

**PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND  
INVESTMENT FIRMS (LARGE EXPOSURES) (AMENDMENT)  
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 purposes of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 2 November 2012.

**Amendments to the Handbook**

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

**Notes**

- F. In Annex B 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 Prudential Sourcebook for Banks, Building Societies and Investment Firms (Large Exposures) (Amendment) Instrument 2012.

By order of the Board  
31 October 2012

## Annex A

## Amendments to the Glossary of definitions

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

Amend the following definitions as shown.

<i>connected counterparty</i>	(for the purposes of <i>BIPRU 10</i> (Large exposures requirements) and in relation to a <i>firm</i> ) has the meaning set out in <i>BIPRU 10.3.8R</i> (Connected counterparties), which is in summary a <i>person</i> to whom the <i>firm</i> has an <i>exposure</i> and who fulfils at least one of the conditions set out in <i>BIPRU 10.3.8R</i> .
<i>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 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, in particular funding or repayment difficulties, the other or all of the others would be likely to encounter funding or repayment difficulties. <u>has the meaning given to it in <i>BIPRU 10.3.5R</i>.</u></li> </ul>
<i>individual counterparty CNCOM</i>	has the meaning in <i>BIPRU 10.10A.8R</i> (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 its <i>connected counterparties</i> <u>counterparties</u> falling within <i>BIPRU 10.10A.1R</i> .
<i>large exposure</i>	has the meaning set out in <i>BIPRU 10.5.1R</i> , which in summary is the <i>total exposure</i> of a <i>firm</i> to a <i>counterparty</i> , <del><i>connected counterparties</i></del> or a <i>group of connected clients</i> , whether in the <i>firm's non-trading book</i> or <i>trading book</i> or both, <u>and counterparties falling within <i>BIPRU 10.10A.1R</i> within the trading book</u> , which in aggregate equals or exceeds 10% of the <i>firm's capital resources</i> .
<i>total exposure</i>	(in relation to a <i>counterparty</i> or <i>group of connected clients</i> and a <i>person</i> or in relation to a <i>person</i> and its <del><i>connected counterparties</i></del> <u><i>counterparties</i></u> falling within <i>BIPRU 10.10A.1R</i> ) all that <i>person's exposures</i> to that <i>counterparty</i> or <i>group of connected clients</i> or to that <i>person's</i> <del><i>connected counterparties</i></del> <u><i>counterparties</i></u> falling within <i>BIPRU 10.10A.1R</i> , or the total amount of those <i>exposures</i> .

## Annex B

### 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.

#### 10 Large exposures requirements

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

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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]

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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:

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...

##### 10.3 Identification of counterparties

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Groups of connected clients

- 10.3.5 G ~~The Glossary defines a group of connected clients.~~ A group of connected  
R clients means one of the following:

- (1) two or more *persons* who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others; or
- (2) two or more *persons* between whom there is no relationship of control as set out in (1) 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, in particular funding or repayment difficulties, the other or all of the others would be likely to encounter funding or repayment difficulties.

[Note: Article 4(45) of the *Banking Consolidation Directive*]

- 10.3.5A R Control in this context means control as defined in Article 1 of the Seventh Council Directive 83/349/EEC (the *Seventh Company Law Directive*) or a similar relationship between any *person* and an *undertaking*.
- 10.3.5B G Where there is a relationship of control, there is a presumption of single risk unless shown otherwise.
- 10.3.6 G (1) In identifying a *group of connected clients*, a *firm* should consider both third party *clients* and *counterparties* that are, or may be, connected to the *firm* itself.
- (2) Relationships between individual *counterparties* or between the *firm* and a *counterparty* which might be considered to constitute a single risk for the purposes of the definition of *group of connected clients* include:
- (1) *undertakings* in the same *group*;  
(a)
- (2) *companies* whose ultimate owner (whether wholly or significantly) is the same individual or individuals, and which do not have a formal group structure;  
(b)
- (3) *companies* having common directors or management; ~~and~~  
(c)
- (4) *counterparties* linked by cross guarantees where the same *persons* significantly influence the *governing body* of each of the *undertakings*;  
(d)
- (e) where the *firm* has an *exposure* to an *undertaking* that was not incurred for the clear commercial advantage of the *firm* or the *firm's group* and which is not on an arm's length basis;
- (f) *counterparties* linked by cross guarantees;
- (g) where it is likely that the financial problems of one *counterparty* would cause difficulties for the other

counterparty or counterparties in terms of full and timely repayment of liabilities;

- (h) where the funding problems of one counterparty are likely to spread to another due to a one-way or two-way dependence on the same main funding source, which may be the firm itself;
- (i) where counterparties rely on the firm for their main funding source, for example through explicit or implicit liquidity support or credit support; and
- (j) where the insolvency or default of one of them is likely to be associated with the insolvency or default of the other(s).

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#### Connected counterparties

- 10.3.8 R (1) ~~Subject to (2), for the purposes of BIPRU 10, and in relation to a firm, a connected counterparty means another person ('P') to whom the firm has an exposure and who fulfils at least one of the following conditions:~~
- ~~(a) P is closely related to the firm; or~~
  - ~~(b) P is an associate of the firm; or~~
  - ~~(c) the same persons significantly influence the governing body of P and of the firm; or~~
  - ~~(d) the firm has an exposure to P that was not incurred for the clear commercial advantage of the firm or the firm's group and which is not on an arm's length basis.~~
- (2) ~~Where P is Business Growth Fund plc or another financial institution which makes venture capital investments and the firm is entitled to ignore that financial institution in accordance with GENPRU 2.2.209R(2) for the purposes of determining whether there is a material holding, (1) applies with the following modifications to the definition of associate:~~
- ~~(a) paragraph (3)(c) (community of interest) of that definition does not apply; and~~
  - ~~(b) in applying paragraph (3)(a) (affiliated company) of that definition, paragraph (1)(e) (participating interests) of the definition of group does not apply. [deleted]~~
- 10.3.8A G (1) The Committee of European Banking Supervisors (CEBS) has issued guidelines in relation to the definition of a *group of connected clients*, in particular with reference to the concepts of "control" and

“economic interconnection”. These guidelines can be found at <http://www.c-eps.org/Publications/Standards-Guidelines/CEBS-Guidelines-on-the-revised-large-exposures-reg.aspx- Part I>.

- (2) In applying the CEBS guidelines in relation to counterparties that are connected to the firm itself, the FSA has issued guidance in respect of structured finance vehicles. This guidance can be found at <http://www.fsa.gov.uk/library/policy/policy/2012/12-21.shtml>

Exposures to counterparties, and groups of connected clients ~~and connected counterparties~~

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- 10.3.11 R ~~A firm's total exposure to connected counterparties must be calculated by summing its exposures to all the firm's connected counterparties, including both trading book exposures and non trading book exposures. [deleted]~~

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Exposures to trustees

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- 10.3.13 G When considering whether the treatment described in *BIPRU* 10.3.12G is misleading, factors a firm should consider include:

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- (4) ~~for a connected counterparty counterparty that is connected to the firm itself~~, whether the exposure arises from a transaction entered into on an arm's length basis.

- 10.3.14 G In deciding whether a transaction is at arm's length for the purposes of ~~*BIPRU* 10.3.8R(4)~~ *BIPRU* 10.3.6G(2)(f), ~~and *BIPRU* 10.3.13G(4)~~ and *BIPRU* 10.10A.1R(1)(d), the following factors should be taken into account:

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## 10.5 Limits on 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]

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#### 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]

10.5.7 G ~~If a connected counterparty is also a member of a group of connected clients the limit in BIPRU 10.5.6R covers the aggregate of the total amount of the firm's exposures to its connected counterparties and of the total amount of its exposures to that group of connected clients. [deleted]~~

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## 10.6 Exemptions

### General exemptions

10.6.1 ~~R This section only applies to exposures, whether in the trading book or and~~  
 G the non-trading book, to counterparties which are not connected counterparties.

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### Institutional exemption

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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).

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

## Application

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- 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). [deleted]~~

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## 10.10A ~~Connected counterparties: trading~~ Trading book limits

## Application

- 10.10A.1 R This section only applies to *exposures* in a firm's trading book to ~~its connected counterparties~~ counterparties which fulfil the following conditions:
- (1) subject to (2), and in relation to a firm, a counterparty ('P') to whom the firm has an exposure and who fulfils at least one of the following conditions:
    - (a) P is closely related to the firm; or
    - (b) P is an associate of the firm; or
    - (c) the same persons significantly influence the governing body of P and of the firm; or
    - (d) the firm has an exposure to P that was not incurred for the clear commercial advantage of the firm or the firm's group and which is not on an arm's length basis;
  - (2) where P is Business Growth Fund plc or another financial institution which makes venture capital investments and the firm is entitled to ignore that financial institution in accordance with GENPRU 2.2.209R(2) for the purposes of determining whether there is a material holding, (1) applies with the following modifications to the definition of associate:
    - (a) paragraph (3)(c) (community of interest) of that definition does not apply; and
    - (b) in applying paragraph (3)(a) (affiliated company) of that definition, paragraph (1)(e) (participating interests) of the definition of group does not apply.



10.10A.1A G In deciding whether a transaction is at arm's length for the purposes of BIPRU 10.10A.1R(1)(d), the factors set out in BIPRU 10.3.14G should be taken into account.

Trading book limits

10.10.A.2 R *Exposures in a firm's trading book to ~~its connected counterparties~~ counterparties falling within BIPRU 10.10A.1R 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~~ counterparties falling within BIPRU 10.10A.1R* 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

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10.10A.2A G The applicable limit for the purposes of BIPRU 10.10A.2R(1) is the total amount of the *exposures* on the *firm's non-trading book to counterparties falling within BIPRU 10.10A.1R*, even though there is no explicit limit to such *counterparties* in BIPRU 10.5.6R (large exposures limit).

10.10A.3 R A *firm* must ensure that the total amount of its *trading book exposures* to its ~~*connected counterparties*~~ *counterparties falling within BIPRU 10.10A.1R* does not exceed 500% of the *firm's capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions).

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How to calculate the concentration risk capital component

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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*~~ *counterparties falling within BIPRU 10.10A.1R*.

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10.10A. 8 R A *firm* must calculate its *individual counterparty CNCOM* for its *exposures* to its ~~*connected counterparties*~~ *counterparties falling within BIPRU 10.10A.1R* as follows:

...

- (4) a *firm* must allocate (in the order set out in (6)) *trading book exposures* to its ~~*connected counterparties*~~ *counterparties falling within BIPRU 10.10A.1R* 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*~~ *counterparties falling within BIPRU 10.10A.1R*;

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### Transitional provisions and schedules

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

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Effect of this section on intra-group exemptions in BIPRU 10

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- 33.8 G The effect of *BIPRU* TP 33.7 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*, or *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.