

**CAPITAL REQUIREMENTS DIRECTIVE (LARGE EXPOSURES)  
INSTRUMENT 2010**

**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 150(2) (Actions for damages);
  - (3) section 156 (General supplementary powers); and
  - (4) section 157(1) (Guidance).
- 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 on 31 December 2010.

**Amendments to the Handbook**

- D. The modules of the Financial Services Authority’s Handbook of rules and guidance 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
General Prudential sourcebook (GENPRU)	Annex B
Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)	Annex C

**Amendments to the Capital Requirements Directive (Handbook Amendments)  
Instrument 2010 (FSA 2010/29)**

- E. The Supervision manual (SUP) was amended in Annex D to the Capital Requirements Directive (Handbook Amendments) Instrument 2010 (FSA 2010/29). These amendments, which have not come into force as at the date of this instrument, are further amended in accordance with Annex D to this instrument.

**Notes**

- F. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

**Citation**

- G. This instrument may be cited as the Capital Requirements Directive (Large Exposures) Instrument 2010.

By order of the Board  
23 September 2010

## Annex A

### Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<p><i>core concentration risk group counterparty</i></p>	<p>(in relation to a <i>firm</i>) a counterparty which is its <i>parent undertaking</i>, its <i>subsidiary undertaking</i> or a <i>subsidiary undertaking</i> of its <i>parent undertaking</i>, provided that (in each case) both the counterparty and the <i>firm</i> are:</p> <p>(a) included within the scope of consolidation on a full basis with respect to the same <i>UK consolidation group</i>; and</p> <p>(b) (where relevant) held by one or more intermediate <i>parent undertaking</i> or <i>financial holding company</i>, all of which are incorporated in the <i>United Kingdom</i>.</p>
<p><i>core UK group</i></p>	<p>(in relation to a <i>firm</i>) all <i>undertakings</i> which, in relation to the <i>firm</i>, satisfy the conditions set out in <i>BIPRU 3.2.25R</i> (Zero risk-weighting for intra-group exposures: core UK group) and <i>BIPRU 10.8A.2R</i> (Definition of core UK group).</p>
<p><i>core UK group waiver</i></p>	<p>a <i>waiver</i> that has the result of requiring a <i>firm</i> to apply:</p> <p>(a) (in relation to the <i>credit risk capital requirement</i>) <i>BIPRU 3.2.25R</i> (Zero risk-weighting for intra-group exposures: core UK group), which in summary allows a <i>firm</i> to assign a <i>risk weight</i> of 0% to <i>exposures</i> to members of its <i>core UK group</i> instead of complying with <i>BIPRU 3.2.20R</i> (Calculation of risk-weighted exposure amounts under the standardised approach); or</p> <p>(b) (in relation to <i>large exposures</i>) <i>BIPRU 10.8A</i> (Intra-group exposures: core UK group), which in summary exempts all <i>exposures</i> between members of a <i>core UK group</i> from the limits described in <i>BIPRU 10.5</i> (Limits on exposures).</p>
<p><i>non-core concentration risk group counterparty</i></p>	<p>(in accordance with Article 113(4)(c) of the <i>Banking Consolidation Directive</i>) has the meaning in <i>BIPRU 10.9A.4R</i> (Definition of non-core concentration risk group counterparty), which is in summary (in relation to a <i>firm</i>) each counterparty which is its <i>parent undertaking</i>, its <i>subsidiary undertaking</i> or a <i>subsidiary undertaking</i> of its <i>parent undertaking</i>, provided that (in each case) both the counterparty and the <i>firm</i> satisfy the conditions in <i>BIPRU 10.9A.4R</i> (Definition of</p>

	non-core concentration risk group counterparty).
<i>non-core large exposures group</i>	(in relation to a <i>firm</i> ) has the meaning in <i>BIPRU</i> 10.9A.3R (Definition of non-core large exposures group), which is in summary each <i>non-core concentration risk group counterparty</i> that is not a member of the <i>core UK group</i> but satisfies all the conditions for membership of the <i>firm's core UK group</i> except for <i>BIPRU</i> 10.8A.2R(1) (Core concentration risk group counterparty), <i>BIPRU</i> 10.8A.2R(5) (Establishment in the United Kingdom) and <i>BIPRU</i> 10.8A.5R(2) (Capital maintenance arrangements).
<i>non-core large exposures group waiver</i>	a <i>waiver</i> that has the result of requiring a <i>firm</i> to apply <i>BIPRU</i> 10.9A (Intra-group exposures: non-core large exposures), which in summary exempts partially or fully exposures between members of the <i>core UK group</i> and members of the <i>non-core large exposures group</i> from the limits described in <i>BIPRU</i> 10.5 (Limits on exposures).
<i>sovereign large exposure waiver</i>	a <i>waiver</i> that has the result of requiring the <i>firm</i> to apply <i>BIPRU</i> 10.6.35R, which in summary exempts partially or fully any of the <i>exposures</i> listed in <i>BIPRU</i> 10.6.36R constituting claims on <i>central banks</i> or central governments from the limits in <i>BIPRU</i> 10.5 (Limits on exposures).

Amend the following as shown.

<i>capital resources</i>	(1) in relation to a <i>BIPRU firm</i> or an <i>insurer</i> , the <i>firm's</i> capital resources as calculated in accordance with the <i>capital resources table</i> , including, in relation to a <i>BIPRU firm</i> , as that calculation is adjusted under <i>BIPRU</i> 10.5 for the purposes of <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements); or
	...
<i>concentration risk capital component</i>	the part of the <i>credit risk capital requirement</i> calculated in accordance with <del><i>BIPRU</i> 10.5.20R</del> <u>10.10A.8R</u> (How to calculate the concentration risk capital component).
<i>connected counterparty</i>	(for the purpose of <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements) and in relation to a <i>firm</i> ) has the meaning set out in <i>BIPRU</i> 10.3.8R (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</i> 10.3.8R.
<i>credit institution</i>	(1) (except in <i>REC</i> ) (in accordance with articles 4(1) and 107 of the <i>BCD</i> ):
	...

	(d) for the purpose of <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements) it means:
	...
	...
<i>exposure</i>	...
	(3) (for the purpose of <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements) has the meaning in <i>BIPRU</i> 10.2 ( <u>Identification of exposures and recognition of credit risk mitigation</u> ).
<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"> <li>(a) two or more <i>persons</i> who, unless it is shown otherwise, constitute a single risk because one or more of them is the <i>parent undertaking</i>, direct or indirect, of the other or others; or</li> <li>(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, <u>in particular funding or repayment difficulties</u>, the other or all of the others would be likely to encounter <u>funding or repayment difficulties</u>.</li> </ul>
<i>individual CNCOM</i>	the amount calculated with respect to an individual <i>exposure</i> under <i>BIPRU</i> <del>40.5.20R</del> <u>10.10A.8R</u> (How to calculate the concentration risk capital component).
<i>individual counterparty CNCOM</i>	has the meaning in <i>BIPRU</i> <del>40.5.20R</del> <u>10.10A.8R</u> (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 <del>a counterparty or group of connected clients or to its connected counterparties</del> .
<i>option</i>	... <p>but so that for the purposes of calculating capital requirements for <i>BIPRU firms</i> and <i>BIPRU</i> 10 (<del>Concentration risk</del> <u>Large exposures</u> requirements) it also includes any of the items listed in the table in <i>BIPRU</i> 7.6.18R (Option PRR: methods for different types of option) and any cash settled option.</p>
<i>parent undertaking</i>	(1) (in accordance with section 420 of the <i>Act</i> (Parent and subsidiary undertaking) and section 1162 of the Companies Act 2006 (Parent and subsidiary undertakings));

	...	
		(c) (for the purposes of <i>BIPRU</i> , <i>GENPRU</i> and <i>INSPRU</i> as they apply on a consolidated basis, for the purposes <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements) and ...
	...	
<i>solo capital resources</i>	(1)	...
	(2)	for the purpose of <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements) the definition in (1) is adjusted in accordance with <i>BIPRU</i> <del>10.8.13R</del> <u>10.8A.10R</u> (Calculation of capital resources for a <del>UK integrated group</del> <u>core UK group</u> ) so that it means <i>capital resources</i> calculated in accordance with the <i>rules</i> applicable to the category of <i>BIPRU firm</i> identified by applying the procedure in <i>BIPRU</i> 8.6.6R to <i>BIPRU</i> 8.6.9R (Consolidated capital resources).
<i>standardised approach</i>		one of the following:
	...	
	(c)	(where not expressed to relate to any risk and used in <i>BIPRU</i> 3, <i>BIPRU</i> 4 (IRB approach), <i>BIPRU</i> 5 (Credit risk mitigation), <i>BIPRU</i> 9 (Securitisation) or <i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> requirements)) it has the meaning in (a);
	...	
<i>trading book concentration risk excess</i>		has the meaning in <i>BIPRU</i> <del>10.5.20R</del> <u>10.10A.8R</u> (How to calculate the concentration risk capital component).

Delete the following definitions. The deleted text is not shown.

*concentration risk group counterparty*

*consolidation concentration risk group counterparty*

*counterparty exposure*

*diverse block*

*issuer exposure*

*residual block*

*UK integrated group*

*wider integrated group*

*wider integrated group waiver*

## Annex B

### Amendments to the General Prudential sourcebook (GENPRU)

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

#### 1 Application

...

#### 1.2 Adequacy of financial resources

...

Outline of other related provisions

...

1.2.24 G ~~BIPRU 10.6.22R~~ 10.2.22R (Stress testing of credit risk concentrations) sets out further stress tests that a *firm* should carry out if it uses certain approaches to collateral for the purposes of the rules about ~~concentration risk~~ large exposures.

...

1.2.33 R (1) ...

(2) In the case of a *BIPRU firm* the processes, strategies and systems relating to concentration risk must include those necessary to ensure compliance with *BIPRU 10* (~~Concentration risk~~ Large exposures requirements).

...

...

#### 2 Capital

...

#### 2.2 Capital resources

...

2.2.226 G *BIPRU 10.3.13G* (Guidance on ~~*BIPRU 10.3.12R*~~ exposures to trustees) applies to *GENPRU 2.2.225R* as it applies to ~~*BIPRU 10.3.12R*~~ (~~Exposures to trustees for concentration risk purposes~~).

...

#### 3 Cross sector groups



### 3.1 Application

...

Risk concentration and intra-group transactions: Table of applicable sectoral rules

#### 3.1.36 R Table: application of sectoral rules

This table belongs to *GENPRU 3.1.35R*

The most important financial sector	Applicable sectoral rules	
	Risk concentration	Intra-group transactions
<i>Banking and investment services sector</i>	<del><i>BIPRU 8.9</i></del> <u><i>8.9A</i></u> (Consolidated <del>concentration risk</del> <u>large exposure</u> requirements) including <i>BIPRU TP</i> as it applies to a <i>UK consolidation group</i> .	<del><i>BIPRU 10 (Concentration Risk Large exposures requirements)</i></del> including <i>BIPRU TP</i> as it applies on a solo basis and relates to <i>BIPRU 10</i> .
...		

...

#### 3.1.38 R (1) This rule applies for the purposes of the definitions of:

- (a) a core concentration risk group *counterparty*; and
- (b) a ~~consolidated~~ non-core concentration risk group *counterparty*;

as they apply for the purposes of the rules for the *banking and investment services sector* as applied by *GENPRU 3.1.36R*.

- (2) For the purpose of ~~*BIPRU 3.2.27R(1)(a) and (b)*~~ *10.9A.4R(1) and (2)* (as they apply to the ~~definition~~ definitions in *GENPRU 3.1.38R(1)(a)*), the conditions are also satisfied if the *counterparty* and the *firm* are included within the scope of consolidated supervision on a full basis with respect to the same *financial conglomerate* under *GENPRU 3.1* or the relevant implementation measures in another *EEA State* for the *Financial Groups Directive*.
- (3) ~~Subject to (4), for the purposes of *BIPRU 8.9.11R(3)* (as it applies to the definition in *GENPRU 3.1.38(1)(b)*), the conditions are also satisfied if the *counterparty* and the *firm* are included within the scope of consolidated supervision on a full basis with respect to the same *financial conglomerate* under *GENPRU 3.1* or the relevant~~

~~implementation measures in another EEA State for the *Financial Groups Directive*. [deleted]~~

- (4) ~~*BIPRU* 8.9.11R(3)(a) does not apply. [deleted]~~

## Annex C

**Amendments to the Prudential sourcebook for Banks, Building Societies and  
Investment Firms (BIPRU)**

In this section, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

**1 Application**

**1.1 Application**

...

1.1.23 R (1) ...

(2) In accordance with ~~Article~~ article 5(2) of the *Capital Adequacy Directive* (Definition of dealing on own account), a *CAD investment firm* that executes investors' orders for *financial instruments* and holds such *financial instruments* for its own account does not for that reason *deal on its own account* if the following conditions are met:

...

(c) (in the case of a *BIPRU investment firm*) it complies with the *main BIPRU firm Pillar 1 rules* and *BIPRU 10* (~~Concentration risk~~ Large exposures requirements);

...

...

**1.3 Application for advanced approaches and waivers**

...

1.3.2 G ...

(2) A *firm* should apply for a *waiver* if it wants to:

(a) ... ; or

(b) ... ; or

(c) ... ; or

(d) apply the treatment in *BIPRU 2.1* (Solo-consolidation waiver); or

(da) apply the treatment for a *core UK group* in *BIPRU 3.2.25R* (*Zero risk-weighting for intra-group exposures*) or in *BIPRU*

10.8A (Intra-group exposures: core UK group); or

- (e) apply the treatment for a non-core large exposures group in ~~BIPRU 10.9~~ 10.9A (Wider integrated groups Intra-group exposures: non-core large exposures group); or
- (f) apply the treatment in BIPRU 10.6.35R (Sovereign large exposure waiver).

...

## 2 Capital

### 2.1 Solo consolidation

...

- 2.1.7 R A *firm* that has a *solo consolidation waiver* must incorporate in the calculation of its requirements under the *main BIPRU firm Pillar 1 rules* and ~~BIPRU 10 (Concentration risk requirement Large exposure requirements)~~ each *subsidiary undertaking* to which the *solo consolidation waiver* applies. This does not apply to the *base capital resources requirement*.

...

- 2.1.16 R A *firm* must apply ~~BIPRU 10 (Concentration risk requirement Large exposure requirements)~~ in accordance with ~~BIPRU 8.9 8.9A (Consolidated concentration risk large exposures requirements)~~. Accordingly the *firm* must apply ~~BIPRU 8.9 8.9A~~ to the group made up of the *firm* and the *subsidiary undertakings* referred to in ~~BIPRU 2.1.7R~~ in the same way as ~~BIPRU 8.9 8.9A~~ applies to a *UK consolidation group* or *non-EEA sub-group*.

- 2.1.17 G One effect of ~~BIPRU 2.1.16R~~ is that ~~BIPRU 10.8 10.8A (UK integrated groups Core UK groups)~~ and ~~BIPRU 10.9 10.9A (Wider integrated groups Non-core large exposures groups)~~ do not apply. The corresponding provisions of ~~BIPRU 8.9 8.9A (Consolidated concentration risk large exposures requirements)~~ apply instead.

...

### 2.2 Internal capital adequacy standards

...

- 2.2.54 G In relation to ~~the BIPRU 10 (Concentration risk Large exposures requirements)~~, a *bank* or *building society* should take into account factors such as future business growth and cyclicity when it assesses the amount of capital which it will need to remain in compliance with those *rules*. A *firm* may also consider in its assessment whether any *large exposures* that it has identified are positively correlated.

...

### 3 Standardised credit risk

...

#### 3.2 The central principles of the standardised approach to credit risk

...

Zero risk-weighting for intra-group exposures: core UK group

- 3.2.25 R (1) Subject to *BIPRU* 3.2.35R, with the exception of *exposures* giving rise to liabilities in the form of the items referred to in *BIPRU* 3.3.26R, a *firm* is not required to comply with *BIPRU* 3.2.20R (Calculation of risk-weighted exposure amounts under the standardised approach) in the case of the *exposures* of the *firm* to a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking* ~~or to which the *firm* is linked by a *consolidation Article 12(1) relationship*~~ provided that the following conditions are met:
- (a) the counterparty is:
    - (i) ~~an *institution* whose head office is in an *EEA State*; or a *core concentration risk group counterparty*; and~~
    - (ii) an *institution* ~~not within (a)(i)~~, *financial holding company*, *financial institution*, *asset management company* or *ancillary services undertaking* subject to appropriate prudential requirements;
  - (b) ~~the condition in *BIPRU* 3.2.27R is satisfied; [deleted]~~
  - (ba) (in relation to a *subsidiary undertaking*) 100% of the voting rights attaching to the *shares* in the counterparty's capital is held by the *firm* or a *financial holding company* (or a *subsidiary undertaking* of the *financial holding company*), whether individually or jointly, and that the *firm* or *financial holding company* (or its *subsidiary undertaking*) must have the right to appoint or remove a majority of the members of the board of *directors*, committee of management or other governing body of the counterparty;
  - (c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the *firm*;
  - (d) the counterparty is ~~established in the *United Kingdom* and either it is incorporated in the *United Kingdom* or (if that counterparty is of a type that falls within the scope of that Regulation) the centre of its main interests is situated within the *United Kingdom* within the meaning of the Council Regulation of 29 May 2000 on insolvency proceedings~~

~~(Regulation 1346/2000/EC); and~~

- (e) there is no current or foreseen material practical or legal impediment to the prompt transfer of *capital resources* or repayment of liabilities from the counterparty to the *firm*.
- (2) Where a *firm* chooses under (1) not to apply *BIPRU* 3.2.20R, it must assign a *risk weight* of 0% to the *exposure*.
- (3) A *firm* need not apply the treatment in (1) and (2) to every *exposure* that is eligible for that treatment.

[~~Note: BCD Article 80(7), part~~]

3.2.25A G (1) *Firms* are referred to *BIPRU* 10.8A (Intra-group exposures: core UK group) under which *exposures* within the *core UK group* are exempt from the limits described in *BIPRU* 10.5 (Limits on exposures) if they would be assigned a *risk weight* of 0% under *BIPRU* 3.2.25R.

(2) Therefore, a *firm* that is applying for a *core UK group waiver* should demonstrate that it meets the conditions in *BIPRU* 3.2.25R and *BIPRU* 10.8A for establishing a *core UK group*. A *firm* that is granted a *core UK group waiver* may rely on it for the purpose of assigning a *risk weight* of 0% to *exposures* within its *core UK group* and for the purpose of exempting the *exposures* within the *core UK group* from the 25% large exposure limit.

...

3.2.27 R (1) ~~The condition referred to in *BIPRU* 3.2.25R(1)(b) is that both the counterparty and the *firm* are:~~

- ~~(a) included within the scope of consolidation on a full basis with respect to the same *UK consolidation group* and *BIPRU* 8.3.1R applies to the *firm* with respect to that *UK consolidation group*; or~~
- ~~(b) included within the scope of consolidation on a full basis with respect to the same *group* by a *competent authority* of an *EEA State* other than the *United Kingdom* under the *CRD implementation measures* about consolidated supervision for that *EEA State*; or~~
- ~~(c) (provided that this consolidation is carried out to standards equivalent to those in (a) and (b)) included within the scope of consolidation on a full basis with respect to the same *group* by a *third country competent authority* under prudential rules for the *banking sector* or *investment services sector* or administered by that *third country competent authority*. [deleted]~~

- (2) ~~A group is subject to consolidation to equivalent standards for the purpose of (1)(c) only of the *firm* or another *EEA firm* in that group has been notified in writing by the *FSA* or a *competent authority* of another *EEA State* pursuant to Article 143 of the *Banking Consolidation Directive* that the group is subject to equivalent supervision.~~

~~[Note: BCD Article 80(7), part] [deleted]~~

3.2.27A    R    (1)    For the purpose of *BIPRU* 3.2.25R(1)(e), a *firm* must be able on an ongoing basis to demonstrate fully to the *FSA* the circumstances and arrangements, including legal arrangements, by virtue of which there are no material practical or legal impediments, and none are foreseen, to the prompt transfer of *capital resources* or repayment of liabilities from the counterparty to the *firm*.

- (2)    In relation to a counterparty that is not a *firm*, the arrangements referred to in (1) must include a legally binding agreement with each *firm* that is a member of the *core UK group* that it will promptly on demand by the *firm* increase the *firm's capital resources* by an amount required to ensure that the *firm* complies with *GENPRU* 2.1 (Calculation of capital resources requirements), *BIPRU* 10 (Large exposures) and any other requirements relating to *capital resources* or concentration risk imposed on a *firm* by or under the *regulatory system*.

...

3.2.29        G    ~~An~~ In relation to a *core concentration risk group counterparty*, an *undertaking* is included within the scope of consolidation of a group on a full basis as referred to in *BIPRU* 3.2.27R(1) if it is at the head of the group or if its assets and liabilities are taken into account in full as referred to in *BIPRU* 8.5.2G (Basis of inclusion of undertakings in consolidation).

3.2.29A    G    (1)    In relation to *BIPRU* 3.2.25R(1)(ba), a *subsidiary undertaking* should generally be 100% owned and controlled by a single shareholder. However, if a *subsidiary undertaking* has more than one shareholder, that *undertaking* may be a member of the *core UK group* if all its shareholders are also members of the same *core UK group*.

- (2)    For the purpose of *BIPRU* 3.2.25R(1)(d) (Incorporation in the UK), if a counterparty is of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC) and it is established in the *United Kingdom* other than by incorporation, a *firm* wishing to include that counterparty in its *core UK group* may apply to the *FSA* for a *waiver* of this condition if it can demonstrate fully to the *FSA* that the counterparty's centre of main interests is situated in the *United Kingdom* within the meaning of that Regulation.

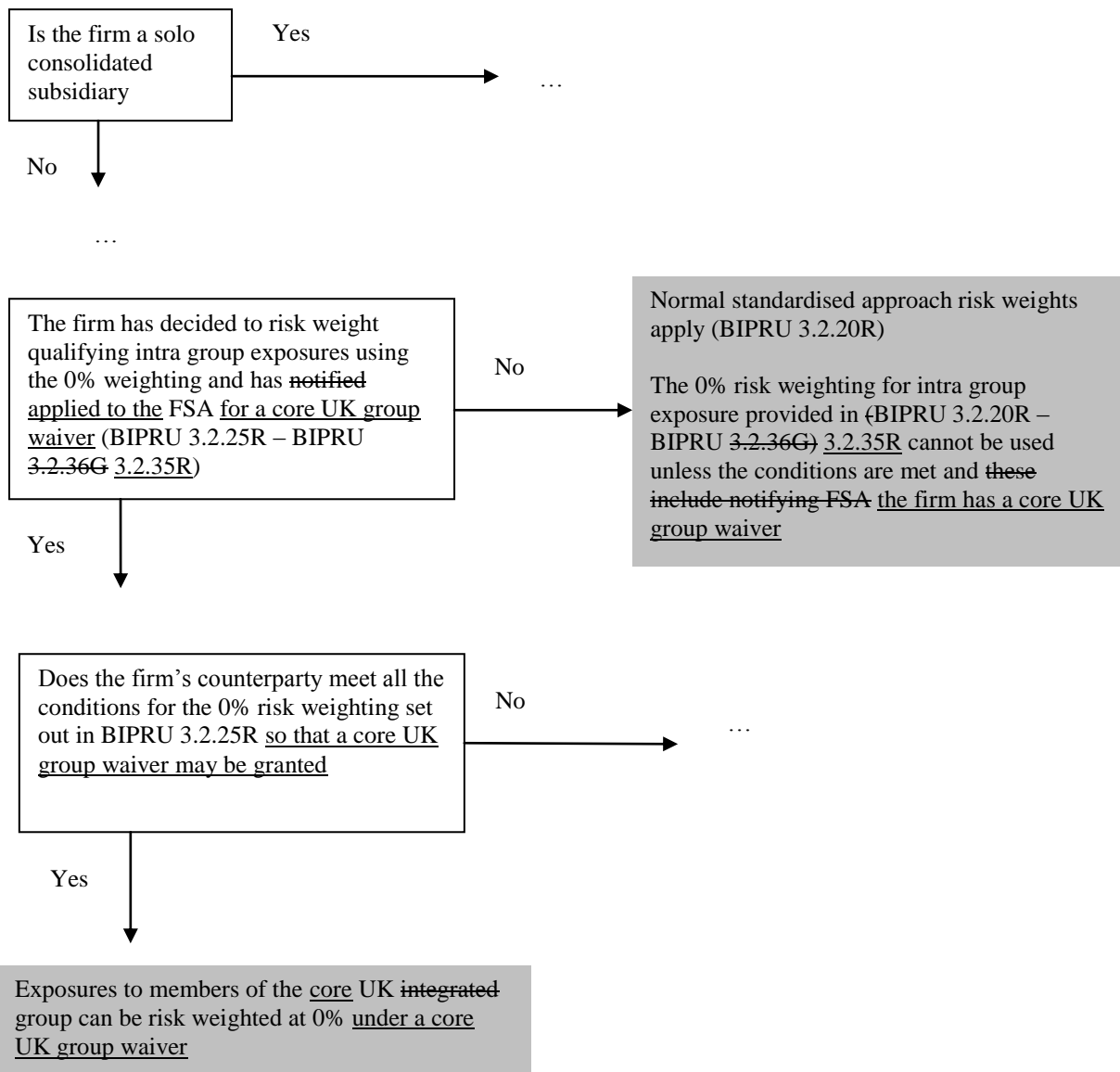
- 3.2.30 G For the purpose of BIPRU 3.2.25R(1)(e) (Prompt transfer of capital resources):
- (1) ~~In~~ in the case of an *undertaking* that is a *firm* the requirement in BIPRU 3.2.25R(1)(e) for the prompt transfer of *capital resources* refers to *capital resources* in excess of the capital and financial resources requirements to which it is subject under the *regulatory system*; and
  - (2) the following guidance relating to the condition in BIPRU 10.8A.2R(6) requiring the prompt transfer of *capital resources* within a *core UK group* as applicable for the exemption from *large exposure* limits is also relevant:
    - (a) BIPRU 10.8A.6G in respect of the criteria that the FSA will consider when assessing whether the condition requiring the prompt transfer of *capital resources* is going to be met; and
    - (b) BIPRU 10.8A.7G(2) in respect of the counterparty's obligation to increase the *firm's capital resources* and the limitations that may be permitted.
- ...
- 3.2.35 R (1) A *firm* may not apply BIPRU 3.2.25R unless it has ~~given one month's~~ prior notice to the FSA that it intends ~~do so~~ a *core UK group waiver*.
- (2) ~~A *firm* need only give the FSA the notice required in (1) once rather than with respect to each exposure.~~ [deleted]
- (3) A *firm* may stop applying BIPRU 3.2.25R or may stop applying it to some *exposures*.
- (4) ~~If a *firm* stops applying BIPRU 3.2.25R it may start to apply it again if it notifies the FSA under (1) that it intends do so.~~ [deleted]
- (5) A *firm* must notify the FSA if it becomes aware that any *exposure* that it has treated as exempt under BIPRU 3.2.25R has ceased to meet the conditions for exemption or if the *firm* ceases to treat an *exposure* under that *rule*.
- 3.2.36 G ~~The FSA may discuss with a *firm* that makes the notification required in BIPRU 3.2.25R(1) the reasons why the *firm* believes it meets the conditions in BIPRU 3.2.25R(1).~~ [deleted]
- ...



**3 Annex 1G Guidance on the standardised approach zero risk weighting for intra-group exposures**

This flow chart belongs to *BIPRU 3.2.25R – BIPRU 3.2.35R*

Flowchart – zero risk weighting for intra-group exposures



## 4 The IRB approach

### 4.1 The IRB approach: Application, purpose and overview

...

Link to standard rules: Incorporation of the IRB output into the capital calculation

...

- 4.1.23 R If a provision of the *Handbook* relating to the *IRB approach* says that a *firm* may do something if its *IRB permission* allows it, a *firm* may do that thing unless its *IRB permission* expressly says that it may not do so except that:

...

- (4) if a *firm* uses its own estimates of *LGD* and *conversion factors* it may only recognise the effects of financial collateral under *BIPRU 10.6.17R 10.2.19R (Exemptions for firms Firms using own estimates of LGD and conversion factors under the IRB approach)* in the manner set out in its *IRB permission*;

...

...

### 4.2 The IRB approach: High level material

...

- 4.2.34 G (1) ...
- (2) *Exposures* excluded under (1) will be eligible for a 0% *risk weight* under the *standardised approach* if they satisfy the conditions in *BIPRU 3.2.25R to BIPRU 3.2.27R 3.2.27AR (Zero risk weight for certain intra-group exposures)*.

...

...

## 8 Group risk consolidation

...

### 8.2 Scope and basic consolidation requirements for UK consolidation groups

Main consolidation rule for UK consolidation groups

- 8.2.1 R A *firm* that is a member of a *UK consolidation group* must comply, to the extent and in the manner prescribed in *BIPRU 8.5*, with the obligations laid

down in *GENPRU* 1.2 (Adequacy of financial resources), the *main BIPRU firm Pillar 1 rules* (but not the *base capital resources requirement*) and *BIPRU* 10 (~~Concentration risk~~ Large exposures requirements) on the basis of the consolidated financial position of:

...

...

### 8.3 Scope and basic consolidation requirements for non-EEA sub-groups

Main consolidation rule for non-EEA sub-groups

- 8.3.1 R (1) A *BIPRU firm* that is a *subsidiary undertaking* of a *BIPRU firm* or of a *financial holding company* must apply the requirements laid down in *GENPRU* 1.2 (Adequacy of financial resources), the *main BIPRU firm Pillar 1 rules* (but not the *base capital resources requirement*) and *BIPRU* 10 (~~Concentration risk~~ Large exposures requirements) on a sub-consolidated basis if the *BIPRU firm*, or the *parent undertaking* where it is a *financial holding company*, have a *third country banking or investment services undertaking* as a *subsidiary undertaking* or hold a *participation* in such an *undertaking*.

...

...

### 8.5 Basis of consolidation

...

Basis of inclusion of UCITS investment firms in consolidation

- 8.5.7 R *GENPRU* 2.1.46R (Adjustment of the variable capital requirement calculation for UCITS investment firms) and ~~*BIPRU* 10.1.5R (Restricted application for UCITS investment firms)~~ do not apply for the purpose of this chapter.

...

### 8.7 Consolidated capital resources requirements

...

Special rules for the consolidated credit risk requirement

...

- 8.7.18 G The *credit risk capital requirement* (on which the *consolidated credit risk requirement* is based) is split into three capital charges. One relates to credit risk in the *non-trading book* (the *credit risk capital component*). One relates to credit risk in the *trading book* (the *counterparty risk capital component*).

The third is a capital charge for *exposures* in the *trading book* that exceed the limits in *BIPRU 10.5* (Limits on exposures and large exposures). This is called the *concentration risk capital component*. ~~*BIPRU 8.9* (Consolidated concentration risk requirements) explains how to calculate the part of the consolidated credit risk requirement that corresponds to the concentration risk capital component.~~

8.7.19 G ~~In particular *BIPRU 8.9* (Consolidated concentration risk requirements) says that a *firm* should calculate the part of the consolidated credit risk requirement that corresponds to the concentration risk capital component on an accounting consolidation basis. This means using method two in *BIPRU 8.7.13R*. [deleted]~~

...

8.7.25 R A *firm* may not apply the second method in *BIPRU 8.7.13R(3)* (accounting consolidation for the whole group) or apply accounting consolidation to parts of its *UK consolidation group* or *non-EEA sub-group* under method three as described in *BIPRU 8.7.13R(4)(a)* for the purposes of the calculation of the *consolidated market risk requirement* unless the group or sub-group and the *undertakings* in that group or sub-group satisfy the conditions in this *rule*. Instead the *firm* must use the aggregation approach described in *BIPRU 8.7.13R(2)* (method one) or *BIPRU 8.7.13R(4)(a)*. Those conditions are as follows:

...

(2) each of the *undertakings* referred to in (1) that is a *BIPRU firm* has *capital resources* that are equal to or in excess of its *capital resources requirement* and complies with *BIPRU 10* (~~Concentration risk~~ Large exposures requirements);

...

...

*BIPRU 8.9* is deleted in its entirety. The deleted text is not shown.

## **8.9 Consolidated concentration risk requirements** [deleted]

After *BIPRU 8.9* [deleted] insert the following new section. The new text is not underlined.

### **8.9A Consolidated large exposure requirements**

Integrated groups: core UK group and non-core large exposures group

8.9A.1 R (1) *BIPRU 10* (Large exposures) applies to a *firm's UK consolidation group* or (subject to (2)) *non-EEA sub-group* as if it were a single *undertaking*.

- (2) A firm may exempt the *exposures* of its *non-EEA sub-group* to its *core concentration risk group counterparty* or *non-core concentration risk group counterparty* from the limits in *BIPRU 10.5* (Limits on exposures) that apply to the *non-EEA sub-group* on a sub-consolidated basis.
- 8.9A.2 G The effect of *BIPRU 8.9A.1R(2)* is that there is no limit on a sub-consolidated basis for *exposures* of a *firm's non-EEA sub-group* to its *core concentration risk group counterparty* or *non-core concentration risk group counterparty*. This is because those *exposures* are included in the *large exposure* limits that apply to the *firm's UK consolidation group*.
- 8.9A.3 R In relation to a *firm*, intra-group *exposures* that are exempt under a *non-core large exposures group waiver* may be excluded when calculating the limits in *BIPRU 10.5* (Limits on exposures) that apply to the *UK consolidation group* or *non-EEA sub-group*, provided that the total amount of such *exposures* and the other *exposures* which are exempt under a *non-core large exposures group waiver* do not exceed the limit in *BIPRU 10.9A.7R* (Non-trading book backstop large exposure limit for non-core large exposures group).

...

Amend the following as shown.

## 10 ~~Concentration risk~~ Large exposures requirements

### 10.1 Application and purpose

#### Application

- 10.1.1 R (1) This chapter applies to a *BIPRU firm* unless it is:
- (a) a *BIPRU limited licence firm*; or
- (b) a *BIPRU limited activity firm*.
- (2) It applies irrespective of whether the *firm* adopts the *standardised approach* or the *IRB approach*. If it adopts the *IRB approach*, it applies irrespective of whether the *firm* adopts the *foundation IRB approach* or the *advanced IRB approach*.

[Note: *BCD Article 111(1)* (part) and *CAD Article 28(1)*]

...

#### ~~Restricted application for UCITS investment firms~~

- 10.1.5 R ~~This chapter only applies to a *UCITS investment firm* with respect to its *designated investment business*. For this purpose *scheme management*~~

~~activity is excluded from designated investment business.~~ [deleted]

## 10.2 Identification of exposures and recognition of credit risk mitigation

10.2.1 R Unless *BIPRU* 10.2.2R applies, an *exposure* is:

(1) any of the items included in *BIPRU* 3.2.9R (Exposure classes for the purposes of the *standardised approach*) or the table in *BIPRU* 3.7.2R (Classification of off-balance-sheet items for the purposes of the *standardised approach*), whether held in the *trading book* or the *non-trading book*, without application of the *risk weight* or degrees of risk there provided for;

[Note: BCD Article 106(1) first paragraph]

(2) any exposure arising from financial derivative instruments;

[Note: BCD Article 106(1) second paragraph (part)]

(3) any exposure to an individual counterparty that arises in the trading book calculated by summing the following items:

(a) the excess – where positive – of the firm's long positions over its short positions in all the CRD financial instruments issued by the counterparty in question, the net position of each of the different CRD financial instruments being calculated in accordance with the relevant method in BIPRU 7;

(b) the firm's net underwriting exposure to that counterparty; and

(c) any exposure due to the transactions, agreements and contracts referred to in BIPRU 14.2.2R (List of trading book exposures that give rise to a counterparty credit risk charge).

[Note: CAD Article 29(1) first paragraph]

10.2.2 R An *exposure* does not include:

(1) an *exposure* which is entirely deducted from a firm's capital resources; or

(2) in the case of *foreign currency* transactions, *exposures* incurred in the ordinary course of settlement during the ~~48 hours~~ two business days following payment; or

(3) in the case of transactions for the purchase or sale of *securities*, *exposures* incurred in the ordinary course of settlement during the five ~~working days~~ business days following payment or delivery of

the *securities*, whichever is the earlier; or

- (4) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other *exposures* arising from client activity which do not last longer than the following *business day*; or
- (5) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking, intra-day *exposures* to institutions providing those services.

[**Note:** *BCD* Articles 106(1) third paragraph and 106(2)]

- 10.2.3 G ~~An *exposure* does not include:~~
- (1) ~~a transaction entered into by a *firm* as trustee or agent without personal liability on the part of the *firm*;~~
- (2) ~~indemnities for lost share certificates; or~~
- (3) ~~(where the *firm* acts as lessor, mortgagee or owner of goods under a hire purchase arrangement) contingent liabilities for injuries, damage or loss on the part of the *counterparty* to that arrangement in respect of the goods that are the subject of that arrangement. [deleted]~~
- 10.2.3A G (1) An *exposure* does not include *exposures* outstanding with a *central counterparty* to which a *firm* has attributed an *exposure* value of zero for *CCR* in accordance with *BIPRU* 13.3.13R (Exposures to a central counterparty).
- (2) *BIPRU* 13.3.13R applies to derivative contracts and *long settlement transactions*, or to other *exposures* arising in respect of those contracts or transactions (but excluding an *exposure* arising from collateral held to mitigate losses in the event of default of other participants in the *central counterparty's* arrangements).
- 10.2.4 G ~~If a *firm* takes a credit charge against an *exposure* equal to the value of that *exposure*, this can count as a capital deduction for the purposes of *BIPRU* 10.2.2R(1). [deleted]~~

#### Calculation of exposures

- 10.2.5 R Subject to *BIPRU* 10.2.6R and *BIPRU* 10.2.7R, the value of a *firm's exposures*, whether in its *non-trading book* or its *trading book*, is the amount at risk calculated in line with *GENPRU* 1.3 (Valuation).
- 10.2.6 R A *firm* must calculate the value of its *exposures* in its *trading book* in the manner laid down in *BIPRU* 14 (Capital requirements for settlement and counterparty risk) for the calculation of *exposure* values. For these purposes

the reference in BIPRU 14.2.11R (How to calculate exposure values and risk weighted exposure amounts for the purpose of calculating the counterparty risk capital component) to the provisions of the IRB approach does not apply.

[Note: CAD Article 29(1)(c) (part) and fourth paragraph]

- 10.2.7 R Exposures arising from financial derivative instruments must be calculated in accordance with one of the methods set out in BIPRU 13 (Financial derivatives, SFTs and long settlement transactions). For the purposes of this chapter, BIPRU 13.6.6R (Scope of CCR internal model method) also applies.

[Note: BCD Article 106(1) second paragraph]

- 10.2.8 R A firm must not offset exposures in the non-trading book and trading book for the purpose of calculating exposures except to the extent permitted under the standardised approach or, if applicable, the IRB approach.

#### Recognition of credit risk mitigation

- 10.2.9 R Subject to this section, funded credit protection or unfunded credit protection that complies with the eligibility requirements and other minimum requirements set out in BIPRU 5 (Credit risk mitigation) and, if relevant, BIPRU 4.10 (The IRB approach: Credit risk mitigation) is permitted to be recognised for the purposes of calculating a firm's exposure. A firm utilising the methods below must still report to the FSA the gross value of its exposures.

[Note: BCD Articles 111(1) first paragraph (part) and 112(2)]

- 10.2.10 R For the purposes of this section, the use of own estimates for LGDs and conversion factors under the IRB approach for an IRB exposure class is referred to as the "full IRB approach".

#### The financial collateral simple method under the standardised approach

- 10.2.11 G As indicated in BIPRU 5.4.15R (The financial collateral simple method), the financial collateral simple method is available only to firms using the standardised approach and only in relation to exposures for which they adopt the standardised approach.

- 10.2.12 R A firm may only recognise collateral for the purpose of BIPRU 10.2.9R (Recognition of credit risk mitigation) if the collateral complies with the eligibility requirements and other minimum requirements set out in BIPRU 5 (Credit risk mitigation) for the purposes of calculating the risk weighted exposure amounts under the standardised approach using the financial collateral simple method or, if applicable, the method in BIPRU 5.5 (Other funded credit risk mitigation). In particular a firm may not recognise collateral for that purpose if it is not eligible under the financial collateral simple method or other applicable method.



[Note: BCD Article 112(2) (part)]

- 10.2.13    G    For the purpose of *BIPRU 10.2.9R* (Recognition of credit risk mitigation):
- (1)    the requirements set out in *BIPRU 5* (Credit risk mitigation) include:
- (a)    the *securities* used as collateral should be valued at market price and should be either traded or effectively negotiable and regularly quoted on a *recognised investment exchange* or a *designated investment exchange*; and
- (2)    where there is a mismatch between the maturity of the *exposure* and the maturity of the credit protection, the collateral must not be recognised; and
- (2)    where the issuer of *securities* used as collateral is an *institution*, that collateral may not constitute the *institution's capital resources*.

The financial collateral comprehensive method

- 10.2.14    R    A *firm* which uses the *financial collateral comprehensive method* (but not under the full IRB approach (see *BIPRU 10.2.10R*)) may calculate the value of its *exposures* to a *counterparty* or to a *group of connected clients* or to *connected counterparties* as being the fully-adjusted value of the *exposures* to the *counterparty* or *group of connected clients* or *connected counterparties* calculated in accordance with the *financial collateral comprehensive method* under *BIPRU 5* (Credit risk mitigation) and, if relevant, *BIPRU 4.10* (The IRB approach: Credit risk mitigation) taking into account the *credit risk mitigation*, volatility adjustments and any maturity mismatch (E\*) in accordance with those *rules*.

[Note: BCD Article 114(1) first paragraph]

- 10.2.15    G    The *rules* setting out the calculation of the effects of *credit risk mitigation* under the *financial collateral comprehensive method* are set out in *BIPRU 5.4.24R* to *BIPRU 5.4.66R*.
- 10.2.16    R    For the purposes of *BIPRU 10.2.9R* (Recognition of credit risk mitigation), a *firm* may use both the *financial collateral comprehensive method* and the *financial collateral simple method* where it is permitted to use both those methods under *BIPRU 5.4.16R*.

[Note: BCD Article 117(1) last paragraph]

- 10.2.17    G    As indicated in *BIPRU 5.4.16R*, a *firm* may be permitted to use both the *financial collateral comprehensive method* and the *financial collateral simple method* when such use is for the purposes of carrying out the sequential implementation of its *IRB approach* in accordance with *BIPRU 4.2.17R* to *BIPRU 4.2.19R* (Implementation of the internal ratings based approach) and in relation to an *IRB exposure class* or *exposures* which is exempt from the *IRB approach* in accordance with *BIPRU 4.2.26R* (Combined use of

methodologies), and such use is expressly permitted by the *firm's IRB permission*.

- 10.2.18 R A firm may only recognise collateral for the purpose of BIPRU 10.2.14R (Financial collateral comprehensive method) if the collateral complies with the eligibility requirements and other minimum requirements set out in BIPRU 5 (Credit risk mitigation) and, if relevant, BIPRU 4.10 (The IRB approach: Credit risk mitigation) for the purposes of calculating risk weighted exposure amounts under the standardised approach or, if applicable, the IRB approach using the financial collateral comprehensive method. In particular a firm may not recognise collateral for that purpose if it is not eligible under the financial collateral comprehensive method.

Firms using full IRB approach

- 10.2.19 R A firm that uses the full IRB approach (see BIPRU 10.2.10R) may recognise the effects described in (1) in calculating the value of its exposures to a counterparty or to a group of connected clients or to connected counterparties for the purposes of BIPRU 10.5 (Limits on exposures) if:

- (1) the firm is able to satisfy the FSA that it can estimate the effects of financial collateral on its exposures separately from other LGD-relevant aspects;
- (2) the firm is able to demonstrate the suitability of the estimates produced; and
- (3) the firm's IRB permission specifically allows it (also see BIPRU 4.1.23R(4)).

[Note: BCD Article 114(2) first and second paragraphs]

- 10.2.20 R If a firm that uses the full IRB approach (see BIPRU 10.2.10R) uses its own estimates of the effects of financial collateral on its exposures for large exposures purposes, it must do so on a consistent basis and on a basis consistent with the approach adopted in the calculation of capital requirements. A firm may only use one of BIPRU 10.2.14R (Financial collateral comprehensive method under standardised approach and IRB approach) and BIPRU 10.2.19R (Own estimates of effects of financial collateral).

[Note: BCD Article 114(2) third and fourth paragraphs]

- 10.2.21 R If a firm relies on BIPRU 10.2.19R (Own estimates of effects of financial collateral) the recognition of credit protection is subject to the relevant requirements of the IRB approach.

[Note: BCD Article 112(3)]

Stress testing of credit risk concentrations

- 10.2.22    R    (1)    A firm which:
- (a)    uses the *financial collateral comprehensive method*; or
  - (b)    calculates the value of its *exposures* in accordance with *BIPRU 10.2.19R* (Own estimates of effects of financial collateral);
- must conduct periodic stress tests of its credit risk concentrations including in relation to the realisable value of any collateral taken.
- (2)    The stress tests required by this *rule* must address:
- (a)    risks arising from potential changes in market conditions that could adversely impact the *firm's* adequacy of *capital resources*; and
  - (b)    risks arising from the realisation of collateral in stressed situations.
- (3)    A firm must be able to satisfy the *FSA* that the stress tests it carries out under this *rule* are adequate and appropriate for the assessment of such risks.
- (4)    In the event that a stress test carried out in accordance with this *rule* indicates a lower realisable value of collateral taken than would be permitted to be taken into account under *BIPRU 10.2.14R* (Financial collateral comprehensive method) or *BIPRU 10.2.19R* (Own estimates of effect of financial collateral) as appropriate, the value of collateral permitted to be recognised in calculating the value of *exposures* for the purposes of *BIPRU 10.5* (Limits on exposures) is the lower value.
- (5)    A firm to which this *rule* applies must include in its strategy to address concentration risk:
- (a)    policies and procedures to address risks arising from maturity mismatches between *exposures* and any credit protection on those *exposures*;
  - (b)    policies and procedures in the event that a stress test indicates a lower realisable value of collateral than taken into account under *BIPRU 10.2.14R* (Financial collateral comprehensive method) or *BIPRU 10.2.19R* (Own estimates of effects of financial collateral); and
  - (c)    policies and procedures relating to concentration risk arising from the application of *credit risk mitigation* techniques, and in particular large indirect credit *exposures* (for example to a single issuer of *securities* taken as collateral).

[Note: BCD Article 114(3)]

- 10.2.23 R Unless, and to the extent, permitted under BIPRU 10.6.3R(11) (Residential mortgages and leasing transactions) or BIPRU 10.6.3R (12) (Commercial mortgages and leasing transactions), a firm must not take into account the following collateral for the purposes of this section:
- (1) amounts receivable linked to a commercial transaction or transactions with an original maturity of less than or equal to one year;
  - (2) a physical item of a type other than those types indicated in BIPRU 4.10.6R to BIPRU 4.10.12R (Eligibility of real estate collateral); and
  - (3) property leased under a leasing transaction.

[Note: BCD Article 112(4)]

- 10.2.24 G A firm should determine the frequency needed for the stress testing of its credit risk concentrations with emphasis on having sufficient frequency to maintain the currency of its capital calculations. In any case such testing should be carried out at least once a year.

### 10.3 Identification of counterparties

...

Identification of counterparties for guaranteed and collateralised exposures

- 10.3.3 R (1) Where an *exposure* to a *counterparty* is:
- (a) guaranteed by a third party, a firm may ~~treat the exposure as an exposure to the third party and not to the counterparty~~ treat the portion of the *exposure* which is guaranteed as having been incurred to the guarantor rather than to the *counterparty*, provided that the unsecured *exposure* to the guarantor would be assigned an equal or lower *risk weight* than a *risk weight* of the unsecured *exposure* to the *counterparty* under the *standardised approach*; or
  - (b) secured by collateral issued by a third party, a firm may treat the portion of the *exposure* collateralised by the market value of recognised collateral as having been incurred to the third party rather than to the *counterparty*, provided that the collateralised portion of the *exposure* would be assigned an equal or lower *risk weight* than a *risk weight* of the unsecured *exposure* to the *counterparty* under the *standardised approach*.

[Note: BCD Article 117(1)(a) and (b)]

- (2) ...
- (3) ~~Where the guarantee is denominated in a currency different from that in which the *exposure* is denominated, the amount of the *exposure* deemed to be covered must be calculated in accordance with the provisions on the treatment of currency mismatch for *unfunded credit protection* in *BIPRU 5* (Credit risk mitigation) and, if applicable, *BIPRU 4.10* (The IRB approach: Credit risk mitigation). [deleted]~~
- (4) ~~A mismatch between the maturity of the *exposure* and the maturity of the protection must be treated in accordance with the provisions on the treatment for maturity mismatch in *BIPRU 5* and, if applicable, *BIPRU 4.10*. [deleted]~~
- (5) ~~Partial coverage must be treated in accordance with *BIPRU 5* and, if applicable, *BIPRU 4.10*. [deleted]~~
- (6) A guarantee or collateral may only be treated in accordance with (1) if the *firm* complies with the eligibility requirements and other minimum requirements set out in *BIPRU 5* (Credit risk mitigation) and if, applicable, *BIPRU 4.10* (The IRB approach: Credit risk mitigation) for the purposes of calculating *risk weighted exposure amounts*.
- (7) For the purpose of this *rule*, guarantee includes a credit derivative recognised under *BIPRU 5* and, if applicable, *BIPRU 4.10*, other than a credit linked note.

[Note: BCD Article 112(1)]

- 10.3.4 G (1) If a *firm* treats an *exposure* to a *counterparty* as guaranteed, or secured by collateral issued, by a third party for the purposes of *BIPRU 5* (Credit risk mitigation), it should apply the same approach on a consistent basis when identifying a *counterparty* for the purposes of this chapter.
- (2) An example of the eligibility requirements and other minimum requirements set out in *BIPRU 5* as referred to in *BIPRU 10.3.3R(6)* is the requirement for a legal review in *BIPRU 5.2.3R*.
- (3) Where the guarantee is denominated in a currency different from that in which the *exposure* is denominated, the provisions on the treatment of currency mismatch for *unfunded credit protection* in *BIPRU 5.7* (Unfunded credit protection) and, if applicable, *BIPRU 4.10* (The IRB approach: Credit risk mitigation) are applicable for the calculation of the amount of the *exposure* deemed to be covered.

[Note: BCD Article 117(2)(a)]

- (4) Where there is a mismatch between the maturity of the *exposure* and

the maturity of the protection provided by guarantee, BIPRU 5.8 (Maturity mismatches) and, if applicable, BIPRU 4.10 (The IRB approach: Credit risk mitigation) are applicable for the treatment for mismatch.

**[Note: BCD Article 117(2)(b)]**

- (5) For the purpose of BIPRU 10.3.3R(1)(b), where there is a mismatch between the maturity of the *exposure* and the maturity of the protection provided by collateral, BIPRU 5.8.7R (Valuation of protection: Transactions subject to funded credit protection – financial collateral simple method) requires that the collateral must not be recognised.

**[Note: BCD Article 117(1) second paragraph]**

- (6) In relation to a guarantee, BIPRU 5.7 (Unfunded credit protection) and, if applicable, BIPRU 4.10 (The IRB approach: Credit risk mitigation) are applicable for the treatment of partial coverage.

**[Note: BCD Article 117(2)(c)]**

...

#### Exposures to trustees

- 10.3.12 **R** If a *firm* has an *exposure* to a *person* ('A') when A is acting on his own behalf, and also an *exposure* to A when A acts in his capacity as trustee, custodian or general partner of an investment trust, unit trust, venture capital or other investment fund, pension fund or a similar fund (a "fund"), the *firm* may treat the latter *exposure* as if it was to the fund, unless such a treatment would be misleading.
- 10.3.13 **G** When considering whether the treatment described in ~~BIPRU 10.3.12R~~ 10.3.12G is misleading, factors a *firm* should consider include:

...

...

#### Exposures to underlying assets

- 10.3.15 **R** Where under a transaction or scheme (for example, *securitisation positions* or claims in the form of *CIUs*) there is an *exposure* to underlying assets, a *firm* must assess the *exposure* to the transaction or scheme, or its underlying *exposures*, or both, in order to determine the existence of a *group of connected clients*. For the purpose of this rule, a *firm* must evaluate the economic substance and the risks inherent in the structure of the transaction.

**[Note: BCD Article 106(3)]**

BIPRU 10.4 is deleted in its entirety. The deleted text is not shown.

#### **10.4 Measurement of exposures to counterparties and issuers [deleted]**

Amend the following as shown.

#### **10.5 Limits on exposures and large exposures**

Definition of large exposure

- 10.5.1 R *A large exposure of a firm means its total exposure to a counterparty, connected counterparties or a group of connected clients, whether in the firm's non-trading book or trading book or both, which in aggregate equals or exceeds 10% of the firm's capital resources.*

**[Note: BCD Article 108]**

...

- 10.5.4 R For the purposes of monitoring against the *trading book* limits and charge regime, as set out in ~~BIPRU 10.5.11R~~ 10.10A.2R to ~~BIPRU 10.5.22R~~ 10.10A.11R (Intra-group exposures: Trading book limits), and calculating a *firm's CNCOM*, a *firm's capital resources* may include *tier three capital resources*, in which case a *firm's capital resources* mean *capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions).

- 10.5.5 R A *firm* must not take into account the following items:
- (1) surplus provisions (see *GENPRU* 2.2.190R to *GENPRU* 2.2.193R); or
  - (2) *expected loss* amounts and other negative amounts (see *GENPRU* 2.2.236R); or
  - (3) *securitisation positions* (see *GENPRU* 2.2.237R).

**[Note: BCD Article 66(3)]**

~~Non-trading book~~ Large exposure limits

- 10.5.6 R A *firm* must ensure that the total amount of its *exposures* to the following does not exceed 25% of its *capital resources* (as determined under *BIPRU* 10.5.2R, *BIPRU* 10.5.3R and *BIPRU* 10.5.5R):
- (1) a *counterparty*; or
  - (2) a *group of connected clients*; or
  - (3) its *connected counterparties*.

[Note: BCD Article 111(1) first paragraph]

...

- 10.5.8 R ~~A firm must not incur large exposures which in total exceed 800% of its capital resources (as determined under BIPRU 10.5.2R, BIPRU 10.5.3R and BIPRU 10.5.5R). [deleted]~~
- 10.5.9 R ~~If a firm exceeds (or is aware that it will exceed) the limits in BIPRU 10.5.6R or BIPRU 10.5.8R it must notify the FSA without delay. [deleted]~~
- 10.5.10 G ~~A report under BIPRU 10.5.9R should be made in exceptional circumstances only. A firm which makes such a report should also provide the FSA with an explanation as to how the limits came to be exceeded, and a plan of action for bringing its exposures within the limits. The FSA may, where the circumstances warrant it, allow a firm a limited period of time in which to comply with the limits. [deleted]~~

The following provisions are deleted. The deleted text is not shown.

## Trading book limits

- 10.5.11 R [deleted]
- 10.5.12 R [deleted]
- 10.5.13 R [deleted]
- 10.5.14 R [deleted]
- 10.5.15 G [deleted]
- 10.5.16 G [deleted]
- 10.5.17 R [deleted]
- 10.5.18 R [deleted]
- 10.5.19 G [deleted]
- 10.5.20 R [deleted]
- 10.5.21 R [deleted]
- 10.5.22 R [deleted]
- 10.5.23 G [deleted]
- 10.5.24 G [deleted]



## 10.6 Exemptions

### General exemptions

10.6.1 R ~~The exposures listed in BIPRU 10.6.3R, whether trading book exposures or non-trading book exposures, are exempt from the limits described in BIPRU 10.5 (Limits on exposures and large exposures), provided that the exposures are~~ This section only applies to exposures, whether in the trading book or non-trading book, to counterparties which are not connected counterparties.

10.6.2 R (1) In BIPRU 10.6.3R and BIPRU 10.6.4R, references to guarantees include credit derivatives recognised under BIPRU 5 (Credit risk mitigation) and, if applicable, BIPRU 4.10 (The IRB approach: Credit risk mitigation), other than credit linked notes.

[Note: BCD Article 112(1)]

...

10.6.3 R The following exposures referred to in BIPRU 10.6.1R are as follows exempt from the limits described in BIPRU 10.5 (Limits on exposures):

...

- (4) other exposures attributable to, or guaranteed by, central governments, central banks, international organisations ~~or~~, multilateral development banks or public sector entities where unsecured claims on the entity to which the exposure is attributable or by which it is guaranteed would receive a 0% risk weight under the standardised approach;
- (5) ~~asset items constituting claims on and other exposures to central governments or central banks not within (1) which are denominated and, where applicable, funded in the national currencies of the borrowers; [deleted]~~
- (6) ~~asset items constituting claims on and other exposures to institutions, with a maturity of one year or less, but not constituting such institutions' capital resources; [deleted]~~
- (7) asset items constituting claims on EEA States' regional governments ~~and~~ or local authorities which claims would receive a 0% risk weight under the standardised approach;
- (8) other exposures to or guaranteed by EEA States' regional governments ~~and~~ or local authorities claims on which would receive a 0% risk weight under the standardised approach;
- (9) ~~asset items constituting claims and other exposures on recognised third country investment firms, recognised clearing houses, designated clearing houses, recognised investment exchanges and~~

~~designated investment exchanges in CRD financial institutions, with a maturity of one year or less, but not constituting such institutions' capital resources; [deleted]~~

- (10) ~~covered bonds within the meaning of the second paragraph of that definition; [deleted]~~

...

- (12) the following, where they would receive a 50% *risk weight* under the *standardised approach*, and only up to 50% of the value of the commercial property concerned:

...

- (b) ~~exposures related to property leasing transactions concerning offices or other commercial premises; and~~

- (13) ~~bill endorsements on bills with a maturity of 1 year or less already endorsed by another firm. [deleted]~~

- (14) asset items and other exposures secured by collateral in the form of cash deposits placed with the lending firm or with a credit institution which is the parent undertaking or a subsidiary undertaking of the lending firm;

- (15) asset items and other exposures secured by collateral in the form of certificates of deposit issued by the lending firm or by a credit institution which is the parent undertaking or a subsidiary undertaking of the lending firm and lodged with either of them; and

- (16) exposures arising from undrawn credit facilities that are classified as low risk off-balance sheet items in BIPRU 3.7.2R and provided that an agreement has been concluded with the counterparty or group of connected clients under which the facility may be drawn only if it has been ascertained that it will not cause the limit in BIPRU 10.5.6R (Limits on exposures) to be exceeded.

[Note: BCD Articles 113(3), 115(1) sub-paragraphs (a) and (b) and 115(2) sub-paragraphs (a) and (b)]

10.6.4 R For the purposes of BIPRU 10.6.3R(11) (Loan secured by residential mortgages and leasing transactions);:

- (1) the requirements set out in BIPRU 3.4.64R to BIPRU 3.4.73R (Requirements for recognition of real estate collateral) apply;

- (2) the value of the property must be calculated on the basis of strict prudent valuation standards laid down by law, regulation or administrative provisions;

- (3) ~~Valuation~~ valuation must be carried out at least once a ~~year~~ every three years;
- (4) the valuation rules set out in BIPRU 3.4.77R to BIPRU 3.4.80R apply; and
- (5) ~~For these purposes,~~ residential property means a residence to be occupied or let by the borrower.

[Note: BCD Article 115(1) second to fourth paragraphs]

The following provisions are deleted. The deleted text is not shown.

- 10.6.5 R [deleted]
- 10.6.6 R [deleted]
- 10.6.7 R [deleted]
- 10.6.8 G [deleted]
- 10.6.9 R [deleted]
- 10.6.10 R [deleted]
- 10.6.11 R [deleted]
- 10.6.12 R [deleted]
- 10.6.13 G [deleted]
- 10.6.14 R [deleted]
- 10.6.15 R [deleted]
- 10.6.16 R [deleted]
- 10.6.17 R [deleted]
- 10.6.18 G [deleted]
- 10.6.19 R [deleted]
- 10.6.20 R [deleted]
- 10.6.21 R [deleted]
- 10.6.22 R [deleted]
- 10.6.23 R [deleted]

- 10.6.24 R [deleted]
- 10.6.25 R [deleted]
- 10.6.26 R [deleted]
- 10.6.27 G [deleted]

After BIPRU 10.6.27G [deleted], insert the following new paragraphs. The new text is not underlined.

- 10.6.28 R For the purposes of *BIPRU* 10.6.3R(12) (Loans secured by commercial mortgages and leasing transactions):
- (1) the value of the property must be calculated on the basis of prudent valuation standards laid down by law, regulation or administrative provisions; and
  - (2) the commercial property concerned must be fully constructed, leased and produce appropriate rental income.

[**Note:** *BCD* Article 115(2) second and third paragraphs]

- 10.6.29 G For the purposes of *BIPRU* 10.6.3R(12), a 50% *risk weight* is not allowed under the *standardised approach* for commercial property based in the *UK*.
- 10.6.30 R For the purposes of *BIPRU* 10.6.3R(14) (Cash deposits) and *BIPRU* 10.6.3R(15) (Certificates of deposit), a *firm* may only treat the asset items or other *exposures* as secured if the collateral complies with the eligibility requirements and other minimum requirements set out in *BIPRU* 5 (Credit risk mitigation) and, if relevant, *BIPRU* 4.10 (The IRB approach: Credit risk mitigation) for the purposes calculating a *firm's exposure*.
- 10.6.31 G In relation to *BIPRU* 10.6.3R(14) (Cash deposits) and *BIPRU* 10.6.3R(15) (Certificates of deposit), the collateral may in some cases give rise to an *exposure* between the *lending firm* and the *credit institution*. Where this is the case, the *exposure* is considered to be an intra-group *exposure*. A *firm* may apply *BIPRU* 10.8A (Intra-group exposures: core UK group) or *BIPRU* 10.9A (Intra-group exposures: non-core large exposures group), as appropriate.

#### Institutional exemption

- 10.6.32 R Where a *counterparty* is an *institution* or where a *group of connected clients* includes one or more *institutions*:
- (1) the total amount of a *firm's exposures* to the same *counterparty* or *group of connected clients* may exceed 25% of the *firm's capital resources* so long as the total amount of such *exposures* does not exceed €150 million;

- (2) the *firm* must ensure that the total amount of its *exposures*, after taking into account the effect of *credit risk mitigation*, to other *persons* in that *group of connected clients* which are not *institutions* does not exceed 25% of the *firm's capital resources*;
- (3) where the amount of €150 million in (1) is higher than an amount equivalent to 25% of the *firm's capital resources*, the *firm* must ensure the following:
- (a) the total amount of those *exposures* in (1) in relation to the same *counterparty* or *group of connected clients* does not exceed a reasonable limit in terms of the *firm's capital resources*; and
- (b) in any case, the limit in this *rule* must not exceed 100% of the *firm's capital resources*; and
- capital resources* are as determined under *BIPRU* 10.5.2R, *BIPRU* 10.5.3R and *BIPRU* 10.5.5R (Stage (N) of the calculation in the *capital resources table* (Total tier one capital plus tier two capital after deductions)); and
- (4) for the purpose of (3), the *firm* must determine the limit consistently with the policies and procedures required under *BIPRU* 10.12.3R (Concentration risk policies).

[**Note:** *BCD* Article 111(1) second to fourth paragraphs]

- 10.6.33 G Article 111(4) of the *Banking Consolidation Directive* allows the *FSA* to waive the 100% limit on a case-by-case basis in exceptional circumstances. The *FSA* will consider an application for such a *waiver* in the light of the criteria in section 148 of the *Act* (Modification or waiver of rules).

#### Sovereign large exposure waiver

- 10.6.34 R *BIPRU* 10.6.35R to *BIPRU* 10.6.37G apply to a *BIPRU firm* if it has a *sovereign large exposure waiver*.
- 10.6.35 R A *firm* that has a *sovereign large exposure waiver* must exempt from the limits described in *BIPRU* 10.5 (Limits on exposures) the *exposures* as specified in the *sovereign large exposure waiver*. It must do so to the extent specified in that waiver.
- 10.6.36 R For the purpose of the *sovereign large exposure waiver*, and in relation to a *firm*, the *exposures* referred to in *BIPRU* 10.6.35R are limited to the following:
- (1) asset items constituting claims on *central banks* not within *BIPRU* 10.6.3R(1), which are in the form of required minimum reserves held at those *central banks* which are denominated and funded in their national currencies; and

- (2) asset items constituting claims on central governments not within *BIPRU 10.6.3R(1)*, which are in the form of statutory liquidity requirements held in government securities denominated and funded in their national currencies.

[**Note:** *BCD Article 113(4)(g) and (h)*]

- 10.6.37 G As part of the process of applying for a *sovereign large exposure waiver*, a *firm* should agree with the *FSA* the amount of the *exposures* that may be exempted. In general, the *FSA* will expect the likelihood of the *firm's* liabilities (that fund the particular exempt *exposure*) falling alongside a fall in that *exposure* in an event of default to form one of the key considerations in discussions with the *firm* regarding the total amount of such exempt *exposures*. For this purpose, the *FSA* will expect the *firm* to demonstrate that, taking into account the aggregate of all *exposures* exempted under other *sovereign large exposure waivers* granted to the *firm*, the criteria in section 148 of the *Act* (Modification or waiver of rules) are satisfied in relation to the *sovereign large exposure waiver* under consideration.

*BIPRU 10.7* is deleted in its entirety. The deleted text is not shown.

**10.7 Treasury concession and intra-group securities financing transactions**  
[deleted]

*BIPRU 10.8* is deleted in its entirety. The deleted text is not shown.

**10.8 UK integrated groups** [deleted]

After *BIPRU 10.8* [deleted], insert the following new section. The new text is not shown underlined.

**10.8A Intra-group exposures: core UK group**

Application

- 10.8A.1 R This section applies to a *firm* if:
- (1) it is a member of a *core UK group* (under *BIPRU 3.2.25R* and this section); and
  - (2) it has a *core UK group waiver*.

Definition of core UK group

- 10.8A.2 R An *undertaking* is a member of a *firm's core UK group* if, in relation to the *firm*, that *undertaking* satisfies the following conditions:
- (1) it is a *core concentration risk group counterparty*;

- (2) it is an *institution, financial holding company, financial institution, asset management company or ancillary services undertaking*;
- (3) (in relation to a *subsidiary undertaking*) 100% of the voting rights attaching to the *shares* in its capital is held by the *firm* or a *financial holding company* (or a *subsidiary undertaking* of the *financial holding company*), whether individually or jointly, and that *firm* or *financial holding company* (or its *subsidiary undertaking*) must have the right to appoint or remove a majority of the members of the board of *directors*, committee of management or other governing body of the *undertaking*;
- (4) it is subject to the same risk evaluation, measurement and control procedures as the *firm*;
- (5) it is incorporated in the *United Kingdom*; and
- (6) there is no current or foreseen material practical or legal impediment to the prompt transfer of *capital resources* or repayment of liabilities from the *counterparty* to the *firm*.

10.8A.3 G In relation to *BIPRU 10.8A.2R(3)*, a *subsidiary undertaking* should generally be 100% owned and controlled by a single shareholder. However, if a *subsidiary undertaking* has more than one shareholder, that *undertaking* may be a member of the *core UK group* if all its shareholders are also members of that same *core UK group*.

10.8A.4 G If a *core concentration risk group counterparty* is of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC) and it is established in the *United Kingdom* other than by incorporation, a *firm* wishing to include that *counterparty* in its *core UK group* may apply to the *FSA* for a *waiver of BIPRU 10.8A.2R(5)* if it can demonstrate fully to the *FSA* that the *counterparty's* centre of main interests is situated in the *United Kingdom* within the meaning of that Regulation.

#### Minimum standards

- 10.8A.5 R
- (1) For the purpose of *BIPRU 10.8A.2R(6)*, a *firm* must be able to demonstrate fully to the *FSA* the circumstances and arrangements, including legal arrangements, by virtue of which there are no material practical or legal impediments, and none are foreseen, to the prompt transfer of *capital resources* or repayment of liabilities from the *counterparty* to the *firm*.
  - (2) In relation to a *counterparty* that is not a *firm*, the arrangements referred to in (1) must include a legally binding agreement with each *firm* that is a member of the *core UK group* that it will promptly on demand by the *firm* increase that *firm's capital resources* by an amount required to ensure that the *firm* complies with *GENPRU 2.1* (Calculation of capital resources requirements),

*BIPRU 10* (Large exposures requirements) and any other requirements relating to *capital resources* or concentration risk imposed on a *firm* by or under the *regulatory system*.

- 10.8A.6 G The *FSA* will consider the following criteria when assessing whether the condition in *BIPRU 10.8A.2R(6)* is going to be met:
- (1) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment;
  - (2) whether there are any interests other than those of the *firm* in the *core concentration risk group counterparty* and what impact those other interests may have on the *firm's* control over the *core group concentration risk group counterparty* and the ability of the *firm* to require a transfer of funds or repayment of liabilities;
  - (3) whether there are any tax disadvantages for the *firm* or the *core concentration risk group counterparty* as a result of the transfer of funds or repayment of liabilities;
  - (4) whether the purpose of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;
  - (5) whether the legal structure of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;
  - (6) whether the contractual relationships of the *core concentration risk group counterparty* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and
  - (7) whether past and proposed flows of funds between the *core concentration risk group counterparty* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities.
- 10.8A.7 G (1) *Firms* are referred to the guidance relating to 0% *risk weights* for *exposures* within a *core UK group* under the *standardised approach* as follows:
- (a) *BIPRU 3.2.28G* in respect of *BIPRU 10.8A.2R(3)* on same risk evaluation, measurement and control procedures; and
  - (b) *BIPRU 3.2.30G* and *BIPRU 3.2.31G* in respect of *BIPRU 10.8A.2R(6)* on prompt transfer of *capital resources* and repayment of liabilities.
- (2) For the purpose of *BIPRU 10.8A.5R(2)*, the obligation to increase the *firm's capital resources* may be limited to capital resources available to the *counterparty* and may reasonably exclude such amount of capital resources that, if transferred to the *firm*, would



cause the *counterparty* to become balance sheet insolvent in the manner contemplated in section 123(2) of the Insolvency Act 1986.

#### Exemption for a core UK group

- 10.8A.8 R If this section applies, *exposures* between members of the *core UK group* are exempt from the limits described in *BIPRU* 10.5 (Limits on exposures).
- 10.8A.9 G The *FSA* will expect a *firm* to which this section applies not to use any member of its *core UK group* which is not a *firm* to route lending or to have *exposures* to any third party in excess of the limits in *BIPRU* 10.5 (Limits on exposures).

#### Calculation of capital resources for a core UK group

- 10.8A.10 R For the purposes of this section, a *firm* must calculate the capital resources of the *core UK group* in accordance with *GENPRU* 3 Annex 1R Part 2 (Method 2 of Annex 1 of the Financial Groups Directive (Deduction and aggregation Method)) and apply the limits set out in this section to those capital resources rather than the *capital resources* of the *firm*. For these purposes the definition of *solo capital resources* is adjusted so that the *rules* on which the calculation for each member of the *core UK group* is based are the ones that would apply under the procedure in *BIPRU* 8.6.6R to *BIPRU* 8.6.9R (Consolidated capital resources).
- 10.8A.11 G The calculation of capital resources under *GENPRU* 3 Annex 1R Part 2 (Method 2 of Annex 1 of the Financial Groups Directive (Deduction and aggregation Method)) is based on the *solo capital resources* of members of a *financial conglomerate*. The definition of *solo capital resources* depends on what type of *undertakings* the *financial conglomerate* contains. For example, if a *financial conglomerate* contains a *bank* the *solo capital resources* calculation for every group member in the *banking sector* and the *investment services sector* is based on the *capital resources* calculation for *banks*. The purpose of *BIPRU* 10.8A.10R is to apply the corresponding procedure that applies under *BIPRU* 8.6 (Calculation of capital resources on a consolidated basis for *BIPRU* firms).

#### Notification

- 10.8A.12 R A *firm* must immediately notify the *FSA* in writing if it becomes aware that any *exposure* that it has treated as exempt under this section or any *counterparty* that it has been treating as a member of its *core UK group* has ceased to meet the conditions for application of the treatment in this section.

*BIPRU* 10.9 is deleted in its entirety. The deleted text is not shown.

## 10.9 Wider Integrated Group [deleted]

After BIPRU 10.9 [deleted], insert the following new section. The new text is not shown underlined.

## **10.9A Intra-group exposures: non-core large exposures group**

### Application

- 10.9A.1 R This section applies to a *firm* if it has:
- (1) a *non-core large exposures group*; and
  - (2) a *non-core large exposures group waiver*.
- 10.9A.2 G A *firm* must treat the *exposures* to its *connected counterparties* that are not members of its *non-core large exposures group* as *exposures* to a single undertaking and must ensure that the total amount of its *exposures* to such *connected counterparties* does not exceed the 25% limit in BIPRU 10.5.6R (Large exposure limit) and, if applicable, the *trading book* limits in BIPRU 10.10A (Connected counterparties: trading book limits).

### Definition of non-core large exposures group

- 10.9A.3 R The *non-core large exposures group* of a *firm* consists of each *non-core concentration risk group counterparty* of the *firm* that is not a member of its *core UK group* but satisfies all other conditions for membership of the *firm's core UK group* except for the following:
- (1) BIPRU 10.8A.2R(1) (Core concentration risk group counterparty);
  - (2) BIPRU 10.8A.2R(5) (Establishment in the United Kingdom); and
  - (3) BIPRU 10.8A.5R(2) (Capital maintenance arrangements).

### Definition of non-core concentration risk group counterparty

- 10.9A.4 R A *non-core concentration risk group counterparty* (in relation to a *firm*) is a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking*, provided that (in each case) both the counterparty and the *firm* satisfy one of the following conditions:
- (1) they are included within the scope of consolidation on a full basis with respect to the same *UK consolidation group* and BIPRU 8.3.1R applies to the *firm* with respect to that *UK consolidation group*; or
  - (2) they are included within the scope of consolidation on a full basis with respect to the same *group* by a *competent authority* of an *EEA State* other than the *United Kingdom* under the *CRD implementation measures* about consolidated supervision for that *EEA State*; or
  - (3) they are included within the scope of consolidation on a full basis with respect to the same *group* by a *third country competent authority* under prudential rules for the *banking sector* or *investment*

*services sector* of or administered by that *third country competent authority* and the *firm* or another *EEA firm* in that *group* has been notified in writing by the *FSA* or a *competent authority* of another *EEA State* pursuant to Article 143 of the *Banking Consolidation Directive* that that *group* is subject to equivalent supervision.

#### Revised large exposure limits for a non-core large exposures group

- 10.9A.5 R A *firm* to which this section applies must ensure that the *rules* listed in *BIPRU 10.9A.6 R* are complied with on a consolidated basis subject to the following modifications:
- (1) (if the *firm* is not a member of a *core UK group*) the *rules* apply in relation to *exposures* of the *firm* to its *non-core large exposures group* as if it is a single undertaking;
  - (2) if the *firm* is a member of a *core UK group*:
    - (a) the *rules* apply in relation to its *core UK group* rather than in relation to the *firm*; and
    - (b) the *core UK group* and the *non-core large exposures group* must each be treated as a single undertaking.
- 10.9A.6 R The *rules* referred to in *BIPRU 10.9A.5R* are:
- (1) *BIPRU 10.5.6R* (25% *large exposures* limit);
  - (2) *BIPRU 10.10A.2R* (Trading book limits) other than *BIPRU 10.10A.2R(2)* (*CNCOM*); and
  - (3) *BIPRU 10.10A.3R* (500% limit for *trading book excess exposures*).

#### Non-trading book backstop limit for a non-core large exposures group

- 10.9A.7 R A *firm* must ensure that the total amount of *non-trading book exposures* between:
- (1) itself and members of its *non-core large exposures group* does not exceed 100% of the *firm's capital resources*; or
  - (2) if it is a member of a *core UK group*, the members of its *core UK group* and members of its *non-core large exposures group* does not exceed 100% of the capital resources of the *firm's core UK group*.

#### Concentrated exposures in a non-core large exposures group

- 10.9A.8 R (1) Subject to the limit in *BIPRU 10.9A.7R* (Back-stop large exposures limit), a *firm* may concentrate its intra-group *exposure* to a particular member of its *non-core large exposures group* in excess of 25% of the capital resources of the *firm's core UK group*.

- (2) A *firm* may not apply (1) unless it has given prior written notice to the *FSA* that it intends to do so.
- (3) The written notice referred to in (2) must contain the following:
  - (a) an explanation on how the *firm* will ensure that it will still meet the requirement in *BIPRU* 10.9A.7R (Backstop large exposures limit) on a continuing basis when applying (1);
  - (b) details of the *counterparty*, the size of the *exposure* and the expected duration of the *exposure*; and
  - (c) an explanation of the reason for the *exposure*.
- (4) If a *firm* stops applying (1) it may start to apply it again if it notifies the *FSA* under (2) that it intends to do so.

#### Calculation of capital resources for a core UK group

- 10.9A.9 R *BIPRU* 10.8A.10R (Calculation of capital resources for a core UK group) applies for the purposes of this section in the same way that it applies for the purposes of *BIPRU* 10.8A (Intra-group exposures: core UK group).

#### Exemption for intra-group exposures on a solo basis

- 10.9A.10 R If this section applies to a *firm*, then subject to *BIPRU* 10.10A.12R (Core UK group and non-core large exposures group: treatment of the trading book concentration risk excess), it may, on a solo basis, treat an *exposure* to a member of its *non-core large exposures group* as exempt from the limits in *BIPRU* 10.5 (Limits on exposures).
- 10.9A.11 G The purpose of *BIPRU* 10.9A.10R is to reflect the fact that the limits in *BIPRU* 10.5 (Limits on exposures), so far as they apply to a member of a *firm's non-core large exposures group*, are calculated on a consolidated basis with respect to a *firm's core UK group*. It is therefore necessary to switch them off on a purely solo basis.

#### Notification

- 10.9A.12 R A *firm* must immediately notify the *FSA* in writing if it becomes aware that any *exposure* that it has treated as exempt under this section or any *counterparty* that it has been treating as a member of its *non-core large exposures group* has ceased to meet the conditions for application of the treatment in this section.

*BIPRU* 10.10 is deleted in its entirety. The deleted text is not shown.

### **10.10 Treatment of the trading book concentration risk excess under the integrated groups regime [deleted]**

After BIPRU 10.10 [deleted], insert the following new section. The new text is not shown underlined.

## **10.10A Connected counterparties: trading book limits**

### Application

- 10.10A.1 R This section only applies to *exposures* in a *firm's trading book* to its *connected counterparties*.

### Trading book limits

- 10.10A.2 R *Exposures* in a *firm's trading book* to its *connected counterparties* are exempt from the 25% limit in *BIPRU* 10.5.6R (large exposures limit) if:
- (1) the total amount of the *exposures* on the *firm's non-trading book* to its *connected counterparties* does not exceed the limit laid down in that *rule*, calculated with reference to the definition of *capital resources* calculated at stage (N) of the calculation in the *capital resources table* (Total tier one capital plus tier two capital after deductions) as set out in *BIPRU* 10.5.2R, *BIPRU* 10.5.3R and *BIPRU* 10.5.5R, so that the excess arises entirely on the *trading book*; and
  - (2) the *firm* meets the additional capital requirements relating to the *concentration risk capital component (CNCOM)* in relation to the relevant *trading book exposures*.
- 10.10A.3 R A *firm* must ensure that the total amount of its *trading book exposures* to its *connected counterparties* does not exceed 500% of the *firm's capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions).

### How to calculate the concentration risk capital component

- 10.10A.4 G A *firm's CNCOM* should be calculated as part of its *credit risk capital requirement (CRCR)* in accordance with *GENPRU* 2.1 (Calculation of capital resources requirements).
- 10.10A.5 R A *firm's CNCOM* is the sum of its *individual counterparty CNCOMs*.
- 10.10A.6 R An *individual counterparty CNCOM* is the amount a *firm* must calculate in accordance with *BIPRU* 10.10A.8R with respect to its *exposures* to its *connected counterparties*.
- 10.10A.7 G A *CNCOM* calculation on a *trading book exposure* is in addition to, and not instead of, any capital requirement arising under the *market risk capital requirement* or *counterparty risk capital component*.
- 10.10A.8 R A *firm* must calculate its *individual counterparty CNCOM* for its *exposures* to its *connected counterparties* as follows:

- (1) break down its *total exposure* into its *trading book* and *non-trading book* components;
- (2) calculate 25% of the *firm's capital resources* calculated at stage (N) of the calculation in the *capital resources table* (Total tier one capital plus tier two capital after deductions) to determine the total amount of the *exposures* in the *firm's non-trading book* does not exceed this limit in accordance with *BIPRU 10.10A.2R(1)*;
- (3) calculate 25% of the *firm's capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions) and deduct those parts of the *total exposure* which are in the *non-trading book* falling within the limit in (2);
- (4) a *firm* must allocate (in the order set out in (6)) *trading book exposures* to its *connected counterparties* to the unutilised portion of the 25% limit of the *firm's capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions) remaining after deducting the *non-trading book exposures* in accordance with (3);
- (5) no further *trading book exposures* can be allocated once the 25% limit in (4) has been reached; the remaining *trading book exposures* constitute the *trading book concentration risk excess* with respect to its *connected counterparties*;
- (6) for the purposes of (4), a *firm* must allocate the *trading book exposures* in the order of the level of capital requirements, starting with the lowest capital requirements for *specific risk* under the *market risk capital requirement* and/or the lowest capital requirements under the *counterparty risk capital component* and moving towards those *trading book exposures* with the highest capital requirements last;
- (7) the *individual counterparty CNCOM* is the sum of the capital requirements for each individual *exposure* included in the *trading book concentration risk excess* in accordance with (8) and (9) (each such capital requirement being an *individual CNCOM*);
- (8) if the *trading book concentration risk excess* has persisted for 10 *business days* or less (irrespective of the age of each component part), the *individual CNCOMs* must be calculated in accordance with this formula:  
  
each *individual CNCOM* = capital requirement referred to in (6) × 200%;
- (9) if the *trading book concentration risk excess* has persisted for more than 10 *business days* (irrespective of the age of each component part), the *individual CNCOMs* must be calculated in accordance with

this formula:

each *individual CNCOM* = capital requirement referred to in (6) × appropriate percentage in *BIPRU* 10.10A.9R.

- 10.10A.9 R The appropriate percentage referred to in *BIPRU* 10.10A.8R(9) must be established in accordance with the following:
- (1) the individual *exposures* included in the *trading book concentration risk excess* must be assigned to the bands in the first column of the table in *BIPRU* 10.10A.10R;
  - (2) the maximum amount that may be put in any band other than the last equals the percentage of the *firm's capital resources* in column 1 of that table;
  - (3) no amount may be allocated to the second or any later band unless the one before has been filled;
  - (4) *exposures* must be assigned to the bands in the order established by *BIPRU* 10.10A.8R(6); and
  - (5) for the purposes of (4), those *exposures* with the lowest capital requirements (as referred to in *BIPRU* 10.10A.8R(6)) must be assigned first and those with the highest last.

Percentages applicable under *BIPRU* 10.10A.9R

- 10.10A.10 R This table belongs to *BIPRU* 10.10A.9R

Excess exposure (as a percentage of the <i>firm's capital resources</i> calculated at stage (T) of the <i>capital resources table</i> (Total capital after deductions))	Percentage
25% up to 40%	200%
Portion from 40% - 60%	300%
Portion from 60% - 80%	400%
Portion from 80% - 100%	500%
Portion from 100% - 250%	600%
Portion over 250%	900%

How *CNCOM* applies to the non-core large exposures group

- 10.10A.11 R A *firm* that has a *non-core large exposures group waiver* must meet the *CNCOM* in relation to *exposures* to members of its *non-core large exposures group* in accordance with this section, subject to the following:
- (1) in *BIPRU* 10.10A.8R, “25%” is substituted with “100%”; and
  - (2) the excess *exposures* for the purpose of *BIPRU* 10.10A.8R(9) must be assigned to the bands in the first column of the table in *BIPRU* 10.10A.10R beginning with the portion from 100% - 250%.

Core UK group and non-core large exposures group: treatment of the trading book concentration risk excess

- 10.10A.12 R
- (1) This *rule* applies to a *firm* that has a *core UK group waiver* or a *non-core large exposures group waiver*.
  - (2) A *firm* must calculate the *CNCOM* in relation to the *core UK group* in question in accordance with *BIPRU* 10.10A.2R (Trading book limits).
  - (3) A *firm* must then calculate the percentage of the amount calculated under (2) which is attributable to *exposures* of the *firm*.
  - (4) A *firm* must add the result of the calculation in (3) to the *CNCOM* applied to the *firm* on a solo basis in accordance with *BIPRU* 10.10A.5R to *BIPRU* 10.10A.11R (How to calculate the concentration risk capital component).

Examples

- 10.10A.13 G
- (1) The table in *BIPRU* 10.10A.14G sets out an example of a *CNCOM* calculation under *BIPRU* 10.10A.8R.
  - (2) *BIPRU* 10 Annex 2G (Examples of treatment of exposures under *BIPRU* 10) sets out examples of how the *large exposures* limits apply, particularly in relation to a *core UK group* and *non-core large exposures group*, taking into account various examples of *firms’ exposure* profiles.

Example of a *CNCOM* calculation (all numbers £000s)

- 10.10A.14 G This table belongs to *BIPRU* 10.10A.13G(1)

	Capital resources position
(1)	An <i>firm's</i> capital resources comprises:
	£



	<i>Tier one and tier two capital resources</i>		1000
	<i>Eligible tier three capital resources</i>		100
	<i>Amended capital resources</i>		1100
(2)	The components of the <i>large exposure</i> comprise:		
			£
	<i>(a) Non-trading book exposure</i>		200
	<i>(b) Mark to market value of trading book securities:</i>		
		<i>% specific risk weight</i>	
	Short: qualifying bond	1.00	(20)
	Long: qualifying commercial paper	0.25	100
	Long: equity	4.00	150
	Long: qualifying convertible	1.60	30
	Total net long securities position:		260
	Total net large exposures position [(a) + (b)]		460
Calculating the exposure for which incremental capital is needed			
(3)	The short position in the qualifying bond is offset against the highest specific risk weight items - in this case equities:		
			£
	Net long equity position (£150- £20)		130
(4)	The remaining items are ranked according to specific risk weight.		
	<i>% specific risk weight</i>	Security	£
	0.25	Qualifying commercial paper	100
	1.60	Qualifying convertible	30
	4.00	Equity (net)	130

(5)	The 'headroom' between the <i>non-trading book</i> exposure and 25% of the amended <i>capital resources</i> is calculated.	
		£
	25% of amended capital base (1100)	275
	<i>Non-trading book exposure</i>	200
	Headroom	75
(6)	<p>Applying the securities positions in ascending order of specific <i>risk weight</i>, £75 of the £100 qualifying commercial paper may be counted before 25% of the amended capital base is reached.</p> <p>The remaining £25 of qualifying commercial paper, along with £30 qualifying convertible and £130 equity (net) are traded securities <i>exposures</i> in excess of the limit and should therefore be covered by incremental capital. The amount of incremental capital should be included in the calculation for determining how much <i>trading book</i> capital a <i>firm</i> should have.</p>	
(7)	<p>If the excess <i>exposure</i> has been outstanding for 10 days or less, the specific <i>risk weights</i> for the elements over 25% of amended <i>capital resources</i> should be doubled.</p> <p>The 25% limit (£275) is taken up by £200 <i>non-trading book exposure</i> and £75 <i>trading book exposure</i> within the limit. These two items, when added to the items in bold below, total £460. £460 is the total net <i>large exposures</i> position as set out in (2) above.</p>	
		£
	Qualifying commercial paper	<b>£25</b> x 0.25% x 200% = 0.125
	Qualifying convertible	<b>£30</b> x 1.60% x 200% = 0.960
	Equity	<b>£130</b> x 4% x 200% = 10.400
	Additional capital requirement	11.485
(8)	<p>If the excess <i>exposure</i> has been outstanding for more than 10 days, the 25% limit (£275) is taken up by £200 <i>non-trading book exposure</i> and £75 <i>trading book exposure</i> within the limit. These two items, when added to the items in bold below, total £460. £460 is the total net <i>large exposures</i> position as set out in (2) above.</p>	
		£
	(a)	Over 25% and up to 40% of amended capital base at 200% (40% of £1100 =

		£440)	
		Amount of <i>trading book concentration risk excess</i> = £185	
		Appropriate % Multiplier Band = 200%	
		<b>£25</b> x 0.25% x 200% =	0.125
		<b>£30</b> x 1.60% x 200% =	0.960
		<b>£110</b> x 4.00% x 200% =	8.800
	(b)	Excess exposure 40% - 60% of amended capital base at 300%	
		<b>£20</b> x 4.00% x 300% =	2.400
	Additional capital requirement [(a)+(b)]		12.285

BIPRU 10.11 is deleted in its entirety. The deleted text is not shown.

**10.11 Notification procedure for BIPRU 10.7 to 10.10 [deleted]**

...

BIPRU 10 Annex 1G is deleted in its entirety. The deleted text is not shown.

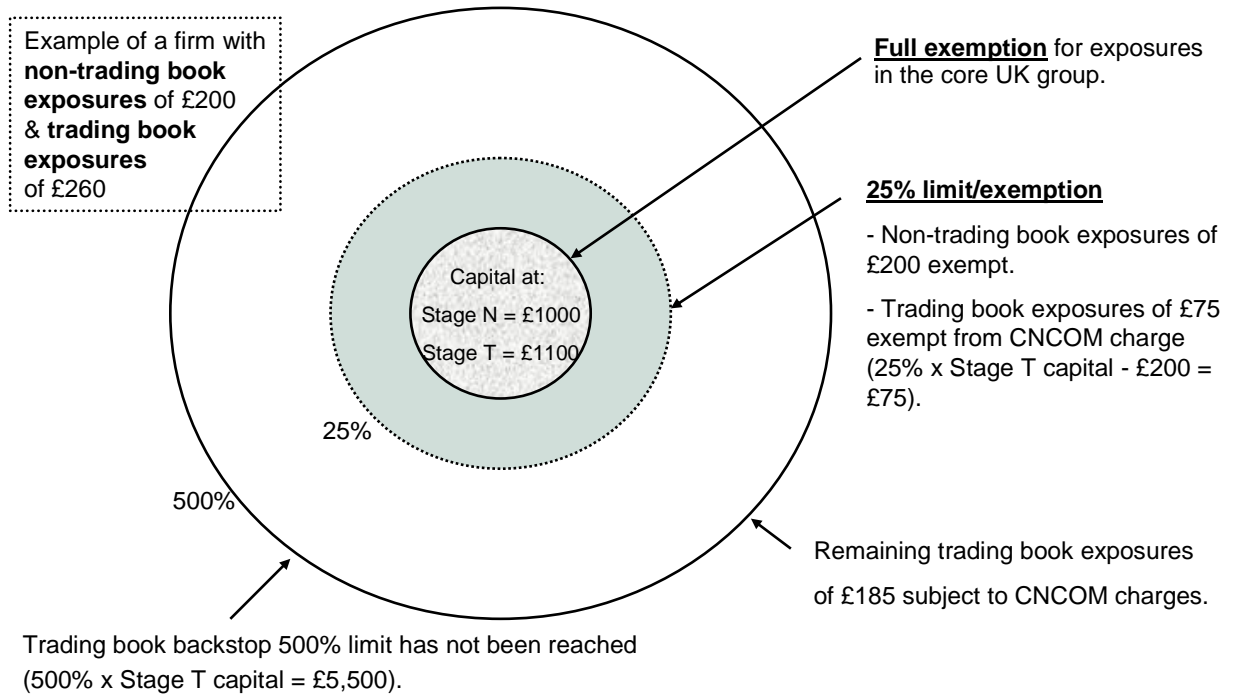
**10 Treatment of exposures under the integrated groups regime for  
Annex concentration risk [deleted]  
1G**

After BIPRU 10 Annex 1G [deleted], insert the following new annex.

**10** G Examples of treatment of intra-group exposures under BIPRU 10  
**Annex 2**

Example 1

Intra group large exposures: CNCOM calculation  
 (example of BIPRU 10.10A.14 G)



CNCOM charges as follows:

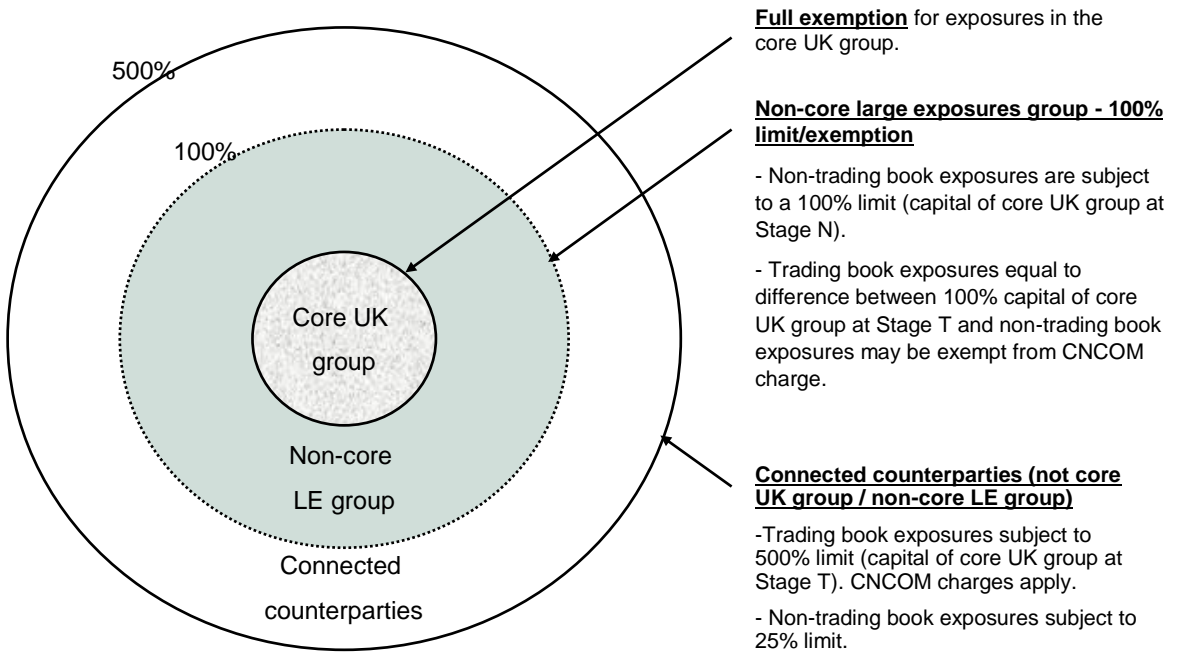
Trading book exposures of £75 exempt from CNCOM,  
 CNCOM band charges start at 25%,

If excess exposures are >10 days, CNCOM bands calculated as:

25% - 40%	(£275 - £440)	=	£165	@ 200%
40% - 60%	(£ remainder)	=	£ 20	@ 300%
			£185	

Example 2

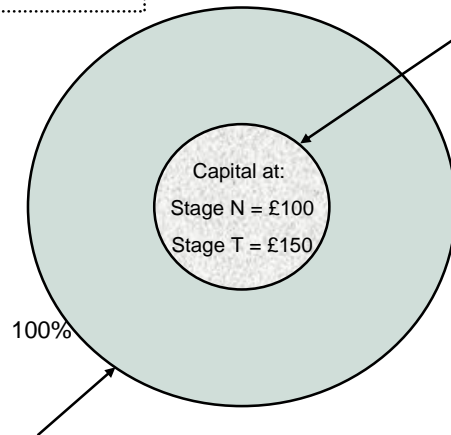
Intra group large exposures: Overview of interaction between BIPRU 10.8A (Core UK group), BIPRU 10.9A (Non-core LE group) & BIPRU 10.10A (Trading book limits)



Example 3

Intra group large exposures: example of non-trading book exposures

Example of a firm with intra group **non-trading book exposures** of £100



**Full exemption** for exposures in the core UK group.

**Non-core large exposures group - 100% limit**

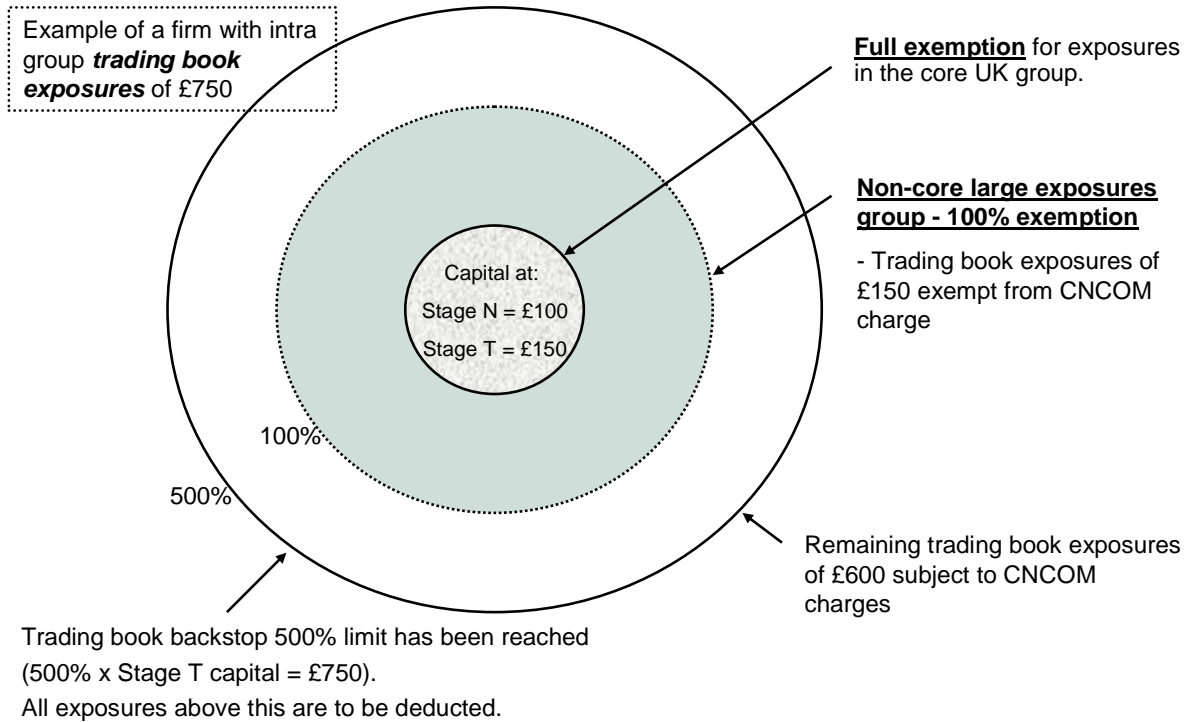
- Non-trading book exposures of £100

100%

Non-trading book backstop of 100% limit has been reached (100% x Stage N capital = £100). All exposures above this are to be deducted.

Example 4

Intra group large exposures: example of trading book exposures



CNCOM charges as follows:

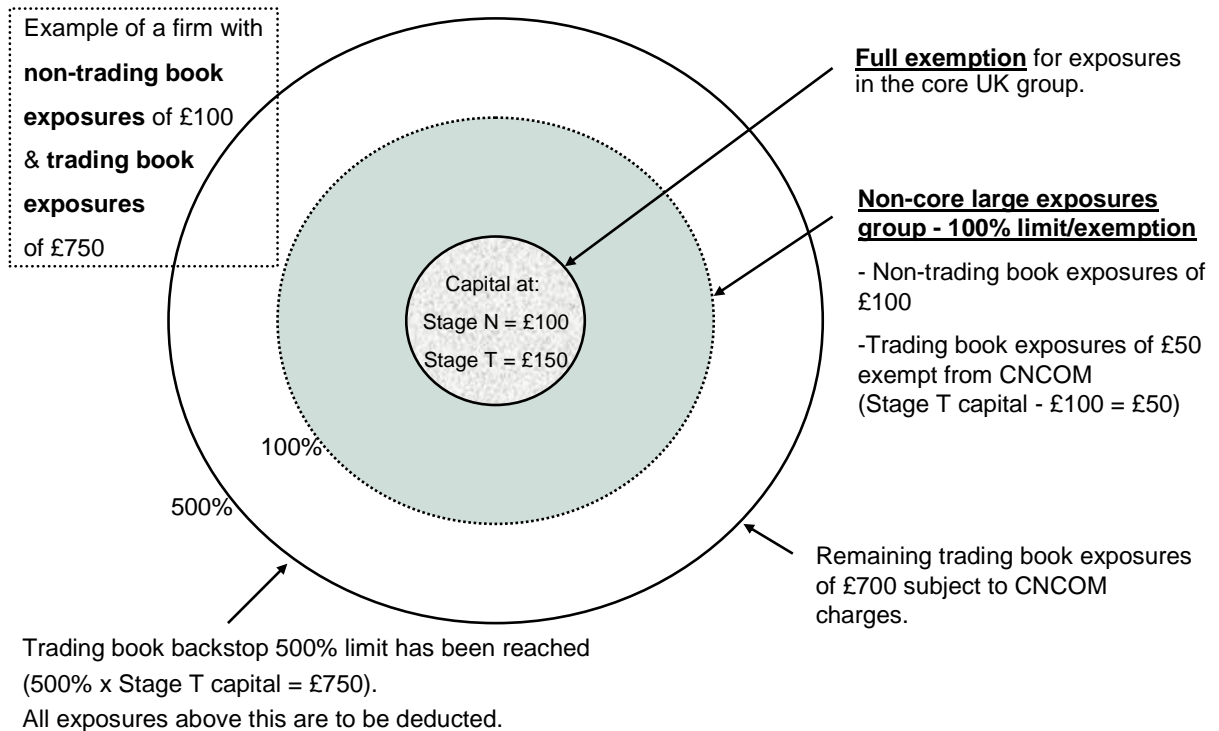
Trading book exposures of £150 exempt from CNCOM, CNCOM band charges start at 100%,

If excess exposures are >10 days, CNCOM bands calculated as:

100% - 250%	(£150 - £375)	=	£225	@	600%
>250%	(£ remainder)	=	<u>£375</u>	@	900%
			£600		

Example 5

Intra group large exposures: example of non-trading book & trading book exposures



CNCOM charges as follows:

Trading book exposures of £50 exempt from CNCOM, CNCOM band charges start at 100%,

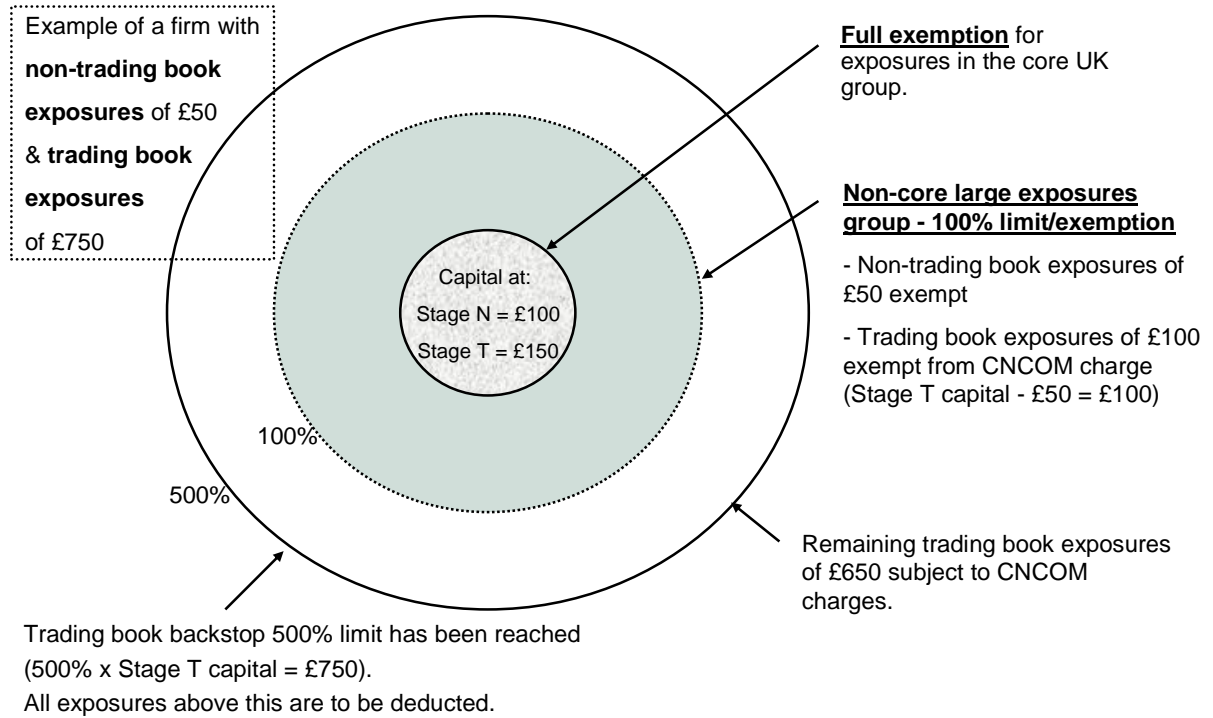
If excess exposures are >10 days, CNCOM bands calculated as:

100% - 250%	(£150 - £375)	=	£225	@ 600%
>250%	(£ remainder)	=	£475	@ 900%
			£700	



Example 6

Intra group large exposures: example of non-trading book & trading book exposures



CNCOM charges as follows:

Trading book exposures of £100 exempt from CNCOM, CNCOM band charges start at 100%,

If excess exposures are >10 days, CNCOM bands calculated as:

100% - 250%	(£150 - £375)	=	£225	@ 600%
>250%	(£ remainder)	=	£425	@ 900%
			£650	

Amend the following as shown.

**TP 2 Capital floors for a firm using the IRB or AMA approaches**

...

How to apply IPRU

- 2.26 R For the purpose of calculating the part of the *IPRU* capital resources requirement that corresponds to the *concentration risk capital component* a *firm* may identify the *trading book exposures* on which that requirement is based using *BIPRU* 10 (~~Concentration risk~~ Large exposures requirements) except to the extent that *BIPRU* 10 involves the *IRB approach*.
- 2.27 G The *concentration risk capital component* is the capital requirement for a *firm* that chooses to have *trading book exposures* that exceed the ~~concentration risk~~ large exposure limits for the *non-trading book*. In most cases *IPRU* has a similar capital requirement. The purpose of *BIPRU* TP 2.26R is to allow a *firm* to calculate the amount of the excess *trading book exposures* for which it calculates the additional capital charge using *BIPRU* 10 (~~Concentration risk~~ Large exposures requirements) in order to avoid having to apply the *IPRU* large exposure requirements for this purpose only.

...

**TP 15 Commodities firm transitionals: Exemptions from capital requirements**

...

Exemption

- 15.6 R The provisions of *GENPRU* and *BIPRU* on capital requirements and *GENPRU* 1.2 (Adequacy of financial resources) do not apply to a *firm* to which *BIPRU* TP 15 applies. However *BIPRU* 10 (~~Concentration risk~~ Large exposures requirements) continues to apply, including the *CNCOM*.

...

- 15.10 G Table: Parts of *GENPRU* and *BIPRU* that apply to exempt *BIPRU* commodities firms

This table belongs to *BIPRU* TP 15.9G

<i>GENPRU</i> and <i>BIPRU</i> provisions	...	...
...	...	...
<i>BIPRU</i> 10 ( <del>Concentration risk</del> <u>Large exposures</u> )	...	...
...	...	...

...

**TP 16 Commodities firm transitionals: large exposure**

...

Duration of transitional

16.4 R The treatment in *BIPRU* TP 16 is available until 31 December ~~2010~~ 2014.

[Note: CAD Article 45(1)]

...

Exemption

16.6 R (1) A *firm* may exceed the limits concerning *large exposures* in *BIPRU* 10.5.6R (25% limit), ~~*BIPRU* 10.5.8R (800% limit), *BIPRU* 10.5.12R (500% limit) and *BIPRU* 10.5.13R (600% limit).~~

...

16.7 G Broadly speaking the effect of *BIPRU* TP 16.6R is that *BIPRU* 10 (~~Concentration risk~~ Large exposures) does not apply to a *firm* that meets the conditions in *BIPRU* TP 16.1R. However *BIPRU* 10.12 (Systems and controls and general) continues to apply.

...

*BIPRU* TP17 is deleted in its entirety. The deleted text is not shown.

**TP 17 Large exposures: Exemptions for intra-group exposures for banks and investment firms [deleted]**

*BIPRU* TP18 is deleted in its entirety. The deleted text is not shown.

**TP 18 Large exposures: Exemptions for intra-group exposures for building societies [deleted]**

*BIPRU* TP19 is deleted in its entirety. The deleted text is not shown.

**TP 19 Large exposures: Exemptions for intra-group exposures on a consolidated basis [deleted]**

...

After BIPRU TP 32, insert the following new transitional provisions. The new text is not underlined.

**TP 33 Intra-group exposures: Transitional provisions for core UK group and large exposures**

Application

- 33.1 R (1) This section applies to a *BIPRU firm* that on 30 December 2010 was applying any of the exemptions under the following provisions in the version in force on that date:
- (a) *BIPRU 3.2.25R* (Zero risk-weighting for intra-group exposures);
  - (b) *BIPRU 10.6.5R* to *BIPRU 10.6.7R* (Parental guarantees and capital maintenance arrangements);
  - (c) *BIPRU 10.7* (Treasury concession and intra-group securities financing transactions);
  - (d) *BIPRU 10.8* (UK integrated group); or
  - (e) *BIPRU 10.9* (Wider integrated group), if it has a *wider integrated group waiver* that expires after 31 December 2010.
- (2) In order to continue applying any of the exemptions in (1), a *firm* must be able on an ongoing basis to demonstrate to the *FSA* that it continues to comply fully with the provisions applicable to that exemption.

Duration of transitional

- 33.2 R This section applies until 31 December 2012.

Zero risk-weighting for intra-group exposures

- 33.3 R A *firm* may assign a *risk weight* of 0% to *exposures* that are eligible for that treatment under the criteria in *BIPRU 3.2.25R* in the version in force on 30 December 2010.

Exemptions from large exposures limits for intra-group exposures

- 33.4 R A *firm* may, to the extent permitted by this section, treat an *exposure* to a *concentration risk group counterparty* as exempt or partially exempt in accordance with *BIPRU 10* (Concentration risk requirements) in the version in force on 30 December 2010.

- 33.5 G The term *concentration risk group counterparty* broadly covers group members if they and the *firm* are subject to consolidated supervision by the *FSA*, another *EEA competent authority* or certain non-*EEA* regulators. The full definition can be found in the *Glossary* in the version in force on 30 December 2010.
- 33.6 G If the context requires, *BIPRU* 8.9 (Consolidated concentration risk requirements) as it was in force on 30 December 2010 continues to apply to a *firm* that applies *BIPRU* TP 33.4R.
- Effect of this section on intra-group exemptions in *BIPRU* 10
- 33.7 R If a *firm* applies this section, *BIPRU* 10.8A (Intra-group exposures: core UK group) to *BIPRU* 10.9A (Intra-group exposures: exposures outside of the core UK group) do not apply.
- 33.8 G The effect of *BIPRU* TP 33.7R is that a *firm* should not apply *BIPRU* 10.8A (Intra-group exposures: core UK group) to *BIPRU* 10.9A (Intra-group exposures: exposures outside the core UK group) to some *exposures to core concentration risk group counterparties, non-core concentration risk group counterparties* or *connected counterparties* and this section to others. The purpose of *BIPRU* TP 33.7R is that a *firm* should choose between treating intra-group *exposures* under *BIPRU* 10.8A (Intra-group exposures: core UK group) to *BIPRU* 10.9A (Intra-group exposures: exposures outside the core UK group) and treating them under this section but that it should not mix the approaches.
- Notice to the FSA
- 33.9 R A *firm* may only apply the treatment in *BIPRU* TP 33.3R or *BIPRU* TP 33.4R if the *firm* has notified the *FSA* in writing that it intends to apply the relevant *rule* to the particular counterparty or *concentration risk group counterparty* respectively.
- 33.10 R The notice in *BIPRU* TP 33.9R must comply with the following requirements:
- (1) the *FSA* was notified on or before 31 December 2010;
  - (2) the notice must give the following:
    - (a) in the case of the treatment in *BIPRU* TP 33.3R:
      - (i) the name of the counterparty concerned; and
      - (ii) details of the *firm's* initial plans on how and when it will ensure that *exposures* that will not be within its *core UK group* are treated in accordance with the relevant *rules* in *BIPRU* 3;
    - (b) in the case of the treatment in *BIPRU* TP 33.4R:

- (i) the name of the *concentration risk group counterparty* concerned and the intra-group exemption or exemptions that apply to it; and
- (ii) details of the *firm's* initial plans on how and when it intends to comply with the *large exposures* limits that apply to a *core UK group* or *non-core large exposures group*.

**TP 34 Large exposures: General transitional provisions**

Application

34.1 R This section applies to a *BIPRU* firm.

Purpose

34.2 G This section implements the intra-group exemption in Article 113(3)(f) and the national discretion for exemptions in Articles 113(4)(a) and (c) of the *Banking Consolidation Directive* and the national discretion for *trading book concentration risk excess* in Article 31 of the *Capital Adequacy Directive*.

Duration of transitional

34.3 R This section applies until 31 December 2010.

Version of BIPRU to be used

34.4 R Any reference in this section to *BIPRU* is to the version in force on 30 December 2010.

Rules in BIPRU that apply until 31 December 2010

34.5 R The following *rules* apply until 31 December 2010:

- (1) *BIPRU* 10.6.3R(10) (Exemption for covered bonds from the large exposure limit);
- (2) *BIPRU* 10.5 (Limits on exposures and large exposures);
- (3) *BIPRU* TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms), if a *firm* has a *waiver* that expires on 31 December 2010 which has the effect of allowing it to apply the exemptions in *BIPRU* TP 17; and
- (4) *BIPRU* TP 19 (Large exposures: Exemptions for intra-group exposures on a consolidated basis), if a *firm* has a *waiver* that expires on 31 December 2010 which has the effect of allowing it to apply the

exemptions in *BIPRU* TP 17 on a consolidated basis.

- 34.6 G The Capital Requirements Directive (Large Exposures) Instrument 2010 (FSA 2010/41) comes into force on 31 December 2010. The effect of *BIPRU* TP 34.5R is that the *BIPRU* provisions contained in that instrument that amend, delete or replace, the *rules* set out in *BIPRU* TP 34.5R are disapplied until 1 January 2011.

Schedule 1 Record keeping requirements

...

3 Table

Handbook reference	Subject of Record	Contents of Record	When record must be made	Retention Period
...				
<i>BIPRU</i> 10.4.47R	<i>Exposure to undisclosed counterparties</i>	A record of the steps taken by the <i>firm</i> to satisfy itself that it will continue to meet the limits in <i>BIPRU</i> 10.5 for <i>non-trading book exposures</i> and <i>trading book exposures</i>	Not specified	Not specified
...				

...

Schedule 2 Notification and reporting requirements

...

3 Table

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
...				
<i>BIPRU</i> 3.2.35R (1), (4) and (5)	<del>Intention to apply <i>BIPRU</i> 3.2.35R</del> <u>Fact of <i>exposure</i> or <i>firm</i> ceasing to meet the conditions in <i>BIPRU</i> 3.2.25R</u>	(1) and (4): Fact of intention (5): Fact of <i>exposure</i> or <i>firm</i> ceasing to meet	(1) and (4): <del>Intention to apply</del> (5): Ceasing to meet conditions	(1) and (4): One month's prior notice (5): First

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
		the conditions in <i>BIPRU</i> 3.2.35R <u>3.2.25R</u>		report date after the obligation to notify becomes due
...				
<i>BIPRU</i> 8.9.4R, <i>BIPRU</i> 8.9.27R	Use of Treasury concession in <i>BIPRU</i> 10.7 on a consolidated basis	See <i>BIPRU</i> 10.11	Intention to use Treasury concession	See <i>BIPRU</i> 10.11
<i>BIPRU</i> 8.9.8R, <i>BIPRU</i> 8.9.27R	Creation of a <i>consolidation UK integrated group</i>	See <i>BIPRU</i> 10.11	Intention to form <i>consolidation UK integrated group</i>	See <i>BIPRU</i> 10.11
...				
<i>BIPRU</i> 10.5.9R	Breaching the <i>large exposures</i> limits in <i>BIPRU</i> 10.5.6R or <i>BIPRU</i> 10.5.8R	Fact of breach or expectation of breach	Breach or expectation of breach	Immediately
<i>BIPRU</i> 10.5.14R	<i>Trading book concentration risk excesses</i> over a three month period	All cases in the three month period of each <i>trading book concentration risk excess</i> that existed in that period, giving the amount of the excess and the name of the <i>counterparty</i>	End of three month period	Not specified
<i>BIPRU</i> 10.6.7R (2)	Intention to use capital maintenance agreement	Fact of intention and details of the terms and conditions of capital maintenance agreement	Intention to enter into agreement	One month before entering agreement
<i>BIPRU</i>	Intention to use concession	Fact of intention	Intention to use	One month



Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
10.11.1R (1) and (4)	<del>in BIPRU 10.7.1R, or BIPRU 10.7.4R or the UK integrated groups concession in BIPRU 10.8</del>		<del>BIPRU 10.7.1R, or BIPRU 10.7.4R, or BIPRU 10.8</del>	<del>prior to using the concessions in BIPRU 10.7.1R, or BIPRU 10.7.4R, or BIPRU 10.8</del>
<del>BIPRU 10.11.1R (3)</del>	<del>Intention to stop applying BIPRU 10.7 or BIPRU 10.8</del>	<del>Fact of intention</del>	<del>Intention to stop using BIPRU 10.7.1R, or BIPRU 10.7.4R, or BIPRU 10.8</del>	<del>One month prior to using the concessions in BIPRU 10.7.1R, or BIPRU 10.7.4R, or BIPRU 10.8</del>
<del>BIPRU 10.11.2R 10.8A.12 R</del>	<del>Exposure being treated as exempt under BIPRU 10.7.1R or BIPRU 10.7.4R or BIPRU 10.8A (Core UK group) or BIPRU 10.9 ceases to meet the conditions for application of the treatment</del>	<del>Fact or expectation of any exposure to which it has applied the treatment ceases to meet the conditions for application of the relevant treatment</del>	<del>Awareness of situation</del>	<del>Not specified Immediately</del>
<del>BIPRU 10.9A.8R (2)</del>	<del>Intention to use BIPRU 10.9A.8R (1) to concentrate an exposure to a particular member of the non-core large exposures group that exceeds 25% of the capital resources of the firm's core UK group</del>	<del>Fact of intention and the information in BIPRU 10.9A.8R (3)</del>	<del>Intention to use BIPRU 10.9A.8R (1)</del>	<del>Not specified</del>
<del>BIPRU 10.9A.12 R</del>	<del>Exposure being treated as exempt under BIPRU 10.9A (Intra-group exposures: exposures outside the core UK group) ceases to meet the conditions for application of the treatment</del>	<del>Fact or expectation of any exposure to which it has applied the treatment ceases to meet the</del>	<del>Awareness of situation</del>	<del>Immediately</del>

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
		<u>conditions for application of the treatment</u>		
...				

## Annex D

### Amendments to the Supervision manual (SUP)

The amendments in this Annex are made to the version of the Supervision manual (SUP) as was amended by Annex D to the Capital Requirements Directive (Handbook Amendments) Instrument 2010 (FSA 2010/29).

Although the amendments in Annex D to the Capital Requirements Directive (Handbook Amendments) Instrument 2010 (FSA 2010/29) have not come into force as at the date of this instrument, they are not shown as underlined for the purpose of this Annex.

In this Annex, underlining indicates new text inserted into the version of the Supervision manual amended in Annex D to the Capital Requirements Directive (Handbook Amendments) Instrument 2010 (FSA 2010/29).

#### SUP 16 Annex 25G Guidance notes for data items in SUP 16 Annex 24R

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#### FSA008 – Large exposures

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#### Part 1 – Large exposures at the reporting date

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Where a firm has established a *core UK group* (as defined in *BIPRU* 10.8A.2R), it should detail these *exposures* in Part 2.

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#### 5N Trading book concentration risk excess

This is the *trading book concentration risk excess*, arising under *BIPRU* 10.10A.8R (or *BIPRU* 10.5.20R) for those utilising TP33), expressed as a percentage of data element 4B. It should be entered to two decimal places, omitting the % sign.