

**CAPITAL REQUIREMENTS DIRECTIVE (DISAPPLICATION)
INSTRUMENT 2013**

Powers exercised

- A. The Prudential Regulation 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 137G (the PRA’s general rules); and
 - (2) section 137T (general supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.
- C. The Prudential Regulation Authority gives as guidance each provision in the Annex marked with a G.

Pre-conditions to making

- D. In accordance with section 138J of the Act (consultation with the Financial Conduct Authority) (“FCA”), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed amended rules and had regard to representations made.

Commencement

- E. This instrument comes into force on 1 January 2014.

Amendments

- F. The General Prudential sourcebook (GENPRU) is amended in accordance with Annex A to this instrument.
- G. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with Annex B to this instrument.

Citation

- H. This instrument may be cited as the Capital Requirements Directive (Disapplication) Instrument 2013.

By order of the Board of the Prudential Regulation Authority
16 December 2013

Annex A

Amendments to the General Prudential sourcebook (GENPRU)

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

Application

1.1 Application

...

1.1.2 G ~~Broadly speaking however, GENPRU applies to:~~

- (1) ~~an insurer;~~
- (2) ~~a bank;~~
- (3) ~~a building society;~~
- (4) ~~a BIPRU investment firm; and~~
- (5) ~~groups containing such firms. [deleted]~~

1.1.2-A G Further, GENPRU also broadly applies to:

- (1) an insurer;
- (2) groups containing an insurer.

...

1.2 Adequacy of financial resources

Application

1.2.1 R This section applies to:

- (1) a BIPRU firm; and
- (2) an insurer, unless it is:
 - (a) a non-directive friendly society; or
 - (b) a Swiss general insurer; or
 - (c) an EEA deposit insurer; or
 - (d) an incoming EEA firm; or

(e) ~~an incoming Treaty firm.~~ [deleted]

1.2.1A R ~~This section also applies to an insurer, unless it is:~~

(1) ~~a non-directive friendly society; or~~

(2) ~~a Swiss general insurer; or~~

(3) ~~an EEA-deposit insurer; or~~

(4) ~~an incoming EEA firm; or~~

(5) ~~an incoming Treaty firm.~~

1.2.2A R ~~In relation to any provision in this section which applies to a BIPRU firm, a reference in that provision to "financial resources" does not constitute a reference to "liquidity resources".~~ [deleted]

1.2.3A G ~~In relation to:~~

(1) ~~a BIPRU firm;~~

(2) ~~an incoming EEA firm which:~~

(a) ~~is a full BCD credit institution; and~~

(b) ~~has a branch in the United Kingdom; and~~

(3) ~~a third country BIPRU firm which:~~

(a) ~~is a bank; and~~

(b) ~~has a branch in the United Kingdom;~~

~~BIPRU 12 contains rules and guidance in relation to the adequacy of that firm's liquidity resources.~~ [deleted]

...

1.2.11 G The adequacy of a firm's financial resources needs to be assessed in relation to all the activities of the firm and the risks to which they give rise and so this section applies to a firm in relation to the whole of its business. ~~In the case of a collective portfolio management investment firm this means that this section also applies to its activities in relation to the management of AIFs and/or UCITS.~~

Purpose

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1.2.13 G This section amplifies Principle 4, under which a firm must maintain adequate financial resources. It is concerned with the adequacy of the

financial resources that a *firm* needs to hold in order to be able to meet its liabilities as they fall due. These resources include both capital and liquidity resources. ~~As noted in GENPRU 1.2.3AG, however, the appropriate regulator's rules and guidance in relation to the adequacy of the liquidity resources of a BIPRU firm are set out in BIPRU 12.~~

- 1.2.14 G ~~In the case of a bank or building society this section implements Article 123 and (in part) Annex XI of the Banking Consolidation Directive. In the case of a BIPRU investment firm this section implements Article 34 of the Capital Adequacy Directive so far as that Article applies Article 123 of the Banking Consolidation Directive. [deleted]~~

...

Outline of other related provisions

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- 1.2.21 G (1) SYSC 11 sets out material on systems and controls that apply specifically to *liquidity risk* as that concept relates to an *insurer*.

(2) [deleted]

(2A) ~~BIPRU 12 sets out material on systems and controls that apply specifically to *liquidity risk* in relation to a BIPRU firm, a branch of an incoming EEA firm that is a full BCD credit institution and a branch of a third country BIPRU firm that is a bank. [deleted]~~

(3) [deleted]

...

(5) ~~GENPRU 2.2 (Adequacy of financial resources) requires certain BIPRU investment firms to deduct illiquid assets when calculating their *capital resources*. [deleted]~~

...

- 1.2.22 G ~~BIPRU 2.3 contains rules and guidance on interest rate risk in the *non-trading book*. That material elaborates on the general obligation in the overall Pillar 2 rule. [deleted]~~

- 1.2.23 G ~~For a BIPRU firm using a VaR model BIPRU 7.10.72R (Risk management standards: Stress testing) sets out certain stress tests that the firm should carry out. [deleted]~~

- 1.2.24 G ~~BIPRU 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 large~~

exposures: [deleted]

- 1.2.25 G ~~For a *BIPRU firm* using the *IRB approach* *BIPRU 4.3.39R* to *BIPRU 4.3.40R* set out a recession credit rating migration stress test that the *firm* should carry out. Further *rules and guidance* on such stress tests are set out in *BIPRU 2.2* (Internal capital adequacy standards): [deleted]~~

Requirement to have adequate financial resources

...

- 1.2.26A G ~~*BIPRU 12* contains *rules and guidance* in relation to the adequacy of a *BIPRU firm's* liquidity resources. Consistent with *GENPRU 1.2.2AR*, in assessing the adequacy of its liquidity resources, a *BIPRU firm* should do so by reference to the *overall liquidity adequacy rule*, rather than the *overall financial adequacy rule*: [deleted]~~

...

Systems, strategies, processes and reviews

...

- 1.2.33 R ...
- (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* (*Large exposures* requirements): [deleted]~~

...

...

Application of this section on a solo and consolidated basis: Processes and tests

...

- 1.2.46 R ~~The *ICAAP rules* do not apply on a solo basis to a *BIPRU firm* to which the *ICAAP rules*:~~
- (1) ~~apply on a consolidated basis under *BIPRU 8.2.1R* (Basic consolidation rule for a *UK consolidation group*); or~~
- (2) ~~apply on a sub-consolidated basis under *BIPRU 8.3.1R* (Basic consolidation rule for a non-*EEA sub-group*): [deleted]~~

- 1.2.47 R ~~The *ICAAP rules* apply on a solo basis:~~

- (1) ~~to an insurer to which those rules do not apply on a consolidated basis under GENPRU 1.2.45R;~~
- (2) ~~to a BIPRU firm to which those rules do not apply on a consolidated or sub-consolidated basis as referred to in GENPRU 1.2.46R (including a BIPRU investment firm with an investment firm consolidation waiver); and~~
- (3) ~~a firm referred to in GENPRU 1.2.2R (Application of this section to certain non-EEA firms). [deleted]~~

1.2.47A R The ICAAP rules apply on a solo basis to an insurer to which those rules do not apply on a consolidated basis under GENPRU 1.2.45R.

...

Capital planning

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1.2.78 G Additional guidance in relation to stress tests and scenario analysis for liquidity risk as that concept relates to an insurer is available in SYSC 11 (Liquidity risk systems and controls). ~~BIPRU 12 sets out the main Handbook provisions in relation to liquidity risk for a BIPRU firm.~~

...

1.3 Valuation

Application

- 1.3.1 R (1) ~~This section of the Handbook applies to an insurer, unless it is:~~
- (a) ~~non-directive friendly society;~~
 - (b) ~~an incoming EEA firm; or~~
 - (c) ~~an incoming Treaty firm.~~
- (2) ~~This section of the Handbook applies to a BIPRU firm.~~
- (3) ~~This section of the Handbook applies to a UK ISPV. [deleted]~~

1.3.1A R (1) This section of the Handbook also applies to an insurer, unless it is:

- (a) a non-directive friendly society;
- (b) an incoming EEA firm; or
- (c) an incoming Treaty firm.

(2) This section of the *Handbook* also applies to a UK ISPV.

Purpose

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1.3.3 G (1) ~~In the case of a *BIPRU firm*, this section implements Article 74 of the *Banking Consolidation Directive*, Articles 64(4) and 64(5) of the *Banking Consolidation Directive* (Own funds) and Article 33 and Part B of Annex VII of the *Capital Adequacy Directive*. [deleted]~~

...

General requirements: Accounting principles to be applied

1.3.4 R Subject to *GENPRU* 1.3.9R to *GENPRU* 1.3.10R and *GENPRU* 1.3.36R, except where a *rule* in *GENPRU*, *BIPRU* or *INSPRU* provides for a different method of recognition or valuation, whenever a *rule* in *GENPRU*, *BIPRU* or *INSPRU* refers to an asset, liability, *exposure*, equity or income statement item, a *firm* must, for the purpose of that *rule*, recognise the asset, liability, *exposure*, equity or income statement item and measure its value in accordance with whichever of the following are applicable:

...

(4) ~~the *Building Societies (Accounts and Related Provisions) Regulation 1998*; [deleted]~~

...

General requirements: Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves

...

1.3.35A G ~~*UK banks* and *BIPRU 730k firms* are reminded that they may, in respect of their prudent valuation assessments under *GENPRU* 1.3.4R and *GENPRU* 1.3.14R to *GENPRU* 1.3.34R, be subject to the requirement under *SUP* 16.16.4R to submit a Prudent Valuation Return to the appropriate regulator. [deleted]~~

Specific requirements: BIPRU firms

1.3.36 R ~~Adjustments to accounting values~~

(1) ~~For the purposes of *GENPRU* and *BIPRU*, the adjustments in (2) and (3) apply to values calculated pursuant to *GENPRU* 1.3.4R in addition to those required by *GENPRU* 1.3.9R to~~

~~GENPRU 1.3.10R.~~

- (2) ~~A BIPRU firm must not recognise either:~~
- (a) ~~the fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortised cost; or~~
 - (b) ~~any unrealised gains or losses on debt instruments held, or formerly held, in the available for sale category.~~
- (3) ~~A BIPRU investment firm must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.~~
- (4) ~~The items referred to in (2) and (3) must be excluded from capital resources. [deleted]~~

- 1.3.37 G ~~Provisions for equity instruments held in the available for sale category can be found in GENPRU 2.2.185R. [deleted]~~

Trading book and other fair-valued positions, and revaluations

- 1.3.38 R ~~GENPRU 1.3.39R to GENPRU 1.3.40R apply only to a BIPRU firm. [deleted]~~
- 1.3.39 R ~~Both trading book positions and other fair valued positions are subject to prudent valuation rules as specified in GENPRU 1.3.14R to GENPRU 1.3.34R (Marking to market, Marking to model, Independent price verification, Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves). In accordance with those rules, a firm must ensure that the value applied to each of its trading book positions and other fair valued positions appropriately reflects the current market value. This value must contain an appropriate degree of certainty having regard to the dynamic nature of trading book positions, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of trading book positions and other fair valued positions. [deleted]~~
- 1.3.40 R ~~Trading book positions must be re-valued at least daily. [deleted]~~

...

Capital

2.1 Calculation of capital resources requirements

Application

- 2.1.1 R ~~This section applies to:~~
- ~~(1) a *BIPRU firm*; and~~
 - ~~(2) an *insurer*, unless it is:~~
 - ~~(a) a *non-directive friendly society*; or~~
 - ~~(b) a *Swiss general insurer*; or~~
 - ~~(c) an *EEA deposit insurer*; or~~
 - ~~(d) an *incoming EEA firm*; or~~
 - ~~(e) an *incoming Treaty firm*. [deleted]~~
- 2.1.1A R Except as indicated in SUP 2.1.60R, this section applies to an *insurer*, unless it is:
- (1) a *non-directive friendly society*; or
 - (2) a *Swiss general insurer*; or
 - (3) an *EEA deposit insurer*; or
 - (4) an *incoming EEA firm*; or
 - (5) an *incoming Treaty firm*.
- Purpose
- ...
- 2.1.8 G (1) ~~This section implements minimum EC standards for the *capital resources* required to be held by an *insurer* undertaking business that falls within the scope of the *Consolidated Life Directive* (2002/83/EC), the *Reinsurance Directive* (2005/68/EC) or the *First Non-Life Directive* (1973/239/EEC) as amended.~~
- (2) ~~This section also implements provisions of the *Capital Adequacy Directive* and *Banking Consolidation Directive* concerning the level of *capital resources* which a *BIPRU firm* is required to hold. In particular it implements (in part) Articles 9, 10 and 75 of the *Banking Consolidation Directive* and Articles 5, 9, 10 and 18 of the *Capital Adequacy Directive*.~~
- (3) ~~In the case of a *collective portfolio management investment firm* this section implements article 9 of *AIFMD* and (in part) Article 7 of the *UCITS Directive*. [deleted]~~
- 2.1.8A G This section implements minimum EC standards for the *capital resources* required to be held by an *insurer* undertaking business that

falls within the scope of the *Consolidated Life Directive (2002/83/EC)*, the *Reinsurance Directive (2005/68/EC)* or the *First Non-Life Directive (1973/239/EEC)* as amended.

...

Main requirement: BIPRU firms

- 2.1.40 R ~~A *BIPRU firm* must maintain at all times *capital resources* equal to or in excess of the amount specified in the table in *GENPRU 2.1.45R* (Calculation of the variable capital requirement for a BIPRU firm). [deleted]~~
- 2.1.41 R ~~A *BIPRU firm* must maintain at all times *capital resources* equal to or in excess of the *base capital resources requirement* (see the table in *GENPRU 2.1.48R*). [deleted]~~
- 2.1.42 R ~~At the time that it first becomes a *bank, building society* or *BIPRU investment firm*, a firm must hold *initial capital* of not less than the *base capital resources requirement* applicable to that firm. [deleted]~~
- 2.1.43 G ~~The purpose of the *base capital resources requirement* for a *BIPRU firm* is to act as a minimum capital requirement or floor. It has been written as a separate requirement as there are restrictions in *GENPRU 2.2* (Capital resources) on the types of capital that a *BIPRU firm* may use to meet the *base capital resources requirement* which do not apply to some other parts of the capital requirement calculation. In order to preserve the *base capital resources requirement's* role as a floor rather than an additional requirement, *GENPRU 2.2.60R* allows a *BIPRU firm* to meet the *base capital resources requirement* with capital that is also used to meet the variable capital requirements in *GENPRU 2.1.40R*. [deleted]~~
- 2.1.44 G ~~The *base capital resources requirement* and the variable capital requirement in *GENPRU 2.1.40R* are together called the *capital resources requirement (CRR)* in the case of a *BIPRU firm*. [deleted]~~

Calculation of the variable capital requirement for a BIPRU firm

- 2.1.45 R ~~Table: Calculation of the variable capital requirement for a BIPRU firm
This table belongs to *GENPRU 2.1.40R*. [deleted]~~
- [The table at *GENPRU 2.1.45R* is deleted in its entirety. The deleted text is not shown.]

...

Calculation of the base capital resources requirement for a BIPRU firm

- 2.1.47 R ~~The amount of a *BIPRU firm's base capital resources requirement* is set out in the table in *GENPRU 2.1.48R*. [deleted]~~

Table: Base capital resources requirement for a BIPRU firm

- 2.1.48 R ~~This table belongs to GENPRU 2.1.47R [deleted]~~
 [The table in GENPRU 2.1.48R is deleted in its entirety. The deleted text is not shown.]

Definition of BIPRU 730K firm, BIPRU 125K firm and BIPRU 50K firm

- 2.1.49 G ~~The terms BIPRU 730K firm, BIPRU 125K firm and BIPRU 50K firm are defined in BIPRU 1.1 (Application and purpose). However for convenience the table in GENPRU 2.1.50G briefly summarises them. [deleted]~~

Table: Definition of BIPRU 730K firm, BIPRU 125K firm and BIPRU 50K firm

- 2.1.50 G ~~This table belongs to GENPRU 2.1.49G [deleted]~~
 [The table at GENPRU 2.1.50G is deleted in its entirety. The deleted text is not shown.]

Calculation of the credit risk capital requirement (BIPRU firm only)

- 2.1.51 R ~~A BIPRU firm must calculate its credit risk capital requirement as the sum of:~~
- ~~(1) the credit risk capital component;~~
 - ~~(2) the counterparty risk capital component; and~~
 - ~~(3) the concentration risk capital component. [deleted]~~

Calculation of the market risk capital requirement (BIPRU firm only)

- 2.1.52 R (1) ~~A BIPRU firm must calculate its market risk capital requirement as the sum of:~~
- ~~(a) the interest rate PRR (including the basic interest rate PRR for equity derivatives set out in BIPRU 7.3 (Equity PRR and basic interest rate PRR for equity derivatives));~~
 - ~~(b) the equity PRR;~~
 - ~~(c) the commodity PRR;~~
 - ~~(d) the foreign currency PRR;~~
 - ~~(e) the option PRR; and~~
 - ~~(f) the collective investment undertaking PRR.~~
- ~~(2) Any amount calculated under BIPRU 7.1.9R — BIPRU 7.1.13R~~

~~(Instruments for which no PRR treatment has been specified) must be allocated between the PRR charges in (1) in the most appropriate manner. [deleted]~~

...

Calculation of base capital resources requirement for banks authorised before 1993

- 2.1.60 R ~~(1) This rule applies to a bank that meets the following conditions:~~
- ~~(a) on 31 December 2006 it had the benefit of IPRU(BANK) rule 3.3.12 (Reduced minimum capital requirement for a bank that is a credit institution which immediately before 1 January 1993 was authorised under the Banking Act 1987);~~
 - ~~(b) the relevant amount (as referred to in IPRU(BANK) rule 3.3.12) applicable to it was below € million as at 31 December 2006; and~~
 - ~~(c) on 1 January 2007 it did not comply with the base capital resources requirement as set out in the table in GENPRU 2.1.48R (€ million requirement).~~
- ~~(2) Subject to (3), the applicable base capital resources requirement as at any time (the "relevant time") is the higher of:~~
- ~~(a) the relevant amount applicable to it under IPRU(BANK) rule 3.3.12 as at 31 December 2006 as adjusted under GENPRU 2.1.62R(2); and~~
 - ~~(b) the highest amount of eligible capital resources which that bank has held between 1 January 2007 and the relevant time.~~
- ~~(3) This rule ceases to apply when:~~
- ~~(a) that bank's eligible capital resources at any time since 1 January 2007 equal or exceed € million; or~~
 - ~~(b) a person (other than an existing controller) becomes the parent undertaking of that bank.~~
- ~~(4) If this rule ceases to apply under (3)(a) it continues not to apply if the bank's eligible capital resources later fall below € million. [deleted]~~
- 2.1.61 G ~~Where two or more banks merge, all of which individually have the benefit of GENPRU 2.1.60R, the PRA may agree in certain circumstances that the base capital resources requirement for the bank resulting from the merger may be the sum of the aggregate capital resources of the merged banks, calculated at the time of the merger,~~

provided this figure is less than ~~€~~ million. ~~[deleted]~~

2.1.62 R For the purpose of *GENPRU 2.1.60R*:

- (1) an existing controller of a *bank* means:
 - (a) ~~a person who has been a parent undertaking of that bank since 31 December 2006 or earlier; or~~
 - (b) ~~a person who became a parent undertaking of that bank after 31 December 2006 but who, when he became a parent undertaking of that bank, was a subsidiary undertaking of an existing controller of that bank;~~
- (2) ~~the relevant amount of capital as referred to in *GENPRU 2.1.60R(2)(a)* is adjusted by identifying the time as of which the amount of capital it was obliged to hold under IPRU(BANK) rule 3.3.12 as referred to in *GENPRU 2.1.60R(2)(a)* was fixed and then recalculating the capital resources it held at that time in accordance with the definition of eligible capital resources (as defined in (3)); and~~
- (3) ~~eligible capital resources mean capital resources eligible under *GENPRU 2.2 (Capital resources)* to be used to meet the base capital resources requirement. [deleted]~~

...

2.2 Capital resources

Application

2.2.1 R This section applies to:

- (1) ~~a *BIPRU firm*; and~~
- (2) ~~an insurer unless it is:~~
 - (a) ~~a non-directive friendly society; or~~
 - (b) ~~a Swiss general insurer; or~~
 - (c) ~~an EEA deposit insurer; or~~
 - (d) ~~an incoming EEA firm; or~~
 - (e) ~~an incoming Treaty firm. [deleted]~~

2.2.1A R This section applies to an insurer unless it is:

- (1) a non-directive friendly society; or

(2) a Swiss general insurer; or

(3) an EEA-deposit insurer; or

(4) an incoming EEA firm; or

(5) an incoming Treaty firm.

Purpose

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- 2.2.4 G ~~This section also implements minimum EC standards for the composition of *capital resources* required to be held by a *BIPRU firm*. In particular it implements Articles 56–61, Articles 63–64, Article 66 and Articles 120–122 of the *Banking Consolidation Directive* (2006/48/EC) and Articles 12–16, Article 17 (in part), Article 22(1)(e) (in part) and paragraphs 13–15 of Part B of Annex VII of the *Capital Adequacy Directive* (2006/49/EC). [deleted]~~

Contents guide

- 2.2.5 G ~~The table in *GENPRU 2.2.6G* sets out where the main topics in this section can be found. [deleted]~~

Table: Arrangement of GENPRU 2.2

- 2.2.6 G ~~This table belongs to *GENPRU 2.2.5G* [deleted]~~
 [The table in *GENPRU 2.2.6G* is deleted in its entirety. The deleted text is not shown.]

Simple capital issuers

- 2.2.7 G ~~Parts of this section are irrelevant to a *BIPRU firm* whose *capital resources* consist of straightforward *capital instruments*. [deleted]~~

...

Deductions from capital

- 2.2.14 G ~~Deductions should be made at the relevant stage of the calculation of *capital resources* to reflect capital that may not be available to the *firm* or assets of uncertain value (for example, holdings of intangible assets and assets that are inadmissible for an *insurer*), or, in the case of a *bank* or *building society*, where that *firm* has made investments in a *subsidiary undertaking* or in another *financial institution* or in respect of *participations* that it holds).~~
- 2.2.15 G ~~Deductions should also be made, in the case of certain *BIPRU investment firms* for *illiquid assets* (see *GENPRU 2.2.19R*). [deleted]~~

...

Which method of calculating capital resources applies to which type of firm

- 2.2.17 R ~~A firm must calculate its capital resources in accordance with the version of the capital resources table applicable to the firm, subject to the capital resources gearing rules. The version of the capital resources table that applies to a firm is specified in the table in GENPRU 2.2.19R. [deleted]~~
- 2.2.18 R ~~In the case of a BIPRU firm the capital resources table also sets out how the capital resources requirement is deducted from capital resources in order to decide whether its capital resources equal or exceed its capital resources requirement. [deleted]~~

Table: Applicable capital resources calculation

- 2.2.19 R ~~This table belongs to GENPRU 2.2.17R [deleted]~~
 [The table in GENPRU 2.2.19R is deleted in its entirety. The deleted text is not shown.]

Calculation of capital resources: Which rules apply to BIPRU investment firms

- 2.2.20 G ~~GENPRU 2.2.19R sets out three different methods of calculating capital resources for BIPRU investment firms. The differences between the three methods relate to whether and how material holdings and illiquid assets are deducted when calculating capital resources. The method depends on whether a firm has an investment firm consolidation waiver. If a firm does have such a waiver, it should deduct illiquid assets, own group material holdings and certain contingent liabilities. If a firm does not have such a waiver, it should choose to deduct either material holdings or, subject to notifying the appropriate regulator, illiquid assets. [deleted]~~
- 2.2.21 G ~~A consequence of a firm deducting all of its illiquid assets under GENPRU 2 Annex 5R is that it is allowed a higher limit on short term subordinated debt under GENPRU 2.2.49R. [deleted]~~

Calculation of capital resources: Insurers

- 2.2.22 G ~~Capital resources for an insurer can be calculated either as the total of eligible assets less foreseeable liabilities (which is the approach taken in the Insurance Directives) or by identifying the components of capital. Both calculations give the same result for the total amount of capital resources. The approach taken in this section has been to specify the components of capital and the relevant deductions. This is set out in the capital resources table. This approach is the same as that used for the calculation of capital resources for banks, building societies and BIPRU investment firms. A simple example, showing the reconciliation of the two methods, is given in the table in GENPRU~~

2.2.23G.

...

- 2.2.28 R ~~In the case of a BIPRU firm, the requirement to obtain a legal opinion in GENPRU 2.2.159R(12) does not apply to hybrid capital treated under GENPRU 2.2.25R but the requirements to obtain a legal opinion in GENPRU 2.2.118R continue to apply. [deleted]~~

...

Limits on the use of different forms of capital: Limits relating to tier one capital applicable to BIPRU firms

- 2.2.30A R ~~In relation to the tier one capital resources of a BIPRU firm, calculated at stage F of the calculation in the capital resources table (Total tier one capital after deductions):~~

- ~~(1) no more than 50% may be accounted for by hybrid capital;~~
- ~~(2) no more than 35% may be accounted for by hybrid capital included at stages B2 and C of the calculation in the capital resources table; and~~
- ~~(3) no more than 15% may be accounted for by hybrid capital included at stage C of the calculation in the capital resources table. [deleted]~~

...

Limits on the use of different kinds of capital: Purposes for which tier three capital may not be used (BIPRU firm only)

- 2.2.44 R ~~Tier one capital and tier two capital are the only type of capital resources that a BIPRU firm may use for the purpose of meeting:~~

- ~~(1) the credit risk capital component;~~
- ~~(2) the operational risk capital requirement;~~
- ~~(3) the counterparty risk capital component; and~~
- ~~(4) the base capital resources requirement. [deleted]~~

- 2.2.45 R ~~GENPRU 2.2.44R (and the capital resources gearing rules that relate to it) also applies for the purposes of any other requirement in the Handbook for which it is necessary to calculate the capital resources of a BIPRU firm, except for the purposes described in GENPRU 2.2.47R and except as may otherwise be stated in the relevant part of the Handbook. [deleted]~~

Limits on the use of different kinds of capital: Tier two limits (BIPRU firm

only)

2.2.46 R For the purpose of *GENPRU 2.2.44R*:

- (1) ~~the amount of the items which may be included in a *BIPRU firm's tier two capital resources* must not exceed the amount calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions); and~~
- (2) ~~the amount of the items which may be included in a *BIPRU firm's lower tier two capital resources* must not exceed 50% of the amount calculated at stage F of the calculation in the *capital resources table*. [deleted]~~

Limits on the use of different kinds of capital: Purposes for which tier three capital may be used (BIPRU firm only)

2.2.47 R For the purposes of meeting:

- (1) ~~the *market risk capital requirement*;~~
- (2) ~~the *concentration risk capital component*; and~~
- (3) ~~the *fixed overheads requirement* (where applicable);~~

~~a *BIPRU firm* may only use the following parts of its *capital resources*:~~

- (4) ~~*tier one capital* to the extent that it is not required to meet the requirements in *GENPRU 2.2.44R* (*GENPRU 2.2.48R* explains how to calculate how much *tier one capital* is required to meet the requirements in *GENPRU 2.2.44R*);~~
- (5) ~~*tier two capital* to the extent that it:~~
 - (a) ~~comes within the limits in *GENPRU 2.2.46R* (100% limit for *tier two capital resources* and 50% limit for *lower tier two capital resources*); and~~
 - (b) ~~it is not required to meet the requirements in *GENPRU 2.2.44R*; (*GENPRU 2.2.48R* explains how to calculate how much *tier two capital* is required to meet the requirements in *GENPRU 2.2.44R*);~~
- (6) ~~*tier two capital* that cannot be used for the purposes in *GENPRU 2.2.44R* because it falls outside the limits in *GENPRU 2.2.46R*; and~~
- (7) ~~*tier three capital*. [deleted]~~

2.2.48 R The amount of *tier one capital* and *tier two capital* that is not used to meet the requirements in *GENPRU 2.2.44R* as referred to in *GENPRU 2.2.47R*(4) and (5)(5) is equal to the amount calculated at stage N of the

~~calculation in the *capital resources table* (Total tier one capital plus tier two capital after deductions) less the parts of the *capital resources requirement* deducted immediately after stage N of the *capital resources table* (the parts of the *capital resources requirements* listed in *GENPRU 2.2.44R*). [deleted]~~

Limits on the use of different kinds of capital: Combined tier two and tier three limits (BIPRU firm only)

2.2.49 R ~~For the purpose of meeting the requirements in *GENPRU 2.2.47R(1)* to *GENPRU 2.2.47R(3)* and subject to *GENPRU 2.2.50R*, a *BIPRU firm* must not include any item in either:~~

~~(1) its *tier two capital resources* falling within *GENPRU 2.2.47R(6)* (*excess tier two capital*); or~~

~~(2) its *upper tier three capital resources*;~~

~~to the extent that the sum of (1) and (2) would exceed 250% of the amount resulting from the following calculation:~~

~~(3) calculate the amount at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions); and~~

~~(4) deduct from (3) those parts of the *firm's tier one capital* used to meet the requirements in *GENPRU 2.2.44R(1)* and (2) as established by *GENPRU 2.2.48R*. [deleted]~~

2.2.50 R ~~In relation to a *BIPRU investment firm* which calculates its *capital resources* under *GENPRU 2 Annex 4R* (*Capital resources table for a BIPRU investment firm deducting material holdings*), the figure of 200% replaces that of 250% in *GENPRU 2.2.49R*. [deleted]~~

Example of how the capital resources calculation for BIPRU firms works

2.2.51 G ~~*GENPRU 2.2.52G* to *GENPRU 2.2.59G* illustrate how to calculate a *BIPRU firm's capital resources* and how the *capital resources gearing rules* work. In this example the *BIPRU firm* has a combined credit, operational and counterparty risk requirement of £100 (of which £10 is due to counterparty risk) and a market risk requirement of £90, making a total capital requirement of £190. Its *capital resources* are as set out in the table in *GENPRU 2.2.52G*. [deleted]~~

Table: Example of the calculation of the capital resources of a BIPRU firm

2.2.52 G ~~This table belongs to *GENPRU 2.2.51G*. [deleted]~~

~~[The table at *GENPRU 2.2.52G* is deleted in its entirety. The deleted text is not shown.]~~

...

- 2.2.54 G In the example in the table in *GENPRU 2.2.52G* the firm has total *tier one capital* after deductions of £80. Its *tier two capital* of £80 is therefore the maximum permitted under *GENPRU 2.2.46R* (Tier two limits), that is 100% of *tier one capital*. [deleted]
- 2.2.55 G The combined credit, operational and counterparty risk capital requirement is deducted after stage N of the *capital resources table* and the market risk requirement following stage T of the *capital resources table*. These calculations are shown in the table in *GENPRU 2.2.56G*. [deleted]

Table: Example of how capital resources of a BIPRU firm are measured against its capital resources requirement

- 2.2.56 G This table belongs to *GENPRU 2.2.55G* [deleted]
[The table in *GENPRU 2.2.55G* is deleted in its entirety. The deleted text is not shown.]
- 2.2.57 G The gearing limit in *GENPRU 2.2.49R* (Combined tier two and tier three limits) requires that the *upper tier three capital* used to meet the market risk requirement does not exceed 250% of the relevant *tier one capital*. [deleted]
- 2.2.58 G In this example it is assumed that the maximum possible amount of *tier one capital* is carried forward to meet the market risk requirement. There are other options as to the allocation of *tier one capital* and *tier two capital* to the credit, operational and counterparty risk requirement. In order to calculate the relevant *tier one capital* for the *upper tier three* gearing limit in accordance with *GENPRU 2.2.49R* it is first necessary to allocate *tier one capital* and *tier two capital* to the individual credit, operational and counterparty risk requirements. This allocation process underlies the calculation of the overall amount referred to in *GENPRU 2.2.48R*. The calculation in *GENPRU 2.2.49R(3)* and *GENPRU 2.2.49R(4)* then focuses on the *tier one* element of this earlier calculation.
In this worked example, if it is assumed that the counterparty risk requirement has been met by *tier one capital*, the relevant *tier one capital* for gearing is £50. This is because the deductions of £20 and the credit and operational risk requirements of £90 have been met by *tier two capital* in the first instance. However, the total sum of deductions and credit and operational risk requirements exceed the *tier two capital* amount of £80 by £30. Hence the £80 of *tier one capital* has been reduced by £30 to leave £50.
In practical terms, the same result is achieved for the relevant *tier one capital* for gearing by taking the amount carried forward to meet market risk of £40 and adding back the £10 in respect of the counterparty risk requirement. Again, there are other options as to the allocation to credit, operational and counterparty risk of the constituent elements of Stage N of the *capital resources table*.
The outcome of these calculations can be summarised as

follows:[deleted]

(1) ~~the relevant *tier one capital* for the gearing calculation is £50; [deleted]~~

(2) ~~250% of the relevant *tier one capital* is £125; and [deleted]~~

(3) ~~the *upper tier three capital* used to meet market risk is £50. [deleted]~~

2.2.59 G ~~The 250% gearing limit is met as the limit of £125 is greater than the *upper tier three capital* of £50 used in this example. [deleted]~~

Capital used to meet the base capital resources requirement (BIPRU firm only)

2.2.60 R ~~A *BIPRU firm* may use the *capital resources* used to meet the *base capital resources requirement* to meet any other part of the *capital resources requirement*. [deleted]~~

2.2.61 G ~~The explanation for *GENPRU 2.2.60R* can be found in *GENPRU 2.1.43G* (Base capital resources requirement). In brief the reason is that the *base capital resources requirement* is not in practice meant to act as an additional capital resources requirement. It is meant to act as a floor to the *capital resources requirement*. [deleted]~~

...

Guidance on certain of the general conditions for eligibility as tier one capital

...

2.2.68A R ~~A *BIPRU firm* must not include a *capital instrument* in its *tier one capital resources* if:~~

(1) ~~the *capital instrument* is affected by a dividend stopper; and~~

(2) ~~the dividend stopper operates in a way that hinders recapitalisation. [deleted]~~

2.2.68B G ~~A dividend stopper prevents the *firm* from paying any *coupon* on more junior or *pari passu* instruments in a period in which the *firm* omits payments to the holder of the *capital instrument* containing the dividend stopper, and so may hinder the recapitalisation of the *firm* contrary to *GENPRU 2.2.64R(6)*. [deleted]~~

...

Tier one capital: payment of coupons (BIPRU firm only)

2.2.69A R ~~A *BIPRU firm* must not make a payment of a *coupon* on an item of~~

hybrid capital if the *firm* has no distributable reserves. [deleted]

- 2.2.69B R ~~A *BIPRU firm* must cancel the payment of a *coupon* on an item of *hybrid capital* if the *BIPRU firm* does not meet its *capital resources requirement* or if the payment of that *coupon* would cause it to breach its *capital resources requirement*. [deleted]~~
- 2.2.69C R ~~A *BIPRU firm* must not pay a *coupon* on an item of *hybrid capital* in the form of *core tier one capital* in accordance with *GENPRU 2.2.64R (4)(b)* unless:~~
- ~~(1) the *firm* meets its *capital resources requirement*; and~~
 - ~~(2) such a substituted payment preserves the *firm's* financial resources. [deleted]~~
- 2.2.69D G ~~The *appropriate regulator* considers that a *BIPRU firm's* financial resources are not preserved under *GENPRU 2.2.69CR(2)* unless, among other things, the conditions of the substituted payment are that:~~
- ~~(1) there is no decrease in the amount of the *firm's core tier one capital*;~~
 - ~~(2) the deferred *coupon* is satisfied without delay using newly issued *core tier one capital* that has an aggregate fair value no more than the amount of the *coupon*;~~
 - ~~(3) the *firm* is not obliged to find new investors for the newly issued instruments; and~~
 - ~~(4) if the holder of the newly issued instruments subsequently sells the instruments and the sale proceeds are less than the value of the *coupon*, the *firm* is not obliged to issue further new instruments to cover the loss incurred by the holder of the instruments. [deleted]~~
- 2.2.69E R ~~A *BIPRU firm* must cancel the payment of a *coupon* if circumstances arise whereby the payment of the *coupon* by newly issued instruments, in accordance with *GENPRU 2.2.64R(4)(b)*, does not comply with the requirements of *GENPRU 2.2.69CR*. [deleted]~~
- 2.2.69F G (1) ~~In relation to the cancellation or deferral of the payment of a *coupon* in accordance with *GENPRU 2.2.64R(4)* and *GENPRU 2.2.64R(5)*, *GENPRU 2.2.68AR*, or *GENPRU 2.2.69BR*, the *appropriate regulator* expects that situations where a *coupon* may need to be cancelled or deferred will be resolved through analysis and discussion between the *firm* and the *appropriate regulator*. If the *appropriate regulator* and the *firm* do not agree on the cancellation or deferral of the payment of a *coupon*, then the *appropriate regulator* may consider using its powers under 55J of the Act to, on its own initiative, vary a *firm's Part 4A permission* to require it to cancel or defer a *coupon* in accordance~~

~~with the appropriate regulator's view of the financial and solvency situation of the firm.~~

- (2) ~~In considering a firm's financial and solvency situation, the appropriate regulator will normally take into account, among other things, the following:~~
- ~~(a) the firm's financial and solvency position before and after the payment of the coupon, in particular whether that payment, or other foreseeable internal and external events or circumstances, may increase the risk of the firm breaching its capital resources requirement or the overall financial adequacy rule;~~
 - ~~(b) an appropriately stressed capital plan, covering 3-5 years, which includes the effect of the proposed payment of the coupon; and~~
 - ~~(c) an evaluation of the risks to which the firm is or might be exposed and whether the level of tier one capital ensures the coverage of those risks, including stress tests on the main risks showing potential loss under different scenarios.~~
- (3) ~~If the BIPRU firm is required to cancel or defer the payment of a coupon by the appropriate regulator, it may still be able to pay the coupon by way of newly issued core tier one capital in accordance with GENPRU 2.2.64 R(4)(b) and GENPRU 2.2.69C R. The appropriate regulator may consider using its powers under 55J of the Act to, on its own initiative, vary a firm's Part 4A permission to impose conditions on the use of such a mechanism or to require its cancellation, based on the factors outlined in this guidance. [deleted]~~

Redemption of tier one instruments

...

- 2.2.70A G ~~In the case of a BIPRU firm, an incentive to redeem is a feature of a capital instrument that would lead a reasonable market participant to have an expectation that the firm will redeem the instrument. The appropriate regulator considers that interest rate step ups and principal stock settlements, in conjunction with a call option, are incentives to redeem. Only instruments with moderate incentives to redeem are permitted as tier one capital, in accordance with the limited conversion ratio in GENPRU 2.2.138R and the rule on step-ups in GENPRU 2.2.147R. [deleted]~~

...

- 2.2.74B R ~~If a BIPRU firm does not comply with its capital resources requirement or if the redemption of any dated tier one instrument would cause it to~~

~~breach its capital resources requirement, it must suspend the redemption of its dated tier one instruments. [deleted]~~

...

Purchases of tier one instruments: BIPRU firm only

- 2.2.79A R ~~A BIPRU firm must not purchase a tier one instrument that it has included in its tier one capital resources unless:~~
- ~~(1) the firm initiates the purchase;~~
 - ~~(2) [deleted]~~
 - ~~(3) the firm has given notice to the appropriate regulator in accordance with GENPRU 2.2.79GR; and~~
 - ~~(4) (in the case of hybrid capital) it is on or after the fifth anniversary of the date of issue of the instrument. [deleted]~~
- 2.2.79B G ~~In exceptional circumstances a BIPRU firm may apply for a waiver of GENPRU 2.2.79AR(4) under section 138A (Modification or waiver of rules) of the Act. [deleted]~~
- 2.2.79C R ~~GENPRU 2.2.79AR(4) does not apply if:~~
- ~~(1) the firm replaces the capital instrument it intends to purchase with a capital instrument that is included in a higher stage of capital or the same stage of capital; and~~
 - ~~(2) the replacement capital instrument has already been issued. [deleted]~~
- 2.2.79D R ~~GENPRU 2.2.79AR(4) does not apply if:~~
- ~~(1) the firm intends to hold the purchased instrument for a temporary period as market maker; and~~
 - ~~(2) the purchased instruments held by the firm do not exceed the lower of:~~
 - ~~(a) 10% of the relevant issuance; or~~
 - ~~(b) 3% of the firm's total issued hybrid capital. [deleted]~~
- 2.2.79E G ~~In the circumstances provided for in GENPRU 2.2.79DR, a firm would purchase the instrument and, instead of cancelling it, the firm would hold the instrument for a temporary period. In that case a firm should have in place adequate policies to take into account any relevant regulations and rules, which include those relating to market abuse. [deleted]~~

- 2.2.79F R ~~For the purposes of calculating its *tier one capital resources*, a *firm* must deduct the amount of any item of *hybrid capital* which it then holds. [deleted]~~
- 2.2.79G R ~~A *BIPRU firm* must not purchase a *tier one instrument* in accordance with *GENPRU 2.2.79AR* unless it has notified the *appropriate regulator* of its intention at least one month before it becomes committed to doing so. When giving notice, the *firm* must provide details of its position after the purchase in order to show how, over an appropriate timescale, adequately stressed, and without planned recourse to the capital markets, it will:~~
- ~~(1) meet its *capital resources requirement*; and~~
 - ~~(2) have sufficient financial resources to meet the *overall financial adequacy rule*. [deleted]~~
- 2.2.79H G ~~The *appropriate regulator* considers that:~~
- ~~(1) in order to comply with *GENPRU 2.2.79GR*, the *firm* should, at a minimum, provide the *appropriate regulator* with the following information:~~
 - ~~(a) a comprehensive explanation of the rationale for the purchase;~~
 - ~~(b) the *firm's* financial and solvency position before and after the purchase, in particular whether the purchase, or other foreseeable internal and external events or circumstances, may increase the risk of the *firm* breaching its *capital resources requirement* or the *overall financial adequacy rule*;~~
 - ~~(c) an appropriately stressed capital plan covering 3-5 years, which includes the effect of the proposed purchase; and~~
 - ~~(d) an evaluation of the risks to which the *firm* is or might be exposed and whether the level of *tier one capital* ensures the coverage of such risks including stress tests on the main risks showing potential loss under different scenarios; and~~
 - ~~(2) the proposed purchase should not be on the basis that the *firm* reduces capital on the date of the purchase and then plans to raise new external capital during the following 3-5 years to replace the purchased capital. [deleted]~~
- 2.2.79I R ~~A *BIPRU firm* must not announce to the holders of a *tier one instrument* its intention to purchase that instrument unless it has notified that intention to the *appropriate regulator* in accordance with *GENPRU 2.2.79GR* and it has not, during the period of one month from the date of giving notice, received an objection from the~~

~~appropriate regulator.~~ [deleted]

- 2.2.79J R ~~If a BIPRU firm announces the purchase of any tier one instrument, the firm must no longer include that instrument in its tier one capital resources.~~ [deleted]
- 2.2.79K R ~~If a BIPRU firm does not comply with its capital resources requirement, or if the purchase of any tier one instrument would cause it to breach its capital resources requirement, it must suspend the purchase of tier one instruments.~~ [deleted]
- 2.2.79L G ~~A firm should continue to exclude from its tier one capital resources all tier one instruments that are the subject of a purchase notification under GENPRU 2.2.79GR and for which the offer to purchase has been declined by the instrument holders unless the purchase offer period has expired.~~ [deleted]

Loss absorption

- 2.2.80 R A firm may not include a share in its tier one capital resources unless (in addition to complying with the other relevant rules in GENPRU 2.2):
- (1) (in the case of a firm that is a company as defined in the Companies Act 2006 it is "called-up share capital" within the meaning given to that term in that Act; or
 - (2) ~~(in the case of a building society) it is a deferred share; or~~ [deleted]
 - (3) (in the case of any other firm) it is:
 - (a) in economic terms; and
 - (b) in its characteristics as capital (including loss absorbency, permanency, ranking for repayment and fixed costs);substantially the same as called-up share capital falling into (1).

...

Core tier one capital: permanent share capital

- 2.2.83 R *Permanent share capital* means an item of capital which (in addition to satisfying GENPRU 2.2.64R) meets the following conditions:
- (1) it is:
 - (a) an ordinary share; or
 - (b) a members' contribution; or

(c) part of the *initial fund* of a *mutual*.

(d) a *deferred share*; [deleted]

...

General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only)

2.2.83A R ~~The conditions that a *BIPRU firm's permanent share capital* must comply with under *GENPRU 2.2.83AR(4)* or that a *BIPRU firm's eligible partnership capital* or *eligible LLP members' capital* must comply with under *GENPRU 2.2.95R* are as follows:~~

- (1) ~~it is undated;~~
- (2) ~~the terms upon which it is issued do not give the holder a preferential right to the payment of a *coupon*;~~
- (3) ~~the terms upon which it is issued do not indicate the amount of any *coupon* that may be payable nor impose an upper limit on the amount of any *coupon* that may be payable;~~
- (4) ~~the *firm's* obligations under the instrument do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986 and the holder has no right to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* arising from the non-payment of a *coupon* or any other sums payable under the instrument;~~
- (5) ~~there is no contractual or other obligation arising out of the terms upon which it is issued that requires the *firm* to repay capital to the holders other than on a liquidation of the *firm*;~~
- (6) ~~the terms upon which it is issued do not include a dividend pusher or a dividend stopper;~~
- (7) ~~the *firm* is under no obligation to issue *core tier one capital* or to make a payment in kind in lieu of making a *coupon* payment and non-payment of a *coupon* is not an event of default on the part of the *firm*;~~
- (8) ~~it is simple and the terms upon which it is issued are clearly defined;~~
- (9) ~~it is able to fully and unconditionally absorb losses on a non-discretionary basis as soon as they arise to allow the *firm* to continue trading, and it absorbs losses before all *capital instruments* that are not eligible for inclusion in stage A of the *capital resources table* and equally and proportionately with all *capital instruments* that are eligible for inclusion in stage A of~~

~~the *capital resources table*;~~

- (10) ~~it ranks for repayment on winding up, administration or any other similar process lower than all other items of capital, and on a liquidation of the *firm* the holders have a claim on the residual assets remaining after satisfaction of all prior claims that is proportional to their holding and do not have a priority claim or a fixed claim for the nominal amount of their holding;~~
- (11) ~~the *firm* has not provided the holder with a direct or indirect financial contribution specifically to pay for the whole or a part of its subscription or purchase;~~
- (12) ~~a reasonable person would not think that the *firm* is likely to redeem or purchase it because of the description of its characteristics used in its marketing and in its contractual terms of issue; and~~
- (13) ~~its issue is not connected with one or more other transactions which, when taken together with its issue, could result in it no longer displaying all of the characteristics set out in *GENPRU* 2.2.83R(2), *GENPRU* 2.2.83AR(1) to (12) and (in the case of *permanent share capital*) *GENPRU* 2.2.83R(3). [deleted]~~

2.2.83B R ~~A *BIPRU firm* must not include in stage A of the *capital resources table* different classes of the same *share* type (for example "A ordinary shares" and "B ordinary shares") that meet the conditions in *GENPRU* 2.2.83R and *GENPRU* 2.2.83AR but have differences in voting rights, unless it has notified the *appropriate regulator* of its intention at least one month before the *shares* are issued or (in the case of existing issued *shares*) the differences in voting rights take effect. [deleted]~~

2.2.83C R ~~A *BIPRU firm* must not pay a *coupon* on a *tier one instrument* included in stage A of the *capital resources table* if it has no distributable reserves. [deleted]~~

2.2.83D G ~~A *BIPRU firm* may disclose its dividend policy, provided that the policy only reflects the current intention of the *firm* and does not undermine the *firm's* right to choose the amount of any *coupon* that it pays. [deleted]~~

Core tier one capital: exception to eligibility criteria (building societies only)

2.2.83E R ~~A *building society* may include in stage A of the *capital resources table* a *capital instrument* that includes in its terms of issue an upper limit on the amount of any *coupon* that may be payable and the prohibition on a *coupon* limit under *GENPRU* 2.2.83AR(3) does not apply to that *capital instrument*, provided that:~~

- (1) ~~the *capital instrument* satisfies all other conditions for eligibility~~

~~as core tier one capital set out in GENPRU 2.2.83R to GENPRU 2.2.83AR;~~

- ~~(2) the coupon limit has been imposed by law or the constitutional documents of the firm;~~
- ~~(3) the objective of the limit is to protect the capital reserves of the firm;~~
- ~~(4) the firm continues to have the effective right to choose the amount of any coupon that it pays;~~
- ~~(5) all other capital instruments issued by the firm and included in stage A of the capital resources table:

 - ~~(a) meet the conditions set out in GENPRU 2.2.83R(2), GENPRU 2.2.83R(3) and GENPRU 2.2.83AR (General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only)); and~~
 - ~~(b) if subject to a coupon limit, are subject to the same coupon limit; and~~~~
- ~~(6) any preferential coupon on a capital instrument included in stage A of the capital resources table, arising as a result of the inclusion of a coupon limit on another capital instrument, must be restricted to a fixed multiple of the coupon payment on the capital instrument that is subject to the coupon limit. GENPRU 2.2.83AR(2) to (3) do not prevent a capital instrument from being included in stage A of the capital resources table if the only reason for those prohibitions not being met is that a preferential coupon arises, and is restricted, in the manner referred to in this paragraph (6). [deleted]~~

2.2.83F R ~~A building society must not issue a capital instrument that includes a coupon limit in its terms of issue in accordance with GENPRU 2.2.83E R unless it has notified the PRA of its intention to do so at least one month before the intended date of issue. [deleted]~~

2.2.83G G ~~Under GENPRU 2.2.83E R(4), an effective right means that in practice the firm has, and exercises, full discretion to choose the amount of coupon that it pays (for example, it has not fettered that discretion by indicating to instrument holders that the coupon limit is the standard level of coupon they will receive). [deleted]~~

2.2.83H G ~~The purpose of GENPRU 2.2.83ER(6) is to limit the potential preferential rights that may arise on capital instruments that are not subject to a coupon limit. The PRA considers that "preferential" refers to both priority of coupon payment and level of coupon payment. Therefore the PRA considers that:~~

- (1) ~~a coupon arising on a capital instrument which is not subject to an explicit coupon limit within its terms of issue is likely to be preferential to a coupon on a capital instrument included in the same stage of capital which is subject to a coupon limit; and~~
- (2) ~~the preference so arising should be restricted so that it is not an unlimited preference. [deleted]~~

Core tier one capital: additional information

2.2.84

- G In the case of an *insurer*, *GENPRU 2.2.83R(2)* and *GENPRU 2.2.83R(3)* have the effect that the *firm* should be under no obligation to make any payment in respect of a *tier one instrument* if it is to form part of its *permanent share capital* unless and until the *firm* is wound up. A *tier one instrument* that forms part of *permanent share capital* should not therefore count as a liability before the *firm* is wound up. The fact that relevant company law permits the *firm* to make earlier repayment does not mean that the *tier one instruments* are not eligible. However, the *firm* should not be required by any contractual or other obligation arising out of the terms of that capital to repay *permanent share capital*. Similarly a *tier one instrument* may still qualify if company law allows dividends to be paid on this capital, provided the *firm* is not contractually or otherwise obliged to pay them. There should therefore be no fixed costs. ~~*GENPRU 2.2.83AR* to *GENPRU 2.2.83FR* impose more specific conditions on coupon payment and winding up which are applicable to *BIPRU firms*.~~

...

Core tier one capital: profit and loss account and other reserves: Losses

2.2.85

- R (1) ~~Negative amounts, including any interim net losses (but in the case of a *BIPRU investment firm*, only material interim net losses), must be deducted from profit and loss account and other reserves.~~
- (2) ~~For these purposes material interim net losses mean unaudited interim losses arising from a *firm's trading book* and *non trading book* business which exceed 10% of the sum of its *capital resources* calculated at stage A (Core tier one capital) in the *capital resources table*.~~
- (3) ~~If interim losses as referred to in (2) exceed the 10% figure in (2) then a *BIPRU investment firm* must deduct the whole amount of those losses and not just the excess. [deleted]~~

2.2.85A

- R (1) In the case of an insurer, negative amounts, including any interim net losses, must be deducted from profit and loss account and other reserves.

- (2) For these purposes material interim net losses mean unaudited interim losses arising from a firm's trading book and non-trading book business which exceed 10% of the sum of its capital resources calculated at stage A (Core tier one capital) in the capital resources table.

Core tier one capital: profit and loss account and other reserves: Losses arising from valuation adjustments (BIPRU firm only)

- 2.2.86 R ~~(1) This rule applies to trading book valuation adjustments or reserves referred to in GENPRU 1.3.29R to GENPRU 1.3.35AG (Valuation adjustments and reserves). It applies to a BIPRU firm.~~
- ~~(2) When valuation adjustments or reserves give rise to losses of the current financial year, a firm must treat them in accordance with GENPRU 2.2.85R.~~
- ~~(3) Valuation adjustments or reserves which exceed those made under the accounting framework to which a firm is subject must be treated in accordance with (2) if they give rise to losses and under GENPRU 2.2.248R (Net interim trading book profits) otherwise. [deleted]~~

...

Core tier one capital: profit and loss account and other reserves: Securitisation (BIPRU firm only)

- 2.2.90 R ~~In the case of a BIPRU firm which is the originator of a securitisation, net gains arising from the capitalisation of future income from the securitised assets and providing credit enhancement to positions in the securitisation must be excluded from profit and loss account and other reserves. [deleted]~~

...

Core tier one capital: profit and loss account and other reserves: Revaluation reserves (BIPRU firm only)

- 2.2.92 G ~~A revaluation reserve is not included as part of a BIPRU firm's profit and loss account and other reserves. It is dealt with separately and forms part of a BIPRU firm's upper tier two capital. [deleted]~~

Core tier one capital: partnership capital account (BIPRU firm only)

- 2.2.93 R ~~Eligible partnership capital means a partners' account:~~
- ~~(1) into which capital contributed by the partners is paid; and~~
- ~~(2) from which under the terms of the partnership agreement an amount representing capital may be withdrawn by a partner only~~

if:

- (a) ~~he ceases to be a partner and an equal amount is transferred to another such account by his former partners or any person replacing him as their partner;~~
- (b) ~~the partnership is wound up or otherwise dissolved; or~~
- (c) ~~the BIPRU firm has ceased to be authorised or no longer has a Part 4A permission. [deleted]~~

Core tier one capital: Eligible LLP members' capital (BIPRU firm only)

2.2.94 R ~~Eligible LLP members' capital means a members' account:~~

- (1) ~~into which capital contributed by the members is paid; and~~
- (2) ~~from which under the terms of the limited liability partnership agreement an amount representing capital may be withdrawn by a member only if:~~
 - (a) ~~he ceases to be a member and an equal amount is transferred to another such account by his former fellow members or any person replacing him as a member;~~
 - (b) ~~the limited liability partnership is wound up or otherwise dissolved; or~~
 - (c) ~~the BIPRU firm has ceased to be authorised or no longer has a Part 4A permission. [deleted]~~

Core tier one capital: Eligible LLP members' and partnership capital accounts (BIPRU firm only)

2.2.95 R ~~A BIPRU firm that is a partnership or a limited liability partnership may not include eligible partnership capital or eligible LLP members' capital in its tier one capital resources unless (in addition to GENPRU 2.2.62R (General conditions relating to tier one capital)) it complies with GENPRU 2.2.83R(2) (Coupons should not be cumulative or mandatory) and GENPRU 2.2.83AR to GENPRU 2.2.83CR (General conditions for eligibility of capital instruments as core tier one capital (BIPRU firm only). However, GENPRU 2.2.64R(3) (Redemption), GENPRU 2.2.83AR(5) (Capital repayment) and GENPRU 2.2.83AR (12) (Characteristics in contract) are replaced by GENPRU 2.2.93R or GENPRU 2.2.94R. [deleted]~~

2.2.96 G ~~If a firm has surplus eligible partnership capital or eligible LLP members' capital that it wishes to repay in circumstances other than those set out in GENPRU 2.2.93R or GENPRU 2.2.94R it may apply to the appropriate regulator for a waiver to allow it to do so. If a firm applies for such a waiver the information that the firm supplies with the~~

application might include:

- (1) ~~a demonstration that the firm would have sufficient capital resources to meet its capital resources requirement immediately after the repayment;~~
- (2) ~~a demonstration that the firm would have sufficient financial resources to meet any individual capital guidance and the firm's latest assessment under the overall Pillar 2 rule immediately after the repayment; and~~
- (3) ~~a two to three year capital plan demonstrating that the firm would be able to meet the requirements in (1) and (2) at all times without needing further capital injections. [deleted]~~

Core tier one capital: Other capital items for limited liability partnerships and partnerships (BIPRU firm only)

- 2.2.97 R ~~The items permanent share capital and share premium account (which form part of core tier one capital) do not apply to a BIPRU firm that is a partnership or a limited liability partnership. [deleted]~~
- 2.2.98 R ~~Without prejudice to GENPRU 2.2.62R (Tier one capital: General), the item other reserves (which forms part of the item profit and loss and other reserves) applies to a BIPRU firm that is a partnership or a limited liability partnership to the extent the reserves correspond to reserves that are eligible for inclusion as other reserves in the case of a BIPRU firm that is incorporated under the Companies Act 2006. [deleted]~~
- 2.2.99 G ~~A BIPRU firm that is a partnership or a limited liability partnership should include profit and loss (taking into account interim losses or material interim net losses) in its core tier one capital. [deleted]~~

Core tier one capital: partnership and limited liability partnership excess drawings (BIPRU firm only)

- 2.2.100 R ~~A BIPRU firm which is a partnership or limited liability partnership must deduct at stage E of the calculation in the capital resources table (Deductions from tier one capital) the amount by which the aggregate of the amounts withdrawn by its partners or members exceeds the profits of that firm. Amounts of eligible partnership capital or eligible LLP members' capital repaid in accordance with GENPRU 2.2.93R or GENPRU 2.2.94R are not included in this calculation. [deleted]~~

...

Core tier one capital: deferred shares (building society only)

- 2.2.108A R ~~A building society may include a deferred share at stage A of the calculation in the capital resources table if (in addition to satisfying all the other requirements in relation to tier one capital) it is permanent share capital and is otherwise equivalent to an ordinary share in terms~~

of its capital qualities, taking into account the specific constitution of *building societies* under the Building Societies Act 1986. [deleted]

- 2.2.108B G ~~The other main provisions relevant to inclusion of a *deferred share* in *tier one capital* are *GENPRU 2.2.62R* (Tier one capital: General), *GENPRU 2.2.64R* (General conditions for eligibility as tier one capital), *GENPRU 2.2.65R* (Connected transactions) and *GENPRU 2.2.80R* (Loss absorption). [deleted]~~

...

Other tier one capital: conditions for eligibility for hybrid capital to be included at the different stages B1, B2 and C of the calculation in the capital resources table (BIPRU firm only)

- 2.2.115A R ~~A *BIPRU firm* must not include a *capital instrument* at stage B1 of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) its contractual terms are such that:~~
- ~~(1) it cannot be redeemed in cash but can only be converted into *core tier one capital*;~~
 - ~~(2) it must be converted into *core tier one capital* by the *firm* during emergency situations;~~
 - ~~(3) the emergency situations referred to in (2):~~
 - ~~(a) are clearly defined within the terms of the *capital instrument*, legally certain and transparent; and~~
 - ~~(b) occur at the latest, and include, when the *BIPRU firm* does not meet its *capital resources requirement*;~~
 - ~~(4) the *appropriate regulator* may require its conversion into *core tier one capital* when the *appropriate regulator* considers it necessary;~~
 - ~~(5) it may be converted into *core tier one capital* by the *firm* or the holder of the instrument at any time; and~~
 - ~~(6) the maximum number of *capital instruments* which are *core tier one capital* into which it may be converted must:~~
 - ~~(a) be determined at the date of its issue;~~
 - ~~(b) be determined on the basis of the market value of those other instruments at the date of its issue;~~
 - ~~(c) have an aggregate value equal to its par value; and~~
 - ~~(d) not increase if the price of those other instruments~~

decreases. [deleted]

- 2.2.115B G ~~The intention of GENPRU 2.2.115AR is to ensure that capital instruments included in stage B1 of the calculation in the capital resources table have the same permanence as core tier one capital; the presence of a call option for these instruments may reduce their permanence. [deleted]~~
- 2.2.115C G (1) ~~In respect of GENPRU 2.2.115AR(4), the appropriate regulator may require the firm to convert the instrument into core tier one capital based on its financial and solvency situation. The appropriate regulator will take into account, among other things, the factors identified at GENPRU 2.2.69FG(2), adjusted to take into account the effects of a conversion rather than payment of a coupon.~~
- (2) ~~Even if a firm meets its capital resources requirement, the appropriate regulator may consider the amount or composition of the firm's tier one capital as inadequate to cover the financial and solvency risks of the firm in which event the appropriate regulator may require the firm to convert the instrument into core tier one capital. [deleted]~~
- 2.2.115D R ~~A BIPRU firm may include a capital instrument at stage B2 of the calculation in the capital resources table if (while satisfying all the other requirements in relation to tier one capital and hybrid capital) it cannot be included at stage B1 of that calculation as it does not satisfy the requirements of GENPRU 2.2.115AR. [deleted]~~
- 2.2.115E G (1) ~~The other main provisions relevant to the eligibility of a capital instrument to be included at stages B1 and B2 of the calculation in the capital resources table are GENPRU 2.2.62R (Tier one capital: General), GENPRU 2.2.64R (General conditions for eligibility as tier one capital), GENPRU 2.2.65R (Connected transactions), GENPRU 2.2.68AR (Dividend stoppers), GENPRU 2.2.70R to GENPRU 2.2.75R (Redemption of tier one instruments), GENPRU 2.2.80R (Loss absorption) and GENPRU 2.2.116R to GENPRU 2.2.118R (Other tier one capital: loss absorption).~~
- (2) ~~The rule about hybrid capital included at stage C of the calculation in the capital resources table in GENPRU 2.2.115FR is also relevant. Capital instruments that would otherwise qualify for inclusion at stages B1 or B2 of the calculation in the capital resources table may only be eligible for inclusion at stage C of that calculation. [deleted]~~
- 2.2.115F R ~~A BIPRU firm may include a capital instrument at stage C of the calculation in the capital resources table, and must not include it in stage B1 or B2 of that calculation, if (in addition to satisfying all the other requirements in relation to tier one capital and hybrid capital) it~~

either:

- (1) is dated; or
- (2) provides an incentive for the *firm* to redeem it, as assessed at the date of its issue. [deleted]

2.2.115G G ~~An incentive to redeem is a feature of a *capital instrument* that would lead a reasonable market participant to have an expectation that the *firm* will redeem the instrument. The effect of *GENPRU 2.2.115FR(2)* is that the classification of an instrument that provides an incentive to redeem is always assessed at the date of its issue, and it cannot be reclassified. [deleted]~~

Other tier one capital: loss absorption

...

2.2.116A R ~~A *BIPRU firm* must not include a *capital instrument* that is not a *share* at stage B1, B2 or C of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) the *firm's* obligations under the instrument either:~~

- (1) ~~do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or~~
- (2) ~~do constitute such a liability but the terms of the instrument are such that:~~
 - (a) ~~any such liability is not relevant for the purposes of deciding whether:~~
 - (i) ~~the *firm* is, or is likely to become, unable to pay its debts; or~~
 - (ii) ~~its liabilities exceed its assets;~~
 - (b) ~~a *person* (including, but not limited to, a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may become unable to pay any such liability; and~~
 - (c) ~~the *firm* is not obliged to take into account such a liability for the purposes of deciding whether or not the *firm* is, or may become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (Wrongful trading). [deleted]~~

...

2.2.117A R ~~A *BIPRU firm* must not include a *capital instrument* at stage B1, B2 or~~

~~C of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) its contractual terms provide for a mechanism within the instrument which:~~

- ~~(1) is clearly defined and legally certain;~~
- ~~(2) is disclosed and transparent to the market;~~
- ~~(3) makes the recapitalisation of the *firm* more likely by adequately reducing the potential future outflows to a holder of the *capital instrument* at certain trigger points;~~
- ~~(4) enables the *firm*, at and after the trigger points, to operate the mechanism; and~~
- ~~(5) when initiated, operates in one of the following ways:~~
 - ~~(a) the principal of the instrument is written down permanently; or~~
 - ~~(b) the principal of the instrument is written down temporarily. During the write down period any *coupon* payable on the instrument must be cancelled and any related dividend stoppers and pushers must operate in a way that does not hinder recapitalisation; or~~
 - ~~(c) the instrument is converted into *core tier one capital*. The maximum number of *capital instruments* which are *core tier one capital* into which it must be converted must:

 - ~~(i) be determined at the date of its issue;~~
 - ~~(ii) be determined on the basis of the market value of those other instruments at the date of its issue;~~
 - ~~(iii) have an aggregate value no more than 150% of its par value; and~~
 - ~~(iv) not increase if the share price decreases; or~~~~
 - ~~(d) an alternative process applies which has the same or greater effect on the likelihood of recapitalisation as (a), (b), and (c). [deleted]~~

2.2.117B R The trigger points required by ~~GENPRU 2.2.117AR(3)~~ must:

- ~~(1) be clearly defined within the instrument and legally certain;~~
- ~~(2) be disclosed and transparent to the market; and~~
- ~~(3) be prudent and timely, and include trigger points which occur:~~

(a) ~~before a breach of the *firm's capital resources requirement* and both:~~

(i) ~~when the *firm's* losses lead to a significant reduction of the *firm's* retained earnings or other reserves which causes a significant deterioration of the *firm's* financial and solvency conditions; and~~

(ii) ~~when it is reasonably foreseeable that the events described in (i) will occur; and~~

(b) ~~when the *firm* is in breach of its *capital resources requirement*. [deleted]~~

2.2.117C G (1) ~~The effects of the mechanisms described in *GENPRU 2.2.117A R* will be more meaningful if they happen immediately after losses cause a significant deterioration of the financial as well as the solvency situation and even before the reserves are exhausted.~~

(2) ~~If a *firm* does not operate the loss absorption mechanism in a prudent and timely way, then the *appropriate regulator* may consider using its powers under 55J of the *Act* to, on its own initiative, vary the *firm's Part 4A permission* to require it to operate the mechanism. [deleted]~~

...

2.2.118A G ~~For the purposes of *GENPRU 2.2.118R(2)*, the focus of the legal opinion in considering *GENPRU 2.2.64R(6)(b)* should be on whether appropriate mechanisms exist and are designed to operate to ensure that the value of the *hybrid capital* instrument and the position of the *hybrid capital* holder are not enhanced by recapitalisation. [deleted]~~

...

Other tier one capital: hybrid capital: indirectly issued tier one capital (BIPRU firm only)

2.2.123 R ~~*GENPRU 2.2.123R* to *GENPRU 2.2.137R* apply to a *BIPRU firm*. [deleted]~~

2.2.124 R (1) ~~*GENPRU 2.2.123R* – *GENPRU 2.2.137R* apply to capital of a *firm* if:~~

(a) ~~either or both of the conditions in (2) are satisfied; and~~

(b) ~~any of the *SPVs* referred to in (2) is a *subsidiary undertaking* of the *firm*.~~

(2) ~~The conditions referred to in (1) are:~~

- (a) ~~that capital is issued to an *SPV*; or~~
 - (b) ~~the subscription for the capital issued by the *firm* is funded directly or indirectly by an *SPV*.~~
- (3) ~~A *BIPRU firm* may not include capital coming within this *rule* in its *capital resources* unless the requirements in the following *rules* are satisfied:~~
- (a) ~~(if (2)(a) applies and (2)(b) does not) *GENPRU 2.2.127R*, *GENPRU 2.2.129R* and *GENPRU 2.2.132R*; or~~
 - (b) ~~(in any other case) *GENPRU 2.2.133R*. [deleted]~~
- 2.2.125 R ~~A *BIPRU firm* may only count capital to which *GENPRU 2.2.124R* applies at stage *C* of the calculation in the *capital resources table*. [deleted]~~
- 2.2.126 R ~~For the purpose of *GENPRU 2.2*, an *SPV* is, in relation to a *BIPRU firm*, any *undertaking* whose main activity is to raise funds for that *firm* or for a *group* to which that *BIPRU firm* belongs. [deleted]~~
- 2.2.127 R ~~The *SPV* referred to in *GENPRU 2.2.124R*(2)(a) must satisfy the following conditions:~~
- (1) ~~it is controlled by the *firm* and may not operate independently of the *firm*;~~
 - (2) ~~the rights of investors in the *SPV* who do not belong to the *group* of the *BIPRU firm* in question are not such as to affect the ability of the *firm* to control the *SPV*;~~
 - (3) ~~all or virtually all of its *exposures* (calculated by reference to the amount) consist of *exposures* to the *firm* or to that *firm's group*; and~~
 - (4) ~~it is incorporated under, and governed by, the laws and jurisdiction of England and Wales, Scotland or Northern Ireland. [deleted]~~
- 2.2.128 G ~~An *SPV* could take the form of a limited partnership. In such an arrangement, holders of a *capital instrument* issued by the *SPV* which do not belong to the *group* of the *BIPRU firm* in question should have no right to participate in the management of the partnership, whether under the partnership's constitutional documents or the transaction documents. In general, this means that they should be treated as limited partners. It is expected that the general partner, having control of the *SPV*, would be the *firm*. [deleted]~~
- 2.2.128A R ~~*GENPRU 2.2.127R*(4) does not apply if the *firm* has conducted a properly reasoned analysis confirming that any potential risks,~~

~~including legal and operational risks, associated with cross border issues, which undermine the quality of the capital for the issuer, that arise from an *SPV* not being incorporated under or governed by the laws and jurisdiction of England and Wales, Scotland or Northern Ireland, are adequately mitigated. [deleted]~~

2.2.128B R ~~The analysis must be set out in writing and dated before the date of issue of the *capital instrument* and the *firm* must be able to show that the analysis has been fully considered as part of its decision to proceed with the issue. The analysis must be conducted by a person or persons appropriately qualified to assess the relevant risks and that person may be an independent adviser or an employee of the *firm* who is not part of the business unit responsible for the transaction (including the drafting of the issue documentation). [deleted]~~

2.2.129 R ~~The *SPV* referred to in *GENPRU* 2.2.124R(2)(a) must fund its subscription for the capital issued by the *firm* by the issue of capital that satisfies the following conditions:~~

~~(1) it must comply with the conditions for qualification as *tier one capital*, as amended by *GENPRU* 2.2.130R, as if the *SPV* was itself a *firm* seeking to include that capital in its *tier one capital resources*;~~

~~(2) (a) its terms must include an obligation on the *firm* that, in the event of a collapse of the *SPV* structure, and if the mechanism contained within the instrument under *GENPRU* 2.2.117AR is a conversion, the *firm* must substitute the *capital instrument* issued by the *SPV* with *core tier one capital* issued by the *firm*; and~~

~~(b) there must be no obstacle to the *firm's* issue of new securities;~~

~~(3) the conversion ratio in respect of the substitution described in (2) must be fixed when the *SPV* issues the *capital instrument*;~~

~~(4) to the extent that investors have the benefit of an obligation by a *person* other than the *SPV*:~~

~~(a) that obligation must be one owed by a member of the *firm's* *group*; and~~

~~(b) the extent of that obligation must be no greater than would be permitted by *GENPRU* if that obligation formed part of the terms of a *capital instrument* issued by that member which complied with the *rules* in *GENPRU* relating to *tier one capital* included at stage C of the calculation in the *capital resources table*; and~~

- (5) ~~if the SPV structure collapses, the holder of it has no better a claim against the firm than a holder of the same type of instrument directly issued by the firm. [deleted]~~
- 2.2.130 R ~~For the purpose of GENPRU 2.2.129R and GENPRU 2.2.132R, GENPRU 2.2.118R (Requirement to obtain a legal opinion) does not apply. [deleted]~~
- 2.2.131 R ~~In relation to the obligation to substitute described in GENPRU 2.2.129 R(2), a firm must take all reasonable steps to ensure that it has at all times authorised and unissued capital instruments which are core tier one capital (and the authority to issue them) sufficient to discharge its obligation to substitute. [deleted]~~
- 2.2.131A G ~~GENPRU 2.2.129 R(2) and GENPRU 2.2.131R allow a firm to replace the capital issued by the SPV with capital instrument which are core tier one capital. [deleted]~~
- 2.2.132 R ~~The capital which the firm seeks to include in its capital resources under GENPRU 2.2.124R(3)(a) must satisfy the following conditions:~~
- ~~(1) it meets the conditions for inclusion in tier one capital (subject to GENPRU 2.2.130R);~~
- ~~(2) its first call date (if any) must not arise before that on the instrument issued by the SPV; and~~
- ~~(3) its terms relating to repayment must be the same as those of the instrument issued by the SPV. [deleted]~~
- 2.2.133 R (1) ~~This rule deals with any transaction:~~
- ~~(a) under which an SPV directly or indirectly funds the subscription for capital issued by the firm as described in GENPRU 2.2.124R; or~~
- ~~(b) that is directly or indirectly funded by a transaction in (1)(a).~~
- ~~(2) Each undertaking that is a party to a transaction to which this rule applies (other than the firm) must be a subsidiary undertaking of the firm.~~
- ~~(3) Each SPV that is a party to a transaction to which this rule applies must comply with GENPRU 2.2.127R.~~
- ~~(4) Any capital to which (1) applies (other than the capital that is to be included in the firm's capital resources) must be in the form of capital that complies with GENPRU 2.2.129R(1) and GENPRU 2.2.129R(4), whether or not issued by an SPV.~~

- (5) ~~The obligations in GENPRU 2.2.129R(2) and GENPRU 2.2.129R(3) only apply to capital issued by an SPV at the end of the chain of transactions beginning with the issue of capital by the firm referred to in GENPRU 2.2.124R.~~
- (6) ~~GENPRU 2.2.132R applies to the capital issued by the firm as referred to in GENPRU 2.2.124R. For these purposes references in GENPRU 2.2.132R to the instrument issued by the SPV are to the instrument referred to in (5). [deleted]~~
- 2.2.134 G ~~The purpose of GENPRU 2.2.133R is to deal with a capital raising under which the capital raised by a special purpose vehicle is passed through a number of undertakings before it is invested in the firm. If the capital resources of the firm fall below, or are likely to fall below, its capital resources requirement the firm should replace the capital issued by that first special purpose vehicle with a tier one instrument directly issued by the firm which complies with GENPRU 2.2.129R(2). [deleted]~~
- 2.2.135 R ~~A firm which satisfies the conditions for the inclusion of capital set out in GENPRU 2.2.124R, must, in addition, if that transaction is in any respect unusual, notify the appropriate regulator at least one Month in advance of the date on which the firm intends to include that capital in its capital resources. [deleted]~~
- 2.2.136 G ~~The appropriate regulator is likely to consider as unusual a transaction which involves the raising by the firm of tier one capital through a subsidiary undertaking of that firm that is not an SPV. The appropriate regulator would expect a firm to request individual guidance in such circumstances. [deleted]~~
- 2.2.137 R ~~A firm must ensure that, in relation to a transaction falling within GENPRU 2.2.124R:~~
- ~~(1) the marketing document for the transaction contains all the information which a reasonable third party would require to understand the transaction fully and its effect on the financial position of the firm and its group; and~~
- ~~(2) the information in (1) and the transaction are easily comprehensible without the need for additional information about the firm and its group. [deleted]~~

...

Deductions from tier one: Intangible assets

- 2.2.156 G ~~Intangible assets include goodwill as defined in accordance with the requirements referred to in GENPRU 1.3.4R (General requirements: accounting principles to be applied) applicable to the firm. The treatment of deferred acquisition cost assets for BIPRU investment~~

~~firms is dealt with in GENPRU 1.3 (Valuation); they should not be deducted as an intangible asset. [deleted]~~

2.2.156A G Intangible assets include goodwill as defined in accordance with the requirements referred to in GENPRU 1.3.4R (General requirements: accounting principles to be applied) applicable to the firm.

...

General conditions for eligibility as tier two capital instruments

...

~~2.2.160 R A holder of a non deferred share of a building society must be treated as a senior unsecured creditor of that building society for the purpose of GENPRU 2.2.159R. [deleted]~~

...

Upper tier two capital: Revaluation reserves (BIPRU firm only)

- 2.2.185 R
- ~~(1) This rule applies to a BIPRU firm.~~
 - ~~(2) A BIPRU firm must, in relation to equities held in the available-for-sale financial assets category:

 - ~~(a) deduct any net losses at stage E of the calculation in the capital resources table (Deductions from tier one capital); and~~
 - ~~(b) include any net gains (after deduction of deferred tax) in revaluation reserves at stage G of the calculation in the capital resources table (Upper tier two capital).~~~~
 - ~~(3) A BIPRU firm must include any net gains, after deduction of deferred tax, on revaluation reserves of investment properties at stage G of the calculation in the capital resources table. A firm must include any losses on such revaluation reserves in profit and loss account and other reserves.~~
 - ~~(4) A BIPRU firm must include any net gains, after deduction of deferred tax, on revaluation reserves of land and buildings at stage G of the calculation in the capital resources table. A firm must include any losses on such revaluation reserves in profit and loss account and other reserves.~~
 - ~~(5) (2) only applies to a firm to the extent that the category of asset referred to in that paragraph exists under the accounting framework that applies to the firm as referred to in GENPRU 1.3.4R (General requirements: accounting principles to be applied).~~

~~(6) (3) and (4) apply to a firm whatever the accounting treatment of those items is under the accounting framework that applies to the firm as referred to in GENPRU 1.3.4R. [deleted]~~

2.2.186 G ~~Subject to GENPRU 2.2.185R, a BIPRU firm should value its revaluation reserves in accordance with the rules in GENPRU 1.3 (Valuation). [deleted]~~

Upper tier two capital: General/collective provisions (BIPRU firm only)

2.2.187 R ~~A BIPRU firm which adopts the standardised approach to credit risk may include general/collective provisions in its tier two capital resources only if:~~

- ~~(1) they are freely available to the firm;~~
- ~~(2) their existence is disclosed in internal accounting records; and~~
- ~~(3) their amount is determined by the management of the firm, verified by independent auditors and notified to the appropriate regulator. [deleted]~~

2.2.188 R ~~The value of general/collective provisions which a firm may include in its tier two capital resources as referred to in GENPRU 2.2.187R may not exceed 1.25% of the sum of the following:~~

- ~~(1) the sum of the market risk capital requirement and the operational risk capital requirement (if applicable), multiplied by a factor of 12.5; and~~
- ~~(2) the sum of risk weighted assets under the standardised approach for credit risk. [deleted]~~

2.2.189 R ~~Where a firm is unable to determine whether collective/general provisions relate only to exposures on either the standardised approach or the IRB approach, that firm must allocate them on a basis which is reasonable and consistent. [deleted]~~

Upper tier two capital: Surplus provisions (BIPRU firm only)

2.2.190 R ~~A BIPRU firm calculating risk weighted exposure amounts under the IRB approach may include in its upper tier two capital resources positive amounts resulting from the calculation in BIPRU 4.3.8R (Treatment of expected loss amounts), up to 0.6% of the risk weighted exposure amounts calculated under that approach. [deleted]~~

2.2.191 R ~~A BIPRU firm calculating risk weighted exposure amounts under the IRB approach may not include in its capital resources value adjustments and provisions included in the calculation in BIPRU 4.3.8 R (Treatment of expected loss amounts under the IRB approach for trading book exposures) or value adjustments and provisions for~~

~~exposures that would otherwise have been eligible for inclusion in general/collective provisions other than in accordance with GENPRU 2.2.190R. [deleted]~~

- 2.2.192 R ~~For the purpose of GENPRU 2.2.190R and GENPRU 2.2.191R, risk weighted exposure amounts must not include those calculated in respect of securitisation positions which have a risk weight of 1250%. [deleted]~~
- 2.2.193 R ~~If a BIPRU firm calculates risk weighted exposure amounts under the IRB approach for the purposes of BIPRU 14 (Capital requirements for settlement and counterparty risk) it must not include valuation adjustments referred to in BIPRU 14.2.18R(1) (Treatment of expected loss amounts) in its capital resources except in accordance with that rule. [deleted]~~

...

Deductions from tiers one and two: Qualifying holdings (bank or building society only)

- 2.2.202 R ~~GENPRU 2.2.202R to GENPRU 2.2.207R only apply to a bank or building society. [deleted]~~
- 2.2.203 R ~~A qualifying holding is a direct or indirect holding of a bank or building society in a non financial undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking. [deleted]~~
- 2.2.204 R ~~For the purpose of GENPRU 2.2.203R, a non financial undertaking is an undertaking other than:~~
- ~~(1) a credit institution or financial institution;~~
 - ~~(2) an undertaking whose exclusive or main activities are a direct extension of banking or concern services ancillary to banking, such as leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity; or~~
 - ~~(3) an insurer. [deleted]~~
- 2.2.205 R ~~The amount of qualifying holdings that a bank or building society must deduct in the calculation in the capital resources table is:~~
- ~~(1) (if the firm has one or more qualifying holdings that exceeds 15% of its relevant capital resources) the sum of such excesses; and~~
 - ~~(2) to the extent not already deducted in (1), the amount by which the sum of each of that firm's qualifying holdings exceeds 60% of its relevant capital resources. [deleted]~~

2.2.206 R ~~The relevant *capital resources* of a *firm* mean for the purposes of this rule the sum of the amount of *capital resources* calculated at stages L (Total tier one capital plus tier two capital) and Q (Total tier three capital) of the calculation in the *capital resources table* as adjusted in accordance with the following:~~

- (1) ~~the *firm* must not take into account the items referred to in any of the following:~~
 - (a) ~~GENPRU 2.2.190R to GENPRU 2.2.193R (surplus provisions); or~~
 - (b) ~~GENPRU 2.2.236R (expected loss amounts and other negative amounts); or~~
 - (c) ~~GENPRU 2.2.237R (securitisation positions);~~
- (2) ~~the *firm* must make the deductions to be made at stage S of the calculation in the *capital resources table* (Deductions from total capital); and~~
- (3) ~~the *firm* need not deduct any *excess trading book position* under (2). [deleted]~~

2.2.207 R ~~The following are not included as *qualifying holdings*:~~

- (1) ~~*shares* that are not held as investments; or~~
- (2) ~~*shares* that are held temporarily during the normal course of underwriting; or~~
- (3) ~~*shares* held in a *firm's* name on behalf of others. [deleted]~~

Deductions from tiers one and two: Material holdings (BIPRU firm only)

2.2.208 R ~~GENPRU 2.2.208R to GENPRU 2.2.216G only apply to a *BIPRU firm*. [deleted]~~

2.2.209 R (1) ~~Subject to (2) and (3), a *material holding* is:~~

- (a) ~~a *BIPRU firm's* holdings of *shares* and any other interest in the capital of an individual *credit institution* or *financial institution* (held in the *non trading book* or the *trading book* or both) exceeding 10% of the *share capital* of the issuer, and, where this is the case, any holdings of subordinated debt of the same issuer are also included as a *material holding*; the full amount of the holding is a *material holding*; or~~
- (b) ~~a *BIPRU firm's* holdings of *shares*, any other interest in the capital and subordinated debt in an individual *credit institution* or *financial institution* (held in the *non trading*~~

- ~~book or the trading book or both) not deducted under (a) if the total amount of such holdings exceeds 10% of that firm's capital resources at stage N (Total tier one capital plus tier two capital after deductions) of the calculation in the capital resources table (calculated before deduction of its material holdings); only the excess amount is a material holding; or~~
- (c) ~~a bank or building society's aggregate holdings in the non-trading book of shares, any other interest in the capital, and subordinated debt in all credit institutions or financial institutions not deducted under (a) or (b) if the total amount of such holdings exceeds 10% of that firm's capital resources at stage N of the calculation in the capital resources table (calculated before deduction of its material holdings); only the excess amount is a material holding; or~~
- (d) ~~a material insurance holding.~~
- (2) ~~If a BIPRU firm holds shares in the capital of Business Growth Fund plc or another financial institution which makes venture capital investments (in this section and its related annexes, a "Venture Capital Investor") and the following conditions are met:~~
- (a) ~~the sole business of the Venture Capital Investor is the making of venture capital investments together with the performance of ancillary activities in relation to the administration of the venture capital investments;~~
- (b) ~~none of the venture capital investments made by the Venture Capital Investor is an investment (direct or indirect) in:~~
- (i) ~~a credit institution; or~~
- (ii) ~~a financial institution the principal activity of which is to perform any activity other than the acquisition of holdings in other undertakings;~~
- (c) ~~the relevant proportion of the Venture Capital Investor is included in the firm's UK consolidation group in accordance with BIPRU 8.5; and~~
- (d) ~~the firm assigns a risk weight to its exposure to the Venture Capital Investor as if it were an equity exposure to which the simple risk weight approach is applied as set out in BIPRU 4.7.9R to BIPRU 4.7.12R (and in calculating its capital resources requirement the firm must assign a risk weight to that exposure in accordance with those rules and notwithstanding that those rules would not otherwise apply to that calculation);~~

~~the Venture Capital Investor may be ignored for the purposes of determining whether there is a *material holding*.~~

- ~~(3) If a *BIPRU firm* holds *shares* in the capital of a *subsidiary undertaking* which is a *financial institution* solely by reason of its principal activity being the acquiring of holdings and which in turn holds (directly or indirectly) *shares* in the capital of a Venture Capital Investor (in this section and its related annexes, a "Venture Capital Holding Company") and the following conditions are met:~~
- ~~(a) the Venture Capital Investor meets the conditions in (2)(a) and (b);~~
 - ~~(b) the Venture Capital Holding Company is included in the *firm's UK consolidation group* in accordance with *BIPRU 8.5*;~~
 - ~~(c) the proportion of the value of the Venture Capital Holding Company attributable to investment in Venture Capital Investors and the proportion of the value of the Venture Capital Holding Company attributable to investment in other investments can be identified and valued on a regular basis; and~~
 - ~~(d) the *firm* assigns a *risk weight* to its *exposure* to the proportion of the Venture Capital Holding Company that represents the value of its investment in Venture Capital Investors as if it were an *equity exposure* to which the simple *risk weight* approach is applied as set out in *BIPRU 4.7.9R* to *BIPRU 4.7.12R* (and in calculating its *capital resources requirement* the *firm* must assign a *risk weight* to that *exposure* in accordance with those *rules* and notwithstanding that those *rules* would not otherwise apply to that calculation);~~

~~the proportion of the *firm's* investment in the Venture Capital Holding Company that represents the value of its investment in Venture Capital Investors may be ignored for the purposes of determining whether there is a *material holding*. The proportion of the *firm's* investment in the Venture Capital Holding Company that represents the value of other investments is a *material holding*. [deleted]~~

- 2.2.210 G ~~For the purpose of the definition of a *material holding*, *share* capital includes *preference shares*. *Share* premium should be taken into account when determining the amount of *share* capital. [deleted]~~
- 2.2.211 R ~~When calculating the size of its *material holdings* a *firm* must only include an actual holding (that is, a long cash position). A *firm* must not~~

net such holdings with a short position. [deleted]

2.2.212 R ~~A material insurance holding means the holdings of a BIPRU firm of items of the type set out in GENPRU 2.2.213R in any:~~

~~(1) insurance undertaking; or~~

~~(2) insurance holding company;~~

~~that fulfils one of the following conditions:~~

~~(3) it is a subsidiary undertaking of that firm; or~~

~~(4) that firm holds a participation in it. [deleted]~~

2.2.213 R ~~An item falls into this provision for the purpose of GENPRU 2.2.212R if it is:~~

~~(1) an ownership share; or~~

~~(2) subordinated debt or another item of capital that falls into Article 16(3) of the First Non-Life Directive or, as applicable, Article 27(3) of the Consolidated Life Directive. [deleted]~~

2.2.214 R ~~The amount to be deducted with respect to each material insurance holding is the higher of:~~

~~(1) the book value of the material insurance holding; and~~

~~(2) the solo capital resources requirement for the insurance undertaking or insurance holding company in question calculated in accordance with Part 3 of GENPRU 3 Annex 1R (Method 3 of the capital adequacy calculations for financial conglomerates). [deleted]~~

2.2.215 R ~~For the purpose of the definition of a material holding, holdings must be valued using the valuation method which the holder uses for its external financial reporting purposes. [deleted]~~

2.2.216 G (1) ~~This paragraph gives guidance on how the calculation under GENPRU 2.2.214R(1) should be carried out where an insurance undertaking is accounted for using the embedded value method.~~

~~(2) On acquisition, any "goodwill" element (that is, the difference between the acquisition value according to the embedded value method and the actual investment) should be deducted from tier one capital resources.~~

~~(3) The embedded value should be deducted from the total of tier one capital resources and tier two capital resources.~~

- (4) ~~Post-acquisition, where the embedded value of the *undertaking* increases, the increase should be added to reserves, while the new embedded value is deducted from total *capital resources*.~~
- (5) ~~This means that the net impact on the level of total *capital resources* is zero, although *tier two capital resources* headroom will increase with any increase in *tier one capital resources* reserves.~~
- (6) ~~Embedded value is the value of the *undertaking* taking into account the present value of the expected future inflows from existing life assurance business. [deleted]~~

- 2.2.216A G
- (1) ~~This paragraph gives *guidance* as to the amount to be deducted at Part 2 of stage M (Deductions from the totals of tier one and two) of *GENPRU 2 Annex 2R* (Capital resources table for a bank) and *GENPRU 2 Annex 3R* (Capital resources table for a building society) in respect of investments in *subsidiary undertakings* and *participations* (excluding any amount which is already deducted as *material holdings* or *qualifying holdings*).~~
 - (2) ~~The effect of those *rules* is to achieve the deduction of all investments in *subsidiary undertakings* and *participations* for *banks* and *building societies* by ensuring that amounts not already deducted under other *rules* are accounted for at this stage of the calculation of *capital resources*, except where the investment has been made in:~~
 - (a) ~~a Venture Capital Investor and the conditions in *GENPRU 2.2.209R(2)* are met; or~~
 - (b) ~~a Venture Capital Holding Company and the conditions in *GENPRU 2.2.209R(3)* are met;~~
 - (3) ~~The following investments in *subsidiary undertakings* and *participations* should be deducted at this stage:~~
 - (a) ~~those not deducted in Part 1 of stage M because of the operation of the thresholds in *GENPRU 2.2.205R* (on *qualifying holdings*) and *GENPRU 2.2.209R* (on *material holdings*); and~~
 - (b) ~~those which do not meet the definition of *qualifying holding* or *material holding*, but excluding investments in Venture Capital Investors which are ignored in accordance with *GENPRU 2.2.209R(2)* and investments in Venture Capital Holding Companies which are ignored in accordance with *GENPRU 2.2.209R(3)*, for the purposes of determining whether there is a *material holding*.~~
 - (4) ~~For example, an investment in an *undertaking* which is not a~~

~~qualifying holding under GENPRU 2.2.204R(2) (on the definition of a non financial undertaking), that is whose exclusive or main activities are a direct extension of banking or concern services ancillary to banking, such as leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity, should be deducted at this stage. [deleted]~~

Deductions from tiers one and two: Reciprocal cross holdings (BIPRU firm only)

- 2.2.217 R ~~GENPRU 2.2.217R to GENPRU 2.2.220R apply to a BIPRU firm. [deleted]~~
- 2.2.218 R ~~A BIPRU firm must deduct at stage M of the calculation in the capital resources table (Deductions from the totals of tier one and two) any reciprocal cross holdings. However a BIPRU firm must not deduct such holdings to the extent that they fall to be deducted at Part 1 of stage M of the calculation in the capital resources table (Deductions for material holdings, qualifying holdings and certain other items). [deleted]~~
- 2.2.219 R ~~A reciprocal cross holding means a holding of the BIPRU firm of shares, any other interest in the capital, and subordinated debt, whether in the trading or non trading book, in:~~
- ~~(1) a credit institution; or~~
 - ~~(2) a financial institution;~~
- ~~that satisfies the following conditions:~~
- ~~(3) the holding is the subject of an agreement or arrangement between the BIPRU firm and either the issuer of the instrument in question or a member of a group to which the issuer belongs;~~
 - ~~(4) under the terms of the agreement or arrangement described in (3) the issuer invests in the BIPRU firm or in a member of the group to which that BIPRU firm belongs; and~~
 - ~~(5) the effect of that agreement or arrangement on the capital position of the BIPRU firm, the issuer, or any member of a group to which either belongs, under any relevant rules is significantly more beneficial than it is in economic terms, taking into account the agreement or arrangement as a whole. [deleted]~~
- 2.2.220 R ~~For the purpose of GENPRU 2.2.219 R, a relevant rule means a rule in GENPRU, BIPRU or INSPRU or any other capital adequacy or solvency requirements of the appropriate regulator or any other regulator, territory or country. [deleted]~~

Deductions from tiers one and two: Connected lending of a capital nature (bank only)

- 2.2.221 R (1) ~~GENPRU 2.2.221R to GENPRU 2.2.235G only apply to a bank.~~
- (2) ~~If a firm has elected to ignore an investment in a Venture Capital Investor or a Venture Capital Holding Company in accordance with GENPRU 2.2.209R(2) or (3), for the purposes of determining whether there is a material holding, GENPRU 2.2.221R to GENPRU 2.2.233R do not apply to any lending by the firm to that Venture Capital Investor or Venture Capital Holding Company, provided that any lending to the Venture Capital Holding Company is made to and deployed by the firm solely in connection with the Venture Capital Investor. [deleted]~~
- 2.2.222 R ~~Connected lending of a capital nature means all lending within GENPRU 2.2.227R or GENPRU 2.2.229R and guarantees within GENPRU 2.2.231R or GENPRU 2.2.233R. [deleted]~~
- 2.2.223 R ~~A bank must not deduct any item as connected lending of a capital nature to the extent that it falls to be deducted at Part 1 of stage M of the calculation in the capital resources table (Deductions for material holdings, qualifying holdings and certain other items) or as a reciprocal cross-holding. [deleted]~~
- 2.2.224 R ~~For the purpose of the rules in this section about connected lending of a capital nature and in relation to a bank, a connected party means another person ("P") who fulfils at least one of the following conditions and is not solo consolidated with the bank under BIPRU 2.1 (Solo consolidation):~~
- (1) ~~P is closely related to the bank; or~~
- (2) ~~P is an associate of the bank; or~~
- (3) ~~the same persons significantly influence the governing body of P and the bank. [deleted]~~
- 2.2.225 R ~~For the purpose of GENPRU 2.2.224R, in relation to a person ("P") to which a bank has an exposure when P is acting on his own behalf and also an exposure to P when P acts in his capacity as a trustee, custodian or general partner of an investment trust, unit trust, venture capital or other investment fund, pension fund or similar fund (a "fund") the bank may choose to treat this latter exposure as an exposure to the fund, unless such treatment would be misleading. [deleted]~~
- 2.2.226 G ~~BIPRU 10.3.13G (Guidance on exposures to trustees) applies to GENPRU 2.2.225R. [deleted]~~
- 2.2.227 R ~~A loan is connected lending of a capital nature if:~~

- (1) it is made by the *bank* to a connected party; and
- (2) it falls into *GENPRU 2.2.228R*. [deleted]
- 2.2.228 R A loan falls into this *rule* for the purposes of *GENPRU 2.2.227R(2)* if, whether through contractual, structural, reputational or other factors:
- (1) based on the terms of the loan and the other knowledge available to the *bank*, the borrower would be able to consider it from the point of view of its characteristics as capital as being similar to *share* capital or subordinated debt; or
- (2) the position of the lender from the point of view of maturity and repayment is inferior to that of the senior unsecured and unsubordinated creditors of the borrower. [deleted]
- 2.2.229 R A loan is also *connected lending of a capital nature* if:
- (1) it funds directly or indirectly a loan to a connected party of the *bank* falling into *GENPRU 2.2.228R* or an investment in the capital of a connected party of the *bank*; and
- (2) it falls into *GENPRU 2.2.228R*. [deleted]
- 2.2.230 G It is likely that a loan is not *connected lending of a capital nature* if:
- (1) it is secured by collateral that is eligible for the purposes of *credit risk mitigation* under the *standardised approach* to credit risk as set out in *BIPRU 5.4* (Financial collateral) and *BIPRU 5.5* (Other funded credit risk mitigation); or
- (2) it is repayable on demand (and should be treated as such for accounting purposes by the borrower and lender) and the *bank* can demonstrate that there are no potential obstacles to exercising the right to repay, whether contractual or otherwise. [deleted]
- 2.2.231 R A guarantee is *connected lending of a capital nature* if it is a guarantee by the *bank* of a loan from a third party to a connected party of the *bank* and:
- (1) the loan meets the requirements of *GENPRU 2.2.228R*; or
- (2) the rights that the *bank* would have against the borrower with respect to the guarantee meet the requirements of *GENPRU 2.2.228R(2)*. [deleted]
- 2.2.232 R A guarantee is also *connected lending of a capital nature* if it is a guarantee by the *bank* of a loan falling into *GENPRU 2.2.229R(1)*; and
- (1) the loan meets the conditions in *GENPRU 2.2.228R*; or

- (2) ~~the guarantee meets the conditions in GENPRU 2.2.231R(2).
[deleted]~~
- 2.2.233 R ~~The amount of a guarantee that constitutes *connected lending of a capital nature* that a firm must deduct is the amount guaranteed.
[deleted]~~
- 2.2.234 G ~~A loan may initially fall outside the definition of *connected lending of a capital nature* but later fall into it. For example, if the initial lending to a connected party is subsequently downstreamed to another connected party the relationship between the *bank* and the ultimate borrower may be such that, looking at the arrangements as a whole, the *undertaking* to which the *bank* lends is able to regard the loan to it as being capable of absorbing losses. [deleted]~~
- 2.2.235 G ~~Lending to a connected party will not normally be *connected lending of a capital nature* where that party:~~
- (1) ~~is acting as a vehicle to pass funding to an unconnected party;
and~~
- (2) ~~has no other creditors whose claims could be senior to those of the lender. [deleted]~~

Deductions from tiers one and two: Expected losses and other negative amounts (BIPRU firm only)

- 2.2.236 R ~~A BIPRU firm calculating *risk weighted exposure amounts* under the *IRB approach* must deduct:~~
- (1) ~~any negative amounts arising from the calculation in BIPRU 4.3.8R (Treatment of expected loss amounts); and~~
- (2) ~~any *expected loss* amounts calculated in accordance with BIPRU 4.7.12R (*Expected loss* amounts under the simple risk weight approach to calculating *risk weighted exposure amounts* for exposures belonging to the *equity exposure IRB exposure class*) or BIPRU 4.7.17R (*Expected loss* amounts under the *PD/LGD approach*): [deleted]~~

Deductions from tiers one and two: Securitisation positions (BIPRU firm only)

- 2.2.237 R ~~A BIPRU firm calculating *risk weighted exposure amounts* under the *IRB approach* or the *standardised approach* to credit risk must deduct from its *capital resources* the following:~~
- (1) ~~the exposure amount of *securitisation positions* which receive a *risk weight* of 1250% under BIPRU 9 (Securitisation), unless the firm includes the *securitisation positions* in its calculation of *risk weighted exposure amounts* (see BIPRU 9.10 (Reduction in risk~~

~~weighted exposure amounts)); and~~

- ~~(2) the exposure amount of *securitisation positions* in the *trading book* that would receive a *risk weight* of 1250% if they were in the *firm's non-trading book*. [deleted]~~

Deductions from tiers one and two: Special treatment of material holdings and other items (BIPRU firm only)

2.2.238 R ~~GENPRU 2.2.238R to GENPRU 2.2.241R apply to a BIPRU firm and relate to the deductions in respect of:~~

- ~~(1) *material holdings*;~~
- ~~(2) *expected loss* amounts and other negative amounts referred to in GENPRU 2.2.236R; and~~
- ~~(3) *securitisation positions* referred to in GENPRU 2.2.237R. [deleted]~~

2.2.239 R (1) ~~The treatment in the *capital resources table* of the deductions in GENPRU 2.2.238R only has effect for the purpose of the *capital resources gearing rules*.~~

- ~~(2) In other cases (3) and (4) apply.~~
- ~~(3) A BIPRU firm making the deductions described in GENPRU 2.2.238R must deduct 50% of the total amount of those deductions at stage E (Deductions from tier one capital) and 50% at stage J (Deductions from tier two capital) of the calculation in the *capital resources table* after the application of the *capital resources gearing rules*.~~
- ~~(4) To the extent that half of the total of:~~
- ~~(a) *material holdings*;~~
- ~~(b) *expected loss* amounts and other negative amounts; and~~
- ~~(c) *securitisation positions*; exceeds the amount calculated at stage I (Total tier two capital) of that calculation, a firm must deduct that excess from the amount calculated at stage F (Total tier one capital after deductions) of the *capital resources table*. [deleted]~~

2.2.240 G ~~The alternative calculation in GENPRU 2.2.239R(3) to (4) is only relevant to BIPRU 11 (Pillar 3 disclosures) and certain reporting requirements under SUP. However the deduction of *material holdings* at Part 2 of stage E of the *capital resources table* in the case of a BIPRU investment firm with an investment firm consolidation waiver has effect for all purposes. [deleted]~~

Tier three capital: upper tier three capital resources (BIPRU firm only)

- 2.2.241 R ~~GENPRU 2.2.241R to GENPRU 2.2.245R only apply to a BIPRU firm. [deleted]~~
- 2.2.242 R ~~A BIPRU firm may include subordinated debt in its upper tier three capital resources only if:~~
- ~~(1) it has an original maturity of at least two years or is subject to at least two years' notice of repayment; and~~
 - ~~(2) payment of interest or principal is permitted only if, after that payment, the firm's capital resources would be not less than its capital resources requirement. [deleted]~~
- 2.2.243 R ~~A BIPRU firm which includes subordinated debt in its tier three capital resources must notify the appropriate regulator one month in advance of all payments of either interest or principal made when the firm's capital resources are less than 120% of its capital resources requirement. [deleted]~~
- 2.2.244 R ~~The rules in the table in GENPRU 2.2.245R apply to short term subordinated debt that a BIPRU firm includes in its tier three capital resources in the same way that they apply to a firm's tier two capital resources with the adjustments in that table. [deleted]~~
- 2.2.245 R ~~Table: Application of tier two capital rules to tier three debt~~
 This table belongs to ~~GENPRU 2.2.244R~~
 [The table in *GENPRU 2.2.245R* is deleted in its entirety. The deleted text is not shown.]

Tier three capital: lower tier three capital resources (BIPRU firm only)

- 2.2.246 R ~~GENPRU 2.2.246R to GENPRU 2.2.249R only apply to a BIPRU firm. [deleted]~~
- 2.2.247 R ~~A BIPRU firm's net interim trading book profits mean its net trading book profits adjusted as follows:~~
- ~~(1) they are net of any foreseeable charges or dividends and less net losses on its other business; and~~
 - ~~(2) a firm must not take into account items that have already been included in the calculation of capital resources as part of the calculation of the following items:~~
 - ~~(a) interim net profits (see stage (A) of the capital resources table); or~~
 - ~~(b) interim net losses or material interim net losses (see stage (A) of the capital resources table); or~~

(e) ~~profit and loss and other reserves (see stage (A) of the capital resources table). [deleted]~~

2.2.248 R ~~Trading book profits and losses, other than those losses to which GENPRU 2.2.86R(2) (Valuation adjustment and reserves) refers, originating from valuation adjustments or reserves as referred to in GENPRU 1.3.29R to GENPRU 1.3.35AG (Valuation adjustments or reserves) must be included in the calculation of net interim trading book profits and be added to or deducted from tier three capital resources. [deleted]~~

2.2.249 R ~~Trading book valuation adjustments or reserves as referred to in GENPRU 1.3.29R to GENPRU 1.3.35AG which exceed those made under the accounting framework to which a firm is subject must be treated in accordance with GENPRU 2.2.248R if not required to be treated under GENPRU 2.2.86 R(2). [deleted]~~

...

Deductions from total capital: Illiquid assets (BIPRU investment firm only)

2.2.259 R ~~GENPRU 2.2.259R to GENPRU 2.2.262G only apply to a BIPRU investment firm. [deleted]~~

2.2.260 R ~~Illiquid assets means illiquid assets including~~

- ~~(1) tangible fixed assets (except land and buildings if they are used by a firm as security for loans, but this exclusion is only up to the value of the principal outstanding on the loans); or~~
- ~~(2) any holdings in the capital resources of credit institutions or financial institutions, except to the extent that:

 - ~~(a) they have already been deducted as a material holding; or~~
 - ~~(b) they are shares which are included in a firm's trading book and included in the calculation of the firm's market risk capital requirement; or~~~~
- ~~(3) holdings of other securities which are not readily realisable securities; or~~
- ~~(4) deficiencies of net assets in subsidiary undertakings; or~~
- ~~(5) deposits which are not repayable within 90 days (except for payments in connection with margined futures or options contracts); or~~
- ~~(6) loans and other amounts owed to a firm except where they are due to be repaid within 90 days; or~~

~~(7) physical stocks except for *positions in physical commodities* which are included in the calculation of a *firm's commodity PRR*.
[deleted]~~

2.2.261 G ~~If a loan or other amount owing to a *firm* was originally due to be paid more than 90 days from the date of the making of the loan or the incurring of the payment obligation, as the case may be, it may be treated as liquid for the purposes of *GENPRU 2.2.260R(6)* where through the passage of time the remaining time to the contractual repayment date falls below 90 days. [deleted]~~

2.2.262 G ~~If a loan or other amount is due to be paid within 90 days (whether measured by reference to original or remaining maturity), a *firm* should consider whether it can reasonably expect the amount owing to be paid within that period. If the *firm* cannot reasonably expect it to be paid within that period the *firm* should treat it as illiquid. [deleted]~~

Deductions from total capital: Excess trading book position (bank or building society only)

2.2.263 R ~~*GENPRU 2.2.263R* to *GENPRU 2.2.265R* only apply to a *bank* or *building society*. [deleted]~~

2.2.264 R ~~(1) The *excess trading book position* is the excess of:~~

~~(a) a *bank* or *building society's* aggregate net long (including notional) *trading book positions in shares*, subordinated debt or any other interest in the capital of *credit institutions* or *financial institutions*;~~

~~over;~~

~~(b) 25% of that *firm's capital resources* calculated at stage T (Total capital after deductions) of the *capital resources table* (calculated before deduction of the *excess trading book position*).~~

~~(2) Only the excess amount calculated under (1) must be deducted. [deleted]~~

2.2.265 R ~~The *standard market risk PRR rules* apply for establishing what is a net *position* and the amount and value of that *position* for the purposes of *GENPRU 2.2.264R*, ignoring *rules* which would otherwise exclude such *positions* from *BIPRU 7.2* (Interest rate PRR) or *BIPRU 7.3* (Equity PRR and basic interest rate PRR for equity derivatives) on the basis that they are to be deducted from a *bank* or *building society's capital resources*, or for any other reason. [deleted]~~

...

Public sector guarantees

2.2.276 R ~~A BIPRU firm may not include a guarantee from a state or public authority in its capital resources. [deleted]~~

...

**2 Annex
1 Capital resources table for an insurer**

| R | Type of capital | Related text | Stage |
|---|---|--|-------|
| | Core tier one capital | | (A) |
| | ... | | |
| | Profit and loss account and other reserves (taking into account interim net losses) | <i>GENPRU 2.2.85AR; GENPRU 2.2.87R to GENPRU 2.2.88R</i> | |
| | ... | | |

**2 Annex
2 Capital resources table for a bank**

[deleted]

[*GENPRU 2 Annex 2R* is deleted in its entirety. The deleted text is not shown.]

**2 Annex
3 Capital resources table for a building society**

[deleted]

[*GENPRU 2 Annex 3R* is deleted in its entirety. The deleted text is not shown.]

**2 Annex
4 Capital resources table for a BIPRU investment firm deducting material holdings**

[deleted]

[*GENPRU 2 Annex 4R* is deleted in its entirety. The deleted text is not shown.]

**2 Annex
5 Capital resources table for a BIPRU investment firm deducting illiquid assets**

[deleted]

[*GENPRU 2 Annex 5R* is deleted in its entirety. The deleted text is not shown.]

shown.]

...

2 Annex 8 Guidance on applications for waivers relating to Implicit items^k

G Implicit items under the Act

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|---|--|
| 1 | <p>The <i>capital resources table</i> does not permit <i>implicit items</i> to be included in the calculation of a <i>firm's capital resources</i>, except subject to a <i>waiver</i> under section 138A of the Act. Article 27(4) of the <i>Consolidated Life Directive</i> states that <i>implicit items</i> can be included in the calculation of a <i>firm's capital resources</i>, within limits, provided that the supervisory authority agrees. Certain <i>implicit items</i>, however, are not eligible for inclusion beyond 31 December 2009 (see paragraph 5). The appropriate regulator <u>PRA</u> may be prepared to grant a <i>waiver</i> from the <i>capital resources table</i> to allow <i>implicit items</i>, in line with the purpose of the <i>Consolidated Life Directive</i>, and provided the conditions as set out in article 27(4) of the <i>Consolidated Life Directive</i> are met. Such a <i>waiver</i> would allow an <i>implicit item</i> to count towards the <i>firm's capital resources</i> available to count against its <i>capital resources requirement (CRR)</i> set out for <i>realistic basis life firms</i> in GENPRU 2.1.18R and for <i>regulatory basis only life firms</i> in GENPRU 2.1.23R. An <i>implicit item</i> may potentially count as <i>tier one capital</i> (but not <i>core tier one capital</i>) or <i>tier two capital</i>. Where a <i>waiver</i> is granted allowing an <i>implicit item</i> as <i>tier one capital</i>, the value of the <i>implicit item</i> so allowed must be included at stage B of the <i>capital resources table</i>. If the application of the value of the <i>implicit item</i> is restricted by GENPRU 2.2.29R, which requires that at least 50% of a <i>firm's tier one capital resources</i> must be accounted for by <i>core tier one capital</i>, the remainder may be included at stage G of the calculation in the <i>capital resources table</i>, subject to GENPRU 2.2.31G. An <i>implicit item</i> treated as <i>tier two capital</i> will also be included at stage G of the calculation, again subject to GENPRU 2.2.81 R. Article 29(1) of the <i>Consolidated Life Directive</i> requires that <i>implicit items</i> be excluded from the capital eligible to cover the <i>guarantee fund</i>. Under GENPRU 2.2.33R a <i>firm</i> must meet the <i>guarantee fund</i> from the sum of the items listed at stages A, B, G and H of the <i>capital resources table</i> less the sum of the items listed at stage E of the <i>capital resources table</i>. The appropriate regulator <u>PRA</u> will only grant an <i>implicit items waiver</i> if the <i>waiver</i> includes a modification to GENPRU 2.2.33R to ensure that the <i>implicit item</i> does not count towards meeting the <i>guarantee fund</i>.</p> |
| 2 | <p>Under section 138A of the Act, the appropriate regulator <u>PRA</u> may, on the application of a <i>firm</i>, grant a <i>waiver</i> from PRU. There</p> |

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| | are general requirements that must be met before any <i>waiver</i> can be granted. As explained in <i>SUP 8</i> , the appropriate regulator <u>PRA</u> may not give a <i>waiver</i> unless the appropriate regulator <u>PRA</u> is satisfied that: |
| | ... |
| 3 | The appropriate regulator <u>PRA</u> will assess compliance with the requirements in the light of all the relevant circumstances. This will include consideration of the costs incurred by compliance with a particular <i>rule</i> or whether a <i>rule</i> is framed in a way that would make compliance difficult in view of the <i>firm's</i> circumstances. For example, the <i>firm</i> may demonstrate that if an <i>implicit item</i> were not allowed, the <i>firm</i> would either have to suffer increased (and unwarranted) costs in injecting further <i>capital resources</i> or operate with a lower equity backing ratio (see case studies in paragraph 43). Even if a <i>firm</i> can demonstrate a case for an <i>implicit item waiver</i> , it should not assume that the appropriate regulator <u>PRA</u> will grant the <i>capital resources</i> requested, or that any <i>capital resources</i> will be granted for the full amount of the <i>implicit item</i> which could be granted, as set out in this annex. The appropriate regulator <u>PRA</u> will consider each application on its own merits, and taking into account all relevant circumstances, including the financial situation and business prospects of the <i>firm</i> . |
| | ... |
| 5 | The <i>Consolidated Life Directive</i> (reflecting the changes introduced by the <i>Solvency 1 Directive</i>) requires member states to end a <i>firm's</i> ability to take into account future profits <i>implicit items</i> by (at the latest) 31 December 2009. Until then, the maximum amount of the <i>implicit item</i> relating to future profits permitted under the <i>Consolidated Life Directive</i> is limited to 50% of the product of the estimated annual profits and the average period to run (not exceeding six years) on the <i>policies</i> in the portfolio. The <i>Consolidated Life Directive</i> further limits the maximum amount of these economic reserves that can be counted to 25% of the lesser of the available solvency margin and the required solvency margin. The changes introduced by the <i>Solvency 1 Directive</i> take effect for financial years beginning on or after 1 January 2004. However, the <i>Consolidated Life Directive</i> allows for a transitional period of five years, which runs from 20 March 2002 (the publication date of the <i>Solvency 1 Directive</i>), for <i>firms</i> to become fully compliant with these new requirements. <i>Firms</i> will need to consider the potential impact of these changes when engaging in future capital planning. When applying for an <i>implicit item waiver</i> a <i>firm</i> should provide the appropriate regulator <u>PRA</u> with a plan showing how the <i>firm</i> intends to maintain its capital adequacy over the period to 31 December 2009. <i>Firms</i> should also be aware that the appropriate regulator <u>PRA</u> will typically only grant <i>waivers</i> for a maximum of |

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| | 12 months. |
| ... | |
| Zillmerisation | |
| 7 | <i>Zillmerisation</i> is an allowance for acquisition costs that are expected, under prudent assumptions, to be recoverable from future <i>premiums</i> . F <i>Firms</i> can make a direct adjustment to their reserves for <i>zillmerisation</i> , subject to the <i>rules</i> on <i>mathematical reserves</i> . However, where no such adjustment has been made, the appropriate regulator <i>PRA</i> will consider an application for a <i>waiver</i> to take into account an <i>implicit item</i> . |
| ... | |
| Process for applying for a waiver, including limits applicable when a waiver is granted | |
| 9 | This annex sets out the procedures to be followed and the form of calculations and data which should be submitted by <i>firms</i> to the appropriate regulator <i>PRA</i> . This <i>guidance</i> should also be read in conjunction with the general requirements relating to the <i>waiver</i> process described in <i>SUP</i> 8. The appropriate regulator <i>PRA</i> expects that applications for <i>waivers</i> in respect of future profits and <i>zillmerising</i> will not normally be considered to pass the " not result in undue risk to persons whose interests the rules are intended to protect " " <u>would not adversely affect the advancement of any of the <i>PRA</i>'s objectives</u> " test unless the relevant criteria set out in this <i>guidance</i> have been satisfied and an application for such a may require further criteria to be satisfied for this test to be passed. As set out below, <i>waivers</i> in respect of either <i>zillmerising</i> or hidden reserves will not normally be given except in very exceptional circumstances. |
| Timing | |
| 10 | A <i>long-term insurer</i> may apply to the appropriate regulator <i>PRA</i> for a <i>waiver</i> in respect of <i>implicit items</i> . A <i>waiver</i> will not apply retrospectively (see <i>SUP</i> 8.3.6G). Consequently, applications intended for a particular accounting reference date will normally need to be made well before that reference date. Applications by <i>firms</i> must be made to the appropriate regulator <i>PRA</i> in writing and include the relevant details specified under <i>SUP</i> 8.3.3D. Given the uncertainty in predicting the future, <i>waivers</i> will normally be granted for a maximum of 12 months at a time and any further applications will need to be made accordingly. |
| ... | |
| 13 | An <i>implicit item waiver</i> in respect of <i>zillmerising</i> or hidden |

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| | reserves is related to the basis on which liabilities or assets have been valued. In the case of hidden reserves, as explained below, the granting of a <i>waiver</i> will be dependent on the overall <i>capital resources</i> of the <i>firm</i> . <i>Waivers</i> in respect of these <i>implicit items</i> will, therefore, only be made in relation to the position shown in a particular set of <i>returns</i> and it will be essential for <i>firms</i> to submit applications to the appropriate regulator <u>PRA</u> well in advance of the latest date for the submission of the relevant <i>return</i> . |
| 14 | <i>Waivers</i> may be withdrawn by the appropriate regulator <u>PRA</u> at any time (e.g. where the appropriate regulator <u>PRA</u> considers the amount in respect of which a <i>waiver</i> has been given can no longer be justified). This may be as a result of changes in the <i>firm's</i> position or as a result of queries arising on scrutiny of the <i>returns</i> . |
| Information to be submitted | |
| 15 | An application for a <i>capital resources waiver</i> (which includes an application for an extension to or other variation of a <i>waiver</i>) should be prepared using the standard application form for a <i>capital resources</i> (see SUP 8 Annex 2D). In addition, the application should be accompanied by full supporting information to enable the appropriate regulator <u>PRA</u> to arrive at a decision on the merits of the case. In particular, the application should state clearly the nature and the amounts of the <i>implicit items</i> that a <i>firm</i> wishes to count against its <i>capital resources requirement</i> and whether it proposes to treat the <i>implicit item</i> as <i>tier one capital</i> or <i>tier two capital</i> . In order to assess an application, the appropriate regulator <u>PRA</u> needs information as to the make-up of the <i>firm's capital resources</i> , the quality of the capital items which have been categorised into each tier of capital and a breakdown of capital both within and outside the <i>firm's long-term insurance fund</i> or <i>funds</i> and between the <i>firm's with-profits funds</i> and <i>non-profit funds</i> . An explanation as to the appropriateness of the proposed treatment of the <i>implicit item</i> under the <i>capital resources table</i> should also be provided, including a demonstration that, in allowing for <i>implicit items</i> , there has been no double counting of future margins and that the basis for valuing such margins is prudent. |
| ... | |
| 17 | As a minimum, applications for a future profits <i>implicit item waiver</i> should be supported by the information contained in Forms 13, 14, 18, 19, 40, 41, 42, 48, 49, the answers to questions 1 to 12 of the abstract of the valuation report, Appendix 9.4 of <i>IPRU(INS)</i> , the abstract of the valuation report for the realistic valuation, Appendix 9.4A of <i>IPRU(INS)</i> and Forms 51, 52, 53, |

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| | <p>54 and 58. For a <i>zillmerisation</i> implicit item <i>implicit item waiver</i>, only those items noted above forming part of the abstract valuation report will normally be needed. Applications for a <i>waiver</i> in respect of a hidden reserves <i>implicit item</i> will normally be considered only if accompanied by the information which is contained in the annual regulatory <i>returns</i>. In particular, the balance sheet forms, <i>long-term insurance business</i> revenue accounts, and abstract of the valuation report as set out in Appendices 9.1, 9.3 and 9.4 of <i>IPRU(INS)</i> should be provided. This is not to say that a full regulatory <i>return</i> must be provided in the specified format, simply that the information contained in these forms should be provided. Where appropriate, the information may be summarised.</p> |
| 18 | <p>The following supporting information relating to the calculation of the amounts claimed should be supplied for each type of <i>implicit item</i> in respect of which a <i>waiver</i> is sought: Future profits: in addition to information related to the prospective calculation and retrospective calculation described below, the profits reported in each of the last five <i>financial years</i> up to the date of the most recent available valuation under <i>rule 9.4</i> of <i>IPRU(INS)</i> which has been submitted to the appropriate regulator <i>PRA</i> prior to, or together with, the application, and the amounts and nature of any exceptional items left out of account; the method used for calculating the average period to run and the results for each of the main categories of business, both before and after allowing for premature termination (where the calculation has been made in two stages); and the basis on which this allowance has been made. <i>Zillmerising</i>: the categories of contracts for which an item has been calculated and the percentages of the <i>relevant capital sum</i> in respect of which an adjustment has been made. Hidden reserves: particulars, with supporting evidence, of the undervaluation of assets for which recognition is sought.</p> |
| Continuous monitoring by firms | |
| 19 | <p><i>Firms</i> should take into account any material changes in financial conditions or other relevant circumstances that may have an impact on the level of future profits that can prudently be taken into account. <i>Firms</i> should also re-evaluate whether an application to vary an <i>implicit item waiver</i> should be made whenever circumstances have changed. In the event that circumstances have changed such that an amendment is appropriate, the <i>firm</i> must contact the appropriate regulator <i>PRA</i> as quickly as possible in accordance with Principle 11. (See <i>SUP 8.5.1 R</i>). In this context, the appropriate regulator <i>PRA</i> would expect notice of any matter that materially impacts on the <i>firm's</i> financial condition, or any <i>waivers</i> granted.</p> |

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| Future profits - factors to take into account when submitting calculations to support waiver applications | |
| ... | |
| 21 | <i>Firms</i> need to assess prospective future profit (i.e. how much can reasonably be expected to arise) and compare this to maximum limits (in article 27(4) of the <i>Consolidated Life Directive</i>), which relate to past profits. |
| Future profits - prospective calculation | |
| 22 | The application for a <i>waiver</i> should be supported by details of a prospective calculation of future profits arising from in-force business. The information supplied to the appropriate regulator <i>PRA</i> should include a description of the method used in the calculation and of the assumptions made, together with the results arising. From 31 December 2009 at the latest, future profits <i>implicit items</i> will no longer be permitted under the <i>Consolidated Life Directive</i> . Where a <i>firm</i> first applies for an <i>implicit item waiver</i> after <i>GENPRU 2.2</i> comes into effect, under the prospective calculation a <i>firm</i> should only take into consideration future profits that are expected to emerge in the period up to 31 December 2009. <i>Implicit item waivers</i> granted before <i>GENPRU 2.2</i> comes into effect will continue to operate under the terms of those <i>waivers</i> , but an application to vary the terms of such a <i>waiver</i> , for example to extend the effective period, is an application for a new <i>waiver</i> for which a <i>firm</i> should usually only take into consideration future profits that are expected to emerge in the period up to 31 December 2009. |
| Assumptions | |
| 23 | The assumptions made should be prudent, rather than best estimate, assumptions of future experience (that is, the prudent assumptions should allow for the fair market price for assuming that risk including associated expenses). In particular, it would not normally be considered appropriate for the projected return on any asset to be taken to be higher than the risk-free yield (that is, assessed by reference to the yield arrived at using a model of future risk free yields properly calibrated from the forward gilts market). It may also be appropriate to bring future withdrawals into account on a suitably prudent basis. For <i>with-profits business</i> , the assumptions for future investment returns should not capitalise future bonus loadings except where the <i>with-profits policyholders</i> share in risks other than the investment performance of the fund. Furthermore, the rate at which future profits are discounted should include an appropriate margin over a risk free rate of return. Calculations should also be carried out to demonstrate that the prospective calculation of the future |

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| | <p>profits arising from the in-force business supporting the application for the <i>implicit item waiver</i> would be sufficient to support the amount of the <i>implicit item</i> under each scenario described for use in determining the <i>resilience capital requirement</i> - where the <i>waiver</i> relates to an <i>implicit item</i> allocated to more than one fund, this should be demonstrated separately for that element of the <i>implicit item</i> allocated to each fund. For an <i>implicit item</i> allocated to a <i>with-profits fund</i>, proper allowance should be made for any shareholder transfers to ensure that the <i>implicit item</i> is not supported by future profits which will be required to support those transfers. To the extent, if any, that future profits are dependent on the levying of explicit expense related charges (for example as in the case of unit-linked business) the documentation submitted should include a demonstration of the prudence of the assumptions made as to the level at which future charges will be levied and expenses incurred.</p> |
| Other limitations on the extent to which waivers for implicit items will be granted to a realistic basis life firm | |
| 24 | <p>Where a <i>waiver</i> in respect of an <i>implicit item</i> is granted to a <i>realistic basis life firm</i> additional limits may apply by reference to a comparison of <i>realistic excess capital</i> and <i>regulatory excess capital</i> including allowance for the effect of the <i>capital resources</i>. Where the <i>capital resources waiver</i> relates to an <i>implicit item</i> allocated partly or entirely to a <i>with-profits fund</i>, the <i>waiver</i> will contain a limitation to the effect that the <i>regulatory excess capital</i> for that <i>with-profits fund</i>, allowing for the effect of the <i>capital resources</i>, may not exceed that fund's <i>realistic excess capital</i>. This limitation will apply on an ongoing basis so that, for example, in the case of an <i>implicit item</i> allocated to a <i>with-profits fund</i>, the amount of the <i>implicit item</i> would be limited to zero whenever the <i>regulatory excess capital</i> exceeded the <i>realistic excess capital</i> of that fund.</p> |
| Other charges to future profits | |
| 25 | <p>To avoid double counting, no account should be taken of any future surplus arising from assets corresponding to explicit items which have been counted towards the <i>capital resources requirement</i> such as shareholders funds, surplus carried forward or investment reserves. Deductions should be made in the calculation of future surpluses for the impact of any other arrangements which give rise to a charge over future surplus emerging (e.g. financial <i>reinsurance</i> arrangements, subordinated loan capital or contingent loan agreements). Deductions should also be made to the extent that any credit has been taken for the purposes of <i>INSPRU</i> 1.4.45R(2) for the present value of future profits relating to non-profit business written in a <i>non-profit fund</i>.</p> |

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| | The information supplied to the appropriate regulator <u>PRA</u> should identify the amount and reason for any adjustments made to the calculation of the prospective amount of future profits. |
| 26 | The <i>firm</i> should confirm to the appropriate regulator <u>PRA</u> that the calculations have been properly carried out and that there are no other factors that should be taken into account. |
| Future profits - retrospective calculation | |
| ... | |
| Definition of profits | |
| 28 | The estimated annual profit should be taken as the average annual surplus arising in the <i>long-term insurance fund</i> over the last five <i>financial years</i> up to the date of the most recent available valuation which has been submitted to the appropriate regulator <u>PRA</u> prior to, or together with, the application. For this purpose, deficiencies arising should be treated as negative surpluses. Where a <i>firm's financial year</i> has altered, the surplus arising in a period falling partly outside the relevant five year period should be assumed to accrue uniformly over the period in question for the purpose of estimating the profits arising within the five year period. When there has been a transfer of a block of business into the <i>firm</i> (or out of the <i>firm</i>) during the period, surplus arising from the transferred block should be included (or excluded) for the full five year period. Where a portion of a block of business is transferred, the surplus included (or excluded) should be a reasonable estimate of the surplus arising from the portion transferred. |
| ... | |
| Double counting | |
| 31 | The inclusion of investment income arising from the assets representing the explicit components of <i>capital resources</i> (as part of the estimated annual profit for the purpose of determining the future profits <i>implicit item</i>) would result in double-counting. If those assets were required to meet the effects of adverse developments, this would automatically result in the cessation of the contribution to profits from the associated investment income. It would clearly not be appropriate for the appropriate regulator <u>PRA</u> to grant a <i>capital resources waiver</i> which would enable a <i>firm</i> to meet the <i>capital resources requirement</i> on the basis of counting both the capital values of the assets and the value of the income flow which they can be expected to generate. |
| ... | |

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| 33 | Where there is reason to suspect that the elimination of any such double-counting would reduce a <i>firm's capital resources</i> to close to or below the required level, or would otherwise be significant, the appropriate regulator <i>PRA</i> will request this information with a view to taking account of this factor in determining the amount of the <i>implicit item</i> . Additional information concerning investment income should be furnished with an application for a <i>waiver</i> , if a <i>firm</i> believes that any double-counting would fall into one of the categories mentioned above. |
| Average period to run | |
| 34 | The average number of years remaining to run on <i>policies</i> should be calculated on the basis of the weighted average of the periods for individual <i>contracts of insurance</i> , using as weights the actuarial present value of the benefits payable under the contracts. A separate weighted average should be calculated for each of the various categories of contract and the results combined to obtain the weighted average for the portfolio as a whole. Approximate methods of calculation, which the <i>firm</i> considers will give results similar to the full calculation, will be accepted. In particular, the appropriate regulator <i>PRA</i> will normally accept the calculation of an average period to run for a specific category of contract on the basis of the average valuation factor for future benefits derived from data contained in the abstract of the valuation report in the regulatory <i>returns</i> . A <i>firm</i> will be asked to demonstrate the validity of the method adopted only where an abnormal distribution of the business in force gives grounds for doubt about its accuracy. |
| ... | |
| Zillmerising | |
| 41 | The appropriate regulator <i>PRA</i> does not normally expect to grant a waivers <i>waiver</i> permitting <i>implicit items</i> due to <i>zillmerisation</i> except in very exceptional circumstances. <i>Zillmerisation</i> is an allowance for acquisition costs that are expected, under prudent assumptions, to be recoverable from future <i>premiums</i> . <i>Firms</i> can make a direct adjustment to their reserves for <i>zillmerisation</i> , subject to the requirements on <i>mathematical reserves</i> set out in <i>INSPRU</i> 1.3.43R, and this is the usual approach. However, where no such adjustment has been made, or where the maximum adjustment has not been made in the <i>mathematical reserves</i> , the appropriate regulator <i>PRA</i> will consider an application for an <i>implicit item waiver</i> , if the amount is consistent with the amount that would have been allowed as an adjustment to <i>mathematical reserves</i> under <i>INSPRU</i> 1.3.43R. |
| Hidden reserves | |

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| 42 | The appropriate regulator <u>PRA</u> will grant <i>waivers</i> permitting <i>implicit items</i> due to hidden reserves only in very exceptional circumstances. These items relate to hidden reserves resulting from the underestimation of assets. The <i>rules</i> for the valuation of assets and liabilities (see <i>GENPRU 1.3</i>) which apply to assets and liabilities other than <i>mathematical reserves</i> are based on the valuation used by the <i>firm</i> for the purposes of its external accounts, with adjustments for regulatory prudence such as concentration limits for large holdings, and would not normally be expected to contain hidden reserves. |
| Case studies on "unduly burdensome" | |
| 43 | Some examples of situations where the existing <i>rules</i> might be considered to be unduly burdensome are given below: |
| | <ul style="list-style-type: none"> • A <i>firm</i> writes <i>with-profits business</i>. The <i>firm's</i> investment policy is affected by its published financial position. Application of the <i>rules</i> without an <i>implicit item waiver</i> would result in the <i>firm</i> adopting a lower equity backing ratio. It may be possible to demonstrate that, in the circumstances, it would be unduly burdensome to require the <i>firm</i> to incur costs (which might prejudice <i>policyholders</i>) resulting from the lower equity backing ratio, rather than take allowance for an <i>implicit item</i>. |
| | ... |
| | <ul style="list-style-type: none"> • A <i>firm</i> has a block of in-force business, on which the future profits may be reasonably estimated. Application of the <i>rules</i> without an <i>implicit item waiver</i> would result in a need to obtain additional capital. It may be possible to demonstrate that it is unduly burdensome, having regard to the particular circumstances of the <i>firm</i>, to require it to incur the costs involved in the injection of further capital rather than take allowance for an <i>implicit item</i>. |
| | • |
| | ... |
| Publicity | |
| 45 | The appropriate regulator <u>PRA</u> will publish the <i>capital resources</i> (see <i>SUP 8.6</i> and <i>SUP 8.7</i>). Public disclosure is standard practice unless the appropriate regulator <u>PRA</u> is satisfied that publication is inappropriate or unnecessary (see section 138AB of the <i>Act</i>). Any request that a direction not be published should be made to the appropriate regulator <u>PRA</u> in writing with grounds in support, as set out in <i>SUP 8.6</i> . Disclosure of a <i>waiver</i> will normally be |

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|--|---|
| | required in the <i>firm's</i> annual <i>returns</i> . |
|--|---|

...

**TP
7** ~~Pillar 3 capital resources~~

~~[deleted]~~

[The table at *GENPRU* TP7 is deleted in its entirety. The deleted text is not shown.]

**TP
8** ~~Miscellaneous capital resources definitions for BIPRU firms~~

~~Miscellaneous capital resources definitions for BIPRU firms [deleted]~~

[The table in *GENPRU* TP 8 is deleted in its entirety. The deleted text is not shown.]

**TP
8A** ~~Further miscellaneous capital resources definitions for BIPRU firms~~

~~Further miscellaneous capital resources definitions for BIPRU firms [deleted]~~

[The table in *GENPRU* TP8A is deleted in its entirety. The deleted text is not shown.]

**TP
8B** ~~Miscellaneous capital resources definitions for BIPRU firms: Core tier one capital~~

~~Miscellaneous capital resources definitions for BIPRU firms: Core tier one capital [deleted]~~

[The table in *GENPRU* TP8B is deleted in its entity. The deleted text is not shown.]

TP 9 ~~Individual capital guidance for BIPRU firms~~

~~Individual capital guidance for BIPRU firms [deleted]~~

[The table in *GENPRU* TP9 is deleted in its entirety. The deleted text is not shown.]

...

Sch 2 ~~Notification and reporting requirements~~

G ...

| Handbook reference | Matter to be notified | Contents of notification | Trigger events | Time allowed |
|-------------------------------------|---|--|--|---|
| ... | | | | |
| <i>GENPRU 2.2.19R</i> [deleted] | Intention to deduct <i>illiquid assets</i> rather than <i>material holdings</i> | Fact of intention | Intention to start or stop using method in column 2 | One month prior to change of method |
| ... | | | | |
| <i>GENPRU 2.2.79GR</i> [deleted] | Intention to purchase a <i>tier one instrument</i> in accordance with <i>GENPRU 2.2.79AR</i> | Fact of intention and details of the <i>firm's</i> position after the purchase in order to show how, over an appropriate timescale, adequately stressed, and without planned recourse to the capital markets, it will meet its <i>capital resources requirement</i> and have sufficient financial resources to meet the <i>overall financial adequacy rule</i> | Intention to purchase | At least one month prior to becoming committed to purchase |
| <i>GENPRU 2.2.83BR</i> [deleted] | Intention to include in stage A of the <i>capital resources table</i> different classes of the same <i>share</i> type that meet the conditions in <i>GENPRU 2.2.83R</i> and <i>GENPRU 2.2.83AR</i> but have differences in voting rights. | Fact of intention. | Intention to include in stage A of the <i>capital resources table</i> classes of the same <i>share</i> type that have different voting rights. | At least one month before the <i>shares</i> are issued or (in the case of existing issued <i>shares</i>) the differences in voting rights take effect. |
| <i>GENPRU 2.2.83FR</i> [deleted] | Intention by a <i>building society</i> to issue a <i>capital instrument</i> that | Fact of intention. | Intention to issue a <i>capital instrument</i> | At least one month before the intended date of issue. |

| | | | | |
|-------------------------------------|---|--|--------------------------------------|---|
| | includes a <i>coupon</i> limit in its terms of issuance in accordance with <i>GENPRU 2.2.83ER</i> . | | that includes a <i>coupon</i> limit. | |
| <i>GENPRU 2.2.135R</i> [deleted] | Intention to include an unusual transaction in capital under <i>GENPRU 2.2.124R</i> | Fact of intention. | Intention to include in capital | At least one month prior to inclusion of that capital in <i>capital resources</i> |
| ... | | | | |
| <i>GENPRU 2.2.243R</i> [deleted] | Intention to pay interest or principal on subordinated debt included in <i>tier three capital resources</i> if the <i>firm's capital resources</i> are less than 120% of its <i>capital resources requirement</i> | Fact of intention | Intention to pay | One month prior to any payment of interest or principal |
| <i>GENPRU 2.2.245R</i> [deleted] | Intention to repay (other than on contractual repayment date) <i>tier three capital resources</i> | Fact of intention and details of how the <i>firm</i> will meet its <i>capital resources requirement</i> after such repayment | Intention to repay | One month prior to repayment |

Annex B

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

The entirety of BIPRU is deleted save for:

- BIPRU 12;
- BIPRU, Schedule 3; and
- BIPRU Schedule 6.

The deleted text is not shown.