

**CAPITAL REQUIREMENTS DIRECTIVE IV (HANDBOOK ADMINISTRATION)
INSTRUMENT 2014**

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); and
 - (3) 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 31 January 2014.

Amendments to the FCA Handbook

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for Investment Firms (IFPRU)	Annex B
Supervision manual (SUP)	Annex C

Citation

- E. This instrument may be cited as the Capital Requirements Directive IV (Handbook Administration) Instrument 2014.

By order of the Board of the Financial Conduct Authority
30 January 2014

Annex A

Amendments to the Glossary of definitions

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

<i>article 18(5) relationship</i>	the relationship where there are participations or capital ties other than those referred to in article 18(1) and (2) <u>(4)</u> of the <i>EU CRR</i> (Methods for prudential consolidation).
<i>core UK group</i>	<p>...</p> <p>(2) (in relation to an <i>IFPRU investment firm</i>) all counterparties which:</p> <p>...</p> <p>(b) satisfy the conditions in article 113(6) of the <i>EU CRR</i> (Calculation of risk-weighted <u>risk-weighted</u> exposure amounts: intragroup); and</p> <p>...</p>

Annex B

Amendments to the Prudential sourcebook for Investment Firms (IFPRU)

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

1.2 Significant IFPRU firm

1.2.1 G Throughout *CRD* and the *EU CRR* there are various policies which have restricted application based on a *firm's* scope, nature, scale, internal organisation and complexity. These policies are provided in the following:

...

(7) article 6(4) of the *EU CRR* on the scope of liquidity reporting on a ~~sole~~ an individual basis;

...

...

1.2.9 G (1) ...

(2) The governance requirements referred to in (1) are:

(a) ~~SYSC 4.3A.7R~~ 4.3A.6R on the limitations in the number of directorships; or

(b) ~~SYSC 4.3A.9R~~ 4.3A.8R on the nomination committee; or

...

...

1.4 ~~Directions and~~ EU CRR permissions

1.4.1 R A *firm* which has applied for, or has been granted, a ~~direction or~~ permission under the *EU CRR* must notify the *FCA* immediately if it becomes aware of any matter which could affect the continuing relevance or appropriateness of the application, ~~direction~~ or permission.

...

2.2 Internal capital adequacy assessment process

...

2.2.10 G In the *overall Pillar 2 rule*, internal capital refers to the financial resources of a *firm* which it treats as being held against the risks listed in the *overall Pillar 2 rule*. The obligation in that *rule* to assess the distribution of such capital refers, in relation to a *firm* making an assessment on a ~~sole~~ an

individual basis, for example, to the need to take account of circumstances where part of a *firm's* financial resources are held by a *branch* of that *firm* which are subject to restrictions on its ability to transfer that capital. An assessment of internal capital distribution might also take account of such of a *firm's* financial resources as may be ring-fenced in the event of its insolvency.

...

2.3 Supervisory review and evaluation process: internal capital adequacy standards

Purpose

- 2.3.1 G (1) ...
- (2) *IFPRU 2.3* is mainly written on the basis that *IFPRU 2.2* (Adequacy of financial resources) applies to a *firm* on ~~a sole~~ an individual basis. However, it is still relevant when *IFPRU 2.2* applies on a *consolidated basis*. When *IFPRU 2.2* applies on a *consolidated basis*, *IFPRU 2.3* should be read with appropriate adjustments.

...

- 2.3.4 G The obligation to conduct an *ICAAP* includes requirements on a *firm* to:
- ...
- (4) ensure that the processes, strategies and systems required by the *overall Pillar 2 rule* and used in its *ICAAP*, are both comprehensive and proportionate to the nature, scale and complexity of that *firm's* activities (~~*IFPRU 2.2.13R*~~ *2.2.12R*); and

...

- 2.3.5 G Where a *firm* is a member of a group, it should base its *ICAAP* on the consolidated financial position of the group. The group assessment should include information on diversification benefits and transferability of resources between members of the group and an apportionment of the capital required by the group as a whole to the *firm* (*IFPRU 2.2.45G* to *IFPRU 2.2.57G* (Application of *IFPRU 2.2* on ~~a sole~~ an individual and consolidated basis)). A *firm* may, instead of preparing the *ICAAP* itself, adopt as its *ICAAP* an assessment prepared by other group members.

...

- 2.3.7 G The *FCA* will review a *firm's ICAAP*, including the results of the *firm's* stress tests carried out under *IFPRU* and the *EU CRR*, as part of its *SREP*. Provided that the *FCA* is satisfied with the appropriateness of a *firm's* capital assessment, the *FCA* will take into account that *firm's ICAAP* and stress tests in its *SREP*. More material on stress tests for a *firm* with an *IRB* permission

can be found in *IFPRU* ~~2.3.48R~~ 2.3.50R to *IFPRU* ~~2.3.52G~~ 2.3.54G.

...

- 2.3.18 G If, after discussion, the *FCA* and a *firm* still do not agree on an adequate level of capital, the *FCA* may consider using its powers under section ~~55J~~ 55L of the *Act* ~~to vary~~ on its own initiative ~~a firm's Part 4A permission~~ to require ~~it~~ the firm to hold capital in line with the *FCA*'s view of the capital necessary to comply with the *overall financial adequacy rule*. In deciding whether it should use its powers under section ~~55J~~ 55L, the *FCA* will take into account the amount and quality of the *capital planning buffer* which the *firm* should hold as referred to in *IFPRU* 2.3.13G and *IFPRU* 2.3.14G. *SUP* 7 provides further information about the *FCA*'s powers under section ~~55J~~ 55L.

...

- 2.3.22 G For the purposes of *IFPRU* 2.3.21G, *IFPRU* ~~2.3.30G~~ 2.3.20G applies as it applies to *individual capital guidance*. References in those provisions to *individual capital guidance* should be read as if they were references to *capital planning buffer*. In relation to *IFPRU* 2.2.62R, where the *general stress and scenario testing rule* or *SYSC* 20 (Reverse stress testing), as part of the *ICAAP rules*, applies to a *firm* on a *consolidated basis*, the *FCA* may notify the *firm* that it should hold a *group capital planning buffer*. In these cases, the *firm* should ensure that the *group* holds a *capital planning buffer* of sufficient amount and adequate quality to allow it to continue to meet the *overall financial adequacy rule* in the face of adverse circumstances, after allowing for realistic management actions.

...

- 2.3.29 G Where a *firm's capital planning buffer* is being drawn down due to circumstances other than those in *IFPRU* 2.3.26G, such as poor planning or mismanagement, the *FCA* may ask the *firm* for more detailed plans for it to restore its *capital planning buffer*. In the light of the relevant circumstances, the *FCA* may consider taking other remedial actions, which may include using its powers under section ~~55J~~ 55L of the *Act* ~~to vary~~, on its own initiative, to impose a requirement on a firm's Part 4A permission firm.

...

- 2.3.35 G For a *firm* that is a *significant IFPRU firm* (see *IFPRU* ~~1.1.20R~~ 1.2.3R) and whose activities are moderately complex, in carrying out its *ICAAP*, *IFPRU* 2.3.34G(2) to (4) apply. In addition, it could:

...

...

- 2.3.37 G *IFPRU* 2.3.37G to *IFPRU* 2.3.47G set out *guidance* on some of the sources of risk identified in the *overall Pillar 2 rule*. *IFPRU* ~~2.3.48R~~ 2.3.50R to

IFPRU 2.3.52G 2.3.54G contain material relating to a *firm* with an IRB permission.

...

- 2.3.51 R *IFPRU 2.3.50R* applies to a *firm* on an individual basis if Part Three, Title II, Chapter 3 of the *EU CRR* (IRB approach) applies to it on an individual basis and applies on a *consolidated basis* if the *EU CRR* does.

...

- 2.3.53 G If a *firm's* current available *own funds* are less than the own funds requirements indicated by the stress test, that does not necessarily mean there is a breach of *IFPRU 2.3.50R*. The *firm* may wish to set out any countervailing effects and off-setting actions that can be demonstrated to the satisfaction of the *FCA* as being likely to reduce that difference. The *FCA* is only likely to consider a demonstration of such actions as credible if those actions are set out in a capital management plan based on the procedures in *IFPRU 2.2.73G* (Capital planning) and include a plan of the type referred to in *IFPRU 2.2.73G(5)(7)* that has been approved by the *firm's senior management* or *governing body*.

...

- 2.3.71 G In relation to the use of an ECM (see *IFPRU 2.3.36G*), the *FCA* is likely to place more reliance on a *firm's ICAAP* if the *firm* provides the following information:

...

- (2) evidence that the *guidance* in *IFPRU 2.3.66G 2.3.68G* to *IFPRU 2.3.73G 2.3.75G* has been followed.

...

3.2 Capital

...

- 3.2.20 G When a *collective portfolio management investment firm* calculates the total risk exposure amount in article 92(3) of the *EU CRR*, the *own funds requirements* referred to in article 92(3)(a) (~~Risk-weighted~~ Risk-weighted exposure amount for credit risk and dilution risk) and article 92(3)(b) (~~Risk-weighted~~ Risk-weighted exposure amount for position risk) should include only those arising from its *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.

...

4.2 Standardised approach

...

4.2.9 G ...

Items associated with ~~particular~~ particularly high risk

...

4.3 Guidance on internal ratings based approach: high level material

...

4.3.16 G (1) Article 154(4)(d) of the *EU CRR* (~~Risk-weighted~~ Risk-weighted exposure amounts for retail exposures) specifies that, for an *exposure* to be treated as a qualifying revolving retail *exposure* (QRRE), it needs to exhibit relatively low volatility of loss rates. A *firm* should assess the volatility of loss rates for the QRRE portfolio relative to the volatilities of loss rates of other relevant types of retail *exposures* for these purposes. Low volatility should be demonstrated by reference to data on the mean and standard deviation of loss rates over a time period that can be regarded as representative of the long-run performance of the portfolios concerned.

...

4.5 Internal ratings based approach: definition of default

...

4.5.3 G Under article 178(2)(~~d~~)(1)(b) of the *EU CRR*, the *FCA* is empowered to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential or SME commercial real estate in the retail exposure class, as well as ~~exposures~~ *exposures* to public sector entities (PSEs).

4.5.4 G The *FCA* would expect to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential real estate in the retail *exposure* class, and/or for *exposures* to PSEs, where this was requested by the *firm*. Where this occurred, it would be specified in the *firm's* IRB permission.

...

4.7 Internal ratings based approach: loss given default

...

4.7.16 G The *FCA* considers that both of the following approaches in relation to calculating unexpected loss of defaulted assets are acceptable in principle:

(1) the independent calculation approach, ~~in which possible losses are estimated over the recovery period that are additional to the best~~

estimate; and

...

- 4.7.17 G Where an independent calculation approach is adopted for the calculation of unexpected loss on defaulted assets, the *FCA* expects a *firm* to ensure that estimates are at least equal, at a portfolio level, to a 100% risk weight⁴, ie, 8% capital requirement on the amount outstanding net of provisions (see article 181(1)(h) of the *EU CRR*).

...

4.8 Internal ratings based approach: own estimates of exposure at default (EAD)

...

- 4.8.24 G The *FCA* considers that there is scope within the *EU CRR* for a *firm* to recognise on-balance sheet netting (including in respect of cross-currency For current balances), netting may be applied through EAD as an alternative to LGD in cases where a *firm* meets the general conditions for on-balance on-balance sheet netting, as set out in article 205 of the *EU CRR*.

...

4.10 Validation

...

- 4.10.5 G In the case of a portfolio for which there is insufficient default experience to provide any confidence in statistical measures of discriminative power, the *FCA* expects a *firm* to use other methods. For example, analysis of whether the *firm's* rating systems and an external measurement approach (eg, external ratings) rank common obligors in broadly similar ways. Where such an approach is used, the *FCA* would expect a *firm* to ensure it does not systematically adjust its individual ratings with the objective of making them closer to the external ratings as this would be counter to the philosophy of an internal rating approach. The *FCA* expects a *firm* to be able to explain the methodology it uses and the rationale for its use.

4.11 Income-producing real estate portfolios

...

- 4.11.15 G Where the *firm* has ~~less~~ fewer than 20 defaults in their internal data set, the *FCA* expects it to be necessary for *firms* to perform a statistical low default portfolio calibration, as set out in the *guidance* in this section.

...

- 4.11.16 G The *FCA* expects that a *firm* will ~~not~~ be compliant with the validation

requirements ~~unless~~ only where it can demonstrate, in respect of discriminatory power, that:

...

- 4.11.17 G The *FCA* expects that a *firm* will ~~not~~ be compliant with the validation requirements ~~unless~~ only where it can demonstrate in respect of the calibration that:

...

- 4.11.18 G The *FCA* also expects that a *firm* will ~~not~~ be compliant with the validation requirements ~~unless~~ only where it can demonstrate that:

Other requirements

- 4.11.19 G The *FCA* expects that a *firm* ~~would not~~ will be able to comply with certain other *EU CRR* requirements ~~unless~~ only where it ~~could~~ can demonstrate that:

...

...

4.12 Securitisation

...

- 4.12.4 G *IFPRU* 4.12.1R requires ~~A~~ a *firm* ~~should~~ to notify the *FCA* of each transaction on which it ~~is seeking~~ seeks capital relief under the options in *IFPRU* 4.12.3G(1) (option 1) and (2) (option 2).

...

- 4.12.6 G For *IFPRU* 4.12.3G(3) (option 3), ~~The~~ the *FCA* intends to grant permission for an *originator* to make its own assessment of significant risk transfer only where it is satisfied that:

...

...

- 4.12.8 G A *firm* seeking to achieve capital relief by deducting or applying a 1250% risk weight where permitted under articles 243 or 244 of the *EU CRR* ~~to all retained securitisation positions~~ does not need to ~~comply with~~ make the notification ~~and permissions requirements~~ in *IFPRU* 4.12.1R. However, in such cases, a *firm* should consider whether the characteristics of the transaction are such that the *FCA* would reasonably expect prior notice of it.

...

- 4.12.13 G A *firm* may apply for permissions under articles 243 (Traditional securitisation) or 244 (Synthetic securitisation) of the *EU CRR* to consider

significant risk transfer to have been achieved without needing to rely on options (1) or (2). The scope of such permission ~~can~~ may be defined to cover a number of transactions or an individual transaction.

...

- 4.12.36 G The *FCA* expects the instruments used to transfer credit risk not to contain provisions which limit the amount of risk transferred. For example, should losses or ~~default~~ defaults on the securitised exposures occur ~~in the pool~~ (ie, deterioration in the credit quality of the underlying pool) the *FCA* expects the *originator's* net cost of protection or the yield payable to investors should not increase as a result.

...

Sch 1G Record-keeping requirements

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
<i>IFPRU</i> 2.1.43R <u>2.2.43R</u> and 2.1.44R <u>2.2.44R</u>
...

Sch 2G Notification and reporting requirements

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
...
<i>IFPRU</i> 4.12.1R	Reliance on deemed transfer of significant risk under articles	Sufficient information to allow the <i>FCA</i> to assess whether the possible reduction in risk-weighted <u>risk-weighted</u> exposure amounts achieved by the	Intention to rely on deemed transfer of significant risk	Within a reasonable period before or after a relevant transfer, not

	243(2) and 244(2) of the <i>EU CRR</i> , including for the purposes of article 337(5) of the <i>EU CRR</i>	<i>securitisation</i> is justified by a commensurate transfer of credit risk to third parties		being later than one <i>month</i> after the date of transfer
...

Annex C**Amendments to the Supervision manual (SUP)**

In this Annex, underlining indicates new text.

...

13 Annex **Passporting: Notification of intention to establish a branch in another**
1R **EEA state**

This annex consists of only one or more forms. Forms can be completed online now by visiting:

<http://www.bankofengland.co.uk/prs/Pages/authorisations/passporting/notifying.aspx> for a *PRA-authorised person*

or <http://www.fca.org.uk/firms/being-regulated/passporting/notification-forms> for an *FCA-authorised person*

The forms are also to be found through the following address:
Passporting: Notification of intention to establish a branch in another EEA state - SUP 13 Annex 1

...