

**CAPITAL REQUIREMENTS DIRECTIVE IV (GENPRU AND BIPRU
AMENDMENTS) INSTRUMENT 2013**

Powers exercised

- A. The Financial Conduct 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 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 138D (Actions for damages); and
 - (4) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

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

Amendments to the FCA Handbook

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

Notes

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

Citation

- G. This instrument may be cited as the Capital Requirements Directive IV (GENPRU and BIPRU Amendments) Instrument 2013.

By order of the Board of the Financial Conduct Authority
12 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.

1 Application

1.1 Application

...

1.1.2 G Broadly speaking however, *GENPRU* applies (except as provided in *GENPRU* 1.1.2-AG) to:

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

...

1.1.2-AA G *GENPRU* 3 (Cross sector groups) applies to:

- (1) an *IFPRU investment firm*;
- (2) an *insurer*; and
- (3) a *group* containing both the *firms* in (1) and (2).

1.1.2-B G *GENPRU* applies to a *collective portfolio management investment firm* that is a *BIPRU firm* in parallel with *IPRU(INV)* 11 (see *IPRU(INV)* 11.6).

1.1.2A G A *firm* should refer to *GEN* 2.2.13AR (cross-references in the Handbook) and *GEN* 2.2.23R to *GEN* 2.2.25G (cutover, application of provisions made by both the *FCA* and the *PRA*) when applying the rules and guidance in *GENPRU*. In particular, many rules in *GENPRU* are made by both the *PRA* (in relation to *PRA-authorised persons*) and by the *FCA* (in relation to *BIPRU investment firms* that are *FCA-authorised persons*).

...

1.2 Adequacy of financial resources

...

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*.~~

1.2.11A G In the case of a *collective portfolio management investment firm*, *GENPRU 1.2.11G* means that this section also applies to its activities in relation to the management of *AIFs* and/or *UCITS*.

Purpose

...

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 the third paragraph of article 95(2) of the EU CRR applying Article 34 of the Capital Adequacy Directive so far as that Article applies Article 123 of the *Banking Consolidation Directive*.

...

Outline of other related provisions

...

- 1.2.21 G ...
- (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]~~

...

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

- 1.2.21A G (1) *BIPRU 12* sets out material on systems and controls that apply specifically to *liquidity risk* in relation to a *BIPRU firm*.
- (2) *GENPRU 2.2* (Adequacy of financial resources) requires certain *BIPRU firms* to deduct illiquid assets when calculating their *capital resources*.

...

- 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. Further *rules and guidance* on such stress tests are set out in *BIPRU 2.2* (Internal capital adequacy standards). [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]~~

...

...

- 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; [deleted]~~
 - (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]~~

...

Capital planning

...

- 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.~~

- 1.2.78A G BIPRU 12 sets out the main Handbook provisions in relation to liquidity risk for a BIPRU firm.

...

1.3 Valuation

Purpose

...

- 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.

...

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 ...

- (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.

...

...

2 Capital

2.1 Calculation of capital resources requirements

...

- 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. [deleted]~~

- (2) This section also implements the third paragraph of article 95(2) of the *EU CRR* applying the 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~~ article 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]~~

...

Main requirement: BIPRU firms

...

- 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.

...

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*.

<i>Firm category</i>	<i>Capital requirement</i>	
<i>Bank, building society or full scope BIPRU investment firm</i>	the sum of the following:	
	(1)	the <i>credit risk capital requirement</i> ;
	(2)	the <i>market risk capital requirement</i> ; and
	(3)	the <i>operational risk capital requirement</i> .
<i>BIPRU limited activity firm</i>	the sum of the following:	
	(1)	the <i>credit risk capital requirement</i> ;
	(2)	the <i>market risk capital requirement</i> ; and
	(3)	the <i>fixed overheads requirement</i> .

<i>BIPRU limited licence firm (including collective portfolio management investment firms)</i>	...
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...

Table: Base capital resources requirement for a BIPRU firm

2.1.48 R This table belongs to *GENPRU 2.1.47R*.

<i>Firm category</i>	<i>Amount: Currency equivalent of</i>
<i>Bank</i>	€ million
<i>Building society</i>	The higher of €1 million and £1 million
<i>BIPRU 730K firm</i>	€730,000
<i>BIPRU 125K firm</i>	€125,000
<i>BIPRU 50K firm (but not a collective portfolio management investment firm)</i>	€50,000
<i>Collective portfolio management investment firm</i>	€125,000 plus, if the funds under management exceed €250,000,000, 0.02% of the excess, subject to a maximum of €10,000,000.

2.1.48A G A collective portfolio management investment firm is required to maintain base own funds requirement of €125,000 (in line with IPRU(INV) 11.3.1R(1)).

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. The *Capital Adequacy Directive* sets out various categories of *investment firms* subject to differing levels of initial capital. For the purpose of the third paragraph of article 95(2) of the *EU CRR*, a *BIPRU firm* falls into the category in article 5(3) of the *Capital Adequacy Directive*. In summary, a *BIPRU firm*:

- (1) does not provide the ancillary service of safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management, and is not authorised to do so;

- (2) is not authorised to provide the following *investment services*:
- (a) to deal in any *financial instruments* for its own account;
 - (b) to underwrite issues of *financial instruments* on a firm commitment basis;
 - (c) to place *financial instruments* without a firm commitment basis; and
 - (d) to operate a *multilateral trading facility*;
- (3) is authorised to provide one or more of the following *investment services*:
- (a) the execution of investors' orders for *financial instruments*;
or
 - (b) the management of individual portfolios of investments in *financial instruments*;
- (4) may be authorised to provide one or more of the following *investment services*:
- (a) reception and transmission of investors' orders for *financial instruments*; or
 - (b) investment advice; and
- (5) does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation or requirement prohibiting the holding of client money and its permission should not include safeguarding and administering investments*).

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

The table in GENPRU 2.1.50G is deleted in its entirety. The deleted text is not shown.

...

Calculation of the fixed overheads requirement (~~BIPRU investment firm only~~)

- 2.1.53 R ~~In relation to a A BIPRU investment firm which is required to~~ must calculate a *fixed overheads requirement*, ~~the an amount of that requirement that~~ is equal to one quarter of the *firm's* relevant fixed expenditure calculated in accordance with *GENPRU 2.1.54R*.
- 2.1.54 R For the purpose of *GENPRU 2.1.53R*, and subject to *GENPRU 2.1.55R* to *GENPRU 2.1.57R*, a *BIPRU investment firm's* relevant fixed expenditure is the amount described as total expenditure in its most recent audited *annual*

report and accounts, less the following items (if they are included within such expenditure):

...

...

GENPRU 2.1.63R to GENPRU 2.1.74G are deleted in their entirety. The deleted text is not shown.

2.2 Capital resources

Purpose

...

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 the third paragraph of article 95(2) of the EU CRR, applying 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)(c) (in part) and paragraphs 13 - 15 of Part B of Annex VII of the Capital Adequacy Directive (2006/49/EC).

...

2.2.6 G This table belongs to *GENPRU 2.2.5G*.

Topic	Location of text
...	
Calculation of <i>capital resources</i> for <i>insurers</i>	<i>GENPRU 2.2.22G to GENPRU 2.2.23G;</i> <i>GENPRU 2 Annex 1R</i>
Limits on the use of different forms of capital for <i>insurer</i> (capital resources gearing rules for <i>insurer</i>)	<i>GENPRU 2.2.29R to GENPRU 2.2.41R</i>
Calculation of <i>capital resources</i> for <i>banks</i> [<i>GENPRU 2 Annex 2R</i>
Calculation of <i>capital resources</i> for <i>building societies</i>	<i>GENPRU 2 Annex 3R</i>
Limits on the use of different forms of capital for <i>banks</i> and <i>building societies</i> (certain types of capital resources cannot be used for certain purposes)	<i>GENPRU 2.2.44R to GENPRU 2.2.45R;</i> <i>GENPRU 2.2.47R to GENPRU 2.2.48R</i>

Limits on the use of different forms of capital for <i>banks</i> and <i>building societies</i> (<i>capital resources gearing rules</i>)	GENPRU 2.2.29R to GENPRU 2.2.31G; GENPRU 2.2.46R; GENPRU 2.2.49R
Calculation of <i>capital resources</i> for <i>BIPRU investment firms</i>	...
Limits on the use of different forms of capital for <i>BIPRU investment firms</i> (certain types of capital resources cannot be used for certain purposes)	...
Limits on the use of different forms of capital for <i>BIPRU investment firms</i> (<i>capital resources gearing rules</i>)	...
...	...
Core tier one capital: valuation differences and fund for future appropriations for <i>insurer</i>	GENPRU 2.2.104R to GENPRU 2.2.108R
Core tier one capital: deferred shares (<i>building society</i> only)	GENPRU 2.2.108AR to GENPRU 108BG
Tier one capital: perpetual non-cumulative preference shares (<i>insurers</i> only)	GENPRU 2.2.109R to GENPRU 2.2.110G
Innovative tier one capital (excluding issues through <i>SPVs</i>) (<i>insurer</i> only)	GENPRU 2.2.76R; GENPRU 2.2.113R to GENPRU 2.2.122R
...	
Deductions from <i>tier one capital resources</i> and <i>tier two capital resources</i>	GENPRU 2.2.202R <u>2.2.208R to GENPRU 2.1.216G; GENPRU 2.2.217G to GENPRU 2.2.220R; GENPRU 2.2.236R to GENPRU 2.2.240G</u>
...	...
Deductions from total <i>capital resources</i>	GENPRU 2.2.14G to GENPRU 2.2.16G; GENPRU 2.2.250R <u>2.2.259R to GENPRU 2.2.265R 2.2.62G</u>
...	...
Other capital resources for <i>insurers</i> : unpaid <i>share capital</i> or <i>unpaid initial funds</i> and calls for supplementary contributions	GENPRU 2.2.266G to GENPRU 2.2.269G
Additional requirements for <i>insurer</i> carrying on <i>with-profits insurance business</i>	GENPRU 2.2.270R to GENPRU 2.2.275G <u>2.2.272G; GENPRU 2.2.274G</u>

...

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*).

...

Table: Applicable capital resources calculation

- 2.2.19 R This table belongs to *GENPRU 2.2.17R*.

Type of <i>firm</i>	Location of <i>rules</i>	Remarks
<i>Insurer</i>	<i>GENPRU 2 Annex 1R</i>	
<i>Bank</i>	<i>GENPRU 2 Annex 2R</i>	
<i>Building society</i>	<i>GENPRU 2 Annex 3R</i>	
<i>BIPRU investment firm</i> without an <i>investment firm consolidation waiver</i>	...	Applies to a <i>BIPRU investment firm</i> not using <i>GENPRU 2 Annex 5R</i> or <i>GENPRU 2 Annex 6R</i>
<i>BIPRU investment firm</i> without an <i>investment firm consolidation waiver</i>	...	A <i>BIPRU investment firm</i> must give one <i>Month's</i> prior notice to the <i>appropriate regulator</i> <i>FCA</i> before starting to use or stopping using this method
<i>BIPRU investment firm</i> with an <i>investment firm consolidation waiver</i>	...	A <i>firm</i> with an <i>investment firm consolidation waiver</i> must use this method. No other <i>BIPRU investment firm</i> may use

		it.
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Calculation of capital resource: 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~~ *FCA*, *illiquid assets*.

...

Limits on the use of different kinds of capital: Purpose 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:

...

- (2) ~~the operational risk capital requirement;~~ [deleted]

...

...

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

- 2.2.47 R For the purpose of meeting:

...

- (3) *the fixed overheads requirement* (~~where applicable~~);

...

...

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

...

- 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*.

...

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*.

Description of the stage of the capital resources calculation	Stage in the <i>capital resources table</i>	Amount (£)
...
Credit, operational and counterparty risk requirement
...		

...

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 requirement 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 requirement 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*.

...

...

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*):

...

- (2) ~~(in the case of a *building society*) it is a *deferred share*; or [deleted]~~

...

...

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:

...

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

...

...

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.

...

- (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.

...

Deduction 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.

...

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

...

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.

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

...

2.2.245 R This table belongs to *GENPRU* 2.2.244R.

<i>Tier two capital rule</i>	Adjustment
...	
<i>GENPRU</i> 2.2.160R (Holder of a non-deferred share of a building society to be treated as senior creditor)	
...	

...

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*.

...

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

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
...		
Total tier one capital plus tier two capital after deductions = L – M		(N)
In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i> : (1) the <i>credit risk capital component</i> , the <i>operational risk capital requirement</i> (if applicable) and the <i>counterparty risk capital component</i> ; or (2) the <i>base capital resources requirement</i> , as the case may be, must be deducted here.		
...		
Total capital after deductions (R – S)		(T)
In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i> , the <i>market risk capital requirement</i> , the <i>concentration risk capital component</i> and (if applicable) the <i>fixed overheads requirement</i> must be deducted here.		

...

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

The capital resources calculation for an investment firm that deducts illiquid assets		
Type of capital	Related text	Stage
...		
Total tier one capital plus tier two capital after deductions = L – M		(N)
In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i> : (1) the <i>credit risk capital component</i> , the <i>operational risk capital requirement</i> (if applicable) and the <i>counterparty risk capital component</i> ; or		

(2) the <i>base capital resources requirement</i> , as the case may be, must be deducted here.		
...		
Total capital after deductions = R – S		(T)
In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i> , the <i>market risk capital requirement</i> , the <i>concentration risk capital component</i> and (if applicable) the <i>fixed overheads requirement</i> must be deducted here.		

...

2 Annex 6R Capital resources table for a BIPRU investment firm with a waiver from consolidated supervision

Part 1 of the capital resources calculation for an investment firm with a waiver from consolidated supervision		
Type of capital	Related text	Stage
...	...	
Total tier one capital plus tier two capital after deductions = L – M	...	(N)
In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i> , (1) the <i>credit risk capital component</i> , the <i>operational risk capital requirement</i> (if applicable) and the <i>counterparty risk capital component</i> ; or (2) the <i>base capital resources requirement</i> , as the case may be, must be deducted here.	...	
...
Total capital after deductions = R – S		(T)
In calculating whether a <i>firm's capital resources</i> exceed its <i>capital resources requirement</i> , the <i>market risk capital requirement</i> , the <i>concentration risk capital component</i> and (if applicable) the <i>fixed overheads requirement</i> must be deducted here.		

Part 2 of the capital resources calculation for an investment firm with a waiver from consolidated supervision	
...	
Note (4): The <i>material holdings</i> that must be deducted at part 2 of stage E are <i>material holdings</i> issued by <i>undertakings</i> which would have been members of the <i>firm's UK consolidation group</i> or <i>non-EEA sub-group</i> if the <i>firm</i> did not have an <i>investment firm consolidation waiver</i> if:	
(1)	in relation to a <i>BIPRU investment firm</i> , the holding forms part of the <i>undertaking's tier one capital resources</i> ; or
...	
Note (6): The contingent liabilities that must be deducted by a <i>firm</i> at Part 1 of stage M are any contingent liabilities which the <i>firm</i> has in favour of <i>BIPRU investment firms</i> , <i>financial institutions</i> , <i>asset management companies</i> and <i>ancillary services undertakings</i> which would have been members of the <i>firm's UK consolidation group</i> or <i>non-EEA sub-group</i> if the <i>firm</i> did not have an <i>investment firm consolidation waiver</i> .	

...

3 Cross sector groups

...

3.1.3A G If a mixed financial holding company is subject to equivalent provisions under this Chapter and under EEA prudential sectoral legislation in relation to the insurance sector as implemented in the United Kingdom and the FCA is the coordinator, the FCA may, on application by the firm and after consulting other relevant competent authorities, disapply such provisions of the EEA prudential sectoral legislation as implemented in the United Kingdom with regard to that undertaking which are considered by the FCA as equivalent to those applying to the firm under GENPRU 3.1.

[Note: article 120(2) of CRD]

...

3.1.16 G ~~GENPRU 3.1.26R~~ 3.1.29R to GENPRU 3.1.31R and GENPRU 3 Annex 1R implement the detailed capital adequacy requirements of the *Financial Groups Directive*. They only deal with a *financial conglomerate* for which the *appropriate regulator* is the *coordinator*. If another *competent authority* is *coordinator* of a *financial conglomerate*, those rules do not apply with respect to that *financial conglomerate* and instead that *coordinator* will be

responsible for implementing those detailed requirements.

...

Risk concentration and intra-group transactions: the main rule

- 3.1.35 R A firm must ensure that the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate* referred to in *GENPRU 3.1.34R* are complied with with respect to that *financial sector* as a whole, including the *mixed financial holding company*. The ~~appropriate regulator's~~ *sectoral rules* for these purposes are those identified in the table in *GENPRU 3.1.36R*.

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

- 3.1.36 R Table: application of sectoral rules

This table belongs to *GENPRU 3.1.35R*.

The most important financial sector	Application sectoral rules	
	Risk concentration	Intra-group transactions
<i>Banking and investment services sector</i>	<i>BIPRU 8.9A</i> (Consolidated large exposure requirements) including <i>BIPRU TP</i> as it applies to a <i>UK consolidation group</i> the <u><i>EU CRR</i></u>	<i>BIPRU 10</i> (Large exposure requirements) including <i>BIPRU TP</i> as it applies on a solo basis and relates to <i>BIPRU 10</i> . Part Four of the <u><i>EU CRR</i></u>
...		

- 3.1.37 R (1) Where the *sectoral rules* for the *banking and investment services sector* are being applied, a *mixed financial holding company* must be treated as being a *financial holding company*.

...

- 3.1.38 R (1) ~~This rule applies for the purposes of the definitions of:~~
- (a) ~~a core concentration risk group counterparty;~~ and
 - (b) ~~a non-core concentration risk group counterparty;~~
- ~~as they apply for the purposes of the rules for the banking and investment services sector as applied by GENPRU 3.1.36 R.~~
[deleted]

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

...

The financial sectors: asset management companies and alternative investment fund managers

- 3.1.39 R (1) ...
- (2) An *asset management company* or an *alternative investment fund manager* is in the *overall financial sector* and is a *regulated entity* for the purpose of:
- ...
- (c) any other provision of the *Handbook* or *PRA Rulebook* relating to the supervision of *financial conglomerates*.
- (5) This *rule* applies even if:
- (a) a *UCITS management company* is a ~~*BIPRU*~~ *IFPRU investment firm*; or
- (b) an *asset management company* or *alternative investment fund manager* is an *investment firm*.

3.2 Third-country groups

...

Purpose

- 3.2.2 G *GENPRU 3.2* implements in part Article 18 of the *Financial Groups Directive* and Article ~~143 of the *Banking Consolidation Directive*~~ 127 of the *CRD*.

Equivalence

- 3.2.3 G The first question that must be asked about a *third-country financial group* is whether the *EEA regulated entities* in that *third-country group* are subject to supervision by a *third-country competent authority*, which is equivalent to that provided for by the *Financial Groups Directive* (in the case of a *financial conglomerate*) or the *EEA prudential sectoral legislation* for the *banking sector* or the *investment services sector* (in the case of a *banking*

and investment group). Article 18(1) of the *Financial Groups Directive* sets out the process for establishing equivalence with respect to *third-country financial conglomerates* and Article 143 (1) and (2) of the ~~*Banking Consolidation Directive*~~ 127(1) and (2) of the *CRD* does so with respect to *third-country banking and investment groups*.

Other methods: General

- 3.2.4 G If the supervision of a *third-country group* by a *third-country competent authority* does not meet the equivalence test referred to in *GENPRU 3.2.3G*, the methods set out in the *CRD* and *EU CRR* will apply or competent authorities may apply other methods that ensure appropriate supervision of the *EEA regulated entities* in that *third-country group* in accordance with the aims of supplementary supervision under the *Financial Groups Directive* or consolidated supervision under the applicable *EEA prudential sectoral legislation*.

Supervision by analogy: introduction

...

- 3.2.7 G *GENPRU 3.2.8R* and *GENPRU 3.2.9R* and *GENPRU 3 Annex 2R* set out *rules* to deal with the situation covered in *GENPRU 3.2.5G*. Those *rules* do not apply automatically. Instead, they can only be applied with respect to a particular *third-country group* through the *Part 4A permission* of a *firm* in that *third-country group*. ~~Broadly speaking the procedure described in *GENPRU 3.1.22G* also applies to this process.~~

...

3 Annex 1R Capital adequacy calculations for financial conglomerates (GENPRU 3.1.29R)

...

7 Table

A mixed financial holding company	4.4	A <i>mixed financial holding company</i> must be treated in the same way as: (1) a <i>financial holding company</i> (if the rules in <i>BIPRU 8</i> <u>Part One, Title II, Chapter 2 of the <i>EU CRR</i> and the <i>PRA Handbook</i></u> are applied); or (2) an <i>insurance holding company</i> (if the rules in <i>INSPRU 6.1</i> are applied).
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8 Table: PART 5: Principles applicable to all methods

...		
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Transfer-ability of capital	5.1	<p>Capital may not be included in:</p> <p>(1) a firm's conglomerate capital resources under GENPRU 3.1.29R; or</p> <p>(2) in the capital resources of the financial conglomerate for the purposes of GENPRU 3.1.26R;</p> <p>if the effectiveness of the transferability and availability of the capital across the different members of the <i>financial conglomerate</i> is insufficient, given the objectives (as referred to in the third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the <i>Financial Groups Directive</i> (Technical principles)) of the capital adequacy rules for <i>financial conglomerates</i>.</p>
Double counting	5.2	<p>Capital must not be included in:</p> <p>(1) a firm's conglomerate capital resources under GENPRU 3.1.29R; or</p> <p>(2) the capital resources of the financial conglomerate for the purposes of GENPRU 3.1.26R;</p> <p>if:</p> <p>(3) (1) it would involve double counting or multiple use of the same capital; or</p> <p>(4) (2) it results from any inappropriate intra-group creation of capital.</p>
Cross sectoral capital	5.3	<p>In accordance with the second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the <i>Financial Groups Directive</i> (Other technical principles and insofar as not already required in Parts 1-3):</p> <p>(1) the solvency requirements for each different <i>financial sector</i> represented in a <i>financial conglomerate</i> required by GENPRU 3.1.26R or, as the case may be, <i>GENPRU 3.1.29R</i> must be covered by own funds elements in accordance with the corresponding <i>applicable sectoral rules</i>; and</p> <p>(2) if there is a deficit of own funds at the <i>financial conglomerate</i> level, only cross sectoral capital (as referred to in that sub-paragraph) shall qualify for verification of compliance with the additional solvency requirement required by GENPRU 3.1.26R or, as the case may be, <i>GENPRU 3.1.29R</i>.</p>
...		
Application of sectoral rules: Banking sector and investment service sector	5.6	<p><u>In relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i>, the following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the <i>rules</i> in this annex.</u></p> <p>(1) References in those <i>rules</i> to <i>non-EEA sub-groups</i> do</p>

		<p>not apply.</p> <p>(2) (For the purposes of Parts 1 and 2), where those rules require a group to be treated as if it were a single undertaking, those rules apply to the banking sector and investment services sector taken together. [deleted]</p> <p>(3) Any investment firm consolidation waivers granted to members of the financial conglomerate do not apply.</p> <p>(4) (For the purposes of Part 3), without prejudice to the application of requirements in BIPRU 8 preventing the use of an advanced prudential calculation approach on a consolidated basis, any advanced prudential calculation approach permission that applies for the purpose of BIPRU 8 does not apply.</p> <p>(5) (For the purposes of Part 3), BIPRU 8.5.9R and BIPRU 8.5.10R do not apply.</p> <p>(6) (For the purposes of Part 3), where the financial conglomerate does not include a credit institution, the method in GENPRU 2 Annex 4R must be used for calculating the capital resources and BIPRU 8.6.8R does not apply.</p> <p><u>(Other than as above) the EU CRR apply for the banking sector and the investment services sector.</u></p>
No capital ties	5.7	<p>(1) This rule deals with a financial conglomerate in which some of the members are not linked by capital ties at the time of the notification referred to in GENPRU 3.1.28R(1) <u>3.1.29AR</u> (Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive).</p> <p>(2) If:</p> <p>(a) GENPRU 3.1.26R (Capital adequacy requirements: Application of Annex I of the Financial Groups Directive) would otherwise apply with respect to a financial conglomerate under GENPRU 3.1.28R ; and</p> <p>(b) all members of that financial conglomerate are linked directly or indirectly with each other by capital ties except for members that collectively are of negligible interest with respect to the objectives of supplementary supervision of regulated entities in a financial conglomerate (the "peripheral members");</p> <p>GENPRU 3.1.28R continues to apply. Otherwise GENPRU 3.1.28R does not apply with respect to a financial conglomerate falling into (1). [deleted]</p> <p>(3) If GENPRU 3.1.28R applies with respect to a financial conglomerate in accordance with (2) the peripheral members must be excluded from the calculations under GENPRU 3.1.26R. [deleted]</p>

	<p>(4) If:</p> <p>(a) GENPRU 3.1.26R applies with respect to financial conglomerate falling into (1) under GENPRU 3.1.27R (2) (Use of Part 4A permission to apply Annex I of the Financial Groups Directive); or [deleted]</p> <p>(b) GENPRU 3.1.29R (Capital adequacy requirements: Application of Methods 1, 2 or 3 <u>Method 1 or 2</u> from Annex I of the Financial Groups Directive) applies with respect to a <i>financial conglomerate</i> falling into (1);</p> <p>then:</p> <p>(c) the treatment of the links in (1) (including the treatment of any <i>solvency deficit</i>) is as provided for <u>in whichever of Part 1 or Part 2 of GENPRU 3 Annex 1R the firm has, under GENPRU 3.1.30R, indicated to the appropriate regulator it will apply or, if applicable, in the requirement referred to in GENPRU 3.1.30R 3.1.31R;</u> and</p> <p>(d) GENPRU 3.1.26R or GENPRU 3.1.29R, as the case may be, apply <u>applies</u> even if the <i>applicable sectoral rules</i> do not deal with how <i>undertakings</i> not linked by capital ties are to be dealt with for the purposes of consolidated supervision (or, in the case of the <i>insurance sector</i>, supplementary supervision).</p> <p>(5) Once GENPRU 3.1.26R applies to a firm with respect to a financial conglomerate of which it is a member under GENPRU 3.1.27R(1) (automatic application of Method 4 from Annex I of the Financial Groups Directive on satisfaction of the condition in GENPRU 3.1.28R), the disapplication of GENPRU 3.1.28R under (2) ceases to apply with respect to that financial conglomerate. [deleted]</p>
--	--

9 Table: PART 6: Definitions used in this Annex

...		
Solo capital resources requirement: Banking sector and investment services sector	6.2	<p>...</p> <p>(2) The <i>solo capital resources requirement</i> of a building society is its CRR <u>own funds requirements</u>.</p> <p>...</p> <p>(4) If there is a <i>credit institution</i> in the <i>financial conglomerate</i>, the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is, subject to (2) and (3), calculated in accordance with the rules <u>EU CRR</u> for calculating the CRR <u>own funds requirements</u> of a bank that is a BIPRU firm.</p> <p>(5) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>;</p> <p>(b) there is at least one CAD <i>investment firm</i> in the <i>financial conglomerate</i>; and</p> <p>(c) all the CAD <i>investment firms</i> in the <i>financial conglomerate</i> are <i>limited licence firms</i> or <i>limited activity firms</i>;</p> <p>the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is calculated in accordance with the rules <u>EU CRR</u> for calculating the CRR <u>own funds requirements</u> of:</p> <p>(di) (if there is a <i>limited activity firm</i> in the <i>financial conglomerate</i>), a BIPRU <u>an IFPRU limited activity firm</u>;</p> <p>or</p> <p>(eii) (in any other case), a BIPRU <u>an IFPRU limited licence firm</u>.</p> <p>(6) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>;</p> <p>(b) (5) does not apply;</p> <p>the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment</i></p>

		<p><i>services sector</i> is calculated in accordance with the rules <u>EU CRR</u> for calculating the <u>€CRR own funds requirements</u> of a full scope <u>BIPRU IFPRU investment firm</u>.</p> <p>(7) <u>In relation to a BIPRU firm that is a member of a financial conglomerate</u> where there are no <u>credit institutions or investment firms</u>, Any <u>any CRR capital resources requirements</u> calculated under a BIPRU TP may be used for the purposes of the <u>solo capital resources requirement</u> in this rule in the same way that the <u>€CRR capital resources requirements</u> can be used under BIPRU 8.</p>
...		
Solo capital resources requirement: EEA firms in the banking or investment services sector	6.5	The <u>solo capital resources requirement</u> for an EEA regulated entity (other than a <u>bank, building society, designated investment firm, IFPRU investment firm, BIPRU firm, an insurer or an EEA insurer</u>) that is subject to the solo capital adequacy <u>sectoral rules</u> for its <u>financial sector</u> of the <u>competent authority</u> that authorised it is equal to the amount of capital it is obliged to hold under those <u>sectoral rules</u> provided that the following conditions are satisfied:
		...
...		

...

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

Financial sector	Appropriate regulator's sectoral <u>Sectoral rules</u>
<i>Banking sector</i>	BIPRU 8 and BIPRU TP, as adjusted under paragraph 4.5 <u>Part One, Title II, Chapter 2 of the EU CRR and the PRA Rulebook</u>
<i>Insurance sector</i>	<i>INSPRU 6.1</i>
<i>Investment services sector</i>	<u>(in relation to a designated investment firm or IFPRU investment firm which is a member of a financial conglomerate for which the PRA is the coordinator)</u> <u>Part One, Title II, Chapter 2 of the EU CRR and the PRA Rulebook;</u>

	<p>(in relation to an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>FCA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>EU CRR</i> and <i>IFPRU 8.1</i>;</p> <p>(in relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i> for which the <i>FCA</i> is the <i>coordinator</i>) <i>BIPRU 8</i> and <i>BIPRU TP</i>.</p>
--	--

3 Annex Prudential rules for third country groups (GENPRU 3.2.8R to GENPRU 2R 3.2.9R)

1 Table: PART 1: Third-country financial conglomerates

...	
1.2	A <i>firm</i> must comply, with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1, with whichever of GENPRU 3.1.26R and GENPRU 3.1.29R is <u>as applied</u> under paragraph 1.3.
1.3	<p>For the purposes of paragraph 1.2:</p> <p>(1) the rule in GENPRU 3.1 that applies as referred to in paragraph 1.2 is the one that is specified by the requirement referred to in GENPRU 3.2.8R; [deleted]</p> <p>(2) (where GENPRU 3.1.29R is applied) the definitions of <i>conglomerate capital resources</i> and <i>conglomerate capital resources requirement</i> that apply for the purposes of that <i>rule</i> are the ones from whichever of Part 1, <u>or Part 2</u> or Part 3 of GENPRU 3 Annex 1R is specified in that requirement <u>the requirement referred to in GENPRU 3.2.8R</u>; and</p> <p>...</p>
...	

2 Table: PART 2: Third-country banking and investment groups

...	
2.3	<p>The <i>rules</i> referred to in paragraph 2.2 are as follows:</p> <p>(1) the <i>applicable sectoral consolidation rules</i> in <i>BIPRU 8</i>; <u>or paragraph</u></p>

	6.10 of <i>GENPRU 3 Annex 1R</i> . (2) the rules in <i>ELM 7</i>.
...	

3 Annex Guidance Notes for Classification of Groups 3G

...

General guidance

...

Please note the following:

...

(d) You will need to assign non-regulated financial entities to one of these sectors:

- **banking / investment** activities are listed in – Annex 1 to the ~~Banking Consolidation Directive~~ Capital Requirements Directive 2013/36/EU
- **insurance** activities are listed in – IPRU Insurers Annex 11.1 and 11.2 ~~p 163-168~~

GENPRU TP 7 (Pillar 3 capital resources) is deleted in its entirety. The deleted text is not shown.

TP 8 Miscellaneous capital resources definitions for BIPRU firms

...		
		Preference shares
8.7	R	A bank or BIPRU investment firm may treat a preference share as eligible for inclusion within stage B of the <i>capital resources table</i> (Perpetual non-cumulative preference shares) if it would not otherwise be eligible if:
		(1) on 31 December 2006 the <i>firm</i> was subject to IPRU(BANK) or IPRU(INV) ;
		...
		(3) as at 31 December 2006 the <i>firm</i> included it, and was entitled to include it, in the calculation of its capital resources under IPRU(BANK) or IPRU(INV) as capital of a type that corresponded to

			<i>tier one capital resources;</i>
		...	
...			
		Upper tier 2 instruments: Deferral of interest	
8.9	R	A bank or BIPRU investment firm may treat a capital instrument as eligible for inclusion within stage G of the <i>capital resources table</i> (Upper tier two capital) if it would not otherwise be eligible if:	
		(1)	on 31 December 2006 the <i>firm</i> was subject to IPRU(BANK) or IPRU(INV) ;
		...	
		(3)	as at 31 December 2006 the <i>firm</i> included it, and was entitled to include it, in the calculation of its capital resources under IPRU(BANK) or IPRU(INV) as capital of a type that corresponded to <i>upper tier two capital resources</i> ;
		...	
...			
		Conversion ratio	
8.11	R	GENPRU 2.2.138R(2) (Tier one capital: Conversion ratio) does not apply to a <i>capital instrument</i> issued by a <i>firm</i> if:	
		(1)	on 31 December 2006 the <i>firm</i> was subject to IPRU(BANK) , IPRU(BSOC) or IPRU(INV) ;
		...	
		(3)	as at 31 December 2006 the <i>firm</i> included it, and was entitled to include it, in the calculation of its capital resources under:
		(a)	(in the case of a bank) IPRU(BANK) as innovative tier one capital as referred to in chapter CA of IPRU(BANK); or [deleted]
		(b)	(in the case of any other type of firm) IPRU(BSOC) or IPRU(INV) as capital of a type that corresponded to tier one capital.
		Legal opinions	
8.12	R	GENPRU 2.2.118R (Legal opinions for <i>innovative tier one capital</i>) does not apply to a <i>capital instrument</i> issued by a <i>firm</i> if:	

		(1)	on 31 December 2006 the <i>firm</i> was subject to <i>IPRU(BANK)</i> , <i>IPRU(BSOC)</i> or <i>IPRU(INV)</i> ;
		(2)	the <i>firm</i> issued the <i>capital instrument</i> on or before 31 December 2006; and
		(3)	(in the case of a <i>bank</i>) as at 31 December 2006 the <i>bank</i> included the <i>capital instrument</i>, and was entitled to include it, in the calculation of its capital resources under <i>IPRU(BANK)</i> as innovative tier one capital as referred to in chapter CA of <i>IPRU(BANK)</i>; and [deleted]
		(4)	(in any other case) the <i>firm</i> included the <i>capital instrument</i>, and was entitled to include it, in the calculation of its capital resources under <i>IPRU(BSOC)</i> or <i>IPRU(INV)</i> as capital of a type that corresponded to <i>tier one capital</i>.
8.13	R	The following rules:	
		...	
		do not apply to a <i>capital instrument</i> issued by a <i>firm</i> if:	
		(5)	on 31 December 2006 the <i>firm</i> was subject to <i>IPRU(BANK)</i> , <i>IPRU(BSOC)</i> or <i>IPRU(INV)</i> ;
		...	
		(7)	as at 31 December 2006 the <i>firm</i> included the <i>capital instrument</i> , and was entitled to include it, in the calculation of its capital resources under <i>IPRU(BANK)</i> , <i>IPRU(BSOC)</i> or <i>IPRU(INV)</i> as capital of the type that corresponds to:
		...	
...			
		Waivers and concessions	
8.16	G	A reference to a <i>firm</i> being entitled to include <i>capital instruments</i> in the calculation of its capital resources under <i>IPRU(INV)</i> at a particular level includes the <i>firm</i> being able to do this under a <i>waiver</i> or, in the case of <i>IPRU(BANK)</i> or <i>IPRU(BSOC)</i>, a written approval by the <i>appropriate regulator</i>.	
...			

TP 8A Further miscellaneous capital resources definitions for BIPRU firms

...				
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8A.3	R	If a <i>BIPRU firm</i> treats a <i>capital instrument</i> as eligible for inclusion as <i>hybrid capital</i> under <i>GENPRU TP 8A.2R</i> , then the <i>firm</i> :		
		...		
		(2)	except where it is a <i>building society</i> , must apply the limit in <i>GENPRU 2.2.30AR(3)</i> to the aggregate of the <i>capital instruments</i> treated under (1) and the <i>hybrid capital</i> that is eligible under <i>GENPRU 2.2</i> for inclusion at stage C of the calculation in the <i>capital resources table</i> ;	
		(3)	in the case of a <i>building society</i> , must not include <i>hybrid capital</i> at stage C of the calculation in the <i>capital resources table</i> under <i>GENPRU 2.2</i> , except as provided by (4), if the amount of <i>PIBS</i> with incentives to redeem treated under <i>GENPRU TP 8A.2R</i> exceeds the limit in <i>GENPRU 2.2.30AR(3)</i> ; [deleted]	
		(4)	in the case of a <i>building society</i> , may include <i>hybrid capital</i> at stage C of the calculation in the <i>capital resources table</i> , notwithstanding (3), if the <i>firm</i> issued it after 30 December 2010 and:	
			(a)	the <i>capital instrument</i> would otherwise be eligible for inclusion as <i>hybrid capital</i> at stage C of the calculation in the <i>capital resources table</i> under <i>GENPRU 2.2</i>; and
			(b)	the <i>firm</i> issued it in order to replace a <i>PIBS</i> with an incentive to redeem that the <i>firm</i> treated as <i>hybrid capital</i> under <i>GENPRU TP 8A.2R</i>; [deleted]
		...		
...				
8A.6	R	In relation to the <i>tier one capital resources</i> of a <i>BIPRU firm</i> , calculated at stage F of the calculation in the <i>capital resources table</i> (Total tier one capital after deductions):		
		...		
			(b)	in the case of a <i>building society</i> , any <i>PIBS</i> with an incentive to redeem treated under <i>GENPRU TP 8A.2R</i> is to be treated as <i>hybrid capital</i> included at stage C of the calculation in the <i>capital resources table</i> and as subject to the limit in <i>GENPRU 2.2.30AR(3)</i> ; and [deleted]
		...		

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

capital

...				
		Core tier one capital		
8B.3	R	The Royal Bank of Scotland plc may treat a <i>share</i> falling within <i>GENPRU</i> TP 8B.4R as eligible for inclusion within stage A of the <i>capital resources table</i> (Core tier one capital) if it would not otherwise be eligible provided that:		
		(1)	the <i>share</i> :	
			(a)	had been issued on or before 30 December 2010; or
			(b)	if issued after that date, is issued pursuant to a contractual obligation requiring its issue entered into on or before 30 December 2010;
		(2)	as at 30 December 2010 The Royal Bank of Scotland plc was entitled (or would have been entitled, had the <i>share</i> then been issued) to include it in the calculation of its <i>capital resources</i> under <i>GENPRU</i> as <i>permanent share capital</i> and, in the case of a <i>share</i> which had been issued as at that date, did so include it; and	
		(3)	the <i>share</i> is held by or on behalf of the Government of the <i>United Kingdom</i> . [deleted]	
8B.4	R	The <i>shares</i> referred to in <i>GENPRU</i> TP 8B.3R are as follows:		
		(1)	The Royal Bank of Scotland Group plc Series 1 Class B Shares of 1p each; and	
		(2)	The Royal Bank of Scotland Group plc Series 1 Dividend Access Share of 1p;	
		either as separate instruments or considered together as connected instruments. [deleted]		
...				

GENPRU TP 14 (Continued use of IPRU expenditure requirements by BIPRU investment firms) and GENPRU TP 16 (AIFMD) are deleted in their entirety. The deleted text is not shown.

Annex B

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

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

1 Application

1.1 Application

1.1.1 G There is no overall application statement for *BIPRU*. Each chapter or section has its own application statement. Broadly speaking however, *BIPRU* applies to in the following manner:

- (1) ~~a bank;~~ [deleted]
- (2) ~~a building society;~~ [deleted]
- (3) to a BIPRU investment firm; and
- (3A) to an IFPRU investment firm, only BIPRU 12 (Liquidity standards); and
- (4) in relation to groups containing such firms:
 - (a) only BIPRU 12 (Liquidity standards) applies to the group containing any of the firms in (3) and (3A); and
 - (b) BIPRU as a whole applies to the group containing only the firms in (3).

...

1.1.2A G BIPRU applies to a collective portfolio management investment firm that is a BIPRU firm in parallel with IPRU(INV) 11 (see IPRU(INV) 11.6).

...

Purpose

1.1.4 G *BIPRU* 1.1 implements in part the third paragraph of article 95(2) of the EU CRR that permits the FCA to apply the Banking Consolidation Directive and Articles 3(1)(b), 5, 9, 10 and 20 of the Capital Adequacy Directive.

~~Guidance on the categorisation of BIPRU investment firms~~

1.1.5 G ~~Guidance on the categorisation of investment firms for the purposes of BIPRU and GENPRU is included in PERG 13 (Guidance on the scope of the Markets in Financial Instruments Directive and the recast Capital Adequacy~~

~~Directive).~~ [deleted]

The definition of a BIPRU firm

- 1.1.6 R Subject to ~~BIPRU 1.1.7R~~, a *BIPRU firm* means a *firm* that is:
- (1) ~~a *building society*; or~~
 - (2) ~~a *bank*; or~~
 - (3) ~~a *full scope BIPRU investment firm*; or~~
 - (4) ~~a *BIPRU limited licence firm*; or~~
 - (5) ~~a *BIPRU limited activity firm*.~~ [deleted]
- 1.1.7 R None of the following is a *BIPRU firm* and each is excluded from each of the categories of *BIPRU investment firm* listed in ~~BIPRU 1.1.6R(3) to BIPRU 1.1.6R(5) and BIPRU 1.1.18R(2) to (4)~~:
- ...
- 1.1.7A G In summary, a *BIPRU firm*:
- (1) does not provide the *ancillary service of safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management, and is not authorised to do so*;
 - (2) is not authorised to provide the following *investment services*:
 - (a) to deal in any *financial instruments* for its own account;
 - (b) to underwrite issues of *financial instruments* on a *firm commitment basis*;
 - (c) to place *financial instruments* without a *firm commitment basis*; and
 - (d) to operate a *multilateral trading facility*;
 - (3) is authorised to provide one or more of the following *investment services*:
 - (a) the execution of investors' orders for *financial instruments*; or
 - (b) the management of individual portfolios of investments in *financial instruments*;
 - (4) may be authorised to provide one or more of the following *investment services*:

- (a) reception and transmission of investors' orders for *financial instruments*; or
- (b) investment advice; and
- (5) does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation or requirement prohibiting the holding of client money and its permission should not include safeguarding and administering investments*).
- 1.1.8 R ~~A firm falling within BIPRU 1.1.6R(3) to BIPRU 1.1.6R(5) is a BIPRU investment firm. A BIPRU investment firm includes a collective portfolio management investment firm that is not excluded under BIPRU 1.1.7R. [deleted]~~
- 1.1.9 G ~~EEA firms are subject to the prudential standards of their home state regulator. But the Banking Consolidation Directive permits a host state competent authority to require a BCD credit institution to meet certain standards relating to its liquidity. The appropriate regulator's approach to liquidity for such firms is set out in BIPRU 12. [deleted]~~
- 1.1.10 G ...
- (2) ... The reasons for that policy include:
- (a) it is unlikely that a firm that is not subject to equivalent supervision will be able to satisfy the *threshold conditions* (and in particular *threshold condition 5* (Suitability)) and it is unlikely that it will be possible to establish that the firm does satisfy them; and
- (b) such a firm is likely to pose a threat to the interests of *consumers* and potential *consumers*, particularly as effective supervision of an *overseas firm* depends on cooperation between the *appropriate regulator* and the *regulatory body* that authorises the firm in its home country and on the *appropriate regulator* being able to place appropriate reliance on the supervision carried out by such *regulatory body*; and .
- (c) ~~under Article 38(1) of the Banking Consolidation Directive the appropriate regulator should not apply to branches of credit institutions having their head office outside the EEA, when commencing or carrying on their business, provisions which result in more favourable treatment than that accorded to branches of credit institutions having their head office in the EEA. [deleted]~~
- ...
- (5) An *overseas firm* that is subject to equivalent supervision is subject to the *threshold conditions* and the *Principles*. BIPRU and GENPRU

do not generally apply. However ~~BIPRU 12~~ applies to a *credit institution* with respect to liquidity risk in relation to its *United Kingdom branch*.

BIPRU 1.1.11R to BIPRU 1.1.26R are deleted in their entirety. The deleted text is not shown.

1.2 Definition of the trading book

...

- 1.2.2 G The Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the section implements certain provisions of the *Capital Adequacy Directive* and the *Banking Consolidation Directive* relating to the *trading book*. The precise provisions being implemented as listed as a note after each *rule*.

...

1.3 Applications for advanced approaches and waivers

...

- 1.3.2 G (1) A *firm* may apply for an *Article 129 permission* or a *waiver* in respect of:
- ...
- (b) ~~the advanced measurement approach~~; [deleted]
- ...
- (2) A *firm* should apply for a *waiver* if it wants to:
- ...
- (da) apply the treatment for a *core UK group* in *BIPRU 3.2.25R* (Zero risk-weighting for intra-group exposures) ~~or in BIPRU 10.8A (Intra-group exposures: core UK group)~~; or
- (e) ~~apply the treatment for a non-core large exposures group in BIPRU 10.9A (Intra-group exposures: non-core large exposures group)~~; or [deleted]
- (f) ~~apply the treatment in BIPRU 10.6.35R (Sovereign large exposure waiver)~~. [deleted]

...

Forms and method of application

...

- 1.3.14 D ~~If a firm wishes to apply for a waiver or an Article 129 permission to use the advanced measurement approach, it must complete and submit the form in BIPRU 1 Annex 1DD. [deleted]~~

...

2 Capital

2.1 Solo consolidation

...

- 2.1.2 G ~~The Pursuant to the third paragraph of article 95(2) of the EU CRR, the purpose of this section is to implement Articles 70 and 118 of the Banking Consolidation Directive, so far as they apply under It also implements Articles 2 and 28 of the Capital Adequacy Directive so far as they apply those provisions of the Banking Consolidation Directive to CAD investment firms that are subject to the requirements imposed by MiFID (or which would have been subject to that Directive if its head office were in an EEA State), but excluding a bank, building society, a credit institution, a local and an exempt CAD firm.~~

...

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

...

- 2.1.16 R ~~A firm must apply BIPRU 10 (Large exposure requirements) in accordance with BIPRU 8.9A (Consolidated large exposures requirements). Accordingly the firm must apply BIPRU 8.9A to the group made up of the firm and the subsidiary undertakings referred to in BIPRU 2.1.7R in the same way as BIPRU 8.9A applies to a UK consolidation group or non-EEA sub-group. [deleted]~~
- 2.1.17 G One effect of BIPRU 2.1.16R is that BIPRU 10.8A (Core UK groups) and BIPRU 10.9A (Non core large exposures groups) do not apply. The corresponding provisions of BIPRU 8.9A (Consolidated large exposures requirements) apply instead. [deleted]

...

2.2 Internal capital adequacy standards

...

2.2.48 G (1) ~~BIPRU 2.2.49G~~ 2.2.61G to BIPRU 2.2.70G set out guidance for:

(a) ~~a bank or building society;~~ [deleted]

...

...

2.3 Interest rate risk in the non-trading book

...

2.3.2 G (1) ~~Interest rate risk in the non-trading book will normally be a major source of risk for:~~

(a) ~~a bank;~~

(b) ~~a building society; and~~

(c) ~~a BIPRU investment firm that deals on own account (including underwriting on a firm commitment basis) and whose non-trading book business equals or exceeds 15% of its total business.~~ [deleted]

(2) ~~However it will not normally be a significant risk for any other BIPRU investment firm.~~ [deleted]

(3) ~~The test in (1)(c) should be carried out in the same way as it is for the purpose of the 5% test in BIPRU 1.2.17R (Definition of the trading book).~~ [deleted]

(4) ~~The test in (1)(c) should be carried out in the same way as it is for the purpose of the 5% test in BIPRU 1.2.17R (Definition of the trading book).~~ [deleted]

...

3 Standardised credit risk

3.1 Application and purpose

...

3.1.2 G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, *BIPRU 3* implements:

...

...

3.2 The central principles of the standardised approach to credit risk

...

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

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

...

3.2.27A G ...

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

(3) For the purpose of (2), the obligation to increase the *firm's capital resources* may be limited to capital resources available to the *counterparty* and may reasonably exclude such amount of capital resources that, if transferred to the *firm*, would cause the *counterparty* to become balance sheet insolvent in the manner contemplated in section 123(2) of the Insolvency Act 1986.

...

- 3.2.30 G For the purpose of *BIPRU* 3.2.25R(1)(e) (Prompt transfer of capital resources):
- (1) in the case of an *undertaking* that is a *firm* the requirement in *BIPRU* 3.2.25R(1)(e) for the prompt transfer of *capital resources* refers to *capital resources* in excess of the capital and financial resources requirements to which it is subject under the *regulatory system*; and
 - (2) ~~the following guidance relating to the condition in *BIPRU* 10.8A.2R(6) requiring the prompt transfer of *capital resources* within a *core UK group* as applicable for the exemption from *large exposure* limits is also relevant:~~
 - (a) ~~*BIPRU* 10.8A.6G in respect of the criteria that the *appropriate regulator* will consider when assessing whether the condition requiring the prompt transfer of *capital resources* is going to be met; and~~
 - (b) ~~*BIPRU* 10.8A.7G(2) in respect of the counterparty's obligation to increase the *firm's capital resources* and the limitations that may be permitted. [deleted]~~
 - (3) the *FCA* will consider the following criteria:
 - (a) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment;
 - (b) whether there are any interests other than those of the *firm* in the *core concentration risk group counterparty* and what impact those other interests may have on the *firm's* control over the *core group concentration risk group counterparty* and the ability of the *firm* to require a transfer of funds or repayment of liabilities;
 - (c) whether there are any tax disadvantages for the *firm* or the *core concentration risk group counterparty* as a result of the transfer of funds or repayment of liabilities;
 - (d) whether the purpose of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;
 - (e) whether the legal structure of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;
 - (f) whether the contractual relationships of the *core concentration risk group counterparty* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and

- (g) whether past and proposed flows of funds between the *core concentration risk group counterparty* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities.

...

4 The IRB approach

4.1 The IRB approach: Application, purpose and overview

Application

- 4.1.1 R *BIPRU* 4 applies to a *BIPRU* firm with an *IRB permission*.

Purpose

- 4.1.2 G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, *BIPRU* 4 implements the following provisions of the *Banking Consolidation Directive*:

...

- 4.1.3 G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, *BIPRU* 4 also implements Annex VIII of the *Banking Consolidation Directive* so far as it applies to the *IRB approach*. In particular, it implements) in part:

...

- 4.1.4 G Similarly, *BIPRU* 4 also implements Article 40 of the *Capital Adequacy Directive* as it applies to the *IRB approach*.

...

4.2 The IRB approach: High level material

...

- 4.2.33 G (1) ~~This guidance sets out at what level the tests in *BIPRU* 4.2.30R—*BIPRU* 4.2.32G will be applied in the case of a *firm* that is a member of a group that is part of a bigger group. [deleted]~~
- (2) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *EEA banking and investment group* for which the *appropriate regulator* is also lead regulator then *BIPRU* 4.2.30R—*BIPRU* 4.2.32G apply with respect to that wider group. [deleted]~~

- (3) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *EEA banking and investment group* for which another *competent authority* is lead regulator then *BIPRU 4.2.26R(4)* applies with respect to that wider group but the requirements of that lead regulator will generally apply in place of *BIPRU 4.2.30R—BIPRU 4.2.32G*. [deleted]~~
- (4) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *third-country banking and investment group* that is subject to equivalent supervision by a regulatory authority outside the *EEA*, then *BIPRU 4.2.26R(4)* applies with respect to both that wider group and the sub-group of which the *appropriate regulator* is lead regulator. However the requirements of that third country regulator apply in place of *BIPRU 4.2.30R—BIPRU 4.2.32G*. The question of whether supervision is equivalent is decided in accordance with *GENPRU 3.2 (Third country groups)*. [deleted]~~
- (5) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *third-country banking and investment group* that is not subject to equivalent supervision by a regulatory authority outside the *EEA*, then *BIPRU 4.2.30R—BIPRU 4.2.32G* will apply. *BIPRU 4.2.30R—BIPRU 4.2.32G* will apply to the whole group if *GENPRU 3.2.9R (Supervision by analogy)* applies. If *GENPRU 3.2.4G (Alternative measures)* applies, *BIPRU 4.2.30R—BIPRU 4.2.32G* will apply to the *EEA banking and investment group*. [deleted]~~
- (6) ~~In the case of a group described in (2) or (3) in respect of which the *Article 129 procedure* applies then *BIPRU 4.2.26R(4)* applies with respect to that wider group. The detailed requirements that apply will be decided in accordance with that procedure. [deleted]~~

...

5 Credit risk mitigation

5.1 Application and purpose

...

- 5.1.2 G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, *BIPRU 5* implements, in part, Articles 78(1) and 91 to 93 and Annex VIII of the *Banking Consolidation Directive*.

...

BIPRU 6 (Operational risk) is deleted in its entirety. The deleted text is not shown.

7 Market risk

7.1 Application, purpose, general provisions and non-standard transactions

...

7.1.2 G ~~The Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of this chapter is to implement Annexes I, III, IV and V of the *Capital Adequacy Directive*.~~

...

7.2 Interest rate PRR

...

7.2.49 R A debt security is a *qualifying debt security* if:

...

(4) it is a debt security issued by an *institution* subject to the capital adequacy requirements set out in the *EU CRR* or, as may be applicable, the *Banking Consolidation Directive* that satisfies the following conditions:

...

...

...

8 Group risk consolidation

8.1 Application

...

8.1.2A R A firm is not subject to consolidated supervision under *BIPRU 8* where any of the following conditions are fulfilled:

(1) the firm is included in the supervision on a consolidated basis of the group of which it is a member by the *FCA* or *PRA* under the *EU CRR*;
or

(2) the firm is included in the supervision on a consolidated basis of the group of which it is a member by a competent authority other than the FCA under the EU CRR as implemented by that competent authority.

8.1.2B R Where a group includes one or more BIPRU firms and one or more IFPRU investment firms which has permission under article 19 of the EU CRR (Exclusion from the scope of prudential consolidation) from the FCA not to be included in the supervision on a consolidated basis of the group of which it is a member, consolidated supervision under BIPRU 8 applies to those IFPRU investment firms and the BIPRU firms.

Purpose

8.1.3 G ~~This~~ Pursuant to the third paragraph of article 95(2) of the EU CRR, this chapter implements articles 71,73(1) and (2), 125, 126, 127(1), 133 and 134 of the *Banking Consolidation Directive* and articles 2 (in part), 22 – 27 and 37(1) (in part) of the *Capital Adequacy Directive*.

...

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

Main consolidation rule for non-EEA sub-groups

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

...

...

8.3.5 G ~~BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group) sets out examples of how to identify a non-EEA sub-group. [deleted]~~

...

8.3.7 G A firm will not be a member of a non-EEA sub-group unless it is also a member of a UK consolidation group. So the first step is to identify each undertaking in the firm's UK consolidation group that satisfies the following conditions:

(1) it is ~~an institution~~ a CAD investment firm, financial institution or

asset management company whose head office is outside the EEA (a *third country banking or investment services undertaking*);

...

...

8.3.9 G If more than one *BIPRU firm* is a direct or indirect *parent undertaking* in accordance with *BIPRU* 8.3.7G(2)(a) then the *sub-groups* of each of them are all potential *non-EEA sub-groups*. ~~This is illustrated in example three in *BIPRU* 8 Annex 3G (Examples of how to identify a non-EEA sub-group), where the *sub-group* of UK bank 1 and the *sub-group* of UK bank 2 are potential *non-EEA sub-groups*.~~

8.3.10 G Similarly if there is more than one *BIPRU firm* that holds a *participation* in the *third country banking or investment services undertaking* in accordance with *BIPRU* 8.3.7 G(2)(b) then the *sub-group* of each such *BIPRU firm* is a potential *non-EEA sub-group*.

8.3.11 G The effect of *BIPRU* 8.3.7G(3) is that a *non-EEA sub-group* cannot be headed by a *parent institution in a Member State*. ~~This is illustrated in example one of *BIPRU* 8 Annex 3G (Examples of how to identify a non-EEA sub-group).~~

8.3.12 G The *firm* should then identify each *undertaking* in the *firm's UK consolidation group* that satisfies the following conditions:

- (1) it is ~~an institution~~ a *CAD investment firm, financial institution* or *asset management company* whose head office is outside the EEA (a *third country banking or investment services undertaking*);

...

...

8.3.14 G The *financial holding company* identified in *BIPRU* 8.3.12G may be a *parent financial holding company in a Member State*. ~~This is illustrated by example 2 of *BIPRU* 8 Annex 3G (Examples of how to identify a non-EEA sub-group).~~

...

8.3.16 G Similarly if there is more than one *financial holding company* that holds a *participation* in the *third country banking or investment services undertaking* in accordance with *BIPRU* 8.3.12G(2)(b) then the *sub-group* of each such *financial holding company* is a potential *non-EEA sub-group*.

8.3.17 G The *firm* should apply the process in *BIPRU* 8.3.12G to a *third country banking or investment services undertaking* even though it may be also be part of a potential *non-EEA sub-group* under *BIPRU* 8.3.7G.

8.3.18 G Having identified potential *non-EEA sub-groups* for each *third country banking or investment services undertaking* in its *UK consolidation group* the *firm* should then eliminate overlapping potential *non-EEA sub-groups* in the following way. If:

...

(2) the *third country banking or investment services undertakings* in the two potential *non-EEA sub-groups* are the same;

...

8.3.19 G If there is a chain of three or more potential *non-EEA sub-groups*, each with the same *third country banking or investment services undertakings*, the elimination process may remove all but the highest. ~~This is illustrated in example three in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group). In this example there are four potential non-EEA sub-groups and the elimination process results in just one remaining (the one headed by the UK parent financial holding company in a Member State).~~

...

8.3.21 G ~~Examples four and five in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group) show how the same group may contain two non-EEA sub-groups even though the smaller potential non-EEA sub-group is part of a bigger one. The reason for there being two non-EEA sub-groups in these examples is that one of the third country banking or investment services undertakings is not a member of both potential non-EEA sub-groups. [deleted]~~

8.3.22 G If a *UK consolidation group* is headed by a *parent financial holding company in a Member State* the result of the elimination process may be that a *firm's UK consolidation group* contains only one *non-EEA sub-group* and that the *non-EEA sub-group* is the same as the *UK consolidation group*. In theory that means that there are two sets of consolidation requirements, one in relation to the *UK consolidation group* and one in relation to the *non-EEA sub-group*. However as the *UK consolidation group* and the *non-EEA sub-group* are the same, in practice this means that the additional *non-EEA sub-group* consolidation disappears. ~~This is illustrated in example three in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group). The effect of BIPRU 8.3.7G(3) is that this is not the case if the UK consolidation group is headed by a parent institution in a Member State, as illustrated in example 1 in BIPRU 8 Annex 3G.~~

...

8.3.24 G The examples in this section have so far assumed that the only *EEA State* involved is the *United Kingdom*. If a potential *non-EEA sub-group* that would otherwise be regulated by the *appropriate regulator* contains a potential *non-EEA sub-group* in another *EEA State* then the *United Kingdom* one is eliminated if the *third country banking or investment services*

undertaking in the UK potential *non-EEA sub-group* and the potential *non-EEA sub-group* in the other *EEA State* are the same. The intention here is that the *EEA competent authority* closest to the *third country* ~~banking or investment services undertaking~~ should be responsible for the *non-EEA sub-group* subconsolidation. Example 6 in *BIPRU 8 Annex 3G* (Examples of how to identify a non-EEA sub-group) illustrates this situation.

8.4 CAD Article 22 groups and investment firm consolidation waiver (BIPRU firm only)

Application

- 8.4.1 R This section applies to a *BIPRU investment firm* with an *investment firm consolidation waiver*.
- 8.4.1A G An investment firm consolidation waiver may be applied for by a BIPRU firm only.
- ...
- 8.4.9 R ...
- (2) There must be no *bank, building society, or credit institution or investment firm* in the *UK consolidation group* or *non-EEA sub-group*.
- ...
- (6) Each *BIPRU investment firm* in the *UK consolidation group* or *non-EEA sub-group* must comply with the *main BIPRU firm Pillar1 rules* on an individual basis.
- 8.4.10 G *GENPRU 2.2* (Capital resources) says that a *BIPRU investment firm* with an *investment firm consolidation waiver* should calculate its *capital resources* on a solo basis using *GENPRU 2 Annex 6R* (Capital resources table for a *BIPRU investment firm* with a waiver from consolidated supervision). *GENPRU 2 Annex 6R* requires a *BIPRU investment firm* to deduct contingent liabilities in favour of other members of the *UK consolidation group* or *non-EEA sub-group*. Therefore *BIPRU 8.4.9R(5)(b)* only imposes the requirement to deduct them on *EEA firms*.
- ...
- 8.4.13 R The solo notional capital resources requirement as referred to in *BIPRU 8.4.11R(1)* is calculated in the same way as the capital resources requirement for a BIPRU firm:
- (1) ~~(if each CAD investment firm in the UK consolidation group or non-EEA sub-group is a limited licence firm) the capital resources~~

requirement for a BIPRU limited licence firm; or

- (2) *(in any other case) the capital resources requirement for a BIPRU limited activity firm.*

...

8.5 Basis of consolidation

Undertakings to be included in consolidation

- 8.5.1 R A firm must include only the following types of *undertaking* in a UK consolidation group or non-EEA sub-group for the purposes of this chapter:

...

- (2) ~~an institution;~~ [deleted]

...

...

- 8.5.3 G An example of BIPRU 8.5.2G is as follows. Say that the *undertaking* at the head of a ~~bank's~~ BIPRU firm's UK group is a *parent financial holding company in a Member State*. One of its *subsidiary undertakings* is the ~~bank firm~~. The *parent financial holding company in a Member State* also has an *insurer* as a *subsidiary undertaking*. That *insurer* has several ~~investment BIPRU firms~~ as *subsidiary undertakings*. Say that the UK group is not a *financial conglomerate*. The UK consolidation group will include the *parent financial holding company in a Member State* and the ~~bank firm~~. It will also include the ~~investment BIPRU firms~~ that are *subsidiary undertakings* of the *insurer*. This is because the ~~investment BIPRU firms~~ are *subsidiary undertakings* of the *parent financial holding company in a Member State* through the *parent financial holding company in a Member State's* holding in the *insurer*. However it will not include the *insurer* itself.

...

- 8.5.9 R A firm may, having first notified the *appropriate regulator* in writing in accordance with SUP 15.7 (Form and method of notification), exclude ~~an institution,~~ a BIPRU firm, *asset management company, financial institution or ancillary services undertaking* that is a *subsidiary undertaking* in, or an *undertaking* in which a *participation* is held by, the UK consolidation group or non-EEA sub-group if the balance sheet total of that *undertaking* is less than the smaller of the following two amounts:

...

...

- 8.5.11 G Article 73(1) of the *Banking Consolidation Directive* allows the *appropriate regulator* to decide to exclude ~~an institution~~ a BIPRU firm, *financial institution, asset management company or ancillary services undertaking* that is a *subsidiary undertaking* in, or an *undertaking* in which a *participation* is held by, the *UK consolidation group* or *non-EEA sub-group* for the purposes of this chapter in the following circumstances:

...

- (2) where, in the opinion of the *appropriate regulator*, the *undertaking* concerned is of negligible interest only with respect to the objectives of monitoring ~~institutions~~ BIPRU firms; or
- (3) where, in the opinion of the *appropriate regulator*, the consolidation of the financial situation of the *undertaking* concerned would be inappropriate or misleading as far as the objectives of the supervision of ~~institutions~~ BIPRU firms are concerned.

...

8.6 Consolidated capital resources

...

~~Calculation of consolidated capital resources if there is a building society in the group~~

- 8.6.6 R ~~Where a firm's UK consolidation group or non-EEA sub-group includes a building society, the firm must calculate that group's consolidated capital resources using the calculation of capital resources for building societies. [deleted]~~

~~Calculation of consolidated capital resources if there is a bank or credit institution in the group~~

- 8.6.7 R ~~Where a firm's UK consolidation group or non-EEA sub-group includes a bank or credit institution but not a building society, the firm must calculate that group's consolidated capital resources using the calculation of capital resources for banks. [deleted]~~

~~Calculation of consolidated capital resources for an investment a BIPRU firm group~~

- 8.6.8 R ~~Where a firm's UK consolidation group or non-EEA sub-group does not include a bank, building society or credit institution, the A firm must calculate that group's the consolidated capital resources of its UK consolidation group or non-EEA sub-group using the calculation of capital resources in GENPRU 2 Annex 4R (Capital resources table for a BIPRU investment firm deducting material holdings) or GENPRU 2 Annex 5R~~

(Capital resources table for a BIPRU investment firm deducting illiquid assets).

...

~~Venture Capital Investments~~

8.6.21 R ~~Part 2 of stage M in the capital resources table for banks in GENPRU 2 Annex 2R and the capital resources table for building societies in GENPRU 2 Annex 3R is adjusted so as to read as follows in relation to the deduction of investments in subsidiary undertakings and participations: [deleted]~~

Deductions from the totals of tier one and tier two		(M)
...
<p>...</p> <p>Investments in subsidiary undertakings and participations excluding:</p> <p>(1) any amount which is already deducted as <i>material holdings</i> or <i>qualifying holdings</i>; and</p> <p>(2) any investment in an <i>undertaking</i> that meets the following conditions:</p> <p>(a) the investment has been made by a Venture Capital Investor and the <i>firm</i> is entitled to ignore (i) the Venture Capital Investor making that investment in accordance with GENPRU 2.2.209R(2) or (ii) the Venture Capital Holding Company (or a proportion of it) which holds the Venture Capital Investor in accordance with GENPRU 2.2.209R(3) for the purpose of determining whether there is a <i>material holding</i>;</p> <p>(b) the investment is a <i>venture capital investment</i>; and</p> <p>(c) the <i>undertaking</i> is not (i) a <i>credit institution</i> or (ii) <i>financial institution</i> the principal activity of which is to perform any activity other than the acquisition of holdings in other <i>undertakings</i>.</p>	<p>...</p> <p>GENPRU 2.2.216AG</p>	<p>(Part 2 of stage M)</p>

8.7 Consolidated capital resources requirements

...

8.7.3 G ~~The first step is for a *firm* to identify what sort of group it belongs to as the calculation of the *consolidated capital resources requirement* differs between different types of groups. This is set out in *BIPRU 8 Annex 5R* (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group). *BIPRU 8 Annex 5R* shows, for each type of group:~~

- (1) ~~which of the *consolidated requirement components* apply and which do not; and~~
- (2) ~~how to add up the different *consolidated requirement components* to reach the overall *consolidated capital resources requirement*.~~
[deleted]

8.7.4 G ~~*BIPRU 8 Annex 5 R* (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group) categorises groups by reference to what kind of *undertakings* they contain (*credit institutions, limited licence firms, limited activity firms* or *CAD full scope firms*). [deleted]~~

...

8.7.10 R A *firm* must calculate the *consolidated capital resources requirement* of its *UK consolidation group* or *non-EEA sub-group* ~~in accordance with the method identified by the decision tree in *BIPRU 8 Annex 5R* (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group)~~ as the higher of the following consolidated requirements components:

- (1) the sum of the *consolidated credit risk requirement* and the *consolidated market risk requirement*; and
- (2) the *consolidated fixed overheads requirement*.

...

8.7.12 R This table belongs to *BIPRU 8.7.11R*

<i>Consolidated requirement component</i>	<i>Rules on which the consolidated requirement component are based (the applicable risk capital requirement)</i>
...	...
<i>Consolidated operational risk requirement</i>	<i>Operational risk capital requirement</i>

...

- 8.7.18 R The *credit risk capital requirement* (on which the *consolidated credit risk requirement* is based) is split into ~~three~~ two capital charges. One relates to credit risk in the *non-trading book* (the *credit risk capital component*). One relates to credit risk in the *trading book* (the *counterparty risk capital component*). ~~The third is a capital charge for exposures in the trading book that exceed the limits in BIPRU 10.5 (Limits on exposures). This is called the concentration risk capital component.~~

...

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

- (1) each of the *undertakings* in that group or sub-group is an *institution* that is:
 - (a) a *BIPRU firm*;
 - (b) an *EEA firm* that is a *CAD investment firm*; or
 - (c) ~~a recognised third country credit institution; or [deleted]~~
 - (d) a *recognised third country investment firm*;
- (2) each of the *undertakings* referred to in (1) that is a *BIPRU firm* has *capital resources* that are equal to or in excess of its *capital resources requirement* ~~and complies with BIPRU 10 (Large exposures requirements)~~;
- (3) each of the *undertakings* referred to in (1) that is an *EEA firm* complies with the *CRD implementation measures* in its *EEA State* that correspond to the requirements in (2);
- (4) each of the *undertakings* referred to in (1) that is a ~~recognised third country credit institution~~ or recognised third country investment firm complies with laws in the state or territory in which it has its head office that are equivalent to the requirements of the *Banking Consolidation Directive* or *Capital Adequacy Directive* relating to capital adequacy ~~and concentration risk~~;
- (5) there is no material legal, regulatory or contractual impediment to the

transfer of funds between those *undertakings* in that group or sub-group;

- (6) there is no material legal, regulatory or contractual impediment to mutual financial support between those *undertakings* in that group or sub-group;
- (7) the *market risk position* of the *undertakings* are monitored and managed on a co-ordinated basis; and
- (8) there is satisfactory allocation of capital within the group or sub-group.

...

- 8.7.30 R (1) ~~This rule applies when the rules applicable under BIPRU 8.7.12 R apply differently for different types of firms. [deleted]~~
- (2) ~~Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 1 in BIPRU 8 Annex 5 R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group), the rules that apply are those that apply to a bank that is a BIPRU firm. [deleted]~~
- (3) ~~Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 2 in BIPRU 8 Annex 5R, the rules that apply are those that apply to a full scope BIPRU investment firm. [deleted]~~
- (4) ~~Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 3 in BIPRU 8 Annex 5R, the rules that apply are those that apply to a BIPRU limited activity firm. [deleted]~~
- (5) ~~Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 4 in BIPRU 8 Annex 5R, the rules that apply are those that apply to a BIPRU limited licence firm. [deleted]~~

...

- 8.7.32 G ~~Similarly BIPRU 8.7.30R may have the effect that the risk capital requirement for a BIPRU firm is calculated differently from the way it is on a solo basis. Thus for example if the risk capital requirement is being calculated for a BIPRU limited licence firm that is a subsidiary undertaking of a bank the risk capital requirement should be calculated using the rules for a bank. [deleted]~~

...

8.8 Advanced prudential calculation approaches

...

~~Special provisions relating to the advanced measurement approach~~

- 8.8.5 R ~~*BIPRU 6.5.27 R(6)* (Insurance should be provided by a third party entity for the purposes of the advanced measurement approach) is amended to provide that the insurance must be provided by an *undertaking* that is not in the same *group* as the *firm* or other members of the *UK consolidation group* or *non-EEA sub-group*. In the case of insurance through captives and affiliates, the exposure must be laid off to an independent *undertaking* that is not in the same *group* as the *firm* or other members of the *UK consolidation group* or *non-EEA sub-group*, for example through reinsurance that meets the eligibility criteria. [deleted]~~
- 8.8.6 G ~~In the case of insurance through captives and affiliates, the *exposure* should be laid off outside the *firm's group* to an independent third party. [deleted]~~
- 8.8.7 G ~~*BIPRU 8.7.26R* deals with the combination of the *advanced measurement approach* with other approaches to *operational risk* on a group level. [deleted]~~
- ...
- 8.8.9 G The governance arrangements that apply to the *governing body*, the senior management and any *designated committee* of a *firm* in relation to the *IRB approach* ~~or the *AMA*~~ also apply to the body or *persons* with equivalent powers with respect to the *UK consolidation group* or *non-EEA sub-group*. Where the *parent undertaking* and its *subsidiary undertakings* use rating systems on a unified basis, the approval and reporting process described in *BIPRU 4.3.12G* (Approval and reporting arrangements for the *IRB approach* where rating systems are used on a unified group basis) ~~and *BIPRU 6.5.32G* (Approval and reporting arrangements for the *AMA* where rating systems are used on a unified group basis)~~ apply for the purpose of this paragraph too.

BIPRU 8.9A (Consolidated large exposure requirements) is deleted in its entirety. The deleted text is not shown.

...

BIPRU 8 Annex 2G (Examples of how to identify a UK consolidation group) is deleted in its entirety. The deleted text is not shown.

BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group) is deleted in its entirety. The deleted text is not shown.

...

BIPRU 8 Annex 5R (Decision trees for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group) is deleted in its entirety.

The deleted text is not shown.

8 Annex 6R Non-EEA regulators' requirements deemed CRD-equivalent for individual risks

Regime regulators	Market risk	Credit risk	Operational risk
Part 1 (Non-EEA regulators' requirements deemed CRD-equivalent for individual risks)			
...			
Switzerland Swiss Federal Banking Commission [EBK] Swiss Financial Market Supervisory Authority [FINMA]
...			

...

9 Securitisation

9.1 Application and purpose

Application

- 9.1.1 R ~~*BIPRU* 9.1 applies to a *BIPRU* firm, with the exception of the rules in *BIPRU* 9.3.15R to *BIPRU* 9.3.20R (dealing with origination criteria and disclosure requirements) and the rules in *BIPRU* 9.15 (dealing with requirements for investors) which apply exclusively to credit institutions.~~

Purpose

- 9.1.2 G ~~The Pursuant to the third paragraph of article 95(2) of the *EU CRR*, the purpose of *BIPRU* 9 is to implement:~~

...

...

9.3 Requirements for originators and sponsors

...

9.3.1A R The provisions of ~~BIPRU 9.3.15R to BIPRU 9.3.20R~~ apply with respect to:

- (1) ~~new securitisations issued on or after 1 January 2011; and~~
- (2) ~~from 31 December 2014, to existing securitisations where new underlying exposures are added or substituted after that date.~~

~~[Note: BCD, Article 122a, paragraph 8] [deleted]~~

...

BIPRU 10 (Large exposures requirements) is deleted in its entirety. The deleted text is not shown.

11 Disclosure (Pillar 3)

11.1 Application and purpose

...

11.1.2 G ~~The Pursuant to the third paragraph of article 95(2) of the EU CRR, the purpose of BIPRU 11 is to implement:~~

...

...

11.5 Technical criteria on disclosure: General requirements

...

Disclosure: Compliance with BIPRU 3, BIPRU 4, ~~BIPRU 6~~, BIPRU 7, ~~BIPRU 10~~ and the overall Pillar 2 rule

11.5.4 R A firm must disclose the following information regarding compliance with ~~BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10~~ and the overall Pillar 2 rule:

...

- (4) ...

(b) ...

(ii) *foreign currency PRR*;

(5) ~~its operational risk capital requirement calculated in accordance with the basic indicator approach, the standardised approach and the advanced measurement approach and disclosed separately.~~

[Note: *BCD Annex XII Part 2 point 4(part)*] ~~[deleted]~~

...

Disclosure: Operational risk

11.5.14 R The following information must be disclosed by a *firm* on *operational risk*:

(1) ~~the approaches for the assessment of the operational risk capital requirement that the firm qualifies for; and~~

(2) ~~if the firm uses the advanced measurement approach:~~

(a) ~~a description of the methodology used in the advanced measurement approach, including a discussion of relevant internal and external factors considered in the firm's measurement approach; and~~

(b) ~~in the case of partial use, the scope and coverage of the different methodologies used.~~

[Note: *BCD Annex XII Part 2 point 11*] ~~[deleted]~~

...

11.5.20 R ...

[Note: The *appropriate regulator* has given *guidance* for the purpose of providing a framework for complying with the disclosure requirements of *BIPRU* 11.5.18R in accordance with the proportionality test set out in *BIPRU* 11.5.20R(2). ~~The guidance divides firms into four levels, and indicates which requirements should be complied with for each level. This was published as finalised guidance FG12/19 'General Guidance on Proportionality', and is available at <http://www.bankofengland.co.uk/PRA/Pages/publications/default.aspx>. Feedback on CP10/27 and final rules' and is available at <http://www.bankofengland.co.uk/PRA/Pages/publications/default.aspx>~~

...

11.6 Qualifying requirements for the use of particular instruments or

methodologies

...

Disclosure: Insurance for the purpose of mitigating operational risk

- 11.6.6 R ~~A firm using the advanced measurement approach for the calculation of its operational risk capital requirement must disclose a description of the use of insurance and other risk transfer mechanisms for the purpose of mitigating the risk.~~

[Note: ~~BCD Annex XII Part 3 point 3~~] [deleted]

12 Liquidity standards**12.1 Application**

- 12.1.1 R Subject to ~~BIPRU 12.1.2R~~, ~~BIPRU 12~~ applies to:

- (1) ~~a BIPRU firm;~~
- (2) ~~an incoming EEA firm which:~~
 - (a) ~~a full BCD CRD credit institution;~~
 - (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. [deleted]~~

- 12.1.1A R Subject to BIPRU 12.1.2R, BIPRU 12 applies to:

- (1) an IFPRU investment firm; and
- (2) a BIPRU firm.

...

- 12.1.3 G A firm that is an exempt full scope ~~BIPRU~~ IFPRU investment firm is not an ILAS BIPRU firm.

- 12.1.4 R (1) An exempt full scope ~~BIPRU~~ IFPRU investment firm is a ~~full-scope BIPRU~~ full-scope IFPRU investment firm that at all times has total net assets which are less than or equal to £50 million.

...

...

12.3 Liquidity risk management

...

- 12.3.4 R A *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk* over an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines, currencies, *branches* and *legal* entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks.

[~~Note: annex V paragraph 14 of the *Banking Consolidation Directive* article 86(1) of the *CRD*~~]

...

- 12.3.5 R ...

[~~Note: annex V paragraph 14a of the *Banking Consolidation Directive* article 86(2) (part) of the *CRD*~~]

...

- 12.3.7A R A *firm* must, taking into account the nature, scale and complexity of its activities, have liquidity risk profiles that are consistent with, and not in excess of, those required for a well-functioning and robust system.

[~~Note: article 86(3) of the *CRD*~~]

Governing body and senior management oversight: liquidity risk tolerance

- 12.3.8 R ...

[~~Note: annex V paragraph 14a of the *Banking Consolidation Directive* article 86(2) of the *CRD*~~]

...

Management of collateral

...

- 12.3.22 R ...
A

[~~Note: annex V paragraph 16 of the *Banking Consolidation Directive* article 86(5) of the *CRD*~~]

- 12.3.22B R ...

~~[Note: annex V paragraph 17 of the *Banking Consolidation Directive* article 86(6) of the *CRD*]~~

...

12.3.27 R ...

~~[Note: annex V paragraph 15 of the *Banking Consolidation Directive* article 86(4) of the *CRD*]~~

...

12.4 Stress testing and contingency funding

12.4.-2 R ...

~~[Note: annex V paragraph 18 of the *Banking Consolidation Directive* article 86(7) of the *CRD*]~~

Stress testing

12.4.-1 R A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review ~~regularly~~ the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities (SSPEs)* or other special purpose entities, as referred to in the *EU CRR*, in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

~~[Note: annex V paragraph 19 of the *Banking Consolidation Directive* article 86(8) of the *CRD*]~~

...

12.4.5A R A *firm* must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time ~~horizons~~ periods and varying degrees of stressed conditions must be considered.

~~[Note: annex V paragraph 20 of the *Banking Consolidation Directive* article 86(9) of the *CRD*]~~

...

Contingency funding plans

12.4.10 R ...

~~[Note: annex V paragraph 21 of the *Banking Consolidation Directive* article 86(10) of the *CRD*]~~

- 12.4.11 R ~~In order to deal with liquidity crisis, a A firm must have in place contingency liquidity recovery plans setting out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to *branches* established in another *EEA State*. Those plans must be regularly tested at least annually, updated on the basis of the outcome of the alternative scenarios set out in *BIPRU 12.4.-1R*, and be reported to and approved by the *firm's governing body*, so that internal policies and processes can be adjusted accordingly. A firm must take the necessary operational steps in advance to ensure that liquidity recovery plans can be implemented immediately.~~

~~[Note: annex V paragraph 22 of the *Banking Consolidation Directive* article 86(11) (part) of the *CRD*]~~

...

12.7 Liquidity assets buffer

...

- 12.7.4 R For the purpose of *BIPRU 12.7.3R*, a *firm* may not include a debt security unless:
- (1) the central government or central bank in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with ~~*credit quality step in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAs credit assessments to credit quality steps (Long term mapping))*~~ credit quality step 1 in the table set out in *BIPRU 12 Annex 1R (Mapping of credit assessments of ECAs to credit quality steps)*; and

...

...

- 12.7.6 R For the purpose of *BIPRU 12.7.5R*, a *firm* may not include reserves held at a central bank unless:
- (1) the central bank in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with ~~*credit quality step in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAs credit assessments to credit quality steps (Long term mapping))*~~ credit quality step 1 in the table set out in *BIPRU 12 Annex 1R (Mapping of credit assessments of ECAs to credit quality steps)*; and

...

12.7.6A R For the purpose of *BIPRU* 12.7.2R(2), a *firm* may not include securities issues by a *designated multilateral development bank* unless:

- (1) the *designated multilateral development bank* in question has been assessed by at least two *eligible ECAs* as having a credit rating associated with ~~*credit quality step in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAs' credit assessments to credit quality steps (Long term mapping))*~~ credit quality step 1 in credit quality step 1 in the table set out in *BIPRU* 12 Annex 1R (Mapping of credit assessments of ECAs to credit quality steps); and

...

...

After *BIPRU* 12, insert the following new annex. The text is not underlined.

12 Annex 1R Mapping of credit assessments of ECAs to credit quality steps

Credit Quality Step	Fitch's assessments	Moody's assessments	S&P's assessments	DBRS' assessments
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AAL
2	A+ to A-	A1 to A3	A+ to A-	AH to AL
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL
5	B+ to B-	B1 to B3	B+ to B-	BH to BL
6	CCC+ and below	Caa1 and below	CCC+ and below	CCCH and below

13 The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

13.1 Application and purpose

...

13.1.4 G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, *BIPRU* 13 implements:

...

...

14 Capital requirements for settlement and counterparty risk

14.1 Application and purpose

...

14.1.3 G Pursuant to the third paragraph of article 95(2) of the *EU CRR*, *BIPRU* 14 implements:

...

...

BIPRU TP 1 (Applicable chapter of *IPRU* and other general provisions) is deleted in its entirety. The deleted text is not shown.

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

Application		
2.1	R	Subject to <i>BIPRU</i> TP 2.2R, this section applies to a <i>BIPRU</i> firm that applies the <i>IRB approach</i> or the advanced measurement approach .
2.2	R	<i>BIPRU</i> TP 2.30R to <i>BIPRU</i> TP 2.34G apply to any firm to which <i>BIPRU</i> 8 (Group risk - consolidation) applies and which applies the <i>IRB approach</i> or the advanced measurement approach on a consolidated basis.
Purpose		
2.3	G	This Pursuant to the third paragraph of article 95(2) of the <i>EU CRR</i> , this section in part implements Articles 152(1) - (7) of the <i>Banking Consolidation Directive</i> and Article 43 of the <i>Capital Adequacy Directive</i> .

...			
2.7	G	<i>BIPRU TP 9</i> explains how the general principle in this section is applied to a <i>personal investment firm</i>. [deleted]	
Capital floors: solo			
...			
2.9	R	A <i>firm</i> using the <i>advanced measurement approach</i> must, during each of the second, third and subsequent twelve month periods after 31 December 2006, provide capital resources which are at all times more than or equal to the amounts indicated in <i>BIPRU TP 2.8R(2)</i> and <i>BIPRU TP 2.8R(3)</i>. [deleted]	
...			
2.11 A	G	Article 152(5d) and (5e) of the <i>Banking Consolidation Directive</i> allows the <i>appropriate regulator</i> to waive the capital floor calculation based on the <i>IPRU</i> capital resources requirement in <i>BIPRU TP 2.8R(3)</i> , or <i>BIPRU TP 2.8R(3)</i> as applied in <i>BIPRU TP 2.9R</i> , on a case-by-case basis only if a <i>firm</i> started to use the <i>IRB approach</i> or the <i>advanced measurement approach</i> on or after 1 January 2010. The <i>appropriate regulator</i> will consider an application for such a <i>waiver</i> in the light of the criteria in section 138A of the <i>Act</i> (Modification or waiver of rules).	
2.11 B	R	If a <i>firm</i> has a <i>waiver</i> referred to in <i>BIPRU TP 2.11AG</i> , it must provide <i>capital resources</i> that equal or exceed 80% of the <i>capital resources requirement</i> that the <i>firm</i> would be required to provide under the relevant sections of <i>BIPRU</i> applicable to it immediately before it started to use the <i>IRB approach</i> or the <i>advanced measurement approach</i> as those sections were in force on 31 December 2010.	
Explanation of the calculation			
2.12	G	The following provides an illustrative example of the application of this section to a <i>bank</i> in a period in which <i>BIPRU TP 2.8R(1)</i> applies (i.e. the 95% requirement). Say that under <i>IPRU(BANK)</i> the <i>firm's</i> capital resources requirement would be £8.00mn and this would be met in part by general/collective provisions of £0.5mn. This establishes the capital resources requirement under this section at 95% times (£8.0mn less £0.5mn), which equals £7.125mn. [deleted]	
2.13	G	Say that in the absence of this section, the Pillar 1 capital resources requirement of the <i>firm</i> in <i>BIPRU TP 2.12G</i> would be £6.4m, and the sum of value adjustments and provisions are £0.25mn less than <i>expected losses</i> . For the purposes of the <i>expected loss</i> calculation, if the result is negative (i.e. value adjustments and provisions are less than <i>expected losses</i>) that amount is deducted from <i>capital resources</i> (which is equivalent to an increase in the <i>capital resources requirement</i>). If the result is positive it is added to <i>capital resources</i> (which is equivalent to a decrease in the <i>capital resources</i>	

		<i>requirement</i>). In this example the result is negative. As the sum of these two amounts (£6.65mn) is still less than the <i>IPRU</i> capital resources requirement of £7.125mn, the effect of this section is that the <i>firm</i> is subject to the (higher) <i>IPRU</i> requirement. If the sum of the <i>BIPRU</i> requirements had been greater than £7.125mn, then the <i>firm</i> would not have been subject to the capital resources requirement in this section. [deleted]
...		
Individual capital guidance		
2.20	R	The <i>IPRU</i> capital resources requirement does not include any individual capital ratio notified to a <i>bank</i> under Chapter CO of <i>IPRU(BANK)</i> or any similar notification by the <i>appropriate regulator</i> to any other <i>firm</i> . [deleted]
...		
How to apply IPRU		
2.22	R	If the part of <i>IPRU</i> that applies to a <i>firm</i> applies different calculations to different types of <i>firm</i> the <i>firm</i> must use the calculations that it would have to use under <i>BIPRU</i> TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) <u>as applicable before its expiry</u> .
...		
2.24	G	<i>BIPRU</i> TP 4 to <i>BIPRU</i> TP 9 (Pre CRD capital requirements applying on a solo basis during 2007) <u>as applicable before their expiry</u> explain how concepts in <i>IPRU</i> and <i>GENPRU</i> map onto the ones in <i>IPRU</i> . This will enable a <i>firm</i> to decide which calculations it should use for the purposes of <i>BIPRU</i> TP 2.22R and <i>BIPRU</i> TP 2.23R.
2.25	R	For the purpose of calculating the part of the <i>IPRU</i> capital resources requirement that corresponds to the <i>concentration risk capital component</i> a <i>firm</i> may identify the <i>trading book exposures</i> on which that requirement is based using <i>BIPRU</i> 10 (Large exposures requirements) except to the extent that <i>BIPRU</i> 10 involves the <i>IRB approach</i> . [deleted]
2.26	G	The <i>concentration risk capital component</i> is the capital requirement for a <i>firm</i> that chooses to have <i>trading book exposures</i> that exceed the <i>large exposure</i> limits for the <i>non-trading book</i> . In most cases <i>IPRU</i> has a similar capital requirement. The purpose of <i>BIPRU</i> TP 2.26R is to allow a <i>firm</i> to calculate the amount of the excess <i>trading book exposures</i> for which it calculates the additional capital charge using <i>BIPRU</i> 10 (Large exposures requirements) in order to avoid having to apply the <i>IPRU</i> large exposure requirements for this purpose only. [deleted]
...		
Capital floors: consolidation		

2.30	R	If a <i>firm</i> calculates <i>risk weighted exposure amounts</i> on a consolidated basis in accordance with the <i>IRB approach</i> or uses the <i>advanced measurement approach</i> on a consolidated basis, <i>BIPRU TP 2.8R</i> to <i>BIPRU TP 2.27G</i> apply on a consolidated basis in accordance with <i>BIPRU TP 2.30R</i> to <i>BIPRU TP 2.31R</i> .	
2.31	R	A <i>firm</i> must calculate the consolidation requirements under <i>BIPRU TP 2.30R</i> for the group in question (the group in question is specified in <i>BIPRU TP 2.32R</i>) in accordance with the following:	
		(1)	if the group is a banking group as defined in <i>BIPRU TP 1.7R</i> (<i>Classification of groups for certain consolidation rules</i>), the consolidation provisions of <i>IPRU(BANK)</i> apply; [deleted]
		(2)	if the group is a building society group as defined in <i>BIPRU TP 1.7R</i>, the consolidation provisions of <i>IPRU(BSOC)</i> apply; and [deleted]
		(3)	...
2.32	R	...	
		(1)	if a <i>firm</i> is a member of a <i>UK consolidation group</i> and applies the <i>IRB approach</i> or the <i>AMA</i> with respect to that <i>UK consolidation group</i> , <i>BIPRU TP 2.30R</i> applies with respect to that <i>UK consolidation group</i> ; and
		(2)	if a <i>firm</i> is a member of a <i>non-EEA sub-group</i> and applies the <i>IRB approach</i> or the <i>AMA</i> with respect to that <i>non-EEA sub-group</i> , <i>BIPRU TP 2.30R</i> applies with respect to that <i>non-EEA sub-group</i> .
...			
Capital floors: waiver from consolidation			
2.34	G	If a <i>firm</i> has an <i>investment firm consolidation waiver</i> and it is applying the <i>IRB approach</i> or the <i>AMA</i> , the <i>waiver</i> will explain how the <i>investment firm consolidation waiver</i> applies for the purpose of this section.	

...

TP 15 Commodities firm transitionals: Exemption from capital requirements

	Application	
15.1	R	Subject to <i>BIPRU TP 15.2R</i> , <i>BIPRU TP 15</i> applies to a <i>BIPRU investment firm</i> :
...		

		Purpose
15.3	G	<u>BIPRU TP 15 implements Article 48(1) of the <i>Capital Adequacy Directive</i> as applied pursuant to the discretion in the third paragraph of article 95(2) of the <i>EU CRR</i>.</u>
		Duration of exemption
15.4	R	<u>BIPRU TP 15 applies until 31 December 2014 the entry into force of any amendments to BIPRU TP 15 under any legislative amendments to CRD and EU CRR following from the Commission's report under article 508(3) of the EU CRR on an appropriate prudential regime for the prudential supervision of investment firms and firms referred to in article 4(1)(2)(b) and (c) of the EU CRR.</u>
		[Note: CAD Article 48(1)]
15.5	G	If there are any modifications pursuant to paragraphs 2 and 3 of Article 48 of the <i>Capital Adequacy Directive</i> (European Commission review of prudential regime for exempt commodities firms), the appropriate regulator will revoke TP 15 if the date of coming into force of the implementing measures in relation to those changes is before the date in BIPRU TP 15.4. [deleted]
		Exemption
15.6	R	The provisions of <i>GENPRU</i> and <i>BIPRU</i> on capital requirements and <i>GENPRU</i> 1.2 (Adequacy of financial resources) do not apply to a firm to which <i>BIPRU</i> TP 15 applies. However BIPRU 10 (Large exposures requirements) continues to apply, including the <i>CNCOM</i>.
15.7	G	If a firm meets the conditions in BIPRU TP 16 (Commodities firm transitionals: large exposures) it will be exempt from BIPRU 10 as well. [deleted]
...		
15.10	G	Table: Parts of <i>GENPRU</i> and <i>BIPRU</i> that apply to exempt <i>BIPRU</i> commodities firms
		This table belongs to <i>BIPRU</i> TP 15.9G

<i>GENPRU</i> and <i>BIPRU</i> provisions	A Y denotes that the provision generally does apply A N denotes that generally it does not apply	Remarks
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...		
<i>GENPRU 2.2</i> (Capital resources)	Y <u>N</u>	This applies for the purposes of <i>BIPRU 10</i>. If <i>BIPRU 10</i> does not apply this does not apply either.
...		
<i>BIPRU 2.1</i> (Solo consolidation)	Y <u>N</u>	Applies for the purposes of <i>BIPRU 10</i> .
...		
<i>BIPRU 10</i> (Large exposures)	Y	If <i>firm</i> also qualifies for exemption under <i>BIPRU TP 16</i> (Commodities firms transitionals: large exposures) <i>BIPRU 10</i> does not apply except as described in <i>BIPRU TP 16.7G</i>
...		

...		
	Consolidation	
15.13	R	<i>BIPRU TP 15</i> does not apply for the purposes of <i>BIPRU 8</i> with respect to a <i>firm's UK consolidation group</i> or, as the case may be, <i>non-EEA sub-group</i> unless the following conditions are satisfied:
		...
		(2) each <i>CAD investment firm</i> in the group meets the conditions in <i>BIPRU TP 15.1R(1)</i> ;
		(3) each <i>CAD investment firm</i> whose head office is in an <i>EEA State</i> satisfies the conditions in <i>BIPRU TP 15.1R(2)</i> ; and
		(4) any <i>CAD investment firm</i> whose head office is outside the <i>EEA</i> would have fallen into <i>BIPRU TP 15.1R(2)</i> if:
		...
...		

...

TP 21 Close substitutes for commodities

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21.3	R	Table: Commodity treatments under IPRU This table belongs to <i>BIPRU</i> TP 21.2R
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<i>IPRU</i> provisions setting out <i>commodity</i> approach	<i>IPRU</i> provisions under which notice given
Paragraph 22(2) of appendix 6 of chapter 10 of <i>IPRU(INV)</i>	Paragraph 23 of appendix 6 of chapter 10 of <i>IPRU(INV)</i>
Paragraph 22(2) of chapter CM of <i>IPRU(BANK)</i> [deleted]	Paragraph 23 of chapter CM of <i>IPRU(BANK)</i>

	Explanation	
21.3 21.4	G	<i>BIPRU</i> 7.4.22R(1)(b) says that a <i>firm</i> should treat <i>positions</i> in different grades or brands of the same <i>commodity</i> -class as different <i>commodities</i> unless they are close substitutes and have price movements which have exhibited a stable correlation coefficient of at least 0.9 over the last 12 months. <i>BIPRU</i> 7.4.23R says that a <i>firm</i> should notify the FSA <u>FCA</u> in writing at least 20 <i>business days</i> prior to the date the <i>firm</i> starts relying on this treatment. The purpose of this section is to allow a notice given under the corresponding provisions of chapter 10 of <i>IPRU(INV)</i> or <i>IPRU(BANK)</i> to continue to have effect without the <i>firm</i> having to serve a new notice under <i>BIPRU</i> 7.4.23R.

The following TPs are deleted in their entirety; the deleted text is not shown:

BIPRU TP 11 (IRB transitionals)

BIPRU TP 13 (Other operational risk transitionals)

BIPRU TP 16 (Commodities firm transitionals: large exposures)

BIPRU TP 22 (Solo consolidation)

BIPRU TP 33 (Intra-group exposures: Transitional provisions for core UK group and large exposures)

BIPRU TP 35 (AIFMD)