

**PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND
INVESTMENT FIRMS (GROUP RISK CONSOLIDATION)
INSTRUMENT 2011**

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 2011.

Amendments to the Handbook

- D. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with Annex A to this instrument.
- E. The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Prudential Sourcebook for Banks, Building Societies and Investment Firms (Group Risk Consolidation) Instrument 2011.

By order of the Board
22 September 2011

Annex A

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

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

8 Group risk consolidation

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8.7 Consolidated capital resources requirements

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Use of the solo requirements of a regulator outside the EEA

- 8.7.35 R (1) ~~This rule applies where:~~
- (a) ~~an institution in a firm's UK consolidation group or non-EEA sub-group is subject to any of the sectoral rules applicable to its financial sector for a state or territory outside the EEA that correspond to the FSA's rules that would otherwise apply under this section;~~
 - (b) ~~those sectoral rules are shown in BIPRU 8 Annex 6R (Non-EEA regulators' requirements deemed CRD-equivalent for individual risks) as having been assessed as being equivalent to the FSA's rules in relation to the consolidated requirement component in question; and~~
 - (c) ~~that institution is incorporated in and has its head office in that state or territory. [deleted]~~
- (2) ~~If the conditions in this rule are satisfied, a firm may apply the sectoral rules referred to in (1) in order to calculate the risk capital requirement for the institution referred to in (1) provided that:~~
- (a) ~~the firm has no reason to believe that the use of the sectoral rules referred to in (1) would produce a lower figure for the consolidated requirement component than would be produced by calculating the risk capital requirement under the FSA's rules in accordance with this section; or~~
 - (b) ~~the firm increases the amount produced under the sectoral rules referred to in (1) and the firm has no reason to believe that the use of such figures would produce a lower figure for the consolidated requirement component than would be produced by calculating the risk capital requirement under the FSA's rules in accordance with this section. [deleted]~~

- 8.7.36 G ~~If a firm wants to include in its consolidated capital resources requirement a solo capital resource requirement for an individual risk calculated under the rules of a non-EEA regulator not assessed as equivalent in BIPRU 8 Annex 6R (Non-EEA regulators' requirements deemed CRD equivalent for individual risks) it will need to apply for a waiver. A firm applying for such a waiver should demonstrate that the local requirements result in a capital charge that is at least as much as required under the corresponding FSA rules. [deleted]~~

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Use of the consolidated requirements of a regulator outside the EEA

- 8.7.38 R ~~(1) This rule applies if:~~
- ~~(a) a firm is applying an accounting consolidation approach to part of its UK consolidation group or non-EEA sub-group under method three as described in BIPRU 8.7.13R(4)(a);~~
 - ~~(b) the part of the group in (a) constitutes the whole of a group subject to the consolidated capital requirements of a third country competent authority under the sectoral rules for the banking sector or the investment services sector; and~~
 - ~~(c) those sectoral rules are shown in BIPRU 8 Annex 6R (Non-EEA regulators' requirements deemed CRD equivalent for individual risks) as having been assessed as being equivalent to the FSA's rules in relation to the consolidated requirement component in question.~~
- ~~(2) If the conditions in this rule are satisfied, a firm may apply the consolidated capital requirement in (1)(b) as the risk capital requirement for the group identified in (1)(a) so far as that consolidated capital requirement corresponds to the FSA's rules that would otherwise apply under this section. However a firm may only do this if it also complies with BIPRU 8.7.35R(2). [deleted]~~

Prohibition on using the standardised rules of a regulator outside the EEA

- 8.7.38A R (1) This rule applies to a firm if:
- (a) an institution in its UK consolidation group or non-EEA sub-group is subject to any of the rules or requirements of, or administered by, a third-country competent authority applicable to its financial sector that correspond to the sectoral rules applicable to that financial sector ("corresponding sectoral rules"); or
 - (b) a part of its UK consolidation group or non-EEA sub-group constitutes the whole of a group subject to the consolidated capital requirements of a third-country competent authority

under the corresponding sectoral rules applicable to the banking sector or the investment services sector for a state or territory outside the EEA.

- (2) A firm may not use the requirements under any of the corresponding sectoral rules of a state or territory outside the EEA in order to calculate the consolidated capital resources requirement of its UK consolidation group or non-EEA sub-group for the purpose of this chapter.

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8.8 Advanced prudential calculation approaches

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Prohibition on using the rules of an overseas regulator

- 8.8.3 R Even if a firm has an *advanced prudential calculation approach permission* that allows it to use an *advanced prudential calculation approach* for the purposes of this chapter, the firm may not use the requirements of another state or territory to the extent they provide for that *advanced prudential calculation approach*. Therefore a firm may not use *BIPRU 8.7.34R* ~~to~~ and ~~*BIPRU 8.7.38R*~~ *8.7.37R* (Use of the capital requirements of ~~an overseas regulator~~ another EEA competent authority) if that would involve using an *advanced prudential calculation approach*.

Annex B

Amendments to the Supervision manual (SUP)

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

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

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FSA003 - Capital adequacy

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77A Total credit risk capital component

See *BIPRU* 3.1.5R, as modified if a firm has an IRB permission.

A further breakdown of this figure is provided quarterly in FSA004 for those firms that are required to report that data item.

For *UK consolidation group* reporting, this is the part of the *consolidated credit risk requirement* corresponding to the *credit risk capital component* (i.e. the capital requirements for credit risk excluding concentration risk and counterparty risk). This will be the sum of data elements ~~78A~~, 79A and 80A.

[CEBS' CA 2.1]

78A Credit risk for UK consolidation group reporting calculated under non-EEA rules

This is only relevant for *UK consolidation groups*. The only amount to be included here is the part (if any) of data element 77A calculated ~~(when this is allowed under *BIPRU* 8) using the rules of a non-EEA regulator.~~

~~If the *UK consolidation group* is comprised wholly of firms authorised and incorporated in the *EEA*, this data element will not be applicable.~~

This field no longer applies and should have a zero entered when being completed on a *UK consolidation group* basis. For any other reporting basis the element should not be submitted.

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85A Total operational risk capital requirement

This is only relevant for *UK banks*, *building societies* and *full scope BIPRU investment firms*. It is also relevant for any *BIPRU limited activity firm* or *BIPRU limited licence firm* that has a waiver under *BIPRU* 6.1.2G (to apply an *ORCR* rather than a fixed overheads requirement).

See *BIPRU 6*.

A *full scope BIPRU investment firm* that meets the conditions set out in *BIPRU TP 5.1R* should enter here the full *ORCR* that would have applied but for *BIPRU TP 5.7R*. The reduction as a result of that rule should be reported in data element 90A.

A further breakdown of this figure is provided in FSA007 for firms on the standardised approach, alternative standardised approach or the advanced measurement approach.

For *UK consolidation group* reporting, this is the *consolidated operational risk requirement*. This will be the sum of data elements ~~86A~~, 87A, 88A and 89A, but is subject to the restrictions in *BIPRU 8* on combining certain methods of calculating *operational risk* capital requirements.

[CEBS' CA 2.4]

86A Operational risk for UK consolidation group reporting calculated under non-EEA rules

~~This is only relevant for UK consolidation groups.~~

~~The only amount to be included here is the part (if any) of their consolidated operational risk requirement calculated (when this is allowed under BIPRU 8) using the rules of a non-EEA regulator.~~

~~If the UK consolidation group consists wholly of firms authorised and incorporated in the EEA, this data element will not be applicable.~~

This field no longer applies and should have a zero entered when being completed on a UK consolidation group basis. For any other reporting basis the element should not be submitted.

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93A Total market risk capital requirement

See *BIPRU 7* and also *GENPRU 2.2.46R*.

A further breakdown of this figure (~~less 94A in the case of UK consolidation group reports~~) is provided in FSA005 for firms that meet the reporting thresholds defined in *SUP 16.12.5R* (note 4), *SUP 16.12.11R* (note 4), *SUP 16.12.15R* (note 4), *SUP 16.16.12.22AR* (note 4) and *SUP 16.12.25AR* (note 4).

For *UK consolidation group* reporting, this is the *consolidated market risk requirement*. This will be the sum of data elements ~~94A~~, 95A and 102A.

[CEBS' CA 2.3]

94A Market risk capital requirement for UK consolidation group reporting calculated under non-EEA rules

~~This is only relevant for UK consolidation groups.~~

~~The only amount to be included here is the part (if any) of their *consolidated market risk requirement* calculated (when this is allowed under *BIPRU 8*) using the rules of a non-*EEA* regulator.~~

~~If the *UK consolidation group* consists wholly of firms authorised and incorporated in the *EEA*, this data element will not be applicable.~~

This field no longer applies and should have a zero entered when being completed on a *UK consolidation group* basis. For any other reporting basis the element should not be submitted.

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