

**PRUDENTIAL SOURCEBOOK FOR MORTGAGE AND HOME FINANCE FIRMS,  
AND INSURANCE INTERMEDIARIES (NON-BANK LENDERS)  
INSTRUMENT 2012**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 138 (General rule-making power);
    - (b) section 156 (General supplementary powers);
    - (c) section 157(1) (Guidance); and
  - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 26 April 2014.

**Amendments to the Handbook**

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) is amended in accordance with Annex B to this instrument.

**Citation**

- F. This instrument may be cited as the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (Non-Bank Lenders) Instrument 2012.

By order of the Board  
27 September 2012

## Annex A

## Amendments to the Glossary of definitions

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

<i>exposure</i>	<p>...</p> <p>(2) (in accordance with Article 77 of the <i>Banking Consolidation Directive</i> and for the purposes of the calculation of the <i>credit risk capital component</i> and the <i>counterparty risk capital component</i> (including <i>BIPRU 3</i> (Standardised credit risk), <i>BIPRU 4</i> (The IRB approach), <i>BIPRU 5</i> (Credit risk mitigation), <del>and</del> <i>BIPRU 9</i> (Securitisation) <u>or for the purposes of the calculation of the credit risk capital requirement in <i>MIPRU 4.2</i> (Capital resources requirement)</u>) an asset or off-balance sheet item.</p> <p>...</p>
<i>risk weight</i>	<p>(in relation to an <i>exposure</i>) a degree of risk expressed as a percentage assigned to that <i>exposure</i> in accordance with:</p> <p>(a) whichever is applicable of the <i>standardised approach</i> to credit risk and the <i>IRB approach</i>, including (in relation to a <i>securitisation position</i>) under <i>BIPRU 9</i> (Securitisation); <u>or</u></p> <p>(b) <u>(for a <i>firm</i> to which <i>MIPRU 4</i> applies), <i>MIPRU 4.2A.10R</i> to <i>MIPRU 4.2A.13R</i>.</u></p>
<i>risk weighted exposure amount</i>	<p>(in relation to an <i>exposure</i>) the value of an <i>exposure</i> for the purposes of the calculation of <u>(in the case of a <i>BIPRU firm</i>) the <i>credit risk capital component</i> or (in the case of a <i>firm</i> to which <i>MIPRU 4</i> applies) the <i>credit risk capital requirement</i> under <i>MIPRU 4.2A.4R</i>, in both cases after application of a <i>risk weight</i>.</u></p>
<i>securitisation</i>	<p>...</p> <p>(2) (in accordance with Article 4(36) of the <i>Banking Consolidation Directive</i> (Definitions), <del>and</del> in <i>BIPRU</i> <u>and</u> <i>MIPRU 4</i>) a transaction or scheme whereby the credit risk associated with an <i>exposure</i> or pool of <i>exposures</i> is <i>tranchéd</i> having the following characteristics:</p> <p>(a) payments in the transaction or scheme are dependent upon the performance of the <i>exposure</i> or pool of <i>exposures</i>; and</p> <p>(b) the subordination of <i>tranches</i> determines the distribution of <i>losses</i> during the ongoing life of the</p>

transaction or scheme.

*sponsor*

...

- (2) (in *BIPRU*), in accordance with Article 4(42) of the *Banking Consolidation Directive (Definitions)* and in *MIPRU 4* and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of *securitisation*, an *undertaking* other than an *originator* that establishes and manages an *asset backed commercial paper programme* or other *securitisation* scheme that purchases *exposures* from third party entities.

## Annex B

### Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

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

#### 4.2 Capital resources requirements

##### Applicable guidance within BIPRU

- 4.2.-1 **G** Unless otherwise specified, where *MIPRU 4.2* to *MIPRU 4.2D* refers to a *guidance provision* contained in *BIPRU*, a *firm* should regard that *guidance provision* as applying to it in the same way that that provision applies to a *BIPRU firm*.

##### General solvency requirement

- 4.2.1 **R** A *firm* must at all times ensure that it is able to meet its liabilities as they fall due.
- 4.2.1A **G** Specific liquidity requirements for a *firm* carrying on any *home financing* or *home finance administration* connected to *regulated mortgage contracts* are set out in *MIPRU 4.2D*.

...

- 4.2.10 **R** Table: Application of capital resources requirements

	<b>Regulated activities</b>	<b>Provisions</b>
1.	(a) <i>insurance mediation activity</i> ; or (b) <i>home finance mediation activity</i> (or both); and no other <i>regulated activity</i> .	<i>MIPRU 4.2.11R</i>
2.	(a) <i>home financing</i> <u>not connected to <i>regulated mortgage contracts</i></u> ; or (b) <i>home financing</i> and <i>home finance administration</i> ( <u>not connected to <i>regulated mortgage contracts</i></u> ); and no other <i>regulated activity</i> .	<i>MIPRU 4.2.12R</i> to <i>MIPRU 4.2.17E</i>
...		

6.	Any combination of <i>regulated activities</i> not within rows 1 to 5.	<i>MIPRU 4.2.22R</i> [deleted]
7.	(a) <i>home financing</i> connected to <i>regulated mortgage contracts</i> ; or (b) <i>home financing</i> and <i>home finance administration</i> connected to <i>regulated mortgage contracts</i> ; and no other <i>regulated activity</i> .	<i>MIPRU 4.2.23R</i>
8.	any combination of <i>regulated activities</i> not within rows 1 to 7.	<i>MIPRU 4.2.22R</i>

4.2.10A G *MIPRU 4.2.12R to MIPRU 4.2.23R* have the effect that a *firm* carrying on any *home financing* or *home finance administration* which is connected to *regulated mortgage contracts* will be subject to different capital requirements to a *firm* that carries on those activities without connection to *regulated mortgage contracts*. To identify which of the *rules* in *MIPRU 4.2.12R to MIPRU 4.2.23R* is applicable, a *firm* should consider which *regulated activities* it performs as part of its *home financing* and *home finance administration* activities and determine whether any of those *regulated activities* (no matter what proportion) are connected to *regulated mortgage contracts*.

...

Capital resources requirement: home financing and home finance administration not connected to regulated mortgage contracts (~~but not home finance administration only~~)

4.2.12 R (1) The capital resources requirement for a *firm* carrying on only *home financing* which is not connected to *regulated mortgage contracts*, or *home financing* and *home finance administration* which is not connected to *regulated mortgage contracts* (and no other *regulated activity*) is the higher of:

- (a) £100,000; and
- (b) 1% of:
  - (i) its total assets plus total undrawn commitments and unreleased amounts under the *home reversion plan*; less
  - (ii) excluded loans or amounts plus intangible assets (see Note 1 in the table in *MIPRU 4.4.4R*).

...

...

## Capital resources requirement: home finance administration only

- 4.2.18 R The capital resources requirement for a *firm* carrying on *home finance administration* only, which has all or part of the *home finance transactions* that it administers on its balance sheet, is: ~~the amount which is applied to a firm carrying on home financing or home financing and home finance administration (and no other regulated activity) (see MIPRU 4.2.12R)~~
- (1) in the case of a firm carrying on only home finance administration which is not connected to regulated mortgage contracts, the amount which is applied to a firm under MIPRU 4.2.12R; or
- (2) in the case of a firm carrying on any home finance administration which is connected to regulated mortgage contracts, the amount which is applied to a firm under MIPRU 4.2.23R.

...

## Capital resources requirement: insurance mediation activity and home financing or home finance administration

- 4.2.20 R The capital resources requirement for a *firm* carrying on *insurance mediation activity* and *home financing* or *home finance administration* is the sum of ~~the requirements which are applied to the firm by:~~
- (1) the capital resources requirement rule for a *firm* carrying on *insurance mediation activity* or *home finance mediation activity* (and no other *regulated activity*) (see MIPRU 4.2.11R); and
- (2) (a) in the case of a firm carrying on home financing which is not connected to regulated mortgage contracts, or home finance administration which is not connected to regulated mortgage contracts, the capital resources requirement rule for a firm carrying on home financing or home financing and home finance administration (and no other regulated activity) (see amount which is applied to a firm under MIPRU 4.2.12R); or
- (aa) in the case of a firm carrying on any home financing which is connected to regulated mortgage contracts or any home finance administration that it administers on its balance sheet which is connected to regulated mortgage contracts, the amount which is applied to a firm under MIPRU 4.2.23R; or
- (b) ~~if, in addition to its insurance mediation activity, the firm carries~~ in the case of a firm carrying on home finance administration with all the assets home finance transactions that it administers off balance sheet, the capital resources rule for such amount which is applied to a firm (see under MIPRU 4.2.19R).

## Capital resources requirement: home finance mediation activity and home

financing or home finance administration

- 4.2.21 R (1) If a *firm* carrying on *home finance mediation activity* and *home financing* or *home finance administration* does not hold *client money* or other *client assets* in relation to its *home finance mediation activity*, the capital resources requirement is ~~the amount applied to a firm, according to the activities carried on by the firm, by:~~
- (a) in the case of a firm carrying on home financing which is not connected to regulated mortgage contracts or home finance administration which is not connected to regulated mortgage contracts, the capital resources requirement rule for a firm carrying on home financing or home financing and home finance administrator (and no other regulated activity) (see amount applied to a firm under MIPRU 4.2.12R); or
  - (aa) in the case of a firm carrying on any home financing which is connected to regulated mortgage contracts or any home finance administration that it administers on its balance sheet which is connected to regulated mortgage contracts, the amount applied to a firm under MIPRU 4.2.23R; or
  - (b) ~~if, in addition to its home finance mediation activity, the firm carries in the case of a firm carrying on home finance administration with all the assets home finance transactions that it administers off balance sheet, the amount applied to a firm under capital resources rule for such a firm (see MIPRU 4.2.19R).~~

...

Capital resources requirement: other combination of activities

- 4.2.22 R The capital resources requirement for a *firm* carrying on any other combination of *regulated activities* which is not set out in MIPRU 4.2.10R to MIPRU 4.2.21R and MIPRU 4.2.23R is: the amount which is applied to a firm carrying on insurance mediation activity and home financing or home finance administration (see MIPRU 4.2.20R)
- (1) if the combination of regulated activities includes carrying on any home financing connected to regulated mortgage contracts or home finance administration connected to regulated mortgage contracts, the sum of the amounts which are applied to a firm under:
    - (a) MIPRU 4.2.20R(1); and
    - (b) MIPRU 4.2.23R; or
  - (2) in all other cases, the sum of the amounts which are applied to a firm under:

- (a) MIPRU 4.2.20R(1); and
- (b) MIPRU 4.2.12R.

Capital resources requirement: home financing and home finance administration connected to regulated mortgage contracts

- 4.2.23 R The capital resources requirement for a *firm* carrying on any *home financing* which is connected to *regulated mortgage contracts*, or *home financing and home finance administration* which is connected to *regulated mortgage contracts* (and no other *regulated activity*), is the higher of:
- (1) £100,000; and
  - (2) the sum of:
    - (a) the credit risk capital requirement calculated in accordance with MIPRU 4.2A; and
    - (b) 1% of:
      - (i) its total assets plus total undrawn commitments and unreleased amounts under the *home reversion plan*; less
      - (ii) intangible assets (see Note 1 in the table in MIPRU 4.4.4R) plus loans, *securitisation positions* and *CIU* positions subject to MIPRU 4.2A.4R.

After MIPRU 4.2 insert the following new sections. The text is not underlined.

**4.2A Credit risk capital requirement**

Application

- 4.2A.1 R This section applies to a *firm* to which MIPRU 4.2.23R applies.

Purpose

- 4.2A.2 G The purpose of MIPRU 4.2A is to:
- (1) set out how a *firm* should calculate its credit risk capital requirement;
  - (2) set out how a *firm* should calculate its *risk weighted exposure amounts* for *exposures* on its balance sheet; and
  - (3) identify which provisions of BIPRU 3 will apply to a *firm*, in addition to the provisions of MIPRU 4.2A, to enable it to make those calculations.



- 4.2A.3 G A *firm* should refer to *BIPRU 5* (as amended by *MIPRU 4.2C.3R*) with regard to the effect of *credit risk mitigation* on the calculation of *risk weighted exposure amounts*.

Calculation of credit risk

- 4.2A.4 R The credit risk capital requirement of a *firm* is 8% of the total of its *risk weighted exposure amounts* for *exposures* that:

- (1) are on its balance sheet; and
- (2) derive from:
  - (a) a loan entered into; or
  - (b) a *securitisation position* originated; or
  - (c) a *CIU* position entered into;

on or after 26 April 2014; and
- (3) have not been deducted from the *firm's* capital resources under *MIPRU 4.4.4R*;

calculated in accordance with *MIPRU 4.2A*.

- 4.2A.5 R Any arrangements entered into on or after [date to be confirmed] which increase the amount of a loan already advanced or change the security to a loan already advanced or change the contractual terms (other than if the *firm* is exercising forbearance) of a loan already advanced will be subject to the credit risk capital requirement under *MIPRU 4.2A.4R(2)(a)* provided that, where the arrangements only increase the amount of a loan already advanced, such requirement shall only apply to the amount of such increase.

- 4.2A.5A G The arrangements excluded from the credit risk capital requirement include:

- (1) a loan acquired by a *firm* after 26 April 2014 if that loan was made before 26 April 2014;
- (2) arrangements made as a result of forbearance procedures, including:
  - (a) a change in the basis of interest payments from variable to fixed rate; or
  - (b) a change from a repayment mortgage to interest only; or
  - (c) the capitalisation of interest which increases the principal outstanding, where there is no element of new borrowing.

- 4.2A.6 R The *exposure* value of an asset item must be its balance sheet value.

4.2A.7 R When calculating *risk weighted exposure amounts*, a firm must comply with *BIPRU 3.2.3R*, *BIPRU 3.2.9R* to *BIPRU 3.2.19G*, and *BIPRU 3.2.38R* in the same way that these provisions apply to a *BIPRU firm*, except to the extent that a provision is modified or excluded in the table in *MIPRU 4.2A.8R*.

4.2A.8 R This table belongs to *MIPRU 4.2A.7R*

<b><i>BIPRU</i> provision</b>	<b>Adjustment</b>
All provisions of <i>BIPRU 3.2</i>	A reference to a provision of <i>BIPRU 3</i> , <i>BIPRU 5</i> or <i>BIPRU 9</i> must be read in conjunction with <i>MIPRU 4.2A.8R</i> , <i>MIPRU 4.2B.3R</i> and <i>MIPRU 4.2C.3R</i>
All provisions of <i>BIPRU 3.2</i>	All references to <i>capital resources</i> in <i>BIPRU 3.2</i> are replaced by references to capital resources calculated under <i>MIPRU 4.4</i>
<i>BIPRU 3.2.14G</i>	The last two sentences do not apply
<i>BIPRU 3.2.38R</i>	The references to <i>BIPRU 14</i> , <i>BIPRU 13.3.13R</i> and <i>BIPRU 13.8.8R</i> (Exposure to a central counterparty) do not apply
<i>BIPRU 3.2.10R</i> and <i>BIPRU 3.2.19G</i>	The references to €1m are replaced by references to £1m.

4.2A.9 R For the purposes of applying a *risk weight*, the *exposure* value must be multiplied by the *risk weight* determined in accordance with *MIPRU 4.2A.10R*, *MIPRU 4.2A.11R*, *MIPRU 4.2A.12R* or *MIPRU 4.2A.13R*.

4.2A.10 R To calculate *risk weighted exposure amounts* on *exposures* secured by mortgages on residential property, *risk weights* must be applied to all such *exposures*, unless deducted from capital resources calculated under *MIPRU 4.4*, in accordance with *BIPRU 3.4.56R* to *BIPRU 3.4.88G*.

4.2A.11 R To calculate *risk weighted exposure amounts* on *exposures* in *CIUs*, *risk weights* must be applied to all such *exposures*, unless deducted from capital resources under *MIPRU 4.4*, in accordance with *BIPRU 3.4.114R* to *BIPRU 3.4.125R*.

4.2A.12 R *Risk weighted exposure amounts* for *securitised exposures* must be calculated in accordance with *MIPRU 4.2B*.

4.2A.13 R To calculate *risk weighted exposure amounts* on *exposures* other than those provided for in *MIPRU 4.2A.10R* to *MIPRU 4.2A.12R*, *risk weights* must be applied to all such *exposures*, unless deducted from capital resources calculated under *MIPRU 4.4*, in accordance with *BIPRU 3.5.5G* as though that provision were a *rule*.

- 4.2A.14 G Rather than *risk weighting exposures* individually under *MIPRU 4.2A.13R*, a *firm* should apply a single *risk weight* to all *exposures* in each *exposure class*.
- 4.2A.15 R If a *firm* calculates *risk weighted exposure amounts* under *MIPRU 4.2A.13R* and is directed by *BIPRU 3.5.5G* to the “normal rules”, it must, in the calculation of those *risk weighted exposure amounts*, comply with *BIPRU 3.4* in the same way that that section applies to a *BIPRU firm*.
- 4.2A.16 R *Exposures* must be assigned a *risk weight* of 100% if *MIPRU 4.2A.10R* to *MIPRU 4.2A.13R* do not set out a calculation for *risk weighted exposure amounts* applicable to that *exposure*.
- 4.2A.17 R A *firm* must apply *BIPRU 3.4.96R* to *BIPRU 3.4.102R* to all past items due.
- 4.2A.18 G A *firm* may apply *BIPRU 3.5.6G* and *BIPRU 3.5.7G* to *exposures*. *MIPRU 4.2C* sets out the amendments to the *BIPRU 5 rules* referenced within these provisions.

## 4.2B Securitisation

### Application

- 4.2B.1 R This section applies to a *firm* to which *MIPRU 4.2.23R* applies.

### Purpose

- 4.2B.2 G The purpose of *MIPRU 4.2B* is to set out:
- (1) how a *firm* that is required to calculate the credit risk capital requirement under *MIPRU 4.2.23R* should calculate the *risk weighted exposure amounts* for *securitisation positions*; and
  - (2) the requirements that investors, *originators* and *sponsors* of *securitisations* on the balance sheet will have to meet (*BIPRU 9.3.1AR* and *BIPRU 9.3.15R* to *BIPRU 9.3.20R*).

### Calculation of risk weighted exposure amount for securitisation positions

- 4.2B.3 R To calculate the *risk weighted exposure amount* for *securitisation positions*, a *firm* must comply with *BIPRU 9* in the same way that that section applies to a *BIPRU firm*, except to the extent that a provision of *BIPRU 9* is modified or excluded in the table in *MIPRU 4.2B.4R*.
- 4.2B.4 R This table belongs to *MIPRU 4.2B.3R*

<i>BIPRU</i> provision	Adjustment
All sections of	All references to <i>capital resources</i> in <i>BIPRU 9</i> are replaced by references to capital resources calculated

<i>BIPRU 9</i>	under <i>MIPRU 4.4</i>
All sections of <i>BIPRU 9</i>	A reference to a provision of <i>BIPRU 3</i> , <i>BIPRU 5</i> or <i>BIPRU 9</i> must be read in conjunction with <i>MIPRU 4.2A.8R</i> , <i>MIPRU 4.2B.4R</i> and <i>MIPRU 4.2C.4R</i>
<i>BIPRU 9.1.1R</i>	This <i>rule</i> does not apply
<i>BIPRU 9.1.2G</i>	This provision does not apply
<i>BIPRU 9.1.8AG(3)</i>	The words “and these should be taken into account under the <i>overall Pillar 2 rule</i> ” do not apply
<i>BIPRU 9.1.9G</i>	This provision does not apply
<i>BIPRU 9.1.10G</i>	This provision does not apply
<i>BIPRU 9.2</i>	This section does not apply
<i>BIPRU 9.3.7R</i> to <i>BIPRU 9.3.14R</i>	These <i>rules</i> do not apply
<i>BIPRU 9.3.15R</i>	The first sentence of this <i>rule</i> is amended to read as follows: “A <i>firm</i> , whether acting as <i>sponsor</i> or <i>originator</i> , must apply the same sound and well defined criteria used for credit granting in respect of <i>exposures</i> held on its balance sheet to <i>exposures</i> to be securitised.”
<i>BIPRU 9.3.16R</i>	This <i>rule</i> is amended to read as follows: “A <i>firm</i> must apply the same standards of analysis to <i>exposures</i> under <i>BIPRU 9.3.15R</i> regardless of whether it has purchased or originated those <i>exposures</i> .”
<i>BIPRU 9.3.17R</i>	Where a <i>firm</i> is an <i>originator</i> , it must comply with this <i>rule</i> as it applies to a <i>credit institution</i>
<i>BIPRU 9.3.18R</i>	Where a <i>firm</i> is an <i>originator</i> or <i>sponsor</i> of a <i>securitisation</i> , it must comply with this <i>rule</i> in the same way that it applies to a <i>credit institution</i>
<i>BIPRU 9.3.19R</i>	Where a <i>firm</i> is an <i>originator</i> or <i>sponsor</i> of a <i>securitisation</i> , it must comply with this <i>rule</i> in the same way that it applies to a <i>credit institution</i>
<i>BIPRU 9.3.21G</i>	This provision does not apply
<i>BIPRU 9.3.22G</i>	This provision does not apply
<i>BIPRU 9.4.1R</i>	This <i>rule</i> is amended to read as follows: “The <i>originator</i> of a <i>traditional securitisation</i> may exclude <i>securitised exposures</i> from the calculation of <i>risk</i>

	<i>weighted exposure amounts and expected loss amounts if significant credit risk associated with the securitised exposures has been transferred to third parties and the transfer complies with the conditions in BIPRU 9.4.2R to BIPRU 9.4.10R.</i> ”
<i>BIPRU 9.4.11R to BIPRU 9.4.18G</i>	These provisions do not apply
<i>BIPRU 9.5.1R(1)</i>	This <i>rule</i> is amended to read as follows: “An <i>originator</i> of a <i>synthetic securitisation</i> may calculate <i>risk weighted exposure amounts</i> , and, as relevant, <i>expected loss amounts</i> , for the <i>securitised exposures</i> in accordance with <i>BIPRU 9.5.3R</i> and <i>BIPRU 9.5.4R</i> , if significant credit risk has been transferred to third parties, either through funded or unfunded credit protection, and the transfer complies with the conditions in (2) – (5).”
<i>BIPRU 9.5.1R(3)</i>	The reference to <i>BIPRU 4.10</i> (Credit risk mitigation under the IRB approach) does not apply
<i>BIPRU 9.5.1R(6)</i>	This <i>rule</i> does not apply
<i>BIPRU 9.5.1R(7)</i>	This <i>rule</i> does not apply
<i>BIPRU 9.5.1AG to BIPRU 9.5.1FG</i>	These provisions do not apply
<i>BIPRU 9.5.3R(1)</i>	The reference to <i>BIPRU 9.9 to BIPRU 9.14</i> is replaced by a reference to <i>BIPRU 9.9 to BIPRU 9.11</i> The reference to <i>BIPRU 3</i> is replaced by a reference to <i>MIPRU 4.2A</i> The reference to <i>BIPRU 4</i> (IRB approach) does not apply
<i>BIPRU 9.5.3R(2)</i>	This <i>rule</i> does not apply
<i>BIPRU 9.5.4R</i>	The reference to <i>BIPRU 9.9 to BIPRU 9.14</i> is replaced by a reference to <i>BIPRU 9.9 to BIPRU 9.11</i>
<i>BIPRU 9.5.7R</i>	The reference to <i>BIPRU 4.10</i> (Credit risk mitigation under the IRB approach) does not apply
<i>BIPRU 9.5.8R</i>	The reference to <i>BIPRU 9.9 to BIPRU 9.14</i> is replaced by a reference to <i>BIPRU 9.9 to BIPRU 9.11</i>
<i>BIPRU 9.6.8G</i>	This provision does not apply
<i>BIPRU 9.7.3G</i>	This provision does not apply

<i>BIPRU 9.8.1R</i>	The reference to <i>BIPRU 9</i> is replaced by a reference to <i>MIPRU 4.2B</i>
<i>BIPRU 9.8.2R</i>	The reference to <i>BIPRU 9</i> is replaced by a reference to <i>MIPRU 4.2B</i>
<i>BIPRU 9.8.7R</i>	The references to <i>BIPRU 4.10</i> (Credit risk mitigation under the IRB approach) do not apply
<i>BIPRU 9.9.1R</i>	The reference to <i>BIPRU 9.9</i> to <i>BIPRU 9.14</i> is replaced by a reference to <i>BIPRU 9.9</i> to <i>BIPRU 9.11</i>
<i>BIPRU 9.9.2R</i>	The reference to <i>BIPRU 9.9</i> to <i>BIPRU 9.14</i> is replaced by a reference to <i>BIPRU 9.9</i> to <i>BIPRU 9.11</i>
<i>BIPRU 9.9.4R(2)</i>	This <i>rule</i> does not apply
<i>BIPRU 9.9.5R</i>	This <i>rule</i> does not apply
<i>BIPRU 9.9.6R</i>	The reference to <i>BIPRU 9.14</i> does not apply
<i>BIPRU 9.9.7R</i>	The reference to <i>BIPRU 4.10</i> (Credit risk mitigation under the IRB approach) and the reference to <i>BIPRU 9.14</i> do not apply
<i>BIPRU 9.9.9R</i>	The words “subject to the provisions of <i>GENPRU</i> that deal with the deduction of <i>securitisation positions</i> at stage M in the relevant <i>capital resources table</i> ” do not apply
<i>BIPRU 9.10.1R</i>	The references to the <i>IRB approach</i> do not apply
<i>BIPRU 9.10.2R</i>	This <i>rule</i> does not apply
<i>BIPRU 9.10.3R</i>	The reference to <i>BIPRU 9.12.8R</i> does not apply
<i>BIPRU 9.10.4R</i> to <i>9.10.7R</i>	These <i>rules</i> do not apply
<i>BIPRU 9.12</i>	This section does not apply
<i>BIPRU 9.13</i>	This section does not apply
<i>BIPRU 9.14</i>	This section does not apply
<i>BIPRU 9.15</i>	This section does not apply

- 4.2B.5 G Subject to *BIPRU 9.3.6G*, for the purposes of *BIPRU 9.4.1R* and *BIPRU 9.5.1R* the transfer of credit risk to third parties should only be considered significant if the proportion of risk transferred is broadly commensurate with, or exceeds, the proportion by which *risk weighted exposure amounts*

are reduced.

4.2B.6 G For measuring the reduction in risk and *risk weighted exposure amounts*, an *originator* should assess the *securitisation positions* it holds against the underlying *exposures* as if they had never been *securitised*.

4.2B.7 G An *originator* should use an appropriate method, consistent with its own internal processes, to assess whether the risk transferred is significant.

4.2B.8 G If the result of:

(1) applying a *risk weight* of 1250% to all positions that an *originator* holds in the *securitisation*; or

(2) deducting all those positions from capital resources;

is a reduction in the *originator's* capital requirement compared to the capital requirements that would apply had it not transferred the *securitised exposures*, then the *originator* may treat the risk transferred as significant for the purposes of *BIPRU 9.4.1R* and *BIPRU 9.5.1R*.

## 4.2C Credit risk mitigation

### Application

4.2C.1 R This section applies to a *firm* to which *MIPRU 4.2.23R* applies where that *firm* wishes to apply *credit risk mitigation* to the calculation of its *risk weighted exposure amounts* under *MIPRU 4.2A*.

### Purpose

4.2C.2 G The purpose of *MIPRU 4.2C* is to set out which provisions of *BIPRU 5* a *firm* should comply with in the recognition of *credit risk mitigation* in the calculation of *risk weighted exposure amounts* for the purposes of the calculation of the credit risk capital requirement under *MIPRU 4.2.23R*.

### General

4.2C.3 R A *firm* that wishes to recognise *credit risk mitigation* in the calculation of *risk weighted exposure amounts*, must comply with *BIPRU 5* in the same way that that section applies to a *BIPRU firm*, except to the extent that a provision of *BIPRU 5* is modified or excluded in the table in *MIPRU 4.2C.4R*.

4.2C.4 R This table belongs to *MIPRU 4.2C.3R*

<b><i>BIPRU</i> provision</b>	<b>Adjustment</b>
All provisions of <i>BIPRU 5</i>	A reference to a provision of <i>BIPRU 3</i> , <i>BIPRU 5</i> or <i>BIPRU 9</i> must be read in conjunction with

	<i>MIPRU 4.2A.8R, MIPRU 4.2B.4R and MIPRU 4.2C.4R</i>
<i>BIPRU 5.1</i>	This section does not apply
<i>BIPRU 5.3.2R</i>	The words “without prejudice to <i>BIPRU 5.6.1R</i> ” do not apply
<i>BIPRU 5.4.1R</i>	This rule does not apply
<i>BIPRU 5.4.8R</i>	This rule does not apply
<i>BIPRU 5.4.16R</i>	This rule does not apply
<i>BIPRU 5.4.18R</i>	The second sentence of this <i>rule</i> does not apply The words “ <i>BIPRU 5.4.19R</i> to <i>BIPRU 5.4.21R</i> ” are replaced by the words “ <i>BIPRU 5.4.21R</i> ”
<i>BIPRU 5.4.19R</i>	This <i>rule</i> does not apply
<i>BIPRU 5.4.20R</i>	This <i>rule</i> does not apply
<i>BIPRU 5.4.22R</i>	The reference to <i>BIPRU 5.4.20R</i> does not apply
<i>BIPRU 5.4.23R</i> to <i>BIPRU 5.4.66R</i>	These provisions do not apply. A <i>firm</i> must only use the <i>financial collateral simple method</i>
<i>BIPRU 5.6</i>	This section does not apply
<i>BIPRU 5.7.4R</i>	This <i>rule</i> does not apply
<i>BIPRU 5.7.12R</i>	This <i>rule</i> does not apply
<i>BIPRU 5.7.19R</i>	This <i>rule</i> does not apply
<i>BIPRU 5.7.23R</i>	The words “ <i>BIPRU 3.2.20R</i> to <i>BIPRU 3.2.26R</i> ” are replaced by the words “ <i>MIPRU 4.2A.8R</i> to <i>MIPRU 4.2A.11R</i> and <i>MIPRU 4.2A.14R</i> ”
<i>BIPRU 5.7.23R(3)</i>	The first clause of this <i>rule</i> is amended to read as follows: “E is the <i>exposure</i> value according to <i>MIPRU 4.2A.5R</i> and <i>BIPRU 3.2.3R</i> ,” The second clause of this <i>rule</i> does not apply
<i>BIPRU 5.7.24R</i>	The words “ <i>BIPRU 3.2.20R</i> to <i>BIPRU 3.2.26R</i> ” are replaced by the words “ <i>MIPRU 4.2A.8R</i> to <i>MIPRU 4.2A.11R</i> and <i>MIPRU 4.2A.14R</i> ”.
<i>BIPRU 5.7.24R(1)</i>	This <i>rule</i> is amended to read as follows: “E is the <i>exposure</i> value according to <i>MIPRU 4.2A.5R</i> and



	<i>BIPRU 3.2.3R.</i> ”
<i>BIPRU 5.7.27R</i>	The references to <i>BIPRU 4.10R</i> and the <i>IRB approach</i> do not apply
<i>BIPRU 5.8.8R</i> and <i>BIPRU 5.8.9R</i>	These <i>rules</i> do not apply

## 4.2D Liquidity resources requirements

### Application

- 4.2D.1 R This section applies to a *firm* carrying on any *home financing* or *home finance administration* connected to *regulated mortgage contracts*, unless as at 26 April 2014 its *Part IV permission* was and continues to remain subject to a restriction preventing it from undertaking new *home financing* or *home finance administration* connected to *regulated mortgage contracts*.

### Adequacy of liquidity resources

- 4.2D.2 R A *firm* must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.
- 4.2D.3 G In assessing the adequacy of liquidity resources, a *firm* should have regard to the overall character of the resources available to it, which enable it to meet its liabilities as they fall due. A *firm* should ensure that:
- (1) it holds sufficient assets which are marketable, or otherwise realisable;
  - (2) it is able to generate funds from those assets in a timely manner; and
  - (3) it maintains a prudent funding profile in which its assets are of appropriate maturities, taking into account the expected timing of its liabilities.

### Systems and controls requirements

- 4.2D.4 R A *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk* over the appropriate set of time horizons for its business activities, to ensure that it maintains adequate levels of liquidity resources. These strategies, policies, processes, and systems must be appropriate to the *firm's* business lines, currencies in which it operates, and its *group* companies and must include adequate allocation mechanisms of liquidity costs, benefits and risks.
- 4.2D.5 R The strategies, policies, processes and systems referred to in *MIPRU 4.2D.4R* must be proportionate to the nature, scale and complexity of the

*firm's* activities and the risk profile of the *firm*.

4.2D.6 R A *firm* must have in place reliable management information systems to provide its *governing body*, *senior managers* and other appropriate personnel with timely and forward-looking information on the liquidity position of the *firm*.

4.2D.7 R A *firm* must ensure that its *governing body* reviews regularly (and not less frequently than annually) the continued adequacy of any strategies, policies, processes and systems in place in accordance with *MIPRU* 4.2D.4R

#### Stress testing and contingency funding plans

4.2D.8 R A *firm* must consider alternative scenarios in which its liquidity position could be impacted. The consideration of alternative scenarios must include and deal with off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities (SSPEs)* or other special purpose entities, in relation to which the *firm* acts as *sponsor* or provides material liquidity support. These scenarios must be incorporated into the stress testing under *MIPRU* 4.2D.9R.

4.2D.9 R In order to ensure compliance with *MIPRU* 4.2D.2R, a *firm* must:

- (1) conduct on a regular basis appropriate stress tests so as to:
  - (a) identify sources of potential liquidity strain; and
  - (b) ensure that the risks of current liquidity exposures can be adequately managed; and
- (2) analyse the separate and combined impact of possible future liquidity stresses on its:
  - (a) cash flows;
  - (b) liquidity position; and
  - (c) solvency; and
- (3) make, as soon as is practicable after a test has been performed, and maintain a written record of all stress tests and their results

4.2D.10 R A *firm* must ensure that its *governing body* reviews regularly the stresses and scenarios tested and the assumptions underlying the funding position of the *firm* to ensure that their nature and severity remain appropriate and relevant to it.

4.2D.11 G For the purpose of *MIPRU* 4.2D.10R a review should take into account:

- (1) changes in market conditions;
- (2) changes in funding sources and inflows;

- (3) changes in the nature, scale or complexity of the *firm's* business model and activities; and
- (4) the *firm's* practical experience in periods of stress.
- 4.2D.12 R A *firm* must adjust its strategies, internal policies and limits on liquidity risk, taking into account the outcome of the alternative scenarios referred to in *MIPRU 4.2D.8R*.
- 4.2D.13 R (1) A *firm* must have in place contingency funding plans setting out adequate strategies and proper implementation measures in order to address potential liquidity shortfalls.
- (2) The contingency funding plans must be:
- (a) in writing;
- (b) approved by the *firm's governing body*;
- (c) regularly tested; and
- (d) updated on the basis of the outcome of the stress tests, testing alternative scenarios set out in *MIPRU 4.2D.8R*.
- 4.2D.14 G A contingency funding plan sets out a *firm's* strategies for managing liquidity shortfalls in emergency situations. Its aim should be to ensure that, in each of the stresses set out in *MIPRU 4.2D.11R*, it would have sufficient liquidity resources to ensure that it can meet its liabilities as they fall due.

Amend the following as shown.

#### 4.4 Calculation of capital resources

The calculation of a firm's capital resources

...

- 4.4.8 R (1) This rule applies to a *firm* which:
- (a) carries on:
- (i) *insurance mediation activity*; or
- (ii) *home finance mediation activity* (or both); and
- (b) in relation to those activities, holds *client money* or other *client assets*; or

~~but is not carrying on home financing or home finance administration.~~

- (b) carries on home financing or home finance administration connected to regulated mortgage contracts (or both) unless as at 26 April 2014 its Part IV permission was and continues to remain subject to a restriction preventing it from undertaking new home financing or home finance administration connected to regulated mortgage contracts.

...

...

## Schedule 1 Record keeping requirements

G ~~There are no record keeping requirements in MIPRU.~~

1 The aim of the guidance in the following table is to give the reader an overview of the relevant record keeping requirements.

2 It is not a complete statement of those requirements and should not be relied on as if it were.

<u>Handbook reference</u>	<u>Subject of record</u>	<u>Contents of record</u>	<u>When record must be made</u>	<u>Retention period</u>
<u>MIPRU 4.2D.9R (3)</u>	<u>Stress tests</u>	<u>All stress tests performed by a firm to which MIPRU 4.2D.1R applies, and the results of those tests</u>	<u>As soon as practicable after a test has been performed</u>	<u>Not specified</u>