

**EXITING THE EUROPEAN UNION: PRUDENTIAL SOURCEBOOKS
(AMENDMENTS) INSTRUMENT 2019**

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of:
- (1) regulation 3 of the Financial Regulators’ Powers (Technical Standards) (Amendment etc.) (EU Exit) Regulations 2018; and
 - (2) section 139A (Power of the FCA to give guidance) of the Financial Services and Markets Act 2000.

Commencement

- B. This instrument comes into force on exit day as defined in the European Union (Withdrawal) Act 2018.

Amendments to the Handbook

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

(1)	(2)
General Prudential sourcebook (GENPRU)	Annex A
Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)	Annex B
Prudential sourcebook for Investment Firms (IFPRU)	Annex C
Prudential sourcebook for insurers (INSPRU)	Annex D
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex E
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex F
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex G
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex H

Notes

- D. In this instrument, notes shown as “**Note:**” are intended for the convenience of the reader but do not form part of the legislative text.

Citation

- E. This instrument may be cited as the Exiting the European Union: Prudential Sourcebooks (Amendments) Instrument 2019.

By order of the Board
28 March 2019

Annex A

Amendments to the General Prudential sourcebook (GENPRU)

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

1 Application

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1.2 Adequacy of financial resources

...

Purpose

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- 1.2.14 G In the case of a *BIPRU firm* this section implements the third paragraph of article 95(2) of the ~~EU CRR~~ UK CRR applying requirements that correspond to Article 34 of the *Capital Adequacy Directive* so far as that Article applies Article 123 of the *Banking Consolidation Directive*.

...

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

- 1.2.46 R ...
- (2) apply on a sub-consolidated basis under *BIPRU* 8.3.1R (Basic consolidation *rule* for a ~~non-EEA sub-group~~ non-UK sub-group).
- ...
- 1.2.48 R ...
- (3) (if *BIPRU* 8.3.1R (Basic consolidation *rule* for a ~~non-EEA sub-group~~ non-UK sub-group) applies) the ~~non-EEA sub-group~~ non-UK sub-group of which the *firm* is a member.

- 1.2.49 R ...
- (2) For the purpose of this *rule* the relevant group is the group referred to in *GENPRU* 1.2.48R and the members of that group are those *undertakings* that are included in the scope of consolidation with respect to the *UK consolidation group* or, as the case may be, ~~non-EEA sub-group~~ non-UK sub-group in question.

...

Group risk (BIPRU firm only)

...

1.2.88 G A *firm* should include in the written record referred to in *GENPRU* 1.2.60R a description of the broad business strategy of the *UK consolidation group* or the ~~non-EEA-sub-group~~ non-UK sub-group of which it is a member, the group's view of its principal risks and its approach to measuring, managing and controlling the risks. This description should include the role of stress testing, scenario analysis and contingency planning in managing risk at the solo and consolidated level.

1.2.89 G A *firm* should satisfy itself that the systems (including IT) of the *UK consolidation group* or the ~~non-EEA-sub-group~~ non-UK sub-group of which it is a member are sufficiently sound to support the effective management and, where applicable, the quantification of the risks that could affect the *UK consolidation group* or the ~~non-EEA-sub-group~~ non-UK sub-group, as the case may be.

...

1.3 Valuation

...

1.3.3 G (1) ~~In the case of a BIPRU firm, this~~ This section corresponds to ~~implements~~ 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 ...

(5) UK-adopted international accounting standards;

...

...

1.3.12 G The provisions of *GENPRU* 1.3.9R to *GENPRU* 1.3.10R and *GENPRU* 1.3.36R apply only to the extent that the items referred to in those paragraphs would otherwise be recognised under the accounting requirements applicable to the *firm*. Some of those requirements may only be relevant to a *firm* subject to UK-adopted international accounting standards.

...

2 Capital

2.1 Calculation of capital resources requirements

Application

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- 2.1.2 G ~~The scope of application of this section is not restricted to firms that are subject to the relevant EU Directives. [deleted]~~

...

Purpose

...

- 2.1.8 G (2) This section also implements the third paragraph of article 95(2) of the ~~EU-CRR~~ UK CRR applying requirements that correspond to 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~~ corresponds (in part) to article 75 of the *Banking Consolidation Directive* and Articles 5, 9, 10 and 18 of the *Capital Adequacy Directive*.

...

Definition of BIPRU firm

- 2.1.49 G ~~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:~~

...

...

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~~ implements pursuant to the third paragraph of article 95(2) of the ~~EU-CRR~~ UK CRR, applying it applies requirements that correspond to 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)*.

...

Notification of issuance of capital instruments

...

- 2.2.61H G Details of the notification to be provided by a *BIPRU firm* in relation to capital instruments issued by another *undertaking* in its *group* for inclusion in its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or ~~non-EEA sub-group~~ *non-UK sub-group* are set out in *BIPRU 8.6.1AR* to *BIPRU 8.6.1FR*.

...

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

...

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 non-EEA sub-group <i>non-UK 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 firm</i> , the holding forms part of the <i>undertaking's tier one capital resources</i> ; or
(2)	(subject to (3)) in relation to any other <i>undertaking</i> , the holding would form part of the <i>undertaking's tier one capital resources</i> if:
(a)	that <i>undertaking</i> were a <i>BIPRU firm</i> with a <i>Part 4A permission</i> ; and
(b)	it had carried on all its business in the <i>United Kingdom</i> and had obtained whatever <i>permissions</i> for doing so are required under the <i>Act</i> ; or
(3)	in relation to any <i>undertaking</i> not falling within (1) and for which the methodology in (2) does not give an answer, the holding would form part of its <i>tier one capital resources</i> if the <i>undertaking</i> were a <i>BIPRU firm</i> of the same category as the <i>firm</i> carrying out the calculation under this Annex.
Note (5): The <i>material holdings</i> that must be deducted by a <i>firm</i> at part 3 of stage E and at	

stage J or at Part 1 of stage M are *material holdings* issued by *undertakings* which would have been members of that *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* if the *firm* did not have an *investment firm consolidation waiver* and which do not fall into Note (4).

Note (6): The contingent liabilities that must be deducted by a *firm* at Part 1 of stage M are any contingent liabilities which the *firm* has in favour of *BIPRU firms, financial institutions, asset management companies* and *ancillary services undertakings* which would have been members of the *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* if the *firm* did not have an *investment firm consolidation waiver*.

3 Cross sector groups

3.1 Application

- 3.1.1 R (1) Unless otherwise stated, *GENPRU* 3.1 applies to every *firm* that is a member of a *financial conglomerate* other than:
- (a) ~~an incoming EEA firm; [deleted]~~
 - (b) ~~an incoming Treaty firm; [deleted]~~
 - (c) ~~a UCITS qualifier; [deleted]~~
- ...
- (1A) *GENPRU* 3.1 (except *GENPRU* 3.1.5R to *GENPRU* 3.1.132G) applies to each of the following *firms* that is a member of a *financial conglomerate*:
- ...

Purpose

- 3.1.2 G *GENPRU* 3.1 implements requirements that correspond to the *Financial Groups Directive*. However, material on the following topics is to be found elsewhere in the *Handbook* as follows:
- ...

Introduction: identifying a financial conglomerate

- 3.1.3 G (1) In general the process in (2) to (8) applies for identifying *financial conglomerates*.
- (2) The relevant ~~Competent authorities~~ *competent authority* that ~~have~~ has authorised *regulated entities* should try to identify any *consolidation group* that is a *financial conglomerate*. If a *competent authority* is of the opinion that a *regulated entity* authorised by that *competent authority* is a member of a *consolidation group* which may be a *financial conglomerate* it should communicate its view to the other ~~competent authorities~~ authority concerned.
- ...
- (10) If a *mixed financial holding company* is subject to equivalent provisions under the ~~EEA~~ UK *prudential sectoral legislation* in relation to the *banking and investment services sector* and under *GENPRU* 3 (Cross sector groups) and the *FCA* is the *coordinator*, the *FCA* may, on application by a *firm* and after consulting the other ~~competent authorities~~ authority responsible for the supervision of subsidiaries, disapply such provisions of the ~~EEA~~ UK *prudential*

sectoral legislation in relation to the *banking and investment services sector* with regard to the *mixed financial holding company* and apply only the relevant provisions of *GENPRU 3* to the *mixed financial holding company*.

- 3.1.3 G A If a *mixed financial holding company* is subject to equivalent provisions under this Chapter and under ~~EEA UK~~ *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 UK~~ *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*]

Introduction: The role of other competent authorities

- 3.1.4 G A lead supervisor (called the *coordinator*) is appointed for each *financial conglomerate*. ~~Article 10 of the *Financial Groups Directive*~~ The definition of coordinator in the *Financial Groups Directive Regulations* describes the criteria for deciding which *competent authority* is appointed as *coordinator*. ~~Article 11 of the *Financial Groups Directive* sets out the tasks of the coordinator.~~

[**Note:** Article 10 and 11 of the *Financial Groups Directive*]

...

Definition of financial conglomerate: adjustment of the percentages

- 3.1.9 R Once a *financial conglomerate* has become a *financial conglomerate* and subject to supervision in accordance with ~~the *Financial Groups Directive*~~ this chapter, the figures in the *financial conglomerate definition decision tree* are altered as follows:

...

...

Definition of financial conglomerate: discretionary changes to the definition

- 3.1.13 G ~~Articles 3(3) to 3(6), Article 5(4) and Article 6(5) of the *Financial Groups Directive*~~ Regulation 16 to 20, 21 and 24 of the *financial groups directive regulations* allow *competent authorities*, on a case by case basis, to:

- (1) change the definition of *financial conglomerate* and the obligations applying with respect to a *financial conglomerate* (which would include, where the *appropriate regulator* would be the *coordinator* under *GENPRU 3.1.3G* (6), permitting *firms* to apply, on an annual basis and subject to publication and notification to the ~~relevant competent authorities~~ competent authority, for a group of which it is a member not to be regarded as a *financial conglomerate* on the

basis of ~~Article 3(3) of the *Financial Groups Directive* (regulation 16 of the *financial groups directive regulations* (for a group that, in terms of the tests in *GENPRU 3 Annex 4R*, does not meet Threshold Test 2 but meets Threshold Test 3) or ~~Article 3(3a) of the *Financial Groups Directive* regulation 17 of the *financial groups directive regulations* (for a group that, in terms of the tests in *GENPRU 3 Annex 4R*, meets Threshold Test 2 but not Threshold Test 3);~~~~

- (2) apply the scheme in the *Financial Groups Directive financial groups directive regulations* to ~~EEA UK~~ regulated entities in specified kinds of group structures that do not come within the definition of *financial conglomerate*; and
- (3) exclude a particular entity in the scope of capital adequacy requirements that apply with respect to a *financial conglomerate*.

Capital adequacy requirements: introduction

...

3.1.16 G ~~GENPRU 3.1.29R to GENPRU 3.1.31R and GENPRU 3 Annex 1R implement apply~~ the detailed capital adequacy requirements of ~~that correspond with~~ the *Financial Groups Directive*. They only deal with a *financial conglomerate* for which the *FCA* 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.

3.1.17 G Annex I of the *Financial Groups Directive* ~~lays laid~~ down three methods for calculating capital adequacy at the level of a *financial conglomerate*. Those three methods ~~are~~ were implemented as follows:

...

- (4) Method 3 consists of a combination of Methods 1 and 2 ~~from Annex I of the *Financial Groups Directive*~~ and would be implemented by means of a *requirement*.

3.1.18 G [deleted]

3.1.19 G Paragraph 5.7 of *GENPRU 3 Annex 1R* (Capital adequacy calculations for financial conglomerates) deals with a case in which there are no capital ties between entities in a *financial conglomerate*. In particular, the *FCA*, after consultation with the other ~~relevant competent authorities~~ *authority* and in accordance with ~~Annex I of the *Financial Groups Directive*~~ this chapter, will determine which proportional share of a solvency deficit in such an entity will have to be taken into account, bearing in mind the liability to which the existing relationship gives rise.

3.1.20 G (1) [deleted]

(2) [deleted]

3.1.21 G The ~~Annex I~~ method to be applied may be decided by the *coordinator* after consultation with the ~~other relevant competent authorities~~ authority and the *financial conglomerate* itself. Where the *FCA* acts as *coordinator*, the *financial conglomerate* itself may choose which of Method 1 or Method 2 ~~from Annex I~~ it will apply, unless the *firm* is subject to a *requirement* obliging the *firm* to apply a particular method.

3.1.22 G [deleted]

3.1.23 G [deleted]

3.1.24 G [deleted]

Capital adequacy requirements: high level requirement

3.1.25 R (1) A *firm* that is a member of a *financial conglomerate* must at all times have capital resources of such an amount and type that results in the capital resources of the *financial conglomerate* taken as a whole being adequate.

(2) This *rule* does not apply with respect to any *financial conglomerate* until notification has been made that it has been identified as a *financial conglomerate* as contemplated by ~~Article 4(2) of the Financial Groups Directive~~ regulation 2 of the *Financial Groups Directive Regulations*.

3.1.26 R [deleted]

3.1.27 R [deleted]

3.1.28 R (1) [deleted]

(2) [deleted]

Capital adequacy requirements: application of Method 1 or 2 ~~from Annex I of the Financial Groups Directive~~

3.1.29 R If, with respect to a *firm* and a *financial conglomerate* of which it is a member, this *rule* applies under *GENPRU* 3.1.29AR to the *firm* with respect to that *financial conglomerate* as described in *GENPRU* 3.1.30R, the *firm* must at all times have capital resources of an amount and type that ensures that the *conglomerate capital resources* of that *financial conglomerate* at all times equal or exceed its *conglomerate capital resources requirement*.

3.1.29 R *GENPRU* 3.1.29R applies to a *firm* with respect to the *financial conglomerate* of which it is a member if notification has been made in accordance with regulation 2 of the *Financial Groups Directive Regulations* that the *financial conglomerate* is a *financial conglomerate* and that the *FCA* is *coordinator* of that *financial conglomerate*.

Capital adequacy requirements: use of requirement to apply ~~Annex I of the Financial Groups Directive~~ Method 1 or 2 for calculating capital adequacy

- 3.1.30 R If *GENPRU* 3.1.29R (application of Method 1 or 2 ~~from Annex I of the Financial Groups Directive~~) applies to a *firm* with respect to the *financial conglomerate* of which it is a member, then with respect to the *firm* and the *financial conglomerate*:
- (1) the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of that *rule* are the ones from whichever of Part 1 or Part 2 of *GENPRU* 3 Annex 1R the *firm* has indicated to the *FCA* it will apply, unless the *firm* is subject to a *requirement* obliging the *firm* to apply a specific part of *GENPRU* 3 Annex 1R, in which case *GENPRU* 3.1.31R will apply; and
 - (2) the *firm* must indicate to the *FCA* in advance which Part of *GENPRU* 3 Annex 1R the *firm* intends to apply.
- 3.1.31 R If *GENPRU* 3.1.29R (application of Method 1 or 2 ~~from Annex I of the Financial Groups Directive~~) applies to a *firm* with respect to a *financial conglomerate* of which it is a member, and the *firm* is subject to a *requirement* obliging the *firm* to apply a specific part of *GENPRU* 3 Annex 1R, the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of that *rule* are the ones from whichever of Part 1 or Part 2 of *GENPRU* 3 Annex 1R is specified in the *requirement*.

Risk concentration and intra-group transactions: introduction

- 3.1.32 G *GENPRU* 3.1.35R implements requirements that correspond to Article 7(4) and Article 8(4) of the *Financial Groups Directive*, ~~which provide~~ that where a *financial conglomerate* is headed by a *mixed financial holding company*, the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate*, if any, shall apply to that sector as a whole, including the *mixed financial holding company*.
- 3.1.3 G ~~Articles 7(3) (Risk concentration) and 8(3) (Intra-group transactions) and Annex II (Technical application of the provisions on intra-group transactions and risk concentration) of the *Financial Groups Directive* say that Member States~~ The *FCA* may, on a case by case basis, require the application ~~apply~~ at the level of the *financial conglomerate* of the provisions of the *sectoral rules* on *risk concentrations* and *intra-group transactions*. *GENPRU* 3.1 does not take up that option, although the *FCA* may impose such obligations on a case by case basis.

[Note: Article 7(3), Article 8(3) and Annex II of the *Financial Groups Directive*]

Risk concentration and intra-group transactions: application

- 3.1.34 R *GENPRU 3.1.35R applies to a firm with respect to a financial conglomerate of which it is a member if the financial conglomerate is headed by a mixed financial holding company:*
- ~~(1) the condition in Articles 7(4) and 8(4) of the *Financial Groups Directive* is satisfied (the financial conglomerate is headed by a mixed financial holding company); and~~
 - ~~(2) that financial conglomerate is a UK regulated EEA financial conglomerate.~~

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 sectoral rules for these purposes are those identified in the table in *GENPRU 3.1.36R*.

...

- 3.1.37 R [deleted]

- 3.1.38 R (1) [deleted]
- (2) [deleted]
- (3) [deleted]
- (4) [deleted]

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

- 3.1.39 R (1) ~~In accordance with Articles 30 and 30a of the *Financial Groups Directive* (Asset management companies and Alternative investment fund managers), this~~ This rule deals with the inclusion of an asset management company or an alternative investment fund manager that is a member of a financial conglomerate in the scope of regulation of financial conglomerates.

[Note: Articles 30 and 30a of the *Financial Groups Directive*]

- (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:
- (a) *GENPRU 3.1.29R* to *GENPRU 3.1.36R*;
 - (b) *GENPRU 3 Annex 1R* (Capital adequacy calculations for financial conglomerates) and *GENPRU 3 Annex 2R*

(Prudential rules for third country groups); and

- (c) any other provision of the *Handbook* relating to the supervision of *financial conglomerates*.
- (3) In the case of a *financial conglomerate* for which the *FCA* is the *coordinator*, all *asset management companies* and all *alternative investment fund managers* must be allocated to one *financial sector* to which they belong for the purposes in (2), being either the *investment services sector* or the *insurance sector*. But if that choice has not been made in accordance with (4) and notified to the *FCA* in accordance with (4)(d), an *asset management company* or an *alternative investment fund manager* must be allocated to the smallest *financial sector*.
- (4) The choice in (3):
- (a) must be made by the *undertaking* in the *financial conglomerate* ~~holding the position referred to in Article 4(2) of the *Financial Groups Directive* (group member to whom notice must be given that the group has been found to be a *financial conglomerate*); that is:~~
- (i) the parent undertaking at the head of the group or,
- (ii) in the absence of a parent undertaking, the regulated entity with the largest balance sheet total in the most important financial sector;
- (b) applies to all *asset management companies* and all *alternative investment fund managers* that are members of the *financial conglomerate* from time to time;
- (c) cannot be changed; and
- (d) must be notified to the *FCA* as soon as reasonably practicable after the notification in (4)(a).
- [Note: Article 4(2) of the *Financial Groups Directive*]
- (5) This *rule* applies even if:
- (a) a *UCITS management company* is an *IFPRU investment firm*; or
- (b) an *asset management company* or *alternative investment fund manager* is an *investment firm*.

3.2 Third-country groups

Application

- 3.2.1 R *GENPRU 3.2 applies to every firm that is a member of a third-country group. But it does not apply to:*
- (1) ~~an incoming EEA firm; or [deleted]~~
 - (2) ~~an incoming Treaty firm; or [deleted]~~
 - (3) ~~a UCITS qualifier; or [deleted]~~
 - (4) an ICVC; or
 - (5) a bank; or
 - (6) a designated investment firm; or
 - (7) an insurer.

...

Purpose

- 3.2.2 G *GENPRU 3.2 implements requirements that correspond in part to article 18 of the Financial Groups Directive, article 127 of the CRD and (in relation to BIPRU firms) article 143 of the BCD.*

Equivalence

- 3.2.3 G *The first question that must be asked about a third-country financial group is whether the EEA UK 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 GENPRU 3 (in the case of a financial conglomerate) or the EEA UK 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 127(1) and (2) of the CRD does so with respect to third-country banking and investment groups, except where the investment firms in the group are CAD investment firms only, in which case article 143 of the BCD applies.*

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 UK provisions which implemented the CRD and EU CRR UK CRR will apply or competent authorities the FCA may apply other methods that ensure appropriate supervision of the EEA UK regulated entities in that third-country group in accordance with the aims of supplementary supervision under the Financial Groups Directive in GENPRU 3 or consolidated supervision under the applicable EEA UK prudential sectoral legislation.*

Supervision by analogy: introduction

- 3.2.5 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*, a ~~competent authority~~ the *FCA* may, rather than take the measures described in *GENPRU 3.2.4G*, apply, by analogy, the provisions concerning supplementary supervision ~~under the *Financial Groups Directive* in *GENPRU 3*~~ or, as applicable, consolidated supervision under the applicable ~~EEA~~ *UK prudential sectoral legislation*, to the ~~EEA~~ *UK regulated entities* in the *banking sector*, *investment services sector* and (in the case of a *financial conglomerate*) *insurance sector*.
- 3.2.6 G The *FCA* believes that it will only be right to adopt the option in *GENPRU 3.2.5G* in response to very unusual group structures.
- 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*.

Supervision by analogy: rules for third-country conglomerates

- 3.2.8 R If the *Part 4A permission* of a *firm* contains a *requirement* obliging it to comply with this *rule* with respect to a *third-country financial conglomerate* of which it is a member, it must comply, with respect to that *third-country financial conglomerate*, with the *rules* in Part 1 of *GENPRU 3 Annex 2R*, as adjusted by Part 3 of that annex.

Supervision by analogy: rules for third-country banking and investment groups

- 3.2.9 R If the *Part 4A permission* of a *firm* contains a *requirement* obliging it to comply with this *rule* with respect to a *third-country banking and investment group* of which it is a member, it must comply, with respect to that *third-country banking and investment group*, with the *rules* in Part 2 of *GENPRU 3 Annex 2R*, as adjusted by Part 3 of that annex.

3 **Capital adequacy calculations for financial conglomerates (~~GENPRU 3.1.26R and GENPRU 3.1.29R~~)**

Annex 1R

1 Table: PART 1: Method 1 of Annex I of the ~~Financial Groups Directive~~ (Accounting Consolidation Method)

Capital resources	1.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are the capital of that <i>financial conglomerate</i> , calculated on an accounting consolidation basis, that qualifies under paragraph 1.2.
	1.2	The elements of capital that qualify for the purposes of

		paragraph 1.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> , in accordance with the following:
		(1) the <i>conglomerate capital resources requirement</i> is divided up in accordance with the contribution of each <i>financial sector</i> to it; and
		(2) the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular <i>financial sector</i> must be met by capital resources that are eligible in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i> .
Capital resources requirement	1.3	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the capital adequacy and solvency requirements for each <i>financial sector</i> calculated in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i> .
Consolidation	1.4	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with <i>GENPRU 3.1.29R</i> (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the consolidated accounts of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.
	1.5	The <i>applicable sectoral rules</i> that are applied under this Part are the <i>applicable sectoral consolidation rules</i> . Other <i>applicable sectoral rules</i> must be applied if required.

2 Table: PART 2: Method 2 of Annex I of the Financial Groups Directive (Deduction and aggregation Method)

Capital resources	2.1	<p>The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are equal to the sum of the following amounts (so far as they qualify under paragraph 2.3) for each member of the <i>overall financial sector</i>:</p> <p>(1) (for the <i>person</i> at the head of the <i>financial conglomerate</i>) its <i>solo capital resources</i>;</p> <p>(2) (for any other member):</p> <p>(a) its <i>solo capital resources</i>; less</p> <p>(b) the book value of the <i>financial conglomerate's</i> investment in that member, to the extent not already deducted in the calculation of the <i>solo capital resources</i> for:</p> <p>(i) the <i>person</i> at the head of the <i>financial conglomerate</i>; or</p> <p>(ii) any other member.</p>
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	2.2	The deduction in paragraph 2.1(2) must be carried out separately for each type of capital represented by the <i>financial conglomerate's</i> investment in the member concerned.
	2.3	The elements of capital that qualify for the purposes of paragraph 2.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> . In particular, the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular member of a <i>financial sector</i> must be met by capital resources that would be eligible under the <i>sectoral rules</i> that apply to the calculation of its <i>solo capital resources</i> .
Capital resources requirement	2.4	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the <i>solo capital resources requirement</i> for each member of the <i>financial conglomerate</i> that is in the <i>overall financial sector</i> .
Partial inclusion	2.5	The capital resources and capital resources requirements of a member of the <i>financial conglomerate</i> in the <i>overall financial sector</i> must be included proportionally. If however the member is a <i>subsidiary undertaking</i> and it has a <i>solvency deficit</i> , they must be included in full.
Accounts	2.6	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with <i>GENPRU 3.1.29R</i> (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the individual accounts of members of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.

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[deleted]

[deleted]

6 Table

Types of financial conglomerate	4.3	<p>(1) This paragraph sets out how to determine the category of <i>financial conglomerate</i>.</p> <p>(2) If there is an EEA a <u>UK</u> regulated entity at the head of the <i>financial conglomerate</i>, then:</p> <p>(a) if that entity is in the <i>banking sector</i> or the <i>investment services sector</i>, the <i>financial conglomerate</i> is a <i>banking and investment services conglomerate</i>; or</p> <p>(b) if that entity is in the <i>insurance sector</i>, the <i>financial conglomerate</i> is an <i>insurance conglomerate</i>.</p> <p>(3) If (2) does not apply and the <i>most important</i></p>
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		<p><i>financial sector is the banking and investment services sector, it is a banking and investment services conglomerate.</i></p> <p>(4) If (2) and (3) does not apply, it is an <i>insurance conglomerate</i>.</p>
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7 Table

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

Transfer-ability of capital	5.1	<p>Capital may not be included in</p> <p>(1) a <i>firm's conglomerate capital resources</i> under GENPRU 3.1.29R</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> <p><u>[Note: third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the <i>Financial Groups Directive</i> (Technical principles)]</u></p>
Double counting	5.2	<p>Capital must not be included in a <i>firm's conglomerate capital resources</i> under GENPRU 3.1.29R</p> <p>if:</p> <p>(1) it would involve double counting or multiple use of the same capital; or</p> <p>(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 1-2):</p> <p>(1) the <u>The</u> solvency requirements for each different</p>

		<p><i>financial sector</i> represented in a <i>financial conglomerate</i> required by <i>GENPRU</i> 3.1.29R must be covered by own funds elements in accordance with the corresponding <i>applicable sectoral rules</i>. and</p> <p>(2) if 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 <i>GENPRU</i> 3.1.29R.</p> <p>[Note: second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the <i>Financial Groups Directive</i>]</p>
Application of sectoral rules: General	5.4	<p>The following adjustments apply to the <i>applicable sectoral rules</i> as they are applied by the <i>rules</i> in this annex.</p> <p>(1) [deleted]</p> <p>(2) If any of those <i>rules</i> would otherwise not apply to a situation in which they are applied by <i>GENPRU</i> 3 Annex 1R, those <i>rules</i> nevertheless still apply (and in particular, any of those <i>rules</i> that would otherwise have the effect of disapplying consolidated supervision do not apply).</p> <p>(3) (If it would not otherwise have been included) an <i>ancillary insurance services undertaking</i> is included in the <i>insurance sector</i>.</p> <p>(4) The scope of those <i>rules</i> is amended so as to remove restrictions relating to where members of the <i>financial conglomerate</i> are incorporated or have their head office, so that the scope covers every member of the <i>financial conglomerate</i> that would have been included in the scope of those <i>rules</i> if those members had their head offices in an EEA State <u>the UK</u>.</p> <p>(5) (For the purposes of Parts 1 and 2) those <i>rules</i> must be adjusted, if necessary, when calculating the capital resources, capital resources requirements or solvency requirements for a particular <i>financial sector</i> to exclude those for a member of another <i>financial sector</i>.</p> <p>(6) Any <i>waiver</i>, approval or permission granted to a member of the <i>financial conglomerate</i> under those <i>rules</i> does not apply for the purposes of this annex.</p>
Application of sectoral rules: Insurance sector	5.5	[deleted]
Application of sectoral rules:	5.6	In relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit</i>

Banking sector and investment services sector		<p><i>institutions or 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.</p> <p>(1) References in those <i>rules</i> to <i>non-EEA sub-groups</i> <i>non-UK sub-groups</i> –if applicable – do not apply.</p> <p>[deleted]</p> <p>(3) Any <i>investment firm consolidation waivers</i> granted to members of the <i>financial conglomerate</i> do not apply.</p> <p>(4) (For the purposes of Parts 1 and 2), without prejudice to the application of requirements in <i>BIPRU 8</i> preventing the use of an <i>advanced prudential calculation approach</i> on a consolidated basis, any <i>advanced prudential calculation approach permission</i> that applies for the purpose of <i>BIPRU 8</i> does not apply.</p> <p>(5) (For the purposes of Parts 1 and 2), <i>BIPRU 8.5.9R</i> and <i>BIPRU 8.5.10R</i> do not apply.</p> <p>(6) (For the purposes of Part 3), where the <i>financial conglomerate</i> does not include a <i>credit institution</i>, the method in <i>GENPRU 2 Annex 4</i> must be used for calculating the capital resources and <i>BIPRU 8.6.8R</i> does not apply.</p> <p>(Other than as above) the <u><i>UK CRR</i></u> and the <u><i>provisions which implemented the CRD and EU CRR</i></u> apply for the <i>banking sector</i> and the <i>investment services sector</i>.</p>
No capital ties	5.7	<p>(1) This <i>rule</i> deals with a <i>financial conglomerate</i> in which some of the members are not linked by capital ties at the time of the notification referred to in <i>GENPRU 3.1.29AR</i> (Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive).</p> <p>[deleted]</p> <p>[deleted]</p> <p>(4) If:</p> <p>[deleted]</p> <p>(b) <i>GENPRU 3.1.29R</i> (Capital adequacy requirements: Application of Method 1 or 2 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 in whichever of Part 1 or Part 2 of <i>GENPRU 3 Annex 1R</i></p>

		<p>the <i>firm</i> has, under <i>GENPRU</i> 3.1.30R, indicated to the <i>FCA</i> it will apply or, if applicable, in the <i>requirement</i> referred to in <i>GENPRU</i> 3.1.31R; and</p> <p>(d) <i>GENPRU</i> 3.1.29R applies 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.</p> <p>[deleted]</p>
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9 Table: PART 6: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts 1 and 2 of this annex:</p> <p>(1) an <i>asset management company</i> is allocated in accordance with <i>GENPRU</i> 3.1.39R; an <i>alternative investment fund manager</i> is allocated in accordance with <i>GENPRU</i> 3.1.39R; and</p> <p>(3) a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.</p>
Solo capital resources requirement: Banking sector and investment service sector	6.2	<p>(1) The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> must be calculated in accordance with this <i>rule</i>, subject to paragraphs <u>paragraph 6.5 and 6.6</u>.</p> <p>(2) The <i>solo capital resources requirement</i> of a <i>building society</i> is its <i>own funds requirements</i>.</p> <p>(3) The <i>solo capital resources requirement</i> of an <i>electronic money institution</i> is the capital resources requirement that applies to it under the <i>Electronic Money Regulations</i>.</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 <i>EU-CRR</i> <u><i>UK CRR</i></u> for calculating the <i>own funds requirements</i> of a <i>bank</i>.</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 <i>investment firm</i> in the <i>financial conglomerate</i>; and(c) all the <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 <i>EU</i></p>

		<p>CRR UK CRR for calculating the <i>own funds requirements</i> of:</p> <p>(i) (if there is a limited activity firm in the financial conglomerate), an <i>IFPRU limited activity firm</i>; or</p> <p>(ii) (in any other case), an <i>IFPRU limited licence firm</i>.</p> <p>(6) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>; and</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 services sector</i> is calculated in accordance with the EU CRR UK CRR for calculating the <i>own funds requirements</i> of a <i>full-scope IFPRU investment firm</i>.</p> <p>(7) 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>, any <i>capital resources requirements</i> calculated under a <i>BIPRU TP</i> may be used for the purposes of the <i>solo capital resources requirement</i> in this rule in the same way that the <i>capital resources requirements</i> can be used under <i>BIPRU 8</i>.</p>
Solo capital resources requirement: application of rules	6.3	Any exemption that would otherwise apply under any <i>rules</i> applied by paragraph 6.2 do not apply for the purposes of this Annex.
Solo capital resources requirement: Insurance sector	6.4	<p>(1) The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>insurance sector</i> must be calculated in accordance with this rule. The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>insurance sector</i> is:</p> <p>(a) in respect of a UK Solvency II firm, the <i>SCR</i>;</p> <p>(b) in respect of a Solvency II undertaking other than a UK Solvency II firm, the equivalent SCR as calculated in accordance with the Solvency II EEA implementing measures in the EEA State in which it has received authorisation in accordance with article 14 of the Solvency II Directive; [deleted]</p> <p>(c) in respect of a third country insurance undertaking or third country reinsurance undertaking to which the PRA Rulebook: Solvency II Firms: Group Supervision, 10.4(2) applies, the equivalent of the <i>SCR</i> as calculated in accordance with the applicable requirements in that <i>third country</i>; and</p>

		<p>(d) in respect of any <i>undertaking</i> which is not within (a) to (c), the capital resources requirement calculated according to the rules for the calculation of the solo capital resources requirement applicable to that <i>undertaking</i> for the purposes of the calculation referred to in the PRA Rulebook: Solvency II Firms: Group Supervision and Chapter 1 of Title II of the delegated acts, or if no rules are applicable for that calculation under Group Supervision and Chapter 1 of Title II of the delegated acts, in accordance with the SCR Rules.</p> <p>For the purpose of this Part as it applies in relation to <i>GENPRU</i> 3.1, the following expressions bear the same meaning as defined in the PRA Rulebook: Glossary:</p> <p>(i) “UK Solvency II firm”;</p> <p>(ii) “Solvency II undertaking” [deleted]</p> <p>(iii) “delegated acts”;</p> <p>(iv) “third country insurance undertaking”;</p> <p>(v) “third country reinsurance undertaking”; and</p> <p>(vi) “SCR Rules”.</p>
Solo capital resources requirement: EEA firms in the banking sector or investment services sector	6.5	<p>The solo capital resources requirement for an EEA regulated entity (other than a bank, building society, designated investment firm, IFPRU investment firm, BIPRU firm, an insurer or an EEA insurer) that is subject to the solo capital adequacy sectoral rules for its financial sector of competent authority that authorised it is equal to the amount of capital it is obliged to hold under those sectoral rules provided that the following conditions are satisfied:</p> <p>(1) (for the purposes of the banking sector and the investment services sector) those sectoral rules must correspond to the FCA’s sectoral rules identified in paragraph 6.2 as applying to that financial sector;</p> <p>(2) the entity must be subject to those sectoral rules in (1); and</p> <p>(3) paragraph 6.3 applies to the entity and those sectoral rules. [deleted]</p>
Solo capital resources requirement: non-EEA UK firms subject to equivalent regimes in the banking sector or	6.6	<p>The solo capital resources requirement for a recognised third country credit institution or a recognised third country investment firm is the amount of capital resources that it is obliged to hold under the sectoral rules for its financial sector that apply to it in the state or territory in which it has its head office provided that:</p>

investment services sector		(1) there is no reason for the <i>firm</i> applying the <i>rules</i> in this annex to believe that the use of those <i>sectoral rules</i> would produce a lower figure than would be produced under paragraph 6.2; and (2) paragraph 6.3 applies to the entity and those <i>sectoral rules</i> .
Solo capital resources requirement: mixed financial holding company	6.7	The <i>solo capital resources requirement</i> of a <i>mixed financial holding company</i> is a notional capital requirement. It is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 6.10.
Reference to “rules”	6.7A	A reference to “ <i>rules</i> ” in this annex includes any directly applicable Community regulation legislation <i>onshored regulations</i> that is <u>are</u> relevant to the purpose of which “ <i>rules</i> ” as used refers to.

10 Table

Solo capital resources requirement: the insurance sector	6.8	References to capital requirements in the provisions of <i>GENPRU 3 Annex 1R</i> defining <i>solo capital resources requirement</i> must be interpreted in accordance with paragraph 5.4.
Applicable sectoral consolidation rules	6.9	The <i>applicable sectoral consolidation rules</i> for a <i>financial sector</i> are the <i>sectoral rules</i> about capital adequacy and solvency on a consolidated basis that are applied in the table in paragraph 6.10.

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

Financial sector	Sectoral rules
Banking sector	Part One, Title II, Chapter 2 of the EU CRR <u>UK CRR</u> and <i>IFPRU 8.1</i> .
Insurance sector	PRA Rulebook: Solvency II Firms: Group Supervision.
Investment services sector	(in relation to an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>PRA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the EU CRR <u>UK CRR</u> and the <i>PRA Rulebook</i> ; (in relation to a <i>designated investment firm</i> or 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 EU CRR <u>UK CRR</u> and <i>IFPRU 8.1</i> ; (in relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit</i>

	<i>institutions or investment firms</i> for which the <i>FCA</i> is the coordinator) <i>BIPRU</i> 8 and <i>BIPRU</i> TP.
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12 Table:

Part 5	1	This Part 6 is subject to Part 5 of this Annex.
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3 Prudential rules for third country groups (GENPRU 3.2.8R to GENPRU 3.2.9R) Annex 2R

1 Table: PART 1: Third-country financial conglomerates

1.1	This Part of this annex sets out the <i>rules</i> with which a <i>firm</i> must comply under <i>GENPRU</i> 3.2.8R with respect to a <i>financial conglomerate</i> of which it is a member.
1.2	A <i>firm</i> must comply, with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1, with <i>GENPRU</i> 3.1.29R as applied under paragraph 1.3.
1.3	For the purposes of paragraph 1.2: [deleted] 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 or Part 2 of <i>GENPRU</i> 3 Annex 1R is specified in the <i>requirement</i> referred to in <i>GENPRU</i> 3.2.8R; and the <i>rules</i> so applied (including those in <i>GENPRU</i> 3 Annex 1R) are adjusted in accordance with paragraph 3.1.
1.4	If the condition in Articles 7(4) and 8(4) of the <i>Financial Groups Directive</i> is satisfied (the <i>financial conglomerate</i> is headed by a <i>mixed financial holding company</i>) with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1, the <i>firm</i> must also comply with <i>GENPRU</i> 3.1.35R (as adjusted in accordance with paragraph 3.1) with respect to that <i>financial conglomerate</i> .
1.5	A <i>firm</i> must comply with the following with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1: <i>SYSC</i> 12 (as it applies to <i>financial conglomerates</i> and as adjusted under paragraph 3.1); and <i>GENPRU</i> 3.1.25R.

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

2.1	This Part of this annex sets out the <i>rules</i> with which a <i>firm</i> must comply under <i>GENPRU</i> 3.2.9R with respect to a <i>third-country banking and investment group</i> of which it is a member.
2.2	A <i>firm</i> must comply with one of the sets of <i>rules</i> specified in paragraph 2.3 as adjusted under paragraph 3.1 with respect to the <i>third-country banking and investment group</i> referred to in paragraph 2.1.
2.3	The rules referred to in paragraph 2.2 are: the <i>applicable sectoral consolidation rules</i> in paragraph 6.10 of <i>GENPRU</i> 3 Annex 1R.
2.4	The set of <i>rules</i> from paragraph 2.3 that apply with respect to a particular <i>third-country banking and investment group</i> (as referred to in paragraph 2.1) are those that would apply if they were adjusted in accordance with paragraph 3.1.
2.5	The <i>sectoral rules</i> applied by Part 2 of this annex cover all prudential <i>rules</i> applying on a consolidated basis including those relating to large exposures.
2.6	A <i>firm</i> must comply with <i>SYSC</i> 12 (as it applies to <i>banking and investment groups</i> and as adjusted under paragraph 3.1) with respect to the <i>third-country banking and investment group</i> referred to in paragraph 2.1.

3 Table: PART 3: Adjustment of scope

3.1	<p>The adjustments that must be carried out under this paragraph are that the scope of the <i>rules</i> referred in Part 1 or Part 2 of this annex, as the case may be, are amended:</p> <p>so as to remove any provisions disapplying those <i>rules</i> for <i>third-country groups</i>;</p> <p>so as to remove all limitations relating to where a member of the <i>third-country group</i> is incorporated or has its head office; and</p> <p>so that the scope covers every member of the <i>third-country group</i> that would have been included in the scope of those <i>rules</i> if those members had their head offices in, and were incorporated in, an EEA State <u>the UK</u>.</p>
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4 Table: PART 4: Definition used in this Annex

4.1	This Part sets out the definition which a <i>firm</i> must apply for the purposes of this annex as it applies in relation to <i>GENPRU</i> 3.2.
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4.2	A reference to “ <i>rules</i> ” in this annex includes any directly applicable Community regulation <i>onshored regulations</i> that is <u>are</u> relevant to the purpose of which “ <i>rules</i> ” as used refers to.
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In GENPRU 3 Annex 4R (see GENPRU 3.1.5R), the words “*EEA regulated entity*” are replaced by the words “*UK regulated entity*”. This change 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 indicated.

1 Application

1.1 Application

...

Purpose

- 1.1.4 G *BIPRU 1.1 implements in part the third paragraph of article 95(2) of the ~~EU CRR~~ UK CRR that permits the FCA to apply certain requirements that correspond to the Banking Consolidation Directive and the Capital Adequacy Directive.*

The definition of a BIPRU firm

- 1.1.7 R None of the following is a *BIPRU firm*:

- (1) ~~an incoming EEA firm;~~ [deleted]
- (2) ~~an incoming Treaty firm;~~ [deleted]
- (3) ~~any other~~ an overseas firm;
- (4) ~~an ELMF;~~ [deleted]
- (5) an insurer; and
- (6) an ICVC.

...

- 1.1.10 G ...

- (2) Except in exceptional circumstances, it is the *appropriate regulator's* policy that it will not give an overseas applicant a *Part 4A permission* unless the *appropriate regulator* is satisfied that the applicant will be subject to prudential regulation by its home state *regulatory body* that is broadly equivalent to that provided for in the *Handbook* and the applicable ~~EEA~~ UK prudential sectoral legislation. The *appropriate regulator* will take into account not only the requirements to which the *firm* is subject but how they are enforced. The *appropriate regulator* will also take into account the laws, regulations and administrative provisions to which it is subject

in its home state. The reasons for that policy include:

...

...

...

Meaning of dealing on own account

- 1.1.23 R (1) *Dealing on own account* means (for the purpose of *GENPRU* and *BIPRU*) the service of dealing in any *financial instruments* for own account as referred to in ~~point 3 of Section A of Annex I to MiFID~~ paragraphs 3 of Part 3 of Schedule 2 to the *Regulated Activities Order*, subject to (2) and (3).
- (2) ~~In accordance with article 5(2) of the Capital Adequacy Directive (Definition of dealing on own account), a CAD investment firm that executes investors' orders for *financial instruments* and holds such *financial instruments* for its own account does not for that reason *deal on own account* if all of the following conditions are met:~~
- ...
- (d) ~~(in the case of a CAD investment firm that is an EEA firm) it complies with the CRD implementation measures of its Home State for Articles 18 and 20 (Minimum capital requirements) of the Capital Adequacy Directive; [deleted]~~
- (e) (in the case of ~~any other~~ a CAD investment firm) it would comply with the *rules* in (2)(c) if it had been a *BIPRU firm* on the basis of the following assumptions:
- (i) its head office had been in ~~an EEA State~~ the UK; and
- (ii) it had carried on all its business in the ~~EEA UK~~ and had obtained whatever ~~authorisations~~ Part 4A permission required for doing so ~~as are required under MiFID~~; and
- ...
- (3) ~~In accordance with in article 5(2) of the Capital Adequacy Directive, the holding Holding of non-trading book positions in *financial instruments* in order to invest *capital resources* is not *dealing on own account* for the purposes referred to in article 4(1)(2)(c) of the EU CRR UK CRR (see *BIPRU* 1.1.7AG).~~

[Note: Article 5(2) of the Capital Adequacy Directive (Definition of dealing on own account)]

...

1.2 Definition of the trading book

...

Purpose

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

...

- 1.2.8 R *CRD financial instruments* include both primary *CRD financial instrument* or cash instruments, and derivative *CRD financial instruments* the value of which is derived from the price of an underlying *CRD financial instrument*, a rate, an index or the price of another underlying item and include as a minimum the instruments specified in ~~Section C of Annex I to the MIFID~~ Part 1 of Schedule 2 to the Regulated Activities Order.

[Note: CAD Article 3(1) last paragraph]

...

1.3 Applications for advanced approaches and waivers

...

Purpose

- 1.3.2 G (1) A *firm* may apply for ~~an Article 129 permission~~ or a *waiver* in respect of:
- ...
- (2) A *firm* should apply for a *waiver* if it wants to:
- ...
- (c) disapply consolidated supervision under *BIPRU 8* for its *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group; or
- ...

Article 129

- 1.3.3 G ~~An EEA parent institution and its subsidiary undertakings or the subsidiary undertakings of its EEA parent financial holding company or the subsidiary undertakings of its EEA parent mixed financial holding company~~ that wish to use any of the approaches listed in *BIPRU 1.3.2G(1)* in respect of its

group, including members of its group that are *BIPRU firms*, may apply for an *Article 129 permission*. [deleted]

- 1.3.4 G ~~The *Article 129 procedure* allows an *EEA parent institution* and its *subsidiary undertakings* or the *subsidiary undertakings* of its *EEA parent financial holding company* or the *subsidiary undertakings* of its *EEA parent mixed financial holding company* to apply for permission to use the approaches in *BIPRU 1.3.2G(1)* without making separate applications to the *competent authority* of each *EEA State* where members of a *firm's* group are authorised. [deleted]~~
- 1.3.5 G ~~The *Capital Requirements Regulations 2006* set out the *Article 129 procedure*. [deleted]~~
- 1.3.6 G ~~Where a *firm* or its group has been granted an *Article 129 permission*, each *competent authority*, including the lead *competent authority*, will need to take action to apply that *Article 129 permission* to the *institutions* that they authorise. Part 3 of the *Capital Requirements Regulations 2006* governs how the *appropriate regulator* will take that action, whether or not the *appropriate regulator* is the lead *competent authority*. [deleted]~~

...

Forms and method of application

...

- 1.3.15 D ~~If a *firm* wishes to apply for a *waiver* or an *Article 129 permission* to use the *IRB approach*, it must complete and submit the form in *BIPRU 1 Annex 2DD*.~~
- 1.3.16 D ~~If a *firm* wishes to apply for a *waiver* or an *Article 129 permission* to use the *CCR internal model method*, it must complete and submit the form in *BIPRU 1 Annex 3DD*.~~
- 1.3.17 D ~~Where a *firm* makes an application in accordance with *BIPRU 1.3.14D*, *BIPRU 1.3.15D* or *BIPRU 1.3.16D*, the *firm* must state on the application whether it is making an application for a *waiver* or an *Article 129 permission*. [deleted]~~
- 1.3.18 D ~~Where a *firm* applies for a *VaR model permission*, the *firm* must state whether it is making an application for a *waiver* or an *Article 129 permission*. [deleted]~~
- 1.3.19 G In respect of the application for *waivers* to apply the approaches set out in *BIPRU 1.3.2G(1)*, the *appropriate regulator* will aim to give decisions on applications as soon as practicable. However, the *appropriate regulator* expects that it will take a significant period to determine and give a decision due to the complexity of the issues raised by the applications. Details of timelines for applications for *waivers* to use advanced approaches and under the *Article 129 procedure* are set out on the *appropriate regulator* website.

...

- 1.3.21 G Before sending in an application for a *waiver* or ~~Article 129 permission~~, a *firm* may find it helpful to discuss the application with its usual supervisory contact at the *appropriate regulator*. However, the *firm* should still ensure that all relevant information is included in the application.

...

2 Capital

2.1 Solo consolidation

...

Purpose

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

...

The basic rules for solo consolidation

...

- 2.1.8 R ...
- (2) If (1) applies, SYSC 12.1.13R applies to the group made up of the *firm* and its *subsidiary undertakings* referred to in (1) in the same way as it applies to a *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group.

...

Solo consolidation and capital and concentration risk requirements

...

- 2.1.10 R A *firm* must treat itself and each *subsidiary undertaking* referred to in BIPRU 2.1.7R as a single *undertaking* and must apply, on that basis, BIPRU 8 (Group risk - consolidation) to the group made up of the *firm* and such *subsidiary undertakings* in the same way as BIPRU 8 applies to a *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group.

...

Minimum standards

...

- 2.1.23 R Where the *firm* is a *parent institution in a ~~Member State~~ the UK*, it must have measures in place that ensure the satisfactory allocation of risks within the group consisting of the *firm* and each *subsidiary undertaking* to which *BIPRU 2.1* is applied.

...

2.2 Internal capital adequacy standards

...

The drafting of individual capital guidance and capital planning buffer

...

- 2.2.19 G (1) ...
- (2) If *BIPRU 8.2.1R* (General consolidation rule for a *UK consolidation group*) applies to the *firm* the *guidance* relates to its *UK consolidation group*. If *BIPRU 8.3.1R* (General consolidation rule for a ~~*non-EEA sub-group non-UK sub-group*~~) applies to the *firm* the *guidance* relates to its ~~*non-EEA sub-group non-UK sub-group*~~. If both apply to the *firm* the *guidance* relates to its *UK consolidation group* and to its ~~*non-EEA sub-group non-UK sub-group*~~.

...

...

Business risk: Stress tests for firms using the IRB approach

...

- 2.2.43 R ...
- (1) references to *capital resources* are to the *consolidated capital resources* of the *firm's UK consolidation group* or, as the case may be, its ~~*non-EEA sub-group non-UK sub-group*~~; and
- (2) references to the capital requirements in *GENPRU 2.1* (Calculation of capital resources requirements) are to the consolidated capital requirements with respect to the *firm's UK consolidation group* or, as the case may be, its ~~*non-EEA sub-group non-UK sub-group*~~ under *BIPRU 8* (Group risk - consolidation).

...

2.3 Interest rate risk in the non-trading book

...

Purpose

...

- 2.3.5 G ~~BIPRU 2.3 implements~~ applies requirements that correspond to Article 124(5) of the *Banking Consolidation Directive*.

...

3 Standardised credit risk

3.1 Application and purpose

...

Purpose

- 3.1.2 G Pursuant to the third paragraph of article 95(2) of the ~~EU CRR~~ UK CRR, ~~BIPRU 3 implements~~ applies requirements that correspond to:
- (1) Articles 78 to 80, paragraph (1) of Article 81, Article 83, Annex II and Parts 1 and 3 of Annex VI of the *Banking Consolidation Directive*;
 - (2) Article 18 of the *Capital Adequacy Directive* so far as it applies Articles 78 to 80, paragraph (1) of Article 81, Article 83 and Parts 1 and 3 of Annex VI of the *Banking Consolidation Directive* to *investment firms*; and
 - (3) Article 40 of the *Capital Adequacy Directive* for the purposes of the calculation of credit risk under the *Banking Consolidation Directive*.

...

3.2 The central principles of the standardised approach to credit risk

...

Zero risk-weighting for intra-group exposures: core UK group

...

- 3.3.29A G (1) ...
- (2) For the purpose of *BIPRU 3.2.25R(1)(d)* (Incorporation in the UK), if a counterparty is of a type that falls within the scope of the ~~Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC)~~ *Insolvency Proceedings Regulation* and it is

established in the *United Kingdom* other than by incorporation, a *firm* wishing to include that counterparty in its *core UK group* may apply to the *appropriate regulator* for a *waiver* of this condition if it can demonstrate fully to the *appropriate regulator* that the counterparty's centre of main interests is situated in the *United Kingdom* within the meaning of that Regulation.

...

3.3 The use of the credit assessments of ratings agencies

...

Recognition of ratings agencies

...

- 3.3.3 G Regulation 22 of the *Capital Requirements Regulations 2006* deals with recognition by the *appropriate regulator* of *eligible ECAIs* for *exposure risk weight* purposes. Regulation 25 deals with revoking recognition.

...

- 3.3.6 G ~~The list of *eligible ECAIs* includes those who have been recognised as eligible for *exposure risk weighting* purposes by a *competent authority* of another *EEA State* and are subsequently recognised as *eligible ECAIs* by the *appropriate regulator* without carrying out its own evaluation process under Regulation 22(2) of the *Capital Requirements Regulations 2006*. [deleted]~~

Mapping of credit assessments

...

- 3.3.9 G The table mapping the credit assessments of eligible ECAIs to *credit quality steps* is published on the *appropriate regulator's* website and amended from time to time in line with additions to and deletions from the list of *eligible ECAIs*. ~~The table includes mappings made by a *competent authority* of another *EEA State* which are subsequently recognised by the *appropriate regulator* without carrying out its own determination process under Regulation 22(5) of the *Capital Requirements Regulations 2006*.~~

[Note: For the most recent version of the table, refer to:

<http://www.fca.org.uk/your-fca/documents/fsa-ecais-standardised> for the *FCA* and

<http://www.bankofengland.co.uk/publications/Documents/other/pr/policy/2013/ecaisstandardised.pdf> for the *PRA*]

3.4 Risk weights under the standardised approach to credit risk

...

Exposures in the national currency of the borrower

- 3.4.5 R ~~Exposures to EEA States' central governments~~ the central government of the UK and central banks the Bank of England ~~denominated and funded in the domestic currency of that central government and central bank~~ sterling must be assigned a *risk weight* of 0%.

[Note: BCD Annex VI Part 1 point 4]

- 3.4.6 R When the *competent authorities* of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the ~~EEA UK~~ assign a *risk weight* which is lower than that indicated in BIPRU 3.4.1R to BIPRU 3.4.3R to exposures to their central government and central bank ~~denominated and funded in the domestic currency, a firm may risk weight such exposures in the same manner.~~

[Note: BCD Annex VI Part 1 point 5]

...

Exposures to regional governments or local authorities: General

- 3.4.10 R Without prejudice to ~~BIPRU 3.4.1R to BIPRU 3.4.19R:~~
- (1) a firm must *risk weight exposures* to regional governments and local authorities in accordance with ~~BIPRU 3.4.11R to BIPRU 3.4.14R and BIPRU 3.4.19AR;~~ and

...

...

Table: Central government risk weight based method

...

- 3.4.17 R ~~A firm must treat an exposure to a regional government or local authority of an EEA State other than the United Kingdom as an exposure to the central government in whose jurisdiction that regional government or local authority is established if that regional government or local authority is included on the list of regional governments and local authorities drawn up by the competent authority in that EEA State under a CRD implementation measure with respect to point 9 of Part 1 of Annex VI of the Banking Consolidation Directive. [deleted]~~

~~[Note: BCD Annex VI Part 1 point 9]~~

- 3.4.18 R *Exposures* to churches or religious communities constituted in the form of a legal person under public law must, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as *exposures* to regional governments and local authorities, except that

~~BIPRU 3.4.15R and BIPRU 3.4.17R~~ does not apply.

[~~Note: BCD Annex VI Part 1 point 10~~]

...

- 3.4.19 R When competent authorities of a third country jurisdiction which apply supervisory and regulatory arrangements at least equivalent to those applied in the *EEA UK* treat *exposures* to regional governments and local authorities as exposures to their central government, a *firm* may *risk weight exposures* to such regional governments and local authorities in the same manner.

[~~Note: BCD Annex VI Part 1 point 11~~]

- 3.4.19A R ~~Without prejudice to BIPRU 3.4.17R to BIPRU 3.4.19R, an exposure to a regional government or local authority of an EEA State denominated and funded in the domestic currency of that regional government or local authority must be assigned a risk weight of 20%. [deleted]~~

[~~Note: BCD Annex VI Part 2(b)~~]

...

Public sector entities

...

- 3.4.25 R ~~Where a competent authority of another EEA State implements points 14 or 15 of Part 1 of Annex VI of the Banking Consolidation Directive by exercising the discretion to treat exposures to public sector entities as exposures to institutions or as exposures to the central government of the EEA State concerned, a firm may risk weight exposures to the relevant public sector entities in the same manner. [deleted]~~

[~~Note: BCD Annex VI Part 1 point 16~~]

- 3.4.26 R When *competent authorities* of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the *EEA UK*, treat *exposures to public sector entities* as exposures to *institutions*, a *firm* may *risk weight exposures* to the relevant *public sector entities* in the same manner.

[~~Note: BCD Annex VI Part 1 point 17~~]

Exposures to multilateral development banks: Treatment

...

- 3.4.29 R ~~A risk weight of 20% must be assigned to the portion of unpaid capital subscribed to the European Investment Fund. [deleted]~~

[~~Note: BCD Annex VI Part 1 point 21~~]

Exposures to international organisations

...

- 3.4.31 R ~~BIPRU 3.4.32R to BIPRU 3.4.48R~~ 3.4.47R set out the treatment to be accorded to *exposures to institutions*.

Exposures to institutions: Treatment

- 3.4.32 R Without prejudice to *BIPRU 3.4.33R to BIPRU 3.4.47R*, *exposures to financial institutions* authorised and supervised by the ~~competent authorities responsible for the authorisation and supervision of credit institutions~~ PRA and FCA and subject to prudential requirements equivalent to those applied to *credit institutions* must be *risk weighted as exposures to institutions*.

[Note: BCD Annex VI Part 1 point 24]

...

Exposures to institutions: Short-term exposures in the national currency of the borrower

...

- 3.4.45 R (1) ~~Where a competent authority of another EEA State implements point 37 of Part 1 of Annex VI of the Banking Consolidation Directive by exercising the discretion to allow the treatment in that point, a firm may assign to the relevant national currency exposures the risk weight permitted by that CRD implementation measure. [deleted]~~
- (2) When the *competent authority* of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the ~~EEA~~ UK assigns to an *exposure to an institution* formed under the law of that third country of a residual maturity of 3 months or less denominated and funded in the national currency a *risk weight* that is one category less favourable than the preferential *risk weight*, as described in *BIPRU 3.4.6R* (Exposures in the national currency of the borrower), assigned to *exposures to the central government of that third country*, a *firm* may *risk weight* such *exposures* in the same manner.

[Note: BCD Annex VI Part 1 point 37]

...

Exposures to institutions: Minimum reserves required by the ECB

- 3.4.48 R ~~Where an exposure to an institution is in the form of minimum reserves required by the European Central Bank or by the central bank of an EEA State to be held by the firm, a firm may assign the risk weight that would be assigned to exposures to the central bank of the EEA State in question~~

provided:

- (1) ~~the reserves are held in accordance with Regulation (EC) No. 1745/2003 of the European Central Bank of 12 September 2003 or a subsequent replacement regulation or in accordance with national requirements in all material respects equivalent to that Regulation; and~~
- (2) ~~in the event of the bankruptcy or insolvency of the *institution* where the reserves are held, the reserves will be fully repaid to the *firm* in a timely manner and will not be available to meet other liabilities of the *institution*. [deleted]~~

~~[Note: BCD Annex VI Part 1 point 40]~~

...

Exposures secured by real estate property

- 3.4.54 R ~~BIPRU 3.4.55R to BIPRU 3.4.94R~~ BIPRU 3.4.89R set out the treatment to be accorded to *exposures* secured by real estate property.

...

Exposures secured by mortgages on residential property

...

- 3.4.57 R ~~*Exposures* fully and completely secured, to the satisfaction of the *firm*, by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of residential property which is or shall be occupied or let by the owner must be assigned a *risk weight* of 35%. [deleted]~~

~~[Note: BCD Annex VI Part 1 point 46]~~

...

- 3.4.60 R ...
- (6) The value of the property exceeds the *exposures* by a substantial margin as set out in ~~BIPRU 3.4.81R, BIPRU 3.4.83R, BIPRU 3.4.84R~~ or ~~BIPRU 3.4.85R~~ (as applicable).

~~[Note: BCD Annex VI Part 1 point 48]~~

...

- 3.4.62 G The ~~Banking Consolidation Directive~~ permits a ~~competent authority~~ to ~~disapply~~ FCA may disapply the condition in ~~BIPRU 3.4.60R(3)~~, if it has evidence that a well-developed and long-established residential real estate market is present in ~~its territory~~ the UK with loss rates which are sufficiently

low to justify such treatment disapplying the condition in BIPRU 3.4.60R(3). BIPRU 3.4.61R implements that option. However, if the evidence changes so that these conditions are no longer satisfied, the *appropriate regulator* may be ~~obliged~~ to revoke BIPRU 3.4.61R.

- 3.4.63 R ~~If a CRD implementation measure of another EEA State exercises the discretion in point 49 of Part 1 of Annex VI of the *Banking Consolidation Directive* to dispense with the condition corresponding to BIPRU 3.4.60R(3) (The risk of the borrower should not materially depend upon the performance of the underlying property or project), a firm may apply a risk weight of 35% to such exposures fully and completely secured by mortgages on residential property situated in that EEA State. [deleted]~~

~~[Note: BCD Annex VI Part 1 point 50]~~

...

- 3.4.77 R The property must be valued by an independent valuer at or less than the market value. ~~In those EEA States that have laid down~~ In the UK where rigorous criteria for the assessment of the mortgage lending value exist in statutory or regulatory provisions ~~the property may instead be valued by an independent valuer at or less than the mortgage lending value.~~

[Note: BCD Annex VIII Part 3 point 62]

...

- 3.4.83 R ~~A firm may only treat an exposure as fully and completely secured by residential property situated in another EEA State for the purposes of BIPRU 3.4.56R or BIPRU 3.4.58R if it would be treated as fully and completely secured by the relevant CRD implementation measures in that EEA State implementing points 45 and 47 of Part 1 of Annex VI of the *Banking Consolidation Directive*. [deleted]~~

...

- 3.4.87 G If a firm has more than one exposure secured on the same property they should be aggregated and treated as if they were a single exposure secured on the property for the purposes of BIPRU 3.4.56R and BIPRU 3.4.58R and ~~BIPRU 3.4.81R, BIPRU 3.4.83R and BIPRU 3.4.84R.~~

...

Exposures secured by mortgages on commercial real estate

...

- 3.4.90 R ~~Exposures fully and completely secured by shares in Finnish housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of offices or other commercial premises may be assigned a risk weight of 50%. [deleted]~~

~~[Note: BCD Annex VI Part 1 point 52]~~

- 3.4.91 R If a *CRD implementation measure* in another *EEA State* implements the discretion in point 51 of Part 1 of Annex VI of the *Banking Consolidation Directive*, a *firm* may apply the same treatment as that *CRD implementation measure* to *exposures* falling within the scope of that *CRD implementation measure* which are fully and completely secured by mortgages on offices or other commercial premises situated in that *EEA State*. ~~[deleted]~~

~~[Note: BCD Annex VI Part 1 points 51 and 57]~~

- 3.4.92 R If a *CRD implementation measure* in another *EEA State* implements the discretion in point 53 of Part 1 of Annex VI of the *Banking Consolidation Directive*, a *firm* may apply the same treatment as that *CRD implementation measure* to *exposures* related to property leasing transactions concerning offices or other commercial premises situated in that *EEA State* and governed by statutory provisions whereby the lessor retains full ownership of the rented assets until the tenant exercises his option to purchase, as long as that *exposure* falls within the scope of that *CRD implementation measure*. ~~[deleted]~~

~~[Note: BCD Annex VI Part 1 points 53 and 57]~~

- 3.4.93 R In particular, if a *firm* applies *BIPRU 3.4.91R* or *BIPRU 3.4.92R*, it must comply with the corresponding *CRD implementation measures* in relation to points 54-56 of Part 1 of Annex VI of the *Banking Consolidation Directive*. ~~[deleted]~~

~~[Note: BCD Annex VI Part 1 points 54 to 56]~~

- 3.4.94 R (1) If a *CRD implementation measure* in another *EEA State* implements the discretion in point 58 of Part 1 of Annex VI of the *Banking Consolidation Directive* to dispense with the condition in point 54(b) for *exposures* fully and completely secured by mortgages on commercial property situated in that *EEA State*, a *firm* may apply the same treatment as that *CRD implementation measure* to *exposures* fully and completely secured by mortgages on commercial property situated in that *EEA State* falling within the scope of that *CRD implementation measure*.
- (2) However a *firm* may not apply the treatment in (1) if the eligibility to use that treatment under the *CRD implementation measure* referred to in (1) ceases as contemplated under point 59 of Annex VI of the *Banking Consolidation Directive* (condition in point 54(b) must apply where conditions in point 58 are not satisfied). ~~[deleted]~~

~~[Note: BCD Annex VI Part 1 points 58, 59 and 60]~~

Past due items

...

- 3.4.99 R *Exposures* indicated in *BIPRU* 3.4.56R to ~~*BIPRU* 3.4.63R~~ *BIPRU* 3.4.61R (Exposures secured by mortgages on residential property) must be assigned a *risk weight* of 100% net of value adjustments if they are past due for more than 90 days. If value adjustments are no less than 20% of the *exposure* gross of value adjustments, the *risk weight* to be assigned to the remainder of the *exposure* is 50%.

[**Note:** *BCD* Annex VI Part 1 point 64]

...

- 3.4.101 R *Exposures* indicated in *BIPRU* 3.4.89R to ~~*BIPRU* 3.4.94R~~ (Exposures secured by mortgages on commercial real estate) must be assigned a *risk weight* of 100% if they are past due for more than 90 days.

[**Note:** *BCD* Annex VI Part 1 point 65]

...

Items belonging to regulatory high-risk categories

...

- 3.4.105 G ~~For the purposes of point 66 of Part 1 of Annex VI of the *Banking Consolidation Directive*, the~~ The exposures listed in *BIPRU* 3 Annex 3R are in the view of the *appropriate regulator* associated with particularly high risk.

[**Note:** *BCD* Annex VI Part 1 point 66]

Exposures in the form of covered bonds

...

- 3.4.107 R (1) *Covered bonds* means covered bonds as defined in ~~paragraph (1) of the definition in the *glossary*~~ *Glossary* (~~Definition based on Article 22(4) of the *UCITS Directive*~~) and collateralised by any of the following eligible assets:
- (a) *exposures* to or guaranteed by the ~~central governments, central bank, UK central government, the Bank of England,~~ public sector entities, regional governments and local authorities in the ~~EEA~~ UK;
 - (b) (i) *exposures* to or guaranteed by ~~non-EEA non-UK~~ central governments, non-EEA non-UK central banks, multilateral development banks, international organisations that qualify for the *credit quality step* 1;
 - (ii) *exposures* to or guaranteed by ~~non-EEA non-UK~~ public sector entities, non-EEA non-UK regional governments and non-EEA non-UK local authorities

that are *risk weighted* as *exposures* to institutions or central governments and *central banks* according to *BIPRU 3.4.23R*, *BIPRU 3.4.24R*, *BIPRU 3.4.10R* or *BIPRU 3.4.16G* to ~~*BIPRU 3.4.17R*~~ respectively and that qualify for the *credit quality step 1*; and

...

...

- (d) ~~loans secured:~~
- (i) ~~by residential real estate or shares in Finnish residential housing companies as referred to in *BIPRU 3.4.57R* up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value of the pledged properties; or~~
 - (ii) ~~by senior units issued by French Fonds Communs de Créances or by equivalent *securitisation* entities governed by the laws of an *EEA State securitising* residential real estate *exposures* provided that the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council ensures that the assets underlying such units must, at any time while they are included in the cover pool, be at least 90% composed of residential mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80% of the value of the pledged properties, that the units qualify for *credit quality step 1* and that such units do not exceed 10% of the nominal amount of the outstanding issue; or [deleted]~~
- (e) (i) ~~loans secured by commercial real estate or shares in Finnish housing companies as referred to in *BIPRU 3.4.57R* up to the lesser of the principal amount of the liens that are combined with any prior liens and 60% of the value of the pledged properties; or [deleted]~~
- (ii) ~~loans secured by senior units issued by French Fonds Communs de Créances or by equivalent *securitisation* entities governed by the laws of an *EEA State securitising* commercial real estate *exposures* provided that the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council ensures that the assets underlying such units must, at any time while they are included in the~~

~~cover pool, be at least 90% composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60% of the value of the pledged properties, that the units qualify for *credit quality step 1* and that such units do not exceed 10% of the nominal amount of the outstanding issue; or [deleted]~~

- (iii) a *firm* may recognise loans secured by commercial real estate as eligible where the loan to value ratio of 60% is exceeded up to a maximum level of 70% if the value of the total assets pledged as collateral for the *covered bonds* exceed the nominal amount outstanding on the covered bond by at least 10%, and the bondholders' claim meets the legal certainty requirements set out in *BIPRU 3* and *BIPRU 5*; the bondholders' claim must take priority over all other claims on the collateral; or

- (f) loans secured by ships where only liens that are combined with any prior liens within 60% of the value of the pledged ship.

- (2) ~~For the purposes of *BIPRU 3.4.107R(1)(d)(ii)* and *BIPRU 3.4.107R(1)(e)(ii)* exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities must not be comprised in calculating the 90% limit. [deleted]~~

...

- (4A) ~~Until 31 December 2013, the 10% limit for senior units issued by French Fonds Communs de Créances or by equivalent *securitisation* entities as specified in (1)(d)(ii) and (1)(e)(ii) does not apply, provided that:~~

- (a) ~~the *securitised* residential or commercial real estate exposures were originated by a member of the same consolidated group of which the *issuer* of the *covered bonds* is also a member or by an entity affiliated to the same central body to which the *issuer* of the *covered bonds* is also affiliated (that common group membership or affiliation to be determined at the time the senior units are made collateral for *covered bonds*); and~~
- (b) ~~a member of the same consolidated group of which the *issuer* of the *covered bonds* is also a member or an entity affiliated to the same central body to which the *issuer* of the *covered bonds* is also affiliated retains the whole first loss tranche~~

~~supporting those senior units. [deleted]~~

- (5) ~~Until 31 December 2010 the figure of 60% in (1)(f) can be replaced with a figure of 70%. [deleted]~~

[Note: *BCD* Annex VI Part 1 point 68]

...

- 3.4.109 R Notwithstanding *BIPRU* 3.4.107R to *BIPRU* 3.4.108R, *covered bonds* meeting ~~the definition of Article 22(4) of the *UCITS Directive* paragraph (1) of the definition in the *Glossary*~~ and issued before 31 December 2007 are also eligible for the preferential treatment until their maturity.

[Note: *BCD* Annex VI Part 1 point 69]

...

Exposures in the form of collective investment undertakings (CIUs)

....

- 3.4.121 R Where *BIPRU* 3.4.116R does not apply, a *firm* may determine the *risk weight* for a *CIU* as set out in *BIPRU* 3.4.123R to *BIPRU* 3.4.125R, if the following eligibility criteria are met:

- (1) one of the following conditions is satisfied:
- (a) the *CIU* is managed by a company which is subject to supervision in an ~~EEA State~~ the UK; or
 - (b) the following conditions are satisfied:
 - (i) the *CIU* is managed by a company which is subject to supervision that is equivalent to that laid down in ~~EU~~ UK law; and
 - (ii) cooperation between *competent authorities* and third country competent authorities is sufficiently ensured; and

...

- 3.4.122 R ~~If another *EEA competent authority* approves a third country *CIU* as eligible under a *CRD implementation measure* with respect to point 77(a) of Part 1 of Annex VI of the *Banking Consolidation Directive* then a *firm* may make use of this recognition. [deleted]~~

[Note: *BCD* Annex VI Part 1 point 78]

...

3.5 Simplified method of calculating risk weights

...

3.5.5 G Table: Simplified method of calculating risk weights

This table belongs to *BIPRU 3.5.4G*.

Exposure class	Exposure sub-class	Risk weights	Comments
Central government	<i>Exposures to United Kingdom government or Bank of England in sterling</i>	0%	
	<i>Exposures to United Kingdom government or Bank of England in the currency of another EEA State</i>	0%	See Note 2.
	<i>Exposures to EEA State's central government or central bank in currency of that state</i>	0%	
	<i>Exposures to EEA State's central government or central bank in the currency of another EEA State</i>	0%	See Notes 2 and 3.
	<i>Exposures to central governments or central banks of certain countries outside the EEA UK in currency of that country</i>	See next column	The <i>risk weight</i> is whatever it is under local law. See <i>BIPRU 3.4.6R</i> for precise details.

	<i>Exposures to European Central Bank</i>	0%	
	<i>Other exposures</i>	100%	
Regional/local governments	<i>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in sterling</i>	0%	
	<i>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in the currency of another EEA State</i>	0%	See Note 2.
	<i>Exposures to EEA States' equivalent regional/local governments in currency of that state</i>	0%	See BIPRU 3.4.17R for details of type of local/regional government covered.
	<i>Exposures to EEA States' equivalent regional/local governments in the currency of another EEA State</i>	0%	See BIPRU 3.4.17R for details of type of local/regional government covered. See Notes 2 and 3.
	<i>Exposures to local or regional governments of certain countries</i>	0%	See BIPRU 3.4.19R for details of type of

	outside the <i>EEA UK</i> in currency of that country		local/regional government covered. See Note 4.
	<i>Exposures to United Kingdom or EEA States</i> local/regional government in currency of that state sterling if the <i>exposure</i> has original effective maturity of 3 months or less	20%	
	<i>Exposures to United Kingdom or EEA States</i> local/regional government in the currency of another <i>EEA State</i> if the <i>exposure</i> has original effective maturity of 3 months or less	20%	See Note 2. See Note 3 for local/regional government of an <i>EEA State</i> other than the <i>United Kingdom</i>
	<i>Exposures to local or regional governments of countries outside the <i>EEA UK</i> in currency of that country if the <i>exposure</i> has original effective maturity of 3 months or less</i>	20%	See Note 4.
	Other <i>exposures</i>	100%	
<i>PSE</i>	<i>Exposures to a PSE of the United Kingdom</i>	0%	<i>BIPRU 3.4.24R</i> describes the

	<p>or of an EEA State if that PSE is guaranteed by its central government and if the <i>exposure</i> is be in currency of that PSE's state <u>in sterling</u>.</p>		<p>United Kingdom PSEs covered and BIPRU 3.4.25R describes the EEA PSEs covered.</p>
	<p><i>Exposures to PSE of a country outside the EEA UK</i> if that PSE is guaranteed by the country's central government and if the <i>exposure</i> is in currency of that country.</p>	0%	<p>See BIPRU 3.4.26R and Note 4.</p>
	<p><i>Exposures to a PSE of the United Kingdom</i> or of an EEA State in currency of that state <u>sterling</u> if the <i>exposure</i> has original effective maturity of 3 months or less</p>	20%	
	<p><i>Exposures to a PSE of the United Kingdom</i> or of an EEA State in the currency of another EEA State if the <i>exposure</i> has original effective maturity of 3 months or less</p>	20%	<p>See Notes 2 and 3.</p>

	<i>Exposures to PSE of a country outside the EEA UK in currency of that country if the exposure has original effective maturity of 3 months or less</i>	20%	See Note 1.
	<i>Other exposures</i>	100%	
<i>Multilateral development banks</i>	<i>Exposures to multilateral development banks listed in paragraph (1) of the Glossary definition</i>	0%	Simplified approach does not apply. Normal rules apply.
	<i>Other exposures</i>	Various	Treated as an institution
<i>EU, the The International Monetary Fund and the Bank for International Settlements</i>		0%	Simplified approach does not apply. Normal rules apply.
<i>Institutions</i>	<i>Exposures to United Kingdom institution in sterling with original effective maturity of three months or less</i>	20%	
	<i>Exposures to United Kingdom institution in the currency of another EEA State with original effective maturity of three</i>	20%	See Note 2.

	months or less		
	<i>Exposures to institution whose head office is in another EEA State in the currency of that state with original effective maturity of three months or less</i>	20%	
	<i>Exposures to institution whose head office is in another EEA State in the currency of another EEA State with original effective maturity of three months or less</i>	20%	See Notes 2 and 3.
	<i>Exposures to institution with a head office in a country outside the EEA UK in the currency of that country with original effective maturity of three months or less</i>	20%	See Note 4.
	<i>Exposures to United Kingdom institution in sterling with original effective maturity of over three months</i>	50%	

	<i>Exposures to United Kingdom institution in the currency of another EEA State with original effective maturity of over three months</i>	50%	See Note 2.
	<i>Exposures to an EEA institution with a head office in another EEA State in the currency of that state with original effective maturity of over three months</i>	50%	
	<i>Exposures to an EEA institution with a head office in another EEA State in the currency of another EEA State with original effective maturity of over three months</i>	50%	See Notes 2 and 3.
	<i>Exposures to institution with a head office in a country outside the EEA UK in the currency of that country with original effective maturity of over three months</i>	50%	See Note 4.
	Other exposures	100%	

...			
<p>Note 4: The <i>risk weight</i> should not be lower than the <i>risk weight</i> that applies for national currency <i>exposures</i> of the central government of the third country in question under <i>BIPRU 3.5</i>. That means that this <i>risk weight</i> only applies if the third country is one of those to which <i>BIPRU 3.4.6R</i> (Preferential <i>risk weight</i> for <i>exposures</i> of the central government of countries outside the EEA <u>UK</u> that apply equivalent prudential standards) applies.</p>			
<p>Note 2: This is a transitional measure. It lasts until 31 December 2012.</p>			
<p>Note 3: The <i>risk weight</i> should not be lower than the <i>risk weight</i> that applies for <i>exposures</i> of the central government of the EEA State in question in the currency of another EEA State under <i>BIPRU 3.5</i>.</p>			

4 The IRB approach

4.1 The IRB approach: Application, purpose and overview

...

Purpose

- 4.1.2 G Pursuant to the third paragraph of article 95(2) of the ~~EU-CRR~~ UK CRR, *BIPRU 4* ~~implements~~ applies requirements that correspond to the following provisions of the *Banking Consolidation Directive*:
- (1) Articles 84 - 89; and
 - (2) Annex VII.
- 4.1.3 G Pursuant to the third paragraph of article 95(2) of the ~~EU-CRR~~ UK CRR, *BIPRU 4* ~~also implements~~ applies requirements that correspond to Annex VIII of the *Banking Consolidation Directive* so far as it applies to the *IRB approach*. In particular, it ~~implements~~ applies requirements corresponding to (in part):
- (1) from Part 1 of that Annex, points 12-16, 19-22, 26(g)(ii) and 27;
 - (2) from Part 2 of that Annex, points 8-11; and
 - (3) from Part 3 of that Annex, points 1, 11, 20, 23-24, 58(h), 61, 64-79 and 90-93.
- 4.1.4 G Similarly, *BIPRU 4* ~~also implements~~ applies requirements that correspond to article 40 of the *Capital Adequacy Directive* as it applies to the *IRB approach*.

...

Overview

- 4.1.6 G The *IRB approach* is an alternative to the *standardised approach* for calculating a *firm's* credit risk capital requirements. It may be applied to all a *firm's exposures* or to some of them, subject to various limitations on partial use as set out in *BIPRU 4.2*. Under the *IRB approach* capital requirements are based on a *firm's* own estimates of certain parameters together with other parameters as set out in ~~the *Banking Consolidation Directive*~~ *BIPRU 4*.

...

IRB permissions: general

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- 4.1.13 G The *appropriate regulator* recognises that the nature of *IRB approaches* will vary between *firms*. The scope of and the requirements and conditions set out in an *IRB permission* may therefore differ in substance or detail from *BIPRU 4* in order to address individual circumstances adequately. ~~However any differences will only be allowed if they are compliant with the *Banking Consolidation Directive*~~ The *FCA* will consider any differences by having regard to the *Banking Consolidation Directive*. An *IRB permission* will implement any such variation by modifying the relevant provisions of *GENPRU* and *BIPRU*. An *IRB permission* may also include additional conditions to meet the particular circumstances of the *firm*.

...

Link to standard rules: Incorporation of the IRB output into the capital calculation

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- 4.1.23 R If a provision of the *Handbook* relating to the *IRB approach* says that a *firm* may do something if its *IRB permission* allows it, a *firm* may do that thing unless its *IRB permission* expressly says that it may not do so except that:

...

- (6) ~~(in the case of *collateral* that is only eligible for recognition under paragraph 21 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (Other physical collateral))~~ a *firm* may not recognise as eligible collateral an item of a type referred to in *BIPRU 4.10.16R* (Other physical collateral) unless that item is of a type specified as permitted in its *IRB permission*.

[Note: *BCD* Annex VIII Part 1 point 21]

...

4.2 The IRB approach: High level material

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General approach to granting an IRB permission

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- 4.2.3 R Where ~~an EEA parent institution~~ a parent institution in the UK and its ~~subsidiary undertakings~~ or ~~an EEA parent financial holding company~~ a parent financial holding company in the UK and its ~~subsidiary undertakings~~ or ~~an EEA parent mixed financial holding company~~ a parent mixed financial holding company in the UK and its ~~subsidiary undertakings~~ use the *IRB approach* on a unified basis, the question whether the *minimum IRB standards* are met is answered by considering the *parent undertaking* and its *subsidiary undertakings* together, unless the *firm's IRB permission* specifies otherwise.

[Note: BCD Article 84(2) (part)]

Outsourcing

- 4.2.4 G (1) This *guidance* sets out the basis on which a *firm* may rely upon a *rating system* or data provided by another member of its *group*.
- (2) A *firm* may rely upon a *rating system* or data provided by another member of its *group* if the following conditions are satisfied:
- (a) the *firm* only does so to the extent that it is appropriate, given the nature and scale of the *firm's* business and portfolios and the *firm's* position within the *group*;
- (b) the *group* is an *EEA banking and investment group*;
- ...
- (e) (if the provision of the *rating system* or data is not carried out in the *United Kingdom* ~~or in the jurisdiction of the competent authority that is the lead regulator of the group~~) the *firm* can demonstrate to the *appropriate regulator* that the ability of the *appropriate regulator* ~~and that lead regulator~~ to carry out their responsibilities under the *Handbook*, ~~the Banking Consolidation Directive and the Capital Adequacy Directive~~ are is not adversely affected.

...

...

Combined use of methodologies: Basic provisions

- 4.2.26 R (1) ...
- (2) A firm may apply the *standardised approach* to the *IRB exposure class* referred to in *BIPRU 4.3.2R(1)* (Sovereigns) where the number of material counterparties is limited and it would be unduly burdensome for the firm to implement a *rating system* for these counterparties. A firm may include in this treatment an *exposure* of the type described in *BIPRU 3.4.18R* (Exposures to churches or religious communities) that would fall within *BIPRU 3.4.15R* or ~~*BIPRU 3.4.17R*~~ (Exposure to a regional government or local authority) if those provisions that provision had not been excluded by *BIPRU 3.4.18R*.
- ...
- (5) A firm may apply the *standardised approach* to exposures to the UK's central governments of EEA States and their regional governments, local authorities and administrative bodies, provided that:
- ...
- ...
- (9) ~~A firm may apply the *standardised approach* to the exposures identified in *BIPRU 3.4.48R* (Exposures in the form of minimum reserves required by the European Central Bank or by the central bank of an *EEA State*) meeting the conditions specified therein.~~
[deleted]
- ...

...

4.3 The IRB approach: Provisions common to different exposure classes

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Corporate governance

...

- 4.3.12 G Where the firm's *rating systems* are used on a unified basis for the *parent undertaking* and its *subsidiary undertakings* under *BIPRU 4.2.3R*, and approval and reporting of the *ratings systems* are carried out at the group level, the governance requirements in *BIPRU 4.3.9R* and *BIPRU 4.3.11R* may be met if:
- (1) the *subsidiary undertakings* have delegated to the *governing body* or *designated committee* of the ~~*EEA parent institution*~~ parent institution in the UK or ~~*EEA parent financial holding company*~~ parent financial

holding company in the UK responsibility for approval of the *firm's rating systems*;

- (2) the governing body or designated committee of the ~~EEA parent institution~~ parent institution in the UK or ~~EEA parent financial holding company~~ parent financial holding company in the UK approves either:
- (a) all aspects of the *firm's rating systems*, and material changes; or
 - (b) all aspects of the *firm's rating systems* that are material in the context of the group, and material changes to those, and a policy statement defining the overall approach to material aspects of rating and estimation processes for all *rating systems*, including non-material *rating systems*.

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4.4 The IRB approach: Exposures to corporates, institutions and sovereigns

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Risk quantification: Definition of default

4.4.22 R ...

- (3) ~~For counterparts that are PSEs situated in another EEA State the number of days past due is the lower of:~~
- ~~(a) 180; and~~
 - ~~(b) the number of days past due fixed under the CRD implementation measure with respect to point 48 of Part 4 of Annex VII of the Banking Consolidation Directive for that EEA State for such exposures. [deleted]~~
- (4) For counterparts that are PSEs in a state ~~outside the EEA~~ other than the UK the number of days past due is the lower of:
- (a) 180; and
 - (b) (if a number of days past due for such *exposures* has been fixed under any law of that state applicable to *undertakings* in the *banking sector* or the *investment services sector* that implements the *IRB approach*) that number.

[Note: BCD Annex VII Part 4 point 44 (part) and point 48 (part)]

...

Double default

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- 4.4.83 R An institution, an insurance undertaking (including an insurance undertaking that carries out reinsurance) or an export credit agency which fulfils the following conditions may be recognised as an eligible provider of unfunded credit protection which qualifies for the treatment set out in BIPRU 4.4.79R:
- (1) the protection provider has sufficient expertise in providing unfunded credit protection;
 - (2) the protection provider is regulated in a manner equivalent to the rules laid down in the ~~Banking Consolidation Directive~~ GENPRU and BIPRU or had, at the time the credit protection was provided, a credit assessment by an eligible ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under the standardised approach;

...

...

4.6 The IRB approach: Retail exposures

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Risk quantification: Definition of default

...

- 4.6.20 R (1) This rule, in accordance with BIPRU 4.3.57R(4) (Definition of default), sets the exact number of days past due that a firm must abide by in the case of retail exposures.
- (2) For retail exposures to counterparts situated within the United Kingdom the number of days past due is 180 days with the exception of retail SME exposures. For these exposures the number is 90 days.
 - (3) ~~For retail exposures to counterparts situated in another EEA State the number of days past due is the lower of:~~
 - (a) 180; and
 - (b) ~~the number of days past due fixed under the CRD implementation measure in that EEA State with respect to paragraph 48 of Part 4 of Annex VII of the Banking Consolidation Directive for such exposures. [deleted]~~
 - (4) For retail exposures to counterparts in a state outside the EEA United Kingdom the number of days past due is the lower of:

...

...

4.9 The IRB approach: Securitisation, non-credit obligations assets and CIUs

...

Collective investment undertakings

- 4.9.11 R (1) Where *exposures* in the form of a *CIU* meet the criteria set out in *BIPRU* 3.4.121R to ~~*BIPRU* 3.4.122R~~ (Conditions for look through treatment under the standardised approach) and the *firm* is aware of all of the underlying *exposures* of the *CIU*, the *firm* must look through to those underlying *exposures* in order to calculate *risk weighted exposure amounts* and *expected loss* amounts in accordance with the methods set out in *BIPRU* 4. *BIPRU* 4.9.12R applies to the part of the underlying *exposures* of the *CIU* of which the *firm* is not aware or could not reasonably be aware. In particular, *BIPRU* 4.9.12R must apply where it would be unduly burdensome for the *firm* to look through the underlying *exposures* in order to calculate *risk weighted exposure amounts* and *expected loss* amounts in accordance with methods set out in this *rule*.

...

- 4.9.12 R (1) Where *exposures* in the form of a *CIU* do not meet the criteria set out in *BIPRU* 3.4.121R to ~~*BIPRU* 3.4.122R~~ (Conditions for look through treatment under the standardised approach) or the *firm* is not aware of all of the underlying *exposures* of the *CIU*, a *firm* must look through to the underlying *exposures* and calculate *risk weighted exposure amounts* and *expected loss* amounts in accordance with the approach set out in *BIPRU* 4.7.9R - *BIPRU* 4.7.12R (Simple risk weights). If, for those purposes, the *firm* is unable to differentiate between private equity, exchange-traded and other *equity exposures*, it must treat the *exposures* concerned as other *equity exposures*. For these purposes, non-equity *exposures* must be assigned to one of the classes (private equity, exchange traded equity or other equity) set out in *BIPRU* 4.7.9R (Simple risk weight approach) and unknown *exposures* must be assigned to the other equity class.

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...

4.10 The IRB approach: Credit risk mitigation

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Eligibility of funded credit protection: General

- 4.10.5 R In addition to the collateral set out in *BIPRU 5.3.1R* to *BIPRU 5.3.2R*, *BIPRU 5.4.1R* to *BIPRU 5.4.8R* and *BIPRU 5.6.1R* (Eligibility of funded credit protection) the provisions of *BIPRU 4.10.6R* - ~~*BIPRU 4.10.11R*~~ ~~*BIPRU 4.10.12R*~~ (Eligibility of real estate collateral), *BIPRU 4.10.14R* (Eligibility: receivables), *BIPRU 4.10.16R* (Eligibility: other physical collateral), and *BIPRU 4.10.19R* (Eligibility: leasing), apply where a *firm* calculates *risk weighted exposure amounts* and *expected loss* amounts under the *IRB approach*.

[**Note:** *BCD Annex VIII Part 1 point 12*]

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Real estate collateral: Types of eligible collateral: General

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- 4.10.8 G (1) ~~Under paragraph 16 of Part 1 of Annex VIII of the Banking Consolidation Directive, a competent authority~~ The FCA may only disapply the condition in *BIPRU 4.10.6R(3)* if ~~the competent authority~~ it has evidence that the relevant UK market is well-developed and long-established with loss-rates which are sufficiently low to justify such action.
- (2) If the evidence were to change so that the action was no longer justified the *appropriate regulator* would expect to revoke *BIPRU 4.10.7R*.

[**Note:** *BCD Annex VIII Part 1 point 16*]

- 4.10.9 R (1) The condition in *BIPRU 4.10.6R(3)* does not apply for *exposures* secured by residential real estate property situated ~~within the territory of another EEA State~~ outside the UK.
- (2) ~~However (1) only applies if and to the extent that the CRD implementation measures for that EEA State in relation to the IRB approach implement the option set out in paragraph 16 of Part 1 of Annex VIII of the Banking Consolidation Directive (waiver for residential real estate property) with respect to residential real estate property situated within that EEA State. Therefore (1) does not apply if the eligibility to use this treatment under those measures ceases as contemplated under paragraph 18 of Part 1 of Annex VIII of the Banking Consolidation Directive (suspension of alternative treatment).~~ [deleted]

[**Note:** ~~*BCD Annex VIII Part 1 point 16 (part)*~~]

- 4.10.10 R (1) The condition in *BIPRU 4.10.6R(3)* does not apply for commercial real estate property situated ~~within the territory of another EEA State~~ outside the UK.

- (2) ~~However (1) only applies if and to the extent that the *CRD implementation measures* for that *EEA State* in relation to the *IRB approach* implement the option set out in paragraph 17 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (waiver for commercial real estate property) with respect to commercial real estate property situated within that *EEA State*. Therefore (1) does not apply if the eligibility to use this treatment under those measures ceases as contemplated under paragraph 18 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (suspension of alternative treatment). [deleted]~~

~~[Note: *BCD* Annex VIII Part 1 point 19]~~

Real estate collateral: Types of eligible collateral: Finnish housing legislation

- 4.10.11 R ~~A *firm* may also recognise as eligible collateral shares in Finnish residential housing companies operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation in respect of residential property which is or will be occupied or let by the owner, as residential real estate collateral, provided that the conditions in *BIPRU* 4.10.6R are met. [deleted]~~

~~[Note: *BCD* Annex VIII Part 1 point 14]~~

- 4.10.12 R ~~A *firm* may also recognise as eligible collateral shares in Finnish housing companies operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation as commercial real estate collateral, provided that the conditions in *BIPRU* 4.10.6R are met. [deleted]~~

~~[Note: *BCD* Annex VIII Part 1 point 15]~~

....

Other physical collateral: Types of eligible collateral

- 4.10.16 R A *firm* may recognise as eligible collateral a physical item of a type other than those types indicated in *BIPRU* 4.10.6R - ~~*BIPRU* 4.10.8R *BIPRU* 4.10.12R~~ (Eligibility of real estate collateral) if its *IRB permission* provides that the *firm* may treat collateral of that type as eligible and if the *firm* is able to demonstrate the following:

...

....

Calculating risk weighted exposure amounts and expected loss amounts: General treatment

- 4.10.23 R ~~*BIPRU* 4.10.24 R - *BIPRU* 4.10.28R *BIPRU* 4.10.29R~~ apply to collateral in the form of real estate collateral, receivables, other physical collateral and leasing permitted by *BIPRU* 4.10 and *exposures* secured by such collateral.

...

Calculating risk weighted exposure amounts and expected loss amounts for funded credit risk mitigation: Alternative treatment for real estate collateral

- 4.10.29 R (1) ~~A firm may apply the treatment in paragraph 74 of Part 3 of Annex VIII of the *Banking Consolidation Directive* (50% risk weight for exposures secured by real estate) in respect of *exposures* collateralised by:~~
- ~~(a) residential real estate property; or~~
 - ~~(b) commercial real estate property;~~
- ~~located in the territory of another *EEA State*.~~
- (2) ~~However (1)(a) or (1)(b) only applies if the *CRD implementing measures* for that *EEA State* with respect to the *IRB approach* have implemented the option set out in the provision of the *Banking Consolidation Directive* referred to in (1) with respect to the relevant category of real estate property situated within that *EEA State*.~~
- (3) ~~The use of the treatment in (1) with respect to property in another *EEA State* must be subject to the same conditions as apply under the relevant *CRD implementation measures* for that *EEA State*. [deleted]~~

~~[Note: *BCD Annex VIII Part 3 point 75*]~~

...

5 Credit risk mitigation

5.1 Application and purpose

...

Purpose

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

...

- 5.1.4 G ~~*BIPRU 4.10 implements*~~ applies requirements that correspond to those parts of Articles 91 to 93 and Annex VIII of the *Banking Consolidation Directive* which are specific to the recognition of *credit risk mitigation* by *firms* using the *IRB approach*, and modifies the application of the provisions in *BIPRU 5* to those *firms*.

...

5.4 Financial collateral

...

The financial collateral simple method: Repurchase transactions and securities lending or borrowing transactions

- 5.4.19 R A *risk weight* of 0% must be assigned to the collateralised portion of the *exposure* arising from transactions which fulfil the criteria enumerated in *BIPRU 5.4.62R* or ~~*BIPRU 5.4.65R*~~. If the counterparty to the transaction is not a *core market participant* a *risk weight* of 10% must be assigned.

[**Note:** *BCD* Annex VIII Part 3 point 27]

...

The financial collateral comprehensive method: General

...

- 5.4.24 R In valuing financial collateral for the purposes of the *financial collateral comprehensive method*, volatility adjustments must be applied to the market value of collateral, as set out in *BIPRU 5.4.30R* to *BIPRU 5.4.64R* ~~*BIPRU 5.4.65R*~~, in order to take account of price volatility.

[**Note:** *BCD* Annex VIII Part 3 point 30]

- 5.4.25 R Subject to the treatment for currency mismatches in the case of *financial derivative instrument* set out in *BIPRU 5.4.26R*, where collateral is denominated in a currency that differs from that in which the underlying *exposure* is denominated, an adjustment reflecting currency volatility must be added to the volatility adjustment appropriate to the collateral as set out in *BIPRU 5.4.30R* to *BIPRU 5.4.64R* ~~*BIPRU 5.4.65R*~~.

[**Note:** *BCD* Annex VIII Part 3 point 31]

...

- 5.4.27 R In the case of a *firm* using the *financial collateral comprehensive method*, where an *exposure* takes the form of securities or *commodities* sold, posted or lent under a *repurchase transaction* or under a *securities or commodities lending or borrowing transaction*, and *margin lending transactions* the *exposure* value must be increased by the volatility adjustment appropriate to such securities or *commodities* as prescribed in *BIPRU 5.4.30R* to *BIPRU 5.4.64R* ~~*BIPRU 5.4.65R*~~.

[**Note:** *BCD* Article 78(1), third sentence]

The financial collateral comprehensive method: Calculating adjusted values

5.4.28 R ...

- (3) The fully adjusted value of the *exposure*, taking into account both volatility and the risk-mitigating effects of collateral is calculated as follows:

$$E^* = \max \{0, [E_{VA} - C_{VAM}]\}$$

Where:

...

- (e) H_E is the volatility adjustment appropriate to the *exposure* (E), as calculated under *BIPRU 5.4.30R* to *BIPRU 5.4.64R*, *BIPRU 5.4.65R*.
- (f) H_C is the volatility adjustment appropriate for the collateral, as calculated under *BIPRU 5.4.30R* to *BIPRU 5.4.64R*, *BIPRU 5.4.65R*.
- (g) H_{FX} is the volatility adjustment appropriate for currency mismatch, as calculated under *BIPRU 5.4.30R* to *BIPRU 5.4.64R*, *BIPRU 5.4.65R*.

...

...

The financial collateral comprehensive method: Calculation of volatility adjustments to be applied: General

5.4.29 R ~~*BIPRU 5.4.30R - BIPRU 5.4.64R BIPRU 5.4.65R*~~ set out the calculation of volatility adjustments under the *financial collateral comprehensive method*.

...

The financial collateral comprehensive method: Conditions for applying a 0% volatility adjustment

....

5.4.65 R ~~If under the *CRD implementation measure* for a particular *EEA State* with respect to point 58 of Part 3 of Annex VIII of the *Banking Consolidation Directive* (Conditions for applying the 0% volatility adjustment) the treatment set out in that point is permitted to be applied in the case of *repurchase transactions* or *securities lending or borrowing transactions* in *securities* issued by the domestic government of that *EEA State*, then a *firm* may adopt the same approach to the same transactions. [deleted]~~

[**Note:** *BCD* Annex VIII Part 3 point 59]

...

5.5 Other funded credit risk mitigation

...

Life insurance policies: Minimum requirements

- 5.5.5 R For life insurance policies pledged to a *lending firm* to be recognised the following conditions must be met:
- (1) the party providing the life insurance must be ~~subject to the Solvency II Directive~~ a Solvency II firm listed in paragraphs (a), (d) or (e) of the definition in the Glossary, or is subject to supervision by a competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the ~~Community~~ UK;

...

5.6 Master netting arrangements

...

Calculation of the fully adjusted exposure value: the supervisory volatility adjustments approach and the own estimates of volatility adjustments approach

...

- 5.6.5 R In calculating the ‘fully adjusted *exposure value*’ (E*) for the *exposures* subject to an eligible master netting agreement *covering repurchase transactions* and/or *securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions*, a firm must calculate the volatility adjustments to be applied in the manner set out in *BIPRU 5.6.6R* to *BIPRU 5.6.11R* either using the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* as set out in *BIPRU 5.4.30R* to *BIPRU 5.4.64R* ~~*BIPRU 5.4.65R*~~ for the *financial collateral comprehensive method*. For the use of the *own estimates of volatility adjustments approach* the same conditions and requirements apply as under the *financial collateral comprehensive method*.

[Note: BCD Annex VIII Part 3 point 5]

...

- 5.6.7 R For the purposes of *BIPRU 5.6.6R*, type of *security* means *securities* which are issued by the same entity, have the same issue date, the same maturity and are subject to the same terms and conditions and are subject to the same liquidation periods as indicated in *BIPRU 5.4.30R* to *BIPRU 5.4.64R* ~~*BIPRU 5.4.65R*~~.

[Note: BCD Annex VIII Part 3 point 7]

...

Calculation of the fully adjusted exposure value: the master netting agreement internal models approach

...

- 5.6.18 R A *firm* may use the *master netting agreement internal models approach* independently of the choice it has made between the *standardised approach* and the *IRB approach* for the calculation of *risk weighted exposure amounts*. However, if a *firm* uses the *master netting agreement internal models approach*, it must do so for all counterparties and *securities*, excluding immaterial portfolios where it may use the *supervisory volatility adjustments approach* or the *own estimates of volatility adjustments approach* as set out in *BIPRU 5.4.30R* to *BIPRU 5.4.64R* ~~*BIPRU 5.4.65R*~~.

[**Note:** *BCD* Annex VIII Part 3 point 13]

...

5.7 Unfunded credit protection

...

Additional requirements for guarantees

...

- 5.7.12 R In the case of guarantees ~~provided in the context of mutual guarantee schemes recognised for these purposes by another EEA competent authority under a *CRD implementation measure* with respect to point 19 of Part 2 of Annex VIII of the *Banking Consolidation Directive* or provided by or counter-guaranteed by entities referred to in *BIPRU 5.7.9R*, the requirements in *BIPRU 5.7.1R(1) - (3)* will be satisfied where either of the following conditions are met:~~
- (1) the *lending firm* has the right to obtain in a timely manner a provisional payment by the guarantor calculated to represent a robust estimate of the amount of the economic *loss*, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, likely to be incurred by the *lending firm* proportional to the coverage of the guarantee; or
 - (2) the *lending firm* is able to demonstrate to the *appropriate regulator* that the loss-protecting effects of the guarantee, including losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify such treatment.

[**Note:** *BCD* Annex VIII Part 2 point 19]

...

7 Market risk**7.1 Application, purpose, general provisions and non-standard transactions**

...

Purpose

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

...

7.2 Interest rate PRR

...

Derivation of notional positions: Futures, forwards or synthetic futures on a basket or index of debt securities

...

- 7.2.15 G Under *BIPRU 7.2.14R(2)(b)*, a *forward* on basket of three Euro denominated debt *securities* and two Dollar denominated debt *securities* would be treated as a *forward* on a single notional Euro denominated debt *security* and a *forward* on a single notional Dollar denominated debt *security*.

...

Specific risk calculation

...

- 7.2.44 R Table: specific risk position risk adjustments
This table belongs to *BIPRU 7.2.43R*.

Issuer	Residual maturity	Position risk adjustment
Debt <i>securities</i> issued or guaranteed by central governments, issued by <i>central banks</i> , <i>international organisations</i> , <i>multilateral development banks</i> or <i>EEA States'</i> <u>United Kingdom</u> regional governments or local authorities which would qualify for <i>credit quality step 1</i> or which would receive a 0%	Any	0%

<p><i>risk weight</i> under the <i>standardised approach</i> to credit risk.</p>		
<p>(A) Debt <i>securities</i> issued or guaranteed by central governments, issued by <i>central banks</i>, <i>international organisations</i>, <i>multilateral development banks</i> or EEA States <u>United Kingdom</u> regional governments or local authorities which would qualify for <i>credit quality step 2</i> or <i>3</i> under the <i>standardised approach</i> to credit risk.</p> <p>...</p>	<p>Zero to six months</p> <p>...</p>	<p>0.25%</p> <p>...</p>
<p>(A) Debt <i>securities</i> issued or guaranteed by central governments, issued by <i>central banks</i>, <i>international organisations</i>, <i>multilateral development banks</i> or EEA States <u>United Kingdom</u> regional governments or local authorities or <i>institutions</i> which would qualify for <i>credit quality step 4</i> or <i>5</i> under the <i>standardised approach</i> to credit risk.</p> <p>(B) Debt <i>securities</i> issued or guaranteed by <i>corporates</i> which would qualify for <i>credit quality step 4</i> under the <i>standardised approach</i> to credit risk.</p>	<p>Any</p>	<p>8%</p>

(C) Exposures for which a credit assessment by a <i>nominated ECAI</i> is not available.		
<p>(A) Debt <i>securities</i> issued or guaranteed by central governments, issued by <i>central banks, international organisations, multilateral development banks</i> or EEA States <u>United Kingdom</u> regional governments or local authorities or <i>institutions</i> which would qualify for <i>credit quality step 6</i> under the <i>standardised approach</i> to credit risk.</p> <p>(B) Debt <i>securities</i> issued or guaranteed by <i>corporates</i> which would qualify for <i>credit quality step 5</i> or <i>6</i> under the <i>standardised approach</i> to credit risk.</p> <p>(C) An instrument that shows a particular risk because of the insufficient solvency of the issuer of liquidity. This paragraph applies even if the instrument would otherwise qualify for a lower <i>position risk adjustment</i> under this table.</p>	Any	12%
<p>Note: The question of what a <i>corporate</i> is and of what category a debt <i>security</i> falls into must be decided under the <i>rules</i> relating to the <i>standardised approach</i> to credit risk.</p>		

[**Note:** CAD Annex I point 14 Table 1]

...

Definition of a qualifying debt security

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~~ UK CRR or, as may be applicable, ~~the Banking Consolidation Directive~~ GENPRU and BIPRU, that satisfies the following conditions:
- (a) it is considered by the *firm* to be sufficiently liquid;
 - (b) its investment quality is, according to the *firm's* own discretion, at least equivalent to that of the assets referred to under (1) above; or

- (5) it is a debt *security* issued by an *institution* that is deemed to be of equivalent or higher credit quality than that associated with *credit quality step 2* under the *standardised approach* to credit risk and that is subject to supervision and regulatory arrangements comparable to those under ~~the *Capital Adequacy Directive*~~ *GENPRU* and *BIPRU*.

...

7.7 Position risk requirements for collective investment undertakings

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Look through methods: General criteria

...

- 7.7.7 R The general eligibility criteria for using the methods in *BIPRU 7.7.4R* and *BIPRU 7.7.9R - BIPRU 7.7.11R*, for *CIUs* issued by *companies* supervised or incorporated within the ~~EEA~~ UK are that:

...

...

7.9 Use of a CAD 1 model

Introduction

...

- 7.9.5 G *Waivers* permitting the use of models in the calculation of *PRR* will not be granted if that would be contrary to ~~the *CAD BIPRU*~~. ~~Any waiver which is granted will only be granted on terms that are compatible with the *CAD*.~~ When granting any 'waivers' the *FCA* will have regard to the *CAD*. Accordingly, the only *waivers* permitting the use of models in calculating *PRR* that the *appropriate regulator* is likely to grant are *CAD 1 model* waivers and *VaR model* permissions.

...

7.10 Use of a Value at Risk Model

...

Introduction and purpose

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- 7.10.3 G The models described in *BIPRU 7.10* are described as *VaR models* in order to distinguish them from *CAD 1 models*, which are dealt with in *BIPRU 7.9* (Use of a *CAD 1 model*). A *VaR model* is a risk management

model which uses a statistical measure to predict profit and loss movement ranges with a confidence interval. From these results *PRR charges* can be calculated. The standards described in *BIPRU 7.10*, and which will be applied by the *appropriate regulator*, are based on ~~and implement~~ Annex V of the *Capital Adequacy Directive*.

...

Conditions for granting a VaR model permission

7.10.7 G A *waiver* or other permission allowing the use of models in the calculation of *PRR* will ~~not be granted if that would be contrary to the *Capital Adequacy Directive*~~ be considered with regards to *CAD* and any *VaR model permission* which is granted will ~~only be granted on terms that are compatible with the *Capital Adequacy Directive*~~ be considered with regards to *CAD*. Accordingly, the *appropriate regulator* is likely only to grant a *waiver* or other permission allowing the use of models in the calculation of *PRR* if it is a *VaR model permission* or a *CAD 1 model waiver*.

...

7.10.9 G The *appropriate regulator* recognises that the nature of *VaR models* will vary between *firms*. The scope of and the requirements and conditions set out in a *VaR model permission* may therefore differ in substance or detail from *BIPRU 7.10* in order to address individual circumstances adequately. ~~However any differences will only be allowed if they are compliant with the *Capital Adequacy Directive*. The *FCA* will consider any differences by having regard to the *CAD*.~~ A *VaR model permission* will implement any such variation by modifying *BIPRU 7.10*. A *VaR model permission* may also include additional conditions to meet the particular circumstances of the *firm* or the model.

...

8 Group risk consolidation

8.1 Application

8.1.1 R This chapter applies to:

- (1) a *BIPRU firm* that is a member of *UK consolidation group*;
- (2) a *BIPRU firm* that is a member of a ~~*non-EEA sub-group*~~ *non-UK sub-group*; and
- (3) [deleted]
- (4) a *firm* that is not a *BIPRU firm* and is a *parent financial holding company in a Member State* the *UK* in a *UK consolidation group*.

- 8.1.2 R This chapter does not apply to a *firm* in *BIPRU* 8.1.1R(1) to *BIPRU* 8.1.1R(3) which is a member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* if the interest of the relevant *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* in that *firm* is no more than a *participation*.
- 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*~~ *UK 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*. [deleted]~~
- 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*~~ *UK 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 Pursuant to the third paragraph of article 95(2) of the ~~*EU-CRR*~~ *UK CRR*, this chapter ~~implements~~ applies provisions corresponding to 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*.

How this chapter is organised

...

- 8.1.5 G *BIPRU* 8.3 sets out the definition of a ~~*non-EEA sub-group*~~ *non-UK sub-group* and the basic requirement to apply financial resources and concentration risk requirements to that group on a consolidated basis.

...

Consolidation requirements for *BIPRU* firms elsewhere in the Handbook

...

- 8.1.16 G *GENPRU* 3.2 (Prudential rules for third country groups) deals, amongst other things, with banking and investment services groups headed by a *parent undertaking* outside the ~~*EEA*~~ *UK*.

8.2 Scope and basic consolidation requirements for UK consolidation groups

Main consolidation rule for UK consolidation groups

8.2.1 R A firm that is a member of a *UK consolidation group* must comply, to the extent and in the manner prescribed in *BIPRU 8.5*, with the obligations 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*) on the basis of the consolidated financial position of:

- (1) where either Test 1A or Test 1B in *BIPRU 8 Annex 1* (Decision tree identifying a UK consolidation group) apply, the *parent institution in ~~a Member State~~ the UK* in the *UK consolidation group*; or
- (2) where either Test 1C or Test 1D in *BIPRU 8 Annex 1* apply, the *parent financial holding company in ~~a Member State~~ the UK* or the *parent mixed financial holding company in ~~a Member State~~ the UK*.

...

Definition of UK consolidation group

8.2.4 R A firm's *UK consolidation group* means a group that is identified as a *UK consolidation group* in accordance with the decision tree in *BIPRU 8 Annex 1R* (Decision tree identifying a UK consolidation group); the members of that group are:

- (1) where either Test 1A or Test 1B in *BIPRU 8 Annex 1R* apply, the members of the *consolidation group* made up of the *sub-group* of the *parent institution in ~~a Member State~~ the UK* identified in *BIPRU 8 Annex 1R* together with any other person who is a member of that *consolidation group* because of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*; or
- (2) where either Test 1C or Test 1D in *BIPRU 8 Annex 1R* apply, the members of the *consolidation group* made up of the *sub-group* of the *parent financial holding company in ~~a Member State~~ the UK* or the *parent mixed financial holding company in ~~a Member State~~ the UK* identified in *BIPRU 8 Annex 1R* together with any other person who is a member of that *consolidation group* because of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*;

in each case only *persons* included under *BIPRU 8.5* (Basis of consolidation) are included in the *UK consolidation group*.

...

- 8.2.7 G ~~*BIPRU 8 Annex 1 (Decision tree identifying a UK consolidation group)*~~ shows that Articles 125 and 126 of the *Banking Consolidation Directive* are important in deciding whether the *appropriate regulator* is obliged to supervise a group or part of a group and hence whether that group or part of a group is a *UK consolidation group*. ~~*BIPRU 8 Annex 4 (Text of Articles 125 and 126 of the Banking Consolidation Directive)*~~ sets out these articles together with an explanation of how those articles should be read in the case of a group which also contains ~~*CAD investment firms*~~.
[deleted]

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

Main consolidation rule for ~~non-EEA sub-group~~ non-UK sub-groups

- 8.3.1 (1) A *BIPRU firm* that is a *subsidiary undertaking* of a *BIPRU firm* or of a *financial holding company* or of a *mixed 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*) on a sub-consolidated basis if the *BIPRU firm*, or the *parent undertaking* where it is a *financial holding company* or a *mixed financial holding company*, have a ~~third country investment services undertaking~~ *third country investment services undertaking* as a *subsidiary undertaking* or hold a *participation* in such an *undertaking*.
- (2) (1) only applies if the *appropriate regulator* is required by the *Banking Consolidation Directive* or the *Capital Adequacy Directive* to supervise the group established under (1) under Article 73(2) of the *Banking Consolidation Directive (Non-EEA sub-groups)*. [deleted]
- 8.3.2 R Further to *BIPRU 8.3.1R*, a *firm* that is a member of a ~~*non-EEA sub-group*~~ *non-UK sub-group* must at all times ensure that the *consolidated capital resources* of that ~~*non-EEA sub-group*~~ *non-UK sub-group* are equal to or exceed its *consolidated capital resources requirement*.
- ...
- 8.3.4 G The *sub-group* identified in *BIPRU 8.3.1R* is called a ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- How to identify a ~~non-EEA sub-group~~ non-UK sub-group
- 8.3.6 G The remainder of this section sets out a process for identifying a ~~*non-EEA sub-group*~~ *non-UK sub-group* in straightforward cases.
- 8.3.7 G A *firm* will not be a member of a ~~*non-EEA sub-group*~~ *non-UK 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 a *CAD investment firm, financial institution or asset management company* whose head office is outside the ~~EEA~~ UK (a *third country investment services undertaking*);
- (2) one of the following applies:
 - (a) it is a *subsidiary undertaking* of a *BIPRU firm* in that *UK consolidation group*; or
 - (b) a *BIPRU firm* in that *UK consolidation group* holds a *participation* in it; and
- (3) that *BIPRU firm* is not a *parent institution in a Member State* the UK.

- 8.3.8 G The *sub-group* of the *BIPRU firm* identified in *BIPRU 8.3.7G(2)(a)* or *BIPRU 8.3.7G(2)(b)* is a potential ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- 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 ~~*non-EEA sub-group*~~ *non-UK sub-groups*.
- 8.3.10 G Similarly if there is more than one *BIPRU firm* that holds a *participation* in the *third country investment services undertaking* in accordance with *BIPRU 8.3.7G(2)(b)* then the *sub-group* of each such *BIPRU firm* is a potential ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- 8.3.11 G The effect of *BIPRU 8.3.7G(3)* is that a ~~*non-EEA sub-group*~~ *non-UK sub-group* cannot be headed by a *parent institution in a Member State* the UK.
- 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 a *CAD investment firm, financial institution or asset management company* whose head office is outside the ~~EEA~~ UK (a *third country investment services undertaking*);
 - ...
- 8.3.13 G The *sub-group* of the *financial holding company* identified in *BIPRU 8.3.12G(2)(a)* or *BIPRU 8.3.12G(2)(b)* is a potential ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- 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*~~ the UK.
- 8.3.15 G If more than one *financial holding company* is a direct or indirect *parent undertaking* in accordance with *BIPRU 8.3.12G(2)(a)* then the *sub-groups* of each of them are all potential ~~*non-EEA sub-groups*~~ *non-UK sub-groups*.

- 8.3.16 G Similarly if there is more than one *financial holding company* that holds a *participation* in the *third country 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*~~ *non-UK sub-group*.
- 8.3.17 G The *firm* should apply the process in BIPRU 8.3.12G to a *third country investment services undertaking* even though it may be also be part of a potential ~~*non-EEA sub-group*~~ *non-UK sub-group* under BIPRU 8.3.7G.
- 8.3.18 G Having identified potential ~~*non-EEA sub-groups*~~ *non-UK sub-groups* for each *third country investment services undertaking* in its *UK consolidation group* the *firm* should then eliminate overlapping potential ~~*non-EEA sub-groups*~~ *non-UK sub-groups* in the following way. If:
- (1) one potential ~~*non-EEA sub-group*~~ *non-UK sub-group* is contained within a wider potential ~~*non-EEA sub-group*~~ *non-UK sub-group*; and
 - (2) the *third country investment services undertakings* in the two potential ~~*non-EEA sub-groups*~~ *non-UK sub-groups* are the same;
- then the smaller potential ~~*non-EEA sub-group*~~ *non-UK sub-group* is eliminated.
- 8.3.19 G If there is a chain of three or more ~~*non-EEA sub-group*~~ *non-UK sub-groups*, each with the same *third country investment services undertakings*, the elimination process may remove all but the highest.
- 8.3.20 G Each remaining potential ~~*non-EEA sub-group*~~ *non-UK sub-group* is a ~~*non-EEA sub-group*~~ *non-UK sub-group*, even though it may be part of a wider ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- 8.3.22 G If a *UK consolidation group* is headed by a *parent financial holding company in a Member State the UK* the result of the elimination process may be that a *firm's UK consolidation group* contains only one ~~*non-EEA sub-group*~~ *non-UK sub-group* and that the ~~*non-EEA sub-group*~~ *non-UK 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*~~ *non-UK sub-group*. However as the *UK consolidation group* and the ~~*non-EEA sub-group*~~ *non-UK sub-group* are the same, in practice this means that the additional ~~*non-EEA sub-group*~~ *non-UK sub-group* consolidation disappears.
- 8.3.23 G Even where the requirements for a ~~*non-EEA sub-group*~~ *non-UK sub-group* are absorbed into those for the *UK consolidation group* a *firm* should still make clear in its regulatory reporting that the consolidation figures relate to a *UK consolidation group* and a ~~*non-EEA sub-group*~~ *non-UK sub-group* and that they both contain the same members.

- 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 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 investment services undertaking* should be responsible for the *non-EEA sub-group* subconsolidation. Example 6 in *BIPRU 8 Annex 3* (Examples of how to identify a *non-EEA sub-group*) illustrates this situation. [deleted]

8.4 CAD Article 22 groups and investment firm consolidation waiver

...

The effect of an investment firm consolidation waiver and the conditions for getting one

...

- 8.4.3 G An investment firm consolidation waiver will waive the application of *BIPRU 8.2.1R* and *BIPRU 8.2.2R* (if it applies with respect to a *UK consolidation group*) or *BIPRU 8.3.1R* and *BIPRU 8.3.2R* (if it applies with respect to a *non-EEA sub-group non-UK sub-group*). The effect will be to switch off this chapter with respect to the group in question apart from this section.

- 8.4.4 G The *FCA* will not grant an *investment firm consolidation waiver* unless:
- (1) the *UK consolidation group* or *non-EEA sub-group non-UK sub-group* meets the conditions for being a *CAD Article 22 group*;
 - (2) the *FCA* is satisfied that each *BIPRU firm* in the *UK consolidation group* or *non-EEA sub-group non-UK sub-group* will be able to meet its capital requirements using the calculation of *capital resources* in *GENPRU 2 Annex 6R* (Capital resources table for a *BIPRU firm* with a waiver from consolidated supervision); and
 - (3) the *firm* demonstrates that the requirements in *BIPRU 8.4.11R* to *BIPRU 8.4.18R* will be met.

...

Meeting the terms of an investment firm consolidation waiver

- 8.4.7 R If a *firm* has an *investment firm consolidation waiver* with respect to its *UK consolidation group* or *non-EEA sub-group non-UK sub-group* but

that *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* ceases to meet the definition of a *CAD Article 22 group* the *firm* must comply with the rest of this chapter rather than this section notwithstanding the *investment firm consolidation waiver*.

- 8.4.8 G Compliance with the capital requirements set out in *BIPRU* 8.4.11R is a condition under the *Capital Adequacy Directive* for the exemption from capital requirements as it applies in accordance with article 95(2) of the *UK CRR*. Thus if they are breached the *FCA* is likely to revoke the *investment firm consolidation waiver*.

Definition of a *CAD Article 22 group*

- 8.4.9 R (1) A *CAD Article 22 group* means a *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* that meets the conditions in this rule.
- (2) There must be no *bank, building society* or *credit institution* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* and any *investment firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* must not be subject to consolidated supervision under the ~~*EU CRR*~~ *UK CRR*.
- (3) Each *CAD investment firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *UK sub-group* which is an *EEA firm* must use the definition of own funds ~~given in the *CRD implementation measure* of its *EEA State* for Article 16 of the *Capital Adequacy Directive* that would be at least equivalent to that which would apply under *GENPRU* and *BIPRU*.~~
- (4) Each *CAD investment firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* must be a:
- (a) *limited activity firm*; or
- (b) *limited licence firm*.
- (5) Each *CAD investment firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *UK sub-group* which is an *EEA firm* must:
- (a) meet the requirements ~~imposed by the *CRD implementation measures*~~ of its *EEA State* for Articles 18 and Article 20 of the *Capital Adequacy Directive* that would be at least equivalent to those that would apply under *GENPRU* and *BIPRU* on an individual basis; and
- (b) deduct from its own funds any contingent liability in favour of other members of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *UK sub-group*.
- (6) Each *BIPRU firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* must comply with the *main BIPRU firm*

Pillar 1 rules on an individual basis.

- 8.4.10 G ~~*GENPRU 2.2 (Capital resources) says that a BIPRU firm with an investment firm consolidation waiver should calculate its capital resources on a solo basis using GENPRU 2 Annex 6 (Capital resources table for a BIPRU firm with a waiver from consolidated supervision). GENPRU 2 Annex 6 requires a BIPRU 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. [deleted]*~~

Capital adequacy obligations relating to a CAD Article 22 group: General rule

- 8.4.11 R If a firm has an *investment firm consolidation waiver*, it must ensure that any *financial holding company* in the *UK consolidation group* or the ~~*non-EEA sub-group*~~ *non-UK sub-group* that is the ~~*UK parent financial holding company in in a Member State*~~ *the UK* of a *CAD investment firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* has capital resources, calculated under *BIPRU 8.4.12R*, in excess of the sum of the following (or any higher amount specified in the *investment firm consolidation waiver*):

- (1) the sum of the solo notional capital resources requirements for each *CAD investment firm, financial institution, asset management company and ancillary services undertaking* in the *UK consolidation group* or the ~~*non-EEA sub-group*~~ *non-UK sub-group*, as calculated in accordance with *BIPRU 8.4.13R*; and
- (2) the total amount of any contingent liability in favour of *CAD investment firms, financial institutions, asset management companies and ancillary services undertakings* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*.

Capital adequacy obligations relating to a CAD Article 22 group: Capital resources

- 8.4.12 R A firm must calculate the capital resources of the *parent financial holding company in a Member State* *the UK* for the purpose of *BIPRU 8.4.11R* as follows:

...

...

Additional rules that apply to a firm with an investment firm consolidation waiver

- 8.4.18 R If a firm has an *investment firm consolidation waiver*, it must:
- (1) ensure that each *CAD investment firm* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* which is a ~~*firm or an EEA firm*~~ has in place systems to monitor and control the sources of capital and funding of all the members in the *UK*

consolidation group or ~~*non-EEA sub-group*~~ *non-UK sub-group*;

- (2) notify the *FCA* of any serious risk that could undermine the financial stability of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*, as soon as the *firm* becomes aware of that risk, including those associated with the composition and sources of the capital and funding of members of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*;
- (3) report the amount of the *consolidated capital resources* and *consolidated capital resources requirement* of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* on a periodic basis as set out in the *investment firm consolidation waiver*;
- (4) report any *large exposures* risks of members of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* including any undertakings not located in ~~*an EEA State*~~ *the UK* on a periodic basis set out in the *investment firm consolidation waiver*;
- (5) notify the *FCA* immediately it becomes aware that the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* has ceased to meet the conditions for being a *CAD Article 22 group*; and
- (6) notify the *FCA* immediately it becomes aware of any breach of *BIPRU 8.4.11R*.

- 8.4.19 G Although an *investment firm consolidation waiver* switches off most of this chapter, a *firm* should still carry out the capital adequacy calculations in *BIPRU 8.3* to *BIPRU 8.8* as if those parts of this chapter still applied to the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* and report these to the *FCA*. It should also still monitor *large exposure* risk on a consolidated basis.

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*~~ *non-UK sub-group* for the purposes of this chapter:
- ...
- 8.5.2 G Although an *undertaking* falling outside *BIPRU 8.5.1R* will not be included in a *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* it may be relevant in deciding whether one *undertaking* in the *banking sector* or the *investment services sector* is a *subsidiary*

undertaking of another with the result that they should be included in the same *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*.

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

Basis of inclusion of undertakings in consolidation

- 8.5.4 R A *firm* must include any *subsidiary undertaking* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* in full in the calculations in this chapter.
- 8.5.5 R In carrying out the calculations for the purposes of this chapter a *firm* must only include the relevant proportion of an *undertaking* that is a member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*:
- ...
- 8.5.6 R In *BIPRU* 8.5.5R, the relevant proportion is either:
- (1) (in the case of a *participation*) the proportion of *shares* issued by the *undertaking* held by the *UK consolidation group* or the ~~*non-EEA sub-group*~~ *non-UK sub-group*; or
- ...

...

Exclusion of undertakings from consolidation: Other reasons

- 8.5.11 R ~~Article 73(1) of the *Banking Consolidation Directive* allows~~ Article 95(2) preserves the discretion for the appropriate regulator to decide to exclude 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*~~ *non-UK sub-group* for the purposes of this chapter in the following circumstances:
- (1) where the head office of the *undertaking* concerned is situated in a country outside the ~~*EEA*~~ *UK* where there are legal impediments to

the transfer of the necessary information; or

...

...

Information about excluded undertakings

- 8.5.14 G The *appropriate regulator* may require a *firm* to provide information about the *undertakings* excluded from consolidation of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* pursuant to this section.

8.6 Consolidated capital resources

General

- 8.6.1 R A *firm* must calculate the *consolidated capital resources* of its *UK consolidation group* or its ~~*non-EEA sub-group*~~ *non-UK sub-group* by applying *GENPRU 2.2* (Capital resources) to its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* on an accounting consolidation basis, treating the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as a single *undertaking*. The *firm* must adjust *GENPRU 2.2* in accordance with this section for this purpose.

Notification of issuance of capital instruments

- 8.6.1A R This section applies to a *firm* if another member of its *group* intends to issue a *capital instrument* on or after 1 March 2012 for inclusion in the *firm's capital resources* or *consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- 8.6.1B R A *firm* must notify the *appropriate regulator* in writing of the intention of another member of its *group* which is not a *firm* to issue a *capital instrument* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as soon as it becomes aware of the intention of the *group undertaking* to issue the *capital instrument*. When giving notice, a *firm* must:

...

...

- 8.6.1D R If a *group undertaking* proposes to establish a debt securities program for the issue of *capital instruments* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*, it must:

...

8.6.1E R The *capital instruments* to which *BIPRU 8.6.1BR* does not apply are:

...

- (3) *capital instruments* which are not materially different in terms of their characteristics and eligibility for inclusion in a particular tier of capital to *capital instruments* previously issued by a *group undertaking* for inclusion in the *firm's capital resources* or *consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*.

8.6.1F R A *firm* must notify the *appropriate regulator* in writing, no later than the date of issue, of the intention of a *group undertaking* to issue a *capital instrument* listed in *BIPRU 8.6.1ER* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*. When giving notice a *firm* must:

...

Limits on the use of different forms of capital

8.6.2 R The *capital resources gearing rules* apply for the purposes of calculating *consolidated capital resources*. They apply to the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* on an accounting consolidation basis, treating the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as a single undertaking.

8.6.3 R As the various components of capital differ in the degree of protection that they offer, the *capital resources gearing rules* as applied on a consolidated basis place restrictions on the extent to which certain types of capital are eligible for inclusion in a *UK consolidation group* or ~~*non-EEA sub-group's*~~ *non-UK sub-group's consolidated capital resources*. *GENPRU 2.2.25R* (Limits on the use of different forms of capital: Use of higher tier capital in lower tiers) also applies.

...

Calculation of consolidated capital resources for a BIPRU firm group

8.6.8 R A *firm* must calculate *the consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* using the calculation of capital resources in *GENPRU 2 Annex 4* (Capital resources table for a BIPRU firm deducting material holdings) or *GENPRU 2 Annex 5* (Capital resources table for a BIPRU firm deducting illiquid assets).

...

Treatment of minority interests

8.6.10 R (1) This *rule* sets out how to determine whether minority interests in

an *undertaking* in a *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* may be included in *tier one capital*, *tier two capital* or *tier three capital* for the purpose of calculating *consolidated capital resources* (each referred to as a “tier” of capital in this rule).

...

Indirectly issued capital and group capital resources

...

- 8.6.12 R *Consolidated indirectly issued capital* means any *capital instrument* issued by a member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* where:
- (1) ...
 - (2) any of the *SPVs* referred to in (1) is a member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* or a *subsidiary undertaking* of any member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*.
- 8.6.13 R A *firm* may only include *consolidated indirectly issued capital* in the *consolidated capital resources* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* if:
- (1) it is issued by an *SPV* that is a member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* to persons who are not members of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*; and
- ...
- 8.6.14 R *Consolidated indirectly issued capital* that is eligible for inclusion in the *consolidated capital resources* of a *UK consolidation group* ~~*non-EEA sub-group*~~ *non-UK sub-group* may only be included as a minority interest created by the *capital instrument* issued by the *SPV* referred to in *BIPRU* 8.6.13R. If it is eligible, it is *innovative tier one capital*.
- 8.6.15 R For the purposes of this section, an *undertaking* is an *SPV* if the main activity of the *SPV* is to raise funds for *undertakings* in:
- (1) (in the case of a *UK consolidation group*) that *UK consolidation group*; or
 - (2) (in the case of a ~~*non-EEA sub-group*~~ *non-UK sub-group*) that ~~*non-EEA sub-group*~~ *non-UK sub-group* or any *UK consolidation group* of which it forms part.
- 8.6.16 R The *SPV* referred to in *BIPRU* 8.6.13R must satisfy the conditions in *GENPRU* 2.2.127R (Conditions that an *SPV* has to satisfy if indirectly

issued capital is to be included in *capital resources* on a solo basis) as modified by the following:

- (1) references in *GENPRU 2.2.127R(1)* to being controlled by the *firm* are to being controlled by a member of the *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as the case may be; and
- (2) references to the *firm's group* are to the *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as the case may be.

8.6.17 R The capital issued by the *SPV* referred to in *BIPRU 8.6.13R* must satisfy the conditions in *GENPRU 2.2.129R* (Conditions that capital issued by an *SPV* has to satisfy if indirectly issued capital is to be included in capital resources on a solo basis) as modified by the following:

- (1) references to the *firm's group* are to the *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as the case may be;
- (2) the substitution obligation in *GENPRU 2.2.129R(2)* need not be the *firm's* but may apply to any member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as the case may be; and
- (3) that substitution obligation applies if the *consolidated capital resources* of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*, as the case may be, fall, or are likely to fall, below its *consolidated capital resources requirement*.

8.6.18 R The *SPV* referred to in *BIPRU 8.6.13R* must invest the funds raised from the issue of capital by the *SPV* by subscribing for capital resources issued by an *undertaking* that is a member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*. Those capital resources must satisfy the following conditions:

...

...

8.7 Consolidated capital resources requirements

General approach

8.7.1 G The calculation of the *consolidated capital resources requirement* of a *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* involves taking the individual components that make up the *capital resources requirement* on a solo basis and applying them on a consolidated basis. Those components are the capital charge for credit risk (the *credit risk capital requirement*), the capital charge for *market risk* (the

market risk capital requirement) and the *fixed overheads requirement*.

...

Method of calculation to be used

- 8.7.10 R A *firm* must calculate the *consolidated capital resources requirement* of its *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as the higher of the following *consolidated requirements components*:

...

Calculation of the consolidated requirement components

- 8.7.11 R A *firm* must calculate a *consolidated requirement component* by applying the *risk capital requirement* applicable to that *consolidated requirement component* to the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* in accordance with BIPRU 8.7.13R. ~~Except where BIPRU 8.7.34R to BIPRU 8.7.38R allow the requirements of another regulator to be used, the~~ The *risk capital requirement* must be calculated in accordance with the *appropriate regulator's rules*. The *risk capital requirement* applicable to a *consolidated requirement component* is the one specified in the second column of the table in BIPRU 8.7.12R.

...

Choice of consolidation method

- 8.7.13 R (1) A *firm* must calculate a *consolidated requirement component* by using one of the methods in this rule.
- (2) Under the first method a *firm* must:
- (a) apply the *risk capital requirement* set out in BIPRU 8.7.12R to each *undertaking* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*; and
 - (b) add the *risk capital requirements* together.
- (3) Under the second method a *firm* must:
- (a) treat the whole *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as a single *undertaking*; and
 - (b) apply the *risk capital requirement* set out in BIPRU 8.7.12R to the group on an accounting consolidation basis.
- (4) The third method is a mixture of methods one and two. Under the third method a *firm* must:
- (a) treat one or more parts of the *UK consolidation group* or

~~non-EEA sub-group~~ non-UK sub-group as separate single undertakings;

- (b) apply the *risk capital requirement* set out in *BIPRU* 8.7.12R to each such part of the group on an accounting consolidation basis;
 - (c) apply the *risk capital requirement* set out in *BIPRU* 8.7.12R to each of the remaining *undertakings* in the *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group (if any); and
 - (d) add the *risk capital requirements* together.
- (5) A *firm* may use different methods for different *consolidated requirement components*.

...

Notifying the appropriate regulator of the choice of consolidation technique

- 8.7.16 R A *firm* must notify the *appropriate regulator* which method under *BIPRU* 8.7.13R it applies for which *consolidated requirement component* and to which parts of the *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group it is applying an aggregation approach and to which parts it is applying an accounting consolidation approach.

Special rules for the consolidated credit risk requirement

...

- 8.7.20 R A *firm* may use a combination of the *CCR standardised method*, the *CCR mark to market method* and the *CCR internal model method* on a permanent basis with respect to the *firm's UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group for the purposes of calculating the *consolidated credit risk requirement*. In particular, where the *firm* is permitted to apply the *CCR internal model method* on a consolidated basis with respect to its *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group, it may combine the use of *CCR standardised method* and *CCR mark to market method* on a permanent basis for *financial derivative instruments* and *long settlement transaction* not covered by its *CCR internal model method permission*.
- 8.7.21 R *BIPRU* 9.4.1R (Minimum requirements for recognition of significant credit risk transfer) as applied on a consolidated basis requires the transfer to be to a *person* outside the *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group.
- 8.7.22 R A *firm* must not use both the *financial collateral simple method* and the *financial collateral comprehensive method* with respect to its *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group.

- 8.7.23 R (1) A *firm* may only treat an *exposure* as exempt under *BIPRU* 3.2.25R (Zero risk-weighting for intra-group exposures) as applied on a consolidated basis if the member of the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* that has the *exposure*:

...

...

Special rules for the consolidated market risk requirement

- 8.7.24 R For the purposes of calculating the *consolidated market risk requirement* of a *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*, a *firm* must apply *BIPRU* 1.2.3R (Definition of the trading book) and *BIPRU* 1.2.17R (Size thresholds for the purposes of the definition of the trading book) to the whole *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as if the group were a single *undertaking*.

- 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*~~ *non-UK 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*; or
 - (b) ~~an *EEA firm* that is a *CAD investment firm*; or~~ [deleted]
 - (c) 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*;
- (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);~~ [deleted]
- (4) each of the *undertakings* referred to in (1) that is a *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*~~ *GENPRU* and *BIPRU* relating to capital

adequacy;

...

Special rules for calculating specific consolidated requirement components

- 8.7.28 G *BIPRU 8.7.21R to BIPRU 8.7.26R are generally examples of the application of the general principles in BIPRU 8.2.1R (Main consolidation rule for UK consolidation groups) and BIPRU 8.3.1R (Main consolidation rule for ~~non-EEA sub-groups~~ non-UK sub-groups). BIPRU 8.7.20R and BIPRU 8.7.25R are exceptions to those principles.*

Elimination of intra-group transactions

- 8.7.29 R In accordance with *BIPRU 8.2.1R and BIPRU 8.3.1R (The basic consolidation rules for a UK consolidation group or ~~non-EEA sub-groups~~ non-UK sub-groups)*, a firm may exclude that part of the *risk capital requirement* that arises as a result of:
- (1) (in respect of the *consolidated credit risk requirement*) intra-group balances; or
 - (2) (in respect of the *consolidated fixed overheads requirement*) intra-group transactions;

with other *undertakings* in the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*.

...

Use of the solo requirements of another EEA competent authority

- 8.7.34 R *A firm may calculate the risk capital requirement for an institution in the firm's UK consolidation group or non-EEA sub-group that is an EEA firm in accordance with the CRD implementation measures in the EEA firm's EEA State that correspond to the appropriate regulator's rules that would otherwise apply under this section if the institution is subject to those CRD implementation measures. [deleted]*

Use of the consolidated requirements of another EEA competent authority

- 8.7.37 R (1) ~~This rule applies if:~~
- (a) ~~a firm is applying an accounting consolidation approach to part of its UK consolidation group or non-EEA sub-group under method three as described in BIPRU 8.7.13R(4)(a); and~~
 - (b) ~~the part of the group in (a) constitutes the whole of a group subject to the consolidated capital requirements of a competent authority under the CRD implementation measures relating to consolidation under the Banking~~

~~Consolidation Directive or the Capital Adequacy Directive.~~

- (2) If the conditions in this *rule* are satisfied, a *firm* may apply the consolidated capital requirement in (1)(b) as the *risk capital requirement* for the group identified in (1)(a) so far as that consolidated capital requirement corresponds to the *appropriate regulator's rules* that would otherwise apply under this section. [deleted]

Prohibition on using the standardised rules of a regulator outside the ~~EEA~~ UK

- 8.7.38A R (1) This *rule* applies to a *firm* if:
- (a) an *institution* in its *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group is subject to any of the rules or requirements of, or administered by, a *third-country competent authority* applicable to its *financial sector* that correspond to the *sectoral rules* applicable to that *financial sector* (“corresponding sectoral rules”); or
 - (b) a part of its *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group constitutes the whole of a group subject to the consolidated capital requirements of a *third-country competent authority* under the corresponding sectoral rules applicable to the *banking sector* or the *investment services sector* for a state or territory outside the ~~EEA~~ UK.
- (2) A *firm* may not use the requirements under any of the corresponding sectoral rules of a state or territory outside the ~~EEA~~ UK in order to calculate the *consolidated capital resources requirement* of its *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group for the purpose of this chapter.

...

8.8 Advanced prudential calculation approaches

...

Prohibition on using the rules of an overseas regulator

- 8.8.3 R Even if a *firm* has an *advanced prudential calculation approach permission* that allows it to use an *advanced prudential calculation approach* for the purposes of this chapter, the *firm* may not use the requirements of another state or territory to the extent they provide for that *advanced prudential calculation approach*. ~~Therefore a *firm* may not use BIPRU 8.7.34R and BIPRU 8.7.37R (Use of the capital requirements of another EEA competent authority) if that would involve using an advanced prudential calculation approach.~~

Special provisions relating to the internal ratings based approach

- 8.8.4 R The conditions in *BIPRU* 4.2.26R (Combined use of methodologies under the IRB approach) apply to a *firm's UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group* as if that group were a single *undertaking*.

...

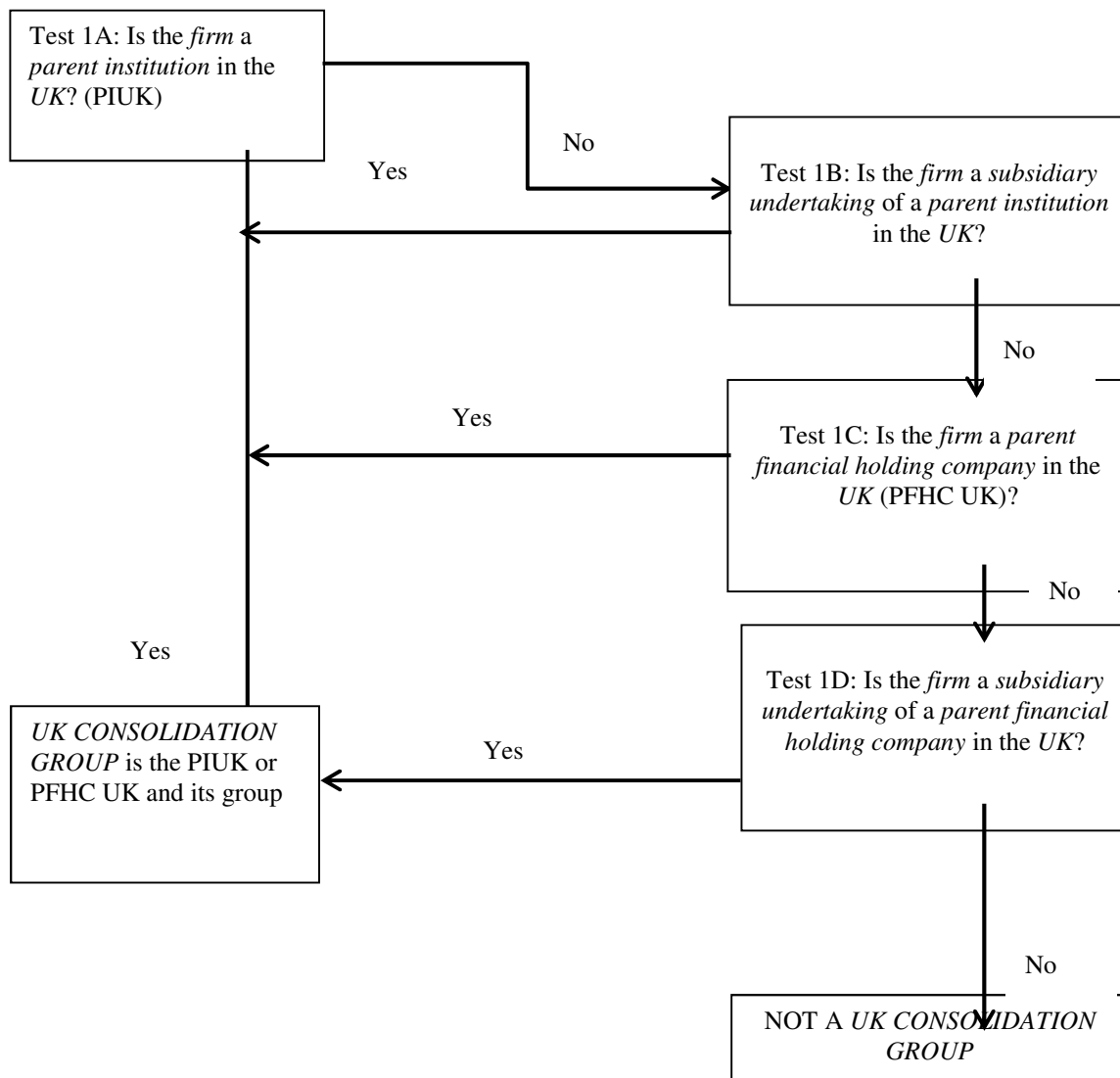
Corporate governance arrangement for the IRB approach and the AMA

- 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* also apply to the body or *persons* with equivalent powers with respect to the *UK consolidation group* or ~~*non-EEA sub-group*~~ *non-UK 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) apply for the purpose of this paragraph too.

...

The current decision tree (diagram) in *BIPRU* 8 Annex 1 is deleted and is replaced by the one below. The new decision tree (diagram) below is not underlined.

8 Annex 1R **Decision tree identifying a UK consolidation group**



BIPRU 8 Annex 4 is deleted in its entirety. The deleted text of the Annex is not shown but it is marked as [deleted] as shown below.

8 Annex 4G **Text of Articles 125 and 126 of the Banking Consolidation Directive**
[deleted]

Amend the following as shown.

8 Annex 6R **~~Non-EEA~~ Non-UK regulators’ requirements deemed ~~CRD~~-equivalent for individual risks**

Regime regulators	Market risk	Credit risk	Operational risk
Part 1 (Non-EEA <u>Non-UK</u> banking regulators’ requirements deemed CRD -equivalent for individual risks)			
...			
Regime regulators	Market risk	Credit risk	Operational risk
Part 2 (Non-EEA <u>Non-UK</u> investment firm regulators’ requirements deemed CRD -equivalent for individual risks)			
...			

9 Securitisation

9.1 Application and purpose

...

Purpose

9.1.2 G Pursuant to the third paragraph of article 95(2) of the ~~EU CRR~~ UK CRR, the purpose of *BIPRU* 9 is to ~~implement~~ apply requirements that correspond to:

...

...

11 Disclosure (Pillar 3)

11.1 Application and purpose

...

Purpose

11.1.2 G Pursuant to the third paragraph of article 95(2) of the ~~EU CRR~~ UK CRR, the purpose of *BIPRU* 11 is to ~~implement~~ apply requirements that correspond to:

...

11.2 Basis of disclosures

Disclosure on an individual basis

11.2.1 R The following must comply with the obligations laid down in *BIPRU* 11.3 on an individual basis:

- (1) a *firm* which is neither a *parent undertaking* nor a *subsidiary undertaking*;
- (2) a *firm* which is excluded from a *UK consolidation group* or ~~non-EEA sub-group~~ non-UK sub-group pursuant to *BIPRU* 8.5; and

[**Note:** *BCD* Article 68(3)]

- (3) a *firm* which is part of a *group* which has been granted an *investment firm consolidation waiver* under *BIPRU* 8.4;

[**Note:** *CAD* Article 23]

~~EEA parent~~ Parent institutions in the UK

- 11.2.2 R A firm which is ~~an EEA parent institution~~ a parent institution in the UK must comply with the obligations laid down in *BIPRU* 11.3 on the basis of its consolidated financial situation.

[Note: *BCD* Article 72(1)]

- 11.2.3 R A firm which is a significant subsidiary of ~~an EEA parent institution~~ a parent institution in the UK must disclose the information specified in *BIPRU* 11.4.5R on an individual or sub-consolidated basis.

Firms controlled by ~~an EEA~~ a parent financial holding company in the UK

- 11.2.4 R A firm controlled by ~~an EEA parent financial holding company~~ a parent financial holding company in the UK or ~~an EEA parent mixed financial holding company~~ a parent mixed financial holding company in the UK must comply with the obligations laid down in *BIPRU* 11.3 on the basis of the consolidated financial situation of that ~~EEA parent financial holding company~~ parent financial holding company in the UK or ~~EEA parent mixed financial holding company~~ parent financial holding company in the UK.

[Note: *BCD* Article 72(2)]

- 11.2.5 R A firm which is a significant subsidiary of ~~an EEA parent financial holding company~~ a parent financial holding company in the UK or ~~an EEA parent mixed financial holding company~~ a parent financial holding company in the UK must disclose the information specified in *BIPRU* 11.4.5R on an individual or sub-consolidated basis.

Waiver: Comparable disclosures provided on a consolidated basis by a parent undertaking established in a third country

- 11.2.6 G A firm which is included within comparable disclosures provided on a consolidated basis by a *parent undertaking* whose head office is not in ~~an EEA State~~ the UK may apply for a waiver from the relevant disclosure requirements in *BIPRU* 11.2.2R - *BIPRU* 11.2.5R. The *appropriate regulator's* approach to granting *wavers* is set out in the Supervision manual (see *SUP* 8).

[Note: *BCD* Article 72(3)]

- 11.2.7 G A firm applying for a *waiver* from one or more of the disclosure requirements in *BIPRU* 11.2.2R - *BIPRU* 11.2.5R will need to:
- (1) satisfy the *appropriate regulator* that it is included within comparable disclosures provided on a consolidated basis by a *parent undertaking* whose head office is not in ~~an EEA State~~ the UK; and
 - (2) notify the *appropriate regulator* of the location where the

comparable disclosures are provided.

...

11.4 Technical criteria on disclosure: General

...

Disclosures: Significant subsidiaries

11.4.5 R A *firm* which is a significant subsidiary of:

- (1) ~~an EEA parent institution~~ a parent institution in the UK; or
- (2) ~~an EEA parent financial holding company~~ a parent financial holding company in the UK; or
- (3) ~~an EEA parent mixed financial holding company~~ a parent mixed financial holding company in the UK;

must disclose the information specified in *BIPRU* 11.5.3R to *BIPRU* 11.5.4R on an individual or sub-consolidated basis.

[**Note:** *BCD* Annex XII Part 1 point 5]

11.5 Technical criteria on disclosure: General requirements

...

Disclosure: Scope of application of directive requirements

11.5.2 R A *firm* must disclose the following information regarding the scope of application of the requirements of ~~the *Banking Consolidation Directive*~~ *GENPRU* and *BIPRU*:

...

...

Disclosures: remuneration

...

11.5.19 G The *appropriate regulator* would normally consider the requirements to publish disclosures in accordance with *BIPRU* 11.3.8R and 11.3.9R in respect of *BIPRU* 11.5 as a whole to meet the requirement in paragraph 15 of Annex XII to the ~~*Banking Consolidation Directive*~~ to publish “regular, at least annual, updates” (as implemented in *BIPRU* 11.5.18R).

11.5.20 R (1) A *firm* that is significant in terms of its size, internal organisation and the nature, scope and the complexity of its activities must also

disclose the quantitative information referred to in *BIPRU* 11.5.18R at the level of *senior personnel*.

- (2) *Firms* must comply with the requirements set out in *BIPRU* 11.5.18R in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the *General Data Protection Regulation*. ~~UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.~~

[**Note:** Paragraph 15 of Annex XII to the *Banking Consolidation Directive*.]

[**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).]

...

12 Liquidity standards

12.1 Application

...

- 12.1.7 R ~~In relation to an *incoming EEA firm* or a *third country BIPRU firm*, this chapter applies only with respect to the activities of the *firm's UK branch*.
[deleted]~~

12.2 Adequacy of liquidity resources

The overall liquidity adequacy rule

- 12.2.1 R ...

- (2) For the purpose of (1):

...

- (b) ~~an *incoming EEA firm* or a *third country BIPRU firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in *BIPRU* 12.2.3R; [deleted]~~

...

...

Branch liquidity resources

- 12.2.3 R ~~The conditions to which *BIPRU 12.2.1R(2)(b)* refers are that the *firm's* liquidity resources are:~~
- ~~(1) under the day to day control of the *UK branch's* senior management;~~
 - ~~(2) held in an account with one or more *custodians* in the sole name of the *UK branch*;~~
 - ~~(3) unencumbered; and~~
 - ~~(4) for the purpose of the *overall liquidity adequacy rule* only, attributed to the balance sheet of the *UK branch*. [deleted]~~
- 12.2.4 G ~~The effect of *BIPRU 12.2.1R(2)(b)* and *BIPRU 12.2.3R* is to require an *incoming EEA firm* or a *third country BIPRU firm* to maintain a local operational liquidity reserve in relation to the activities of its *UK branch*. *BIPRU 12.9* contains further *guidance* on this point. [deleted]~~

Liquidity resources: general

...

- 12.2.6 G ~~The *overall liquidity adequacy rule* is expressed to apply to each *firm* on a solo basis. Each *firm* must be able to satisfy that *rule* relying solely on its own liquidity resources. ~~Where the *firm* is an *incoming EEA firm* or a *third country BIPRU firm*, compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in *BIPRU 12.2.3R*.~~~~
- 12.2.7 G ~~The starting point, therefore, is that each *firm*, or where relevant its *UK branch*, must be self-sufficient in terms of its own liquidity adequacy. The *appropriate regulator* does, however, recognise that there are circumstances in which it may be appropriate for a *firm* or *branch* to rely on liquidity support provided by other entities in its *group* or from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind, ~~whether for itself or for its *UK branch*~~, may only do so with the consent of the *appropriate regulator*, given by way of a *waiver* under section 138A (Modification or waiver of rules) of the *Act* to the *overall liquidity adequacy rule*.~~

...

12.3 Liquidity risk management

...

Overarching liquidity systems and controls requirements

...

- 12.3.5 R The strategies, policies, processes and systems referred to in *BIPRU* 12.3.4R must be proportionate to the complexity, risk profile and scope of operation of the *firm*, and the liquidity risk tolerance set by the *firm's governing body* in accordance with *BIPRU* 12.3.8R, ~~and must reflect the *firm's* importance in each *EEA State*, in which it carries on business.~~

[**Note:** article 86(2) (part) of the *CRD*]

...

Management of collateral

...

- 12.3.22B R A *firm* must also have regard to existing legal, regulatory and operational limitations to potential transfers of liquidity and unencumbered assets amongst entities, both within and outside the *EEA UK*.

[**Note:** article 86(6) of the *CRD*]

...

12.4 Stress testing and contingency funding

...

Contingency funding plans

...

- 12.4.11 R A *firm* must have in place 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 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:** article 86(11) (part) of the *CRD*]

...

12.5 Individual Liquidity Adequacy Standards

...

Wholesale secured and unsecured funding risk

...

- 12.5.18 G In the *appropriate regulator's* view, Type A wholesale funding is likely to

include at least funding which:

...

- (5) is accepted from overseas counterparties (other than those in the country or territory of incorporation of a *firm's parent undertaking* or, in the case of a *UK branch*, of the *firm* of which it forms part); or

...

...

Intra-group liquidity risk

...

- 12.5.38 R ~~In relation to an *incoming EEA firm* or *third country BIPRU firm* which does not have a *whole firm liquidity modification*, that firm must assess the risk that its *UK branch* may be exposed to calls on liquidity under its control from its head office:~~

~~(1) in normal financial conditions; and~~

~~(2) under the liquidity stresses required by *BIPRU 12.5.6R*. [deleted]~~

- 12.5.39 R ~~In complying with *BIPRU 12.5.38R* a firm is therefore assessing its exposure to inter-office *liquidity risk*, rather than *intra-group liquidity risk*. It is the *appropriate regulator's* assessment of the *firm's inter-office liquidity risk* that is one of the factors that will inform the *appropriate regulator's* decision as to the appropriate size for the *firm's* local operational liquidity reserve (as described in *BIPRU 12.2*). [deleted]~~

...

12.7 Liquid assets buffer

...

- 12.7.5 R Subject to *BIPRU 12.7.6R*, for the purpose of *BIPRU 12.7.2R(3)* a *firm* may include reserves in the form of sight deposits held by the *firm* with the central bank of a third country:

~~(1) an *EEA State*; or~~

~~(2) Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.~~

- 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 1

in the table set out in *BIPRU* 12 Annex 1R (Mapping of credit assessments of *ECAIs* to credit quality steps); ~~and~~

- (2) those reserves are denominated in the domestic currency of the central bank in question; and
- (3) there are no legal or practical impediments to the *firm* using or withdrawing those reserves.

...

12.8 Cross-border and intra-group management of liquidity

- 12.8.1 R Every *firm* subject to *BIPRU* 12 is subject to the *overall liquidity adequacy rule*. The effect of that rule is that every *firm* is required to be self-sufficient in terms of liquidity adequacy and to be able to satisfy that rule relying on its own liquidity resources. ~~Where the *firm* is an *incoming EEA firm* or *third country BIPRU firm* compliance with the *overall liquidity adequacy rule* with respect to the *UK branch* must be achieved relying solely on liquidity resources that satisfy the conditions in *BIPRU* 12.2.3R.~~
- 12.8.2 G However, the *appropriate regulator* recognises that there may be circumstances in which it would be appropriate for a *firm* to rely on liquidity resources which can be made available to it by other members of its *group*, ~~or for a *firm* to rely on liquidity resources elsewhere in the *firm* for the purposes of ensuring that its *UK branch* has adequate liquidity resources in respect of the activities carried on from the *branch*.~~ Where the *appropriate regulator* is satisfied that the statutory tests in section 138A (Modification or waiver of rules) of the *Act* are met, the *appropriate regulator* will consider modifying the *overall liquidity adequacy rule* to permit reliance on liquidity support of this kind.
- 12.8.3 G *BIPRU* 12.8 provides *guidance* on ~~two types~~ a type of modification to the *overall liquidity adequacy rule* and to other *rules* in *BIPRU* 12 for which the *appropriate regulator* considers a *firm* may wish to apply, namely:
- (1) an *intra-group liquidity modification*; ~~and~~
 - (2) ~~a *whole firm liquidity modification*.~~ [deleted]
- 12.8.4 G In considering whether the statutory tests in section 138A of the *Act* have been met, the *appropriate regulator* will, amongst others, have regard to the factors detailed below in relation to an *intra-group liquidity modification* (of the kind permitting the inclusion in a *firm's* liquidity resources of *parent undertaking* liquidity support) ~~and a *whole firm liquidity modification*.~~ In practice it is likely that the *appropriate regulator* will view these as preconditions to the grant of an *intra-group liquidity modification* of that type ~~or a *whole firm liquidity modification*~~ and will therefore ordinarily need to be satisfied fully that each has been adequately addressed. They include matters on which the *appropriate regulator* will need to reach agreement with ~~the *Home State regulator*, *third country*~~

~~competent authority, or other~~ another relevant supervisor, and also matters which it will need to agree directly with a *firm* or the *parent undertaking* of a *firm*. It is likely that a number of these matters will be reflected as requirements or conditions in the modification.

- 12.8.5 G This section represents merely an indication of the matters to which the *appropriate regulator* will have regard in considering an application for a ~~whole firm liquidity modification~~ or an *intra-group liquidity modification*. In considering such an application, the *appropriate regulator* will always take into account anything that it reasonably considers to be relevant for the purposes of assessing whether the statutory tests in section 138A of the Act are met. In doing so, it will have regard to the role and importance of a *firm* or ~~UK branch~~ in the *UK financial system*.

...

~~Whole firm liquidity modification: general~~

- 12.8.22 G In relation to an *incoming EEA firm* or *third country BIPRU firm*, the *overall liquidity adequacy rule* provides that, for the purpose of complying with that *rule*, a *firm* may not, in relation to its *UK branch*, include liquidity resources other than those which satisfy the conditions in *BIPRU 12.2.3R*. Those conditions seek to ensure that a *firm* of this kind has a reserve of liquidity for operational purposes that is under the control of, and available for use by, that *firm's UK branch*. Further *guidance* is given in *BIPRU 12.5.39G* in relation to the local operational liquidity reserve. In addition, *BIPRU 12.9.10G* explains how the *appropriate regulator* will approach the giving of *individual liquidity guidance* to an *incoming EEA firm* or *third country BIPRU firm*. The *appropriate regulator* does, however, recognise that there are circumstances in which it may be appropriate for a *UK branch* to rely on the availability of liquidity resources from elsewhere within the *firm*. A *firm* wishing to rely on support of this kind for its *UK branch* may apply for a modification to the *overall liquidity adequacy rule* where it considers that the statutory tests in section 138A of the Act are met. [deleted]
- 12.8.23 G Although an *incoming EEA firm* or *third country BIPRU firm* may apply to modify the *overall liquidity adequacy rule* and other *rules* in *BIPRU 12*, in relation to its *UK branch*, the *appropriate regulator* anticipates that many such *firms* will wish to apply for a modification in the form which the *appropriate regulator* defines as a *whole firm liquidity modification*. In the *appropriate regulator's* view, a modification to the *overall liquidity adequacy rule* for a *firm* of this kind will tend to be appropriate where an applicant *firm* manages its liquidity on an integrated, whole *firm* basis. Where that is the case, and having regard to the matters outlined in the *guidance* in this section, the *appropriate regulator* is likely to consider it more appropriate for the *UK branch* to be subject, in large part, to the same regulatory liquidity regime which applies to the rest of the *firm*. In granting a *whole firm liquidity modification* the *appropriate regulator* therefore recognises that in certain circumstances a *UK branch* can have adequate liquidity resources in circumstances where the liquidity resources upon

which the *firm* seeks to rely do not meet the criteria set out in *BIPRU* 12.2.3R. ~~[deleted]~~

- 12.8.24 G Accordingly, a *whole firm liquidity modification* envisages:
- (1) a modification to the *overall liquidity adequacy rule* so as to permit reliance by the *firm*, in relation to its *UK branch*, on liquidity resources wherever held in the *firm* for the purposes of meeting that *rule*; and
 - (2) a *waiver* of the remainder of the substantive *rules* in *BIPRU* 12, with the effect that the *UK branch* of the applicant *firm* becomes subject for the purpose of day to day liquidity supervision to the liquidity regime of the *Home State regulator* or *third country competent authority* in question. ~~[deleted]~~
- 12.8.25 R The effect of a *whole firm liquidity modification* is that the *appropriate regulator* will in its supervision of the liquidity of the *UK branch* place reliance on the liquidity regime of the *Home State regulator* or *third country competent authority* in question. The *appropriate regulator* will wish to ensure that it has adequate data at the time of consideration of the *whole firm liquidity modification* application and, if the application is granted, on a continuing basis thereafter, about the liquidity position of the *firm* as a whole. It is therefore likely that an applicant *firm* will be asked to provide as part of its application relevant liquidity *data items* covering the liquidity position of the *firm* as a whole. It is also likely that an applicant *firm* will be asked, as part of its application, to provide an appropriately detailed account as to the activities conducted by its *UK branch* as at the date of the application. In addition, the *appropriate regulator* anticipates that an applicant *firm* will be asked to ensure as a condition of the modification, if granted, that it provides relevant *data items*, covering the *whole firm* liquidity position, to the *appropriate regulator* on a continuing basis at a frequency to be determined as part of the *appropriate regulator's* consideration of the applicant *firm's* case but in any event likely to be reflective of the *appropriate regulator's* assessment of the *liquidity risk* profile of the *firm*. ~~[deleted]~~

Consideration of an application for a whole firm liquidity modification

- 12.8.26 G In relation to the *Home State regulator's* or *third country competent authority's* regime of liquidity regulation, the *appropriate regulator* will, before granting a *whole firm liquidity modification*, ordinarily expect to be satisfied that:
- (1) the regime in question delivers outcomes as regards the regulation of the applicant *firm's* *liquidity risk* that are broadly equivalent to those intended by this chapter; and
 - (2) there is clarity as to any legal constraints imposed by the *Home State regulator* or *third country competent authority* on the provision of liquidity by a *firm* to its *UK branch*, as well as the potential for such

restrictions to be imposed in the future. [deleted]

- 12.8.27 G ~~In relation to the applicant *firm* in question, the *appropriate regulator* will, before granting a *whole firm liquidity modification*, ordinarily expect to have reached agreement with the *Home State regulator* or *third country competent authority* in a number of areas, including agreement that:~~
- ~~(1) it will notify the *appropriate regulator* promptly of any material or persistent breaches by that *firm* of its liquidity rules, or of risks that such breaches are imminent;~~
 - ~~(2) it is satisfied with the adequacy of the arrangements in place for *firm wide liquidity risk* management;~~
 - ~~(3) it is satisfied as to the adequacy of that *firm's* liquidity resources including the size and quality of its liquid assets buffer;~~
 - ~~(4) it does not object to any undertakings given by that *firm* in respect of its *UK branch* to ensure that the *branch* has adequate liquidity resources; and~~
 - ~~(5) it will have due regard to the views of the *appropriate regulator* in its supervision of that *firm's* liquidity position. [deleted]~~
- 12.8.28 G ~~In relation to the applicant *firm* in question, the *appropriate regulator* will, before granting a *whole firm liquidity modification*, ordinarily expect to have reached agreement with that *firm* in a number of areas, including agreement that:~~
- ~~(1) it will make available liquidity resources at all times to its *UK branch* if needed;~~
 - ~~(2) it will make available to the *appropriate regulator* information in an appropriate format on *firm wide* liquidity;~~
 - ~~(3) it will notify the *appropriate regulator* at the same time as it notifies the *Home State regulator* or *third country competent authority* of any issues relevant to the liquidity position of its *UK branch* or compliance with the rules to which it is subject in respect of its liquidity (including with the terms of its *whole firm liquidity modification*);~~
 - ~~(4) its *UK branch* will continue to be fully integrated with the rest of the *firm* for *liquidity risk* management purposes;~~
 - ~~(5) it will participate in the *appropriate regulator's* thematic supervisory work in relation to liquidity when requested to do so by the *appropriate regulator*. [deleted]~~

Ongoing requirements

- 12.8.29 G The ~~appropriate regulator~~ also anticipates that a ~~whole-firm liquidity modification~~ would be made subject to a number of ongoing conditions and requirements. These are likely to include:
- (1) ~~the appropriate regulator receiving annual confirmation from the Home State regulator or third country competent authority that it remains satisfied with the arrangements in respect of that firm for liquidity supervision and their operation;~~
 - (2) ~~an annual meeting with the Home State regulator or third country competent authority to discuss liquidity supervision of that firm;~~
 - (3) ~~the appropriate regulator receiving annual confirmation from the firm, approved by its governing body, that it remains in full compliance with the terms of its whole-firm liquidity modification; and~~
 - (4) ~~as at the first anniversary of the grant of the whole-firm liquidity modification and on each anniversary thereafter, the appropriate regulator receiving from the firm:~~
 - (a) ~~an appropriate account of the activities conducted by the UK branch over the previous year; and~~
 - (b) ~~a copy of the firm's latest business plan where this differs from that previously sent to the appropriate regulator after grant of its whole-firm liquidity modification. [deleted]~~
- 12.8.30 G In determining the appropriate duration of a ~~whole-firm liquidity modification~~, the ~~appropriate regulator~~ will have regard to the role and importance of the ~~UK branch~~ in question in the ~~UK financial system~~. In some cases, the ~~appropriate regulator~~ may take the view that a ~~whole-firm liquidity modification~~, covering a ~~UK branch~~ whose role and importance in the ~~UK financial system~~ are significant, ought to be reviewed more regularly than one granted in respect of a less systemically significant ~~branch~~. The ~~appropriate regulator~~ will consider this issue in determining the appropriate duration of such a modification. The ~~appropriate regulator~~ is also likely to consider it appropriate in modifications other than those of short duration to reflect in the terms of the modification representations made either in an applicant ~~firm's~~ business plan or direct to the ~~appropriate regulator~~ as part of the application process, but in either case as to the expected nature and size of the ~~UK branch's~~ activities over the course of the duration of the modification. Where requirements are included in a modification in relation to these matters, a ~~firm~~ that anticipates that it will breach those requirements will need to apply in advance of any such event for a variation to its then existing ~~whole-firm liquidity modification~~. In considering an application to vary, the ~~appropriate regulator~~ will consider afresh whether the tests in section 138A of the Act continue to be met for the grant of a ~~whole-firm liquidity modification~~ to the ~~firm~~ in question. [deleted]

...

12.9 Individual liquidity guidance and regulatory intervention points

...

Additional guidance for branches

- 12.9.10 G ~~In relation to an *incoming EEA firm* or *third country BIPRU firm*, where the *appropriate regulator* gives that *firm individual liquidity guidance* in relation to its *UK branch*, it will have regard to the *liquidity risk* profile of the *branch*. In the absence of a *whole firm liquidity modification*, the effect of *BIPRU 12.2.1R(2)(b)* and *BIPRU 12.2.3R* is to require the *firm* to hold a liquid assets buffer of the amount identified as appropriate in its *individual liquidity guidance* (or in the case of a *simplified ILAS BIPRU firm*, the amount of its *simplified buffer requirement* unless this has been superseded by the *appropriate regulator* issuing *individual liquidity guidance* to the *firm* in question) in the form of a local operational liquidity reserve. Further *guidance* is given in *BIPRU 12.5.39G* in relation to the local operational liquidity reserve. In determining the appropriate size of such a *firm's* liquid assets buffer the *appropriate regulator* will have regard to all relevant factors, including the extent to which the *appropriate regulator* has adequate data to enable it to assess accurately the *liquidity risk* elsewhere in the *firm* beyond its *UK branch*. [deleted]~~

...

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

13.1 Application and Purpose

...

Purpose

- 13.1.4 G Pursuant to the third paragraph of article 95(2) of the *EU CRR UK CRR*, *BIPRU 13* ~~implements~~ applies requirements that correspond to:

...

...

13.3 Calculation of exposure values for financial derivatives and long settlement transactions: General provisions

...

Definition of financial derivative instrument

13.3.3 R Each of the following is a *financial derivative instrument*:

...

- (3) a contract of a nature similar to those in 1(a) to (e) and 2(a) to (d) concerning other reference items or indices, including as a minimum all instruments specified in ~~points~~ paragraphs 4 to 7, 9 and 10 of Section C of Annex I to the MIFID Part 1 of Schedule 2 to the Regulated Activities Order not otherwise included in (1) or (2).

[Note: BCD Annex IV]

...

13.6 CCR internal model method

...

Use of other models

13.6.9 G ~~Point 2 of Part 6 of Annex III of the *Banking Consolidation Directive* provides that a A firm using the *CCR internal model method* may use a type of model other than the type set out in *BIPRU* 13.6. If the *appropriate regulator* agrees to this the details of the model and the necessary calculations will be set out in the *CCR internal model method permission*, which will modify *BIPRU* 13.6 to the extent necessary. The *appropriate regulator* would not expect to agree to such a request unless the *firm* was able to satisfy the *appropriate regulator* that the method was at least as conservative as the method set out in *BIPRU* 13.6 and in particular that, for every *counterparty*, any method was more conservative than alpha multiplied by *effective EPE* calculated according to the equation in *BIPRU* 13.6.27R.~~

[Note: BCD Annex III Part 6 point 2 (second sentence) and point 11]

...

14 Capital requirements for settlement and counterparty risk

14.1 Application and purpose

...

Purpose

14.1.3 G Pursuant to the third paragraph of article 95(2) of the ~~*EU CRR*~~ *UK CRR*, *BIPRU* 14 ~~implements~~ applies requirements that correspond to:

...

...

TP 2 Capital floors for a firm using the IRB approach

...

Purpose

- 2.3 G Pursuant to the third paragraph of article 95(2) of the ~~EU CRR~~ UK CRR, this section in part ~~implements~~ applies requirements that correspond to Articles 152(1) - (7) of the *Banking Consolidation Directive* and Article 43 of the *Capital Adequacy Directive*.
- 2.4 G The purpose of this section is to limit the amount of capital reduction arising from the ~~implementation~~ application of the requirements that correspond to the *Banking Consolidation Directive* and the *Capital Adequacy Directive* compared with the requirements arising from the previous versions of those Directives. As such it is effectively a comparison of the capital resource requirements arising from *BIPRU* with those arising from the appropriate *IPRU* sourcebook that would have applied as at 31 December 2006. However the effect of changes to the market risk requirements is removed by requiring *BIPRU* 7 (Market risk) to be used for both sides of the comparison.

How to apply the capital floors

...

- 2.6 G ~~The Directive provisions on which this section is based are written as a floor on a firm's capital resources requirement. This section is intended as a floor on the firm's capital resources.~~ This section ~~however~~ is also written as a second capital resources requirement that sits beside the general capital resources requirements of *BIPRU* and *GENPRU*. The reason for this is that a *firm* should meet the general capital resources requirements of *BIPRU* and *GENPRU* using *capital resources* calculated under *GENPRU* 2.2 (Capital resources). On the other hand a *firm* should meet the capital resources requirements of this section (which are based on *IPRU*) using the relevant *IPRU* definition. In practice the two sets of definitions of capital resources are similar apart from the provisions about *expected loss*. Therefore as shown by the example in *BIPRU* TP 2.12G and *BIPRU* TP 2.13G, in practice a *firm* is subject to a single capital resources requirement.

...

Waiver from IPRU capital resources requirement

- 2.11A G ~~Article 152(5d) and (5e) of the Banking Consolidation Directive allows the~~ The appropriate regulator to may waive the capital floor calculation based on the *IPRU* capital resources requirement in *BIPRU* TP 2.8R(3) on a case-by-case basis only if a *firm* started to use the *IRB approach* on or after 1 January 2010. The *appropriate regulator* will consider an application for such a *waiver* in the light of the criteria in section 138A of the *Act* (Modification or waiver of rules).

[Note: BCD Annex VII part 1 point 152]

...

Capital floors: consolidation

...

2.32 R The scope of the consolidation under *BIPRU* TP 2.30R and any exemption from consolidation is determined in accordance with *BIPRU* 8 (Group risk - consolidation) rather than *IPRU*. In particular, the following adjustments apply:

- (1) if a *firm* is a member of a *UK consolidation group* and applies the *IRB approach* with respect to that *UK consolidation group*, *BIPRU* TP 2.30R applies with respect to that *UK consolidation group*; and
- (2) if a *firm* is a member of a ~~*non-EEA sub-group*~~ *non-UK sub-group* and applies the *IRB approach* with respect to that ~~*non-EEA sub-group*~~ *non-UK sub-group*, *BIPRU* TP 2.30R applies with respect to that ~~*non-EEA sub-group*~~ *non-UK sub-group*.

2.33 G If for example the consolidation *rules* that apply for the purposes of this section are those in chapter 14 of *IPRU(INV)* (Consolidated supervision of *investment firms*) then *IPRU(INV)* 14.1 (Application) and 14.2 (Scope of consolidation) do not apply. *BIPRU* 8.2 (Scope and basic consolidation requirements for UK consolidation groups), *BIPRU* 8.3 (Scope and basic consolidation requirements for ~~*non-EEA sub-groups*~~ *non-UK sub-groups*), *BIPRU* 8.4 (CAD Article 22 groups and investment firm consolidation waiver) and *BIPRU* 8.5 (Basis of consolidation) apply instead.

...

TP 15 Commodities firm transitionals: Exemption from capital requirements

Application

15.1 R Subject to *BIPRU* TP 15.2R, *BIPRU* TP 15 applies to a *BIPRU firm*:

- (1) whose main business consists exclusively of the provision of investment services or investment activities in relation to the financial instruments set out in ~~points paragraphs~~ 5, 6, 7, 9 and 10 of ~~Section C of Annex I to the MIFID~~ Part 1 of Schedule 2 to the *Regulated Activities Order*; and

...

...

Purpose

- 15.3 G *BIPRU TP 15* ~~implements~~ applies requirements that correspond to Article 48(1) of the *Capital Adequacy Directive* as applied pursuant to the discretion in the third paragraph of article 95(2) of the ~~EU-CRR~~ UK CRR.

...

Consolidation

- 15.13 R *BIPRU TP 15* does not apply for the purposes of *BIPRU 8* with respect to a firm's *UK consolidation group* or, as the case may be, ~~non-EEA sub-group~~ non-UK sub-group unless the following conditions are satisfied:
- (1) there is no *credit institution* in that group;
 - (2) each CAD investment firm in the group meets the conditions in *BIPRU TP 15.1R(1)*; and
 - (3) ~~each CAD investment firm whose head office is in an EEA State satisfies the conditions in *BIPRU TP 15.1R(2)*; and~~ [deleted]
 - (4) any CAD investment firm whose head office is outside the ~~EEA~~ UK would have fallen into *BIPRU TP 15.1R(2)* if:
 - (a) its head office had been in an ~~EEA State~~ the UK; and
 - (b) it had carried on all its business in the ~~EEA~~ UK and had obtained whatever authorisations for doing so were required under the *ISD* in the form that Directive was in on 31 December 2006.

...

Annex C

Amendments to the Prudential sourcebook for Investment Firms (IFPRU)

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

1 Application

1.1 Application and Purpose

...

Exclusion of certain types of firms

1.1.5 R None of the following is an *IFPRU investment firm*:

- (1) ~~an incoming EEA firm~~ [deleted];
- (2) ~~an incoming Treaty firm~~ [deleted];
- (3) ~~any other~~ an overseas firm;

...

...

Meaning of dealing on own account

1.1.1 R (1) For the purpose of *IFPRU* and the ~~EU-CRR~~ UK CRR, dealing on own
2 account means the service of dealing in any *financial instruments* for own account as referred to in ~~point paragraph 3 of Section A of Annex I to MiFID~~ Part 3 of Schedule 2 to the Regulated Activities Order, subject to (2) and (3).

- (2) ~~In accordance with article 29(2) of CRD (Definition of dealing on own account), an~~ An *investment firm* that executes investors' orders for *financial instruments* and holds such *financial instruments* for its own account does not, for that reason, deal on own account if the following conditions are met:

...

- (c) (for an *investment firm* that is an *IFPRU investment firm* ~~or an EEA firm~~) it complies with the requirements in articles 92 to 95 (Own funds requirements for investment firms with limited authorisation to provide investment services) and Part Four (Large exposures) of the ~~EU-CRR~~ UK CRR;

...

- (3) ~~In accordance with article 29(4) of CRD, the~~ The holding on non-trading book positions in financial instruments in order to invest in *own funds* is not dealing on own account for the purposes of *IFPRU* 1.1.9R (Types of IFPRU investment firm: IFPRU 125K firm) and *IFPRU* 1.1.10R (Types of IFPRU investment firm: IFPRU 50K firm).

[Note: article 29(4) of CRD]

Interpretation of the definition of types of firm and undertaking

- 1.1.1 G A *firm* whose head office is not in ~~an EEA State~~ the UK is an *investment firm*
3 if it would have been subject to the requirements imposed by *MiFID* (but it is not a *bank*, *building society*, *credit institution*, *local firm*, *exempt CAD firm* and *BIPRU firm*) if:

- (1) its head office had been in ~~an EEA State~~ the UK; and
- (2) it had carried on all its business in ~~an EEA State~~ the UK and had obtained whatever authorisations for doing so as are required under the UK legislation that implemented MiFID.

...

- 1.1.1 G For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter
5 1, Section 2 of the ~~EU-CRR~~ UK CRR (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* does any of the activities referred to in *IFPRU* and the ~~EU~~ UK *CRR* if:

...

- (3) ~~(for an EEA firm) it is authorised by its Home State regulator to do that activity; or~~ [deleted]
- (4) (if the carrying on of that activity is prohibited in a state or territory without an authorisation in that state or territory) that *firm* has such an authorisation.

...

1.2 Significant IFPRU firm

Purpose

- 1.2.1 G Throughout *CRD* and the ~~EU-CRR~~ UK 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 UK legislation related to the following:

- (1) article 76 of *CRD* on the establishment of an independent risk committee;

- (2) article 88 of *CRD* on the establishment of an independent nominations committee;
- (3) article 91 of *CRD* on the limitations on the number of directorships an individual may hold;
- (4) article 95 of *CRD* on the establishment of an independent remuneration committee;
- (5) article 100 of *CRD* on supervisory stress testing to facilitate the *SREP* under article 97 of *CRD*;
- (6) articles 129 and 130 of *CRD* on applicability of the capital conservation buffer and the countercyclical capital buffer (provided that an exemption from the application of these articles does not threaten the stability of the financial system of the ~~EEA State~~ UK);
- (7) article 6(4) of the ~~EU-CRR~~ UK CRR on the scope of liquidity reporting on an individual basis;
- (8) article 11(3) of the ~~EU-CRR~~ UK CRR on the scope of liquidity reporting on a consolidated basis; and
- (9) article 450 of the ~~EU-CRR~~ UK CRR on disclosure on *remuneration*.

...

1.3 Supervisory benchmarking of internal approaches for calculating own funds requirements

...

- 1.3.2 G A *firm* must submit the results of the calculations referred to in *IFPRU* 1.3.1R(1), in line with the template set out in the ~~Commission Regulation adopted under article 78(8) of *CRD*, to the *FCA* and to *EBA*~~ *CRD ITS on templates, definitions and IT-solutions*.
- 1.3.3 R Where the *FCA* has chosen to develop specific portfolios ~~in accordance with article 78(2) of *CRD*~~, a *firm* must report the results of the calculations separately from the results of the calculations ~~for *EBA* portfolios referred to in *IFPRU* 1.3.1R.~~

[Note: article 78(2) of *CRD*]

...

1.5 Notification of FINREP reporting

...

- 1.5.2 R A *firm* must notify the *FCA* if it adjusts its *firm's* accounting reference date under the ~~Commission Regulation made under article 99 of the *EU-CRR*~~ *CRR*

ITS on supervisory reporting.

...

2 Supervisory processes and governance**2.1 Application and purpose**

[**Note:** On 19 December 2014, the *EBA* published guidelines “Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)”, *EBA/GL/2014/13*. The *FCA* has confirmed its intention to make every effort to comply with these guidelines ~~that can be found at: http://www.eba.europa.eu/documents/10180/935249/EBA_GL_2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/.~~]

...

2.2 Internal capital adequacy assessment process

...

- 2.2.4 R A firm which is a UK parent institution ~~in a Member State~~ must comply with
7 the *ICAAP* rules on a consolidated basis.

[**Note:** article 108(2) of *CRD*]

- 2.2.4 R A firm controlled by a UK parent financial holding company ~~in a Member~~
8 ~~State~~ or a UK parent mixed financial holding company ~~in a Member State~~
must comply with the *ICAAP* rules on the basis of the consolidated situation
of that holding company, if the *FCA* is responsible for supervision of the firm
on a consolidated basis under ~~article 111 of *CRD*~~ article 4B of the *UK CRR*.

[**Note:** article 108(3) of *CRD*]

- 2.2.4 R A firm that is a subsidiary must apply the *ICAAP* rules on a sub-consolidated
9 basis if the firm, or the parent undertaking where it is a financial holding
company or mixed financial holding company, have an institution or financial
institution or an asset management company as a subsidiary in a third
country or hold a participation in such an undertaking as members of a ~~non-
EEA sub-group~~ non-UK sub-group.

[**Note:** article 108(4) of *CRD*]

...

- 2.2.5 R Where a firm is a member of a *FCA* consolidation group or a ~~non-EEA sub-
9 group~~ non-UK sub-group, the firm must ensure that the risk management
processes and internal control mechanisms at those levels comply with the
obligations set out in the risk control rules on a consolidated basis (or a sub-
consolidated basis).

[**Note:** article 109(2) of *CRD*]

- 2.2.6 R Compliance with the obligations in *IFPRU 2.2.59R* must enable the *FCA consolidation group* or the ~~*non-EEA sub-group non-UK sub-group*~~ to have arrangements, processes and mechanisms that are consistent, well integrated and ensure that data relevant to the purpose of supervision can be produced.

[**Note:** article 109(2) of *CRD*]

...

- 2.2.8 G A *firm* should include in the written record in *IFPRU 2.2.43R* (Documentation of risk assessments) a description of the broad business strategy of the *FCA consolidation group* or the ~~*non-EEA sub-group non-UK sub-group*~~ of which it is a member, the group's view of its principal risks and its approach to measuring, managing and controlling the risks. This description should include the role of stress testing, scenario analysis and contingency planning in managing risk on an individual basis and *consolidated basis*.

- 2.2.8 G A *firm* should satisfy itself that the systems (including IT) of the *FCA consolidation group* or the ~~*non-EEA sub-group non-UK sub-group*~~ of which it is a member are sufficiently sound to support the effective management and, where applicable, the quantification of the risks that could affect the *FCA consolidation group* or the ~~*non-EEA sub-group non-UK sub-group*~~, as the case may be.

...

2.3 Supervisory review and evaluation process: internal capital adequacy standards

[**Note:** On 19 December 2014, the *EBA* published guidelines “Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)”, *EBA/GL/2014/13*. The *FCA* has confirmed its intention to make every effort to comply with these guidelines that can be found at: http://www.eba.europa.eu/documents/10180/935249/EBA_GL_2014_13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/.]

...

- 2.3.1 G (1) ...
- (2) In making these assessments, the *FCA* will have regard to the nature, scale and complexity of a *firm's* business and of the major sources of risks relevant to such business as referred to in the *general stress and scenario testing rule* and *SYSC 20* (Reverse stress testing), and the extent to which the *firm* has used any of the capital buffers that are required of it under the UK legislation that implemented the *CRD*, as applicable.

...

- 2.3.5 R If *IFPRU 2.3.50R* applies to a *firm* on a *consolidated basis*, the following adjustments are made to *IFPRU 2.3.50R* in accordance with the general principles of Part One, Title II, Chapter 2 of the ~~*EU-CRR*~~ *UK CRR* (Prudential consolidation):
- 2
- (1) references to *own funds* are to the consolidated *own funds* of the *firm's FCA consolidation group* or, as the case may be, its ~~*non-EEA sub-group*~~ *non-UK sub-group*; and
 - (2) references to the capital requirements in Part Three of the ~~*EU*~~ *UK* *CRR* (Capital requirements) are to the consolidated capital requirements with respect to the *firm's FCA consolidation group* or, as the case may be, its ~~*non-EEA sub-group*~~ *non-UK sub-group* under Part One, Title II, Chapter 2 of the ~~*EU-CRR*~~ *UK CRR* (Prudential consolidation).

...

3 Own funds

...

3.3 Basel 1 floor

Permission not to apply the Basel 1 floor

- 3.3.1 G ~~The *FCA* does not expect that it will waive the application of the Basel 1 floor as contemplated in article 500(2) of the *EU-CRR*. [deleted]~~

...

4 Credit risk

...

4.2 Standardised approach

...

Retail exposures

- 4.2.6 G Where an *exposure* is denominated in a currency other than the euro, the *FCA* expects a *firm* to use appropriate and consistent exchange rates to determine compliance with relevant thresholds in the ~~*EU-CRR*~~ *UK CRR*. Accordingly, a *firm* should calculate the euro equivalent value of the *exposure* for the purposes of establishing compliance with the aggregate monetary limit of €1 million for retail *exposures* using a set of exchange rates the *firm* considers to be appropriate. The *FCA* expects a *firm's* choice of exchange rate to have no obvious bias and to be derived on the basis of a consistent approach (see article 123(c) of the ~~*EU-CRR*~~ *UK CRR*).

...

Mapping of ECAIs credit assessments

- 4.2.12 G ~~Until such time as the European Commission adopts implementing technical standards drafted by the European Supervisory Authorities Joint Committee to specify for all ECAIs the relevant credit assessments of the ECAI that correspond to credit quality steps, the FCA expects a firm to continue to have regard to the table mapping the credit assessments of certain ECAIs to credit quality steps produced in accordance with regulation 22(3) of the Capital Requirements Regulations 2006. For mapping of the credit quality step to the credit assessments of eligible ECAIs, refer to: <http://www.fca.org.uk>. [deleted]~~

4.3 Guidance on internal ratings based approach: high level material

...

Application of requirements to EEA groups applying the IRB approach on a unified basis

- 4.3.4 G Article 20(6) of the ~~EU-CRR~~ UK CRR states that, where the IRB approach is used on a unified basis by those entities which fall within the scope of article 20(6) (~~EEA group~~), the FCA is required to permit certain IRB requirements to be met on a collective basis by members of that group. In particular, the FCA considers that, where a firm is reliant upon a rating system or data provided by another member of its group, it will not meet the condition that it is using the IRB approach on a unified basis unless:
- (1) the firm only does so to the extent that it is appropriate, given the nature and scale of the firm's business and portfolios and the firm's position within the group;
 - (2) the integrity of the firm's systems and controls is not adversely affected;
 - (3) the outsourcing of these functions meets the requirements of SYSC; and
 - (4) the abilities of the FCA and the consolidating supervisor of the group to carry out their responsibilities under the ~~EU-CRR~~ UK CRR are not adversely affected.

...

Corporate governance

- 4.3.8 G (1) Where the firm's rating systems are used on a unified basis under article 20(6) of the ~~EU-CRR~~ UK CRR, the FCA considers that the

governance requirements in article 189 of the ~~EU CRR~~ UK CRR can only be met if the subsidiaries have delegated to the *governing body* or designated committee of the ~~EEA parent institution~~ UK parent institution, ~~EEA parent financial holding company~~ UK parent financial holding company or ~~EEA parent mixed financial holding company~~ UK parent mixed financial holding company responsibility for approval of the *firm's* rating systems.

- (2) The *FCA* expects an appropriate individual in a *significant-influence function* role to provide to the *FCA* on an annual basis written attestation that the rating system permissions required by the ~~EU CRR~~ UK CRR have been carried out appropriately.

[**Note:** see articles 189 and 20(6) of the ~~EU CRR~~ UK CRR and article 3(1)(7) of *CRD*]

...

4.3.12 G The following points set out the level at which the *FCA* expects the 15% test to be applied for a *firm* that is a member of a *group*:

- (1) if a *firm* is part of a group subject to consolidated supervision in the ~~EEA~~ UK and for which the *FCA* is the *consolidating supervisor*, the calculations in (1) are carried out with respect to the wider *group*;
- (2) if a *firm* is part of a group subject to consolidated supervision in the ~~EEA~~ UK and for which the *FCA* is not the *consolidating supervisor* the calculation in (1) would not apply but the requirements of the *consolidating supervisor* relating to materiality will need to be met for the wider *group*;
- (3) if the *firm* is part of a sub-group subject to consolidated supervision in the ~~EEA~~ UK and part of a wider third-country group subject to equivalent supervision by a regulatory authority outside of the ~~EEA~~ UK, the calculation in (1) would not apply but the requirements of the consolidating or lead regulator relating to materiality would need to be met for both the sub-group and the wider *group*; and
- (4) if the *firm* is part of a sub-group subject to consolidated supervision in the ~~EEA~~ UK and is part of a wider third-country group that is not subject to equivalent supervision by a regulatory authority outside of the ~~EEA~~ UK, then the calculation in (1) would apply for the wider *group* if supervision by analogy is applied and for the sub-group if other alternative supervisory techniques are applied.

4.3.13 G Whether a third-country group is subject to equivalent supervision, whether it is subject to supervision by analogy or whether other alternative supervisory techniques apply, is decided in accordance with ~~article 127 of CRD (Assessment of equivalence of third countries' consolidated supervision)~~ GENPRU 3.2 (Third-country groups). (See article 150(1)(c) of the ~~EU CRR~~ UK CRR.)

...

7 Liquidity

7.1 Application

...

Application of BIPRU 12 (Liquidity standards)

7.1.3 G The *FCA's* liquidity regime and liquidity reporting in *BIPRU 12* (Liquidity standards) and *SUP 16* (Reporting requirements) ~~continue to apply~~ applies to an *IFPRU investment firm* ~~until the liquidity coverage requirement in article 412 of the *EU CRR* becomes applicable in 2015.~~

7.1.4 G ~~Pending specification of a uniform definition under article 460 of the *EU CRR* (Liquidity) of high and extremely high liquidity and credit quality, a *A firm* should be guided by *BIPRU 12* (Liquidity standards) when complying with article 416 of the *EU CRR* (Reporting on liquid assets).~~

...

8 Prudential consolidation and large exposures

8.1 Prudential consolidation

Application

- 8.1.1 R (1) This section applies to an *IFPRU investment firm*.
- (2) This section does not apply to an *exempt IFPRU commodities firm* if the conditions in (2) are met.
- (3) The conditions are:
- (a) article 498 of the ~~*EU CRR*~~ *UK CRR* (Exemptions for commodities dealers) applies to it;
 - (b) the *exempt IFPRU commodities firm* is not a member of a ~~*FCA consolidation group*~~ *consolidation group* or ~~*non-EEA sub-group*~~ *non-UK sub-group*;
 - (c) each *investment firm* in the group that the *exempt IFPRU commodities firm* belongs to meets the conditions in article 498 of the ~~*EU CRR*~~ *UK CRR*; and
 - (d) any *investment firm* in the group that the *exempt IFPRU commodities firm* belongs to whose head office is outside the ~~*EEA*~~ *UK* would have been a *firm* to whom article 498 would have applied if its head office had been in ~~an *EEA State*~~ the *UK*.

...

8.2 Large exposures

...

8.2.5 G The *FCA* expects that applications for exemptions under article 400(2)(c) of the ~~*EU CRR*~~ *UK CRR* will be for *firms* established in the *UK* where the intra-group *undertakings* to which they have *exposures* meet the criteria for the *core UK group* in article 113(6) of the ~~*EU CRR*~~ *UK CRR*, except for article 113(6)(d) (established in the ~~same *EEA State*~~ *UK*).

8.2.6 R A *firm* with a *non-core large exposures group permission* may (in line with that permission) exempt, from the application of article 395(1) of the *EU CRR* (Limits to large exposures), *exposures*, including *participations* or other kinds of holdings, incurred by a *firm* to:

...

in so far as those *undertakings* are covered by the supervision on a *consolidated basis* to which the *firm* itself is subject, in accordance with the *EU CRR*, ~~Directive 2002/87/EC regarding the supplementary supervision of financial entities in a financial conglomerate~~ the *UK* legislation that implemented the *Financial Groups Directive* or with equivalent standards in force in a *third country*; *exposures* that do not meet these criteria, whether or not exempted from article 395(1), shall be treated as *exposures* to a third party.

[**Note:** article 400(2) of the *EU CRR*]

...

Conditions for exemptions

8.2.13 R A *firm* may only make use of the exemptions provided in this section where the following conditions are met:

- (1) the specific nature of the *exposure*, the counterparty or the relationship between the *firm* and the counterparty eliminate or reduce the risk of the *exposure*; and
- (2) any remaining concentration risk can be addressed by other equally effective means, such as the arrangements, processes and mechanisms in ~~article 81 of *CRD*~~ *IFPRU 2.2.22R* (Concentration risk).

[**Note:** article 400(3) of the *EU CRR*]

...

10 Capital buffers

...

10.3 Countercyclical capital buffer

...

Calculation of countercyclical capital buffer rates

- 10.3.2 R (1) To calculate the weighted average in *IFPRU* 10.3.1R, a *firm* must apply to each applicable *countercyclical buffer rate* its total *own funds requirements* for credit risk, specific risk, incremental default and migration risk that relates to the *relevant credit exposures* in the jurisdiction in question, divided by its total *own funds requirements* for credit risk that relates to all of its *relevant credit exposures*.
- (2) For the purposes of (1), a *firm* must calculate its total *own funds requirement* for credit risk, specific risk, incremental default and migration risk in accordance with Part Three, Titles II (Capital requirements for credit risk) and IV (Own funds requirements for market risk) of the ~~*EU CRR*~~ *UK CRR*.
- (3) The *countercyclical buffer rate* for an exposure located in the *UK* is the rate set by the *UK countercyclical buffer authority* for the *UK*.
- (4) ~~The *countercyclical buffer rate* for an exposure located in an *EEA State* other than the *UK* is:~~
- (a) ~~the rate set by the *EEA countercyclical buffer authority* for that jurisdiction; or~~
- (b) ~~if that rate exceeds 2.5% of *total risk exposure amount* and has not been recognised by the *UK countercyclical buffer authority*, 2.5% [deleted]~~
- (5) The *countercyclical buffer rate* for an exposure located in a *third country* is the rate set by the *UK countercyclical buffer authority* for that jurisdiction.
- (6) If the *UK countercyclical buffer authority* has not set a rate for a *third country*, the *countercyclical buffer rate* for an exposure located in that jurisdiction is:
- (a) the rate set by the *third country countercyclical buffer authority* for that jurisdiction; or
- (b) if that rate exceeds 2.5% and has not been recognised by the *UK countercyclical buffer authority*, 2.5%.
- (7) If the *UK countercyclical buffer authority* has not set a rate for a *third country* and either there is no *third-country countercyclical buffer authority* for that country or the authority has not set a rate for

that jurisdiction, the *countercyclical buffer rate* for an exposure located in that jurisdiction is zero.

- (8) If the *countercyclical buffer rate* for the *UK* is increased, that increase takes effect from the date specified by the *UK countercyclical buffer authority*.
- (9) ~~If the *countercyclical buffer rate* for an *EEA State* other than the *UK* is increased, subject to (4)(b), that increase takes effect from:~~
- (a) ~~the date specified by the *EEA countercyclical buffer authority* for that jurisdiction, if the rate applied under this chapter does not exceed 2.5%; or~~
- (b) ~~the date specified by the *UK countercyclical buffer authority* if the rate applied under this chapter exceeds 2.5%. [deleted]~~
- (10) If the *countercyclical buffer rate* for a *third country* is increased by the *UK countercyclical buffer authority*, that increase takes effect from the date specified by the *UK countercyclical buffer authority*.
- (11) If the *UK countercyclical buffer authority* does not set a *countercyclical buffer rate* for a *third country* and that rate is increased by the *third-country countercyclical buffer authority* for that jurisdiction, subject to 6(b), that increase takes effect from:
- (a) the date 12 months after the date on which the increase was published by the *third-country countercyclical buffer authority* in accordance with the relevant law of the *third country*, if the rate applied under this chapter does not exceed 2.5%; or
- (b) the date specified by the *UK countercyclical buffer authority* if the rate applied under this chapter exceeds 2.5%.
- (12) If a *countercyclical buffer rate* is reduced, that reduction takes effect immediately.

[**Note:** articles 136(4) (part), 139(2) to (5) (part) and 140(1) to (4) and (6) (part) of *CRD*]

Location of exposures

- 10.3.3 G A *firm* must identify the geographical location of a *relevant credit exposure* in accordance with the ~~regulatory technical standards adopted under article 140(7) of *CRD*~~ *CRD RTS on the identification of the geographical location of credit exposures for calculating institution-specific countercyclical capital buffer rates*.

...

10.6 Application on an individual and consolidated basis

...

Application on a consolidated basis

10.6.2 R A *firm* that is a UK parent institution ~~in a Member State~~ must comply with this chapter on the basis of its *consolidated situation*.

10.6.3 R A *firm* controlled by a UK parent financial holding company ~~in a Member State~~ or a UK parent mixed financial holding company ~~in a Member State~~ must comply with this chapter on the basis of the *consolidated situation* of that holding company in the *FCA consolidation group*.

...

10.7 Exemption

...

10.7.2 R (1) The condition referred to in *IFPRU* 10.7.1R is that the *firm* is a ~~small and medium-sized~~ SME (as defined in article 4(1)(131) of the UK CRR) *investment firm*.

(2) ~~For this purpose, a *firm* is categorised as small and medium-sized in accordance with the European Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium-sized enterprises. [deleted]~~

[**Note:** articles 129(4) and 130(4) of *CRD*]

...

11 Recovery and resolution

11.1 Application and purpose

...

11.1.2 G (1) ...

(2) An *IFPRU 730k firm* may be subject to supervision on a *consolidated basis* by the *FCA*; or the PRA ~~or another competent authority~~.

...

Exclusion of non-UK firms

11.1.4 R This chapter does not apply to:

- (1) ~~an incoming firm; or~~
- (2) a firm that is incorporated in, or formed under the law of, a third country.

...

Guidance on application

11.1.6 G (1) ...

- (2) It also applies to financial institutions, financial holding companies and mixed financial holding companies within the same group as these institutions that are subsidiaries of ~~an EEA a UK~~ parent undertaking. ~~An EEA A UK~~ parent undertaking is an institution, a financial holding company or a mixed financial holding company in the ~~EEA UK~~ that is not itself a subsidiary of an institution, a financial holding company or a mixed financial holding company in the ~~EEA UK~~.

...

11.1.7 G The table below summarises whether a section of IFPRU 11 applies to a firm or qualifying parent undertaking:

	(1) IFPRU 730k firm that is not subject to supervision on a consolidated basis	(2) firm or qualifying parent undertaking that is the EEA UK parent undertaking of an RRD group	(3) specific application to an IFPRU 730k firm that is a subsidiary of an EEA parent undertaking in another EEA State (note 1)	(4) firm or qualifying parent undertaking that is a subsidiary of an EEA a UK parent undertaking of an RRD group	(5) qualifying parent undertaking that is a mixed activity holding company of an IFPRU 730k firm
IFPRU 11.1 (Application and purpose)	Yes	Yes	No	Yes	Yes
IFPRU 11.2 (Individual recovery plans)	Yes	No	No	No	No
IFPRU 11.3 (Group)	No	Yes	Yes	No	No

recovery plans)					
<i>IFPRU 11.4</i> (Information for resolution plans)	Yes	Yes	Yes	No	No
<i>IFPRU 11.5</i> (Intra-group financial support)	No	Yes	Yes <i>IFPRU 11.5.7R only</i>	Yes	Yes (note 3 <u>1</u>)
<i>IFPRU 11.6</i> (Contractual recognition of bail-in)	Yes	Yes	No	Yes	Yes (note 3 <u>2</u>)
<i>IFPRU 11.7</i> (Notifications)	Yes	Yes	No	Yes	Yes
Note 1 : <i>IFPRU 11.3.1R(3)</i> and <i>IFPRU 11.4.1R(4)</i> more fully describe this type of <i>firm</i> . Where specific application is not provided for this type of <i>firm</i> , the application is explained by (4).					
Note 2 <u>1</u> : <i>IFPRU 11.5</i> only applies to <i>mixed activity holding companies</i> of an <i>IFPRU 730k firm</i> in an <i>RRD group</i> .					
Note 3 <u>2</u> : <i>IFPRU 11.6</i> only applies to <i>mixed activity holding companies</i> that do not hold an <i>RRD institution</i> using an intermediate <i>financial holding company</i> or <i>mixed financial holding company</i> .					

...

11.3 Group recovery plans

Application

11.3.1 R This section applies to:

- (1) a *firm* that is the ~~EEA~~ UK *parent undertaking* of an *RRD group*; and
- (2) a *qualifying parent undertaking* that is the ~~EEA~~ UK *parent undertaking* of an *RRD group*; ~~and~~
- (3) an *IFPRU 730k firm* that is the subsidiary of the ~~EEA~~ UK *parent undertaking* of an *RRD group* where:

- (a) ~~the EEA parent undertaking is an EEA parent financial holding company or an EEA parent mixed financial holding company that is incorporated in, or formed under, the law of an EEA state other than the United Kingdom; and~~
- (b) ~~the IFPRU 730k firm has the FCA as its consolidating supervisor. [deleted]~~

...

General requirements of the group recovery plan

- 11.3.5 R The *group recovery plan* must:
- (1) ...
 - (2) identify measures the *group* may need to implement at the level of:
 - (a) the ~~EEA~~ UK parent undertaking; and
 - (b) ...

...

- 11.3.6 R The *group recovery plan* must include arrangements to ensure the coordination and consistency of measures for each *RRD group member*; ~~including, where applicable, each significant branch.~~

...

...

Group recovery plan for a group that includes an IFPRU 730k firm that is not a significant IFPRU firm

- 11.3.9 R If the *RRD group* includes an *IFPRU 730k* firm that is not a *significant IFPRU firm* (and does not include an *IFPRU 730k* firm that is a *significant IFPRU firm*) the *group recovery plan* must include:

...

- (7) a summary of any material changes to the *group recovery plan* since the previous version was sent to the ~~FCA or other EEA~~ consolidating supervisor;

...

...

Assessment and review by the management body of the ~~EEA~~ UK parent undertaking

- 11.3.18 R (1) *A firm that is ~~an EEA~~ a UK parent undertaking or a qualifying parent undertaking must ensure that its management body assesses and approves the group recovery plan before sending it to its consolidating supervisor.*
- (2) *~~An IFPRU 730k firm that is not an EEA parent undertaking must ensure the management body of its EEA parent undertaking assesses and approves the group recovery plan before the IFPRU 730k firm sends it to its consolidating supervisor. [deleted]~~*

...

...

- 11.3.21 R (1) *A firm or qualifying parent undertaking must send the group recovery plan to its ~~EEA~~ consolidating supervisor.*
- (2) *~~Where the consolidating supervisor is the FCA, a A firm or qualifying parent undertaking must send the group recovery plan in line with SUP 16.20 (Recovery plans and information for resolution plans).~~*

11.4 Information for resolution plans

Application

- 11.4.1 R This section applies to:
- (1) ...
- (2) *a firm that is the ~~EEA~~ UK parent undertaking of an RRD group; and*
- (3) *a qualifying parent undertaking that is the ~~EEA~~ UK parent undertaking of an RRD group; ~~and~~*
- (4) *~~an IFPRU 730K that is the subsidiary of the EEA parent undertaking of an RRD group:~~*
- (a) *~~where the EEA parent undertaking is an EEA parent financial holding company or an EEA parent mixed financial holding company that is incorporated in, or formed under, the law of an EEA state other than the United Kingdom; and~~*
- (b) *~~the IFPRU 730k firm has the FCA as its consolidating supervisor. [deleted]~~*

...

11.5 Intra-group financial support

...

Summary of ~~RRD intra-group financial support conditions~~

- 11.5.3 G (1) ~~RRD recognises a form of intra-group financial support. This allows an RRD group member in one EEA State or a third country to give financial support to an RRD institution in its group in another EEA State or third country, when that institution has infringed or is likely to infringe an RRD early intervention condition.~~
- (2) ~~To give this specific form of financial support an RRD group member must use an RRD group financial support agreement and satisfy the applicable conditions~~
- (3) ~~If the RRD group member meets the applicable conditions, other EEA States will recognise this financial support.~~
- (4) ~~This section sets out the conditions which, in summary, are:~~
- (a) ~~the consolidating supervisor of the group approves the proposed RRD group financial support agreement (see IFPRU 11.5.7 to IFPRU 11.5.8G);~~
 - (b) ~~the agreement complies with the conditions for entering into an RRD group financial support agreement (see IFPRU 11.5.9R to IFPRU 11.5.13G);~~
 - (c) ~~the financial support complies with the conditions for giving financial support using an RRD group financial support agreement (see IFPRU 11.5.14R to IFPRU 11.5.15G);~~
 - (d) ~~the management bodies of the relevant group members take the decision to give and receive financial support (see IFPRU 11.5.16R to IFPRU 11.5.17R)~~
 - (e) ~~the relevant group members notify the relevant authorities of the intention to give financial support (see IFPRU 11.5.18R to IFPRU 11.5.21R); and~~
 - (f) ~~the relevant group members make the relevant disclosures (see IFPRU 11.5.22R to IFPRU 11.5.23G). [deleted]~~

...

Approval of RRD group financial support agreements

- 11.5.7 R (1) The following must apply to their *consolidating supervisor* for approval of any proposed *RRD group financial support agreement* or of any amendment to that agreement:
- (a) a *firm* that is the ~~EEA~~ UK *parent undertaking* of an *RRD group*;

- (b) a *qualifying parent undertaking* that is the ~~EEA~~ UK *parent undertaking* of an *RRD group*; and
- (c) ~~an IFPRU 730K firm that is a subsidiary of an EEA parent undertaking of an RRD group:~~
 - (i) ~~where the EEA parent undertaking is an EEA parent financial holding company or an EEA parent mixed financial holding company that is incorporated in, or formed under, the law of an EEA State other than the United Kingdom; and~~
 - (ii) has the *FCA* as its *consolidating supervisor*. [deleted]

...

...

Conditions for entering into an RRD group financial support agreement

11.5.9 R The parties to an *RRD group financial support agreement* must include:

- (1) one or more of the following:
 - (a) ~~a parent institution in a Member State; [deleted]~~
 - (b) ~~an EEA~~ a UK *parent institution*;

...

...

...

Conditions for giving group financial support using an RRD group financial support agreement

11.5.14 R A *firm* or *qualifying parent undertaking* must not give financial support using an *RRD group financial support agreement* unless it is satisfied that:

...

- (7) the support will not create a threat to financial stability, ~~in particular~~ in the *United Kingdom*;
- (8) the group member giving the support complies with the following when giving the support:
 - (a) the requirements of the UK provisions which implemented the articles of the CRD relating to capital and liquidity;
 - (b) any requirements imposed under the UK provisions which

implemented article 104(2) (additional own funds requirements) of the *CRD*;

- (c) the requirements relating to large exposures in the ~~*CRR UK*~~ *CRR* and the *UK* provisions which implemented the *CRD*.

...

...

- 11.5.16 G A *firm* or *qualifying parent undertaking* proposing to give financial support using an *RRD group financial support agreement* should also refer to articles 33 to 36 of the *RRD Regulation* ~~Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing *RRD*~~:
<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1075&from=EN>

...

Notice of intention to give financial support using an *RRD group financial support agreement*

- 11.5.18 R A *firm* or a *qualifying parent undertaking* intending to give financial support using an *RRD group financial support agreement* must ensure that its management body notifies:
- (1) its *competent authority*;
 - (2) where different, its *consolidating supervisor*; and
 - (3) where different, the *competent authority* of the *group member* receiving the financial support; ~~and~~
 - (4) ~~the EBA~~. [deleted]

...

- 11.5.21 R A *firm* or *qualifying parent undertaking* must ensure it sends the decision of its *management body* to give financial support to:
- (1) its *competent authority*;
 - (2) where different, its *consolidating supervisor*; and
 - (3) where different, the *competent authority* of the *group member* receiving the support; ~~and~~
 - (4) ~~the EBA~~. [deleted]

...

11.6 Contractual recognition of bail-in

...

Contractual recognition of bail-in

- 11.6.3 R (1) If a liability meets the conditions in (2), a *firm* or *qualifying parent undertaking* must include a term in the contract governing the liability which states that the creditor or party to the agreement creating the liability:
- (a) ...
 - (b) agrees to be bound by any of the following actions of a ~~resolution authority~~ the Bank of England in relation to that liability:
 - ...
- (2) The contractual recognition of a bail-in requirement in (1) applies to a liability that is:
- (a) governed by the law of a *third country* that is not an EEA State;
 - ...
 - (e) not a liability which the ~~resolution authority~~ Bank of England has determined can be subject to *write-down and conversion powers* by the ~~resolution authority~~ of an EEA State Bank of England under:
 - ...
- (3) The contractual recognition of bail-in requirement in (1) also applies to a liability that is:
- (a) governed by the law of an EEA State;
 - (b) issued or entered into after exit day;
 - (c) issued or entered into before exit day but materially amended after exit day;
 - (d) of a type that is not excluded under article 44(2) of RRD;
 - (e) not a deposit of a type referred to in point (a) of article 108 of RRD; and
 - (f) not a liability which the Bank of England has determined can be subject to write-down and conversion powers by the Bank of England under:
 - (i) the law of an EEA State; or

(ii) a binding agreement concluded with that EEA State.

[Note: article 55(1) of RRD]

11.6.4 G A firm or qualifying parent undertaking proposing to provide contractual recognition of bail-in should also refer to articles 42 to 44 of the RRD Regulation. Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing RRD:

[http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1075&from=EN.](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1075&from=EN)

...

IFPRU TP 3 (Gains and losses) is deleted in its entirety. The deleted text of the TP is not shown but it is marked as [deleted] as shown below.

TP 3 Gains and losses [deleted]

Amend the following as shown.

TP 4 Deductions from own funds

	Application	
4.1	R	<i>IFPRU TP 4 applies to an IFPRU investment firm, unless it is an exempt IFPRU commodities firm.</i>
	Purpose	
4.2	G	<i>IFPRU TP 4 contains the rules that exercise the discretion afforded to the FCA as competent authority under articles 469, 474 and 477 of the EU CRR UK CRR. The applicable percentages in IFPRU TP 4 apply instead of articles 36(1), 56 (1)(c) and 66 of the EU CRR UK CRR for the duration of the transitional.</i>
	Duration of transitional	
4.3	R	<i>IFPRU TP 4 applies until 31 December 2023.</i>
	Deduction from common equity tier 1	
4.4	R	<i>For the purposes of article 469(1)(a) of the EU CRR, as it applies to the items in points (b), (d), (f), (g) and (h) of article 36(1) of the EU CRR (Deductions</i>

		from Common Equity Tier 1 items), the applicable percentages are:
		(1) 20% during the period from 1 January 2014 to 31 December 2014;
		(2) 40% during the period from 1 January 2015 to 31 December 2015;
		(3) 60% during the period from 1 January 2016 to 31 December 2016; and
		(4) 80% for the period from 1 January 2017 to 31 December 2017. [expired]
4.5	R	For the purposes of article 469(1)(a) of the <i>EU CRR</i> as it applies to the items in points (a), (e) and (i) of article 36(1) of the <i>EU CRR</i> (Deductions from Common Equity Tier 1 items), the applicable percentages are:
		(1) 100% during the period from 1 January 2014 to 31 December 2014;
		(2) 100% during the period from 1 January 2015 to 31 December 2015;
		(3) 100% during the period from 1 January 2016 to 31 December 2016; and
		(4) 100% for the period from 1 January 2017 to 31 December 2017. [expired]
4.6	R	For the purposes of article 469(1)(c) of the <i>EU CRR</i> , as it applies to the items in point (c) of article 36(1) of the <i>EU CRR UK CRR</i> (Deductions from Common Equity Tier 1 items) that existed prior to 1 January 2014, the applicable percentages are:
		(1) 0% for the period from 1 January 2014 to 31 December 2014;
		(2) 10% for the period from 1 January 2015 to 31 December 2015;
		(3) 20% for the period from 1 January 2016 to 31 December 2016;
		(4) 30% for the period from 1 January 2017 to 31 December 2017;
		(5) 40% for the period from 1 January 2018 to 31 December 2018;
		(6) 50% for the period from 1 January 2019 to 31 December 2019;
		(7) 60% for the period from 1 January 2020 to 31 December 2020;

		(8)	70% for the period from 1 January 2021 to 31 December 2021;
		(9)	80% for the period from 1 January 2022 to 31 December 2022; and
		(10)	90% for the period from 1 January 2023 to 31 December 2023.
4.7	R	For the purposes of article 469(1)(c) of the <i>EU CRR</i> , as it applies to the items in point (c) of article 36(1) of the <i>EU CRR</i> (Deductions from Common Equity Tier 1 items) that did not exist prior to 1 January 2014, the applicable percentages are:	
		(1)	20% during the period from 1 January 2014 to 31 December 2014;
		(2)	40% during the period from 1 January 2015 to 31 December 2015;
		(3)	60% during the period from 1 January 2016 to 31 December 2016; and
		(4)	80% for the period from 1 January 2017 to 31 December 2017. [expired]
Deductions from additional tier 1 items			
4.8	R	For the purposes of article 474(a) of the <i>EU CRR</i> , the applicable percentages are:	
		(1)	20% during the period from 1 January 2014 to 31 December 2014;
		(2)	40% during the period from 1 January 2015 to 31 December 2015;
		(3)	60% during the period from 1 January 2016 to 31 December 2016; and
		(4)	80% for the period from 1 January 2017 to 31 December 2017. [expired]
Deductions from tier 2 items			
4.9	R	For the purposes of article 476(a) of the <i>EU CRR</i> , the applicable percentages are:	
		(1)	20% during the period from 1 January 2014 to 31 December 2014;
		(2)	40% during the period from 1 January 2015 to 31 December 2015;

		(3)	60% during the period from 1 January 2016 to 31 December 2016; and
		(4)	80% for the period from 1 January 2017 to 31 December 2017. [expired]

TP 5 Own funds: other transitionals

	Application		
5.1	R	<i>IFPRU</i> TP 5 applies to an <i>IFPRU investment firm</i> , unless it is an <i>exempt IFPRU commodities firm</i> .	
	Purpose		
5.2	G	<i>IFPRU</i> TP 5 contains the <i>rules</i> that exercise the discretion afforded to the <i>FCA</i> as <i>competent authority</i> under articles 479 to 480 484 to 486 of the <i>EU CRR</i> <i>UK CRR</i> . The applicable percentages in <i>IFPRU</i> TP 5 apply for the duration of the transitional.	
	Duration of transitional		
5.3	R	<i>IFPRU</i> TP 5 applies until 31 December 2021.	
	Recognition of instruments and items not qualifying as minority interests		
5.4	R	For the purposes of article 479(2) of the <i>EU CRR</i> , the applicable percentages are:	
		(1)	0% during the period from 1 January 2014 to 31 December 2014;
		(2)	0% during the period from 1 January 2015 to 31 December 2015;
		(3)	0% during the period from 1 January 2016 to 31 December 2016; and
		(4)	0% for the period from 1 January 2017 to 31 December 2017. [expired]
	Recognition of minority interests and qualifying additional tier 1 and tier 2 capital		
5.5	R	For the purposes of article 480(1) of the <i>EU CRR</i> , the applicable factors are:	

		(1)	0.2 during the period from 1 January 2014 to 31 December 2014;
		(2)	0.4 during the period from 1 January 2015 to 31 December 2015;
		(3)	0.6 during the period from 1 January 2016 to 31 December 2016; and
		(4)	0.8 for the period from 1 January 2017 to 31 December 2017: <u>[expired]</u>
Additional filters and deductions			
5.6	R	For the purposes of article 481(1) of the EU CRR , the applicable percentages are:	
		(1)	0% during the period from 1 January 2014 to 31 December 2014;
		(2)	0% during the period from 1 January 2015 to 31 December 2015;
		(3)	0% during the period from 1 January 2016 to 31 December 2016; and
		(4)	0% for the period from 1 January 2017 to 31 December 2017: <u>[expired]</u>
Limits on grandfathering			
5.7	R	For the purposes of article 486 of the EU CRR <u>UK CRR</u> the applicable factors are:	
		(1)	80% during the period from 1 January 2014 to 31 December 2014;
		(2)	70% during the period from 1 January 2015 to 31 December 2015;
		(3)	60% during the period from 1 January 2016 to 31 December 2016;
		(4)	50% during the period from 1 January 2017 to 31 December 2017;
		(5)	40% during the period from 1 January 2018 to 31 December 2018;
		(6)	30% during the period from 1 January 2019 to 31 December 2019;
		(7)	20% during the period from 1 January 2020 to 31 December 2020; and

	(8)	10% during the period from 1 January 2021 to 31 December 2021.
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IFPRU TP 6 (Leverage) and IFPRU TP 7 (Capital conservation buffer: transitional) are deleted in their entirety. The deleted text of the TPs is not shown but they are marked as [deleted] as shown below.

TP 6 Leverage [deleted]

TP 7 Capital conversation buffer: transitional [deleted]

Amend the following as shown.

Sch 1 Record-keeping requirements

...

(3) Table

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...				
<i>IFPRU</i> 4.3.17G	Documents relating to rating systems	All documentation relating to a <i>firm's</i> rating systems (including any document referenced in <i>IFPRU</i> 4 or required by the <i>EU-CRR</i> <i>UK CRR</i> that relate to the IRB approach)	Not specified	At least three years

Sch 2 Notification and reporting requirements

...

(3) Table

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
...				
<i>IFPRU</i> 3.2.17R	Intention by <i>firm</i> or member of its <i>group</i> member to reduce <i>own funds</i> or consolidated <i>own funds</i>	Actions described in article 77 of the <i>EU CRR</i> <u><i>UK CRR</i></u>	Intention to carry out the actions described in article 77 of the <i>EU CRR</i> <u><i>UK CRR</i></u>	As soon as intention is formed
<i>IFPRU</i> 4.12.1R	Reliance on deemed transfer of significant risk under articles 244(2) and 245(2) of the <i>EU CRR</i> <u><i>UK CRR</i></u> , including for the purposes of article 337(5) of the <i>EU CRR</i> <u><i>UK CRR</i></u>	Sufficient information to allow the <i>FCA</i> to assess whether the possible reduction in risk-weighted exposure amounts achieved by the <i>securitisation</i> is justified by a commensurate transfer of credit risk to third parties	Intention to rely on deemed transfer of significant risk	Within a reasonable period before or after a relevant transfer, not being later than one <i>month</i> after the date of transfer
...				

Annex D

Amendments to the Prudential sourcebook for Insurers (INSPRU)

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

1 Capital resources requirements and technical provisions for insurance business

1.1 Application

1.1.1 R *INSPRU* 1.1 applies to an *insurer* unless it is:

- (1) a *non-directive friendly society*; or
- (2) ~~an *incoming EEA firm*; or [deleted]~~
- (3) ~~an *incoming Treaty firm*; or [deleted]~~
- (4) a *Solvency II firm*.

...

1.1.3 R For a ~~*non-EEA*~~ an *insurer* with a *branch* in the *United Kingdom* whose *insurance business* in the *United Kingdom* is not restricted to *reinsurance* (other than an ~~*EEA deposit insurer*~~; a *Swiss general insurer* or a ~~*UK deposit insurer*~~) *INSPRU* 1.1.27R applies separately in respect of its world-wide activities and its activities carried on from a *branch* in the *United Kingdom*.

1.1.4 R ~~For an *EEA deposit insurer* or a *Swiss general insurer* *INSPRU* 1.1.27R applies in respect of the activities carried on from a *branch* in the *United Kingdom*. [deleted]~~

1.1.5 R ~~For a *UK deposit insurer* *INSPRU* 1.1.27R applies separately in respect of its world-wide activities and its activities carried on from a *branch* in the *EEA*. [deleted]~~

1.1.6 G ~~This section may apply in cases where a *firm* has its head office in another *EEA State* but is neither an *incoming EEA firm* nor an *incoming Treaty firm*. [deleted]~~

...

1.2 Mathematical reserves

Application

1.2.1 R *INSPRU* 1.2 applies to a *long-term insurer* unless it is:

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

- (2) ~~an incoming EEA firm; or [deleted]~~
- (3) ~~an incoming Treaty firm; or [deleted]~~
- (4) a Solvency II firm.

...

1.5 Internal-contagion risk

Application

1.5.1 R *INSPRU* 1.5 applies to an insurer except any insurer in (1) to (3):

- (1) (a) *non-directive friendly societies*; or
- (b) *Solvency II firms*;
- (2) ~~none of the provisions, apart from *INSPRU* 1.5.33R (payment of financial penalties), apply to firms which qualify for authorisation under *Schedule 4* of the Act; [deleted]~~

...

...

1.5.5A R In the application of this section to ~~activities carried on by a non-EEA insurer a firm with its head office outside the *United Kingdom*:~~

- (1) ...
- (2) all other provisions of this section apply only in relation to:
 - (a) ~~in the case of any UK deposit insurer, activities carried on from branches in any EEA State; and~~
 - (b) ~~in any other case, activities carried on from a branch in the *United Kingdom*.~~

...

1.5.12 G Finally, the section sets out requirements to protect *policyholders* of the *United Kingdom* branches of ~~non-EEA firms~~ firms with their head office outside the *United Kingdom* where these are supervised by the *appropriate regulator*. These apply only to a ~~non-EEA firm~~ that has established a *branch* in the *United Kingdom*.

...

3 Market risk

3.1 Market risk insurance

- 3.1.1 R *INSPRU* 3.1 applies to an *insurer* unless it is:
- (1) a *non-directive friendly society*; or
 - (2) ~~an *incoming EEA firm*; or [deleted]~~
 - (3) ~~an *incoming Treaty firm*; or [deleted]~~
 - (4) a *Solvency II firm*.

...

3.2 Derivatives in insurance

Application

- 3.2.1 R This section applies to an *insurer* unless it is:
- (1) a *non-directive friendly society*; or
 - (2) ~~an *incoming EEA firm*; or [deleted]~~
 - (3) ~~an *incoming Treaty firm*; or [deleted]~~

...

...

TP Transitional provisions

Application

- 1.1 R *INSPRU* TP 1 applies to an *insurer* unless it is:
- [FCA]
[PRA]
- (1) a *non-directive friendly society*; or
 - (2) ~~an *incoming EEA firm*; or [deleted]~~
 - (3) ~~an *incoming Treaty firm*; or [deleted]~~
 - (4) a *Solvency II firm*.

...

- 1.6 R ~~*INSPRU* TP 1.4 does not have effect if, and to the extent that, it would be inconsistent with any *EU* law obligation of the *United Kingdom*. [deleted]~~
- [FCA]
[PRA]

...

3 PRU waivers

Application

3.1 R *INSPRU* TP 3 applies to an *insurer* unless it is:

[FCA]

[PRA]

- (1) a *non-directive friendly society*; or
- (2) ~~an *incoming EEA firm*; or~~ [deleted]
- (3) ~~an *incoming Treaty firm*; or~~ [deleted]
- (4) a *Solvency II firm*.

...

3.6 R ~~*INSPRU* TP 3.4 does not have effect if, and to the extent that, it would be inconsistent with any *EU* law obligation of the *United Kingdom*.~~ [deleted]

[FCA]

[PRA]

...

Annex E

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

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

1 Application and general provisions

...

1.3 Remuneration and property valuation requirements for MCD creditors

Application

1.3.1 R *MIPRU 1.3 applies to an MCD creditor ~~other than an incoming EEA firm.~~*

...

2 Responsibility for insurance distribution and MCD credit intermediation activity

2.1 Application and purpose

...

Purpose

2.1.2 G The ~~main~~ original purpose of this chapter ~~is~~ was to implement in part the provisions of the *IDD* and the *MCD*.

...

3 Professional indemnity insurance

3.1 Application and purpose

...

Purpose

3.1.3 G The purposes of this chapter are to:

- (1) ~~implement~~ reflect the UK provisions which implemented articles 10(4) and 10(5) of the *IDD* in so far as it ~~requires~~ required *insurance intermediaries* to hold professional indemnity insurance, or some other comparable guarantee, against any liability that might arise from professional negligence; and

- (2) ...

...

3.2 Professional indemnity insurance requirements

3.2.1 R A *firm* must take out and maintain professional indemnity insurance that is at least equal to the requirements of this section from:

- (1) an *insurance undertaking* which is authorised to transact professional indemnity insurance in the ~~EEA~~ UK; or
- (2) ...

[**Note:** articles 10(4) and 10(5) of the *IDD*]

...

3.2.3 G A ~~non-EEA firm~~ non-UK firm (such as a captive insurance company outside the ~~EEA~~ UK) will be able to provide professional indemnity insurance only if it is authorised to do so in one of the specified countries or territories. The purpose of this provision is to balance the level of protection required for the *policyholder* against a reasonable level of flexibility for the *firm*.

...

3.2.7A G ~~Article 10(7) of the *IDD* requires *EIOPA* to review the *limits of indemnity* every five years to take into account changes in the European index of consumer prices and to develop draft regulatory technical standards to adapt the base amount in euro by the percentage change in that index. Therefore, the *limits of indemnity* will be subject to further adjustments that will apply to *firms* in accordance with the regulatory technical standards adopted under article 10(7) of the *IDD*. [deleted]~~

~~[**Note:** The regulatory technical standards adopted under article 10(7) of the *IDD* will be available on *EIOPA*'s website at: <https://eiopa.europa.eu/>]~~

...

Minimum limits of indemnity: MCD credit intermediaries

3.2.9A R If the *firm* is:

- (1) an *MCD article 3(1)(b) credit intermediary* who is not also an *MCD article 3(1)(b) creditor* carrying out direct sales only; or
- (2) a *home finance intermediary* that is:
 - (a) an *MCD mortgage adviser*; or
 - (b) an *MCD mortgage arranger*,

who is not also an *MCD mortgage lender* carrying out direct sales

only;

then the minimum *limit of indemnity* is ~~the amount set out in article 1 of the Commission Delegated Regulation (EU) No 1125/2014 which is reproduced in *MIPRU 3.2.9BEU* that specified in *MCOB 3.2.9BR*.~~

[**Note:** article 29(2) of the *MCD*]

3.2.9B ~~EU~~ R The minimum monetary amount of the professional indemnity insurance or comparable guarantee ~~required to be held by credit intermediaries [as referred to in the first subparagraph of Article 29(2)(a) of Directive 2014/17/EU]~~ shall be is:

(1) EUR 460 000 for each individual claim;

(2) in aggregate EUR 750 000 per calendar year for all claims.

[**Note:** article 1 of the Commission Delegated Regulation (EU) No 1125/2014.]

...

4 Capital resources

4.1 Application and purpose

...

4.1.2 G ~~As this chapter applies only to a *firm* with *Part 4A permission*, it does not apply to an *incoming EEA firm* (unless it has a *top up permission*). An *incoming EEA firm* includes a *firm* which is passporting into the United Kingdom under the *IDD*. [deleted]~~

...

4.2 Capital resources requirements

...

4.2.16 G The requirement that the loan qualifies for the ‘linked presentation’ accounting treatment under FRS 5 is aimed at those *firms* which report according to FRS 5. Other *firms* which report under other standards, including ~~International Accounting Standards~~ *UK-adopted international accounting standards*, need not adopt FRS 5 in order to meet the second condition.

...

4.2F Exposures and risk weights

...

- 4.2F.36 R *Exposures to residential property situated in an ~~EEA State~~ or a third-country must be assigned a risk weight of 75% up to a limit of 100% of the value of the property.*

...

4.4 Calculation of capital resources

...

Reversion providers: additional requirement for instalment reversions

- 4.4.10 R (1) If the *reversion provider* agrees under the terms of an *instalment reversion plan* to pay the *reversion occupier* for the *qualifying interest in land* over a period of time, then the provider must:

- (a) take out and maintain adequate insurance from an *insurance undertaking* authorised in the ~~EEA~~ UK or a *person* of equivalent status in:

...

...

5 Insurance distributors and home finance providers using insurance distribution or home finance mediation services

...

5.2 Use of intermediaries

...

- 5.2.2 R For the purposes of *MIPRU* 5.2.1R, the *person*, in relation to the activity must:

...

- (4) ~~be registered in another an EEA State for the purposes of the *IDD*; or~~
[deleted]

- (5) in relation to *insurance distribution activity*, not be carrying this activity on in the ~~EEA~~ UK; or

- (6) ...

[**Note:** article 16 of the *IDD*]

- 5.2.3 E (1) A *firm* should:

- (a) before using the services of the intermediary, check:

- (i) the *Financial Services Register*; ~~or~~
- (ii) ~~in relation to insurance distribution or reinsurance distribution carried on by an EEA firm, the register of its Home State regulator; [deleted]~~

for the status of the *person*; and

- (b) use the services of that *person* only if the relevant register indicates that the *person* is registered for that purpose.
- (2) (a) Checking the *Financial Services Register* before using the services of the intermediary and using the services of that *person* only if the *Financial Services Register* indicates that the *person* is registered for that purpose may be relied on as tending to establish that:
- (i) the *person*, in relation to the activity, has *permission*; or
 - (ii) the *person*, in relation to *insurance distribution activity*, is an *exempt person* or an *authorised professional firm*.
- (b) ~~In relation to insurance distribution or reinsurance distribution carried on by an EEA firm, checking the register of the firm's Home State regulator and using the services of the EEA firm only if the register indicates that the firm is registered for that purpose may be relied on as tending to establish that the firm is registered for the purposes of the IDD [deleted].~~

...

Annex F

Amendments to the Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))

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

GUIDANCE: THE PURPOSE OF THE PRUDENTIAL RULES FOR FRIENDLY SOCIETIES AND AN OVERALL DESCRIPTION

...

7A *Directive friendly societies* should also refer to the PRA Rulebook: Solvency II firms: Conditions Governing Business and the *Solvency II Regulation* of ~~(EU) 2015/35 of 10 October 2014~~ which contain systems and control requirements, and the *FCA* will take these into account.

...

Chapter 2: Integrity, Skill, Care and Diligence

LEGAL COMPLIANCE

2.1 *A friendly society* must take reasonable steps to ensure that:

(a) ...

(b) ...

(ii) any applicable requirement ~~(whether of the law of any part of the *United Kingdom* or of the law of another *EEA State*)~~ which gives effect to the implemented the *Solvency II Directive* or is otherwise applicable to the insurance activities of the *friendly society*.

...

Annex G

Amendments to the Interim Prudential sourcebook for Insurers (IPRU(INS))

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

1 Chapter 1: Application Rule

APPLICATION

Insurers

1.1 An *insurer* must comply with *IPRU (INS)* unless it is –

~~[FCA]~~

~~[PRA]~~

(a) ...

(b) ~~an EEA insurer or an EEA pure reinsurer qualifying for authorisation under Schedules 3 or 4 to the Act; or [deleted]~~

...

8 Chapter 8: Non-UK Insurers

PART III: RULES APPLICABLE TO BRANCHES

8.3 An *insurer* which has its head office outside the United Kingdom (other than a ~~*pure reinsurer*~~ which has a Treaty right under Schedule 4 to the Act, or a *Swiss general insurer*) must appoint and maintain the appointment of a chief executive (who alone or jointly with one or more others, is responsible for the conduct of its business through an establishment in the United Kingdom).

~~[FCA]~~

~~[PRA]~~

Annex H

Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU(INV))

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

1 Application and General provisions

...

1.2 Application

...

1.2.3 G For the avoidance of doubt, *IPRU-INV* does not apply to any of the following:

...

(e) ~~an incoming EEA firm or an incoming Treaty firm which does not have a top up permission; or~~ [deleted]

(f) ~~an insurer;~~

(g) ~~a UCITS qualifier.~~ [deleted]

...

2 Authorised professional firms

2.1 Application

...

2.1.7 G The activities that a *full-scope UK AIFM* and a *UCITS management company* are allowed to perform are restricted by ~~article 6 of AIFMD and article 6 of the UCITS Directive to the management of AIFs and/or UCITS and the additional investment activities permitted by article 6(4) of AIFMD and article 6(3) of the UCITS Directive~~ COLL 6.9.9R and FUND 1.4.3R (as applicable). As such, an *authorised professional firm* cannot be a *collective portfolio management firm* or a *collective portfolio management investment firm*.

...

3 Financial resources for Securities and Futures Firms which are not MiFID Investment Firms or which are Exempt BIPRU Commodities Firms or Exempt IFPRU Commodities Firms

...

3-182 Other amounts owed to a firm arising out of investment business or investment dealing activities

...

3-182(5)R Consolidated Supervision

~~Under the Financial Conglomerates and Other Financial Groups Instrument 2004, the rules in Chapter 14 shall (with respect to a particular firm, group or financial conglomerate) apply from the first day of its financial year beginning in 2005 in place of rules 3-190(1) to 3-195. [deleted]~~

...

Appendix 1- Glossary terms for IPRU(INV) 3

...

approved bank (in relation to a bank account opened by a firm) means:

...

(b) if the account is opened elsewhere:

...

(ii) ~~a credit institution established in an EEA State other than the United Kingdom and duly authorised by the relevant Home State regulator; or [deleted]~~

...

...

...

5 Financial resources

5.1 Application

5.1.1 G (1)

(a) This chapter applies to an *investment management firm*, other than:

(i) ~~an *incoming EEA firm* unless it has a *top-up permission for acting as trustee or depositary of a UCITS*; or [deleted]~~

...

...

5.1.3 R ~~An incoming EEA firm with a top-up permission for acting as trustee or depositary of a UCITS must comply with:~~

- (a) ~~IPRU-INV 5.2.1R;~~
- (b) ~~IPRU-INV 5.2.2R;~~
- (c) ~~IPRU-INV 5.2.3R;~~
- (d) ~~IPRU-INV 5.3.2R;~~
- (e) ~~IPRU-INV 5.4.4R; and~~
- (f) ~~IPRU-INV 5.4.8R. [deleted]~~

...

5.2 General requirement

...

Financial resources

- 5.2.3 R A firm's **financial resources** means:
- (a) its **own funds**, if the firm is subject to an **own funds requirement** under ~~IPRU-INV 5.4.2R or IPRU-INV 5.4.4R~~; or
 - (b) its **liquid capital**, if the firm is subject to a **liquid capital requirement** under ~~IPRU-INV 5.4.1R~~.

...

5.4 Financial resources requirement

Determination of requirement

- 5.4.1 R The **financial resources requirement** for a firm is a **liquid capital requirement**, determined in accordance with ~~IPRU-INV 5.4.10R~~:
- (i) unless the firm falls within any of the exceptions in ~~IPRU-INV 5.4.2R, or~~
 - (ii) ~~the firm is an incoming EEA firm with a top-up permission of acting as trustee or depositary of a UCITS. [deleted]~~

Exceptions from the liquid capital requirement

- 5.4.2 R The **financial resources requirement** is an **own funds requirement** determined in accordance with *IPRU-INV 5.4.3R* for a *firm* if its **permitted business** does not include *establishing, operating or winding up a personal pension scheme* and which:
- ...
- (ii) is not an *exempt CAD firm* if:
- ...
- (c) the *firm* is a *trustee* of an *authorised unit trust scheme* whose **permitted business** consists only of trustee activities and does not include any other activity constituting **specified trustee business** or the *firm* is a depositary of an *ICVC* or *ACS* or a *depositary* appointed in line with *FUND 3.11.12R* (Eligible depositaries for UK AIFs) or a UK depositary of a ~~*non-EEA AIF*~~ *non-UK AIF* whose **permitted business** consists only of depositary activities.
- ...

Own funds requirement

- 5.4.3 R The **own funds requirement** for a *firm* subject to *IPRU-INV 5.4.2R* is the higher of:
- (i) £4 million for a *firm* which is a *depositary* of an *authorised fund*, if the *authorised fund* is an *AIF*;
- (ia) €125,000 for a *firm* which is a *depositary* appointed in line with *FUND 3.11.12R* (Eligible depositaries for UK AIFs) or a *UK depositary* of a ~~*non-EEA AIF*~~ *non-UK AIF*;
- (ib) for a *firm* which is a *depositary* of a *UCITS scheme*, the higher of:
- (A) the requirement calculated depending on the selected approach in accordance with articles 315 or 317 of the ~~*EU CRR*~~ *UK CRR*; and
- (B) £4 million; and
- (ii) £5,000 for any other *firm*.
- 5.4.4 R The **financial resources requirement** for an ~~*incoming EEA firm*~~ with a ~~*top-up permission for acting as trustee or depositary of a UCITS*~~ is the **own funds requirement** in *IPRU-INV 5.4.3R(ib)*. ~~[deleted]~~
- 5.4.5 G In accordance with *IPRU-INV 5.4.3R(ib)(A)* and ~~*IPRU-INV 5.4.4R*~~, a *firm* which is a *depositary* of a *UCITS scheme* has a choice between:

- (a) the basic indicator approach in article 315 of the ~~EU CRR~~ UK CRR; and
- (b) the standardised approach in article 317 of the ~~EU CRR~~ UK CRR.

...

5.4.7 G The effect of ~~IPRU INV 5.4.4R~~ is to apply the **financial resources requirement** to an *incoming EEA firm with a top-up permission for acting as trustee or depositary of a UCITS* in relation to its activity in the *UK of acting as trustee or depositary of a UCITS*. ~~[deleted]~~

...

5 App 1 Appendix 5(1): Glossary of terms for IPRU-INV 5

5 App 1.1G ...

Term	Meaning
...	
<i>qualifying capital item</i>	means that part of a <i>firm's</i> capital which has the following characteristics:
	...
	Note: Verification by internal auditors will suffice until such time as EU provisions making external auditing mandatory have been implemented.
...	
<i>specified trustee business</i>	...
	2. For the purpose of this definition of “specified trustee business”:
	...
	(e) government, local authority or international organisation means:
	...
	(iii) an international organisation the members of which include the United Kingdom or another EEA State .
	...

...				
-----	--	--	--	--

...

9 Financial resources requirements for an exempt CAD firm

...

9.2 General requirements

...

Initial capital and professional indemnity insurance requirements - exempt CAD firms that are not IDD insurance intermediaries

9.2.4 R (1) An *exempt CAD firm* which is not an *IDD insurance intermediary* must have:

...

- (b) professional indemnity insurance covering the whole territory of the ~~EEA~~ UK or some other comparable guarantee against liability arising from professional negligence, representing at least EUR 1,000,000 applying to each claim and in aggregate EUR 1,500,000 per year for all claims; or

...

...

...

9.2.5A G ~~Article 10(7) of the *IDD* requires *EIOPA* to review the *limits of indemnity* every five years to take into account changes in the European index of consumer prices and to develop draft regulatory technical standards to adapt the base amount in euro by the percentage change in that index. Therefore, the *limits of indemnity* will be subject to further adjustments that will apply to *firms* in accordance with the regulatory technical standards adopted under article 10(7) of the *IDD*. [deleted]~~

~~[Note: The regulatory technical standards adopted under article 10(7) of the *IDD* will be available on *EIOPA*'s website at: <https://eiopa.europa.eu/>]~~

9.2.6 G A trade-off between *initial capital* and professional indemnity insurance is appropriate such that EUR 1 of *initial capital* is the equivalent of professional indemnity insurance cover of EUR 20 for a single claim against the *firm* and EUR 30 in aggregate.

...

9.4 Policy terms for professional indemnity insurance

Insurers whose professional indemnity insurance policies can be used by an exempt CAD firm

9.4.1 R An *exempt CAD firm* that has professional indemnity insurance in accordance with this chapter must take out and maintain professional indemnity insurance that is at least equal to the requirements of the rule below from:

- (1) an *insurance undertaking* which is authorised to transact professional indemnity insurance in the ~~EEA~~ UK; or
- (2) ...

...

11 Collective Portfolio Management Firms and Collective Portfolio Management Investment Firms

11.1 INTRODUCTION

...

Purpose

11.1.4 R (1) ...

(2) This original purpose of this chapter ~~also was to implements~~ implement relevant requirements of *AIFMD* and the *UCITS Directive*, which ~~includes~~ included imposing capital and professional indemnity insurance requirements on a *full-scope UK AIFM* and a *UCITS management company*. *AIFMD* and the *UCITS Directive* incorporate references to provisions of the *Banking Consolidation Directive* and the *Capital Adequacy Directive* in relation to initial capital, own funds and fixed overheads. However, in line with article 163 of the *CRD*, the *Banking Consolidation Directive* and the *Capital Adequacy Directive* ~~are~~ were repealed from 1 January 2014 and references to these directives ~~are~~ were replaced with references to the *CRD* and the *EU CRR* in line with the correlation table set out in Annex II to the *CRD* and in Annex IV to the *EU CRR*.

...

11.2 MAIN REQUIREMENTS

Collective portfolio management firm

11.2.1 R A *firm* must:

...

- (2) at all times, maintain *own funds* which equal or exceed:
- (a) the higher of:
- (i) the *funds under management requirement* (in line with *IPRU-INV 11.3.2R*); and
- (ii) the amount specified in article 97 of the ~~EU CRR~~ UK CRR (Own funds based on fixed overheads) (as replicated in *IPRU-INV 11.3.3A*~~EU~~UK); plus

...

- (3) at all times, hold liquid assets (in line with *IPRU-INV 11.3.17R*) which equal or exceed

- (a) the higher of:
- (i) the *funds under management requirement* (in line with *IPRU-INV 11.3.2R*) less the *base own funds requirement* (in line with *IPRU-INV 11.3.1R*); and
- (ii) the amount specified in article 97 of the ~~EU CRR~~ UK CRR (Own funds based on fixed overheads); plus

...

...

11.3 DETAIL OF MAIN REQUIREMENTS

...

Own Funds based on Fixed Overheads

- 11.3.3A ~~EU~~ UK (1) In accordance with Articles 95 and 96, an investment firm and firms referred to in point (2)(c) of Article 4(1) that provide the investment services and activities listed in the UK legislation that implemented points (2) and (4) of Section A of Annex I to Directive 2004/39/EC shall hold eligible capital of at least one quarter of the fixed overheads of the preceding year.

...

...

Professional negligence

- 11.3.11 G A *full-scope UK AIFM* should:
- (1) cover the professional liability risks set out in article 12 of the *AIFMD level 2 regulation* (professional liability risks) (as

replicated in *IPRU-INV* 11.3.12~~EU~~UK) by either:

- (a) maintaining an amount of *own funds* in line with article 14 of the *AIFMD level 2 regulation* (additional own funds) (as replicated in *IPRU-INV* 11.3.14~~EU~~UK) (the *professional negligence capital requirement*); or
 - (b) holding professional indemnity insurance and maintaining an amount of *own funds* to meet the *PII capital requirement* under article 15 of the *AIFMD level 2 regulation* (professional indemnity insurance) (as replicated in *IPRU-INV* 11.3.15~~EU~~UK) and *IPRU-INV* 11.3.16R; and
- (2) comply with the qualitative requirements addressing professional liability risks in article 13 of the *AIFMD level 2 regulation* (qualitative requirements addressing professional liability risks) (as replicated in *IPRU-INV* 11.3.13~~EU~~UK).

Professional liability risks

- 11.3.12 ~~EU~~
UK (1) The professional liability risks to be covered pursuant to the UK legislation that implemented Article 9(7) of Directive 2011/61/EU shall be risks of loss or damage caused by a relevant person through the negligent performance of activities for which the AIFM has legal responsibility.

...

Qualitative requirements addressing professional liability risks

- 11.3.13 ~~EU~~
UK

Additional own funds

- 11.3.14 ~~EU~~ ...
UK

- (4) ~~The competent authority of the home Member State of the AIFM~~ FCA may authorise the AIFM to provide additional own funds lower than the amount referred to in paragraph 2 only if it is satisfied - on the basis of the historical loss data of the AIFM as recorded over an observation period of at least three years prior to the assessment - that the AIFM provides sufficient additional own funds to appropriately cover professional liability risks. The authorised lower amount of additional own funds shall be not less than 0,008 % of the value of the portfolios of AIFs managed by the AIFM.
- (5) ~~The competent authority of the home Member State of the AIFM~~ FCA may request the AIFM to provide additional own funds higher than the amount referred to in paragraph 2 if it is not

satisfied that the AIFM has sufficient additional own funds to appropriately cover professional liability risks. The competent authority shall give reasons why it considers that the AIFM's additional own funds are insufficient.

...

Professional indemnity insurance

11.3.15 EU ...
UK

(2) An *AIFM* shall take out and maintain at all times professional indemnity insurance that:

...

Any agreed defined excess shall be fully covered by own funds which are in addition to the own funds to be provided in accordance with the UK legislation that implemented Article 9(1) and (3) of Directive 2011/61/EU.

...

11.6 ADDITIONAL REQUIREMENTS FOR COLLECTIVE PORTFOLIO MANAGEMENT INVESTMENT FIRMS

...

11.6.2 G ...

(2) Subject to the conditions that the *firm* is not authorised to provide safekeeping and administration in relation to *shares* or *units* of collective investment undertakings and is not permitted to hold client money or client assets in relation to its *MiFID business* (and for that reason may not place itself in debt with those clients) competent authorities may allow the *firm* to stay on the capital requirements that would be binding on that firm as at 31 December 2013 under the UK legislation that implemented the Banking Consolidation Directive and the *Capital Adequacy Directive* (in line with article 95(2) of the ~~EU-CRR~~ UK CRR). The *FCA* has exercised this derogation and, as such, a *firm* meeting those conditions is a *BIPRU firm*. If the above conditions are not met, a *collective portfolio management investment firm* is an *IFPRU investment firm*.

...

12 Financial resources requirements for operators of electronic systems in relation to lending

...

12.2 Financial resources requirements

...

Financial resources requirement: firms carrying on other regulated activities

12.2.3 R The **financial resources requirement** for a *firm* carrying on one or more regulated activities in addition to operating an electronic system in relation to lending, is the higher of:

...

(2) the financial resources or own funds requirement which is applied by another *rule* or by directly applicable legislation of the EU UK to the *firm*.

...

13 Financial Resources Requirements for Personal Investment Firms

13.1 Application, general requirements and professional indemnity insurance requirements

...

13.1.3 G Although financial resources and appropriate systems and controls can generally mitigate operational risk, professional indemnity insurance has a role in mitigating the risks a *firm* faces in its day-to-day operations, including those arising from not meeting the legally required standard of care when *advising on investments*. The purpose of the *rules* in this section is also to ensure that a *firm* has in place the type, and level, of professional indemnity insurance necessary to mitigate these risks. ~~This includes, in the case of a UK firm exercising an EEA right, cover for breaches of obligations imposed by or under laws, or provisions having the force of law, in each EEA State in which the firm carries on business.~~

...

Requirement to hold professional indemnity insurance

13.1.5 R A *firm* must take out and maintain at all times professional indemnity insurance that is at least equal to the requirements in this section from:

(1) an *insurance undertaking* which is authorised to transact professional indemnity insurance in the EEA UK; or

...

...

13.1.14 G Article 10(7) of the *IDD* requires *EIOPA* to review the *limits of indemnity* every five years to take into account changes in the European index of

~~FCA 2018/25 Page 101 of 401 consumer prices and to develop draft regulatory technical standards to adapt the base amount in euro by the percentage change in that index. Therefore, the *limits of indemnity* will be subject to further adjustments that will apply to *firms* in accordance with the regulatory technical standards adopted under article 10(7) of the *IDD*. [deleted]~~

~~[Note: The regulatory technical standards adopted under article 10(7) of the *IDD* will be available on *EIOPA*'s website at: <https://eiopa.europa.eu/>]~~

- 13.1.15 G If a policy is denominated in any currency other than euros, a *firm* must take reasonable steps to ensure that the *limits of indemnity* are, when the policy is effected (i.e. agreed) and at renewal, at least equivalent to those denominated in euros.

...

14 Consolidated supervision for investment businesses

...

14.2 Scope of consolidation

- 14.2.1 R For the purposes of the rules in this chapter, a *firm's* group means the *firm* and:

- (1) any *EEA UK parent institution* in the group which is a *financial holding company*, a *credit institution*, or an *investment firm*;
- (2) any *credit institution*, *investment firm* or *financial institution* which is a *subsidiary* either of the *firm* or of the *firm's EEA UK parent institution* as defined in (1); and
- (3) any *credit institution*, *investment firm* or *financial institution* in which the *firm* or one of the entities in (1) or (2) holds a *participation*.

...

- 14.2.4 G (1) A *firm's parent* is a *financial holding company* if it is either a *financial institution* or a *securities and futures firm* that is subject to the financial rules in Chapter 3 and that is a *broad scope firm* (but not a *venture capital firm*) and if its *subsidiary undertakings* carry out mainly *listed activities*, activities of a *credit institution* or activities undertaken by a Chapter 3 *broad scope firm*. For this purpose the *FCA* interprets the phrases 'mainly' or 'main business' to mean where the balance of business is over 40% of the relevant group or sub-group's balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income). In addition, if the *firm's parent* has significant holdings in *insurance undertakings* or *reinsurance undertakings*, it is a *mixed financial holding company*, and the *firm* is subject to the rules in

GENPRU 3.1 instead of the rules in this chapter. This is because a *parent* cannot be a *financial holding company* and a *mixed financial holding company* at the same time. GENPRU 3.1 sets out what constitutes significant insurance holdings (broadly more than 10% of the financial sector activities of the group). A *firm's parent* is a *financial holding company* and not regarded as a *mixed financial holding company* unless:

- (a) the parent has been notified by its *coordinator* that the *group* it heads is a financial conglomerate ~~(in accordance with Article 4(2) of the Financial Groups Directive)~~; and
 - (b) it has not been notified that the *coordinator* and the relevant competent authorities have agreed not to treat the group as a *financial conglomerate* in accordance with ~~Article 3(3) of the Financial Groups Directive~~ regulation 16 of the financial groups directive regulations.
- (2) A *firm* with an ultimate ~~non-EEA parent~~ non-UK parent may also be subject to the provisions in GENPRU 3.2.
 - (3) In the case where undertakings are linked ~~to the domain of consolidation by a relationship within the meaning of article 12(1) of Directive (83/349/EEC)~~ by a consolidation article 12(1) relationship, the FCA will determine how consolidation is to be carried out.

...

14.5 Group financial resources requirement

...

- 14.5.2 R Financial resources requirements for individual entities in the group are:
- (1) for *firms* regulated by the FCA, their regulatory capital requirement under FCA rules;
 - (2) ~~for entities regulated by an EEA regulator and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement; [deleted]~~
 - (2A) for entities that are *recognised third country credit institutions* or *recognised third country investment firms* and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement;
 - (2B) for entities not in (2A) that are regulated by a third country competent authority named in the table in BIPRU 8 Annex 3R and which is subject to the local regulatory capital requirement of that regulator, that local regulatory capital requirement; and

- (3) for other entities in the group, a notional financial resources requirement calculated as if the entity were regulated by the *FCA*.

...

14 App 1 Interpretation

App1.1 G Glossary of defined terms for Chapter 14

If a defined term does not appear in the IPRU(INV) 14 glossary below, the definition in the main Handbook *Glossary* applies.

...	
<i>EEA parent</i>	a <i>firm's</i> direct or indirect parent which has its head office in the <i>EEA</i> .
...	
<i>participation</i>	a participation within the meaning of the <u>UK provisions which implemented Article 17 of Directive 78/660/EEC 2, point (2) of the Accounting Directive</u> or the ownership either direct or indirect of 20% or more of the voting rights or capital of another undertaking which is not a <i>subsidiary</i> .
...	
<u>UK parent</u>	<u>a firm's direct or indirect parent which has its head office in the UK.</u>

...

Annex A Limited liability partnerships: Eligible members' capital

Annex A Introduction

1

...

Purpose

Annex A G 1.4 The purpose of this annex is to amplify *Principle 8* (Financial resources) which requires a *firm* to maintain adequate financial resources to meet its investment business commitments and to withstand the risks to which its business is subject. This annex imposes various conditions that must be satisfied for members' capital to count as "Tier 1" or equivalent grade capital in meeting the *limited liability partnership's* financial resources requirement. These conditions are made up of conditions specific to *limited liability partnerships* and general conditions based for the most part on those set out in article 57 of the *Banking Consolidation Directive*. This assists in the achievement of the *statutory objective* of consumer

protection.

[**Note:** *BCD Annex V Part 2 point 57*]

...

TP 1 Table: Transitional provisions applying to IPRU(INV)

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision : dates in force	(6) Handbook provision: coming into force
...					
3	<i>IPRU-INV</i> 9.2.5R and <i>IPRU-INV</i> 13.1.4(2)R(b)	R	The new limits of indemnity apply to a professional indemnity policy or a comparable guarantee commenced, renewed or extended with effect from or after 1 March 2009. Any other existing non-annual arrangements must be aligned with the new limits of indemnity before 1 March 2010 [expired]	1 March 2009 to 28 February 2010	1 March 2009
4	13.1.21 and 13.1.23	R	The requirement to hold additional capital resources where a policy excludes business or activities that have been carried out by the <i>firm</i> in the past or will be carried out by the <i>firm</i> only apply to a	31 December 2009 to 31 December 2010	31 December 2009

			<i>professional indemnity policy taken out, renewed or extended with effect from 31 December 2009. [expired]</i>		
...					
7	<i>IPRU-INV 11</i>	R	<i>Where a firm falls within regulation 74(1) or 75(1) of the AIFMD-UK regulation it need not include AIFs managed by it that fall within those regulations in the calculation of its funds under management requirement, professional negligence capital requirement or PH excess capital requirement. [deleted]</i>	<i>From 22 July 2013</i>	<i>22 July 2013</i>
...					
10	<i>IPRU(INV) 12</i>	R	<i>IPRU(INV) 12 does not apply to a firm with an interim permission [deleted]</i>	<i>Indefinitely</i>	<i>1 April 2014</i>
11	<i>IPRU(INV) 12.2.6R(1)</i>	R	<i>The amount is replaced with £20,000 [expired]</i>	<i>From 1 April 2014 to 31 March 2017</i>	<i>1 April 2014</i>
12	<i>IPRU(INV) 12.3.5R</i>	R	<i>b = items 1,4 and 5 in the Table of items which must be deducted in</i>	<i>1 April 2014 to 31 March</i>	<i>1 April 2014</i>

			arriving at a <i>firm's</i> financial resources (see IPRU(INV) 12.3.3R) [expired]	2017	
13	IPRU-INV 13.1A.3R(2)	R	A <i>firm</i> applying (b) or (c) above must have <i>initial capital</i> of at least £15,000. [expired]	From 30 June 2016 to 29 June 2017	30 June 2016
14	IPRU-INV 13.1A.4R(2)	R	A <i>firm</i> applying (b) or (c) above must have <i>initial capital</i> of at least £15,000. [expired]	From 30 June 2016 to 29 June 2017	30 June 2016
15	IPRU-INV 13.13.2R(2)(a)	R	The <i>firm</i> must calculate its capital resources requirement as the higher of: (a) £15,000. [expired]	From 30 June 2016 to 29 June 2017	30 June 2016
16	IPRU-INV 13.13.3R(2)(a)	R	The <i>firm</i> must calculate its capital resources requirement as the higher of: (a) £15,000. [expired]	From 30 June 2016 to 29 June 2017	30 June 2016

17	<i>IPRU-INV</i> 13.15.9R and <i>IPRU-INV</i> 13.15.10R	R	<p>These rules do not apply to a <i>category B3 firm</i> which is not a <i>network</i>, has fewer than 26 <i>financial advisers</i> or <i>representatives</i> and is not permitted to:</p> <p>(a) carry on discretionary portfolio management;</p> <p>(b) establish, operate or wind up a <i>personal pension scheme</i>; or</p> <p>(c) delegate the activities in (a) or (b) to an <i>investment firm</i>. <u>[expired]</u></p>	From 30 June 2016 to 29 June 2017	30 June 2016
18	<i>IPRU(INV)</i> 5.4.3R(i)(ib)	R	<p>A <i>depository</i> of a <i>UCITS scheme</i> appointed before 18 March 2016 need not calculate its <i>own funds requirement</i> under articles 315 or 317 of the <i>EU CRR</i>. <u>[expired]</u></p>	From 18 March 2016 until 18 March 2018	18 March 2016
19	<i>IPRU(INV)</i> 5.4.8R	R	<p>A <i>depository</i> of a <i>UCITS scheme</i> appointed before 18 March 2016 need not comply with <i>IPRU(INV)</i> 5.4.8R. <u>[expired]</u></p>	From 18 March 2016 to 18 March 2018	18 March 2016