <i>GENPRU 2.2.10877R</i> (<u>Upper tier two capital: General</u>) and is eligible to form part of a <i>firm's tier two capital resources</i> .
<i>trading book</i>	(1) (in <i>UPRU</i>)

	(2)	<u>(in BIPRU and GENPRU and 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.</u>
	(3)	<u>(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.</u>
<i>upper tier two capital</i>	(1)	(in ELM) ...
	(2)	<u>(in PRU BIPRU, GENPRU and INSPRU) an item of capital that is specified in stage G of the capital resources table (Upper tier two capital) table in PRU 2.2.14R.</u>
<i>upper tier two capital resources</i>		the sum calculated at stage G of the calculation in <u>the capital resources table (Upper tier two capital) PRU 2.2.14R.</u>
<i>upper tier two instrument</i>		an item of capital <u>capital instrument</u> that meets the conditions in <u>GENPRU 2.2.10+77R (Upper tier two capital: General)</u> and is eligible to form part of a <i>firm's upper tier two capital resources</i> .
<i>working day</i>	(1)	(in PR) ...
	(2)	<u>(in relation to an underwriter and for the purpose of BIPRU but not for the purpose of the definition of working day 0) the number of business days after working day 0 specified by the provision in question so that, for example, working day one means the business day following working day 0.</u>

Part 3A (Deletions taking effect on 31 December 2006)

Delete the following definitions from the Glossary; the text is not shown struck through.

LLD

minimum guarantee fund

Part 3B (Deletions taking effect on 1 January 2007)

Delete the following definitions from the Glossary; the text is not shown struck through.

ancillary banking services undertaking

ancillary investment services undertaking

arranger

bank consolidation rule

banking conglomerate

building society conglomerate

broker/manager

FSA consolidation rule

initial credit spread

investment services conglomerate

main investment services undertaking

matched principal broker

own account dealer

Annex B

Amendments to Threshold Conditions

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend COND 2.4 as follows:

2.4 Threshold condition 4: Adequate resources

...

2.4.2 G (1) ...

(2) ...

(3) High level systems and control requirements are in SYSC. Detailed financial resources and systems requirements are in the relevant section of ~~IPRU or PRU~~ the Prudential Standards part of the Handbook, including specific provisions for particular types of *regulated activity*. ...

2.4.3 G (1) ...

(2) In particular, although it is the *firm* that is being assessed, the *FSA* may take into consideration the impact of other members of the *firm's group* on the adequacy of its resources. For example, the *FSA* may assess the consolidated solvency of the *group*. The *FSA's* approach to the consolidated supervision of a *firm* and its *group* is in the relevant part of ~~IPRU or PRU~~ the Prudential Standards part of the Handbook.

2.4.4 G (1) ...

(2) Relevant matters may include but are not limited to:

(a) whether there are any indications that the *firm* may have difficulties if the application is granted (see COND 2.4.6 G), at the time of the grant or in the future, in complying with any of the *FSA's* prudential *rules* (see the relevant part of ~~IPRU or PRU~~ the Prudential Standards part of the Handbook);

...

...

...

- 2.4.6 G (1) ...
- (2) As a result, the *FSA* would expect a *firm* which is applying for *Part IV permission*, or a substantial variation of that *permission*, to take adequate steps to satisfy itself and, if relevant, the *FSA* that:
- (a) it has a well constructed business plan or strategy plan for its product or service which demonstrates that it is ready, willing and organised to comply with the relevant requirements in ~~*IPRU, PRU*~~ the Prudential Standards part of the *Handbook* and *SYSC* that apply to the *regulated activity* it is seeking to carry on; ...
- ...
- ...
- ...

Annex C

Amendments to the Senior Management Arrangements, Systems and Controls

In this Annex, underlining indicates new text and striking through indicates deleted text.

...

App 1.1.8 G Examples of how the *FSA* considers that SYSC 3 will apply in practice to an *incoming EEA firm* (see SYSC 1.1.4 R) are as follows:

(1) The ~~Integrated Prudential Sourcebook (*PRU*)~~ Prudential Standards part of the *Handbook* (with the exception of ~~PRU 7.6.33~~ *INS* PRU 1.5.33R on the payment of financial penalties) and the Interim Prudential sourcebook (insurers) (*IPRU* (*INS*)) ~~(with the exception of 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) ...

(b) to establish systems and controls for compliance with that ~~Interim Prudential sourcebook or *PRU*~~ Prudential Standards part of the *Handbook* (SYSC 3.2.6 R); or

(c) ...

...

...

Annex D

Amendments to the Integrated Prudential sourcebook

In this Annex, new text is not underlined and deleted text is not shown struck-through.

Part 1: amendments taking effect on 31 December 2006

The following provisions are deleted. The text is not shown struck-through.

Provision in PRU	
1.2.17 G	Deleted
1.2.32 G (1)	Deleted
1.2.40 G	Deleted
1.2.43 G	Deleted
1.2.53 G	Deleted
1.3.2 G	Deleted
1.3.3 R	Deleted
1.3.5C R	Deleted
1.3.5D R	Deleted
2.2.42 G	Deleted
2.2.43 G	Deleted
2.2.44 G	Deleted
2.2.45 G	Deleted
2.2.46 G	Deleted
2.2.47 G	Deleted
2.2.48 G	Deleted
2.2.49 G	Deleted
2.2.53 R	Deleted
2.2.71 R	Deleted
2.2.74 R	Deleted
2.2.102 R	Deleted
2.2.118 R	Deleted

Part 2: amendments taking effect on 1 January 2007

1. So far as not redesignated by the following, the whole of the Integrated Prudential sourcebook is deleted:
 - (a) the General Prudential Sourcebook Instrument 2006;
 - (b) the Insurance Prudential Sourcebook Instrument 2006;
 - (c) the Prudential Sourcebook for Mortgage and Insurance Intermediaries Instrument 2006;
 - (d) the Senior Management Arrangements, Systems And Controls (Markets In Financial Instruments) Amendment Instrument 2006.

Annex E

Amendments to the Interim Prudential sourcebook for banks

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend IPRU (BANK), Volume 1 as follows:

TRANS

~~Transitional provisions [Deleted]~~

Chapter GN, Section 1: The Interim Prudential Sourcebook For Banks: Notes

1. CONTENTS

Volume 1

GN	re Interim Prudential Sourcebook for Banks:
s 1	Contents
s 2	The Prudential Sourcebook for banks: Introductions
s 3	The FSA's requirements (rules)
s 4	Presentation and conventions

~~Adequacy of capital~~

General

CO	Capital Adequacy Overview
CB	Trading book/banking book division
CA	Definition of capital

Specific banking book treatments

BC	Credit risk in the banking book
BO	Proxies for market risk in banking book

Treatments common to banking and trading book

FX	Foreign exchange risk
CM	Commodities risk
DU	Common treatments for counterparty risk

Specific trading book treatments

N.B. The policy outlined in these chapters applies to CAD banks only

TI	Interest rate position risk
TE	Equity position risk

TC	Counterparty risk in the trading book
TL	Incremental capital for large exposures
TU	Securities underwriting
TO	Options position risk requirement
TS	CAD1 models
TV	VaR models

Volume 2

Other

LE	Large exposures
CD	Credit derivatives
SE	Securitisation and asset transfers

Adequate Liquidity

LM	Mismatch liquidity
LS	Sterling stock liquidity

Adequate records, systems and controls

AR	Accounting and Other Records and Internal systems and controls
ST	Foreign Exchange—risk based supervision
FR	Fraud

Controllers: the fit & proper requirement

CL	Comfort letters
----	-----------------

Other

VA	Valuation
NE	Collateral and netting
CS	Consolidated supervision
OS	Outsourcing
PN	Provisioning policy statements

Chapter GN, Section 2

2. THE PRUDENTIAL SOURCEBOOK FOR BANKS: APPLICATION AND PURPOSE

Application

1. From December 2004 the Financial Services Authority (the FSA) has begun the phased implementation for *banks* of its Integrated Prudential Sourcebook (*PRU*). This will eventually replace the set of sectoral prudential sourcebooks applied on an interim basis, including this one applying to *banks* (*IPRU (BANK)*).

With the implementation of the recast Capital Adequacy Directive and the Banking

Consolidation Directive in the UK from January 2007, the Integrated Prudential Sourcebook (PRU) and the Interim Prudential sourcebook for banks (IPRU (BANK)) have, so far as banks are concerned, been substantially substituted by the General Prudential Sourcebook (GENPRU), parts of the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The only remaining prudential standards in IPRU (BANK) are those that relate to liquidity. Over the transition period until all the provisions of IPRU (BANK) have been revoked, the FSA's detailed prudential standards (and some related notification requirements) applying to banks authorised under the Act are set out in a combination of PRU, GENPRU, BIPRU, SYSC and IPRU (BANK). Where a chapter of IPRU (BANK) has been substantively affected by the implementation of PRU, the introductory section of that chapter has been amended to indicate in broad terms how the chapter's provisions relate to those in PRU. Banks are responsible for ensuring that they meet all the prudential standards applying to them in both PRU, GENPRU, BIPRU, SYSC and IPRU (BANK) during the transitional period.

2. ~~IPRU (BANK) sets out material relevant to all banks (see definition in section 3.5 of Chapter GN). However, most of the material applies only to UK banks. The only parts of IPRU (BANK) which apply applies to EEA banks and overseas banks are the rules and guidance on liquidity (Rule 3.3.15 and in Chapter LM) and fraud (Chapter FR). The rules and guidance in Chapter LS apply only to UK banks.~~

Purpose

3. [Deleted]
4. [Deleted]
5. [Deleted]

Powers and general approach

6. [Deleted]
7. [Deleted]
8. [Deleted]
9. [Deleted]
10. [Deleted]
11. [Deleted]

Chapter GN, Section 3: The FSA's prudential rules for banks

3.1 Introduction

- 3.1.1 G The rules (except IPRU (BANK) 3.3.15R) in this section are made under sections 138 and 149 of the Act. Those sections and section 156 are specified for the purposes of section 153(2). ~~IPRU (BANK) 3.3.15R (which is a designated pre-commencement provision) is treated as having effect under section 138.~~

...

3.2 Application

3.2.1 R The *rules* (including *evidential provisions*) in this section apply as follows:

<u>Rule/Evidential Provision</u>		<u>Application</u>
R 3.3.15 - R 3.5.1 -	Adequate liquidity definitions	All <i>banks</i> except <i>EEA banks</i> whose notification to the <i>FSA</i> of their intention to provide services in the <i>UK</i> covers only services provided on a cross-border basis and not services provided through a <i>branch</i>.
R 3.3.1 - R 3.3.9 - R 3.3.11 - R 3.3.13 - R 3.3.19 - E 3.3.23 - R 3.4.1 - R 3.4.3 - R 3.4.5 - E 3.4.9 - R 3.4.12 - R 3.6.1 -	two individuals to direct business <i>initial capital</i> <i>euro 5 million</i> capital adequate capital large exposures: systems & controls internal audit function large <i>exposures</i> policy statement liquidity policy statement provisioning policy statement policy statement procedures submission of policy statements policy statements: transitional	All <i>UK banks</i> except <i>UK branches of EEA banks</i> or <i>overseas banks</i>
R 3.3.12 - R 3.3.21 - E 3.3.25 - R 3.4.7 -	<i>euro 5 million</i> or <i>relevant amount</i> notification of large <i>exposures</i> audit committee trading book policy statement	<i>UK banks</i> only

3.3 ~~Prudential rules [Deleted]~~

3.4 Policy Statement Rules

~~Large Exposure Policy Statement~~

3.4.1 R ~~[Deleted]~~

3.4.2 G ~~[Deleted]~~

Liquidity Policy Statement

3.4.3 R (1) A *UK bank* and in the case of an *EEA bank* or *overseas bank*, its branch in the UK must set out its policy on the management of its liquidity in a

written statement.

(2) The policy in the statement must be such that compliance with it would enable the *bank* to maintain adequate liquidity in conformity with ~~IPRU (BANK) 3.3.15R~~ GENPRU 1.2.26R.

...

~~Provisioning policy statement~~

3.4.5 R ~~[Deleted]~~

3.4.6 G ~~[Deleted]~~

~~Trading book policy statement~~

3.4.7 R ~~[Deleted]~~

3.4.8 G ~~[Deleted]~~

Policy statement procedures

3.4.9 E (1) A *bank's* policy statements required under ~~IPRU (BANK) 3.4.1R, 3.4.3R, 3.4.5R and 3.4.7R~~ should be approved by its board or, where appropriate, by a person or body of persons to whom the board has delegated this function (the "delegate").

...

...

3.4.12 R ~~[Deleted]~~

...

3.4.14 G ~~[Deleted]~~

3.5 R Definitions

Amend the following definition in the table in *IPRU (BANK) 3.5.1R* as shown:

bank ~~(1) a firm with a Part IV permission which includes accepting deposits, and:~~
~~(a) which is a credit institution; or~~
~~(b) whose Part IV permission includes a requirement that it comply with IPRU (BANK); but which is not a building society, friendly society or credit union; and~~
~~(2) an EEA bank.~~

See definition in the Glossary.

credit ~~An undertaking whose business is to receive deposits or other repayable funds~~

institution ~~from the public and to grant credits for its own account or an electronic money institution within the meaning of article 1(3)(a) of Directive 2000/46/EC (the E-Money Directive) that has the right to benefit from the mutual recognition arrangements under Directive 2000/12/EC (the Banking Consolidation Directive).~~

See definition in the Glossary.

Delete the following definitions from the table in *IPRU (BANK) 3.5.1R*; the text is not shown struck through:

associated undertaking
building society
commencement
euro 5 million
exposure
financial holding company
financial institution
FSMA
group
initial capital
mixed-activity holding company
mixed financial holding company
notification rules
own funds
parent undertaking
Part IV permission
participating interest
participation
PRU
relevant amount
subsidiary undertaking
SUP

3.6 ~~TRANSITIONAL RULE [Deleted]~~

Chapter GN, Section 4: Presentation and Conventions

...

4.2 Understanding the presentation

...

- (a) The dates of latest issue of each section of each chapter can be checked ~~by phoning the Policy Department of the FSA's Financial Supervision Banking Directorate [020 7676 0484/0394], or via the FSA's internet site (at www.fsa.gov.uk).~~

...

...

- CO ~~CAPITAL ADEQUACY OVERVIEW~~ [Chapter deleted]
- CB ~~THE BANKING BOOK/TRADING BOOK DIVISION~~ [Chapter deleted]
- CA ~~DEFINITION OF CAPITAL~~ [Chapter deleted]
- BC ~~CREDIT RISK IN THE BANKING BOOK~~ [Chapter deleted]
- BO ~~PROXIES FOR MARKET RISK IN THE BANKING BOOK~~ [Chapter deleted]
- FX ~~FOREIGN EXCHANGE RISK~~ [Chapter deleted]
- CM ~~COMMODITY POSITION RISK~~ [Chapter deleted]
- DU ~~COUNTERPARTY RISK TREATMENTS COMMON TO THE BANKING AND THE TRADING BOOK~~ [Chapter deleted]
- TI ~~INTEREST RATE POSITION RISK~~ [Chapter deleted]
- TE ~~EQUITY POSITION RISK~~ [Chapter deleted]
- TC ~~COUNTERPARTY RISK IN THE TRADING BOOK~~ [Chapter deleted]
- TL ~~INCREMENTAL CAPITAL FOR LARGE EXPOSURES~~ [Chapter deleted]
- TU ~~SECURITIES UNDERWRITING~~ [Chapter deleted]
- TO ~~OPTIONS PRR~~ [Chapter deleted]
- TS ~~CAD1 MODELS~~ [Chapter deleted]
- TV ~~Use Of A Value At Risk Model~~ [Chapter deleted]
- LE ~~LARGE EXPOSURES~~ [Chapter deleted]

Amend IPRU (BANK), Volume 2 as follows:

CD ~~CREDIT DERIVATIVES~~ [Chapter deleted]

SE ~~SECURITISATION AND ASSET TRANSFERS~~ [Chapter deleted]

Chapter LM: Mismatch Liquidity

Chapter LM, Section 1: Introduction

1.1 Legal resources

1 (a) ...

(b) ...

(c) The rules requiring a bank to maintain adequate liquidity appropriate to the nature and scale of its business, and to set out its policy on liquidity risk management in a written statement.

See ch
GN
s. 3

~~(e) All UK banks authorised for the purposes of the Act are required to meet these requirements except EEA banks. An EEA bank or overseas bank with a branch in the UK is also subject to rule 3.3.15 which requires its UK those requirements in relation to that branch to maintain adequate liquidity.~~

See ch
GN
s. 3

2 As part of the ~~phased~~ implementation of the ~~Integrated Prudential Sourcebook (PRU)~~ recast Capital Adequacy Directive and the Banking Consolidation Directive in the UK from January 2007, provisions in ~~PRU 1.2 and PRU 5.1~~ relating to a firm's systems and controls for liquidity risk have been introduced, ~~superseding and leading to the revocation or amendment of~~ material formerly in this chapter in SYSC 11 and provisions concerning stress testing and scenario analysis have been introduced in GENPRU 1.2.30R. The relevant rules implement part of Article 22 and Annex V of the Banking Consolidation Directive. This chapter and chapter LS sets out the FSA's framework for monitoring the liquidity of banks authorised for the purposes of the Act to determine whether the above requirements are met.

...

...

1.2 Application

4 This chapter applies to banks in the manner set out in 1.1. In respect of EEA banks that have a branch in the UK but do not have a UK deposit-taking permission, only Sections 1, 2, 3, 4.2, 9.1 and 10 of the chapter apply. In respect of all EEA banks and overseas banks with a branch in the UK, the chapter (or applicable sections of it) only applies in relation to the liquidity of those branches and not the bank as a whole.

(a) For UK-incorporated banks, the present reporting form (LR), is completed on a solo basis. Where a bank already reports for capital and large exposure

purposes on a solo-consolidated basis with the agreement of the supervisor, the Form LR should be submitted on a solo-consolidated basis rather than a solo basis.

- (i) Definitions of solo supervision and solo-consolidated supervision can be found elsewhere in the IPRU (BANK) Handbook.

...

Chapter LM, Section 3: Main Features Of The Liquidity Policy

This section summarises the main features of the liquidity policy. It does not cover every feature and should be read in conjunction with the sections that follow, and other parts of the Handbook referred to below. Certain of the provisions referred to implement Article 22 and Annex V of the Banking Consolidation Directive.

3.1 Main prudential policies applying to banks

See ~~GN~~
s3 GENPRU

1 A bank must maintain adequate liquidity at all times.

1.2

See s10

2 A bank must formulate a statement of its liquidity management policy. It should agree with the FSA standards for adherence to this policy, i.e. mismatch guidelines and the procedures for the notification of breaches of those guidelines. (The rule requiring a liquidity policy statement is GN 3.4.3R. SYSC 11 requires a bank to have policies for liquidity risk management.)

See s9

3 A bank should have adequate systems for monitoring liquidity on a daily basis. (See SYSC 11).

3A A bank should carry out stress testing and scenario analysis in relation to liquidity risk. (See GENPRU 1.2.26R and associated guidance, and SYSC 11).

3B A bank should have a contingency funding plan. (see SYSC 11)

...

Chapter LM, Section 4: The framework for measuring liquidity

...

4.2 'Global concession' policy

6. The FSA ~~is required to~~ supervises the liquidity of all banks operating in the United Kingdom except in the case of EEA banks and overseas banks it is only required to supervise the liquidity of their UK branches.

...

Chapter LM, Section 6: Stock of marketable assets

...

6.3 Inclusion of marketable assets in the maturity ladder

6.3.1 General

...

7 ...

See ch
BC s3

(d) ~~The definition of Zone A/Zone B countries given in the chapter on credit risk in the banking book~~ The meaning of Zone A country is as defined in the glossary of defined terms used in the Handbook.

"Zone B" comprises all countries not in Zone A countries.

6.3.2 The standard "matrix" approach

8 The discount factors applied to different types of marketable assets in the FSA's mismatch calculations are given in the table below:

...

Other securities denominated in freely tradable currencies (usually Zone A)

Non-governmental debt securities ~~which are classified as~~ 5%
qualifying by the FSA in its implementation of the CAD falling within the definition of qualifying debt security, and which have six or fewer months to residual maturity.

Non-governmental debt securities ~~which are classified as~~ 10%
qualifying by the FSA in its implementation of the CAD falling within the definition of qualifying debt security, and which have five or fewer years residual maturity.

Non-governmental debt securities ~~which are classified as~~ 15%
qualifying by the FSA in its implementation of the CAD falling within the definition of qualifying debt security, and which have more than five years residual maturity.

Equities which (in the FSA's implementation of the CAD) qualify 20%
for a specific risk weight no higher than 42%

...

(a) ...

See ch
BC s3

(b) Qualifying debt security means qualifying for inclusion in the capital adequacy calculation at specific risk weightings is defined in the glossary of defined terms used in the Handbook.

(c) The definition of Zone A/Zone B countries is given in ~~the chapter on credit risk in the banking book~~ 6.3.1.7(d) above.

...

See ch
BC s3

(g) Zone B equities, which (in the FSA's implementation of the CAD) qualify for a specific risk weight (no higher than 42%) can be considered to be marketable and are discounted at 40%.

...

Chapter LM, Section 8: Factors considered in setting mismatch guidelines

...

8.3 Home country lending

4 A branch which lends a considerable proportion of its own balance sheet back to its home country risks becoming illiquid if, for any reason, the home country is unable to meet its debt service obligations. Partly for this reason the FSA assesses whether to place limits on home country lending for branches.

See
chLE-9

(a) ~~For details on home country exposure limits see the chapter on large exposures~~

Chapter LM, Section 9: Monitoring liquidity

...

9.1.2 Systems for monitoring liquidity

2 In order to be considered to be conducting its business in a prudent manner a bank must maintain adequate systems. A bank should therefore have in place systems which enable it to monitor its liquidity profile on a frequent and timely basis.

See
SYSC 11

(a) What in detail will be considered adequate systems depend on the nature of business conducted by the bank. But every bank should have systems in place that enables it to calculate its liquidity position on a daily basis.

Chapter LM, Section 10: Policy statements

...

4 The policy statement should consider the management of liquidity in both normal and abnormal circumstances. In particular, it should include details of the bank's contingency funding plan maintained as required by ~~PRU 5.1.86E~~ SYSC 11.1.24E.

...

Chapter LS: Sterling stock liquidity

Chapter LS, Section 1: Introduction

1.1 Legal resources

1. ...
(a) ...
(b) ...
(c) ...

See ch
GN(3)

All UK banks authorised for the purposes of the Act are required to meet these requirements ~~except EEA banks~~. An EEA bank or overseas bank with a branch in

the UK is also subject to ~~rule 3.3.15 which requires its UK~~ those requirements in relation to that branch to maintain adequate liquidity.

- 2 As part of the ~~phased implementation of the Integrated Prudential Sourcebook (PRU)~~ recast Capital Adequacy Directive and the Banking Consolidation Directive in the UK from January 2007, provisions ~~in PRU 1.2 and PRU 5.1~~ relating to a firm's systems and controls for liquidity risk have been introduced, ~~superseding and leading to the revocation or amendment of material formerly in this chapter.~~ in SYSC 11 and provisions concerning stress testing and scenario analysis are introduced in GENPRU 1.2.30R. The relevant rules implement part of Article 22 and Annex V of the Banking Consolidation Directive. This chapter and chapter LM sets out the FSA's framework for monitoring the liquidity of banks authorised for the purposes of the Act to determine whether the above requirements are met.

...

...

Chapter LS, Section 4: The measurement of sterling stock liquidity

...

4.4 Definitions relevant to both components

4.4.1 *The stock of sterling liquid assets*

9 The stock of *sterling liquid assets* consists of:

(a) ...

...

(i) [Deleted]

a) [Deleted]

i) [Deleted]

(j) [Deleted]

a) [Deleted]

b) [Deleted]

...

...

AR ~~ACCOUNTING AND OTHER RECORDS AND INTERNAL CONTROL SYSTEMS~~ [Chapter deleted]

ST ~~FOREIGN EXCHANGE RISK BASED SUPERVISION~~ [Chapter deleted]

FR ~~FRAUD~~ [Chapter deleted]

- CL ~~COMFORT LETTERS~~ [Chapter deleted]
- VA ~~VALUATION~~ [Chapter deleted]
- NE ~~COLLATERAL AND NETTING~~ [Chapter deleted]
- CS ~~CONSOLIDATED SUPERVISION~~ [Chapter deleted]
- OS ~~OUTSOURCING~~ [Chapter deleted]
- PN ~~PROVISIONING POLICY STATEMENTS~~ [Chapter deleted]

Annex F

Amendments to the Interim Prudential sourcebook for Building Societies

In this Annex, underlining indicates new text and striking through indicates deleted text. Where an entire section of text is being inserted, the place where the change will be made is indicated as the text is not underlined.

Amend IPRU(BSOC), Volume 1 as follows:

Contents List

TP TRANSITIONAL PROVISIONS

X. INTRODUCTORY CHAPTER

~~VOLUME 1: PRUDENTIAL STANDARDS~~

~~1. SOLVENCY~~

~~2. ISSUED CAPITAL~~

~~3. BOARDS AND MANAGEMENT~~

4. FINANCIAL RISK MANAGEMENT

5. LIQUIDITY

~~6. LENDING~~

~~7. LARGE EXPOSURES~~

~~8. MORTGAGE INDEMNITY INSURANCE~~

~~9. SYSTEMS~~

~~10. SECURITISATION~~

~~11. -OUTSOURCING~~

[Volume deleted] ~~VOLUME 2: CONSTITUTIONAL GUIDANCE~~

To be inserted after the Contents List

Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1	<i>IPRU(BSOC)</i> 4 and <i>IPRU(BSOC)</i> 5	R	<p>A society to which <i>SYSC</i> 4 to <i>SYSC</i> 10 do not apply must, in the material in column (2), treat:</p> <p>(a) the references generally to <i>SYSC</i> 4, <i>SYSC</i> 5, <i>SYSC</i> 6 or <i>SYSC</i> 7 as references generally to <i>SYSC</i> 3.2; and</p> <p>(b) the references to specific rules in <i>SYSC</i> 4, <i>SYSC</i> 5, <i>SYSC</i> 6 or <i>SYSC</i> 7 as references to the rules in <i>SYSC</i> 3.2.23R to <i>SYSC</i> 3.2.37R that correspond to those rules.</p>	1 January 2007 – 31 October 2007	1 January 2007

Volume 1, Introductory Chapter X

X.1 ~~Introduction~~ [Deleted]

X.2 Application

X.2.1 R The Interim Prudential Sourcebook for building societies applies to all firms with permission from the Financial Services Authority (the "FSA") to take deposits which are also building societies as defined in the Building Societies Act 1986 ("the 1986 Act") and, in this sourcebook, "society" and "societies" are construed accordingly.

X.3 ~~Content of this sourcebook~~ [Deleted]

X.4 ~~The Purpose of the Interim Prudential Sourcebook for Building Societies~~ [Deleted]

X.5 ~~Principal Purpose of a building society and funding and lending limits~~ [Deleted]

X.6 ~~The continuing 1986 Act~~ [Deleted]

X.7 ~~Frequently used terms~~ [Deleted]

X.8 ~~Schedule of Transitional Provisions~~ [Deleted]

1. ~~SOLVENCY~~ [Chapter deleted]

2. ~~ISSUED CAPITAL~~ [Chapter deleted]

3. ~~BOARDS AND MANAGEMENT~~ [Chapter deleted]

Chapter 4 FINANCIAL RISK MANAGEMENT

Contents

SECTION

...

4.6 ~~Management Responsibilities~~ 12

...

ANNEX

4A. Supervisory Approach Categories 21

4B. ~~Credit Derivatives~~ 29

4.1 Introduction

4.1.1 G ~~This chapter replaces PN 1998/4, issued by the Commission, and contains rules and guidance for societies on financial risk management, a key part of compliance with Principle 3 ("a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems which supplements the high level requirements in the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)).~~

4.1.1A G As part of the implementation of the Capital Adequacy Directive (CAD), the Banking Consolidation Directive (BCD) and the Markets in Financial Instruments Directive (MiFID), provisions relating to a firm's organisational and risk systems and controls have been introduced in SYSC 4, SYSC 5, SYSC 6 and SYSC 7. Whilst some of the material in SYSC applies to all societies, some applies only to societies that are subject to MiFID. The guidance in this chapter generally explains the application of the high level requirements in SYSC 4, SYSC 5, SYSC 6 and SYSC 7 (even if there may not be a specific cross reference) in the context of financial risk management.

...

4.1.3 G Rules and guidance on interest rate risk in the banking book are contained in chapter 2.3 of the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Under these requirements a society should evaluate the effect of a standard interest rate shock specified by the FSA in that chapter. The result should be taken account of in the ICAAP (as defined in the Handbook Glossary).

4.1.4 G Societies with a trading book will also be subject to a market risk capital requirement calculated in accordance with BIPRU 7. This is unlikely to be applicable to any societies apart from those on the "Trading" approach – see 4A.6 below. A society with foreign currency exposures will however be subject to the foreign exchange capital requirements in BIPRU 7 whether or not it has a trading book.

4.2 RulesGeneral

4.2.1 RG In meeting the requirements of SYSC 4.1.1R and SYSC 7.1.2R in the context of financial risk management, Aa society mustshould have an adequate system for managing and containing financial risks to the net worth of its business, and risks to its net income, whether arising from fluctuations in interest or exchange rates or from other factors.

4.2.2 G The arrangements, processes and mechanisms required in SYSC 7.1.3R Societies should haveinclude systems and procedures for identifying, monitoring and controlling all material maturity mismatch, interest rate, foreign exchange and similar (e.g. index related) risks, and for reporting exposures to senior management and the board of the society on a regular, and timely, basis. Societies should also have interest margin management systems in place to estimate the expected profitability of new mortgage and savings products, and to project forward the cumulative effect of mortgage incentives and loyalty schemes.

4.2.3 G Societies should have credit limits in place for all counterparties both for placing liquidity and for transacting derivative contracts (further guidance also in Chapter 5 (Liquidity)) and in ~~PRU 5.4~~the General Prudential sourcebook (GENPRU) 1.2 and SYSC 11 – stress testing and scenario analysis, and contingency funding plans).

4.2.4 G [Deleted]

4.2.5 RG A society must maintain, and submit to the FSA,In meeting the requirements in SYSC 7.1.4R in the context of financial risk management, the board of a society should approve and periodically review a board-approved policy statement on financial risk management.

4.2.6 R [Deleted]

4.2.7 G [Deleted]

...

4.3 Financial risks

...

Key risk categories

4.3.7 G The key financial risks which, ~~in order to comply with Rule~~ as envisaged in 4.2.1G, societies should manage and control, are:

(1) ...

...

4.3.8 G Societies' financial risk management policies should also cover:

(1) ...

...

(3) [Deleted]

- (4) Operational risk in treasury and related activities: including failure of internal controls or procedures, and the risk arising from errors in legal documentation.
- (5) [Deleted]

...

4.5 Supervisory approach

...

4.5.5 G ~~To comply with rule~~ As explained in 4.2.1G, a society's system for financial risk management ~~must~~ should be adequate. The policy statement ~~required~~ envisaged under rule in 4.2.5G ~~must~~ should be appropriate for the society's business needs and the complexity of its existing and proposed treasury activities. The FSA has devised five models, described as supervisory approaches, of increasing sophistication, to assist societies ~~to comply with these rules~~. The approaches are described as "administered", "matched", "extended", "comprehensive" and "trading". A society that conducts its treasury activities in accordance with the most suitable (for it) of these five models, can readily demonstrate that it complies with ~~rule~~ the SYSC requirements referred to in 4.2.1G and 4.2.5G in the context of financial risk management. But these models are neither mandatory nor exhaustive. Guidance on the characteristics of each approach is set out in Annex 4A.

...

4.5.7 G Whilst the "approach" benchmarks have no legal significance, the process of moving between approaches provides a useful opportunity for the FSA to review a society's progress, and to satisfy itself that policies, limits and systems are appropriate for the treasury activities planned, ~~and that therefore compliance with rule 4.2.1 is adequately established~~.

...

4.6 Management responsibilities

4.6.1 G [Deleted]

4.7 Risk management systems

4.7.1 G ~~In order to demonstrate compliance with rule 4.2.1~~ The guidance in this section amplifies SYSC 7.1.2R and SYSC 7.1.3R specifically in the context of treasury management. a society should have in place information systems that are capable of:

- (1) ...
- (2) assessing the potential impact of interest rate (and if applicable, currency exchange rate) changes on its earnings and economic value (including the effect of any standard interest rate shock as specified by the FSA in BIPRU 2.3);
- (3) reporting accurately, and promptly, on risk positions – to management, to the board and, if requested, to the FSA - including generating the information necessary to carry out its ICAAP and reporting the results of stress testing for interest rate risk in the banking book;

...

...

Control limits

4.7.3 G Control limits confine structural risk positions within levels considered by board and management to be prudent, given the size, complexity and capital needs of the society's business. Where applicable, limits should also be applied to individual instrument types, asset/liability portfolios, and to separate business activities or subsidiaries. ~~The size of the limits set will be a factor in the FSA's assessment of the overall risk profile of the society, and thus in the threshold solvency ratio which is set for it.~~

...

Stress testing

4.7.7 G The risk measurement systems put in place should evaluate the impact, on income or economic value as appropriate, of abnormal market conditions. The amount and type of such stress testing required will depend upon the sophistication of treasury operations undertaken, and the level of risk taken, but where required should be regular and systematic. Boards and management should, periodically, review the extent of such stress testing to ensure that any "worst case" scenarios remain valid. Contingency plans should be in place to deal with the consequences should such scenarios become reality. Rules and guidance on stress testing, ~~and scenario analysis and contingency funding plans specifically for liquidity risk~~ are in PRUGENPRU 1.2 and PRU 5.4/BIPRU 2.2. Material on this subject specifically relating to liquidity risk, including liquidity contingency plans, is in SYSC 11. Requirements for stress testing for interest rate risk in the banking book are set out in BIPRU 2.3

Board information reporting

4.7.8 G The FSA attaches considerable importance to the quality, timeliness, and frequency of the management information which the board uses ~~to inform itself of the society's risk positions and to satisfy itself that treasury activities are being undertaken in accordance with its policies and guidelines. Information obtained by the board should not be confined to the current position, but~~ should include regular and systematic stress testing, as described above, which should be taken into account when policies and limits are established or reviewed.

4.8 Counterparty Risk

...

4.8.5A G The guidance in this section complements the high level rules and guidance on credit and counterparty risk in SYSC 7.1.9R to SYSC 7.1.11R.

...

Committed facilities

4.8.8 G A society with high levels of maturing funding, or vulnerability to withdrawal of individual deposits, should consider arranging committed facilities (or ~~to~~ maintain higher than average levels of liquidity). In arranging committed facilities, a society should consider:

(1) ...

...

...

4.9 Operational risk

General

4.9.1 G [Deleted]

Segregation of duties

4.9.2 G [Deleted]

4.9.3 G [Deleted]

Reporting lines

4.9.4 G [Deleted]

4.9.5 G [Deleted]

Remuneration policy

4.9.6 G [Deleted]

IT Security

4.9.7 G Reliance on computerised dealing, information, treasury management and risk assessment systems renders societies particularly vulnerable to software or hardware failure. ~~In accordance with Chapter 9 systems, b~~Boards of societies should:

(1) [Deleted]

(2) ...

...

4.10 Independent review and controls

Internal audit

4.10.1 G The guidance in this section amplifies SYSC 6.2.1R in the context of treasury management. Each board should ensure that its society's internal audit department (if it has one) has the skills and resources available to undertake an audit of the treasury function. Internal audit should evaluate, on a continuing basis, the adequacy and integrity of the society's controls over maturity mismatch, over the level of structural risk taken and should assess the effectiveness of treasury management procedures.

4.10.2 G Societies with complex treasuries or lacking internal auditors with treasury expertise may outsource treasury audit to an audit firm with the appropriate expertise and experience. The work of outsourced internal audit should be fully integrated into the

society's overall audit procedures and plans, with appropriate reporting lines into the audit committee. However, in order to avoid conflicts of interest, internal audit should not be contracted out to the society's own external auditors – even if the function were to be performed by a completely different branch of the audit firm (~~see also Chapter 11 on Outsourcing~~).

External audit

4.10.3 G [Deleted]

Chapter 4, Annex 4A

...

4A.2 "Administered" approach

...

4A.2.2 G Societies adopting this approach:

(1) should not offer fixed rate products (defined as repricing more than one year and one day later than the current date) on either side ~~on~~ of the balance sheet;

(2) ...

...

...

4A.5 "Comprehensive" approach

...

4A.5.5 G Risk positions could reflect an interest view, subject to sensitivity limits set by board/ALCO and incorporating basic risk assessment/control. Foreign exchange mismatch (i.e. exchange rate exposure) is expected to be limited to less than 2% of own funds (~~within Capital Adequacy Directive de minimis levels~~).

4A.6 "Trading" approach

...

4A.6.3 G [Deleted]

Chapter 4, Annex 4B

ANNEX 4B [Deleted]

Chapter 5 LIQUIDITY

Contents

Section

Page

...

...

5.1 Introduction

5.1.1 G This chapter now sets out the FSA's quantitative regime for building societies' prudential liquidity, and further guidance specific to building societies on the management of their liquidity in accordance with the five approaches to financial risk management set out in Chapter 4. This chapter complements ~~PRU 5.1 (which contains rules and guidance for a wider range of firms on systems and controls appropriate for liquidity risk)~~. Only certain provisions of PRU 5.1 apply to building societies, by virtue of PRU 5.1.3R and PRU 5.1.4R. Similarly it also complements PRU GENPRU 1.2 and BIPRU 2.2 (which contain rules and guidance for systems and controls relating to adequacy of financial resources generally) and SYSC 11 (which sets out the high level requirements for liquidity that apply to deposit takers and own account dealers, as well as insurers). The chapter outlines the factors the FSA will take into account in assessing whether a society meets the rules set out in ~~section 5.2 and PRU GENPRU 1.2 and the guidance in PRU 5.1~~SYSC 11 so far as liquidity risk is concerned. A list of types of asset suitable for inclusion in prudential liquidity for societies on each of the approaches to financial risk management is set out in Annex 5A. "Prudential liquidity" has the meaning set out in paragraph 5.3.4G.

5.1.1A G As part of the implementation of the Capital Adequacy Directive (CAD), the Banking Consolidation Directive (BCD) and the Markets in Financial Instruments Directive (MiFID), provisions relating to a firm's organisational and risk systems and controls have been introduced in SYSC 4, SYSC 5, SYSC 6 and SYSC 7. Whilst some of the material in SYSC applies to all societies, some applies only to societies that are subject to MiFID. The guidance in this chapter generally explains the application of the high level requirements in SYSC 4, SYSC 5, SYSC 6 and SYSC 7 (even if there is no specific cross reference) in the context of managing liquidity.

5.1.2 G Some material on liquidity systems and controls, previously in this chapter and superseded by ~~PRU 5.1~~SYSC 11, has been deleted, but the original numbering has been retained: where an entire section has been deleted this is noted alongside the original section number. The new material in ~~PRU 5.1~~SYSC 11 covers requirements for stress testing and scenario analysis, as well as contingency funding plans and their documentation.

5.2 Rules

5.2.4 E (1) ...

(2) Contravention of 5.2.4(1) may be relied upon as tending to establish contravention of ~~PRU 1.2.22R~~GENPRU 1.2.26R.

...

5.2.8 G Guidance on the content of a liquidity policy statement is set out in 5.6.2 to 5.6.4 and in Annex 5B. ~~Societies will also find guidance on the requirements (set out at PRU 1.2.26R, PRU 1.2.27R, PRU 1.2.31R, PRU 1.2.33R, PRU 1.2.35R, PRU 1.2.37R and PRU 1.2.38R) for stress testing and scenario analysis at PRU 5.1.58 to PRU 5.1.62. Further guidance on the requirements (set out at PRU 1.2.22R, PRU 1.2.35R and PRU 1.2.37R) on contingency funding plans and documentation is provided at PRU 5.1.8G — PRU 5.1.9G).~~ Societies may, for convenience, wish to combine their liquidity policy statement with their documentation meeting these general requirements with their liquidity policy statement for

contingency funding plans and documentation referred to in paragraph 5.1.1 and the other material in GENPRU, BIPRU and SYSC referred to in section 5.1. However if they do so, but societies need to be clear on how any combined document meets the separate requirements.

...

5.4 Short-term Liquidity

...

5.4.3 G The following liquid assets may be counted as short-term liquidity:

- (1) cash, current account balances, and Treasury, Local Authority and eligible bank bills;
- (2) deposits with relevant authorities (as defined in Annex ~~4E5A~~), banks and building societies with not more than 8 days' notice, or within 8 days of maturity;

...

...

5.5.1 Supervisory Approach to Liquidity

5.5.1 G Societies should adopt a risk-averse approach to the management of liquid assets. Societies should ensure that treasury systems and controls are adequate for the scale of activity undertaken and that treasury personnel have appropriate expertise and competence, including dealing, settlement and accounting skills. Chapter 4 suggests that dealings in certain categories of liquid assets should be confined to societies on an advanced approach to financial risk management.

...

5.6 Board and Management Responsibilities

...

5.6.2 G Rule 5.2.7 requires each society to have a liquidity policy statement. This should be approved by the society's board and be consistent with the society's strategic plan and its financial risk management policy statement. Societies should also have regard to the rules and guidance in PRUGENPRU 1.2, SYSC 4, SYSC 5, SYSC 7 and PRU 5.1 SYSC 11, ~~set out in more detail at PRU 5.2.8G.~~

...

5.6.4 G A liquidity policy statement should be a working document and personnel in the treasury and settlement areas should be familiar with its contents, as should members of ALCO or Finance Committee. When aspects of the policy or limits become out of date, the policy document should be amended ~~and the revised copy must be sent to the FSA (see rule 5.2.9).~~

5.6.5 G Boards should establish the objectives for liquidity including meeting obligations as they fall due (including any unexpected adverse cash flow), smoothing out the effect of maturity mismatches and the maintenance of public confidence. The need to earn a return may also be recognised as an objective, although this should be secondary to the security of the assets. Societies should also have regard to the rules and guidance in ~~PRUGENPRU 1.2~~ and ~~PRU 5.1 SYSC 11~~, set out in more detail at ~~PRU 5.2.8G~~.

5.6.6 G ~~[Deleted]~~

5.6.7 G ~~[Deleted]~~

5.6.8 G ~~[Deleted]~~

...

5.8 ~~Outsourcing of Liquidity Management and Brokers' Advice~~

5.8.1 G ~~[Deleted]~~

...

Chapter 5, Annex 5A: Prudential liquidity

5A.1 G ...

...

1.3 Loans to:

(1) ...

(2) any relevant authority ("relevant authority" is defined in ~~Annex 1F~~ section 49 of the Local Government Act 2000, as may be amended from time to time)

...

6 ~~LENDING~~ ~~[Chapter deleted]~~

7 ~~LARGE EXPOSURES~~ ~~[Chapter deleted]~~

8 ~~MORTGAGE INDEMNITY INSURANCE~~ ~~[Chapter deleted]~~

9 ~~SYSTEMS~~ ~~[Chapter deleted]~~

10 ~~Securitisation~~ ~~[Chapter deleted]~~

11 ~~Outsourcing~~ ~~[Chapter deleted]~~

Amend IPRU(BSOC), Volume 2 as follows:

~~[Volume deleted]~~ ~~VOLUME 2 : CONSTITUTIONAL GUIDANCE~~

Annex G

Amendments to the Interim Prudential sourcebook for Insurers

Amend IPRU(INS) Chapter 1 as follows. Underlining indicates new text and striking through indicates deleted text.

Chapter 1

APPLICATION RULE

Application

Insurers

- 1.1 ...
- The Society of Lloyd's
- 1.2 No provisions of *IPRU(INS)* apply to the *Society of Lloyd's* of Lloyd's, or ~~members~~ members of the *Society of Lloyd's* of Lloyd's except rules 9.37 and 9.38, and Part VII of Chapter 9.

Insert the following text in Volume 1, Chapter 9 as a new Part VII (Lloyd's of London). The text is redesignated and restated text. Amendments to the redesignated text are not shown:

Part VII

LLOYD'S OF LONDON

Application

- 9.47 PART VII of *IPRU(INS)* chapter 9 applies to the *Society* and to *managing agents*.

Requirement to report to the FSA

- 9.48 (1) The *Society* must report to the *FSA* within 6 months of the end of each *financial year* on its financial situation and solvency and on the whole of the *insurance business* carried on by *members*.
- (2) The report in *IPRU(INS)* 9.48 (1) must be prepared in accordance with GENPRU 1.3.4 R and this chapter.
- (3) The report in *IPRU(INS)* 9.48 (1) must include:

- (a) the *Lloyd's Return* which comprises a completed set of the forms set out in *IPRU(INS)* Appendix 9.11, together with any statements, notes, reports or certificates required by this chapter; and
 - (b) a copy of the *syndicate* accounts for each *syndicate* that is required by *byelaw* to prepare accounts for the *financial year*.
- (4) With the exception of the statements required to be annexed to the *Lloyd's Return* by *IPRU(INS)* 9.49 (6), the *Lloyd's Return* must be examined and reported on by the auditors appointed to audit the affairs of the *Society*.
- (5) The *Society* must provide a printed copy of the *Lloyd's Return* to the *FSA*, with Form 9 signed by three signatories who are senior officers of the *Society* each duly authorised by the *Council* to sign the *Lloyd's Return* on behalf of the *Society*.
- (6) If the *FSA* notifies the *Society* that any part of the *Lloyd's Return* is not in conformity with this chapter, the *Society* must promptly make any appropriate corrections or adjustments and if necessary re-submit the *Lloyd's Return* (or relevant part of it).

Content and form of the Lloyd's Return

- 9.49 (1) In preparing the *Lloyd's Return*, the *Society* must:
- (a) complete the forms in *IPRU(INS)* Appendix 9.11, following the requirements of and making the disclosures required under Appendices 9.1, 9.2, 9.3 and 9.4 of *IPRU(INS)* as if in the documents referred to in those Appendices references to an *insurer* were references to the *Society* and *members*, and adapting the requirements in those Appendices where necessary;
 - (b) complete the forms in *IPRU(INS)* Appendix 9.11 using standard accounting *classes* as set out in *IPRU(INS)* Appendix 9.16 where the forms require reporting by accounting class;
 - (c) report treaty reinsurance general business falling in accounting *classes* 9 to 10 as set out in *IPRU(INS)* Appendix 9.16 in Forms 28 and 29 in *IPRU (INS)* Appendix 9.11 by reference to the categories in the underlying accounting classes; and
 - (d) complete forms 13, 14, 40-60 in *IPRU(INS)* Appendix 9.11 for each *long-term insurance business syndicate*.
- (2) (a) Where a reinsurance contract in *IPRU(INS)* 9.49 (1)(c) covers more than one underlying accounting class as set out in *IPRU(INS)* Appendix 9.16 it must be apportioned between accounting classes in the way that best reflects its underlying composition.
- (b) However, where the apportionment in (a) cannot be made with reasonable accuracy or without disproportionate effort, then the contract must be allocated to the accounting class as set out in *IPRU*

- (INS) Appendix 9.16 that most closely reflects its underlying composition.
- (c) Whether apportioned under (a) or allocated under (b), a consistent approach must be taken to reporting:
 - (i) the progress of a treaty in subsequent years; and
 - (ii) substantially similar *insurance business* in subsequent years.
 - (d) Where a different policy is subsequently followed a suitable explanatory note must be provided.
- (3) If, during the financial year in question, the *Society* has agreed to, or carried out, a material connected party transaction, it must provide a brief description of that transaction by way of a supplementary note to the *Lloyd's Return*.
- (4) The description to be provided under *IPRU(INS) 9.49 (3)* must state:
- (a) the names of the transacting parties;
 - (b) a description of the connection between the parties;
 - (c) a description of the transaction;
 - (d) the amounts involved;
 - (e) any other elements of the transaction needed for an understanding of its effect or potential effect upon the financial position of the *Society*; and
 - (f) amounts written off in the period in respect of debts due to or from transacting parties which are connected parties.
- (5) Transactions with the same connected party may be disclosed on an aggregated basis unless separate disclosure is needed for a proper understanding of the effect of the transactions upon the financial position of the *Society*.
- (6) The *Society* must annex to the *Lloyd's Return* a copy of each statement completed by a *managing agent* under *IPRU(INS) 9.60 (7)*.
- (7) For the purposes of the *Lloyd's Return* and *IPRU(INS) 9.49 (6)*, the *Society* must, for each statement annexed, identify the *syndicate* to which the *contract of insurance* or 'financing arrangement' relates.

Risk groups for general insurance business

- 9.50 (1) The *Society* must for the purposes of reporting under this chapter:
- (a) classify the direct and facultative *general insurance business* of *members* according to appropriate risk groups; and

- (b) where the risks are material, complete a separate Form 34 in *IPRU(INS)* Appendix 9.11 for each group.
- (2) The *Society* must not include:
- (a) policies falling within *classes* 14, 15, 16, 17 or 18 within the same risk group as policies falling within any other *class*, except that policies falling within *class* 14 may be included in the same risk group as policies falling within *class* 15; or
 - (b) policies in respect of private motor car risks, within the same risk group as policies in respect of other risks falling within accounting class 2 as set out in *IPRU(INS)* Appendix 9.16; or
 - (c) policies in respect of comprehensive private motor car risks, within the same risk group as policies in respect of non-comprehensive private motor car risks; or
 - (d) policies transferred to *members* by way of a transfer under section 111 of the Act (Sanction of the court for business transfer schemes), within the same risk group as other policies.
- (3) The *Society* must give the *FSA* notice of proposed changes to the definition or classification of the risk groups in *IPRU(INS)* 9.50 (1), sufficient to allow the *FSA* properly to assess the implications of the proposals.

Major treaty reinsurers

- 9.51 (1) The *Society* must, in connection with the *general insurance business* carried on by *members*, include in the *Lloyd's Return* a statement of major treaty reinsurers.
- (2) A major treaty reinsurer is any insurance company to which in the *financial year* in question or any of the five preceding *financial years*:
- (a) in the case of proportional reinsurance, 2% or more of the gross premiums receivable in respect of *general insurance business* of the *members* in aggregate has been ceded; or
 - (b) in the case of non-proportional reinsurance, 5% or more of the gross premiums receivable in respect of *general insurance business* has been ceded.
- (3) The statement required under *IPRU(INS)* 9.51 (1) must include:
- (a) the full name of each major treaty reinsurer;
 - (b) the amount of the reinsurance premiums payable in the *financial year* to each such reinsurer;
 - (c) whether and if so how the reinsurer was connected to any *member* or any *managing agent*;

- (d) the amount of any debt of each such reinsurer included at line 75 of Form 13 in *IPRU(INS)* Appendix 9.11;
- (e) the amount of any deposit received from each such reinsurer under reinsurance treaties included at line 31 of Form 15 in *IPRU(INS)* Appendix 9.11; and
- (f) the reinsurers' share of *technical provisions* shown on Form 13 in *IPRU(INS)* Appendix 9.11 except that in respect of claims incurred but not reported, such recoveries need only be included to the extent that they are in respect of specific occurrences for which provisions have been allocated;

or, as the case may be, a statement that having aggregated the reinsurance ceded by *members* no reinsurer is a major treaty reinsurer.

- (4) The requirements of *IPRU(INS)* 9.51 (1), *IPRU(INS)* 9.52 (1) and *IPRU(INS)* 9.53 (1) may be satisfied by giving a fair view and making use of an appropriate degree of approximation. The *Society* may employ any reasonable methods to establish the information required.

Major facultative reinsurers

- 9.52 (1) The *Society* must, in connection with the *general insurance business* carried on by *members*, include in the *Lloyd's Return* a statement of major facultative reinsurers.
- (2) A major facultative reinsurer is an insurance company to which or with respect to which:
 - (a) 0.5% or more of the gross premiums *receivable* in respect of *general insurance business* of the *members* in aggregate has been ceded; or
 - (b) the addition of the amounts in items (d) and (e) of *IPRU(INS)* 9.51 (3) produces an amount exceeding 1% of the aggregate gross assets of *members*.
- (3) The statement required under *IPRU(INS)* 9.52 (1) must include the matters listed in *IPRU(INS)* 9.51 (3), with appropriate amendments.

Major reinsurance cedants

- 9.53 (1) The *Society* must, in connection with the *general insurance business* carried on by *members*, include in the *Lloyd's Return* a statement of major reinsurance cedants.
- (2) A major reinsurance cedant is an insurance company which in the *financial year* in question or any of the three preceding *financial years*:
 - (a) cedes an amount which exceeds 5% of the gross premiums *receivable* by *members* in respect of *general insurance business* accepted under reinsurance treaties; and

- (b) cedes an amount which exceeds 2% of the gross premiums *receivable* by *members* in respect of *general insurance business*.
- (3) The statement required under *IPRU(INS) 9.53 (1)* must include the matters listed in *IPRU(INS) 9.51 (3)*, with appropriate amendments.

Derivative contracts

- 9.54 (1) The *Society* must annex a statement to the *Lloyd's Return* comprising a brief description of:
- (a) any *byelaws* and guidelines issued by the *Society* governing the use of *derivative* contracts;
 - (b) any provision in those guidelines governing the use of contracts under which *members* have a right or obligation to acquire or dispose of assets which was not, at the time when the contract was entered into, reasonably likely to be exercised and the circumstances in which, pursuant to that provision, such contracts may be used;
 - (c) the extent to which *members* were during the *financial year* a party to any contracts of the kind described in (b);
 - (d) the extent to which any of the amounts recorded in Form 13 would be changed if assets which *members* had a right or obligation to acquire or dispose of under *derivative* contracts outstanding at the end of the *financial year* (being, in the case of *options*, only those *options* which it would have been prudent to assume would be exercised) had been acquired or disposed of;
 - (e) the difference between (d) and the amount which would result under (d) if such *options* had been exercised and this were reflected in Form 13 to the maximum extent;
 - (f) how different the information provided pursuant to (d) and (e) would have been if, instead of applying to contracts outstanding at the end of the *financial year*, (d) and (e) had applied to *derivative* contracts outstanding at such other time during the *financial year* as would have changed the amounts in Form 13 to the maximum extent;
 - (g) the maximum loss which would be incurred by *members* on the failure by any one other person to fulfil its obligations under *derivative* contracts outstanding at the end of the *financial year*, both under existing market conditions and in the event of other foreseeable market conditions, together with an assessment of whether such maximum loss would have been materially different at any other time during the *financial year*;
 - (h) the circumstances surrounding the use of any *derivative* contract held at any time during the *financial year* which did not fulfil the criteria in *INSPRU 4.2.5 R*; and

- (i) the total value of any fixed consideration received by *members* (whether in cash or otherwise) during the *financial year* in return for granting rights under *derivative* contracts and a summary of contracts under which such rights have been granted.
- (2) For the purposes of *IPRU(INS) 9.54 (1)*, if *members* are a party to:
- (a) a *contract for differences*; or
 - (b) any other contract which is to be, or may be, settled in cash they must be treated as having a right or obligation to acquire or dispose of the assets underlying the contract.

General insurance business ceded

- 9.55 (1) The *Society* must annex to the *Lloyd's Return* a statement:
- (a) of each major treaty reinsurer and major facultative reinsurer; and
 - (b) for each of the realistic disaster scenarios set by the *Society* when fulfilling its obligations under *INSPRU* and *GENPRU* to monitor aggregation of risk within the Lloyd's market of the contribution it is assumed each such reinsurer would provide in the event of that disaster occurring.

The Society

- 9.56 (1) The *Society* must annex to the *Lloyd's Return* a statement naming each individual who has served:
- (a) on the *Council*;
 - (b) as Chairman of the *Council*; and
 - (c) as Chief Executive Officer of the *Society*;

at any time during the *financial year*, including in each case the dates of commencement or end of service (as the case may be) of any individual who has not served for the entire year.

Capacity controlled

- 9.57 (1) The *Society* must annex to the *Lloyd's Return* a statement identifying any *members*, *members' agents* or *managing agents* that control a significant share of the underwriting capacity of the *Society*.
- (2) To control a significant share means:
- (a) in relation to a *managing agent*, managing, directing through one or more Members' Agent Pooling Arrangements or owning, whether directly or in conjunction with *connected persons*, capacity which in aggregate is greater than 5% of the total underwriting capacity of the *Society*;

- (b) in relation to a *members' agent*, directing through one or more Members' Agent Pooling Arrangements or owing, whether directly or in conjunction with *connected persons*, underwriting capacity which in aggregate is greater than 2.5% of the total underwriting capacity of the *Society*; and
- (c) in relation to a member, owning, whether directly or in conjunction with *connected persons*, underwriting capacity which, in aggregate, is greater than 2.5% of the total underwriting capacity of the *Society*.

Certificates and audit report

9.58 (1) Certificates

The *Society* must annex to the *Lloyd's Return*:

- (a) a certificate from the *Council*, including the statements required by *IPRU (INS)* Appendix 9.12;
- (b) a statement from the *Lloyd's actuary*, including the statements required by *IPRU (INS)* Appendix 9.13;
- (c) a certificate from the *syndicate actuary* of each *syndicate* which carries on *long-term insurance business*, including the statements required by *IPRU (INS)* Appendix 9.14, and;
- (d) an abstract from the *syndicate actuary* of each *syndicate* which carries on *long-term insurance business* of the *actuary's* report made under *SUP* 4.6.14G.

(2) Audit report

The *Society* must ensure that the *Lloyd's Return* and every document annexed to or provided with it has been examined by the *Society's* auditors and must provide with the *Lloyd's Return* an audit certificate in respect of that examination.

- (3) The certificate in *IPRU(INS)* 9.58 (2) must be in the form set out in *IPRU(INS)* Appendix 9.15.

Public disclosure

9.59 (1) The *Society* must provide within a period not exceeding 30 days:

- (a) on demand to any *member* or policyholder a copy of the *Lloyd's Return* and the *global account* most recently submitted to the *FSA*; and
- (b) if specifically requested by a *member* or policyholder, a copy of any *syndicate* account submitted to the *FSA*.

Syndicate-level reporting

- 9.60 (1) Each *managing agent* must:
- (a) prepare a return for each *financial year* in respect of the *insurance business* carried on through each *syndicate* managed by it; and
 - (b) provide the return in (a) to the *Society* as soon as practicable after the end of the financial year but in any event in time to enable the *Society* to report to the *FSA* in accordance with *IPRU(INS) 9.48 (1)*.
- (2) The *Society* must:
- (a) issue instructions to *managing agents* setting out the form and content of the return under *IPRU(INS) 9.60 (1)*; and
 - (b) issue the instructions in (a) as soon as practicable but in any event in time to enable *managing agents* to comply with *IPRU(INS) 9.60 (1)*.
- (3) A *managing agent* must annex to each return which it prepares under *IPRU(INS) 9.60 (1)*, a certificate signed by the persons referred to in *IPRU(INS) 9.60 (4)*, including the statements required by *IPRU(INS) Appendix 9.17*.
- (4) The certificate in *IPRU(INS) 9.60 (3)* must be signed by:
- (a) where there are more than two *directors* of the *managing agent*, at least two of those *directors* and, where there are not more than two *directors*, all the *directors*; and
 - (b) a *chief executive*, if any, of the *managing agent* or (if there is no *chief executive*) the secretary.
- (5) A *managing agent* must ensure for each *syndicate* managed by it that the return required under *IPRU(INS) 9.60 (1)* is examined and reported on by the *syndicate* auditor.
- (6) A *managing agent* must annex to each return required under *IPRU(INS) 9.60 (1)* an audit certificate provided by the *syndicate* auditor including the statements required by *IPRU(INS) Appendix 9.18*.
- (7) A *managing agent* must annex to each return which it prepares under *IPRU(INS) 9.60 (1)* a statement of the information required by *IPRU(INS) rule 9.32A*, as if in that *rule* references to:
- (a) ‘*insurer*’ were to the *members* carrying on *insurance business* through the relevant *syndicate*;
 - (b) the ‘*return*’ were to the return required to be prepared by it in respect of the business carried on through the relevant *syndicate* under *IPRU(INS) 9.60 (1)*
 - (c) the ‘*insurer’s* balance sheet’ were to the *syndicate* balance sheet;

- (d) the ‘*insurer’s capital resources*’ were to the *capital resources* managed by or at the direction of the *managing agent* in respect of the *insurance business* carried on through the relevant *syndicate*; and
- (e) the ‘*insurer’s total technical provisions*’ were to the *technical provisions* in respect of the *insurance business* carried on through the relevant *syndicate*.

The Central Fund

- 9.61 (1) The *Society* must give the *FSA* a report on the *Central Fund* as at the end of each calendar quarter.
- (2) The report referred to in *IPRU(INS) 9.61 (1)* must reach the *FSA* within two weeks of the end of each calendar quarter and must include information on:
- (a) the net market value of the *Central Fund*;
 - (b) payments made from the *Central Fund* in that quarter;
 - (c) the types of investment in which the *Central Fund* is held;
 - (d) the commencement or cessation of, or any changes in the terms of, any insurance policy taken out to protect the *Central Fund*; and
 - (e) any claim made, or circumstances notified that are likely to lead to a claim, under any insurance policy taken out to protect the *Central Fund*.

Information about the capacity transfer market

- 9.62 (1) The *Society* must give the *FSA* a report as at the end of each calendar quarter in which any capacity is transferred.
- (2) The report referred to in *INSPRU 8.4.3 R* must reach the *FSA* within one month of the end of the relevant calendar quarter and must include information on:
- (a) the total capacity in *syndicates* transferred during the quarter, analysed by *syndicate* and method of transfer;
 - (b) the number, and nature, of all investigations by the *Society* into conduct in the *capacity transfer market* undertaken or continued during the quarter; and
 - (c) the number, and nature, of all complaints received during the quarter about the operation of the *capacity transfer market*.

Guidance

- 9.63 (1) *IPRU(INS)* Chapter 9 Part VII requires the *Society* to report on the *insurance business* carried on by *members* and on the assets and liabilities of *members* and the *Society*, and requires reports from the *Society* on the *Central Fund* and the *capacity transfer market*. It also requires *managing agents* to report on the *insurance business* carried on through each *syndicate* they manage. Reporting at syndicate level is required to enable the *Society* to prepare the *Lloyd's Return*. The statements required to be annexed to the return by *IPRU(INS)* 9.60 (7) should not be included in the audit under *IPRU(INS)* 9.49 (6).
- (2) The *Lloyd's Return* is made annually and contains the statement required from the *Society* that *capital resources* at least equal to the *capital resources requirements* for *general insurance business* and *long-term insurance business* under *GENPRU 2* have been maintained at all times throughout the *financial year*.
- (3) For *general insurance business*, the *capital resources requirement* for the *Society* is the higher of the aggregate of the *members' capital resources requirements* for *general insurance business*, calculated in accordance with *GENPRU 2.3.5 R*, and the *Society GICR*. For *long-term business*, the *capital resources requirement* for the *Society* is the aggregate of the *members' capital resources requirements*, calculated in accordance with *GENPRU 2.3.7 R*. The *Society* is required to ensure that each *member's capital resources requirement* is covered by that *member's capital resources*, or, where there is a shortfall in the *member's capital resources*, by the *Society's own capital resources*. For *general insurance business*, the *Society* must ensure that the *Society GICR* is covered by the aggregate *capital resources* supporting the *insurance business* of all the *members*.
- (4) Where appropriate, the *Society* is also required to modify prudential reporting to make it more like that of an *insurer*. This is to aid comparisons between *Lloyd's* and *insurers*.
- 9.64 The *Society* should make the report referred to in *IPRU(INS)* 9.48 (1), including amendments and corrections, and amalgamated *syndicate* accounts available at its head office for inspection by policyholders and potential policyholders and *members*.
- 9.65 (1) In assessing what are appropriate risk groups for reporting purposes the *Society* should ensure where possible that:
- (a) each risk group should include only risks from within a single accounting class and in relation to a single country;
 - (b) policies are not included in the same risk group where, having regard to the patterns of risk, *claims* incurrence and settlement patterns, it is necessary to group them separately for the purposes of applying statistical methods in calculating the provision for *claims* outstanding in accordance with generally accepted accounting practice; and
 - (c) claims-made policies are not included in the same risk group as policies which are not claims-made policies, except:

- (i) where this is not possible without disproportionate expense; and
 - (ii) where the policies within the risk group do not exhibit materially different characteristics.
 - (2) Subject to *IPRU(INS) 9.50 (2)(a)* and *IPRU(INS) 9.50 (2)(b)* and *IPRU(INS) 9.65 (1)(c)*, the *Society* may in respect of any accounting class include all *insurance business* carried on by *members* in any country in any *financial year* as a single risk group.
 - (3) Notwithstanding the provisions of *IPRU(INS) 9.50 (2)(a)* and *IPRU(INS) 9.50 (2)(b)* and *IPRU(INS) 9.65 (1)(c)*, the *Society* may classify all *insurance business* carried on by *members* in any country in respect of any accounting class in any financial year as a single risk group, as long as gross premiums written for that year in respect of that *insurance business* are less than 5% of the world-wide gross premiums written for all accounting *classes* for that year.
 - (4) The requirements to report a separate risk group in *IPRU(INS) 9.50 (2)(a)* do not apply where, in the case of any *financial year*, the gross premiums receivable for that year in respect of that risk group would be less than £1million.
- 9.66 The *Society* should be treated as if it were a major treaty reinsurer when *inter-syndicate reinsurance* in aggregate exceeds the amounts set out in *IPRU(INS) 9.51 (2)*
- 9.67 The *Society* should be treated as if it were a major facultative reinsurer when *inter-syndicate reinsurance* in aggregate exceeds the amounts set out in *IPRU(INS) 9.52 (2)*.
- 9.68 The *Society* should be treated as if it were a major reinsurance cedant when *inter-syndicate cessions* in aggregate exceed the amounts set out in *IPRU(INS) 9.53 (2)*.
- 9.69 In relation to required disclosures of *derivative* contracts in *IPRU(INS) 9.54 (1)*, references to a *derivative* contract and related expressions should be taken to include:
- (1) any *derivative* contract entered into by a *managing agent* on behalf of a *member* as part of that *member's insurance business*; and
 - (2) any *derivative* contract entered into by the *Society*.
- 9.70 Contracts that are *quasi-derivative contracts* should be treated as *derivative* contracts.
- 9.71 The requirements of *IPRU(INS) 9.55(1)* may be satisfied by giving a fair view and may make use of an appropriate degree of approximation. The *Society* may employ any reasonable methods to establish the information required. The *Society* may also include such explanation as it considers to be necessary to allow a reasonable interpretation to be put on this statement.

- 9.72 (1) Because of the significance of the *Central Fund* in the protection of policyholders, the *Society* should notify the *FSA* under *IPRU(INS)* 9.61 (2)(e) of all matters relevant to any actual or potential claim. These include but are not limited to the facts on which that claim is based, the circumstances under which those facts arose and any relevant response to the claim from any *insurer* or reinsurer concerned.
- (2) The report referred to in *IPRU(INS)* 9.61 (1) must be submitted in writing in accordance with *SUP* 16.3.7 to *SUP* 16.3.10 (see *SUP* 16.3.6).

Appendix 9.11

Reporting forms

1. This appendix consists only of one or more forms or templates. Forms and templates are to be found through the 'Forms' link under Useful Links section at www.fsahandbook.info or on the Handbook CD-ROM.

Appendix 9.12 (rule IPRU (INS) 9.58 (1)(a))

Certificate by the Council

1	Subject to 5, the certificate required by <i>IPRU (INS) 9.58 (1)</i> must state:	
	(a)	in relation to Forms 9 to 17, 20 to 42, the supplementary notes to the forms and the statements required under <i>IPRU (INS) 9.51 (1)</i> , <i>IPRU (INS) 9.52 (1)</i> and <i>IPRU (INS) 9.53 (1)</i> , <i>IPRU (INS) 9.54 (1)</i> , <i>IPRU (INS) 9.57 (1)</i> , that:
	(i)	the <i>Lloyd's Return</i> has been prepared in accordance with <i>IPRU (INS) Chapter 9 Part VII</i> , <i>INSPRU</i> and <i>GENPRU</i> ;
	(ii)	proper accounting records have been maintained and adequate information has been obtained by the <i>Society</i> ; and
	(iii)	an appropriate system of control has been established and maintained by the <i>Society</i> over its transactions and records;
	(b)	that, as applicable, the assets held by <i>members</i> throughout the <i>financial year</i> in question enabled the <i>Society</i> to comply with <i>INSPRU 1.1.30R</i> (Localisation (UK firms only)) and <i>INSPRU 1.1.34R</i> (Matching of assets and liabilities); and
	(c)	in relation to the statement required by <i>IPRU (INS) 9.58 (1)(b)</i> to be made by the <i>Lloyd's actuary</i> , that:
	(i)	for the purpose of preparing the statement, proper accounts and records have been maintained; and
	(ii)	the information given has been ascertained in conformity with <i>IPRU (INS) 9.58 (1)</i> .
2	Subject to 5, the certificate required by <i>IPRU (INS) 9.58 (1) (a)</i> must state that <i>capital resources</i> at least equal to the <i>capital resources requirements</i> under <i>GENPRU 2</i> , have been maintained at all times during the <i>financial year</i> in question.	
3	Subject to 5, the certificate required by <i>IPRU (INS) 9.58 (1)(a)</i> must also state in relation to the <i>long-term insurance business</i> carried on by <i>members</i> :	
	(a)	that the requirements of <i>INSPRU 1.5.18R</i> to <i>INSPRU 1.5.33R</i> have been fully complied with and in particular that, subject to the provisions of <i>INSPRU 1.5.27R</i> assets attributable to <i>long-term insurance business</i> , the income arising, the proceeds of any realisation of such assets and any other income or proceeds allocated to the <i>long-term insurance fund</i> or <i>funds</i> have not been applied otherwise than for the purpose of the <i>long-term insurance business</i> ;
	(b)	that all guarantees given by a <i>member</i> of the performance by a related <i>insurer</i> which would fall to be met by any <i>long-term insurance fund</i> have been disclosed in the <i>Lloyd's Return</i> , and that the fund or funds on which each of those guarantees would fall has been identified in it;

	(c)	that the return in respect of <i>long-term insurance business</i> is not distorted by agreements between the <i>members</i> concerned or by any arrangements which could affect the apportionment of expenses and income; and
4	Subject to 5, where the <i>Council</i> is satisfied that:	
	(a)	the systems of control established and maintained by <i>managing agents</i> complied, at the end of the <i>financial year</i> in question, with any relevant guidance and it is reasonable to believe that those systems continued so to comply and will continue to so comply; or
	(b)	the <i>Lloyd's Return</i> has been prepared in accordance with any relevant guidance; this must be so stated, by listing that guidance, in the certificate required by <i>IPRU (INS) 9.58 (1)(a)</i> .
5	Where, in the opinion of those signing the certificate, the circumstances are such that any of the statements required by 1 to 4 cannot truthfully be made, the relevant statements must be omitted.	
6	Where, by virtue of 5, any statements have been omitted from the certificate this fact must be stated in a note.	

Appendix 9.13 (rule IPRU (INS) 9.58 (1)(b))

Statement by the Lloyd's actuary

1	The statement required by <i>IPRU (INS) 9.58 (1)(b)</i> must be prepared and signed by the <i>Lloyd's actuary</i> , and must:		
	(a)	state whether, for every <i>syndicate year</i> in which members carry on <i>general insurance business</i> either:	
		(i)	the <i>syndicate actuary</i> has provided an unqualified opinion, which:
			(1) is in a form conforming to guidance from the <i>actuarial bodies</i> ; and
			(2) confirms that the <i>technical provisions</i> set by the <i>managing agent</i> are at least equal to the <i>syndicate actuary's</i> best estimate; or
		(ii)	the <i>Lloyd's actuary</i> has set the <i>technical provisions</i> (both gross and net of reinsurance recoveries); and
	(b)	describe any source of uncertainty in the liabilities covered by the <i>technical provisions</i> , which in his opinion is material to the <i>Society</i> as a whole:	
		(i)	which any <i>syndicate actuary</i> mentions in his opinion; or
		(ii)	which affects any <i>syndicate year</i> for which the <i>Lloyd's actuary</i> has set the <i>technical provisions</i> .
2	If the <i>Lloyd's actuary</i> has set the <i>technical provisions</i> for any <i>syndicate year</i> , the statement must include an opinion covering those <i>technical provisions</i> , which:		
	(a)	confirms that they are at least equal to his best estimate; and	
	(b)	is in a form conforming to guidance for <i>syndicate actuaries</i> from the <i>actuarial bodies</i> , modified to show:	
		(i)	that he is retained by the <i>Society</i> and not the <i>managing agent</i> ;
		(ii)	that he, and not the <i>managing agent</i> , set the <i>technical provisions</i> ; and
		(iii)	separately, the <i>technical provisions</i> of each <i>syndicate year</i> covered.
3	If the <i>Lloyd's actuary</i> considers it necessary, such qualification, amplification or explanation as may be appropriate must be added to the statement.		

Appendix 9.14 (rule IPRU (INS) 9.58 (1))

Certificate by syndicate actuary

1	The certificate required by <i>IPRU (INS) 9.58 (1)(c)</i> to be signed by the <i>syndicate actuary</i> appointed to a <i>syndicate</i> in which <i>members</i> carry on <i>long-term insurance business</i> must state:	
	(a)	whether in his opinion, proper records have been kept by the <i>managing agent</i> adequate for the purpose of the valuation of the liabilities of the <i>syndicate</i> ;
	(b)	whether the sum of the <i>mathematical reserves</i> and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the <i>financial year</i> for the <i>long-term insurance liabilities</i> where these liabilities:
	(i)	include any increase in liabilities arising from a distribution of surplus as a result of an investigation as at the end of the <i>financial year</i> into the financial condition of the <i>long-term insurance business</i> ; and
	(ii)	include all liabilities arising from <i>deposit back arrangements</i> ;
		but exclude liabilities which had fallen due before the end of the <i>financial year</i> , other than those arising from deposit back arrangements;
	(c)	whether the liabilities have been valued in accordance with <i>INSPRU</i> and <i>GENPRU</i> in the context of assets valued in accordance with <i>GENPRU</i> , as shown in Form 14;
	(d)	by way of a list, the professional guidance that has been complied with;
	(e)	whether in his opinion, premiums for contracts entered into during the <i>financial year</i> and the income earned on them are sufficient on reasonable actuarial assumptions, taking into account other financial resources of the <i>members</i> and the <i>Society</i> that are available for the purpose, to enable the <i>members</i> to meet their commitments and, in particular, to establish adequate <i>mathematical reserves</i> ; and
	(f)	whether the amounts in Form 60 are accurate.
2	If the <i>syndicate actuary</i> considers it necessary, such qualification, amplification or explanation as may be appropriate must be added to the certificate.	

Appendix 9.15 (rule IPRU (INS) 9.58 (3))

Auditors' report

1	The certificate required by <i>IPRU (INS) 9.58 (2)</i> must, in addition to any statement required by section 237(2) and (3) of the Companies Act, state:	
	(a)	that in the auditors' opinion, Forms 9 to 17, 20 to 42, the supplementary notes to the forms and the statements required under <i>IPRU (INS) 9.51 (1)</i> , <i>IPRU (INS) 9.52 (1)</i> , <i>IPRU (INS) 9.53 (1)</i> and <i>IPRU (INS) 9.54 (1)</i> have been properly prepared in accordance with <i>IPRU (INS) Chapter 9 Part VI</i> , <i>INSPRU</i> and <i>GENPRU</i> ;
	(b)	that according to the information and explanations that the auditors have received:
	(i)	in their opinion, the certificate required to be signed in accordance with <i>IPRU (INS) 9.58 (1)(a)</i> , otherwise than in relation to statements to which paragraph 1(c) of this table relates, has been properly prepared in accordance with <i>IPRU (INS) Chapter 9 Part VII</i> , <i>INSPRU</i> and <i>GENPRU</i> ; and
	(ii)	subject to paragraph 1(c), it was or was not unreasonable for the persons giving the certificate to have made the statements in it (other than statements to which paragraph 1(c) relates); and
	(c)	the extent to which, in giving their opinion, the auditors have relied:
	(i)	in respect of financial information supplied to the <i>Society</i> by <i>managing agents</i> on behalf of <i>syndicates</i> , on work carried out by <i>syndicate auditors</i> ; and
	(ii)	in respect of <i>long-term insurance business</i> carried on by <i>members</i> , on the certificates of the <i>syndicate actuaries</i> given in accordance with the requirements of <i>IPRU (INS) Chapter 9 Part VII</i> , <i>INSPRU</i> and <i>GENPRU</i> with respect to the amounts in Form 60.
2	The audit opinion required by 1(b)(i) does not extend to cover the statements required under:	
	(a)	<i>IPRU (INS) 9.55 (1)</i> and ; and <i>IPRU (INS) 9.57 (1)</i>
	(b)	<i>IPRU (INS) Appendix 9.12 1(d)</i> , but only in so far as it relates to relevant guidance which either states that compliance with the guidance need not be audited or which relates to controls with respect to money laundering.
3	To the extent that the information and explanations they have received do not allow the auditors to express an opinion on whether it was or was not unreasonable for the <i>Council</i> to have made the statement required by <i>IPRU (INS) Appendix 9.12 1(a)(iii)</i> the auditors must add to their report such qualification, amplification or explanation as may be appropriate.	

4	Where the auditors refer in their report or in any note attached to their report to any uncertainty, the report must state whether, in the auditors' opinion, that uncertainty is material to determining whether the <i>Society</i> is able to meet the solvency requirements of <i>IPRU (INS)</i> Chapter 9 Part VII, <i>INSPRU</i> and <i>GENPRU</i> .
---	---

Appendix 9.16 (rule IPRU (INS) 9.49 (1)(b))

Accounting classes

1	For the purposes of <i>IPRU (INS)</i> Chapter 9 Part VII, the accounting classes for <i>general insurance business</i> are those set out in the following table:
---	--

Accounting class	Description	Corresponding classes of <i>general insurance business</i>
1	Accident and health	1 (other than 1(p) and 2
2	Motor	1(p), 3 and 10
3	Aviation	1(p), 5 and 11
4	Marine	1(p), 6 and 2
5	Transport	7
6	Property	4, 8, and 9
7	Third-party liability	13
8	Miscellaneous and pecuniary loss	14, 15, 16, 17 and 18
9	Non-proportional treaty	
10	Proportional treaty	
11	Marine, aviation and transport treaty	

Appendix 9.17 (rule IPRU (INS) 9.60 (3))

1	The certificate in <i>IPRU(INS) 9.60 (3)</i> must state that:	
	(a)	the return has been properly prepared in accordance with the instructions referred to in <i>IPRU(INS) 9.60 (2)</i> ;
	(b)	proper accounting records have been maintained and adequate information has been obtained by the <i>managing agent</i> ;
	(c)	an appropriate system of control has been established and maintained by the <i>managing agent</i> over the <i>syndicate's</i> transactions and records;
	(d)	in relation to the statement by the <i>syndicate actuary</i> of a <i>syndicate</i> carrying on <i>long-term insurance business</i> required by <i>IPRU(INS) 9.58 (1)(c)</i> :
	(i)	proper accounts and records have been maintained for the purpose of preparing the statement; and
	(ii)	the information given has been ascertained in conformity with <i>IPRU(INS) Appendix 9.14</i> .

Appendix 9.18 (rule IPRU (INS) 9.60 (7))

1	The certificate in <i>IPRU(INS) 9.60 (7)</i> must state:	
	(a)	that in the auditors' opinion, the return has been properly prepared in accordance with the instructions referred to in <i>IPRU(INS) 9.60 (2)</i> ;
	(b)	that according to the information and explanations that the auditors have received:
	(i)	in their opinion, the certificate required to be signed in accordance with <i>IPRU(INS) 9.60 (3)</i> (other than statements to which paragraph 1(c) relates) has been properly prepared in accordance with the instructions; and
	(ii)	it was or was not unreasonable for the <i>persons</i> giving the certificate to have made the statements in it (other than statements to which paragraph 1(c) relates);
	(c)	the extent to which, in giving their opinion, the auditors have relied, in respect of <i>long-term insurance business</i> , on the work of the <i>syndicate actuary</i> .
2	The audit opinion required by paragraph 1 does not extend to cover information on major treaty reinsurers or major facultative reinsurers.	
3	To the extent that the information and explanations they have received do not allow the auditors to express an opinion as to whether it was or was not unreasonable for the persons giving the certificate required to be signed in accordance with <i>IPRU(INS) 9.60 (3)</i> to have made the statements therein, the auditors must add to their report such qualification, amplification or explanation as may be appropriate.	

Annex H

Amendments to the Interim Prudential sourcebook for Investment Businesses

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend IPRU(INV) as follows:

Contents

Chapter

1 ...

...

7 UCITS Management Firms

...

Transitional provisions

1. Table Transitional provisions applying to IPRU(INV)

(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.	IPRU (INV) Chapter 7	R	[Deleted: material moved to UPRU]	[Deleted: material moved to UPRU]	[Deleted: material moved to UPRU]
2.	<i>The provisions of IPRU(INV) added by the Interim Prudential Sourcebook for Investment firms (Market Risk)</i>	R	[Deleted]	[Deleted]	[Deleted]

	<i>Instrument 2004</i>				
--	----------------------------	--	--	--	--

1 Chapter 1: Application and General Provisions

1.1 Purpose

1.1.1 G Before 1 January 2007, the Interim Prudential Sourcebook for Investment Businesses (*IPRU (INV)*) sets out the detailed financial resources and prudential standards which the *FSA* applies to certain *firms* on an interim basis pending the introduction of a single prudential sourcebook applying to all *firms* regulated by the *FSA* – (the Integrated Prudential Sourcebook) was the part of the *Handbook* that dealt with capital requirements for *investment firms* subject to the position risk requirements of the previous version of the *Capital Adequacy Directive*. Now however, *investment firms* which are subject to the risk-based capital requirements of the *Capital Adequacy Directive* are subject to the General Prudential sourcebook (*GENPRU*) and the Prudential sourcebook for Banks, Building Societies and Investment Firms (*BIPRU*). However the *FSA* has not yet removed the parts of *IPRU (INV)* that deal with requirements for *firms* subject to risk-based capital requirements of the previous version of the *Capital Adequacy Directive*. Consequently, many provisions of *IPRU (INV)* will not apply to any *firm*. The *FSA* intends to remove these provisions in due course.

...

1.1.3A G This sourcebook does not apply to *BIPRU investment firms* except as provided in chapter TP of *BIPRU* applying parts of *IPRU (INV)* to certain *BIPRU investment firms* on a transitional basis.

...

1.1.6 G The *Supervision manual* sets out provisions relating to the periodic reporting and notification of financial information to the *FSA* or to the auditing of accounts. However, this sourcebook contains a few additional notification requirements (*notification rules*) arising out of EU Directives.

1.2 APPLICATION

1.2.1 ...

1.2.2 R (1) *IPRU (INV)* applies to:

(a) ...

...

(g) the *Society of Lloyd's* (in relation to *underwriting agents*); and

(h) a UCITS management company; and

(i) ...

(2) *IPRU (INV)* does not apply to:

- (a) a *lead regulated firm*; ~~or~~
- (b) a *media firm*; or
- (c) a *BIPRU investment firm*.

(3) ...

1.2.3 G For the avoidance of doubt, *IPRU (INV)* does not apply to any of the following:

- (a) ...
- ...
- (g) a *UCITS qualifier*; or
- (h) a *UCITS management company*.

...

1.2.5 R Table

This table belongs to IPRU (INV) 1.2.34R

...	...
<i>UCITS management company</i>	Chapters 1 and 7
...	...

...

3 Chapter 3: Financial resources for Securities and Futures Firms which are not Investment Firms

...

3-166(3) R ...

G Stock financing is defined under the ~~Capital Adequacy Directive~~ *Capital Adequacy Directive*. Where physical stock has been sold forward, the cost of funding must be locked in until the date of the forward *sale*.

...

Models approach

3-169A G ...

G The *FSA* will grant a modification or waiver permitting the use of a VaR model only where a number of qualitative and quantitative standards are met. In assessing the VaR model the *FSA* will have regard to the matters set out in ~~Chapter TV of IPRU (BANK)~~ *BIPRU 7.10*.

...

~~Consolidated Supervision~~

~~Scope of test~~

3-190(1) R [Deleted]

3-190(2) R [Deleted]

G [Deleted]

3-190(3) R [Deleted]

3-190(4) R [Deleted]

G [Deleted]

~~Constituents of a group~~

3-191(1) R [Deleted]

3-192(2) G [Deleted]

G [Deleted]

~~Exemptions~~

3-192(3) R [Deleted]

~~Group financial resources~~

3-192(4) R [Deleted]

G [Deleted]

~~Group financial resources requirement~~

3-193(1) R [Deleted]

3-193(2) R [Deleted]

3-193(3) R [Deleted]

3-193(4) R [Deleted]

G [Deleted]

3-193(5) G [Deleted]

~~Intra-group offsets and netting~~

3-194 R [Deleted]

~~Exemption from consolidated supervision~~

3-195 R [Deleted]

...

APPENDIX 1 – GLOSSARY OF TERMS FOR IPRU (INV) 3

Delete the following definitions from Appendix 1; the text is not shown struck through:

bank

credit institution

EEA parent

5 CHAPTER 5: FINANCIAL RESOURCES

5.1.1 APPLICATION

...

TABLE 5.1.1(1)(a) APPLICATION OF CHAPTER 5				
...				
Consolidated supervision rules				
5.7.1(1)(b) to 5.7.5(2)	Yes, but only for <i>€AD firms</i>	No	No	No
...				
Consolidated supervision rules				
5.7.1(1)(b) to 5.7.5(2)	No	No	Yes, but only for <i>€AD firms</i>	
...				

...

TRANSITIONAL ARRANGEMENTS

...

Table 5.2.3(3)(b) OWN FUNDS REQUIREMENT	
...	
PART II <i>OWN FUNDS TRANSITIONAL PROVISIONS</i>	
1	[Deleted]

- | | | |
|---|-----|-----------|
| 2 | (a) | [Deleted] |
| | (b) | [Deleted] |
| | (c) | [Deleted] |
| | (d) | [Deleted] |
| 3 | | [Deleted] |
| 4 | | [Deleted] |

...

5.7 CONSOLIDATED SUPERVISION

5.7.1 [Deleted]

5.7.2 [Deleted]

5.7.3 [Deleted]

5.7.4 [Deleted]

5.7.5 [Deleted]

APPENDIX 1 (INTERPRETATION)

GLOSSARY OF TERMS FOR CHAPTER 5 (FORMER IMRO FIRMS)

Amend the following definitions in Appendix 1 as shown:

category b body means:

(a) ...

...

(e) an *investment firm* or *credit institution* authorised in any other country, which applies a financial supervision regime at least equivalent to the ~~Capital Adequacy Directive (No. 93/6/EEC)~~ Capital Adequacy Directive.

exempt exposure means:

(a) ...

...

(g) to a *connected company* provided that the *group* is supervised on a consolidated basis in accordance with the ~~Second Consolidated Supervision Directive~~ Banking Consolidation Directive and the consolidation requirements of the ~~Capital Adequacy Directive (No. 93/6/EEC)~~ Capital

Adequacy Directive; or

- financial resources requirement* (a) ~~(in relation to a UCITS management company)~~ has the meaning given in rule 7.2.1R(2) and (3);
- (b) ~~(in relation to a firm other than one in (a))~~ has the meaning given in rule 5.2.3(1)(a) to (c) (Determination of requirement).
- liquid capital* (a) ~~(in relation to a UCITS management company)~~ means capital calculated in accordance with Table 7.3.1R composed of the specified items set out in that Table;
- (b) ~~(in relation to a firm other than one in (a))~~ has the meaning given in rule 5.2.2(1) (Calculation of own funds and liquid capital).
- otc derivative* means interest rate and foreign exchange contracts covered by Annex III to the previous version of the Banking Consolidation Directive (i.e. Directive (2000/12/EC)) and off balance sheet contracts based on equities which are not traded on a *recognised* or *designated investment exchange* or other exchange where they are subject to daily margin requirements, excluding any foreign exchange contract with an original maturity of 14 calendar days or less.
- own funds* (a) ~~(in relation to a UCITS management company)~~ has the meaning given in Table 7.3.1R composed of the specified items set out in that Table;
- (b) ~~(in relation to a firm other than one in (a))~~ has the meaning given in rule 5.2.2(1) (Calculation of own funds and liquid capital).
- recognised third country investment firm* means an *investment firm* which is authorised in a country other than a *member state* and which is subject to and complies with prudential rules equivalent to the requirements of the ~~Capital Adequacy Directive (No. 93/6/EEC)~~ Capital Adequacy Directive.

Delete the following definitions from Appendix 1; the text is not shown as struck through:

CAD Article 3 exempting criteria

CAD firm

consolidated supervision

contingent liability

credit institution

EEA firm

financial institution

group financial resources

group financial resources requirement

listed activity

7. [Deleted:material moved to UPRU]UCITS MANAGEMENT COMPANIES

10 Chapter 10: Financial resources for Securities and Futures Firms which are Investment Firms

...

10-32(6) R A *firm* which is subject to the waiver from consolidated supervision in accordance with rule ~~10-204~~14.1.4 R is exempt from (5) above.

...

10-60 FIRMS TO WHICH RULES 10-61 TO ~~10-204~~10-196 APPLY

Category A, B and C firms

10-60(1) R Rules 10-61 to ~~10-204~~10-196 apply to a *category A, B or C firm*

...

10-61(7) R A *firm* must deduct the full value of its *material holdings in credit or financial institutions*, in accordance with Table 10-61(1)B, unless:
(a) the *firm* has been granted a waiver from ~~rules 10-200 to 10-203~~IPRU(INV) 14, in which case it must:

- (i) deduct in full from *original own funds* those *material holdings in credit or financial institutions* which would have been included in the scope of consolidation in accordance with rule ~~10-200(3)~~14.2.1R if the waiver had not been granted; and

...

...

10-62(2) R A *firm* must calculate its *financial resources* in accordance with Table 10-62(2)(2)A below, unless:

- (a) it has been granted a waiver from ~~rules 10-200 to 10-203~~IPRU(INV) 14, in which case it must calculate *financial*

resources in accordance with Table 10-62(2)B; or

...

...

10-63 (12) R

...

G

...

G

In respect of (b) above, a *firm* which has been granted a waiver from ~~rules 10-200 to 10-203~~ IPRU(INV) 14 may use the items of capital listed in "E" in Table 10-62(2)B to cover the items in line "F" before it uses *original own funds* to cover the items in line "F".

G

...

...

10-65 (12) R

The liquidity adjustment for a *material holding* in either a *credit* or *financial institution* is:

(a)

...

(b)

for a *firm* which has been granted a waiver from ~~rules 10-200 to 10-203~~ IPRU(INV) 14: 100%, unless it is:

(i)

a *material holding* in a *credit* or *financial institution* which would have been included in the scope of consolidation in accordance with rule ~~10-200(3)~~ 14.2.1 R if the waiver had not been granted, in which case it must be deducted in full from *original own funds*; or

...

...

10-190 (1) R

A *firm* must comply with rules 10-190 to 10-195 on both a solo and consolidated basis, except that a *firm* with a waiver from consolidated supervision in accordance with rule ~~10-204~~ 14.1.4 R or which is exempt under rule ~~10-200(2)~~ 14.1.2 R, must comply with rules 10-190 to 10-195 on a solo basis only and also with rule 10-196.

...

10-192 (1) R

A *firm* may exclude the following from its *LER* calculation and the limits set out in rule 10-193:

(a)

...

...

- (g) if the *firm* first notifies the *FSA* in writing, *exposures* to the *firm's parent, subsidiaries* and other *subsidiaries of its parent*, provided that these entities are subject to consolidated supervision in accordance with ~~rules 10-200 to 10-203~~IPRU (INV) 14;

...

- 10-196 R A *firm* which is exempt from consolidated supervision in accordance with rule ~~10-204~~14.1.4 R must either:
- (a) have in place an *ACMP* which enables the *firm* to monitor its *exposures* on a groups wide basis; or
 - (b) report to the *FSA* all group *large exposures* at the end of each quarter.

~~Consolidated Supervision~~

10-200 ~~[Deleted]~~

~~GROUP FINANCIAL RESOURCES~~

10-201 R ~~[Deleted]~~

10-202 ~~[Deleted]~~

~~INTRA-GROUP OFFSETS AND NETTING~~

10-203 R ~~[Deleted]~~

~~EXEMPTION FROM CONSOLIDATED SUPERVISION~~

10-204 R ~~[Deleted]~~

APPENDIX 1 – GLOSSARY OF TERMS FOR IPRU(INV) 10

Amend the following definition in Appendix 1 as shown:

listed activities ~~means a listed activity within the meaning of the *BCD*, i.e. one or more of the following activities—~~

- (a) ~~lending;~~

- ~~(b) financial leasing;~~
- ~~(c) money transmission services;~~
- ~~(d) issuing and administering means of payment;~~
- ~~(e) guarantees and commitments;~~
- ~~(f) trading for own account or for the account of customers in money market instruments (cheques, bill, CDs, etc);~~
- ~~(g) foreign exchange;~~
- ~~(h) financial *futures* and *options*;~~
- ~~(i) exchange and interest rate instruments; or~~
- ~~(j) transferable *securities*;~~
- ~~(k) *participation* in share issues and the provision of services related to such issues;~~
- ~~(l) corporate finance advice;~~
- ~~(m) moneybroking;~~
- ~~(n) portfolio management and advice; or~~
- ~~(o) safekeeping and administrative of securities;~~

has the meaning set out in the Handbook *Glossary* for *listed activity*.

Delete the following definitions from Appendix 1; the text is not shown struck through:

credit institution

EEA parent

financial institution

oil

oil collective investment scheme

oil investment

oil market investment activities

oil market participant

Chapter 10, Appendix 4: Interest rate PRR

...

DEFINITION OF A QUALIFYING DEBT SECURITY

46 R A debt *security* is a *qualifying debt security* if:

(1) ...

...

(4) it is a mortgage backed *security* relating to residential real estate of the type referred to in BIPRU 3.4.94R(1)(d)(i) which meets the ~~criteria in 7e of section 3.2.5 of chapter BC of IPRU (BANK)~~requirements about legal certainty referred to in BIPRU 3.4.62R.

...

...

Chapter 10, Appendix 10: Use of CAD 1 Model

...

5. G ~~As explained in SUP 8.3.1G, waivers permitting the use of models in the calculation of PRR will not be granted if that would be contrary to the CAD, and any waiver which is granted will only be granted on terms that are compatible with the CAD. The FSA considers it unlikely that it will deviate from this even where the firm making the waiver application is not subject to CAD. Accordingly, It is generally the case that only waivers permitting the use of models that the FSA is likely to grant are CAD1 and VaR models in accordance with the policy in this appendix.~~

...

Chapter 10, Appendix 11: Use of Value at Risk Model

...

2. G The models described in this appendix are described as VaR models in order to distinguish them from the kinds of model originally contemplated by the ~~Capital Adequacy Directive (CAD) previous version of the Capital Adequacy Directive (i.e. Directive 93/6/EEC).~~ (These are covered in Appendix 10 and referred to as "CAD 1 models"). A VaR model is a risk management model which uses a statistical measure to predict profit and loss movement ranges with a confidence interval. ~~The standards described in this appendix, and which will be applied by the~~

~~FSA, are based on and implement Annex VIII of the CAD.~~

...

12. G ~~As explained in SUP 8.3.1G, waivers permitting the use of models in the calculation of PRR will not be granted if that would be contrary to the CAD, and any waiver which is granted will only be granted on terms that are compatible with the CAD. The FSA considers it unlikely that it will deviate from this approach even where the firm making the waiver application is not subject to CAD. Accordingly, It is generally the case that the only waivers permitting the use of models that the FSA is likely to grant are CAD1 and VaR models in accordance with the policy in this appendix.~~

...

Chapter 10, Appendix 63: Guidance on Credit Derivatives

...

REGULATORY CAPITAL TREATMENT

~~... Furthermore, the FSA is constrained by the requirements of the Capital Adequacy Directive, and the associated pieces of legislation; it is possible that what seems a common sense approach could be illegal.~~

...

Offset for capital adequacy purposes

The ~~Capital Adequacy Directive~~ allows the competent authorities to FSA recognises certain offsets for general market risk, but requires that the specific risk charge is applied to gross positions.

...

Risk assessment models

~~In the light of the forthcoming CADII package of directives, f~~Firms may also wish to consider whether to approach the FSA for permission to use an appropriate risk assessment model as the basis for calculating regulatory capital requirements.

...

Netting

A firm may net long and short positions in the same equity, debt and derivative instruments (under ~~Chapter 10 rule 10-8323R~~ of appendix 5 for equities based instruments and ~~rule 10-10237R~~ of appendix 4 for interest rate based products) before the specific risk charge is applied to the resultant net long or short position. Instruments are considered to be the same where the issuer is the same, they have equivalent ranking in liquidation, and the currency, coupon and maturity are the same. These netting criteria are taken from Annex 1 (Position Risk) of the ~~Capital Adequacy Directive ("CAD 1")~~previous version of the Capital Adequacy

Directive (Directive 93/6/EEC).

...

13 Chapter 13: Financial Resource Requirements for Personal Investment Firms

...

~~Alternative to Financial Resources Test 1~~

13.3.3 R ~~[Deleted]~~

13.3.3A R ~~[Deleted]~~

13.3.3B R ~~[Deleted]~~

...

13.7 ~~[Deleted] Consolidated Supervision of Group Companies~~

...

APPENDIX 13(1): Defined terms for Chapter 13

Delete the following definitions from Appendix 13(1); the text is not shown struck through:

bank

credit institution

EEA firm

financial institution

listed activity

14 Chapter 14: Consolidated supervision for investment business

14.1 Application

14.1.1 R Subject to rule 14.1.2, *consolidated supervision* and this chapter apply to a *firm* which is a member of a group if it is:

- (1) ~~a securities and futures firm, subject to the financial rules in Chapter 3, which is a broad scope firm but not a venture capital firm~~ it is:

- (a) a securities and futures firm, subject to the financial rules in Chapter 3, which is a broad scope firm but not a venture capital firm;
 - (b) a securities and futures firm, subject to the financial rules in Chapter 10, unless the firm is a category D firm; or
 - (c) a category A personal investment firm, subject to the financial rules in Chapter 13; and
- (2) ~~it is not a BIPRU firm. an investment management firm, which is a CAD investment firm subject to the financial rules in Chapter 5;~~
 - (3) ~~a UCITS investment firm, subject to the financial rules in chapter 7;~~
 - (4) ~~a securities and futures firm, subject to the financial rules in Chapter 10, unless the firm is a category D firm; or~~
 - (5) ~~a category A personal investment firm, subject to the financial rules in Chapter 13.~~

Cases where consolidated supervision under this chapter will not apply

- 14.1.2 R A firm is not subject to consolidated supervision under the rules in this Chapter 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 a competent authority other than the FSA;
 - (2) the firm is a member of a UK consolidation group already included in the supervision on a consolidated basis of the group of which it is a member by the FSA under IPRU(BANK) or IPRU(BSOC) BIPRU 8.
- 14.1.3 G
- (1) ~~The rules in this chapter apply even if the firm is subject to the rules in PRU 8.4 (the financial conglomerates rules) or PRU 8.3 (the insurance group rules), if the firm is part of an investment sub-group. Financial conglomerates are subject to the Financial Groups Directive (2002/87/EC). Insurance groups are subject to the Insurance Groups Directive (98/78/EC). Neither directive allows a waiver of consolidation of a Capital Adequacy Directive group. So if there is an investment sub-group within an insurance group, the rules in this chapter apply, regardless of the application of a group capital assessment to the wider group. [Deleted]~~
 - (2) ~~Where firms authorised in two or more member states have as their parent the same financial holding company, supervision on a consolidated basis will be exercised by the competent authority of the firms authorised in the member state in which the financial holding company was set up. If no firm has been authorised in the Member State in which the financial holding company was set up, the competent authorities of the Member States concerned will seek to reach agreement as to who amongst them will exercise supervision~~

~~on a consolidated basis. In the absence of such an agreement, supervision on a consolidated basis will be exercised by the competent authority that granted authorisation to the firms with the greatest balance sheet total (measured on the basis of total assets). If that figure is the same for more than two authorised firms, supervision on a consolidated basis will be exercised by the competent authority which first gave the authorisation.~~ [Deleted]

- (3) Where there is more than one authorised *firm* in the group, subject to the rules of this chapter, one consolidated supervision return may be submitted on behalf of all the *firms* in the group in accordance with SUP 16.3.25G.

Exemption from consolidated supervision

14.1.4 R A *firm* need not meet the requirements in rules 14.3.1 and 14.3.2 if:

- (1) ...
- (2) ...
- (3) each member of the group which is a *CAD investment firm*:
 - (a) ~~deducts any material holdings in credit and financial institutions from its financial resources;~~
 - (b) ~~complies with its solo applicable financial resources requirement and the large exposures requirements; and~~
 - (c) ~~has systems and controls to monitor and control the sources of capital and funding of all other financial institutions within the group;~~ [Deleted]
- (4) ...
- (5) ...
- (6) ...
- (7) ...

...

14.1.6 G (1) The Capital Adequacy Directive (articles 7(4) to 7(6)) provides that a *competent authority* such as the *FSA* may waive *consolidated supervision* provided certain conditions are met. The conditions in *rule* 14.1.4 are mainly derived from the Capital Adequacy Directive. [Deleted]

- (2) ...

...

...

14.2 Scope of consolidation

...

- 14.2.4 G (1) *A firm's parent is a financial holding company if it is either a financial institution or a securities and futures firm that is subject to the financial rules in Chapter 3 and that is a broad scope firm (but not a venture capital firm) and if its subsidiary undertakings carry out mainly listed activities, activities of a credit institution or activities undertaken by a Chapter 3 broad scope firm. For this purpose the FSA interprets the phrases 'mainly' or 'main business' to mean where the balance of business is over 40% of the relevant group or sub-group's balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income). In addition, if the firm's parent has significant holdings in insurance undertakings or reinsurance undertakings, it is a mixed financial holding company, and the firm is subject to the rules in GENPRU 3.1 PRU 8.4 instead of the rules in this chapter. This is because a parent cannot be a financial holding company and a mixed financial holding company at the same time. GENPRU 3.1 PRU 8.4 sets out what constitutes significant insurance holdings (broadly more than 10% of the financial sector activities of the group). A firm's parent is a financial holding company and not regarded as a mixed financial holding company unless:*
- (a) the parent has been notified by its coordinator that the group it heads is a financial conglomerate (in accordance with Article 4(2) of the Financial Groups Directive); and
 - (b) it has not been notified that the coordinator and the relevant competent authorities have agreed not to treat the group as a financial conglomerate in accordance with Article 3(3) of the Financial Groups Directive.
- (2) *A firm with an ultimate non-EEA parent may also be subject to the provisions in GENPRU 3.2 PRU 8.5.*

...

14.4 Group financial resources

...

- 14.4.2 R (1) *If more than one firm in the group is subject to the rules of this chapter, group financial resources are defined according to the relevant rules applicable to the main firm in the group to which this chapter applies, with Tier 1 minority interests being allowed as Group Tier 1 capital and Tier 2 minority interests being allowed as Group Tier 2 capital.*
- (2) ...
- 14.4.3 R *Financial resources will be defined based upon the main firm in the group to*

which this chapter applies as follows:

- (1) ...
- (2) ~~if an *investment management firm*, Table 5.2.2(1)R but excluding any illiquid assets or qualifying property adjustments required by that Table;~~
- (3) ~~if a *UCITS investment firm*, Table 7.3.1R but excluding any illiquid assets or qualifying property adjustments required by that Table;~~
- (4) ...
- (5) ...

...

14.5 Group financial resources requirement

...

14.5.2 R Financial resources requirements for individual entities in the group are:

- (1) for *firms* regulated by the *FSA*, their regulatory capital requirement under *FSA* rules;
- (2) for entities regulated by an *EEA regulator* ~~or one of the regulators listed in IPRU(INV) 10 App 59 or IPRU(BANK) CS Appendix D~~ and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement; ~~and~~
- (2A) for entities that are *recognised third country credit institutions* or *recognised third country investment firms* and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement;
- (2B) for entities not in (2A) that are regulated by a *third country competent authority* named in the table in *BIPRU 8 Annex 3R* and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement; and
- (3) for other entities in the group, a notional financial resources requirement calculated as if the entity were regulated by the *FSA*.

...

14.5.4 G A *firm* may apply for a *waiver* of rule 14.5.1R, to permit a line-by-line approach to determine its *group financial resources requirement*. ~~Any waiver application should demonstrate (where relevant) that the constraints for intra-group offsets under the Capital Adequacy Directive (article 7) are met.~~ A *firm* should also demonstrate that calculating its requirement in this way does not result in a distortion of the *group financial resources requirement*.

...

APPENDIX 14(1) (INTERPRETATION)

Amend the following definitions as shown:

<i>CAD Article 53 exempting criteria</i>	the following criteria in respect of the <i>firm's</i> dealing positions: - such positions arise only as a result of the <i>firm's</i> failure to match investors orders precisely; - the total market value of all such positions is subject to a ceiling of 15% of the <i>firm's</i> initial capital; and - such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.
<i>CAD investment firm</i>	a <i>firm</i> subject to the requirements of the <i>Capital Adequacy Directive (CAD) (93/6/EEC)</i> excluding a person to whom the <i>CAD</i> does not apply under Article 3.1(b)2.2 of that Directive.
<i>financial holding company</i>	an <i>undertaking</i> that satisfies the following conditions: (a) ... (b) ... one of which at least is a <i>credit institution</i> , a <i>firm</i> falling within <i>IPRU(INV) rule 14.1.1(1)</i> or an <i>investment firm</i> ; and (c) it is not a <i>mixed financial holding company</i> within the meaning of PRU 8.4
<i>parent</i>	any parent <i>undertaking</i> as defined in section 258 of the Companies Act 1985 or paragraph 14 of Financial Reporting Standard No 2 and any <i>undertaking</i> which effectively exercises a dominant influence over another <i>undertaking</i> .

Delete the following definition from Appendix 14(1); the text is not shown struck through:

UCITS investment firm

Annex I

Amendments to the Insurance: Conduct of Business sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

Part 1: consequential amendments taking effect 31 December 2006

Amend ICOB 1 Ann 2G as follows:

Summary of Handbook provisions for insurance intermediaries

...

	Module	Application
...
Business Standards	<p style="text-align: center;">...</p> <p style="text-align: center;">Prudential sourcebook</p> <p style="text-align: center;"><u>GENPRU</u></p> <p style="text-align: center;">...</p> <p style="text-align: center;">PRU<u>INSPRU</u></p>	<p style="text-align: center;">...</p> <p style="text-align: center;"><u>Applies in respect of (1) where the insurance intermediary is also an insurer</u></p> <p style="text-align: center;">Applies in respect of (1) where the insurance intermediary is also an insurer</p>
...

...

Part 2: consequential amendments taking effect 1 January 2007

Amend ICOB 1 Ann 2G as follows:

Summary of Handbook provisions for insurance intermediaries

...

	Module	Application
...
Business Standards	Interim Prudential sourcebooks	

	<i>IPRU(INV)</i>	Applies in respect of (1) where the <i>insurance intermediary</i> is also an <i>investment firm</i> (<u>other than a <i>BIPRU investment firm</i></u>)

	Prudential sourcebook	
	<i>GENPRU</i>	Applies in respect of (1) where the <i>insurance intermediary</i> is also a <u><i>BIPRU firm</i></u> or an insurer .
	<u><i>BIPRU</i></u>	<u>Applies in respect of (1) where the <i>insurance intermediary</i> is also a <i>BIPRU firm</i>.</u>
	PRU 9.1 – PRU 9.3 <u><i>MIPRU 1 – MIPRU 4</i></u>	Applies in respect of (1).
	<i>INSPRU</i>	...
	PRU 9.4 <u><i>MIPRU 5</i></u>	Applies in respect of (1) where the <i>insurance intermediary</i> is also an <i>insurer</i> or a <i>mortgage lender</i> .
...

Annex J

Amendments to the Mortgages: Conduct of Business sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

Part 1: consequential amendments taking effect 31 December 2006

Summary of the application of the Handbook to firms carrying on regulated mortgage activities and firms that communicate or approve qualifying credit promotions

Table: This table belongs to MCOB 1.4.1G

Module	Application
...	...
Business Standards	Interim Prudential sourcebooks,
	...
	<u>GENPRU</u>
	<u>Applies to every mortgage administrator, mortgage adviser, mortgage arranger and mortgage lender where they are also insurers;</u>
	<u>INSPRU</u>
	<u>Applies to every mortgage administrator, mortgage adviser, mortgage arranger and mortgage lender where they are also insurers.</u>
	...

...

Part 2: consequential amendments taking effect 1 January 2006

Amend MCOB 1 Annex 4G as follows:

Summary of the application of the Handbook to firms carrying on regulated mortgage activities and firms that communicate or approve qualifying credit promotions

Table: This table belongs to MCOB 1.4.1G

Module	Application
...	...
Business Standards	Interim Prudential sourcebooks,
	...
	<p>IPRU(INV) Applies to every <i>mortgage administrator, mortgage adviser, mortgage arranger and mortgage lender</i> where they are also <i>investment firms (other than <u>BIPRU investment firms</u>)</i>;</p>
	<p><i>GENPRU</i> Applies to every <i>mortgage administrator, mortgage adviser, mortgage arranger and mortgage lender</i> where they are also <i><u>BIPRU firms or insurers</u></i>;</p>
	<p><u><i>BIPRU</i></u> Applies to every <i>mortgage administrator, mortgage adviser, mortgage arranger and mortgage lender</i> where they are also <i><u>BIPRU firms</u></i>;</p>
	<p><i>INSPRU</i> Applies to every <i>mortgage administrator, mortgage adviser, mortgage arranger and mortgage lender</i> where they are also <i>insurers</i>.</p>
...	...

...

Annex K

Amendments to the Market Conduct sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend MAR 3.3.3G as follows:

- 3.3.2 G MAR 3 is not the only chapter of the *Handbook* that applies to *firms* doing *inter-professional business*. *Firms* should always consider what other parts of the *Handbook* may apply to them. A table listing the applicable *Principles* is set out in MAR 3 Annex 2. The table also sets out the key provisions of *COB* and *CASS* that may also apply to *firms* doing *inter-professional business*, but it should not be read as an exhaustive list. *Firms* should also consider the other provisions of the *Handbook*, especially but not exclusively ~~*IPRU* and *PRU*~~the Prudential Standards part of the *Handbook*.

Annex L

Amendments to the Supervision manual

For the convenience of readers this Annex is in four parts.

Part 1: amendments relating to the Society of Lloyd's

Amend SUP 15.1.1R as follows. New text is underlined and deleted text is shown struck-through:

Who?

15.1.1 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 15.3.22D to SUP 15.3.25D* apply only to the *Society*.

Insert the following text after SUP 15.3.21R. The text is redesignated and restated and amendments to the text are not shown:

Lloyd's of London

15.3.22 D *SUP 15.3.23D to SUP 15.3.25D* 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 *FSA* to:

- (1) comply with its general duty under section 314 of the *Act* (Authority's 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 *FSA* 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 45 of the *Act* (Variation etc on the Authority's own initiative);
 - (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 *ENF 7*);
 - (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 *ENF 8*);

- (d) require an *underwriting agent* to make restitution, under section 384 of the *Act* (Power of Authority to require restitution) (see *ENF 9*);
- (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 *ENF 11*, *ENF 12* and *ENF 13*);
- (f) apply to court for an *injunction*, restitution order or *insolvency order* (see *ENF 6*, *ENF 9* and *ENF 10*); and
- (g) prosecute any criminal offence that the *FSA* has power to prosecute under the *Act* (see *ENF 15*).

15.3.23 D The *Society* must immediately inform the *FSA* in writing if it becomes aware that any matter likely to be of material concern to the *FSA* 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 D The *Society* must inform the *FSA* 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 D The *Society* must inform the *FSA* if it commences investigations or disciplinary proceedings which do not fall within the scope of *SUP 15.3.24D* 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*.

Insert a new section SUP App 2.16 (Regulatory intervention points for Lloyd's) as follows. The text is redesignated and restated and amendments to the text are not shown:

App 2.16 Regulatory intervention points for Lloyd's
Application

App 2.16.1 R The *rules and guidance* in SUP App 2 apply to the *Society*:

- (1) with the modifications set out in SUP App 2.16.2R to SUP App 2.16.5G; but
- (2) except SUP App 2.8.1G to SUP App 2.8.5G, SUP App 2.9.1R, SUP App 2.10.1R, SUP App 2.12.1R(2)(a), SUP App 2.12.2G and SUP App 2.12.7R.

Interpretation

App 2.16.2 R For the purpose of SUP App 2.16 and the application of SUP App 2 to the *Society*:

- (1) "capital resources", as the context requires:
 - (a) in relation to the *Society's* own capital resources, means its own *capital resources* calculated in accordance with the *capital resources table*;
 - (b) in relation to a *member's* capital resources, means the *member's capital resources* calculated in accordance with GENPRU 2.3.22R;
 - (c) in relation to the aggregate *capital resources* of the *Society* and the *members* supporting the *insurance business* of the *members*, means the aggregate of the *capital resources* in (1)(a) and (b) but excluding the *Society's callable contributions*;
- (2) "guarantee fund":
 - (a) in relation to the *general insurance business* carried on by *members*, means the amount of capital resources required in order to comply with GENPRU 2.2.26R, GENPRU 2.3.17R and GENPRU 2.3.26R; and the "member's share of the guarantee fund" for *general insurance business* means the result of the calculation set out in GENPRU 2.3.27R;
 - (b) in relation to the *long-term insurance business* carried on by *members*, means the amount of capital resources required in order to comply with GENPRU 2.2.25R and GENPRU 2.3.17R; and the "member's share of the guarantee fund" for *long-term insurance business* means the result of the calculation set out in GENPRU 2.3.25R;

- (3) "required margin of solvency":
- (a) in relation to the *general insurance business* carried on by *members*, means the higher of the *Society GICR* and the *general insurance capital requirement* for the *members* in aggregate; and
 - (b) in relation to the *long-term insurance business* carried on by *members*, means the *long-term insurance capital requirement* for the *members* in aggregate.

Capital resources below guarantee fund

- App 2.16.3 R For the purposes of *SUP App 2.4.1R* and *SUP App 2.4.2G*, *capital resources* will have fallen below the guarantee fund if the *Society's* own capital resources are such that they are no longer 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* share of the guarantee fund.

Capital resources below required margin of solvency

- App 2.16.4 R For the purposes of *SUP App 2.5.1R* to *SUP App 2.5.3G*, capital resources will be such that they no longer equal or exceed the required solvency margin if the *Society's* own capital resources are insufficient 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* share of the required solvency margin.

Capital resources below capital resources requirement

- App 2.16.5 R For the purposes of *SUP App 2.6.1G*, capital resources will have fallen below the *capital resources requirement* if the *Society's* own capital resources are insufficient 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* share of the *capital resources requirement* for the *members* in aggregate.

Capital resources below the level of individual capital guidance

- App 2.16.6 G For the purposes of *SUP App 2.7.1G* to *SUP App 2.7.5G*, capital resources will have fallen below the level of *individual capital guidance* if the *Society's* own capital resources have fallen below the level advised in *individual capital guidance* given to the *Society* in respect of those capital resources.

Amend SUP Schedule 2 (Notification Requirements) by inserting the following new text at the appropriate place in the table. New text is underlined.

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
<u>SUP 15.3.23D</u>	<u>Any matter likely to be of material concern in relation to the FSA which may have arisen in relation to:</u> <u>(1) the regulated activities for which the Society has permission; or</u> <u>(2) underwriting agents; or</u> <u>(3) approved persons or individuals acting for or on behalf of underwriting agents..</u>	<u>Details of the matters arisen.</u>	<u>The Society becomes aware</u>	<u>Immediately</u>
<u>SUP 15.3</u>	<u>Commencement, continuation and cessation of relevant investigations and disciplinary proceedings</u>	<u>Commencement, continuation and cessation of relevant investigations and disciplinary proceedings listed in SUP 15.3.24D and 15.3.25D</u>	<u>Commencement of proceedings</u>	<u>Not specified</u>

Part 2: amendments relating to implementation of Article 35(5) of the Directive of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (No 2006/49/EC)

Insert the following new rule SUP 15.8.9R. The text is all new and is not underlined:

15.8.9	R	A <i>BIPRU firm</i> must report to the <i>FSA</i> immediately any case in which its counterparty in a <i>repurchase agreement</i> or <i>reverse repurchase agreement</i> or <i>securities or commodities lending or borrowing transaction</i> defaults on its obligations.
--------	---	--

Amend SUP Schedule 2 (Notification Requirements) by inserting the following new text at the appropriate place in the table. New text is underlined.

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
<u>SUP 15.8.9R</u>	<u>Default by counterparty on its obligations in a transaction of a type specified in SUP 15.8.9R.</u>	<u>The fact of the default.</u>	<u>Default by counterparty on its obligations in a repurchase agreement or reverse repurchase agreement or securities or commodities lending or borrowing transaction.</u>	<u>Immediately</u>

Part 3: consequential amendments taking effect on 31 December 2006

In this Part, underlining indicates new text and striking through indicates deleted text.

Amend SUP 3.1 as follows:

...

3.1.9 G Material elsewhere in the Handbook

A firm which is a bank, building society, friendly society or other insurer, investment management firm, personal investment firm, securities and futures firm, the Society of Lloyd's or a Lloyd's managing agent in respect of each syndicate managed by it, should see the ~~Interim Prudential sourcebooks~~ Standards part of the Handbook for further provisions on auditors as set out in SUP 3.1.10 G. For the categorisations employed in SUP 3.1.2 R and SUP 3.1.10 G see SUP App 1.

3.1.10 G Other relevant sections of the Handbook (see SUP 3.1.9 G)

<i>Bank</i>	<i>IPRU(BANK)</i>
<i>Building society</i>	<i>IPRU(BSOC)</i>
<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, UCITS management company</i>	<i>IPRU(INV)</i>
<i>Society of Lloyd's</i>	<i>LLD</i>
<i>Bank</i>	<i>IPRU(BANK)</i>
<i>Building society</i>	<i>IPRU(BSOC)</i>
<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</i>	<i>IPRU(INV)</i>
<i>Society of Lloyd's and Lloyd's managing agents</i>	<i>LLD <u>IPRU(INS)</u></i>

...

Amend SUP 8.2 as follows:

...

8.2.7	G	Rules that can be waived (see SUP 8.2.6 G)	
		Rules	... Chapters of the Handbook where such rules appear (Note 1)
		...	
		Insurance business rules	... <u>PRUINSPRU</u>
		...	

...

Amend SUP 9.3 as follows:

...

9.3.2	G	...	
		(1)	...
		...	
		(5)	in relation to the maintenance of adequate financial resources, the <i>FSA</i> may give a <i>firm</i> individual <i>guidance</i> on the amount or type of financial resources the <i>FSA</i> considers appropriate, for example on individual capital ratios for <i>banks</i> and <i>building societies</i> ; further <i>guidance</i> on how and when the <i>FSA</i> may give individual <i>guidance</i> on financial resources is contained in the Interim Prudential sourcebooks and in <u>PRU</u> the Prudential Standards part of the <i>Handbook</i> :
		(a)	...
		...	
		(d)	for an insurer: PRU 2.3.13 and PRU 2.3.24 <u>INSPRU 7</u>

...

Amend SUP 13A Ann 1G as follows:

13A	Annex 1G	Application of the Handbook to Incoming EEA Firms	
	(1) ...	(2) ...	(3) ...
	...		
	<u>PRU</u>
	<u>INSPRU</u>	Otherwise, PRU <u>INSPRU</u> does not apply unless the <i>firm</i> is an <i>insurer</i> to	

which ~~PRU 7.6.33~~INSPRU 1.5.33R applies.

...

Amend SUP App 1.3.1G as follows:

App 1.3.1	G	Table Prudential categories and sub-categories used in the Interim Prudential sourcebooks and the Supervision manual		
		Prudential categories (Note 1)	Applicable prudential requirements (Note 2)	Prudential sub-categories
	
		<i>Insurer*</i>	<i>IPRU(INS) or IPRU(FSOC) and <u>INSPRU</u></i>	...
	
		<i>Society of Lloyd's*</i>	LLD <u>INSPRU and IPRU(INS)</u>	

Note 2 = Only the requirements in the ~~Interim~~ Prudential sourcebooks, ~~LLD~~, and CRED are listed in the column. Requirements in other parts of the *Handbook* will also apply.

Amend SUP App 2.1 to 2.14 as follows:

2 Insurers: Regulatory intervention points

2.1 Application

2.1.1 R ~~This appendix applies~~ SUP App 2.1 to 2.15 apply to an *insurer* unless it is:

- (1) a *Swiss general insurer*; or
- (2) an *EEA-deposit insurer*; or
- (3) an *incoming EEA firm*; or
- (4) an *incoming Treaty firm*.

2.1.2 G ~~This appendix applies~~ SUP App 2.1 to 2.15 apply to every *friendly society* as a *friendly society* is an *insurer*.

2.1.3 R SUP App 2.16 applies to the *Society*.

2.2 Interpretation

2.2.1 R For the purpose of *SUP* App 2.1 to 2.14:

(1) “capital resources”:

(a) ...;

(b) in relation to a *participating insurance undertaking*, means P+T, where P and T have the meanings given by ~~PRU 8.3.45R(3)(a)~~ INSPRU 6.1.45R(3)(a) and (e) respectively, as calculated in accordance with ~~PRU 8.3.43R~~ INSPRU 6.1.43R; and

(c) in relation to any other *firm*, means the *firm’s capital resources* as calculated in accordance with GENPRU 2.2.12R;

(2) “guarantee fund”:

(a) ...;

(b) in relation to a *participating insurance undertaking*, means the amount of capital resources which that *firm* must hold to comply with ~~PRU 8.3.45R(2)~~ INSPRU 6.1.45R(2);

(c) in relation to a *firm* which is not covered by (a) or (b), carrying on *general insurance business*, means the amount of capital resources which that *firm* must hold to comply with ~~PRU 2.2.18R~~ GENPRU 2.2.34R; and

(d) in relation to a *firm* which is not covered by (a) or (b), carrying on *long-term insurance business*, means the amount of capital resources which that *firm* must hold to comply with ~~PRU 2.2.17R~~ GENPRU 2.2.33R;

(3) ...

(4) “required margin of solvency”:

(a) ...;

(b) in relation to a *participating insurance undertaking*, means R-S-U, where R, S and U have the meanings given by ~~PRU 8.3.45R~~ INSPRU 6.1.45R (3)(c), (d) and (f) respectively;

...

2.2.2 G The calculation of each of the *base capital resources requirement*, the *long-term insurance capital requirement* and the *general insurance capital requirement* is set out in GENPRU 2.1. The calculation of each of the “guarantee fund” and “required margin of solvency” for *non-directive friendly societies* is set out in chapter 4 of *IPRU(FSOC)*.

2.3 Purpose

- 2.3.1 G ...
- 2.3.2 G The *rules* in ~~this appendix~~ SUP App 2.1 to 2.14 require a *firm* to submit reports and information to the *FSA* when:
- ...
- 2.3.3 G The *FSA* may also ask a *firm* to submit reports and information to it when the *firm's* capital resources fall below the level advised in ~~individual capital~~ individual capital guidance given to the *firm*.
- ...
- 2.3.7 G *Principle 4* of the *FSA's* Principles for Businesses provides that *firms* should hold adequate financial resources, while ~~PRU 1.2.22R~~ GENPRU 1.2.26R requires a *firm* to maintain overall financial resources which are adequate to ensure that there is no significant risk that it cannot meet its liabilities as they fall due. In considering these requirements, a *firm* may decide to maintain capital resources above the level advised in ~~individual capital~~ individual capital guidance given by the *FSA*, or, if no ~~individual capital~~ individual capital guidance has been given, above its *capital resources requirement*. The amount of any such additional capital resources held is at the discretion of the *firm*. However, the extent to which a *firm* matches these additional capital resources to the volatility of its capital base, in conjunction with the strength of its systems and controls environment, is likely to affect the frequency with which it is subject to intervention under this appendix.
- ...
- 2.5 Capital resources below required margin of solvency
- 2.5.1 R Unless *SUP App 2.5.3R* applies:
- (1) if a *firm's* capital resources are such that they no longer equal or exceed its required margin of solvency; or
 - (2) if a *firm* no longer complies with ~~PRU 2.2.16R~~ GENPRU 2.2.32R and ~~PRU 2.2.24R~~ GENPRU 2.2.28R, or ~~PRU 8.3.45R~~ INSPRU 6.1.45R(1)(a) and ~~PRU 8.3.45R~~ INSPRU 6.1.45R(1)(b), as applicable;
- it must, within 28 days of becoming aware of this event, submit to the *FSA* a plan for the restoration of a sound financial position, including:
- (3) a *scheme of operations*; and
 - (4) an explanation of how, if at all, and by when:
 - (a) it expects its capital resources to be restored to the required margin of solvency; or
 - (b) as the case may be, it expects to comply with ~~PRU 2.2.16R~~ GENPRU 2.2.32R and ~~PRU 2.2.24R~~ GENPRU 2.2.28R, or *PRU*

~~8.3.45R INSPRU 6.1.45R(1)(a)~~ and ~~PRU 8.3.45R INSPRU 6.1.45R(1)(b)~~, as applicable.

2.5.2 G

2.5.3 R If a *firm*:

- (1) falls into *SUP* App 2.5.1R(1) or (2); and
- (2) it has previously submitted either a run-off plan in accordance with *SUP* App 2.8.1R or a *scheme of operations* in accordance with *SUP* App 2.5.1R;

it must, within 28 days of becoming aware that it falls into *SUP* App 2.5.1R(1) or (2):

- (3) notify the *FSA*; and
- (4) submit a plan for restoration which:
 - (a) explains why the *firm's* capital resources have fallen below its required margin of solvency or, as the case may be, it no longer complies with ~~PRU 2.2.16R GENPRU 2.2.32R~~ or ~~PRU 2.2.24R GENPRU 2.2.28R~~, or ~~PRU 8.3.45R INSPRU 6.1.45R(1)(a)~~ and ~~PRU 8.3.45R INSPRU 6.1.45R(1)(b)~~, as applicable; and
 - (b) demonstrates how, if at all, and by when, the *firm* will restore it or, as the case may be, resume compliance with ~~PRU 2.2.16R GENPRU 2.2.32R~~ and ~~PRU 2.2.24R GENPRU 2.2.28R~~, or ~~PRU 8.3.45R INSPRU 6.1.45R(1)(a)~~ and ~~PRU 8.3.45R INSPRU 6.1.45R(1)(b)~~, as applicable.

2.6 Capital resources below capital resources requirement

...

2.7 Capital resources below the level of individual capital guidance

2.7.1 G Unless any of *SUP* App 2.4.1R, 2.5.1R, 2.5.3R or 2.6.1R applies, if a *firm's* circumstances change, such that its capital resources have fallen, or are expected to fall, below the level advised in ~~individual capital~~ *individual capital guidance* given to the *firm* by the *FSA*, then, consistent with *PRIN* 2.1.1R *Principle 11* (Relations with regulators), a *firm* should inform the *FSA* of this fact as soon as practicable, explaining why capital resources have fallen, or are expected to fall, below the level advised in ~~individual capital~~ *individual capital guidance*, and:

- (1) what action the *firm* intends to take to increase its capital resources; or
- (2) what modification the *firm* considers should be made to the ~~individual capital~~ *individual capital guidance* which it has been given.

- 2.7.2 G ...
- 2.7.3 G In relation to a *firm* carrying on *with-profits insurance business*, if it intends either (a) to remedy a fall in the level of capital resources advised in its ~~individual capital~~ *individual capital guidance*, or (b) to prevent a fall in the level advised in that *guidance*, for example, in either case, by taking management action to de-risk a *with-profits fund* or by reducing non-contractual benefits for *policyholders*, it should explain to the *FSA* how such proposed actions are consistent with the *firm's* obligations under *PRIN 2.1 Principle 6* (Customers' interests).
- 2.7.4 G If a *firm's* capital resources fall below the level advised in ~~individual capital~~ *individual capital guidance* given to the *firm* and, at the same time, any one or more of *SUP App 2.4.1R*, *2.5.1R*, *2.5.3R* or *2.6.1R* applies, the *firm* should first comply with those *rules*. Those *rules* are concerned with circumstances where capital resources are likely to have fallen to levels much lower than the level advised in ~~individual capital~~ *individual capital guidance* and are, in some cases, requirements imposed by the *Insurance Directives*.
- 2.7.5 G If a *firm* has not accepted ~~individual capital~~ *individual capital guidance* given by the *FSA* it should, nevertheless, inform the *FSA* as soon as practicable if its capital resources have fallen below the level suggested by that ~~individual capital~~ *individual capital guidance*. In such circumstances, the *FSA* may ask the *firm* for further explanation as to why it does not consider the ~~individual capital~~ *individual capital guidance* to be appropriate. The *FSA* may also consider using its powers under section 45 of the *Act* to, on its own initiative, vary a *firm's Part IV permission*, so as to require it to hold such capital as the *FSA* considers is necessary for the *firm* to comply with ~~PRU 1.2.22R~~ GENPRU 1.2.26R.

...

2.12 Content of a scheme of operations

...

- 2.12.5 G In relation to *firms* covered by ~~this appendix~~ *SUP App 2.1 to 2.14*, *IPRU(FSOC) 4.1* sets out the *rules* relating to capital resources for *non-directive friendly societies* and *GENPRU 2.1, 2.2* and ~~8.3~~ *INSPRU 6.1* set out the *rules* relating to capital resources for every other *firm* ...
- 2.12.6 G To reflect its obligations under ~~PRU 2.1.10R~~ GENPRU 2.1.14R or *IPRU(FSOC) 4.1(2)* (as applicable), in order to comply with *SUP App 2.12.1R*, a *firm* which carries on both long-term insurance business and general insurance business should submit separate information for each type of insurance business.

...

Amend SUP Sch 4 (Powers exercised) as follows:

The following powers and related provisions in the *Act* have been exercised by the *FSA* to make the *rules* in *SUP*:

(1) ...

...

(14) ...

(14A) Section 318(1) (Exercise of powers through Council)

(15) ...

...

Part 4: consequential amendments taking effect on 1 January 2007

In this Part, underlining indicates new text and striking through indicates deleted text.

Amend SUP 3.1 as follows:

3.1.2	R	Table Applicable sections (see SUP 3.1.1R)			
		(1)	Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
		(1)
	
		(7B)	<i>UCITS management company <u>firm</u></i>	<i>SUP 3.1 – 3.7</i>	<i>SUP 3.1, SUP 3.2, SUP 3.8 – SUP 3.10</i>
		(7C)	<i><u>BIPRU investment firm</u></i>	<i><u>SUP 3.1 – 3.7</u></i>	<i><u>SUP 3.1, SUP 3.2, SUP 3.8 – SUP 3.10</u></i>
	
3.1.9	G	Material elsewhere in the Handbook			
		<p><i>A firm which is a bank, building society, friendly society or other insurer, investment management firm, personal investment firm, or a securities and futures firm, the Society of Lloyd's or a Lloyd's managing agent in respect of each syndicate managed by it, should see the Prudential Standards part of the Handbook for further provisions on auditors as set out in SUP 3.1.10 G. For the categorisations employed in SUP 3.1.2 R and SUP 3.1.10 G see SUP App 1.</i></p>			
3.1.10	G	Other relevant sections of the Handbook (see SUP 3.1.9 G)			
			<i>Bank</i>	<i>IPRU(BANK)</i>	
			<i>Building society</i>	<i>IPRU(BSOC)</i>	
			...		
			<i><u>Investment management firm, personal investment firm, securities and futures firm (other than BIPRU investment firms)</u></i>	<i>IPRU(INV)</i>	

Amend SUP 3.10 as follows:

3.10.5 R Table Client assets report

Whether in the auditor's opinion

(1) ...

(2) ...

(3) in the case of *investment management firm, personal investment firm, a UCITS ~~management company~~ firm, or securities and futures firm or BIPRU investment firm*, when a *subsidiary* of the firm is a *nominee company* in whose name *custody assets* of the firm are registered, that *nominee company* has maintained throughout the year systems for the custody, identification and control of *custody assets* which:

(a) ...

(b) ...

...

Amend SUP 8.2 as follows:

...

8.2.7 G Rules that can be waived (see SUP 8.2.6 G)

Rules	...	Chapters of the Handbook where such rules appear (Note 1)
-------	-----	---

...

Continued rules	...	IPRU(Bank) 3.3.15R (in chapter GN) <i>IPRU(INV)</i> (the continued provisions) <i>SUP</i> (parts of <i>SUP</i> 16 Ann 10)
-----------------	-----	--

...

...

Amend SUP 9.3 as follows:

9.3.2 G ...

(1) ...

...

(5) in relation to the maintenance of adequate financial resources, the *FSA* may give a *firm* *individual guidance* on the amount or type of financial resources the *FSA* considers appropriate, for example ~~on individual capital ratios~~ *individual capital guidance* for ~~banks~~ *BIPRU*

firms and ~~*building societies*~~*insurers*; further *guidance* on how and when the *FSA* may give ~~*individual*~~*individual capital guidance* on financial resources is contained in the Prudential Standards part of the *Handbook*:

- (a) for a ~~*bank*~~*BIPRU firm*: ~~*IPRU(BANK) CO4*~~ *GENPRU 1.2* and *BIPRU 2.2*;
- (b) for an ~~*building society*~~: ~~*IPRU(BSOC) 1.5*~~ and ~~*IPRU(BSOC) Ann 1J*~~ *insurer*: *GENPRU 1.2* and *INSPRU 7.1*;

...

...

Amend SUP 10.12 as follows:

- 10.12.3 G In accordance with section 60 of the *Act* (Applications for approval), applications must be submitted by, or on behalf of, the *firm* itself, not by the *candidate*. Usually this will be the *firm* that is employing the *candidate* to perform the *controlled function*. Where a *firm* has outsourced the performance of a *controlled function*, the details of the outsourcing determine where responsibility lies and whom the *FSA* anticipates will submit *approved persons* forms. SUP 10.12.4 G describes some common situations. The *firm* which is outsourcing is referred to as "A" and the *person* to whom the performance of the function has been outsourced, or which makes the *arrangement* for the function to be performed, is referred to as "B". In each situation, A must take reasonable care to ensure that, in accordance with section 59(2) of the *Act*, no *person* performs a *controlled function* under an *arrangement* entered into by its contractor in relation to the carrying on by A of a *regulated activity*, without approval from the *FSA*. See also SYSC 3.2.4 G and if applicable ~~*IPRU (BANK) OS*~~, ~~*IPRU (BSOC) OS*~~, and for *insurers* SYSC 13.9.

Amend SUP 13A Ann 1G as follows:

13A	Annex 1G	Application of the Handbook to Incoming EEA Firms	
	(1) ...	(2) ...	(3) ...
	...		
	<i>GEN</i>
	<u><i>GENPRU</i></u>	<u><i>GENPRU</i> applies only to the <i>firm's</i> <i>branch</i> in the <i>United Kingdom</i> in relation to <i>liquidity risk</i> only (<i>GENPRU 1.2.3R</i> and <i>GENPRU 1.2.21G</i>).</u>	<u>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>.</u>
	<u><i>BIPRU</i></u>	<u><i>BIPRU</i> does not apply as <i>EEA firms</i> are subject to the prudential</u>	<u>Does not apply if the <i>firm</i> has <i>permission</i> only for <i>cross</i></u>

	<u>standards of their home state regulator (BIPRU 1.1.7R and BIPRU 1.1.9G).</u>	<u>border services and does not carry on regulated activities in the United Kingdom.</u>
<u>PRU</u> <u>MIPRU</u>	<u>MIPRU 1 (Application and general provisions) does not apply unless the firm has a top-up permission.</u>	As column (2)
	PRU 9.1 <u>MIPRU 2 (Responsibility for insurance mediation activity) does not apply unless the firm has a top-up permission.</u>	
	PRU 9.2 <u>MIPRU 3 (Requirement to hold Pprofessional indemnity insurance) requirements for insurance and mortgage mediation activity and mortgage lending and administration) does not apply unless the firm has a top-up permission.</u>	
	PRU 9.3 <u>MIPRU 4 (Requirement to hold Ccapital resources) for insurance and mortgage mediation activity and mortgage lending and administration) does not apply unless the firm has a top-up permission.</u>	
	See PRU 9.3.2G <u>MIPRU 4.1.2G</u> for more detailed <i>guidance</i> .	
	PRU 9.4 <u>MIPRU 5 (Insurance undertakings and mortgage lenders using insurance or mortgage mediation services) does not apply unless the firm has a top-up permission.</u>	
<u>INSPRU</u>	...	
<u>IPRU (BANK)</u>	Only the following apply, and only if the firm is a <i>credit institution</i> other than an electronic money institution within the meaning of article 1(3)(a) of the <i>E-Money Directive</i> that has the right to benefit from the mutual recognition arrangements under the <i>Banking Consolidation Directive</i> (IPRU(BANK) 3.2.1R): (1) IPRU(BANK) 3.3.15R, IPRU(BANK) 3.3.16G and IPRU(BANK) 3.5.1R; and (2) chapter CO (which provides an overview of the underlying policy)	...

~~and the more detailed guidance in chapters CB, CA, BC, BO, FX, CM, DU, TI, TE, TC, TL, TU, TS and TV IPRU(BANK) chapters LM and LS.~~

...

IPRU (INV) *IPRU(INV)* does not apply unless the ...
firm:
(1) has a *top-up permission*;
(2) is an *authorised professional firm, investment management firm, members' adviser, personal investment firm, securities and futures firm, service company or underwriting agent*; and
(3) is not a *lead regulated firm*, ~~or a~~ *media firm or a BIPRU investment firm*.
(*IPRU(INV)* 1.1.1R and 1.2R)

Amend SUP 15.3 as follows:

...

- 15.3.8 G (1) Compliance with *Principle 11* includes, but is not limited to, giving the *FSA* notice of:
- (a) ...
 - ...
 - (e) entering into, or significantly changing, a *material outsourcing* arrangement (a *bank* ~~should also see~~ *IPRU(BANK) OS 4.2*, and a *building society* should also see *IPRU(BSOC) 11 OS 4.2 SYSC 8*, and an *in surer* should also see *SYSC 13.9* for further details); or

Amend SUP 15.4.1R(1)(c) as follows:

- 15.4.1 R (1) An *overseas firm*, which is not an *incoming firm*, must notify the *FSA* within 30 *business days* of any *person* taking up or ceasing to hold the following positions:
- (a) ...
 - ...
 - (c) for a *bank* or an *ELMI*: the two or more *persons* who effectively direct its business in accordance with ~~*IPRU(BANK) GN 3.3.1R*~~ *SYSC 4.2.2R* and *ELM 5.3.1*,

respectively;

Amend SUP 16 Annex 2G as follows:

LIQUIDITY RETURN (Form LR)

...

General Notes¹

...

Marketable Securities

...

50 ~~The list of A relevant credit ratings agencyies is given in SGN Appendix H and in Section 9 (Appendix 2) of Chapter TI (Interest rate position risk) of the FSA Policy Guide/IPRU (BANK)~~ means an *eligible ECAI*.

(a) *An eligible ECAI* is defined in the glossary of defined terms used in the Handbook.

51 ~~The list of A recognised stock indicesindex is listed in Section 6 of Chapter TE (Equity position risk) of the FSA Policy Guide/IPRU (BANK)~~ means a *qualifying equity index*.

(a) *A qualifying equity index* is defined in the glossary of defined terms used in the Handbook

...

REPORTING INSTRUCTIONS

A Reporting in euros

...

Definitions

...

A2A ~~Central government/central government guaranteed, including Treasury bills, eligible Local Authority paper and eligible bank bills~~ with a residual maturity of up to 1 year

Include:

...

- ~~Eligible local authority paper, defined as UK local authority bills which are eligible for rediscount at the Bank of England, if they have an original term to~~

maturity of not more than (6 months) 187 days and meet certain requirements concerning publication and notice set out in the Bank of England's notice of 8 June 1983. ~~[Deleted]~~

- UK bank bills which are eligible for rediscount at the Bank of England if they are sterling bills, irrespective of issuer, which are both payable in the United Kingdom and have been accepted by eligible banks (see SGN Appendix G). Also include any holdings of non-UK bills which are eligible for discount at the central bank in the country of issue, as part of its open market operations. ~~[Deleted]~~

...

...

A2D/A2E/A2F Non-government of up to 6 months / between 6 months and 5 years / over 5 years

Non-governmental debt securities which are classified as 'qualifying' by the FSA in its implementation of the Capital Adequacy Directive (see Chapter TI (Interest rate position risk), Section 5.2, of the FSA Policy Guide/IPRU (BANK)). Hence debt instruments should be treated as qualifying if any of the following conditions apply: falling within the definition of *qualifying debt security*.

- (a) A *qualifying debt security* is defined in the glossary of defined terms used in the Handbook.
- (a) ~~[Deleted]~~
- (b) ~~[Deleted]~~
- (c) ~~[Deleted]~~
- (d) ~~[Deleted]~~
- (e) ~~[Deleted]~~

...

A3A-A5A DEBT INSTRUMENTS ISSUED BY ENTITIES IN ZONE B COUNTRIES

A3A Central government/central government guaranteed of up to 1 year

Short term central government (including central government guaranteed) paper and paper eligible for discount at the Central Bank issued by a Zone B Central Government/another Zone B issuer. Also include Treasury bills, eligible local authority paper and eligible bank bills. Only those securities currently in the reporting institution's ownership (including those which are held in a clearing system such as Euroclear) should be recorded. Securities should only be included in this section if they are classified investment grade by a recognised credit ratings agency an eligible ECAI (see SGN Appendix H General Notes, paragraph 50).

A3B-A3C DEBT INSTRUMENTS ISSUED BY ENTITIES IN ZONE B COUNTRIES

A3A/A3C Central government/central government guaranteed of between 1 year and under 5 years / over 5 years

Central government (including central government guaranteed) paper and paper eligible for discount at the Central Bank issued by a Zone B Central Government/another Zone B issuer. Include only those securities issued by, or fully guaranteed by, Zone B central governments and central banks with a residual maturity of over 1 year. Only those securities currently in the reporting institution's ownership (including those which are held in a clearing system such as Euroclear) should be recorded. Securities should only be included in this section if they are classified investment grade by ~~a recognised credit ratings agency~~ an eligible ECAI (see General Notes, paragraph 50).

A3D/A3E/A3F Eligible non-government of up to 6 months / between 6 months and 5 years/over 5 years

Non-government debt securities issued, guaranteed, endorsed or accepted by an entity in a Zone B country and are investment grade. Also include those securities issued, or guaranteed by, an investment firm that is subject to the Capital Adequacy Directive or a ~~regime that is as stringent (for a list of such regimes, see Chapter CS (Consolidated Supervision) Section 10.3 of the FSA Policy Guide/IPRU (BANK))~~ recognised third country investment firm. Only those securities currently in the reporting institution's ownership should be recorded (including where these are held in a clearing system such as Euroclear).

(a) A recognised third country investment firm is defined in the glossary of defined terms used in the Handbook

...

A5A Highly liquid equities and equities indices

Equities that are eligible for a specific risk weight of 42% or less under the FSA's implementation of the ~~Amending~~ Capital Adequacy Directive (~~CAD 2~~) and the amendment to the Basel Accord for Market Risks and which are currently in the reporting institution's possession.

...

D1A – D2B MEMO ITEMS

...

D2A Undrawn treasury concessions granted by the bank

Where an institution has taken on a treasury role on behalf of its group, ~~it may have agreed with the FSA a~~ the institution must notify the FSA of its intention to use the "group treasury concession" for large exposure purposes (see Chapter LE (Large exposures) of the FSA Policy Guide/IPRU (BANK) BIPRU 10). ~~The institution should report here the amount of that treasury concession.~~

Amend SUP 18.1.2G as follows:

- 18.1.2 G *Guidance on building society transfers and mergers is given in IPRU(BSOC) the Building Societies Regulatory Guide.*

Amend SUP App 1 as follows:

- App 1.2.2 G ~~The FSA is developing its approach to prudential standards and some provisions in the Supervision manual in a two-stage approach. Initially the FSA is including in the Handbook interim material as set out in the five Interim Prudential sourcebooks and the Supervision manual, for example SUP 16 (Reporting requirements). The FSA is developing material which will provide an integrated approach to the setting of prudential standards. Each of the Interim Prudential sourcebooks is based on the prudential regime that existed before commencement, changed, mainly where the Act, and other statutory and international developments, have made a change desirable or essential. The Lloyd's sourcebook shows less continuity with the prudential regime previously applied to the Society of Lloyd's, as it introduces requirements similar to those already applied to insurers. Most grandfathered firms have a prudential category and sub-category equivalent to that which they had before commencement.~~

Prudential requirements for firms are set out in the Prudential Standards part of the Handbook according to their prudential category. Certain reporting requirements and other prudential material are contained in the Supervision manual, for example SUP 16 (Reporting requirements).

...

- App 1.3.1 G Table Prudential categories and sub-categories used in the ~~Interim~~ Prudential sourcebooks and the Supervision manual

Prudential categories (Note 1)	Applicable prudential requirements (Note 2)	Prudential sub-categories
...		
<i>Bank*</i>	<u>GENPRU, BIPRU and IPRU(BANK)</u>	<i>EEA bank Overseas bank UK bank</i>
<u><i>BIPRU investment firm</i></u>	<u>GENPRU and BIPRU</u>	<u><i>Full scope BIPRU investment firm</i></u> <u><i>BIPRU limited licence firm</i></u> <u><i>BIPRU limited activity firm</i></u>
<i>Building society*</i>	<u>GENPRU, BIPRU and IPRU(BSOC)</u>	
...

<i>Incoming EEA firm</i>	None (unless another prudential category applies) <u>GENPRU, BIPRU, INSPRU and IPRU(BANK)</u>	<u>EEA bank</u>
...		
<i>UCITS management company firm</i>	IPRU(INV) 1, 5 and 7 <u>UPRU</u>	<i>UCITS firm</i> <i>UCITS investment firm</i>
<i>UCITS investment firm</i>	<u>GENPRU and BIPRU</u>	
...

App 1.4.1 G Many, but not all of the categories are used only in the ~~Interim Prudential sourcebooks~~ the Prudential Standards part of the *Handbook* and the Supervision manual. The prudential category of a *firm* will normally determine:

- (1) which ~~Interim Prudential sourcebook~~ module of the Prudential Standards part of the *Handbook* is applicable to the *firm*;

...

App 1.4.3 G If a *firm* is part of a *group*, each *authorised* member of the *group* will have its own prudential category. *Firms* should refer to the provisions of the relevant ~~Interim Prudential sourcebooks~~ module of the Prudential Standards part of the *Handbook* to determine whether and, if so, how consolidated supervision applies.

Amend SUP TP 1.3.6 as follows:

TP 1.3 Transitional provisions relating to written concessions

...

6. These transitional provisions do not apply to *rules* which are continued by designation of pre-commencement provisions rather than made as new *rules*. Written concessions of such *rules* are carried forward, to similar effect, as *waivers* (given under section 148 of the *Act*) by article 8 of The Financial Services and Markets Act 2000 (Transitional Provision and Savings) (Rules) Order 2001 (SI 2001/1534). The relevant *rules* are:

- (1) ~~in IPRU(BANK), 3.3.15R in chapter GN; and~~ [deleted]
- (2) in *IPRU(INV)*, those identified as designated *rules* in the schedule to *IPRU(INV)* entitled "Powers exercised".

...

Amend SUP Sch 2 Notification requirements as follows:

Sch 2.2	G	Handbook reference	...	Contents of notification	Trigger event
		...			
		SUP 15.4.1R	...	<p>Any <i>person</i> taking up or ceasing to hold the following positions:</p> <p>(a) ...</p> <p>...</p> <p>(c) for a <i>bank</i>: the two or more <i>persons</i> who effectively direct its business in accordance with IPRU(BANK) GN 3.3.1R<u>SYSC 4.2.2R</u></p>	
		...			

Annex M

Amendments to the Dispute Resolution: Complaints manual

Part 1: amendments relating to the redesignation of LLD 7

Amend DISP 1.7.12G as follows. Deleted text is shown struck-through:

- 1.7.12 G Complaints from *members* of the *Society* of Lloyd's regarding the activities of *members' advisers*, which cannot be resolved by the *members' adviser*, cannot be referred to the *Financial Ombudsman Service*. (~~See *LLD* (the Lloyd's sourcebook), for further information concerning complaints by *members* of the *Society* of Lloyd's.~~)

Insert the following text after DISP 1.7.12G. The text is redesignated and restated text. Amendments to the redesignated text are not shown.

- 1.7.13 G The *Financial Ombudsman Service* is not be able to deal with the complaints listed in *DISP* 1.7.14R and separate *rules* and *guidance* are therefore required.

- 1.7.14 R The *Society* must establish and maintain appropriate and effective arrangements for handling any complaint from a *member* or a *former member* about:

- (1) *regulated activities* carried on by the *Society*;
- (2) the *Society's regulatory functions* carried on by the *Society*, the *Council* or those to whom the *Council* delegates authority to carry out such functions;
- (3) advice given by an *underwriting agent* to a *person* to become, continue or cease to be, a member of a particular *syndicate*; and
- (4) the management by a *managing agent* of the underwriting capacity of a *syndicate* on which the complainant participates or has participated.

- 1.7.15 R The *Society* must maintain by *byelaw* one or more appropriate effective schemes for the resolution of disputes between an *individual member* or a *former member* who was an *individual member* and:

- (1) his *underwriting agent*; or
- (2) the *Society*.

- 1.7.16 R For the purposes of *DISP* 1.7.14R "*individual member*" includes a *member* which is a *limited liability partnership* or a *body corporate* whose members consist only of, or of the nominees for, a single natural person or a group of connected persons.

- 1.7.17 G The schemes to which *DISP* 1.7.14R currently refers are the *Lloyd's*

Arbitration Scheme and the *Lloyd's Members' Ombudsman* respectively, but the *Society* may maintain other independent dispute resolution schemes in addition to, or instead of, either of these schemes.

- 1.7.18 G The schemes referred to in *DISP* 1.7.14R should be operationally independent of the *Society*.
- 1.7.19 G An *individual member* or *former member* who was an *individual member* should not have access to the schemes referred to in *DISP* 1.7.14R unless the complaints arrangements maintained by the *Society* have failed to resolve the complaint to his satisfaction within eight weeks of receiving it.
- 1.7.20 G The *Society* should give the *FSA* adequate notice of all proposed changes to the *byelaws* relating to the schemes referred to in *DISP* 1.7.14R.
- 1.7.21 G When considering what is required to ensure the operational independence of the schemes referred to in *DISP* 1.7.14R, or proposed changes in such schemes, the *Society* should take account of similar arrangements operated by the *Financial Ombudsman Service*.
- 1.7.22 R A contravention of *DISP* 1.7.14R or *DISP* 1.7.15R does not give rise to a right of action by a *private person* under section 150 of the *Act* (Actions for damages) and each of those *rules* is specified under section 150(2) of the *Act* as a provision giving rise to no such right of action.

Amend *DISP* Schedule 5.2G as follows. New text is underlined:

Chapter/Appendix	Section/Annex	Paragraph	Right of Action under s150		
			For private person?	Removed?	For other person?
1 Complaints handling arrangements for <i>firms</i>	<u>All rules apart from <i>DISP</i> 1.7.14R and <i>DISP</i> 1.7.15R</u>	-	Yes	-	-
<u>1</u>	<u>7</u>	<u>14 and 15</u>	<u>No</u>	<u>Yes- <i>DISP</i> 1.7.22R</u>	<u>No</u>
2 Jurisdiction rules	-	-	Yes	-	-
3 Complaints handling procedures of the <i>Financial Ombudsman Service</i>	-	-	Yes	-	-

Chapter/Appendix	Section/Annex	Paragraph	Right of Action under s150		
			For private person?	Removed?	For other person?
4 The <i>standard terms</i>	-	-	N/A	-	-
5 Funding	-	-	Yes	-	-

Part 2: amendments relating to the redesignation of LLD 6

Amend DISP 2.1.4G as follows. New text is underlined and deleted text is shown struck-through:

- 2.1.4 G References in this chapter to "*firms*" are to be construed, where relevant, as including:
- (1) in accordance with the *Ombudsman Transitional Order*, *unauthorised persons* subject to the *Compulsory Jurisdiction* in relation to *relevant complaints*; and
 - (2) as a result of section 226 of the *Act*, *unauthorised persons* who were formerly *firms* in respect of complaints about acts or omissions which occurred at the time when they were *authorised*, provided that the *Compulsory Jurisdiction* rules were in force in relation to the activity in question; and
 - (3) members of the Society of Lloyd's (see DISP 2.5.3G).

Amend DISP 2.5 as follows. New text is underlined and deleted text is shown struck-through:

- 2.5 Which firms are subject to the jurisdiction of the Financial Ombudsman Service?

Firms and VJ participants

- 2.5.1 G ...

- 2.5.1 G ...

Members of the Society of Lloyd's

- 2.5.3 G ~~Members of the Society of Lloyd's are treated as firms for the purposes of the Compulsory Jurisdiction (including the rules in DISP 1 relating to firms' complaints procedures) and are subject to DISP 1 as a result of the insurance market direction given in LLD 6.2.1 D, under section 316 of the Act (Direction by Authority). However, as set out in DISP 1.7, members will individually comply with DISP 1 if and only if all complaints by~~

~~policyholders against *members* are dealt with under the internal procedures established by the *Society* of Lloyd's for handling those complaints, provided that these procedures themselves comply with *DISP* 1. Accordingly, certain of the obligations under *DISP* 1, for example, the obligation to report on complaints received, must be complied with by the *Society* on behalf of *members*.~~

The insurance market direction given in *DISP* 2.5.5D is given under section 316(1) of the *Act* (Direction by Authority) and applies to *members* of the *Society* of Lloyd's.

- 2.5.4 D (1) With effect from *commencement*, Part XVI of the *Act* (The Ombudsman Scheme), and in particular section 226 (Compulsory jurisdiction), applies to the carrying on of insurance business by *members*.
(2) For the purposes of (1) 'insurance business' means the *regulated activities of effecting or carrying out contracts of insurance* written at Lloyd's.

Amend *DISP* 3.1.5G as follows. New text is underlined and deleted text is shown struck-through:

- 3.1.5 G References in this chapter to "*firms*" are to be construed, where relevant, as including:
- (1) in accordance with the *Ombudsman Transitional Order*, *unauthorised persons* subject to the *Compulsory Jurisdiction* in relation to *relevant complaints*; and
 - (2) as a result of section 226 of the *Act*, *unauthorised persons* who were formerly *firms* in respect of complaints about acts or omissions which occurred at the time when they were *authorised*, provided that the *Compulsory Jurisdiction* rules were in force in relation to the activity in question; and
 - (3) *members of the Society of Lloyd's* (see *DISP* 2.5.3G).

Amend *DISP* Sch 4 (Powers exercised) as follows:

- 1 The following powers and related provisions in the *Act* and in the *Ombudsman Transitional Order* have been exercised by the *FSA* to make the *rules* in *DISP*:
- (1) ...
 - ...
 - (4A) ...

(4B) Section 316(1) (Direction by Authority)

(5) ...

...

Annex N

Amendments to the Compensation manual

Amend COMP 1.5.1G as follows. Deleted text is shown struck-through and new text is underlined:

1.5 Application to Lloyd's

1.5.1 G The *FSA* has exercised its power under section 316 of the *Act* (Direction by Authority) to direct in ~~*LLD 8A (Compensation Arrangements for policyholders)*~~ *COMP 1.5.5D* 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 *FSA* 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 X 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*.

...

Insert the following text after COMP 1.5.3G. The text is redesignated and restated text. Amendments to the redesignated text are not shown.

Compensation arrangements for policyholders

1.5.4 G The *insurance market direction* in *COMP 1.5.5D* is intended to protect the interests of *policyholders* and potential *policyholders* by:

- (1) providing for the application of the *compensation scheme* in respect of *contracts of insurance* issued by *members*; and
- (2) providing for the application of such other provisions of the *Act* as will enable the application of the *compensation scheme* to be effective in relation to *insurance market activities* carried on by *members*.

1.5.5 D With effect from 15 October 2003 the following *core provisions* of the *Act* apply to the carrying on of *insurance market activities* by *members*:

- (1) Part X (Rules and guidance) for the purpose of applying the *rules* in *COMP* and relevant interpretative provisions; and
- (2) Part XV (Financial Services Compensation Scheme).

1.5.6 G 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. In particular, with effect from 15 October 2003, references to a *relevant person* in Part XV of the *Act* include a person who was a *member* at the time the act or omission giving rise to the claim against him took place.

Compensation arrangements for individual members

- 1.5.7 G The *compensation scheme* will not compensate *members* or *former members* if *firms* are unable to satisfy claims made in connection with *regulated activities* relating to their participation in Lloyd's *syndicates*. Separate *rules* and *guidance* are therefore needed.
- 1.5.8 R The *Society* must maintain *byelaws* establishing appropriate and effective arrangements to compensate *individual members* and *former members* who were *individual members* if *underwriting agents* are unable, or likely to be unable, to satisfy claims by those *members* relating to *regulated activities* carried on in connection with their participation in Lloyd's *syndicates*.
- 1.5.9 R For the purposes of COMP 1.5.8R "*individual member*" includes a *member* which is a *limited liability partnership* or a *body corporate* whose members consist only of, or of the nominees for, a single natural person or a group of connected persons.
- 1.5.10 G The arrangements referred to in COMP 1.5.8R:
- (1) will not compensate losses arising only as a result of underwriting or investment risk to which *individual members* or *former members* who were *individual members* are or were exposed by their participation in Lloyd's *syndicates*;
 - (2) may be restricted to compensation for losses arising out of fraud, dishonesty or failure to account; and
 - (3) should cover all *regulated activities* carried on by *underwriting agents* relating to Lloyd's *syndicate* capacity and *syndicate* membership.
- 1.5.11 G The arrangements referred to in COMP 1.5.8R should have a governance structure that is operationally independent from the *Society*, but which is nevertheless accountable to the *Society* for the proper administration of the compensation arrangements.
- 1.5.12 R A contravention of COMP 1.5.8R does not give rise to a right of action by a *private person* under section 150 of the *Act* (Actions for damages) and that *rule* is specified under section 150(2) of the *Act* as a provision giving rise to no such right of action.

Amend COMP Sch 4 (Powers exercised) as follows:

The following powers and related provisions in the *Act* and the Financial Services and Markets Act 2000 (Transitional Provisions, Repeals and Savings) (Financial Services Compensation Scheme) Order 2001 ("the *compensation transitionals order*") have been exercised by the *FSA* to make the rules in

COMP:

- (1) ...
- ...
- (9) ...
- (9A) Section 316(1) (Direction by Authority)
- (10) ...
- ...

Amend COMP Schedule 5.2G as follows. New text is underlined:

Chapter/Appendix		Section/Annex	Paragraph	For private person?	Removed	For other person?
<u>COMP 1</u>		<u>5</u>	<u>8</u>	<u>No</u>	<u>Yes</u> – <u>COMP 1.5.11R</u>	<u>No</u>
COMP 13	Funding (all rules)			Yes	No	No
COMP 14.4.6R				Yes	No	No

Annex O

Amendments to the New Collective Investment Schemes sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

COLL TP 1 Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provisions	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
5	<i>COLL 6.9.9R (2) to (6) (Restrictions of business for UCITS management companies)</i>	R	<p><i>UCITS management company must not carry on any of the activities specified in <i>COLL 6.9.9 (2) COLL 6.9.9 (3) COLL 6.9.9 (4) COLL 6.9.9 (5) COLL 6.9.9 (6) COLL 6.9.9R(2) to (6) (inclusive) unless it is a UCITS investment firm:</i></i></p> <p>(a) whose <i>permission to carry on any such activity was given before 13 February 2004;</i> or</p> <p>(b) which complies with Chapter 7 of IPRU <u>(INV)BIPRU</u>.</p>	From 1 April 2004 to 12 February 2007	1 April 2004
6	<i>COLL 6.9.9 (2) COLL 6.9.9 (3) COLL 6.9.9 (4) COLL 6.9.9 (5) COLL 6.9.9 (6) COLL 6.9.9R (2) to (6) (Restrictions of business for UCITS management companies)</i>	G	<p>A <i>UK firm</i> will not be able to act as such and exercise an <i>EEA right</i> under the <i>UCITS Directive</i> unless it complies with Chapter 7 of IPRU <u>(INV)UPRU</u>.</p>		
...					

Annex P

Amendments to the Credit Unions sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

Part 1: consequential amendments taking effect 31 December 2006

Amend CRED App 1.1 as follows:

App 1.1 This is the table referred to in CRED 2.2.2G.

	Sourcebook or manual	Reference code
...
Business Standards	...	
	Integrated Prudential sourcebook	<i>PRU</i>
	<u>General Prudential sourcebook</u>	<u><i>GENPRU</i></u>
	<u>Prudential sourcebook for Insurers</u>	<u><i>INSPRU</i></u>
...

Part 2: consequential amendments taking effect 1 January 2007

Amend CRED App 1.1 as follows:

App 1.1 This is the table referred to in *CRED 2.2.2G*.

	Sourcebook or manual	Reference code
...
Business Standards	...	
	Integrated Prudential sourcebook	<i>PRU</i>
	General Prudential sourcebook	<i>GENPRU</i>
	<u>Prudential sourcebook for Banks, Building Societies and Investment Firms</u>	<u><i>BIPRU</i></u>
	Prudential sourcebook for Insurers	<i>INSPRU</i>
	<u>Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries</u>	<u><i>MIPRU</i></u>
	<u>Prudential sourcebook for UCITS Firms</u>	<u><i>UPRU</i></u>
...

Annex Q

Amendments to the Electronic Money sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

1.1 Application

...

1.1.2 R Table Application of different chapters of *ELM* (except for an *incoming EEA firm* or an *incoming Treaty firm*)

(1) Chapter	(2) Categories of person to which chapter applies	(3) Applicable rules and guidance
...
5 (Systems and controls; Rules of making calculations) (Note 1)	An <i>ELMI</i> An <i>e-money firm</i> that is not an <i>ELMI</i>	The whole chapter <i>ELM</i> 5.1, <i>ELM</i> 5.2 and <i>ELM</i> 5.4
...
<u>Note 1 = <i>ELM</i> 5.1.2 and <i>ELM</i> 5.1.3 contain further application statements with respect to <i>ELM</i> 5.4A.</u>		

...

1.2 Contents and purpose

...

1.2.3 G *ELM* implements the parts of the *E-Money Directive* and (for *ELMIs*) the *Banking Consolidation Directive* dealing with these topics. As from 1 January 2007 the version of the *Banking Consolidation Directive* in force when the *E-Money Directive* came into force (Directive 2000/12/EC) was replaced by the current version. The *FSA's* policy in implementing the parts of the *Banking Consolidation Directive* that apply to *ELMIs* is generally that the current version of the *Banking Consolidation Directive* applies except that generally:

- (1) *ELM* does not implement provisions of the current version of the *Banking Consolidation Directive* that have no counterpart in the previous version; and
- (2) where the *E-Money Directive* applied a part of the previous version of the *Banking Consolidation Directive* that does not have a direct counterpart in the current version, *ELM* continues to implement the

previous version.

...

1.5.2 G Application of other parts of the Handbook to *ELMIs*

Block	Module	Application
High level standards	... Senior management arrangements, systems and controls (<i>SYSC</i>)	... <u><i>SYSC 1 (Application and purpose), SYSC 2 (Senior management arrangements), SYSC 3 (Systems and controls), SYSC 12.1 (Group risk systems and control requirement) and SYSC 18 (Guidance on Public Interest Disclosure Act: Whistleblowing)</i></u> applies to every <i>ELMI</i> .
...
Business Standards	Interim Prudential sourcebooks: <i>IPRU(INS)</i> , <i>IPRU(FSOC)</i> , <i>IPRU(BANK)</i> , <i>IPRU(BSOC)</i> and <i>IPRU(INV)</i> Integrated Prudential Sourcebook (<i>PRU</i>)	<i>ELM 7 (Consolidated financial supervision)</i> applies <i>IPRU(BANK), IPRU(BSOC) and IPRU(INV)</i> to certain <i>ELMIs</i> who are members of a <i>group</i> . Chapter NE of <i>IPRU(BANK)</i> is relevant to <i>ELM 3.5.16R</i> , as described in <i>ELM 3.5.20G</i> . Otherwise, † These sourcebooks do not apply to <i>ELMIs</i> .
	<u>Prudential sourcebook for Banks, Building Societies and Investment Firms (<i>BIPRU</i>)</u>	<i>ELM 7 (Consolidated financial supervision)</i> applies <i>BIPRU 8 (Group risk-consolidation)</i> to certain <i>ELMIs</i> who are members of a <i>group</i> .
	The integrated Prudential Sourcebook (<i>PRU</i>) <u>General Prudential sourcebook (<i>GENPRU</i>)</u>	<i>PRU 1.8 (Action for damages), PRU 8.1 (Group risk systems and controls requirement), PRU 8.4</i> <u><i>GENPRU 1.4 (Actions for damages), GENPRU 3.1 (Cross sector groups), PRU 8.5</i></u> <i>GENPRU 3.2 (Third country groups), PRU 8</i> <u><i>GENPRU 3 Ann 1R (Capital adequacy calculations for financial conglomerates), PRU 8</i></u> <i>GENPRU 3 Ann 2R (Prudential rules for third country groups), PRU</i>

		<p><u>8GENPRU 3 Ann 3G</u> (Financial conglomerates: Cooperative decision making by competent authorities and consultation) and <u>PRU 8GENPRU 3 Ann 4GR</u> (Classification of groups) apply to an <i>ELMI</i>.</p>
...	<p><u>Other sourcebooks in Prudential Standards (Block 2): Prudential sourcebook for Insurers (INSPRU), Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) and Prudential sourcebook for UCITS Firms (UPRU)</u></p> <p>...</p>	<p><u>These sourcebooks do not apply to <i>ELMIs</i>.</u></p> <p>...</p>
Specialist sourcebooks other than <i>ELM</i>	<p>Credit unions (<i>CRED</i>), Professional firms, (<i>PROF</i>), Lloyd's (<i>LLD</i>), Collective Investment Schemes (<i>CIS</i>) or <i>COLL</i> and Recognised Investment Exchanges and Recognised Clearing Houses (<i>REC</i>).</p>	<p>These sourcebooks do not apply to an <i>ELMI</i>.</p>
...

...

2.4 Calculation of initial capital and own funds

...

2.4.13 R Subordinated debt capital does not form part of a *firm's upper tier two capital* unless the following requirements are met (in addition to those in *ELM 2.4.11 R*):

(1) ...

...

(4) the subordinated debt capital complies with the conditions in article ~~356~~363(2)(d) of the *Banking Consolidation Directive*;

...

...

2.4.16 G *ELM 2.4.13 R (4) refers to article 3563(2)(d) of the Banking Consolidation Directive. This article says that the documents governing the issue of the [subordinated debt capital] must provide for debt and unpaid interest to be such as to absorb losses, whilst leaving the [firm] in a position to continue trading. Compliance with the other conditions of ELM 2.4.11 R and ELM 2.4.13 R will usually ensure that a firm complies with article 3563(2)(d). ...*

2.4.17 R Material holdings

(1) ...

...

(6) An item falls into this paragraph if it is a subordinated debt or other item of capital that:

(a) ...

(b) (in the case of a *relevant financial services company* or *financial institution*) falls into Article 3563 or Article 3664(3) of the *Banking Consolidation Directive*.

...

2.4.20 R Adjustments to own funds

In accordance with article 34(4)61 of the *Banking Consolidation Directive*, *tier one capital* and revaluation reserves must not be included within a *firm's own funds* to the extent that those items do not represent capital that is available to the *firm* for unrestricted and immediate use to cover risks and losses as soon as these occur, whether because of taxation charges, any future foreseeable taxation charges or for any other reason.

...

2.4.22 R Exclusion from own funds

In accordance with article 64(4) of the *Banking Consolidation Directive*, the fair value reserves related to gains or losses on cash flow hedges of *financial instruments* measured at amortised cost or any gains or losses on their liabilities valued at fair value that are due to changes in the *firm's* own credit standing must not be included within a *firm's* own funds.

2.4.23 G *ELM 2.4.22R* reflects article 64(4) of the *Banking Consolidation Directive*.

...

3.5 Large exposure risk

...

3.5.17 R A *firm* may not recognise the benefits of collateral under *ELM 3.5.14R*

unless:

- (1) ...
- (2) the *securities* are listed on a *recognised investment exchange* or *designated investment exchange*; ~~and~~
- (3) ...
 - (a) ...
 - (b) ...
 - (c) the percentage figure is 150% rather than 200% in the case of *debentures* or *government and public securities* issued by regional or local authorities of an *EEA State* or by a *multilateral development bank*; and
- (4) the securities issued by any credit institution do not form part of its regulatory capital resources.

...

3.5.20 G [Deleted]

...

5.1 Application

...

5.1.2 R ELM 5.4A applies with respect to the carrying on of:

- (1) regulated activities; and
- (2) ancillary activities in relation to regulated activities.

5.1.3 R ELM 5.4A also:

- (1) applies with respect to the carrying on of unregulated activities in a prudential context; and
- (2) takes into account any activity of other members of a group of which the firm is a member.

5.2 Purpose

...

5.2.6 G This chapter implements article 7 of the *E-money Directive* and (for *ELMIs*) articles ~~6~~11(1) and 22 of the *Banking Consolidation Directive*.

5.3 Business to be directed by at least two individuals

...

5.3.2 G *ELM 5.3.1 R*, sometimes known as the 'four eyes requirement', provides that at least two individuals must effectively direct the business of a *firm*. Compliance with the *rule* would help to establish a *firm's* compliance with *Principle 3* ('Management and control') and its continued meeting of the *threshold condition 5* ('Suitability'). It also reflects the requirement in Article 611(1) of the *Banking Consolidation Directive*.

...

5.4A Organisation and internal control mechanisms

5.4A.1 R 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 adequate internal control mechanisms, including sound administrative and accounting procedures.

5.4A.2 R The arrangements, processes and mechanisms referred to in *ELM 5.4A.1R* must be comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

5.4A.3 G *ELM 5.4A.1R* and *ELM 5.4A.2R* reflect article 22 of the *Banking Consolidation Directive*.

...

6.2 Purpose

...

6.2.3 G This chapter implements article 3 of the *E-Money Directive* and article 33a of the previous version of the *Banking Consolidation Directive (Directive 2000/12/EC)*.

...

6.5 Methods of redemption

...

6.5.4 G *ELM 6.5.1 R* reflects article 3(1) of the *E-Money Directive* and article 33a of the previous version of the *Banking Consolidation Directive (Directive 2000/12/EC)*. Neither *ELM 6.5.1 R* nor *ELM 6.5.2 R* takes precedence over the other. A *firm* must therefore organise its affairs so that it can comply with both *rules*.

...

7.3 Consolidated capital adequacy

7.3.1 R If:

(1) ...

(2) another member of that *group* (firm B) is a *firm* that is subject to

BIPRU 8 an FSA consolidation rule;

- (3) ...
- (4) firm A is included in the scope of the consolidation under BIPRU 8 ~~the FSA consolidation rule~~ as it applies to firm B;

firm A must comply with BIPRU 8 as it applies to firm B except that the rules in BIPRU 8 relating to non-EEA sub-group do not apply, ~~at all times, maintain capital resources (calculated in accordance with the relevant rules)~~ at a level that ensures that, taking into account (in the manner and to the extent provided for in those rules) the capital resources of other members of the group, firm B complies with the FSA consolidation rules applicable to it. If there is more than one firm in the group that fits the description of firm B, the obligation of this rule applies in relation to all of them.

7.3.2 R If:

- (1) ELM 7.3.1R does not apply to a firm;
- (2) the firm is a member of an EEA consolidated group ~~or UK consolidated group~~;
- (3) there is a full credit institution or an investment firm in that EEA consolidated group ~~or UK consolidated group~~; and
- (4) the undertaking in (3) is in the firm's immediate group; and
- (5) that EEA consolidated group is not subject to supervision on a consolidated basis by a competent authority of another EEA State under the Banking Consolidation Directive, the E-Money Directive or the Capital Adequacy Directive;

the firm must comply with BIPRU 8 with respect to that EEA consolidated group as follows:

~~at all times, maintain capital resources (calculated in accordance with the relevant rule) at a level that ensures that, taking into account (in the manner and to the extent provided for in that rule) the capital resources of other members of the firm's group, the firm would comply with BIPRU 8 as it the bank consolidation rules if it applied to the firm.~~

- (6) BIPRU 8 applies as it does to a bank in a UK consolidation group; and
- (7) the rules in BIPRU 8 relating to non-EEA sub-group do not apply.

7.3.2A R If:

- (1) ELM 7.3.1R and ELM 7.3.2R do not apply to a firm;
- (2) the firm is a member of an UK consolidated group;
- (3) there is a full credit institution or an investment firm in that UK

consolidated group; and

(4) the undertaking in (3) is in the firm's immediate group;

the firm must, at all times, maintain capital resources (calculated in accordance with the relevant rule) at a level that ensures that, taking into account (in the manner and to the extent provided for in that rule) the capital resources of other members of the firm's group, the firm would comply with BIPRU 8 as it applies when there is a bank in the UK consolidation group if it applied to the firm. For the purposes of ELM 7.3.3R, the rules in BIPRU 8 apply to the UK consolidated group in the same way as they apply to a UK consolidation group under BIPRU 8. The rules in BIPRU 8 relating to non-EEA sub-group do not apply.

7.3.3 R If:

(1) ELM 7.3.1R, ELM 7.3.2R and ELM 7.3.2AR do not apply to a firm;

(2) ...

7.3.4 R If:

(1) ELM 7.3.1R, ELM 7.3.2R, ELM 7.3.2AR and ELM 7.3.3 do not apply to a firm; and

(2)

7.5 Calculation of capital adequacy on a consolidated basis

EEA group risk own funds

7.5.1 R

(3) the adjustments provided for in article ~~6537~~ of the *Banking Consolidation Directive* apply (if required by the *Banking Consolidation Directive*), in accordance with (1);

...

7.7 Waiver

7.7.1 G Article ~~7352(3)~~ of the *Banking Consolidation Directive* says that competent authorities responsible for the exercising supervision on a consolidated basis may decide that a *credit institution, financial institution or ancillary services undertaking auxiliary banking services undertaking* which is a subsidiary or in which a *participation* is held need not be included in the consolidation in certain cases. ...

(1) ~~where if the undertaking concerned that should be included~~ is situated in a third country where there are legal impediments to the transfer of the necessary information;

(2) if, 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 that should be*

~~included~~ would be inappropriate or misleading as far as the objectives of the supervision of *credit institutions* are concerned.

...

7.8 Summary of consolidation rules

...

7.8.3 G ~~ELM 7.3.1R says that if the *firm* is part of a *group* that is subject to consolidated supervision under *IPRU(BANK)*, *IPRU(BSOC)* or *IPRU(INV)*, consolidated supervision of the *firm* will also be carried out under those rules.~~

Broadly speaking, *ELM 7.3.1R* to *ELM 7.3.2AR* apply the consolidation rules in *BIPRU 8* to an *ELMI*.

7.8.4 G ~~*ELM 7.3.12R* says, broadly, that if *ELM 7.3.1R* does not apply but the *firm* is part of a *group* with a *full credit institutions* or *investment firm* as a member the *banking consolidation rule* applies. This means that the *firm* will be subject to the consolidation requirements for *banks*. These can be found in chapter CS of *IPRU(BANK)* (consolidated supervision).~~

If an *ELMI* is a member of a *group* that has another member in it subject to *BIPRU 8*, then *ELM 7.3.1R* applies *BIPRU 8* to the *ELMI* in the same way as it applies to the other *firm*.

7.8.5 G ~~Generally, the guidance in *IPRU(BANK)* says if a *firm* is part of a *group* subject to lead supervision under the EU banking or investment services Directives by a competent authority in another *EEA State*, consolidates supervision in accordance with *BIPRU 8* the detailed quantitative guidance in *IPRU(BANK)* does not apply at the level of the *EEA group*. Instead it applies at the level of the *UK sub-group*.~~

ELM 7.3.2R and *ELM 7.3.2AR* say that where *ELM 7.3.1R* does not apply, *BIPRU 8* applies to the *ELMI* if there is a *full credit institution* or *investment firm* in the *group*. If the *ELMI* is part of an *EEA consolidated group* of which the *FSA* is the lead regulator, *BIPRU 8* applies to that *EEA consolidated group*. If the *ELMI* is not part of such a *group* or another *EEA competent authority* is lead regulator for the *EEA consolidated group*, then *BIPRU 8* applies to the *UK consolidated group* of the *ELMI*.

...

7.8.10 G ~~If a *firm* is part of a *financial conglomerate*, the provisions of *GENPRU 3.1 PRU 8.4* apply. If a *firm* is part of a *third-country group*, the provisions of *GENPRU 3.2 PRU 8.5* apply.~~

Annex R

Amendments to the Lloyd's Sourcebook

1. The provisions of the Lloyd's sourcebook referred to in column (1) of the Table in this Annex R are redesignated as set out in column (2) of that Table, in accordance with paragraph D of this instrument.
2. So far as not redesignated by the following instruments, the whole of the Lloyd's sourcebook is deleted:
 - (a) the General Prudential Sourcebook Instrument 2006 (Annex A);
 - (b) the Prudential Sourcebook for Insurers Instrument 2006 (Annex A);
 - (c) the CRD (Consequential Amendments) Instrument 2006 (Annex R).

Table - redesignation of LLD provisions

The table referred to in paragraph D of this instrument is as follows:

Current location of LLD provisions	Destination	Location of restated LLD text
2.2.1 D	SUP 15.3.22 D	Annex L
2.3.1 D	SUP 15.3.23 D	Annex L
2.4.1 D	SUP 15.3.24 D	Annex L
2.4.2 D	SUP 15.3.25 D	Annex L
3.3.1 R	IPRU (INS) 9.61 (1)	Annex G
3.3.2 R	IPRU (INS) 9.61 (2)	Annex G
3.3.3 G	IPRU (INS) 9.72(1)	Annex G
3.3.4 G	IPRU (INS) 9.72(2)	Annex G
4.3.1 R	IPRU (INS) 9.62 (1)	Annex G
4.3.2 R	IPRU (INS) 9.62 (2)	Annex G
6.1.1 G	DISP 2.5.3 G	Annex M
6.2.1 D	DISP 2.5.4 D	Annex M
7.1.2 R	DISP 1.7.22R	Annex M
7.1.4 G	DISP 1.7.13 G	Annex M
7.2.1 R	DISP 1.7.14 R	Annex M
7.5.1 R	DISP 1.7.15 R	Annex M
7.5.2 R	DISP 1.7.16 R	Annex M
7.5.3 G	DISP 1.7.17 G	Annex M
7.5.4 G	DISP 1.7.18 G	Annex M
7.5.5 G	DISP 1.7.19 G	Annex M
7.5.6 G	DISP 1.7.20 G	Annex M
7.5.7 G	DISP 1.7.21 G	Annex M
8.1.2R	COMP 1.5.12R	Annex N
8.1.4 G	COMP 1.5.7 G	Annex N
8.2.1 R	COMP 1.5.8 R	Annex N
8.2.2 R	COMP 1.5.9 R	Annex N
8.2.3 G	COMP 1.5.10 G	Annex N
8.2.4 G	COMP 1.5.11 G	Annex N
8A.1.2 G	COMP 1.5.4 G	Annex N
8A.2.1 D	COMP 1.5.5 D	Annex N
8A.2.2 G	COMP 1.5.6 G	Annex N
15.1.1 R	IPRU (INS) 9.47	Annex G
15.1.4 G	IPRU (INS) 9.63 (1)	Annex G
15.1.5 G	IPRU (INS) 9.63 (2)	Annex G
15.1.5A G	IPRU (INS) 9.63 (3)	Annex G
15.1.8 G	IPRU (INS) 9.63 (4)	Annex G
15.2.1 R	IPRU (INS) 9.48 (1)	Annex G
15.2.2 R	IPRU (INS) 9.48 (2)	Annex G
15.2.3 R	IPRU (INS) 9.48 (3)	Annex G
15.2.4 R	IPRU (INS) 9.48 (4)	Annex G
15.2.5 R	IPRU (INS) 9.48 (5)	Annex G
15.2.6 R	IPRU (INS) 9.48 (6)	Annex G
15.2.7 G	IPRU (INS) 9.64	Annex G
15.3.1 R	IPRU (INS) 9.49 (1)	Annex G

15.3.2 R	IPRU (INS) 9.49 (2)	Annex G
15.3.3 R	IPRU (INS) 9.49 (3)	Annex G
15.3.4 R	IPRU (INS) 9.49 (4)	Annex G
15.3.5 R	IPRU (INS) 9.49 (5)	Annex G
15.3.6 R	IPRU (INS) 9.49 (6)	Annex G
15.3.7 R	IPRU (INS) 9.49 (7)	Annex G
15.4.1 R	IPRU (INS) 9.50 (1)	Annex G
15.4.2 R	IPRU (INS) 9.50 (2)	Annex G
15.4.3 G	IPRU (INS) 9.65 (1)	Annex G
15.4.4 G	IPRU (INS) 9.65 (2)	Annex G
15.4.5 G	IPRU (INS) 9.65 (3)	Annex G
15.4.6 G	IPRU (INS) 9.65 (4)	Annex G
15.4.8 R	IPRU (INS) 9.50 (3)	Annex G
15.5.1 R	IPRU (INS) 9.51 (1)	Annex G
15.5.2 R	IPRU (INS) 9.51 (2)	Annex G
15.5.3 G	IPRU (INS) 9.66	Annex G
15.5.4 G	IPRU (INS) 9.51 (4)	Annex G
15.5.6 R	IPRU (INS) 9.51 (3)	Annex G
15.6.1 R	IPRU (INS) 9.52 (1)	Annex G
15.6.2 R	IPRU (INS) 9.52 (2)	Annex G
15.6.3 G	IPRU (INS) 9.67	Annex G
15.6.4 R	IPRU (INS) 9.52 (3)	Annex G
15.7.1 R	IPRU (INS) 9.53 (1)	Annex G
15.7.2 R	IPRU (INS) 9.53 (2)	Annex G
15.7.3 G	IPRU (INS) 9.68	Annex G
15.7.4 R	IPRU (INS) 9.53 (3)	Annex G
15.8.1 R	IPRU (INS) 9.54 (1)	Annex G
15.8.2 G	IPRU (INS) 9.69	Annex G
15.8.3 G	IPRU (INS) 9.70	Annex G
15.8.4 R	IPRU (INS) 9.54 (2)	Annex G
15.8.5 R	IPRU (INS) 9.55 (1)	Annex G
15.8.6 R	IPRU (INS) 9.71	Annex G
15.8.7 R	IPRU (INS) 9.56 (1)	Annex G
15.8.8 R	IPRU (INS) 9.57 (1)	Annex G
15.8.9 R	IPRU (INS) 9.57 (2)	Annex G
15.9.1 R	IPRU (INS) 9.58 (1)	Annex G
15.9.2 R	IPRU (INS) 9.58 (2)	Annex G
15.9.3 R	IPRU (INS) 9.58 (3)	Annex G
15.11.2 R	IPRU (INS) 9.59 (1)	Annex G
15.13.1 R	IPRU (INS) 9.60 (1)	Annex G
15.13.2 R	IPRU (INS) 9.60 (2)	Annex G
15.13.3 R	IPRU (INS) 9.60 (3)	Annex G
15.13.4 R	IPRU (INS) 9.60 (4)	Annex G
15.13.5 R	IPRU (INS) Appendix 9.17	Annex G
15.13.6 R	IPRU (INS) 9.60 (5)	Annex G
15.13.6AG	IPRU (INS) 9.63 (1)	Annex G
15.13.7 R	IPRU (INS) 9.60 (6)	Annex G
15.13.8 R	IPRU (INS) Appendix 9.18	Annex G
15.13.9 R	IPRU (INS) 9.60 (7)	Annex G
15 Annex 1 R	IPRU (INS) Appendix 9.11	Annex G
15 Annex 2 R	IPRU (INS) Appendix 9.12	Annex G

15 Annex 3 R	IPRU (INS) Appendix 9.13	Annex G
15 Annex 4 R	IPRU (INS) Appendix 9.14	Annex G
15 Annex 5 R	IPRU (INS) Appendix 9.15	Annex G
15 Annex 6 R	IPRU (INS) Appendix 9.16	Annex G
25.2.1 R	SUP APP 2.16.1 R	Annex L
25.3.1 R	SUP APP 2.16.2 R	Annex L
25.5.1 R	SUP APP 2.16.3 R	Annex L
25.6.1 R	SUP APP 2.16.4 R	Annex L
25.7.1 R	SUP APP 2.16.5 R	Annex L
25.8.1 G	SUP APP 2.16.6 G	Annex L

Annex S

Amendments to the Listing Rules

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend LR App 1.1 as follows:

App 1.1 Relevant definitions

...

- bank* (a) a *firm* with a *Part IV permission* which includes *accepting deposits*, and:
- (i) which is a *credit institution*; or
 - (ii) whose *Part IV permission* includes a *requirement* that it comply with ~~IPRU(BANK)~~the rules in GENPRU and BIPRU relating to banks;

but which is not a *building society*, a *friendly society* or a *credit union*;

- (b) ...

Annex T

Amendments to the Handbook consequential on the redesignation of PRU

1. The references in the provisions of the *Handbook* specified in column (2) of Tables 1 and 2 in this Annex T to the provisions in column (3) of those Tables are replaced with references to the corresponding provisions in column (4) of those Tables.
2. A reference in the *Handbook* (other than those mentioned specifically elsewhere in this CRD (Consequential Amendments) Instrument 2006) to a provision in column (1) of the Table in Annex A to the General Prudential Sourcebook Instrument 2006 is replaced with a reference to the corresponding provision in column (2) of that Table.
3. A reference in the *Handbook* (other than those mentioned specifically elsewhere in this instrument) to a provision in column (2) of the Table in Annex A (Creation of INSPRU) to the Prudential Sourcebook for Insurers Instrument 2006 is replaced with a reference to the corresponding provision in column (1) of that Table.

Part 1: Amendments taking effect on 31 December 2006

Table 1

(1) Sourcebook or manual	(2) Provision	(3) PRU reference	(4) New reference
COND	2.6.5G(2)	PRU	GENPRU
	2.6.5G(3)	PRU 7.6	INSPRU 1.5
COB	6.12.12G(2)	PRU 2 PRU 4 PRU 7	GENPRU 2 INSPRU 3 INSPRU 1
	6.12.24R(2)(a)	PRU 7.4.119R PRU 7.4.123R	INSPRU 1.3.119R INSPRU 1.3.123R
	6.12.51R(2)	PRU 7.3.33R	INSPRU 1.2.33R
	TP 4 paragraph14	PRU 7.4	INSPRU 1.3
ICOB	1.2.2G(2)	PRU 7.6.13R	INSPRU 1.5.13R
	4.2.13G(2)	PRU 7.6.13R	INSPRU 1.5.13R
SUP	4.3.13(3)	PRU 7.4	INSPRU 1.3
	4.3.14G	PRU 7.4	INSPRU 1.3
	4.3.16A R(2)	PRU 7.4	INSPRU 1.3
	8.2.7	PRU	INSPRU
	App 2.2.1R(1)(b)	PRU 8.3.45R PRU 8.3.43R	INSPRU 6.1.45R INSPRU 6.1.43R
	App 2.2.1R(1)(c)	PRU 2.2.12R	GENPRU 2.2.17R
	App 2.2.1R(2)(b)	PRU 8.3.45R(2)	INSPRU 6.1.45R(2)
	App 2.2.1R(2)(c)	PRU 2.2.18R	GENPRU 2.2.34R
	App 2.2.1R(2)(d)	PRU 2.2.17R	GENPRU 2.2.33R
	App 2.2.1R(4)(b)	PRU 8.3.45R(3)(c) PRU 8.3.45R(3)(d) PRU 8.3.45R(3)(f)	INSPRU 6.1.45R(3)(c) INSPRU 6.1.45R(3)(d) INSPRU 6.1.45R(3)(f)
	App 2.2.2G	PRU 2.1	GENPRU 2.1
	App 2.3.7G	PRU 1.2.22R	GENPRU 1.2.26R
	App 2.5.1R(2)	PRU 2.2.16R PRU 2.2.24R PRU 8.3.45R(1)(a) PRU 8.3.45R(1)(b)	GENPRU 2.2.32R GENPRU 2.2.28R INSPRU 6.1.45R(1)(a) INSPRU 6.1.45R(1)(b)
	App 2.5.1R(4)(b)	PRU 2.2.16R PRU 2.2.24R PRU 8.3.45R(1)(a) PRU 8.3.45R(1)(b)	GENPRU 2.2.32R GENPRU 2.2.28R INSPRU 6.1.45R(1)(a) INSPRU 6.1.45R(1)(b)
	App 2.5.3R(4)(a)	PRU 2.2.16R PRU 2.2.24R PRU 8.3.45R(1)(a) PRU 8.3.45R(1)(b)	GENPRU 2.2.32R GENPRU 2.2.28R INSPRU 6.1.45R(1)(a) INSPRU 6.1.45R(1)(b)
	App 2.5.3R(4)(b)	PRU 2.2.16R PRU 2.2.24R PRU 8.3.45R(1)(a)	GENPRU 2.2.32R GENPRU 2.2.28R INSPRU 6.1.45R(1)(a)
		PRU 8.3.45R(1)(b)	INSPRU 6.1.45R(1)(b)
	App 2.7.5G	PRU 1.2.22R	GENPRU 1.2.26R

(1) Sourcebook or manual	(2) Provision	(3) PRU reference	(4) New reference
	App 2.12.5G	PRU 2.1 PRU 2.2 PRU 8.3	GENPRU 2.1 GENPRU 2.2 INSPRU 6.1
	App 2.12.6G	PRU 2.2.10G	GENPRU 2.2.22G
	App 2.15.11G(1)	PRU 2.3	INSPRU 7.1
ENF	13.6.3G	PRU 7.6.33R	INSPRU 1.5.33R

Part 2: Amendments taking effect on 1 January 2007

Table 2

(1) Sourcebook or manual	(2) Provision	(3) PRU reference	(4) New reference
SUP	7.3.2G(4)	PRU 8.4	GENPRU 3.1
	11.5.4A	PRU 8.4 PRU 8.5	GENPRU 3.1 GENPRU 3.2
DEC	4.1.8G(4A)	PRU 8.4.50R	GENPRU 3.1.30R

Annex U

Amendments to the Handbook consequential on the redesignation of LLD

1. A reference in the *Handbook* (other than those mentioned specifically elsewhere in this instrument) to a provision in column (1) of the Table in Annex R (Amendments to the Lloyd's sourcebook) is replaced with a reference to the corresponding provision in column (2) of that Table.
2. A reference in the *Handbook* (other than those mentioned specifically elsewhere in this instrument) to a provision in column (2) of Table 1 and Table 2 in this Annex U is replaced with a reference to the corresponding provision in column (1) of those Tables.

Table 1 – LLD to INSPRU

INSPRU	Current designation in LLD
1.1.93 R	LLD 24.3.1 R
1.1.94 R	LLD 24.3.2 R
1.1.95 R	LLD 24.3.5 R
1.1.96 R	LLD 24.3.6 R
1.2.92 R	LLD 24.4.1 R
1.2.93 R	LLD 24.4.2 R
1.4.49 R	LLD 24.5.1 R
1.4.50 R	LLD 24.5.2 R
1.4.51 R	LLD 24.5.3 R
1.5.58 R	LLD 24.6.1 R
1.5.59 R	LLD 24.6.2 R
1.5.60 R	LLD 24.6.3 R
2.1.42 R	LLD 20.3.1 R
2.1.43 R	LLD 20.3.2 R
2.1.44 G	LLD 20.3.3 G
2.1.45 R	LLD 20.3.4 R
2.1.46 R	LLD 20.3.5 R
2.1.47 R	LLD 20.3.6 R
2.1.48 R	LLD 20.3.7 R
2.1.49 R	LLD 20.3.8 R
2.2.17 R	LLD 20.4.1 R
2.2.18 G	LLD 20.4.2 G
3.1.62 R	LLD 21.3.1 R
3.1.63 R	LLD 21.3.2 R
3.1.64 R	LLD 21.3.3 R
3.1.65 R	LLD 21.3.4 R
3.1.66 R	LLD 21.3.6 R
3.2.43 R	LLD 21.4.1 R
4.1.69 R	LLD 22.2.1 R

4.1.70 G	LLD 22.2.2 R
5.1.24 G	LLD 23.2.1 R
5.1.25 G	LLD 23.2.2 R
7.1.57 R	LLD 19.4.1 R
7.1.58 R	LLD 19.4.2 R
7.1.59 G	LLD 19.4.5 G
7.1.60 R	LLD 19.4.6 R
7.1.61 R	LLD 19.4.7 R
7.1.62 R	LLD 19.4.8 R
7.1.63 G	LLD 19.4.9 G
7.1.64 G	LLD 19.4.11 G
7.1.65 G	LLD 19.4.12 G
7.1.66 G	LLD 19.4.13 G
7.1.67 G	LLD 19.4.14 G
7.1.68 R	LLD 19.4.15 R
7.1.69 R	LLD 19.4.16 R
7.1.70 R	LLD 19.4.17 R
7.1.71 G	LLD 19.4.18 G
7.1.72 G	LLD 19.4.19 G
7.1.73 G	LLD 19.4.21 G
7.1.74 R	LLD 19.4.23 R
7.1.75 R	LLD 19.4.24 R
8.1.1 R	LLD 16.2.1 R
8.1.2 R	LLD 16.3.1 R
8.1.3 G	LLD 16.3.2 G
8.1.4 R	LLD 16.3.3 R
8.1.5 G	LLD 16.3.4 G
8.1.6 G	LLD 16.3.5 G
8.1.7 G	LLD 16.3.6 G
8.1.8 G	LLD 16.4.1 G
8.2.1 R	LLD 17.2.1 R
8.2.2 R	LLD 17.3.1 R
8.2.3 R	LLD 17.4.1 R
8.2.4 R	LLD 17.4.3 R
8.2.5 R	LLD 17.4.4 R

8.2.6 R	LLD 17.4.6 R
8.2.7 G	LLD 17.4.12 G
8.2.8 R	LLD 17.4.7 R
8.2.9 R	LLD 17.4.8 R
8.2.10 G	LLD 17.4.9 G
8.2.11 R	LLD 17.4.13 R
8.2.12 R	LLD 17.4.14 R
8.2.13 R	LLD 17.4.15 R
8.2.14 G	LLD 17.5.1 G
8.2.15 G	LLD 17.5.2 G
8.2.16 R	LLD 17.5.3 R
8.2.17 R	LLD 17.6.1 R
8.2.18 R	LLD 17.6.2 R
8.2.19 R	LLD 17.7.1 R
8.2.20 R	LLD 17.7.2 R
8.2.21 R	LLD 17.7.3 R
8.2.22 R	LLD 17.7.4 R
8.2.23 R	LLD 17.8.1 R
8.2.24 R	LLD 17.8.2 R
8.2.25 R	LLD 17.8.3 R
8.2.26 R	LLD 17.8.4 R
8.2.27 G	LLD 17.8.5 G
8.2.28 R	LLD 17.8.6 R
8.2.29 G	LLD 17.8.7 G
8.3.1 R	LLD 3.1.1 R
8.3.2 G	LLD 3.1.3 G
8.3.3 D	LLD 3.1.4 D
8.3.4 D	LLD 3.1.5 D
8.3.5 G	LLD 3.2.1 G
8.3.6 G	LLD 3.2.2 G
8.3.7 D	LLD 3.2.3 D
8.4.1 R	LLD 4.1.1 R
8.4.2 G	LLD 4.1.3 G
8.4.3 R	LLD 4.2.1 R
8.4.4 G	LLD 4.2.2 G
8.4.5 G	LLD 4.2.3 G

8.4.6 G	LLD 4.2.5 G
8.4.7 G	LLD 4.2.7 G
8.5.1 R	LLD 5.1.1 R
8.5.2 G	LLD 5.1.3 G
8.5.3 R	LLD 5.2.1 R
8.5.4 R	LLD 5.2.2 R
8.6.1 R	LLD 18.4.1 R
8.6.2 R	LLD 18.4.2 R
8.6.3 R	LLD 20.2.1 R, LLD 21.2.1 R and LLD 22.2.1 R
8.6.4 R	LLD 24.2.1 R
8.6.5 R	LLD 20.2.2R, LLD 21.2.22R and LLD 22.2.2R

Table 2 – LLD to GENPRU

GENPRU	Current designation in LLD
GENPRU 1.5.1 R	LLD 18.2.1 R
GENPRU 1.5.2 R	LLD 18.2.2 R
GENPRU 1.5.3 G	LLD 18.2.3 G
GENPRU 1.5.4 G	LLD 18.2.4 G
GENPRU 1.5.5 D	LLD 18.2.5 D
GENPRU 1.5.6 G	LLD 18.2.6 G
GENPRU 1.5.7 R	LLD 18.2.7 R
GENPRU 1.5.8 G	LLD 18.2.8 G
GENPRU 1.5.9 G	LLD 18.2.9 G
GENPRU 1.5.10 R	LLD 18.3.1 R
GENPRU 1.5.11 R	LLD 18.3.2 R
GENPRU 1.5.12 R	LLD 18.3.4 R
GENPRU 1.5.13 R	LLD 18.3.5 R
GENPRU 1.5.14 R	LLD 18.3.6 R
GENPRU 1.5.15 R	LLD 18.3.7 R
GENPRU 1.5.16 R	LLD 18.3.8 R
GENPRU 1.5.17 R	LLD 18.3.11 R
GENPRU 1.5.18 R	LLD 18.3.12 R
GENPRU 1.5.19 R	LLD 18.3.13 R
GENPRU 1.5.20 G	LLD 18.3.14 G
GENPRU 1.5.21 R	LLD 18.3.15 R
GENPRU 1.5.22 R	LLD 18.3.16 R
GENPRU 1.5.23 R	LLD 18.3.17 R
GENPRU 1.5.24 G	LLD 18.3.18 G
GENPRU 1.5.25 R	LLD 18.3.19 R
GENPRU 1.5.26 G	LLD 18.3.20 G
GENPRU 2.3.1 R	LLD 19.2.1 R
GENPRU 2.3.2 R	LLD 19.2.2 R
GENPRU 2.3.3 G	LLD 19.2.3 G
GENPRU 2.3.4 G	LLD 19.2.4 G
GENPRU 2.3.5 R	LLD 19.2.5 R
GENPRU 2.3.6 R	LLD 19.2.6 R
GENPRU 2.3.7 R	LLD 19.2.7 R

GENPRU 2.3.8 R	LLD 19.2.8 R
GENPRU 2.3.9 R	LLD 19.2.9 R
GENPRU 2.3.10 R	LLD 19.2.10 R
GENPRU 2.3.11 R	LLD 19.2.11 R
GENPRU 2.3.12 G	LLD 19.2.12 G
GENPRU 2.3.13 R	LLD 19.2.13 R
GENPRU 2.3.14 R	LLD 19.2.15 R
GENPRU 2.3.15 R	LLD 19.3.1 R
GENPRU 2.3.16 G	LLD 19.3.2 G
GENPRU 2.3.17 R	LLD 19.3.3 R
GENPRU 2.3.18 R	LLD 19.3.4 R
GENPRU 2.3.19 R	LLD 19.3.5 R
GENPRU 2.3.20 R	LLD 19.3.6 R
GENPRU 2.3.21 R	LLD 19.3.7 R
GENPRU 2.3.22 G	LLD 19.3.8 G
GENPRU 2.3.23 R	LLD 19.3.9 R
GENPRU 2.3.24 R	LLD 19.3.10 R
GENPRU 2.3.25 R	LLD 19.3.11 R
GENPRU 2.3.26 R	LLD 19.3.12 R
GENPRU 2.3.27 R	LLD 19.3.13 R
GENPRU 2.3.28 R	LLD 19.3.14 R
GENPRU 2.3.29 R	LLD 19.3.15 R
GENPRU 2.3.30 R	LLD 19.3.16 R
GENPRU 2.3.31 R	LLD 19.3.17 R
GENPRU 2.3.32 R	LLD 19.3.18 R
GENPRU 2.3.33 R	LLD 19.3.19 R
GENPRU 2.3.34 G	LLD 19.3.20 G