Financial Conduct Authority

Policy Statement PS13/10

CRD IV for Investment Firms

Feedback and final rules for CP13/6, CP13/9 (Chapter 16) and CP13/12

December 2013

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Please send any comments or enquiries to:

Raul O. Elias
Policy, Risk and Research Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 6528
Email: cp13-12@fca.org.uk

You can download this Policy Statement from our website: www.fca.org.uk. Or contact our order line for paper copies: 0845 608 2372.

Abbreviations used in this paper

AIFM	Alternative Investment Fund Manager
AIFMD	Directive 2011/61/EU or Alternative Investment Fund Managers Directive
BCD	Directive 2006/48/EC or Banking Consolidation Directive
BIPRU	Prudential Sourcebook for BIPRU firms
CA	Competent Authority
CAD	Directive 2006/49/EC or Capital Adequacy Directive
CCB	Capital Conservation Buffer
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
Commission	European Commission
COREP	Common Reporting
CP	Consultation Paper
CPB	Capital Planning Buffers
CPM firm	Collective Portfolio Management firm
CPMI firm	Collective Portfolio Management Investment firm
CRD	Current Capital Requirements Directives consisting of BCD and CAD. References in this CP to current or existing CRD include the amendments introduced by the CRD II and CRD III legislative packages
CRD II	CRD as amended by Directives 2009/111/EC, 2009/27/EC and 2009/83/EC
CRD III	CRD as amended by Directive 2010/76/EU
CRD IV	CRR and the Directive
CRD IV CPs	CP13/6 , 13/9 (Chapter 16) and 13/12
CRR	Regulation (EU) 575/2013 or Capital Requirements Regulation or the Regulation – which forms part of the CRD IV legislative package

Directive	Directive 2013/36/EU – which forms part of the CRD IV legislative package
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
EEA	European Economic Area
FCA	Financial Conduct Authority
FINREP	Financial Reporting
FSA	Financial Services Authority
FSMA	Financial Services and Markets Act
GENPRU	General Prudential Sourcebook
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	Prudential Sourcebook for Investment Firms
IPRU(INV)	Interim Prudential Sourcebook: Investment Business
ITS	Implementing Technical Standard
LLPs	Limited Liability Partnerships
MIFID	Directive 2004/39/EC or Markets in Financial Instruments Directive
MS	Member State
OTC	Over-the-counter
PRA	Prudential Regulation Authority
PS	Policy Statement
RAO	Regulated Activities Order
RIE	Recognised Investment Exchanges
SME	Small and Medium-Sized Enterprise – as defined in the Commission Recommendation 2003/361/EC
SUP	Supervision sourcebook
Treasury	Her Majesty's Treasury
UCITS	Undertaking for Collective Investment in Transferable Securities
UPRU	Prudential Sourcebook for UCITS firms

1. Overview

Introduction

1.1 The Financial Conduct Authority (FCA) is the competent authority (CA) under the Financial Services and Markets Act (FSMA) for the prudential regulation of a large number of investment firms subject to the Capital Requirements Directive (CRD).

1.2 In Consultation Papers (CPs) 13/6[1], 13/9 (Chapter 16)[2] and 13/12[3] we consulted on our proposed changes to the FCA Handbook arising from the transposition of CRD IV – a major package of reforms to the CRD, the EU's prudential requirements regime for credit institutions and investment firms.

1.3 This Policy Statement (PS) contains:

- feedback to the responses to CPs 13/6, 13/9 (Chapter 16) and 13/12 (together the 'CRD IV CPs')
- the final Handbook rules and guidance arising from the Capital Requirements Directive (2013/36/EU) (the Directive) and the Capital Requirements Regulation (575/2013) (CRR or the Regulation) (together the CRD IV)

PRA consultations and policy statement

1.4 The Prudential Regulation Authority (PRA) has also published the following CRD IV consultations: CP 5/13 and CP 8/13. The PRA intends to publish a separate PS and final rules as it applies to its authorised firms.

Who does this consultation affect?

1.5 The proposals in this PS apply principally to the following FCA authorised firms:

- investment firms that are currently subject to the CRD including:
  - firms that benefit from the current exemptions on capital requirements and large exposures for specialist commodities derivatives firms

1 *CP13/6: CRD IV for Investment Firms* available at www.fca.org.uk/your-fca/documents/consultation-papers/cp13-06.

2 Chapter 16: *Implementing CRD IV for investment firms – consequential changes to the Handbook in QCP13/9* available at http://www.fca.org.uk/your-fca/documents/consultation-papers/cp13-09.

3 *CP13/12: CRD IV for Investment Firms 2 – Implementation 2* available at www.fca.org.uk/static/documents/consultation-papers/cp13-12.pdf.

  - firms that only execute orders and/or manage portfolios, without holding client money or assets

- management companies – as defined under the UCITS Directive – and alternative investment fund managers (AIFMs) – as defined under the Alternative Investment Fund Managers Directive (AIFMD)

- certain exempt CAD firms (please refer to the text in box on page 52 of CP13/6)

1.6 The proposals in this PS do not apply to credit institutions (banks and building societies) or investment firms supervised by the PRA.

Is this of interest to consumers?

1.7 In our CRD IV CPs we explained that the objectives underlying CRD IV (and therefore of our final rules in this PS) are primarily prudential in nature as they concern the financial risks run by firms themselves.

1.8 While the final rules in this PS have no direct implications for consumers, the enhancements we expect the CRD IV to bring to the prudential framework should make it less likely that banks and investment firms will fail, thereby improving stability in the financial sector in general. This should have positive implications for consumer protection.

Context

CRD IV and the FCA objectives

1.9 CRD IV seeks to strengthen the prudential framework, by setting out quantitative and qualitative enhancement to the capital adequacy of, and for the first time quantitative liquidity proposals, for credit institutions and investment firms. So our final rules in this PS are prudential in nature and support our statutory objective of enhancing the integrity of the UK financial system.

CRD IV – Background and structure

1.10 In our CRD IV CPs we described:

- the background of the current EU capital framework for banks and investment firms – represented by Directives 2006/48/EC (Banking Consolidating Directive or BCD) and 2006/49/EC (Capital Adequacy Directive or CAD) (both also known as Capital Requirement Directives or CRD)

- its amendments by CRD II (Directives 2009/111/EC, 2009/27/EC and 2009/83/EC) and CRD III (Directive 2010/76/EU)

So references in this PS to current CRD include the amendments introduced by the CRD II and CRD III legislative packages.

1.11 CRD IV was presented by the European Commission (Commission) in July 2011 and the final rules were published in the Official Journal of the European Union on 27 June 2013. CRD IV is divided into two legislative instruments:

- The Regulation – most of which will be directly applicable and will take effect in all Member States (MS) without any further action.
- The Directive – which MS must transpose into national law.

FCA's overall approach to CRD IV transposition

1.12 As indicated in the CRD IV CPs, our approach to the transposition of CRD IV has been guided by the following principles:

- 'legal minimum': to ensure that we deliver the minimum Handbook rules and guidance that we must put in place for the UK to discharge its legal duty to transpose CRD IV by 1 January 2014
- 'intelligent or even strict copy-out': to avoid placing any additional burdens upon firms
- 'pragmatic and proportionate': in general and in respect to current standards, using the more favourable, or least unfavourable, treatment for firms available under national discretions and relief under transitional provisions – where allowed by CRD IV and in accordance with the FCA's objectives
- 'minimise the need for changes' (including systems): and hence minimise the (non-capital) costs for firms, and
- 'forward looking': we are mindful that CRD IV requires the Commission to undertake, by the end of 2015, a review of what should be an appropriate prudential regime for investment sector firms. So this review should provide a suitable opportunity to address any fundamental issues for such firms arising from CRD IV, which was designed more with banks in mind.

Implementation in the UK

1.13 We are the competent authority for nearly all investment firms under CRD whereas the PRA is responsible for credit institutions as well as a number of investment firms 'designated' for prudential supervision by the PRA. Accordingly, both the FCA and the PRA have been cooperating closely in the transposition of the CRD IV in the UK in relation to their respective firms.

1.14 This PS includes our final Handbook provisions for implementing changes brought about by CRD IV which can be done under existing FSMA powers.

1.15 HM Treasury (Treasury) intends to issue secondary legislation for those aspects of the Directive and the CRR that require either new, or amendments to existing, legal provisions in a number of areas to enable the FCA to operate CRD IV effectively. The Treasury anticipates this taking place in December 2013. Where relevant, our final Handbook provisions in this PS have been prepared on the basis of the current content of such secondary legislation. If the content of the secondary legislation changes, then we may need to adjust our Handbook provisions.

Capital buffers

CP13/6 consulted on legal provisions on capital buffers. We include the feedback received to the responses to questions 3 to 6 of CP13/6 in this PS. However, since certain elements of the capital buffers framework will be set by the Treasury in another piece of secondary legislation, this PS does not include the final rules in this area. Instead, we will make the final rules on capital buffers once the Treasury has made the relevant legal provisions. We anticipate this taking place in Q1 2014.

Structure of this PS

1.16 This PS covers the following items:

- Chapter 2: Feedback to CP13/6
- Chapter 3: Feedback to CP13/9 – Chapter 16
- Chapter 4: Feedback to CP13/12
- Annex 1: List of non-confidential respondents
- Annex 2: Table with transitional provisions on capital
- Annex 3: Prudential classification for UK investment fund managers
- Appendix: Made rules (legal instruments) and guidance.

Equality and diversity considerations

1.17 We have assessed the likely equality and diversity impacts of our final Handbook provisions and our assessment concluded that they do not give rise to any concerns.

Cost benefit analysis and compatibility statement

1.18 The cost-benefit analysis and compatibility statement remain unchanged from those published in the CRD IV CPs.

2.
Feedback to CP13/6: CRD IV for investment firms

Introduction

2.1 This chapter summarises the responses received to CP13/6 and gives our feedback and policy decision – as appropriate. We are required under FSMA to have regard to any representations made to the proposals in the consultation, and to publish an account, in general terms, of those representations and its response to them.

2.2 We received 37 responses to CP13/6. Our feedback addresses the most significant issues raised by respondents, but we have not included non-substantial or firm-specific issues that we consider are best dealt with through the relevant supervisory contact.

2.3 We arranged the responses and feedback following the same structure as in CP13/6.

Section 1 – Our overall approach to transposition

Q1: ***Do you agree with our overall approach to CRD IV transposition outlined in this section pending the Commission's review of the prudential regime for investment sector firms by the end of 2015? If not, please explain why not and what alternative you would suggest.***

2.4 We received 19 responses to this question. All respondents agreed to our overall approach to CRD IV transposition.

2.5 Some respondents were concerned that the legal provisions are becoming more complex and difficult to navigate since the rules will be in the CRR and in our Handbook. For example, they suggested that we could consider:

- publishing a roadmap showing how the CRD IV provisions have been implemented into national rules
- providing guidance on issues covered by the CRR, e.g. on qualifying criteria for own funds in relation to subordinated debt and similar instruments
- whether the FCA would be able to set out in advance how CRR provisions would be interpreted for supervisory purposes, arguing that we would have to interpret the CRR when undertaking supervisory measures for compliance

Our response

We welcome the support received to our overall approach to CRD VI transposition.

We are mindful that the CRD IV legal provisions will be included in the CRR supplemented by technical standards / guidelines from the European Banking Authority (EBA) and relevant modules in our Handbook. Therefore, to help firms we intend to produce non-Handbook communications to facilitate the navigation of the legal provisions in relation to specific areas of CRD IV, while being careful not to interpret the CRR text which directly applies to firms.

We will also continue our engagement with industry in the context of the Commission's review of the prudential regime for investment sector firms by the end of 2015 with the aim of achieving a suitable outcome for the UK.

Section 2 – Capital Requirements Directive: Key proposals

Approach to Pillar 2

Q2: ***Given there are no proposed substantive changes to the existing Pillar 2 regime do you agree that existing GENPRU and BIPRU Pillar 2 guidance should be copied across to IFPRU? If not, please explain why not, including alternative approaches and the rationale for those approaches.***

2.6 We received 11 responses to this question. Most respondents were supportive of our proposal.

2.7 Some respondents expressed concern about the clarity of the specific interaction between additional capital buffers and Pillar 2 becoming more complex and exposed to the risk of 'double-counting', whilst others suggesting that further details on aspects of Pillar 2 would be helpful.

Our response

We confirm our approach that the existing Pillar 2 regime should be copied from GENPRU and BIPRU in to the new IFPRU module, as no material changes were made to the application of Pillar 2 under CRD IV and taking into account that Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) will remain at 0% until 2016. We will, however, look to provide more clarity around the interaction of the capital buffers and Pillar 2 in the context of EU regulatory framework in due course, before those buffers take effect.

We will also consider our approach to Pillar 2 as part of overall preparations for the review of an appropriate prudential regime for the investment firm sector, which the Commission must undertake by end 2015.

Capital buffers

2.8 This section sets out:

- our feedback on responses received to questions 3 to 6 and
- our response including policy decisions

subject to final rules on capital buffers which we intend to make once the secondary legislation – that is currently being prepared by the Treasury – is finalised. We anticipate this taking place in Q1 2014.

Q3: ***Do you agree with our initial view that, if possible and depending upon the decisions of the Treasury regarding the designated authorities, the discretions to exempt investment firms that are Small and Medium Sized Enterprises (SMEs) from the CCB, and from the CCyB should be exercised? If not please explain why not.***

2.9 We received eight responses to this question. All respondents agreed to our proposal.

2.10 One respondent argued that not only SMEs but also firms authorised as multilateral trading facilities should be exempted from additional capital buffer requirements.

Our response

We confirm that if the Treasury makes us the designated authority, we intend to exercise the discretion to exempt SMEs from the CCB and the CCyB.

It is important to note that – as we explained in CP13/6 – there is already a separate exemption from both the CCB and the CCyB for limited licence firms caught by CRD IV. This discretion therefore applies to full scope and limited activity IFPRU investment firms; however, it is only available to firms that are SMEs – as defined in the Commission Recommendation 2003/361/EC. So any full scope or limited activity firm that cannot qualify as an SME will be subject to the CCB and CCyB – in practice this will cover a larger number of firms than will fall under our definition of 'significant IFPRU firms' (explained in our response under questions 21 – 24).

Q4: ***Do you agree with our initial view that, in light of the review by the Commission on the prudential regime for all investment sector firms required by end 2015, that the discretion to accelerate the five year transition timetables for the CCB and the CCyB should not be exercised by whoever is the designated responsible authority? If not, please explain why not including alternative transition approaches and the rationale for those approaches.***

2.11 We received eight responses to this question. All respondents were supportive of our proposal.

Our response

We confirm that we do not intend to accelerate the five year transition timetable if we are able to make such a decision in relation to the investment firms we prudentially regulate. It is important to note, however, that the Treasury has yet to determine the relevant authority that would be able to make the decision on this discretion.

Q5: ***Do you agree that the calculation of the Maximum Distributable Amount (MDA) should be submitted to the FCA within five working days? If not, please explain why not and propose alternative notice periods and the rationale for those notice periods.***

2.12 We received six responses to this question. Most respondents were supportive of our proposed five days' notice period.

2.13 One respondent, however, suggested a longer notice period, arguing that the submission of the MDA would overlap with consolidated and COREP reporting deadlines.

2.14 One respondent asked for more details on the MDA calculation, in particular on the treatment of variable remuneration, interim profits and cancelled dividends.

Our response

We confirm that we intend to apply a five days' notice period as we believe this is consistent with any distributions that tend to be strategic (long-term) payments rather than tactical (short-term) ones. This means that firms are expected to have readily available a reasonable estimate of any distributions well before the payment. We would implement this proposal when the final rules for the capital buffers are made in Q1 2014 as indicated in paragraph 2.8.

As for the MDA calculation, its methodology is being copied out from the Directive into IFPRU, but if we have any more details by the time the buffers rise above 0% (after 2016) – for example, through the EBA Single Rulebook Q&A service[4] – then we will communicate it. In practice, should a firm believe it may be in danger of having to calculate an MDA then we would expect it to be in contact with its usual supervisory contact.

4 The EBA Single Rulebook Q&A service is available at www.eba.europa.eu/single-rule-book-qa#search.

Q6: ***Do you agree that where the firm fails to meet the Combined Buffer (CB) and has a an MDA in place, that firms must give a minimum of three months' notice to create obligations or make payments or distributions that would otherwise be prohibited because of the requirement to have an MDA? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.15 We received six responses to this question.

2.16 One respondent supported our proposal while the other five suggested that a one month period would be preferable. It was argued that e.g. for quarterly distributions, for example, where dividends depend on interim results, the exact amounts of such quarterly dividends cannot always be known as it will not be possible to accurately estimate the quarterly results that far in advance.

2.17 We were asked to either reduce the notice period to a minimum of one month or to provide for an opportunity to update estimated distributions when more accurate information is available.

2.18 One respondent also argued that the approach of requiring an MDA calculation and submission to the FCA, together with a notice period for distributions, would be more appropriate only for those firms that take balance sheet risks, have weak capital positions and need to put a remediation program in place.

Our response

We acknowledge the concerns of the majority of respondents who disagreed with a three months' notice period for distributions. To meet these concerns, we will update this provision to provide that firms must give the FCA not less than one month's notice before the intended date of distribution at the time we make the final rules as indicated in paragraph 2.8.

As regards the requirement to calculate MDA and to notify the regulator, this is a requirement set in the Directive. We believe that this requirement is an important and proportionate supervisory tool which helps to identify firms that are having, or are likely to have, difficulties in complying with CRD IV prudential requirements.

Q7: ***Until such point as we are able to consult further on our future policy, do you agree that the Capital Planning Buffer (CPB) should be maintained and added to the Pillar 2A charge to the extent that there is no identifiable double counting? If not, please explain why not including alternative transition approaches and the rationale for those approaches.***

2.19 We received eight responses to this question. All respondents were supportive of our proposal.

Our response

We welcome the support to our proposal and confirm that the CPB will be maintained and added to the Pillar 2A charge to the extent that there is no identifiable double counting and until such point as we are able to consult further on our future policy.

Stress testing

Q8: ***Do you agree with our proposed approach on stress testing and to report results annually in the case of those firms that are 'significant' pending the EBA guidelines on this matter? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.20 We received seven responses to this question. Most respondents were supportive of our proposals. We received one comment which we address in our response below.

Our response

Pending the EBA guidelines on this subject, we confirm that all FCA investment firms subject to CRD IV should carry out – at least annually – stress tests that are appropriate to the nature, size and complexity of the firm's business and of the risks it bears. To clarify the scope of this requirement, we expect that:

- Firms that are 'significant IFPRU firms' should carry out a comprehensive stress and scenario analyses (as in current GENPRU 1.2.42R) and reverse stress testing (as in current SYSC 20.2). These firms should report the results of the stress tests to us annually;

- Other firms (those that are not 'significant' as per the definition) should only carry out reverse stress testing. These firms do not need to report the stress tests results unless required by the FCA.

One respondent argued that the extension of the reverse stress testing from the current scope of firms covered by SYSC 20.2 to all firms would not be proportionate.

Reverse stress testing is used to help identify what could cause a business to be no longer viable and for a firm to fail. We view this type risk analysis as being fundamental to achieving an orderly resolution, which is a Directive requirement under article 74(4) internal governance and recovery and resolution plans which applies to all firms. This is why we have extended the current scope of application under SYSC to all firms. However, in complying with this requirement a proportional approach should be taken, which means the scale of the work required should be commensurate with the scale of the business. Though more firms are now required to conduct reverse stress testing this has been matched by a reduction in the scope of application for general stress and scenario testing

requirements that are not a requirement for non-significant firms. We view both scope changes as being consistent with the focus on orderly resolution for non-significant firms and there should not be any net increase in requirements.

Section 3 – Capital Requirements Regulation: Key proposals

Continued application of UK liquidity standards during 2014

Q9: ***Do you agree with our proposal to continue the UK's liquidity regime (including ILAS) until binding minimum standards for liquidity coverage requirements are implemented in the CRR in 2015? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.21 We received ten responses to this question. All respondents were supportive of our proposal.

Our response

We confirm our approach to continue the UK's liquidity regime (including ILAS) until binding minimum standards for liquidity coverage requirements are implemented in the CRR in 2015.

CRD IV liquidity reporting

Q10: ***In your view, is this approach proportional and risk based? If not, which category or categories of firms (within the solely FCA regulated CRD IV population) do you perceive as appropriate to submit CRD IV liquidity reporting forms from 2014 and be subject to binding liquidity requirements from 2015?***

2.22 We received five responses to this question. All respondents were supportive of our proposal.

2.23 One respondent asked whether we could consider clarifying the wording under IFPRU 7.1.5R noting that the current wording could lead to a broader application than that intended under the CP.

Our response

We confirm our approach to apply COREP liquidity reporting (and from 2015 binding liquidity requirements):

- on an individual basis to firms that meet both the definition of significant – outlined in Chapter 5 of CP13/6 – and the £50m net assets balance sheet size criteria; and
- on a consolidated basis to groups that contain a full scope IFPRU investment firm which meets the definition of significant firms – outlined in Chapter 5 of CP13/6 – and also exceeds the threshold to be an ILAS firm.

Feedback to specific comment

With regard to the request in relation to IFPRU 7.1.5R, for clarity we are amending the provision stating that for the purpose of article 6(4) of the EU CRR, a firm is exempt from compliance with the obligations in Part Six of the EU CRR (Liquidity) on an individual basis unless it meets both of the following conditions:

- it is an ILAS BIPRU firm; and
- it is a significant IFPRU firm.

In addition, we have amended the definition of ILAS BIPRU firms to also include exempt BIPRU commodities firms and BIPRU firms, so as to preserve the current scope of our ILAS regime.

Changes to the definition of capital and transitional provision on capital

Q11: ***Do you agree that these proposals meet our approach of applying the transitional provisions whilst ensuring that we do not materially reduce the standards of the current FCA framework? If not, please indicate why not stating your reasons and your alternative proposal.***

2.24 We received nine responses to this question. Most respondents agreed to our proposals.

2.25 Two respondents disagreed with the proposal to start deducting defined benefit pension fund assets from Common Equity Tier 1 (CET1) at 100% of its value from 2014. Instead, they proposed to follow the lowest initial entry approach, starting from 20% and gradually building up towards full deduction by 2017.

2.26 Two respondents asked whether we would re-consider the percentage on the prudential filter for unrealised losses on assets and liabilities measured at fair value, suggesting to decrease the rate from 60% to 40% for 2015.

Our response

We welcome the support to our proposals and confirm our approach the transitional provisions on capital with the technical adjustments as explained below.

CRR article 469(1)(a) – Deductions from CET1: Defined benefit pension assets

Our proposed approach to defined pension benefit assets (100% deduction) is consistent with our existing approach in GENPRU 1.3.9 R(2) where firms must de-recognise any defined pension benefits assets in arriving at accounting values for prudential purposes. As a result a 100% deduction policy is in line with our transitional provisions approach outlined in CP13/6, paragraph 4.21: 'the minimum pace of transition set out in CRD IV legislation will not be accelerated, except where applying the minimum transitional provisions in CRD IV would have the effect of weakening standards relative to what is in force in the UK prior to the CRD IV implementation date.'

To avoid doubt CRD IV removes the prudential filter for defined pension benefit liabilities. Also, article 24 of the CRR stipulates that the valuation of assets shall be in accordance with the applicable accounting framework. As a result firms cannot add-back any deficit in arriving at the value of own funds. [Article 481(1) of the CRR on additional filters and deductions is not available for this filter.]

CRR article 467(1) – Recognition of unrealised losses measured at fair value

As for the issue raised regarding the prudential filter of unrealised losses, we confirm that 60% for 2015 was correct at the time that our CP13/6 was issued.

Article 468(2) of the CRR required a competent authority to ensure that the percentage of unrealised gains removed from the calculation of CET 1 as per article 468(2)(a) did not exceed the percentage of unrealised losses set out as per article 467. And under article 468(2)(a) the minimum percentage for unrealised gains for 2015 is stipulated to be 60%. As a consequence, it would not have been possible to set the percentage for unrealised losses below 60% for 2015.

However, a recent revision of the CRR[5] has since resulted in an amendment to the wording of article 468 (2) to correct this drafting 'error', allowing for the CA to set a percentage for the inclusion of unrealised losses in the calculation of CET 1, such that the percentage of included unreleased gains (as opposed to removed gains, as was the case before) does not exceed that of unrealised losses.

As such, we are now able to set the percentage of unrealised losses for 2015 at 40%. We have also updated the table on transitional provisions on capital – published in CP13/6 – which we include in Annex 2 of this PS.

5 On 30 November 2013, a Corrigendum to Regulation (EU) No. 575/2013 was published in the Official Journal of the European Union.

CRR article 468(3) and (4)

It is important to note that a recent revision of the CRR[6] have amended the wording of articles 468(3) and 468(4) to correct drafting 'errors'. As a result, the applicable transitional percentages published by competent authorities for Article 468(2) specify the percentage of unrealised gains that is removed from CET 1 capital in each transitional year. Equally, the applicable percentages published by competent authorities for Article 468(4) specify the percentage of fair value gains and losses due to own credit risk that is removed from CET 1 capital in each transitional year.

Partnership capital

Q12: ***If appropriate, please can you provide a list of all capital instruments used by partnerships and Limited Liability Partnerships (LLPs) that, in your opinion, satisfy the criteria outlined in article 28 of the CRR?***

2.27 We received five responses to this question. We were seeking to collect a list of instruments used by partnerships and LLPs that could potentially qualify as CET 1 under CRD IV.

2.28 Two of the respondents noted that partnership and LLP capital would generally qualify as CET 1 in accordance with current provisions in GENPRU 2.2.93R, all subject to the conditions set out under article 28 of the CRR.

2.29 One respondent also proposed to revisit the texts under IFPRU 3.2.10R and 3.2.17R to see whether it was our intent to require notifications on: (1) capital issuances by firms outside the consolidated group and on (2) capital reductions by firms inside the consolidated group. We were asked by the same respondent to consider notifications only in the case of capital reductions, since otherwise – routine capital issuances would result in multiple notices of limited use.

Our response

We will consider the points on how partnership capital could qualify as CET 1 under article 28 of the CRR within our overall approach and communicate with the EBA for the purpose of its list of qualifying instruments, as specified under article 26 of the CRR.

We also confirm that:

- there is no contradiction between IFPRU 3.2.10R and IFPRU 3.2.17R, since IFPRU 3.2.10R requires a notification when a member of the same group, not being a firm itself, included in the same consolidated supervision, is intended to issue capital instruments. However, we have amended IFPRU 3.2.10R to make this clearer.

- We have incorporated guidance in IFPRU with clarifications in relation to partnership capital and LLP members' capital.

6 Idem footnote 5.

Internal models

Q13: ***Considering the legal constraints in respect of EU regulation and in the context of internal models, do you agree to our proposal to use guidance where appropriate while explaining the operational implications of the changes via targeted communications? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.30 We received eight responses to this question. All respondents agreed to our proposal.

Our response

We confirm our initial approach to use guidance where possible and to explain the operational implications of the changes via targeted communications.

Any firm considering applying to use an internal model should, in the first instance, approach their usual supervisory contact at the FCA. All model applications will be considered against the CRR text, and assessed on the individual merits of the application.

Large exposures

Q14: ***Do you agree with our approach to these exemptions? If not, which exemptions under Article 400(2) of the CRR do you believe should be included, or should not be included, which is contrary to the proposed amendments?***

2.31 We received four responses to this question. All respondents agreed to our proposals.

Our response

We confirm that we will:

- continue exercising the exemption permitted in article 400(2)(c) of the CRR
- not carry forward the exemptions under article 400(2)(g) and (h) of the CRR.

We also confirm that we do not intend to exercise the other discretions on the large exposures regime.

Q15: ***Do you agree with our proposal not to exercise the exemption in article 400(2)(k) of the Regulation? If not, please explain the reasons why not.***

2.32 We received three responses to this question. All respondents agreed to our proposal.

Our response

We confirm that we will not exercise the exemption in article 400(2)(k) of the CRR on the new exposure to assets constituting 'claims on and other exposures to recognised exchanges'.

Q16: ***Do you agree with this approach in relation to articles 395 and 396 of the Regulation? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.33 We received four responses to this question. All respondents agreed to our proposal.

Our response

We confirm our approach:

- not to lower the exposure limit from the higher of 25% of eligible capital or €150 m, as permitted by Article 395 of the Regulation
- to consider applications to exceed the €150m limit on a case-by-case basis, as permitted by Article 396 of the CRR.

Leverage

Q17: ***Do you agree with the approach of allowing firms to report a quarterly leverage ratio as opposed to the three monthly ratios averaged for the quarter? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.34 We received six responses to this question. All respondents agreed to our proposal.

2.35 One respondent added that a leverage ratio would not be appropriate for limited licence and limited activity firms since these firms were not engaged in a maturity transformation of deposits into loans.

Our response

We confirm that we will allow firms to submit their leverage ratio based on a quarterly point-in-time calculation, as opposed to the three monthly calculations averaged over the quarter, until 31 December 2017.

Feedback to specific comment

It is important to note that:

- article 6(5) of the CRR excludes limited activity and limited licence firms from the leverage requirement on an individual basis; and

- article 16 of the CRR states that, if all entities in a group of investment firms are exempt from leverage ratio on an individual basis (6(5)), the parent investment firm may choose not to apply leverage provisions on a consolidated basis.

Recognised exchanges, regulated markets and third-country stock exchanges

Q18: ***Do you agree with our proposal for an interim list of recognised exchanges pending the ESMA ITSs including our approach for third country stock exchanges? If not please propose changes to the list explaining the rationale why.***

2.36 We received six responses to this question. We were seeking to compile a list of EU recognised exchanges for the purposes of article 4.1(72) of the CRR and a list of third-country stock exchanges for the purposes of article 336(4)(a)(iii) of the CRR.

2.37 Respondents supported the proposed approach recommending that the list under:

- Article 4.1(72) of the CRR on recognised exchanges includes existing BIPRU recognised investment exchanges and recognised clearing houses

- Article 336(4)(a)(iii) of the CRR on third country exchanges includes existing BIPRU designated investment exchanges, designated clearing houses and recognised overseas investment exchanges, and those stock exchanges in third countries listed in paragraph 8 of the supervisory statement on Market Risk included in the PRA's CP 5/13

2.38 One respondent recommended that FCA and PRA share a common list so that there is a common UK approach.

Our response

We confirm that the initial lists under both provisions in the Regulation are as follows (while preparing these lists we have liaised with the PRA to ensure a consistent approach where possible):

List of recognised exchanges under article 4.1(72) of the CRR

Under this provision, a recognised exchange must have a clearing mechanism whereby certain contracts are subject to daily margin requirements that in the opinion of the CA provide appropriate protection. In CP13/6 we consulted on the basis of the existing list of UK Recognised Investment Exchanges (UK RIE). Given that the RIE list is exchange 'operators' rather than the 'UK markets' operated by those exchanges, we have updated the list to show UK markets rather than the UK operators. This is a technical amendment and does not change the substance of the policy consulted on. As clearing houses are not markets, these have not been included. The list will therefore include the following UK markets:

- ICE Futures Europe
- BATS Europe Regulated Market
- ICAP Securities & Derivatives Exchange – Main Board
- NYSE Euronext London
- London Stock Exchange – Regulated Market
- The London International Financial Futures and Options Exchange (LIFFE)
- The London Metal Exchange

For other EU exchanges, we will rely on mutual recognition as a means of including these exchanges in the UK list under of 4.1(72) of the CRR. Reliance will be placed on the opinion of the CA in another MS responsible for recognising domestic exchanges for the purposes of compliance with this CRR provision.

This list will be published on our website[7] and updated from time to time.

List of third country recognised exchanges under article 336(4)(a)(iii) of the CRR

Under this provision, we need to compile a list of FCA-recognised third country exchanges that list debt securities where a credit assessment by a nominated External Credit Assessment Institution (ECAI) is not available, but which are deemed to be of sufficient investment quality and liquidity. This means that the clearing houses and many of the exchanges proposed by respondents would not be eligible as they are for example derivative exchanges and commodity exchanges which do not list debt securities. Over-the-counter (OTC) and listed derivatives based on 'other qualifying items' can, however, be used to derive notional positions as part of calculating the net position in 'other qualifying items'.

Firms that make use of points (a) and (b) of article 336(4) of the CRR must have a documented methodology in place to assess whether assets meet the requirements in those points and shall notify this methodology to the FCA.

We will publish the list of third country exchanges that have been recognised by the FCA on our website[8] as and when firms specifically propose exchanges that list eligible debt securities. This list will be updated from time to time and any updates will also be published on our website.

Financial Reporting: FINREP

Q19: ***Do you agree that this approach in relation to the discretion in article 99 of the Regulation is proportionate and risk based? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

7 The list of recognised exchanges under article 4.1(72) of the CRR will be published on our website at www.fsa.gov.uk/register/exchanges.do.

8 The list of third country recognised exchanges under article 336(4)(a)(iii) of the CRR will be published in our website at www.fsa.gov.uk/register/exchanges.do.

2.39 We received seven responses to this question. All respondents agreed to our proposal.

2.40 Some respondents indicated that this discretion, when exercised, should be used for systemic/segmental rather than firm-specific issues, and consideration should be given to what additional information could be obtained through the introduction of FINREP beyond what is required generally.

Our response

We welcome the support to our proposal and confirm that we will adopt the discretion in article 99(6) of the Regulation, but in line with our pragmatic and proportionate approach to CRD IV transposition. This approach includes to which firm(s)-segments we may consider adopting this discretion in the future. Also, adopting this discretion does not imply that we intend to automatically implement this discretion. The nature of this CA discretion is such that by adopting it we are retaining an option to determine if we need to extend the scope of FINREP in the future. In practice, for us to introduce this discretion, we would first have to consult with the EBA on extending the scope of IFPRU investment firms subject to FINREP.

Exposures secured by mortgages on commercial real estate property

Q20: *Do you agree with our proposal to exercise the discretions in articles 124(2) and 126(3) of the Regulation to maintain a risk weight of 100% for exposures to UK commercial real estate, as it is currently the case? If not, please explain why not and propose alternative approaches and the rationale for those approaches.*

2.41 We did not receive any objections to our proposed approach, although two respondents asked for clarification. We address these comments in our response below.

Our response

We confirm our approach to exercise the discretions in articles 124(2) and 126(3) of the Regulation.

Feedback to specific comments

One respondent suggested that the approach proposed by the FCA was not consistent with the approach proposed by the PRA. We do not agree with this assessment. The rules proposed by the PRA and FCA have the same effect. Unless the data published by the FCA under article 101 of the CRR reflecting the loss rate to UK commercial property exposures implies that a 50% risk weight is appropriate, the FCA currently expects firms to default to a 100% risk weight to these exposures. We intend to liaise with the PRA/Bank in relation to the data referred to in article 101(3) of the CRR for the UK commercial property market.

One respondent asked for clarification on whether the risk weight set by us would apply to non-EEA commercial real estate exposures, both inside and outside the EEA:

- for exposures in EEA jurisdictions, article 124(5) of the CRR states that institutions should use the risk weights determined by the competent authorities of the MS within which the exposure is based

- for exposures in non-EEA jurisdictions, the issue has been addressed through the EBA Single Rulebook Q&A service in the response to question 2013/66.[9] The EBA response states that article 124(2) of the CRR does not establish such a requirement, but CAs are still able to set higher risk weights or apply stricter criteria for exposures secured by immovable property located in third countries based on financial stability considerations – as set out in paragraphs second, third and fourth in article 124(2) of the CRR– and after consultation with the EBA in accordance with the sixth paragraph of such provision. We intend to coordinate our approach in this area with the PRA including the option of consulting on applying a rule to impose stricter criteria and / or to set a higher risk weight for exposures secured by commercial real estate in third countries in the near future.

Section 4 – Definition of 'significant institution'

2.42 This section has four questions:

Q21: ***Do you agree with our proposal to publish an objective criteria identifying which firms these policies refer to? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

Q22: ***Do you agree that the combination of these metrics sufficiently capture the size, internal organisation and nature, scope and complexity of an investment firm's activities? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

Q23: ***Do you agree that these thresholds are appropriate? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

Q24: *Do you agree with our proposal to define a firm as a 'significant' firm if it exceeds at least one of these thresholds? If not, please explain why not and propose alternative approaches and the rationale for those approaches.*

2.43 We received 14 responses to questions 21 to 24 on our proposals regarding the definition of 'significant IFPRU' firm.

9 The response to question 2013/66 in the EBA Single Rulebook Q&A service is available at: www.eba.europa.eu/single-rule-book-qa?p_p_id=questions_and_answers_WAR_questions_and_answersportlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-1&p_p_col_pos=1&p_p_col_count=2&_questions_and_answers_WAR_questions_and_answersportlet_jspPage=%2Fhtml%2Fquestions%2Fviewquestion.jsp&_questions_and_answers_WAR_questions_and_answersportlet_viewTab=1&_questions_and_answers_WAR_questions_and_answersportlet_questionId=349298&_questions_and_answers_WAR_questions_and_answersportlet_statusSearch=1#search#search.

2.44 Most respondents agreed to our proposal to use a quantitative approach as a basis for determining 'significant' IFPRU firms. Most respondents also supported our supervisory discretion to determine firms that would otherwise be 'non-significant' as 'significant' e.g. where impact factors do not adequately capture off-balance sheet derivative positions.

2.45 Since some respondents also raised specific issues regarding the components of the definition that overlap to more than one question, for clarity we decided to present the feedback and our policy decision for all these questions together in our response below.

Our response

We confirm our proposals on the definition of 'significant' institution as consulted on in CP 13/6 (Chapter 5) with the following technical adjustments:

- we have increased to £160m the threshold for total fees and commission income by updating the calibration using more current data
- to clarify the application of certain requirements associated with 'significant' firms, we have incorporated guidance in to IFPRU 1.2.9G

(Please see below for further details).

Rationale for our approach

As we prudentially regulate c. 2,400 investment firms subject to the current CRD, most of which would not be 'significant', we considered that a case-by-case approach to determine if a firm is 'significant' was not optimal. Instead, in CP13/6 we proposed the application of a definition of 'significant' IFPRU firm to determine whether the relevant requirements should apply.

We developed this definition of 'significant' through a two stage approach based on:

- a combination of objective 'base-case' quantitative thresholds
- a case-by-case judgement for a small subset of firms at the margins of being either 'significant' or non-significant IFPRU firms for some or all of the requirements

Therefore, as part of our supervisory judgement, we may deem as being 'significant' some firms that may not be caught by the quantitative thresholds. Equally, firms that may be captured by the quantitative thresholds may, subject to being granted a waiver, not be deemed 'significant' for some or all of the requirements. For this purpose, please note the guidance we have incorporated in IFPRU 1.2.9G in relation to the governance requirements associated with a firm that is 'significant'. This guidance makes explicit that upon a firm's application, we may waive/modify the fact that a firm is deemed 'significant' for the purposes of such governance requirements.

We have received feedback querying whether the fees and commission income threshold consulted on in CP 13/6 was too low. Since the fees and commission income threshold produces the graph with the shallowest slope it is therefore the measure of significance most sensitive to changes in data in terms of

identifying the point at which the slope of the curve begins to fall below 0.5. This is consistent with CP 13/6 where only 40% of the total fees and commission income across the population was captured, whilst all other thresholds covered at least 66%. Consequently we updated the calibration using more recent data. This updated calibration captured 41 firms which represents 39% of the total fees and commission income across the population, so capturing firms with annual fees and commission income in excess of £160m, at the same gradient used previously (0.5) for the upper bound (as explained in paragraph 5.7 of CP 13/6). Based on this recalibration, we have increased this threshold to £160m.

Table 1 shows the number of firms from the total FCA investment firm population subject to current CRD that would be deemed 'significant' by the application of each of the impact factors. As many firms are caught by more than one factor, in total we estimate that that there could be up to 80 firms (3%) overall that would be 'significant'.

Impact factor	Gross assets	Gross liabilities	Fees & commission	Client Money	Client assets
Threshold	£530m	£380m	£160m	£425m	£7.8bn
Number of firms	39	30	41	40	40
Coverage	68%	78%	39%	79%	83%

The quantitative thresholds use 'impact factors' that capture a range of business models and the scale of a firm's business relative to other firms prudentially regulated by the FCA. The impact factors measures the impact of failure rather than the probability of failure. This means smaller firms are unlikely to be deemed 'significant' in terms of their market impact, whereas larger firms may be more likely to be deemed so according to the relevant factors, irrespective of the particular MIFID activities and services they undertake.

Feedback to specific comments

Some respondents questioned the link between the impact factors chosen and the CRD IV reference to 'size, internal organisation and the nature, the scope and the complexity of their activities'. We agree that the quantitative impact factors imply a direct link between 'size' and 'internal organisation and the nature, the scope and the complexity of their activities'. In general, we have observed that this holds true for most business models. However, we agree that this may not be the case in all circumstances and for any exceptions it may be necessary to include some degree of supervisory judgement.

We also received some responses arguing that, given that client money and client assets are already subject to the CASS regime, they should not be used as impact factors, while others supported their use as such. In designing the impact factors we have sought to capture the range of different business models. Some investment firms with small balance sheets can hold what, by any measure, would be deemed 'significant' amounts of client money and clients assets.

A few respondents suggested alternative impact factors and some argued that more than one impact factor should be met before a firm could be deemed

'significant'. For example, the use of gross assets and gross liabilities as impact factors was questioned, with the suggestion that net assets were a better measure. One respondent proposed using net assets of £150m based on the difference between the gross assets impact factor of £530m and gross liabilities impact factor of £380m. The business model examples used to illustrate the point were:

- Inter-dealer broker back-to-back positions may be significant but are only exposed to counterparty risk. In our view, inter-dealer brokers provide a fundamental market function and one that is becoming highly concentrated amongst increasingly fewer market participants. So we do not agree that this is sufficient reason for not using gross positions as impact factors.

- Highly leveraged proprietary trading firms. We chose gross positions, rather than net positions, in order to capture leverage risk.

One respondent proposed using the number of employees setting the impact factor at 200 control function employees. We had considered using this impact factor but the data is not currently available. This will change under COREP and once we have this data we may consider revising the impact factors to include one based on the number of employees in control functions.

The five impact factors are designed to capture different business models. One respondent argued that the total assets impact factor should be calibrated using the UK Remuneration Code threshold of £15billion. Given that many of the firms caught by the total assets impact factor would also be caught by the total liabilities impact factor, in our view making this change would have little material impact. Overall, we consider up to 80 firms (i.e. 3% of the total population) to be a reasonable cut-off point between 'significant' and 'non-significant' given the high percentage coverage achieved under each impact factor. If we were to add more impact factors, as was suggested, then we might consider having to breach more than one impact factor for a firm to be deemed 'significant'. At this stage, we have concluded that adding a combination of more impact factors and having to breach more of these impact factors before being deemed 'significant' would add additional complexity without any material change in coverage.

One respondent proposed a transitional period of one year for the requirements associated with the definition of 'significant' IFPRU firm. Since the CRD IV does not provide for any transitional provision for the underlying requirements, we are not able to introduce it.

Some respondents asked about how to determine the figure used to measure against the impact factor thresholds in particular fees and incomes. The figures used in our analysis are the ones currently reported by firms to the FCA as follows:

- Total assets (FSA001 20A + FSA001 20B)
- Total liabilities (FSA001 41A)
- Total fees and commission income (FSA 002 7A)
- Total client money (CMAR 9A)
- Total client assets (CMAR 11A)

One respondent proposed setting a 'tolerance (e.g. within 10%)' so that if a firm exceeded one threshold but was not close to exceeding the others, it would not necessarily be classified as 'significant'. We have not incorporated this proposal on the basis that it would be simply a restatement of the limits.

In response to some respondents' request for clarifications, it is important to note that:

- The requirements resulting from a firm being deemed 'significant' are typically examples of best practice. Therefore, other firms may also wish to consider adopting them where appropriate.
- The concept of 'significant' firm should not be mistaken for the concept of 'systemic' firm as they are separate.

Section 5 –Prudential requirement for BIPRU firms

Q25: ***Do you agree to our proposal to exercise the discretion in article 95(2) of the CRR to retain current CRD rules in force on own funds requirements (Pillar 1) for BIPRU firms keeping the 'status quo' pending the EU-wide review of what is an appropriate prudential regime as a whole for firms in the investment sector in 2015? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

2.46 We received 20 responses to this question. While all respondents expressed their support to our proposal to exercise this discretion, some of them made suggestions with regards to the drafting and also requests for clarification in certain areas. We address these comments in our response below.

Our response

We confirm our approach to exercise the discretion in the CRR article 95(2) to retain CRD III rules (as implemented via our Handbook) on the own funds requirements (Pillar 1) for the new prudential category of 'BIPRU firms'.

This discretion was inserted during the EU legislative process in acknowledgement that CRD IV was essentially the EU implementation of Basel III for banks and pending the outcome of the Commission's review of the prudential regime for investment sector firms by the end of 2015.

Our initial pre-consultation discussions suggested that the option of not exercising the discretion at all would have led to increased non-capital costs for firms, including systems changes (change to credit risk, reporting) and tightened definition of capital (stricter deductions, removal of prudential filters).

Drafting issues and clarifications requested by respondents
Definition of a BIPRU firm

Numerous respondents commented that there was a discrepancy in CP13/6 which could lead to confusion regarding the definition of a BIPRU firm. The CP text stated that BIPRU firms would not be able to carry out MIFID investment services beyond:

(1) reception and transmission of client orders

(2) execution of client orders

(4) portfolio management

(5) investment advice

However, the amended glossary definition of a BIPRU firm was not consistent with this. This stated that a BIPRU firm would be restricted to MIFID activities (2) and/or (4). Since this was a drafting error, we have now updated the definition so that such a firm might also undertake MIFID activities (1) and/or (5).

In addition, some respondents urged us to broaden the definition of a BIPRU firm. As the definition of BIPRU firm stems directly from the CRR (i.e. from the combination of the exclusion under article 4.1(2)(c) and the discretion in article 95(2)), we are not able to amend the definition other than the clarification explained above.

Finally, some respondents asked for clarification on the definition and interaction of certain MIFID activities and services with permissions granted under FSMA. While we were not consulting on MIFID, please refer to the guidance in PERG and additional material on the CRD pages of our website for further information. We will keep these pages updated as further implementation issues arise.[10]

Q26: Do you agree to our proposal to retain current CRD rules in force on Pillar 2, Pillar 3 and systems and control requirements in SYSC (including the Remuneration Code) for BIPRU firms keeping the 'status quo' pending the EU-wide review of what is an appropriate prudential regime as a whole for firms in the investment sector in 2015? If not, please explain why not and propose alternative approaches and the rationale for those approaches.

2.47 We received 12 responses to this question. All but one respondent were in agreement with our proposed approach, which we believe minimises change and costs to firms. Some respondents raised comments which are addressed in our response below.

10 The CRD IV webpage in the FCA website is available at www.fca.org.uk/firms/markets/international-markets/eu/crd-iv.

Our response

We confirm that we will retain for BIPRU firms the current CRD rules in force on Pillar 2, Pillar 3 and systems and control requirements in SYSC (depending on the application provisions) including the Remuneration Code, but without the new CRD IV material such as limits on bonuses.

CRD IV is about strengthening prudential standards, and although relief from this was obtained for certain investment firms as an interim measure, it is not about deregulation. Indeed, taking our operational objectives as a whole, we do not necessarily believe that reducing prudential requirements at this point without proper impact analysis would be sensible. Therefore, in our view maintaining the 'status quo' for these firms is a reasonable starting point looking ahead for the Commission's review and does not prejudge the UK position in future discussions, the outcome of which cannot be predicted.

We acknowledge that as the result of the Commission's review there may be no new final EU legislation implemented until sometime after 2015. However, the Commission may issue a legislative proposal alongside its report by end 2015, and depending on its content, we could start considering proposals for domestic change to move in a similar direction in those areas outside Pillar 1 sooner.

Some respondents asked for clarification on the treatment of alternative investment managers, the definition of common platform firm, and remuneration rules. These issues have since been consulted on in CP13/9 and CP13/12.

Some respondents asked for clarification on the treatment of groups, namely for remuneration purposes. Under CP13/12, we proposed not to change the guidance in this area. However, we will consider whether it would be helpful to issue material on our website covering various practical issues that might now arise now that some groups may comprise both IFPRU and BIPRU firms.

One respondent queried the effect of having BIPRU and IFPRU firms within a group when preparing the Internal Capital Adequacy Assessment Process (ICAAP) document. We view the ICAAP as an important discipline, and see it as a risk management process. We expect this to continue for both IFPRU and BIPRU firms. Capital surcharges may not always be appropriate to mitigate various types of risk. This can be especially so for new entrants within the market, where the benefit of developing a strong risk management culture is key.

Section 6 – Treatment of existing FCA rule waivers under the Regulation

Q27: ***Do you agree to our proposal to grant CRR-based permissions with effect from 1 January 2014 to those firms currently holding an eligible waiver related to a GENPRU / BIPRU rule – listed in tables 12 and 13 – provided the conditions in paragraph 7.6 are met? If not please explain why not and propose alternative approaches and the rationale for those approaches.***

2.48 We received eight responses to this question. All respondents agreed to our proposed approach.

Our response

We confirm our approach to grant CRR-based permissions with effect from 1 January 2014 to those firms currently holding an eligible waiver related to a GENPRU / BIPRU rule – listed in the tables in IFPRU TP 1.10R and 1.11R – provided the conditions in IFPRU TP1 are met.

Section 7 – Cost benefit analysis

Q28: Do you have any comments on our cost benefit analysis?

2.49 We received six responses to this question with two comments which we address below.

Our response

One respondent indicated that:

- Given the impact on firms, the macroeconomic consequences of the proposals need to be carefully evaluated. We said in paragraph 4 of our CBA that we do not expect material macroeconomic impacts due to the effects of CRD IV on FCA investment firms as these will be mainly driven by systemically important firms and are presented in the PRA's consultation paper (CP5/13).

- The CBA does not provide a thorough analysis of the benefits for investment firms. We explained in our CBA that the main benefits from CRD IV come from increased financial stability and reduced macro-prudential risks which generally arise from the regulation of systemically important institutions. We do not believe that the FCA prudentially regulated investment firms subject to our CBA can be considered globally systemic. So just as the costs for investment firms will not be materially significant compared to those of systemically important firms, the benefits are expected to be comparably smaller. In our CBA we have identified areas where we believe the measures will reduce some of the potential market failures (please see Annex 1 to CP13/6).

One respondent indicated that the CBA appears not to cover the potential increase in costs for IFPRU firms that will not be able to use the 'simplified credit risk calculation' (currently in BIPRU 3.5) suggesting that we may consider publishing supporting material to help smaller firms to meet the obligations in IFPRU 4.2. Our CBA is focused in those CRD IV areas where we have to consult on rules. Since the current simplified credit risk calculation is no longer permitted under the CRR, which directly applies on firms, we did not make an explicit reference in the CBA. However, as indicated under our response to question 1, we intend to work with trade associations and firms to produce supporting material to help with the navigation of the new requirements.

Section 8 – National discretions

Q29: ***Do you agree with our proposed approach to the national discretions? If not, please indicate the areas of national discretion where you disagree with the FCA proposal stating your reasons and alternative proposal.***

2.50 We received eight responses to this question. All respondents agreed with our approach to the national discretions.

2.51 Two respondents asked about our proposals not to make use of the transitional provision in relation to defined benefit pension assets under article 469(1)(a) of the CRR. We also received other responses on this item under question 11, therefore we explain our approach to this subject under that question.

Our response

We welcome the support to our proposals on the exercise of national discretions.

Q30: ***Do you believe that there are any articles in the Directive or in the Regulation –not covered in Annex 3 – which would require the FCA to exercise its discretion as a CA? If so, what articles would you suggest and why?***

2.52 We received five responses to this question and there were no further suggestions of areas of national discretions not covered in Annex 3 to CP13/6.

Our response

We welcome the confirmation from respondents that have not identified further areas of national discretion other than those covered in Annex 3 to CP13/6.

3.
Feedback to CP13/9 (Chapter 16): Consequential changes to the Handbook

Introduction

3.1 This chapter summarises the responses received to our questions in Chapter 16 of CP13/9 and gives our feedback and policy decision – as appropriate. The questions are:

> ***Q16.1:*** ***Do you have any objections to any of the proposed changes to the Glossary and Handbook modules as set out in this chapter?***
>
> ***Q16.2:*** ***Do you agree that these proposed changes cover all the consequential changes necessary to ensure the organised functioning of the Handbook? If not, please provide us with information on the further changes you deem necessary indicating why.***

3.2 We received three responses. All respondents were supportive of our proposals. We address two specific comments in our response below.

Our response

We welcome the responses and confirm the content of the consequential changes to the FCA Handbook.

One respondent asked whether a firm with a RAO permission to arrange safeguarding and administration of assets would be deemed to be doing MIFID activity B1 – safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management. While we were not consulting on MIFID, please refer to the guidance in PERG and additional material on the CRD pages of our website for further information. We will keep these pages updated as further implementation issues arise.[11]

One respondent asked about the categorisation of Collective Portfolio Management Investment (CPMI) firms as either BIPRU or IFPRU firms. We have consulted on this point in CP13/12 and include our response in section 3, Chapter 3 of this PS.

11 Idem footnote 8.

4.
Feedback to CP13/12: CRD IV for Investment Firms 2 – Implementation

Introduction

4.1 This chapter summarises the responses received to CP13/12 and gives our feedback and policy decision – as appropriate. We are required under FSMA to have regard to any representations made to the proposals in the consultation, and to publish an account, in general terms, of those representations and its response to them.

4.2 We received seven responses to CP13/12. Our feedback addresses the most significant issues raised by respondents, but we have not included non-substantial or firm-specific issues that we consider are best dealt with through the relevant supervisory contact.

4.3 We arranged the responses and feedback following the same structure as in CP13/12.

Section 1 – Remuneration

4.4 We set out below our feedback to responses to questions 1 to 4 on the limits on bonuses.

4.5 It is important to note that we will also address the recommendations on remuneration in the report of the Parliamentary Commission on Banking Standards through consultation during 2014.

> ***Q1:*** ***Do you agree with our proposed approach to apply this discretion by allowing the higher percentage with shareholder approval subject to the required conditions in the proposed rules being met? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

4.6 We received six responses to this question. All respondents agreed with our proposal.

Our response

We confirm that we will apply the discretion in article 94(1)(g)(ii) of the Directive by allowing the higher percentage with shareholder approval, subject to meeting the required conditions, which we copy-out from the Directive into SYSC.

Q2: ***Do you agree with our proposed approach to exercise this discretion by allowing firms to apply a discount rate to a maximum of 25% of total variable remuneration provided the required conditions in the proposed rules are met (and subject to the future EBA guidelines – as appropriate)? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

4.7 We received six responses to this question. All respondents agreed with our proposal.

Our response

We confirm that we will exercise this discretion by allowing firms to apply a discount rate to a maximum of 25% of total variable remuneration provided the required conditions are met and subject to the future EBA guidelines – as appropriate.

Q3: ***Do you agree with our proposed approach not to exercise the national discretions to apply stricter measures on bonuses? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

4.8 We received six responses to this question. All respondents agreed with our proposal.

Our response

We confirm that we do not intend to exercise the national discretions to apply stricter measures on bonuses. These are the discretions to:

- lower the upper limit set for bonuses (article 94(1)(g)(i) and (ii) of the Directive)
- lower the maximum percentage of total variable remuneration to be discounted (article 94(1)(g)((iii) of the Directive)
- place restrictions or prohibit certain types of deferred instruments (article 94(1)(l) of the Directive).

Q4: ***Do you agree with our proposed approach to use proportionality in relation to the application of the provisions on limits on bonuses by using the existing levels in our General Guidance on Proportionality under our current implementation of the CRD III remuneration provisions through the Remuneration Code? If not, please explain why not and propose alternative approaches and the rationale for those approaches.***

4.9 We received seven responses to this question. All respondents were supportive of our proposed approach.

Our response:

We confirm our approach to use proportionality in relation to the application of the provisions on limits on bonuses by using the existing levels in our General Guidance on Proportionality under our current implementation of the CRD III remuneration provisions through the Remuneration Code. This has been implemented through changes to SYSC and the General Guidance on Proportionality in Appendix 1.

Under this approach, a firm in proportionality level 3 – for example – would be allowed to disapply the limits on bonuses based on proportionality (see paragraph 29 of General Guidance on Proportionality). However, if requested by the FCA, we would expect the senior management of such firm to be able to demonstrate why it believes it is reasonable to disapply the limits on bonuses to the firm in the light of the principle of proportionality. Please refer to paragraphs 2.13 to 2.20 of CP13/12 for more details on the use of proportionality in the context of the limits on bonuses.

Section 2 – Reporting

Q5: ***Do you agree to the introduction of a FINREP notification rule? If not, please could you suggest alternatives?***

4.10 We received two responses to this question. Both respondents agreed with our proposal.

Our response

We confirm the introduction of a notification rule so that firms that satisfy the FINREP criteria in article 99 of the CRR must notify us that they are a firm that will have to submit FINREP templates. The notification rule will help with automated scheduling of FINREP templates to affected firms. Equally this notification rules requires firms to notify us if the firm is no longer a FINREP reporting firm.

Q6: ***Do you agree with our proposals for relevant IFPRU firms to continue submitting some or all of the reporting templates FSA006, FSA018, FSA045 and the prudent valuation return? If not, please explain which reporting templates and why?***

4.11 We did not receive responses to this question.

Our response

We confirm our approach to require relevant IFPRU firms to continue submitting some or all of the reporting templates FSA006, FSA018, FSA045 and the prudent valuation return.

Q7: ***Do you agree with the changes proposed to SUP 16.12, SUP 16.16 and guidance in SUP 16 Annex 25? If not, please explain why?***

4.12 We received two responses to this question. Both respondents agreed with our proposal.

Our response

We confirm that we will implement the proposed changes to SUP 16.12, SUP 16.16 and guidance for FSA018 and FSA045 in SUP 16 Annex 25 and SUP 16 Annex 31BG.

We have consulted on the guidance to FSA018 and FSA045 (see paragraph 3.16 of CP 13/12), however firms should note that there are other similar consequential changes required to the guidance to SUP 16 Annex 25G to reflect the reporting proposals in Chapter 3 of CP 13/12. We intend to make these consequential changes in Q1 2014.

Section 3 – Consequential changes to the Handbook and process requirements for CRR permissions

Q8: ***Do you agree with the proposed consequential changes to the Glossary and Handbook modules as set out in this section? If not, please indicate what other consequential changes you deem necessary why.***

4.13 We received one response to this question which agreed with our proposal.

Our response

We confirm the content of the consequential changes to the Glossary and modules in the FCA Handbook

Section 4 – Interaction between AIFMD/UCITS and CRD IV

Q9: ***Do you agree with our proposed implementation of the consequential amendments to the prudential requirements for Collective Portfolio Management (CPM) firms and CPMI firms?***

4.14 We received one response, which welcomed our proposed consequential changes to be made as a result of CRD IV. The respondent suggested it would be helpful for the FCA to show the scope in a diagram, for example to determine whether a CPMI firm would be subject to BIPRU or IFPRU.

Our response

We confirm that we will make the proposed consequential amendments to the prudential requirements for CPM firms and CPMI firms.

To clarify the effect of the changes we have also updated the prudential classification chart that appeared as Annex 3 of the PS 13/5: Implementation of the AIFMD, and include it in this document in Annex 3.

Amendments to UPRU
We omitted to include consequential amendments for CPM firms that are subject to Prudential Sourcebook for UCITS firms (UPRU) from our consultation. In line with the Transitional Provision (TP) 5 to IPRU(INV) 11, a UCITS firm authorised on or before 21 July 2013 is allowed to continue to comply with UPRU as opposed to IPRU(INV) 11 until 22 July 2014 or the date it becomes a UK AIFM (if earlier). From 1 January 2014 the relevant provisions in the Regulation in relation to the definition of own funds (article 4(118) of the CRR) and the calculation of the fixed overheads requirement (article 97 of the CRR) will apply directly to UCITS management companies subject to UPRU. We do not think these changes are likely to have a significant impact on such firms as indicated in paragraph 15 of the CBA in CP13/12. However, for clarity we have included consequential changes to UPRU to remove any inconsistent provisions although please note that the sourcebook will be deleted in its entirety on 22 July 2014. We intend to write to affected firms to ascertain whether they are likely to be impacted.

Q10: Do you agree with our proposed amendments to the financial reporting forms for CPM firms and CPMI firms?

4.15 We received one response which agreed with our proposed changes.

Our response

We confirm that we will make the proposed amendments to the financial reporting forms for CPM firms and CPMI firms.

For clarity, we have made a small technical adjustment to the Professional Indemnity Insurance requirements under the three AIFMD forms: FIN066, FIN067 and FIN068. The purpose of these technical amendments is to facilitate firms being able to report unlimited indemnity limits for such policies – where applicable.

Section 5 – Cost benefit analysis

Remuneration

Q11: ***Do you have any comments on this CBA?***

4.16 We did not receive responses to this question.

Interaction between AIFMD/UCITS and CRD IV

Q12: ***Do you have any comments relating to the costs that CPMI firms may incur arising from the application of either CRD III or IV to their MIFID investment business (depending on whether they are subject to the treatment for BIPRU firms or to IFPRU)? Are there additional costs or burdens for UK CPMI firms that cause a competitive imbalance with CPMI firms based in other Member States?***

4.17 We receive one response to this question. We refer to the comment in the response below.

Our response

We noted that one respondent queried whether a MIFID Passport is open to a CPMI, and if it wants to passport its MIFID Activities rather than simply undertake MIFID Activities in the UK (we assume that in the latter case the respondent is referring to those carried out under article 6(4) AIFMD or article 6(3) UCITS Directive). While we were not consulting on this point as it does not concern the transposition of CRD IV, please refer to the additional material on the AIFMD pages of the FCA website for further information. We will keep these pages updated.

Capital buffers

Q13: ***Do you have any comments on this CBA, including the CBA published in CP13/6, regarding firms affected by this issue?***

4.18 We did not receive responses to this question.

Annex 1
List of non-confidential respondents

CP13/6

We received 37 responses to this CP:

- 14 are confidential; and
- 23 are non-confidential as listed below:

1. Alternative Investment Management Association (AIMA)
2. Association of British Insurers (ABI)
3. Aviva Life Services UK LTD
4. Barclays PLC
5. Beavis Morgan
6. Compliancy Services UK LLP
7. Eversheds LLP
8. Investment Management Association (IMA)
9. Jefferies International LTD
10. Man Group PLC
11. Managed Funds Association
12. Northern Trust
13. Newton Investment Management
14. PricewaterhouseCoopers (PWC)
15. Resource Global Professionals (RGP)
16. Royal Bank of Scotland (RBS)
17. Sesame Bankhall Group

18. Tullett Prebon Group
19. Virgin Money Holdings (UK) LTD
20. Wealth Management Association (former APCIMS)
21. Wholesale Markets Brokers' Association
22. London Energy Brokers Association
23. Zurich UK Life

CP13/9 (Chapter 16)

We received three responses for this CP, all non-confidential as listed below:

1. Kinetic Partners LLP
2. Resource Global Professionals (RGP)
3. Investment Management Association (IMA)

CP13/12

We received seven responses for this CP:

- Five are confidential; and
- Two non-confidential which are listed below:

1. Investment Management Association (IMA)
2. European Principal Traders Association

Annex 2
Table with transitional provisions on capital

Transitional provisions with timetable from 2014 to 2017

CRR article	Transitional Provision Issue	Relevant CRR Article for transition percentage rate	From Jan 2014	From Jan 2015	From Jan 2016	From Jan 2017
465 (1)(a)	CET 1 ratio (see Article 92(1)(a))	465(1)(a)	4%	4.5%	-	-
465 (1)(b)	Tier 1 ratio (see Article 92(1)(b)	465(1)(b)	5.5%	6%	-	-
467(1)	Recognition of Unrealised losses measured at fair value (see Article 35)	467(2)	20%	40%	60%	80%
468(1)	Recognition of unrealised gains measured at fair value (see Article 35)	468(2)	100%	60%	40%	20%
468(4)	Unrealised gains and losses measured at fair value from derivative liabilities on own credit risk(see Article 33(1)(c))	478(1)	20%	40%	60%	80%
469 (1)(a)	Deductions from CET1: losses for the current financial year (see Article 36(1)(a))	478(1)	100%	100%	100%	100%
469 (1)(a)	Deductions from CET1: intangible assets (see Article 36(1)(b))	478(1)	20%	40%	60%	80%
469 (1)(a)	Deductions from CET1: IRB losses (see Article 36(1)(d))	478(1)	20%	40%	60%	80%
469(1)(a)	Deductions from CET1: DB pension assets (see Article 36(1) (e))	478(1)	100%	100%	100%	100%
469 (1)(a)	Deductions from CET1: holdings of own shares (see Article 36(1)(f))	478(1)	20%	40%	60%	80%
469(1)(a)	Deductions from CET1: reciprocal cross holdings (see Article 36(1)(g))	478(1)	20%	40%	60%	80%
469 (1)(a)	Deductions from CET1: non-significant holdings (see Article 36(1)(h))	478(1)	20%	40%	60%	80%
469 (1)(c)	Deductions from CET1: DTAs (see Article 36(1)(c))	478(1) for DTAs that did not exist prior to 1 January 2014	20%	40%	60%	80%

Transitional provisions with timetable from 2014 to 2017

CRR article	Transitional Provision Issue	Relevant CRR Article for transition percentage rate	From Jan 2014	From Jan 2015	From Jan 2016	From Jan 2017
469 (1)(c)	Deductions from CET1: significant holdings (see Article 36(1)(i))	478(1)	100%	100%	100%	100%
474(a)	Deductions from Additional Tier 1 items (see Article 56)	478(1)	20%	40%	60%	80%
476(a)	Deductions from Tier 2 items (see Article 66)	478(1)	20%	40%	60%	80%
479(2)	Recognition in consolidated CET 1 capital of instruments that do not qualify as minority interests (see Title II of Part 2)	479(3)	0%	0%	0%	0%
480(1)	Recognition in consolidated own funds of minority interests and qualifying AT1 and T2 (see Articles 84(1)(b), 85(1)(b) and 87(1)(b))	480(2)	0.2	0.4	0.6	0.8
481(1)	Additional filters and deductions	481(3)	0%	0%	0%	0%

Transitional provisions with timetable 2014 to 2024

CRR article	Transitional Provision Issue	Relevant CRR Article for transition percentage rate	Timetable – From January of each of the following years	Rate
486	Limit for Grandfathering items	486(3)	2014	80%
			2015	70%
			2016	60%
			2017	50%
			2018	40%
			2019	30%
			2020	20%
			2021	10%
469(1) (c)	Deductions from CET1: DTAs (see Article 36(1)(c))	478(2) for DTAs that existed prior to 1 January 2014	2014	0%
			2015	10%
			2016	20%
			2017	30%
			2018	40%
			2019	50%
			2020	60%
			2021	70%
			2022	80%
			2023	90%
			2024	100%

Annex 3
Prudential classification for UK investment fund managers (shown in Maroon)

Type of fund / Type of fund manager		CIS[1]			Non-CIS AIF[2] (e.g. companies)	
		Residual CIS[3]	UCITS[4]	AIF		
				Authorised AIF (NURS and QIS)[5]	Unauthorised AIF: Unregulated CIS (UCIS)	Unauthorised AIF: Externally managed non-CIS AIF
Fund management activities only	Above the AIFMD threshold[7]	Investment management firm IPRU(INV) 5	UCITS firm	Full-scope UK AIFM		
			Collective portfolio management (CPM) firm – IPRU(INV) 11			
	Below the AIFMD threshold		UCITS firm	Small authorised UK AIFM		Small registered UK AIFM
			Collective portfolio management (CPM) firm IPRU(INV) 11	Investment management firm IPRU(INV) 5		No prudential requirements apply as a result of AIFMD[8]
Fund management activities and MiFID activities[9]	Above the AIFMD threshold	MiFID investment firm GENPRU/ BIPRU or IFPRU	UCITS investment firm	AIFM investment firm[10]		Not applicable[11]
			Collective portfolio management investment (CPMI) firm IPRU(INV) 11 and GENPRU/BIPRU or IFPRU[12]			
	Below the AIFMD threshold		UCITS investment firm	Small authorised UK AIFM		Small registered UK AIFM
			CPMI firm IPRU(INV) 11 and GENPRU/ BIPRU or IFPRUX[12]	MiFID investment firm GENPRU/BIPRU or IFPRU[12]		

Notes

1 A CIS is a collective investment scheme (as defined in s.235 FSMA).

2 A non-CIS AIF is an alternative investment fund (AIF) that is not a collective investment scheme (CIS).

3 A residual CIS is an arrangement which falls within the definition of a collective investment scheme in s.235 FSMA, but which is not a UCITS or an AIF.

4 A firm can manage both UCITS and AIFs (provided it has permission to do so), in which case it will either be a CPM firm or a CPMI firm depending on whether it undertakes MIFID activities in addition to its fund management activities.

5 A firm can manage both authorised and unauthorised AIFs (provided it has permission to do so), in which case it will either be a CPM firm or a CPMI firm depending on whether it undertakes MIFID activities in addition to its fund management activities.

6 To simplify matters, it has been assumed for the purposes of this table that an internally managed AIF will not be structured as a collective investment scheme.

7 AIFMD sets a threshold of assets under management for an AIFM at (i) €100m for leveraged AIFs or (ii) €500m for unleveraged AIFs with no redemptions for 5 years. These thresholds are only relevant for AIFs. An AIFM below the threshold is able to opt-in to become a full-scope UK AIFM in which case it is subject to the requirements applicable to an above-threshold AIFM in the table.

8 No prudential requirements apply to a small registered UK AIFM as a result of its activities as an AIFM.

9 AIFMs above the threshold and UCITS management companies are limited in the MIFID activities they may perform by Article 6(4) AIFMD and Article 6(3) of the UCITS Directive. AIFMs below the threshold are not limited in the MIFID activities they may perform by AIFMD and may perform any MIFID activity provided they have permission to do so.

10 A UK AIFM investment firm is a full-scope UK AIFM that is authorised to provide the additional MIFID activities set out in Article 6(4) AIFMD.

11 An internally managed AIF that is above the threshold (or which has opted-in to become a full-scope UK AIFM) is not allowed to carry out any activities other than the internal management of the AIF (see Article 6(3) AIFMD) and therefore is not permitted to carry on MIFID activities.

12 A firm that carries on MIFID activities will be subject to GENPRU/BIPRU if it meets the conditions set out in article 95(2) of the EU CRR or IFPRU if not. In order to meet the conditions set out in Article 95(2) of the EU CRR the firm (i) must not be authorised to provide the ancillary service referred to in point 1 (Safekeeping and administering) of Section B of Annex I MIFID; (ii) must provide only one or more of the investment services and activities listed in points 1 (Reception and transmission), 2 (Execution of orders), 4 (Portfolio management) and 5 (Investment advice) of Section A of Annex 1 MIFID; and (iii) must not be permitted to hold money or securities belonging to its clients in relation to its MIFID business (and which for that reason may not at any time place the firm in debt with those clients).
A CPMI firm is subject to the requirements of IPRU(INV)11 and in addition to the requirements of GENPRU/BIPRU or IFPRU. See IPRU(INV) 11.6 for further details.

Appendix 1
Made rules (legal instruments) and guidance

This Appendix includes the following legal instruments and general guidance on:

General guidance on proportionality (IFPRU firms): The Remuneration Code (SYSC 19A)

General guidance on proportionality (BIPRU firms): The Remuneration Code (SYSC 19C)

Capital Requirements Directive IV Instrument 2013

Capital Requirements Directive IV (GENPRU and BIPRU Amendments) Instrument 2013

Capital Requirements Directive IV (Consequential Amendments) Instrument 2013

Capital Requirements Directive IV (Governance and Remuneration) Instrument 2013

CRD IV (Reporting) Instrument 2013

CRD (AIFMD and UCITS Consequential Amendments) Instrument 2013

GENERAL GUIDANCE ON PROPORTIONALITY:

THE REMUNERATION CODE (SYSC 19A)

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PART A: INTRODUCTION & INTERPRETATION

Introduction and Status of guidance statement

1. This statement is general *guidance* given under section 139A(1) of the Financial Services and Markets Act (FSMA). It relates to the *Remuneration Code* of *SYSC* 19A of the *Handbook*.

2. Paragraphs 13 and 14 make provision about the interpretation of this *guidance* statement. Expressions in italics either bear the meaning given in the *Handbook Glossary*, or in the table in paragraph 15.

2. This *guidance* statement has effect from 1 January 2014.

Remuneration principles proportionality rule

4. The *remuneration principles proportionality rule* is set out in *SYSC* 19A.3.3R (2).

5. The *Remuneration Code* requires (amongst other things) a *firm* to apply requirements in *SYSC* 19A.3 to *Remuneration Code staff*. The *remuneration principles proportionality rule* requires a *firm*, when establishing and applying the total *remuneration* policies for *Remuneration Code staff*, to comply with *SYSC* 19A.3 in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

Guidance on the remuneration principles proportionality rule

6. General *guidance* is given in relation to specific aspects of the *remuneration principles proportionality rule* in *SYSC* 19A.3 itself.[1]

7. Part D of this *guidance* statement provides additional general *guidance* in relation to the application of the *remuneration principles proportionality rule* to different types of *firm*.

8. Part E of this *guidance* statement provides additional general *guidance* in relation to the application of the *remuneration principles proportionality rule* to *Remuneration Code staff* who have, in relation to a given performance year, been *Remuneration Code staff* for only part of the year.

9. This *guidance* statement represents our *guidance* in a field where requirements relating to *remuneration* are being implemented within the EEA. We recognise this will be an evolving process, and intend to keep the *guidance* set out here under review.

Individual guidance

10. We may give individual *guidance* to a *firm*, either on its own initiative or on the application of the *firm*. Our policy on individual *guidance* is set out in *SUP* 9. In consequence, we may give individual *guidance* to a *firm* in relation to the *remuneration principles proportionality rule* (*SYSC* 19A.3.3R). Such *guidance* may relate to the application of the *rule* by the *firm* generally, or in specific areas.

Arrangement of guidance statement

11. This general *guidance* statement is divided into five Parts:

    (1) This Part, Part A: Introduction & interpretation.

    (2) Part B: Proportionality levels.

    (3) Part C: Division of firms into proportionality levels.

[1] The main provisions of guidance which specifically refer to the *remuneration principles proportionality rule* are *SYSC* 19A.3.34G (giving guidance in relation to *Remuneration Code staff* and certain rules on *remuneration* structures).

(4) Part D: Guidance to firms in particular proportionality levels.

(5) Part E: Guidance about part-year Remuneration Code staff.

12. It is supplemented by Appendix 1 – Supplemental guidance on dividing firms into proportionality levels.

Interpretation

13. This *guidance* statement is to be interpreted as if it was an Annex to *SYSC* 19A.3 R. In consequence, *GEN* 2 (interpreting the Handbook) applies to the interpretation of this *guidance* statement.

14. In particular, an expression in italics which is defined in the *Glossary* has the meaning given there (*GEN* 2.2.7R). Where an expression in italics is not defined in the *Glossary*, it has the meaning given by the following table:

Table 1: Glossary of terms defined in this guidance statement

Defined expression	**Definition**
group	has the meaning given in the *Glossary* under paragraph (3).
overseas Remuneration Code firm	an *overseas firm* that: (i) is not an *EEA firm;* (ii) has its head office outside the *EEA*; and (iii) would be a *building society, a bank, an investment firm* if it had been a *UK domestic firm*, had carried on all its business in the United Kingdom and had obtained whatever authorisation for doing so as required under the *Act*.
proportionality level	has the meaning given in paragraph 17, and references to *proportionality level one*, etc. are to be construed accordingly.
Remuneration Code firm	a *firm* specified in *SYSC* 19A.1.1 R(1)(a)-(c).
relevant total assets	has the meanings given in paragraph 22(3).
relevant date	has the meanings given in paragraph 22(3).
solo Remuneration Code firm	a *Remuneration Code firm* which is not part of a *group* containing one or more further *Remuneration Code firms*.

PART B: PROPORTIONALITY LEVELS

15. *SYSC* 19A.1.1R provides that the *Remuneration Code* applies to a *Remuneration Code firm* and an *overseas Remuneration Code firm,* in relation to the activities carried on from an establishment in the *UK*.

16. This *guidance* statement provides for the division of *Remuneration Code firms* into three categories:

(1) *proportionality level one*,

(2) *proportionality level two*, and

(3) *proportionality level three*

17. The process by which firms are divided into *proportionality levels* is provided in Part C (as supplemented by Appendix 1), and may also depend on individual *guidance*.

18. The *proportionality levels* provide a framework for the operation of the *remuneration principles proportionality rule*. Guidance is given to firms *in* different *proportionality levels* in Part D.

PART C: PROCESS FOR DIVIDING FIRMS INTO PROPORTIONALITY LEVELS

Overview

19. This Part provides the process by which a *Remuneration Code firm* should ascertain the *proportionality level* into which it falls. Appendix 1 provides supplementary *guidance* (including examples).

20. A *Remuneration Code firm*, in order to ascertain its *proportionality level*, must first establish whether it is part of a *group* which contains one or more other *Remuneration Code firms*:

    (1) If the *firm* is not part of such a *group* (a *solo Remuneration Code firm*), its *proportionality level* will depend on its individual characteristics (as determined in accordance with paragraph 22).

    (2) If the *firm* is part of such a *group*, its *proportionality level* will depend on a two-stage process (as provided in paragraphs 23 and 24).

    (This requires all *Remuneration Code firms* that are part of the *group* to fall into the highest *proportionality level* that any individual *Remuneration Code firm* in the group would fall into on the assumption that it was a *solo Remuneration Code firm*.)

21. Individual *guidance* may vary the *proportionality level* into which a *firm* would otherwise fall under paragraphs 22 to 24.

Solo Remuneration Code firms

22. The following table shows the *proportionality level* into which a *solo Remuneration Code firm* that is an *IFPRU investment firm* or an *overseas Remuneration Code firm* falls:

    (1) A *firm* of the description given in the second column falls into the *proportionality level* listed in the first column.

    (2) Where applicable, the *firm's proportionality level* will further depend on whether it held *relevant total assets* on the *relevant date* of the amount listed in the third column of the table.

    (3) In (2) —

        (a) 'relevant total assets' means:

            (i) for *IFPRU investment firms*, the average of the firm's total assets on the firm's last three *relevant dates*; and

            (ii) for *overseas Remuneration Code firms*, the average of the firm's total assets that covered the activities of the branch operation in the *United Kingdom* on the firm's last three *relevant dates*;

        (b) 'relevant date' means:

            (i) for *IFPRU investment firms*, an accounting reference date; and

            (ii) for *overseas Remuneration Code firm* 'relevant d a t e ' means 31 December.

The limit confining *relevant total assets* to those that cover the activities of the branch operation in the UK is taken from *SUP* 16.12.3R(1)(a)(iv), which relates to a reporting requirement in relation to *non-EEA banks* (among others). We consider that a *firm* which needs to ascertain its *relevant total assets* should apply the valuation requirements set out in the *EU CRR*.

Table 2: Proportionality levels: solo Remuneration Code firms which include, but not limited to, *IFPRU Investment firms* and overseas Remuneration Code firms

Proportionality level	**Type of firm**	***Relevant total assets* on *relevant date* of firm**
Proportionality level one	*UK Bank*	Exceeding £50bn
	Building society	Exceeding £50bn
	IFPRU 730k Investment firms that is a that is a *full scope IFPRU investment firm*	Exceeding £50bn
Proportionality level two	*UK Bank*.	Exceeding £15bn but not exceeding £50bn
	Building society.	Exceeding £15bn, but not exceeding £50bn
	IFPRU 730k Investment firms that is a that is a *full scope IFPRU investment firm'*	Exceeding £15bn, but not exceeding £50bn
Proportionality level three	*UK Bank*.	Not exceeding £15bn
	Building society.	Not exceeding £15bn
	Any *full scope IFPRU Investment firms* that does not fall within *proportionality level one* or *proportionality level two* (in accordance with this Table).	Not applicable
	IFPRU limited licence firm.	
	IFPRU limited activity firm.	

Groups with more than one Remuneration Code firm

23. This paragraph applies where a *Remuneration Code firm is* part of a group containing one or more other *Remuneration Code firms*:

(1) Each *Remuneration Code firm* in the *group* must determine the *proportionality level* into which it would fall on the assumption it was a *solo Remuneration Code firm*.

(2) Where each *Remuneration Code firm* falls into the same *proportionality level* on the assumption that it was a *solo Remuneration Code firm*, each *firm* falls into that *proportionality level*.

(3) Where the *Remuneration Code firms* fall into different *proportionality levels* on the assumption that they were *solo Remuneration Code firms*, each *firm* falls into the highest *proportionality level*.

(4) For the purposes of (3), *proportionality level one* is the highest and *proportionality level three* is the lowest.

24. Appendix 1 provides examples of this approach. A *firm* which has a higher *proportionality level* as a result of the *guidance* in paragraph 23 than would have been the case had the *firm* been a *solo Remuneration Code firm* should note the scope to apply for individual *guidance* to vary its *proportionality level* (as discussed in paragraphs 5 and 6 of Appendix 1).

PART D: GUIDANCE TO FIRMS IN PARTICULAR PROPORTIONALITY LEVELS

Purpose of proportionality levels

25. In relation to the *remuneration principles proportionality rule*, the *proportionality levels* provide the following:

    (1) A framework for our supervisory approach, and a broad indication of our likely expectations.

    (2) *Guidance* on which remuneration principles may normally be disapplied under the *remuneration principles proportionality rule*.

Firms to continue to consider proportionality in their individual circumstances etc.

26. It follows from the nature of the *remuneration principles proportionality rule*, and the limited purposes noted in paragraph 25, that the *proportionality levels* do not provide comprehensive *guidance* on how the *remuneration principles proportionality rule will* apply to a particular firm. A *firm* will still need to consider the application of the *remuneration principles proportionality rule* to its individual circumstances.

27. A *firm* should bear in mind that the Remuneration Code may require different responses from *firms* that fall into the same *proportionality level*. This is illustrated by the following example:

    (1) Firm A is a global bank with *relevant total assets* of £800bn, with substantial investment banking business, foreign exchange exposures and a complex business model seeking aggressive growth. It falls into *proportionality level one*.

    (2) Firm B is a large mortgage and savings bank with *relevant total assets* of £100bn and a comparatively simple, conservative business model. It falls into *proportionality level one*.

    (3) Firm C is a large building society, with *relevant total assets* of £25bn and a comparatively simple, conservative business model. It falls into *proportionality level two*.

    (4) Remuneration Principle 8 requires, amongst other things, a *firm* to risk-adjust performance measures to take account of all types of current and future risks (*SYSC* 19A.3.22R(1)(a)).

    (5) Clearly the processes necessary to identify such risks will need to be more sophisticated for Firm A than for Firm B, despite the fact that they fall into the same *proportionality level*. Indeed, the difference in the necessary sophistication is likely to be greater as between Firm A and Firm B than as between Firm B and Firm C.

Disapplication of certain remuneration principles for firms in particular proportionality levels

28. The *CRD* can be interpreted such that it may not be necessary for certain *firms* to apply certain *remuneration* principles at all.[2]

29. In our view, it will normally be appropriate for a *firm* in *proportionality level three* to disapply under the *remuneration principles proportionality rule* one or more of the following *rules*:

    (1) retained *shares* or other instruments (*SYSC* 19A.3.47R)

    (2) deferral (*SYSC* 19A.3.49R)

[2] *CRD* Article 92(2) provides that the principles should be applied 'in a manner and to the extent that is appropriate to their size, internal organisation and the nature, the scope and complexity of their activities'.

(3) performance adjustment (*SYSC* 19A.3.51R – *SYSC* 19A.3.51A)

It may also be appropriate for:

(a) proportionality level three *full scope IFPRU investment firms* to disapply the specific ratio between fixed and variable components of total remuneration (*SYSC* 19A.3.44R (3)); and

(b) *IFPRU limited licence firms* and *IFPRU limited activity firms* to disapply, under the *remuneration principles proportionality rule*, the ratios between fixed and variable components of total remuneration (*SYSC* 19A.3.44R);

In both cases (a) and (b) above, if requested by the *FCA*, the *FCA* will expect the *firm*'s senior management to be able to demonstrate why the *firm* believes it is reasonable to disapply it in the light of the *remuneration principles proportionality rule*.

We are also of the opinion that such firms may 'take into account the specific features of their types of activities in applying the 'requirement on multi-year framework, in particular the accrual and ex-ante risk adjustment aspects of it.[3]

30. However, *firms* should also note that some *remuneration* principles set specific numerical criteria (such as on the minimum period of deferral, the minimum portion to be deferred and the minimum portion to be issued in *shares*). The following *guidance* applies where such principles apply to *Remuneration Code staff* and are not capable of disapplication under the approach set out above. In such circumstances, we do not consider that the *remuneration principles proportionality rule* permits a *firm* to apply lower numerical criteria. (For the avoidance of doubt, this *guidance* does not apply where a *firm* chooses to use deferral or issuance in shares more widely than required by *SYSC* 19A.3, for example in order to comply with the *Remuneration Code general requirement*).

PART E: GUIDANCE ABOUT PART-YEAR REMUNERATION CODE STAFF

Introduction

31. *SYSC* 19A.3.34G provides *guidance* on when we do not generally consider it necessary for a *firm* to apply to certain *Remuneration Code staff* certain *rules* relating to *remuneration* structures. This Part provides supplementary guidance on how certain *rules* on *remuneration* structures might normally be applied to *Remuneration Code staff* who have, in relation to a given performance year, been *Remuneration Code staff* for only part of the year.

32. In giving this *guidance*, we have taken account of the *remuneration principles proportionality rule*.

Part-year Remuneration Code staff for more than three months

33. This paragraph applies where an individual (A) has, in relation to a given performance year, been *Remuneration Code staff* for a period more than three months, but less than 12 months:

(1) Sub-paragraphs (3) and (4) explain how the *guidance* in *SYSC* 19A.3.34G (as mentioned in the introduction to this Part) is to be applied in relation to A. Sub-paragraphs (5) and (6) provide that in certain circumstances it may be appropriate to apply certain *rules* to only a proportion of A's variable *remuneration*. Sub-paragraphs (7) to (9) provide examples.

(2) In this paragraph:

(a) 'relevant fraction' means the fraction derived by dividing the number of days in the given performance year for which A has been *Remuneration Code staff* by the number of days in the year;

[3] As per the FSA's Policy Statement 10/20. See link http://www.fsa.gov.uk/pubs/policy/ps10_20.pdf

(b) 'qualifying fixed *remuneration*' means A's annual fixed *remuneration* in A's capacity as *Remuneration Code staff* multiplied by the relevant fraction;

(c) 'qualifying variable *remuneration*' means:

(i) in the case where A was an *employee* of the *firm* for the whole of the given performance year, A's variable remuneration *in* relation to the performance year multiplied by the relevant fraction;

(ii) in the case where A was only ever employed in the given performance year as *Remuneration Code staff*, A's actual variable *remuneration*;

(d) 'total qualifying *remuneration*' means qualifying fixed *remuneration* added to qualifying variable *remuneration*;

(e) 'threshold amount' means £500,000 multiplied by the relevant fraction.

(3) We do not generally consider it necessary for a *firm* to apply the rules referred to in (4) where, in relation to A, the following conditions are satisfied:

(a) Condition 1 is that A's qualifying variable *remuneration* is no more than 33% of total qualifying remuneration, and

(b) Condition 2 is that A's total qualifying remuneration is no more than the threshold amount.

(4) The rules referred to in (3) are those relating to:

(a) guaranteed variable *remuneration* (*SYSC* 19A.3.40R),

(b) retained *shares* or other instruments (*SYSC* 19A.3.47R),

(c) deferral (*SYSC* 19A.3.49R), and

(d) performance adjustment (*SYSC* 19A.3.51R).

(5) Sub-paragraph (6) applies where the conditions in (3) are not satisfied and the *firm* should apply the rules referred to in (6).

(6) Where this sub-paragraph applies, we generally consider that it would be appropriate to apply the following rules to qualifying variable *remuneration* only:

(a) retained *shares* or other instruments (*SYSC* 19A.3.47R), (b)

deferral (*SYSC* 19A.3.49R), and

(c) performance adjustment (*SYSC* 19A.3.51R).

(7) The examples in (8) and (9) illustrate this *guidance*. The performance year in each case is 1 January to 31 December.

(8) Example 1:

(a) A1 is an *employee* of the *firm* through the performance year and is promoted to a *Remuneration Code staff* role with effect from 1 September. A1's previous fixed *remuneration* was £150,000. In his *Remuneration Code staff* role A1's fixed remuneration increases to £250,000. For the performance year, A1 is awarded variable *remuneration* of £130,000.

(b) The relevant fraction is 122/365. A1's qualifying fixed *remuneration* is £83,560 (£250,000 multiplied by 122/365). A1's qualifying variable remuneration is £43,452 (£130,000 multiplied by 122/365). A1'stotal qualifying remuneration *is* £ 127,012. The threshold amount is £167,120 (£500,000 multiplied by 122/365).

(c) A1's total qualifying remuneration is below the threshold amount, so condition 2 of

(3) is satisfied. But A1's qualifying variable *remuneration* is more than 33% of A1's total qualifying *remuneration*, and condition 1 of (3) is not satisfied.

(d) The rule *on* guaranteed variable remuneration applies to A1. In addition, the *rules* on retained shares and other instruments, deferral and performance adjustment must be applied to A1's qualifying variable *remuneration* of £43,452.

(9) Example 2:

(a) A2 joins the *firm* as a *Remuneration Code staff* member with effect from 1 July. A2's annual fixed remuneration is £450,000. For the period of 1 June to 31 December, A2 is awarded variable *remuneration* of £50,000.

(b) The relevant fraction is 184/365. A2's qualifying fixed *remuneration* is £226,850 (£450,000 multiplied by 184/365). A2's qualifying variable *remuneration* is £50,000 (the actual amount). A2's total qualifying remuneration *is* £276,850. The threshold amount is £252,050 (£500,000 multiplied by 184/365).

(c) A2's qualifying variable *remuneration* is not more than 33% of A2's total qualifying *remuneration*, and condition 1 of (3) is satisfied. But A2's total qualifying *remuneration* is more than the threshold amount, so condition 2 of (3) is not satisfied.

(d) The rule *on* guaranteed variable remuneration applies to A2. In addition, the *rules* on retained shares and other instruments, deferral and performance adjustment must be applied to A2's qualifying variable *remuneration* of £50,000.

Certain part-year Remuneration Code staff for three months or less

34. Paragraphs 35 and 36 apply where:

(1) an individual (B) has, in relation to a given performance year, been *Remuneration Code staff* for a period of three months or less, and

(2) an exceptional or irregular payment (such as a sign-on award) has not been or is not to be made in relation to B's appointment as *Remuneration Code staff*.

35. Where this paragraph applies, we do not generally consider it necessary to apply the following rules in relation to B for the performance year in question:

(1) retained *shares* or other instruments (*SYSC* 19A.3.47R),

(2) deferral (*SYSC* 19A.3.49R), and

(3) performance adjustment (*SYSC* 19A.3.51R).

36. Where this paragraph applies, the guidance in paragraph 33(2), (3) and (4)(a) should be applied for the purposes of determining whether or not it will generally be necessary to apply the rule on guaranteed variable *remuneration* to B (substituting in that paragraph, for references to 'A', references to 'B').

Part-year Remuneration Code staff for three months or less, but where exceptional etc. payments made

37. Paragraph 38 applies where an individual (C) has, in relation to a given performance year, been *Remuneration Code staff* for a period of three months or less, but where an exceptional or irregular payment (such as a sign-on award) has or is to be made in relation to C's appointment.

38. The guidance in paragraph 33 applies in relation to C (substituting in that paragraph, for references to 'A', references to 'C'). The amount of exceptional or irregular payment is to be added to C's qualifying variable *remuneration* without pro rating.

APPENDIX 1:SUPPLEMENTAL GUIDANCE ON DIVIDING FIRMS INTO PROPORTIONALITY LEVELS

Groups with more than one Remuneration Code firm: examples

1. The following non-exhaustive examples illustrate the operation of the guidance provided in paragraph 23 of Part C. (It should be borne in mind that in each case individual *guidance* could vary the outcome provided by the operation of the guidance provided in that paragraph.)

2. Example 1:

   (1) Firm A is the *parent undertaking* of Firm B.

   (2) Firm A is a *UK bank* that had *relevant total assets* of £800bn on its last *accounting reference date*. Firm B is a *limited activity firm*.

   (3) On the assumption that they were *solo Remuneration Code firms*, Firm A falls into *proportionality level one* and Firm B falls into *proportionality level three*.

   (4) As a result of the guidance at paragraph 23 of Part C, both Firms A and B fall into *proportionality level one*.

3. Example 2:

   (1) Firm C is the *parent undertaking* of Firm D.

   (2) Firm C is a *limited activity firm* and Firm D is a *UK bank* that had *relevant total assets* of £100bn on its last *accounting reference date*.

   (3) On the assumption that they were *solo Remuneration Code firms*, Firm C falls into *proportionality level three* and Firm D falls into *proportionality level one*.

   (4) As a result of the guidance at paragraph 23 of Part C, both Firms C and D fall into *proportionality level one*.

4. Example 3:

   (1) Company E is the *parent undertaking* of Firms F and G and Company H. Company H is the *parent undertaking* of Firm I. Firm J is a member of the group because of an *Article 12(1) consolidation relationship*.

   (2) The firms and companies have the following characteristics:

      (a) Neither Companies E nor H are *Remuneration Code firms*.

      (b) Firm F is an IFPRU 730k firm that is a full scope *IFPRU investment firm* and that had *relevant total assets* of £40bn on its last *accounting reference date*.

      (c) Firms G and J are *limited activity firms*.

      (d) Firm I is a *UK bank* that had *relevant total assets* of £10bn on its last *accounting reference date*.

   (3) On the assumption that they were *solo Remuneration Code firms*—

      (a) Firm F falls into *proportionality level two*,

      (b) Firms G and J fall into *proportionality level three*, and

      (c) Firm I falls into *proportionality level three*.

(4) As a result of the guidance at paragraph 23 of Part C, Firms F, G, I and J all fall into *proportionality level two*.

Role of individual guidance

5. Individual *guidance* may vary the *proportionality level* into which a *firm* would fall under the general *guidance* set out in Part C and supplemented by this Appendix. In consequence, the definitions and thresholds provided in Part C do not provide an immutable classification.

6. The following provide non-exhaustive high level examples of where we might consider providing individual guidance to vary a *proportionality level*:

(1) Where a *firm* was just below the threshold for a particular proportionality level (as determined in accordance with Part C), but where features of its business model or growth strategy suggest that it should fall within the higher *proportionality level*.

(2) Where a *group* of *firms* contained several *firms* falling into a common *proportionality level*, but where the aggregate prudential risk posed by the group suggested that a higher *proportionality level* was more appropriate.

(3) Where a *firm* falls into a higher proportionality level as a result of the guidance at paragraph 23 of Part C than would be the case on the assumption that it was a *solo Remuneration Code firm*, depending on the particular circumstances of the case.

GENERAL GUIDANCE ON PROPORTIONALITY:

THE REMUNERATION CODE (SYSC 19C) AND PILLAR 3 DISCLOSURES ON REMUNERATION (BIPRU 11)

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PART A: INTRODUCTION & INTERPRETATION

Introduction

Status of guidance statement

1. This statement is general *guidance* given under section 139A(1) of the Financial Services and Markets Act (FSMA). It relates both to:

   (1) the *BIPRU Remuneration Code* of *SYSC* 19C of the *FCA Handbook*, and

   (2) the requirement to make Pillar 3 disclosures in relation to *remuneration* (in accordance with *BIPRU* 11 of the *Handbook*).

2. Paragraphs 14 and 15 make provision about the interpretation of this *guidance* statement. Expressions in italics either bear the meaning given in the *Handbook Glossary*, or in the table in paragraph 15.

3. This *guidance* statement has effect from 1 January 2014.

Remuneration principles proportionality rule

4. The *BIPRU remuneration principles proportionality rule* is set out in *SYSC* 19C.3.3R (2).

5. The *BIPRU Remuneration Code* requires (amongst other things) a *firm* to apply requirements in *SYSC* 19C.3 to *BIPRU Remuneration Code staff*. The *BIPRU remuneration principles proportionality rule* requires a *firm*, when establishing and applying the total *remuneration* policies for *BIPRU Remuneration Code staff*, to comply with *SYSC* 19C.3 in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

Guidance on the remuneration principles proportionality rule

6. General *guidance* is given in relation to specific aspects of the *remuneration principles proportionality rule* in *SYSC* 19C.3 itself.[1]

7. Part C of this *guidance* statement provides additional general *guidance* in relation to the application of the *BIPRU remuneration principles proportionality rule* to *BIPRU Remuneration Code staff* who have, in relation to a given performance year, been *BIPRU Remuneration Code staff* for only part of the year.

9. This *guidance* statement represents our *guidance* in a field that may be subject to change, we intend to keep the *guidance* set out here under review.

[1] The main provisions of guidance which specifically refer to the *remuneration principles proportionality rule* are *SYSC* 19C.3.34G (giving guidance in relation to *BIPRU Remuneration Code staff* and certain rules on *remuneration* structures).

Guidance on proportionality in relation to remuneration committees and Pillar 3 remuneration disclosures

10. The *BIPRU remuneration principles proportionality rule* does not apply to the requirement to establish a *remuneration* committee or to make disclosures in relation to *remuneration* under *BIPRU* 11 (as part of Pillar 3). But these requirements are governed by similar proportionality tests, on which *guidance* is given in Parts D and E of this *guidance* statement.

Individual guidance

11. We may give individual *guidance* to a *firm*, either on its own initiative or on the application of the *firm*. Our policy on individual *guidance* is set out in *SUP* 9. In consequence, we may give individual *guidance* to a *firm* in relation to the *remuneration principles proportionality rule* (*SYSC* 19C.3.3R). Such *guidance* may relate to the application of the *rule* by the *firm* generally, or in specific areas.

Arrangement of guidance statement

12. This general *guidance* statement is divided into five Parts:
    (1) This Part, Part A: Introduction & interpretation.
    (2) Part B: Guidance to *BIPRU firms* on the application of proportionality
    (3) Part C: Guidance about part-year Remuneration Code staff.
    (4) Part D: Remuneration committees.
    (5) Part E: Pillar 3 remuneration disclosures (BIPRU 11).
13. It is supplemented by one Appendix:
    (1) Appendix 1: Pillar 3 disclosure requirements by proportionality level.

Interpretation

14. This *guidance* statement is to be interpreted as if it was an Annex to *SYSC* 19C.3 (other than Part E and Appendix 1, which are to be interpreted as if they were an Annex to *BIPRU* 11). In consequence, *GEN* 2 (interpreting the Handbook) applies to the interpretation of this *guidance* statement.
15. In particular, an expression in italics which is defined in the *Glossary* has the meaning given there (*GEN* 2.2.7R). Where an expression in italics is not defined in the *Glossary*, it has the meaning given by the following table:

Table 1: Glossary of terms defined in this guidance statement

Defined expression	Definition
group	has the meaning given in the *Glossary* under paragraph (3).
BIPRU Remuneration Code firm	a *BIPRU firm* or *third country BIPRU firm* to which the BIPRU Remuneration Code applies (in accordance with *SYSC* 19C.1.1R).

PART B: GUIDANCE TO BIPRU FIRMS ON THE APPLICATION OF PROPORTIONALITY

BIPRU firms that are part of a group

16. Where a *BIPRU Remuneration Code firm* is part of a *group* comprised only of *BIPRU Remuneration Code firms*, each *firm* should apply this guidance.

17. Where a *BIPRU Remuneration Code firm* is part of a *group* in which a *firm t*o which *SYSC* 19A applies is a member, this guidance does not apply, SYSC 19A and applicable guidance applies instead.

Disapplication of certain remuneration principles for BIPRU firms

18. It may not be necessary for *BIPRU firms* to apply *BIPRU remuneration* principles at all.

19. In our view, it will normally be appropriate for a *BIPRU firm* to disapply under the *BIPRU remuneration principles proportionality rule* the following *rules*—

    (1) retained *shares* or other instruments (*SYSC* 19C.3.47R),

    (2) deferral (*SYSC* 19C.3.49R),

    (3) performance adjustment (*SYSC* 19C.3.51R), and

    (4) the ratios between fixed and variable components of total remuneration *(SYSC* 19C.3.44R).

    BIPRU firms may 'take into account the specific features of their types of activities' in applying the 'requirement on the multi-year framework, in particular the accrual and ex-ante risk adjustment aspects of it'.[1]

20. However, *BIPRU firms* should also note that some *remuneration* principles set specific numerical criteria (such as on the minimum period of deferral, the minimum portion to be deferred and the minimum portion to be issued in *shares*). The following *guidance* applies where such principles apply to *BIPRU Remuneration Code staff* and are not capable of disapplication under the approach set out above. In such circumstances, we do not consider that the *remuneration principles proportionality rule permits* a firm *to* apply lower numerical criteria. (For the avoidance of doubt, this *guidance* does not apply where a *firm* chooses to use deferral or issuance in shares more widely than required by *SYSC* 19C.3, for example in order to comply with the BIPRU *Remuneration Code general requirement*.)

PART C: GUIDANCE ABOUT PART-YEAR BIPRU REMUNERATION CODE STAFF

Introduction

21. *SYSC* 19C.3.34G provides *guidance* on when we do not generally consider it necessary for a *firm* to apply to certain *BIPRU Remuneration Code staff* certain *rules* relating to *remuneration* structures. This Part provides supplementary guidance on how certain *rules* on *remuneration* structures might normally be applied to *BIPRU Remuneration Code staff* who have, in relation to a given performance year, been *BIPRU Remuneration Code staff* for only part of the year.

22. In giving this *guidance*, we have taken account of the *remuneration principles*

[1] As per FSA's Policy Statement 10/20. See link at http://www.fsa.gov.uk/pubs/policy/ps10_20.pdf.

proportionality rule.

Part-year Remuneration Code staff for more than three months

23. This paragraph applies where an individual (A) has, in relation to a given performance year, been *BIPRU Remuneration Code staff* for a period more than three months, but less than 12 months:

    (1) Sub-paragraphs (3) and (4) explain how the *guidance* in *SYSC* 19C.3.34G (as mentioned in the introduction to this Part) is to be applied in relation to A. Sub-paragraphs (5) and (6) provide that in certain circumstances it may be appropriate to apply certain *rules* to only a proportion of A's variable *remuneration*. Sub-paragraphs (7) to (9) provide examples.

    (2) In this paragraph:

        (a) 'relevant fraction' means the fraction derived by dividing the number of days in the given performance year for which A has been *BIPRU Remuneration Code staff* by the number of days in the year;

        (b) 'qualifying fixed *remuneration*' means A's annual fixed *remuneration* in A's capacity as *BIPRU Remuneration Code staff* multiplied by the relevant fraction;

        (c) 'qualifying variable *remuneration*' means:

            (i) in the case where A was an *employee* of the *firm* for the whole of the given performance year, A's variable *remuneration in* relation to the performance year multiplied by the relevant fraction;

            (ii) in the case where A was only ever employed in the given performance year as *BIPRU Remuneration Code staff*, A's actual variable *remuneration*;

        (d) 'total qualifying *remuneration*' means qualifying fixed *remuneration* added to qualifying variable *remuneration*;

        (e) 'threshold amount' means £500,000 multiplied by the relevant fraction.

    (3) We do not generally consider it necessary for a *firm* to apply the rules referred to in (4) where, in relation to A, the following conditions are satisfied:

        (a) Condition 1 is that A's qualifying variable *remuneration* is no more than 33% of total qualifying *remuneration*, and

        (b) Condition 2 is that A's total qualifying *remuneration* is no more than the threshold amount.

    (4) The rules referred to in (3) are those relating to:

        (a) guaranteed variable *remuneration* (*SYSC* 19C.3.40R),

        (b) retained *shares* or other instruments (*SYSC* 19C.3.47R),

        (c) deferral (*SYSC* 19C.3.49R), and

        (d) performance adjustment (*SYSC* 19C.3.51R).

(5) Sub-paragraph (6) applies where the conditions in (3) are not satisfied and the *firm* should apply the rules referred to in (6).

(6) Where this sub-paragraph applies, we generally consider that it would be appropriate to apply the following rules to qualifying variable *remuneration* only:

(a) retained *shares* or other instruments (*SYSC* 19C.3.47R),

(b) deferral (*SYSC* 19C.3.49R), and

(c) performance adjustment (*SYSC* 19C.3.51R).

(7) The examples in (8) and (9) illustrate this *guidance*. The performance year in each case is 1 January to 31 December.

(8) Example 1:

(a) A1 is an *employee* of the *firm* through the performance year and is promoted to a *BIPRU Remuneration Code staff* role with effect from 1 September. A1's previous fixed *remuneration* was £150,000. In his *BIPRU Remuneration Code staff* role A1's fixed *remuneration* increases to £250,000. For the performance year, A1 is awarded variable *remuneration* of £130,000.

(b) The relevant fraction is 122/365. A1's qualifying fixed *remuneration* is £83,560 (£250,000 multiplied by 122/365). A1's qualifying variable *remuneration* is £43,452 (£130,000 multiplied by 122/365). A1's total qualifying *remuneration* is £127,012. The threshold amount is £167,120 (£500,000 multiplied by 122/365).

(c) A1's total qualifying *remuneration* is below the threshold amount, so condition 2 of (3) is satisfied. But A1's qualifying variable *remuneration* is more than 33% of A1's total qualifying *remuneration*, and condition 1 of (3) is not satisfied.

(d) The rule *on* guaranteed variable *remuneration* applies to A1. In addition, the *rules* on retained shares and other instruments, deferral and performance adjustment must be applied to A1's qualifying variable *remuneration* of £43,452.

(9) Example 2:

(a) A2 joins the *firm* as a *BIPRU Remuneration Code staff* member with effect from 1 July. A2's annual fixed *remuneration* is £450,000. For period of 1 June to 31 December, A2 is awarded variable *remuneration* of £50,000.

(b) The relevant fraction is 184/365. A2's qualifying fixed *remuneration* is £226,850 (£450,000 multiplied by 184/365). A2's qualifying variable *remuneration* is £50,000 (the actual amount). A2's total qualifying *remuneration is* £276,850. The threshold amount is £252,050 (£500,000 multiplied by 184/365).

(c) A2's qualifying variable *remuneration* is not more than 33% of A2's total qualifying *remuneration*, and condition 1 of (3) is satisfied. But A2's total qualifying *remuneration* is more than the threshold amount, so condition 2 of (3) is not satisfied.

(d) The rule *on* guaranteed variable *remuneration* applies to A2. In addition, the *rules* on retained shares and other instruments, deferral and performance adjustment must be applied to A2's qualifying variable *remuneration* of £50,000.

Certain part-year Remuneration Code staff for three months or less

24. Paragraphs 25 and 26 apply where:

    (1) an individual (B) has, in relation to a given performance year, been *BIPRU Remuneration Code staff* for a period of three months or less, and

    (2) an exceptional or irregular payment (such as a sign-on award) has not been or is not to be made in relation to B's appointment as *BIPRU Remuneration Code staff*.

25. Where this paragraph applies, we do not generally consider it necessary to apply the following rules in relation to B for the performance year in question:

    (1) retained *shares* or other instruments (*SYSC* 19C.3.47R),

    (2) deferral (*SYSC* 19C.3.49R), and

    (3) performance adjustment (*SYSC* 19C.3.51R).

26. Where this paragraph applies, the guidance in paragraph 23(2), (3) and (4)(a) should be applied for the purposes of determining whether or not it will generally be necessary to apply the rule on guaranteed variable *remuneration* to B (substituting in that paragraph, for references to 'A', references to 'B').

Part-year Remuneration Code staff for three months or less, but where exceptional etc. payments made

27. Paragraph 28 applies where an individual (C) has, in relation to a given performance year, been *BIPRU Remuneration Code staff* for a period of three months or less, but where an exceptional or irregular payment (such as a sign-on award) has or is to be made in relation to C's appointment.

28. The guidance in paragraph 23 applies in relation to C (substituting in that paragraph, for references to 'A', references to 'C'). The amount of exceptional or irregular payment is to be added to C's qualifying variable *remuneration* without pro rating.

PART D: REMUNERATION COMMITTEES

Remuneration Committee for BIPRU firms and third country BIPRU firms

29. Remuneration Principle 4 (Governance) provides, in *SYSC* 19C.3.12R(1), that a *BIPRU firm* that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration* committee.

30. With regards to larger *BIPRU firms,* it would be desirable for a *remuneration* committee to be established under SYSC 19C.3.12R and we would normally expect such firms to do so.
    However, we accept that it may be possible for such *firms* to justify on the ground of proportionality not establishing under SYSC 19C.3.12R at solo level a *remuneration* committee of the *BIPRU Remuneration Code firm*. In such circumstances it would be necessary to show how the functions which would otherwise have been performed by such a *remuneration* committee would be discharged with sufficient authority, and with sufficient independence from those performing executive functions within the *firm*. Where, for example, members of the *governing body* of the *firm* acted together with a *group remuneration* committee to discharge these functions, we would expect as a minimum to be satisfied that the operational arrangements ensured sufficient independence from those performing executive functions at *BIPRU Remuneration Code firm* or *group* level, and allowed the *governing body* of the *firm to exercise* sufficient authority in relation to the *BIPRU Remuneration Code firm*.

PART E: PILLAR 3 REMUNERATION DISCLOSURES (BIPRU 11)

Requirement to make Pillar 3 remuneration disclosures

31. *BIPRU* 11 requires certain *Remuneration Code firms* to disclose a series of qualitative and quantitative information relating to *remuneration* (*BIPRU* 11.3 and *BIPRU* 11.5.18R).

32. *BIPRU* 11 applies only to *BIPRU firms*.

Pillar 3 remuneration disclosures & proportionality

33. Two proportionality tests apply in relation to the requirement to make Pillar 3 disclosures in relation to *remuneration*:

    (1) A *BIPRU 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* (*BIPRU* 11.5.20R(1)).

    (2) *BIPRU 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 (*BIPRU* 11.5.20R (2)).

34. In relation to the proportionality test referred to in paragraph 33(1), the *FCA* considers that a *firm* should be regarded as 'significant' if on *relevant date* a firm has *relevant total assets* exceeding £50bn.

35. In relation to the proportionality test set referred to in paragraph 33(2) the table in Appendix 1 sets out the categories of information that we consider *BIPRU firms* should typically disclose –where applicable.

APPENDIX 1: PILLAR 3 DISCLOSURE REQUIREMENTS BY PROPORTIONALITY LEVEL

***BIPRU* 11.5.18R disclosure requirement**
BIPRU 11.5.18R (1) *('information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders'*)
BIPRU 11.5.18R (2) ('*information on link between pay and performance')*
BIPRU 11.5.18R (6) ('*aggregate quantitative information on remuneration, broken down by business area')*
BIPRU 11.5.18R (7) ('a*ggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm…')*

CAPITAL REQUIREMENTS DIRECTIVE IV INSTRUMENT 2013

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 138D (Actions for damages); and
(4) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

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

Making the Prudential sourcebook for Investment Firms (IFPRU)

D. The Financial Conduct Authority makes the rules and gives the guidance in Annex A to this instrument.

Amendments to the FCA Handbook

E. The Glossary of definitions is amended in accordance with Annex B to this instrument.

F. The Senior Management, Arrangements, Systems and Controls sourcebook (SYSC) is amended in accordance with Annex C to this instrument.

Notes

G. In Annex A to this instrument, the "notes" (indicated by "**Note:**") are included for the convenience of readers but do not form part of the legislative text.

Citation

H. This instrument may be cited as the Capital Requirements Directive IV Instrument 2013.

I. The sourcebook in Annex A to this instrument may be cited as the Prudential sourcebook for Investment Firms (or IFPRU).

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Prudential sourcebook for Investment Firms (IFPRU)

In this Annex, all the text is new and is not underlined.

Insert the following new sourcebook, the Prudential sourcebook for Investment Firms (IFPRU), after the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

1 Application

1.1 Application and Purpose

Application

1.1.1 G There is no overall application for *IFPRU*. Each chapter or section has its own application statement. However, *IFPRU* broadly applies in the following manner:

(1) only *IFPRU* 7 (Liquidity) and *IFPRU* 9 (Public disclosure) apply to an *exempt IFPRU commodities firm* and *IFPRU* 8.1 (Prudential consolidation) may apply subject to the conditions in that section; and

(2) other than in (1), the whole of *IFPRU* applies to an *IFPRU investment firm*.

1.1.2 R *IFPRU* applies to a *firm* for the whole of its business, except where a particular provision provides for a narrower scope.

1.1.3 G (1) *IFPRU* applies to a *collective portfolio management investment firm* that is an *IFPRU investment firm* in parallel with *IPRU(INV)* 11 (see *IPRU(INV)* 11.6).

(2) Generally, *IFPRU* only applies to a *collective portfolio management investment firm's designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However, *IFPRU* 2.2 (Internal capital adequacy assessment process) and *IFPRU* 2.3(Supervisory review and evaluation process: Internal capital adequacy standards) apply to the whole of its business.

Purpose

1.1.4 G (1) The purpose of *IFPRU* is to implement, in part, *CRD* and certain national discretions afforded to the *FCA* as *competent authority* under *EU CRR*.

(2) Save as provided in the *Glossary*, any expression in the *Handbook* for the purpose of *IFPRU* which is defined or used in *EU CRR* shall have

the meaning given by, or used in, those Regulations.

Exclusion of certain types of firms

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

(1) an *incoming EEA firm*;

(2) an *incoming Treaty firm*;

(3) any other *overseas firm*;

(4) a *designated investment firm*;

(5) a *BIPRU firm*;

(6) an *insurer*; and

(7) an *ICVC*.

Types of IFPRU investment firm

1.1.6 R An *IFPRU investment firm* includes a *collective portfolio management investment firm* that is not excluded under *IFPRU* 1.1.5R (Exclusion of certain types of firms).

1.1.7 G In accordance with articles 95 and 96 of *EU CRR*, *IFPRU investment firms* are divided into the following categories:

(1) *full-scope IFPRU investment firm*;

(2) *IFPRU limited licence firm*; and

(3) *IFPRU limited activity firm*.

Alternative classification of IFPRU investment firms

1.1.8 R *IFPRU investment firms* are divided into the following classes for the calculation of the *base own funds requirement* and any other provision of the *Handbook* that applies this classification:

(1) an *IFPRU 50K firm*;

(2) an *IFPRU 125K firm*;

(3) an *IFPRU 730K firm*; and

(4) a *collective portfolio management investment firm*.

Types of IFPRU investment firm: IFPRU 125K firm

1.1.9 R An *IFPRU 125K firm* means an *IFPRU investment firm* that satisfies the following conditions:

(1) it does not:

(a) *deal on own account*; or

(b) underwrite issues of *financial instruments* (as referred to in Section A of Annex I of *MiFID*) on a firm commitment basis;

(2) it holds clients' money or securities for *investment services* it provides or is authorised to do so;

(3) it offers one or more of the following services (all as referred to in Section A of Annex I of *MiFID*):

(a) reception and transmission of investors' orders for *financial instruments*; or

(b) the execution of investors' orders for *financial instruments*; or

(c) the management of individual portfolios of investments in *financial instruments*;

(4) it is not a *collective portfolio management investment firm*; and

(5) it does not operate a *multilateral trading facility*.

[**Note**: article 29(1) of *CRD*]

Types of IFPRU investment firm: IFPRU 50K firm

1.1.10 R An *IFPRU 50K firm* is a *IFPRU investment firm* that satisfies the following conditions:

(1) the conditions in *IFPRU* 1.1.9R(1) and (3);

(2) it does not hold clients' money or securities for *investment services* it provides and is not authorised to do so;

(3) it is not a *collective portfolio management investment firm*; and

(4) it does not operate a *multilateral trading facility*.

[**Note**: article 29(3) of *CRD*]

Types of IFPRU investment firm: IFPRU 730K firm

1.1.11 R (1) An *IFPRU investment firm* that is not a *collective portfolio management investment firm*, an *IFPRU 125K firm* or an *IFPRU 50K firm* is an *IFPRU 730K firm*.

(2) An *IFPRU investment firm* that operates a *multilateral trading facility* is an *IFPRU 730K firm*.

[**Note**: article 28(2) of *CRD*]

Meaning of dealing on own account

1.1.12 R (1) For the purpose of *IFPRU* and the *EU CRR*, *dealing on own account* means 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*, subject to (2) and (3).

(2) In accordance with article 29(2) of *CRD* (Definition of dealing on own account), 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:

(a) such *position* only arise as a result of the *investment firm's* failure to match investors' orders precisely;

(b) the total market value of all such *positions* is no higher than 15% of the *investment firm's initial capital*;

(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*;

(d) (for any other *investment firm*) it would comply with the requirements in (2)(c) if it had been an *investment firm* on the basis of the assumptions in *IFPRU* 1.1.13R(1); and

(e) such *positions* are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.

(3) In accordance with article 29(4) of *CRD*, 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).

Interpretation of the definition of types of firm and undertaking

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

(1) its head office had been in an *EEA State*; and

(2) it had carried on all its business in the *EEA* and had obtained whatever

authorisations for doing so as are required under *MiFID*.

1.1.14 G A *firm* also falls into one of the categories of an *IFPRU investment firm* listed in *IFPRU* 1.1.7G (Types of IFPRU investment firm) or *IFPRU* 1.1.8R (Alternative classification of IFPRU investment firms) if its *Part 4A permission* contains a *requirement* that it must comply with the *rules* in *IFPRU* applicable to that category of *firm*. If a *firm* is subject to such a *requirement*, and it would otherwise also fall into another category of *IFPRU investment firm*, it does not fall into that other category.

1.1.15 G For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU 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 CRR* if:

(1) it does that activity anywhere in the world; or

(2) its *permission* includes that activity; or

(3) (for an *EEA firm*) it is authorised by its *Home State regulator* to do that activity; or

(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.

1.1.16 G For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* offers any of the services referred to in articles 95 and 96 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services) if:

(1) it offers that service anywhere in the world; or

(2) any of *IFPRU* 1.1.15G(1) to (4) apply.

1.1.17 G For the purposes of the definitions in *IFPRU* and Part Three, Title I, Chapter 1, Section 2 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services), a *person* has an authorisation to do any of the activities referred to in articles 95 and 96 of the *EU CRR* (Own funds requirements for investment firms with limited authorisation to provide investment services) if any of *IFPRU* 1.1.15G(1) to (4) apply.

1.2 Significant IFPRU firm

Purpose

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

(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*);

(7) article 6(4) of the *EU CRR* on the scope of liquidity reporting on a solo basis;

(8) article 11(3) of the *EU CRR* on the scope of liquidity reporting on a consolidated basis; and

(9) article 450 of the *EU CRR* on disclosure on *remuneration*.

1.2.2 G The articles in *IFPRU* 1.2.1G do not always carry the same wording in describing what may be significant in terms of a *firm's* scope, nature, scale, internal organisation and complexity, but the articles have a general policy to restrict the application of those requirements to *institutions* which pose higher risks by virtue of broadly their size, types of business and complexity of activities. The *FCA's* policy is to apply an objective definition with pre-defined thresholds to determine which *firms* are considered as significant for the purpose of these articles. In order to clarify which *firms* these policies apply to, *IFPRU* 1.2.3R defines the factors which determine if a *firm* is a *significant IFPRU firm*.

Definition of significant IFPRU firm

1.2.3 R A *firm* is a *significant IFPRU firm* if it meets, at any time, one or more of the following conditions:

(1) its total assets exceeds £530 million;

(2) its total liabilities exceeds £380 million;

(3) the annual fees and commission income it receives in relation to the *regulated activities* carried on by the *firm* exceeds £160 million in the 12-*month* period immediately preceding the date the *firm* carries out the assessment under this *rule* on a rolling basis;

(4) the *client money* that it receives or holds exceeds £425 million; and

(5) the assets belonging to its *clients* that it holds in the course of, or connected with, its *regulated activities* exceeds £7.8 billion.

1.2.4 R (1) This *rule* defines some of the terms used in *IFPRU* 1.2.3R.

(2) "Total assets" means the *firm's* total assets:

(a) set out in the most recent relevant report submitted to the *FCA* under *SUP* 16.12 (Integrated regulatory reporting); or

(b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

(3) "Total liabilities" means the *firm's* total liabilities:

(a) set out in the most recent relevant report submitted to the *FCA* under *SUP* 16.12 (Integrated regulatory reporting); or

(b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

(4) The *client money* means the *money* that a *firm* receives or holds in the course of, or in connection with, all of the *regulated activities* defined in paragraphs (1) to (4) of the *Glossary* that it carries on:

(a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP*, as applies to the *firm* in *SUP* 16.12 (Integrated regulatory reporting); or

(b) (where the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

(5) "Assets belonging to its *clients*" means the assets to which the *custody rules* apply:

(a) as set out in the most recent client money and client asset report submitted to the *FCA* under *SUP*, as applies to the *firm* in *SUP* 16.12 (Integrated regulatory reporting); or

(b) (if the *firm* carries out the assessment under this *rule* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

1.2.5 R A *firm* must regularly assess whether it, at any time, becomes a *significant IFPRU firm*.

1.2.6 R (1) If a *firm*, at any time, becomes aware that it is likely to become a *significant IFPRU firm*, it must forthwith make arrangements to establish and have in place sound, effective and comprehensive strategies, processes and systems to achieve compliance with the requirements that apply to a *significant IFPRU firm*.

(2) The *firm* in (1) must comply with the requirements that apply to a *significant IFPRU firm* on the expiry of a period of three *months* from the date it meets any one of the conditions in *IFPRU* 1.2.3R.

1.2.7 R If a *firm* that is a *significant IFPRU firm* ceases to meet any of the conditions in *IFPRU* 1.2.3R, it must continue to comply with the *rules* and requirements applicable to a *significant IFPRU firm* until the first anniversary of the date on which the *firm* ceased to be a *significant IFPRU firm*.

1.2.8 G The *FCA* may, on a case-by-case basis, require a *firm* which does not meet any of the conditions in *IFPRU* 1.2.3R to comply with the *rules* and requirements that apply to a *significant IFPRU firm* if the *FCA* considers it appropriate to do so to meet its strategic objective or to advance one or more of its operational objectives under the *Act*.

1.2.9 G (1) A *firm* may apply to the *FCA* under section 138A of the *Act* to *waive* any one or more of the conditions in *IFPRU* 1.2.3R if it believes that one or more of the governance requirements in (2) that apply to a *significant IFPRU firm* may be disproportionate to it. In its application for such *waiver*, the *FCA* expects the *firm* to demonstrate, taking into account size, nature, scope and complexity of its activities in the context of it being a member of a *group* and the internal organisation of the *group*, that it should not be considered as significant.

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

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

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

(c) *SYSC* 7.1.18R on the risk committee; or

(d) *SYSC* 19A.3.12R on the remuneration committee.

(3) The effect of such *waiver* is that the *firm* would not be a *significant IFPRU firm* only for the purpose of the particular governance requirement in (2) that the *waiver* is expressed to apply to. For the avoidance of doubt, such *firm* would still be a *significant IFPRU firm* for the purpose of the other *rules* in the *FCA Handbook* that apply to a *significant IFPRU firm*.

1.3 Supervisory benchmarking of internal approaches for calculating own funds requirements

1.3.1 R Except for *operational risk*, a *firm* that is permitted to use *internal approaches* for the calculation of risk weighted exposure amounts or *own fund requirements* must report annually to the *FCA*:

(1) the results of the calculations of its *internal approaches* for its *exposures* or positions that are included in the benchmark portfolios; and

(2) an explanation of the methodologies used to produce those calculations in (1).

[**Note**: article 78(1) of *CRD*]

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*.

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.

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

1.4 Directions and permissions

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

1.4.2 G The reference to 'permission' in *IFPRU* 1.4.1R includes any approval, consent or agreement referred to under the *EU CRR* for which the *FCA* has been conferred powers as *competent authority* by the *EU CRR*.

1.5 Notification of FINREP reporting

1.5.1 R An *IFPRU investment firm* must notify the *FCA*:

(1) if it is, or becomes, a *FINREP firm*; and

(2) when it ceases to be a *FINREP firm*.

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*.

1.6 Actions for damages

1.6.1 R A contravention of the *rules* in *IFPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision given rise to no such right of action).

2 Supervisory processes and governance

2.1 Application and purpose

Application

2.1.1 R *IFPRU* 2 applies in the following manner:

(1) to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*; and

(2) the *general stress and scenario testing rule* (and related *rules* and *guidance*) applies only to a *significant IFPRU firm*.

Purpose

2.1.2 G This chapter implements certain provisions of *CRD* relating to governance and contains *guidance* related to Section III of Chapter 2, Title VII of *CRD* (Supervisory review and evaluation process).

2.1.3 G This section amplifies *Principle* 4, under which a *firm* must maintain adequate financial resources. It is concerned with the adequacy of the financial resources that a *firm* needs to hold in order to meet its liabilities as they fall due. These resources include both capital and liquidity resources.

2.1.4 G This section has *rules* requiring a *firm* to identify and assess risks to its ability to meet its liabilities as they fall due, how it intends to deal with those risks, and the amount and nature of financial resources that the *firm* considers necessary. *IFPRU* 2.2.43R (Documentation of risk assessment) provides that a *firm* should document that assessment. The *FCA* will review that assessment

as part of its own assessment of the adequacy of a *firm's* capital under its *supervisory review and evaluation process* (*SREP*). When forming a view of any *individual capital guidance* to be given to the *firm*, the *FCA* will also review the regulator's risk assessment and any other issues arising from day-to-day supervision.

2.1.5 G This section has *rules* requiring a *firm* to carry out appropriate stress tests and scenario analyses for the risks it has previously identified and to establish the amount of financial resources and internal capital needed in each of the circumstances and events considered in that analyses. The *FCA* will consider, as part of its *SREP*, whether the *firm* should hold a *capital planning buffer* and the amount and quality of that buffer. The *capital planning buffer* is an amount separate, though related to, the *individual capital guidance* in so far as its purpose is to ensure that a *firm* is able to continue to meet the *overall financial adequacy rule* throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions. Therefore, when forming its view on a *firm's capital planning buffer*, the *FCA* will take into account the assessment made in relation to the *firm's ICG*.

2.2 Internal capital adequacy assessment process

Adequacy of financial resources

2.2.1 R A *firm* must, at all times, maintain overall financial resources and internal capital, including *own funds* and liquidity resources which are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due.

2.2.2 G *BIPRU* 12 contains *rules* and *guidance* relating to the adequacy of a *firm's* liquidity resources. In assessing the adequacy of its liquidity resources, a *firm* should do so by reference to the *overall liquidity adequacy rule*, rather than the *overall financial adequacy rule*.

2.2.3 G The effective management of prudential risk relies on the adequacy of a *firm's* financial resources, systems and controls. These need to be assessed in relation to all the activities of the *firm* and the risks to which they give rise, and so this chapter applies to a *firm* for the whole of its business. For a *collective portfolio management investment firm*, this means that this section also applies to its activities in relation to the management of *AIFs* and/or *UCITS*.

2.2.4 G The liabilities referred to in the *overall financial adequacy rule* include a *firm's* contingent and prospective liabilities. They exclude liabilities that might arise from transactions that a *firm* has not entered into and which it could avoid (eg, by taking realistic management actions such as ceasing to transact new business after a suitable period of time has elapsed). They include liabilities or costs that arise in scenarios where the *firm* is a going concern and those where the *firm* ceases to be a going concern. They also include claims

that could be made against a *firm*, which ought to be paid in accordance with fair treatment of *customers*, even if such claims could not be legally enforced.

2.2.5 G In the light of *IPRU* 2.2.4G, a *firm* should make its assessment of adequate financial resources on realistic valuation bases for assets and liabilities, taking into account the actual amounts and timing of cash flows under realistic adverse projections.

2.2.6 G Risks may be addressed through holding capital to absorb losses that unexpectedly materialise. The ability to pay liabilities as they fall due also requires liquidity. Therefore, in assessing the adequacy of a *firm's* financial resources, both capital and liquidity needs should be considered. A *firm* should also consider the quality of its financial resources, such as the loss-absorbency of different types of capital and the time required to liquidate different types of asset.

Strategies, processes and systems

2.2.7 R A *firm* must have in place sound, effective and comprehensive strategies, processes and systems:

(1) to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources, *own funds* and internal capital that it considers adequate to cover:

(a) the nature and level of the risks to which it is, or might be, exposed;

(b) the risk in the *overall financial adequacy rule*;

(c) the risk that the *firm* might not be able to meet the obligations in Part Three of the *EU CRR* (Capital Requirements) in the future; and

(2) that enable it to identify and manage the major sources of risks referred to in (1), including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:

(a) credit and counterparty risk;

(b) *market risk*;

(c) *liquidity risk*;

(d) *operational risk*;

(e) concentration risk;

(f) residual risk;

(g) *securitisation* risk;

(h) business risk;

(i) interest rate risk, including interest-rate risk in the non-*trading book*;

(j) *risk of excessive leverage*;

(k) pension obligation risk; and

(l) group risk.

[**Note**: article 73 first paragraph and article 74(1) of *CRD*]

2.2.8 R (1) This *rule* defines some of the terms used in the *overall Pillar 2 rule*.

(2) Residual risk means the risk that *credit risk mitigation* techniques used by the *firm* prove less effective than expected.

(3) *Securitisation* risk includes the risk that the *own funds* held by a *firm* for assets which it has *securitised* are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.

(4) Business risk means any risk to a *firm* arising from:

(a) changes in its business, including:

(i) the acute risk to earnings posed by falling or volatile income;

(ii) the broader risk of a *firm's* business model or strategy proving inappropriate due to macro-economic, geopolitical, industry, regulatory or other factors; and

(iii) the risk that a *firm* may not be able to carry out its business plan and desired strategy; and

(b) its remuneration policy (see also the *Remuneration Code* which applies to *IFPRU investment firms* and the detailed application of which is set out in *SYSC* 19A.1).

(5) Pension obligation risk is the risk to a *firm* caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related *company* or otherwise). It also means the risk that the *firm* will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the *firm* considers that it needs to do so for some other reason.

(6) Interest-rate risk in the non-*trading book* means:

(a) risks related to the mismatch of re-pricing of assets and liabilities and off balance sheet short- and long-term positions ("re-pricing risk");

(b) risks arising from hedging exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions ("basis risk");

(c) risk related to the uncertainties of occurrence of transactions, for example, when expected future transactions do not equal the actual transactions ("pipeline risk"); and

(d) risks arising from consumers redeeming fixed rate products when market rates change ("optionality risk").

(7) Group risk is the risk that the financial position of a *firm* may be adversely affected by its relationships (financial or non-financial) with other entities in the same *group* or by risks which may affect the financial position of the whole *group* (eg, reputational contagion).

2.2.9 G (1) This paragraph gives *guidance* on some of the terms used in the *overall Pillar 2 rule*.

(2) In a narrow sense, business risk is the risk to a *firm* that it suffers losses because its income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might deflect a *firm* from its desired strategy and business plan. *IFPRU* 2.3.47G to *IFPRU* 2.3.54G provides further *guidance* on business risk.

(3) Interest-rate risk in the non-*trading book* is explained in *IFPRU* 2.3.39G (Interest rate risk in the non-trading book).

2.2.10 G In the *overall Pillar 2 rule*, internal capital refers to the financial resources of a *firm* which it treats as being held against the risks listed in the *overall Pillar 2 rule*. The obligation in that *rule* to assess the distribution of such capital refers, in relation to a *firm* making an assessment on a solo basis, for example, to the need to take account of circumstances where part of a *firm's* financial resources are held by a *branch* of that *firm* which are subject to restrictions on its ability to transfer that capital. An assessment of internal capital distribution might also take account of such of a *firm's* financial resources as may be ring-fenced in the event of its insolvency.

2.2.11 R As part of its obligations under the *overall Pillar 2 rule*, a *firm* must identify separately the amount of *common equity tier 1 capital*, *additional tier 1 capital* and *tier 2 capital* and each category of capital (if any) that is not eligible to form part of its *own funds* which it considers adequate for the purposes described in the *overall Pillar 2 rule*.

2.2.12 R The processes, strategies and systems required by the *overall Pillar 2 rule* must be comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

[**Note**: article 73 second paragraph (part) of *CRD*]

2.2.13 R A *firm* must:

(1) carry out regularly the assessments required by the *overall Pillar 2 rule*; and

(2) carry out regular assessments of the processes, strategies and systems required by the *overall Pillar 2 rule* to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

[**Note**: article 73 second paragraph (part) of *CRD*]

2.2.14 R As part of its obligations under the *overall Pillar 2 rule*, a *firm* must :

(1) make an assessment of the *firm*-wide impact of the risks identified in line with that *rule*, to which end a *firm* must aggregate the risks across its various business lines and units, taking appropriate account of the correlation between risks;

(2) take into account the stress tests that the *firm* is required to carry out as follows:

(a) (for a *significant IFPRU firm*) under the *general stress and scenario testing rule* (including *SYSC* 20 (Reverse stress testing));

(b) (except a *firm* in (a)) under *SYSC* 20 (Reverse stress testing);

and any stress tests that the *firm* is required to carry out under the *EU CRR*;

(3) have processes and systems that:

(a) include an assessment of how the *firm* intends to deal with each of the major sources of risk identified in line with *IPFRU* 2.2.7R(2); and

(b) take account of the impact of the diversification effects and how such effects are factored into the *firm's* systems for measuring and managing risks.

2.2.15 G Certain risks, such as systems and controls weaknesses, may not be adequately addressed by, for example, holding additional capital and a more appropriate response would be to rectify the weakness. In such circumstances, the amount of financial resources required to address these risks might be zero. However, a *firm* should consider whether holding additional capital

might be an appropriate response until the identified weaknesses are rectified. A *firm*, should, in line with *IFPRU* 2.2.43R to *IFPRU* 2.2.44R (Documentation of risk assessments), document the approaches taken to manage these risks.

2.2.16 G A *firm* should carry out assessments of the sort described in the *overall Pillar 2 rule* and *IFPRU* 2.2.13R at least annually, or more frequently if changes in the business, strategy, nature or scale of its activities or operational environment suggest that the current level of financial resources is no longer adequate. The appropriateness of the internal process, and the degree of involvement of *senior management* in the process, will be taken into account by the *FCA* when reviewing a *firm's* assessment as part of the *FCA's* own assessment of the adequacy of a *firm's* financial resources and internal capital. The processes and systems should ensure that the assessment of the adequacy of a *firm's* financial resources and internal capital is reported to its *senior management* as often as is necessary.

Credit and counterparty risk

2.2.17 R A *firm* must base credit-granting on sound and well-defined criteria and clearly establish the process for approving, amending, renewing and re-financing credits.

[**Note**: article 79(a) of *CRD*]

2.2.18 R A *firm* must have internal methodologies that:

(1) enable it to assess the credit risk of exposures to individual obligors, securities or *securitisation positions* and credit risk at the portfolio level;

(2) do not rely solely or mechanistically on external credit ratings;

(3) where its *own funds requirements* under Part Three of the *EU CRR* (Capital Requirements) are based on a rating by an *ECAI* or based on the fact that an exposure is unrated, enable the *firm* to consider other relevant information for assessing its allocation of financial resources and internal capital.

[**Note**: article 79(b) of *CRD*]

2.2.19 R A *firm* must operate through effective systems the ongoing administration and monitoring of its various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions.

[**Note**: article 79(c) of *CRD*]

2.2.20 R A *firm* must adequately diversify credit portfolios given its target markets and overall credit strategy.

[**Note**: article 79(d) of *CRD*]

Residual risk

2.2.21 R A *firm* must address and control, by means which include written policies and procedures, residual risk (see *IFPRU* 2.2.8R(2) and *IFPRU* 2.3.41G).

[**Note**: article 80 of *CRD*]

Concentration risk

2.2.22 R A *firm* must address and control, by means which include written policies and procedures, the concentration risk arising from:

(1) exposures to each counterparty, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, geographic region or from the same activity or commodity;

(2) the application of *credit risk mitigation* techniques; and

(3) risks associated with large indirect credit exposures, such as a single collateral issuer.

[**Note**: article 81 of *CRD*]

2.2.23 R In *IFPRU* 2.2.22R, the processes, strategies and systems relating to concentration risk must include those necessary to ensure compliance with Part Four of the *EU CRR* (Large exposures).

Securitisation risk

2.2.24 R A *firm* must evaluate and address through appropriate policies and procedures the risks arising from *securitisation* transactions in relation to which a *firm* is investor, *originator* or *sponsor*, including reputational risks, to ensure, in particular, that the economic substance of the transaction is fully reflected in risk assessment and management decisions.

[**Note**: article 82(1) of *CRD*]

2.2.25 R A *firm* which is an *originator* of a revolving *securitisation* transaction involving *early amortisation provisions* must have liquidity plans to address the implications of both scheduled and early amortisation.

[**Note**: article 82(2) of *CRD*]

Market risk

2.2.26 R A *firm* must implement policies and processes for the identification measurement and management of all material sources and effects of *market risks*.

[**Note**: article 83(1) of *CRD*]

2.2.27 R A *firm* must take measures against the risk of a shortage of liquidity if the short position falls before due before the long position.

[**Note**: article 83(2) of *CRD*]

2.2.28 R (1) A *firm's* financial resources and internal capital must be adequate for material *market risk* that are not subject to an *own funds requirement* under Part Three of the *EU CRR* (Capital Requirements).

(2) A *firm* which has, in calculating *own funds requirements* for position risk in accordance with Part Three, Title IV, Chapter 2 of the *EU CRR* (Own funds requirements for position risk), netted off its positions in one or more of the equities constituting a stock-index against one or more positions in the stock index future or other stock-index product, must have adequate financial resources and internal capital to cover the basis risk of loss caused by the future's or other product's value not moving fully in line with that of its constituent equities.

(3) A *firm* using the treatment in article 345 of the *EU CRR* (Underwriting: Reduction of net positions) must ensure that it holds sufficient financial resources and internal capital against the risk of loss which exists between the time of the initial commitment and the following working day.

[**Note**: article 83(3) of *CRD*]

2.2.29 R As part of its obligations under the *overall Pillar 2 rule*, a *firm* must consider whether the value adjustments and provisions taken for *positions* and portfolios in the *trading book* enable the *firm* to sell or hedge out its *positions* within a short period without incurring material losses under normal market conditions.

[**Note**: article 98(4) of *CRD*]

Interest risk arising from non-trading book activities

2.2.30 R A *firm* must implement systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect a *firm's* non-trading activities.

[**Note**: article 84 of *CRD*]

2.2.31 R (1) As part of its obligations under *the overall Pillar 2 rule*, a *firm* must carry out an evaluation of its exposure to the interest-rate risk arising from its non-trading activities.

(2) The evaluation under (1) must cover the effect of a sudden and unexpected parallel change in interest rates of 200 basis points in both directions.

(3) A *firm* must immediately notify the *FCA* if any evaluation under this *rule* suggests that, as a result of the change in interest rates described in (2), the economic value of the *firm* would decline by more than 20% of its *own funds.*

(4) A *firm* must carry out the evaluation under (1) as frequently as necessary for it to be reasonably satisfied that it has at all times a sufficient understanding of the degree to which it is exposed to the risks referred to in (1) and the nature of that exposure. In any case it must carry out those evaluations no less frequently than once a year.

[**Note**: article 98(5) of *CRD*]

Operational risk

2.2.32 R A *firm* must implement policies and processes to evaluate and manage the exposure to operational risk, including model risk and to cover low-frequency high severity events. Without prejudice to the definition of *operational risk*, a *firm* must articulate what constitutes *operational risk* for the purposes of those policies and procedures.

[**Note**: article 85(1) of *CRD*]

2.2.33 R A *firm* must have adequate contingency and business continuity plans in place aimed at ensuring that, in the case of a severe business disruption, the *firm* is able to operate on an ongoing basis and that any losses are limited.

[**Note**: article 85(2) of *CRD*]

Risk of excessive leverage

2.2.34 R (1) A *firm* must have policies and procedures in place for the identification, management and monitoring of the *risk of excessive leverage*.

(2) Those policies and procedures must include, as an indicator for *the risk of excessive leverage*, the leverage ratio determined in accordance with article 429 of the *EU CRR* (Calculation of the leverage ratio) and mismatches between assets and obligations.

[**Note**: article 87(1) of *CRD*]

2.2.35 R A *firm* must address the *risk of excessive leverage* in a precautionary manner by taking due account of potential increases in that risk caused by reductions of the *firm's own funds* through expected or realised losses, depending on the applicable accounting rules. To that end, a *firm* must be able to withstand a range of different stress events with respect to the *risk of excessive leverage*.

[**Note**: article 87(2) of *CRD*]

General stress and scenario testing

2.2.36 R The *general stress and scenario testing rule* in *IFPRU* 2.2.37R and related *rules* and *guidance* apply to a *significant IFPRU firm*.

2.2.37 R (1) As part of its obligation under the *overall Pillar 2 rule*, a *firm* that is a *significant IFPRU firm* must:

(a) for the major sources of risk identified in line with *IFPRU* 2.2.7R(2), carry out stress tests and scenario analyses that are appropriate to the nature, scale and complexity of those major sources of risk and to the nature, scale and complexity of the *firm's* business; and

(b) carry out the reverse stress testing under *SYSC* 20 (Reverse stress testing).

(2) In carrying out the stress tests and scenario analyses in (1), a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the exposure of the *firm* to those circumstances, including:

(a) circumstances and events occurring over a protracted period of time;

(b) sudden and severe events, such as market shocks or other similar events; and

(c) some combination of the circumstances and events described in (a) and (b), which may include a sudden and severe market event followed by an economic recession.

(3) In carrying out the stress tests and scenario analyses in (1), the *firm* must estimate the financial resources that it would need in order to continue to meet the *overall financial adequacy rule* and the *own funds requirements* under the obligations laid down in Part Three of the *EU CRR* (Capital requirements) in the adverse circumstances being considered.

(4) In carrying out the stress tests and scenario analyses in (1), the *firm* must assess how risks aggregate across business lines or units, any material non-linear or contingent risks and how risk correlations may increase in stressed conditions.

(5) A *firm* must carry out the stress tests and scenario analyses at least annually, unless:

(a) it is notified by the *FCA* to carry out more frequent or ad-hoc stress tests and scenario analyses; or

(b) the nature, scale and complexity of the major sources of risk identified by it under the *overall Pillar 2 rule* make it

appropriate to carry out more frequent stress tests and scenario analyses.

(6) A *firm* must report to the *FCA* the results of the stress tests and scenario analysis annually and not later than three *months* after its annual reporting date.

[**Note**: article 100 of *CRD*]

2.2.38 G To comply with the *general stress and scenario testing rule*, a *firm* should undertake a broad range of stress tests which reflect a variety of perspectives, including sensitivity analysis, scenario analysis and stress testing on an individual portfolio, as well as a *firm*-wide level.

2.2.39 G A *firm* with an IRB permission which has any material credit *exposures* excluded from its IRB models should also include these *exposures* in its stress and scenario testing to meet its obligations under the *general stress and scenario testing rule*. A *firm* without IRB permission should conduct analyses to assess risks to the credit quality of its counterparties, including any protection sellers, considering both on and off-balance sheet exposures.

2.2.40 G In carrying out the stress tests and scenario analyses under *IFPRU* 2.2.37R(1), a *firm* should also consider any impact of the adverse circumstances on its *own funds*. In particular, a *firm* should consider the capital ratios in article 92 of the *EU CRR* (Own funds requirements) where its *common equity tier 1 capital* and *additional tier 1 capital* is eroded by the event.

2.2.41 G A *firm* should assign adequate resources, including IT systems, to stress testing and scenario analysis, taking into account the stress testing techniques used, in order to accommodate different and changing stress tests at an appropriate level of granularity.

2.2.42 G For the purpose of *IFPRU* 2.2.37R(5), a *firm* should consider whether the nature of the major sources of risks identified by it, in line with *IFPRU* 2.2.7R(2) (Main requirement relating to risk strategies, processes and systems), and their possible impact on its financial resources suggest that such tests and analyses should be carried out more frequently. For instance, a sudden change in the economic outlook may prompt a *firm* to revise the parameters of some of its stress tests and scenario analyses. Similarly, if a *firm* has recently become exposed to a particular sectoral concentration, it may wish to add some stress tests and scenario analyses to reflect that concentration.

Documentation of risk assessments

2.2.43 R A *firm* must make a written record of the assessments required under this chapter. These assessments include those carried out on a consolidated basis and on an individual basis. In particular, it must make a written record of:

(1) the major sources of risk identified in accordance with the *overall Pillar 2 rule*;

(2) how it intends to deal with those risks; and

(3) details of the stress tests and scenario analyses carried out, including any assumptions made in relation to scenario design and the resulting financial resources estimated to be required in accordance with the *general stress and scenario testing rule*.

2.2.44 R A *firm* must maintain the records in *IFPRU* 2.2.43R for at least three years.

Level of application: ICAAP rules

2.2.45 R A *firm* must apply the *ICAAP rules* on an individual basis if it is not:

(1) a *subsidiary undertaking* of a *parent undertaking* incorporated in, or formed under the law of any part of, the *United Kingdom*; and

(2) a *parent undertaking*.

2.2.46 R A *firm* that is not a member of a *FCA consolidation group* must apply the *ICAAP rules* on an individual basis.

[**Note**: article 108(1) of *CRD*]

2.2.47 R A *firm* which is a *parent institution in a Member State* must comply with the *ICAAP rules* on a *consolidated basis*.

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

2.2.48 R A *firm* controlled by a *parent financial holding company in a Member State* or a *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*.

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

2.2.49 R A *firm* that is a *subsidiary* must apply the *ICAAP rules* on a *sub-consolidated 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*.

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

Extent and manner of prudential consolidation

2.2.50 R If the *ICAAP rules* apply to a *firm* on a *consolidated basis*, the *firm* must carry out consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, section 2 of the *EU CRR* (Methods for prudential consolidation) and *IFPRU* 8.1 (Prudential consolidation).

2.2.51 R For the purpose of the *ICAAP rules* as they apply on a *consolidated basis* or on a *sub-consolidated basis*:

(1) the *firm* must ensure that the *FCA consolidation group* has the processes, strategies and systems required by the *overall Pillar 2 rule*;

(2) the risks to which the *overall Pillar 2 rule* and the *general stress and scenario testing rule* refer are those risks as they apply to each member of the *FCA consolidation group*;

(3) the reference in the *overall Pillar 2 rule* to amounts and types of financial resources, *own funds* and internal capital (referred to in this *rule* as resources) must be read as being to the amounts and types that the *firm* considers should be held by the members of the *FCA consolidation group*;

(4) other references to resources must be read as being to resources of the members of the *FCA consolidation group*;

(5) the reference in the *overall Pillar 2 rule* to the distribution of resources must be read as including a reference to the distribution between members of the *FCA consolidation group*; and

(6) the reference in the *overall Pillar 2 rule* to the *overall financial adequacy rule* must be read as being to that *rule* as adjusted under *IFPRU* 2.2.63R (Application of the *overall financial adequacy rule* on a consolidated basis).

2.2.52 R (1) This *rule* relates to the assessment of the amounts, types and distribution of financial resources, *own funds* and internal capital (referred to in this *rule* as "resources") under the *overall Pillar 2 rule* as applied on a *consolidated basis* and to the assessment of diversification effects as referred to in *IFPRU* 2.2.14R(3)(b) as applied on a *consolidated basis*.

(2) A *firm* must be able to explain how it has aggregated the risks referred to in the *overall Pillar 2 rule* and the financial resources, *own funds* and internal capital required by each member of the *FCA consolidation group* and how it has taken into account any diversification benefits for the group in question.

(3) In particular, to the extent that the transferability of resources affects the assessment in (2), a *significant IFPRU firm* must be able to explain how it is satisfied that resources are transferable between members of the group in question in the stressed cases and the scenarios referred to in the *general stress and scenario testing rule*.

2.2.53 R (1) A *firm* must allocate the total amount of financial resources, *own funds* and internal capital identified as necessary under the *overall Pillar 2 rule* (as applied on a consolidated basis) between different parts of the *FCA consolidation group*. *IFPRU* 2.2.11R (Identifying different tiers

of capital) does not apply to this allocation.

(2) The *firm* must carry out the allocation in (1) in a way that adequately reflects the nature, level and distribution of the risks to which the group is subject and the effect of any diversification benefits.

2.2.54 R A *firm* must also allocate the total amount of financial resources, *own funds* and internal capital (referred to in this *rule* as "resources") identified as necessary under the *overall Pillar 2 rule* as applied on a *consolidated basis* or *sub-consolidated basis* between each *firm* which is a member of the *FCA consolidation group* on the following basis:

(1) the amount allocated to each *firm* must be decided on the basis of the principles in *IFPRU* 2.2.53R(2); and

(2) if the process in (1) were carried out for each group member, the total so allocated would equal the total amount of resources identified as necessary under the *overall Pillar 2 rule*, as applied on a *consolidated basis* or *sub-consolidated basis*.

2.2.55 G A *firm* to which the *ICAAP rules* apply on a *consolidated basis* need not prepare a *consolidated basis* assessment if such an assessment has been prepared by another member of its *FCA consolidation group*. In such cases, a *firm* may adopt such an assessment as its own. A *firm* nevertheless remains responsible for the assessment.

2.2.56 G The purpose of *IFPRU* 2.2.52R to *IFPRU* 2.2.55R is to enable the *FCA* to assess the extent, if any, to which a *firm's* assessment, calculated on a *consolidated basis*, is lower than it would be if each separate legal entity were to assess the amount of capital it would require to mitigate its risks (to the same level of confidence) were it not part of a group subject to consolidated supervision under Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation). The reason the *FCA* wishes to make this assessment is so that *individual capital guidance* which it gives is fair and comparable between different *firms* and groups. Group diversification benefits which a *firm* might assert exist can be a material consideration in a capital adequacy assessment. Understanding the methods used to aggregate the different risks (eg, the correlation assumptions) is crucial to a proper evaluation of such benefits.

2.2.57 G Whereas a single legal entity can generally use its capital to absorb losses wherever they arise, there are often practical and legal restrictions on the ability of a group to do so. For instance:

(1) capital which is held by overseas regulated *firms* may not be capable of being remitted to a *firm* in the *UK* which has suffered a loss;

(2) a *firm* which is, or likely to become, insolvent may be obliged to look to the interests of its creditors first before transferring capital to other group *companies*; and

(3) a parent *company* may have to balance the interests of its shareholders

against the protection of the creditors of a *subsidiary* which is, or might become, insolvent and may, rationally, conclude that a *subsidiary* should be allowed to fail rather than provide capital to support it.

Level of application: risk control rules

2.2.58 R The *risk control rules* apply to a *firm* on an individual basis whether or not they also apply to the *firm* on a *consolidated basis*.

[**Note**: article 109(1) (part) of *CRD*]

2.2.59 R Where a *firm* is a member of a *FCA consolidation group* or a *non-EEA 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*]

2.2.60 R Compliance with the obligations in *IFPRU* 2.2.59R must enable the *FCA consolidation group* or the *non-EEA 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*]

Level of application: overall financial adequacy rule

2.2.61 R The *overall financial adequacy rule* applies to a *firm* on an individual basis, whether or not it also applies to the *firm* on a *consolidated basis* or *sub-consolidated basis*.

2.2.62 R The *overall financial adequacy rule* applies to a *firm* on a *consolidated basis* if the *ICAAP rules* apply to it on a *consolidated basis* and applies to a *firm* on a *sub-consolidated basis* if the *ICAAP rules* apply to it on a *sub-consolidated basis*.

2.2.63 R When the *overall financial adequacy rule* applies on a *consolidated basis* or *sub-consolidated basis*, the *firm* must ensure that at all times its *FCA consolidation group* maintains overall financial resources and internal capital, including *own funds* and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that the liabilities of any members of its *FCA consolidation group* cannot be met as they fall due.

Additional guidance on stress tests and scenario analyses

2.2.64 G The *general stress and scenario testing rule* requires a *firm* to carry out stress tests and scenario analyses as part of its obligations under the *overall Pillar 2 rule*. Both stress tests and scenario analyses are undertaken by a *firm* to further a better understanding of the vulnerabilities that it faces under adverse conditions. They are based on the analysis of the impact of a range of events

of varying nature, severity and duration. These events can be financial, operational or legal or relate to any other risk that might have an economic impact on the *firm*.

2.2.65 G Stress testing typically refers to shifting the values of individual parameters that affect the financial position of a *firm* and determining the effect on the *firm's* financial position.

2.2.66 G Scenario analysis typically refers to a wider range of parameters being varied at the same time. Scenario analyses often examine the impact of adverse events on the *firm's* financial position, for example, simultaneous movements in a number of risk categories affecting all of a *firm's* business operations, such as business volumes, investment values and interest rate movements.

2.2.67 G There are three broad purposes of stress testing and scenario analysis:

(1) it can be used as a means of quantifying how much capital might be absorbed if an adverse event or events occurs (ie, a simple 'what if' approach to estimating exposure to risks), this might be a proportionate approach to risk management for an unsophisticated business;

(2) it can be used to provide a check on the outputs and accuracy of risk models, particularly in identifying non-linear effects when aggregating risks; and

(3) it can be used to explore the sensitivities in longer term business plans and how capital needs might change over time

2.2.68 G One of the main purposes of stress tests and scenario analyses under the *general stress and scenario testing rule* is to test the adequacy of overall financial resources. Scenarios need only be identified, and their impact assessed, in so far as this facilitates that purpose. In particular, the nature, depth and detail of the analysis depend, in part, upon the *firm's* capital strength and the robustness of its risk prevention and risk mitigation measures.

2.2.69 G Both stress testing and scenario analyses are forward-looking analysis techniques which seek to anticipate possible losses that might occur if an identified risk crystallises. In applying them, a *firm* should decide how far forward to look. This should depend upon:

(1) how quickly it would be able to identify events or changes in circumstances that might lead to a risk crystallising resulting in a loss; and

(2) after it has identified the event or circumstance, how quickly and effectively it could act to prevent or mitigate any loss resulting from the risk crystallising and to reduce exposure to any further adverse event or change in circumstance.

2.2.70 G Where a *firm* is exposed to *market risk*, the time horizon over which stress

tests and scenario analyses should be carried out will depend on, among other things, the maturity and liquidity of the *positions* stressed. For example, for the *market risk* arising from the holding of investments, this will depend upon:

(1) the extent to which there is a regular, open and transparent market in those assets, which would allow fluctuations in the value of the investment to be more readily and quickly identified; and

(2) the extent to which the market in those assets is sufficiently liquid (and would remain liquid in the changed circumstances contemplated in the stress test or scenario analysis) to allow the *firm*, if needed, to sell, hedge or otherwise mitigate the risks relating to its holding so as to prevent or reduce exposure to future price fluctuations. In devising stress tests and scenario analyses for *market risk*, a *firm* should also take into account the following:

(a) the *general stress and scenario testing rule* should include a regular programme of stress testing and scenario analysis of its *trading book positions*, both at the trading desk level and on a *firm*-wide basis, with the results of these tests being reviewed by *senior management* and reflected in the policies and limits the *firm* sets;

(b) the *firm's* stress testing programme should be comprehensive in both risk and *firm* coverage, and appropriate to the size and complexity of *trading book positions* held;

(c) for the purpose *IFPRU* 2.2.37R(5)(b), the frequency of stress testing of *trading book positions* should be determined by the nature of the *positions*;

(d) the stress testing should include shocks which reflect the nature of the portfolio and the time it could take to hedge out or manage risks under severe market conditions;

(e) the *firm* should have procedures in place to assess and respond to the results of the stress testing programme, in particular, stress testing should be used to evaluate the *firm's* capacity to absorb losses or to identify steps to be taken by the *firm* to reduce risk;

(f) as part of its stress testing programme, the *firm* should consider how prudent valuation requirements in article 105 of the *EU CRR* will be met in a stressed scenario.

2.2.71 G In identifying scenarios and assessing their impact, a *firm* should take into account, where material, how changes in circumstances might impact upon:

(1) the nature, scale and mix of its future activities; and

(2) the behaviour of *counterparties*, and of the *firm* itself, including the

exercise of choices (eg, options embedded in financial instruments or *contracts of insurance*).

2.2.72 G In determining whether it would have adequate financial resources in the event of each identified realistic adverse scenario, a *firm* should:

(1) only include financial resources that could reasonably be relied upon as being available in the circumstances of the identified scenario; and

(2) take account of any legal or other restriction on the use of financial resources.

Capital planning

2.2.73 G (1) In identifying an appropriate range of adverse circumstances and events in accordance with *IFPRU* 2.2.37R(2):

(a) a *firm* will need to consider the cycles it is most exposed to and whether these are general economic cycles or specific to particular markets, sectors or industries;

(b) for the purposes of *IFPRU* 2.2.37R(2)(a), the amplitude and duration of the relevant cycle should include a severe downturn scenario based on forward-looking hypothetical events, calibrated against the most adverse movements in individual risk drivers experienced over a long historical period;

(c) the adverse scenarios considered should in general be acyclical and, accordingly, the scenario should not become more severe during a downturn and less severe during an upturn. However, the *FCA* does expect scenarios to be updated with relevant new economic data on a pragmatic basis to ensure that the scenario continues to be relevant; and

(d) the adverse scenarios considered should reflect a *firm's* risk tolerance of the adverse conditions through which it expects to remain a going concern.

(2) In making the estimate required by *IFPRU* 2.2.37R(3), a *firm* should project its *own funds* and required *own funds* over a time horizon of three to five years, taking account of its business plan and the impact of relevant adverse scenarios. In making the estimate, the *firm* should consider both the *own funds* required to meet its *own funds requirements* and the *own funds* needed to meet the *overall financial adequacy rule*. Those projections should be made in a manner consistent with its risk management processes and systems in *IFPRU* 2.2.7R.

(3) In projecting its financial position over the relevant time horizon, the *firm* should:

(a) reflect how its business plan would "flex" in response to the adverse events being considered, taking into account factors such as changing consumer demand and changes to new business assumptions;

(b) consider the potential impact on its stress testing of dynamic feedback effects and second order effects of the major sources of risk identified in accordance with *IFPRU* 2.2.7R(2);

(c) estimate the effects on the *firm's* financial position of the adverse event without adjusting for management actions;

(d) separately, identify any realistic management actions that the *firm* could, and would, take to mitigate the adverse effects of the stress scenario; and

(e) estimate the effects of the stress scenario on the *firm's* financial position after taking account of realistic management actions.

(4) A *firm* should identify any realistic management actions intended to maintain or restore its capital adequacy. These could include ceasing to transact new business after a suitable period, balance sheet shrinkage, restricting distribution of profits or raising additional capital. A *firm* should reflect management actions in its projections only where it could, and would, take such actions, taking account of factors such as market conditions in the stress scenario and its effects upon the *firm's* reputation with its counterparties and investors. The combined effect on capital and retained earnings should be estimated. To assess whether prospective management actions in a stress scenario would be realistic and to determine which actions the *firm* would and could take, the *firm* should take into account any pre-conditions that might affect the value of management actions as risk mitigants and analyse the difference between the estimates in (3)(c) and (3)(e) in sufficient detail to understand the implications of taking different management actions at different times, particularly where they represent a significant divergence from the *firm's* business plan.

(5) The *firm* should document its stress testing and scenario analysis policies and procedures, as well as the results of its tests in accordance with *IFPRU* 2.2.43R to *IFPRU* 2.2.44R (Documentation of risk assessments). These records should be included within the *firm's ICAAP* submission document.

(6) The *FCA* will review the *firm's* records in (5) as part of its *SREP*. The purpose of examining these is to enable the *FCA* to judge whether a *firm* will be able to continue to meet its *own funds requirements* and the *overall financial adequacy rule* throughout the projection period.

(7) If, after taking account of realistic management actions, a *firm's* stress-testing management plan shows that the *firm's* projected *own funds* are less than those required to continue to meet its *EU CRR* or needed to

continue to meet the *overall financial adequacy rule* over the projection period, the *FCA* may require the *firm* to set out additional countervailing measures and off-setting actions to reduce such difference or to restore the *firm's* capital adequacy after the stress event.

(8) The *firm's senior management* or *governing body* should be actively involved and engaged in all relevant stages of the *firm's* stress testing and scenario analysis programme. This would include establishing an appropriate stress testing programme, reviewing the programme's implementation (including the design of scenarios) and challenging, approving and actioning the results of the stress tests.

2.2.74 G The *FCA* may formulate macroeconomic and financial market scenarios which a *firm* may use as an additional input to its *ICAAP* submission. In addition, the *FCA* may also ask a *firm* to apply specific scenarios directly in its *ICAAP* submission.

2.2.75 G A *firm* may consider scenarios in which expected future profits will provide capital reserves against future risks. However, it would only be appropriate to take into account profits that can be foreseen with a reasonable degree of certainty as arising before the risk against which they are being held could possibly arise. In estimating future reserves, a *firm* should deduct future dividend payment estimates from projections of future profits.

2.2.76 G (1) Stress and scenario analyses should, in the first instance, be aligned with the risk appetite of the *firm*, as well as the nature, scale and complexity of its business and of the risks that it bears. The calibration of the stress and scenario analyses should be reconciled to a clear statement setting out the premise upon which the *firm's* internal capital assessment under the *overall Pillar 2 rule* is based.

(2) In identifying adverse circumstances and events in line with *IFPRU* 2.2.37R(2), a *firm* should consider the results of any reverse stress testing conducted under *SYSC* 20. Reverse stress testing may be expected to provide useful information about the *firm's* vulnerabilities and variations around the most likely ruin scenarios for the purpose of meeting the *firm's* obligations under *IFPRU* 2.2.37R. In addition, such comparison may help a *firm* to assess the sensitivity of its financial position to different stress calibrations.

2.2.77 G A *firm* should use the results of its stress testing and scenario analysis not only to assess capital needs, but also to decide if measures should be put in place to minimise the adverse effect on the *firm* if the risk covered by the stress or scenario test actually materialises. Such measures might be a contingency plan or might be more concrete risk mitigation steps.

Pension obligation risk

2.2.78 G This section contains guidance on the assessment required by *IFPRU* 2.2.7R(2)(k) for a *firm* exposed to pension obligation risk as defined in *IFPRU*

2.2.8R(5)

2.2.79 G The focus of the risk assessment is on the *firm's* obligations towards the pension scheme, not of the pension scheme itself (ie, the scheme's assets and liabilities). A *firm* should include in its estimate of financial resources both its expected obligations to the pension scheme and any increase in obligations that may arise in a stress scenario.

2.2.80 G If a *firm* has a current funding obligation in excess of normal contributions or there is a risk that such a funding obligation will arise then, when calculating available capital resources, it should reverse out any accounting deficit and replace this in its capital adequacy assessment with its best estimate, calculated in discussion with the scheme's actuaries or trustees, of the cash that will need to be paid into the scheme in addition to normal contributions over the foreseeable future. This may differ from the approach taken in assessing pension scheme risks for the purposes of calculating *own funds* to meet the *own funds requirements*.

2.2.81 G A *firm* may wish to consider the following scenarios:

(1) one in which the *firm* gets into difficulties with an effect on its ability to fund the pension scheme; and

(2) one in which the pension scheme position deteriorates (eg, because investment returns fall below expected returns or because of increases in life expectancy) with an effect on the *firm's* funding obligations; taking into account the management actions the *firm* could and would take.

2.2.82 G A *firm* is expected to determine where the scope of any stress test impacts upon its pension obligation risk and estimate how the relevant measure of pension obligation risk will change in that scenario. For example, in carrying out stress tests under *IFPRU* 2.2.37R, a *firm* must consider how a stress scenario, such as an economic recession, would impact on the *firm's* current obligations towards its pension scheme and any potential increase in those obligations. Risks such as interest-rate risk or reduced investment returns may have a direct impact on a *firm's* financial position as well as an indirect impact resulting from an increase in the *firm's* pension scheme obligations. Both effects should be taken into account in a *firm's* estimate of financial resources under *IFPRU* 2.2.7R (Overall Pillar 2 rule).

2.2.83 G A *firm* should consider issues such as:

(1) the extent to which trustees of the pension scheme or a pension regulator (such as the one created under the Pensions Act 2004) can compel a certain level of contributions or a one-off payment in adverse financial situations or to meet the minimum legal requirements under the scheme's trust deed and rules or applicable laws relating to the pension scheme;

(2) whether the valuation bases used to set pension scheme contribution

rates are consistent with the *firm's* current business plans and anticipated changes in the workforce; and

(3) which valuation basis is appropriate, given the expected investment return on scheme assets and actions the *firm* can take if those returns do not materialise.

2.2.84 G A *firm* should carry out analyses only to a degree of sophistication and complexity which is commensurate with the materiality of its pension risks.

Group risk

2.2.85 G This section contain additional guidance on the assessment required by *IFPRU* 2.2.7R(2)(l) (Group risk).

2.2.86 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* 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*.

2.2.87 G A *firm* should satisfy itself that the systems (including IT) of the *FCA consolidation group* or the *non-EEA 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*, as the case may be.

2.2.88 G In performing stress tests and scenario analyses, a *firm* should take into account the risk that its *group* may have to bring back on to its consolidated balance sheet the assets and liabilities of off-balance sheet entities as a result of reputational contagion, notwithstanding the appearance of legal risk transfer.

2.2.89 G A *firm* should carry out stress tests and scenario analyses to a degree of sophistication which is commensurate with the complexity of its group and the nature of its *group* risk.

2.3 Supervisory review and evaluation process: internal capital adequacy standards

Purpose

2.3.1 G (1) *IFPRU* 2.3 sets out *guidance* on *IFPRU* 2.2 (Adequacy of financial resources) so far as it applies to an *IFPRU investment firm*. In particular, *guidance* on how a *firm* should carry out its *ICAAP*, as well as some factors the *FCA* will take into consideration when undertaking a *SREP*. The terms *ICAAP* and *SREP* are explained in *IFPRU* 2.3.3G. *IFPRU* 2.3.48R to *IFPRU* 2.2.52R are *rules* that apply to a *firm* with

an IRB permission.

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

Meaning of capital

2.3.2 G For the purpose of *IFPRU* 2.3, "capital" refers to a *firm's* financial resources, *own funds* and internal capital, all as referred to in the *overall Pillar 2 rule*.

The ICAAP and the SREP: introduction

2.3.3 G The adequacy of a *firm's* capital needs to be assessed both by a *firm* and the *FCA*. This process involves:

(1) an *internal capital adequacy assessment process* (*ICAAP*), which a *firm* is obliged to carry out in accordance with the *ICAAP rules*; and

(2) a *supervisory review and evaluation process* (*SREP*), which is conducted by the *FCA*.

The ICAAP and the SREP: the ICAAP

2.3.4 G The obligation to conduct an *ICAAP* includes requirements on a *firm* to:

(1) carry out regularly assessments of the amounts, types and distribution of financial resources, *own funds* and internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed (*IFPRU* 2.2.1 R to *IFPRU* 2.2.6G (the *overall Pillar 2 rule* and related *rules*));

(2) identify the major sources of risk to its ability to meet its liabilities as they fall due (the *overall Pillar 2 rule*);

(3) conduct stress and scenario tests (the *general stress and scenario testing rule* if it is a *significant IFPRU firm* or *SYSC* 20 (Reverse stress testing) if it is not a *significant IFPRU firm*) taking into account, for a *firm* with an IRB permission, the stress test required by the *EU CRR*;

(4) ensure that the processes, strategies and systems required by the *overall Pillar 2 rule* and used in its *ICAAP*, are both comprehensive and proportionate to the nature, scale and complexity of that *firm's* activities (*IFPRU* 2.2.13R); and

(5) document its *ICAAP* (*IFPRU* 2.2.43R to *IFPRU* 2.2.44R (Documentation of risk assessments)).

2.3.5 G Where a *firm* is a member of a group, it should base its *ICAAP* on the consolidated financial position of the group. The group assessment should

include information on diversification benefits and transferability of resources between members of the group and an apportionment of the capital required by the group as a whole to the *firm* (*IFPRU* 2.2.45G to *IFPRU* 2.2.57G (Application of IFPRU 2.2 on a solo and consolidated basis)). A *firm* may, instead of preparing the *ICAAP* itself, adopt as its *ICAAP* an assessment prepared by other group members.

2.3.6 G A *firm* should ensure that its *ICAAP* is:

(1) the responsibility of the *firm's governing body*;

(2) reported to the *firm's governing body*; and

(3) forms an integral part of the *firm's* management process and decision-making culture.

The ICAAP and the SREP: the SREP

2.3.7 G The *FCA* will review a *firm's ICAAP*, including the results of the *firm's* stress tests carried out under *IFPRU* and the *EU CRR*, as part of its *SREP*. Provided that the *FCA* is satisfied with the appropriateness of a *firm's* capital assessment, the *FCA* will take into account that *firm's ICAAP* and stress tests in its *SREP*. More material on stress tests for a *firm* with an IRB permission can be found in *IFPRU* 2.3.48R to *IFPRU* 2.3.52G.

2.3.8 G The *SREP* is a process under which the *FCA*:

(1) reviews the arrangements, strategies, processes and mechanisms implemented by a *firm* to comply with *IFPRU*, *SYSC* and with requirements imposed by or under the *EU CRR* and wider *regulatory system* and evaluates the risks to which the *firm* is, or might be, exposed;

(2) determines whether the arrangements, strategies, processes and mechanisms implemented by the *firm* and the capital held by the *firm* ensures a sound management and coverage of the risks in (1); and

(3) (if necessary) requires the *firm* to take the necessary actions or steps at an early stage to address any failure to meet the requirements in (1).

2.3.9 G As part of its *SREP*, the *FCA* may ask a *firm* to provide it with the results of that *firm's ICAAP*, together with an explanation of the process used. Where appropriate, the *FCA* will ask for additional information on the *ICAAP*.

2.3.10 G As part of its *SREP*, the *FCA* will consider whether the amount and quality of capital which a *firm* should hold to meet its *own funds requirements* in the *EU CRR* is sufficient for that *firm* to comply with the *overall financial adequacy rule*.

2.3.11 G After completing a review as part of the *SREP*, the *FCA* will normally give that *firm* individual *guidance* (*individual capital guidance*), advising it of the amount and quality of capital which it should hold to meet the *overall*

financial adequacy rule.

2.3.12 G As part of its *SREP*, the *FCA* will also consider whether a *firm* should hold a *capital planning buffer* and the amount and quality of such *capital planning buffer*. 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), as applicable. Accordingly, a *firm's capital planning buffer* should be of sufficient amount and adequate quality to allow the *firm* to continue to meet the *overall financial adequacy rule* in the face of adverse circumstances, after allowing for realistic management actions.

2.3.13 G After completing a review as part of the *SREP*, the *FCA* may notify the *firm* of the amount and quality of capital which it should hold as a *capital planning buffer* over and above the level of capital recommended as its *ICG*. The *FCA* may set a *firm's capital planning buffer* either as an amount and quality of capital which it should hold now (ie, at the time of the *FCA* notification following the *firm's SREP*) or, in exceptional cases, as a forward-looking target that the *firm* should build up over time.

2.3.14 G Where the amount or quality of capital which the *FCA* considers a *firm* should hold to meet the *overall financial adequacy rule* or as a *capital planning buffer* is not the same as that which results from a *firm's ICAAP*, the *FCA* usually expects to discuss any such difference with the *firm*. Where necessary, the *FCA* may consider the use of its powers under section 166 of the *Act* (Reports by skilled persons) to assist in such circumstances.

2.3.15 G If a *firm* considers that the *individual capital guidance* given to it is inappropriate to its circumstances it should, consistent with *Principle* 11 (Relations with regulators), inform the *FCA* that it disagrees with that *guidance*. The *FCA* may reissue the *individual capital guidance* if, after discussion with the *firm*, the *FCA* concludes that the amount or quality of capital that the *firm* should hold to meet the *overall financial adequacy rule* is different from the amount or quality initially suggested by the *FCA*.

2.3.16 G If a *firm* disagrees with the *FCA's* assessment as to the amount or quality of *capital planning buffer* that it should hold, it should, consistent with *Principle* 11 (Relations with regulators), notify the *FCA* of its disagreement. The *FCA* may reconsider its initial assessment if, after discussion with the *firm*, the *FCA* concludes that the amount or quality of capital that the *firm* should hold as *capital planning buffer* is different from the amount or quality initially suggested.

2.3.17 G The *FCA* will not give *individual capital guidance* to the effect that the amount of capital advised in that *guidance* is lower than the amount of capital which a *firm* should hold to meet its *own funds requirements*.

2.3.18 G If, after discussion, the *FCA* and a *firm* still do not agree on an adequate level of capital, the *FCA* may consider using its powers under section 55J of the *Act* to vary on its own initiative a *firm's Part 4A permission* to require it to hold

capital in line with the *FCA's* view of the capital necessary to comply with the *overall financial adequacy rule*. In deciding whether it should use its powers under section 55J, the *FCA* will take into account the amount and quality of the *capital planning buffer* which the *firm* should hold as referred to in *IFPRU* 2.3.13G and *IFPRU* 2.3.14G. *SUP 7* provides further information about the *FCA's* powers under section 55J.

The drafting of individual capital guidance and capital planning buffer

2.3.19 G If the *FCA* gives *individual capital guidance* to a *firm*, the *FCA* will state what amount and quality of capital the *FCA* considers the *firm* needs to hold in order to comply with the *overall financial adequacy rule*. It will generally do so by saying that the *firm* should hold *own funds* of an amount which is at least equal to a specified percentage of that *firm's own funds requirements* plus one or more static add-ons for specific risks, in line with the *overall Pillar 2 rule*.

2.3.20 G *Individual capital guidance* may refer to two types of *own funds*:

(1) General capital. It refers to total *common equity tier 1 capital* and *additional tier 1 capital* after applying deductions and prudential filters under the *EU CRR*.

(2) Total capital. It refers to total *common equity tier 1 capital*, *additional tier 1 capital* and *tier 2 capital* after applying deductions and prudential filters under the *EU CRR*.

2.3.21 G Where the *FCA* notifies a *firm* that it should hold a *capital planning buffer*, the notification will state what amount and quality of capital the *FCA* considers is adequate for the *firm* to hold. This will normally be notified to the *firm*, together with its *individual capital guidance* and expressed as a separate amount of *own funds* that the *firm* should hold in excess of the amount of *own funds* indicated as its *individual capital guidance*.

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

Failure to meet individual capital guidance and monitoring and reporting on the capital planning buffer

2.3.23 G A *firm* continuing to hold capital in accordance with its *individual capital guidance* and its ability to carry on doing so is a fundamental part of the

FCA's supervision of that *firm*. Therefore, if a *firm's own funds* have fallen, or are expected to fall, below the level advised in *individual capital guidance*, then, consistent with *Principle* 11 (Relations with regulators), a *firm* should inform the *FCA* of this fact as soon as practicable, explaining why this has happened or is expected to happen and:

(1) what action the *firm* intends to take to increase its own funds or to reduce its risks and hence its own funds requirements; or

(2) what modification the *firm* considers should be made to the *individual capital guidance* which it has been given.

2.3.24 G In the circumstance in *IFPRU* 2.3.23G, the *FCA* may ask a *firm* for alternative or more detailed proposals and plans or further assessments and analyses of capital adequacy and risks faced by the *firm*. The *FCA* will seek to agree with the *firm* appropriate timescales and scope for any such additional work, in the light of the circumstances which have arisen.

2.3.25 G If a *firm* has not accepted *individual capital guidance* given by the *FCA* it should, nevertheless, inform the *FCA* as soon as practicable if its *own funds* have fallen, or are expected to fall, below the level suggested by that *individual capital guidance*.

2.3.26 G Monitoring the use of a *firm's capital planning buffer* is also a fundamental part of the *FCA's* supervision of that *firm*. A *firm* should only use its *capital planning buffer* to absorb losses or meet increased own funds requirements if certain adverse circumstances materialise. These should be circumstances beyond the *firm's* normal and direct control, whether relating to a deteriorating external environment or periods of stress, such as macroeconomic downturns or financial/market shocks, or firm-specific circumstances.

2.3.27 G Consistent with *Principle* 11 (Relations with regulators), a *firm* should notify the *FCA* as early as possible in advance where it has identified that it would need to use its *capital planning buffer*. The *firm's* notification should at least state:

(1) what adverse circumstances are likely to force the *firm* to draw down its *capital planning buffer*;

(2) how the *capital planning buffer* will be used up in line with the *firm's* capital planning projections; and

(3) what plan is in place for the eventual restoration of the *capital planning buffer*.

2.3.28 G Following discussions with the *firm* on the items listed in *IFPRU* 2.3.27G, the *FCA* may put in place additional reporting arrangements to monitor the *firm's* use of its *capital planning buffer* in accordance with the plan referred to in *IPRU* 2.3.27G(3). The *FCA* may also identify specific trigger points as the *capital planning buffer* is being used up by the *firm*, which could lead to additional supervisory actions.

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

2.3.30 G A *firm* should inform the *FCA* where its *capital planning buffer* is likely to start being drawn down, even if it has not accepted the *FCA's* assessment as to the amount or quality of its *capital planning buffer*.

2.3.31 G Where a *firm* has started to use its *capital planning buffer* in circumstances where it was not possible to notify in advance, it should notify the *FCA* and provide the information referred to in *IFPRU* 2.3.27G as soon as practicable afterwards.

2.3.32 G *IFPRU* 2.3.23G to *IFPRU* 2.3.31G also apply to *individual capital guidance* and to *capital planning buffer* on a *consolidated basis*.

Proportionality of an ICAAP

2.3.33 G *IFPRU* 2.3.34G to *IFPRU* 2.3.36G set out what the *FCA* considers to be a proportional approach to preparing an *ICAAP* as referred to in *IFPRU* 2.2.12R (The processes, strategies and systems required by the *overall Pillar 2 rule* should be comprehensive and proportionate), according to the relative degree of complexity of a *firm's* activities. If a *firm* adopts the appropriate approach, it may enable the *FCA* more easily to review a *firm's ICAAP* when the *FCA* undertakes its *SREP*. The *FCA* is also likely to place more reliance on an *ICAAP* which takes the appropriate form described in *IFPRU* 2.3.34G to *IFPRU* 2.3.36G than would otherwise be the case, although there may also be circumstances in which the *FCA* will be able to rely on an *ICAAP* that is not drawn up in that form.

2.3.34 G (1) This paragraph applies to a *firm* that is not a *significant IFPRU firm* (see *IFPRU* 1.2.3R) whose activities are simple and primarily not credit-related.

(2) In carrying out its *ICAAP* it could:

(a) identify and consider that *firm's* largest losses over the last three to five years and whether those losses are likely to recur;

(b) prepare a short list of the most significant risks to which that *firm* is exposed;

(c) consider how that *firm* would act, and the amount of capital that would be absorbed, in the event that each of the risks identified were to materialise;

(d) consider how that *firm's own funds requirements* might alter

under the scenarios in (c) and how its *own funds requirements* might alter in line with its business plans for the next three to five years;

(e) consider whether any of the risks in the *overall Pillar 2 rule* is applicable to the *firm* (it is unlikely that any of those risks not already identified in (a) or (b) will apply to a *firm* whose activities are simple);

(f) document the ranges of capital required in the scenarios identified and form an overall view on the amount and quality of capital which that *firm* should hold, ensuring that its *senior management* is involved in arriving at that view; and

(g) (to determine the amount of capital that would be absorbed in the circumstances in (c)) carry out simple sensitivity tests where the *firm* analyses the impact of a shift in the key risk parameters identified in (b) on the earnings of the *firm*.

(3) A *firm* is also expected to form a view on the consolidated amount of capital it should hold, as well as the capital required to be held for each of the individual risks identified under the *overall Pillar 2 rule*. For that purpose, it may conservatively sum the results of the individual tests performed in (2)(c). However, if the *firm* chooses to reduce that sum on the understanding that not all risks will materialise at the same time, then the *firm* should perform scenario tests that demonstrate that a reduction in capital is legitimate.

(4) A *firm* should conduct stress tests and scenario analyses in accordance with *SYSC* 20 (Reverse stress testing) to assess how that *firm's* capital and *own funds requirements* would alter and what that *firm's* reaction might be to a range of adverse scenarios, including operational and market events. Where relevant, a *firm* should also consider the impact of a severe economic or industry downturn on its future earnings, *own funds* and *own funds requirements*, taking into account its business plans. The downturn scenario should be based on forward-looking hypothetical events calibrated against the most adverse movements in individual risk drivers experienced over a long historical period.

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

(1) having consulted the management in each major business line, prepare a comprehensive list of the major risks to which the business is exposed;

(2) estimate, with the aid of historical data, where available, the range and distribution of possible losses which might arise from each of those risks and consider using shock stress tests to provide risk estimates;

(3) consider the extent to which that *firm's own funds requirements* adequately captures the risks identified in (1) and (2);

(4) for areas in which the *own funds requirements* is either inadequate or does not address a risk, estimate the additional capital (if any) needed to protect that *firm* and its *customers*, in addition to any other risk mitigation action that *firm* plans to take;

(5) consider the risk that that *firm's* own analyses of capital adequacy may be inaccurate and that it may suffer from management weaknesses, which affect the effectiveness of its risk management and mitigation;

(6) project that *firm's* business activities forward in detail for one year and in less detail for the next three to five years and estimate how that *firm's* capital and *own funds requirements* would alter, assuming that business develops as expected;

(7) assume that business does not develop as expected and consider how that *firm's* capital and *own funds requirements* would alter and what that *firm's* reaction to a range of adverse economic scenarios might be (see *IFPRU* 2.2.7R to *IFPRU* 2.2.44R (the *overall Pillar 2 rule* and related *rules* and *guidance*)). Where appropriate, the adverse scenarios should consider the impact of market events that are instantaneous or occur over an extended period of time but which are nevertheless still co-dependent on movements in economic conditions;

(8) document the results obtained from the analyses in (2), (4), (6) and (7) in a detailed report for that *firm's senior management* and, where relevant, its *governing body*; and

(9) ensure that systems and processes are in place to review against performance the accuracy of the estimates made in (2), (4), (6) and (7).

2.3.36 G (1) This paragraph applies to a proportional *ICAAP* in the case of a *firm* that is a *significant IFPRU firm* (see *IFPRU* 1.2.3R) whose activities are complex.

(2) A proportional approach to that *firm's ICAAP* should cover the matters identified in *IFPRU* 2.3.34G and *IFPRU* 2.3.35G, but is likely also to involve the use of models, most of which will be integrated into its day-to-day management and operation.

(3) Models of the kind referred to in (2) may be linked to generate an overall estimate of the amount of capital that a *firm* considers appropriate to hold for its business needs. For example, a *firm* is likely to use value-at-risk models for market risk (see Part Three, Title IV, Chapter 5 of the *EU CRR* (Use of internal models to calculate own funds requirements for market risk)), advanced modelling approaches for credit risk (see Part Three, Title II, Chapter 3 of the *EU CRR* (Internal Ratings Based Approach)) and, possibly, advanced measurement approaches for *operational risk* (see Part Three, Title III,

Chapter 4 of the *EU CRR* (Advanced measurement approaches)). A *firm* might also use economic scenario generators to model stochastically its business forecasts and risks. A *firm* may also link such models to generate information on the economic capital desirable for that *firm*. A model which a *firm* uses to generate its target amount of economic capital is known as an economic capital model (ECM). Economic capital is the target amount of capital which maximises the return for a *firm's* stakeholders for a desired level of risk.

(4) A *firm* is also likely to be part of a *group* and to be operating internationally. There is likely to be centralised control over the models used throughout the *group*, the assumptions made and their overall calibration.

(5) The more a *firm* integrates into its business such economic capital modelling, the more it is likely to focus on managing risks for the benefit of its stakeholders. Consequently, ECMs may produce capital estimates that differ from the amount of capital needed for regulatory purposes. For the *FCA* to rely on the results of a *firm's* models, including ECMs, a *firm* should be able to explain the basis and results of its models and how the amount of capital produced reflects the amount of capital needed for regulatory purposes. Where they are not equal, the *FCA* will expect a *firm* to explain any differences. However, it may prove difficult to reconcile the outcome of a *firm's* modelling with the *FCA's* own assessment of the adequacy of that *firm's* capital. For example, when matters of judgment are involved in arriving at a *firm's* capital assessment or the *FCA* relies on information which cannot be fully disclosed to the *firm* (eg, comparisons with the *firm's* peers). Nevertheless, a *firm* whose ECM produces a different amount of capital to that required for regulatory purposes is still obliged to comply with the *overall Pillar 2 rule*. A *firm* should, therefore, be able to explain to the *FCA* how the outcome of its ECM is adjusted so that it complies with the *overall financial adequacy rule* and the *overall Pillar 2 rule*.

(6) Stress testing carried out under the *general stress and scenario testing rule* should provide *senior management* with a consolidated view of the amount of risk the *firm* is, or might be, exposed to under the chosen stress events. *Senior management* should be presented with information that considers the possibility of the risks materialising simultaneously in various proportions. For instance, it would be misrepresentative to simulate *market risk* stressed events without considering that, in those circumstances, market *counterparties* may be more likely to default. Accordingly, a *firm* could:

(a) carry out combined stress tests where assets and liabilities are individually subjected to simultaneous changes in two or more risk drivers; for instance, the change in value of each loan made by a *firm* may be estimated using simultaneous changes to both interest rates and stock market or property values;

(b) integrate the results of market and credit risk models, rather than aggregating the results of each model separately; and

(c) consider scenarios which include systemic effects on the *firm* of wider failures in the *firm's* market or systems upon which the *firm* depends and also any possible systemic effects caused by the *firm* itself suffering losses which affect other market participants which, in turn, exacerbate the *firm's* position.

(7) Furthermore, if a complex *firm* uses an ECM it should validate the assumptions of the model through a comprehensive stress testing programme. In particular, this validation should:

(a) test correlation assumptions (where risks are aggregated in this way) using combined stresses and scenario analyses;

(b) use stress tests to identify the extent to which the *firm's* risk models omit non-linear effects, for instance the behaviour of derivatives in market risk models; and

(c) consider not just the effect of parallel shifts in interest-rate curves, but also the effect of curves becoming steeper or flatter.

Guidance on risks to be covered in an ICAAP

2.3.37 G *IFPRU* 2.3.37G to *IFPRU* 2.3.47G set out *guidance* on some of the sources of risk identified in the *overall Pillar 2 rule*. *IFPRU* 2.3.48R to *IFPRU* 2.3.52G contain material relating to a *firm* with an IRB permission.

2.3.38 G (1) A *firm* may take into account factors other than those identified in the *overall Pillar 2 rule* when it assesses the level of capital it wishes to hold. These factors might include external rating goals, market reputation and its strategic goals. However, a *firm* should be able to distinguish, for the purpose of its dialogue with the *FCA*, between capital it holds to comply with the *overall financial adequacy rule*, capital it holds as a *capital planning buffer* and capital held for other purposes.

(2) The calibration of the *own funds requirements* assumes that a *firm's* business is well diversified, well managed with assets matching its liabilities and good controls, and stable with no large, unusual or high risk transactions. A *firm* may find it helpful to assess the extent to which its business in fact differs from these assumptions and, therefore, what adjustments it might be reasonable for it to make to the *own funds requirements* to arrive at an adequate level of *own funds*.

Interest-rate risk arising from non-trading book activities

2.3.39 G A *firm* should assess its exposure to changes in interest rates, particularly risks arising from the effect of interest-rate changes on non-*trading book* activities that are not captured by the *own funds requirements*. In doing so, a *firm* may

wish to use stress tests to determine the impact on its balance sheet of a change in market conditions.

Securitisation risk

2.3.40 G A *firm* should assess its exposure to risks transferred through the *securitisation* of assets should those transfers fail for whatever reason. A *firm* should consider the effect on its financial position of a *securitisation* arrangement failing to operate as anticipated or of the values and risks transferred not emerging as expected.

Residual risk

2.3.41 G A *firm* should assess its exposure to residual risks that may result from the partial performance or failure of *credit risk mitigation* techniques for reasons that are unconnected with their intrinsic value. This could result from, for instance, ineffective documentation, a delay in payment or the inability to realise payment from a guarantor in a timely manner. Given that residual risks can always be present, a *firm* should assess the appropriateness of its *own fund requirements* against its assumptions which underlie any risk mitigation measures it may have in place.

Concentration risk

2.3.42 G A *firm* should assess and monitor, in detail, its exposure to sectoral, geographic, liability and asset concentrations. The *FCA* considers that concentrations in these areas increase a *firm's* exposure to credit risk. Where a *firm* identifies such concentrations it should consider the adequacy of its *own funds requirements*.

Liquidity risk

2.3.43 G Under the *overall Pillar 2 rule*, a *firm* should consider its exposure to *liquidity risk* and assess its response should that risk materialise.

2.3.44 G When assessing *liquidity risk*, a *firm* should consider the extent to which there is a mismatch between assets and liabilities.

2.3.45 G A *firm* should also, when assessing *liquidity risk*, consider the amount of assets it holds in highly liquid, marketable forms that are available should unexpected cash flows lead to a liquidity problem. The price concession of liquidating assets is of prime concern when assessing such liquidity risk and should, therefore, be built into a *firm's ICAAP*.

2.3.46 G Some further areas to consider in developing the *liquidity risk* scenario might include:

(1) any mismatching between expected asset and liability cash flows;

(2) the inability to sell assets quickly;

(3) the extent to which a *firm's* assets have been pledged; and

(4) the possible need to reduce large asset positions at different levels of market liquidity and the related potential costs and timing constraints.

Business risk: general

2.3.47 G A *firm's own funds requirements*, being risk-sensitive, may vary as business cycles and economic conditions fluctuate over time. Deterioration in business or economic conditions could require a *firm* to raise capital or, alternatively, to contract its businesses at a time when market conditions are most unfavourable to raising capital. Such an effect is known as procyclicality.

2.3.48 G To reduce the impact of cyclical effects, a *firm* should aim to maintain an adequate *capital planning buffer* during an upturn in business and economic cycles such that it has sufficient capital available to protect itself in unfavourable market conditions.

2.3.49 G To assess its expected capital requirements over the economic and business cycles, a *firm* may wish to project forward its financial position taking account of its business strategy and expected growth, according to a range of assumptions regarding the economic or business environment which it faces. For example, an *ICAAP* should include an analysis of the impact that the actions of a *firm's* competitors might have on its performance, in order to see what changes in its environment the *firm* could sustain. Projections over a three- to five-year period would be appropriate in most circumstances. A *firm* may then calculate its projected *own funds requirements* and assess whether it could be met from expected financial resources. Additional *guidance* on capital planning over an economic and business cycle can be found in *IFPRU* 2.2.73G (Capital planning).

Business risk: stress tests for firms using the IRB approach

2.3.50 R A *firm* with an IRB permission must ensure that there is no significant risk of it being unable to meet its own funds requirements for credit risk under Part Three, Title II of the *EU CRR* (Capital requirements for credit risk) at all times throughout an economic cycle, including the *own funds requirements* for credit risk indicated by any stress test carried out under article 177 of the *EU CRR* (Stress tests used in assessment of capital adequacy for a *firm* with an IRB permission) as being likely to apply in the scenario tested. To decide what *own funds* are, or will be, available to meet those credit risk requirements, a *firm* must exclude *own funds* that are likely to be required to meet its other capital requirements under the *EU CRR* at the relevant time. A *firm* must also be able to demonstrate to the *FCA*, at any time, that it is complying with this *rule*.

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

2.3.52 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* (Prudential consolidation):

(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*; and

(2) references to the capital requirements in Part Three of the *EU 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* under Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation).

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

2.3.54 G The countervailing factors and off-setting actions that a *firm* may rely on as referred to in *IFPRU* 2.3.53G include, but are not limited to, projected balance sheet shrinkage, growth in *own funds* resulting from retained profits between the date of the stress test and the projected start of the economic downturn, the possibility of raising new capital in a downturn, the ability to reduce dividend payments or other distributions, and the ability to allocate capital from other risks which can be shown to be negatively correlated with the *firm's* credit risk profile.

Systems and controls

2.3.55 G A *firm* may decide to hold additional capital to mitigate any weaknesses in its overall control environment. These weaknesses might be indicated by the following:

(1) a failure by a *firm* to complete an assessment of its systems and controls to establish whether they comply with *SYSC*; or

(2) a failure by a *firm's senior management* to approve its financial results; or

(3) a failure by a *firm* to consider an analysis of relevant internal and external information on its business and control environment.

2.3.56 G In considering if there are any systems and control weaknesses, and their effect on the adequacy of the *own funds requirements*, a *firm* should be able to demonstrate to the *FCA* that all the issues identified in *SYSC* have been considered and that appropriate plans and procedures exist to deal adequately with adverse scenarios.

Risks which may be considered according to the nature of the activities of a firm

2.3.57 G (1) *IFPRU* 2.3.58G to *IFPRU* 2.3.67G set out *guidance* for:

(a) an asset management *firm*; and

(b) a securities *firm*;

(2) *IFPRU* 2.3.58G to *IFPRU* 2.3.67 G provide examples of the sorts of risks which such a *firm* might typically face and of stress tests or scenario analyses which it might carry out as part of its *ICAAP*.

(3) The material on securities *firms* is also relevant to a *commodities firm*.

An asset management firm

2.3.58 G An asset manager is primarily exposed to *operational risk* and reputational risk.

2.3.59 G When assessing reputational risk, an asset manager should consider issues such as:

(1) how poor performance can affect its ability to generate profits;

(2) the effect on its financial position should one or more of its key fund managers leave that *firm*;

(3) the effect on its financial position should it lose some of its largest customers; and

(4) how poor customer services can affect its financial position; for example, a *firm* which has outsourced the management of customer accounts may want to consider the impact on its own reputation of the service provider failing to deliver the service.

2.3.60 G As an asset manager's mandates become more complex, the risk of it failing to comply fully with the terms of its contracts increases. In the event of such failure, a *firm* can be exposed to substantial losses resulting from customers' claims and legal actions. Although the *FCA* would expect an asset manager to have adequate controls in place to mitigate that risk, it may also like to consider the potential cost to it if customers claim that it has not adhered to mandates. Past claims and compensation may provide a useful benchmark for an asset manager to assess its sensitivity to future legal action. In assessing the adequacy of its capital, an asset manager may, therefore, consider whether it could absorb the highest operational loss it has suffered over the last three to

five years.

2.3.61 G In relation to the issues identified in *IFPRU* 2.3.60G , an asset manager should consider, for example:

(1) the direct cost to it resulting from fraud or theft;

(2) the direct cost arising from customers' claims and legal action in the future – an asset manager could consider the impact on its financial position if a legal precedent were to encourage its customers to take legal action against it for failing to advise correctly on a certain type of product, the relevance of which is likely to depend on whether the asset manager is acting on a discretionary basis or solely as advisor; and

(3) where it has obtained professional indemnity insurance, the deductibles and individual or aggregate limits on the sums insured.

2.3.62 G The *FCA* expects an asset manager to consider the impact of economic factors on its ability to meet its liabilities as they fall due. Therefore, an asset manager should develop scenarios which relate to its strategic and business plan. An asset manager might consider:

(1) the effect of a market downturn that affects both transaction volumes and the market values of assets in its funds – in assessing the impact of such a scenario, an asset manager may consider the extent to which it can remain profitable (eg, by rapidly scaling down its activities and reducing its costs);

(2) the impact on current levels of capital if it plans to undertake a significant restructuring; and

(3) the impact on current levels of capital if it plans to enter a new market or launch a new product – it should assess the amount of capital it needs to hold when operating for the first time in a market in which it lacks expertise.

A securities firm

2.3.63 G (1) A securities *firm* may consider the impact of the following situations on its capital levels when assessing its exposure to concentration risk:

(a) the potential loss that could arise from large exposures to a single *counterparty*;

(b) the potential loss that could arise from exposures to large transactions or to a product type; and

(c) the potential loss resulting from a combination of events such as a sudden increase in volatility leaving a hitherto fully-margined client unable to meet the margin calls due to the large size of the underlying *position* and the subsequent difficulties

involved in liquidating its *position*.

(2) An example of (1)(b) relates to a securities *firm* which relies on the income generated by a large, one-off corporate finance transaction. It may want to consider the possibility of legal action arising from that transaction which prevents the payment of its fees. Additionally, an underwriting *firm* may, as a matter of routine, commit to place a large amount of securities. Therefore, it may like to assess the impact of losses arising from a failure to place the securities successfully.

2.3.64 G Where a securities *firm* deals in illiquid securities (eg, unlisted securities or securities listed on illiquid markets) or holds illiquid assets, potentially large losses can arise from trades that have failed to settle or because of large unrealised market losses. Therefore, a securities *firm* may consider the impact of *liquidity risk* on its exposure to:

(1) credit risk; and

(2) *market risk*.

2.3.65 G Counterparty risk requirements only partially capture the risk of settlement failure, as the quantification of risk is only based on mark-to-market values and does not take account of the volatility of the securities over the settlement period. A securities *firm's* assessment of its exposure to counterparty risk should take into account:

(1) whether it acts as arranger only or whether it also executes trades;

(2) the types of execution venues which it uses – for example, the London Stock Exchange or a retail service provider (RSP) have more depth than *multilateral trading facilities*; and

(3) whether it offers extended settlements and free delivery compared to delivery versus payment business.

2.3.66 G A securities *firm* should also consider the impact of external factors on the levels of capital it needs to hold. Scenarios covering such external factors should relate to its strategy and business plan. A securities *firm* might wish to consider the following factors:

(1) whether it plans to participate in a one-off transaction that might strain temporarily or permanently its capital;

(2) whether the unevenness of its revenue suggests that it should hold a capital buffer. Such an assessment could be based, for instance, on an analysis of past revenue and the volatility of its capital;

(3) how its income might alter as interest rates fluctuate where it is obliged to pay interest to its clients in excess of interest it earns on client money deposits;

(4) how its capital would be affected by a market downturn. For instance, how sensitive that *firm* is to a sharp reduction of trading volumes;

(5) how political and economic factors will affect that *firm's* business. For instance, a *commodity firm* may wish to consider the impact of a sharp increase in prices on initial margins and, consequently, on its liquidity;

(6) whether it anticipates expanding its activities (eg, by offering clearing services) and, if so, the impact on its capital.

2.3.67 G A securities *firm* may also want to assess the impact of its internal credit limits on its levels of capital. For instance, a *firm* whose internal procedures authorise dealing without cash in the account, or without pre-set dealing limits, might consider more capital is required than if it operated stricter internal credit limits.

Capital models

2.3.68 G A *firm* may approach its assessment of adequate capital by developing a model, including an ECM (see *IFPRU* 2.3.36G), for some or all of its business risks. The assumptions required to aggregate risks modelled and the confidence levels adopted should be considered by a *firm's senior management*. A *firm* should also consider whether any relevant risks, including systems and control risks, are not captured by the model.

2.3.69 G A *firm* should not expect the *FCA* to accept as adequate any particular model that it develops, or automatically to reflect the results from the model in any *individual capital guidance* or *capital planning buffer*. However, the *FCA* will take into account the results of a sound and prudent model when giving *individual capital guidance* or when dealing with the *firm* in relation to its *capital planning buffer*.

2.3.70 G There is no prescribed approach as to how a *firm* should develop its internal capital model. However, a *firm* should be able to demonstrate:

(1) the confidence levels set and whether these are linked to its corporate strategy;

(2) the time horizons set for the different types of business that it undertakes;

(3) the extent of historic data used and back-testing carried out;

(4) that it has a process to verify the correctness of the model's outputs; and

(5) that it has the skills and resources to operate, maintain and develop the model.

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

information:

(1) a comparison of the amount of capital that the ECM generates in respect of each of the risks captured in the *own funds requirements* before aggregation with the corresponding components of the *own funds requirements* calculation; and

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

2.3.72 G If a *firm* adopts a top-down approach to developing its internal model, it should be able to allocate the outcome of the internal model to risks it has previously identified in relation to each separate legal entity, business unit or business activity, as appropriate. For a *firm* which is a member of a group, *IFPRU* 2.2.54R (Application of IFPRU 2.2 on an individual basis and consolidated basis) sets out how internal capital identified as necessary by that *firm's ICAAP* should be allocated.

2.3.73 G If a *firm's* internal model makes explicit or implicit assumptions in relation to correlations within or between risk types, or diversification benefits between business types, the *firm* should be able to explain to the *FCA*, with the support of empirical evidence, the basis of those assumptions.

2.3.74 G A *firm's* model should also reflect the past experience of both the *firm* and the sectors in which it operates.

2.3.75 G The values assigned to inputs into a *firm's* model should be derived either stochastically, by assuming the value of an item can follow an appropriate probability distribution and by selecting appropriate values at the tail of the distribution, or deterministically, using appropriate prudent assumptions. For options or guarantees which change in value significantly in certain economic or demographic circumstances, a stochastic approach would normally be appropriate.

2.4 Reporting of breaches

2.4.1 R (1) A *firm* must have appropriate procedures in place for its employees to report breaches internally through a specific, independent and autonomous channel.

(2) The channel in (1) may be provided through arrangements provided for by social partners, subject to the Public Interest Disclosure Act 1998 and the Employment Rights Act 1996 to the extent that they apply.

[**Note**: article 71(3) of *CRD*]

2.4.2 G *SYSC* 18 (Guidance on Public Interest Disclosure Act: Whistleblowing) contains further *guidance* on the effect of the Public Interest Disclosure Act 1998 in the context of the relationship between *firms* and the *FCA*.

2.5 Recovery and resolution plans

2.5.1 R A *firm* must have in place:

(1) recovery plans for the restoration of its financial situation following a significant deterioration; and

(2) viable resolution plans setting out options for the orderly resolution of the *firm* in the case of failure.

2.5.2 R For the purpose of *IFPRU* 2.5.1R, a *firm* must:

(1) cooperate closely with resolution authorities; and

(2) provide the resolution authorities with all information necessary for their preparation and drafting of the resolution plans.

[**Note**: article 74(4) of *CRD*]

3. Own funds

3.1 Base own funds requirement

Application

3.1.1 R This section applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

3.1.2 R This section applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.

3.1.3 G The adequacy of a *firm's own funds* needs to be assessed in relation to all the activities of the *firm* and risks to which they give rise.

Purpose

3.1.4 G This section implements EC standards for the *base own funds requirement* to be held by an *IFPRU investment firm*. In particular, it implements articles 28 and 29 of *CRD*.

3.1.5 G *Principle 4* requires a *firm* to maintain adequate financial resources. *IFPRU* 3 sets out provisions that deal specifically with the adequacy of that part of a *firm's* financial resources that consists of *own funds* in addition to Parts Two (Own Funds) and Three (Capital requirements) of the *EU CRR*.

Main requirement

3.1.6 R (1) Subject to (2), an *IFPRU investment firm* must maintain, at all times,

common equity tier 1 capital equal to, or in excess of, the *base own funds requirement*.

(2) For the purpose of (1), the *common equity tier 1 capital* of an *IFPRU investment firm* must comprise only of one or more of the items referred to in article 26(1)(a) to (e) of the *EU CRR* (Common equity tier 1 items).

[**Note**: article 28(1) of *CRD*]

3.1.7 R At the time that it first becomes an *IFPRU investment firm*, a *firm* must hold *initial capital* of not less than the *base own funds requirement* applicable to that *firm*.

Calculation of the base own funds requirement

3.1.8 R The amount of an *IFPRU investment firm's base own funds requirement* is set out in the table in *IFPRU* 3.1.9R.

Table: Base own funds requirement

3.1.9 R This table belongs to *IFPRU* 3.1.8R.

Firm category	**Amount: Currency equivalent of**
IFPRU 730K firm	€730,000
IFPRU 125K firm	€125,000
IFPRU 50K firm	€50,000

[**Note**: articles 28(2), 29(1) and 29(3) of *CRD*]

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

3.2 Capital

Application

3.2.1 R *IFPRU* 3 applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

3.2.2 G This chapter:

(1) contains the *rules* that exercise the discretion afforded to the *FCA* as

competent authority under article 89 of the *EU CRR*;

(2) contains the *guidance* in relation to articles 4(1)(126) and 28 of the *EU CRR*; and

(3) contains the *rules* on notification to the *FCA* of intended issuance, or amendment to, *own funds* instruments and specified terms that meet the conditions for qualification as *own funds*.

Qualifying holding outside the financial sector

3.2.3 R In respect of the qualifying holdings described in article 89(1) and (2) of the *EU CRR*, a *firm* must, in accordance with article 89(3) of the *EU CRR*, comply with the requirement in article 89(3)(a) of the *EU CRR*.

Indirect or synthetic holdings

3.2.4 G For the purposes of article 4(1)(126) (Definition of synthetic holding) and Part Two (Own funds) of the *EU CRR*, the *FCA* considers the holdings described in *IFPRU* 3.2.5G to be examples of indirect or synthetic holdings by an *IFPRU investment firm* of own *common equity tier 1 instruments*.

3.2.5 G An indirect or synthetic holding includes a holding of a *firm* of *shares*, any other interest in the capital and subordinated debt, whether in the *trading book* or non-*trading book*, in:

(1) an *institution* ; or

(2) a *financial institution*;

that satisfies the following conditions:

(3) the holding is the subject of an agreement or arrangement between the *firm* and either the issuer of the instrument in question or a member of the *group* to which the issuer belongs;

(4) under the terms of the agreement or arrangement described in (3), the issuer invests in the *firm* or in a member of the *group* to which the *firm* belongs;

(5) the effect of that agreement or arrangement on the capital position of the *firm*, the issuer or any member of a *group* to which either belongs, under any relevant rule is significantly more beneficial than in economic terms, taking into account the agreement or arrangement as a whole.

For this purpose, a relevant rule means a *rule* in *GENPRU*, *BIPRU*, *INSPRU* or *IFPRU* or any other capital adequacy or solvency requirements of the *FCA* or any other regulator, territory or country.

Connected transactions

3.2.6 R In determining whether an item of capital qualifies as *common equity tier 1*

capital, *additional tier 1 capital* or *tier 2 capital*, a *firm* must take into account any connected transaction which, when taken together with the item of capital, would cause it not to display the characteristics of *common equity tier 1 capital*, *additional tier 1 capital* or *tier 2 capital*.

3.2.7 R A *firm* must report to the *FCA* all connected transactions described in *IFPRU* 3.2.6R at least one *month* in advance of entry into the relevant transaction and identify each relevant transaction with sufficient detail to allow the *FCA* to evaluate it.

Own funds instruments issued under third country law

3.2.8 R A *firm* must demonstrate to the *FCA* that any *additional tier 1 instrument* or *tier 2 instrument* issued by it that is governed by the law of a *third country* is by its terms capable, as part of a resolution of the *firm*, of being written down or converted into a *common equity tier 1 instrument* of the *firm* to the same extent as an equivalent *own funds* instrument issued under the law of the *UK*.

3.2.9 R A *firm* must include, in the materials it provides to the *FCA* under *IFPRU* 3.2.8R, a properly reasoned legal opinion from an individual appropriately qualified in the relevant *third country*.

Notification of issuance of own funds instruments

3.2.10 R A *firm* must notify the *FCA* of the following:

(1) its intention; or

(2) the intention of another member of its *group* that is not a *firm*, but is included in the supervision on a *consolidated basis* of the *firm*;

to issue a capital instrument that it believes will qualify under the *EU CRR* as *own funds* other than a *common equity tier 1 capital* at least one *month* before the intended date of issue.

3.2.11 R A *firm* does not have to give notice under *IFPRU* 3.2.10R if the capital instrument is:

(1) an ordinary *share*; or

(2) a debt instrument issued under a debt securities programme under which the *firm* or *group* member has previously issued and the *firm* has notified the *FCA*, in accordance with *IFPRU* 3.2.10R, prior to a previous issuance under the programme.

3.2.12 R When giving notice, the *firm* must provide:

(1) details of the amount and type of *own funds* the *firm* is seeking to raise through the intended issue and whether the capital instrument is intended to be issued to external investors or other members of its *group*;

(2) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;

(3) confirmation from a member of the *firm's senior management* responsible for authorising the intended issue or, in the case of an issue by another *group* member, for the issue's inclusion in the *firm's* consolidated *own funds*, that the capital instrument meets the conditions for qualification as an *own funds* item; and

(4) a properly reasoned legal opinion from an appropriately qualified individual confirming that the capital instrument meets the conditions for qualification as the relevant type of *own funds*.

3.2.13 R A *firm* must notify the *FCA* in writing, no later than the date of issue of its intention, or the intention of another member of its *group* that is not a *firm* included in the supervision on a *consolidated basis* of the *firm*, to issue a capital instrument described in *IFPRU* 3.2.11R.

3.2.14 R When giving notice under *IFPRU* 3.2.13R, the *firm* must provide:

(1) confirmation that the terms of the capital instrument have not changed since the previous issue by the *firm* of that type of capital instrument; and

(2) the information in *IFPRU* 3.2.12R(1) and (3).

3.2.15 R The *firm* must promptly notify the *FCA* of any change to the intended date of issue, amount of issue, type of investors, type of *own funds* or any other feature of the capital instrument to that previously notified to the *FCA* under *IFPRU* 3.2.10R or *IFPRU* 3.2.13R.

Notification of amendments to own funds instruments

3.2.16 R A *firm* must notify the *FCA* of its intention, or the intention of another member of its *group* that is not a *firm* included in the supervision on a *consolidated basis* of the *firm*, to amend or otherwise vary the terms of any *own funds* instrument included in its *own funds* or the *own funds* of its consolidated *group* at least one *month* before the intended date of such amendment or other variation.

Notification of reduction of own funds

3.2.17 R A *firm* must notify the *FCA* of its intention, or the intention of another member of its *group* included in the supervision on a *consolidated basis* of the *firm*, to carry out any of the actions described in article 77 of the *EU CRR* (Conditions for reducing own funds) for an *own funds* instrument.

Common equity tier 1 capital: partnership capital account

3.2.18 G A partner's account of a *firm* that is a partnership:

(1) into which capital contributed by partners is paid; and

(2) from which under the terms of the partnership agreement an amount representing capital may be withdrawn by a partner only if:

(a) he ceases to be a partner and an equal amount is transferred to another such account by his former partners or any *person* replacing him as their partner; or

(b) the partnership is wound up or otherwise dissolved; or

(c) the *firm* has ceased to be *authorised* or no longer has a *Part 4A permission*;

may be considered as meeting the purposes of article 28(1)(e) (perpetual) and (f) (reduction or repayment) of the *EU CRR*.

Common equity tier 1 capital: eligible LLP members' capital

3.2.19 G A member's account of a *firm* that is a *limited liability partnership*:

(1) into which capital contributed by the members is paid; and

(2) from which, under the terms of the *limited liability partnership* agreement, an amount representing capital may be withdrawn by a partner only if:

(a) he ceases to be a member and an equal amount is transferred to another such account by his former fellow members or any *person* replacing him as a member;

(b) the *limited liability partnership* is wound up or otherwise dissolved; or

(c) the *firm* has ceased to be *authorised* or no longer has a *Part 4A permission*;

may be considered as meeting the purposes of article 28(1)(e) (perpetual) and (f) (reduction or repayment) of the *EU CRR*.

Variable capital calculation for collective portfolio management investment firms

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

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*.

4 Credit risk

4.1 Application and purpose

Application

4.1.1 R *IFPRU* 4 applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

4.1.2 G This chapter:

(1) implements article 78 of *CRD*;

(2) contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under articles 115, 119(5), 124(2), 125(3), 126(2), 178(1)(b), 243(2), 244(2), 286(2), 298(4) and 380 of the *EU CRR*; and

(3) contains the *guidance* in relation to the IRB approach, *securitisation*, counterparty credit risk and *credit risk mitigation*.

4.2 Standardised approach

Standardised approach

4.2.1 R For the purposes of article 115 of the *EU CRR* (Exposures to regional governments or local authorities), a *firm* may treat *exposures* to the following regional governments as *exposures* to the *UK* central government:

(1) The Scottish Parliament;

(2) The National Assembly for Wales; and

(3) The Northern Ireland Assembly.

Risk weights

4.2.2 G Where the *FCA* has published evidence showing that a well-developed and

long-established residential property market is present in that territory with loss rates which do not exceed the limits in article 125(3) of the *EU CRR* (Exposures fully and completely secured by mortgages on residential property), a *firm* does not need to meet the condition in article 125(2)(b) of the *EU CRR* in order to consider an *exposure*, or any part of an *exposure*, as fully and completely secured for the purposes of article 125(1) of the *EU CRR*.

Criteria for certain exposures secured by mortgages on commercial immovable property

4.2.3 R For the purposes of articles 124(2) and 126(2) of the *EU CRR*, and in addition to the conditions in those regulations, a *firm* may only treat *exposures* as fully and completely secured by mortgages on commercial immovable property in line with article 126 where annual average *losses* stemming from lending secured by mortgages on commercial property in the *UK* did not exceed 0.5% of risk-weighted exposure amounts over a representative period. A *firm* must calculate the *loss* level in this *rule* on the basis of the aggregate market data for commercial property lending published by the *FCA* in line with article 101(3) of the *EU CRR*.

4.2.4 R For the purpose of this *rule*, a representative period shall be a time horizon of sufficient length and which includes a mix of good and bad years.

Exposures to institutions

4.2.5 G The *FCA* confirms that, in relation to the concessionary treatment set out in article 119(5) of the *EU CRR*, there are no *financial institutions* currently authorised and supervised by it (other than those to which the *EU CRR* applies directly) that are subject to prudential requirements that it considers to be comparable in terms of robustness to those applied to institutions under the *EU CRR*.

[**Note**: article 119(5) of the *EU CRR*]

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*. 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*).

Exposures fully and completely secured by mortgages on residential property: Ijara mortgages

4.2.7 G The *FCA* considers an Ijara mortgage to be an example of an *exposure* to a tenant under a property leasing transaction concerning residential property

under which the *firm* is the lessor and the tenant has an option to purchase. Accordingly, the *FCA* expects *exposures* to Ijara mortgages to be subject to all of the requirements that apply to *exposures* secured by mortgages on residential property, including in respect of periodic property revaluation (see articles 124 and 125 of the *EU CRR*).

Lifetime mortgages

4.2.8 G The *FCA* expects a *firm* with *exposure* to a *lifetime mortgage* to inform the *FCA* of the difference in the *own funds requirements* on those *exposures* under the *EU CRR* and the credit risk capital requirement that would have applied under *BIPRU* 3.4.56AR.The *FCA* will use this information in its consideration of relevant risks in its supervisory assessment of the *firm* (see articles 124, 125 and 208 of the *EU CRR*).

Exposures in default

4.2.9 G When determining the portion of a past due item that is secured, the *FCA* expects the secured portion of an *exposure* covered by a mortgage indemnity product that is eligible for *credit risk mitigation* purposes under Part Three, Title II, Chapter 4 of the *EU CRR* (Credit risk mitigation) to qualify as an eligible guarantee (see article 129(2) of the *EU CRR*).

Items associated with particular high risk

4.2.10 G When determining whether *exposures* in the form of units or shares in a *CIU* are associated with particularly high risk, the *FCA* expects the following features would be likely to give rise to such risk:

(1) an absence of external credit assessment of such *CIU* from an *ECAI* recognised under article 132(2) of the *EU CRR* (Items representing securitisation positions) and where such *CIU* has specific features (such as high levels of leverage or lack of transparency) that prevent it from meeting the eligibility criteria in article 132(3) of the *EU CRR* (Items associated with particular high risk); or

(2) a substantial element of the *CIU's* property is made up of items that would be subject to a risk weight of more than 100%, or the mandate of a *CIU* would permit it to invest in a substantial amount of such items.

4.2.11 G The *FCA* expects a *firm's* assessment of whether types of e*xposure* referred to in article 128(3) of the *EU CRR* are associated with particularly high risk to include consideration of *exposures* arising out of a venture capital business (whether the *firm* itself carries on the venture capital business or not) . The *FCA* considers "venture capital business" to include the business of carrying on any of the following:

(1) *advising on investments, managing investments, arranging (bringing about) deals in investments* in or *making arrangements with a view to*

transactions in investments in *venture capital investments*;

(2) *advising on investments* or *managing investments* in relation to portfolios, or *establishing, operating or winding up a collective investment scheme*, where the portfolios or collective investment schemes (apart from funds awaiting investment) invest only in *venture capital investments*;

(3) any *custody* activities provided in connection with the activities in (1) or (2); and

(4) any related *ancillary activities*.

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.

4.3 Guidance on internal ratings based approach: high level material

4.3.1 G Responsibility for ensuring that internal models are appropriately conservative and that approaches are compliant with the *EU CRR* rests with the *firm* itself.

4.3.2 G A *significant IFPRU firm* should consider developing internal credit risk assessment capacity and to increase use of the internal ratings based approach for calculating *own funds requirements* for credit risk where its *exposures* are material in absolute terms and where it has at the same time a large number of material counterparties. This provision is without prejudice to the fulfilment of criteria laid down in Part Three, Title I, Chapter 3, Section 1 of the *EU CRR* (IRB approach).

[**Note**: article 77(1) of *CRD*]

4.3.3 G The *FCA* will, taking into account the nature, scale and complexity of a *firm's* activities, monitor that it does not solely or mechanistically rely on external credit ratings for assessing the creditworthiness of an entity or *financial instrument*.

[**Note**: article 77(2) of *CRD*]

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* 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* are not adversely affected.

4.3.5 G Prior to reliance being placed by a *firm* on a rating system or data provided by another member of the group, the *FCA* expects the proposed arrangements to have been explicitly considered, and found to be appropriate, by the *governing body* of the *firm*.

4.3.6 G If a *firm* uses a rating system or data provided by another group member, the *FCA* would expect the *firm's governing body* to delegate those functions formally to the persons or bodies that are to carry them out.

Materiality of non-compliance

4.3.7 G Where a *firm* seeks to demonstrate to the *FCA* that the effect of its non-compliance with the requirements of Part Three, Title II Chapter 3 of the *EU CRR* (Internal ratings based approach) is immaterial under article 146(b) of the *EU CRR* (Measures to be taken where the requirements cease to be met), the *FCA* expects the *firm* to have taken into account all instances of non-compliance with the requirements of the IRB approach and to have demonstrated that the overall effect of non-compliance is immaterial.

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*, the *FCA* considers that the governance requirements in article 189 of the *EU CRR* can only be met if the *subsidiaries* have delegated to the *governing body* or designated committee of the *EEA parent institution, EEA parent financial holding company* or *EEA 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* have been carried out appropriately.

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

Permanent partial use: policy for identifying exposures

4.3.9 G The *FCA* expects a *firm* seeking to apply the Standardised Approach on a permanent basis to certain *exposures* to have a well-documented policy explaining the basis on which *exposures* are to be selected for permanent exemption from the IRB approach. This policy should be provided to the *FCA* when the *firm* applies for permission to use the IRB approach and maintained thereafter. Where a *firm* also wishes to undertake sequential implementation, the *FCA* expects the *firm's* roll-out plan to provide for the continuing application of that policy on a consistent basis over time.

Permanent partial use: exposures to sovereigns and institutions

4.3.10 G (1) The *FCA* may permit the exemption of *exposures* to sovereigns and *institutions* under article 150(1)(a) and (b) of the *EU CRR* respectively only if the number of material counterparties is limited and it would be unduly burdensome to implement a rating system for such counterparties.

(2) The *FCA* considers that the 'limited number of material counterparties' test is unlikely to be met if for the UK group total outstandings to 'higher risk' sovereigns and *institutions* exceed either £1bn or 5% of total assets (other than for temporary fluctuations above these levels). For these purposes, 'higher risk' sovereigns and institutions are considered to be those that are unrated or carry ratings of BBB+ (or equivalent) or lower. In determining whether to grant this exemption, the *FCA* will also consider whether a *firm* incurs *exposures* to 'higher risk' counterparties which are below the levels set out but are outside the scope of its core activities.

(3) In respect of the 'unduly burdensome' condition, the *FCA* considers that an adequate, but not perfect, proxy for the likely level of expertise available to a *firm* is whether its group has a *trading book*. Accordingly, if a *firm's* group does not have a *trading book*, the *FCA* is likely to accept the argument that it would be unduly burdensome to implement a rating system.

Permanent partial use: non-significant business units and immaterial exposure classes and types

4.3.11 G Where a *firm* wishes permanently to apply the Standardised Approach to certain business units on the grounds that they are non-significant and/or certain *exposure* classes or types of *exposures* on the grounds that they are immaterial in terms of size and perceived risk profile, the *FCA* expects to permit a *firm* to make use of this exemption only to the extent that the risk-

weighted exposure amount calculated under article 92(3)(a) and (f) of the *EU CRR* that are based on the Standardised Approach (insofar as they are attributable to the *exposures* to which the Standardised Approach is permanently applied) would be no more than 15% of the risk-weighted exposure amount calculated under article 92(3)(a) and (f) of the *EU CRR*, based on whichever of the Standardised Approach and the IRB Approach would apply to the *exposures* at the time when the calculation is being made.

4.3.12 G The following points set out the level at which the *FCA* expects the 15% test to 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* 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* 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* and part of a wider third-country group subject to equivalent supervision by a regulatory authority outside of the *EEA*, 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* and is part of a wider third-country group that is not subject to equivalent supervision by a regulatory authority outside of the *EEA*, 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 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). (See article 150(1)(c) of the *EU CRR*.)

Permanent partial use: identification of connected counterparties

4.3.14 G Where a *firm* wishes to permanently apply the Standardised Approach to *exposures* to connected counterparties in accordance with article 150(1)(e) of the *EU CRR*, the *FCA* would normally expect to grant permission to do so only if the *firm* had a policy that provided for the identification of connected counterparties *exposures* that would be permanently exempted from the IRB approach and also identified connected counterparty *exposures* (if any) that would not be permanently exempted from the IRB approach. The *FCA* expects a *firm* to use the IRB approach either for all of its intra-group

exposures or none of them (see article 150(1)(e) of the *EU CRR*).

Sequential implementation following significant acquisition

4.3.15 G In the event that a *firm* with IRB permission acquires a significant new business, it should discuss with the *FCA* whether sequential roll-out of the *firm's* IRB approach to these *exposures* would be appropriate. In addition, the *FCA* would expect to review any existing time period and conditions for sequential roll-out and determine whether these remain appropriate (see article 148 of the *EU CRR*).

Classification of retail exposures: qualifying revolving retail exposures (QRRE)

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

(2) Article 154(4)(e) of the *EU CRR* specifies that, for an *exposure* to be treated as a QRRE, this treatment should be consistent with the underlying risk characteristic of the sub-portfolio. The *FCA* considers that a sub-portfolio consisting of credit card or overdraft obligations will usually meet this condition and that it is unlikely that any other type of retail *exposure* will do so. If a *firm* wishes to apply the treatment in article 154 (4) of the *EU CRR* to product types other than credit card or overdraft obligations, the *FCA* expects it to discuss this with the *FCA* before doing so.

Documentation

4.3.17 G The *FCA* expects a *firm* to ensure that all documentation relating to its rating systems (including any documentation referenced in this chapter or required by the *EU CRR* that relate to the IRB approach) is stored, arranged and indexed in such a way that it could make them all, or any subset thereof, available to the *FCA* immediately on demand or within a short time thereafter.

4.4 Internal ratings based approach: overall requirements for estimation

High-level expectations

4.4.1 G In order to be able to determine that the requirements in article 144(1) of the *EU CRR* have been met, the *FCA* would typically have the high-level expectations set out in this section.

4.4.2 G The information that a *firm* produces or uses for the IRB approach should be reliable and take proper account of the different users of the information produced (customers, shareholders, regulators and other market participants).

4.4.3 G A *firm* should establish quantified and documented targets and standards, against which it should test the accuracy of data used in its rating systems. Such tests should cover:

(1) a report and accounts reconciliation, including whether every *exposure* has a PD, LGD and, if applicable, conversion factor for reporting purposes;

(2) whether the *firm's* risk control environment has key risk indicators for the purpose of monitoring and ensuring data accuracy;

(3) whether the *firm* has an adequate business and information technology infrastructure with fully documented processes;

(4) whether the *firm* has clear and documented standards on ownership of data (including inputs and manipulation) and timeliness of current data (daily, monthly, real time); and

(5) whether the *firm* has a comprehensive quantitative audit programme.

4.4.4 G In respect of data inputs, the testing for accuracy of data (including the reconciliation referred to above) should be sufficiently detailed so that, together with other available evidence, it gives reasonable assurance that data input into the rating system is accurate, complete and appropriate. The *FCA* considers that input data fails to meet the required standard if it gives rise to a serious risk of material misstatement in the *own funds requirement* either immediately or subsequently.

4.4.5 G In respect of data outputs, a *firm* (as part of the reconciliation referred to above) should be able to identify and explain material differences between the outputs produced under accounting standards and those produced under the requirements of the IRB approach, including in relation to areas that address similar concepts in different ways (eg, expected loss and accounting provisions).

4.4.6 G A *firm* should have clear and documented standards and policies about the use of data in practice (including information technology standards) which should, in particular, cover the firm's approach to the following:

(1) data access and security;

(2) data integrity, including the accuracy, completeness, appropriateness and testing of data; and

(3) data availability.

[**Note**: article 144(1)(a) of the *EU CRR*)

Rating systems: policies

4.4.7 G For the *FCA* to be satisfied that a *firm* documents its ratings systems appropriately, in accordance with article 144(1)(e) of the *EU CRR*, it would expect a *firm* to be able to demonstrate that it has an appropriate policy for any ratings system in relation to:

(1) any deficiencies caused by its not being sensitive to movements in fundamental risk drivers or for any other reason;

(2) the periodic review and action in the light of such review;

(3) providing appropriate internal guidance to staff to ensure consistency in the use of the rating system, including the assignment of *exposures* or facilities to pools or grades;

(4) dealing with potential weaknesses of the rating system;

(5) identifying appropriate and inappropriate uses of the rating system and acting on that identification;

(6) novel or narrow rating approaches; and

(7) ensuring the appropriate level of stability over time of the rating system.

[**Note**: article 144(1)(a) and (e) of the *EU CRR*)

Collection of data

4.4.8 G To be satisfied that the requirements in article 179(1) of the *EU CRR* are met, the *FCA* expects a *firm* to collect data on what it considers to be the main drivers of the risk parameters of probability of default (PD), loss given default (LGD), conversion factors (CFs) and expected loss (EL) for each group of obligors or facilities, to document the identification of the main drivers of risk parameters, and be able to demonstrate that the process of identification is reasonable and appropriate.

4.4.9 G In its processes for identifying the main drivers of risk parameters, the *FCA* expects that a *firm* should set out its reasons for concluding that the data sources chosen provide in themselves sufficient discriminative power and accuracy and why additional potential data sources do not provide relevant and reliable information that would be expected materially to improve the discriminative power and accuracy of its estimates of the risk parameter in question. This process need not necessarily require an intensive analysis of all factors.

[**Note**: article 179(1)(a), (d) and (e) of the *EU CRR*)

Data quality

4.4.10 G To demonstrate that rating systems provide for meaningful assessment, the *FCA* expects that a *firm's* documentation relating to data should include clear identification of responsibility for data quality. A *firm* should set standards for data quality, aim to improve them over time and measure its performance against those standards. Furthermore, a *firm* should ensure that its data is of high enough quality to support its risk management processes and the calculation of its *own funds requirements* (see article 175(1) of the *EU CRR*).

Use of models and mechanical methods to produce estimates of parameters

4.4.11 G Further detail of standards that the *FCA* would expect a *firm* to meet when it assesses compliance with article 174 of *EU CRR* are set out in the sections on probability of default (PD), loss given default (LGD) and exposure at default (EAD).

4.4.12 G In assessing whether the external data used by a *firm* to build models is representative of its actual obligors or *exposures*, the *FCA* expects a *firm* to consider whether this data is appropriate to its own experience and whether adjustments are necessary (see article 174 of the *EU CRR*).

Calculation of long averages PD, LGD and EAD

4.4.13 G To estimate PDs that are long run averages of one-year default rates for obligor grades or pools, the *FCA* expects a *firm* to estimate expected default rates for the grade/pool over a representative mix of good and bad economic periods, rather than simply taking the historic average of default rates actually incurred by the *firm* over a period of years. The *FCA* expects that a long run estimate would be changed when there is reason to believe that the existing long run estimate is no longer accurate, but that it would not be automatically updated to incorporate the experience of additional years as these may not be representative of the long run average (see article 180 of the *EU CRR*).

4.4.14 G To demonstrate compliance with article 144(1) of the *EU CRR*, the *FCA* expects a firm to take into account the following factors in understanding differences between their historic default rates and their PD estimates, and in adjusting the calibration of their estimates as appropriate:

(1) the rating philosophy of the system and the economic conditions in the period over which the defaults have been observed;

(2) the number of defaults, as a low number is less likely to be representative of a long run average. Moreover, where the number of internal defaults is low, there is likely to be a greater need to base PDs on external default data as opposed to purely internal data;

(3) the potential for under-recording of actual defaults; and

(4) the level of conservatism applied.

4.4.15 G The *FCA* expects a *firm* that is unable to produce a long run estimate, as described above, to consider what action it would be appropriate for it to take to comply with article 180(1)(a) of the *EU CRR*. In some circumstances, it

may be appropriate for a *firm* to need to amend its rating system so that the PD used as an input into the IRB *own funds requirement* is an appropriately conservative estimate of the actual default rate expected over the next year. However, such an approach is not likely to be appropriate where default rates are dependent on the performance of volatile collateral. (See articles 179(1)(f) and 180(1)(a) of the *EU CRR*).

4.4.16 G In accordance with articles 181(1)(b) and 182(1)(b) of the *EU CRR*, where the estimates appropriate for an economic downturn are more conservative than the long run average, the *FCA* expects the estimate for each of these parameters to represent the LGD or CF expected, weighted by the number of defaults, over the downturn period. Where this is not the case, the *FCA* expects the estimate to be used to be the expected LGD or CF, weighted by the number of defaults, over a representative mix of good and bad economic periods (see articles 179, 181 and 182 of the *EU CRR*).

Assignment to grades or pools

4.4.17 G To demonstrate that a rating system provides for a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk, the *FCA* expects a *firm* would have regard to the sensitivity of the rating to movements in fundamental risk drivers, in assigning exposures to grades or pools within a rating system (see article 171 of the *EU CRR*).

4.5 Internal ratings based approach: definition of default

Identification of obligors

4.5.1 G The *FCA* expects that if a *firm* ordinarily assigns *exposures* in the corporate, *institution* or central government and central bank *exposure* classes to a member of a *group*, substantially on the basis of membership of that *group* and a common group rating, and the *firm* does so in the case of a particular obligor group, the *firm* should consider whether members of that *group* should be treated as a single obligor for the purpose of the definition of default in article 178(1) of the *EU CRR*.

4.5.2 G The *FCA* would not expect a *firm* to treat an obligor as part of a single obligor under *IFPRU* 4.5.1G if the *firm* rates its *exposures* on a standalone basis or if its rating is notched. (For these purposes, a rating is notched if it takes into account individual risk factors or otherwise reflects risk factors that are not applied on a common group basis.) Accordingly, if a *group* has two members which are separately rated, the *FCA* will not expect that the default of one will necessarily imply the default of the other.

Days past due

4.5.3 G Under article 178(2)(d) of the *EU CRR*, the *FCA* is empowered to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential or SME commercial real estate in the

retail exposure class, as well as exposures to public sector entities (PSEs).

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

Unlikeliness to pay in distressed restructuring

4.5.5 G The *FCA* expects that a credit obligation be considered as a distressed restructuring if an independent third party, with expertise in the relevant area, would not be prepared to provide financing on substantially the same terms and conditions (see article 178(2)(d) of the *EU CRR*).

Returning to performing status

4.5.6 G To be satisfied that a *firm* complies with the documentation requirements in article 175(3) of the *EU CRR*, the *FCA* expects a *firm* should have a clear and documented policy for determining whether an exposure that has been in default should subsequently be returned to performing status (see article 175(3) of the *EU CRR*).

4.6 Internal ratings based approach: probability of default

Rating system philosophy

4.6.1 G 'Rating philosophy' describes the point at which a rating system sits on the spectrum between the stylised extremes of a point in time (PiT) rating system and a through-the-cycle (TTC) rating system. To explain these concepts:

(1) PiT: a *firm* seeks to explicitly estimate default risk over a fixed period, typically one year. Under such an approach, the increase in default risk in a downturn results in a general tendency for migration to lower grades. When combined with the fixed estimate of the long-run default rate for the grade, the result is a higher *own funds requirement*. Where data are sufficient, grade level default rates tend to be stable and relatively close to the PD estimates; and

(2) TTC: a *firm* seeks to remove cyclical volatility from the estimation of default risk, by assessing borrowers' performance across the economic cycle. TTC ratings do not react to changes in the cycle, so there is no consequent volatility in capital requirements. Actual default rates in each grade diverge from the PD estimate for the grade, with actual default rates relatively higher at weak points in the cycle and relatively lower at strong points.

4.6.2 G Most rating systems sit between these two extremes. Rating philosophy is determined by the cyclicality of the drivers/criteria used in the rating assessment and should not be confused with the requirement for grade level PDs to be "long run". The calibration of even the most PiT rating system

needs to be targeted at the long run default rates for its grades; the use of long run default rates does not convert such a system into one producing TTC ratings or PDs

4.6.3 G A *firm* should understand where its rating systems lie on the PiT/TTC spectrum to enable it to estimate how changes in economic conditions will affect its IRB *own funds requirements* and it should be able to compare the actual default rates incurred against the default rate expected over the same period given the economic conditions pertaining, as implied by its PD estimate.

Use of variable scalar approaches

4.6.4 G The term "variable scalar" is used to describe approaches in which the outputs of an underlying, relatively PiT, rating system are transformed to produce final PD estimates used for regulatory capital requirements that are relatively non-cyclical. Typically, this involves basing the resulting requirement on the long run default rate of the portfolio or its segments.

4.6.5 G Article 169(3) of the *EU CRR* allows the use of direct estimates of PDs, although such a measure could be assessed over a variety of different time horizons which the *EU CRR* does not specify. Accordingly, the *FCA* considers that it acceptable in principle to use methodologies of this type in lieu of estimation of long-run averages for the grade/pool/score of the underlying rating system, where the following conditions are met. Meeting these conditions requires a *firm* using the variable scalar approach to have a deep understanding of how and why its default rates vary over time:

(1) a *firm* meets the following four principles which address the considerable conceptual and technical challenges to be overcome in order to carry out variable scalar adjustments in an appropriate way:

Principle 1: both the initial calculations of, and subsequent changes to, the scalar must be able to take account of changes in default risk that are not purely related to the changes in the cycle;

Principle 2: a *firm* must be able accurately to measure the long-run default risk of its portfolio; this must include an assumption that there are no changes in the business written;

Principle 3: a *firm* must use a data series of appropriate length in order to provide a reasonable estimate of the long-run default rate in *IFPRU* 4.4.13G (Calculation of long averages PD, LGD and EAD); and

Principle 4: a *firm* must be able to demonstrate the appropriateness of the scaling factor being used across a portfolio;

(2) stress testing includes a stress test covering the downturn scenario outlined in *IFPRU* 2.2 (Internal capital adequacy assessment process)] based on the PDs of the underlying PiT rating system, in addition to the stress test based on the parameters used in the Pillar 1 *own funds*

requirements calculation (ie, the portfolio level average long-run default rates); and

(3) a *firm* is able to understand and articulate upfront how the scaling factor would vary over time in order to achieve the intended effect.

4.6.6 G The *FCA* will not permit a *firm* using a variable scalar approach to revert to using a PiT approach during more benign economic conditions.

4.6.7 G Principle 1 (in *IFPRU* 4.6.5G) is the most important and challenging to achieve as it requires an ability to be able to distinguish movements not related to the economic cycle, from changes purely related to the economic cycle, and not to average these away. This is because a variable scalar approach removes the ability of a rating system to take account automatically of changes in risk through migration between its grades.

4.6.8 G Accordingly, the *FCA* expects a *firm* using a variable scalar approach should adopt a PD that is the long-run default rate expected over a representative mix of good and bad economic periods, assuming that the current lending conditions including borrower mix and attitudes and the *firm's* lending policies remain unchanged. If the relevant lending conditions or policies change, then the *FCA* would expect the long-run default rate to change (see article 180(1)(a), (b) and (2)(a) of the *EU CRR*).

Variable scalar considerations for retail portfolios

4.6.9 G The *FCA* considers that, until more promising account level arrears data is collected, enabling *firms* to better explain the movement in their arrears rate over time, the likelihood of *firms* being able to develop a compliant variable scalar approach for non-mortgage retail portfolios is low. This is because of the difficulty that *firms* have in distinguishing between movements in default rates that result from cyclical factors and those that result from non-cyclical reasons for these portfolios. In practice, the rest of this section applies to residential mortgage portfolios.

4.6.10 G For the purposes of this subsection 'non-mortgage retail portfolios' refers to non-mortgage lending to individuals (eg, credit cards, unsecured personal loans, auto-finance) but does not include portfolio of *exposures* to small and medium-sized entities (SMEs in the retail *exposure* class).

4.6.11 G The *FCA* considers that one variable scalar approach, potentially compliant with the four principles in *IFPRU* 4.6.5G, could involve:

(1) segmenting a portfolio by its underlying drivers of default risk; and

(2) estimating separate long-run default rates for each of these segmented pools.

Segmentation

4.6.12 G A *firm* that applied the segmentation approach properly could satisfy both Principle 1 and Principle 4 (*IFPRU* 4.6.5G). The choice of the basis of

segmentation and the calibration of the estimated long-run default rate for the segments would both be of critical importance.

4.6.13 G Segmentation should be done on the basis of the main drivers of both willingness and ability to pay. In the context of residential mortgages, an example of the former is the amount of equity in the property and an example of the latter is the ratio of debt to income. The *FCA* expects a *firm* to:

(1) incorporate an appropriate number of drivers of risk within the segmentation to maximise the accuracy of the system;

(2) provide detailed explanations supporting its choices of drivers, including an explanation of the drivers it has considered and chosen not to use; and

(3) ensure that the drivers reflect its risk processes and lending policy, and is therefore not chosen using only statistical criteria (ie a judgemental assessment of the drivers chosen must be applied).

[**Note**: article 179(1)(d) of the *EU CRR*]

4.6.14 G To the extent that the basis of segmentation is not sufficient completely to explain movements in non-cyclical default risk, the long-run default rate for that segment will not be stable (eg, a change in the mix of the portfolio within the segment could change the long-run default rate). In such cases, the *FCA* would expect a *firm* to make a conservative compensating adjustment to the calibration of the long-run average PD for the affected segments and be able to demonstrate that the amount of judgement required to make such adjustments is not excessive. Where judgement is used, considerable conservatism may be required. The *FCA* expects conservatism applied for this reason not to be removed as the cycle changes.

Long-run default rate

4.6.15 G The *FCA* expects a *firm* to review and amend as necessary the long run default rate to be applied to each segment on a regular (at least an annual) basis. When reviewing the long run default rate to be applied to each segment, the *FCA* expects a *firm* to consider the extent to which:

(1) realised default rates are changing due to cyclical factors and the scaling factors needs to be changed;

(2) new information suggests that both the PiT PDs and the long run PDs should be changed; and

(3) new information suggests that the basis of segmentation should be amended.

4.6.16 G The *FCA* expects that, over time, the actual default rates incurred in each segment would form the basis of PD estimates for the segments. However, at the outset, the key calibration issue is likely to be the setting of the initial long-run default rate for each segment, as this will underpin the PD of the

entire portfolio for some years to come. A *firm* should apply conservatism in this area and this is something on which the *FCA* is likely to focus on in model reviews.

Governance

4.6.17 G A *firm* should put in place a governance process to provide a judgemental overlay to assess its choices of segments, PD estimates and scalars, both initially and on a continuing basis. Moreover, where the basis of its estimation is a formulaic approach, the *FCA* considers that the act of either accepting or adjusting the estimate suggested by the formula would represent the exercise of judgement.

4.6.18 G A *firm* should consider what use it can make of industry information. However, the *firm* should be seeking to measure the absolute level of, and changes to, its own default risk, rather than changes in default risk relative to the industry. Given the potential for conditions to change across in the market as a whole, a *firm* should not draw undue comfort from the observation that its default risk is changing in the same way as the industry as a whole. Doing so would not allow it to meet Principle 1 in *IFPRU* 4.6.5G.

Data considerations

4.6.19 G The *FCA* expects a *firm* to consider the following issues when seeking to apply a variable scalar approach for *UK* mortgages:

(1) in respect of Principle 2 (*IFPRU* 4.6.5G), the commonly used Council for Mortgage Lenders database was based on arrears data and not defaults during a period, and the use of these data without further analysis and adjustment can undermine the accuracy of any calculations; and

(2) in respect of Principle 3 (*IFPRU* 4.6.5G), the historical data time period chosen for use in the calculations will vary the long-run PDs, and thus *own funds requirements*, when there is no change in the underlying risk.

4.6.20 G The *FCA* expects a *firm* that is including mortgage arrears data as a proxy for default data to:

(1) carry out sensitivity analysis identifying the circumstances in which the assumption that arrears may be used as a proxy for default would produce inaccuracy in long-run PD estimates;

(2) set a standard for what might constitute a potentially significant level of inaccuracy, and demonstrate why, in practice, the use of this proxy would not result in any significant inaccuracy;

(3) establish a process for assessing the ongoing potential for inaccuracy, including thresholds beyond which the level of inaccuracy may no longer be insignificant; and

(4) consider the use of conservative adjustments to address the potential inaccuracy.

4.6.21 G When using historical mortgage data as a key input into variable scalar models, the *FCA* expects a *firm* to:

(1) carry out sensitivity analysis identifying the implications of using different cut-off dates for the start of the reference data set; and

(2) justify the appropriateness of its choice of cut-off date.

Retail exposures: obligor level definition of default

4.6.22 G Where a *firm* has not chosen to apply the definition of default at the level of an individual credit facility in accordance with article 178(1) of the *EU CRR*, the *FCA* expects it to ensure that the PD associated with unsecured *exposures* is not understated as a result of the presence of any collateralised *exposures*.

4.6.23 G The *FCA* expects the PD of a residential mortgage would typically be lower than the PD of an unsecured loan to the same borrower (see article 178(1) of the *EU CRR*).

Retail exposures: facility level definition of default

4.6.24 G Where a *firm* chooses to apply the definition of default at the level of an individual credit facility, in accordance with article 178(1) of the *EU CRR*, and a customer has defaulted on a facility, then default on that facility is likely to influence the PD assigned to that customer on other facilities. The *FCA* expects a *firm* to take this into account in its estimates of PD (see article 178(1) of the *EU CRR*).

Multi-country mid-market corporate PD models

4.6.25 G To ensure that a rating system provides a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk, the *FCA* expects a *firm* to develop country-specific mid-market PD models. Where a *firm* develops multi-country mid-market PD models, the *FCA* expects the *firm* to be able to demonstrate that the model rank orders risk and predicts default rates for each country where it is to be used for *own funds requirements* calculation.

4.6.26 G The *FCA* expects a *firm* to have challenging standards in place to meaningfully assess whether a model rank orders risk and accurately predict default rates. These standards should specify the number of defaults that are needed for a meaningful assessment to be done.

4.6.27 G The *FCA* expects a *firm* to assess the model's ability to predict default rates using a time series of data (ie, not only based on one year of default data).

4.6.28 G In the *FCA's* view, a model is not likely to be compliant where the *firm* cannot demonstrate that it rank orders risk and predicts default rates for each country, regardless of any apparent conservatism in the model.

Use of external rating agency grades

4.6.29 G The *FCA* expects a *firm* using a rating agency grades as the primary driver in its IRB models to be able to demonstrate (and document) compliance with the following criteria:

(1) the *firm* has its own internal rating scale;

(2) the *firm* has a system and processes in place that allow it to continuously collect and analyse all relevant information, and the 'other relevant information' considered by the *firm* in accordance with article 171(2) of the *EU CRR* reflects the information collected and analysed by the *firm* when extending credit to new or existing obligors;

(3) the 'other relevant information' considered by the *firm* is included in an IRB model in a transparent and objective way and is subject to challenge. The *FCA* expects the *firm* to be able to demonstrate what information was used and why, how it was included and, if no additional information is included, to be able to document what information was discarded and why;

(4) the development of final grades includes the following steps:

(a) the *firm* takes into account all available information (eg, external agency grades and any 'other relevant information') prior to allocating obligors to internal grades and does not automatically assign obligors to grades based on the rating agency grade;

(b) any overrides are applied to these grades; and

(c) the *firm* has a system and processes in place that allows it to continuously collect and analyse final rating overrides;

(5) the grades to which obligors are assigned is reassessed at least annually. The *firm* is able to demonstrate how the grades are reassessed on a more frequent than annual basis when new relevant information becomes available;

(6) the *firm* can demonstrate that a modelling approach is being applied, both in terms of the choice of the rating agency grade as the primary driver and, where information is found materially and consistently to add to the internal rating grade, that they have incorporated this information as an additional driver. The *FCA* expects this work to be analytical (rather than entirely subjective) and could form part of the annual independent review of the model.

4.6.30 G In the *FCA's* view, if a *firm* does not have any additional information to add to the external ratings for the significant part of its portfolio then it will not be meeting the requirements for using an IRB approach.

Low default portfolios

4.6.31 G The *FCA* expects a *firm* to estimate PD for a rating system in line with this section where the *firm's* internal experience of defaults for that rating system was 20 defaults or fewer, and reliable estimates of PD cannot be derived from external sources of default data, including the use of market price-related data. In PD estimation for all *exposures* covered by the rating system, the *FCA* expects the *firm* to:

(1) use a statistical technique to derive the distribution of defaults implied by the *firm's* experience, estimating PDs (the "statistical PD") from the upper bound of a confidence interval set by the *firm* to produce conservative estimates of PDs in accordance with article 179(f) of the *EU CRR*;

(2) use a statistical techniques to derive the distribution of default which takes account, as a minimum, of the following modelling issues:

(a) the number of defaults and number of obligor years in the sample;

(b) the number of years from which the sample was drawn;

(c) the interdependence between default events for individual obligors;

(d) the interdependence between default rates for different years; and

(e) the choice of the statistical estimators and the associated distributions and confidence intervals;

(3) further adjust the statistical PD to the extent necessary to take account of the following:

(a) any likely differences between the observed default rates over the period covered by the *firm's* default experience and the long-run PD for each grade required by article 180(1)(a) and (2)(a) of the *EU CRR*; and

(b) any other information that indicates (taking into account the robustness and cogency of that information) that the statistical PD is likely to be an inaccurate estimate of PD.

4.6.32 G The *FCA* expects a *firm* to take into account only defaults that occurred during periods that are relevant to the validation under the *EU CRR* of the model or other rating system in question when determining whether there are 20 defaults or fewer.

Supervisory slotting criteria for specialised lending

4.6.33 G The *FCA* expects a *firm* to assign exposures to the risk weight category for specialised lending exposures based on the criteria set out in the tables in *IFPRU* 4 Annex 1G (Slotting criteria).

4.7 Internal ratings based approach: loss given default

Negative LGDs

4.7.1 G The *FCA* expects a *firm* to ensure that no LGD estimate is less than zero.

Low LGDs

4.7.2 G The *FCA* does not expect a *firm* to be using zero LGD estimates in cases other than where it had cash collateral supporting the *exposures*.

4.7.3 G The *FCA* expects a *firm* to justify any low LGD estimates using analysis on volatility of sources of recovery, notably on collateral, and cures (see *IFPRU* 4.7.5G). This includes:

(1) recognising that the impact of collateral volatility on low LGDs is asymmetric, as surpluses over amounts owed need to be returned to borrowers and that this effect may be more pronounced when estimating downturn, rather than normal period LGDs; and

(2) recognising the costs and discount rate associated with realisations and the requirements of article 181(1)(e) of the *EU CRR*.

4.7.4 G To ensure that the impact of collateral volatility is taken into account, the *FCA* expects a *firm's* LGD framework to include non-zero LGD floors which are not solely related to administration costs (see article 179(1)(f) of the *EU CRR*).

Treatment of cures

4.7.5 G Where a *firm* wishes to include cures in its LGD estimates, the *FCA* expects it to do this on a cautious basis, with reference to both its current experience and how this is expected to change in downturn conditions. In particular, this involves being able to articulate clearly both the precise course of events that will allow such cures to take place and any consequences of such actions for other elements of its risk quantification. For example:

(1) where cures are driven by the *firm's* own policies, the *FCA* expects the *firm* to consider whether this is likely to result in longer realisation periods and larger forced sale discounts for those exposures that do not cure, and higher default rates on the book as a whole, relative to those that might be expected to result from a less accommodating attitude. To the extent feasible, the *FCA* expects cure assumptions in a downturn to be supported by relevant historical data;

(2) the *FCA* expects a *firm* to be aware of, and properly account for, the link between cures and subsequent defaults. In particular, an earlier

cure definition is, other things being equal, likely to result in a higher level of subsequent defaults.

[**Note**: article 5(2) of the *EU CRR*]

Incomplete workouts

4.7.6 G To ensure that estimates of LGDs take into account the most up-to-date experience, the *FCA* expects a *firm* to take account of data for relevant incomplete workouts (ie, defaulted exposures for which the recovery process is still in progress, with the result that the final realised losses in respect of those exposures are not yet certain) (see article 179(1)(c) of the *EU CRR*).

LGD: sovereign floor

4.7.7 G To ensure that sovereign LGD models are sufficiently conservative in view of the estimation error that may arise from the lack of data on losses to sovereigns, the *FCA* expects a *firm* to apply a 45% LGD floor to each unsecured *exposure* in the sovereign asset class (see article 179(1)(a) of the *EU CRR*).

LGD: UK retail mortgage property sales reference point

4.7.8 G The *FCA* believes that an average reduction in property sales prices of 40% from their peak price, prior to the market downturn, forms an appropriate reference point when assessing downturn LGD for *UK* mortgage portfolios. This reduction captures both a fall in the value of the property due to price deflation, as well as a distressed forced sale discount.

4.7.9 G Where a *firm* adjusts assumed house price values within its LGD models to take account of current market conditions, (for example house price indices), the *FCA* recognises that realised falls in market values may be captured automatically. A *firm* adopting such approaches may remove observed house price falls from its downturn house price adjustment so as not to double count. A *firm* wishing to apply such an approach must seek the consent of the *FCA* and be able to demonstrate that the following criteria are met:

(1) the adjustment applied to the market value decline element of a *firm's* LGD model is explicitly derived from the decrease in indexed property prices (ie, the process is formulaic, not judgemental);

(2) the output from the adjusted model has been assessed against the 40% peak-to-trough property sales prices decrease reference point (after inclusion of a forced sale discount);

(3) a minimum 5% market value decline applies at all times in the LGD model; and

(4) the *firm* has set a level for reassessment of the property market price decline from its peak. For example, if a *firm* had initially assumed a peak-to-trough market decline of 15%, then it will have set a level of

market value decline where this assumption will be reassessed (see article 181(1)(b) of the *EU CRR*).

Downturn LGDs

4.7.10 G To ensure that its LGD estimates are oriented towards downturn conditions, the *FCA* expects a *firm* to have a process through which it:

(1) identifies appropriate downturn conditions for each IRB *exposure* class within each jurisdiction;

(2) identifies adverse dependencies, if any, between default rates and recovery rates; and

(3) incorporates adverse dependencies, if identified, between default rates and recovery rates in the *firm's* estimates of LGD in a manner that meets the requirements relating to an economic downturn (see article 181(1)(b) of the *EU CRR*).

Discounting cashflows

4.7.11 G To ensure that its LGD estimates incorporate material discount effects, the *FCA* expects a *firm's* methods for discounting cash flows to take account of the uncertainties associated with the receipt of recoveries for a defaulted *exposure*. For example, by adjusting cash flows to certainty-equivalents or by using a discount rate that embodies an appropriate risk premium; or by a combination of the two.

4.7.12 G If a *firm* intends to use a discount rate that does not take full account of the uncertainty in recoveries, the *FCA* expects it to be able to explain how it has otherwise taken into account that uncertainty for the purposes of calculating LGDs. This can be addressed by adjusting cash flows to certainty-equivalents or by using a discount rate that embodies an appropriate risk premium for defaulted assets, or by a combination of the two (see article 5(2) of the *EU CRR*).

Wholesale LGD

4.7.13 G The *FCA* expects a *firm* using advanced IRB approaches to have done the following in respect of wholesale LGD estimates:

(1) applied LGD estimates at transaction level;

(2) ensured that all LGD estimates (both downturn and non-downturn) are cautious, conservative and justifiable, given the paucity of observations. Under article 179(1)(a) of the *EU CRR*, estimates must be derived using both historical experience and empirical evidence, and not be based purely on judgemental consideration. The *FCA* expects the justification as to why the *firm* thinks the estimates are conservative to be documented;

(3) identified and explained at a granular level how each estimate has been derived. This should include an explanation of how internal data,

external data, expert judgement or a combination of these has been used to produce the estimate;

(4) clearly documented the process for determining and reviewing estimates, and the parties involved in this process in cases where expert judgement has been used;

(5) demonstrated an understanding of the impact of the economic cycle on collateral values and be able to use that understanding in deriving their downturn LGD estimates;

(6) demonstrated sufficient understanding of any external benchmarks used and identified the extent of their relevance and suitability to the extent that the *firm* can satisfy itself that they are fit for purpose;

(7) evidenced that it is aware of any weaknesses in its estimation process and have set standards, for example related to accuracy, that their estimates are designed to meet;

(8) demonstrated that it has sought and utilised relevant and appropriate external data, including through identifying all relevant drivers of LGD and how these will be affected by a downturn;

(9) ensured, in most cases, estimates incorporate effective discrimination on the basis of at least security-type and geography. In cases where these drivers are not incorporated into LGD estimates, the *FCA* expects the *firm* to be able to demonstrate why they are not relevant;

(10) have an ongoing data collection framework to collect all relevant internal loss and *exposure* data required for estimating LGD and a framework to start using these data as soon as any meaningful information becomes available;

(11) ensure it can articulate the data the *firm* intends to use from any industry-wide data collection exercises that it is participating in, and how the data will be used.

4.7.14 G The *FCA* uses a framework for assessing the conservatism of a *firm's* wholesale LGD models for which there are a low number of defaults. This framework is set out in *IFPRU* 4 Annex 2G (Wholesale LGD and EAD framework) and does not apply to sovereign LGD estimates which are floored at 45%. This framework is also in the process of being used to assess the calibration of a *firm's* material LGD -models for low-default portfolios.

4.7.15 G In the following cases, the *FCA* expects a *firm* to determine the effect of applying the framework in *IFPRU* 4 Annex 2G (Wholesale LGD and EAD framework) to models which include LGD values that are based on fewer than 20 'relevant' data points (as defined in *IFPRU* 4 Annex 2G):

(1) the model is identified for review by the *FCA*; or

(2) the *firm* submits a request for approval for a material change to its LGD model.

Unexpected loss on defaulted assets

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

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

(2) subtraction of the best estimate of expected loss from post-default LGD.

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

Unsecured LGDs where the borrowers' assets are substantially collateralised

4.7.18 G The extent to which a borrower's assets are already given as collateral will clearly affect the recoveries available to unsecured creditors. If the degree to which assets are pledged is substantial, this will be a material driver of LGDs on such *exposures*. Although potentially present in all transactions, the *FCA* expects a *firm* to be particularly aware of this driver in situations in which borrowing on a secured basis is the normal form of financing, leaving relatively few assets available for the unsecured debt. Specialist lending (including property), hedge fund, and some SME/mid-market lending can be considered such cases.

4.7.19 G The *FCA* expects a *firm* to take into account the effect of assets being substantially used as collateral for other obligations estimating LGDs for borrowers for which this is the case. The *FCA* expects a *firm* not to use unadjusted data sets that ignore this impact, and note that it is an estimate for downturn conditions that is normally required. In the absence of relevant data to estimate this effect, conservative LGDs—potentially of 100%—are expected to be used (see articles 171(2) and 179(1)(a) of the *EU CRR*).

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

Estimation of EAD in place of conversion factors

4.8.1 G The *FCA* considers that a *firm* may provide own estimates of *exposure* at default (EAD) in place of the own estimates of conversion factors (CFs) that it is permitted or required to provide under article 151 of the *EU CRR*.

4.8.2 G For the purpose of this section, references to EAD refer to both direct estimates of EAD and CFs, unless specified otherwise (see article 151 of the *EU CRR*).

General expectations for estimating EAD

4.8.3 G The *FCA* expects that EAD estimates should not be less than current drawings (including interest accrued to date). Consequently, CF estimates should not be less than zero.

4.8.4 G The EAD required for IRB purposes is the *exposure* expected to be outstanding under a borrower's current facilities should it go into default in the next year, assuming that economic downturn conditions occur in the next year and a *firm's* policies and practices for controlling *exposures* remain unchanged other than changes that result for the economic downturn conditions.

4.8.5 G To achieve sufficient coverage of the EAD, the *FCA* expects *firms* to take into account all facility types that may result in an *exposure* when an obligor defaults, including uncommitted facilities.

4.8.6 G To the extent that a *firm* makes available multiple facilities, the *FCA* expects the *firm* to be able to demonstrate:

(1) how they deal with the fact that *exposures* on one facility may become *exposures* under another on which the losses are ultimately incurred; and

(2) the impact of its approach on its *own funds requirements*.

4.8.7 G The *FCA* expects *firms* using own estimates of EAD to have done the following in respect of EAD estimates:

(1) applied EAD estimates at the level of the individual facility;

(2) where there is a paucity of observations, ensured that all EAD estimates are cautious, conservative and justifiable. In accordance with article 179(1)(a) of the *EU CRR*, estimates must be derived using both historical experience and empirical evidence, and must not be based purely on judgemental consideration. The *FCA* expects the justification as to why the *firm* thinks the estimates are conservative to be documented;

(3) identified and explained at a granular level how each estimate has been derived. This should include an explanation of how internal data, any external data, expert judgement or a combination of these has been used to produce the estimate;

(4) ensured that where expert judgement has been used there is clear communication of the process for arriving at and reviewing the estimates, and identifying the parties involved;

(5) demonstrated an understanding of the impact of the economic cycle on exposure values and be able to use that understanding in deriving downturn EAD estimates;

(6) demonstrated sufficient understanding of any external benchmarks used and identified the extent of their relevance and suitability to the extent that the *firm* can satisfy itself that they are fit for purpose;

(7) evidenced that they are aware of any weaknesses in their estimation process and have set standards that their estimates are designed to meet (eg, related to accuracy);

(8) ensured, in most cases, that estimates incorporate effective discrimination on the basis of at least product features and customer type. In cases where these drivers are not incorporated into EAD estimates, the *FCA* expects the *firm* to be able to demonstrate why they are not relevant;

(9) have an ongoing data collection framework to collect all relevant internal *exposure* data required for estimating EAD and a framework to start using this data as soon as any meaningful information becomes available;

(10) made use of the data they are collecting to identify all relevant drivers of EAD and to understand how these drivers will be affected by a downturn; and

(11) identified dependencies between default rates and conversion factors for various products and markets when estimating downturn EADs. *Firms* are expected to consider how they expect their own policies regarding exposure management to evolve in a downturn.

4.8.8 G The *FCA* uses a framework for assessing the conservatism of *firms'* wholesale EAD models for which there are a low number of defaults. This framework is set out in *IFPRU* 4 Annex 2G (Wholesale LGD and EAD framework). This framework is in the process of being used to assess the calibration of *firms*' material EAD models for low-default portfolios.

4.8.9 G In the following cases, the *FCA* expects *firms* to determine the effect of applying the framework in *IFPRU* 4 Annex 2G (Wholesale LGD and EAD framework) to models which include EAD values that are based on fewer than 20 *relevant data points* (as defined in *IFPRU* 4 Annex 2G):

(1) the model is identified for review by the *FCA*; or

(2) the *firm* submits a request for approval for a material change to its EAD model.

Time horizon

4.8.10 G The *FCA* expects *firms* to use a time horizon of one year for EAD estimates,

unless they can demonstrate that another period would be more conservative.

4.8.11 G EAD estimates can be undertaken on the basis that default during the time horizon (the 'cohort horizon (the 'fixed-horizon approach'). The *FCA* considers that either approach is acceptable in principl

4.8.12 G The *FCA* expects the time horizon for additional drawings to be the same as the time horizon for defaults. The assumptions that EAD estimation need cover only additional drawings that might take place in the next year, such that:

(1) no *own funds requirements* need be held against facilities, or proportions of facilities that cannot be drawn down within the next year; and

(2) where facilities can be drawn down within the next year, *firms* may, in principle, reduce their estimates to the extent that they can demonstrate that they are able and willing, based on a combination of empirical evidence, current policies, and documentary protection to prevent further drawings (see article 182 of the *EU CRR*).

Direct estimates of EAD

4.8.13 G There are a range of approaches that focus on the total amount that will be drawn down at the time of default and directly estimate EAD. Typically, but not in all cases, these will estimate EAD as a percentage of total limit. These approaches can be described collectively as 'momentum' approaches.

4.8.14 G A 'momentum' approach can be used either:

(1) by using the drawings/limit percentage to formulaically derive a conversion factor on the undrawn portion of the limit; or

(2) by using the higher of percentage of the limit and the current balance as the EAD.

4.8.15 G The *FCA* considers that the use of momentum approaches in both of the ways outlined above is acceptable in principle as an alternative to direct estimation of conversion factors (see article 4(56) of the *EU CRR*).

Distortions to conversion factor estimates caused by low undrawn limits

4.8.16 G In cases where *firms* estimate conversion factors (CFs) directly using a reference data set that includes a significant number of high CFs as a result of very low undrawn limits at the observation date, the *FCA* expects *firms* to:

(1) investigate the distribution of realised CFs in the reference data set;

(2) base the estimated CF on an appropriate point along that distribution, that results in the choice of a CF appropriate for the *exposures* to which it is being applied and consistent with the requirement in article 179 of the *EU CRR* for estimates to include a margin of conservatism related to errors; and

(3) be cognisant that, while the median of the distribution might be a starting point, they should not assume without analysis that the median represents a reasonable unbiased estimate. The *FCA* expects *firms* to consider whether the pattern of distribution in realised CFs means that some further segmentation is needed (eg, treating facilities that are close to full utilisations differently) (see article 182(1)(a) of the *EU CRR*).

Identification of exposures for which an EAD must be estimated

4.8.17 G The *FCA* expects *firms* to treat a facility as an *exposure* from the earliest date at which a customer is able to make drawings under it.

4.8.18 G Where the facility is of the type that it is customary not to advise the borrower of its availability, the *FCA* expects an EAD/CF to be applied from the time that the existence of the facility is recorded on the *firm's* systems in a way that would allow the borrower to make a drawing.

4.8.19 G If the availability of a facility is subject to a further credit assessment by the *firm*, an EAD/CF may not be required. However, the *FCA* expects this to be the case only if the subsequent credit assessment was of substantially equivalent rigour to that of the initial credit approval and if this includes a rating or a confirmation of the rating of the borrower.

4.8.20 G *Firms* are not expected to include in their EAD/CF estimates the probability of increases in limits between observation and default date. If the reference data set includes the impact of such increases, the *FCA* expects *firms* to be able to adjust their estimates accordingly with the aim of assessing what the *exposure* would have been at default if the limit had not been increased.

4.8.21 G The *FCA* expects *firms* to investigate the incidence of *exposures* existing at default that arise from products or relationships that are not intended to result in a credit exposure and, consequently, have no credit limit established against them and are not reflected in their estimates of EAD. Unless such *exposures* are immaterial, the *FCA* expects *firms* to estimate a Pillar 1 *own funds requirement* on a portfolio basis to such *exposures*.

4.8.22 G The *FCA* expects *firms* to investigate how their EAD estimates are impacted by exposures that are in excess of limits at either the observation date (if in the reference data set) or at the current reporting date (for the existing book to which estimates need to be applied). Unless a momentum approach is being used, exposures in excess of limit should be excluded from the reference data set (as the undrawn limit is negative and nonsensical answers would result from their inclusion). The *FCA* expects *firms* to ensure that their EAD estimation includes the risk of further drawings on accounts that are in excess of their limits (see article 4(56) of the *EU CRR*).

Accrued interest

4.8.23 G *Exposures* include not only principal amounts borrowed under facilities but also interest accrued which will fluctuate between payment dates. To ensure

proper coverage of interest, the *FCA* expects *firms* to take the following approach:

(1) accrued interest to date should be included in current *exposure* for performing *exposures*;

(2) *firms* may choose whether estimated increases in accrued interest up to the time of default should be included in LGD or EAD;

(3) in the estimation of EAD, increases in accrued interest may be offset against reductions in other outstandings;

(4) estimation of changes in accrued interest needs to take account of changes in the contractual interest rate over the time horizon up to default and in a way consistent with the calculation of the downturn/default weighted average;

(5) inclusion of estimates of future post-default interest is not necessary in either EAD or LGD; and

(6) *firms'* accounting policies will determine the extent to which interest accrued to date is reflected in current exposure as opposed to LGD for defaulted *exposures* (see article 166(1) of the *EU CRR*).

Netting

4.8.24 G For current balances, netting may be applied in cases where a *firm* meets the general conditions for on balance sheet netting, as set out in the *EU CRR*.

4.8.25 G For the CF on undrawn limits, this may be applied on the basis of the net limit, provided the conditions in the *EU CRR* for the use of net limits are met. However, *firms* are reminded that the purpose of the measure is to estimate the amount that would be outstanding in the event of a default. This implies that their ability, in practice, to constrain the drawdown of credit balances will be particularly tested. Moreover, the *FCA* expects the appropriate conversion factor to be higher as a percentage of a net limit than of a gross limit.

4.8.26 G The lower the net limit as a percentage of gross limits or *exposures*, the greater will be the need on the part of the *firm* to ensure that it is restricting *exposures* below net limits in practice and that it will be able to continue to do so should borrowers encounter difficulties. The application of a zero net limit is acceptable in principle but there is, consequently, a very high obligation on the *firm* to ensure that breaches of this are not tolerated (see article 166(3) of the *EU CRR*).

Underwriting commitments

4.8.27 G Estimation of CFs on underwritten facilities in the course of primary market syndication may take account of anticipated sell down to other parties.

4.8.28 G *Firms* are reminded that, since the basis of EAD estimation is that default by the borrower is expected to take place in a one-year time horizon and quite

possibly in downturn conditions, the *FCA* expects any reduction in their CF in anticipation of syndication to take account of this scenario (see article 4(56) of the *EU CRR*).

4.9 Stress tests

Stress tests used in assessment of capital adequacy

4.9.1 G To be satisfied that the credit risk stress test undertaken by a *firm* under article 177(2) of the *EU CRR* is meaningful and considers the effects of severe, but plausible, recession scenarios, the *FCA* would expect the stress test to be based on an economic cycle that is consistent with *IFPRU* 2.2.73G(1)(b) (see article 177(2) of the *EU CRR*).

4.10 Validation

4.10.1 G The *FCA* expects a *firm* to have a validation process that includes the following:

(1) standards of objectivity, accuracy, stability and conservatism that it designs its ratings systems to meet and processes that establish whether its rating systems meet those standards;

(2) standards of accuracy of calibration (ie, whether outcomes are consistent with estimates) and discriminative power (ie, the ability to rank-order risk) that it designs its rating systems to meet and processes that establish whether its rating systems meet those standards;

(3) policies and standards that specify the actions to be taken when a rating system fails to meet its specified standards of accuracy and discriminative power;

(4) a mix of developmental evidence, benchmarking and process verification and policies on how this mixture varies between different rating systems;

(5) use of both quantitative and qualitative techniques;

(6) policies on how validation procedures are expected to vary over time; and

(7) ensuring independent input into, and review of, its rating systems (see article 188 of the *EU CRR*).

4.10.2 G In *IFPRU* 4.10.1G:

(1) developmental evidence means evidence that substantiates whether the logic and quality of a rating system (including the quantification

process) adequately discriminates between different levels of, and delivers accurate estimates of, PD, EL, LGD and conversion factors (as applicable); and

(2) process verification means the process of establishing whether the methods used in a rating system to discriminate between different levels of risk and to quantify PD, EL, LGD and conversion factors are being used, monitored and updated in the way intended in the design of the rating system (see article 188 of the *EU CRR*).

4.10.3 G The *FCA* expects a *firm* to be able to explain the performance of its rating systems against its chosen measure (or measures) of discriminative power. In making this comparison, a *firm* should rely primarily on actual historic default experience where this is available. In particular, the *FCA* expects a *firm* to be able to explain the extent of any potential inaccuracy in these measures, caused, in particular, by small sample size and the potential for divergence in the future, whether caused by changing economic conditions or other factors. *Firms'* assessment of discriminative power should include appropriate use of external benchmarks where available.

4.10.4 G The *FCA* will take into consideration the sophistication of the measure of discrimination chosen when assessing the adequacy of a rating system's performance.

4.10.5 G In the case of a portfolio for which there is insufficient default experience to provide any confidence in statistical measures of discriminative power, the *FCA* expects a *firm* to use other methods. For example, analysis of whether the *firm's* rating systems and an external measurement approach (eg, external ratings) rank common obligors in broadly similar ways. The *FCA* expects a *firm* to be able to explain the methodology it uses and the rationale for its use.

4.11 Income-producing real estate portfolios

Compliance with EU CRR

4.11.1 G The *FCA* considers that income-producing real estate (IPRE) is a particularly difficult asset class for which to build effective rating systems that are compliant with the requirements of the internal ratings based (IRB) approach.

4.11.2 G As with all asset classes, *firms* should assess whether their IPRE model is *EU CRR* compliant and not whether it is the nearest they can get to compliance given the constraints imposed on their model development (eg, lack of data or resource constraints).

4.11.3 G Where material non-compliance is identified and cannot be remediated in a timely fashion, *firms* should adopt a compliant approach for calculating *own funds requirements*. In most cases, this is likely to be the slotting approach (see article 144(1) of the *EU CRR*).

Drivers of risk

4.11.4 G *Firms* should be able to demonstrate that the model drivers selected offer sufficient discriminatory power and to justify why other potential data sources are not expected to materially improve the discriminatory power and accuracy of estimates.

4.11.5 G The *FCA* expects that an IPRE rating system will only be compliant if a *firm* is able to demonstrate the following in respect of its treatment of cash flows (except where the *firm* can demonstrate that this is not an appropriate risk driver):

(1) the difference in deal ratings when tenant ratings are altered is intuitive;

(2) the transformation of ratings into non-rent payment probability is intuitive. Even where tenants are rated by the *firm* the PD will not usually represent a direct read across to probability of non-payment due to, for example, model philosophy issues. Addressing this is likely to be a key area since many *firms* struggle with defining what divergence is expected between observed default rate and PD in different economic conditions in the mid corporate space;

(3) the selection of parameter values and/or distributions, and their impact on deal ratings, is well supported and intuitive;

(4) the impact on the deal rating is intuitive for such features as type of building, geographical location and building quality; and

(5) where data are missing or unavailable the treatment is conservative.

4.11.6 G The *FCA* expects that an IPRE rating system will only be compliant if a *firm* is able to demonstrate the following in respect of its treatment of interest-rate risk (IRR):

(1) IRR is included as a relevant risk driver (unless the portfolio is exclusively hedged);

(2) the way in which IRR is included in the deal rating is intuitive with respect to model philosophy. For example, a 'point in time' rating should consider the current interest rate and likely change over a one-year time horizon, whereas a 'through-the-cycle' model needs to consider the IRR averaged over an economic cycle; and

(3) the model rates deals where IRR is hedged by the *firm* differently from deals where IRR is unhedged and the magnitude of the difference in these ratings is intuitive.

4.11.7 G The *FCA* expects that an IPRE rating system will only be compliant if a *firm* is able to demonstrate the following in respect of its treatment of refinance risk:

(1) refinance risk is included as a relevant risk driver (unless the portfolio contains only amortising loans);

(2) the model rates interest only and amortising deals differently in the final year and that the magnitude of the difference in these ratings is intuitive;

(3) given the time horizon associated with IRB estimates (ie 12 months), the refinance risk could have a zero weight until the deal enters its final year for point-in-time models. In these cases, the risk should be captured in stress testing and Pillar 2; and

(4) the *firm* is able to report by borrowers that have previously had a distressed restructuring unlikeliness to pay indicator (even if they are now performing) by number, EAD and risk weighted exposure amounts.

Calibration

4.11.8 G The *FCA* expects that *firms* will not be compliant with the calibration requirements relating to use of a long-run default rate, unless it can demonstrate that:

(1) the internal data series is the longest relevant and accurate data series, on a *EU CRR* compliant definition of default, that is available;

(2) the determination of long-run default rate includes reference to an appropriate source of downturn data (this may require the use of external data);

(3) the relevance of any external data used is analysed, and the relationship between internal default data and the external data used is considered over a multi-year period; and

(4) where uncertainty is introduced due to, for example, the quality of internal data or shortcomings in the relevance of external data, a conservative adjustment to the estimates should be made.

4.11.9 G The *FCA* expects that a *firm* will only be compliant with the calibration requirements relating to model philosophy if it can demonstrate that:

(1) the model philosophy is clearly articulated and justified. Justification should include analysis of the performance of assets, and the corresponding ratings assigned, over a change in economic conditions (ie, as long as period as possible); and

(2) in addition to encapsulating this information in a coherent way in the calibration, the impact of capturing risks such as IRR and refinance risk is clearly documented.

Low default portfolios

4.11.10 G Where the rating system is classed as a low default portfolio in accordance with the *guidance* in this section, a *firm* should be able to demonstrate that the framework applied adequately considers:

(1) economic environment of data used;

(2) changes in portfolio composition over time;

(3) parameter choices; and

(4) model philosophy.

Constructed theoretically

4.11.11 G Under article 144(1) of the *EU CRR*, all models, including those constructed from a theoretical basis without reference to any empirical default data (such as Monte-Carlo cash-flow simulation models), must meet the IRB requirements that are set out in Title II Chapter 3 of Part Three of the *EU CRR* (IRB approach).

4.11.12 G The *FCA* considers that, to meet the requirements referred to in *IFPRU* 4.11.1G, it will be necessary for *firms* to demonstrate that a *firm* has a good understanding of PD models that are constructed theoretically and that the parameter estimates reflect a one-year PD. In addition, even if empirical data were not used to determine the PD estimate it should, where available, be used to back-test the estimates.

4.11.13 G The *FCA* expects that, as most models of this type will be able to produce one-year estimates of PD that correspond closely to point-in-time estimates, *firms* should conduct robust back-testing of such estimates by comparing them with realised default rates. *Firms* would need to demonstrate that the results of such back-testing meet pre-defined and stringent standards in order for the *FCA* to be satisfied that the IRB requirements are met.

4.11.14 G Because assumptions in the model build process are likely to materially impact the resulting PDs, the *FCA* would expect these choices to be clearly justified in the model documentation and to have been independently reviewed. To be satisfied that a *firm* is complying with article 176(1)(d) of the *EU CRR*, the *FCA* expects a *firm* to support justification for all assumptions with analysis of the sensitivity of the model outputs to changes in the assumptions.

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

Validation

4.11.16 G The *FCA* expects that a *firm* will not be compliant with the validation requirements unless it can demonstrate, in respect of discriminatory power, that:

(1) appropriate minimum standards that the rating system is expected to reach are defined, together with reasoning behind the adoption of such standards and that the factors considered when determining the tests are clearly documented;

(2) an objective rank-ordering metric, measured using an appropriate time horizon (eg, using ratings one year prior to default) or cohort approach, such as Gini or Accuracy Ratio of 50% is achieved over time;

(3) where there are sufficient defaults from different time periods the discriminatory power is shown to have reached the appropriate minimum standard over an extended time period (ie, longest period possible, including most recent data); and

(4) any concentrations in ratings from the model are demonstrated to be appropriate.

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

(1) observed default rate versus PD is considered at grade level and across a range of economic environments (ie, as long as period as possible);

(2) where the PD does not relate to a pure point-in-time estimate, either the PD or the observed default rate is transformed such that comparison between the two is meaningful. This transformation should be consistent with the model philosophy and calibration technique applied; and

(3) pre-defined tolerances for the degree of divergence, and the associated actions for what should happen when they are not met, are set.

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

(1) appropriate stability metrics should be considered across a range of economic environments (ie, longest period possible including most recent data);

(2) the tolerances for the degree of divergence, and associated actions for what should happen when they are not met, is pre-defined; and

(3) subsections of portfolios by characteristics affecting risk profile, and therefore potentially model performance, are investigated. Such subsections could include:

(a) loan type (amortising/interest only);

(b) degree of hedging;

(c) building type; and

(d) other factors such as non-SPV (special purpose vehicle) lending in a predominately SPV lending book or vice versa (see article 188 of the *EU CRR*).

Other requirements

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

(1) in relation to article 144(1)(e) of the *EU CRR*, where more than one model is used, the rationale, and the associated boundary issues, is clearly articulated and justified and the criteria for assigning an asset to a rating model are objective and clear;

(2) in relation to article 173(1)(c) of the *EU CRR*, the *firm* has a process in place to ensure valuations of the property are appropriate and up to date;

(3) in relation to article 171(2) of the *EU CRR*, the *firm* makes reference to information available from the Investment Property Databank where relevant. Where this data is utilised at a broad level when more granular data is available this is fully justified with appropriate analysis;

(4) in relation to article 173(1)(b) of the *EU CRR*, the rating histories demonstrate that deals are re-rated every time material information becomes available, for example where the deal enters its final year (and refinance risk becomes relevant) or a tenant defaults, is replaced or has their rating changed;

(5) in relation to article 189(3) of the *EU CRR*, management information covering all aspects required by the *EU CRR* is produced and reviewed regularly by *senior management* and the tolerances for the degree of divergence, and associated actions for what should happen when they are not met, are pre-defined; and

(6) in relation to article 177(2) of the *EU CRR*, the impact on PDs and risk-weighted exposure amounts in a *firm's* credit risk stress test is consistent with model philosophy (although ratings should be affected by events such as tenant defaults even if they are TTC) and impairment projections are justified with reference to past internal data.

4.12 Securitisation

Recognition of significant risk transfer

4.12.1 R (1) A *firm* must notify the *FCA* that it is relying on the deemed transfer of significant credit risk under article 243(2) of the *EU CRR* (Traditional securitisation) or article 244(2) of the *EU CRR* (Synthetic

securitisation), including when this is for the purposes of article 337(5) of the *EU CRR*, no later than one *month* after the date of the transfer.

(2) The notification in (1) must include sufficient information to allow the *FCA* to assess whether the possible reduction in risk-weighted exposure amounts which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties.

Significant risk transfer notifications and permissions

4.12.2 G An *originator* of *securitisations* is able to use the *securitisation* risk weights (and not calculate *own funds requirements* on the assets underlying its s*ecuritisation*) in either of the following cases:

(1) the *firm* transfers significant credit risk associated with the *securitised exposures* to third parties; or

(2) the *firm* deducts from *common equity tier 1 capital* or applies a 1250% risk weight to all positions it holds in the *securitisation*.

4.12.3 G The significant risk transfer requirements in articles 243 (Traditional securitisation) or 244 (Synthetic securitisation) of the *EU CRR* provide three options for a *firm* to demonstrate how it transfers significant credit risk for any given transaction:

(1) the *originator* does not retain more than 50% of the risk-weighted exposure amounts of mezzanine *securitisation positions*, where these are:

(a) *securitisation positions* to which a risk weight lower than 1250% applies; and

(b) more junior than the most senior position in the *securitisation* and more junior than any position in the *securitisation* rated credit quality step 1 or 2;

(2) where there is no mezzanine position, the *originator* does not hold more than 20% of the *exposure* values of *securitisation positions* that are subject to a deduction or 1250% risk weight and where the *originator* can demonstrate that the *exposure* value of such *securitisation positions* exceeds a reasoned estimate of the expected loss on the *securitised exposures* by a substantial margin; and

(3) the *competent authority* may grant permission to an *originator* to make its own assessment if it is satisfied that the *originator* can meet certain requirements.

Significant risk transfer under options 1 and 2

4.12.4 G A *firm* should notify the *FCA* of each transaction on which it is seeking capital relief.

4.12.5 G Where the *FCA* considers that the possible reduction in risk-weighted exposure amounts (RWEA) achieved via the *securitisation* is not justified by a commensurate transfer of credit risk to third parties, significant risk transfer will be considered to not have been achieved. Consequently, a *firm* will not be able to recognise any reduction in RWEA due to the transaction.

Option 3

4.12.6 G The *FCA* intends to grant permission for an *originator* to make its own assessment of significant risk transfer only where it is satisfied that:

(1) in every relevant case, the reduction in *own funds requirements* achieved would be justified by a commensurate transfer of risk to third parties;

(2) the *firm* has appropriately risk-sensitive policies and methodologies in place to assess the transfer of risk; and

(3) such transfer of risk to third parties is also recognised for the purposes of the *firm's* internal risk management and internal capital allocation.

4.12.7 G Where the *FCA* grants permission for multiple transactions, then that permission is expected to cover a defined scope of potential transactions. The permission is expected to enable a *firm* (within certain limits) to carry out these transactions without notifying the *FCA* in each individual instance.

Deduction or 1250% risk weighting

4.12.8 G A *firm* seeking to achieve capital relief by deducting or applying a 1250% risk weight to all retained *securitisation positions* does not need to comply with the notification and permissions requirements. However, in such cases, a *firm* should consider whether the characteristics of the transaction are such that the *FCA* would reasonably expect prior notice of it.

Significant risk transfer notifications

4.12.9 G Under *IFPRU* 4.12.1R, within one *month* of a *securitisation* transaction closing, a *firm* must notify the *FCA* of the transaction if it has relied on options 1 or 2 to achieve significant risk transfer.

4.12.10 G Notification under *IFPRU* 4.12.1R should include sufficient information to enable the *FCA* to assess whether the possible reduction in RWEA which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties. The *FCA* expects this to include the following:

(1) details of the *securitisation positions*, including rating, *exposure* value and RWEA broken down by *securitisation positions* sold and retained;

(2) key transaction documentation and any relevant supporting documents (eg, a summary of the transaction);

(3) details of the governance process for the transaction, including details of any committees involved in approving the transaction;

(4) a copy of the significant risk transfer policy applied to the transaction, including details of the methodology and any models used to assess risk transfer;

(5) a statement of how all relevant risks are incorporated into the significant risk transfer assessment and how the full economic substance of the transaction is taken into consideration;

(6) the significant risk transfer calculation, setting out why the *firm* believes the capital relief proposed is commensurate with the credit risk transferred to third parties;

(7) the *EU CRR* requirements the *firm* is relying on;

(8) copies of investor and internal presentations on the transaction;

(9) the rationale for the transaction;

(10) details of the underlying assets (including asset class, geography, tenor, rating, spread, collateral, *exposure* size);

(11) details of the transaction structure;

(12) description of the risks being retained;

(13) details of the cashflow between parties involved in the transaction;

(14) details of the ratings and pricing of bonds issued in the transaction;

(15) details of any connected parties involved in the transaction;

(16) details of any termination options (for example, call options); and

(17) details of reliance on *ECAIs* in the significant risk transfer assessment.

4.12.11 G The *FCA's* review will focus on the proportion of credit risk transferred, compared to the proportion by which RWEA are reduced in the transaction. Where the *FCA* judges that the reduction in RWEA is not justified by a commensurate transfer of credit risk to third parties, it will inform the *firm* that significant risk transfer has not been achieved by this transaction. Otherwise, the *FCA* will inform the *firm* that it does not object to the transaction.

4.12.12 G The *FCA* does not intend to pre-approve transactions. The *FCA* will provide a view on whether it considers that commensurate risk transfer has been achieved at a point in time, which may be provided after a transaction has closed. The *FCA* may reassess its judgement of the achievement of commensurate risk transfer if the level of credit risk transfer in a transaction changes materially.

Significant risk transfer permissions

4.12.13 G A *firm* may apply for permissions under articles 243 (Traditional securitisation) or 244 (Synthetic securitisation) of the *EU CRR* to consider significant risk transfer to have been achieved without needing to rely on options (1) or (2). The scope of such permission can be defined to cover a number of transactions or an individual transaction.

Multiple transaction permissions

4.12.14 G Where a *firm* applies for such permission, the *FCA* would expect the scope should be defined according to a range of characteristics, including the type of asset class and the structural features of the transaction. The characteristics the *FCA* would expect a *firm* to consider when scoping a permission application include:

(1) asset class (eg, residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium-sized enterprises (SMEs), consumer loans, trade receivables, *securitisations*, private finance initiative (PFI), insurance, other assets, covered bonds);

(2) further asset class distinction (eg, geography and asset quality); and

(3) structural features (eg, by distinguishing between securitisation and re-securitisation, traditional and synthetic securitisation and non-revolving structures and revolving structures).

4.12.15 G It is likely for it to be more straightforward for the *FCA* to assess relatively narrowly scoped permissions than those covering a wide range of assets and/or with complex structural features.

Areas of review and information to be submitted for permission

4.12.16 G To assess a *firm's* ability to use its own policies and methodologies for assessing significant risk transfer, the *FCA's* permission reviews will focus on:

(1) the *firm's* understanding of the risk of any potential transactions within permission scope, including for potential underlying assets, *securitisation* structures and other relevant factors that affect the economic substance of risk transfer;

(2) the governance around significant risk transfer assessment (including sign-off procedures) and systems and controls relating to risk-transfer assessment and determination of significant risk transfer;

(3) significant risk transfer calculation policies and methodologies, including any models used;

(4) the *firm's* historical experience with relevant *securitisation* origination; and

(5) the use of third-party risk assessments (eg, *ECAI* ratings) and the relationship with internal assessments.

4.12.17 G The information the *FCA* expects a *firm* to provide in a permission application includes the following:

(1) details of the *firm's* governance processes for significant risk transfer, including details of any relevant committees and the seniority and expertise of key persons involved in sign-off;

(2) a copy of the *firm's* significant risk transfer policy, including details of the significant risk transfer calculation policies, methodologies and any models used to assess risk transfer (this should set out how the *firm* ensures it only takes capital relief in proportion to the amount of risk transferred on any given transaction);

(3) a statement of how all relevant risks are incorporated in the significant risk transfer calculations and how the full economic substance of transactions is taken into consideration;

(4) details of the *firm's* systems and controls regarding risk transfer in *securitisations*;

(5) a copy of the *firm's* capital allocation strategy;

(6) details of any *securitised* assets that have come back on the *firm's* balance sheet and the reason why; and

(7) details of reliance on *ECAIs* in determining significant risk transfer.

Limits attached to multiple transaction permissions: materiality

4.12.18 G The *FCA* intends to apply two materiality limits to the proportion of risk-weighted exposure amount (RWEA) relief that can be taken under any permission covering multiple transactions:

(1) transaction level limit—any transaction that would, in principle, be within the scope of the permission, but that resulted in an RWEA reduction exceeding 1% of the *firm's* credit risk-related RWEAs as at the date of the *firm's* most recent regulatory return, will fall outside the scope of a multiple transaction permission and will require a separate permission or require notification (if the transaction would satisfy option 1 or 2); and

(2) aggregate limit—once the aggregate RWEA reduction taken on all significant risk transfer transactions executed within the scope of a permission exceeds 5% of the *firm's* credit risk-related RWEAs as at the date of the *firm's* most recent regulatory return, no additional transactions may be executed within scope of the permission. In such circumstances, a *firm* should take one of the following actions:

(a) reapply to renew the multiple transaction permission; or

(b) apply for a new permission covering the specific transactions exceeding the RWEA limit; or

(c) notify the *FCA* of the transaction, following the significant risk transfer notification procedure (if the transactions would satisfy option 1 or 2).

Limits attached to multiple transaction permissions: duration of permission

4.12.19 G Multiple transaction permissions can be expected to be granted for a period of one year. The *FCA's* review of permission renewal will focus on any changes to the *firm's* significant risk transfer policies and methodologies since the previous review.

Individual transaction permission

4.12.20 G Permissions relating to individual transactions do not need to be granted prior to the execution of a transaction. The *FCA* does not intend to specify the timeframe in which a *firm* should submit an individual transaction permission, but the *firm* should note that capital relief from a specific transaction will not be available until a *firm* has obtained permission covering the significant risk transfer assessment and capital treatment (unless the transaction is being notified under option 1 or 2, or falls within scope of a multiple transaction permission).

4.12.21 G The information the *FCA* expects to receive in an individual transaction permission includes that in *IFPRU* 4.12.10G(2) and (6) to (17), as well as that in *IFPRU* 4.12.17G (1) to (3).

Limits attached to individual transaction permissions

4.12.22 G Depending on the nature of a transaction, the *FCA* may grant an individual permission for the duration of the transaction, or may impose a time limit on the permission. Where a *firm* sought to take capital relief on a transaction beyond the expiry date of the relevant permission, the *firm* would need to renew the permission prior to its expiry date.

4.12.23 G Given that significant risk transfer should be met on a continuing basis, permissions will typically include a requirement to notify the *FCA* of any change in circumstances from those under which the permission was granted (eg, where the amount of credit risk transfer had changed materially). Any reduction in credit risk transfer subsequent to the permission being granted will require the *firm* to take a commensurate reduction in RWEA relief. If a *firm* does not effect a commensurate reduction in the RWEA relief, the *FCA* may revoke the relevant permission.

Regulatory capital calculation methodology and significant risk transfer

4.12.24 G An *originator* must transfer a significant amount of credit risk associated with

securitised exposures to third parties to be able to apply the *securitisation* risk weights set out in Part Three, Title II, Chapter 5 of the *EU CRR* (Securitisation), and any associated reduction in *own funds requirements* must be matched by a commensurate transfer of risk to third parties.

4.12.25 G As part of the notification and permissions process, the *FCA* expects the *firm* to inform it of the methodology it intends to use to calculate *securitisation* capital requirements.

Implicit support and significant risk transfer

4.12.26 G As part of a *firm's* ongoing consideration of risk transfer, the *FCA* expects it to consider the support it has provided to *securitisation* transactions.

4.12.27 G (1) If a *firm* is found to have provided support to a *securitisation*, the expectation that the *firm* will provide future support to its *securitisations* is increased. The *FCA* will take account of this increased expectation in future assessments of commensurate risk transfer to that *firm*.

(2) The *FCA* expects *securitisation* documentation to make clear, where applicable, that repurchase of *securitisation positions* by the *originator* beyond its contractual obligations is not mandatory and may only be made at fair market value.

(3) Where a *firm* provides support which it is entitled, but not obliged, to provide under the contractual documentation of the *securitisation*, the *FCA* will consider the following factors in assessing if that support has been appropriately reflected in the assessment of significant risk transfer:

(a) whether the fact that the *firm* may provide such support was expressly set out in the contractual and marketing documents for the *securitisation*;

(b) whether the nature of the support that the *firm* may give is precisely described in the documentation;

(c) whether the maximum degree of support that could be provided could be ascertained at the time of the *securitisation* by the *firm* and by a person whose only information came from the marketing documents for the *securitisation*;

(d) whether the assessment of whether significant risk transfer was achieved and the amount of that risk transferred was made on the basis that the *firm* would provide support to the maximum degree possible; and

(e) whether the *firm's own funds* and *own funds requirements* were appropriately adjusted at the time of the *securitisation* on the basis that the *firm* provided support to the maximum degree possible.

(4) If a *firm* fails to comply with article 248(1) of the *EU CRR*, the *FCA* may require it to disclose publicly that it has provided non-contractual support to the transaction.

High-cost credit protection and other significant risk transfer considerations

4.12.28 G Some transactions can transfer little or no economic risk from the protection buyer to the protection seller, but may still result in a reduction in *own funds requirements*. A particular example of a transaction-type of concern involves protection being purchased on a junior tranche and a high premium is paid for that transaction.

4.12.29 G Generally, the amount of premium paid will not materially affect the assessment of whether significant risk transfer has occurred. This is because either:

(1) the protection payment payable upon default from protection seller to protection buyer is significantly larger than the overall premium payable to the protection seller; or

(2) the payment of premium leads to an immediate incurred cost.

4.12.30 G However, there comes a point at which the premium payable for the protection can reduce significantly the actual economic risk that is transferred from the protection buyer to protection seller. A premium payable of 100% of the protection amount could leave the protection buyer in a position over the life of the transaction that was no better than if protection had not been purchased.

4.12.31 G The *FCA* expects *originators* seeking to apply the *securitisation* risk weights to synthetic *securitisations* to take into account all relevant factors to assess the amount of risk transferred. As well as the size and timing of amounts payable to the protection seller, the circumstances in which those amounts are payable can undermine the effectiveness of risk transfer. The *FCA* expects a *firm* seeking capital relief through synthetic *securitisations* to incorporate premiums in their assessment of significant risk transfer. In particular, the following transaction features may have a significant impact on the amount of risk transfer:

(1) premium which is guaranteed in all or almost all circumstances, for example, premium which is payable upfront or deferred; or

(2) those that could result in the amount of premium payable for protection being significantly greater than the spread income on the assets in the portfolio or similar to the size of the hedged position; or

(3) those under which the protection buyer retains the expected loss through higher transaction costs to the counterparty, in the form of premium or otherwise.

4.12.32 G Article 238 of the *EU CRR* (Maturity of credit protection) requires maturity to be assessed in considering significant risk transfer. When considering the effective maturity of synthetic *securitisations*, the *FCA* expects a *firm* to

consider whether the transaction contained an option to terminate the protection at the discretion of the protection buyer.

4.12.33 G The *FCA* considers the following to be examples of features which generally indicate a positive incentive to call or, at least, to constitute grounds for discussion with the *FCA* prior to the conclusion of the transaction:

(1) the transaction contains terms, such as payments at maturity or payments upon early termination or significant premiums, which may reduce risk transfer;

(2) the transaction includes a requirement for the protection buyer to incur additional costs or obligations if they do not exercise their option to terminate the protection; and

(3) there are pre-agreed mechanisms, for example 'at-market unwinds', where the protection seller and protection buyer agree that the transaction can be terminated in the future at a 'market' value and specifies aspects of how the value is calculated.

High-level significant risk transfer considerations

4.12.34 G Significant risk transfer is an ongoing requirement. Accordingly, the *FCA* expects *firms* to ensure that any reduction in *own funds requirements* achieved through *securitisation* continues to be matched by a commensurate transfer of risk throughout the life of the transaction. The *FCA* expects *firms* to take a substance over form approach to assessing significant risk transfer. *Firms* should be able to demonstrate that the capital relief post-transaction adequately captures the economic substance of the entire transaction, and is commensurate to retained risk.

4.12.35 G When risk transfer transactions are structured as a group of linked transactions rather than a single transaction, the *FCA* expects the aggregate effect of linked transactions to comply with the *EU CRR*. The *FCA* expects *firms* to ensure that analysis of risk transfer incorporates all linked transactions, particularly if certain transactions within a group of linked transactions are undertaken at off-market rates.

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

4.12.37 G To ensure continued appropriateness, the *FCA* expects *firms* to update the opinions of qualified legal counsel, required by the *EU CRR*, as necessary to ensure their continuing validity. For example, an opinion may need to be updated if relevant statutory provisions are amended, or where a new decision or judgment of a court has a bearing on the continuing validity of counsel's opinion.

4.12.38 G The *FCA* expects relevant *senior management* of a *firm* to be appropriately engaged in the execution of *securitisation* transactions that lead to a reduction in RWEA where the *firm* is providing or purchasing structured trades.

4.12.39 G The *FCA* does not operate a pre-approval process for transactions. The *FCA* expects a *firm* to discuss with its supervisor at any early stage *securitisation* transactions that are material or have complex features. Where a *firm* claims a regulatory capital reduction from *securitisation* transactions in its disclosures to the market, the *FCA* expects such disclosures to include caveats making clear the risk of full or partial re-characterisation where this risk is material in the light of the *FCA's* stated policy.

4.12.40 G Although this section sets out the *FCA's* expectations regarding *securitisations*, these expectations are also relevant for other similar credit protection arrangements.

4.12.41 G The *FCA* will seek to ensure that the *securitisation* framework is not used to undermine or arbitrage other parts of the prudential framework. For other similar credit protection arrangements (eg, those subject *credit risk mitigation* or *trading book* requirements), the impact of certain features (such as significant premiums or call options) may cast doubt on the extent of risk transferred and the resulting capital assessment. Features which result in inadequate *own funds requirements* compared to the risks a *firm* is running may result in the credit protection not being recognised or the *firm* being subject to extra capital charges in their *ICG* in Pillar 2 add-ons. Credit protection arrangements in general are subject to the same overarching principles as those in the *securitisation* framework.

4.12.42 G Where a *firm* achieves significant risk transfer for a particular transaction, the *FCA* expects it to continue to monitor risks related to the transaction to which it may still be exposed. The *firm* should consider capital planning implications of *securitised* assets returning to its balance sheet. The *EU CRR* requires a *firm* to conduct regular stress testing of its *securitisation* activities and off-balance sheet *exposures*. The stress tests should consider the *firm*-wide impact of stressed market conditions on those activities and *exposures* and the implications for other sources of risk (eg, credit risk, concentration risk, counterparty risk, *market risk*, *liquidity risk* and reputational risk). Stress testing of *securitisation* activities should take into account both existing *securitisations* and pipeline transactions. A *firm* should have procedures in place to assess and respond to the results of that stress testing and these should be taken into account under the *overall Pillar 2 rule*.

4.13 Settlement risk

4.13.1 R Where a system wide failure of a settlement system, a clearing system or a *CCP* occurs, the *own funds requirements* calculated in articles 378 (Settlement/delivery risk) and 379 (Free deliveries) of the *EU CRR* are waived until the situation is rectified. In this case, the failure of a counterparty to settle

a trade shall not be deemed a default for purposes of credit risk.

[**Note**: article 380 of the *EU CRR*]

4.14 Counterparty credit risk

Hedging sets

4.14.1 R For the purpose of article 282(6) of the *EU CRR* (Hedging sets), a *firm* must apply the CCR Mark-to-market method as set out in Part Three, Title II, Chapter 6, Section 3 (Mark-to-market method) of the *EU CRR* to:

(1) transactions with non-linear risk profile; or

(2) *payment legs* and transactions with debt instruments as underlying;

for which it cannot determine the delta or the modified duration, as the case may be, using an internal model approved by the *FCA* under Part Three Title IV of the *EU CRR* for the purposes of determining *own funds requirements* for market risk.

Recognition of netting: interest rate derivatives

4.14.2 R For the purpose of article 298(4) of the *EU CRR* (Effects of recognition of netting as risk-reducing), a *firm* must use the original maturity of the *interest-rate contract*.

4.14.3 G A *firm* may apply to the *FCA* under section 138A of the *Act* to *waive IFPRU* 4.14.2R if it wishes to use the residual maturity of the *interest-rate contract*.

Use of internal CVA model for calculation of the maturity factor 'M'

4.14.4 G (1) This *guidance* sets out the *FCA's* expectations for granting permission to a *firm* to use its own one-sided credit valuation adjustment internal models (an "internal CVA model") for the purpose of estimating the maturity factor "M", as proposed under article 162(2)(h) of the *EU CRR* (Maturity).

(2) In the context of counterparty credit risk, the maturity factor "M" is intended to increase the *own funds requirements* to reflect potential higher risks associated with medium and long-term OTC derivative portfolios, more specifically when the exposure profile of these contracts is significant beyond one year. This adjustment is only applicable to a *firm* using the Internal Model Method for the calculation of *exposure* values.

(3) A *firm* is permitted to replace the formula for the maturity factor "M", as set out in article 162(2)(g) of the *EU CRR* with the 'effective credit duration' derived by a *firm's* internal CVA model, subject to permission being granted by the *FCA*, as the *competent authority*.

(4) Internal CVA models are complex by nature and modelling practises vary significantly across the industry. The *FCA* considers the creation of an acceptable model resulting in an appropriate credit duration to be challenging, and so would require extensive review. Accordingly, the *FCA* expects a *firm* to demonstrate a strong case for the granting of such permission.

(5) A *firm* that wishes to make an application under article 162(2)(h) should provide a satisfactory justification for the use of an internal CVA model for estimating the maturity factor "M". The purpose of reducing the *own funds requirements* for counterparty credit risk will not, on its own, be considered as a reasonable justification. The *FCA* will also expect highly conservative modelling assumptions within a *firm's* internal CVA model for the purpose of article 162(2)(h).

Permission to set the maturity factor 'M' to 1 for the counterparty credit risk default charge

4.14.5 G (1) This *guidance* sets out the *FCA's* expectations for permitting a *firm* with the permission to use the Internal Model Method set out in Part Three, Title II, Chapter 6, Section 6 (Internal model method) and the permission to use an internal VaR model for specific risk set out in Part Three, Title IV, Chapter 5 (Use of internal models) associated with traded debt instruments to set to 1 the maturity factor "M" defined in article 162 of the *EU CRR*.

(2) In the context of counterparty credit risk, the maturity factor "M" is intended to increase the *own funds requirements* to reflect the potential higher risks associated with medium and long-term *OTC derivative* portfolios, more specifically when the exposure profile of these contracts is significant beyond one year. This adjustment is only applicable to firms using the Internal Model Method for the calculation of *exposure* values.

(3) Article 162(2)(i) of the *EU CRR* allows a *firm* to set the maturity factor "M" to 1 for a *firm* using the Internal Model Method provided that the *firm's* internal value-at-risk (VaR) model for specific risk associated with traded debt instruments reflects the effect of rating migration and subject to the permission of the *FCA*, as the *competent authority*.

(4) Internal VaR models for specific risk associated with traded debt instruments are not specifically designed to capture the effects of rating migrations. The risk captured by these models is based on a 10-day time horizon which cannot appropriately reflect the dynamics of rating migrations, which occur on an irregular, infrequent basis. This deficiency was one of the main reasons underlying the introduction of a separate risk measure for the capture of both credit default and rating migration risks, based on a one-year time horizon (the IRC models in article 372 of the *EU CRR* (Internal IRC model)).

(5) Since the challenges of appropriately capturing credit-rating migrations in an internal VaR model are high, the *FCA* expects a *firm* to demonstrate a strong case for the granting of the permission set out in article 162(2)(i) of the *EU CRR*.

(6) A *firm* that wishes to make an application under article 162(2)(i) of the *EU CRR* should provide a satisfactory justification for use of its internal VaR model to capture the risks associated with ratings migration. The purpose of reducing the *own funds requirements* for counterparty credit risk will not be considered as a reasonable justification.

(7) The *FCA* expects highly conservative modelling assumptions for the capture of rating migrations within a *firm's* internal VaR models for specific risk associated with traded debt instruments under article 162(2)(i) of the *EU CRR* (Maturity).

4.15 Credit risk mitigation

Conditions for applying 0% volatility adjustment under the Financial Collateral Comprehensive Method

4.15.1 G For purposes of repurchase transactions and securities lending or borrowing transactions, the *FCA* does not consider that there are any core market participants apart from those entities listed in article 227(3) of the *EU CRR*.

4 Annex 1G Slotting criteria

Table 1 - Supervisory rating grades for project finance exposures				
	Strong	**Good**	**Satisfactory**	**Weak**
Financial strength				
Market conditions	Few competing suppliers or substantial and durable advantage in location, cost, or technology. Demand is strong and growing	Few competing suppliers or better than average location, cost, or technology but this situation may not last. Demand is strong and stable	Project has no advantage in location, cost, or technology. Demand is adequate and stable	Project has worse than average location, cost, or technology. Demand is weak and declining
Financial ratios (eg, debt service	Strong financial ratios considering the level of project	Strong to acceptable financial ratios	Standard financial ratios considering the	Aggressive financial ratios considering the

coverage ratio (DSCR), loan life coverage ratio (LLCR), project life coverage ratio (PLCR), and debt-to-equity ratio)	risk; very robust economic assumptions	considering the level of project risk; robust project economic assumptions	level of project risk	level of project risk
Stress analysis	The project can meet its financial obligations under sustained, severely stressed economic or sectoral conditions	The project can meet its financial obligations under normal stressed economic or sectoral conditions. The project is only likely to default under severe economic conditions	The project is vulnerable to stresses that are not uncommon through an economic cycle, and may default in a normal downturn	The project is likely to default unless conditions improve soon
Financial structure				
Duration of the credit compared to the duration of the project	Useful life of the project significantly exceeds tenor of the loan	Useful life of the project exceeds tenor of the loan	Useful life of the project exceeds tenor of the loan	Useful life of the project may not exceed tenor of the loan
Amortisation schedule	Amortising debt	Amortising debt	Amortising debt repayments with limited bullet payment	Bullet repayment or amortising debt repayments with high bullet repayment
Political and legal environment				
Political risk, including transfer risk, considering project type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Force majeure risk (war, civil unrest, etc)	Low exposure	Acceptable exposure	Standard protection	Significant risks, not fully mitigated
Government	Project of strategic	Project considered	Project may not	Project not key

support and project's importance for the country over the long term	importance for the country (preferably export-oriented). Strong support from Government	important for the country. Good level of support from Government	be strategic but brings unquestionable benefits for the country. Support from Government may not be explicit	to the country. No or weak support from Government
Stability of legal and regulatory environment (risk of change in law)	Favourable and stable regulatory environment over the long term	Favourable and stable regulatory environment over the medium term	Regulatory changes can be predicted with a fair level of certainty	Current or future regulatory issues may affect the project
Acquisition of all necessary supports and approvals for such relief from local content laws	Strong	Satisfactory	Fair	Weak
Enforceability of contracts, collateral and security	Contracts, collateral and security are enforceable	Contracts, collateral and security are enforceable	Contracts, collateral and security are considered enforceable even if certain non-key issues may exist	There are unresolved key issues for actual enforcement of contracts, collateral and security
Transaction characteristics				
Design and technology risk	Fully proven technology and design	Fully proven technology and design	Proven technology and design and start-up issues are mitigated by a strong completion package	Unproven technology and design; technology issues exist and/or complex design
Construction risk				
Permitting and siting	All permits have been obtained	Some permits are still outstanding but their receipt is considered very	Some permits are still outstanding but the permitting	Key permits still need to be obtained and are not

		likely	process is well defined and they are considered routine	considered routine. Significant conditions may be attached
Type of construction contract	Fixed-price date-certain turnkey construction EPC (engineering and procurement contract)	Fixed-price date-certain turnkey construction EPC	Fixed-price date-certain turnkey construction contract with one or several contractors	No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors
Completion guarantees	Substantial liquidated damages, supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages, supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages, supported by financial substance and/or completion guarantee from sponsors with good financial standing	Inadequate liquidated damages or not supported by financial substance or weak completion guarantees
Track record and financial strength of contractor in constructing similar projects.	Strong	Good	Satisfactory	Weak
Operating risk				
Scope and nature of operations and maintenance (O & M) contracts	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts	Long-term O&M contract, and/or O&M reserve accounts	Limited O&M contract or O&M reserve account	No O&M contract: risk of high operational cost overruns beyond mitigants
Operator's expertise, track record, and financial strength	Very strong, or committed technical assistance of the sponsors	Strong	Acceptable	Limited/weak, or local operator dependent on local authorities
Off-take risk				

(a) If there is a take-or-pay or fixed-price off-take contract:	Excellent creditworthiness of off-taker; strong termination clauses; tenor of contract comfortably exceeds the maturity of the debt	Good creditworthiness of off-taker; strong termination clauses; tenor of contract exceeds the maturity of the debt	Acceptable financial standing of off-taker; normal termination clauses; tenor of contract generally matches the maturity of the debt	Weak off-taker; weak termination clauses; tenor of contract does not exceed the maturity of the debt
(b) If there is no take-or-pay or fixed-price off-take contract:	Project produces essential services or a commodity sold widely on a world market; output can readily be absorbed at projected prices, even at lower than historic market growth rates	Project produces essential services or a commodity sold widely on a regional market that will absorb it at projected prices at historical growth rates	Commodity is sold on a limited market that may absorb it only at lower than projected prices	Project output is demanded by only one or a few buyers or is not generally sold on an organised market
Supply risk				
Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength	Long-term supply contract with supplier of excellent financial standing	Long-term supply contract with supplier of good financial standing	Long-term supply contract with supplier of good financial standing - a degree of price risk may remain	Short-term supply contract or long-term supply contract with financially weak supplier - a degree of price risk definitely remains
Reserve risks (eg, natural resource development)	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Independently audited, proven and developed reserves in excess of requirements over the lifetime of the project	Proven reserves can supply the project adequately through the maturity of the debt	Project relies to some extent on potential and undeveloped reserves
Strength of sponsor				
Sponsor's track record, financial strength, and	Strong sponsor with excellent track record and high financial	Good sponsor with satisfactory track record and good financial	Adequate sponsor with adequate track record and good	Weak sponsor with no or questionable track record

country/sector experience	standing	standing	financial standing	and/or financial weaknesses
Sponsor support, as evidenced by equity, ownership clause and incentive to inject additional cash if necessary	Strong. Project is highly strategic for the sponsor (core business - long-term strategy)	Good. Project is strategic for the sponsor (core business - long-term strategy)	Acceptable. Project is considered important for the sponsor (core business)	Limited. Project is not key to sponsor's long-term strategy or core business
Security package				
Assignment of contracts and accounts	Fully comprehensive	Comprehensive	Acceptable	Weak
Pledge of assets, taking into account quality, value and liquidity of assets	First perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Acceptable security interest in all project assets, contracts, permits and accounts necessary to run the project	Little security or collateral for lenders; weak negative pledge clause
Lender's control over cash flow (eg, cash sweeps, independent escrow accounts)	Strong	Satisfactory	Fair	Weak
Strength of the covenant package (mandatory prepayments, payment deferrals, payment cascade, dividend restrictions, etc)	Covenant package is strong for this type of project Project may issue no additional debt	Covenant package is satisfactory for this type of project Project may issue extremely limited additional debt	Covenant package is fair for this type of project Project may issue limited additional debt	Covenant package is insufficient for this type of project Project may issue unlimited additional debt
Reserve funds (debt service, O&M, renewal	Longer than average coverage period, all reserve	Average coverage period, all reserve funds fully funded	Average coverage period, all reserve funds	Shorter than average coverage

and replacement, unforeseen events, etc)	funds fully funded in cash or letters of credit from highly rated bank		fully funded	period, reserve funds funded from operating cash flows

Table 2 - Supervisory rating grades for income-producing real estate exposures				
	Strong	**Good**	**Satisfactory**	**Weak**
Financial strength				
Market conditions	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is equal or lower than forecasted demand	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand	Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The project's design and capabilities may not be state of the art compared to new projects	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The project is losing tenants at lease expiration. New lease terms are less favourable compared to those expiring
Financial ratios and advance rate	The property's debt service coverage ratio (DSCR) is considered strong (DSCR is not relevant for the construction phase) and its loan-to-value ratio (LTV) is considered low given its property type. Where a secondary market exists, the transaction is underwritten to market standards	The DSCR (not relevant for development real estate) and LTV are satisfactory. Where a secondary market exists, the transaction is underwritten to market standards	The property's DSCR has deteriorated and its value has fallen, increasing its LTV	The property's DSCR has deteriorated significantly and its LTV is well above underwriting standards for new loans
Stress analysis	The property's	The property can	During an	The property's

	resources, contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress (eg, interest rates, economic growth)	meet its financial obligations under a sustained period of financial stress (eg, interest rates, economic growth). The property is likely to default only under severe economic conditions	economic downturn, the property would suffer a decline in revenue that would limit its ability to fund capital expenditures and significantly increase the risk of default	financial condition is strained and is likely to default unless conditions improve in the near term
Cash-flow predictability				
(a) For complete and stabilised property	The property's leases are long-term with creditworthy tenants and their maturity dates are scattered. The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (maintenance, insurance, security and property taxes) are predictable	Most of the property's leases are long term, with tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable	Most of the property's leases are medium rather than long term, with tenants that range in creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue	The property's leases are of various terms with tenants that range in creditworthiness. The property experiences a very high level of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred preparing space for new tenants
(b) For complete but not stabilised property	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future	Most leasing activity is within projections; however, stabilisation will not occur for some time	Market rents do not meet expectations. Despite achieving target occupancy rate, cash flow coverage is tight due to disappointing revenue
(c) For	The property is	The property is	Leasing activity	The property is

construction phase	entirely pre-leased through the tenor of the loan or pre-sold to an investment grade tenant or buyer, or the bank has a binding commitment for take-out financing from an investment grade lender	entirely pre-leased or pre-sold to a creditworthy tenant or buyer, or the bank has a binding commitment for permanent financing from a creditworthy lender	is within projections but the building may not be pre-leased and there may not exist a take-out financing. The bank may be the permanent lender	deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may be a dispute with the party providing the permanent financing
Asset characteristics				
Location	Property is located in highly desirable location that is convenient to services that tenants desire	Property is located in desirable location that is convenient to services that tenants desire	The property location lacks a competitive advantage	The property's location, configuration, design and maintenance have contributed to the property's difficulties
Design and condition	Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties	Property is adequate in terms of its configuration, design and maintenance	Weaknesses exist in the property's configuration, design or maintenance
Property is under construction	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified	Construction budget is adequate and contractors are ordinarily qualified	Project is over budget or unrealistic given its technical hazards. Contractors may be under qualified
Strength of sponsor/ developer				
Financial capacity and willingness to	The sponsor/ developer made a substantial cash	The sponsor/ developer made a material cash	The sponsor/ developer's contribution may	The sponsor/ developer lacks capacity or

support the property	contribution to the construction or purchase of the property. The sponsor/ developer has substantial resources and limited direct and contingent liabilities. The sponsor/ developer's properties are diversified geographically and by property type	contribution to the construction or purchase of the property. The sponsor/ developer's financial condition allows it to support the property in the event of a cash flow shortfall. The sponsor/ developer's properties are located in several geographic regions	be immaterial or non-cash. The sponsor/ developer is average to below-average in financial resources	willingness to support the property
Reputation and track record with similar properties	Experienced management and high sponsor quality. Strong reputation and lengthy and successful record with similar properties	Appropriate management and sponsor quality. The sponsor or management has a successful record with similar properties	Moderate management and sponsor quality. Management or sponsor track record does not raise serious concerns	Ineffective management and substandard sponsor quality. Management and sponsor difficulties have contributed to difficulties in managing properties in the past
Relationships with relevant real estate actors	Strong relationships with leading actors, such as leasing agents	Proven relationships with leading actors, such as leasing agents	Adequate relationships with leasing agents and other parties providing important real estate services	Poor relationships with leasing agents and/or other parties providing important real estate services
Security package				
Nature of lien	Perfected first lien (Note 1)	Perfected first lien (Note 1)	Perfected first lien (Note 1)	Ability of lender to foreclose is constrained
Assignment of rents (for projects leased to long-term	The lender has obtained an assignment. They maintain current	The lender has obtained an assignment. They maintain	The lender has obtained an assignment. They maintain	The lender has not obtained an assignment of the leases or has

tenants)	tenant information that would facilitate providing notice to remit rents directly to the lender, such as a current rent roll and copies of the project's leases	current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases	current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases	not maintained the information necessary to readily provide notice to the building's tenants
Quality of the insurance coverage	Appropriate	Appropriate	Appropriate	Substandard
Note 1: Lenders in some markets extensively use loan structures that include junior liens. Junior liens may be indicative of this level of risk if the total LTV inclusive of all senior positions does not exceed a typical first loan LTV.				

Table 3 - Supervisory rating grades for object finance exposures				
	Strong	**Good**	**Satisfactory**	**Weak**
Financial strength				
Market conditions	Demand is strong and growing, strong entry barriers, low sensitivity to changes in technology and economic outlook	Demand is strong and stable. Some entry barriers, some sensitivity to changes in technology and economic outlook	Demand is adequate and stable, limited entry barriers, significant sensitivity to changes in technology and economic outlook	Demand is weak and declining, vulnerable to changes in technology and economic outlook, highly uncertain environment
Financial ratios (debt service coverage ratio and loan-to-value ratio)	Strong financial ratios considering the type of asset. Very robust economic assumptions	Strong / acceptable financial ratios considering the type of asset. Robust project economic assumptions	Standard financial ratios for the asset type	Aggressive financial ratios considering the type of asset
Stress analysis	Stable long-term revenues, capable of withstanding severely stressed conditions through	Satisfactory short-term revenues. Loan can withstand some financial	Uncertain short-term revenues. Cash flows are vulnerable to stresses that are	Revenues subject to strong uncertainties; even in normal

	an economic cycle	adversity. Default is only likely under severe economic conditions	not uncommon through an economic cycle. The loan may default in a normal downturn	economic conditions the asset may default, unless conditions improve
Market liquidity	Market is structured on a worldwide basis; assets are highly liquid	Market is worldwide or regional; assets are relatively liquid	Market is regional with limited prospects in the short term, implying lower liquidity	Local market and/or poor visibility. Low or no liquidity, particularly on niche markets
Political and legal environment				
Political risk, including transfer risk	Very low; strong mitigation instruments, if needed	Low; satisfactory mitigation instruments, if needed	Moderate; fair mitigation instruments	High; no or weak mitigation instruments
Legal and regulatory risks	Jurisdiction is favourable to repossession and enforcement of contracts	Jurisdiction is favourable to repossession and enforcement of contracts	Jurisdiction is generally favourable to repossession and enforcement of contracts, even if repossession might be long and/or difficult	Poor or unstable legal and regulatory environment. Jurisdiction may make repossession and enforcement of contracts lengthy or impossible
Transaction characteristics				
Financing term compared to the economic life of the asset	Full pay-out profile/minimum balloon. No grace period	Balloon more significant, but still at satisfactory levels	Important balloon with potentially grace periods	Repayment in fine or high balloon
Operating risk				
Permits / licensing	All permits have been obtained; asset meets current and foreseeable safety regulations	All permits obtained or in the process of being obtained; asset meets current and foreseeable safety regulations	Most permits obtained or in process of being obtained, outstanding ones considered routine, asset meets current safety	Problems in obtaining all required permits, part of the planned configuration and/or planned operations might need to

			regulations	be revised
Scope and nature of O & M contracts	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts (if needed)	Long-term O&M contract, and/or O&M reserve accounts (if needed)	Limited O&M contract or O&M reserve account (if needed)	No O&M contract: risk of high operational cost overruns beyond mitigants
Operator's financial strength, track record in managing the asset type and capability to re-market asset when it comes off-lease	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing capability	No or unknown track record and inability to re-market the asset
Asset characteristics				
Configuration, size, design and maintenance (ie, age, size for a plane) compared to other assets on the same market	Strong advantage in design and maintenance. Configuration is standard such that the object meets a liquid market	Above average design and maintenance. Standard configuration, maybe with very limited exceptions - such that the object meets a liquid market	Average design and maintenance. Configuration is somewhat specific, and thus might cause a narrower market for the object	Below average design and maintenance. Asset is near the end of its economic life. Configuration is very specific; the market for the object is very narrow
Resale value	Current resale value is well above debt value	Resale value is moderately above debt value	Resale value is slightly above debt value	Resale value is below debt value
Sensitivity of the asset value and liquidity to economic cycles	Asset value and liquidity are relatively insensitive to economic cycles	Asset value and liquidity are sensitive to economic cycles	Asset value and liquidity are quite sensitive to economic cycles	Asset value and liquidity are highly sensitive to economic cycles
Strength of sponsor				
Operator's financial strength, track record in	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing	No or unknown track record and inability to re-market the

managing the asset type and capability to re-market asset when it comes off-lease			capability	asset
Sponsors' track record and financial strength	Sponsors with excellent track record and high financial standing	Sponsors with good track record and good financial standing	Sponsors with adequate track record and good financial standing	Sponsors with no or questionable track record and/or financial weaknesses
Security package				
Asset control	Legal documentation provides the lender effective control (eg, a first perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	Legal documentation provides the lender effective control (eg, a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	Legal documentation provides the lender effective control (eg, a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it	The contract provides little security to the lender and leaves room to some risk of losing control on the asset
Rights and means at the lender's disposal to monitor the location and condition of the asset	The lender is able to monitor the location and condition of the asset, at any time and place (regular reports, possibility to lead inspections)	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is able to monitor the location and condition of the asset are limited
Insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

Table 4 - Supervisory rating grades for commodities finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Degree of over-collateralisation of trade	Strong	Good	Satisfactory	Weak
Political and legal environment				
Country risk	No country risk	Limited exposure to country risk (in particular, offshore location of reserves in an emerging country)	Exposure to country risk (in particular, offshore location of reserves in an emerging country)	Strong exposure to country risk (in particular, inland reserves in an emerging country)
Mitigation of country risks	Very strong mitigation: Strong offshore mechanisms Strategic commodity 1st class buyer	Strong mitigation: Offshore mechanisms Strategic commodity Strong buyer	Acceptable mitigation: Offshore mechanisms Less strategic commodity Acceptable buyer	Only partial mitigation: No offshore mechanisms Non-strategic commodity Weak buyer
Asset characteristics				
Liquidity and susceptibility to damage	Commodity is quoted and can be hedged through futures or *OTC* instruments. Commodity is not susceptible to damage	Commodity is quoted and can be hedged through *OTC* instruments. Commodity is not susceptible to damage	Commodity is not quoted but is liquid. There is uncertainty about the possibility of hedging. Commodity is not susceptible to damage	Commodity is not quoted. Liquidity is limited given the size and depth of the market. No appropriate hedging instruments. Commodity is susceptible to damage
Strength of sponsor				
Financial strength of trader	Very strong, relative to trading philosophy and risks	Strong	Adequate	Weak

Track record, including ability to manage the logistic process	Extensive experience with the type of transaction in question. Strong record of operating success and cost efficiency	Sufficient experience with the type of transaction in question. Above average record of operating success and cost efficiency	Limited experience with the type of transaction in question. Average record of operating success and cost efficiency	Limited or uncertain track record in general. Volatile costs and profits
Trading controls and hedging policies	Strong standards for counterparty selection, hedging, and monitoring	Adequate standards for counterparty selection, hedging, and monitoring	Past deals have experienced no or minor problems	Trader has experienced significant losses on past deals
Quality of financial disclosure	Excellent	Good	Satisfactory	Financial disclosure contains some uncertainties or is insufficient
Security package				
Asset control	First perfected security interest provides the lender legal control of the assets at any time if needed	First perfected security interest provides the lender legal control of the assets at any time if needed	At some point in the process, there is a rupture in the control of the assets by the lender. The rupture is mitigated by knowledge of the trade process or a third party undertaking as the case may be	Contract leaves room for some risk of losing control over the assets. Recovery could be jeopardised
Insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

4 Annex 2G Wholesale LGD and EAD framework

1.	The following framework should be used to assess wholesale LGD models in the circumstances set out in *IFPRU* 4.7.15G:	
	(a)	For unsecured recoveries if a *firm* has fewer than 20 relevant observations of recoveries in a specific country for an individual type of *exposure*, then the maximum recovery a *firm* can assume should be equivalent to that which would give a 45% LGD for senior unsecured *exposures*, 75% for subordinated *exposures* and 11.25% for covered bonds.
	(b)	If a *firm* is taking account of non-financial collateral which is not eligible under the foundation approach where it does not have 20 or more relevant data points of recovery values for that type of collateral or does not have a reliable time series of market price data for the collateral in a specific country, then the LGD for the *exposure* to which the collateral is applied should be floored at 45%.
	(c)	If a *firm* is taking account of non-financial collateral which is eligible under the foundation approach, where it does not have 20 or more relevant data points of recovery values for that type of collateral or does not have a reliable time series of market price data for that collateral in a specific country, then the LGD for the *exposure* to which the collateral is applied should be floored at 35%.
2.	*Firms* should note the following when applying the framework to LGD models:	
	(a)	The 20 or more relevant data points can include internal or external data. However, the *FCA* expects *firms* to ensure that each data point is independent, representative and an accurate record of the recovery for that exposure or collateral type in that specific country.
	(b)	The *FCA* anticipates that *firms* are able to use market price data within the framework where they have less than 20 default circumstances. As a minimum, *firms* need to demonstrate that the market price data being used is representative of their collateral and that it is over a long enough time period to ensure that an appropriate downturn and forced sale haircut can be estimated.
	(c)	The framework does not affect the use of financial collateral.
	(d)	The framework does not affect the use of unfunded credit protection.
	(e)	Where a model takes account of multiple collateral types, if this only includes collateral that is eligible under the foundation approach then LGDs should be floored at 35%, and if any collateral type is not eligible under the foundation approach then LGDs should be floored at 45%.
	(f)	The effect of this framework is to floor bank and non-bank financial institution (NBFI) *exposures* at foundation values unless sufficient country-specific recovery data is available. This floor should be applied where the *exposures* are to types of banks and NBFIs that are not sufficiently

		represented in the available historic data (eg, if the historic recovery data only relates to small banks then the floor will affect large banks).
	(g)	When applying the framework, the *FCA* expects *firms* to assess whether the 11.25% LGD floor for covered bonds is sufficient given the quality of the underlying assets.
3.	*Firms* should select the most appropriate of the following three options when using the framework to assess wholesale EAD models in the circumstances set out in *IFPRU* 4.8.9G:	
	(a)	rank-order the off balance sheet product types (separately for lending and trade finance) according to their drawdown risk. The EAD parameter for a product with 20 or more default observations can then be applied to low-default products with a lower drawdown risk; or
	(b)	for product types where the *firm* has the defaults needed to estimate the EAD for committed credit lines (or an estimate derived from the option above) but less than 20 defaults for uncommitted credit lines, use 50% of the committed credit line conversion factor as an estimate of the uncommitted credit line conversion factor; or
	(c)	apply the foundation parameters.
4.	*Firms* should note the following when applying the framework to EAD models:	
	(a)	*Firms* may select more than one option when applying the framework, providing that they can demonstrate that their chosen combination is appropriate, reflecting their particular mix of products and risks, and is not selected to minimise their *own funds requirements*.
	(b)	As the *FCA* believes that the EAD experienced by *firms* is dependent on their own credit management processes it would expect only internal data to be used to estimate EAD. *firm*s however, where they can demonstrate to the *FCA's* satisfaction that the credit process are consistent across countries then the *FCA* would accept that data sourced from these countries could be combined to estimate the EAD for each product (ie, the 20 def of estimating EAD).
	(c)	*Firms* using the option in (a), above, should be able to demonstrate that a sufficiently robust approach has been taken to rank-ordering their product types by drawdown risk. This approach must be fully documented and assessed by an independent reviewer.

5 Operational risk

5.1 Application and purpose

Application

5.1.1 R *IFPRU* 5 applies to a *full-scope IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

5.1.2 G This chapter contains *guidance* to help a *firm* understand the *FCA's* expectations on the extent to which the Advanced Measurement Approach (AMA) should capture its *operational risks* where the *firm* has, or is about to, implement AMA.

5.2 Advanced Measurement Approach permission

5.2.1 G This is relevant where the AMA is applied across only part of a *firm's* operations and is used in conjunction with either the Basic Indicator Approach (BIA), or the Standardised Approach (TSA).

5.2.2 G A *firm* may use an AMA in combination with the BIA or TSA, provided it obtains permission from the *FCA*. In granting such permission, the *FCA* is required by article 314(3) of the *EU CRR* (Combined use of different approaches) to impose the following conditions when the AMA is used in combination with BIA or TSA:

(1) on the date of first implementation of the AMA, a 'significant' part of the *institution's operational risk* are captured by that approach; and

(2) the *institution* to commit to apply the AMA across a 'material' part of its operations within a time schedule approved by the *FCA*.

5.2.3 G For the purposes of these conditions, the *FCA* considers that:

(1) a "significant" part of *operational risk* shall be approximately 50% (or more); and

(2) a 'material' part of its operations shall be around 85% (or more).

6 Market risk

6.1 Market risk requirements

6.1.1 R *IFPRU* 6 applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

Purpose

6.1.2 G This chapter:

(1) implements article 101 of *CRD*;

(2) contains the *rule* that exercises the discretion afforded to the *FCA* as *competent authority* under article 327(2) of the *EU CRR*; and

(3) contains the *guidance* for market risk.

Instruments for which no treatment specified

6.1.3 R (1) Where a *firm* has a position in a *financial instrument* for which no treatment has been specified in the *EU CRR*, it must calculate its *own funds requirement* by applying the most appropriate requirement relating to positions that are specified in the *EU CRR*, if doing so is prudent and appropriate, and if the position is sufficiently similar to those covered by the relevant requirement.

(2) A *firm* must document its policies and procedures for calculating *own funds* for such positions in its *trading book policy statement*.

(3) If there are no appropriate treatments, the *firm* must calculate an *own funds requirement* of an appropriate percentage of the current value of the position. An appropriate percentage is either 100%, or a percentage that takes into account the characteristics of the position.

Use of internal models: risk capture

6.1.4 R A *firm* which has a permission to use internal models in accordance with Part Three, Title IV, Chapter 5 of the *EU CRR* (Own funds requirements for market risk):

(1) must identify any material risk, or risks that when considered in aggregate are material, which are not captured by those models;

(2) must ensure that it holds *own funds* to cover those risk(s) in addition to those required to meet its *own funds requirement* calculated in accordance with Part Three, Title IV, Chapter 5 of the *EU CRR*; and

(3) (where applicable) must ensure that it holds additional *own funds requirements* for VaR and stressed VaR models.

[**Note**: article 101 of *CRD*]

6.1.5 G (1) The methodology for the identification of the risks in *IFPRU* 6.1.4R and the calculation of those additional *own funds* for value-at-risk (VaR) and stressed value-at-risk (stressed VaR) models is called the "RNIV framework". A *firm* is responsible for identifying these additional risks and this should be an opportunity for risk managers and management to better understand the shortcomings of the *firm's* models. Following this initial assessment, the *FCA* will engage with the *firm* to provide challenge and ensure an appropriate outcome.

(2) The RNIV framework is intended to ensure that *own funds* are held to meet all risks which are not captured or not captured adequately, by the *firm's* VaR and stressed VaR models. These include, but are not limited to, missing and/or illiquid risk factors such as cross-risks, basis risks, higher-order risks, and calibration parameters. The RNIV framework is also intended to cover event risks that could adversely affect the relevant business.

(3) A *firm* should systematically identify and measure all non-captured or poorly captured risks. This analysis should be updated at least quarterly, or more frequently at the request of the *FCA*. The measurement of these risks should capture the losses that could arise due to the risk factor(s) of all products that are within the scope of the relevant internal model permission, but are not adequately captured by the relevant internal models.

(4) On a quarterly basis, the *firm* should identify and assess individual risk factors covered by the RNIV framework. The *FCA* will review the results of this exercise and may require that *firms* identify additional risk factors as being eligible for measurement.

(5) (a) Where sufficient data is available, and where it is appropriate to do so, the *FCA* expects a *firm* to calculate a VaR and stressed VaR metric for each risk factor within scope of the framework. The stressed period for the RNIV framework should be consistent with that used for stressed VaR. No offsetting or diversification may be recognised across risk factors included in the RNIV framework. The multipliers used for VaR and stressed VaR should be applied to generate an *own funds requirement*.

(b) If it is not appropriate to calculate a VaR and stressed VaR metric for a risk factor, a *firm* should instead measure the size of the risk based on a stress test. The confidence level and capital horizon of the stress test should be commensurate with the liquidity of the risk, and should be at least as conservative as comparable risk factors under the internal model approach. The capital charge should be at least equal to the losses arising from the stress test.

Standardised approach for options

6.1.6 G A *firm* that wishes to use own estimates for delta for the purposes of the standardised approach for options, should provide the *FCA* with confirmation that it meets the minimum standards set out in *IFPRU* 6.1.8G to *IFPRU* 6.1.15G (Minimum standards for own estimates of delta) for each type of option for which it calculates delta. Where a *firm* meets the minimum standards, it can expect to be permitted to use own estimates of delta for the relevant option.

6.1.7 G If a *firm* is unable to provide assurance with regard to a particular option type which is currently within its permissions, a capital add-on may be applied and a rectification plan agreed. If a *firm* is unable to comply with the rectification plan within the mandated time-frame, further supervisory measures may be taken. This may include variation of a *firm's Part 4A permission* so that it is no longer allowed to trade those particular types of options for which it does not meet the minimum standards.

Minimum standards for own estimates of delta

6.1.8 G The level of sophistication of the pricing models used to calculate own estimates of delta for use in the standardised approach for options should be proportionate to the complexity and risk of each option, and the overall risk of the *firm's* options trading business. In general, it is considered that the risk of sold options will be higher than the risk of the same options when bought.

6.1.9 G Delta should be re-calculated at least daily. A *firm* should also recalculate delta promptly following significant movements in the market parameters used as inputs to calculate delta.

6.1.10 G The pricing model used to calculate delta should be:

(1) based on appropriate assumptions which have been assessed and challenged by suitably qualified parties independent of the development process;

(2) independently tested, including validation of the mathematics, assumptions, and software implementation; and

(3) developed or approved independently of the trading desk.

6.1.11 G A *firm* should use generally accepted industry standard pricing models for the calculation of own deltas where these are available, such as for relatively simple options.

6.1.12 G The IT systems used to calculate delta should be sufficient to ensure that delta can be reliably calculated accurately and reliably.

6.1.13 G A *firm* should have adequate systems and controls in place when using pricing models to calculate deltas. This should include the following documented policies and procedures:

(1) clearly defined responsibilities of the various areas involved in the calculation;

(2) frequency of independent testing of the accuracy of the model used to calculate delta; and

(3) guidelines for the use of unobservable inputs, where relevant.

6.1.14 G A *firm* should ensure its risk management functions are aware of weaknesses of the model used to calculate deltas. Where weaknesses are identified, the *firm* should ensure that estimates of delta result in prudent *own funds*

requirements being held. The outcome should be prudent across the whole portfolio of options and underlying positions at a given time.

Netting: convertible

6.1.15 R Under article 327(2) of the *EU CRR* (Netting), the netting of a *convertible* and an offsetting position in the underlying instrument is permitted.

6.1.16 G For the purpose of *IFPRU* 6.1.15R, the *convertible* should be:

(1) treated as a position in the *equity* into which it converts; and

(2) the *firm's own funds requirement* for the general and specific risk in its *equity* instruments should be adjusted by making:

(a) an addition equal to the current value of any loss which the *firm* would make if it did convert to *equity*; or

(b) a deduction equal to the current value of any profit which the *firm* would make if it did convert to *equity* (subject to a maximum deduction equal to the *own funds requirements* on the notional position underlying the *convertible*).

Use of internal approaches

6.1.17 G A *significant IFPRU firm* should consider developing internal specific risk assessment capacity and to increase use of internal models for calculating *own funds requirements* for specific risk of debt instruments in the *trading book*, together with internal models to calculate *own funds requirements* for default and migration risk where its exposures to specific risk are material in absolute terms and where it holds a large number of material positions in debt instruments of different issuers. This provision is without prejudice to the fulfilment of the criteria laid down in Part Three, Title IV, Chapter 5, Sections 1 to 5, of the *EU CRR* (Market risk).

[**Note**: article 77(3) of *CRD*]

6.2 Guidance on market risk

Offsetting derivative instruments

6.2.1 G Article 331(2) of the *EU CRR* (Interest rate risk in derivative instruments) states conditions that must be met before a *firm* not using interest rate pre-processing models can fully offset interest-rate risk on derivative instruments. One of the conditions is that the reference rate (for floating-rate positions) or coupon (for fixed-rate positions) should be 'closely matched'. The *FCA* will normally consider a difference of less than 15 basis points as indicative of the reference rate or coupon being 'closely matched' for the purposes of this requirement.

Exclusion of overshootings when determining multiplication factor addends

6.2.2 G (1) The *FCA's* starting assumption is that all overshootings should be taken into account for the purpose of the calculation of addends. If a *firm* believes that an overshooting should not count for that purpose, then it should seek a variation of its VaR model permission under article 363 of the *EU CRR* (Permission to use internal models) in order to exclude that particular overshooting. The *FCA* would then decide whether to agree to such a variation.

(2) One example of when a *firm's* overshooting might properly be disregarded is when it has arisen as a result of a risk that is not captured in its VaR model but against which *own funds* are already held.

Derivation of notional positions for standardised approaches

6.2.3 G The rest of this section sets out the *guidance* for the derivation of notional positions for standardised approaches.

Futures and forwards on a basket or index of debt securities

6.2.4 G Futures or forwards on a basket or index of debt securities should be converted into forwards on single debt securities as follows:

(1) futures or forwards on a single currency basket or index of debt securities should be treated as either:

(a) a series of forwards, one for each of the constituent debt securities in the basket or index, of an amount which is a proportionate part of the total underlying the contract, according to the weighting of the relevant debt security in the basket; or

(b) a single forward on a notional debt security; and

(2) futures or forwards on multiple currency baskets or indices of debt securities should be treated as either:

(a) a series of forwards (using the method in (1)(a)); or

(b) a series of forwards, each one on a notional debt security to represent one of the currencies in the basket or index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant currency in the basket.

6.2.5 G Notional debt securities derived through this treatment should be assigned a specific risk position risk adjustment and a general market risk position risk adjustment equal to the highest that would apply to the debt securities in the basket or index.

6.2.6 G The debt security with the highest specific risk position risk adjustment within the basket might not be the same as the one with the highest general market risk position risk adjustment. A *firm* should select the highest percentages, even where they relate to different debt securities in the basket or index, and regardless of the proportion of those debt securities in the basket or index.

Bonds where coupons and principal are paid in different currencies

6.2.7 G Where a debt security pays coupons in one currency but will be redeemed in a different currency, it should be treated as:

(1) a debt security denominated in the coupon's currency; and

(2) a foreign currency forward to capture the fact that the debt security's principal will be repaid in a different currency from that in which it pays coupons, specifically:

(a) a notional forward sale of the coupon currency and purchase of the redemption currency, in the case of a long position in the debt security; or

(b) a notional forward purchase of the coupon currency and sale of the redemption currency, in the case of a short position in the debt security.

Interest-rate risk on other futures, forwards and swaps

6.2.8 G Other futures, forwards, and swaps where a treatment is not specified in article 328 of the *EU CRR* ((Interest rate futures and forwards) should be treated as positions in zero specific risk securities, each of which:

(1) has a zero coupon;

(2) has a maturity equal to that of the relevant contract; and

(3) is long or short according to the table in *IFPRU* 6.2.9G.

6.2.9 G This table belongs to *IFPRU* 6.2.8G.

Instrument	**Notional positions**		
Foreign currency forward or future	A long position denominated in the currency purchased	and	A short position denominated in the currency sold
Gold forward or future	A long position if the forward or future involves an actual (or notional) sale of gold	or	A short position if the forward or future involves an actual (or notional) purchase of

			gold
Equity forward or future	A long position if the contract involves an actual (or notional) sale of the underlying equity	or	A short position if the contract involves an actual (or notional) purchase of the underlying equity

Deferred start interest rate swaps or foreign currency swaps

6.2.10 G Interest-rate swaps or foreign currency swaps with a deferred start should be treated as the two notional positions (one long, one short). The paying leg should be treated as a short position in a zero specific risk security with a coupon equal to the fixed rate of the swap. The receiving leg should be treated as a long position in a zero specific risk security, which also has a coupon equal to the fixed rate of the swap.

6.2.11 G The maturities of the notional positions are shown in the table in *IFPRU* 6.2.12G.

6.2.12 G This table belongs to *IFPRU* 6.2.11G.

	Paying leg	**Receiving leg**
Receiving fixed and paying floating	The maturity equals the start date of the swap	The maturity equals the end date of the swap
Paying fixed and receiving floating	The maturity equals the end date of the swap	The maturity equals the start date of the swap

Swaps where only one leg is an interest-rate leg

6.2.13 G For interest-rate risk, a *firm* should treat a swap (such as an equity swap) with only one interest rate leg as a notional position in a zero specific risk security:

(1) with a coupon equal to that on the interest rate leg;

(2) with a maturity equal to the date that the interest rate will be reset; and

(3) which is a long position if the *firm* is receiving interest payments and short if making interest payments.

Foreign exchange forwards, futures and CFDs

6.2.14 G (1) A *firm* should treat a foreign currency forward, future or CFD as two

notional currency positions as follows:

(a) a long notional position in the currency which the *firm* has contracted to buy; and

(b) a short notional position in the currency which the *firm* has contracted to sell.

(2) In (1), the notional positions should have a value equal to either:

(a) the contracted amount of each currency to be exchanged in a forward, future or CFD held in the non-*trading book*; or

(b) the present value of the amount of each currency to be exchanged in a forward, future or CFD held in the *trading book*.

Foreign currency swaps

6.2.15 G (1) A *firm* should treat a foreign currency swap as:

(a) a long notional position in the currency in which the *firm* has contracted to receive interest and principal; and

(b) a short notional position in the currency in which the *firm* has contracted to pay interest and principal.

(2) In (1), the notional positions should have a value equal to either:

(a) the nominal amount of each currency underlying the swap if it is held in the non-*trading book*; or

(b) the present value amount of all cash flows in the relevant currency in the case of a swap held in the *trading book*.

Futures, forwards and CFDs on a single commodity

6.2.16 G Where a forward, future or CFD settles according to:

(1) the difference between the price set on trade date and that prevailing at contract expiry, then the notional position should:

(a) equal the total quantity underlying the contract; and

(b) have a maturity equal to the expiry date of the contract; and

(2) the difference between the price set on trade date and the average of prices prevailing over a certain period up to contract expiry, then a notional position should be derived for each of the reference dates used in the averaging period to calculate the average price, which:

(a) equals a fractional share of the total quantity underlying the

contract; and

(b) has a maturity equal to the relevant reference date.

Buying or selling a single commodity at an average of spot prices prevailing in the future

6.2.17 G Commitments to buy or sell at the average spot price of the commodity prevailing over some period between trade date and maturity should be treated as a combination of:

(1) a position equal to the full amount underlying the contract with a maturity equal to the maturity date of the contract, which should be:

(a) long, where the *firm* will buy at the average price; or

(b) short, where the *firm* will sell at the average price; and

(2) a series of notional positions, one for each of the reference dates where the contract price remains unfixed, each of which should:

(a) be long if the position under (1) is short, or short if the position under (1) is long;

(b) equal to a fractional share of the total quantity underlying the contract; and

(c) have a maturity date of the relevant reference date.

Cash legs of repurchase agreements and reverse repurchase agreements

6.2.18 G The forward cash leg of a repurchase agreement or reverse repurchase agreement should be treated as a notional position in a zero specific risk security which:

(1) is a short notional position in the case of a repurchase agreement and a long notional position in the case of a reverse repurchase agreement;

(2) has a value equal to the market value of the borrowing or deposit;

(3) has a maturity equal to that of the borrowing or deposit, or the next date the interest rate is reset (if earlier); and

(4) has a coupon equal to:

(a) zero, if the next interest payment date coincides with the maturity date; or

(b) the interest rate on the borrowing or deposit, if any interest is due to be paid before the maturity date.

6.3 Expectations relating to internal models

6.3.1 G Article 363 of the *EU CRR* (Permission to use internal models) states that permission for an *institution* to use internal models to calculate *own funds requirements* is subject to *competent authorities* verifying compliance with:

(1) the general requirements;

(2) requirements particular to specific risk modelling; and

(3) requirements for an internal model for incremental default and migration risk.

6.3.2 G This section describes some of the standards that the *FCA* expects to be met for it to consider that a *firm* is compliant with the requirements in *IFPRU* 6.3.1G.

High-level standards

6.3.3 G A *firm* should be able to demonstrate that it meets the risk management standards in article 368 of the *EU CRR* (Qualitative requirements) on a legal entity and business-line basis where appropriate. This is particularly important for a *subsidiary* in a *group* subject to matrix management where the business lines cut across legal entity boundaries.

Categories of position

6.3.4 G A VaR model permission will generally set out the broad classes of position within each risk category in its scope. It may also specify how individual products within one of those broad classes may be brought into or taken out of scope of the VaR model permission. These broad classes of permission are as follows:

(1) linear products, which comprise securities with linear pay-offs (such as bonds and *equities*) and derivative products which have linear pay-offs in the underlying risk factor (such as interest rate swaps, *FRAs*, and total return swaps);

(2) European, American and Bermudan put and call options (including caps, floors, and swaptions) and investments with these features;

(3) Asian options, digital options, single barrier options, double barrier options, look-back options, forward-starting options, compound options and investments with these features; and

(4) all other option-based products (such as basket options, quantos, outperformance options, timing options, and correlation-based products) and investments with these features.

Data standards

6.3.5 G A *firm* should ensure that the data series used by its VaR model is reliable. Where a reliable data series is not available, proxies or any other reasonable value-at-risk measurement may be used when the *firm* demonstrates that the requirements of article 367(2)(e) of the *EU CRR* (Requirements for risk measurement) are met. A *firm* should demonstrate that the technique is appropriate and does not materially understate the modelled risks.

6.3.6 G Data may be deemed insufficient if, for example, it contains missing data points, or data points which contain stale data. With regard to less liquid risk factors or positions, the *FCA* expects the *firm* to make a conservative assessment of those risks, using a combination of prudent valuation techniques and alternative VaR estimation techniques to ensure there is a sufficient cushion against risk over the close-out period, which takes account of the illiquidity of the risk factor or position.

6.3.7 G A *firm* is expected to update data sets to ensure standards of reliability are maintained in accordance with the frequency set out in its VaR model permission, or more frequently if volatility in market prices or rates necessitates more frequent updating. This is in order to ensure a prudent calculation of the VaR measure.

Aggregating VaR measures

6.3.8 G (1) In determining whether it is appropriate for a *firm* to use empirical correlations within risk categories and across risk categories within a model, the *FCA* expects certain features to be observed in assessing whether such an approach is sound and implemented with integrity. In general, the *FCA* expects a *firm* to determine the aggregate VaR measure by adding the relevant VaR measure for each category, unless the *firm's* permission provides for a different method of aggregating VaR measures which is empirically sound.

(2) The *FCA* does not expect a *firm* to use the square root of the sum of the squares approach when aggregating measures across risk categories unless the assumption of zero correlation between these categories is empirically justified. If correlations between risk categories are not empirically justified, the VaR measures for each category should simply be added to determine its aggregate VaR measure. However, to the extent that a *firm's* VaR model permission provides for a different way of aggregating VaR measures:

(a) that method applies instead; and

(b) if the correlations between risk categories used for that purpose cease to be empirically justified then the *firm* is expected to notify the *FCA* at once.

Testing prior to model validation

6.3.9 G A *firm* is expected to provide evidence of its ability to comply with the requirements for a VaR model permission. In general, it will be required to

demonstrate this by having a back-testing programme in place and should provide three months of back-testing history.

6.3.10 G A period of initial monitoring or live testing is required before a VaR model can be recognised. This will be agreed on a *firm*-by-*firm* basis.

6.3.11 G In assessing the *firm's* VaR model and risk management, the results of internal model validation procedures used by the *firm* to assess the VaR model will be taken into account.

Back-testing

6.3.12 G For clarity, the back-testing requirements of article 366 of the *EU CRR* (Regulatory back testing and multiplication factors) should be implemented in the manner of *IFPRU* 6.3.13G and *IFPRU* 6.3.14G.

6.3.13 G If the day on which a loss is made is day n, the value-at-risk measure for that day will be calculated on day n-1, or overnight between day n-1 and day n. Profit and loss figures are produced on day n+1, and back-testing also takes place on day n+1. The *firm's* supervisor should be notified of any overshootings by close of business on day n+2.

6.3.14 G Any overshooting initially counts for the purpose of the calculation of the plus factor, even if subsequently the *FCA* agrees to exclude it. Thus, where the *firm* experiences an overshooting and already has four or more overshootings for the previous 250 *business days*, changes to the multiplication factor arising from changes to the plus factor become effective at day n+3.

6.3.15 G A longer time period generally improves the power of back-testing. However, a longer time period may not be desirable if the VaR model or market conditions have changed to the extent that historical data is no longer relevant.

6.3.16 G The *FCA*, will review as part of a *firm's* VaR model permission application, the processes and documentation relating to the derivation of profit and loss used for back-testing. A *firm's* documentation should clearly set out the basis for cleaning profit and loss. To the extent that certain profit and loss elements are not updated every day (for example, certain reserve calculations) the documentation should clearly set out how such elements are included in the profit and loss series.

Planned changes to the VaR model

6.3.17 G In accordance with article 363(3) of the *EU CRR* (Permission to use internal models), the *FCA* expects a *firm* to provide and discuss with us details of any significant planned changes to the VaR model before those changes are implemented. These details must include detailed information about the nature of the change, including an estimate of the impact on VaR numbers and the incremental risk charge.

Bias from overlapping intervals for 10-day VaR and stressed VaR

6.3.18 G The use of overlapping intervals of 10-day holding periods for article 365 of the *EU CRR* (VaR and stressed VaR calculation) introduces an autocorrelation into the data that would not exist should truly independent 10-day periods be used. This may give rise to an under-estimation of the volatility and the VaR at the 99% confidence level. To obtain clarity on the materiality of the bias, a *firm* should measure the bias arising from the use of overlapping intervals for 10-day VaR and stressed VaR when compared to using independent intervals. A report on the analysis, including a proposal for a multiplier on VaR and stressed VaR to adjust for the bias, should be submitted to the *FCA* for review and approval.

Stressed VaR calculation

6.3.19 G Article 365 of the *EU CRR* requires a *firm* that uses an internal model for calculating its *own funds requirement* to calculate, at least weekly, a stressed VaR (sVaR) of their current portfolio. When the *FCA* considers a *firm's* application to use a sVaR internal model it would expect the features in *IFPRU* 6.3.20G to *IFPRU* 6.3.24G to be present prior to permission being granted, as indicative that the conditions for granting permission have been met.

Quantile estimator

6.3.20 G The *firm* should calculate the sVaR measure to be greater than or equal to the average of the 2nd and 3rd worst loss in a 12-month time series comprising of 250 observations. The *FCA* expects, as a minimum, that a corresponding linear weighting scheme should be applied if the *firm* uses a larger number of observations.

Meaning of 'period of significant financial stress relevant to the institution's portfolio'

6.3.21 G The *firm* should ensure that the sVaR period chosen is equivalent to the period that would maximise VaR, given the *firm's* portfolio. There is an expectation that a stressed period should be identified at each legal entity level at which capital is reported. Therefore, group level sVaR measures should be based on a period that maximises the group level VaR, whereas entity level sVaR should be based on a period that maximises VaR for that entity.

Antithetic data

6.3.22 G The *firm* should consider whether the use of antithetic data in the calculation of the sVaR measure is appropriate to the *firm's* portfolio. A justification for using or not using antithetic data should be provided to the *FCA*.

Absolute and relative shifts

6.3.23 G The *firm* should explain the rationale for the choice of absolute or relative

shifts for both VaR and sVaR methodologies. In particular, statistical processes driving the risk factor changes need to be evidenced for both VaR and sVaR.

6.3.24 G The following information is expected to be submitted quarterly:

(1) analysis to support the equivalence of the *firm's* current approach to a VaR-maximising approach on an ongoing basis;

(2) the rationale behind the selection of key major risk factors used to find the period of significant financial stress;

(3) summary of ongoing internal monitoring of stressed period selection with respect to current portfolio;

(4) analysis to support capital equivalence of upscaled 1-day VaR and sVaR measures to corresponding full 10-day VaR and sVaR measures;

(5) graphed history of sVaR/VaR ratio;

(6) analysis to demonstrate accuracy of partial revaluation approaches specifically for sVaR purposes (for *firms* using revaluation ladders or spot/vol-matrices), which should include a review of the ladders/matrices or spot/vol-matrices, ensuring that they are extended to include wider shocks to risk factors that incur in stress scenarios; and

(7) minutes of risk committee meeting or other form of evidence to reflect governance and *senior management* oversight of stressed VaR methodology.

Requirement to have an internal IRC model

6.3.25 G Article 372 of the *EU CRR* (Requirement to have an internal IRC model) requires a *firm* that use an internal model for calculating *own funds requirements* for specific risk of traded debt instruments to also have an internal incremental default and migration risk (IRC) model in place to capture the default and migration risk of its *trading book* positions that are incremental to the risks captured by its VaR model. When the *FCA* considers a *firm's* application to use an IRC internal model, it expects that the matters in *IFPRU* 6.3.26G to *IFPRU* 6.3.28G will be included as demonstrating compliance with the standards in article 372.

Basis risks for migration

6.3.26 G The *FCA* expects the IRC model to capitalise pre-default basis risk. In this respect, the model should reflect that in periods of stress the basis could widen substantially. The *firm* should disclose to the *FCA* its material basis risks that are incremental to those already captured in existing market risk capital measures (VaR-based and others). This must take actual close-out periods during periods of illiquidity into account.

Price/spread change model

6.3.27 G The price/spread change model used to capture the profit and loss impact of migration should calibrate spread changes to long-term averages of differences between spreads for relevant ratings. These should either be conditioned on actual rating events, or using the entire history of spreads regardless of migration. Point-in-time estimates are not considered acceptable, unless they can be shown to be as conservative as using long-term averages.

Dependence of the recovery rate on the economic cycle

6.3.28 G To achieve a soundness standard comparable to those under the IRB approach, LGD estimates should reflect the economic cycle. Therefore, the *FCA* expects a *firm* to incorporate dependence of the recovery rate on the economic cycle into the IRC model. Should the *firm* use a conservative parameterisation to comply with the IRB standard of the use of downturn estimates, evidence of this should be submitted in quarterly reporting to the *FCA*, bearing in mind that for trading portfolios, which contain long and short positions, downturn estimates would not in all cases be a conservative choice.

7 Liquidity

7.1 Application

7.1.1 R *IFPRU* 7 applies to an *IFPRU investment firm*.

Purpose

7.1.2 G This section contains *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 6(4) of the *EU CRR* (Exemption for certain investment firms).

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 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 *firm* should be guided by *BIPRU* 12 (Liquidity standards) when complying with article 416 of the *EU CRR* (Reporting on liquid assets).

Exemption from Part Six of EU CRR on individual basis

7.1.5 R For the purpose of article 6(4) of the *EU CRR*, a *firm* is exempt from

compliance with the obligations in Part Six of the *EU CRR* (Liquidity) on an individual basis unless it meets both the following conditions:

(1) it is an *ILAS BIPRU firm*; and

(2) it is a *significant IFPRU firm*.

Exemption from Part Six of EU CRR on consolidated basis

7.1.6 R For the purpose of article 11(3) of the *EU CRR*, a *FCA consolidation group* that meets the condition in *IFPRU* 7.1.7R is exempt from compliance with the obligations in Part Six of the *EU CRR* (Liquidity) on a *consolidated basis*.

7.1.7 R The members of the *FCA consolidation group* comprise only *firms* that are exempt under *IFPRU* 7.1.5R.

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.

(2) The conditions are:

(a) article 498 of the *EU CRR* (Exemptions for commodities dealers) applies to it;

(b) the *exempt IFPRU commodities firm* is not a member of a *FCA consolidation group* or *non-EEA 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*; and

(d) any *investment firm* in the group that the *exempt IFPRU commodities firm* belongs to whose head office is outside the *EEA* would have been a *firm* to whom article 498 would have applied if its head office had been in an *EEA State*.

Purpose

8.1.2 G This section contains:

(1) *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 18 of the *EU CRR* (Methods of prudential

consolidation); and

(2) *guidance* on the criteria that the *FCA* will take into account when considering whether to grant a permission to a *firm* on a case-by-case basis for the individual consolidation method under article 9 of the *EU CRR* (Individual consolidation method).

Methods of prudential consolidation: proportional consolidation

8.1.3 R (1) In carrying out the calculations for the purposes of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation), a *firm* must include the relevant proportion of an *undertaking* with whom it has:

(a) a *consolidation Article 12(1) relationship*; or

(b) an *article 18(6) relationship*.

(2) In (1), the relevant proportion is such proportion (if any) as stated in a *requirement* imposed on the *firm*.

[**Note**: article 18(3) and (6) of the *EU CRR*]

8.1.4 R In carrying out the calculations for the purposes of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation), a *firm* (for whom the *FCA* is the *consolidating supervisor*) must include the proportion according to the share of capital held of *participations* in *institutions* and *financial institutions* managed by an *undertaking* included in the consolidation together with one or more *undertakings* not included in the consolidation, where those *undertakings'* liability is limited to the share of capital they hold.

[**Note**: article 18(4) of the *EU CRR*]

8.1.5 R In carrying out the calculations for the purposes of Part One, Title II, Chapter 2 of the *EU CRR* (Prudential consolidation), a *firm* (for whom the *FCA* is the *consolidating supervisor*) must carry out a full consolidation of any *undertaking* with whom it has an *article 18(5) relationship*.

[**Note**: article 18(5) of the *EU CRR*]

Individual consolidation method

8.1.6 G Article 9(2) of the *EU CRR* (Individual consolidation method) requires a *firm*, which is a parent institution, to demonstrate fully to the *FCA*, as *competent authority*, that there are no material practical or legal impediments to the prompt transfer of *own funds* of the *subsidiary* referred to in article 9(1) of the *EU CRR*, or repayment of liabilities when due by that *subsidiary* to the *firm*.

8.1.7 G The *FCA* will assess an application for individual consolidation against articles 9 and 396(2) (Compliance with large exposure requirements) of the *EU CRR* on a case-by-case basis. The *FCA* will assess whether it is still appropriate to permit the treatment if doing so risks conflict with its statutory

objectives. The *FCA* will apply a high level of scrutiny to applications under article 9 of the *EU CRR*, consistent with the previous solo consolidation regime.

Application of criteria for individual consolidation method

8.1.8 G When making its assessment, the *FCA* will consider whether any minority interest may represent an impediment of any kind to the prompt transfer of *own funds* or repayment of liabilities from the *subsidiary* to the *parent undertaking*. To reassure the *FCA*, the parent institution should demonstrate that any minority interest in a *subsidiary* will not result in the potential blocking or delay of prompt transfer of *own funds* or repayment of liabilities. Therefore, it may be possible for a *firm* to meet the condition in article 7(1)(d) of the *EU CRR* but not meet the condition in article 9(2).

8.1.9 G The *FCA* will consider the non-exhaustive criteria below when determining whether the condition in article 9(2) of the *EU CRR* is met:

(1) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment;

(2) whether there are any interests other than those of the *firm* in the *subsidiary* and what impact those other interests may have on the *firm's* control over the *subsidiary* and the ability of the *firm* to require a transfer of funds or repayment of liabilities. As part of the *FCA's* overall assessment, it would consider ownership of 75% or more of the *subsidiary* as one of the indicators that prompt transfer of *own funds* is likely to be achieved;

(3) whether the prompt transfer of funds or repayment of liabilities to the *firm* might harm the reputation of the *firm* or its *subsidiary*;

(4) whether there are any tax disadvantages for the *firm* or the *subsidiary* as a result of the transfer of funds or repayment of liabilities;

(5) whether there are any exchange controls that may have an impact on the transfer of funds or repayment of liabilities;

(6) whether there are assets in the *subsidiary* available either to be transferred or liquidated for the purposes of the transfer of funds or repayment of liabilities;

(7) whether any regulatory requirements impact on the ability of the *subsidiary* to transfer funds or repay liabilities promptly;

(8) whether the purpose of the *subsidiary* prejudices the prompt transfer of funds or repayment of liabilities;

(9) whether the legal structure of the *subsidiary* prejudices the prompt transfer of funds or repayment of liabilities;

(10) whether the contractual relationships of the *subsidiary* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities;

(11) whether past and proposed flows of funds between the *subsidiary* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities; and

(12) whether the degree of individual consolidation by the *firm* undermines the *FCA's* ability to assess the soundness of the *firm* as a legal entity (taking into account any other *subsidiary* to which the individual consolidation method under article 9(1) of the *EU CRR* is being applied).

Entities excluded from the scope of prudential consolidation

8.1.10 G The *FCA* will assess applications to exclude entities from the scope of prudential consolidation against article 19(2) of the *EU CRR* on a case-by-case basis. The *FCA* will only grant this treatment with respect to undertakings where one of the conditions in article 19(2) is met. The *FCA* will still make a judgement as to whether it is appropriate to grant this treatment even where one of the conditions in article 19(2) is met.

Application of criteria for exclusion

8.1.11 G Article 19(2) of the *EU CRR* allows the *consolidating supervisor* to decide in the following cases that an *institution*, *financial institution* or *ancillary services undertaking* which is a *subsidiary* or in which a *participation* is held need not be included in the consolidation in the following cases:

(1) where the *undertaking* concerned is situated in a third country where there are legal impediments to the transfer of necessary information;

(2) where the *undertaking* concerned is of negligible interest only with respect to the objectives of monitoring *institutions*;

(3) where, in the opinion of the *competent authorities* responsible for exercising supervision on a *consolidated basis*, the consolidation of the financial situation of the *undertaking* concerned would be inappropriate or misleading as far as the objectives of the supervision of *credit institutions* are concerned.

8.1.12 G If several *undertakings* meet the criteria in *IFPRU* 8.1.11G(2) and are collectively of non-negligible interest with respect to the specified objectives, the *FCA* will not agree to exclude them all from the consolidation.

8.1.13 G The *FCA* may request a *firm* to provide information about the *undertakings* excluded from consolidation.

Core UK groups

8.1.14 G Article 113(6) of the *EU CRR* (Intra-group credit risk exemption) permits a *firm*, subject to conditions, to apply a 0% risk-weighting for *exposures* to certain entities within its *FCA consolidation group*, namely its *parent undertaking*, its own *subsidiaries* and *subsidiaries* of its *parent undertaking*. Article 400(1)(f) of the *EU CRR* then fully exempts such *exposures* from the *large exposures* limit stipulated in article 395(1) of the *EU CRR* (Limits to large exposures).

8.1.15 G The *FCA* will assess *core UK group* applications against article 113(6) on a case-by-case basis. The *FCA* expects to approve this treatment for *core UK group undertakings* if the conditions stipulated in article 113(6) are met. A *firm* should note that the *FCA* will still make a wider judgement whether it is appropriate to grant this treatment even where the conditions in article 113(6) are met. It is the *FCA's* intention to continue to apply a high level of scrutiny to applications under this article.

8.1.16 G In relation to article 113(6)(d), the *FCA* expects the condition to be satisfied if the counterparty is:

(1) incorporated in the *UK*; or

(2) an *undertaking* of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC) and it is established in the *UK* other than by incorporation, and if the *firm* can demonstrate that the counterparty's centre of main interests is situated in the *UK* within the meaning of that Regulation.

8.1.17 G In relation to article 113(6)(e), the *FCA* will consider the following non-exhaustive criteria when assessing whether this condition has been met:

(1) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment. As part of the *FCA's* overall assessment, it would consider ownership of 100% of the *subsidiary* as one of the indicators that prompt transfer of *own funds* is likely to be achieved;

(2) whether there are any interests other than those of the *firm* in undertaking and what impact those other interests may have on the *firm's* control over the *undertaking* and the ability of the *firm* to require a transfer of funds or repayment of liabilities;

(3) whether there are any tax disadvantages for the *firm* or the counterparty as a result of the transfer of funds or repayment of liabilities;

(4) whether the purpose of the *undertaking* prejudices the prompt transfer of funds or repayment of liabilities;

(5) whether the legal structure of the *undertaking* prejudices the prompt transfer of funds or repayment of liabilities;

(6) whether the contractual relationships of the *undertaking* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and

(7) whether past and proposed flows of funds between the *undertaking* and the *firm* demonstrate the ability to make prompt transfer of funds or repayment of liabilities.

8.1.18 G For the purpose of article 113(6)(e) of the *EU CRR*, for an *undertaking* that is a *firm*, the requirement for the prompt transfer of funds refers to *own funds* in excess of the capital and financial resources requirements to which it is subject under the *regulatory system*.

8.1.19 G When demonstrating how article 113(6)(e) of the *EU CRR* is met, the *FCA* considers that, for a counterparty which is not a *firm*, the application should include a legally binding agreement between the *firm* and the counterparty. This agreement will be to promptly, on demand, by the *firm* increase the *firm's own funds* by an amount required to ensure that the *firm* complies with the provisions contained in Part Two of the *EU CRR* (Own funds) and any other requirements relating to capital resources concentration risk imposed on the *firm* by, or under, the *regulatory system*.

8.1.20 G For the purpose of article 113(6)(e), the *FCA* considers that the agreement to increase the *firm's own funds* may be limited to capital resources available to the *undertaking* and may reasonably exclude such amount of capital resources that, if transferred to the *firm*, would cause the *undertaking* to become balance sheet insolvent in the manner contemplated in section 123(2) of the Insolvency Act 1986.

8.1.21 G The *FCA* will expect a *firm* to which this section applies not to use any member of its *core UK group* (which is not a *firm*) to route lending or to have *exposures* to any third party in excess of the limits stipulated in article 395(1) of the *EU CRR* (Limits to large exposures).

8.2 Large exposures

Application

8.2.1 R This section applies to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm* to which article 493 of the *EU CRR* applies.

8.2.2 R This section does not apply to a *FCA consolidation group* on the basis of its *consolidated situation* if the *group* only contains *limited activity firms* or *limited licence firms*.

Purpose

8.2.3 G This section contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 400(2)(c) and (3) of the *EU CRR*

(Large exposures: exemptions). The *FCA* does not intend to exercise its discretion for any of the other exemptions in article 400(2).

Intra-group exposures: non-core large exposures group

8.2.4 G Article 400(2) of the *EU CRR* permits the *FCA* to fully or partially exempt *exposures* incurred by a *firm* to intra-group *undertakings* that meet the specified criteria from the limit stipulated in article 395(1) of the *EU CRR* in relation to a *firm's group of connected clients* that represent its wider group. The *FCA* will consider exempting non-*trading book* and *trading book exposures* to intra-group *undertakings* if specified conditions throughout *IFPRU* 8.2 are met.

8.2.5 G The *FCA* expects that applications for exemptions under article 400(2)(c) of the *EU 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*, except for article 113(6)(d) (established in the same *EEA State* as the *firm*).

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:

(1) its *parent undertaking*; or

(2) other *subsidiary undertakings* of that *parent undertaking*; or

(3) its own *subsidiary undertakings*;

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* 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*]

8.2.7 R A *firm* may only make use of the *non-core large exposure group exemption* where the following conditions are met:

(1) the total amount of the non-*trading book exposures* from the *firm* to its *non-core large exposures group* does not exceed 100% of the *firm's eligible capital*; or

(if the *firm* has a *core UK group permission*) the total amount of non-*trading book exposures* from its *core UK group* (including the *firm*) to its *non-core large exposures group* does not exceed 100% of the *core UK group eligible capital*;

(2) the total amount of *trading book exposures* from the *firm* to its *non-core large exposures group* does not exceed 500% of the *firm's eligible capital*; or

(if the *firm* has a *core UK group permission*) the total amount of *trading book exposures* from its *core UK group* (including the *firm*) to its *non-core large exposures group* does not exceed 500% of the *core UK group eligible capital*;

(3) (if the *firm* has a *core UK group permission*) it gives the *FCA* prior written notice if it intends to concentrate its intra-group exposure to a particular member of its *non-core large exposures group* in excess of 25% of *core UK group eligible capital*.

The written notice must contain the following:

(a) an explanation of how the *firm* will ensure that it will still meet the condition in (1) on a continuing basis;

(b) details of the counterparty, the size of the *exposure* and the expected duration of the *exposure*; and

(c) an explanation of the reason for the *exposure*;

(4) if the *firm* stops concentrating its intra-group *exposure* to a particular member of its *non-core large exposures group* in excess of 25% of *core UK group eligible capital*, it gives the *FCA* prior written notice as set out in (3) if it intends to start to do so again; and

(5) the *firm* submits FSA018 under *SUP* 16.12 (Integrated regulatory reporting) as applicable to it.

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

8.2.8 R A *firm* may calculate limits in *IFPRU* 8.2.7R after taking into account the effect of *credit risk mitigation* in line with articles 399 to 403 of the *EU CRR*.

Core UK group eligible capital

8.2.9 R For the purposes of the conditions in *IFPRU* 8.2.7R, a *firm* must calculate *core UK group eligible capital* in line with the deduction and aggregation method in *IFPRU* 8.2.10R.

8.2.10 R (1) *Core UK group eligible capital* is equal to the sum of the following amounts for each member of the *core UK group* and the *firm* (the sub-group):

(a) for ultimate *parent undertaking* of the sub-group, the amount calculated in line with article 6 of the *EU CRR* (or other prudential requirements that apply);

(b) for any other member of the sub-group, the amount calculated in line with article 6 of the *EU CRR* (or other prudential requirements that apply) less the book value of the sub-group's holdings of capital instruments in that member, to the extent not already deducted in calculations in line with article 6 of the *EU CRR* (or other prudential requirements that apply) for:

(i) the ultimate *parent undertaking* of the sub-group; or

(ii) any other member of the sub-group.

(2) The deduction in (1)(b) must be carried out separately for each type of capital instrument eligible as *own funds*.

8.2.11 G The *FCA* will assess *core UK group* and *non-core large exposure group* applications against article 400(2)(c) on a case-by-case basis. The *FCA* will only approve this treatment for *non-core large exposure group* undertakings where the conditions in article 400(2)(c) are met. A *firm* should note that the *FCA* will still make a wider judgement whether it is appropriate to grant this treatment even where the conditions in article 400(2)(c) are met.

Notification

8.2.12 R A *firm* must immediately notify the *FCA* in writing if it becomes aware that any *exposure* that it has treated as exempt under *IFPRU* 8.2.6R or any counterparty that it has been treating as a member of its *non-core large exposures group* has ceased to meet the conditions for application of the treatment in this section.

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* (Concentration risk).

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

Exposures to trustees

8.2.14 G If a *firm* has an *exposure* to a person ('A') when A is acting on his own behalf, and also an *exposure* to A when A acts in his capacity as trustee, custodian or general partner of an investment trust, unit trust, venture capital or other investment fund, pension fund or a similar fund (a "fund"), the *firm*

may treat the latter *exposure* as if it was to the fund, unless such a treatment would be misleading.

8.2.15 G When considering whether the treatment described is misleading, factors a *firm* should consider include:

(1) the degree of independence of control of the fund, including the relation of the fund's board and senior management to the *firm* or to other funds or to both;

(2) the terms on which the counterparty, when acting as trustee, is able to satisfy its obligation to the *firm* out of the fund of which it is trustee;

(3) whether the beneficial owners of the fund are connected to the *firm*, or related to other funds managed within the *firm's group*, or both; and

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

8.2.16 G In deciding whether a transaction is at arm's length, the following factors should be taken into account:

(1) the extent to which the person to whom the *firm* has an *exposure* ('A') can influence the *firm's* operations through, for example, the exercise of voting rights;

(2) the management role of A where A is also a director of the *firm*; and

(3) whether the *exposure* would be subject to the *firm's* usual monitoring and recovery procedures if repayment difficulties emerged.

9 Public disclosure

9.1 Application and purpose

Application

9.1.1 R *IFPRU* 9 applies to an *IFPRU investment firm*.

Purpose

9.1.2 G This chapter implements article 90 (Public disclosure on return on assets) of *CRD*.

Public disclosure on return of assets

9.1.3 R A *firm* must disclose in its *annual report and accounts* among the key indicators their return on assets, calculated as their net profit divided by their

total balance sheet.

[**Note**: article 90 of *CRD*]

Transitional provisions and schedules

TP 1 GENPRU and BIPRU waivers: transitional

Application

1.1	R	*IFPRU* TP 1 applies to an *IFPRU investment firm*.
1.2	R	*IFPRU* TP 1 applies where immediately before 1 January 2014, a *waiver* given in relation to a *rule* listed in column A of the tables in *IFPRU* 1.9R (Internal model waivers) and TP 1.10R (Other waivers) has effect.
	Duration of transitional	
1.3	R	This section applies to each *waiver* in *IFPRU* 1.2R, until the direction given in respect of that *waiver* ceases to have effect on its terms, or is revoked, whichever is the earlier.
	Transitional	
1.4	R	Subject to *IFPRU* TP 1.7R, each *waiver* given in relation to a *FCA rule* listed in column A of the tables in *IFPRU* TP 1.9R (Internal model waivers) and TP 1.10R (Other waivers) is treated as a permission from the *FCA* to the *firm* under the *EU CRR* article listed in the same row in column B of those tables.
1.5	R	Each permission under *IFPRU* TP 1.4R shall continue to have effect until the expiry date specified in the direction of the relevant *waiver*.
1.6	R	Where a *waiver* listed in *IFPRU* TP 1.9R (Internal model waivers) and TP 1.10R (Other waivers) specifies that it applies to a *firm* on a consolidated basis in accordance with a relevant provision in *BIPRU* 8 (Group risk consolidation), the permission applies to the *firm* on the basis of its *consolidated situation* in accordance with article 11 of the *EU CRR* (Application of requirements on a consolidated basis: general treatment).
1.7	R	A *waiver* listed in *IFPRU* TP 1.9R (Internal model waivers) only has effect in accordance with this TP where the *firm* has confirmed to the *FCA* that it materially complies with the requirements relevant to the *rules* listed in Column A of the table, as waived or modified by the *waiver*, and any conditions relevant to the application of the *waiver* or the *firm* has a remediation plan.
	Interpretation	

1.8	R	For the purpose of *IFPRU* TP 1:	
		(1)	"permission" includes a consent, approval or agreement conferred on the *FCA* as a *competent authority* under any *EU CRR* article listed in column B of the tables in *IFPRU* 1.9R (Internal waivers) and *IFPRU* TP 1.10R (Other waivers);
		(2)	any expression used in *IFPRU* TP 1.9R (Internal model waivers) and TP 1.10R (Other waivers) which are defined in the *Glossary* has the meaning in the version of the *Glossary* in force on 31 December 2013; and
		(3)	any reference to *GENPRU* and *BIPRU* is to the version in force on 31 December 2013.
	Tables		
1.9	R	Table on internal model waivers	

	Permission	**Column A** **FCA rule (rule waiver or modification)**	**Column B** **EU CRR reference**
1	Internal Ratings Based (IRB) permission for credit risk	- *BIPRU* 4 applies to a *firm* with an *IRB permission* - *Rules* waived or modified: (a) *GENPRU* 2.1.51R (b) *BIPRU* 3.1.1R	- Part Three, Title II, Chapter 3 - Art 143 - Art 178(1)(b) (where a *firm* is authorised to replace 90 days with 180 days for *exposures* secured by residential or SME commercial real estate in the retail *exposure* class)
2	Eligibility of physical collateral under the IRB Approach	- *BIPRU* 4.10.16R (Where authorised by the *firm's IRB permission*)	Art 199(6)

3	Master netting agreement internal models approach	- *BIPRU* 5.6.1R, in accordance with *BIPRU* 5.6.12R	Art 221
4	Supervisory formula method for *securitisation* transactions	- *BIPRU* 9.12.3R - *BIPRU* 9.12.5R - *BIPRU* 9.12.21R (Where authorised by the *firm's IRB permission*)	Art 259(1)(b) Art 262
5	ABCP internal assessment approach	- *BIPRU* 9.12.20R (Where authorised by the *firm's IRB permission*)	Art 259(3)
6	Exceptional treatment for liquidity facilities where pre-*securitisation* risk-weighted exposure amount cannot be calculated	- *BIPRU* 9.11.10R as modified in accordance with *BIPRU* 9.12.28G (Where authorised by the *firm's IRB permission*)	Art 263(2)
7	Advanced Measurement Approach (AMA) permission	- *BIPRU* 6.5 applies to a *firm* with an *AMA permission* - *Rule* waived or modified: *BIPRU* 6.2.1R	- Art. 312(2) - Part Three, Title III, Chapter 4
8	Combined use of different approaches for operational risk – AMA and Standardised Approach or Basic Indicator Approach	- *BIPRU* 6.2.9R (in accordance with *BIPRU* 6.2.10G and the *firm's AMA permission*)	Art 314(2) and (3)
9	Permission to use internal models to calculate *own funds requirements* for market risk (Value at Risk)	- *BIPRU* 7.10 applies to a firm with a *VaR model permission* - *Standard market risk PRR rules* as specified and waived or modified by the *firm's VaR model permission waiver* - *GENPRU* 2.1.52R	- Art. 363 - Part Three; Title IV; Chapter 5; Sections 2, 3 and 4
10	Permission to use internal models to calculate *own fund requirements* for the	*BIPRU* 7.10.55TR to *BIPRU* 7.10 55ZAR (Where the *firm* is authorised to use the *all*	Art 377

	correlation trading portfolio	*price risk measure* in its *VaR model permission waiver*)	

1.10	R	Table on other waivers and requirements

	Permission	Column A FCA Rule (rule waiver or modification)	Column B EU CRR Reference
1	Individual consolidation method	- *BIPRU* 2.1.7R (*Solo consolidation waivers*)	Art 9
2	Derogation to the application of *own funds requirements* on a *consolidated basis* for groups of *investment firms*	- *BIPRU* 8.4 applies to a *firm* with an *investment firm consolidation waiver* - *Rules* waived: (a) *BIPRU* 8.2.1R (b) *BIPRU* 8.2.2R (c) *BIPRU* 8.3.1R (d) *BIPRU* 8.3.2R	Art 15 Art 17
3	Entities excluded from the scope of prudential consolidation	- *BIPRU* 8.5.9R - *BIPRU* 8.5.10R	Art 19(2)
4	Permission to revert to the use of a less sophisticated approach for credit risk	- *BIPRU* 4.2.23R (as modified in accordance with *BIPRU* 4.2.25G) - *BIPRU* 4.2.24R (as modified in accordance with *BIPRU* 4.2.25G)	Art 149
5	Traditional *securitisation* – recognition of significant risk transfer	- *BIPRU* 9.4.11R - *BIPRU* 9.4.12R (subject to conditions in *BIPRU* 9.4.15D)	Art 243(2), (3), (4) and (5)
6	Synthetic *securitisation* – recognition of significant risk transfer	- *BIPRU* 9.5.1R(6) and (7) (subject to conditions in *BIPRU* 9.5.1BD)	Art 244(2), (3), (4) and (5)
7	*Securitisations* of revolving exposures	- *BIPRU* 9.3.11R	Art 256(7)

	with *early amortisation provisions* – similar transactions	- *BIPRU* 9.13.13R - *BIPRU* 9.13.14R - *BIPRU* 9.13.15R - *BIPRU* 9.13.16R - *BIPRU* 9.13.17R (subject to conditions in *BIPRU* 9.13.18G)	
8	Permission to revert to the use of a less sophisticated approach for *operational risk*	- *BIPRU* 6.2.5R (as modified in accordance with *BIPRU* 6.2.6G) - *BIPRU* 6.2.7R (as modified in accordance with *BIPRU* 6.2.8G)	Art 313
9	Combined use of different approaches for *operational risk* – Standardised Approach and Basic Indicator Approach	- *BIPRU* 6.2.12R (as modified in accordance with *BIPRU* 6.2.13G)	Art 314(4)
10	Waiver of the three-year average for calculating the *own funds requirement* under the Basic Indicator Approach for *operational risk*	- *BIPRU* 6.3.2R (as modified in accordance with *BIPRU* 6.3.9G)	Art. 315
11	Waiver of the three-year average for calculating the *own funds requirement* under the Standardised Approach for *operational risk*	- *BIPRU* 6.4.5R (as modified in accordance with *BIPRU* 6.4.8G)	Art 317(4)
12	*Own funds requirements* for position risk for options and warrants on: (a) interest rates; (b) debt instruments; (c) equities;	- *BIPRU* 7.9 applies to a *firm* with a *CAD1 model waiver*. - *Rules* waived or modified: (a) *GENPRU* 2.1.52R (b) *BIPRU* 7.6.1R	Art 329

	(d) equity indices; (e) financial futures; (f) swaps; and (g) foreign currencies		
13	*Own funds requirements* for commodities risk for options and warrants on: (a) commodities; and (b) commodities derivatives	- *BIPRU* 7.9 applies to a *firm* with a *CAD1 model waiver*. - *Rules* waived or modified: (a) *GENPRU* 2.1.52R (b) *BIPRU* 7.4.1R	Art 358(3)
14	Interest rate risk on derivative instruments	- *CAD 1 model waiver* for the use of an interest rate pre-processing model in line with *BIPRU* 7.9.44G - *Rule waived*: *GENPRU* 2.1.52R	Art 331 Art 340
15	Waiver of 100% large exposure limits where the €150 million limit applies	- *BIPRU* 10.6.32R (as waived in accordance with *BIPRU* 10.6.33G) - *SUP* 15.3.11R	Art 396 in relation to the 100% large exposure limit set out in Art 395(1)
16	Waiver of large exposure limits in relation to intra-group exposures: core group waivers	- *BIPRU* 3.2.25R(2) - *BIPRU* 10.8A	Art 113(6) Art 400(1)(f)
17	Waiver of large exposure limits in relation to intra-group exposures: non-core group waivers	- *BIPRU* 10.9A	Art 400(2)(c), as implemented by *IFPRU* 8.2.4R to 8.2.13R (Intra-group exposures: non-core large exposures

			group)

1.11	G	The *requirement* imposed in relation to a *FCA rule* listed in column A of the table in *IFPRU* 1.12G (Requirements) is treated as imposed under the *EU CRR* article listed in the same row in column B of the table.
1.12	G	Table on requirements

	Requirement	**Column A** **FCA Rule**	**Column B** **EU CRR Reference**
1	Methods of prudential consolidation – art. 12(1) relationship	- *BIPRU* 8.5.6R(2)	Art 18(3)
2	Methods of prudential consolidation- Significant influence or single management relationship	- *BIPRU* 8.5.6R(2) - "*Article 134 relationship*"	Art 18(6)

TP 2 Own funds requirements

	Application	
2.1	R	*IFPRU* TP 2 applies to an *IFPRU investment firm*, unless it is an *exempt IPFRU commodities firm.*
	Purpose	
2.2	G	*IFPRU* TP 2 contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 465 of the *EU CRR*. *IFPRU* TP 2 applies instead of article 92(1)(a) and (b) of the *EU CRR* (Own funds requirements) for the duration of the transitional.
	Duration of transitional	
2.3	R	*IFPRU* TP 2 applies until 31 December 2014.

	Common equity tier 1 ratio		
2.4	R	The *common equity tier 1 capital* ratio which a *firm* must meet or exceed for the period from 1 January 2014 until 31 December 2014 is 4%.	
		[**Note**: article 465(1)(a) of the *EU CRR*]	
	Tier 1 capital ratio		
2.5	R	The *tier 1 capital* ratio which a *firm* must meet or exceed for the period from 1 January 2014 until 31 December 2014 is 5.5%.	
		[**Note**: article 465(1)(b) of the *EU CRR*]	

TP 3 Gains and losses

	Application		
3.1	R	*IFPRU* TP 3 applies to an *IFPRU investment firm*, unless it is an *exempt IPFRU commodities firm.*	
	Purpose		
3.2	G	*IFPRU* TP 3 contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under articles 467 and 468 of the *EU CRR*. The applicable percentages in *IFPRU* TP 3 apply instead of articles 33(1)(c) (Changes in the value of own liabilities) and 35 (Unrealised gains and losses measured at fair value) of the *EU CRR* for the duration of the transitional.	
	Duration of transitional		
3.3	R	*IFPRU* TP 3 applies until 31 December 2017.	
	Inclusion of unrealised losses at fair value		
3.4	R	For the purposes of article 467(1) of the *EU CRR*, 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.
		[**Note**: article 467(2) of the *EU CRR*]	

	Removal of unrealised gains at fair value		
3.5	R	For the purposes of article 468(1) of the *EU CRR*, the applicable percentages are:	
		(1)	60% during the period from 1 January 2015 to 31 December 2015;
		(2)	40% during the period from 1 January 2016 to 31 December 2016; and
		(3)	20% for the period from 1 January 2017 to 31 December 2017.
		[**Note**: article 468(2) of the *EU CRR*]	
	Inclusion of fair value gains and losses		
3.6	R	For the purposes of article 468(4) of the *EU CRR*, 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.

TP 4 Deductions from own funds

	Application	
4.1	R	*IFPRU* TP 4 applies to an *IFPRU investment firm*, unless it is an *exempt IPFRU commodities firm.*
	Purpose	
4.2	G	*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*. The applicable percentages in *IFPRU* TP 4 apply instead of articles 36(1), 56 (1)(c) and 66 of the *EU CRR* for the duration of the transitional.
	Duration of transitional	
4.3	R	*IFPRU* TP 4 applies until 31 December 2023.
	Deduction from common equity tier 1	
4.4	R	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 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.
4.5	R	For the purposes of article 469(1)(a) of the *EU CRR* as it applies to the items in points (a), (e) and (i) of article 36(1)) of the *EU CRR* (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.
4.6	R	For the purposes of article 469(1)(c) of the *EU CRR*, as it applies to the items in point (c) of article 36(1)) of the *EU CRR* (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 *EU CRR*, as it applies to the items in point (c) of article 36(1)) of the *EU CRR* (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.
	Deductions from additional tier 1 items		
4.8	R	For the purposes of article 474(a) of the *EU CRR*, 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.
	Deductions from tier 2 items		
4.9	R	For the purposes of article 476(a) of the *EU CRR*, 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.

TP 5 Own funds: other transitionals

	Application		
5.1	R	*IFPRU* TP 5 applies to an *IFPRU investment firm*, unless it is an *exempt IPFRU commodities firm.*	
	Purpose		
5.2	G	*IFPRU* TP 5 contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under articles 479 to 480 of the *EU CRR*. The applicable percentages in *IFPRU* TP 5 apply for the duration of the transitional.	
	Duration of transitional		
5.3	R	*IFPRU* 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 *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.
	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 *EU CRR*, 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.
	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.
	Limits on grandfathering		
5.7	R	For the purposes of article 486 of the *EU CRR*, the applicable percentages 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.

TP 6 Leverage

	Application	
6.1	R	*IFPRU* TP 6 applies to an *IFPRU investment firm*.
	Purpose	
6.2	G	*IFPRU* TP 6 contains the *rules* that exercise the discretion afforded to the *FCA* as *competent authority* under article 499(3) of the *EU CRR*. *IFPRU* TP 6 applies instead of article 429(2) of the *EU CRR* (Leverage) for the duration of the transitional.
	Duration of transitional	
6.3	R	*IFPRU* TP 6 applies until 31 December 2017.

	End-of-quarter level ratio	
6.4	R	A *firm* may calculate the end-of-quarter leverage ratio instead of the leverage ratio that is an arithmetic mean of the monthly leverage ratios over a quarter.

Sch 1G Record-keeping requirements

(1)	The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant record keeping requirements.
(2)	It is not a complete statement of those requirements and should not be relied on as if it were.
(3)	Table

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
IFPRU 2.1.43R and 2.1.44R	*Firm's* assessment of its financial resources	(1) The major sources of risk the *firm* has identified (2) How the *firm* intends to deal with those risks (3) Details of the stress and scenario analyses carried out and the resulting financial resources estimated to be required	Not specified	At least three years
IFPRU 4.3.17R	Documents relating to rating systems	All documentation relating to a *firm's* rating systems (including any document referenced in *IFPRU* 4 or required by the *EU CRR* that relate to the IRB approach)	Not specified	Not specified

Sch 2G Notification and reporting requirements

(1)	The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant notification requirements.
(2)	It is not a complete statement of those requirements and should not be

	relied on as if it were.
(3)	Table

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
IFPRU 1.3.1R	Results of calculations for supervisory benchmarking of internal approaches	Results of the calculations of a *firm's internal approaches* for its *exposures* or positions included in benchmark portfolios and an explanation of the methodologies uses	Calculation of the results of its *internal approaches*	Annually
IFPRU 1.5.1R	Notification of FINREP reporting	Matters as described in *IFPRU* 1.5.1R	Matters as described in *IFPRU* 1.5.1R	No later than five *business days* from when an *IFPRU investment firm* identifies that it is a *FINREP firm* that is required to report FINREP or that is no longer required to submit FINREP.
IFPRU 2.2.31R	Changes to evaluation as a result of change in interest rates	Decline in economic value of the *firm* by more than 20% of its *own funds*	Change in interest rates	Not specified
IFPRU 2.2.37R(6)	Results of stress test and scenario analysis	Results of stress test and scenario analysis	Completion of stress test and scenario analysis	Annually, not later than three *months* of its annual reporting date
IFPRU	Intention to	Fact of intention and details	Intention to	At least one

3.2.6R	enter into a connected transaction	of each connected transaction sufficient to allow evaluation	enter into a connected transaction	*month* prior to entry into the relevant transaction
IFPRU 3.2.8R	*Additional tier 1 instrument* or *tier 2 instrument* governed by the law of *third country* are capable of being written down or converted into *common equity tier 1 instrument*	Information sufficient to demonstrate that any *additional tier 1 instrument* or *tier 2 instrument* issued by the *firm* that are governed by the law of *third country* are capable of being written down or converted into *common equity tier 1 instrument* to the same extent as an equivalent *own funds* instrument, including a properly reasoned legal opinion from an individual appropriately qualified in the relevant *third country*	Intention to issue	Not specified
IFPRU 3.2.10R	Intention by *firm* or member of its *group* to issue a capital instrument, other than *common equity tier 1 capital*, for inclusion in *own funds*	Fact of intention and information in *IFPRU* 3.2.12R, eg, details of intended amount, issue date, type of investor, stage of capital, features of instrument and confirmation of compliance with the conditions for qualification as *own funds*	Intention to issue	One *month* prior to issue
IFPRU 3.2.13R	Intention by *firm* or member of its *group* to issue ordinary *shares* or debt instrument issued under a debt securities programme previously issued	Confirmation that terms of the capital instrument have not changed since the previous issue of that type of capital instrument and information in *IFPRU* 3.2.12R(1) and (3), eg, details of intended amount, issue date, type of investor, stage of capital, features of instrument and confirmation of compliance with the conditions for qualification as *own funds*	Intention to issue	No later than the date of issue

IFPRU 3.2.15R	Proposed changes to details of the issue of a capital instrument notified	Proposed change to intended date of issue, amount of issue, type of investors, type of *own funds* or other feature	Intention to change any details of the issue previously notified to the *FCA*	As soon as changes are proposed
IFPRU 3.2.16R	Intention by *firm* or member of its *group* member to amend or vary details of a capital instrument included in *own funds* or consolidated *own funds*	Proposed change and all information required under *IFPRU* 3.2.12R(1) to (4)	Intention to change any details of the issue previously notified to the *FCA*	One *month* prior to intended date of amendment
IFPRU 3.2.17R	Intention by *firm* or member of its *group* member to reduce *own funds* or consolidated *own funds*	Actions described in article 77 of the *EU CRR*	Intention to carry out the actions described in article 77 of the *EU CRR*	As soon as intention is formed
IFPRU 4.12.1R	Reliance on deemed transfer of significant risk under articles 243(2) and 244(2) of the *EU CRR*, including for the purposes of article 337(5) of the *EU CRR*	Sufficient information to allow the *FCA* to assess whether the possible reduction in risk weighted exposure amounts achieved by the *securitisation* 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 *month* after the date of transfer
IFPRU 8.2.5R(4)	Intention to concentrate intra-group	Explanation of how *IFPRU* 8.2.5R(1) is met on a continuing basis and details	Intention to concentrate intra-group	Prior written notice before the *exposures*

	exposures to *group* members in excess of 25% of *core UK group eligible capital*	of the counterparty, the size and expected duration of the *exposure*	*exposures* to *group* members in excess of 25% of *core UK group eligible capital*	are concentrated
IFPRU 8.2.5R(6)	After ceasing to have concentration intra-group *exposures* in excess of 25% of *core UK group eligible capital*, intention to start to do so again	Explanation of how *IFPRU* 8.2.5R(1) is met on a continuing basis, details of the counterparty, the size and expected duration of the *exposure* and the reason for the *exposure*	Intention to start to concentrate intra-group *exposures* to *group* members in excess of 25% of *core UK group eligible capital*	Prior written notice before the start of concentrating *exposures* again

Sch 3G Fees and other requirement payments

There are no requirements for fees or other payments in *IFPRU*.

Sch 4 [Intentionally left blank]

Sch 5G Rights of action for damages

(1)	The table below sets out the rules in *IFPRU* contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a person who suffers loss as a result of the contravention.
(2)	If a "Yes" appears in the column headed "For private person", the *rule* may be actionable by a private person under section 138D (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). A "Yes" in the column headed "Removed" indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the rule in which it is

	removed is also given.
(3)	The column headed "For other person" indicates whether the *rule* may be actionable by a *person* other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	Section/Annex	Right of action under section 138D		
		For private person	Removed	For other person
All *rules* in *IFPRU*		No	Yes – *IFPRU* 1.6.1R	No

Sch 6G Rules that can be waived

The rules in *IFPRU* may be waived by the *FCA* under section 138A of the *Act* (Modification or waiver of rules). However, if the *rules* incorporate requirements laid down in European directives or regulations, it will not be possible for the *FCA* to grant a *waiver* that would be incompatible with the *UK's* responsibilities under those directives and regulations. It therefore follows that if a *rule* in *IFPRU* contains provisions which derive partly from a directive or regulation, and partly not, the *FCA* will be able to consider a *waiver* of the latter requirements only, unless the directive or regulation provisions are optional rather than mandatory

Annex B

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

additional tier 1 capital	as defined in article 61 of the *EU CRR*.
additional tier 1 instrument	a capital instrument that qualifies as an additional tier 1 capital instrument under article 52 of the *EU CRR*.
article 18(5) relationship	the relationship where there are participations or capital ties other than those referred to in article 18(1) and (2) of the *EU CRR* (Methods for prudential consolidation).
article 18(6) relationship	(in accordance with article 18 of the *EU CRR* (Methods for prudential consolidation)) a relationship of one of the following kinds: (a) where an *institution* exercises a significant influence over one or more *institutions* or *financial institutions*, but without holding a *participation* or other capital ties in these *institutions*; or (b) where two or more *institutions* or *financial institutions* are placed under single management other than under a contract or clauses of their memoranda or articles of association.
base own funds requirement	(for the purpose of *IFPRU*) an amount of *own funds* that an *IFPRU investment firm* must hold as set out in *IFPRU* 3.1.6R (Own funds: main requirement).
common equity tier 1 capital	as defined in article 50 of the *EU CRR*.
common equity tier 1 instrument	a capital instrument that qualifies as a common equity tier 1 instrument under article 26 of the *EU CRR*.
consolidated basis	has the meaning in article 4(1)(48) of the *EU CRR*.
consolidated situation	has the meaning in article 4(1)(47) of the *EU CRR*.
consolidating supervisor	has the meaning in article 4(1)(41) of the *EU CRR*.
core UK group eligible capital	means the eligible capital in the *core UK group* calculated in line with *IFPRU* 8.2.7R.

core UK group permission	a permission given by the *FCA* under article 113(6) of the *EU CRR* (see *IFPRU* 8.1.14G to *IFPRU* 8.1.21G).
CRD full-scope firm	an investment firm as defined in article 4(1)(2) of the *EU CRR* that is subject to the requirements imposed by *MiFID* (or which would be subject to that Directive if its head office were in an *EEA State*) and that is not a *limited activity firm* or a *limited licence firm*.
designated investment firm	an *authorised person* that has been designated by the *PRA* under article 3 of the *PRA-regulated Activities Order*.
eligible capital	has the meaning in article 4(1)(71) of the *EU CRR*.
EU CRR	Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012.
exempt IFPRU commodities firm	an *IFPRU investment firm* which falls within the meaning in articles 493(1) and 498(1) of the *EU CRR*.
FCA consolidation group	the *undertakings* included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the *EU CRR* and *IFPRU* 8.1.3R to *IFPRU* 8.1.4R (Prudential consolidation) for which the *FCA* is the *consolidating supervisor* under article 111 of the *CRD*.
financial sector entity	has the meaning in article 4(1)(27) of the *EU CRR*.
full CRD credit institution	an *undertaking* whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account and that has its registered office (or, if it has no registered office, its head office) in an *EEA state*, excluding an institution to which *CRD* does not apply under article 2 of *CRD*.
full-scope IFPRU investment firm	a *CRD full-scope firm* that is an *IFPRU investment firm*.
IFPRU	the Prudential sourcebook for Investment Firms
IFPRU 125K firm	has the meaning in *IFPRU* 1.1.9R (Types of investment firm: IFPRU 125K firm), which in summary is an *IFPRU investment firm* that satisfies the following conditions: (a) it does not *deal on own account* or underwrite issues of *financial instruments* on a firm commitment basis; (b) it holds clients' money or securities in relation to *investment services* it provides or is authorised to do so; (c) it offers one or more of certain specified services;

(d) it is not a *collective portfolio management investment firm*; and

(e) it does not operate *a multilateral trading facility*.

IFPRU 50K firm has the meaning in *IFPRU* 1.1.10R (Types of investment firm: IFPRU 50K firm) which in summary is an *IFPRU investment firm* that satisfies the following conditions:

(a) it satisfies the conditions in *IFPRU* 1.1.9R(1) (does not *deal on own account* or underwrite issues of *financial instruments* on a firm commitment basis) and *IFPRU* 1.1.9R(3) (offers one or more of certain specified services);

(b) it does not hold clients' money or securities in relation to *investment services* it provides and it is not authorised to do so;

(c) it is not a *collective portfolio management investment firm*; and

(d) it does not operate *a multilateral trading facility*.

IFPRU 730K firm has the meaning in *IFPRU* 1.1.11R (Types of investment firm: IFPRU 730K firm) which in summary is an *IFPRU investment firm* that is not a *collective portfolio management investment firm*, a *BIPRU 50K firm* or a *BIPRU 125K firm*.

IFPRU investment firm an *investment firm*, as defined in article 4(1)(2) of the *EU CRR* (including a *collective portfolio management investment firm*), that satisfies the following conditions:

(a) it is a *firm*;

(b) its head office is in the *UK* and it is not otherwise excluded under *IFPRU* 1.1.5R; and

(c) it is not a *designated investment firm*;

that is not excluded under *IFPRU* 1.1.5R (Exclusion of certain types of firms).

IFPRU limited-activity firm a *limited activity firm* that meets the following conditions:

(a) it is a *firm*; and

(b) its head office is in the *UK* and it is not otherwise excluded under *IFPRU* 1.1.5R.

IFPRU limited-licence a *limited licence firm* that meets the following conditions:

firm	(a) it is a *firm*; and (b) its head office is in the *UK* and it is not otherwise excluded under *IFPRU* 1.1.5R.
interest-rate contract	interest-rate contracts listed in paragraph 1 of Annex II to the *EU CRR*.
internal approaches	one or more of the following, as referred to in the *EU CRR*: (a) the Internal Ratings Based Approach in article 143(1); (b) the Internal Models Approach in article 221; (c) the own estimates approach in article 225; (d) the Advanced Measurement Approaches in article 312(2); (e) the Internal Model Method and internal models in articles 283 and 363; and (f) the internal assessment approach in article 259(3).
management body	(in accordance with article 3(7) of *CRD*) the *governing body* and *senior personnel* of a *CRR firm* who are empowered to set the *firm's* strategy, objectives and overall direction, and which oversee and monitor management decision-making.
management body in its supervisory function	the *management body* acting in its role of overseeing and monitoring management decision-making.
model risk	the potential loss an *institution* may incur, as a consequence of decisions that could be principally based on the output of internal models used under any of the internal approaches, due to errors in the development, implementation or use of such models.
non-core large exposures group exemption	the exemption in *IFPRU* 8.2.6R (Intra-group exposures: non-core large exposures group).
non-core large exposures group permission	a permission referred to in *IFPRU* 8.2.6R given by the *FCA* for the purpose of article 400(2)(c) of the *EU CRR* (Large exposures: exemptions).
OTC derivative transaction	a derivative financial instrument of a type listed on Annex II to the *CRR* that is traded *over the counter*.
own funds instruments	has the meaning in article 4(1)(119) of the *EU CRR*.
own funds	as defined in article 92 (Own funds requirements) of the *EU CRR*.

requirements	
PRA-regulated Activities Order	the Financial Services and Market Act 2000 (PRA-regulated Activities) Order 2013 (SI 2013/556).
risk control rules	*IFPRU* 2.2.58R to *IFPRU* 2.2.60R.
risk of excessive leverage	has the meaning in article 4(1)(94) of the *EU CRR*.
significant IFPRU firm	has the meaning in *IFPRU* 1.2 (Significant IFPRU firm).
sub-consolidated basis	has the meaning in article 4(1)(49) of the *EU CRR*.
systemically important institution	(in accordance with article 3(30) of *CRD*) an *EEA parent institution*, an *EEA parent financial holding company*, an *EEA parent mixed financial holding company* or an *institution* the failure or malfunction of which could lead to systemic risk.
systemic risk	a risk of disruption in the financial system with the potential to have serious negative consequences for the financial system and the real economy.
third country	a territory or country which is not an *EEA State*.
third country IFPRU 730K firm	an *overseas firm* that: (a) is not an *EEA firm*; (b) has its head office outside the *EEA*; and (c) would be an *IFPRU 730k firm* if it had been a *UK domestic firm*, had carried on all its business in the *United Kingdom* and had obtained whatever authorisations for doing so as are required under the *Act*.
tier 2 capital	as defined in article 71 of the *EU CRR*.
tier 2 instruments	a capital instrument that qualify as tier 2 instruments under article 62 of the *EU CRR*.
UK designated investment firm	(in *BIPRU* 12) a *designated investment firm* which is a *body corporate* or *partnership* formed under the law of any part of the *UK*.
UK parent mixed financial holding company in a Member State	a *parent mixed financial holding company in a Member State* where the *EEA State* in question is the *UK*.

Amend the following definitions as shown.

ancillary services undertaking

(1) (in accordance with Article 4(21) of the *Banking Consolidation Directive* (Definitions) for the purpose of *GENPRU* (except in *GENPRU* 3) and *BIPRU* (except in *BIPRU* 12) and subject to (2)) and in relation to an *undertaking* in a *consolidation group*, *sub-group* or another group of *persons*) an *undertaking* complying with the following conditions:

…

(3) (except in (1)) has the meaning in article 4(1)(18) of the *EU CRR*.

base capital resources requirement

(1) (except in *IPRU(INV)*) an amount of *capital resources* that an *insurer* must hold as set out in *GENPRU* 2.1.30R (Table: Base capital resources requirement for an insurer) or a *BIPRU firm* must hold under *GENPRU* 2.1.41R (Base capital resources requirement for a BIPRU firm) and *GENPRU* 2.1.48R (Table: Base capital resources requirement for a BIPRU firm) ~~or, as the case may be, *GENPRU* 2.1.60R (Calculation of the base capital resources requirement for banks authorised before 1993)~~.

(2) …

BIPRU firm

~~has the meaning set out in *BIPRU* 1.1.6R (The definition of a BIPRU firm), which is in summary a *firm* that is:~~

~~(a) a *building society*; or~~

~~(b) a *bank*; or~~

~~(c) a *full scope BIPRU investment firm*; or~~

~~(d) a *BIPRU limited licence firm*; or~~

~~(e) *a BIPRU limited activity firm*;~~

a *firm*, as defined in article 4(1)(2)(c) of the *EU CRR* that satisfies the following conditions:

(a) it is authorised to provide one or more the following *investment services*:

(i) execution of orders on behalf of *clients*;

(ii) *portfolio management*; and

(b) it may provide one or more of the following *investment*

	services:
	(i) reception and transmission of orders in relation to one or more *financial instruments*;
	(ii) investment advice;
	but excluding *firms* of the type listed in *BIPRU* 1.1.7R (Exclusion of certain types of firm from the definition of BIPRU firm).
CAD investment firm	~~has the meaning set out *BIPRU* 1.1.14R (Types of investment firm: CAD investment firm), which in summary is an *investment firm*~~ a *firm* that is subject to the requirements imposed by *MiFID* (or which would be subject to that Directive if its head office were in an *EEA State*) but excluding a *bank*, a *building society*, a *credit institution*, a *local* and an *exempt CAD firm* that meets the following conditions:
	(a) it is a *firm* as defined in article 4(1)(2)(c) of the *EU CRR*;
	(b) it is authorised to provide one or more the following *investment services*:
	(i) execution of orders on behalf of *clients*;
	(ii) *portfolio management*; and
	(c) it may provide one or more of the following *investment services*:
	(i) reception and transmission of orders in relation to one or more *financial instruments*;
	(ii) investment advice.
capital planning buffer	(in *BIPRU* 2.2 or *IFPRU* 2) the amount and quality of capital resources that a *firm* should hold at a given time in accordance with the *general stress and scenario testing rule*, so that the *firm* is able to continue to meet the *overall financial adequacy rule* throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions.
capital resources	(1) in relation to a *BIPRU firm* or an *insurer*, the *firm's capital resources* as calculated in accordance with the *capital resources table*~~, including, in relation to a *BIPRU firm*, as that calculation is adjusted under *BIPRU* 10.5 for the purpose of *BIPRU* 10 (Large exposures requirements)~~; or
	(2) (in relation to ~~an *institution*~~ a *CAD investment firm* that is an *EEA firm* and not a *BIPRU firm* and which is required to meet the capital resources requirements of the *CRD implementation measures* for its *EEA State* on an individual

		basis) capital resources calculated under those *CRD implementation measures*; or
	(3)	(for the purpose of *GENPRU* and *BIPRU* (except *BIPRU* 12)), in relation to an undertaking not falling within (1) or (2) and subject to (4)) capital resources calculated in accordance with (1) on the assumption that:
		…
	(4)	(for the purposes of *GENPRU* and *BIPRU* (except *BIPRU* 12) and in relation to any *undertaking* not falling within (1) or (2) for which the methodology in (3) does not give an answer whose *capital resources* a *BIPRU firm* (the "relevant firm") is required to calculate under a *Handbook rule*) capital resources calculated under (1) on the assumption that it is a *BIPRU firm* of the same category as the relevant firm.
central bank	(1)	(in accordance with Article 4(23) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) includes the European Central Bank unless otherwise indicated
	(2)	(except in (1)) has the meaning in article 4(1)(46) of the *EU CRR*.
CIU	(1)	(except in *IFPRU*) collective investment undertaking.
	(2)	(in *IFPRU*) has the meaning in article 4(1)(7) of the *EU CRR*.
competent authority	…	
	(10)	(for the purposes of *IFPRU*) has the meaning in article 4(1)(40) of the *EU CRR*.
convertible	(for the purpose of *BIPRU* and *IFPRU*) a *security* which gives the investor the right to convert the *security* into a *share* at an agreed price or on an agreed basis.	
core UK group	(1)	(in relation to a *BIPRU firm*) all *undertakings* which, in relation to the *firm*, satisfy the conditions set out in *BIPRU* 3.2.25R (Zero risk-weighting for intra-group exposures: core UK group) ~~and *BIPRU* 10.8A.2R (Definition of core UK group)~~.
	(2)	(in relation to an *IFPRU investment firm*) all counterparties which:

(a) are listed in the *firm's core UK group permission*;

(b) satisfy the conditions in article 113(6) of the *EU CRR* (Calculation of risk weighted exposure amounts: intragroup); and

(c) (unless it is an *IFPRU limited-activity firm* or *IFPRU limited-licence firm*, or an *exempt IFPRU commodities firm* to which article 493(1) of the *EU CRR* (Transitional provision for large exposures) apply) for which *exposures* are exempted, under article 400(1)(f) of the *EU CRR* (Large exposures: exemptions), from the application of article 395(1) of the *EU CRR* (Limits to large exposures).

core UK group waiver (in *BIPRU*) a *waiver* that has the result of requiring a *firm* to apply:

(a) (in relation to the *credit risk capital requirement*) *BIPRU* 3.2.25R (Zero risk-weighting for intra-group exposures: core UK group), which in summary allows a *firm* to assign a *risk weight* of 0% to *exposures* to members of its *core UK group* instead of complying with *BIPRU* 3.2.20R (Calculation of risk-weighted exposure amounts under the standardised approach)~~; or~~

(b) ~~(in relation to *large exposures*) *BIPRU* 10.8A (Intra-group exposures: core UK group), which in summary exempts all *exposures* between members of a *core UK group* from the limits described in *BIPRU* 10.5 (Limits on exposures)~~ [deleted].

CRD (1) (in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) the *Capital Adequacy Directive* and the *Banking Consolidation Directive*.

(2) (except in (1)) the Directive of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (No 2013/36/EU) and amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

credit institution (1) (except in *REC*) ~~(in accordance with articles 4(1) and 107 of the *BCD*):~~

(a) ~~an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account~~ has the meaning in article

4(1)(1) of the *EU CRR*; or

(b) [deleted]

(c) [deleted]

(d) ~~for the purpose of *BIPRU* 10 (Large exposures requirements) it means:~~

~~(i) a credit institution defined by (1)(a) to (1)(b) that has been authorised in an *EEA State*;~~

~~(ii) any private or public undertaking which meets the definition in (1)(a)–1(b) and which has been authorised in a *non-EEA State*.~~ [deleted]

~~(see also *BCD credit institution*, *full credit institution*, *full BCD credit institution* and *Zone A credit institution*.)~~

(2) (in *REC*) and in *SUP* 11 (Controllers and close links and *SUP* 16 (Reporting requirements)):

(a) a credit institution authorised under the ~~*Banking Consolidation Directive*~~ *CRD*; or

(b) an institution which would satisfy the requirements for authorisation as a credit institution under the ~~*Banking Consolidation Directive*~~ *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*.

(3) (in relation to the definition of *electronic money issuer*) a credit institution as defined by (1)(a) and includes a branch of the credit institution within the meaning of ~~Article 4(3) of the *Banking Consolidation Directive*~~ article 4(1)(17) of the *EU CRR* which is situated within the *EEA* and which has its head office in a territory outside the *EEA* in accordance with ~~Article 38 of the *Banking Consolidation Directive*~~ article 47 of the *CRD*.

…

credit risk mitigation (1) (in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) (in accordance with Article 4(30) of the *Banking Consolidation Directive* (Definitions)) a technique used by an *undertaking* to reduce the credit risk associated with an *exposure* or *exposures* which the *undertaking* continues to hold.

(2) (except in (1)) has the meaning in article 4(1)(58) of the *EU*

		CRR.
deal on own account	(1)	(for the purposes of *GENPRU* and *BIPRU*) has the meaning in *BIPRU* 1.1.23R (Meaning of dealing on own account) which is in summary the service referred to in point 3 of Section A Annex I to *MiFID*, subject to the adjustments in *BIPRU* 1.1.23R(2) and *BIPRU* 1.1.23R(3) (Implementation of Article 5(2) of the *Capital Adequacy Directive*).
	(2)	(for the purposes of *IFPRU*) has the meaning in *IFPRU* 1.1.12R (Meaning of dealing on own account) which is, in summary, the service referred to in point 3 of Section A of Annex I to *MiFID*, subject to the adjustments in *IFPRU* 1.1.12R(2) and *IFPRU* 1.1.12R(3) (Implementation of article 29(2) of *CRD*).
discretionary pension benefit	(1)	(in *SYSC* ~~19A~~19C) enhanced pension benefits granted on a discretionary basis by a *firm* to an *employee* as part of that *employee's* variable *remuneration* package, but excluding accrued benefits granted to an *employee* under the terms of his company pension scheme. [Note: article 4(9) of the *Banking Consolidation Directive*]
	(2)	(in *IFPRU* and *SYSC* 19A) has the meaning in article 4(1)(73) of the *EU CRR*.
early amortisation provision	(1)	(in *BIPRU*) (in accordance with Article 100 of the *Banking Consolidation Directive* (Securitisation of revolving exposures) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation) a contractual clause which requires, on the occurrence of defined events, investors' positions to be redeemed prior to the originally stated maturity of the securities issued.
	(2)	(except in (1)) has the meaning in article 242(14) of the *EU CRR*.
ECAI		an external credit assessment institution, as defined in article 4(1)(98) of the *EU CRR*.
EEA parent financial holding company	(1)	(in accordance with Article 4(17) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions) for the purpose of *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12) a *parent financial holding company in a Member State* which is not a *subsidiary undertaking* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* established in any *EEA State*.

	(2)	(except in (1)) has the meaning as given to EU parent financial holding company in article 4(1)(31) of the *EU CRR*.
EEA parent institution	(1)	(in accordance with Article 4(16) of the *Banking Consolidation Directive* and Article 2 of the *Capital Adequacy Directive* (Definitions) for the purpose of *BIPRU* (except *BIPRU* 12) a *parent institution in a Member State* which is not a *subsidiary undertaking* of another *institution* authorised in any *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in any *EEA State*.
	(2)	(except in (1)) has the meaning as given to EU parent institution in article 4(1)(29) of the *EU CRR*.
EEA parent mixed financial holding company	(1)	(in accordance with Article 4(17a) of the *Banking Consolidation Directive* (Definitions) for the purpose of *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12) a *parent mixed financial holding company in a Member State* which is not a *subsidiary undertaking* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* established in any *EEA State*.
	(2)	(except in (1)) has the meaning as given to EU parent mixed financial holding company in article 4(1)(33) of the *EU CRR*.
EEA prudential sectoral legislation	(in relation to a financial sector) requirements applicable to *persons* in that *financial sector* in accordance with EEA legislation about prudential supervision of *regulated entities* in that *financial sector* and so that:	
	(a)	(in relation to the *banking sector* and the *investment services sector*) in particular this includes the requirements laid down in the *EU CRR* and (in relation to a *CAD investment firm*) the *Banking Consolidation Directive* and the *Capital Adequacy Directive*; and
	…	
eligible ECAI	…	
	(c)	(in *BIPRU* 12) that is listed in the first row in the table set out in *BIPRU* 12 Annex 1R.
equity	(for the purpose of *BIPRU* 7 and *IFPRU* 6) a *share*.	
exempt full scope ~~BIPRU~~ IFPRU	a ~~*full scope BIPRU*~~ *full-scope IFPRU investment firm* falling into *BIPRU* 12.1.4R.	

investment firm

exempt CAD firm (1) (except in *SYSC* and *IPRU(INV)*) ~~has the meaning set out in *BIPRU* 1.1.16R (Types of investment firm: exempt CAD firm) which is in summary an *investment firm* that satisfies certain specified conditions~~ a *firm* as defined in article 4(1)(2)(c) of the *EU CRR* that is authorised to provide only one or more the following *investment services*:

(a) investment advice;

(b) receive and transmit orders from investors as referred to in Section A of Annex I of *MiFID*).

exposure …

(3) ~~(for the purposes of *BIPRU* 10 (Large exposures requirements)) has the meaning in *BIPRU* 10.2 (Identification of exposures and recognition of credit risk mitigation).~~ [deleted]

(4) (in *IFPRU* and to calculate *own funds requirements* under Part Three Title II (credit risk and counterparty credit risk)) has the meaning in article 5(1) of the *EU CRR*.

(5) (in *IFPRU* 8.2 (Large exposures) for the purpose of Part Four ((Large exposures) of the *EU CRR*) has the meaning in article 389 of the *EU CRR* (Large exposures: definitions).

financial holding company (1) ~~(a *financial institution* that fulfils the following conditions:~~

~~(a) its *subsidiary undertakings* are either exclusively or mainly *credit institutions*, *investment firms* or *financial institutions*;~~

~~(b) at least one of those *subsidiary undertakings* is a *credit institution* or an *investment firm*; and~~

~~(c) it is not a *mixed financial holding company*.~~

(except in (2)) has the meaning in article 4(1)(20) of the *EU CRR*.

(2) (in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12) a *financial institution* that fulfils the following conditions:

(a) its *subsidiary undertakings* are exclusively or mainly *CAD investment firms* or *financial institutions*;

(b) at least one of those *subsidiary undertakings* is a

CAD investment firm; and

(c) it is not a *mixed financial holding company*.

financial institution (1) (in accordance with paragraph 5(c) of Schedule 3 to the *Act* (EEA Passport rights: EEA firm) and article ~~4(5)~~ 3(22) of the ~~*Banking Consolidation Directive*~~ *CRD* (Definitions)), but not for the purposes of *GENPRU*, *BIPRU*, *IFPRU* and *INSPRU*), an undertaking, other than a *credit institution*, the principal activity of which is to acquire holdings or to carry on one or more of the listed activities in points 2 to 12 and 15 of Annex I to the ~~*BCD*~~ *CRD*, which is a subsidiary of the kind mentioned in article ~~24~~ 34 of the ~~*BCD*~~ *CRD* that fulfils the conditions in that article.

(2) for the purposes of *GENPRU* (except *GENPRU* 3)~~,~~ and *BIPRU* (except *BIPRU* 12) ~~and *INSPRU*~~ and in accordance with Article 1(3) (Scope) and 4(5) (Definitions) of the *Banking Consolidation Directive*) ~~the following~~:

(a) an *undertaking*, other than a *credit institution* or an *investment firm*, the principal activity of which is to acquire holdings or to carry out one or more of the *listed activities* provided for in Sections A and B of Annex I of the *MiFID* when referring to the financial instruments provided in Section C of Annex I of that Directive;

…

(3) (except in (1) and (2) and subject to (4)) has the meaning in article 4(1)(26) of the *EU CRR*.

(4) (for the purposes of consolidated requirements in *IFPRU* and in accordance with article 2(6) of *CRD*) the following:

(a) financial institutions within the meaning in article 4(1)(26) of the *EU CRR*; and

(b) those institutions permanently excluded by article 2(5) of *CRD* (Scope) with the exception of the ESCB central banks as defined in article 4(1)(45) of the *EU CRR*.

financial instrument (1) (other than in (2) and (3)) instruments specified in Section C of Annex I to *MiFID*, that is:

…

(3) (in *IFPRU*) has the meaning in article 4(50) of the *EU CRR*.

general stress and scenario testing rule	(1)	(in *GENPRU*, *BIPRU* and *INSPRU*) *GENPRU* 1.2.42R (Stress and scenario tests).
	(2)	(for the purpose of *IFPRU*) *IFPRU* 2.2.37R (Stress and scenario tests).
group	…	
	(3)	(for the purposes of *SYSC* 12 (Group risk systems and controls requirement), *SYSC* 20 (Reverse stress testing) and *GENPRU* 1.2 (Adequacy of financial resources) as applicable to a *BIPRU firm* and in relation to a *person* "A"), A and any *person*:
		…
	(3A)	(for the purposes of *SYSC* 12 (Group risk systems and controls requirement) and *SYSC* 20 (Reverse stress testing), as applicable to an *IFPRU investment firm* and *IFPRU*) and in relation to a *person* "A"), A and any *person*:
		(a) who falls into (1);
		(b) who is a member of the same *financial conglomerate* as A;
		(c) who has a *consolidation Article 12(1) relationship* with A;
		(d) who has a *consolidation Article 12(1) relationship* with any *person* in (a);
		(e) who is a *subsidiary* of a *person* in (c) or (d);
		(f) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (a) to (e) or an assessment of the financial resources available to such *persons* would be misleading.
group of connected clients	has the meaning given to it in ~~*BIPRU* 10.3.5G~~ article 4(1)(39) of the *EU CRR*.	
ICAAP rules	(1)	(in *GENPRU*) the *rules* in *GENPRU* 1.2.30R to *GENPRU* 1.2.39R (Systems, strategies, processes and reviews), *GENPRU* 1.2.42R (Main Requirements: Stress and scenario tests) and *GENPRU* 1.2.60R to *GENPRU* 1.2.61R (Documentation of risk assessments) as they apply on a solo level and on a consolidated level.

	(2)	(for the purpose of *IFPRU*) the *rules* in *IFPRU* 2.2.2R to *IFPRU* 2.2.7R (Strategies, processes and systems) to *IFPRU* 2.2.16R, *IFPRU* 2.2.37G (Stress and scenario tests) in relation to a *significant IFPRU firm* and *IFPRU* 2.2.43R to *IFPRU* 2.2.44R (Documentation of risk assessments) as they apply on a individual basis and on a *consolidated basis*.
ILAS BIPRU firm	a *firm* falling into *BIPRU* 12.1.1R, but excluding a *firm* that is:	
	(a)	an *exempt ~~full scope~~BIPRU full-scope IFPRU investment firm*; or
	(b)	~~a *BIPRU limited licence firm*~~ an *IFPRU limited-licence firm*; or
	(c)	~~a *BIPRU limited activity firm*~~ an *IPFRU limited-activity firm*; or
	(d)	an *exempt BIPRU commodities firm*~~.~~; or
	(e)	an *exempt IFPRU commodities firm*; or
	(f)	a *BIPRU firm*.
initial capital	…	
	(6)	(for the purpose of the definition of *dealing on own account* in *BIPRU* and in the case of an *undertaking* not falling within (3) or (4)) *capital resources* calculated in accordance with (3) and paragraphs (3) and (4) of the definition of *capital resources*; and
	…	
	(8)	(for an *IFPRU investment firm* and in accordance with article 28(1) of *CRD*) the amount of *own funds* referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in accordance with Part Two of those Regulations (Own funds).
	(9)	(for the purpose of the definition of *dealing on own account* in *IFPRU*) the amount of *own funds* referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in accordance with Part Two of those Regulations (Own funds).
institution	(1)	(~~in accordance with Article 3(1)(c) of the *Capital Adequacy Directive* and Article 4(6) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *GENPRU* and *BIPRU*) a *credit institution* or a *CAD investment firm*, whether or not it is incorporated in, or has its head office in,~~

~~an *EEA State*~~ has the meaning in article 4(1)(3) of the *EU CRR*).

(2) (for the purposes of *GENPRU* and *BIPRU*) includes a *CAD investment firm*.

investment firm …

(3) (in *IFPRU*, *GENPRU* 3 and *BIPRU* 12) has the meaning in article 4(1)(2) of the *EU CRR*.

(4) (in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12) any of the following:

(a) a *firm* in (3); and

(b) a *BIPRU firm*.

(5) (in *SYSC* 19A) a *firm* in (3).

investment firm consolidation waiver (in relation to a *BIPRU firm*) a *waiver* (described in *BIPRU* 8.4 (CAD Article 22 groups and investment firm consolidation waiver) that disapplies certain requirements so far as they apply on a consolidated basis with respect to a *CAD Article 22 group*.

investment services sector (1) a sector composed of one or more of the following entities:

…

(2) (in *BIPRU* (except in *BIPRU* 12) a sector comprised of one or more of the following entities:

(a) the entities in (1); and

(b) a *CAD investment firm*.

large exposure (1) (in *BIPRU*) ~~has the meaning set out in *BIPRU* 10.5.1R, which in summary is~~ the ~~*total*~~ *exposure* of a *firm* to a *counterparty*, or a *group of connected clients*, whether in the *firm's non-trading book* or *trading book* or both, ~~and *counterparties* falling within *BIPRU* 10.10A.1R within the trading book,~~ which in aggregate equals or exceeds 10% of the *firm's capital resources*.

(2) (except in (1)) has the meaning in article 392 of the *EU CRR* (Definition of a large exposure).

limited activity firm has the meaning ~~set out~~ in ~~*BIPRU* 1.1.11R (Types of investment firm: Limited activity firms)~~ article 96(1) of the *EU CRR*.

limited licence firm has the meaning ~~set out~~ in ~~*BIPRU* 1.1.12R (Types of investment~~

~~firm: Limited licence firms)~~ article 95(1) of the *EU CRR*.

local (1) (except in ~~*BIPRU* 1.1 (Application and purpose)~~ *IFPRU* 1.1 (Application and purpose) a *firm* which is a member of a *futures* and *options* exchange and whose *permission* includes a *requirement* that:

…

(2) ~~(in *BIPRU* 1.1 (Application and purpose) and in accordance with article 3(1)(p) of the *Capital Adequacy Directive* (Definitions)) an *undertaking* dealing for its own account on markets in financial futures or options or other derivatives and on cash markets for the sole purpose of hedging *positions* on derivatives markets or which deals for the accounts of other members of those markets and which are guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such an *undertaking* is assumed by clearing members of the same markets; for these purposes a clearing member means a member of the exchange or the clearing house which has a direct contractual relationship with the central counterparty (market guarantor).~~ [deleted]

(3) (in *IFPRU* 1.1 (Application and purpose) has the meaning given to the definition of "local firm" in article 4(1)(4) of the *EU CRR*.

loss (1) (in *BIPRU* and in accordance with Article 4(26) of the *Banking Consolidation Directive* (Definitions) and for the purposes of the *IRB approach*, the *standardised approach* to credit risk and *BIPRU* 5 (Credit risk mitigation)) economic loss, including material discount effects and material direct and indirect costs associated with collection on the instrument.

(2) (except in (2)) has the meaning in article 5(1) of the *EU CRR*.

non-core large exposures group (in relation to a *firm*) ~~has the meaning in *BIPRU* 10.9A.3R (Definition of non-core large exposures group), which is in summary each *non-core concentration risk group counterparty* that is not a member of the *core UK group* but satisfies all the conditions for membership of the firm's *core UK group* except for *BIPRU* 10.8A.2R(1) (Core concentration risk group counterparty), *BIPRU* 10.8A.2R(5) (Establishment in the United Kingdom) and *BIPRU* 10.8A.5R(2) (Capital maintenance arrangements)~~ all counterparties which:

(1) are listed in the *firm's non-core large exposures group permission*;

	(2)	satisfy the conditions in *IFPRU* 8.2.6R (Intra-group exposures: non-core large exposures group); and
	(3)	for which *exposures* are exempted, under article 400(2)(c) of the *EU CRR* (Exemptions), from the application of article 395(1) of the *EU CRR* (Limits to large exposures).
non-EEA sub-group	(1)	(in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) a group of *undertakings* identified as a *non-EEA sub-group* in *BIPRU* 8.3.1R (Main consolidation rule for non-EEA sub-groups); however where the provision in question refers to a *non-EEA sub-group* in another *EEA State* it means a group of *undertakings* identified in Article 73(2) of the *Banking Consolidation Directive* (Non-EEA sub-groups) required to be supervised on a consolidated basis under Article 73(2) of the *Banking Consolidation Directive* by a competent authority in that *EEA State*.
	(2)	(except in (1)) a group of *undertakings* identified in article 22 of the *EU CRR* (Sub-consolidation in cases of entities in third countries).
operational risk	…	
	(2)	(~~except in *COLL* and *FUND*~~ in *GENPRU* (except *GENPRU* 3 (Cross sector groups) and *BIPRU* (except *BIPRU 12* (Liquidity Standards)) (in accordance with Article 4(22) of the *Banking Consolidation Directive*) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.
	(3)	(except in (1) and (2)) has the meaning in article 4(1)(52) of the *EU CRR*.
originator	(1)	(in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) (in accordance with Article 4(41) of the *Banking Consolidation Directive* (Definitions) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation) either of the following: …
	(2)	(except in (1)) has the meaning in article 4(1)(13) of the *EU CRR*.
overall financial adequacy rule	(1)	(in *GENPRU*, *BIPRU* and *INSPRU*) *GENPRU* 1.2.26R (Requirement for certain *firms* to have adequate financial resources).

	(2)	(in *IFPRU*) *IFPRU* 2.2.1R (Adequacy of financial resources).
overall Pillar 2 rule	(1)	(in *GENPRU, BIPRU* and *INSPRU*) *GENPRU* 1.2.30R (Systems, strategies, processes and review for certain *firms*).
	(2)	(in *IFPRU*) *IFPRU* 2.2.7R (Strategy processes and systems).
own funds	(1)	(in *GENPRU* (except *GENPRU* 3 (Cross sector groups) and *BIPRU* (except *BIPRU* 12 (Liquidity standards)) own funds described in articles 56 to 57 of the *Banking Consolidation Directive*.
	…	
	(5)	(except in (1) to (4)) has the meaning in article 4(1)(118) of the *CRR*.
parent financial holding company in a Member State	(1)	(in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) (in accordance with Article 4(15) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions)) a *financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.
	(2)	(except in (1)) has the meaning in article 4(1)(30) of the *EU CRR*.
parent institution in a Member State	(1)	(in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12)) (in accordance with Article 4(14) of the *Banking Consolidation Directive* and Article 3 of the *Capital Adequacy Directive* (Definitions)) an *institution* which has an *institution* or a *financial institution* as a *subsidiary undertaking* or which holds a *participation* in such an institution, and which is not itself a *subsidiary undertaking* of another *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.
	(2)	(except in (1)) has the meaning in article 4(1)(28) of the *EU CRR*.
parent mixed financial holding company in a Member State	(1)	(in *GENPRU* (except *GENPRU* 3) and *BIPRU* (except *BIPRU* 12) (in accordance with Article 4(15a) of the *Banking Consolidation Directive* (Definitions)) a *mixed financial holding company* which is not itself a *subsidiary*

undertaking of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* established in the same *EEA State*.

(2) (except in (1)) has the meaning in article 4(1)(32) of the *EU CRR*.

parent undertaking (1) …

(c) for the purposes of *BIPRU* (except *BIPRU* 12), *GENPRU* (except *GENPRU* 3) and *INSPRU* as they apply on a consolidated basis~~, for the purposes of *BIPRU* 10 (Large exposures requirements)~~ and for the purposes of *SYSC* 12 (Group risk systems and controls requirement) and *SYSC* ~~19A~~ 19C (Remuneration Code for BIPRU firms) and in relation to whether an *undertaking* is a parent *undertaking*) an *undertaking* which has the following relationship to another *undertaking* ("S"):

…

…

(3) (for the purposes of *GENPRU* 3, *BIPRU* 12, *IFPRU* and *SYSC* 19A (Remuneration Code)) has the meaning in article 4(1)(15) of the *EU CRR* but so that (in accordance with article 2(9) of the *Financial Groups Directive*) article 4(1)(15)(b) applies for the purpose of *GENPRU* 3.

participation (1) (for the purposes of *UPRU* and *GENPRU* (except *GENPRU* 3) and for the purposes of *BIPRU* (except *BIPRU* 12) and *INSPRU* as they apply on a consolidated basis):

…

(2) (except in (1) has the meaning in article 4(1)(35) of the *EU CRR*.

position (1) (in accordance *BIPRU* 1.2.4R (Definition of the trading book: Positions)) includes proprietary positions and positions arising from client servicing and market making.

(2) (in *IFPRU*) has the meaning which it has, or is used, in the *EU CRR*.

sectoral rules (in relation to a *financial sector*) rules and requirements relating to the prudential supervision of *regulated entities* applicable to *regulated entities* in that *financial sector* as follows:

…

	(d)	(in relation to ~~prudential rules about~~ consolidated supervision for any *financial sector*) those requirements include ones relating to the form and extent of consolidation;
	…	
	(h)	references to the *appropriate regulator's sectoral rules* are to *sectoral rules* in the form of *rules* and, as applicable, the *EU CRR*.
securitisation	(1)	(subject to (2) and (3)) a process by which assets are sold to a bankruptcy-remote *special purpose vehicle* in return for immediate cash payment and that vehicle raises the immediate cash payment through the issue of debt securities in the form of tradable notes or commercial paper.
	…	
	(3)	(in *IFPRU*) has the meaning in article 4(1)(61) of the *EU CRR*.
securitisation position	(1)	(in *GENPRU* and *BIPRU*) (in accordance with Article 4(40) (Definitions) and Article 96 (Securitisation) of the *Banking Consolidation Directive*) an *exposure* to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation; and so that:
		…
	(2)	(in *IFPRU*) has the meaning in article 4(1)(62) of the *EU CRR*.
senior management	(1)	(in *BIPRU* 7.10 (Use of a value risk model) and in relation to a *firm*) the *firm's governing body* and those of the *firm's senior managers* and other senior management who have responsibilities relating to the measurement and control of the risks which the *firm's VaR model* is designed to measure or whose responsibilities require them to take into account those risks.
	(2)	(in *SYSC* and *IFPRU* and in accordance with article 3(9) of *CRD*) those *persons* who are a natural person and who exercise executive functions in an *institution* and who are responsible and accountable to the *management body* for the day-to-day management of the *institution*.
solo capital resources	…	
	(2)	~~for the purpose of *BIPRU* 10 (Large exposures requirements) the definition in (1) is adjusted in accordance~~

~~with *BIPRU* 10.8A.10R (Calculation of capital resources for a core UK group) so that it means *capital resources* calculated in accordance with the *rules* applicable to the category of *BIPRU firm* identified by applying the procedure in *BIPRU* 8.6.6R to *BIPRU* 8.6.9R (Consolidated capital resources).~~ [deleted]

sponsor (B) In the *FCA* ~~Handbook~~*Handbook*:

(1) …

(2) (in *BIPRU* ~~and *FUND*~~), in accordance with Article 4(42) of the *Banking Consolidation Directive* (Definitions) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation) an *undertaking* other than an *originator* that establishes and manages an *asset backed commercial paper programme* or other *securitisation* scheme that purchases *exposures* from third party entities.

(3) (in *IFPRU* and *FUND*) has the meaning in article 4(1)(14) of the *EU CRR*.

subsidiary …

(3) (for the purpose of *IFPRU*) has the meaning in article 4(1)(16) of the *EU CRR*.

supervisory review and evaluation process (1) the *appropriate regulator's* assessment of the adequacy of certain *firms'* capital, as more fully described in *BIPRU* 2.2.9G (*BIPRU firms*) and *INSPRU* 7.1.91G to *INSPRU* 7.1.199G (*insurers*).

(2) the *FCA's* assessment of the adequacy of an *IFPRU investment firm's* capital, as more fully described in *IFPRU* 2.3 (Supervisory review and evaluation process).

third country BIPRU firm (1) (in *BIPRU* (except in *BIPRU* 12) and *SYSC* 19C) an *overseas firm* that:

…

(2) (in *BIPRU* 12) an *overseas firm* that:

(a) is a *bank*;

(b) is not an *EEA firm*; and

(c) has its head office outside the *EEA*.

third country ~~banking or~~ investment services undertaking	(in *BIPRU*) ~~an *institution*~~ a *CAD investment firm*, a *financial institution* or an *asset management company* in a *non-EEA state*.	
trading book	…	
	(2)	(in *BIPRU*~~,~~ and *GENPRU*~~, *BSOCS* and *IPRU(INV)* 11 and~~ in relation to a *BIPRU firm*) has the meaning in *BIPRU* 1.2 (Definition of the trading book) which is in summary, all that *firm's positions* in *CRD financial instruments* and *commodities* held either with trading intent or in order to hedge other elements of the *trading book*, and which are either free of any restrictive covenants on their tradability or able to be hedged.
	…	
	(4)	(in *IFPRU* and in relation to an *IFPRU investment firm*) has the meaning in article 4(1)(86) of the *EU CRR*.
trading book policy statement	(1)	(in *BIPRU*) has the meaning in *BIPRU* 1.2.29R (Trading book policy statements) which is in summary a single document of a *person* recording the policies and procedures referred to in *BIPRU* 1.2.26R and *BIPRU* 1.2.27R.
	(2)	(in *IFPRU*) the statement of policies and procedures relating to the *trading book*.
unfunded credit protection	(1)	(in *BIPRU* and in accordance with Article 4(32) of the *Banking Consolidation Directive* (Definitions)) a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an undertaking derives from the *undertaking* of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified events.
	(2)	(in *IFPRU*) has the meaning in article 4(1)(59) of the *EU CRR*.

Delete the following definitions. The deleted text is not shown.

BIPRU 50K firm

BIPRU 125K firm

BIPRU 730K firm

BIPRU investment firm

BIPRU limited activity firm

BIPRU limited licence firm

CAD full scope firm

EEA banking and investment group

full scope BIPRU investment firm

non-core large exposures group waiver

sovereign large exposures waiver

third country BIPRU 730K firm

Annex C

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

20 Reverse stress testing

20.1 Application and purpose

Application

20.1.1 R (1) *SYSC* 20 applies to:

(a) a ~~*BIPRU*~~ *firm* which is:

…

(iii) a ~~*BIPRU*~~ *designated investment firm* which meets any of the criteria set out in (2) on an individual basis, or in (3) on a consolidated basis: and

…

(2) Subject to (4), *SYSC* 20 applies to a ~~*BIPRU*~~ *designated investment firm* if:

…

(3) Subject to (4), where all of the ~~*BIPRU*~~ *designated investment firms* within the same ~~*UK*~~ *consolidation group* or *non-EEA sub-group*, taken together as if they were one *firm*, meet any of the criteria in (2), *SYSC* 20 applies to each of those ~~*BIPRU*~~ *designated investment firms* as if it individually met the inclusion criteria in (2).

(4) Any ~~*BIPRU*~~ *designated investment firm* which is included within the scope of *SYSC* 20 in accordance with (2) or (3) in any given year will continue to be subject to *SYSC* 20 for the following two years irrespective of whether or not it continues to meet the inclusion criteria in any of those subsequent years.

20.1.1A R (1) *SYSC* 20 applies to:

(a) an *IFPRU investment firm*; and

(b) a *BIPRU firm* which meets any of the criteria in (2) on an individual basis, or in (3) on a consolidated basis.

(2) Subject to (4), *SYSC* 20 applies to a *BIPRU firm* if:

(a) it has assets under management or administration of at least £10 billion (or the equivalent amount in foreign currency); or

(b) the total annual fee and commission arising from regulated activities is at least £250 million (or the equivalent amount in foreign currency); or

(c) it has assets or liabilities of at least £2 billion (or the equivalent amount in foreign currency).

(3) Subject to (4), where all of the *BIPRU firms* within the same *UK consolidation group* or *non-EEA sub-group*, taken together, as if they were one *firm*, meet any of the criteria in (2), *SYSC* 20 applies to each of those *BIPRU firms* as if it individually met the criteria in (2).

(4) Any *BIPRU firm* which is included within the scope of *SYSC* 20 in accordance with (2) or (3) in any given year will continue to be subject to *SYSC* 20 for the following two years, irrespective of whether or not it continues to meet the inclusion criteria in any of those subsequent years.

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

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 138D (Actions for damages); and
(4) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

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

Amendments to the FCA Handbook

D. The General Prudential sourcebook (GENPRU) is amended in accordance with Annex A to this instrument.

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

Notes

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

Citation

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

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Amendments to the General Prudential sourcebook (GENPRU)

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

1 Application

1.1 Application

…

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

(1) an *insurer*;

(2) ~~a *bank*;~~ [deleted]

(3) ~~a *building society*;~~ [deleted]

(4) a *BIPRU* ~~*investment*~~ *firm*; and

(5) groups containing such *firms*.

…

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

(1) an *IFPRU investment firm*;

(2) an *insurer*; and

(3) a *group* containing both the *firms* in (1) and (2).

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

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

…

1.2 Adequacy of financial resources

…

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

1.2.3A G ~~In relation to:~~

~~(1) a *BIPRU firm*;~~

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

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

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

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

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

~~(b) has a *branch* in the *United Kingdom*:~~

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

…

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

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

Purpose

…

1.2.13 G This section amplifies *Principle* 4, under which a *firm* must maintain adequate financial resources. It is concerned with the adequacy of the financial resources that a *firm* needs to hold in order to be able to meet its liabilities as they fall due. These resources include both capital and liquidity resources. ~~As noted in *GENPRU* 1.2.3AG, however, the *appropriate regulator's rules* and *guidance* in relation to the adequacy of the liquidity~~

~~resources of a *BIPRU firm* are set out in *BIPRU* 12.~~

1.2.14 G ~~In the case of a *bank* or *building society* this section implements Article 123 and (in part) Annex XI of the *Banking Consolidation Directive*.~~ In the case of a *BIPRU* ~~*investment*~~ *firm* this section implements the third paragraph of article 95(2) of the *EU CRR* applying Article 34 of the *Capital Adequacy Directive* so far as that Article applies Article 123 of the *Banking Consolidation Directive*.

…

Outline of other related provisions

…

1.2.21 G …

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

…

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

1.2.21A G (1) *BIPRU* 12 sets out material on systems and controls that apply specifically to *liquidity risk* in relation to a *BIPRU firm*.

(2) *GENPRU* 2.2 (Adequacy of financial resources) requires certain *BIPRU firms* to deduct illiquid assets when calculating their *capital resources*.

…

1.2.24 G ~~*BIPRU* 10.2.22R (Stress testing of credit risk concentrations) sets out further stress tests that a *firm* should carry out. Further *rules* and *guidance* on such stress tests are set out in *BIPRU* 2.2 (Internal capital adequacy standards).~~ [deleted]

…

Systems, strategies, processes and reviews

…

1.2.33 R …

(2) ~~In the case of a *BIPRU firm* the processes, strategies and systems relating to concentration risk must include those necessary to ensure~~

~~compliance with *BIPRU* 10 (*Large exposures* requirements).~~ [deleted]

…

…

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

(1) ~~to an *insurer* to which those *rules* do not apply on a consolidated basis under *GENPRU* 1.2.45R;~~ [deleted]

(2) to a *BIPRU firm* to which those *rules* do not apply on a consolidated or sub-consolidated basis as referred to in *GENPRU* 1.2.46R (including a *BIPRU* ~~*investment*~~ *firm* with an *investment firm consolidation waiver*)~~; and~~.

(3) ~~a *firm* referred to in *GENPRU* 1.2.2R (Application of this section to certain non-*EEA firms*).~~ [deleted]

…

Capital planning

…

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

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

…

1.3 Valuation

Purpose

…

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

…

General requirements: Accounting principles to be applied

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

…

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

…

…

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

…

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

Specific requirements: BIPRU firms

1.3.36 R …

(3) A *BIPRU* ~~*investment*~~ *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

…

…

2 Capital

2.1 Calculation of capital resources requirements

…

2.1.8 G (1) ~~This section implements minimum EC standards for the *capital resources* required to be held by an *insurer* undertaking business that~~

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

(2) This section also implements the third paragraph of article 95(2) of the *EU CRR* applying the provisions of the *Capital Adequacy Directive* and *Banking Consolidation Directive* concerning the level of *capital resources* which a *BIPRU firm* is required to hold. In particular it implements (in part) ~~Articles 9, 10 and~~ article 75 of the *Banking Consolidation Directive* and Articles 5, 9, 10 and 18 of the *Capital Adequacy Directive*.

(3) ~~In the case of a *collective portfolio management investment firm* this section implements article 9 of *AIFMD* and (in part) Article 7 of the *UCITS Directive*.~~ [deleted]

…

Main requirement: BIPRU firms

…

2.1.42 R At the time that it first becomes a ~~*bank, building society* or~~ *BIPRU* ~~*investment*~~ *firm*, a *firm* must hold *initial capital* of not less than the *base capital resources requirement* applicable to that *firm*.

…

Calculation of the variable capital requirement for a BIPRU firm

2.1.45 R Table: Calculation of the variable capital requirement for a BIPRU firm

This table belongs to *GENPRU* 2.1.40R.

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

BIPRU ~~limited licence~~ firm (including *collective portfolio management investment firms*)	…

…

Table: Base capital resources requirement for a BIPRU firm

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

Firm category	Amount: Currency equivalent of
~~*Bank*~~	~~€5 million~~
~~*Building society*~~	~~The higher of €1 million and £1 million~~
~~*BIPRU 730K firm*~~	~~€730,000~~
~~*BIPRU 125K firm*~~	~~€125,000~~
BIPRU ~~50K~~ firm (but not a *collective portfolio management investment firm*)	€50,000
~~*Collective portfolio management investment firm*~~	~~€125,000 plus, if the *funds under management* exceed €250,000,000, 0.02% of the excess, subject to a maximum of €10,000,000.~~

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

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

2.1.49 G ~~The terms *BIPRU 730K firm*, *BIPRU 125K firm* and *BIPRU 50K firm* are defined in *BIPRU* 1.1 (Application and purpose). However for convenience the table in *GENPRU* 2.1.50G briefly summarises them.~~ The *Capital Adequacy Directive* sets out various categories of *investment firms* subject to differing levels of initial capital. For the purpose of the third paragraph of article 95(2) of the *EU CRR*, a *BIPRU firm* falls into the category in article 5(3) of the *Capital Adequacy Directive*. In summary, a *BIPRU firm*:

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

(2) is not authorised to provide the following *investment services*:

(a) to deal in any *financial instruments* for its own account;

(b) to underwrite issues of *financial instruments* on a firm commitment basis;

(c) to place *financial instruments* without a firm commitment basis; and

(d) to operate a *multilateral trading facility*;

(3) is authorised to provide one or more of the following *investment services*:

(a) the execution of investors' orders for *financial instruments*; or

(b) the management of individual portfolios of investments in *financial instruments*;

(4) may be authorised to provide one or more of the following *investment services*:

(a) reception and transmission of investors' orders for *financial instruments*; or

(b) investment advice; and

(5) does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation* or *requirement* prohibiting the holding of client money and its permission should not include *safeguarding and administering investments*).

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

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

…

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

2.1.53 R ~~In relation to a~~ A *BIPRU* ~~*investment*~~ *firm* ~~which is required to~~ must calculate a *fixed overheads requirement*, ~~the~~ an amount ~~of that requirement~~ that is equal to one quarter of the *firm's* relevant fixed expenditure calculated in accordance with *GENPRU* 2.1.54R.

2.1.54 R For the purpose of *GENPRU* 2.1.53R, and subject to *GENPRU* 2.1.55R to *GENPRU* 2.1.57R, a *BIPRU* ~~*investment*~~ *firm's* relevant fixed expenditure is the amount described as total expenditure in its most recent audited *annual*

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

…

…

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

2.2 Capital resources

Purpose

…

2.2.4 G This section also implements minimum EC standards for the composition of *capital resources* required to be held by a *BIPRU firm*. In particular it implements the third paragraph of article 95(2) of the *EU CRR*, applying Articles 56 - 61, Articles 63 - 64, Article 66 and Articles 120 - 122 of the *Banking Consolidation Directive* (2006/48/EC) and Articles 12 - 16, Article 17 (in part), Article 22(1)(c) (in part) and paragraphs 13 - 15 of Part B of Annex VII of the *Capital Adequacy Directive* (2006/49/EC).

…

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

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

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

…

Deductions from capital

2.2.14 G Deductions should be made at the relevant stage of the calculation of *capital resources* to reflect capital that may not be available to the *firm* or assets of uncertain value (for example, holdings of intangible assets and assets that are inadmissible for an *insurer*~~, or, in the case of a *bank* or *building society*, where that *firm* has made investments in a *subsidiary undertaking* or in another *financial institution* or in respect of *participations* that it holds~~).

2.2.15 G Deductions should also be made, in the case of certain *BIPRU* ~~*investment*~~ *firms* for *illiquid assets* (see *GENPRU* 2.2.19R).

…

Table: Applicable capital resources calculation

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

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

		it.

Calculation of capital resource: Which rules apply to BIPRU ~~investment~~ firms

2.2.20 G *GENPRU* 2.2.19R sets out three different methods of calculating *capital resources* for *BIPRU* ~~*investment*~~ *firms*. The differences between the three methods relate to whether and how *material holdings* and *illiquid assets* are deducted when calculating *capital resources*. The method depends on whether a *firm* has an *investment firm consolidation waiver*. If a *firm* does have such a *waiver*, it should deduct *illiquid assets*, own *group material holdings* and certain contingent liabilities. If a *firm* does not have such a *waiver*, it should choose to deduct either *material holdings* or, subject to notifying the ~~*appropriate regulator*~~ *FCA*, *illiquid assets*.

…

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

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

…

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

…

…

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

2.2.47 R For the purpose of meeting:

…

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

…

…

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

…

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

that of 250% in *GENPRU* 2.2.49R.

…

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

2.2.56 G This table belongs to *GENPRU* 2.2.55G.

Description of the stage of the capital resources calculation	Stage in the *capital resources table*	Amount (£)
…	…	…
Credit~~, operational~~ and counterparty risk requirement	…	…
…		

…

2.2.58 G In this example it is assumed that the maximum possible amount of *tier one capital* is carried forward to meet the market risk requirement. There are other options as to the allocation of *tier one capital* and *tier two capital* to the credit~~, operational~~ and counterparty risk requirement.

In order to calculate the relevant *tier one capital* for the *upper tier three* gearing limit in accordance with *GENPRU* 2.2.49R it is first necessary to allocate *tier one capital* and *tier two capital* to the individual credit, ~~operational~~ and counterparty risk requirements. This allocation process underlies the calculation of the overall amount referred to in *GENPRU* 2.2.48R. The calculation in *GENPRU* 2.2.49R(3) and *GENPRU* 2.2.49R(4) then focuses on the *tier one* element of this earlier calculation.

In this worked example, if it is assumed that the counterparty risk requirement has been met by *tier one capital*, the relevant *tier one capital* for gearing is £50. This is because the deductions of £20 and the credit ~~and operational~~ risk ~~requirements~~ requirement of £90 have been met by *tier two capital* in the first instance. However, the total sum of deductions and credit ~~and operational~~ risk ~~requirements~~ requirement exceed the *tier two capital* amount of £80 by £30. Hence the £80 of *tier one capital* has been reduced by £30 to leave £50.

In practical terms, the same result is achieved for the relevant *tier one capital* for gearing by taking the amount carried forward to meet market risk of £40 and adding back the £10 in respect of the counterparty risk requirement. Again, there are other options as to the allocation to credit~~, operational~~ and counterparty risk of the constituent elements of Stage N of the *capital resources table*.

…

…

Loss absorption

2.2.80 R A *firm* may not include a *share* in its *tier one capital resources* unless (in addition to complying with the other relevant *rules* in *GENPRU* 2.2):

…

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

…

…

Core tier one capital: permanent share capital

2.2.83 R *Permanent share capital* means an item of capital which (in addition to satisfying *GENPRU* 2.2.64R) meets the following conditions:

(1) it is:

…

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

…

…

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

2.2.85 R (1) Negative amounts, including any interim net losses (but in the case of a *BIPRU* ~~*investment* *firm*~~, only material interim net losses), must be deducted from profit and loss account and other reserves.

…

(3) If interim losses as referred to in (2) exceed the 10% figure in (2) then a *BIPRU* ~~*investment*~~ *firm* must deduct the whole amount of those losses and not just the excess.

…

Deduction from tier one: Intangible assets

…

2.2.156 G Intangible assets include goodwill as defined in accordance with the requirements referred to in *GENPRU* 1.3.4R (General requirements:

accounting principles to be applied) applicable to the *firm*. The treatment of deferred acquisition cost assets for *BIPRU* ~~*investment*~~ *firms* is dealt with in *GENPRU* 1.3 (Valuation); they should not be deducted as an intangible asset.

…

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

…

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

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

…

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

Tier two capital rule	Adjustment
…	
~~*GENPRU* 2.2.160R (Holder of a non-deferred share of a building society to be treated as senior creditor)~~	
…	

…

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

2.2.259 R *GENPRU* 2.2.259R to *GENPRU* 2.2.262G only apply to a *BIPRU* ~~*investment*~~ *firm*.

…

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

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

…

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

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

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

…

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

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

Part 2 of the capital resources calculation for an investment firm with a waiver from consolidated supervision	
…	
Note (4): The *material holdings* that must be deducted at part 2 of stage E are *material holdings* issued by *undertakings* which would have been members of the *firm's UK consolidation group* or *non-EEA sub-group* if the *firm* did not have an *investment firm consolidation waiver* if:	
(1)	in relation to a *BIPRU* ~~*investment*~~ *firm*, the holding forms part of the *undertaking's tier one capital resources*; or
…	
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* ~~*investment*~~ *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* if the *firm* did not have an *investment firm consolidation waiver*.	

…

3 Cross sector groups

…

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

[**Note**: article 120(2) of *CRD*]

…

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

responsible for implementing those detailed requirements.

…

Risk concentration and intra-group transactions: the main rule

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

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

3.1.36 R Table: application of sectoral rules

This table belongs to *GENPRU* 3.1.35R.

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

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

…

3.1.38 R (1) ~~This *rule* applies for the purposes of the definitions of:~~

~~(a) a *core concentration risk group counterparty*; and~~

~~(b) a *non-core concentration risk group counterparty*;~~

~~as they apply for the purposes of the *rules* for the *banking and investment services sector* as applied by *GENPRU* 3.1.36 R.~~ [deleted]

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

…

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

3.1.39 R (1) …

(2) An *asset management company* or an *alternative investment fund manager* is in the *overall financial sector* and is a *regulated entity* for the purpose of:

…

(c) any other provision of the *Handbook* or *PRA* Rulebook relating to the supervision of *financial conglomerates*.

(5) This *rule* applies even if:

(a) a *UCITS management company* is ~~a *BIPRU*~~ an *IFPRU investment firm*; or

(b) an *asset management company* or *alternative investment fund manager* is an *investment firm.*

3.2 Third-country groups

…

Purpose

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

Equivalence

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

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

Other methods: General

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

Supervision by analogy: introduction

…

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

…

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

…

7 Table

A mixed financial holding company	4.4	A *mixed financial holding company* must be treated in the same way as: (1) a *financial holding company* (if ~~the *rules* in *BIPRU 8*~~) Part One, Title II, Chapter 2 of the *EU CRR* and the *PRA Handbook* are applied); or (2) an *insurance holding company* (if the *rules* in *INSPRU* 6.1 are applied).

8 Table: PART 5: Principles applicable to all methods

…		

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

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

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

9 Table: PART 6: Definitions used in this Annex

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

		services sector is calculated in accordance with the ~~*rules*~~ *EU CRR* for calculating the ~~*CRR*~~ *own funds requirements* of a *full scope* ~~*BIPRU*~~ *IFPRU investment firm*. (7) In relation to a *BIPRU firm* that is a member of a *financial conglomerate* where there are no *credit institutions* or *investment firms*, ~~Any~~ any ~~*CRR*~~ *capital resources requirements* calculated under a *BIPRU* TP may be used for the purposes of the *solo capital resources requirement* in this *rule* in the same way that the ~~*CRR*~~ *capital resources requirements* can be used under *BIPRU* 8.
…		
Solo capital resources requirement: EEA firms in the banking or investment services sector	6.5	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 the *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:
		…
…		

…

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

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

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

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

1 Table: PART 1: Third-country financial conglomerates

...	
1.2	A *firm* must comply, with respect to the *financial conglomerate* referred to in paragraph 1.1, with ~~whichever of *GENPRU* 3.1.26R and~~ *GENPRU* 3.1.29R ~~is~~ as applied under paragraph 1.3.
1.3	For the purposes of paragraph 1.2: (1) ~~the *rule* in *GENPRU* 3.1 that applies as referred to in paragraph 1.2 is the one that is specified by the *requirement* referred to in *GENPRU* 3.2.8R;~~ [deleted] (2) ~~(where *GENPRU* 3.1.29R is applied)~~ 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 ~~or Part 3~~ of *GENPRU* 3 Annex 1R is specified in ~~that *requirement*~~ the *requirement* referred to in *GENPRU* 3.2.8R; and ...
…	

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

...	
2.3	The *rules* referred to in paragraph 2.2 are ~~as follows~~: (1) the *applicable sectoral consolidation rules* in ~~*BIPRU* 8; or~~ paragraph

	6.10 of *GENPRU* 3 Annex 1R. ~~(2) the *rules* in *ELM 7*~~.
…	

3 Annex 3G Guidance Notes for Classification of Groups

…

General guidance

…

Please note the following:

…

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

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

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

TP 8 Miscellaneous capital resources definitions for BIPRU firms

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

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

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

TP 8A Further miscellaneous capital resources definitions for BIPRU firms

…				

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

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

capital

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

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

Annex B

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

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

1 Application

1.1 Application

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

(1) ~~a *bank*;~~ [deleted]

(2) ~~a *building society*;~~ [deleted]

(3) to a *BIPRU* ~~*investment*~~ *firm*; ~~and~~

(3A) to an *IFPRU investment firm*, only *BIPRU* 12 (Liquidity standards); and

(4) in relation to groups containing such *firms*:

(a) only *BIPRU* 12 (Liquidity standards) applies to the group containing any of the *firms* in (3) and (3A); and

(b) *BIPRU* as a whole applies to the group containing only the *firms* in (3).

…

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

…

Purpose

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

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

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

~~Directive).~~ [deleted]

The definition of a BIPRU firm

1.1.6 R ~~Subject to *BIPRU* 1.1.7R, a *BIPRU firm* means a *firm* that is:~~

~~(1) a *building society*; or~~

~~(2) a *bank*; or~~

~~(3) a *full scope BIPRU investment firm*; or~~

~~(4) a *BIPRU limited licence firm*; or~~

~~(5) *a BIPRU limited activity firm.*~~ [deleted]

1.1.7 R None of the following is a *BIPRU firm* ~~and each is excluded from each of the categories of *BIPRU investment firm* listed in *BIPRU* 1.1.6R(3) to *BIPRU* 1.1.6R(5) and *BIPRU* 1.1.18R(2) to (4)~~:

…

1.1.7A G In summary, a *BIPRU firm*:

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

(2) is not authorised to provide the following *investment* services:

(a) to deal in any *financial instruments* for its own account;

(b) to underwrite issues of *financial instruments* on a firm commitment basis;

(c) to place *financial instruments* without a firm commitment basis; and

(d) to operate a *multilateral trading facility*;

(3) is authorised to provide one or more of the following *investment services*:

(a) the execution of investors' orders for *financial instruments*; or

(b) the management of individual portfolios of investments in *financial instruments*;

(4) may be authorised to provide one or more of the following *investment services*:

(a) reception and transmission of investors' orders for *financial instruments*; or

(b) investment advice; and

(5) does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation* or *requirement* prohibiting the holding of client money and its permission should not include *safeguarding and administering investments*).

1.1.8 R ~~A *firm* falling within *BIPRU* 1.1.6R(3) to *BIPRU* 1.1.6R(5) is a *BIPRU investment firm*. A *BIPRU investment firm* includes a *collective portfolio management investment firm* that is not excluded under *BIPRU* 1.1.7R.~~ [deleted]

1.1.9 G ~~*EEA firms* are subject to the prudential standards of their home state regulator. But the *Banking Consolidation Directive* permits a host state *competent authority* to require a *BCD credit institution* to meet certain standards relating to its liquidity. The *appropriate regulator's* approach to liquidity for such *firms* is set out in *BIPRU* 12.~~ [deleted]

1.1.10 G …

(2) … The reasons for that policy include:

(a) it is unlikely that a *firm* that is not subject to equivalent supervision will be able to satisfy the *threshold conditions* (and in particular *threshold condition* 5 (Suitability)) and it is unlikely that it will be possible to establish that the *firm* does satisfy them; and

(b) such a *firm* is likely to pose a threat to the interests of *consumers* and potential *consumers*, particularly as effective supervision of an *overseas firm* depends on cooperation between the *appropriate regulator* and the *regulatory body* that authorises the *firm* in its home country and on the *appropriate regulator* being able to place appropriate reliance on the supervision carried out by such *regulatory body*~~; and~~ .

(c) ~~under Article 38(1) of the *Banking Consolidation Directive* the *appropriate regulator* should not apply to *branches* of *credit institutions* having their head office outside the *EEA*, when commencing or carrying on their business, provisions which result in more favourable treatment than that accorded to *branches* of *credit institutions* having their head office in the *EEA*.~~ [deleted]

…

(5) An *overseas firm* that is subject to equivalent supervision is subject to the *threshold conditions* and the *Principles*. *BIPRU* and *GENPRU*

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

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

1.2 Definition of the trading book

…

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

…

1.3 Applications for advanced approaches and waivers

…

1.3.2 G (1) A *firm* may apply for an *Article 129 permission* or a *waiver* in respect of:

…

(b) ~~the *advanced measurement approach*;~~ [deleted]

…

(2) A *firm* should apply for a *waiver* if it wants to:

…

(da) apply the treatment for a *core UK group* in *BIPRU* 3.2.25R (Zero risk-weighting for intra-group exposures) ~~or in *BIPRU* 10.8A (Intra-group exposures: core UK group); or~~.

(e) ~~apply the treatment for a *non-core large exposures group* in *BIPRU* 10.9A (Intra-group exposures: non-core large exposures group); or~~ [deleted]

(f) ~~apply the treatment in *BIPRU* 10.6.35R (Sovereign large exposure waiver).~~ [deleted]

…

Forms and method of application

…

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

…

2 Capital

2.1 Solo consolidation

…

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

…

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

…

2.1.16 R ~~A *firm* must apply *BIPRU* 10 (Large exposure requirements) in accordance with *BIPRU* 8.9A (Consolidated large exposures requirements). Accordingly the *firm* must apply *BIPRU* 8.9A to the group made up of the *firm* and the *subsidiary undertakings* referred to in *BIPRU* 2.1.7R in the same way as *BIPRU* 8.9A applies to a *UK consolidation group* or *non-EEA sub-group*.~~ [deleted]

2.1.17 G ~~One effect of *BIPRU* 2.1.16R is that *BIPRU* 10.8A (Core UK groups) and *BIPRU* 10.9A (Non-core large exposures groups) do not apply. The corresponding provisions of *BIPRU* 8.9A (Consolidated large exposures requirements) apply instead.~~ [deleted]

…

2.2 Internal capital adequacy standards

…

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

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

…

…

2.3 Interest rate risk in the non-trading book

…

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

~~(a)~~ ~~a *bank*;~~

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

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

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

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

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

…

3 Standardised credit risk

3.1 Application and purpose

…

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

…

…

3.2 The central principles of the standardised approach to credit risk

…

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

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

…

3.2.27A G …

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

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

…

3.2.30 G For the purpose of *BIPRU* 3.2.25R(1)(e) (Prompt transfer of capital resources):

(1) in the case of an *undertaking* that is a *firm* the requirement in *BIPRU* 3.2.25R(1)(e) for the prompt transfer of *capital resources* refers to *capital resources* in excess of the capital and financial resources requirements to which it is subject under the *regulatory system*; and

(2) ~~the following guidance relating to the condition in *BIPRU* 10.8A.2R(6) requiring the prompt transfer of *capital resources* within a *core UK group* as applicable for the exemption from *large exposure* limits is also relevant:~~

~~(a) *BIPRU* 10.8A.6G in respect of the criteria that the *appropriate regulator* will consider when assessing whether the condition requiring the prompt transfer of *capital resources* is going to be met; and~~

~~(b) *BIPRU* 10.8A.7G(2) in respect of the counterparty's obligation to increase the *firm's capital resources* and the limitations that may be permitted.~~ [deleted]

(3) the *FCA* will consider the following criteria:

(a) the speed with which funds can be transferred or liabilities repaid to the *firm* and the simplicity of the method for the transfer or repayment;

(b) whether there are any interests other than those of the *firm* in the *core concentration risk group counterparty* and what impact those other interests may have on the *firm's* control over the *core group concentration risk group counterparty* and the ability of the *firm* to require a transfer of funds or repayment of liabilities;

(c) whether there are any tax disadvantages for the *firm* or the *core concentration risk group counterparty* as a result of the transfer of funds or repayment of liabilities;

(d) whether the purpose of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;

(e) whether the legal structure of the *core concentration risk group counterparty* prejudices the prompt transfer of funds or repayment of liabilities;

(f) whether the contractual relationships of the *core concentration risk group counterparty* with the *firm* and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and

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

…

4 The IRB approach

4.1 The IRB approach: Application, purpose and overview

Application

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

Purpose

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

…

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

…

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

…

4.2 The IRB approach: High level material

…

4.2.33 G (1) ~~This *guidance* sets out at what level the tests in *BIPRU* 4.2.30R – *BIPRU* 4.2.32G will be applied in the case of a *firm* that is a member of a group that is part of a bigger group.~~ [deleted]

(2) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *EEA banking and investment group* for which the *appropriate regulator* is also lead regulator then *BIPRU* 4.2.30R – *BIPRU* 4.2.32G apply with respect to that wider group.~~ [deleted]

(3) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *EEA banking and investment group* for which another *competent authority* is lead regulator then *BIPRU* 4.2.26R(4) applies with respect to that wider group but the requirements of that lead regulator will generally apply in place of *BIPRU* 4.2.30R - *BIPRU* 4.2.32G.~~ [deleted]

(4) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *third-country banking and investment group* that is subject to equivalent supervision by a regulatory authority outside the *EEA*, then *BIPRU* 4.2.26R(4) applies with respect to both that wider group and the sub-group of which the *appropriate regulator* is lead regulator. However the requirements of that third country regulator apply in place of *BIPRU* 4.2.30R - *BIPRU* 4.2.32G. The question of whether supervision is equivalent is decided in accordance with *GENPRU* 3.2 (Third country groups).~~ [deleted]

(5) ~~If an *EEA banking and investment group* for which the *appropriate regulator* is the lead regulator is part of a wider *third-country banking and investment group* that is not subject to equivalent supervision by a regulatory authority outside the *EEA*, then *BIPRU* 4.2.30R - *BIPRU* 4.2.32G will apply. *BIPRU* 4.2.30R – *BIPRU* 4.2.32G will apply to the whole group if *GENPRU* 3.2.9R (Supervision by analogy) applies. If *GENPRU* 3.2.4G (Alternative measures) applies, *BIPRU* 4.2.30R - *BIPRU* 4.2.32G will apply to the *EEA banking and investment group*.~~ [deleted]

(6) ~~In the case of a group described in (2) or (3) in respect of which the *Article 129 procedure* applies then *BIPRU* 4.2.26R(4) applies with respect to that wider group. The detailed requirements that apply will be decided in accordance with that procedure.~~ [deleted]

…

5 Credit risk mitigation

5.1 Application and purpose

…

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

…

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

7 Market risk

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

…

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

…

7.2 Interest rate PRR

…

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

…

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

…

…

…

8 Group risk consolidation

8.1 Application

…

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

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

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

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

Purpose

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

…

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

Main consolidation rule for non-EEA sub-groups

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

…

…

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

…

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

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

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

…

…

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

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

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

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

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

…

…

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

…

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

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

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

…

(2) the *third country* ~~*banking or*~~ *investment services undertaking*s in the two potential *non-EEA sub-group*s are the same;

…

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

…

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

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

…

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

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

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

Application

8.4.1 R This section applies to a *BIPRU* ~~*investment*~~ *firm* with an *investment firm consolidation waiver*.

8.4.1A G An *investment firm consolidation waiver* may be applied for by a *BIPRU firm* only.

…

8.4.9 R …

(2) There must be no *bank*, *building society*, ~~or~~ *credit institution* or *investment firm* in the *UK consolidation group* or *non-EEA sub-group*.

…

(6) Each *BIPRU* ~~*investment*~~ *firm* in the *UK consolidation group* or *non-EEA sub-group* must comply with the *main BIPRU firm Pillar1 rules* on an individual basis.

8.4.10 G *GENPRU* 2.2 (Capital resources) says that a *BIPRU* ~~*investment*~~ *firm* with an *investment firm consolidation waiver* should calculate its *capital resources* on a solo basis using *GENPRU* 2 Annex 6R (Capital resources table for a BIPRU ~~investment~~ firm with a waiver from consolidated supervision). *GENPRU* 2 Annex 6R requires a *BIPRU* ~~*investment*~~ *firm* to deduct contingent liabilities in favour of other members of the *UK consolidation group* or *non-EEA sub-group*. Therefore *BIPRU* 8.4.9R(5)(b) only imposes the requirement to deduct them on *EEA firms*.

…

8.4.13 R The solo notional capital resources requirement as referred to in *BIPRU* 8.4.11R(1) is calculated in the same way as the *capital resources requirement* for a *BIPRU firm*~~:~~

~~(1) (if each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* is a *limited licence firm*) the *capital resources*~~

~~*requirement* for a *BIPRU limited licence firm*; or~~

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

…

8.5 Basis of consolidation

Undertakings to be included in consolidation

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

…

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

…

…

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

…

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

…

…

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

…

(2) where, in the opinion of the *appropriate regulator*, the *undertaking* concerned is of negligible interest only with respect to the objectives of monitoring ~~*institutions*~~ *BIPRU firms*; or

(3) where, in the opinion of the *appropriate regulator*, the consolidation of the financial situation of the *undertaking* concerned would be inappropriate or misleading as far as the objectives of the supervision of ~~*institutions*~~ *BIPRU firms* are concerned.

…

8.6 Consolidated capital resources

…

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

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

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

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

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

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

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

…

~~Venture Capital Investments~~

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

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

8.7 Consolidated capital resources requirements

…

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

~~(1) which of the *consolidated requirement components* apply and which do not; and~~

~~(2) how to add up the different *consolidated requirement components* to reach the overall *consolidated capital resources requirement*.~~ [deleted]

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

…

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

(1) the sum of the *consolidated credit risk requirement* and the *consolidated market risk requirement*; and

(2) the *consolidated fixed overheads requirement*.

…

8.7.12 R This table belongs to *BIPRU* 8.7.11R

Consolidated requirement component	*Rules* on which the *consolidated requirement component* are based (the applicable *risk capital requirement*)
…	…
~~*Consolidated operational risk requirement*~~	~~*Operational risk capital requirement*~~

…

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

…

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

(1) each of the *undertakings* in that group or sub-group is an *institution* that is:

(a) a *BIPRU firm*;

(b) an *EEA firm* that is a *CAD investment firm*; or

(c) ~~a *recognised third country credit institution*; or~~ [deleted]

(d) a *recognised third country investment firm*;

(2) each of the *undertakings* referred to in (1) that is a *BIPRU firm* has *capital resources* that are equal to or in excess of its *capital resources requirement* ~~and complies with *BIPRU* 10 (Large exposures requirements)~~;

(3) each of the *undertakings* referred to in (1) that is an *EEA firm* complies with the *CRD implementation measures* in its *EEA State* that correspond to the requirements in (2);

(4) each of the *undertakings* referred to in (1) that is a ~~*recognised third country credit institution* or~~ *recognised third country investment firm* complies with laws in the state or territory in which it has its head office that are equivalent to the requirements of the *Banking Consolidation Directive* or *Capital Adequacy Directive* relating to capital adequacy ~~and concentration risk~~;

(5) there is no material legal, regulatory or contractual impediment to the

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

(6) there is no material legal, regulatory or contractual impediment to mutual financial support between those *undertakings* in that group or sub-group;

(7) the *market risk position* of the *undertakings* are monitored and managed on a co-ordinated basis; and

(8) there is satisfactory allocation of capital within the group or sub-group.

…

8.7.30 R (1) ~~This *rule* applies when the *rules* applicable under *BIPRU* 8.7.12 R apply differently for different types of *firms*.~~ [deleted]

(2) ~~Where a *firm's UK consolidation group* or *non-EEA sub-group* is a group identified at Stage 1 in BIPRU 8 Annex 5 R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group), the *rules* that apply are those that apply to a *bank* that is a *BIPRU firm*.~~ [deleted]

(3) ~~Where a *firm's UK consolidation group* or *non-EEA sub-group* is a group identified at Stage 2 in *BIPRU* 8 Annex 5R, the *rules* that apply are those that apply to a *full scope BIPRU investment firm*.~~ [deleted]

(4) ~~Where a *firm's UK consolidation group* or *non-EEA sub-group* is a group identified at Stage 3 in *BIPRU* 8 Annex 5R, the *rules* that apply are those that apply to a *BIPRU limited activity firm*.~~ [deleted]

(5) ~~Where a *firm's UK consolidation group* or *non-EEA sub-group* is a group identified at Stage 4 in *BIPRU* 8 Annex 5R, the *rules* that apply are those that apply to a *BIPRU limited licence firm*.~~ [deleted]

…

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

…

8.8 Advanced prudential calculation approaches

…

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

8.8.5 R ~~*BIPRU* 6.5.27 R(6) (Insurance should be provided by a third party entity for the purposes of the advanced measurement approach) is amended to provide that the insurance must be provided by an *undertaking* that is not in the same *group* as the *firm* or other members of the *UK consolidation group* or *non-EEA sub-group*. In the case of insurance through captives and affiliates, the exposure must be laid off to an independent *undertaking* that is not in the same *group* as the *firm* or other members of the *UK consolidation group* or *non-EEA sub-group*, for example through reinsurance that meets the eligibility criteria.~~ [deleted]

8.8.6 G ~~In the case of insurance through captives and affiliates, the *exposure* should be laid off outside the *firm's group* to an independent third party.~~ [deleted]

8.8.7 G ~~*BIPRU* 8.7.26R deals with the combination of the *advanced measurement approach* with other approaches to *operational risk* on a group level.~~ [deleted]

…

8.8.9 G The governance arrangements that apply to the *governing body*, the senior management and any *designated committee* of a *firm* in relation to the *IRB approach* ~~or the *AMA*~~ also apply to the body or *persons* with equivalent powers with respect to the *UK consolidation group* or *non-EEA sub-group*. Where the *parent undertaking* and its *subsidiary undertakings* use rating systems on a unified basis, the approval and reporting process described in *BIPRU* 4.3.12G (Approval and reporting arrangements for the *IRB approach* where rating systems are used on a unified group basis) ~~and *BIPRU* 6.5.32G (Approval and reporting arrangements for the *AMA* where rating systems are used on a unified group basis)~~ apply for the purpose of this paragraph too.

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

…

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

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

…

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

The deleted text is not shown.

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

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

…

9 Securitisation

9.1 Application and purpose

Application

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

Purpose

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

…

…

9.3 Requirements for originators and sponsors

…

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

~~(1)~~ ~~new *securitisations* issued on or after 1 January 2011; and~~

~~(2)~~ ~~from 31 December 2014, to existing *securitisations* where new underlying exposures are added or substituted after that date.~~

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

…

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

11 Disclosure (Pillar 3)

11.1 Application and purpose

…

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

…

…

11.5 Technical criteria on disclosure: General requirements

…

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

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

…

(4) …

(b) …

(ii) *foreign currency PRR*~~;~~.

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

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

…

~~Disclosure: Operational risk~~

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

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

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

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

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

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

…

11.5.20 R …

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

…

11.6 Qualifying requirements for the use of particular instruments or

methodologies

…

~~Disclosure: Insurance for the purpose of mitigating operational risk~~

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

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

12 Liquidity standards

12.1 Application

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

~~(1) a *BIPRU firm*;~~

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

~~(a) a *full BCD CRD credit institution*;~~

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

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

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

~~(b) has a *branch* in the *United Kingdom*.~~ [deleted]

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

(1) an *IFPRU investment firm*; and

(2) a *BIPRU firm*.

…

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

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

…

…

12.3 Liquidity risk management

…

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

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

…

12.3.5 R …

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

…

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

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

Governing body and senior management oversight: liquidity risk tolerance

12.3.8 R …

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

…

Management of collateral

…

12.3.22 A R …

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

12.3.22B R …

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

…

12.3.27 R …

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

…

12.4 Stress testing and contingency funding

12.4.-2 R …

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

Stress testing

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

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

…

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

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

…

Contingency funding plans

12.4.10 R …

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

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

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

…

12.7 Liquidity assets buffer

…

12.7.4 R For the purpose of *BIPRU* 12.7.3R, a *firm* may not include a debt security unless:

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

…

…

12.7.6 R For the purpose of *BIPRU* 12.7.5R, a *firm* may not include reserves held at a central bank unless:

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

…

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

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

…

…

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

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

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

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

13.1 Application and purpose

…

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

…

…

14 Capital requirements for settlement and counterparty risk

14.1 Application and purpose

…

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

…

…

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

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

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

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

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

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

…

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* ~~*investment firm*~~:
…		

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

GENPRU and *BIPRU* provisions	A Y denotes that the provision generally does apply A N denotes that generally it does not apply	Remarks

…		
GENPRU 2.2 (Capital resources)	~~Y~~ N	~~This applies for the purposes of *BIPRU* 10. If *BIPRU* 10 does not apply this does not apply either.~~
…		
BIPRU 2.1 (Solo consolidation)	~~Y~~ N	~~Applies for the purposes of *BIPRU* 10.~~
…		
~~*BIPRU* 10 (Large exposures)~~	~~Y~~	~~If *firm* also qualifies for exemption under *BIPRU* TP 16 (Commodities firms transitionals: large exposures) *BIPRU* 10 does not apply except as described in *BIPRU* TP 16.7G~~
…		

…				
	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* unless the following conditions are satisfied:		
		…		
		(2)	each *CAD investment firm* in the group meets the conditions in *BIPRU* TP 15.1R(1);	
		(3)	each *CAD investment firm* whose head office is in an *EEA State* satisfies the conditions in *BIPRU* TP 15.1R(2); and	
		(4)	any *CAD investment firm* whose head office is outside the *EEA* would have fallen into *BIPRU* TP 15.1R(2) if:	
			…	
…				

…

TP 21 Close substitutes for commodities

…

21.3	R	Table: Commodity treatments under IPRU This table belongs to *BIPRU* TP 21.2R

IPRU provisions setting out *commodity* approach	*IPRU* provisions under which notice given
Paragraph 22(2) of appendix 6 of chapter 10 of *IPRU(INV)*	Paragraph 23 of appendix 6 of chapter 10 of *IPRU(INV)*
~~Paragraph 22(2) of chapter CM of *IPRU(BANK)*~~ [deleted]	~~Paragraph 23 of chapter CM of *IPRU(BANK)*~~

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

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

BIPRU TP 11 (IRB transitionals)

BIPRU TP 13 (Other operational risk transitionals)

BIPRU TP 16 (Commodities firm transitionals: large exposures)

BIPRU TP 22 (Solo consolidation)

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

BIPRU TP 35 (AIFMD)

CAPITAL REQUIREMENTS DIRECTIVE IV (CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2013

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137B (FCA general rules: clients' money, right to rescind etc);
(3) section 137T (General supplementary powers);
(4) section 138D (Actions for damages);
(5) section 139A (Power of the FCA to give guidance);
(6) section 213 (The compensation scheme); and
(7) paragraph 23 (Fees) of schedule 1ZA (The Financial Conduct Authority).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

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

Amendments to the FCA Handbook

D. The 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)
Glossary of definitions	Annex A
Principles for Businesses (PRIN)	Annex B
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex C
General Provisions (GEN)	Annex D
Fees manual (FEES)	Annex E
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex F
Prudential sourcebook for UCITS Firms (UPRU)	Annex G
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex H
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex I
Client Assets sourcebook (CASS)	Annex J
Market Conduct sourcebook (MAR)	Annex K
Supervision manual (SUP)	Annex L
Compensation sourcebook (COMP)	Annex M
Collective Investment Schemes sourcebook (COLL)	Annex N
Credit Unions sourcebook (CREDS)	Annex O

Investment Funds sourcebook (FUND)	Annex P
Regulated Covered Bonds sourcebook (RCB)	Annex Q
Prospectus Rules sourcebook (PR)	Annex R
Disclosure Rules and Transparency Rules sourcebook (DTR)	Annex S
Energy Market Participants Guide (EMPS)	Annex T
Oil Market Participants Guide (OMPS)	Annex U

Material outside the Handbook

E. The Enforcement Guide (EG) is amended in accordance with Annex V to this instrument.

F. The Perimeter Guidance manual (PERG) is amended in accordance with Annex W to this instrument.

Notes

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

Citation

H. This instrument may be cited as the Capital Requirements Directive IV (Consequential Amendments) Instrument 2013.

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Amendments to the Glossary of definitions

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

Amend the following definitions as shown.

approved credit institution	a *credit institution* recognised or permitted under the law of an *EEA State* to carry on any of the activities set out in Annex 1 to the ~~*Banking Consolidation Directive*~~ *CRD*.
branch	(a) (in relation to a *credit institution*): … (ii) for the purposes of the ~~*Banking Consolidation Directive*~~ *CRD* and in accordance with article 38 of the *CRD*, any number of places of business set up in the same *EEA State* by a *credit institution* with headquarters in another *EEA State* are to be regarded as a single *branch*; …
capital resources gearing rules	… (2) ~~(in relation to a *bank* or *building society*) *GENPRU* 2.2.29R, *GENPRU* 2.2.30R, *GENPRU* 2.2.46R and *GENPRU* 2.2.49R.~~ [deleted] (3) (in relation to a *BIPRU* ~~*investment*~~ *firm*) *GENPRU* 2.2.30R, *GENPRU* 2.2.46R and *GENPRU* 2.2.49R and *GENPRU* 2.2.50R.
capital resources table	(in relation to an *insurer* or *BIPRU firm*) the table specified in *GENPRU* 2.2.19R (Applicable capital resources calculation) which in summary is as follows: (1) (in the case of an *insurer*) *GENPRU* 2 Annex 1R; and (2) ~~(in the case of a *bank*) *GENPRU* 2 Annex 2R;~~ [deleted]

	(3)	~~(in the case of a *building society*) *GENPRU* 2 Annex 3R; and~~ [deleted]
	(4)	(in relation to a *BIPRU* ~~*investment*~~ *firm*) whichever of the tables in *GENPRU* 2 Annex 4R, *GENPRU* 2 Annex 5R or *GENPRU* 2 Annex 6R applies to the *firm* under *GENPRU* 2.2.19R.
CCR internal model method permission	an *Article 129 implementing measure*, *Article 129 permission*, a *requirement* or a *waiver* that requires a *BIPRU firm* or ~~an *institution*~~ a *CAD investment firm* to use the *CCR internal model method*.	
common platform firm	a *firm* that is:	
	(a)	a *BIPRU firm*; or
	(aa)	a *bank*; or
	(ab)	a *building society*; or
	(ac)	a *designated investment firm*; or
	(ad)	an *IFPRU investment firm*; or
	…	
consolidated requirement component	has the meaning in *BIPRU* 8.7.11R (Calculation of the consolidated requirement components), which in summary is one of the following:	
	…	
	(c)	the *consolidated market risk requirement*~~; or~~ .
	(d)	~~the *consolidated operational risk requirement*.~~ [deleted]
consolidation group	(1)	the following:
		…
	(2)	(for the purposes of *SUP* 16) the *undertakings* included in the scope of prudential consolidation to the extent and in the manner prescribed in Part One, Title II, Chapter 2, Sections 2 and 3 of the *EU CRR* and *IFPRU* 8.1.3R to *IFPRU* 8.1.4R (Prudential consolidation) for which the *FCA* is the *consolidating supervisor* under article 111 of the *CRD*.
consumer	…	

(D) (for the purposes of (2A)(b)):

(a) "credit institution" means:

(i) a credit institution authorised under the ~~*banking consolidation directive*~~ *CRD*; or

…

conversion factor (in accordance with Article 4(28) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment; the extent of the commitment is determined by the advised limit, unless the unadvised limit is higher.

counterparty credit risk

(1) (in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

(2) (other than in (1)) has the meaning as used in the *EU CRR*.

covered bond …

(2) (in accordance with point 68 of Part 1 of Annex VI of the *Banking Consolidation Directive* (Exposures in the form of covered bonds) and for the purposes of the IRB approach or the *standardised approach* to credit risk in *BIPRU*) a covered bond as defined in (1) collateralised in accordance with *BIPRU* 3.4.107R (Exposures in the form of covered bonds).

…

CRD implementation measure (in relation to a *person* and for the purposes of *GENPRU* and *BIPRU* (except in *GENPRU* 3 and *BIPRU* 12), a provision of the *Banking Consolidation Directive* or the *Capital Adequacy Directive* and an *EEA State* other than the *United Kingdom*) a measure implementing that provision of that Directive for that type of *person* in that *EEA State*.

credit enhancement (in accordance with Article 4(43) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) a contractual arrangement whereby the credit quality of a *position* in a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) is improved

	in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior *tranches* in the *securitisation* and other types of credit protection.
credit valuation adjustment	(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty; and so that this adjustment:
	…
default	(in relation to the *IRB approach* and for the purposes of *BIPRU*) has the meaning in *BIPRU* 4.3 (The IRB approach: Provisions common to different exposure classes).
DGD claim	a *claim*, in relation to a *protected deposit*, against a ~~*BCD*~~ *CRD credit institution*, whether established in the *United Kingdom* or in another *EEA State*.
DLG by default	…
	For these purposes:
	(iii) *credit institution* has the meaning used in *SUP* 16 (Reporting requirements), namely either of the following:
	(A) a credit institution authorised under the ~~*Banking Consolidation Directive*~~ *CRD*; or
	(B) an institution which would satisfy the requirements for authorisation as a credit institution under the ~~*Banking Consolidation Directive*~~ *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*; and
	…
EEA bank	an *incoming EEA firm* which is a ~~*BCD*~~ *CRD credit institution*.
EEA firm	(in accordance with paragraph 5 of Schedule 3 to the *Act* (EEA Passport Rights)) any of the following, if it does not have its relevant office in the *United Kingdom*:
	…
	(b) a *credit institution* (as defined in article 4(1)(1) of the

~~*Banking Consolidation Directive*~~ *EU CRR*);

(c) a financial institution (as defined in article ~~4(5)~~(1)(26) of the ~~*Banking Consolidation Directive*~~ *EU CRR*) which is a subsidiary of the kind mentioned in article ~~24~~ 34 of the *CRD* and which fulfils the conditions in articles ~~23~~ 33 and ~~24~~ 34;

…

effective expected positive exposure (in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purpose of *BIPRU* 13) the weighted average over time of *effective expected exposure* over the first year, or, if all the contracts within the *netting set* mature before one year, over the time period of the longest maturity contract in the *netting set*, where the weights are the proportion that an individual *expected exposure* represents of the entire time interval.

eligible institution (in *COLL*):

(a) a ~~*BCD*~~ *CRD credit institution* authorised by its *Home State regulator*;

…

energy market participant a *firm*:

…

(b) which is not an *authorised professional firm*, *bank*, *BIPRU* ~~*investment*~~ *firm* (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society*, *credit union*, *friendly society*, *ICVC*, *insurer*, *MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU commodities firm*) , *media firm*, *oil market participant*, *service company*, *insurance intermediary*, *home finance administrator* , *home finance provider* , *incoming EEA firm* (without a *top-up permission*), or *incoming Treaty firm* without a *top-up permission*).

fee-paying electronic money issuer any of the following when they issue *electronic money*:

…

(d) a *full credit institution*, including a branch of the *full credit institution* within the meaning of article ~~4(3)~~ (17) of the ~~*BCD*~~ *EU CRR* which is situated within the *EEA* and which has its head office in a territory

	outside the *EEA* in accordance with article ~~38~~ 47 of the ~~*BCD*~~ *EU CRR*;
	…
financial derivative instrument	(for the purposes of *BIPRU*) has the meaning in *BIPRU* 13.3.3R (Definition of a financial derivative instrument); the definition is adjusted for the purposes of the definition of *counterparty risk capital component* in accordance with *BIPRU* 14.2.3 R (Credit derivatives).
fixed overheads requirement	(1) (except in *IPRU(INV)* and for the purposes of *GENPRU* (except in *GENPRU* 3) and *BIPRU* (except in *BIPRU* 12)) the part of the *capital resources requirement* calculated in accordance with *GENPRU* 2.1.53R (Calculation of the fixed overheads requirement).
	…
free delivery	(for the purposes of *BIPRU*) a transaction of the type set out in *BIPRU* 14.4.2R (Requirement to hold capital resources with respect to free deliveries) which, in summary, is a transaction under which a *person*:
	…
full ~~BCD~~ CRD credit institution	a ~~*BCD*~~ *CRD credit institution* that falls within paragraph (1)(a) of the definition of *credit institution*.
funded credit protection	in accordance with Article 4(31) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an undertaking derives from the right of the *undertaking*, in the event of the default of the counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the *exposure* to, or to replace it with, the amount of the difference between the amount of the *exposure* and the amount of a claim on the *undertaking*.
funds under management	…
	(2) (in *IPRU(INV)* ~~and *GENPRU*~~) …
funds under management requirement	…
	(2) ~~(in *GENPRU*) an amount of *own funds* that a *collective portfolio management investment firm*~~

	~~must hold under *GENPRU* 2.1.66R (Requirements for collective portfolio management investment firms).~~ [deleted]
Home State	(1) (in relation to a *credit institution*) the *EEA State* in which the *credit institution* has been authorised in accordance with the ~~*Banking Consolidation Directive*~~ *CRD*.
	…
investment management firm	~~(subject to *BIPRU* TP 1.3R (Revised definition of investment management firm for certain transitional purposes)),~~ a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, ~~*BIPRU*~~ *IFPRU investment firm*, *BIPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *energy market participant*, *friendly society*, *ICVC*, *insurer*, *media firm*, *oil market participant*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*), or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with *IPRU(INV)* 3 or *IPRU(INV)* 13 (Personal investment firms) and which is within (a), (b) or (c):
	…
IRB permission	an *Article 129 implementing measure*, a *requirement* or a *waiver* that requires a *BIPRU firm* or ~~an *institution*~~ a *CAD investment firm* to use the *IRB approach* .
lending firm	(in accordance with Article 90 of the *Banking Consolidation Directive* (Credit risk mitigation) and for the purposes of *rules* in *BIPRU* about *credit risk mitigation*) a *firm* that has an *exposure*, whether or not deriving from a loan.
listed activity	an activity listed in Annex 1 to the ~~*Banking Consolidation Directive*~~ *CRD*.
main BIPRU firm Pillar 1 rules	*GENPRU* 2.1.40R (Variable capital requirement for *BIPRU firms*), *GENPRU* 2.1.41R (*Base capital resources requirement* for *BIPRU firms*), *GENPRU* 2.1.48R (Table: Base capital resources requirement for a BIPRU firm) ~~and, where applicable, *GENPRU* 2.1.60 R (Calculation of base capital resources requirement for banks authorised before 1993)~~.
master netting agreement internal models approach permission	a *requirement* or a *waiver* that requires a *BIPRU firm* to use the *master netting agreement internal models approach* on a solo basis or, if the context requires, a consolidated basis.

matched principal exemption conditions	(for the purposes of *BIPRU*) the conditions set out in *BIPRU* 1.1.23R(2) (Meaning of dealing on own account).
MiFID investment firm	… (in full) a *firm* which is: … (2) a ~~*BCD*~~ *CRD credit institution* (only when providing an *investment service or activity* in relation to the *rules* implementing the Articles referred to in Article 1(2) of *MiFID*); …
mixed-activity holding company	~~one of the following:~~ ~~(a) (in accordance with Article 4(20) of the *Banking Consolidation Directive* (Definitions)) a *parent undertaking*, other than a *financial holding company*, a *credit institution* or a *mixed financial holding company*, the *subsidiary undertakings* of which include at least one *credit institution*; or~~ ~~(b) (in accordance with Articles 2(2) and 37(1) of the *Capital Adequacy Directive* (Supervision on a consolidated basis) and in relation to a *banking* and investment group without any *credit institutions* in it) a *parent undertaking*, other than a *financial holding company*, an *investment firm* or a *mixed financial holding company*, the *subsidiary undertakings* of which include at least one *investment firm*.~~ has the meaning given to the definition of "mixed activity holding company" in article 4(1)(22) of the *EU CRR*.
multilateral development bank	… (b) (in *BIPRU*) for the purposes of the *standardised approach* to credit risk the following are considered to be a multilateral development bank: …
oil market participant	a *firm*: … (b) which is not an *authorised professional firm, bank,*

	BIPRU ~~*investment*~~ *firm*, (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*), *building society*, *credit union*, *friendly society*, *ICVC*, *insurer*, *MiFID investment firm* (unless it is an *exempt BIPRU commodities firm* or *exempt IFPRU commodities firm*), *media firm*, *service company*, *insurance intermediary*, *home finance administrator*, *mortgage intermediary*, *home finance provider*, incoming *EEA firm* (without a *top-up permission*), or *incoming Treaty firm* (without a *top-up permission*).
one-sided credit valuation adjustment	(in accordance with Part 1 of Annex III of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) a *credit valuation adjustment* that reflects the market value of the credit risk of the counterparty to a *firm*, but does not reflect the market value of the credit risk of the *firm* to the counterparty.
option	…
	but so that for the purposes of calculating capital requirements for *BIPRU firms* ~~and *BIPRU* 10 (Large exposures requirements)~~ it also includes any of the items listed in the table in *BIPRU* 7.6.18R (Option PRR: methods for different types of option) and any cash settled option.
permanent interest bearing shares	any shares of a class defined as deferred shares for the purposes of section 119 of the Building Societies Act 1986 which are issued as permanent interest-bearing shares and on terms which qualify them as own funds for the purposes of the ~~*Banking Consolidation Directive*~~ *EU CRR*.
personal investment firm	~~(subject to *BIPRU* TP 1 (Revised definition of personal investment firm for certain transitional purposes))~~ a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, ~~*BIPRU*~~ *IFPRU investment firm*, *BIPRU firm*, *building society*, *collective portfolio management firm*, *credit union* , *energy market participant*, *ICVC*, *insurer*, *media firm* , *oil market participant*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*) or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with *IPRU(INV)* 3 (Securities and futures firms) or 5 (Investment management firms) , and which is within (a), (b) or (c):
	…
PII capital requirement	…

	(2) ~~(in *GENPRU*) an amount of *own funds* that a *collective portfolio management investment firm* must hold in relation to its professional indemnity insurance policy to cover any defined excess (as set out in article 15 of the *AIFMD level 2 regulation* (professional indemnity insurance) (as replicated in *GENPRU* 2.1.71EU)) and exclusions to that policy (as set out in *GENPRU* 2.1.72R (Requirements for collective portfolio management investment firms)).~~ [deleted]
probability of default	(in accordance with Article 4(25) of the *Banking Consolidation Directive* (Definitions) and for the purpose of *BIPRU*) the probability of default of a counterparty over a one year period; for the purposes of the *IRB approach*, default has the meaning in the definition of *default*.
professional negligence capital requirement	…
	(2) ~~(in *GENPRU*) an amount of *own funds* that a *collective portfolio management investment firm* must hold for professional liability risks as set out in article 14 of the *AIFMD level 2 regulation* (additional own funds) (as replicated in *GENPRU* 2.1.70EU (Requirements for collective portfolio management investment firms).~~ [deleted]
protection buyer	(in *BIPRU*) (in relation to a credit derivative and in accordance with paragraph 8 of Annex I of the *Capital Adequacy Directive* (Calculating capital requirements for position risk)) the *person* who transfers credit risk.
protection seller	(in *BIPRU*) (in relation to a credit derivative and in accordance with paragraph 8 of Annex I of the *Capital Adequacy Directive* (Calculating capital requirements for position risk)) the *person* who assumes the credit risk.
PRR item	(in *BIPRU*) a *commodity* or a *CRD financial instrument*.
public sector entity	(in accordance with Article 4(18) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) any of the following:
	…
qualifying equity index	(in *BIPRU*) an *equity* index falling ~~into in~~ within *BIPRU* 7.3.38R (Definition of a qualifying equity index).
recognised third country credit institution	a *full* ~~*BCD*~~ *CRD credit institution* that satisfies the following conditions:

…

(b) it is authorised by a *third country competent authority* in the state or territory in which the credit institution's head office is located; and

(c) that *third country competent authority* ~~is named in Part 1 of *BIPRU* 8 Annex 6R (Non-EEA banking regulator's requirements deemed CRD-equivalent for individual risks); and~~ applies prudential and supervisory requirements to that credit institution that are at least equivalent to those applied in the *EEA*.

~~(d) there is a tick against that *third country competent authority* in each of the columns headed "Market risk", "Credit risk" and "Operational risk" in the table referred to in (c).~~

recognised third country investment firm — a *CAD investment firm* that satisfies the following conditions:

…

(d) that ~~*investment*~~ *firm* is subject to and complies with prudential rules of or administered by that *third country competent authority* that are at least as stringent as those laid down in the ~~*EEA prudential sectoral legislation* for the *investment services sector*~~ *Banking Consolidation Directive* and the *Capital Adequacy Directive* as applied under the third paragraph of article 95(2) of the *EU CRR*.

regulatory system — the arrangements for regulating a *firm* or other *person* in or under the *Act*, including the *threshold conditions*, the *Principles* and other *rules*, the *Statements of Principle*, codes and *guidance* and including any relevant directly applicable provisions of a Directive or Regulation such as those contained in the *MiFID implementing Directive*, ~~and~~ the *MiFID Regulation* and the *EU CRR*.

remuneration — any form of remuneration, including salaries, *discretionary pension benefits* and benefits of any kind.

[**Note:** ~~paragraph 23 of Annex V to the *Banking Consolidation Directive*~~ article 92(2) of the *CRD*]

Remuneration Code staff — (for a ~~*BIPRU*~~ *CRR firm* and ~~a *third country BIPRU firm*~~ an *overseas firm* in *SYSC* 19A1.1.1R(1)(f)) has the meaning given in *SYSC* 19A.3.4 R.

repurchase transaction — (in accordance with Article 3(1)(m) of the *Capital Adequacy Directive* and Article 4(33) of the *Banking Consolidation*

	Directive (Definitions) and for the purposes of *BIPRU*) any agreement in which an *undertaking* or its counterparty transfers securities or *commodities* or guaranteed rights relating to title to securities or *commodities* where that guarantee is issued by a *designated investment exchange* or *recognised investment exchange* which holds the rights to the securities or *commodities* and the agreement does not allow an *undertaking* to transfer or pledge a particular security or *commodity* to more than one counterparty at one time, subject to a commitment to repurchase them or substituted securities or *commodities* of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a *repurchase agreement* for the *undertaking* selling the securities or *commodities* and a *reverse repurchase agreement* for the *undertaking* buying them.
risk capital requirement	(1) (in relation to the ~~*appropriate regulator's*~~ *FCA's rules*) one of the following: … (b) the *fixed overheads requirement*; or (c) the *market risk capital requirement*; or ~~(d) the *operational risk capital requirement*; or~~ …
risk weight	(in relation to an *exposure* for the purposes of *BIPRU*) a degree of risk expressed as a percentage assigned to that *exposure* in accordance with whichever is applicable of the *standardised approach* to credit risk and the *IRB approach*, including (in relation to a *securitisation position*) under *BIPRU* 9 (Securitisation).
risk weighted exposure amount	(in relation to an *exposure* for the purposes of *BIPRU*) the value of an *exposure* for the purposes of the calculation of the *credit risk capital component* after application of a *risk weight*.
secured lending transaction	(in accordance with point 2 of Part 1 of Annex VIII of the *Banking Consolidation Directive* (Eligibility of credit risk mitigation) and for the purposes of *BIPRU*) any transaction giving rise to an *exposure* secured by collateral which does not include a provision conferring upon the *person* with the *exposure* the right to receive margin frequently.
securities and futures firm	~~(subject to *BIPRU* TP 1 (Revised definition of securities and futures firm for certain transitional purposes))~~ a *firm* whose *permitted activities* include *designated investment business* or

	bidding in emissions auctions, which is not an *authorised professional firm*, *bank*, *BIPRU* ~~*investment* *firm~~ (unless it is an *exempt BIPRU commodities firm*), *IFPRU investment firm* (unless it is an *exempt IFPRU investment firm*), *building society*, *collective portfolio management firm*, *credit union*, *friendly society*, *ICVC*, *insurer*, *media firm*, *service company*, *incoming EEA firm* (without a *top-up permission*), *incoming Treaty firm* (without a *top-up permission*) or *UCITS qualifier* (without a *top-up permission*), whose *permission* does not include a *requirement* that it comply with *IPRU(INV)* 5 (Investment management firms) or 13 (Personal investment firms), and which is within (a), (b), (c), (d), (e) , (f), (g), (ga) or (h): … (g) an *exempt BIPRU commodities firm*; (ga) an *exempt IFPRU commodities firm*; …
securities or commodities lending or borrowing transaction	(in accordance with Article 4(34) of the *Banking Consolidation Directive* and Article 3(1)(n) of the *Capital Adequacy Directive* (Definitions) and for the purposes of *BIPRU*) any transaction in which an *undertaking* or its counterparty transfers securities or *commodities* against appropriate collateral subject to a commitment that the borrower will return equivalent securities or *commodities* at some future date or when requested to do so by the transferor, that transaction being *securities or commodities lending* for the *undertaking* transferring the securities or *commodities* and being *securities or commodities borrowing* for the *undertaking* to which they are transferred. …
securitisation special purpose entity	(in accordance with Article 4(44) of the *Banking Consolidation Directive* (Definitions) and for the purposes of *BIPRU*) a corporation, trust or other entity, other than a *credit institution*, organised for carrying on a *securitisation* or *securitisations* (within the meaning of paragraph (2) of the definition of securitisation), the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the *SSPE* from those of the *originator*, and the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.
securitised exposure	(for the purposes of *BIPRU*) an *exposure* in the pool of *exposures* that has been securitised, either via a *traditional*

	securitisation or a *synthetic securitisation*. The cash-flows generated by the securitised exposures are used to make payments to the *securitisation positions*.
simple capital issuer	a *BIPRU firm* that meets the following conditions: … (d) it only includes *capital instruments* in its *tier one capital resources* consisting of ordinary *shares*, ~~*PIBS*,~~ perpetual non-cumulative preference *shares* or partnership or *limited liability partnership* capital accounts; …
Single Market Directives	(a) the *Banking Consolidation Directive* (to the extent it applies to *CAD investment firms*) (aa) the *CRD*; …
specific risk position risk adjustment	(in *BIPRU*) a *position risk adjustment* for specific risk including any such *position risk adjustment* as applied under *BIPRU* 7.6.8R (Table: Appropriate position risk adjustment).
standard market risk PRR rules	(in *BIPRU*) the rules relating to the calculation of the *market risk capital requirement* excluding the *VaR model approach* and any *rules* modified so as to provide for the *CAD 1 model approach*.
standardised approach	(for the purposes of *BIPRU*) one of the following: …
stressed VaR	(in *BIPRU*) ~~The~~ the stressed VaR measure in respect of *positions* coming within the scope of the *VaR model permission*, calculated in accordance with the *VaR model*, *BIPRU* 7.10 (Use of a Value at Risk Model) and any methodology set out in the *VaR model permission* based on a stressed historical period.
synthetic securitisation	(in accordance with Article 4(38) of the *Banking Consolidation Directive* (Definitions) and for the purpose of *BIPRU*) a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) where the *tranching* is achieved by the use of credit derivatives or guarantees, and the pool of *exposures* is not removed from the balance sheet of the *originator*.

traditional securitisation	(in accordance with Article 4(37) of the *Banking Consolidation Directive* (Definitions) and for the purpose of *BIPRU*) a *securitisation* (within the meaning of paragraph (2) of the definition of securitisation) involving the economic transfer of the *exposures* being *securitised* to a *securitisation special purpose entity* which issues securities; and so that: …
tranche	(in accordance with Article 4(39) of the *Banking Consolidation Directive* (Definitions) and in relation to a *securitisation* within the meaning of paragraph (2) of the definition of securitisation and for the purposes of *BIPRU*) a contractually established segment of the credit risk associated with an *exposure* or number of *exposures*, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.
UK consolidation group	(B) (in the *FCA Handbook*): (1) (for the purposes of *SYSC* as it applies to a *CRR firm*) the *group* of *undertakings* which are included in the *consolidated situation* of a *parent institution* in a *Member State*, an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* (including any *undertaking* which is included in that consolidation because of a *consolidation article 12(1) relationship*, *article 18(5) relationship* or *article 18(6) relationship*). (2) (for the purposes of *BIPRU* and *SYSC* as it applies to a *BIPRU firm*) has the meaning in *BIPRU* 8.2.4R (Definition of UK consolidation group), which is in summary the 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); in each case only *persons* included under *BIPRU* 8.5 (Basis of consolidation) are included in the *UK consolidation group*.
UK lead regulated firm	… For the purposes of this definition:

	(c) Consolidated supervision of a group of *persons* means supervision of the adequacy of financial and other resources of that group on a ~~consolidated basis~~ *consolidated basis*. ~~For example, this includes supervision under *BIPRU* 8 (Group risk consolidation).~~
	(d) It is not relevant whether or not any supervision by another *regulatory body* has been assessed as equivalent under the *CRD* and *EU CRR* or the *Financial Groups Directive*.
	(e) If the group is a ~~*UK*~~ *consolidation group* or *financial conglomerate* of which the *FCA* or the *PRA* is lead regulator that is headed by an *undertaking* that is not itself the *subsidiary undertaking* of another *undertaking* the *firm* is a 'UK lead regulated firm'.
	…
value at risk	(in relation to risk modelling or estimation for the purposes of *BIPRU*) the measure of risk described in *BIPRU* 7.10.146R (Requirement to use value at risk methodology).
VaR measure	(in *BIPRU*) an estimate by a *VaR model* of the worst expected loss on a portfolio resulting from market movements over a period of time with a given confidence level.
VaR model permission	an *Article 129 implementing measure*, a *requirement* or a *waiver* that requires a *BIPRU firm* or ~~an *institution*~~ a *CAD investment firm* to use the *VaR model approach* on a solo basis or, if the context requires, a consolidated basis.

Amend the following definitions and re-position them in the appropriate alphabetical position.

~~*BCD*~~ *CRD credit institution*	a *credit institution* that has its registered office (or, if it has no registered office, its head office) in an *EEA State*, excluding an *institution* to which the ~~*BCD*~~ *CRD* does not apply under article 2 of the ~~*BCD*~~ *CRD* (see also *full* ~~*BCD*~~ *CRD credit institution*).
~~*CAD*~~ *CRD bank*	a *bank* which uses the ~~*Capital Adequacy Directive*~~ *EU CRR* to measure the capital requirement on its trading book.

Delete the following definitions altogether. The deleted text is not shown.

advanced measurement approach

AMA permission

CNCOM

concentration risk capital component

consolidated operational risk requirement

consolidation UK integrated group

consolidation wider integrated group

connected lending of a capital nature

group of connected clients

individual CNCOM

individual counterparty CNCOM

operational risk capital requirement

ORCR

total exposure

trading book concentration risk excess

Annex B

Amendments to the Principles for Business (PRIN)

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

3 Rules about application

3.1 Who?

3.1.1 R *PRIN* applies to every *firm*, except that:

…

(2) for an *incoming EEA firm* which is a ~~*BCD*~~ *CRD credit institution* without a *top-up permission*, *Principle* 4 applies only in relation to the liquidity of a *branch* established in the *United Kingdom*;

…

…

3.1.3 G *PRIN* 3.1.1R(2) reflects article ~~41~~ 156 of the ~~*Banking Consolidation Directive*~~ *CRD* which provides that the *Host State regulator* retains responsibility in cooperation with the *Home State regulator* for the supervision of the liquidity of a *branch* of a ~~*BCD*~~ *CRD credit institution.*

Annex C

Amendments to the Senior Management, Systems and Controls sourcebook (SYSC)

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

4 General Organisational Requirements

4.1 General requirements

…

Business continuity

…

4.1.7 R **…**

[Note: article 5(3) of the *MiFID implementing Directive*, annex V paragraph 13 of the *Banking Consolidation Directive*, ~~and~~ article 4(3) of the *UCITS implementing Directive* and article 85(2) of the *CRD*]

…

4.2 Persons who effectively direct the business

4.2.1 R …

[Note: article 9(1) of *MiFID*, article 7(1)(b) of the UCITS Directive, article 8(1)(c) of *AIFMD*, ~~and~~ article 11(1) second paragraph of the *Banking Consolidation Directive* and article 13(1) of the *CRD*]

…

5 Employees, agents and other relevant persons

5.1 Skills, knowledge and expertise

…

Segregation of functions

…

5.1.7 R The *senior personnel* of a *common platform firm* must define arrangements concerning the segregation of duties within the *firm* and the prevention of conflicts of interest.

[Note: article 88 of the *CRD* and annex V paragraph 1 of the *Banking Consolidation Directive*]

…

6 Compliance, internal audit and financial crime

6.1 Compliance

...

6.1.4-A G In setting the method of determining the *remuneration* of *relevant persons* involved in the compliance function~~,~~:

(1) *firms* that *SYSC* 19A applies to will also need to comply with the *Remuneration Code*; and

(2) *BIPRU firms* will also need to comply with the *BIPRU Remuneration Code.*

…

10 Conflicts of interest

10.1 Application

…

Corporate finance

…

10.1.15 G Measures that a *firm* might wish to consider in drawing up its *conflicts of interest policy* in relation to the management of an offering of *securities* include:

…

[Note: The provisions in *SYSC* 10.1 also implement articles 74(1) and 88 of the *CRD* and as applied under the discretion in the third paragraph of article 95(2) of the *EU CRR*, *BCD* Article 22 and *BCD* Annex V paragraph 1]

…

20 Reverse Stress Testing

20.1 Application and purpose

…

Purpose

…

20.1.4A G The reverse stress testing requirements are an integral component of a *firm's* business planning and risk management under *SYSC*. For ~~*BIPRU* *firms*~~ as referred to in *SYSC* 20.1.1R(1)(a) and *IFPRU investment firms* as referred to in *SYSC* 20.1.1AR(1)(a), this chapter amplifies *SYSC* 7.1.1G to *SYSC* 7.1.8G on risk control.

…

21 Risk control: additional guidance

21.1 Risk control: guidance on governance arrangements

…

21.1.2 G (1) A Chief Risk Officer should:

…

(j) provide risk-focused advice and information into the setting and individual application of the *firm's remuneration* policy. (~~w~~Where the *Remuneration Code* applies, see in particular *SYSC* 19A.3.15E. Where the *BIPRU Remuneration Code* applies, see in particular *SYSC* 19C.3.15E.)~~.~~

Annex D

Amendments to the General Provisions (GEN)

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

2 Interpreting the Handbook

…

2.2 Interpreting the Handbook

...

2.2.25 G Examples of rules being interpreted as cut back by *GEN* 2.2.23R include the following:

(1) ~~*BIPRU* 4 imposes capital requirements that, for a *PRA-authorised person* such as a *bank*, are the exclusive responsibility of the *PRA*; accordingly this section is not applied by the *FCA* to a *PRA-authorised person*.~~[deleted]

(2) *SYSC* 6.1.1R requires a *firm* to maintain adequate policies and procedures to ensure compliance with its obligations under the *regulatory system*; *SYSC* 6.1.1R should be interpreted:

…

(b) as applied by the *PRA* in respect of a *PRA-authorised person's* compliance with those regulatory obligations that are the responsibility of the *PRA* (for example, in respect of a *bank* maintaining policies and procedures to ensure compliance with financial resources requirements in ~~*BIPRU*~~ the *PRA* Rulebook and the *EU CRR*).

…

Annex E

Amendments to the Fees manual (FEES)

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

3.2 Obligation to pay fees

…

3.2.7 R Table of application, notification and vetting fees payable to the FCA

(1) Fee payer	(2) Fee payable	(3) Due date
…		
(o) ~~Either~~ In relation to a *BIPRU firm*, either: (i) a *firm* applying to the ~~*appropriate regulator*~~ *FCA* for permission to use one of the *advanced prudential calculation approaches* listed in *FEES* 3 Annex 6R (or *guidance* on its availability), including any future proposed amendments to those approaches or (in the case of any application being made for such permission to the ~~*appropriate regulator*~~ *FCA*http://fshandbook.info/FS/glossary-html/handbook/Glossary/A?definition=G2972 as *EEA* consolidated supervisor under the *Capital Requirements Regulations 2006* (transposing parts of the *BCD* and *CAD*, as applicable under article 95(2) of the *EU CRR*))	(1) Unless (2) applies, *FEES* 3 Annex 6R. (2) (a) Unless (b) applies a *firm* submitting a second application for the permission or *guidance* described in column (1) within 12 months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under *FEES* 3 Annex 6R, but only in respect of that second application. (b) No fee is payable by a *firm* in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for *guidance* in accordance with prescribed submission requirements. (c) No fee is payable where the *Home State regulator* has requested the assistance	Where the *firm* has made an application directly to the ~~*appropriate regulator*~~ *FCA*, on or before the date the application is made, otherwise within 30 days after the ~~*appropriate regulator*~~ *FCA* notifies the *firm* that its *EEA* parent's *Home State regulator* has requested assistance.

any *firm* making such an application; or (ii) in the case of an application to a *Home State regulator* other than the ~~*appropriate regulator*~~ *FCA* for the use of the Internal Ratings Based approach and the *Home State regulator* requesting the ~~*appropriate regulator's*~~ *FCA's* assistance in accordance with the *Capital Requirements Regulations 2006* (transposing parts of the *BCD* and *CAD*, as applicable under article 95(2) of the *EU CRR*), any *firm* to which the ~~*appropriate regulator*~~ *FCA* would have to apply any decision to permit the use of that approach.	described in paragraph (o)(ii) of column 1 except in the cases specified in *FEES* 3 Annex 6R.	
(oa) Either: (i) a *firm* applying to the *appropriate regulator* for permission to use one of the internal approaches listed in *FEES* 3 Annex 6AR (or *guidance* on its availability), including any future proposed amendments to those approaches or (in the case of any application being made for such permission to the *appropriate regulator* as consolidating supervisor under the *EU CRR*) any *firm* making such an application; or (ii) in the case of an application to the consolidating supervisor other than the	(1) Unless (2) applies, *FEES* 3 Annex 6AR. (2) (a) Unless (b) applies a *firm* submitting a second application for the permission or *guidance* described in column (1) within 12 months of the first application (where the fee was paid in accordance with (1)) must pay 50% of the fee applicable to it under *FEES* 3 Annex 6AR, but only in respect of that second application. (b) No fee is payable by a *firm* in relation to a successful application for a permission based on a minded to grant decision in respect of the same matter following a complete application for *guidance* in accordance with	Where the *firm* has made an application directly to the *appropriate regulator*, on or before the date the application is made, otherwise within 30 days after the *appropriate regulator* notifies the *firm* that its *EEA* parent's consolidating supervisor has requested assistance.

appropriate regulator for the use of the IRB approach and the consolidating supervisor requesting the *appropriate regulator's* assistance in accordance with the http://fshandbook.info/FS/glossary-html/handbook/Glossary/C?definition=G2350*EU CRR*, any *firm* to which the *appropriate regulator* would have to apply any decision to permit the use of that approach.	prescribed submission requirements. (c) No fee is payable where the consolidating supervisor has requested the assistance described in paragraph (oa)(ii) of column 1 except in the cases specified in *FEES* 3 Annex 6AR.	
…		

…

3 Annex 6R **Fees payable by a BIPRU firm for a permission or guidance on its availability in connection with the ~~Basel Capital Accord~~ BCD and/or CAD**

Part 1

In relation to a *BIPRU firm*, ~~Fees~~ fees payable other than in relation to the counterparty credit risk internal model method

(1) Paragraphs (2) and (3) deal with an application made to the ~~*appropriate regulator*~~ *FCA* rather than a request for assistance under the *Capital Requirements Regulations 2006* (transposing parts of the *BCD* and *CAD*, as applicable under article 95(2) of the *EU CRR*).

…

(4) ~~Where a request for assistance regarding an Advanced or Foundation IRB application under the *Capital Requirements Regulations 2006* has been made to the *appropriate regulator* as detailed in *FEES* 3.2.7R(o) or *FEES* 3.2.7AR(f), the fees in Table 1 and Table 2 are applicable if any *firm* referred to in *FEES* 3.2.7R(o)(ii) and *FEES* 3.2.7AR(f)(ii) meets the following conditions:~~

~~(i) it is a *UK domestic firm* and has permission to accept deposits; and~~

~~(ii) the *firm* does not fall within Group 4 as defined in Table 2.~~ [deleted]

…

(5) If ~~however~~ the application or request for assistance under the *Capital Requirements Regulations 2006* (transposing parts of the *BCD* and *CAD*, as applicable under article 95(2) of the *EU CRR*) is in relation to the use of the *advanced IRB approach* and the ~~*appropriate regulator*~~ *FCA* (in the case of (2) or

(3)) or the relevant *Home State* ~~regulator~~ *regulator* (in the case of (4)) has already granted permission for the use of the *foundation IRB approach* at the time of the application then Table 3 applies.

(6) All fees are shown in £.

…

Table 2

Application group	Description of group		Application fee		
	Modified eligible liabilities (m)	Number of traders as at 31 December prior to the ~~*appropriate regulator's*~~ *FCA's fee year* in which the fee is payable	Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
…	…	…	…	…	…

…

Table 3 (Advanced IRB approach where the ~~appropriate regulator~~ FCA or Home State regulator has already given permission to use foundation IRB approach)	
…	…

…

Insert the following new annex after FEES 3 Annex 6R. The text is all new and not underlined.

3 Annex 6AR Fees payable for a permission or guidance on its availability in connection with the EU CRR

Part 1

Fees payable in relation to *internal approaches* that require permission under Part Three of the *EU CRR* other than the internal model method for counterparty credit risk.

(1) Subject to (3), for applications made to the *appropriate regulator* to authorise a new *internal approach*:

(i) where the application relates to *CRR firms* and to five or more significant overseas entities within the same group (Group 1) and the application is for a permission to use one of the internal approaches in Tables 1 or 2 or guidance on the availability of such a permission, the fees in Table 1 are applicable; and

(ii) for all other *CRR firms* the fees in Table 2 are applicable.

(2) Subject to (3), for applications made to the consolidating supervisor other than the *appropriate regulator* for a joint decision under article 20 of the *EU CRR* on the use of one of the *internal approaches* in Tables 1 or 2 and where the *appropriate regulator* is requested to assist the consolidating supervisor, the fees in Table 1 and Table 2 are applicable if the *CRR firm* concerned meets the following conditions :

(i) it is a *CRD credit institution*; and

(ii) the *firm* does not fall within Group 4 as defined in Table 2.

(3) If however the application or request for assistance is in relation to the use of the Advanced IRB approach and the *appropriate regulator* (in the case of (1)) or the relevant consolidating supervisor (in the case of (2)) has already granted permission for the use of the Foundation IRB approach then table 3 applies.

(4) References to the *internal approaches* in Tables 1, 2 and 3 are to be construed as follows:

(i) Foundation IRB means the internal approach for credit risk referred to in article 143(1) of the *EU CRR*;

(ii) Advanced IRB means the internal approach for credit risk referred to in article 151(4) and (9) of the *EU CRR*; and

(iii) AMA means the internal approach for operational risk referred to in article 312(2) of the *EU CRR*.

(5) All fees are shown in £.

Table 1

Application group	Description of group	Application fee		
		Advanced IRB (‘000)	Foundation IRB (‘000)	AMA (‘000)
Group 1	Five or more significant overseas entities as described in more detail in the definition of Group 1 in the introduction to	268	232	181

	Part 1 of this Annex			

Table 2

Application group	Description of Group		Application fee		
	Modified eligible liabilities (m)	Number of traders as at 31 December prior to the *appropriate regulator's* fee year in which the fee is payable	Advanced IRB ('000)	Foundation IRB ('000)	AMA ('000)
Group 2	>40,000	>200	232	198	146
Group 3	>5,000 – 40,000	26 - 200	94	72	51
Group 4	0-5,000	0 - 25	42	30	24

(1) For the purposes of Table 2, a *firm's* A.1 or A10 tariff data for the relevant period will be used to provide the value of modified eligible liabilities or number of traders.

Table 3 (Advanced IRB approach where the *appropriate regulator* or consolidating supervisor has already given permission to use Foundation IRB)	
Application group	Advanced IRB Application fee
Group 1	67,000
Group 2	58,000
Group 3	23,500
Group 4	10,500
The four application groups have the same meaning as they do in Tables 1 and 2.	

Part 2

Fees payable in relation to the application for a permission to use the internal model method for counterparty credit risk under article 283 of the *EU CRR*: 54,000

Amend the following as shown.

6 Financial Services Compensation Scheme Funding

…

6.6 Incoming EEA firms

6.6.1 R If an *incoming EEA firm*, which is a ~~*BCD*~~ *CRD credit institution*, an *IMD insurance intermediary* or *MiFID investment firm*, is a *participant firm*, the *FSCS* must give the *firm* such discount (if any) as is appropriate on the share of any levy it would otherwise be required to pay, taking account of the nature of the levy and the extent of the compensation coverage provided by the firm's *Home State* scheme.

Annex F

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.

4.2 Capital resources requirements

...

Capital resources requirement: firms carrying on regulated activities including designated investment business

4.2.5 R The capital resources requirement for a *firm* (other than a *credit union*) carrying on *regulated activities*, including *designated investment business*, is the higher of:

…

(2) the financial resource requirement which is applied by the Interim Prudential sourcebook for investment businesses, the Prudential sourcebook for Investment Firms and the *EU CRR* or the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms.

...

4.4 Calculation of capital resources

The calculation of a firm's capital resources

4.4.1 R …

(2) If the *firm* is subject to the Interim Prudential sourcebook for investment businesses, the Prudential sourcebook for Investment Firms and the *EU CRR*, the General Prudential sourcebook, the Prudential sourcebook for Banks, Building Societies and Investment Firms or the Credit Unions sourcebook, the capital resources are the higher of:

(a) the amount calculated under (1); and

(b) the financial resources calculated under those sourcebooks and regulations.

Annex G

Amendments to the Prudential sourcebook for UCITS Firms (UPRU)

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

1 UCITS firms

1.1 Introduction

...

1.1.3 G This sourcebook only applies to *UCITS firms*. *UCITS investment firms* ~~are~~ may be either:

(1) *BIPRU* ~~*limited licence*~~ *firms* (see *BIPRU* 1.1.7AG) and the prudential requirements for those *firms* are set out in;

(a) the Prudential sourcebook for ~~banks, building societies and investment firms~~ Banks, Building Societies and Investment Firms and the General ~~prudential~~ Prudential sourcebook.~~;~~ ; and

(b) the Interim Prudential sourcebook for Investment Businesses; or

(2) *IFPRU limited licence firms* and the prudential requirements for those *firms* are set out in the Prudential sourcebook for Investment Firms and the *EU CRR*.

The difference between the two types of *UCITS management companies* is that a *UCITS investment firm* in addition to carrying on the activities permitted by Article 6(2) of the *UCITS Directive* (scheme management), may also carry on the activities permitted by Article 6(3) such as portfolio management.

Annex H

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

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

7 Chapter 7: Definitions

PART I DEFINITIONS

7.1 In this Part of the *IPRU(FSOC)*, unless the contrary intention appears, the following definitions apply.

...
approved credit institution means an institution recognised or permitted under the law of an *EEA State* to carry on any of the activities set out in Annex 1 to the ~~*Banking Consolidation Directive*~~ *CRD*;
...

Annex I

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

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

1 Chapter 1: Application and General Provisions

1.1 PURPOSE

1.1.1 ~~Before 1 January 2007, the Interim Prudential Sourcebook for Investment Businesses *(IPRU(INV))* was the part of the *Handbook* that dealt with capital requirements for *investment firms* subject to the position risk requirements of the previous version of the *Capital Adequacy Directive*. Now, however, *investment firms* which are subject to the risk-based capital requirements of the *Capital Adequacy Directive* are subject to the General Prudential sourcebook *(GENPRU)* and the Prudential sourcebook for Banks, Building Societies and Investment Firms *(BIPRU)*.~~ [deleted]

...

1.1.3A This sourcebook does not apply to *BIPRU* ~~investment firms~~ *firms* except ~~as follows~~:

(1) it does apply to certain exempt *BIPRU commodities firms*~~; and~~.

(2) ~~chapter TP of *BIPRU* applies parts of *IPRU(INV)* to certain *BIPRU investment firms* on a transitional basis.~~ [deleted]

1.1.3B This sourcebook does not apply to *IFPRU investment firms* except it does apply to *exempt IFPRU commodities firms*.

…

1.2 APPLICATION

...

1.2.2 R (1) ...

(2) ~~IPRU(INV)~~ *IPRU(INV)* does not apply to:

...

(b) a *media firm*; or

(c) a *BIPRU ~~investment~~ firm* (unless it is an *exempt BIPRU commodities firm*); or

(d) an *IFPRU investment firm* (unless it is an *exempt IFPRU commodities firm*).

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

…

(b) …

(ba) a *designated investment firm*; or

…

…

1.2.5 R Table

This table belongs to IPRU(INV) 1.2.4R

…	
Securities and futures firm (which is an *exempt BIPRU commodities firm* or an *exempt IFPRU commodities firm*)	Chapters 1 and 3
…	

...

3 Chapter 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

...

3-1 R This chapter applies to a *securities and futures firm* which:

(a) ...

(b) is an *exempt CAD firm* that carries on any *regulated activity* other than *MiFID business*; ~~or~~

(c) is an ~~exempt~~ *exempt BIPRU commodities firm*; or

(d) is an *exempt IFPRU commodities firm*.

G An *exempt BIPRU commodities firm* is subject to the non-capital

requirements of *GENPRU* and *BIPRU* as indicated in *BIPRU* TP 15. An *exempt IFPRU commodities firm* is subject to the non-capital requirements of *IFPRU* and the *EU CRR*.

...

3-1B R The provisions on concentrated risk in this chapter: ~~do not apply~~

(a) apply to an *exempt BIPRU commodities firm* if it satisfies the conditions in *BIPRU* TP 16 (Commodities firm transitionals: large exposures) in the version as at 31 December 2013; and

(b) do not apply to an *exempt IFPRU commodities firm* which applies the *large exposure* requirements in ~~*BIPRU 10*~~ Part Four (articles 387 to 403) of the *EU CRR*.

G ~~*BIPRU* 10 applies to an *exempt BIPRU commodities firm* unless it qualifies for exemption under *BIPRU* TP 16.~~ Part Four (articles 387 to 403) of the *EU CRR* applies to an *exempt IFPRU commodities firm*, unless it qualifies for exemption under article 493(1) of the *EU CRR*.

3-1C G The table in *IPRU(INV)* 3-1DG sets out the parts of the *Handbook* and the *EU CRR* containing provisions on *large exposure* or concentrated risk which apply to a *securities and futures firm*.

3-1D G Table

Applicability of the provisions to securities and futures firms

This table belongs to *IPRU(INV)* 3-1CG

(1)	(2)	(3)
Type of securities and futures firm	Whether conditions in ~~*BIPRU* TP 16~~ article 493(1) of the *EU CRR* are satisfied	Part of Handbook and *EU CRR* applicable for large exposure or concentrated risk requirements
Energy market participant (which is an ~~*exempt BIPRU commodities firm*~~ *exempt IFPRU commodities firm*) with a *waiver* from *IPRU(INV)* 3	…	…
	No	~~*BIPRU* 10~~ Part Four (articles 387 to 403) of the *EU CRR* applies
Energy market participant (which is an ~~*exempt BIPRU commodities firm*~~ *exempt IFPRU commodities firm*) to	…	…
	No	~~*BIPRU* 10~~ Part Four (articles 387 to 403) of the

which *IPRU(INV)* 3 applies		*EU CRR* applies
Oil market participant (which is an ~~*exempt BIPRU commodities firm*~~ *exempt IFPRU commodities firm*) if it is a member of a *recognised investment exchange* or a *designated investment exchange* which is, under the rules of that exchange, entitled to trade with other members to which *IPRU(INV)* 3 applies	…	…
	No	~~*BIPRU* 10~~ Part Four (articles 387 to 403) of the *EU CRR* applies
~~*Other*~~ Other *oil market participant* (which is an ~~*exempt BIPRU commodities firm*~~ *exempt IFPRU commodities firm*) to which *IPRU(INV)* 3 does not apply	…	…
	No	~~*BIPRU* 10~~ Part Four (articles 387 to 403) of the *EU CRR* applies
~~*Exempt BIPRU commodities firm*~~ *Exempt IFPRU commodities firm* which is not an *energy market participant* or *oil market participant*	…	…
	No	~~*BIPRU* 10~~ Part Four (articles 387 to 403) of the *EU CRR* applies
…		

...

3-60 FIRMS TO WHICH RULES 3-61 TO 3-182 APPLY

...

Exempt IFPRU commodities firm

3-60(10) G An *exempt IFPRU commodities firm* should determine whether it is a *broad scope firm* or one of the other categories in this *rule*.

...

3-166 GENERAL RULE

...

3-166(3) R (a) Positions which are purely ~~stock financing~~ *stock financing* may be omitted from the calculation of *PRR* on commodities positions under rule 3-166 and a *firm* may net notional long and short government

securities arising from *swaps*, *FRAs*, *futures* and *options* on interest rates and debt *securities*, cash borrowings, *qualifying deposits*, the cash legs of "repurchase or similar agreements", forward foreign exchange and foreign currency futures against each other, provided:

...

G ~~Stock financing is defined under the *Capital Adequacy Directive*. Where physical stock has been sold forward, the cost of funding must be locked in until the date of the forward sale.~~ [deleted]

...

4 Chapter 4: Lloyd's firms

...

4.2 Purpose

...

4.2.4 G A *members'* adviser is not regulated by the *Society* and accordingly this chapter specifies the financial resource and accounting requirements to be met. *Firms* which fall within the scope of this chapter will be *firms* with *permission* only to advise persons on *syndicate* participation at Lloyd's. The nature of that advisory business is akin to corporate finance advice and so the applicable requirements are those in *IPRU(INV)* 3 relevant to *firms* giving corporate finance advice. *Firms* with other permissions will fall within the scope of other chapters of *IPRU(INV)*, *GENPRU*, *BIPRU*, *IFPRU* (and the *EU CRR*) or *INSPRU*.

...

5 Chapter 5: Financial Resources

...

Appendix 1: Interpretation

...

~~*recognised third country investment firm*~~	~~means an *investment firm* which is authorised in a country other than a *member state* and which is subject to and complies with prudential rules equivalent to the requirements of the *Capital Adequacy Directive*.~~ ~~**Note**: A *recognised third country investment firm* is not necessarily a *firm* for the purposes of the *rules*.~~ ~~**Note**: A list of the non-EEA regulators which are approved by *the FCA or PRA* for the purposes of recognising *recognised third country investment firms* under the Capital Adequacy Directive is available on request from the *FCA*.~~

...

9 Chapter 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 IMD insurance intermediaries

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

…

[Note: Article 67(3) of *MiFID* and ~~Article 7 of *CAD*~~ article 31(1) of the *CRD*]

...

9.2.5 R (1) ~~A~~ An *exempt CAD firm* that is also an *IMD insurance intermediary* must comply with the professional indemnity insurance requirements at least equal to those set out in 9.2.4R(1)(b) (except that the minimum *limits of indemnity* are at least €1,120,200 for a single claim and €1,680,300 in aggregate) and in addition has to have:

…

[Note: Article 67(3) of *MiFID* and ~~Article 8 of *CAD*~~ article 31(2) of the *CRD*]

...

Initial capital and ongoing capital requirements for local firm

9.2.8 R A *local firm* must:

(a) have *initial capital* of €50,000; and

[Note: Article 67(2) of *MiFID* and ~~Article 6 of *CAD*~~ article 30 of the *CRD*]

...

...

13 Chapter 13: Financial Resource Requirements for Personal Investment Firms

APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS

...

13.1.11 R If the *firm* is an *exempt CAD firm* that maintains professional indemnity insurance under 13.1A.3(1)(b), the appropriate minimum *limits of indemnity* per year are no lower than:

…

[Note: Article 67(3) of *MiFID* and ~~Article 7 of *CAD*~~ article 31(1) of the *CRD* (see also rule 13.1A.3)]

13.1.12 R If the *firm* is both an *IMD insurance intermediary* and an *exempt CAD firm* that maintains professional indemnity insurance under 13.1A.4(1)(b), the appropriate additional *limits of indemnity* to 13.1.10R per year are no lower than:

…

[Note: Article 67(3) of *MiFID* and ~~Article 8 of *CAD*~~ article 31(2) of the *CRD* (see also rule 13.1A.4)]

...

13.1A ~~FINANCIAL RESOURCES REQUIREMENTS~~ CAPITAL RESOURCES AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENT FOR AN EXEMPT CAD FIRM

...

13.1A.3 R (1) A *firm* which is not an *IMD insurance intermediary* must have:

…

[**Note**: Article 67(3) of *MiFID* and ~~Article 7 of *CAD*~~ article 31(1) of the *CRD* (see also rule 13.1.11R)]

…

13.1A.4 R (1) A *firm* that is also an *IMD insurance intermediary* must have professional indemnity insurance at least equal to the limits set out in 13.1.10R and in addition has to have:

...

[**Note**: Article 67(3) of *MiFID* and ~~Article 8 of *CAD*~~ article 31(2) of the *CRD* (see also rule 13.1.12R)]

…

...

14 Chapter 14: Consolidated Supervision for Investment Businesses

14.1 Application

14.1.1 R Subject to rule 14.1.2, *consolidated* supervision and this chapter apply to a *firm* which is a member of a group if:

…

(2) It is ~~not~~ neither a *BIPRU firm* nor an *IFPRU investment firm*.

...

Cases where consolidated supervision under this chapter will not apply

14.1.2 R A *firm* is not subject to *consolidated supervision* under the rules in this Chapter where any of the following conditions are fulfilled:

…

(2) the *firm* is a member of a *UK consolidation group* already included in the supervision on a consolidated basis of the group of which it is a member by the *FCA* ~~or *PRA*~~ under *BIPRU* 8; or

(3) the *firm* is a member of a group already included in the supervision on a *consolidated basis* of the group of which it is a member by the *appropriate regulator* under Part One, Title II, Chapter 2 of the *EU CRR*.

...

Exemption from consolidated supervision

14.1.4 R A *firm* need not meet the requirements in rules 14.3.1 and 14.3.2 if:

…

(2) no *firm* in the group *deals in investments as principal*, except where it is dealing solely as a result of its activity of operating a *collective investment scheme*, or where the *firm's* positions fulfil the *CAD Article ~~3~~ 5 exempting criteria*;

...

...

Appendix 14(1): Interpretation

Delete the following definitions. The deleted text is not shown.

CAD investment firm

Listed activity

Annex J

Amendments to the Client Assets sourcebook (CASS)

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

7 Client money rules

7.1 Application and Purpose

…

Credit institutions and approved banks

7.1.8 R The *client money rules* do not apply to a ~~*BCD*~~ *CRD credit institution* in relation to deposits within the meaning of the ~~*BCD*~~ *CRD* held by that *institution*.

…

...

7.1.11A R (1) This *rule* applies to a *firm* which is an *approved bank* but not a ~~*BCD*~~ *CRD credit institution.*

…

…

7.4 Segregation of client money

Depositing client money

7.4.1 R A *firm*, on receiving any *client money*, must promptly place this *money* into one or more accounts opened with any of the following:

…

(2) a ~~*BCD*~~ *CRD credit institution*;

…

7.4.2 G An account with a central bank, a ~~*BCD*~~ *CRD credit institution* or a bank authorised in a third county in which *client money* is placed is a *client bank account*.

...

A firm's selection of a credit institution, bank or money market fund

…

7.4.9B R For the purpose of *CASS* 7.4.9AR an entity is a relevant group entity if it is:

(1) a ~~*BCD*~~ *CRD credit institution*, a bank authorised in a third county, a *qualifying money market fund*, or the entity operating or managing a *qualifying money market fund*; and

...

Annex K

Amendments to the Market Conduct sourcebook (MAR)

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

5 Multilateral trading facilities (MTFs)

…

5.3 Trading process requirements

5.3.1 R A *firm* operating an *MTF* must have:

...

(4) transparent rules, based on objective criteria, governing access to its facility, which rules must provide that its members or participants are *investment firms*, ~~*BCD*~~ *CRD credit institutions* or other persons who:

…

…

Annex L

Amendments to the Supervision manual (SUP)

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

3.1.10 G Other relevant sections of the Handbook (see *SUP* 3.1.9G)

…	
Investment management firm, personal investment firm, securities and futures firm (other than *IFPRU investment firms* and *BIPRU ~~investment~~ firms*)	*IPRU(INV)*
…	

…

3.10.5 R Client assets report

Whether in the auditor's opinion	
…	
(3)	in the case of an *investment management firm, personal investment firm,* a *UCITS firm, securities and futures firm, firm acting as trustee or depository of an AIF, firm acting as trustee or depositary of a UCITS* or ~~*BIPRU*~~ *IFPRU investment firm* or *BIPRU firm*, when a *subsidiary* of the *firm* is during the period a *nominee company* in whose name *custody assets* of the *firm* are registered during the period, that *nominee company* has maintained throughout the period systems for the custody, identification and control of *custody assets* which: …
…	

…

9.3 Giving individual guidance to a firm on the FCA's own initiative

…

9.3.2 G The *FCA* may give individual *guidance* to a *firm* on its own initiative if it considers it appropriate to do so. For example:

…

(5) in relation to the maintenance of adequate financial resources, the *FCA* may give a *firm* individual *guidance* on the amount or type of financial resources the *FCA* considers appropriate, for example *individual capital guidance* for *IFPRU investment firms* or *BIPRU firms*; further *guidance* on how and when the *FCA* may give *individual capital guidance* on financial resources is contained in the Prudential Standards part of the *Handbook*:

(a) for a *BIPRU firm*: *GENPRU* 1.2 and *BIPRU* 2.2; ~~and~~

(b) [deleted]

(c) for a *securities and futures firm* (or other *firm* required to comply with *IPRU(INV)*3): *IPRU(INV)* 3-79R; and

(d) [deleted]

(e) for an *IFPRU investment firm*: *IFPRU* 2.2. and 2.3.

…

11.8 Changes in the circumstances of existing controllers

11.8.1 R A *firm* must notify the *appropriate regulator* immediately it becomes aware of any of the following matters in respect of one or more of its *controllers*:

…

(4) if a *controller*, who is authorised in another *EEA State* as a *MiFID investment firm*, ~~*BCD*~~ *CRD credit institution* or *UCITS management company* or under the *Insurance Directives* or the *Insurance Mediation Directive*, ceases to be so authorised (registered in the case of an *IMD insurance intermediary*).

…

13 Exercise of passport rights by UK firms

…

13.2.1 G This chapter gives *guidance* to *UK firms*. In most cases *UK firms* will be *authorised persons* under the *Act*. However, under the ~~*Banking Consolidation Directive*~~ *CRD*, a subsidiary of a *firm* which is a *credit institution* which meets the criteria set out in that Directive also has an *EEA right*. Such an authorised subsidiary is known as a *financial institution*. References in this chapter to a *UK firm* include a *financial institution.*

…

13.3.2 G A *UK firm* other than a *UK pure reinsurer* cannot establish a *branch* in another *EEA State* for the first time under an *EEA right* unless the relevant conditions in paragraphs 19(2), (4) and (5) of Part III of Schedule 3 to the *Act* are satisfied. It is an offence for a *UK firm* which is not an *authorised person* to contravene this prohibition (paragraph 21 of Part III of Schedule 3 to the *Act*). These conditions are that:

(1) the *UK firm* has given the *appropriate UK regulator*, in accordance with the *appropriate UK regulator's rules* (see *SUP* 13.5.1R) or the directly applicable regulations made under the *CRD* (see *SUP* 13.5.1C), notice of its intention to establish a *branch* (known as a *notice of intention*) which:

…

(b) includes such other information as may be specified by the *appropriate UK regulator* (see *SUP* 13.5.1R) or by the directly applicable regulations made under the *CRD* (see *SUP* 13.5.1C);

…

…

13.3.5 G (1) If the *UK firm's EEA right* derives from the ~~*Banking Consolidation Directive*~~ *CRD* or *MiFID*, the *appropriate UK regulator* will give the *Host State regulator* a *consent notice* within three *months* unless it has reason to doubt the adequacy of a *UK firm's* resources or its administrative structure. The *Host State regulator* then has a further two *months* to notify the *applicable provisions* (if any) and prepare for the supervision, as appropriate, of the *UK firm*, or in the case of a *MiFID investment firm*, to inform the *UK firm* that a *branch* can be established.

…

13.4.4 G (1) If the *UK firm's EEA right* derives from *MiFID*, the ~~*Banking Consolidation Directive*~~ *CRD* or the *UCITS Directive*, paragraph 20(3) of Part III of Schedule 3 to the *Act* requires the *appropriate UK regulator* to send a copy of the *notice of intention* to the *Host State Regulator* within one *month* of receipt. A *UK firm* passporting under the ~~*Banking Consolidation Directive*~~ *CRD* may start providing *cross border services* as soon as it satisfies the relevant conditions (see *SUP* 13.4.2G).

…

…

13.5.1 R A *UK firm*, other than a *UK pure reinsurer* or *a CRD credit institution*, wishing to establish a *branch* in a particular *EEA State* for the first time under an *EEA right* other than under the *auction regulation* must submit a *notice of intention* in the form set out in *SUP* 13 Annex 1R

…

13.5.2 R A *UK firm* wishing to provide *cross border services* into a particular *EEA State* for the first time under an *EEA right* other than the *auction regulation* must submit a notice in the form set out in:

…

(2) ~~*Sup*~~ *SUP* 13 Annex 4R if the *UK firm* is passporting under the ~~*Banking Consolidation Directive*~~ *CRD*; or

…

…

13.6.1 G Where a *UK firm* is exercising an *EEA right*, other than under the *Insurance Mediation Directive* (see *SUP* 13.6.9AG) or the *Reinsurance Directive* (see *SUP* 13.6.9BR) or the *CRD*, and has established a *branch* in another *EEA State*, any changes to the details of the *branch* are governed by the *EEA Passport Rights Regulations*. …

…

Firms passporting under the ~~Banking Consolidation Directive~~ CRD and the UCITS Directive

13.6.4 G If a *UK firm* has exercised an *EEA right*, under the ~~*Banking Consolidation Directive*~~ *CRD* or the *UCITS Directive*, and established a *branch* in another *EEA State*, regulation 11(1) states that the *UK firm* must not make a change in the *requisite details* of the *branch* (see *SUP* 13 Annex 1), unless it has satisfied the requirements of regulation 11(2), or, where the change arises from circumstances beyond the *UK firm's* control, regulation 11(3) (see *SUP* 13.6.10G).

…

Firms passporting under the ~~Banking Consolidation Directive~~ CRD and Insurance Mediation Directive

13.7.11 G A *UK firm* providing *cross border services* under the ~~*Banking Consolidative Directive*~~ *CRD* or *Insurance Mediation Directive* is not required to supply a change to the details of *cross border services* notice.

…

13.8.2 G *UK firms* passporting under the ~~*Banking Consolidative Directive*~~ *CRD* or the *Insurance Directives* may be required to submit the change to details

notice in the language of the *Host State* as well as in English.

…

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

This annex consists of only one or more forms. Forms can be completed online now by visiting: ~~*http://www.fsa.gov.uk/Pages/doing/index.shtml*~~ http://www.bankofengland.co.uk/pra/Pages/authorisations/passporting/notifying.aspx
The forms are also to be found through the following address:
Passporting: Notification of intention to establish a branch in another EEA state - SUP 13 Annex 1

…

In *SUP* 13 Annex 1 form, on page 1 substitute 'Capital Requirements Directive' for 'Banking Consolidation Directive'

Amend the following as shown.

13A **Qualifying for authorisation under the Act**

…

13A.1.3 G (1) Under the *Gibraltar Order* made under section 409 of the *Act*, a Gibraltar firm is treated as an *EEA firm* under Schedule 3 to the *Act* if it is:

…

(b) authorised in Gibraltar under the ~~*Banking Consolidation Directive*~~ *CRD*; or

…

…

13A.5 **EEA firms providing cross border services into the United Kingdom**

…

13A.5.3 G …

(2) For the purposes of paragraph 14(1)(b) of Part II of Schedule 3 to the *Act*, the information to be contained in the regulator's notice has been prescribed under regulation 3 of the *EEA Passport Rights Regulations* and in the case of the *CRD*, the information has been prescribed in the technical standards issued pursuant to

and under article 39 of the *CRD*.

…

The notification procedure

13A.5.4 G (1) Unless the *EEA firm* (other than an *EEA pure reinsurer* or an *EEA firm* that received authorisation under article 18 of the *auction regulation*) is passporting under the *Insurance Medication Directive*, if the *appropriate UK regulator* receives a regulator's notice or, where no notice is required ~~(in the case of an *EEA firm* passporting under the *Banking Consolidation Directive)*~~, is informed of the *EEA firm's* intention to provide *cross border services* into the *United Kingdom*, the *appropriate UK regulator* will, under paragraphs 14(2) and 14(3) of Part II of Schedule 3 to the *Act*, notify the *EEA firm* of the *applicable provisions* (if any) within two *months* of the *day* on which the *appropriate UK regulator* received the regulator's notice or was informed of the *EEA firm's* intention.

…

…

13A Annex 1G Application of the Handbook to Incoming EEA Firms

…		
(1) Module of Handbook	**(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom**	**(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom**
PRIN	The *Principles* apply only in so far as responsibility for the matter in question is not reserved by an *EU* instrument to the *firm's Home State regulator* (*PRIN* 3.1.1R(1)). For an *incoming EEA Firm* which is a ~~*BCD*~~ *CRD credit institution* without a *top-up permission*, *Principle* 4 applies only in	…

	relation to the liquidity of a branch established in the *United Kingdom* (*PRIN* 3.1.1R(2)).	
…		
BIPRU	*EEA firms* that are *CAD investment firms* are subject to the prudential standards of their home state regulator (*BIPRU* 1.1.7R ~~and *BIPRU* 1.1.9 G~~*)*. However, *BIPRU* 12 applies to an *EEA firm* that is an *IFPRU investment firm* or *BIPRU firm* as respects the activities of its *UK branch*, but in relation to *liquidity risk* only.	Does not apply if the *firm* has *permission* only for *cross border services* and does not carry on *regulated activities* in the *United Kingdom*.
…		
INSPRU	…	
IFPRU	*EEA firms* that are *investment firms* (as defined in the *EU CRR*) are subject to the *EU CRR* as implemented by their home state regulator (*IFPRU* 1.1.5R).	Does not apply if the *firm* has *permission* only for *cross border services* and does not carry on *regulated activities* in the *United Kingdom*.
…		
COMP	Applies, except in relation to the *passported activities* of a *MiFID investment firm*, a ~~*BCD*~~ *CRD credit institution* (other than an electronic money institution within the meaning of article 1(3)(a) of the *E-Money Directive* that has the right to benefit from the mutual recognition arrangements under the ~~*Banking Consolidation Directive*~~ *CRD*), an *IMD Insurance intermediary*, a *UCITS management company* carrying on non-core services under article 6.3 of the *UCITS Directive* and an *incoming AIFM branch* carrying on either *AIFM management functions* for an *unauthorised AIF* or non-core services under article 6.4 of *AIFMD* (see the definition of "*participant firm*"). However, a *firm* specified above may be able to apply for *top-up cover* in relation to its *passported activities* (see *COMP* 14	Does not apply in relation to the passported activities of an *MiFID investment firm*, a ~~*BCD*~~ *CRD credit institution*, an *IMD insurance intermediary* or a *UCITS management company* carrying on non-core services under article 6.3 of the *UCITS Directive* or an

	(Participation by EEA Firms)).	*incoming EEA AIFM* regarding *AIFM management functions* carried on for an *unauthorised AIF* or non-core services under article 6.4. Otherwise, *COMP* may apply, but the coverage of the *compensation scheme* is limited for non-*UK activities* (see *COMP* 5).
…		

13A Annex 2 Matters reserved to a Home State regulator

G

Introduction		
1.	…	
Requirements in the interest of the general good		
2.	The *Single Market Directives*, and the *Treaty* (as interpreted by the European Court of Justice) adopt broadly similar approaches to reserving responsibility to the *Home State regulator*. To summarise, the *FCA* or *PRA*, as *Host State regulator*, is entitled to impose requirements with respect to activities carried on within the *United Kingdom* if these can be justified in the interests of the "general good" and are imposed in a non-discriminatory way. This general proposition is subject to the following in relation to activities passported under the *Single Market Directives*:	
	(1)	the *Single Market Directives* expressly reserve responsibility for the prudential supervision of a *MiFID investment firm*, ~~*BCD*~~ *CRD credit institution*, *UCITS management company*, *AIFM* or passporting *insurance undertaking* to the *Firm's Home State regulator*. The *Insurance Mediation Directive* reaches the same position without expressly referring to the concept of prudential supervision. Accordingly, the *FCA* as *Host State Regulator*, is entitled to regulate only the conduct of the firm's business within the *United Kingdom*;

	(2)	…
	(3)	for a ~~*BCD*~~ *CRD credit institution*, the *PRA* or *FCA*, as *Host State regulator*, is jointly responsible with the *Home State regulator* under article ~~41~~ 156 of the ~~*Banking Consolidative Directive*~~ *CRD* for supervision of the liquidity of a *branch* in the *United Kingdom*;
	(4)	for a *MiFID investment firm* including a ~~*BCD*~~ *CRD credit institution* which is a *MiFID investment firm*), the protection of *clients'* money and *clients'* assets is reserved to the *Home State regulator* under *MiFID*; and
	(5)	responsibility for participation in compensation schemes for ~~*BCD*~~ *CRD credit institutions* and *MiFID investment firm* is reserved in most cases to the *Home State regulator* under the *Deposit Guarantee Directive* and the *Investor Compensation Directive.*

…

14.1 Application and Purpose

…

14.1.3 G (1) Under the *Gibraltar Order* made under section 409 of the *Act*, a Gibraltar firm is treated as an *EEA firm* under Schedule 3 to the *Act* if it is:

…

(b) authorised in Gibraltar under the ~~*Banking Consolidation Directive*~~ *CRD*; or

…

…

Purpose

14.1.4 G This chapter gives *guidance* on the *Act* and the *EEA Passport Rights Regulations* made under the *Act*, for an *incoming EEA firm* which has established a *branch* in, or is providing *cross border services* into, the *United Kingdom* and wishes to change the details of the *branch* or *cross border services*.

[Note: An *EEA bank* is required to comply with the requirements set out in the technical standards adopted under articles 35, 36 and 39 of the *CRD*.]

…

14.2 Changes to branch details

…

Firms passporting under the ~~Banking Consolidation Directive~~ CRD and the UCITS Directive

14.2.2 G (1) Where an *incoming EEA firm* passporting under the ~~*Banking Consolidation Directive*~~ *CRD* or the *UCITS Directive* has established a *branch* in the *United Kingdom*, regulation 4 states that it must not make a change in the *requisite details* of the *branch* unless it has complied with the relevant requirements.

…

…

Changes arising from circumstances beyond the control of an incoming EEA firm passporting under the ~~Banking Consolidation Directive~~ *CRD*, UCITS Directive or Insurance Directive

14.2.8 …

…

14.6 Cancelling qualification for authorisation

Incoming EEA firms

14.6.1 G Section 34 of the *Act* states that an *incoming EEA firm* no longer qualifies for *authorisation* under Schedule 3 to the *Act* if it ceases to be an *incoming EEA firm* as a result of:

…

(2) ceasing to have an *EEA right* in circumstances in which *EEA* authorisation is not required; this is relevant to a *financial institution* that is a subsidiary of a *credit institution* (of the kind mentioned in Article ~~19~~ 34 of the ~~*Banking Consolidation Directive*~~ *CRD*) which fulfils the conditions in articles ~~18~~ 33 and ~~19~~ 34 of that *Directive*.

…

15 Notifications to the FCA or PRA

…

15.1.3 G In some cases, the application of provisions set out in *SUP* 15 Annex 1 depends on whether responsibility is reserved to a *Home State regulator*. ~~*SYSC* App 1 contains *guidance* on this.~~

...

Breaches of rules and other requirements in or under the Act

15.3.11 R (1) A *firm* must notify the *appropriate regulator* of:

…

(d) …

(da) a breach of a directly applicable provision in the *EU CRR* or any directly applicable regulations made under the *CRD* or *EU CRR*; or

…

…

15 Annex 1R Application of SUP 15 to incoming EEA firms and incoming Treaty firms

…	
3.	For any other *incoming EEA firm* or *incoming Treaty firm, SUP 15* applies as set out in the following table.

Applicable sections		Application
SUP 15.1, *SUP* 15.2	Application, Purpose	Apply in full
SUP 15.3.1R to *SUP* 15.3.6G	Matters having a serious regulatory impact	~~*SUP* 15.3.1R does not apply, otherwise apply in full~~ Apply in so far as responsibility for the matter in question is not reserved by an *EU* instrument to the *firm's Home State regulator*
…		
SUP ~~15.3.1R~~ 15.3.11R to *SUP* 15.3.14G	Breaches of rules and other requirements in or under the Act	Apply in full
SUP ~~15.3.1R~~ 15.3.15R to *SUP*	Civil, criminal or disciplinary	Apply in so far as responsibility for the matter in question is not

	15.3.16G	proceedings against a firm	reserved by an *EU* instrument to the *firm's Home State Regulator*
	SUP ~~15.3.1R~~ 15.3.17R to *SUP* 15.3.20G	Fraud, errors and other irregularities	Apply in so far as responsibility for the matter in question is not reserved by an *EU* instrument to the *firm's Home State regulator*
	…		

…

Appendix 3 Guidance on passporting issues

App 3.3.6 G (1) The European Commission has not produced an interpretative communication on *MiFID*. It is arguable, however, that the principles in the communication on the Second Banking Directive can be applied to *investment services and activities.* This is because Chapter II of Title II of *MiFID* (containing provisions relating to operating conditions for investment firms) also applies to the *investment services and activities* of *firms* operating under the *Banking Consolidation Directive*, which is repealed and replaced by the *CRD*.

(2) …

…

App 3.9 Mapping of MiFID, ~~Banking Consolidation Directive~~ CRD, UCITS Directive and Insurance Mediation Directive to the Regulated Activities Order

App 3.9.1 G The following Tables 1, 2, 2A and 2B provide an outline of the *regulated activities* and *specified investments* that may be of relevance to *firms* considering undertaking *passported activities* under the ~~*Banking Consolidation Directive*~~ *CRD*, *MiFID*, the *UCITS Directive* and the *Insurance Mediation Directive*. The tables may be of assistance to *UK firms* that are thinking of offering financial services in another *EEA State* and to *EEA firms* that may offer those services in the *United Kingdom*.

App 3.9.2 G The tables provide a general indication of the *investments* and activities specified in the *Regulated Activities Order* that may correspond to categories provided for in the ~~*Banking Consolidation Directive*~~ *CRD*, *MiFID*, the *UCITS Directive* of the *Insurance Mediation Directive*. The tables do not provide definitive *guidance* as to whether a *firm* is carrying on an activity that is capable of being passported, nor do the tables take account of exceptions that remove the effect of articles. Whether a *firm* is

carrying on a *passported activity* will depend on the particular circumstances of the *firm*. If a *firm's* activities give rise to potential passporting issues, it should obtain specialist advice on the relevant issues.

…

App 3.9.4 Activities set out in Annex 1 of the ~~BCD~~ CRD

	Table 1: ~~BCD~~ CRD activities		**Part II RAO Activities**	**Part III RAO Investments**
	1.	~~Acceptance of~~ Taking deposits and other repayable funds from the public	Article 5	Article 74
	…			
	15.	Issuing electric money	Article 9B	Article 74A
	…			
	Note 1 : The services and activities provided for in Sections A and B of Annex I of *MiFID* when referring to the *financial instruments* provided for in Section C of Annex I of that Directive are subject to mutual recognition according to the ~~BCD~~ CRD from 1 ~~November 2007~~ January 2013. See the table at *SUP* App 3.9.5G below for mapping of *MiFID investment services and* activities. For further details relating to this residual category, please see the ~~"Banking Consolidation Directive"~~ "CRD" section of the passporting forms entitled "Notification of intention to establish a branch in another EEA State" and "Notification of intention to provide cross border services in another EEA State".		

Annex M

Amendments to the Compensation sourcebook (COMP)

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

1 Introduction and Overview

...

1.4 EEA Firms

1.4.1 G *Incoming EEA firms* which are conducting *regulated activities* in the *United Kingdom* under a ~~*BCD*~~ *CRD*, *IMD* or *MiFID* passport are not required to participate in the *compensation scheme* in relation to those *passported activities*. They may apply to obtain the cover of, or 'top-up' into, the *compensation scheme* if there is no cover provided by the *incoming EEA firm's Home State* compensation scheme or if the level or scope of the cover is less than that provided by the *compensation scheme*. This is covered by *COMP* 14.

Annex N

Amendments to the Collective Investment Schemes sourcebook (COLL)

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

Spread: general

5.6.7 R (1) This *rule* does not apply in respect of *government and public securities.*

…

(9) For the purpose of calculating the limit in (5), *OTC derivative* positions with the same counterparty may be netted provided that the netting procedures:

(a) comply with the conditions set out in Part ~~7~~ Three, Title II, Chapter 6, Section 7 (Contractual netting (Contracts for novation and other netting agreements)) of ~~Annex III of the *Banking Consolidation Directive*~~ the *EU CRR*; and

(b) are based on legally binding agreements.

…

…

Spread: general

5.7.5 R …

(10) For the purpose of calculating the limit in (6), *OTC derivative* positions with the same counterparty may be netted provided that the netting procedures:

(a) comply with the conditions set out in Part ~~7~~ Three, Title II, Chapter 6, Section 7 (Contractual netting (Contracts for novation and other netting agreements)) of ~~Annex III of the *Banking Consolidation Directive*~~ the *EU CRR*; and

(b) are based on legally binding agreements.

Annex O

Amendments to the Credit Unions sourcebook (CREDS)

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

2.2.2 G For *credit unions*, the arrangements, processes and mechanisms referred to in *SYSC* 4.1.1R should be comprehensive and proportionate to the nature, scale, and complexity of the risks inherent in the business model and of the *credit union's* activities. That is the effect of *SYSC* 4.1.2R and *SYSC* 4.1.2AG.

Annex P

Amendments to the Investment Funds sourcebook (FUND)

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

3 Requirements for alternative investment fund managers

…

Eligible depositaries for UK AIFs

…

3.11.11 G For a *depositary* to be *established* in the *UK* it must have its registered office or *branch* in the *UK*. A *MiFID investment firm* that has its registered office in the *UK* must be a ~~*full scope BIPRU*~~ *full-scope IFPRU investment firm* to meet the requirements of *FUND* 3.11.10R(2). A *MiFID investment firm* that has a *branch* in the *UK* ~~is not subject to the requirements of *GENPRU* and *BIPRU*, but~~ must meet the ~~equivalent~~ capital requirements ~~to~~ under the *EU CRR* for a ~~*full scope BIPRU investment*~~ *CRD full-scope firm* as implemented in its *Home State* to meet the requirements of *FUND* 3.11.10R(2).

…

3.11.15 G For certain types of closed-ended *AIFs* (such as private equity, venture capital and real estate funds) a wider range of entities than those specified in *FUND* 3.11.10R may perform the relevant *depositary* functions. The *FCA* requires such entities to obtain authorisation as a *depositary* to demonstrate that they can meet the commitments inherent in those functions, but imposes a lower level of capital requirements in recognition of the different degree of risk implied by the characteristics of the *AIF*. The capital requirements of such *firms* are contained in *IPRU(INV)* 5 (particularly *IPRU(INV)* 5.2.3R(3)(a)(ia) (Own funds requirement)) ~~or in *GENPRU* and *BIPRU*~~ but if the *firm* also undertake~~s~~ *MiFID business*, its capital requirements will be contained in *IFPRU* and the *EU CRR* or in *GENPRU* and *BIPRU* depending on the scope of that *MiFID business*.

…

Additional requirements for depositaries of authorised AIFs

…

3.11.17 G Where the *firm* referred to in *FUND* 3.11.16R is a ~~*full scope BIPRU*~~ *full-scope IFPRU investment firm* which is a *depositary* for an *authorised AIF* appointed in line with *FUND* 3.11.10R(2), it is subject to the capital

requirements of ~~*GENPRU* and *BIPRU*~~ *IFPRU* and the *EU CRR*. However, these requirements are not in addition to *FUND* 3.11.16R and, therefore, a *firm* subject to this *rule* may use the *own funds* required under ~~*GENPRU* and *BIPRU*~~ *IFPRU* and the *EU CRR* to meet the £4 million requirement.

…

Depositary functions: cash monitoring

3.11.20 R A *depositary* must ensure that the *AIF's* cash flows are properly monitored and that:

…

(2) all cash of the *AIF* has been booked in cash accounts opened:

…

(b) at:

(i) …

(ii) a ~~*BCD*~~ *CRD credit institution*; or

…

…

Annex Q

Amendments to the Regulated Covered Bonds sourcebook (RCB)

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

1.1.6 G ~~*BIPRU*~~ *IFPRU investment firms* which have *exposures* to *covered bonds* which meet the requirements set out in the provisions of ~~*BIPRU* 3.4.106R to *BIPRU* 3.4.109R, whether made by the *FCA* or the *PRA*~~ article 129 of the *EU CRR*, may benefit from reduced *risk weights* as set out in ~~the version of *BIRPRU* 3.4.110R applying to that *BIPRU firm*~~ article 129 of the *EU CRR*.

…

Covered bonds collateralised by real estate

2.3.13 G In assessing whether the *asset pool* is of sufficient quality, the *FCA* will have regard to the requirements ~~about legal certainty~~ in relation to the collateralisation of real estate referred to in ~~*BIPRU* 3.4.64R, the requirements about monitoring of property values in *BIRPRU* 3.4.66R~~ article 208 of the *EU CRR* and the valuation rules in ~~*BIPRU* 3.4.77R to *BIPRU* 3.4.80R~~ article 229(1) of the *EU CRR*.

…

2 Annex 1D Application for admission to the register of issuers and register of regulated covered bonds

…

Application Form

Questions	**Responses**
…	
For covered bonds collateralised by real estate, provide information on how you have had regard to the requirements ~~of *BIPRU* 3.4.64R (legal certainty), *BIPRU* 3.4.66R (monitoring of property values) and *BIPRU* 3.4.77R to *BIPRU* 3.4.80R (valuation)~~ referred to in article 208 of the *EU CRR* and article 229(1) of the *EU CRR* (valuation).	
…	

Annex R

Amendments to the Prospectus Rules sourcebook (PR)

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

PR App 1	**Relevant definitions**
App 1.1.1	
credit institution	as defined in article 4(1)(1) of the ~~*Banking Consolidated Directive*~~ *EU CRR*.
...	

Annex S

Amendments to the Disclosure Rules and Transparency Rules sourcebook (DTR)

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

5 Vote Holder and Issuer Notification Rules

...

5.3 Notification of voting rights arising from the holding of certain financial instruments

5.3.1 R …

(3) For the purposes of (2) a client-serving intermediary is a *person* satisfying the following conditions:

(a) (i) it is authorised by its *Home State* under *MiFID* or the ~~*BCD*~~ *CRD*, or, subject to (iii), as a *third country investment firm*, to deal as principal, in a client-serving capacity, in *financial instruments* falling within (1)(b), and to carry on any relevant business connected to such dealing; or

...

…

Annex T

Amendments to the Guide for Energy Market Participants (EMPS)

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

1.2 Parts of the Handbook applicable to energy market participants

...

1.2.3 G Applicability of parts of Handbook to energy market participants

This table belongs to *EMPS* 1.2.1G

	Part of Handbook	Applicability to energy market participants
...	...	...
Prudential standards	Interim Prudential sourcebooks (*IPRU*)	Chapter 1 (Application and General) of *IPRU (INV)* (Interim Prudential sourcebook: Investment Businesses) applies. Chapter 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) of *IPRU(INV)* applies, with the following qualifications: (a) *energy market participants* whose main business consists of the generation, production, storage, distribution and/or transmission of *energy* may be granted a *waiver* of Chapter 3 in the *FCA's* discretion: see *SUP* 21; ~~and~~ (b) the concentrated risk requirements do not apply to an *energy market participant* if it is an ~~*exempt BIPRU commodities* firm~~ *exempt IFPRU commodities firm* that applies the *large exposure* requirements in ~~*BIPRU* 10 (Concentration risk)~~ Part Four (articles 387 to 403) of the *EU CRR*: see *IPRU(INV)* 3-1BR, *IPRU(INV)* 3-1CG and *IPRU(INV)* 3-1DG; and (c) the concentrated risk requirements apply to an *energy market participant* if it is an

		exempt BIPRU commodities firm that satisfies the conditions in *BIPRU* TP 16 in the version as at 31 December 2013. ...
	…	
	Prudential sourcebook for Investment Firms (*IFPRU*)	Except for provisions on *combined buffer*, *own funds*, *own funds requirements* and the *ICAAP rules*, this applies to an *energy market participant* if it is an *exempt IFPRU commodities firm*: see *IFPRU* 1.1.1G.
…		
Regulatory processes	[deleted]	[deleted]
	Supervision manual (*SUP*)	This applies, with the following qualifications: (a) in *SUP* 3 (Auditors), only some provisions apply if *IPRU(INV)* 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) does not apply to an *energy market participant* (because it has been granted a *waiver* of that chapter): see *SUP* 3.1.2R; …
...		

Annex U

Amendments to the Guide for Oil Market Participants (OMPS)

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

1.2 Parts of the Handbook applicable to oil market participants

...

1.2.2 G Parts of the Handbook applicable to oil market participants

This table belongs to *OMPS* 1.2.1G

	Part of Handbook	Applicability to oil market participants
...	...	...
Prudential standards	Interim Prudential sourcebooks (*IPRU*)	Chapter 1 (Application and General) of *IPRU (INV)* (Interim Prudential sourcebook: Investment Businesses) applies. Chapter 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)~~)~~ of *IPRU(INV)* applies, with the following qualifications: (a) to an *oil market participant* only if it is a member of a *recognised investment exchange* or a *designated investment exchange* which is, under the rules of that exchange, entitled to trade with other members: see *IPRU(INV)* 3-1AR; ~~and~~ (b) the concentrated risk requirements do not apply to an *oil market participant* if it is an ~~*exempt BIPRU commodities firm*~~ *exempt IFPRU commodities firm* that applies the *large exposure* requirements in ~~*BIPRU* 10 (Concentration risk)~~ Part Four (articles 387 to 403) of the *EU CRR*: see *IPRU(INV)* 3-1BR, *IPRU(INV)* 3-1CG and *IPRU(INV)* 3-1DG; and

		(c) the concentrated risk requirements apply to an *oil market participant* if it is an *exempt BIPRU commodities firm* that satisfies the conditions in *BIPRU* TP 16 in the version as at 31 December 2013. ...
	…	
	Prudential sourcebook for Investment Firms (*IFPRU*)	Except for provisions on *combined buffer*, *own funds*, *own funds requirements* and the *ICAAP rules*, this applies to an *oil market participant* if it is an *exempt IFPRU commodities firm*: see *IFPRU* 1.1.1G.
...		
Regulatory processes	[deleted]	[deleted]
	Supervision manual (*SUP*)	This applies, with the following qualifications: (a) in *SUP* 3 (Auditors), only some provisions apply if *IPRU(INV)* 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) does not apply to an *oil market participant*: see *SUP* 3.1.2R; …
...		

Annex V

Amendments to the Enforcement Guide (EG)

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

8 Variation and cancellation of permission and imposition of requirements on the FCA's own initiative and intervention against incoming firms

8.19 Relevant Community obligations which the *FCA* may need to consider include those under the ~~Banking Consolidation Directive~~ Capital Requirements Directive, the Insurance Directives, the Investment Services Directive/Markets in Financial Instruments Directive; and the Insurance Mediation Directive. Each of these Directives imposes general obligations on the relevant *EEA competent authority* to cooperate and collaborate closely in discharging their functions under the Directives.

…

19 Non-FSMA powers

…

19.64 The *FCA's powers* to vary a firm's *Part 4A permission* or to impose requirements under sections 55J and 55L of the *Act* ~~has~~ have been extended under these Regulations. The *FCA* is able to use ~~this power~~ these powers where it is desirable to do so for the purpose of:

…

• acting in accordance with specified provisions of the ~~Banking Consolidation~~ Capital Requirements Directive; and

…

…

19.72 The *FCA* is responsible for monitoring and enforcing compliance with the Regulations not only by authorised firms who are within the *Money Laundering Regulations'* scope, but also by what the Regulations describe as "Annex I financial institutions". These are businesses which are not otherwise authorised by us but which carry out certain of the activities listed in Annex I of the Banking Consolidation Directive, now Annex I of the *CRD*. The activities include lending (e.g. forfaiters and trade financiers), financial leasing, and safe custody services. Annex I financial institutions are required to register with the *FCA.*

Footnote 24	~~Credit~~ Consumer credit financial institutions and money service businesses are also outside the definition of “Annex I financial institution”, which is set out in Regulation 22(1).

Annex W

Amendments to the Perimeter Guidance manual (PERG)

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

1.4 General guidance to be found in PERG

…

1.4.2 G Table: list of general guidance to be found in *PERG*

Chapter:	Applicable to:	About:
…		
PERG 13: Guidance on the scope of the Markets in Financial Instruments Directive and ~~the recast Capital Adequacy Directive~~ CRD IV (Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation on prudential requirements for credit institutions and investments firms)	Any *UK person* who needs to know whether *MiFID* or the ~~recast CAD~~ *CRD* and *EU CRR* (which allow the recast CAD to continue to apply to certain firms) as implemented in the UK apply to him.	the scope of *MiFID* and the ~~recast CAD~~ *CRD* and *EU CRR*.

…		

…

4.11.5 G For the purposes of *regulated mortgage activities*, sections 418(2), (4), (5), (5A) and (6) are relevant as follows:

(1) Section 418(2) refers to a case where a *UK*-based *person* carries on a *regulated activity* in another *EEA State* in the exercise of rights under a *Single Market Directive*. The only *Single Market Directive* which is relevant to mortgages is the ~~*Banking Consolidation Directive*~~ *CRD*.

…

…

10 Guidance on activities related to pension schemes

…

10.4A The application of EU Directives

Q41A. Are pension scheme trustees and administration service providers likely to be subject to authorisation under the Markets in Financial Instruments Directive or subject to the ~~Capital Adequacy Directive~~ Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms?

…

As for the ~~re-cast *Capital Adequacy Directive*~~ *CRD*, this will only apply to persons who are *MiFID investment firms* or ~~*BCD*~~ *CRD credit institutions.*

Detailed guidance on the scope of MiFID and the ~~re-cast Capital Adequacy Directive~~ *CRD* and *EU CRR* is in *PERG* 13.

…

…

13 Guidance on the scope of the Markets in Financial Instruments Directive and the ~~recast Capital Adequacy Directive~~ CRD IV (Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation on prudential requirements for credit institutions and investments firms)

13.1 Introduction

The purpose of this chapter is to help UK firms consider:

- whether they fall within the scope of the Markets in Financial Instruments

Directive 2004/39/EC ('MiFID') and therefore are subject to its requirements;

- how their existing *permissions* correspond to related MiFID concepts;
- whether the ~~recast Capital Adequacy Directive ('recast CAD') applies~~ *CRD* and the *EU CRR* apply to them, and for certain firms, whether the recast CAD continue to apply to them; and
- if so, which category of investment firm they are for the purposes of the transposition of the recast CAD or *CRD* and the *EU CRR*.

…

~~Recast Capital Adequacy Directive (recast CAD)~~ CRD IV

Investment firms subject to MiFID, including those who fall within the article 3 MiFID exemption but opt not to take advantage of it, ~~and *UCITS investment firms*~~ are subject to the requirements of the ~~recast CAD~~ *CRD* and the *EU CRR*.

There are special provisions for certain commodities firms as well as firms whose MiFID investment services and activities are limited to only one or more of the following investment services and activities:

- execution of orders on behalf of clients;
- portfolio management;
- giving investment advice; or
- receiving and transmitting client orders; ~~or both~~ and

who are not permitted to hold client money or securities nor are authorised to provide ancillary service (1) referred to in Section B of Annex 1 to MiFID (which is safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management).

Collective portfolio management investment firms (a term that is used to refer to both *AIFM investment firms* and *UCITS investment firms*) are subject to the requirements of the *CRD* and the *EU CRR*, unless they are firms whose MiFID investment services and activities are limited to those in the preceding paragraph.

Under the UK implementation of the ~~recast CAD~~ *CRD* and the *EU CRR*, the level of capital an investment firm subject to MiFID requires is determined by the type of investment services and activities it provides or performs, its scope of permission and any limitations or requirements attaching to that permission (see *PERG* 13.6). A firm relying on an article 2 or 3 MiFID exemption is not subject to ~~recast CAD~~ *CRD* and the *EU CRR*.

How does this document work?

This document is made up of Q and As divided into the following sections:

- General (*PERG* 13.2);
- ...
- The ~~recast CAD~~ CRD IV (*PERG* 13.6); and

- Flow charts, tables and lists (*PERG* 13 Annex 1, *PERG* 13 Annex 2, *PERG* 13, Annex 3, *PERG* 13 Annex 4).

We have also included guidance in the form of flow charts to help firms decide whether MiFID and the *CRD* and the *EU CRR* (which allow the recast CAD to apply to certain firms) apply to them as well as permission maps indicating which regulated activities and *specified investments* correspond to MiFID investment services, activities and MiFID financial instruments (see *PERG* 13 Annex 1, *PERG* 13 Annex 2, *PERG* 13 Annex 3, *PERG* 13 Annex 4).

…

13.2 General

Q1. Why does it matter whether or not we fall within the scope of MiFID?

Depending on whether or not you fall within the scope of MiFID, you may be subject to:

- domestic legislation implementing MiFID (for example, FCA rules);
- directly applicable legislation made by the European Commission (the *MiFID Regulation* and *EU CRR*); and
- domestic legislation implementing the ~~recast CAD~~ *CRD* (see *PERG* 13.6).

…

Q2. Is there anything else we should be reading?

The Q and As complement, and should be read in conjunction with, the relevant legislation and the general guidance on regulated activities, which is in chapter 2 of our Perimeter Guidance manual ('PERG'). The Q and As relating to the ~~recast CAD~~ *CRD* and the *EU CRR* (which allow the recast CAD to apply to certain firms) should be read in conjunction with the relevant parts of our Prudential sourcebook for Investment Firms (IFPRU), the Interim Prudential sourcebook for Investment Businesses (IPRU(INV)), the General Prudential sourcebook ('GENPRU') and the Prudential sourcebook for banks, building societies and investment firms ('BIPRU').

~~More generally, you should be aware that the recast CAD forms part of the Capital Requirements Directive ('CRD') which also amends the Banking Consolidation Directive.~~

Q3. How much can we rely on these Q and As?

The answers given in these Q and As represent the FCA's views but the interpretation of financial services legislation is ultimately a matter for the courts. How the scope of MiFID and the ~~recast CAD~~ *CRD* and the *EU CRR* affect the regulatory position of any particular person will depend on his individual circumstances. If you have doubts about your position after reading these Q and As, you may wish to seek legal advice. The Q and As are not a substitute for reading the relevant provisions in MiFID, the ~~recast CAD~~ *CRD* and the *EU CRR* (and the recast CAD for certain firms), the MiFID implementing measures and The Treasury's implementing legislation, including the statutory instruments listed

in Annex 4 ('Principal Statutory Instruments relating to MiFID scope issues').

Moreover, although MiFID and the ~~recast CAD~~ *CRD* and the *EU CRR* set out most of the key provisions and definitions relating to scope, some provisions may be subject to further legislation by the European Commission. In addition to FCA guidance, MiFID's scope provisions may also be the subject of guidance or communications by the European Commission or the ~~Committee of~~ European Securities and Markets Authority ('ESMA') ~~Regulators (' CESR')~~. Similarly, the ~~recast CAD~~ *CRD* and the *EU CRR* provisions may be the subject of technical standards and guidance or communications by the European Commission or the ~~Committee of~~ European Banking Authority ('EBA') ~~Supervisors ('CEBS ')~~.

…

13.3 Investment Services and Activities

…

Q12A. We carry out the activity of bidding in emissions auctions. Is this a MiFID service or activity?

Article 6(5) of the *auction regulation d*eems as an *investment service or activity* the reception, transmission and submission of a bid for a *financial instrument* (the 'five-day future' auction product – see *PERG* 2.6.19GG(3)) on an *auction platform* by an *investment firm* to which *MiFID* applies or a ~~*BCD*~~ *CRD credit institution.* It does not specify which *investment service or activity*. In the *FCA's* view, it is likely to be the reception and transmission of orders in relation to one or more *financial instruments, execution of orders on behalf of clients* or *dealing on own account*.

…

Q16. What is dealing on own account? (A3 and article 4.1(6))

…

In our view, where you are a firm which meets all of the conditions of article ~~5.2 of the recast CAD~~ 29(2) of *CRD* (see Q61), you will not be dealing on own account.

…

Q.24 What is a multilateral trading facility?...

The concept of a multilateral trading facility (MTF) draws on standards, issued by CESR (now known as ESMA), on which the FSA's previous alternative trading system regime was based. …

…

Q26. We are an investment firm – can we apply for passporting rights that include ancillary services?

…

You will not be able to apply for passporting rights in respect of ancillary services only. In our view, this does not restrict the ability of credit institutions to exercise passporting rights under the ~~*BCD*~~ *CRD* which correspond to ancillary services under *MiFID* (for example, the activity of safekeeping and administration of securities in Annex 1 paragraph 12 of the ~~*BCD*~~ *CRD*).

…

13.5 Exemptions from MiFID

…

Q49. Which firms might fall within this exemption?

The exemption applies to persons who meet all the following conditions:

- …
- credit institutions authorised under the ~~BCD~~ *CRD*;
- branches of third country investment firms or credit institutions complying with rules considered by the FCA to be at least as stringent as those laid down in MiFID, ~~the BCD~~ or the ~~CAD~~ *CRD* and the *EU CRR*;
- …

…

Q53. What is the practical effect of exercising the optional exemption for those firms falling within its scope?

You are not a firm to which MiFID applies and so are not a *MiFID investment firm* for the purposes of the Handbook. As such you are not subject to the requirements of the ~~recast CAD~~ *CRD* as transposed in the Handbook and the *EU CRR* and cannot exercise passporting rights.

…

13.6 ~~The recast Capital Adequacy Directive~~ CRD IV

Q54. What is the purpose of this section?

This section is designed to help UK investment firms consider:

- whether the *CRD* and the *EU CRR* (which allow the recast CAD to continue to apply to certain firms), as implemented in the UK, applies to them;
- ~~if so, which category of firm they are for the purposes of the FCA's base capital resources requirements made under the recast CAD, for example whether they are a *BIPRU 50K firm*, a *BIPRU 125k firm*, a *BIPRU IFPRU 730K firm*, a *UCITS investment firm*, an *exempt CAD firm* or a firm falling within the transitional regime for certain commodity brokers and dealers; and~~
- if the *CRD* applies, which category of firm they are for the purposes of the

FCA's base own funds requirements, for example whether they are an *IFPRU 50K firm*, an *IFPRU 125K firm* or an *IFPRU 730K firm*, an *exempt CAD firm* or a firm falling within the transitional regime for certain commodity brokers and dealers;

- if the *CRD* allows the recast CAD to apply for certain firms, which category of firm they are for the purposes of the FCA's base capital resources requirements, for example whether they are a *BIPRU firm* or a *BIPRU firm* falling within the transitional regime for certain commodity brokers and dealers;
- in respect of *collective portfolio management investment firms*, which category of firm they are for the purpose of the FCA's financial resources requirements, for example whether they are an *IFPRU investment firm* or *BIPRU firm*; and
- how the ~~recast CAD~~ *CRD* and the *EU CRR* otherwise ~~impacts~~ impact on their business, by explaining when a firm will be a *limited licence firm*, a *limited activity firm* or a *full-scope ~~BIPRU~~ IFPRU investment firm*.

This section is intended to provide a general summary of these issues and not a detailed or exhaustive explanation of the ~~recast CAD~~ *CRD* and the *EU CRR* as implemented in the UK.

Q55. Are we subject to the ~~recast CAD~~ CRD and the EU CRR?

Only investment firms subject to the requirements of MiFID are subject to the requirements of the ~~recast CAD~~ *CRD* and the *EU CRR* (which allow the recast CAD to apply for certain firms). This includes ~~*UCITS investment firms*~~ *collective portfolio management investment firms* (see Q6 and Q63).

Despite being subject to the requirements of MiFID, broadly speaking, if you are one of the following investment firms, ~~our implementation of~~ the ~~recast CAD~~ *CRD* and the *EU CRR* will only apply to you in a limited way:

- a firm whose main business consists exclusively of providing *investment services or activities* in relation to commodity derivatives or C10 derivatives, or both, and to whom the ISD would not have applied. If you fall into this category, you will fall within a transitional regime under which you will not be subject to the capital requirements of the ~~recast CAD~~ *EU CRR* or *CRD* but will be subject to other requirements (see Q57); or
- a firm that is only authorised to provide investment advice or receive and transmit orders, or both, without holding client money or securities and does not provide the ancillary service (1) referred to in Section B of Annex I to MiFID, which is safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management. If you fall into this category, you will be an *exempt CAD firm* and only subject to base capital requirements under the ~~recast CAD~~ *CRD* (see Q58 and Q59 below)~~.~~ ; or
- a firm that:
  - does not provide the *ancillary service* of safekeeping and

administration of *financial instruments* for the account of *clients*, including custodianship and related services such as cash/collateral management, and is not authorised to do so;

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

If you fall into this category, you may be a *BIPRU firm* and as such would not be subject to the capital requirements of the *EU CRR* or *CRD* but would instead be subject to other requirements (see Q58A).

If you are an investment firm to which an exemption in either article 2 or article 3 MiFID applies (see *PERG* 13.5 and *PERG* 13 Annex 1 flow chart 2), you are not subject to the ~~recast CAD~~ *CRD* and the *EU CRR*. However, if you potentially fall within the article 3 exemption, but decide to opt into MiFID regulation, for instance to acquire passporting rights (see Q52), you are subject to the ~~recast CAD~~ *CRD* and the *EU CRR*. If you do so, you are an *exempt CAD firm* (see Q58 and Q59).

There is also a special exemption under the ~~recast CAD~~ *EU CRR* for locals that do not fall within the exemption for local firms under MiFID (see Q47). However, we do not think that UK regulated firms that were subject to the regulatory regime for locals prior to MiFID implementation are likely to fall within the exemption under the ~~recast CAD~~ *EU CRR*. This is because they are likely to fall within article 2.1(l) MiFID.

Q56. We are an investment firm to which MiFID applies and do not fall into one of the limited categories described above. How does the ~~recast CAD~~ CRD and the EU CRR apply to us?

You are ~~a *CAD*~~ an *IFPRU investment firm*. Broadly speaking, you should go through an initial two-stage process in considering how the ~~recast CAD~~ *CRD* and the *EU CRR* will apply to you:

- consider what kind of base ~~capital~~ own funds requirements apply to you; and
- consider whether you are a *limited licence firm*, a *limited activity firm* or a

full-scope ~~BIPRU~~ IFPRU investment firm to determine how other capital requirements of the ~~recast CAD~~ *CRD* and the *EU CRR* apply to you.

You are either ~~a *BIPRU*~~ an *IFPRU 50K firm* (subject to a base ~~capital~~ own funds requirement of euro 50,000) (see Q60), ~~a *BIPRU*~~ an *IFPRU 125K firm* (subject to a base ~~capital~~ own funds requirement of euro 125,000) (see Q61), ~~a *BIPRU*~~ an *IFPRU 730K firm* (subject to a base ~~capital~~ own funds requirement of euro 730,000) (see Q62) or a ~~*UCITS investment firm*~~ *collective portfolio management investment firm*(see Q63). Your base ~~capital~~ own funds requirement depends essentially on the scope of your permission and any limitations or requirements placed upon it.

If you are ~~a *CAD*~~ an *IFPRU investment firm*, in essence the scope of your *permission* and any limitations or requirements placed upon it also dictate whether you are a *limited licence firm*, a *limited activity firm* or a *full-scope ~~BIPRU~~ IFPRU investment firm*. Broadly speaking, the benefit of being a *limited licence firm* or a *limited activity firm* (see Q64 and Q65) is that you are exempt from:

- minimum own funds requirements to hold capital to cover operational risk, although you are subject to the requirements to hold own funds calculated by reference to credit risk, market risk and fixed overheads (see ~~*GENPRU* 2.1.45R~~ articles 95 and 96 of the *EU CRR*);
- the requirement to calculate a leverage ratio (see article 6(5) of the *EU CRR*).

A *limited licence firm* is further exempt from the requirements on capital buffers (see the last paragraph of article 128 of *CRD*) and liquidity requirements in Part Six of the *EU CRR* (see article 6(4) of the *EU CRR*).

A *limited activity firm* is exempt from the liquidity requirements in Part Six of the *EU CRR* unless it is both an *ILAS BIPRU firm* and a *significant IFPRU firm* (see article 6(4) of the *EU CRR*).

An *IFPRU investment firm* includes a *collective portfolio management investment firm* (see Q63).

Other derogations may apply (see *IFPRU*).

If you are a *full-scope ~~BIPRU~~ IFPRU investment firm,* you are subject to the full range of ~~recast CAD risk~~ requirements in *CRD* and the *EU CRR*, unless there are specific derogations that apply (see Q66). ~~See, generally, *GENPRU* 2.1.45R in relation to the calculation of capital resources requirements for *limited licence firms*, *limited activity firms* and *full scope BIPRU investment firms.*~~

The question of whether you are a *limited licence firm* or a *limited activity firm* may also be relevant to capital treatment at a group level. This is outside the scope of this guidance which focuses only on the application of the ~~recast CAD~~ *CRD* and the *EU CRR* at the level of the individual firm~~, although you may find the decision tree at *BIPRU 8* Annex 5R helpful in considering these issues~~.

Q57. How do we know if we are a firm to which the transitional regime for certain commodity brokers and dealers applies?

You are a firm to which the transitional regime applies if:

- you are a firm to which the Directive 93/22/ECC (ISD) did not or would not have applied on 31 December 2006; and
- your main business consists exclusively of the provision of investment services or activities in relation to financial instruments set out in C5, 6, 7, 9 and 10 of Annex 1 of MiFID. See article 498 of the *EU CRR* or *BIPRU* TP 15, whichever is applicable.

This exemption is only relevant if you are a firm to which MiFID applies, that is, you do not fall within the exemptions in articles 2 or 3 of MiFID (see Q55). Although you are exempt from the capital requirements of the ~~recast CAD~~ *CRD* and the *EU CRR* (or the recast CAD as applicable to *BIPRU firms*), you are subject to risk management and other systems and control requirements in the form of *SYSC* (see *BIPRU* TP 15.11G or *IFPRU* 1.1.1G). You may also be subject to the requirements of chapter 3 of *IPRU(INV)*.

If you fall into this category, you are either an *exempt BIPRU commodities firm* (see *BIPRU* TP 15 if you are a *BIPRU firm*) or an *exempt IFPRU commodities firm* (see article 498 of the *EU CRR* if you are an *IFPRU investment firm*).

In our view, your main business for the purposes of this exemption is the main business to which MiFID applies.

Q58. How do we know whether we are an exempt CAD firm and what does this mean in practice?

…

- are not authorised to hold client money or securities in relation to MiFID business;
- do not have a *safeguarding and administering investments* (without arranging) permission in relation to MiFID financial instruments; and

…

Q58A. How do we know whether we are a BIPRU firm and what does that mean in practice?

This category may be relevant to you if you have permission to *execute orders on behalf of clients* and/or carry out *portfolio management* in relation to MiFID financial instruments. In summary, a *BIPRU firm*:

- does not provide the *ancillary service* of safekeeping and administration of *financial instruments* for the account of *clients*, including custodianship and related services such as cash/collateral management, and is not authorised to do so;
- is not authorised to provide the *investment* services of dealing in any *financial instruments* for its own account, underwriting issues of *financial instruments* on a firm commitment basis, placing *financial instruments* without a firm commitment basis and operating a *multilateral trading facility;*
- is authorised to provide one or more of the *investment services* of

executing investor's orders for *financial instruments*, or management of individual portfolios of investments in *financial instruments*;

- may be authorised to provide one or more of the *investments services* of the reception and transmission of investors' orders for *financial instruments*, or investment advice; and
- does not hold clients' money and/or securities and is not authorised to do so (it should have a *limitation* or *requirement* prohibiting the holding of client money and its permission should not include *safeguarding and administering investments*).

Where you hold client money for purposes unconnected with providing investment advice or receiving and transmitting orders in relation to MiFID financial instruments, in our view you can still be a *BIPRU firm*. This might include, for instance, when you hold money or securities for clients to whom you only provide services that do not constitute *investment services* and therefore fall outside the scope of MiFID.

There is a discretion in article 95(2) of the *EU CRR* which the FCA has exercised to keep *BIPRU firms* on the recast CAD and Banking Consolidation Directive, as they stood under national law (ie, *BIPRU* and *GENPRU*) on 31 December 2013. Consequently, if you are a *BIPRU firm*, you are subject to base capital resources requirement of euros 50,000 (see *GENPRU* 2.1.48R) and, for the calculation of the variable capital requirement for a *BIPRU firm*, see *GENPRU* 2.1.45R.

A *collective portfolio management investment firm* may also include a *BIPRU firm* (see Q63).

Q59. If we are subject to the Insurance Mediation Directive, does this make any difference to the requirements which apply?

Yes. If the only *investment services* that you are authorised to provide are investment advice or receiving and transmitting orders or both, without holding client money or securities, you can still be an *exempt CAD firm*. However, you are subject to different base capital requirements. Broadly speaking, article ~~8 recast CAD~~ 31(2) of the *CRD* requires you to have professional indemnity insurance of euro 1,000,000 for any one claim and euro 1,500,000 in aggregate (this is the *IMD* requirement), plus coverage in one of the following forms:

- base capital of euro 25,000; or
- professional indemnity insurance of euro 500,000 for any one claim and euro 750,000 in aggregate; or
- a combination of base capital and professional indemnity insurance resulting in an equivalent level of coverage to the options above.

For the rules transposing these requirements and supporting guidance, see the final paragraph of the answer to Q58.

As mentioned in Q58, when you hold client money or securities for purposes unconnected with providing investment advice or receiving and transmitting orders in relation to MiFID financial instruments, in our view you can still be an *exempt CAD firm*. This might include, for instance, when you hold client money

for those to whom you provide insurance mediation services.

You should also bear in mind that if you are a firm to whom article 2 or article 3 MiFID applies (see *PERG* 13.5), you are not subject to the ~~recast CAD~~ *CRD*.

Q60. Are we ~~a BIPRU~~ an IFPRU 50K firm?

This category may be relevant to you if you are not an *exempt CAD firm* or a *BIPRU firm* and have one or more of the following permissions in relation to MiFID financial instruments:

- *arranging (bringing about) deals in investments*;
- *dealing investments as agent*; or
- *managing investments*,

provided that you are not authorised to:

- hold client money or securities in relation to MiFID business or *safeguard and administer (without arranging)* MiFID financial investments; or
- deal on own account in, or underwrite on a firm commitment basis, issues of MiFID financial instruments (if you have a *dealing in investments as principal* permission in relation to MiFID financial instruments, you need a limitation or requirement on your permission to this effect).

Q61. Are we ~~a BIPRU~~ an IFPRU 125K firm?

This category may be relevant to you if you would have been ~~a *BIPRU*~~ an *IFPRU 50K firm* but for the fact that you are entitled to hold client money or securities in relation to MiFID business or hold MiFID financial instruments.

You may also be ~~a *BIPRU*~~ an *IFPRU 125K firm* if you meet the conditions of article ~~5.2 recast CAD~~ 29(2) of the *CRD*. Broadly speaking, this applies to investment firms which execute investors' orders and hold financial instruments for their own account provided that:

- such positions arise only as a result of the firm's failure to match investors' orders precisely;
- the total market value of all such positions is subject to a ceiling of 15% of the firm's initial capital;
- the firm meets the requirements laid down in articles ~~18, 20 and 28 recast CAD~~ 92 to 95 of the *EU CRR* and Part Four of the *EU CRR* (including own funds requirements in respect of position risk, settlement and counterparty credit risk and large exposures); and
- such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.

If you meet the conditions of article ~~5.2 recast CAD~~ 29(2) of the *CRD* and are not authorised to hold client money or securities in relation to MiFID business or *safeguard and administer (without arranging)* MiFID financial instruments, you will be ~~a *BIPRU*~~ an *IFPRU 50K firm*.

Q62. Are we ~~a BIPRU~~ an IFPRU 730K firm?

If you are ~~a *CAD*~~ an *IFPRU investment firm* and ~~you~~ are neither ~~a *BIPRU*~~ an *IFPRU 50K firm* nor ~~a *BIPRU*~~ an *IFPRU 125K firm* nor a ~~*UCITS investment firm*~~ *collective portfolio management investment firm* (see Q63), you will be ~~a *BIPRU*~~ an *IFPRU 730K firm*.

Q63. We are a ~~UCITS investment firm~~ collective portfolio management investment firm. How will the ~~recast CAD~~ the *CRD* and the *EU CRR* apply to us? Does the recast CAD continue to apply to us?

~~UCTIS investment firms~~ *Collective portfolio management investment firms* (*AIFMs* that are authorised to perform the additional services of portfolio management, investment advice, safeguarding and administering of units and reception and transmission of orders in relation to financial instruments and *UCITS management companies* that are authorised to perform the additional services of portfolio management, investment advice and safeguarding and administration of units) are subject to the ~~recast CAD~~ *CRD* and the *EU CRR* in parallel with the capital requirements in *AIFMD* and/or the *UCITS Directive* (as applicable). This category of *collective portfolio management investment firms* are also *IFPRU investment firms*. See *IFPRU* and *IPRU(INV)* 11.

As an exception to the above, *collective portfolio management investment firms* which are also a *BIPRU firm* (see Q58A) are subject to the recast *CAD* in parallel with the capital requirements in *AIFMD* and/or the *UCITS Directive* (as applicable). See *GENPRU*, *BIPRU* and *IPRU(INV)* 11.

If you are a ~~*UCITS investment firm*~~ *collective portfolio management investment firm*, your minimum base ~~capital~~ own funds requirement is contained in *IPRU(INV)* 11.3.1R. ~~*GENPRU* 2.1.48R(which refers to *UPRU* 2.1.2R(1)) and in summary is:~~

- ~~a minimum base capital requirement of euro 125,000; and~~
- ~~an additional amount of own funds equal to 0.02% of the amount by which the value of the portfolios under management exceeds euro 250,000,000 (subject to an overall maximum base capital requirement of euro 10,000,000).~~

In our view, a ~~*UCITS investment firm*~~ *collective portfolio management investment firm* should be a *limited licence firm*, as *AIFMD* and/or the *UCITS Directive* (as applicable) prevents it from dealing on own account outside its scheme management activities. As a result, where a ~~*UCITS investment firm*~~ *collective portfolio management investment firm* has a *dealing in investments as principal* permission, this ~~should be limited to box management activities where MiFID financial instruments are concerned. In our view, a *UCITS investment firm* which has this limitation and complies with it~~ will only be required as a result of its individual portfolio management activity and it will not be dealing on own account for the purposes of the MiFID and the *CRD* and the *EU CRR* (or the recast CAD as applicable to *BIPRU firms*).

Q64. Are we a limited licence firm?

A *limited licence firm* is one that is not authorised to:

- deal on own account (see Q16); and
- underwrite and/or place financial instruments on a firm commitment basis (see Q22).

You can be a *limited licence firm* if you are either:

• ~~a *BIPRU*~~ an *IFPRU 50K firm* (see Q60); or

• ~~a *BIPRU*~~ an *IFPRU 125K firm* (see Q61).

Generally, you cannot be a *limited licence firm* if you are ~~a *BIPRU*~~ an *IFPRU 730K firm*. However, you may be a *limited licence firm* if you operate a multilateral trading facility (and therefore are ~~a *BIPRU*~~ an *IFPRU 730K firm*) and do not have a *dealing in investments as principal* permission enabling you to deal on own account or to underwrite or place financial instruments on a firm commitment basis.

For calculation of the variable capital requirement for ~~a *BIPRU*~~ an *IFPRU limited licence firm* (including a ~~*UCITS investment firm*~~ *collective portfolio management investment firm*) see ~~*GENPRU* 2.1.45R~~ article 95 of the *EU CRR*.

Q65. Are we a limited activity firm?

A *limited activity firm* is ~~a *BIPRU*~~ an *IFPRU 730K firm* that deals on own account only for the purpose of:

- fulfilling or executing a client order; or
- gaining entrance to a clearing and settlement system or a recognised exchange when acting in an agency capacity or executing a client order.

If you wish to be a *limited activity firm*, you should apply for a limitation on your *dealing in investments as principal* permission reflecting these conditions.

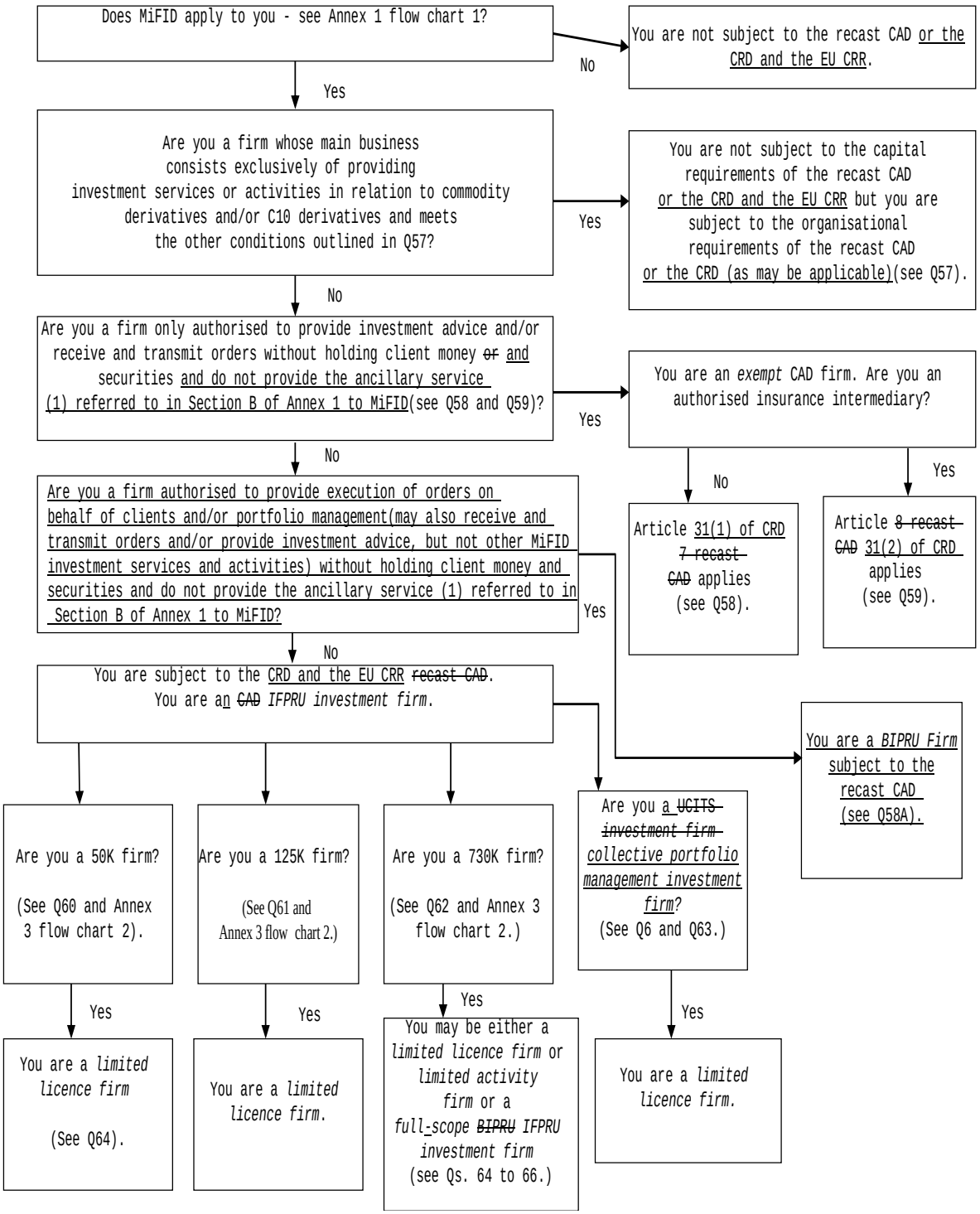
There is also a category for certain firms which, among other things, do not hold client money or securities and have no external customers. ~~We do not think that any UK regulated firms are likely to fall within this third category of *limited activity firm.*~~

Q66. What is the effect of being ~~a CAD~~ an IFPRU investment firm subject to the CRD and the EU CRR which is neither a limited licence firm nor a limited activity firm?

You will be a *full-scope ~~BIPRU~~ IFPRU investment firm*, subject to the full range of ~~recast CAD~~ *CRD* and *EU CRR* ~~risk~~ requirements, unless there are specific derogations that apply.

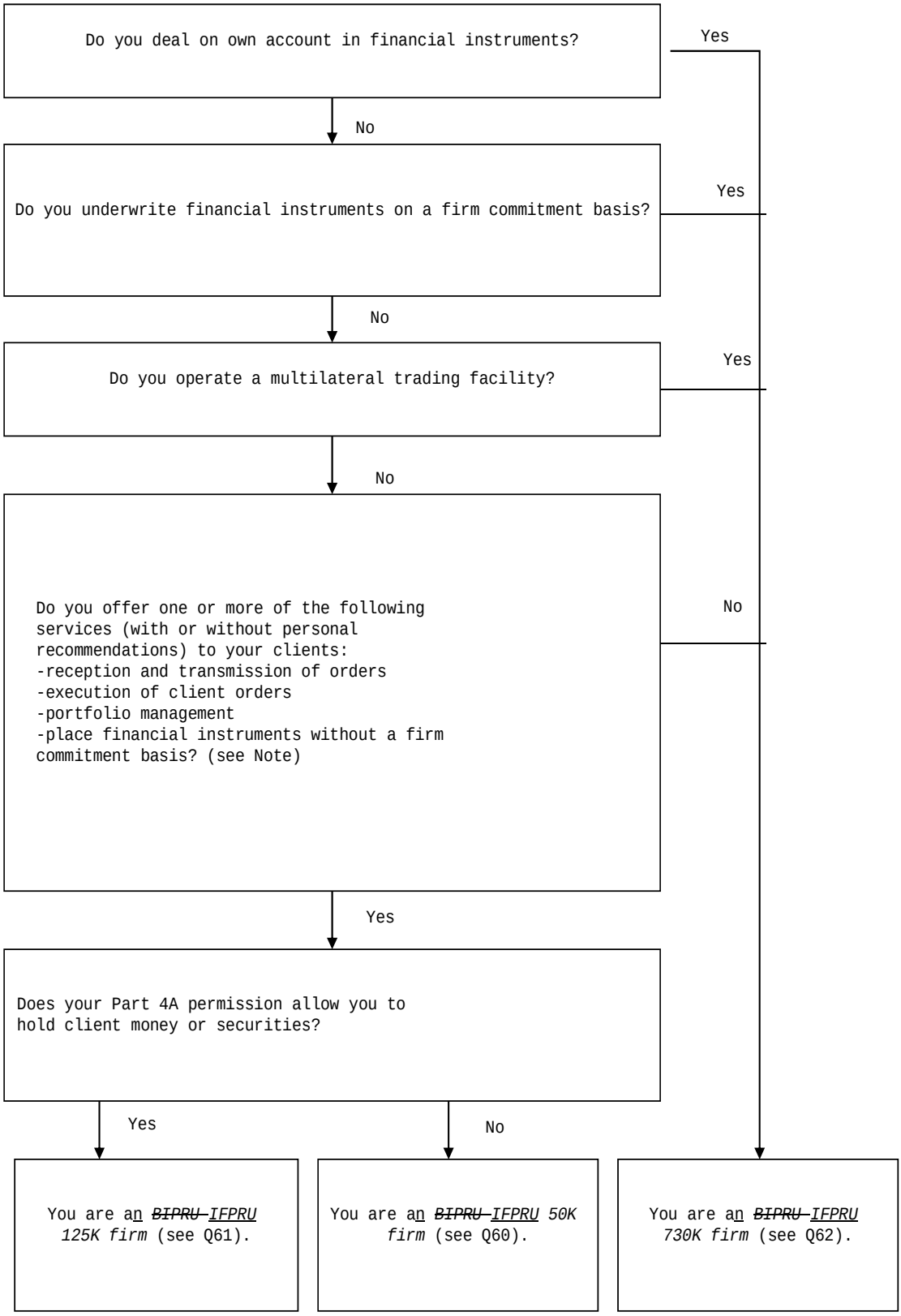
13 Annex 1 In flow chart 1 substitute ‘recast CAD’ for ‘recast *CAD* or the *CRD* and the *EU CRR*’. The amended text is not shown.

13 Annex 3 **Flow chart 1** – Are you subject to the CRD and EU CRR (or allowed to be subject to the recast CAD)?



13 Annex 3 Flow chart 2 – ~~CAD~~ *IFPRU* investment firms (excluding ~~UCITS~~ collective portfolio management investment firms)

Are we an ~~*BIPRU*~~ *IFPRU 50K firm*, an ~~*BIPRU*~~ *IFPRU 125K firm* or an ~~*BIPRU*~~ *IFPRU 730K firm*?



Note

It is possible, in principle, that ~~a CAD~~ an *IFPRU investment firm* may only provide the *investment service* of investment advice and hold client funds or securities, in which case the starting point is generally that it is ~~a~~

~~*BIPRU*~~ an *IFPRU 730K firm*. In practice, if such a firm wishes to benefit from a lower capital treatment (for example euro 125,000), it may wish to add an *arranging (bringing about) deals in investments* element to its permission to enable it to receive and transmit orders in relation to MiFID instruments.

15 Guidance on the scope of the Payment Services Regulations 2009

…

15.2 General

Q1. Why does it matter whether or not we fall within the scope of the PSD regulations?

Broadly, when you provide payment services, by way of business, in the UK and these services do not fall within an exclusion or exemption, you must be:

…

(d) a credit institution (either one with a Part 4A permission to accept deposits or an EEA credit institution where it is exercising passport rights under paragraph 4 of Annex 1 to the ~~Banking Consolidation directive~~ *CRD*); or

…

Q7. We are a credit institution. Do the PSD regulations apply to us?

…

An EEA credit institution wishing to provide payment services through a UK branch must exercise its passport rights under paragraph 4 of the Annex to the ~~Banking Consolidation directive (BCD)~~ *CRD*. Similarly, a UK credit institution which wishes to provide payment services in other Member States may exercise its ~~BCD~~ *CRD* passport rights to do so.

Q10. We are a "financial institution" under the ~~Banking Consolidation Directive (BCD)~~ CRD. How does PSD apply to us?

…

A "financial institution" for the purposes of the PSD regulations, as for the ~~BCD~~ CRD, is an undertaking other than a credit institution, the principal activity of which is to acquire holdings or to carry on one or more of the activities listed in points 2 to 12 of Annex 1 to the ~~BCD~~ CRD (see *SUP* App 3.9.4G*).* It may include, for example, an authorised person under the *Act* which is neither a credit institution nor an e-money issuer.

…

15.6 Territorial Scope

Q45. We are a UK payment institution - when will we need to make a passport notification?

…

As regards the provision of payment services in other EEA States and passport notification, in our view the Commission Interpretative Communication (Freedom to provide services and the interest of the general good in the Second Banking Directive (97C 209/04)) provides a useful starting point, in particular because payment services form part of the ~~*BCD*~~ CRD passport. …

…

16 Scope of the Alternative Investment Fund Managers Directive

…

16.2 G What types of funds and businesses are caught?

…

Question 2.58: Is a bank or insurer caught?

An undertaking authorised under the *Insurance Directives* or the ~~*Banking Consolidative Directive*~~ *CRD* will not be an *AIF*.

CAPITAL REQUIREMENTS DIRECTIVE IV (GOVERNANCE AND REMUNERATION) INSTRUMENT 2013

Powers exercised by the Financial Conduct Authority

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137H (General rules about remuneration);
(3) section 137T (General supplementary powers);
(4) section 138C (Evidential provisions); and
(5) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force as follows:

(1) Annex A and Part 1 of Annex B come into force on 1 January 2014;
(2) Part 2 of Annex B comes into force on 1 July 2014.

Amendments to the FCA's Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Senior Management Arrangements, Systems and Controls sourcebook (SYSC) is amended in accordance with Annex B to this instrument.

Notes

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

Citation

G. This instrument may be cited as the Capital Requirements Directive IV (Governance and Remuneration) Instrument 2013.

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

BIPRU Remuneration Code	*SYSC* 19C (BIPRU Remuneration Code).
BIPRU Remuneration Code staff	for a *BIPRU firm* and a *third country BIPRU firm*, has the meaning given in *SYSC* 19C.3.4R.
BIPRU remuneration principles proportionality rule	(in *SYSC* 19C) has the meaning given in *SYSC* 19C.3.3R.
CRR firm	(for the purposes of *SYSC*) a *UK bank, building society* and an *investment firm* that is subject to the *EU CRR*.

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

Part 1: Comes into force on 1 January 2014

1 Annex 1 Detailed application of SYSC

…

Part 3	**Tables summarising the application of the common platform requirements to different types of firm**

…

Provision SYSC 4	COLUMN A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF	COLUMN B Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
SYSC 4.1.1R [FCA] [PRA]	Rule ~~but *SYSC* 4.1.1R(2) applies only to a *BIPRU firm*~~	Rule ~~but *SYSC* 4.1.1R(2) applies only to a *BIPRU firm*~~	Rule ~~but *SYSC* 4.1.1R(2) applies only to a *BIPRU firm*~~	Rule ~~but *SYSC* 4.1.1R(2) applies only to a *third country BIPRU firm*~~
…				
SYSC 4.1.1CR [FCA]	Rule for a *BIPRU firm*	Rule for a *BIPRU firm* that is a *UCITS investment firm*	Not applicable	Not applicable
…				

SYSC 4.1.2AAR [FCA]	Rule for a *BIPRU firm*	Rule for a *BIPRU firm* that is a *UCITS investment firm*	Not applicable	Not applicable
…				
SYSC 4.1.3R [FCA] [PRA]	~~Rule applies only to a *BIPRU firm*~~ [deleted]	~~Rule for a *UCITS investment firm; otherwise not applicable*~~ [deleted]	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]
…				
SYSC 4.3A.-1R [FCA]	Rule applicable to *CRR firms*	Rule for a *CRR* firm that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.1R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.2R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.3R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.4R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.5R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
…				
SYSC 4.3A.7R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC	Rule applicable	Rule for a *CRR*	Not applicable	Not

4.3A.8R [FCA] [PRA]	to *CRR firms*	*firm* that is a *UCITS investment firm*		applicable
SYSC 4.3A.9R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.10R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.11R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
…				

…

Provision SYSC 7	COLUMN A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF	COLUMN B Application to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
…				
SYSC 7.1.7BBG [FCA]	Guidance applies only to a *BIPRU firm*	Guidance applies only to a *BIPRU firm* that is a *UCITS investment firm*	Not applicable	Not applicable
…				
SYSC 7.1.8G ~~(1)(2)~~ [FCA] [PRA]	~~(1) Guidance applies to a *BIPRU firm*~~ (2) Guidance [deleted]	~~(1) Guidance for a *UCITS investment firm*; otherwise not applicable~~ (2) Guidance	~~Not applicable~~ [deleted]	~~(1) Not applicable~~ ~~(2) Guidance~~ [deleted]

		[deleted]		
…				
SYSC 7.1.16CR [FCA]	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.17R [FCA] [PRA]	Rule applies to a *CRR firm*	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.18R [FCA] [PRA]	Rule applies to a *CRR firm*	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.18AG [FCA]	Guidance applies to a *CRR* firm	Guidance for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.18BR [FCA]	Rule applies to a *CRR* firm	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.19R [FCA] [PRA]	Rule applies to a *CRR firm*	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.20R [FCA] [PRA]	Rule applies to a *CRR firm*	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable
SYSC 7.1.21R [FCA] [PRA]	Rule applies to a *CRR firm*	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise	Not applicable	Not applicable

		not applicable		
SYSC 7.1.22R [FCA] [PRA]	Rule applies to a *CRR firm*	Rule for a *UCITS investment firm* that is a *CRR firm*, otherwise not applicable	Not applicable	Not applicable

…

4.1 General requirements

…

4.1.1 R …

(2) ~~A *BIPRU firm* and a *third country BIPRU firm* must comply with the *Remuneration Code.*~~ [deleted]

[**Note**: ~~article 22(1) of the *Banking Consolidation Directive*~~ article 74(1) of *CRD*, article 13(5) second paragraph of *MiFID*, article 12(1)(a) of the *UCITS Directive*, and article 18(1) of *AIFMD*]

…

4.1.1C R A *BIPRU firm* and a *third country BIPRU firm* must comply with the *BIPRU Remuneration Code*.

4.1.2 R For a *common platform firm*, the arrangements, processes and mechanisms referred to in *SYSC* 4.1.1R must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm's* activities and must take into account the specific technical criteria described in *SYSC* 4.1.7R, *SYSC* 5.1.7R, *SYSC* 7 and (for a ~~*BIPRU firm* and a *third country BIPRU firm*~~ *firm* to which *SYSC* 19A applies) *SYSC* 19A.

[**Note**: ~~article 22(2) of the *Banking Consolidation Directive*~~ article 74(2) of *CRD*]

…

4.1.2AA R Where *SYSC* 4.1.2R applies to a *BIPRU firm*, it must take into account the specific technical criteria described in *SYSC* 19C.

…

Mechanisms and procedures for a ~~BIPRU~~ firm

4.1.3 R ~~A *BIPRU firm* must ensure that its internal control mechanisms and administrative and accounting procedures permit the verification of its compliance with *rules* adopted in accordance with the *Capital Adequacy*~~

~~*Directive* at all times.~~ [deleted]

~~[**Note**: article 35(1) final sentence of the *Capital Adequacy Directive*]~~

…

4.2 Persons who effectively direct the business

…

4.2.2 R A *common platform firm*, a *management company*, a *full-scope UK AIFM* and the *UK* branch of a *non-EEA bank* must ensure that its management is undertaken by at least two persons meeting the requirements laid down in *SYSC* 4.2.1R.

[**Note**: article 9(4) first paragraph of *MiFID*, article 7(1)(b) of the *UCITS Directive*, article 8(1)(c) of *AIFMD* and ~~11(1) first paragraph of the *Banking Consolidation Directive*~~ article 13(1) of *CRD*]

…

Insert the following new section after *SYSC* 4.3. The text is not underlined.

4.3A CRR firms

Management body

4.3A.-1 R In *SYSC* 4.3A.6R and *SYSC* 4.3A.8R a '*CRR firm* that is *significant*' means a *significant IFPRU firm.*

4.3A.1 R A *CRR firm* must ensure that the *management body* defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the *firm*, including the segregation of duties in the organisation and the prevention of conflicts of interest. The *firm* must ensure that the *management body*:

(1) has overall responsibility for the *firm*;

(2) approves and oversees implementation of the *firm's* strategic objectives, risk strategy and internal governance;

(3) ensures the integrity of the *firm's* accounting and financial reporting systems, including financial and operational controls and compliance with the *regulatory system*;

(4) oversees the process of disclosure and communications;

(5) has responsibility for providing effective oversight of *senior management*; and

(6) monitors and periodically assesses the effectiveness of the *firm's* governance arrangements and takes appropriate steps to address any deficiencies.

[**Note**: article 88(1) of *CRD*]

4.3A.2 R A *CRR firm* must ensure that the chairman of the *firm's management body* does not exercise simultaneously the *chief executive function* within the same *firm*, unless justified by the *firm* and authorised by the *appropriate regulator*.

[**Note**: article 88(1)(e) of *CRD*]

4.3A.3 R A *CRR firm* must ensure that the members of the *management body* of the *firm*:

(1) are of sufficiently good repute;

(2) possess sufficient knowledge, skills and experience to perform their duties;

(3) possess adequate collective knowledge, skills and experience to understand the *firm's* activities, including the main risks;

(4) reflect an adequately broad range of experiences;

(5) commit sufficient time to perform their functions in the *firm*; and

(6) act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of *senior management* where necessary and to effectively oversee and monitor management decision-making.

[**Note**: article 91(1)-(2) and (7)-(8) of *CRD*]

4.3A.4 R A *CRR firm* must devote adequate human and financial resources to the induction and training of members of the *management body*.

[**Note**: article 91(9) of *CRD*]

4.3A.5 R A *CRR firm* must ensure that the members of the *management body* of the *firm* do not hold more directorships than is appropriate, taking into account the individual circumstances and the nature, scale and complexity of the *firm's* activities.

[**Note**: article 91(3) of *CRD*]

4.3A.6 [to follow]

4.3A.7 R For the purposes of *SYSC* 4.3A.5R and *SYSC* 4.3A.6R:

(1) directorships in organisations which do not pursue predominantly commercial objectives shall not count; and

(2) the following shall count as a single directorship:

(a) executive or non-executive directorships held within the same *group*; or

(b) executive or non-executive directorships held within:

(i) *firms* that are members of the same institutional protection scheme provided that the conditions set out in article 113(7) of the *CRR* are fulfilled; or

(ii) *undertakings* (including non-financial entities) in which the *firm* holds a *qualifying holding*.

[**Note**: article 91(4) and (5) of *CRD*]

Nomination Committee

4.3A.8 R A *CRR firm* that is *significant* must:

(1) establish a nomination committee composed of members of the *management body* who do not perform any executive function in the *firm*;

(2) ensure that the nomination committee is able to use any forms of resources the nomination committee deems appropriate, including external advice; and

(3) ensure that the nomination committee receives appropriate funding.

[**Note**: article 88(2) of *CRD*]

4.3A.9 R A *CRR firm* that has a nomination committee must ensure that the nomination committee:

(1) engage a broad set of qualities and competences when recruiting members to the *management body* and puts in place a policy promoting diversity on the *management body*;

(2) identifies and recommends for approval, by the *management body* or by general meeting, candidates to fill *management body* vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the *management body*;

(3) prepares a description of the roles and capabilities for a particular appointment, and assesses the time commitment required;

(4) decides on a target for the representation of the underrepresented gender in the *management body* and prepares a policy on how to

increase the underrepresented gender in the *management body* to meet that target;

(5) periodically, and at least annually, assesses the structure, size, composition and performance of the *management body* and makes recommendations to the *management body* with regard to any changes;

(6) periodically, and at least annually, assesses the knowledge, skills and experience of individual members of the *management body* and of the *management body* collectively, and reports this to the *management body*;

(7) periodically reviews the policy of the *management body* for selection and appointment of *senior management* and makes recommendations to the *management body*; and

(8) in performing its duties, and to the extent possible, on an ongoing basis, takes account of the need to ensure that the *management body's* decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the *firm* as a whole.

[**Note**: article 88(2) and article 91(10) of *CRD*]

4.3A.10 R A *CRR firm* that does not have a nomination committee must engage a broad set of qualities and competences when recruiting members to the *management body* and for that purpose a *CRR firm* that does not have a nomination committee must put in place a policy promoting diversity on the *management body*.

[**Note**: article 91(10) of *CRD*]

Website

4.3A.11 R A *CRR firm* that maintains a website must explain on the website how it complies with the requirements of *SYSC* 4.3A.1R to *SYSC* 4.3A.3R and *SYSC* 4.3A.4R to *SYSC* 4.3A.11R.

[**Note**: article 96 of *CRD*]

Amend the following as shown.

7.1 Risk control

…

7.1.4 R The ~~*senior personnel*~~ *management body* of a *common platform firm* must approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the *firm* is or might be exposed

to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.

[**Note**: ~~annex V paragraph 2 of the *Banking Consolidation Directive*~~ article 76(1) of *CRD*]

…

7.1.7B G In setting the method of determining the *remuneration* of *employees* involved in the risk management function, ~~*BIPRU firms*~~ *firms* that *SYSC* 19A applies to will also need to comply with the *Remuneration Code*.

…

7.1.7BB G In setting the method of determining the *remuneration* of *employees* involved in the risk management function, *BIPRU firms* will also need to comply with the *BIPRU Remuneration Code*.

…

7.1.8 G (1) ~~*SYSC* 4.1.3R requires a *BIPRU firm* to ensure that its internal control mechanisms and administrative and accounting procedures permit the verification of its compliance with *rules* adopted in accordance with the *Capital Adequacy Directive* at all times. In complying with this obligation, a *BIPRU firm* should document the organisation and responsibilities of its risk management function and it should document its risk management framework setting out how the risks in the business are identified, measured, monitored and controlled.~~ [deleted]

…

~~Credit and counterparty risk~~

7.1.9 R …

~~[**Note**: annex V paragraph 3 of the *Banking Consolidation Directive*]~~

7.1.10 R …

~~[**Note**: annex V paragraph 4 of the *Banking Consolidation Directive*]~~

7.1.11 R …

~~[**Note**: annex V paragraph 5 of the *Banking Consolidation Directive*]~~

…

Residual risk

7.1.13 R …

~~[**Note**: annex V paragraph 6 of the *Banking Consolidation Directive*]~~

Market risk

7.1.14 R …

~~[**Note**: annex V paragraph 10 of the *Banking Consolidation Directive*]~~

Interest rate risk

7.1.15 R …

~~[**Note**: annex V paragraph 11 of the *Banking Consolidation Directive*]~~

Operational risk

7.1.16 R …

~~[**Note**: annex V paragraph 12 of the *Banking Consolidation Directive*]~~

…

Additional rules for *CRR firm*s

7.1.16C R In *SYSC* 7.1.18R a '*CRR firm* that is *significant*' means a *significant IFPRU firm.*

7.1.17 R (1) The *management body* of a *CRR firm* has overall responsibility for risk. It must devote sufficient time to the consideration of risk issues.

(2) The *management body* of a *CRR firm* must be actively involved in and ensure that adequate resources are allocated to the management of all material risks addressed in the *rules* implementing *CRD* and the *EU CRR*, as well as in the valuation of assets, the use of external ratings and internal models related to those risks.

(3) A *CRR firm* must establish reporting lines to the *management body* that cover all material risks and risk management policies and changes thereof.

[**Note**: article 76(2) of *CRD*]

7.1.18 R (1) A *CRR firm* that is *significant* must establish a risk committee composed of members of the *management body* who do not perform any executive function in the *firm.* Members of the risk committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the *firm*.

(2) The risk committee must advise the *management body* on the institution's overall current and future risk appetite and assist the *management body* in overseeing the implementation of that strategy

by senior management.

(3) The risk committee must review whether prices of liabilities and assets offered to clients take fully into account the *firm's* business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee must present a remedy plan to the *management body*.

[**Note:** article 76(3) of *CRD*]

…

7.1.18AA G A *CRR firm* which is not a *significant IFPRU firm* may combine the risk committee with the audit committee.

[**Note:** article 76(3) of *CRD*]

7.1.18B R Members of the combined risk and audit committee must have the knowledge, skills and expertise required for both committees.

[**Note:** article 76(3) of *CRD*]

7.1.19 R (1) A *CRR firm* must ensure that the *management body* in its supervisory function and, where a risk committee has been established, the risk committee, have adequate access to information on the risk situation of the *firm* and, if necessary and appropriate, to the risk management function and to external expert advice.

(2) The *management body* in its supervisory function and, where one has been established, the risk committee, must determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive.

[**Note:** article 76(4) of *CRD*]

7.1.20 R In order to assist in the establishment of sound remuneration policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

[**Note:** article 76(4) of *CRD*]

7.1.21 R (1) A *CRR firm's* risk management function (*SYSC* 7.1.6R) must be independent from the operational functions and have sufficient authority, stature, resources and access to the *management body*.

(2) The risk management function must ensure that all material risks are identified, measured and properly reported. It must be actively involved in elaborating the *firm's* risk strategy and, in all material risk management decisions, it must be able to deliver a complete view of

the whole range of risks of the *firm*.

(3) A *CRR firm* must ensure that the risk management function is able to report directly to the *management body* in its supervisory function, independent from senior management and that it can raise concerns and warn the *management body*, where appropriate, where specific risk developments affect or may affect the *firm*, without prejudice to the responsibilities of the *management body* in its supervisory and/or managerial functions pursuant to the *CRD* and the *EU CRR*.

[**Note**: article 76(5) of *CRD*]

7.1.22 R The head of the risk management function must be an independent *senior manager* with distinct responsibility for the risk management function. Where the nature, scale and complexity of the activities of the *CRR firm* do not justify a specially appointed person, another senior person within the *firm* may fulfil that function, provided there is no conflict of interest. The head of the risk management function must not be removed without prior approval of the *management body* and must be able to have direct access to the *management body* where necessary.

[**Note**: article 76(5) of *CRD*]

…

12.1 Application

…

~~BIPRU firms and other firms to which BIPRU 8 applies~~ CRR firms and non-CRR firms that are parent financial holding companies in a Member State

12.1.13 R If this *rule* applies under *SYSC* 12.1.14R to a *firm*, the *firm* must:

…

(2) ensure that the risk management processes and internal control mechanisms at the level of any ~~*UK*~~ *consolidation group* or non-*EEA sub-group* of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:

(a) *SYSC* 4.1.1R and *SYSC* 4.1.2R;

(b) *SYSC* 4.1.7R;

(bA) *SYSC* 4.3A;

(c) *SYSC* 5.1.7R;

(d) *SYSC* 7;

(dA) the *Remuneration Code*;

(e) *BIPRU* 12.3.4R, *BIPRU* 12.3.5R, *BIPRU* 12.3.7AR, *BIPRU* 12.3.8R~~(3)~~, *BIPRU* 12.3.22AR, *BIPRU* 12.3.22BR, *BIPRU* 12.3.27R, *BIPRU* 12.4.-2R, *BIPRU* 12.4.-1R, *BIPRU* 12.4.5AR, *BIPRU* 12.4.10R, ~~and~~ *BIPRU* 12.4.11R and *BIPRU* 12.4.11AR;

(f) ~~*BIPRU* 2.3.7R(1);~~ [deleted]

(g) ~~*BIPRU* 9.1.6R and *BIPRU* 9.13.21R (Liquidity Plans);~~ [deleted]

(h) ~~*BIPRU* 10.12.3R (Concerntration risk policies).~~ [deleted]

[**Note:** ~~article 73(3) of the *Banking Consolidation Directive*~~ article 109(2) of the *CRD*]

(3) ensure that compliance with the obligations in (2) enables the *consolidation gro*up or the non-*EEA sub-group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

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

12.1.14 R *SYSC* 12.1.13R applies to a *firm* that is:

…

(2) ~~a *BIPRU firm*~~ a *CRR firm*; or

(3) a ~~non *BIPRU firm*~~ non-*CRR firm* that is a *parent financial holding company in a Member State* and is a member of a *UK consolidation group*.

12.1.15 R In the case of a *firm* that:

(1) is a ~~*BIPRU firm*~~ *CRR firm*; and

…

the risk management processes and internal control mechanisms …

12.1.15A R *SYSC* 12.1.13R applies to a *BIPRU firm* as if it were a *CRR firm* but the reference to *Remuneration Code* is to the *BIPRU Remuneration Code.*

…

19A Remuneration Code

19A.1 General application and purpose

Who? What? Where?

19A1.1 R (1) The *Remuneration Code* applies ~~to a *BIPRU firm* and a *third country BIPRU firm*~~ to:

(a) a *building society*;

(b) a *bank*;

(c) an *investment firm*;

(d) an *overseas firm* that:

(i) is not an *EEA firm*;

(ii) has its head office outside the *EEA*; and

(iii) would be a *firm* in (a), (b) or (c) if it had been a *UK domestic firm*, had carried on all its business in the *UK* and had obtained whatever authorisations for doing so as are required under the *Act*.

(2) In relation to a ~~*third country BIPRU firm*~~ *firm* that falls under (1)(d), the *Remuneration Code* applies only in relation to activities carried on from an establishment in the *United Kingdom*.

…

19A.1.1A G ~~The *AIFM Remuneration Code* (*SYSC* 19B) also applies to a *BIPRU firm* which is a *full-scope UK AIFM* (i.e. a *full-scope UK AIFM* that is an *AIFM investment firm*). Such a *full-scope UK AIFM* that complies with all of *SYSC* 19B will also comply with all of the provisions of *SYSC* 19A. In such cases, the *FCA* will not require the *full-scope UK AIFM* to demonstrate compliance with *SYSC* 19A.~~ [deleted]

…

19A.1.3 R (1) A *firm* must apply the *remuneration* requirements in *SYSC* 19A.3 other than *SYSC* 19A.3.44R(3) and *SYSC* 19.3.44AR in relation to:

~~(1)~~ (a) …

~~(2)~~ (b) …

~~(3)~~ (c) …

[**Note**: article 3(2) of the Third Capital Requirements Directive (Directive 2010/76/EU)]

(2) A *firm* must apply the *remuneration* requirements in *SYSC* 19A.3.44R(3) and *SYSC* 19.3.44AR in relation to *remuneration* awarded for services provided or performance from the year 2014 onwards, whether due on the basis of contracts concluded before, on or after 31 December 2013.

[**Note**: article 162(3) of the *CRD*]

…

Purpose

19A.1.6 G …

(2) The *Remuneration Code* implements the main provisions of the ~~Third Capital Requirements Directive (Directive 2010/76/EU)~~ *CRD* which relate to *remuneration*. The Committee of European Banking Supervisors published Guidelines on Remuneration Policies and Practices on 10 December 2010. ~~Provisions of the Third Capital Requirements Directive relating to Pillar 3 disclosures of information relating to *remuneration* have been implemented through amendments to *BIPRU* 11 (specifically the *rules* and *guidance* in *BIPRU* 11.5.18R to *BIPRU* 11.5.21G).~~ Provisions of the Capital Requirements (Amendment) Regulations 2012 (SI 2012/917) together with the European Banking Authority's Guidelines to article 22(3) and (5) of the *Banking Consolidation Directive* relating to the collection of *remuneration* benchmarking information and *high earners* information have been implemented through *SUP* 16 Annex 33AR and *SUP* 16 Annex 34AR. The Guidelines can be found at *http://www.eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-04---GL-4-on-remuneration-benchmarking-exercise-.pdf* and *http://www.eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-05---GL-5-on-remuneration-data-collection-exercise-.pdf*.

…

…

19A.2 General requirement

Remuneration policies must promote effective risk management

19A.2.1 R …

[**Note:** ~~Article 22(1) of the *Banking Consolidation Directive*~~ article 74(1) of *CRD*]

…

19A.3 Remuneration principles for banks, building societies and investment firms

Application: groups

19A.3.1 R …

[**Note:** ~~Paragraph 23 (final, unnumbered point) of Annex V to the *Banking Consolidation Directive*~~ article 92(1) of *CRD*]

19A.3.2 G *SYSC* 12.1.13R(2)(dA) requires the *firm* to ensure that the risk management processes and internal control mechanisms at the level of any *UK consolidation group* or *non-EEA sub-group* of which a *firm* is a member comply with the obligations set out in this section on a consolidated (or sub-consolidated) basis. In the *appropriate regulator's* view, the requirement to apply this section at *group*, *parent undertaking* and *subsidiary undertaking* levels (as provided for in *SYSC* 19A.3.1R(1)) is in line with the requirements in ~~article 73(3) of the *Banking Consolidation Directive*~~ article 109(2) of *CRD* concerning the application of systems and controls requirements to *groups* (as implemented in *SYSC* 12.1.13R).

Application: categories of staff and proportionality

19A.3.3 R …

[**Note:** ~~Paragraph 23 of Annex V to the *Banking Consolidation Directive*~~ article 92(2) of *CRD*]

…

[**Note:** In addition to the *guidance* in this section which relates to the *remuneration principles proportionality rule*, the *FSA* gave guidance on the division of *firms* into categories for the purpose of providing a framework for the operation of the *remuneration principles proportionality rule*. ~~This *guidance* was published in Policy Statement 10/20 Revising the Remuneration Code and is available at www.fca.org.uk/your-fca.~~ This *guidance* has been adopted by the *FCA* and is available in the *FCA* website at http://www.fca.org.uk/firms/markets/international-markets/remuneration-code.]

19A.3.4 R …

[**Note:** ~~paragraph 23 of Annex V to the *Banking Consolidation Directive*~~ article 92(2) of *CRD*]

…

19A.3.6 G …

[**Note:** The *FSA* gave *guidance* on the application of particular rules on *remuneration* structures in relation to individuals who are *Remuneration Code staff* for only part of a given performance year. ~~This *guidance* was published in Policy Statement 10/20 Revising the Remuneration Code and is available at www.fca.org.uk/your-fca~~ This *guidance* has been adopted by the *FCA* and is available in the *FCA* website at http://www.fca.org.uk/firms/markets/international-markets/remuneration-code.]

…

…

19A.3.7 R …

[**Note:** ~~Paragraph 23(a) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(a) of *CRD*]

…

19A.3.8 R …

[**Note:** ~~Paragraph 23(b) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(b) of *CRD*]

…

19A.3.9 R …

[**Note:** ~~Paragraph 23(b) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(b) of *CRD*]

…

19A.3.10 R A *firm* must ensure that its ~~*governing body*~~ *management body* in its *supervisory function* adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for overseeing its implementation.

[**Note:** ~~Paragraph 23(c) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(c) of *CRD* and Standard 1 of the *FSB Compensation Standards*]

19A.3.11 R A *firm* must ensure that the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the ~~*governing body*~~ *management body* in its *supervisory function*.

[**Note:** ~~Paragraph 23(d) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(d) of *CRD* and Standard 1 of the *FSB Compensation Standards*]

19A.3.12 R (1) A *CRR firm* that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration* committee.

…

(3) The chairman and the members of the *remuneration* committee must be members of the ~~*governing body*~~ *management body* who do not perform any executive function in the *firm*.

(4) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *firm* and which are to be taken by the ~~*governing body*~~ *management body* ~~in its *supervisory function*~~.

(5) When preparing such decisions, the *remuneration* committee must take into account the long-term interests of shareholders, investors and other stakeholders in the *firm* and the public interest.

[**Note:** ~~Paragraph 24 of Annex V of the *Banking Consolidation Directive*~~ article 95 of *CRD* and Standard 1 of the *FSB Compensation Standards*]

…

19A.3.12A R A *firm* that maintains a website must explain on the website how it complies with the *Remuneration Code*.

[**Note:** article 96 of *CRD*]

19A.3.12B R In *SYSC* 19A.3.12R a '*CRR firm* that is significant' means a *significant IFPRU firm*.

…

19A.3.14 R …

[**Note:** ~~Paragraph 23(e) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(e) of *CRD* and Standard 2 of the *FSB Compensation Standards*]

…

19A.3.16 R …

[**Note:** ~~Paragraph 23(f) of Annex V to the *Banking Consolidation Directive*~~ article 92(2)(f) of *CRD*]

…

19A.3.18 R …

[**Note:** ~~Paragraph 23(i) of Annex V to the *Banking Consolidation Directive*~~

article 94(1)(c) of *CRD* and Standard 3 of the *FSB Compensation Standards*]

…

Remuneration Principle 7: Exceptional government intervention

19A.3.20 R A *firm* that benefits from exceptional government intervention must ensure that:

…

(2) it restructures *remuneration* in a manner aligned with sound risk management and long-term growth, including when appropriate establishing limits to the *remuneration* of ~~*senior personnel*~~ members of its *management body*; and

(3) no variable *remuneration* is paid to members of its ~~*senior personnel*~~ *management body* unless this is justified.

[**Note:** ~~Paragraph 23(k) of Annex V to the *Banking Consolidation Directive*~~ article 93 of *CRD* and Standard 10 of the *FSB Compensation Standards*]

19A.3.21 G The *appropriate regulator* would normally expect it to be appropriate for the ban on paying variable *remuneration* to ~~*senior personnel*~~ members of the *management body* of a *firm* that benefits from exceptional government intervention to apply only in relation to ~~*senior personnel*~~ members of the *management body* who were in office at the time that the intervention was required.

Remuneration Principle 8: Profit-based measurement and risk adjustment

19A.3.22 R …

[**Note:** ~~Paragraph 23(n) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(j) and (k) of *CRD* and Standard 4 of the *FSB Compensation Standards*]

…

19A.3.27 R A *firm* must ensure that its total variable *remuneration* is generally considerably contracted where subdued or negative financial performance of the *firm* occurs, taking into account both current *remuneration* and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

[**Note:** ~~Paragraph 23(q) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(n) of *CRD* and Standard 5 of the *FSB Compensation Standards*]

…

Remuneration Principle 9: Pension policy

19A.3.29 R A *firm* must ensure that:

…

(3) ~~in the case of~~ when an *employee* ~~reaching~~ reaches retirement, *discretionary pension benefits* are paid to the *employee* in the form of instruments referred to in *SYSC* 19A.3.47R(1) and subject to a five-year retention period.

[**Note:** ~~Paragraph 23(r) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(o) of *CRD*]

Remuneration Principle 10: Personal investment strategies

19A.3.30 R …

[**Note:** ~~Paragraph 23(s) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(p) of *CRD* and Standard 14 of the *FSB Compensation Standards*]

…

Remuneration Principle 11: ~~Avoidance of~~ Non-compliance with the Remuneration Code

19A.3.32 R A *firm* must ensure that variable *remuneration* is not paid through vehicles or methods that facilitate ~~the avoidance of~~ non-compliance with the *Remuneration Code*.

[**Note:** ~~Paragraph 23(t) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(q) of *CRD*]

…

Remuneration Principle 12: Remuneration structures – introduction

…

19A.3.34 G …

[**Note:** The *FSA* also gave *guidance* on the application of certain *rules* on *remuneration* structures in relation to individuals who are *Remuneration Code staff* for only part of a given performance year. ~~This guidance was published in Policy Statement 10/20 Revising the Remuneration Code and is available at www.fca.org.uk/your-fca~~ This *guidance* has been adopted by the *FCA* and is available in the *FCA* website at http://www.fca.org.uk/firms/markets/international-markets/remuneration-code.]

…

Remuneration Principle 12(a): Remuneration structures – general requirement

…

19A.3.35A R A *firm* must ensure that the *remuneration* policy makes a clear distinction between criteria for setting:

(1) basic fixed *remuneration* that primarily reflects an *employee's* professional experience and organisational responsibility as set out in the *employee's* job description and terms of employment; and

(2) variable *remuneration* that reflects performance in excess of that required to fulfil the *employee's* job description and terms of employment and that is subject to performance adjustment in accordance with the *Remuneration Code*.

[**Note:** article 92(2)(g) of *CRD*]

Remuneration Principle 12(b): Remuneration structures – assessment of performance

19A.3.36 R …

[**Note:** ~~Paragraph 23(g) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(a) of *CRD* and Standard 6 of the *FSB Compensation Standards*]

…

19A.3.38 R …

[**Note:** ~~Paragraph 23(h) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(b) of *CRD*]

…

Remuneration Principle 12(c): Remuneration structures – guaranteed variable remuneration

19A.3.40 R A *firm* must ensure that guaranteed variable *remuneration* is not part of prospective *remuneration* plans. A *firm* must not award, pay or provide guaranteed variable *remuneration* unless ~~it~~:

(1) it is exceptional;

(2) it occurs in the context of hiring new *Remuneration Code staff*; ~~and~~

(3) the *firm* has a sound and strong capital base; and

(4) it is limited to the first year of service.

[**Note:** ~~Paragraph 23(j) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(d) to (e) of *CRD* and Standard 11 of the *FSB Compensation Standards*]

19A.3.40A R A *firm* must ensure that *remuneration* packages relating to compensation for, or buy out from, an *employee's* contracts in previous employment align with the long term interests of the *firm* and are subject to appropriate retention, deferral and performance adjustment arrangements.

[**Note:** article 94(1)(i) of the *CRD*]

…

Remuneration Principle 12(d): Remuneration structures – ratios between fixed and variable components of total remuneration

19A.3.44 R A *firm* must set appropriate ratios between the fixed and variable components of total *remuneration* and ensure that:

(1) fixed and variable components of total *remuneration* are appropriately balanced; ~~and~~

(2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component; and

(3) subject to *SYSC* 19A.3.44AR, the ratio of the variable component of total *remuneration* to the fixed component does not exceed 1:1.

19A.3.44A R A *firm* may set a ratio between the fixed and the variable components of total *remuneration* that exceeds 1:1 provided the ratio:

(1) does not exceed 1:2; and

(2) is approved by the shareholders or owners or members of the *firm* in accordance with *SYSC* 19A.3.44BR.

[**Note:** article 94(1)(g)(ii) of the *CRD*]

19A.3.44B R A *firm* must ensure that any approval by the shareholders or owners or members of the *firm* of a ratio that exceeds 1:1 is carried out in accordance with the following procedure:

(1) the *firm* must give reasonable notice to all shareholders or owners or members of the *firm* that the *firm* intends to seek approval of a ratio that exceeds 1:1;

(2) the *firm* must make a detailed recommendation to all shareholders or owners or members of the *firm* giving the reasons for, and the scope of, the approval sought, including the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base;

(3) the *firm* must, without delay, inform the *appropriate regulator* of the recommendation to its shareholders or owners or members, including

the proposed ratio and the reasons therefor and must demonstrate to the *appropriate regulator* that the proposed higher ratio does not conflict with the *firm's* obligations under the *CRD* and the *CRR*, having regard in particular to the *firm's own funds* obligations;

(4) the *firm* must ensure that *employees* who have an interest in the proposed higher ratio are not allowed to exercise, directly or indirectly, any voting rights they may have as shareholders or owners or members of the *firm* in respect of the approval sought; and

(5) the higher ratio is approved by a majority of:

(a) at least 66% of shareholders or owners or members of the *firm*, provided that at least 50% of the shareholders or owners or members are represented; or

(b) at least 75% of shareholders or owners or members if less than 50% of the shareholders, members or owners are represented.

[**Note:** article 94(1)(g)(ii) of the *CRD*]

19A.3.44C R A *firm* must notify without delay the *appropriate regulator* of the decisions taken by its shareholders or members or owners including any approved higher maximum ratio.

[**Note:** article 94(1)(g)(ii) of the *CRD*]

19A.3.44D R A *firm* may apply a discount rate to a maximum of 25% of an *employee's* total variable remuneration provided it is paid in instruments that are deferred for a period of not less than five years.

[**Note:** article 94(1)(g)(iii) of the *CRD*]

Remuneration Principle 12(e): Remuneration structures - payments related to early termination

19A.3.45 R A *firm* must ensure that payments ~~related~~ relating to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure or misconduct.

[**Note:** ~~Paragraph 23(m) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(h) of *CRD* and Standard 12 of the *FSB Compensation Standards*]

…

Remuneration Principle 12(f): Remuneration structures – retained shares or other instruments

19A.3.47 R (1) A *firm* must ensure that a substantial portion, which is at least 50%, of any variable *remuneration* consists of an appropriate balance of:

…

(b) where ~~appropriate, *capital instruments* which are eligible for inclusion at stage B1 of the calculation in the *capital resources table*, where applicable that~~ possible other instruments which are eligible as Additional Tier 1 instruments or are eligible as Tier 2 instruments or other instruments that can be fully converted to Common Equity Tier 1 instruments or written down, that in each case adequately ~~reflects~~ reflect the credit quality of the *firm* as a going concern and are appropriate for use as variable remuneration.

…

[**Note:** ~~Paragraph 23(o) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(l) of *CRD* and Standard 8 of the *FSB Compensation Standards*]

…

19A.3.49 R …

[**Note:** ~~Paragraph 23(p) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(m) of *CRD* and Standards 6 and 7 of the *FSB Compensation Standards*]

…

…

Remuneration Principle 12(h): Remuneration structures – performance adjustment, etc

19A.3.51 R A *firm* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified ~~according to~~ on the basis of the performance of the *firm*, the business unit and the individual concerned.

[**Note:** ~~Paragraph 23(q) of Annex V to the *Banking Consolidation Directive*~~ article 94(1)(n) of *CRD* and Standards 6 and 9 of the *FSB Compensation Standards*]

19A.3.51A R A *firm* must:

(1) ensure that any of the total variable *remuneration* is subject to malus or clawback arrangements;

(2) set specific criteria for the application of malus and clawback; and

(3) ensure that the criteria for the application of malus and clawback in particular cover situations where the *employee*:

(a) participated in or was responsible for conduct which resulted in significant losses to the *firm*;

(b) failed to meet appropriate standards of fitness and propriety.

[**Note:** article 94(1)(n) of *CRD*]

…

19A.3.54 R …

(1B) Condition 1 is that the *firm* is a *UK bank*, a *building society*, a *designated investment firm* or a relevant ~~*BIPRU 730k firm*~~ *IFPRU 730k firm* that has relevant total assets exceeding £50 billion.

…

(1D) Condition 2 is that the *firm*:

(a) is a *full credit institution*, a *designated investment firm*, a relevant ~~*BIPRU 730k firm*~~ *IFPRU 730k firm* or a relevant *third country* ~~*BIPRU 730k firm*~~ *IFPRU 730k firm*; and

(b) is part of a *group* containing a *firm* that has relevant total assets exceeding £50 billion and that is a *UK bank*, a *building society*, a *designated investment firm* or a relevant ~~*BIPRU 730k firm*~~ *IFPRU 730k firm*.

(1E) In this rule:

(a) a "relevant ~~*BIPRU 730k firm*~~ *IFPRU 730k firm*" is any ~~*BIPRU 730k firm*~~ *IFPRU 730k firm* that is not a *limited activity firm* or a *limited licence firm*;

(b) a "relevant *third country* ~~*BIPRU 730k firm*~~ *IFPRU 730k firm*" is any *third country* ~~*BIPRU 730k firm*~~ *IFPRU 730k firm* that is not a *limited activity firm* or a *limited licence firm* ; and

(c) …

…

Insert the following new section after SYSC 19B. The text is not underlined.

19C BIPRU Remuneration Code

19C.1 General application and purpose

Who? What? Where?

19C.1.1 R (1) The *BIPRU Remuneration Code* applies to a *BIPRU firm* and a *third country BIPRU firm*.

(2) In relation to a *third country BIPRU firm*, the *BIPRU Remuneration Code* applies only in relation to activities carried on from an establishment in the *United Kingdom*.

19C.1.2 G Part 2 of *SYSC* 1 Annex 1 provides for the application of *SYSC* 4.1.1R and *SYSC* 4.1.1CR (General Requirements). In particular, and subject to the provisions on group risk systems and controls requirements in *SYSC* 12, this means that:

(1) the *BIPRU Remuneration Code*:

(a) applies to *regulated activities*, *ancillary activities* and applicable *ancillary services*;

(b) applies to the carrying on of *unregulated activities* in a *prudential context*; and

(c) takes into account activities of other *group* members; and

(2) where the *BIPRU Remuneration Code* applies, it applies to:

(a) a *firm's UK* activities;

(b) a *firm's passported activities* carried on from a *branch* in another *EEA State*; and

(c) a *UK domestic firm's* activities wherever they are carried on, in a *prudential context*.

When?

19C.1.3 R A *firm* must apply the *remuneration* requirements in *SYSC* 19C.3 to:

(1) *remuneration* awarded, whether under a contract or otherwise, on or after 1 January 2014;

(2) *remuneration* due on the basis of contracts concluded before 1 January 2014 which is awarded or paid on or after 1 January 2014; and

(3) *remuneration* awarded, but not yet paid, before 1 January 2014, for services provided in 2013.

19C.1.4 G Subject to the requirements of *SYSC* 19C.1.5R, in the *FCA's* view *SYSC* 19C.1.3R does not require a *firm* to breach requirements of applicable contract or employment law.

19C.1.5 R (1) This *rule* applies to a *firm* that is unable to comply with the *BIPRU Remuneration Code* because of an obligation it owes to a *BIPRU Remuneration Code staff member* under a provision of an agreement

made on or before 29 July 2010.

(2) A *firm* must take reasonable steps to amend or terminate the provision in (1) in a way that enables it to comply with the *BIPRU Remuneration Code* at the earliest opportunity.

(3) Until the provision in (1) ceases to prevent the *firm* from complying with the *BIPRU Remuneration Code*, the *firm* must adopt specific and effective arrangements, processes and mechanisms to manage the risks raised by the provision.

Purpose

19C.1.6 G The aim of the *BIPRU Remuneration Code* is to ensure that *firms* have risk-focused *remuneration* policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in *SYSC* 4.

Notifications to the FCA

19C.1.7 G (1) The *BIPRU Remuneration Code* does not contain specific notification requirements. However, general circumstances in which the *FCA* expects to be notified by *firms* of matters relating to their compliance with requirements under the *regulatory system* are set out in *SUP* 15.3 (General notification requirements).

(2) In particular, in relation to *remuneration* matters, such circumstances should take into account *unregulated activities* as well as *regulated activities* and the activities of other members of a *group* and would include each of the following:

(a) significant breaches of the *BIPRU Remuneration Code*;

(b) any proposed *remuneration* policies, procedures or practices which could:

(i) have a significant adverse impact on the *firm's* reputation; or

(ii) affect the *firm's* ability to continue to provide adequate services to its *customers* and which could result in serious detriment to a *customer* of the *firm*; or

(iii) result in serious financial consequences to the *financial system* or to other *firms*;

(c) any proposed changes to *remuneration* policies, practices or procedures which could have a significant impact on the *firms* risk profile or resources; and

(d) fraud, errors and other irregularities described in *SUP* 15.3.17R which may suggest weaknesses in, or be motivated by, the

firm's remuneration policies, procedures or practices.

(3) Such notifications should be made immediately the *firm* becomes aware of those circumstances, or has information which reasonably suggests that those circumstances have, or may have, occurred or may occur in the foreseeable future.

Individual guidance

19C.1.8 G The *FCA's* policy on individual *guidance* is set out in *SUP* 9. *Firms* should particularly note the policy on what the *FCA* considers to be a reasonable request for *guidance* (see *SUP* 9.2.5G). For example, where a *firm* is seeking *guidance* on a proposed *remuneration* structure, the *FCA* will expect the *firm* to provide a detailed analysis of how the structure complies with the *BIPRU Remuneration Code*, including the general requirement for *remuneration* policies, procedures and practices to be consistent with and promote sound and effective risk management.

19C.2 General requirement

Remuneration policies must promote effective risk management

19C.2.1 R A *firm* must establish, implement and maintain *remuneration* policies, procedures and practices that are consistent with and promote sound and effective risk management.

19C.2.2 G (1) If a *firm's remuneration* policy is not aligned with effective risk management, it is likely that *employees* will have incentives to act in ways that might undermine effective risk management.

(2) The *BIPRU Remuneration Code* covers all aspects of *remuneration* that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the *BIPRU Remuneration Code*, a *firm* should have regard to applicable good practice on *remuneration* and corporate governance, such as guidelines on executive contracts and severance produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its *remuneration* policies, a *firm* will also need to take into account its statutory duties in relation to equal pay and non-discrimination.

(3) As with other aspects of a *firm's* systems and controls, in line with *SYSC* 4.1.2R and *SYSC* 4.1.2ABR, *remuneration* policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the *common platform firm's* activities. Therefore, what a *firm* must do to comply with the *BIPRU Remuneration Code* will vary. For example, while the *BIPRU Remuneration Code* refers to a *firm's remuneration* committee and risk

management function, it may be appropriate for the *governing body* of a smaller *firm* to act as the *remuneration* committee, and for the *firm* not to have a separate risk management function.

(4) The principles in the *BIPRU Remuneration Code* are used by the *FCA* to assess the quality of a *firm's remuneration* policies and whether they encourage excessive risk-taking by a *firm's employees*.

(5) The *FCA* may also ask *remuneration* committees to provide the *FCA* with evidence of how well the *firm's remuneration* policies meet the *BIPRU Remuneration Code's* principles, together with plans for improvement where there is a shortfall. The *FCA* also expects relevant *firms* to use the principles in assessing their exposure to risks arising from their *remuneration* policies as part of the *internal capital adequacy assessment process (ICAAP)*.

(6) The *BIPRU Remuneration Code* is principally concerned with the risks created by the way *remuneration* arrangements are structured, not with the absolute amount of *remuneration*, which is generally a matter for *firms' remuneration* committees.

19C.2.3 G (1) The specific *remuneration* requirements in this chapter may apply only to certain categories of *employee*. However, the *FCA* expects *firms*, in complying with the *BIPRU Remuneration Code general requirement*, to apply certain principles on a *firm*-wide basis.

(2) In particular, the *FCA* considers that *firms* should apply the principle relating to guaranteed variable *remuneration* on a *firm*-wide basis (Remuneration Principle 12(c); *SYSC* 19C.3.40R to *SYSC* 19C.3.43G).

(3) The *FCA* also expects *firms* to apply, as a minimum, the principles relating to risk management and risk tolerance (Remuneration Principle 1); supporting business strategy, objectives, values and long-term interests of the firm (Remuneration Principle 2); conflicts of interest (Remuneration Principle 3); governance (Remuneration Principle 4); risk adjustment (Remuneration Principle 8); pension policy (Remuneration Principle 9); personal investment strategies (Remuneration Principle 10); payments related to early termination (Remuneration Principle 12(e)) and deferral (Remuneration Principle 12(g)) on a *firm*-wide basis.

Record-keeping

19C.2.4 G In line with the record-keeping requirements in *SYSC* 9, a *firm* should ensure that its *remuneration* policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions.

Interpretation of references to remuneration

19C.2.5 R (1) In this chapter, references to *remuneration* include *remuneration* paid,

provided or awarded by any *person* to the extent that it is paid, provided or awarded in connection with *employment* by a *firm*.

(2) Paragraph (1) is without prejudice to the meaning of *remuneration* elsewhere in the *Handbook*.

19C.2.6 G *Remuneration* includes, for example, payments made by a seconding organisation which is not subject to the *BIPRU Remuneration Code* to a secondee in respect of their *employment* by a *firm* which is subject to the *BIPRU Remuneration Code*.

19C.3 Remuneration principles

Application: groups

19C.3.1 R (1) A *firm* must apply the requirements of this section at *group*, *parent undertaking* and *subsidiary undertaking* levels, including those *subsidiaries* established in a country or territory which is not an *EEA State*.

(2) Paragraph (1) does not limit *SYSC* 12.1.13R and *SYSC* 12.1.15R (which relate to the application of the *BIPRU Remuneration Code* within *UK consolidation groups* and *non-EEA sub-groups*).

19C.3.2 G The effect of *SYSC* 12.1.13R(2)(dA) and *SYSC* 12.1.15R is that the *firm* is required to ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* or *non-EEA sub-group* of which a *firm* is a member comply with the obligations set out in this section on a consolidated (or sub-consolidated) basis.

Application: categories of staff and proportionality

19C.3.3 R (1) This section applies to *BIPRU Remuneration Code staff*, except as set out in (3).

(2) When establishing and applying the total *remuneration* policies for *BIPRU Remuneration Code staff*, a *firm* must comply with this section in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities (the *BIPRU remuneration principles proportionality rule*).

(3) Paragraphs (1) and (2) do not apply to the requirement for significant *firms* to have a *remuneration* committee (*SYSC* 19C.3.12R).

[**Note:** In addition to the *guidance* in this section which relates to the *BIPRU remuneration principles proportionality rule*, the *FCA* has published guidance on the operation of the *BIPRU remuneration principles proportionality rule*. This *guidance* is available at http://www.fca.org.uk/firms/markets/international-markets/remuneration-

code.]

19C.3.4 R *BIPRU Remuneration Code staff* comprises categories of staff including senior management, risk-takers, staff engaged in control functions and any *employee* receiving total remuneration that takes them into the same *remuneration* bracket as senior management and risk-takers, whose professional activities have a material impact on the *firm's* risk profile.

19C.3.5 R A *firm* must:

(1) maintain a record of its *BIPRU Remuneration Code staff* in line with the general record-keeping requirements (*SYSC* 9); and

(2) take reasonable steps to ensure that its *BIPRU Remuneration Code staff* understand the implications of their status, including the potential for *remuneration* which does not comply with certain requirements of the *BIPRU Remuneration Code* to be rendered void and recoverable by the *firm*.

19C.3.6 G (1) In the *FCA's* view:

(a) a *firm's* staff includes its *employees*;

(b) a *person* who performs a *significant influence function* for, or is a *senior manager* of, a *firm* would normally be expected to be part of the *firm's BIPRU Remuneration Code staff*;

(c) the table in (2) provides a non-exhaustive list of examples of key positions that should, subject to (d), be within a *firm's* definition of staff who are risk takers;

(d) *firms* should consider how the examples in the table in (2) apply to their own organisational structure (as the description of suggested business lines in the first row may be most appropriate to a *firm* which *deals on its own account* to a significant extent);

(e) *firms* may find it useful to set their own metrics to identify their risk takers based, for example, on trading limits; and

(f) a *firm* should treat a *person* as being *BIPRU Remuneration Code staff* in relation to *remuneration* in respect of a given performance year if they were *BIPRU Remuneration Code staff* for any part of that year.

[**Note:** The *FCA* has published *guidance* on the application of particular rules on *remuneration* structures in relation to individuals who are *BIPRU Remuneration Code staff* for only part of a given performance year. This *guidance* is available at http://www.fca.org.uk/firms/markets/international-markets/remuneration-code.]

(2)

High-level category	Suggested business lines
Heads of significant business lines (including regional heads) and any individuals or groups within their control who have a material impact on the *firm's* risk profile	Fixed income Foreign exchange Commodities Securitisation Sales areas Investment banking (including mergers and acquisitions advisory) Commercial banking Equities Structured finance Lending quality Trading areas Research
Heads of support and control functions and other individuals within their control who have a material impact on the *firm's* risk profile	Credit/market/operational risk Legal Treasury controls Human resources Compliance Internal audit

Remuneration Principle 1: Risk management and risk tolerance

19C.3.7 R A *firm* must ensure that its *remuneration* policy is consistent with and promotes sound and effective risk management, and does not encourage risk-taking that exceeds the level of tolerated risk of the *firm*.

Remuneration Principle 2: Supporting business strategy, objectives, values and long-term interests of the firm

19C.3.8 R A *firm* must ensure that its *remuneration* policy is in line with the business strategy, objectives, values and long-term interests of the *firm*.

Remuneration Principle 3: Avoiding conflicts of interest

19C.3.9 R A *firm* must ensure that its *remuneration* policy includes measures to avoid conflicts of interest.

Remuneration Principle 4: Governance

19C.3.10 R A *firm* must ensure that its *governing body*, in its *supervisory function*, adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for its implementation.

19C.3.11 R A *firm* must ensure that the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the

governing body in its *supervisory function*.

19C.3.12 R (1) A *firm* that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities must establish a *remuneration* committee.

(2) The *remuneration* committee must be constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices and the incentives created for managing risk, capital and liquidity.

(3) The chairman and the members of the *remuneration* committee must be members of the *governing body* who do not perform any executive function in the *firm*.

(4) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *firm* and which are to be taken by the *governing body* in its *supervisory function*.

(5) When preparing such decisions, the *remuneration* committee must take into account the long-term interests of shareholders, investors and other stakeholders in the *firm*.

[**Note:** The *guidance* referred to in the note to *SYSC* 19C.3.3R also gives *guidance* on proportionality in relation to *remuneration* committees]

19C.3.13 G (1) A *firm* should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which *remuneration* is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the *governing body* or *remuneration* committee (or both) should work closely with the *firm's* risk function in evaluating the incentives created by its *remuneration* system.

(2) The *governing body* and any *remuneration* committee are responsible for ensuring that the *firm's remuneration* policy complies with the *BIPRU Remuneration Code* and, where relevant, should take into account relevant guidance, such as that issued by the International Organization of Securities Commissions (IOSCO).

(3) The periodic review of the implementation of the *remuneration* policy should assess compliance with the *BIPRU Remuneration Code*.

(4) Guidance on what the *supervisory function* might involve is set out in *SYSC* 4.3.3G.

Remuneration Principle 5: Control functions

19C.3.14 R A *firm* must ensure that *employees* engaged in control functions:

(1) are independent from the business units they oversee;

(2) have appropriate authority; and

(3) are *remunerated*:

(a) adequately to attract qualified and experienced staff; and

(b) in line with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

19C.3.15 E (1) A *firm's* risk management and compliance functions should have appropriate input into setting the *remuneration* policy for other business areas. The procedures for setting *remuneration* should allow risk and compliance functions to have significant input into the setting of individual *remuneration* awards where those functions have concerns about the behaviour of the individuals concerned or the riskiness of the business undertaken.

(2) Contravention of (1) may be relied on as tending to establish contravention of the *rule* on *employees* engaged in control functions having appropriate authority (*SYSC* 19C.3.14R(2)).

19C.3.16 R A *firm* must ensure that the *remuneration* of the senior officers in risk management and compliance functions is directly overseen by the *remuneration* committee referred to in *SYSC* 19C.3.12R, or, if such a committee has not been established, by the *governing body* in its *supervisory function*.

19C.3.17 G (1) This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the *remuneration* of *employees* within control functions. Conflicts of interest can easily arise when *employees* are involved in the determination of *remuneration* for their own business area. Where these do arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a *firm's* human resources function when setting *remuneration* for other business areas.

(2) The need to avoid undue influence is particularly important where *employees* from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process.

(3) The *FCA* generally expects the ratio of the potential variable component of *remuneration* to the fixed component of *remuneration* to be significantly lower for *employees* in risk management and compliance functions than for *employees* in other business areas

whose potential bonus is a significant proportion of their *remuneration*. *Firms* should nevertheless ensure that the total *remuneration* package offered to those *employees* is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the *remuneration* of *relevant persons* involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see *SYSC* 6.1.4R(4)).

Remuneration Principle 6: Remuneration and capital

19C.3.18 R A *firm* must ensure that total variable *remuneration* does not limit the *firm's* ability to strengthen its capital base.

19C.3.19 G This Remuneration Principle underlines the link between a *firm's* variable *remuneration* costs and the need to manage its capital base, including forward-looking capital planning measures. Where a *firm* needs to strengthen its capital base, its variable *remuneration* arrangements should be sufficiently flexible to allow it to direct the necessary resources towards capital building.

Remuneration Principle 7: Exceptional government intervention

19C.3.20 R A *firm* that benefits from exceptional government intervention must ensure that:

(1) variable *remuneration* is strictly limited as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base and timely exit from government support;

(2) it restructures *remuneration* in alignment with sound risk management and long-term growth, including when appropriate establishing limits to the *remuneration* of *senior personnel*; and

(3) no variable *remuneration* is paid to its *senior personnel* unless justified.

19C.3.21 G The *FCA* would normally expect it to be appropriate for the ban on paying variable *remuneration* to *senior personnel* of a *firm* that benefits from exceptional government intervention to apply only in relation to *senior personnel* who were in office at the time that the intervention was required.

Remuneration Principle 8: Profit-based measurement and risk adjustment

19C.3.22 R (1) A *firm* must ensure that any measurement of performance used to calculate variable *remuneration* components or pools of variable *remuneration* components:

(a) includes adjustments for all types of current and future risks, taking into account the cost and quantity of the capital and the liquidity required; and

(b) takes into account the need for consistency with the timing and likelihood of the firm receiving potential future revenues incorporated into current earnings.

(2) A *firm* must ensure that the allocation of variable *remuneration* components within the *firm* also takes into account all types of current and future risks.

19C.3.23 G (1) This Remuneration Principle stresses the importance of risk adjustment in measuring performance, and the importance of applying judgment and common sense. A *firm* should ask the risk management function to validate and assess risk-adjustment techniques and to attend a meeting of the *governing body* or *remuneration* committee for this purpose.

(2) A number of risk-adjustment techniques and measures are available, and a *firm* should choose those that are most appropriate to its circumstances. Common measures include those that are based on economic profit or economic capital. Whichever technique is chosen, the full range of future risks should be covered. The *FCA* expects a *firm* to be able to provide it with details of all adjustments that the *firm* has made under a formulaic approach.

(3) The *FCA* expects a *firm* to apply qualitative judgments and common sense in the final decision about the performance-related components of variable *remuneration* pools.

(4) A *firm's governing body* (or *remuneration* committee, where appropriate) should take the lead in determining the measures to be used. It should offer the appropriate checks and balances to prevent inappropriate manipulation of the measures used. It should consult closely and frequently with the *firm's* risk management functions, in particular those relating to operational, market, credit and liquidity risk.

19C.3.24 G (1) Long-term incentive plans should be treated as pools of variable *remuneration*. Many common measures of performance for long-term incentive plans, such as earnings per *share* (EPS), are not adjusted for longer-term risk factors. Total shareholder return (TSR) includes dividend distributions in its measurement, which can also be based on unadjusted earnings data. If incentive plans mature within a two- to four-year period and are based on EPS or TSR, strategies can be devised to boost EPS or TSR during the life of the plan, to the detriment of the longer-term health of a *firm*. For example, increasing leverage is a technique which can be used to boost EPS and TSR. *Firms* should take account of these factors when developing risk-adjustment methods.

(2) *Firms* that have long-term incentive plans should structure them with vesting, subject to appropriate performance conditions, and at least half of the award vesting after not less than five years and the

remainder after not less than three years.

(3) Long-term incentive plan awards may be included in the calculation of the deferred portion of variable *remuneration* only if upside incentives are adequately balanced by downside adjustments. The valuation of the award should be based on its value when the award is granted, and determined using an appropriate technique.

19C.3.25 R Assessments of financial performance used to calculate variable *remuneration* components or pools of variable *remuneration* components must be based principally on profits.

19C.3.26 G (1) Performance measures based primarily on revenues or turnover are unlikely to pay sufficient regard to the quality of business undertaken or services provided. Profits are a better measure provided they are adjusted for risk, including future risks not adequately captured by accounting profits.

(2) Management accounts should provide profit data at such levels within the *firm's* structure as to enable a *firm* to see as accurate a picture of contributions of relevant staff to a *firm's* performance, as reasonably practicable. If revenue or turnover is used as a component in performance assessment, processes should be in place to ensure that the quality of business undertaken or services provided and their appropriateness for *clients* are taken into account.

19C.3.27 R A *firm* must ensure that its total variable *remuneration* is generally considerably contracted where subdued or negative financial performance of the *firm* occurs, taking into account both current *remuneration* and reductions in payouts of amounts previously earned.

[**Note:** Standard 5 of the *FSB Compensation Standards*]

19C.3.28 G Where a *firm* makes a loss, the *FCA* generally expects no variable *remuneration* to be awarded. Variable *remuneration* may nevertheless be justified, for example to incentivise *employees* involved in new business ventures which could be loss-making in their early stages.

Remuneration Principle 9: Pension policy

19C.3.29 R A *firm* must ensure that:

(1) its pension policy is in line with its business strategy, objectives, values and long-term interests;

(2) when an *employee* leaves the *firm* before retirement, any *discretionary pension benefits* are held by the *firm* for a period of five years in the form of instruments referred to in *SYSC* 19C.3.47R(1); and

(3) when *employees* reach retirement, *discretionary pension benefits* are paid to the *employee* in the form of instruments in *SYSC*

19C.3.47R(1) and subject to a five-year retention period.

Remuneration Principle 10: Personal investment strategies

19C.3.30 R (1) A *firm* must ensure that its *employees* undertake not to use personal hedging strategies or *remuneration*- or liability-related *contracts of insurance* to undermine the risk-alignment effects embedded in their *remuneration* arrangements.

(2) A *firm* must maintain effective arrangements designed to ensure that *employees* comply with their undertaking.

19C.3.31 G Circumstances in which a *person* will be using a personal hedging strategy include entering into an arrangement with a third party under which the third party will make payments, directly or indirectly, to that *person* linked to, or commensurate with, the amounts by which the *person's remuneration* is subject to reductions.

Remuneration Principle 11: Avoidance of the Remuneration Code

19C.3.32 R A *firm* must ensure that variable *remuneration* is not paid through vehicles or methods that facilitate the avoidance of the *BIPRU Remuneration Code*.

Remuneration Principle 12: Remuneration structures - introduction

19C.3.33 G This Remuneration Principle consists of a series of *rules*, *evidential provisions* and *guidance* relating to *remuneration* structures.

19C.3.34 G (1) Taking account of the *BIPRU remuneration principles proportionality rule*, the *FCA* does not generally consider it necessary for a *firm* to apply the *rules* in (2) where, in relation to an individual ("X"), both the following conditions are satisfied:

(a) condition 1 requires that X's variable *remuneration* is no more than 33% of total *remuneration*; and

(b) condition 2 requires that X's total *remuneration* is no more than 500,000.

(2) The *rules* referred to in (1) relate to:

(a) guaranteed variable *remuneration* (*SYSC* 19C.3.40R);

(b) retained *shares* or other instruments (*SYSC* 19C.3.47R);

(c) deferral (*SYSC* 19C.3.49R); and

(d) performance adjustment (*SYSC* 19C.3.51R).

[**Note:** The *FCA* has published *guidance* on the application of certain *rules* on *remuneration* structures in relation to individuals who are *BIPRU Remuneration Code staff* for only part of a given performance year. This

guidance is available at http://www.fca.org.uk/firms/markets/international-markets/remuneration-code.]

Remuneration Principle 12(a): Remuneration structures - general requirement

19C.3.35 R A *firm* must ensure that the structure of an *employee's remuneration* is consistent with, and promotes, effective risk management.

Remuneration Principle 12(b): Remuneration structures - assessment of performance

19C.3.36 R A *firm* must ensure that where *remuneration* is performance-related:

(1) the total amount of *remuneration* is based on a combination of the assessment of the performance of:

(a) the individual;

(b) the business unit concerned; and

(c) the overall results of the *firm*; and

(2) when assessing individual performance, financial as well as non-financial criteria are taken into account.

19C.3.37 G Non-financial performance metrics should form a significant part of the performance assessment process and should include adherence to effective risk management and compliance with the *regulatory system* and with relevant overseas regulatory requirements. Poor performance as assessed by non-financial metrics, such as poor risk management or other behaviours contrary to *firm* values, can pose significant risks for a *firm* and should, as appropriate, override metrics of financial performance. The performance assessment process and the importance of non-financial assessment factors in the process should be clearly explained to relevant *employees* and implemented. A balanced scorecard can be a good technique.

19C.3.38 R A *firm* must ensure that the assessment of performance is set in a multi-year framework, to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of *remuneration* is spread over a period which takes account of the underlying business cycle of the *firm* and its business risks.

19C.3.39 G The requirement for assessment of performance to be in a multi-year framework reflects the fact that profits from a *firm's* activities can be volatile and subject to cycles. The financial performance of *firms* and individual *employees* can be exaggerated as a result. Performance assessment on a moving average of results can be a good way of meeting this requirement. However, other techniques, such as good quality risk adjustment and deferral of a sufficiently large proportion of *remuneration*, may also be useful.

Remuneration Principle 12(c): Remuneration structures - guaranteed variable

remuneration

19C.3.40 R A *firm* must not award, pay or provide guaranteed variable *remuneration* unless it:

(1) is exceptional;

(2) occurs in the context of hiring new *BIPRU Remuneration Code staff*; and

(3) is limited to the first year of service.

19C.3.41 E (1) A *firm* should not award, pay or provide guaranteed variable *remuneration* in hiring new *BIPRU Remuneration Code staff* (X) unless:

(a) it has taken reasonable steps to ensure that the *remuneration* is not more generous in its amount or terms (including any deferral or retention periods) than the variable *remuneration* awarded or offered by X's previous employer; and

(b) it is subject to appropriate performance adjustment requirements.

(2) Contravention of (1) may be relied on as tending to establish contravention of the *rule* on guaranteed variable *remuneration* (*SYSC* 19C.3.40R).

19C.3.42 G Guaranteed variable *remuneration* should be subject to the same deferral criteria as other forms of variable *remuneration* awarded by the *firm*.

19C.3.43 G Variable *remuneration* can be awarded to *BIPRU Remuneration Code staff* in the form of retention awards where it is compatible with the *BIPRU Remuneration Code general requirement* to do so. The *FCA* considers this is likely to be the case only where a *firm* is undergoing a major restructuring and a good case can be made for retention of particular key staff members on prudential grounds. Proposals to give retention awards should form part of any notice of the restructuring proposals required in accordance with *Principle* 11 and the general notification requirements in *SUP* 15.3.

Remuneration Principle 12(d): Remuneration structures - ratios between fixed and variable components of total remuneration

19C.3.44 R A *firm* must set appropriate ratios between the fixed and variable components of total *remuneration* and ensure that:

(1) fixed and variable components of total *remuneration* are appropriately balanced; and

(2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay

no variable *remuneration* component.

Remuneration Principle 12(e): Remuneration structures - payments related to early termination

19C.3.45 R A *firm* must ensure that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.

19C.3.46 G *Firms* should review existing contractual payments related to termination of employment with a view to ensuring that these are payable only where there is a clear basis for concluding that they are consistent with the *BIPRU Remuneration Code general requirement*.

[**Note:** Standard 12 of the *FSB Compensation Standards*]

Remuneration Principle 12(f): Remuneration structures - retained shares or other instruments

19C.3.47 R (1) A *firm* must ensure that a substantial portion, at least 50%, of any variable *remuneration* consists of an appropriate balance of:

(a) *shares* or equivalent ownership interests, subject to the legal structure of the *firm* concerned, or *share*-linked instruments or equivalent non-cash instruments for a non-listed *firm*; and

(b) where appropriate, *capital instruments* which are eligible for inclusion at stage B1 of the calculation in the *capital resources table*, where applicable, adequately reflect the credit quality of the *firm* as a going concern.

(2) The instruments in (1) must be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the *firm*.

(3) This *rule* applies to the portion of the variable *remuneration* component deferred, and not deferred, in line with *SYSC* 19C.3.49R.

[**Note:** Standard 8 of the *FSB Compensation Standards*]

19C.3.48 G (1) Regarding *SYSC* 19C.3.47R(3), the 50% minimum threshold for instruments must be applied equally to the non-deferred and the deferred components; in other words, *firms* must apply the same chosen ratio between instruments and cash for their total variable *remuneration* to both the upfront and deferred components.

(2) This simplified example illustrates the operation of (1). The variable remuneration of a material risk taker (X) is 100, and by *SYSC* 19C.3.49R(3) X is required to defer 60%. X's upfront component is 40 and X's deferred component is 60. At least 20 of X's upfront component, and at least 30 of X's deferred component, must be in

instruments referred to in *SYSC* 19C.3.47R(1).

Remuneration Principle 12(g): Remuneration structures - deferral

19C.3.49 R (1) A *firm* must not award, pay or provide a variable *remuneration* component unless a substantial portion of it, which is at least 40%, is deferred over a period of not less than three to five years.

(2) *Remuneration* under (1) must vest no faster than on a pro-rata basis.

(3) In the case of a variable *remuneration* component:

(a) of a particularly high amount; or

(b) payable to a *director* of a *firm* that is significant in its size, internal organisation and the nature, scope and complexity of its activities; at least 60% of the amount must be deferred.

(4) Paragraph (3)(b) does not apply to a *non-executive director*.

(5) The length of the deferral period must be established in line with the business cycle, the nature of the business, its risks and the activities of the *employee* in question.

[**Note:** Standards 6 and 7 of the *FSB Compensation Standards*]

(6) 500,000 is a particularly high amount for the purpose of (3)(a).

(7) Paragraph (6) is without prejudice to the possibility of lower sums being considered a particularly high amount.

19C.3.50 G (1) Deferred *remuneration* paid in *shares* or *share*-linked instruments should be made under a scheme which meets appropriate criteria, including risk adjustment of the performance measure used to determine the initial allocation of shares. Deferred *remuneration* paid in cash should also be subject to performance criteria.

(2) The *FCA* generally expects a *firm* to have a *firm*-wide policy (and *group*-wide policy, where appropriate) on deferral. The proportion deferred should generally rise with the ratio of variable *remuneration* to fixed *remuneration* and with the amount of variable *remuneration*. While any variable *remuneration* component of 500,000 or more paid to *BIPRU Remuneration Code staff* must be subject to 60% deferral, *firms* should also consider whether lesser amounts should be considered to be 'particularly high' taking account, for example, of whether there are significant differences within *BIPRU Remuneration Code staff* in the levels of variable *remuneration* paid.

Remuneration Principle 12(h): Remuneration structures - performance adjustment, etc.

19C.3.51 R A *firm* must ensure that any variable *remuneration*, including a deferred

portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified according to the performance of the *firm*, the business unit and the individual concerned.

[**Note:** Standards 6 and 9 of the *FSB Compensation Standards*]

19C.3.52 E (1) A *firm* should reduce unvested deferred variable *remuneration* when, as a minimum:

(a) there is reasonable evidence of *employee* misbehaviour or material error; or

(b) the *firm* or the relevant business unit suffers a material downturn in its financial performance; or

(c) the *firm* or the relevant business unit suffers a material failure of risk management.

(2) For performance adjustment purposes, awards of deferred variable *remuneration* made in *shares* or other non-cash instruments should provide the ability for the *firm* to reduce the number of *shares* or other non-cash instruments.

(3) Contravention of (1) or (2) may be relied on as tending to establish contravention of the *rule* on performance adjustment (*SYSC* 19C.3.51R).

19C.3.53 G (1) Variable *remuneration* may be justified, for example, to incentivise *employees* involved in new business ventures which could be loss-making in their early stages.

(2) The *governing body* (or, where appropriate, the *remuneration* committee) should approve performance adjustment policies, including the triggers under which adjustment would take place. The *FCA* may ask *firms* to provide a copy of their policies and expects *firms* to make adequate records of material decisions to operate the adjustments.

Part 2: Comes into force on 1 July 2014

1 Annex 1 Detailed application of SYSC

…

Part 3	**Tables summarising the application of the common platform requirements to different types of firm**

…

Provision	COLUMN A Application to a	COLUMN A+ Application to a	COLUMN A++	COLUMN B Application

SYSC 4	common platform firm other than to a UCITS investment firm	UCITS management company	Application to a full-scope UK AIFM of an authorised AIF	to all other firms apart from insurers, managing agents, the Society, and full-scope UK AIFMs of unauthorised AIFs
…				
SYSC 4.3A.6R [FCA] [PRA]	Rule applicable to *CRR firms*	Rule for a *CRR firm* that is a *UCITS investment firm*	Not applicable	Not applicable
…				

4.3A.6 R (1) ~~[to follow]~~ A *CRR firm* that is *significant* must ensure that the members of the *management body* of the *firm* do not hold more than one of the following combinations of directorship in any organisation at the same time:

(a) one executive directorship with two non-executive directorships; and

(b) four non-executive directorships.

(2) Paragraph (1) does not apply to members of the *management body* that represent the *United Kingdom*.

[**Note**: article 91(3) of the *CRD*]

CAPITAL REQUIREMENTS DIRECTIVE IV (REPORTING) INSTRUMENT 2013

Powers exercised by the Financial Conduct Authority

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 139A (Power of the FCA to give guidance); and
(3) section 137T (General supplementary powers).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force as follows:

(1) Annex A and Part 1 of Annex B come into force on 1 January 2014:
(2) Part 2 of Annex B comes into force on 1 July 2014;
(3) Part 3 of Annex B comes into force on the date to be specified by the FCA Board in a subsequent instrument.

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.

Notes

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

Citation

G. This instrument may be cited as the Capital Requirements Directive IV (Reporting) Instrument 2013.

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Amendments to the Glossary of definitions

Insert the following new definition in the appropriate alphabetical position.

FINREP firm	(a)	a *credit institution* or *investment firm* subject to the *EU CRR* that is also subject to article 4 of Regulation (EC) No 1606/2002; or
	(b)	a *credit institution* other than one referred to in article 4 of Regulation (EC) No 1606/2002 that prepares its consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in article 6(2) of that Regulation.
	[**Note:** article 99 of the *EU CRR*]	

Annex B

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking though indicates deleted text except where indicated otherwise.

Part 1: Comes into force on 1 January 2014

16.12 Integrated Regulatory Reporting

…

Purpose

16.12.2 G (1) *Principle* 4 requires *firms* to maintain adequate financial resources. The Interim Prudential sourcebooks, *BIPRU*, ~~and~~ *GENPRU* and *IFPRU* set out the *appropriate regulator's* detailed capital adequacy requirements. By submitting regular data, *firms* enable the *appropriate regulator* to monitor their compliance with *Principle* 4 and their prudential requirements ~~in the *Handbook*~~.

…

…

16.12.3-A G (1) *Investment firms* subject to the *EU CRR* should refer to any relevant technical standards to determine their specific reporting obligations, as those obligations may extend beyond those specified in this chapter.

(2) Where a *firm* submits a *data item* pursuant any applicable provision of the *EU CRR* any *data item* with the same name and purpose does not have to be submitted again regardless of *RAG*.

16.12.3-B R In relation to an *investment firm* subject to the *EU CRR*, where an expression appearing in italics in this chapter is also used in the *EU CRR*, the italicised expression:

(1) has the same meaning as the corresponding expression used in the *EU CRR*; or

(2) is interpreted in the context of the risk or requirement in the *EU CRR* that corresponds to the risk or requirement referred to in the italicised expression.

SUP 16.12.3AG is deleted in its entirety. The deleted text is not shown.

…

16.12.4 R Table of applicable rules containing *data items*, frequency and submission periods

(1)		(2)	(3)	(4)
RAG number	*Regulated Activities*	Provisions containing:		
		applicable *data items*	reporting frequency/ period	due date
…				
RAG 3	• dealing in investment as principal • dealing in investments as agent • advising on investments (excluding retail investment activities) • arranging (bringing about) deals in investments (excluding retail investment activities)	*SUP* 16.12.10R *SUP* 16.12.11R or *SUP* 16.12.11BR for *UK designated investment firms*	*SUP* 16.12.10R *SUP* 16.12.12R or *SUP* 16.12.12AR for *UK designated investment firms*	*SUP* 16.12.10R *SUP* 16.12.13R
RAG 4	• managing investments • establishing, operating or winding up a collective investment scheme • establishing, operating or winding up a stakeholder pension scheme • establishing,	*SUP* 16.12.14R *SUP* 16.12.15R or *SUP* 16.12.15BR for *UK designated investment firms*	*SUP* 16.12.14R *SUP* 16.12.16R or *SUP* 16.12.16AR for *UK designated investment firms*	*SUP* 16.12.14R *SUP* 16.12.17R

	operating or winding up a personal pension scheme • managing an *AIF* • managing a *UCITS*			
RAG 5	• *home finance administration or home finance providing activity*	*SUP* 16.12.18AR and *SUP* 16.12.18BR	*SUP* 16.12.18AR and *SUP* 16.12.18BR	*SUP* 16.12.18AR and *SUP* 16.12.18BR
…				
RAG 7	• retail investment activities • advising on pensions transfers & opt-outs • arranging (bringing about deals) in retail investments	*SUP* 16.12.22AR or *SUP* 16.12.22CR for *UK designated investment firms*	*SUP* 16.12.23AR and *SUP* 16.12.23R for *UK designated investment firms*	*SUP* 16.12.24R
RAG 8	• making arrangements with a view to transactions in investments • operating a multilateral trading facility	*SUP* 16.12.25AR or 16.12.25CR for *UK designated investment firms*	*SUP* 16.12.26R	*SUP* 16.12.27R
…				

…

Regulated Activity Group 1

16.12.5 R The applicable *data items* and forms or reports referred to in *SUP* 16.2.4R are set out according to *firm* type in the table below.

Description of *data item*	Prudential category of *firm*, applicable *data items* and reporting format (Note 1)							
	UK bank	*Building society*	*Non-EEA bank*	*EEA bank* that has *permission* to accept deposits, other than one with permission for cross	*EEA bank* that does not have permission to accept deposits, other than one with permission	[deleted]	*Credit union*	*Dormant account fund operator* (note 15)

				border services only	for cross border services only			
…								
Capital adequacy	~~FSA003 (note 2)~~	~~FSA003 (note 2)~~					CQ; CY	
~~Credit risk~~	~~FSA004 (note 2)~~	~~FSA004 (note 2)~~						
…								
~~Operational risk~~	~~FSA007 (notes 2, 6)~~	~~FSA007 (notes 2, 6)~~						
Large exposures	~~FSA008 (note 2)~~	~~FSA008 (note 2)~~					CQ; CY	
~~UK integrated group large exposures~~ Exposures between *core UK group* and *non-core large exposures group*	FSA018 (note 12)	FSA018 (note 12)						
…								
~~Non-EEA sub-group~~	~~FSA028 (note 8)~~							
…								
~~Securitisation: non-trading book~~	~~FSA046 (Notes 2 and 14)~~	~~FSA046 (Notes 2 and 14)~~						
…								
~~Securitisation: trading book~~	~~FSA058 (Notes 2 and 23)~~							
…								
Note 4	~~This applies to a *firm* that is required to submit *data item* FSA003 and, at any time within the 12 *months* up to its latest *accounting reference date* ("the relevant period"), was reporting *data item* FSA005 ("Firm A") or not reporting this item ("Firm B"). In the case of Firm A it must report this *data item* if one or both of its last two submissions in the relevant period~~							

	~~show that the threshold was exceeded. In the case of Firm B it must report this item if both the last two submissions in the relevant period show that the threshold has been exceeded. The threshold is exceeded where *data element* 93A in *data item* FSA003 is greater than £50 million, or its currency equivalent, at the relevant reporting date for the *firm*.~~ For PRA *firms* lines 62 to 64 only are applicable. These lines apply to a *firm* that applies add-ons to their market risk capital calculation under the RNIV framework. For further guidance on how to complete the form *PRA-authorised persons* may refer to *SUP* 16 Annex 25AG.
…	
Note 6	~~This is only applicable to a *firm* that has adopted, in whole or in part, either the *standardised approach*, *alternative standardised approach*, or *advanced measurement approach* under *BIPRU 6*.~~ [deleted]
…	
Note 12	~~Members of a *UK integrated group* should only submit this *data item* at the *UK integrated group* level.~~ Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
…	
Note 14	~~Only applicable to *firms* that hold *securitisation positions*, or are the *originator* or *sponsor* of *securitisations* of *non-trading book exposures*.~~ [deleted]
…	

16.12.6 R The applicable reporting frequencies for submission of *data items* and periods referred to in *SUP* 16.12.5R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Unconsolidated *UK banks* and *building societies*	Solo consolidated *UK banks* and *building societies*	Report on a *consolidation group* or, as applicable, *defined liquidity group* basis by *UK banks* and *building societies*	Other members of *RAG* 1
…				
~~FSA003~~	~~Quarterly or monthly (note 1)~~		~~Half yearly~~	
~~FSA004~~	~~Quarterly~~		~~Half yearly~~	
…				
~~FSA007~~	~~Annually~~			
~~FSA008~~	~~Quarterly~~			
…				
~~FSA028~~	~~Half yearly~~			

…			
~~FSA046~~	~~Quarterly~~	~~Quarterly~~	
…			
~~FSA058~~	~~Quarterly~~	~~Quarterly~~	
Note 1	~~Monthly submission only applicable if the *firm* has been notified in writing that it is required to report (when, on an annual review, it has two consecutive quarterly submissions of FSA003 showing *data element* 93A being greater than £50 million, or its currency equivalent, and also greater than 50% of *data element* 70A.~~ [deleted]		
…			

16.12.7 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.6R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
…						
~~FSA003~~			~~15 *business days*~~	~~20 *business days*~~	~~45 *business days*~~	
~~FSA004~~				~~20 *business days*~~	~~45 *business days*~~	
…						
~~FSA007~~						~~6 *months*~~
~~FSA008~~				~~20 *business days* (note 3) 45 *business days* (note 4)~~		
…						
~~FSA028~~					~~30 business days~~	
…						
~~FSA046~~				~~20 *business days* (Note 3), 45 *business days* (Note 4)~~		
…						
~~FSA058~~				~~20 *business days* (Note 3), 45 *business days* (Note 4)~~		
…						

…

Regulated Activity Group 2.2

16.12.9 R …

	Member's adviser		the *Society* (note 1)		
Description of *data item* and *data item*	Frequency	Submission deadline	Description of *data item*	Frequency	Submission deadline
...					
Note 14	*BIPRU* ~~*50K*~~ *firms* report half yearly on 30 *business days* submission ~~all other *BIPRU firms* on unconsolidated basis report quarterly on 20 *business days* submission~~. All UK *consolidation group* reports report half yearly on 45 *business days* submission. All other *firms* report monthly on 20 *business days* submission.				
…					
Note 21	This will not be applicable to ~~*BIPRU limited activity firms*~~ *BIPRU firms* ~~or *BIPRU limited licence firms* unless they have a waiver under *BIPRU* 6.1.2G~~.				

16.12.9A G A *Member's adviser* that is also ~~a *BIPRU*~~ an *IFPRU investment firm* will also fall under one of the higher number *RAGs* that apply to ~~*BIPRU*~~ *IFPRU investment firms*. That means that it will have to report a number of *data items* in addition to the ones that it has to supply under *RAG* 2.2.

Regulated Activity Group 3

…

16.12.11 R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

[The columns in the table at *SUP* 16.12.11R entitled '125K and collective portfolio management investment firms' and '50k' below are deleted in their entirety. The deleted text of those columns is not shown.]

Description of *data item*	Firms' prudential category and applicable data items (note 1)								
	~~*BIPRU firms* (note 17)~~ *IFPRU investment firms* and *BIPRU firms*				*Firms* other than *BIPRU firms or IFPRU investment firms*				
	~~730K~~ *IFPRU*	~~125K and collective portfolio management investment firms~~	~~50K~~	*BIPRU*	*IPRU (INV)* Chapter 3	*IPRU (INV)* Chapter 5	*IPRU (INV)* Chapter 9	*IPRU (INV)* Chapter 13	*UPRU*
Annual report and accounts	…			No standard format	…	…	…	…	…
Annual report and accounts of the *mixed-activity holding company* (note	…			No standard format					

10)									
Solvency statement	…			No standard format (note 11)	…	…			…
Balance sheet	FSA001/FINREP (note 36) ~~(note 2)~~	…	…	FSA001 (Note 2)	…	…	…	…	…
Income statement	FSA001/FINREP (note 36) ~~(note 2)~~	…	…	FSA002 (Note 2)	…	…	…	…	…
Capital adequacy	~~FSA003 (note 2)~~ COREP (Note 36)	…	…	FSA003 (Note 2)	…	…	…	…	…
Supplementary capital data for *collective portfolio management investment firms*	FIN067 (Note 35)	…		FIN068 (Note 35)					
Credit risk	~~FSA004 (notes 2, 3)~~ COREP (Note 36)	…	…	FSA004 (Notes 2, 3)					
Market risk	~~FSA005 (notes 2, 4)~~ COREP (Note 36)	…	…	FSA005 (Notes 2, 4)					
Market risk - supplementary	…	…	…	FSA006 (Note 5)					
Operational risk	~~FSA007 (notes 2, 6, 7)~~ COREP (Note 36)	…	…						
Large exposures	~~FSA008 (Notes 2, 6)~~ COREP (Note 36)	…	…						
~~UK integrated group large exposures~~ Exposures between core *UK group* and *non-core large exposures group*	…	…	…						
Solo consolidation data	…	…	…	FSA016 (Note 25)					

Pillar 2 questionnaire	…	…	…	FSA019 (Note 8)					
Non-EEA sub-group	~~FSA028 (note 9)~~ COREP (Note 36)	…	…	FSA028 (Note 9)					
…								…	
Client money and client assets	…	…	…	FSA039	…	…	…	…	…
CFTC	…	…	…	FSA040 (Note 24)	…	…	…	…	…
IRB portfolio risk	…	…	…	FSA045 (Note 22)					
Securitisation : non-trading book	~~FSA046 (note 23)~~ COREP (Note 36)	…	…	FSA046 (Note 23)					
Daily Flows	FSA047/COREP (notes 26, 29, 31, ~~and~~ 33, and 36)								
Enhanced Mismatch Report	FSA048/COREP (notes 26, 29, 31, ~~and~~ 33, and 36)								
Liquidity Buffer Qualifying Securities	FSA050/COREP (notes 27, 30, 31, ~~and~~ 33, and 36)								
Funding Concentration	FSA51/COREP (notes 27, 30, 31, ~~and~~ 33, and 36)								
Pricing data	FSA052/COREP (notes 27, 31, 33, ~~and~~ 34, and 36)								
Retail and corporate funding	FSA053/COREP (notes 27, 30, 31, ~~and~~ 33, and 36)								
Currency Analysis	FSA054/COREP (notes 27, 30, 31, ~~and~~ 33, and 36)								
Systems and Controls Questionnaire	FSA055/COREP (notes 28, ~~and~~ 33, and 36)			FSA055 (Notes 28 and 33)					
Securitisation: trading book	~~FSA058 (Note 32)~~ COREP (Note 36)	…	…						
Note 1	All *firms*, except *IFPRU investment firms* in relation to *data items* reported under the *EU CRR*, when ~~When~~ submitting the completed *data item* required, must use the format of the *data item* set out in *SUP* 16 Annex 24R. Guidance notes for completion of the data items are contained in *SUP* 16 Annex 25G.								
…									
Note 6	~~This will not be applicable to *BIPRU limited activity firms* or *BIPRU limited licence firms* unless they have a waiver under *BIPRU* 6.1.2 G.~~ [deleted]								

Note 7	~~This is only applicable to a *firm* that has adopted, in whole or in part, either the *standardised approach*, *alternative standardised approach*, or *advanced measurement approach* under BIPRU 6.~~ [deleted]
Note 8	Only applicable to ~~*BIPRU*~~ *IFPRU investment firms* and *BIPRU firms* that: (a) are subject to consolidated supervision under *BIPRU* 8, except those that are either included within the consolidated supervision of a group that includes a UK *credit institution*, or that have been granted an *investment firm consolidation waiver*; or (b) have been granted an *investment firm consolidation waiver*; or (c) are not subject to consolidated supervision under *BIPRU* 8. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (a) must complete the report on the basis of its UK *consolidation group*. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (b) or (c) must complete the report on the basis of its solo position.
…	
Note 12	~~Members of a *UK integrated group* should only submit this *data item* at the *UK integrated group* level.~~ This is only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
…	
Note 36	Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

16.12.11A G The ~~columns~~ column in the table in *SUP* 16.12.11R that ~~deal~~ deals with ~~*BIPRU 50K firms* and *BIPRU 125K firms*~~ *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm* (please see notes 28 and 33). ~~In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.~~

16.12.12 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.4R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data Item	~~*BIPRU*~~ *IFPRU 730K firm*	~~*BIPRU*~~ *IFPRU 125K firm* and *collective portfolio management investment firm*	~~*BIPRU*~~ *IFPRU 50K firm*	*BIPRU firm*	*UK consolidation group or defined liquidity group*	*Firm* other than *BIPRU firms* or *IFPRU investment firms*
COREP/FINREP	Refer to *EU CRR* and applicable technical standards				Refer to *EU CRR* and	

					applicable technical standards	
Annual report and accounts	Annually	Annually	Annually	Annually		Annually
Annual report and accounts of the *mixed-activity holding company*	Annually	Annually	Annually	Annually		
Solvency statement	Annually	Annually	Annually	Annually		Annually
FSA001	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA002	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA003	~~Monthly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA004	~~Quarterly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA005	~~Quarterly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA006	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	
FSA007	~~Annual (note 4)~~	~~Annual~~ ~~(note 4)~~	~~Annual (note 4)~~	Annual (note 4)	Annual (note 4)	
FSA008	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~		Quarterly	
FSA016	Half yearly	Half yearly	Half yearly	Half yearly		
FSA018	Quarterly	Quarterly	Quarterly			
FSA019	Annually	Annually	Annually	Annually	Annually	
FSA028	~~Half yearly~~	~~Half yearly~~	~~Half yearly~~	Half yearly		
…						
FSA039	Half yearly	Half yearly	Half yearly	Half yearly		Half yearly
FSA040	Quarterly	Quarterly	Quarterly	Quarterly		Quarterly
FSA045	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA046	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~	Quarterly	Quarterly	
…						
FSA058	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~	Quarterly	Quarterly	
FIN067		… (note 5)				
FIN068				Half yearly		
…						

16.12.13 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.12R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/FINREP	Refer to *EU CRR* and applicable technical standards					

Annual report and accounts	…					
…						
FIN067				~~20 *business days*~~ 30 *days*		
FIN068					30 *business days*	
…						

Regulated Activity Group 4

…

16.12.15 R The applicable *data items* referred to in *SUP* 16.12.4R according to type of *firm* are set out in the table below:

[The columns in the table at *SUP* 16.12.15R entitled '125K and collective portfolio management investment firms' and '50k' below are deleted in their entirety. The deleted text of those columns is not shown.]

Description of *data item*	Firms' prudential category and applicable *data items* (note 1)									
	~~*BIPRU*~~ *IFPRU investment firms* and *BIPRU firms*				*Firms* other than *BIPRU firms or IFPRU investment firms*					
	~~730K~~ *IFPRU*	~~125K and collective portfolio management investment firms~~	~~50 K~~	*BIPRU*	*IPRU (INV)* Chapter 3	*IPRU (INV)* Chapter 5	*IPRU (INV)* Chapter 9	*IPRU (INV)* Chapter 11 (*collective portfolio management firms* only)	*IPRU (INV)* Chapter 13	*UP RU*
Annual report and accounts	…			No standard format (Note 13)						
Annual report and accounts of the *mixed-activity holding company* (note 10)	…			No standard format (Note 13)						
Solvency statement	…			No standard format (Note 11)		…				…
Balance sheet	FSA001 /FINREP (~~note~~ Notes 2 and 34)	…	…	FSA001 (Note 2)	…	…	…	…	…	…
Income statement	FSA002 /FINREP	…	…	FSA002 (Note 2)	…	…	…	~~FIN066~~ FSA030	…	…

	(~~note~~ Notes 2 and 34)									
Capital adequacy	~~FSA003 (note 2)~~ COREP (Note 34)	…	…	FSA003 (Note 2)	…	…	…	…	…	…
Supplementary capital data for *collective portfolio management investment firms*	FIN067 (Note 32)			FIN068 (Note 32)						
Credit risk	~~FSA004 (notes 2, 3)~~ COREP (Note 34)			FSA004 (Notes 2, 3)						
Market risk	…			FSA005 (Notes 2, 4)						
Market risk - supplementary	…			FSA006 (Note 5)						
Operational risk	~~FSA007 (notes 2, 6, 7)~~ COREP (Note 34)									
Large exposures	~~FSA008 (Notes 2, 6)~~ COREP (Note 34)									
~~UK integrated group large exposures~~ Exposures between core *UK group* and *non-core large exposures group*	…									
Solo consolidation data	…			FSA016 (Note 20)						
Pillar 2 questionnaire	…			FSA019 (Note 8)						
Non-EEA sub-group	~~FSA028 (note 9)~~ COREP (Note 34)			FSA028 (Note 9)						
…										
Volumes and types of	…	…	…	FSA038	…	…	…	…	…	…

business (note 21)										
Client money and client assets	…			FSA039	…	…	…	…	…	…
…										
IRB portfolio risk	…			FSA045 (Note 18)						
Securitisation : non-trading book	~~FSA046 (note 19)~~ COREP (Note 34)			FSA046 (Note 19)						
Daily Flows	FSA047/COREP (Notes 23, 26, 28, ~~and~~ 30 and 34)									
Enhanced Mismatch Report	FSA048/COREP (Notes 23, 26, 28, ~~and~~ 30 and 34)									
Liquidity Buffer Qualifying Securities	FSA050/COREP (Notes 24, 27, 28, ~~and~~ 30 and 34)									
Funding Concentration	FSA051/COREP (Notes 24, 27, 28, ~~and~~ 30 and 34)									
Pricing data	FSA052/COREP (Notes 24, 28, 30, ~~and~~ 31 and 34)									
Retail and corporate funding	FSA053/COREP (Notes 24, 27, 28, ~~and~~ 30 and 34)									
Currency Analysis	FSA054/COREP (Notes 24, 27, 28, ~~and~~ 30 and 34)									
Systems and Controls Questionnaire	FSA055/COREP (Notes 25, 30 and 34) …			FSA055 (Notes 25 and 30)						
Securitisation: trading book	~~FSA058 (Note 29)~~ COREP (Note 34)			FSA058 (Note 29)						

Note 1	All *firms*, except *IFPRU investment firms* in relation to *data items* reported under the *EU CRR*, when ~~When~~ submitting the completed *data item* required, must use the format of the *data item* set out in *SUP* 16 Annex 24R. Guidance notes for completion of the data items are contained in *SUP* 16 Annex 25G.
…	
Note 6	~~This will not be applicable to *BIPRU limited activity firms* or *BIPRU limited licence firms* unless they have a waiver under *BIPRU* 6.1.2G.~~ [deleted]
Note 7	~~This is only applicable to a firm that has adopted, in whole or in part, either the standardised approach, alternative standardised approach, or advanced measurement approach under *BIPRU* 6.~~ [deleted]
Note 8	Only applicable to ~~*BIPRU*~~ *IFPRU investment firms* and *BIPRU firms* that: (a) are subject to consolidated supervision under *BIPRU* 8, except those that are either included within the consolidated supervision of a group that includes a UK *credit institution*, or that have been granted an *investment firm consolidation waiver*; or (b) have been granted an *investment firm consolidation waiver*; or (c) are not subject to consolidated supervision under *BIPRU* 8. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (a) must complete the report on the basis of its UK *consolidation group*. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (b) or (c) must complete the report on the basis of its solo position.
…	
Note 12	~~Members of a UK integrated group should only submit this data item at the UK integrated group level.~~ Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
…	
Note 33	Only applicable to *firms* that have a *managing investments permission*.
Note 34	Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

16.12.15A G The ~~columns~~ column in the table in *SUP* 16.12.15R that ~~deal~~ deals with ~~*BIPRU 50K firms* and *BIPRU 125K firms*~~ *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm* (please see notes 25 and 30). ~~In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of firms into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.~~

16.12.16 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.15R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	*Firms'* prudential category					
	~~*BIPRU* *IFPRU* *730K firm*~~	~~*BIPRU* *IFPRU* *125K firm* and *collective portfolio management investment firm*~~	~~*BIPRU* *IFPRU* *50K firm*~~	*BIPRU firm*	*UK consolidation group* or *defined liquidity group*	*Firm* other than *BIPRU firms or IFPRU investment firms*
COREP/FINREP	Refer to *EU CRR* and applicable technical standards				Refer to *EU CRR* and applicable technical standards	
Annual report and accounts	Annually	Annually	Annually	Annually		Annually
Annual report and accounts of the *mixed-activity holding company*	Annually	Annually	Annually	Annually		
Solvency statement	Annually	Annually	Annually	Annually		Annually
FSA001	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA002	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA003	~~Monthly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA004	~~Quarterly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA005	~~Quarterly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA006	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	
FSA007	~~Annual (note 4)~~	~~Annual~~	~~Annual (note 4)~~	Annual (Note 4)	Annual (note 4)	
FSA008	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~		Quarterly	
FSA016	Half yearly	Half yearly	Half yearly	Half yearly		
FSA018	Quarterly	Quarterly	Quarterly			
FSA019	Annually	Annually	Annually	Annually	Annually	
FSA028	~~Half yearly~~	~~Half yearly~~	~~Half yearly~~	Half yearly		
…						
FSA038	Half yearly	Half yearly	Half yearly	Half yearly		Half yearly
FSA039	Half yearly	Half yearly	Half yearly	Half yearly		Half yearly
…						
FSA045	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA046	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~	Quarterly	Quarterly	
…						
FSA055	Annually (Note 5)			Annually (Note 5)	Annually (Note 5)	
FSA058	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~	Quarterly	Quarterly	
…						
FIN067		Quarterly (Note 5)				
FIN068				Half yearly		
…						

16.12.17 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.16R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/FINREP	Refer to *EU CRR* and applicable technical standards					
Annual report and accounts	…					
…						
FIN067				~~20 *business days*~~ 30 days		
FIN068					30 *business days*	
…						

…

Regulated Activity Group 5

…

16.12.18A R The applicable *data items*, reporting frequencies and submission deadlines referred to in *SUP* 16.12.4R are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference* date, unless indicated otherwise. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

Description of *data item*	*Data item* (note 1)	Frequency	Submission deadline
…			
Capital Adequacy	Section C MLAR (Note 2)	…	…
…			
Note 1	…		
Note 2	If a *firm* is subject to *IFPRU* then that *firm* should submit COREP instead of MLA-C. If a *firm* is subject to *BIPRU* then that *firm* should submit FSA003.		

Regulated Activity Group 7

…

16.12.22A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

[The columns in the table at *SUP* 16.12.22AR entitled '*BIPRU 125K firm* and *collective portfolio management investment firms*' and '*BIPRU 50k firm*' below are deleted in their entirety. The deleted text of those columns is not shown.]

Description of *Data item*	*Firms'* prudential category and applicable *data items* (note 1)						
	~~*BIPRU 730K firm IFPRU*~~	~~*BIPRU 125K* and *collective portfolio management investment firms*~~	~~*BIPRU 50K*~~	*BIPRU firm*	*Exempt CAD firms* subject to *IPRU(INV)* Chapter 13	*Firms* (other than *exempt CAD firms*) subject to *IPRU(INV)* Chapter 13	*Firms* that are also in one or more of *RAGs* **1** to 6 and not subject to *IPRU(INV)* Chapter 13
Annual report and accounts	No standard format			No standard format	…		
Annual report and accounts of the *mixed-activity holding company* (note 10)	No standard format			No standard format			
Solvency statement	No standard format (note 11)			No standard format (Note 11)			
Balance sheet	FSA001/FIN REP (~~note~~ Notes 2 and 29)	…	…	FSA001 (Note 2)	…	…	
Income statement	FSA002/FIN REP (~~note~~ Notes 2 and 29)	…	…	FSA002 (Note 2)	…	…	
Capital adequacy	~~FSA003 (note 2)~~ COREP (Note 29)	…	…	FSA003 (Note 2)	…	…	
Credit risk	~~FSA004 (notes 2, 3)~~ COREP (Note 29)	…	…	FSA004 (Notes 2, 3)			
Market risk	~~FSA005 (notes 2, 4)~~ COREP (Note 29)	…	…	FSA005 (Notes 2,4)			
Market risk -	…	…	…	FSA006 (Note 5)			

supplementary							
Operational risk	~~FSA007 (notes 2, 6, 7)~~ COREP (Note 29)	…	…				
Large exposures	~~FSA008 (Notes 2, 6)~~ COREP (Note 29)	…	…				
~~UK integrated group large exposures~~ Exposures between core *UK group* and *non-core large exposures group*	…	…	…				
Solo consolidation data	…	…	…	FSA016			
Pillar 2 questionnaire	…	…	…	FSA019 (Note 8)			
Non-EEA sub-group	~~FSA028 (note 9)~~ COREP (Note 29)	…	…	FSA028 (Note 9)			
Professional indemnity insurance (note 15)	…	…	…	Section E RMAR		…	…
…							
Training and Competence	…	…	…	Section G RMAR	…	…	…
COBS data	…	…	…	Section H RMAR	…	…	…
Client money and client assets	…	…	…	Section C RMAR	…		
Fees and levies	…	…	…	Section J RMAR	…	…	
Adviser charges	…	…	…	Section K RMAR (Note 26)	…	…	…
Consultancy charges	…	…	…	Section L RMAR	…	…	…
IRB portfolio risk	…			FSA045 (Note 13)			

Securitisation : non-trading book	~~FSA046 (note 14)~~ COREP (Note 29)			FSA046 (Note 14)			
Daily Flows	FSA047/COREP (Notes 16, 19, 21, ~~and~~ 24 and 29)						
Enhanced Mismatch Report	FSA048/COREP (Notes 16, 19, 21, ~~and~~ 24 and 29)						
Liquidity Buffer Qualifying Securities	FSA050/COREP (Notes 17, 20, 21, ~~and~~ 24 and 29)						
Funding Concentration	FSA051/COREP (Notes 17, 20, 21, ~~and~~ 24 and 29)						
Pricing data	FSA052/COREP (Notes 17, 20, 21, ~~and~~ 24 and 29)						
Retail and corporate funding	FSA053/COREP (Notes 17, 20, 21, ~~and~~ 24 and 29)						
Currency Analysis	FSA054/COREP (Notes 17, 20, 21, ~~and~~ 24 and 29)						
Systems and Controls Questionnaire	FSA055/COREP (notes 18, 24 and 29)			FSA055 (Notes 18 and 24)			
Securitisation: trading book	~~FSA058 (Note 29)~~ COREP (Note 29)			FSA058 (Note 22)			
Supplementary capital data for *collective portfolio management investment firms*	FIN067 (Note 28)			FIN068 (Note 28)			
…	…						

Note 6	~~This will not be applicable to *BIPRU limited activity firms* or *BIPRU limited licence firms* unless they have a waiver under *BIPRU* 6.1.2G.~~ [deleted]
Note 7	~~This is only applicable to a *firm* that has adopted, in whole or in part, either the *standardised approach*, *alternative standardised approach*, or *advanced measurement approach* under *BIPRU* 6.~~ [deleted]
Note 8	Only applicable to ~~*BIPRU*~~ *IFPRU investment firms* and *BIPRU firms* that: (a) are subject to consolidated supervision under BIPRU 8, except those that are either included within the consolidated supervision of a group that includes a UK *credit institution*, or that have been granted an *investment firm consolidation waiver*; or (b) have been granted an *investment firm consolidation waiver*; or (c) are not subject to consolidated supervision under *BIPRU* 8. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (a) must complete the report on the basis of its *UK consolidation group*. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (b) or (c) must complete the report on the basis of its solo position.
…	
Note 12	~~Members of a *UK integrated group* should only submit this *data item* at the *UK integrated group level.*~~ Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
…	
Note 15	This item only applies to *firms* that are subject to an ~~*FSA*~~ *FCA* requirement to hold professional indemnity insurance and are not *exempt CAD firms*.
…	
Note 29	Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

16.12.22B G The ~~columns~~ column in the table in *SUP* 16.12.22AR that ~~deal~~ deals with ~~*BIPRU 50K firms* and *BIPRU 125K firms*~~ *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm* (see notes 18 and 24). ~~In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.~~

SUP 16.12.23R and 16.12.24R are deleted in their entirety. The deleted text is not shown.

16.12.23A R The applicable reporting frequencies for *data items* referred to in *SUP*

16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Frequency				
	Unconsolidated *BIPRU investment firm and IFPRU investment firm*	Solo consolidated *BIPRU investment firm* and *IFPRU investment firm*	*UK Consolidation Group* or *defined liquidity group*	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/FINREP	Refer to *EU CRR* and applicable technical standards				
Annual reports and accounts	Annually			Annually	Annually
Annual accounts of the *mixed-activity holding company*	Annually			Annually	Annually
Solvency statement	Annually				
FSA001	Quarterly or half yearly (Note 1)	Quarterly or half yearly (Note 1)	Half yearly		
FSA002	Quarterly or half yearly (Note 1)	Quarterly or half yearly (Note 1)	Half yearly		
FSA003	Monthly, quarterly or half yearly (Notes 2 and 11)	Monthly, quarterly or half yearly (Notes 2 and 11)	Half yearly		
FSA004	Quarterly or half yearly (Notes 1 and 11)	Quarterly or half yearly (Notes 1 and 11)	Half yearly		
FSA005	Quarterly or half yearly (Notes 1 and 11)	Quarterly or half yearly (Note 1)	Half yearly		
FSA006	Quarterly	Quarterly	Quarterly		
FSA007	Annually				
FSA008	Quarterly (Note 11)	Quarterly (Note 11)	Quarterly		
FSA016		Half yearly			
FSA018	Quarterly	Quarterly	Quarterly		
FSA019	Annually	Annually	Annually		

FSA028	Half yearly (Note 11)	Half yearly (Note 11)			
FSA032				Quarterly	Quarterly
FSA045	Quarterly or half yearly (Note 1)	Quarterly or half yearly (Note 1)	Half yearly		
FSA046	Quarterly	Quarterly	Quarterly		
FSA047	Daily, weekly, monthly or quarterly (Notes 4, 5 and 7)	Daily, weekly, monthly or quarterly (Notes 4, 5, 7 and 10)	Daily, weekly, monthly or quarterly (Notes 4, 6 and 7)		
FSA048	Daily, weekly, monthly or quarterly (Notes 4, 5 and 7)	Daily, weekly, monthly or quarterly (Notes 4, 5, 7 and 10)	Daily, weekly, monthly or quarterly (Notes 4, 6 and 7)		
FSA050	Monthly (Note 4)	Monthly (Notes 4 and 10)	Monthly (Note 4)		
FSA051	Monthly (Note 4)	Monthly (Notes 4 and 10)	Monthly (Note 4)		
FSA052	Weekly or monthly (Notes 4 and 8)	Weekly or monthly (Notes 4, 8 and 10)	Weekly or monthly (Notes 4 and 9)		
FSA053	Quarterly (Note 4)	Quarterly (Notes 4 and 10)	Quarterly (Note 4)		
FSA054	Quarterly (Note 4)	Quarterly (Notes 4 and 10)	Quarterly (Note 4)		
FSA055	Annually (Note 4)	Annually (Notes 4 and 10)	Annually (Note 4)		
FSA058	Quarterly (Note 11)	Quarterly (Note 11)	Quarterly		
FIN067	Quarterly (Note 4)	Quarterly (Note 4)			
FIN068	Half yearly	Half yearly			
Section A RMAR				Half yearly	Quarterly
Section B RMAR				Half yearly	Quarterly
Section C				Half yearly	Quarterly

RMAR					
Section D6 RMAR				Half yearly	Quarterly
Section E RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Quarterly
Section F RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section G RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section H RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section J RMAR	Annually	Annually	Annually	Annually	Annually
Section K RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Section L RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
Note 1	*IFPRU 730K firms* and *IFPRU 125K firms* - quarterly; *IFPRU 50K firms and BIPRU firms* - half yearly.				
Note 2	*IFPRU 730K firms* - monthly; *IFPRU 125K firms* - quarterly; *IFPRU 50K firms* and *BIPRU firms* - half yearly.				
Note 3	The reporting date for this *data item* is six months after a *firm's* most recent *accounting reference date*.				
Note 4	Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular: (1) a week means the period beginning on Saturday and ending on Friday; (2) a month begins on the first day of the calendar month and ends on the last day of that month; (3) quarters end on 31 March, 30 June, 30 September and 31 December; (4) daily means each *business day*. All periods are calculated by reference to London time. Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.				
Note 5	If the report is on a solo basis the reporting frequency is as follows: (1) if the *firm* does not have an *intra-group liquidity modification* the frequency is: (a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and				

	(b) monthly if the *firm* is a *low frequency liquidity reporting firm*; (2) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is: (a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and (b) monthly if the *firm* is a *low frequency liquidity reporting firm*; (3) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*.
Note 6	(1) If the report is by reference to the *firm's DLG by default* the reporting frequency is: (a) weekly if the *group liquidity standard frequency reporting conditions* are met; (b) monthly if the *group liquidity low frequency reporting conditions* are met. (2) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is: (a) weekly if the *group liquidity standard frequency reporting conditions* are met; (b) monthly if the *group liquidity low frequency reporting conditions* are met. (3) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.
Note 7	(1) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question. (2) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question. (3) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under (1) or (2) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.
Note 8	If the report is on a solo basis the reporting frequency is as follows: (1) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and (2) monthly if the *firm* is a *low frequency liquidity reporting firm*.
Note 9	If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is: (1) weekly if the *group liquidity standard frequency reporting conditions* are met; (2) monthly if the *group liquidity low frequency reporting conditions* are met.
Note 10	As specified in *SUP* 16.12.22AR, solo consolidation has no application to liquidity reporting. Therefore, it does not make any difference to the reporting of this item whether or not the *firm* is solo consolidated.
Note 11	Only applicable to *firms* that are not required to report a *data item* with a similar name and purpose under the *EU CRR* and applicable technical standards.

16.12.24A R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.23AR, unless indicated otherwise.

[The former table in SUP 16.12.24R is made in the same terms as SUP 16.12.24AR, save in so far as set out below:]

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/FINREP	Refer to *EU CRR* and applicable technical standards					
Annual accounts						…
...						
~~FSA007~~						~~2 months~~
FSA008				~~20 *business days* (note 1); 45 *business days* (note 2)~~		
…						
FSA028					~~30 *business days*~~	
…						
FSA046				~~20 *business days* (Note 1), 45 *business days* (Note 2)~~		
…						
FIN067	~~20 *business days*~~			30 *days*		
FIN068					30 *business days*	
Section A RMAR				30 *business days*	30 *business days*	
…						

Regulated Activity Group 8

…

16.12.25A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

[The columns in the table at SUP 16.12.25AR entitled ‘125K’ and ‘50k’ below are deleted in their entirety. The deleted text of those columns is not shown.]

Description of *data item*	*Firms'* prudential category and applicable *data items* (note 1)								
	~~*BIPRU*~~ *IFPRU investment firms* and *BIPRU firms*				*Firms* other than *BIPRU firms* or *IFPRU investment firms*				
	~~730K~~ *IFPRU*	~~125K~~	~~50K~~	*BIPRU*	*IPRU (INV)* Chapter 3	*IPRU (INV)* Chapter 5	*IPRU (INV)* Chapter 9	*IPRU (INV)* Chapter 13	*UPRU*
…									
Balance sheet	FSA001/FINREP (~~note~~ Notes 2 and 30)	…	…	FSA001 (Note 2)	…	…	…	…	
Income statement	FSA002/FINREP (~~note~~ Notes 2 and 30)	…	…	FSA002 (Note 2)	…	…	…	…	…
Capital adequacy	~~FSA003 (note 2)~~ COREP (Note 30)	…	…	FSA003 (Note 2)	…	…	…	…	…
Credit risk	~~FSA004 (notes 2, 3)~~ COREP (Note 30	…	…	FSA004 (Notes 2, 3)					
Market risk	~~FSA005 (notes 2, 4)~~ COREP (Note 30)	…	…	FSA005 (Notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)	…	…	FSA006 (Note 5)					
Operational risk	~~FSA007 (notes 2, 6, 7)~~ COREP (Note 30)	…	…						
Large exposures	~~FSA008 (Notes 2, 6)~~ COREP (Note 30)	…	…						
~~UK integrated group large exposures~~ Exposures between core *UK group* and *non-core large exposures group*	…	…	…						
Solo consolidation data	…	…	…	FSA016 (Note 20)					
Pillar 2 questionnaire	…	…	…	FSA019 (Note 8)					

Non-EEA sub-group	~~FSA028 (note 9)~~ COREP (Note 30)	…	…	FSA028 (Note 9)					
…									
Client money and client assets	…	…	…	FSA039					
IRB portfolio risk	…	…	…	FSA045 (Note 18)					
Securitisation : non-trading book	~~FSA046 (note 19)~~ COREP (Note 30)	…	…	FSA046 (Note 19)					
Daily Flows	FSA047/COREP (Notes 21, 24, 26, ~~and~~ 28 and 30)								
Enhanced Mismatch Report	FSA048/COREP (Notes 21, 24, 26, ~~and~~ 28 and 30)								
Liquidity Buffer Qualifying Securities	FSA050/COREP (Notes 22, 25, 26, ~~and~~ 28 and 30)								
Funding Concentration	FSA051/COREP (Notes 22, 25, 26, ~~and~~ 28 and 30)								
Pricing data	FSA052/COREP (Notes 22, 26, 28, ~~and~~ 29 and 30)								
Retail and corporate funding	FSA053/COREP (Notes 22, 25, 26, ~~and~~ 28 and 30)								
Currency Analysis	FSA054/COREP (Notes 22, 25, 26, ~~and~~ 28 and 30)								
Systems and Controls Questionnaire	FSA055/COREP (notes 23, 28 and 30)			FSA055 (notes 23 and 28)					
Securitisation: trading book	~~FSA058 (Note 27)~~ COREP (Note 30)			FSA058 (Note 27)					
…									
Note 6	~~This will not be applicable to *BIPRU limited activity firms* or *BIPRU limited licence firms* unless they have a waiver under *BIPRU* 6.1.2G.~~ [deleted]								
Note 7	~~This is only applicable to a firm that has adopted, in whole or in part, either the standardised approach, alternative standardised approach, or advanced measurement approach under~~								

	~~*BIPRU* 6.~~ [deleted]
Note 8	Only applicable to ~~*BIPRU*~~ *IFPRU investment firms* and *BIPRU firms* that: (a) are subject to consolidated supervision under *BIPRU* 8, except those that are either included within the consolidated supervision of a group that includes a UK *credit institution*, or that have been granted an *investment firm consolidation waiver*; or (b) have been granted an *investment firm consolidation waiver*; or (c) are not subject to consolidated supervision under *BIPRU* 8. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (a) must complete the report on the basis of its *UK consolidation group*. ~~A *BIPRU*~~ An *IFPRU investment firm* and a *BIPRU firm* under (b) or (c) must complete the report on the basis of its solo position.
…	
Note 12	~~Members of a *UK integrated group* should only submit this *data item* at the *UK integrated group* level.~~ Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
…	
Note 30	Requirements under COREP and FINREP should be determined with reference to the *EU CRR* and applicable technical standards.

16.12.25B G The ~~columns~~ column in the table in *SUP* 16.12.25AR that ~~deal~~ deals with ~~*BIPRU 50K firms* and *BIPRU 125K firms*~~ *IFPRU firms* cover some liquidity items that only have to be reported by an *ILAS BIPRU firm* (see notes 23 and 28). ~~In fact a *BIPRU 50K firm* and a *BIPRU 125K firm* cannot be an *ILAS BIPRU firm*. One reason for drafting the table in this way is that the classification of *firms* into *ILAS BIPRU firms* and *non-ILAS BIPRU firms* is not based on the classification into *BIPRU 50K firms*, *BIPRU 125K firms* and *BIPRU 730K firms* and the drafting of the table emphasises that. Also, the table covers consolidated reports and the conditions about what sort of group has to supply what type of liquidity report do not always depend on how the individual *firm* is classified.~~

16.12.26 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.25AR are set out according to the type of *firm* in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data Item	*Firms'* prudential category					
	~~*BIPRU*~~ *IFPRU 730K firm*	~~*BIPRU*~~ *IFPRU 125K firm*	~~*BIPRU*~~ *IFPRU 50K firm*	*BIPRU firm*	*UK consolidation group* or *defined liquidity group*	*Firm* other than *BIPRU firms* or *IFPRU investment firms*
COREP/FINREP	Refer to *EU CRR* and applicable technical standards				Refer to *EU CRR* and applicable technical	

					standards	
Annual report and accounts	Annually	Annually	Annually	Annually		Annually
Annual report and accounts of the *mixed-activity holding company*	Annually	Annually	Annually	Annually		
Solvency statement	Annually	Annually	Annually	Annually		Annually
FSA001	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA002	Quarterly	Quarterly	Half yearly	Half yearly	Half yearly	
FSA003	~~Monthly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA004	~~Quarterly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA005	~~Quarterly~~	~~Quarterly~~	~~Half yearly~~	Half yearly	Half yearly	
FSA006	Quarterly	Quarterly	Quarterly	Quarterly		
FSA007	~~Annual (note 4)~~	~~Annual (note 4)~~	~~Annual (note 4)~~	Annual (Note 4)	Annual (note 4)	
FSA008	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~		Quarterly	
FSA016	Half yearly	Half yearly	Half yearly	Half yearly		
...						
FSA019	Annually	Annually	Annually	Annually	Annually	
FSA028	~~Half yearly~~	~~Half yearly~~	~~Half yearly~~	Half yearly		
…						
FSA039	Half yearly	Half yearly	Half yearly	Half yearly		Half yearly
FSA045	Quarterly	Quarterly	Quarterly	Half yearly	Half yearly	
FSA046	~~Quarterly~~	~~Quarterly~~	~~Quarterly~~	Quarterly	Quarterly	
…						
FSA055	Annually (Note 5)			Annually (Note 5)	Annually (Note 5)	
FSA058	~~Quarterly~~ [deleted]	~~Quarterly~~ [deleted]	~~Quarterly~~ [deleted]	Quarterly	Quarterly	
…						

16.12.27 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.26R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/FINREP	Refer to *EU CRR* and applicable technical standards					
Annual accounts						…
...						

…

16.16 Prudent valuation reporting

Application

16.16.1 R This section applies to a *UK bank*, *UK designated investment firm* or a ~~*BIPRU 730K firm*~~ full-scope *IFPRU investment firm*, which meets the condition in *SUP* 16.16.2R.

…

Purpose

16.16.3 R (1) The purpose of this section is to set out the requirements for a *firm* specified in *SUP* 16.16.1R to report the outcomes of its prudent valuation assessments ~~under the prudent valuation rules, in *GENPRU* 1.3.4R and *GENPRU* 1.3.14R to *GENPRU* 1.3.34R,~~ to the *appropriate regulator* and to do so in a standard format.

(2) The purpose of collecting this data on the prudent valuation assessments made by a *firm* ~~under *GENPRU* 1.3.4R and *GENPRU* 1.3.14R to *GENPRU* 1.3.34R~~ is to assist the *appropriate regulator* in assessing the capital resources of *firms*, to enable the *appropriate regulator* to gain a wider understanding of the nature and sources of measurement uncertainty in fair-valued financial instruments, and to enable comparison of the nature and level of that measurement uncertainty across *firms* and over time.

[**Note**: articles 24 and 105 of the *EU CRR*]

Reporting requirement

16.16.4 R (1) A *firm* to which this section applies must submit to the *appropriate regulator* quarterly (on a calendar year basis and not from a *firm's accounting reference date*), within six weeks of each quarter end, a Prudent Valuation Return in respect of its fair-value assessments ~~under *GENPRU* 1.3.4R and *GENPRU* 1.3.14R to *GENPRU* 1.3.34R~~ in the format set out in *SUP* 16 Annex 31AR.

…

16.16.5 R ~~Where a firm to which *SUP* 16.16.4R applies is a member of a *UK consolidation group*, the *firm* must comply with *SUP* 16.16.4R:~~

~~(1) on a solo consolidation basis if the *firm* has a *solo consolidation waiver*, or on an unconsolidated basis if the *firm* does not have a *solo consolidation waiver*; and~~

~~(2) separately, on the basis of the consolidated financial position of the *UK consolidation group*. (Firms' attention is drawn to SUP 16.3.25G regarding a single submission for all *firms* in the *group*.)~~ [deleted]

16.16.5A R Where a *firm* to which *SUP* 16.16.4R applies is a member of a *FCA consolidation group*, the *firm* must comply with *SUP* 16.16.4R:

(1) on a solo-consolidation basis if the *firm* has an individual consolidation/solo consolidation permission, or on an unconsolidated basis if the *firm* does not have an individual consolidation/solo consolidation permission; and

(2) separately, on the basis of the consolidated financial position of the *FCA consolidation group*. (*Firms'* attention is drawn to *SUP* 16.3.25G regarding a single submission for all *firms* in the *group*.)

…

16.17 Remuneration reporting

…

High Earners Reporting Requirements

16.17.4 R …

(8) ~~A *firm* to which this section applies on the date it comes into effect must submit two reports by 31 December 2012: one for each of the previous two complete financial years that ended before this section came into force.~~ [deleted]

…

(10) This *rule* applies to a ~~*BIPRU firm* and a *third country BIPRU firm*~~ *bank*, *building society* and an *investment firm* that:

(a) is not an ~~*BIPRU*~~ *IFPRU limited licence firm* or an ~~*BIPRU*~~ *IFPRU limited activity firm*; and

…

(11) This *rule* also applies to a ~~*BIPRU firm* and a *third country BIPRU firm*~~ *bank*, *building society* and an *investment firm* that:

(a) is not an ~~*BIPRU*~~ *IFPRU limited licence firm* or an ~~*BIPRU*~~ *IFPRU limited activity firm*; and

…

(12) This *rule* also applies to an ~~*BIPRU*~~ *IFPRU limited licence firm* or an ~~*BIPRU*~~ *IFPRU limited activity firm*:

…

(b) where that UK lead regulated group contains ~~a *BIPRU firm* or a *third country BIPRU firm that is not* a *BIPRU limited licence firm* or a *BIPRU limited activity firm*~~ either:

(i) a *bank*, *building society* or an *investment firm* that is not an *IFPRU limited licence firm* or an *IFPRU limited activity firm*; or

(ii) an *overseas firm* that;

(A) is not an *EEA firm*;

(B) has its head office outside the *EEA*; and

(B) would be a *bank*, *building society* or an *investment firm* that is not an *IFPRU limited licence firm* or an *IFPRU limited activity firm*, if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the *Act*.

(13) This *rule* also applies to an *overseas firm* that:

(a) is not an *EEA firm*;

(b) has its head office outside the *EEA*;

(c) would be a *bank*, *building society* or an *investment firm* that is not a *limited licence firm* or *limited activity firm*, if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the *Act*;

and either:

(d) is not, and does not have, an *EEA parent institution* or an *EEA parent financial holding company*; or

(e) is part of a UK lead regulated group.

…

16 Annex 25G Guidance notes for data items in SUP 16 Annex 24R

Delete the guidance note entitled '**FSA018 – UK integrated group large exposures**' and substitute with the following. The delete text is not shown and the new text is not underlined.

FSA018 – Exposures from the core UK group to the noncore large exposures group

This data item is only applicable to *firms* that have both a *core UK group permission* and a *non-core large exposures group permission.* It captures information on *exposures* from the members of a *firm's core UK group* (and the *firm*) to the members of a *firm's non-core large exposures group.* A single report is required for exposures from all members of the *firm's core UK group* (and the *firm),* reflecting the exposures at the reporting date.

FSA018 was originally constructed to capture information on the level of exposures from the UK integrated group to the diverse blocks and residual blocks. However, *firms* should interpret this form on the basis of the *core UK group* and *non-core large exposures group* respectively, and follow the specific instructions provided for the individual data cells.

Valuation

Unless indicated otherwise, the valuation of data elements should follow article 390 of the *EU CRR.*

Currency

You should report in the currency of your annual audited accounts (ie, in either Sterling, Euro, US dollars, Canadian dollars, Swedish Kroner, Swiss Francs or Yen). Figures should be reported in 000s.

Data elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B. Individual rows within an element are identified as 2B.1, 2B.2 etc.

General

1

Ignore

2 Firm reference numbers

List the firm reference numbers for all the authorised firms in the *firm's core UK group* only. Firms should be listed sequentially in 2A, with the firm reference numbers being entered in 2B. Ignore cell 2C.

3A Core UK group eligible capital

This is c*ore UK group eligible capital*

4A Exposure number

Complete one line in relation to Section 4B. Ignore line marked 'Total'.

4B Non-core large exposures group

Complete one line only for aggregate exposure of the *core UK group* (and the *firm*) to all members of the *noncore large exposures group*.

4C Gross exposure

Report here the gross exposures (non-*trading book* and *trading book*) of all members of the *firm's core UK group* (and the *firm*) to all members of the *non-core large exposures group*.

4D % of core UK group eligible capital

This is column C as a percentage of data element 3A (*core UK group eligible capital*). It should be entered to two decimal places, omitting the % sign.

4E Exposure after credit risk mitigation

This is the figure reported in column C after credit risk mitigation. This figure is subsequently broken down in columns F to M.

4F Amount of the exposure that is exempt

That part of the amount reported in column E that is exempted under the *firm's non-core large exposures group permission*.

4G % of core UK group eligible capital

This is column F as a percentage of data element 3A (*core UK group eligible capital*. It should be entered to two decimal places, omitting the % sign.

4H Amount of the exposure that is not exempt and is in the non-trading book

That part of the exposure reported in column E that is not exempt and is in the non-*trading book*.

4J % of core UK group eligible capital

This is column H as a percentage of *core UK group eligible capital*. It should be entered to two decimal places, omitting the % sign.

4K Amount of the exposure that is not exempt and is in the trading book

Ignore.

4L % of core UK group eligible capital

Ignore.

4M Aggregate % of *core UK group eligible capital*

Ignore.

4N CNCOM

Ignore.

…

Amend the following as shown.

FSA045 – IRB portfolio risk

~~This data enables the appropriate regulator to understand the relationship between cyclicality and capital requirements under the CRD, help mitigate the risk of financial instability or economic recession, and be in a position to influence/contribute to international discussions on this. The information provided should be used to calculate that firm's capital requirements. Firms should submit the data in their own PD bands.~~

…

Definition of default – number of days

…

For *IFPRU firms* the number of days past due must be reported as 90 days except for retail exposures secured by residential or SME commercial real estate; and exposures to public sector entities. The definition of default for those two asset classes is 180 days past due, except where a waiver has been given to report defaults that are 90 days past due.

Credit risk

…

Exposure at default estimate

Calculate in accordance with ~~*BIPRU* 4~~ article 166 of the *EU CRR*. This should be the downturn EAD.

Maturity

This is the exposure weighted average maturity in days. It should take into account the maturity floor and ceiling.

PD – Probability of default

The probability of default of a counterparty over a one year period, calculated in accordance with *BIPRU* 4 for *BIPRU firms* and articles 160, 163 and 180 of the *EU CRR* for *IFPRU firms*. This should be the long-run PD and take into account the 0.03% PD floor.

LGD – Loss given default

The ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default, calculated in accordance with *BIPRU* 4 for *BIPRU firms* and Part 3 Title II Chapters 3 and 4 of the *EU CRR* for *IFPRU firms*. This should be the downturn LGD.

Expected loss

BIPRU firms should calculate in accordance with *BIPRU* 4. *IFPRU* firms should calculate in accordance with article 158 of the *EU CRR*.

Risk weighted exposure amount

Calculate in accordance with ~~*BIPRU* 4~~ articles 153 and 154 of the *EU CRR*. The SME-supporting factor according to article 501 of the *EU CRR* should be excluded.

…

16 Annex 31BG Guidance notes for data items in SUP 16 Annex 31AR

This return provides the appropriate regulator with a point-in-time estimate of the valuation uncertainty around a *firm's* fair-value positions in the context of the size and risk of its positions. The value of the positions at the downside end of the spread of valuation uncertainty will be equivalent to the prudent valuation of the *firm's* positions as determined using the *rules* laid out in ~~GENPRU 1.3.4R and GENPRU 1.3.14R to 1.3.34R~~ articles 24, 34 and 105 of the *EU CRR*.

…

Row 1-12 Asset Class Granularity

…

The split between 'Exotic' and 'Vanilla' positions is defined in the same way that products are categorised for the purposes of CAD2 recognition. The definition of a portfolio type is based on the regulatory classes for CAD2 recognition, split by asset class. ~~'Vanilla' positions are those positions referred to in BIPRU 7.10.21G(1) and (2) and include products with linear pay-offs in the underlying risk factor (whether securities or derivatives) and products with European, American and Bermudan put and call options (including caps,, floors and swaptions).~~

'Vanilla' positions are the following positions:

- linear products, which comprise *securities* with linear pay-offs (eg, bonds and *equities*) and *derivative* products which have linear pay-offs in the underlying risk factor (eg, interest rate *swaps*, FRAs, total return *swaps*);
- European, American and Bermudan put and call options (including caps, floors and swaptions) and investment with these features.

All other fair-valued positions are included within the 'Exotic' portfolios ~~and the broad classes of positions are set out in BIPRU 7.10.21G(3) and (4). BIPRU 7.6.18R provides further granularity on the definitions used in BIPRU 7.10.21G~~.

…

Part 2: Comes into force on 1 July 2014.

[*Editor's Note*: The text marked with "*" includes text which Part 1of Annex B amends.]

16.12.4 R Table of applicable rules containing *data items*, frequency and submission periods.

(1)		(2)	(3)	(4)
RAG number	*Regulated Activities*	Provisions containing:		
		applicable *data items*	reporting frequency/ period	due date
RAG 1	• accepting deposits • *meeting of repayment claims* • *managing dormant account funds (including the investment of such funds)*	*SUP* 16.12.5R, except FSA001 and FSA002 on a consolidated basis for *FINREP firms*	*SUP* 16.12.6R	*SUP* 16.12.7R
…				
RAG 3	• dealing in investment as principal • dealing in investments as agent • advising on investments (excluding retail investment activities) • arranging (bringing about) deals in investments (excluding retail investment activities)	*SUP* 16.12.10R *SUP* 16.12.11R or *SUP* 16.12.11BR for *UK designated investment firms**, except FSA001 and on a consolidated basis FSA002 for *FINREP firms*	*SUP* 16.12.10R *SUP* 16.12.12R or *SUP* 16.12.12AR for *UK designated investment firms**	*SUP* 16.12.10R *SUP* 16.12.13R
RAG 4	• managing investments • establishing, operating or winding up a collective investment scheme • establishing, operating or winding up a stakeholder pension scheme • establishing, operating or winding up a personal pension scheme • managing an *AIF* • managing a *UCITS*	*SUP* 16.12.14R *SUP* 16.12.15R or *SUP* 16.12.15BR for *UK designated investment firms** except FSA001 and FSA002 on a consolidated basis for *FINREP firms*	*SUP* 16.12.14R *SUP* 16.12.16R or *SUP* 16.12.16AR for *UK designated investment firms**	*SUP* 16.12.14R *SUP* 16.12.17R
…				
RAG 7	• retail investment activities • advising on pensions transfers & opt-outs • arranging (bringing about deals) in retail	*SUP* 16.12.22AR or *SUP* 16.12.22CR for *UK designated investment firms**, except FSA001 and FSA002 on a	*SUP* 16.12.23AR and *SUP* 16.12.23R for *UK designated investment firms**	*SUP* 16.12.24R

	investments	consolidated basis for *FINREP firms*		
RAG 8	• making arrangements with a view to transactions in investments • operating a multilateral trading facility	*SUP* 16.12.25AR or 16.12.25CR for *UK designated investment firms**, except FSA001 and FSA002 on a consolidated basis for *FINREP firms*	*SUP* 16.12.26R	*SUP* 16.12.27R
…				

Part 3: Comes into force on a date to be specified by the FCA Board in a subsequent instrument.

16.12 Integrated Regulatory Reporting

Application

16.12.1 G The effect of *SUP* 16.1.1R is that this section applies to every *firm* carrying on business set out in column (1) of *SUP* 16.12.4R except:

…

(1B) an *EEA bank*;

…

…

Reporting requirement

16.12.3 R (1) Any *firm* permitted to carry on any of the activities within each of the *RAG*s set out in column (1) of the table in *SUP* 16.12.4R must:

(a) …

(iv) in the case of a *non-EEA bank*~~, or an *EEA bank* (whether or not it has *permission* for *accepting deposits*) other than one with *permission* for *cross border services* only,~~ any *data items* submitted should, unless indicated otherwise, only cover the activities of the branch operation in the *United Kingdom*;

…

…

Regulated Activity Group 1

16.12.5 R The applicable *data items* and forms or reports referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

Description of *data item*	Prudential category of *firm*, applicable *data items* and reporting format (Note 1)							
	UK bank	*Building society*	*Non-EEA bank*	~~*EEA bank* that has *permission* to accept deposits, other than one with permission for cross border services only~~ [deleted]	~~*EEA bank* that does not have permission to accept deposits, other than one with permission for cross border services only~~ [deleted]	[deleted]	*Credit union*	*Dormant account fund operator* (note 15)
…								
Daily Flows	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	~~FSA047 (Notes 16, 18, 20 and 22)~~	~~FSA047 (Notes 16, 18, 20 and 22)~~			
Enhanced Mismatch Report	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	~~FSA048 (Notes 16, 18, 20 and 22)~~	~~FSA048 (Notes 16, 18, 20 and 22)~~			
Liquidity Buffer Qualifying Securities	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 19, 21 and 22)	~~FSA050 (Notes 17, 19, 21 and 22)~~	~~FSA050 (Notes 17, 19, 21 and 22)~~			
Funding Concentration	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 19, 21 and 22)	~~FSA051 (Notes 17, 19, 21 and 22)~~	~~FSA051 (Notes 17, 19, 21 and 22)~~			
Pricing data	FSA052 (Notes 17, 22 and 24)	FSA052 (Notes 17, 22 and 24)	FSA052 (Notes 17, 19, 22 and 24)	~~FSA052 (Notes 17, 19, 22 and 24)~~	~~FSA052 (Notes 17, 19, 22 and 24)~~			
Retail and	FSA053	FSA053	FSA053	~~FSA053~~	~~FSA053~~			

corporate funding	(Notes 17, 21 and 22)	(Notes 17, 21 and 22)	(Notes 17, 19, 21 and 22)	~~(Notes 17, 19, 21 and 22)~~	~~(Notes 17, 19, 21 and 22)~~			
Currency Analysis	FSA054 (Notes 17, 21 and 22)	FSA054 (Notes 17, 21 and 22)	FSA054 (Notes 17, 19, 21 and 22)	~~FSA054 (Notes 17, 19, 21 and 22)~~	~~FSA054 (Notes 17, 19, 21 and 22)~~			
…								

…

CAPITAL REQUIREMENTS DIRECTIVE IV (AIFMD AND UCITS CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2013

Powers exercised by the Financial Conduct Authority

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) the following sections of the Act:

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers); and
(c) section 139A (Power of the FCA to give guidance); and

(2) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions module of the FCA's Handbook.

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

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

Amendments to the Handbook

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

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for UCITS firms (UPRU)	Annex B
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex C
Supervision manual (SUP)	Annex D

Notes

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

European Union Legislation

F. Although European Union legislation is reproduced in this instrument, only European Union legislation printed in the paper edition of the Official Journal of the European Union is deemed authentic.

Citation

G. This instrument may be cited as the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instrument 2013.

By order of the Board of the Financial Conduct Authority
12 December 2013

Annex A

Amendments to the Glossary of definitions

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

base capital resources requirement	(1)	~~(except in *IPRU(INV)*)~~ an amount of *capital resources* that…
	(2)	~~(in *IPRU(INV)*) an amount of own funds that a *collective portfolio management firm* must hold in line with *IPRU(INV)* 11.3.1R (Base capital resources requirement).~~ [deleted]
base own funds requirement	(1)	(for the purposes of *IFPRU*)…
	(2)	(for the purposes of *IPRU(INV)* 11) an amount of *own funds* that a *collective portfolio management firm* or a *collective portfolio management investment firm* must hold as set out in *IPRU(INV)* 11.3.1R (Base own funds requirement).
client money	…	
	(2A)	(in *CASS* 6, *CASS* 7, *CASS* 7A and *CASS* 10 and, in so far as it relates to matters covered by *CASS* 6, *CASS* 7, *COBS*~~,~~ or *GENPRU* ~~or *IPRU(INV)* 11~~) subject to the *client money rules*, *money* of any currency:
		…
initial capital	…	
	(3)	(in *UPRU* and in accordance with article 28(1) of the *CRD*) ~~capital~~ the amount of own funds referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in accordance with ~~*UPRU* Table 2.2.1R (Method of calculation of financial resources) composed of the specified items set out in that Table~~ Part Two of those Regulations (Own funds).
	(3A)	(in *IPRU(INV)* 11 and in accordance with article 28(1) of the *CRD*) ~~capital~~ the amount of *own funds* referred to in article 26(1)(a) to (e) of the *EU CRR* and calculated in line with ~~*IPRU(INV)* Table 11.4 (Method of calculating initial capital and own funds) composed of the specified items in that Table~~ Part Two of those Regulations (Own funds).
own funds	…	

(2A) (in *IPRU(INV)* 11) ~~the own funds of a *firm* calculated with *IPRU(INV)* Table 11.4 (Method of calculating initial capital and own funds)~~ has the meaning in article 4(1)(118) of the *EU CRR*.

…

(4) (in *UPRU*) ~~funds calculated in accordance with *UPRU* Table 2.2.1R (Method of calculation of financial resources) composed of the specified items set out in that Table~~ has the meaning in article 4(1)(118) of the *EU CRR*.

qualifying capital instrument ~~(in *UPRU* and *IPRU(INV)*) means that part of a *firm's* capital which is a security of indeterminate duration, or other instrument, that fulfils the following conditions:~~

~~(a) it may not be reimbursed on the bearer's initiative or without the prior agreement of *FCA*;~~

~~(b) the debt agreement must provide for the *firm* to have the option of deferring the payment of interest on the debt;~~

~~(c) the lender's claims on the *firm* must be wholly subordinated to those of all non-subordinated creditors;~~

~~(d) the documents governing the issue of the securities must provide for debt and unpaid interest to be such as to absorb losses, whilst leaving the firm in a position to continue trading; and~~

~~(e) only fully paid-up amounts shall be taken into account.~~ [deleted]

qualifying capital item ~~(in *UPRU* and *IPRU(INV)*) means that part of a *firm's* capital which has the following characteristics:~~

~~(a) it is freely available to the *firm* to cover normal banking or other risks where revenue or capital losses have not yet been identified;~~

~~(b) its existence is disclosed in internal accounting records; and~~

~~(c) its amount is determined by the management of the *firm* and verified by independent auditors, and is made known to, and is monitored by, *FCA*.~~

~~Note: verification by internal auditors will suffice until such time as EU provisions making external auditing mandatory have been implemented~~. [deleted]

qualifying subordinated ~~(1) (in *UPRU*) has the meaning given in *IPRU(INV)* 5.2.5(1) to~~

loan ~~(7) (Qualifying subordinated loans).~~

~~(2)~~ ~~(in *IPRU(INV)* 11) has the meaning given in *IPRU(INV)* 11.5 (Qualifying subordinated loans).~~ [deleted]

readily realisable investment (1) ~~(except in *UPRU* and *IPRU(INV)*)~~

(a) a *packaged product*;

(b) a *readily realisable security*.

(2) ~~(in *UPRU* and *IPRU(INV)*) means a *unit* in a *regulated collective investment scheme*, a *life policy* or any *marketable investment* other than one which is traded on or under the rules of a *recognised* or *designated investment exchange* so irregularly or infrequently:~~

~~(a)~~ ~~that it cannot be certain that a price for that *investment* will be quoted at all times; or~~

~~(b)~~ ~~that it may be difficult to effect transactions at any price which may be quoted.~~ [deleted]

Annex B

Amendments to the Interim Prudential sourcebook for UCITS Firms (UPRU)

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

1 UCITS firms

…

1.2 Purpose

1.2.1 G …

(3) The *UCITS Directive* incorporates 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 repealed from 1 January 2014 and references to these directives are 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*.

2 Prudential requirements

2.1 Financial resources and financial resources requirements

…

Financial resources requirement

2.1.2 R The *financial resources requirement* for a *firm* is the higher of:

(1) …

(2) ~~13/52 of its annual audited fixed expenditure~~ the amount specified in article 97 of the *EU CRR* (Own funds based on fixed overheads) (as replicated in *UPRU* 2.1.2AEU).

2.1.2A EU

Own Funds based on Fixed Overheads	
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 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.

2.	Where there is a change in the business of an investment firm since the preceding year that the competent authority considers to be material, the competent authority may adjust the requirement laid down in paragraph 1.
3.	Where an investment firm has not completed business for one year, starting from the day it starts up, an investment firm shall hold eligible capital of at least one quarter of the fixed overheads projected in its business plan, except where the competent authority requires the business plan to be adjusted.
[**Note:** article 97(1) to (3) of the *EU CRR*]	

~~Annual fixed expenditure~~

2.1.3 R ~~For the purposes of this sourcebook, a *firm's* annual fixed expenditure is:~~

~~(1) the sum of the amounts described as total expenditure in the four *quarterly financial returns* up to (and including) that prepared at the *firm's* most recent *accounting reference date*, less the following items (if they are included within that expenditure):~~

~~(a) staff bonuses, except to the extent that they are guaranteed;~~

~~(b) *employees'* and *directors'* shares in profits, except to the extent that they are guaranteed;~~

~~(c) other appropriations of profits;~~

~~(d) shared *commission* and fees payable which are directly related to *commission* and fees receivable which are included within total revenue;~~

~~(e) interest charges in respect of borrowings made to finance the acquisition of the *firm's readily realisable investments*;~~

~~(f) interest paid to *customers* on *client money*;~~

~~(g) interest paid to *counterparties*;~~

~~(h) fees, brokerage and other charges paid to *clearing houses*, exchanges and *intermediate brokers* for the purposes of *executing*, registering or clearing transactions;~~

~~(i) foreign exchange losses;~~

~~(j) other variable expenditure; or~~

~~(2) where the previous accounting period does not include twelve months' trading, an amount calculated in accordance with (1) pro-rated to an equivalent annual amount; or~~

~~(3)~~ ~~where a *firm* has not prepared four *quarterly financial returns* since the commencement of its *permitted business*, an amount based on forecast expenditure included in the budget for the first twelve months' trading, as submitted with its application for authorisation~~. [deleted]

…

2.2 Methods of calculation of financial resources

2.2.1 R Part I

A firm must calculate its financial resources as shown below, subject to the detailed requirements set out in Part II.

Financial resources			Category	Part II
Para				
~~TIER 1~~				
	(1)	~~Paid-up share capital (excluding preference shares)~~ [deleted]	~~**A**~~	~~2~~
	(2)	~~Share premium account~~ [deleted]		
	(3)	~~Audited reserves~~ [deleted]		~~3~~
	(4)	~~Non-cumulative preference shares~~ [deleted]		
	(5)	~~*Eligible LLP members' capital*~~ [deleted]		4
	(6)	~~Investments in own shares~~ [deleted]	~~**B**~~	
	(7)	~~Intangible assets~~ [deleted]		~~5~~
	(8)	~~Material current year losses~~ [deleted]		~~6~~
	(8A)	~~*Excess LLP members' drawings*~~ [deleted]		
	(9)	~~Material holdings in credit and financial institutions~~		~~7~~

		[deleted]		
~~Initial capital = (A-B) =~~			**~~C~~**	~~1(b)~~
~~TIER 2~~				~~1~~
	(10)	~~Revaluation reserves~~ [deleted]	**~~D~~**	
	(11)	~~Fixed term cumulative preference share capital~~ [deleted]		~~1(a)~~
	(12)	~~Long-term Qualifying Subordinated Loans~~ [deleted]		~~1(a); 8~~
	(13)	~~Other cumulative preference share capital and debt capital~~ [deleted]		
	(14)	~~Qualifying arrangements~~ [deleted]		~~9~~
~~Own funds~~ *~~Own funds~~* ~~= (C+D) =~~			**E**	
~~TIER 3~~				
	(15)	Illiquid assets	**F**	11
Financial resources = (E-F) =			**G**	

PART II

DETAILED REQUIREMENTS

1 ~~Ratios~~

~~(Items 11 and 12)~~

~~(a)~~ ~~the total of fixed term cumulative preference shares (item 11) and long-term *qualifying subordinated loans* (item 12) that may be included in Tier 2 capital is limited to 50 per cent of Tier 1 capital ;~~

~~(b)~~ ~~Tier 1 capital must equal or exceed €125,000 at all times; and~~

(c) Tier 2 capital must not exceed 100 per cent of Tier 1 capital. [deleted]

2 Non corporate entities

(a) In the case of partnerships or sole traders, the following terms should be substituted, as appropriate, for items 1 to 4 in Tier 1 capital:

(i) partners' capital accounts (excluding loan capital);

(ii) partners' current accounts (excluding unaudited profits and loan capital);

(iii) proprietor's account (or other term used to signify the sole trader's capital but excluding unaudited profits).

(b) Loans other than *qualifying subordinated loans* shown within partners' or proprietors' accounts must be classified as Tier 2 capital under item 13.

(c) For the calculation of *financial resources*, partners' current accounts figures are subject to the following adjustments in respect of a *defined benefit occupational pension scheme*:

(i) a *firm* must derecognise any *defined benefit* asset:

(ii) a firm may substitute for *defined benefit liability* the *firm's deficit reduction amount*. The election must be applied consistently in respect of any one financial year.

Note

A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *FCA* the reasons for any difference between the *deficit reduction amount* and any commitment the firm has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*. [deleted]

3 Audited Reserves

For the calculation of *financial resources*, the following adjustments apply to the audited reserves figure:

(a) a *firm* must deduct any unrealised gains or, where applicable, add back in any unrealised losses on cash flow hedges of financial instruments measured at cost or amortised cost:

(b) in respect of a *defined benefit occupational pension scheme*, a *firm* must derecognise any *defined benefit asset*;

(c) a *firm* may substitute for a *defined benefit liability* the firm's *deficit reduction amount*. The election must be applied consistently in respect of any one financial year.

Note

A *firm* should keep a record of and be ready to explain to its supervisory contacts in the *FCA* the reasons for any difference between the *deficit reduction amount* and any commitment the *firm* has made in any public document to provide funding in respect of a *defined benefit occupational pension scheme*.

(d) a *firm* must not include any unrealised gains from investment property.

Note

Unrealised gains from investment property should be reported as part of revaluation reserves.

(e) where applicable, a *firm* must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but excluding from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax. [deleted]

4 Eligible LLP members' capital (Item 5)

Members' capital of a *limited liability partnership* may only be included in Tier 1 of the calculation (see item 5) if the conditions in *IPRU(INV)* Annex A 2.2R (Specific conditions for eligibility) and *IPRU(INV)* Annex A 2.3R (General conditions for eligibility) are satisfied. [deleted]

5 Intangible assets (Item 7)

Intangible assets comprise:

(a) formation expenses to the extent that these are treated as an asset in the *firm's* accounts;

(b) goodwill, to the extent that it is treated as an asset in the *firm's* accounts; and

(c) other assets treated as intangibles in the *firm's* accounts. [deleted]

6 Material current year losses (Item 8)

Losses in current year operating figures must be deducted when calculating Tier 1 capital if such losses are material. For this purpose profits and losses must be calculated quarterly, as appropriate. If this calculation reveals a net loss it shall only be deemed to be material for the purposes of this Table if it exceeds 10 per cent of the *firm's* Tier 1

~~capital.~~ [deleted]

7 ~~Material holdings in credit and financial institutions (Item 9)~~

~~Material holdings comprise:~~

~~(a)~~ ~~where the *firm* holds more than 10 per cent of the equity share capital of the institution, the value of that holding and the amount of any subordinated loans to the institution and the value of holdings in *qualifying capital items* or *qualifying capital instruments* issued by the institution;~~

~~(b)~~ ~~in the case of holdings other than those mentioned in (a) above, the value of holdings of equity share capital in, and the amount of subordinated loans made to, such institutions and the value of holdings in *qualifying capital items* or *qualifying capital instruments* issued by such institutions to the extent that the total of such holdings and subordinated loans exceeds 10 per cent of the *firm's own funds* calculated before the deduction of item 9.~~ [deleted]

8 ~~Long term~~ *~~qualifying subordinated loans~~* ~~(Item 12)~~

~~Loans having the characteristics prescribed by *IPRU(INV)* 5.2.5(1) R may be included in item 12, subject to the limits set out in paragraph (1) above.~~ [deleted]

9 ~~Qualifying arrangements (Item 14)~~

~~A *firm* may only include a *qualifying undertaking* or other arrangement in item 14 if it is a *qualifying capital instrument* or a *qualifying capital item*.~~ [deleted]

10 ~~Interim profits~~

~~Non-*trading book* interim profits may only be included in Tier 1 of the calculation if they have been independently verified by the *firm's* external auditors.~~

~~For this purpose, the auditor should normally undertake at least the following:~~

~~(a)~~ ~~satisfy himself that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records;~~

~~(b)~~ ~~review the accounting policies used in calculating the interim profits so as to obtain comfort that they are consistent with those normally adopted by the *firm* in drawing up its annual financial statements;~~

~~(c) perform analytical review procedures on the results to date, including comparisons of actual performance to date with budget and with the results of prior periods;~~

~~(d) discuss with management the overall performance and financial position of the *firm*;~~

~~(e) obtain adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities and provisions for bad and doubtful debts have been properly taken into account in arriving at the interim profits; and~~

~~(f) follow up problem areas of which the auditors are already aware in the course of auditing the *firm's* financial statements.~~

~~A *firm* wishing to include interim profits in Tier 1 capital in a *financial return* should submit to the *FCA* with the *financial return* a verification report signed by its auditor which states whether the interim results are fairly stated.~~

~~Profits on the sale of capital items or arising from other activities which are not directly related to the *designated investment business* of the *firm* may also be included within the calculation of *financial resources* if they can be separately verified by the *firm's* auditors. In such a case, such profits can form part of the *firm's* Tier 1 capital as audited profits.~~ [deleted]

11 Illiquid assets (Item 15)

Illiquid assets comprise:

…

UPRU 2.3 is deleted in their entirety. The deleted text is not shown.

Annex C

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

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

Contents

Chapter

…

10 [deleted]

11 Collective Portfolio Management Firms and Collective Portfolio Management Investment Firms

…

Transitional provisions

(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
…					
6	The changes to *IPRU(INV)* in Annex J of the Alternative Investment Fund Managers Directive Instrument 2013 and Annex C of the Capital Requirements Directive IV (AIFMD and UCITS	R	(1) Where a *firm* meets the conditions in (2) the changes effected by the ~~Annex~~ Annexes listed in column (2) do not apply and the provisions in *IPRU(INV)* amended by ~~that Annex~~ those Annexes will continue to apply as they were in force as at 21 July 2013. (2) The conditions are: (a) the *firm* falls within regulation 72(1) of the *AIFMD UK regulation*; and (b) the *firm* does not have a *Part 4A permission* to *manage an AIF*.	From 22 July 2013 until 21 July 2014	22 July 2013

	Consequential Amendments) Instrument 2013				
…					

Chapter 1: Application and General Provisions

…

1.2.2 R (1) *IPRU(INV)* applies to:

…

(j) an exempt CAD firm; ~~and~~

(k) a *collective portfolio management firm*; and

(l) a *collective portfolio management investment firm*.

…

…

1.2.5 R Table

This table belongs to IPRU(INV) 1.2.4R

…	
Collective portfolio management firm	Chapters 1 and 11
Collective portfolio management investment firm	Chapters 1 and 11
Personal investment firm	Chapters 1 and 13
…	

…

11 Chapter 11: Collective Portfolio Management Firms and Collective Portfolio Management Investment Firms

11.1 Introduction

Application

11.1.1 R This chapter applies to:

(1) a *collective portfolio management firm*; and

(2) a *collective portfolio management investment firm*.

11.1.2 G A *collective portfolio management firm* that manages an *AIF* is an *internally managed AIF* or an *external AIFM*. ~~This~~ If the *firm* is a *full-scope UK AIFM* this affects the *firm's base capital resources requirement* (see *IPRU(INV)* 11.3.1R). An *internally managed AIF* that is a *full-scope UK AIFM* is not permitted to engage in activities other than the management of that *AIF*, whereas an *external AIFM* that is a *full-scope UK AIFM* may manage *AIFs* and/or *UCITS*, provided it has *permission* to do so. A ~~*firm*~~ *full-scope UK AIFM* that is an *external AIFM* and/or a *UCITS management company* may undertake any of the additional investment activities permitted by article 6(4) of *AIFMD* or article 6(3) of the *UCITS Directive* (as applicable), provided it has *permission* to do so, but if so it ~~is subject to *GENPRU* and *BIPRU* rather than *IPRU(INV)* and~~ is classified as a *collective portfolio management investment firm*, as opposed to a *collective portfolio management firm*.

A *collective portfolio management investment firm* is also subject to the requirements of either (i) *GENPRU* and *BIPRU* or (ii) *IFPRU* in addition to the requirements of *IPRU(INV)* 11, as explained in *IPRU(INV)* 11.6.2G.

11.1.2A G A *small authorised UK AIFM* that is not also a *UCITS management company* is not a *collective portfolio management firm* or a *collective portfolio management investment firm* and is therefore not subject to *IPRU(INV)* 11. This type of *firm* is subject to *IPRU(INV)* 5 if it is an *investment management firm*, *GENPRU* and *BIPRU* if it is a *BIPRU firm* or *IFPRU* if it is an *IFPRU investment firm*.

…

Purpose

11.1.4 R …

(2) This chapter also implements relevant requirements of *AIFMD* and the *UCITS Directive*, which includes imposing capital and professional indemnity insurance requirements on ~~an *AIFM*~~ 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 repealed from 1 January 2014 and references to these directives are 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 ~~*collective portfolio management firm*~~ *firm* must:

(1) when it first becomes a *collective portfolio management firm* or a *collective portfolio management investment firm*, hold *initial capital* of not less than the applicable ~~*base capital resources requirement*~~ *base own funds requirement* (in line with *IPRU(INV)* 11.3.1R);

(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 ~~*fixed overheads requirement* (in line with *IPRU(INV)* 11.3.3R)~~ amount specified in article 97 of the *EU CRR* (Own funds based on fixed overheads) (as replicated in *IPRU(INV)* 11.3.3AEU); plus

(b) whichever is applicable of:

(i) the *professional negligence capital requirement* (in line with *IPRU(INV)* 11.3.11G(1)(a)); or

(ii) the *PII capital requirement* (in line with *IPRU(INV)* 11.3.11G(1)(b)); and

(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 capital resources requirement*~~ *base own funds requirement* (in line with *IPRU(INV)* 11.3.1R); and

(ii) the ~~*fixed overheads requirement* (in line with *IPRU(INV)* 11.3.3R)~~ amount specified in article 97 of the *EU CRR* (Own funds based on fixed overheads); plus

…

[**Note:** article 9(5) and 9(7) of *AIFMD* and article 7(1)(a)(iii) of the *UCITS Directive*]

Professional negligence

11.2.2 G (1) The *professional negligence capital requirement* applies to a ~~*firm* that manages an *AIF* (ie, an *external AIFM* or an *internally managed AIF*) and~~ *full-scope UK AIFM* which, in line with *IPRU(INV)* 11.3.11G(1)(a), covers professional liability risks by way of *own funds*.

(2) The *PII capital requirement* applies to a ~~*firm* that manages an *AIF* and~~ *full-scope UK AIFM* which, in line with *IPRU(INV)* 11.3.11G(1)(b), decides to cover professional liability risks by professional indemnity insurance.

11.3 Detail of main requirements

Base ~~capital resources~~ own funds requirement

11.3.1 R The ~~*base capital resources requirement*~~ *base own funds requirement* ~~for a *collective portfolio management firm*~~ is:

(1) €125,000 for a *firm* that is a ~~*UCITS firm*~~ *UCITS management company* or a *full-scope UK AIFM* that is an *external AIFM*; and

(2) €300,000 for a *full-scope UK AIFM* that is an *internally managed AIF*.

[**Note:** article 9(1), (2) and (10) of *AIFMD* and article 7(1)(a) of the *UCITS Directive*]

Funds under management requirement

11.3.2 R The *funds under management requirement* is (subject to a maximum of €10,000,000) the sum of:

(1) the ~~*base capital resources requirement*~~ *base own funds requirement*; plus

(2) 0.02% of the amount by which the *funds under management* exceed €250,000,000.

[**Note:** article 9(3) of *AIFMD* and article 7(1)(a)(i) of the *UCITS Directive*]

Fixed overheads requirement

11.3.3 R ~~The *fixed overheads requirement* is one quarter (13/52) of the *firm's* relevant fixed expenditure calculated in line with *IPRU(INV)* 11.3.4R.~~ [deleted]

~~[**Note:** article 9(5) of *AIFMD* and article 7(1)(a)(iii) of the *UCITS Directive*]~~

11.3.3A	EU	Own Funds based on Fixed Overheads	
		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 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.
		2.	Where there is a change in the business of an investment firm since the preceding year that the competent authority considers to be material, the competent authority may adjust the requirement laid down in paragraph 1.
		3.	Where an investment firm has not completed business for one year, starting from the day it starts up, an investment firm shall hold eligible capital of at least one quarter of the fixed overheads projected in its business plan, except where the competent authority requires the business plan to be adjusted.
		[**Note:** article 97(1) to (3) of the *EU CRR*]	

11.3.4 R ~~In *IPRU(INV)* 11.3.3R, and subject to *IPRU(INV)* 11.3.6R to *IPRU(INV)* 11.3.9R, a *firm's* relevant fixed expenditure is the amount described as total expenditure in its final income statement (FSA030) for the previous financial year, less the following items (if they are included within such expenditure):~~

~~(1) staff bonuses, except to the extent that they are guaranteed;~~

~~(2) *employees'* and *directors'* shares in profits, except to the extent that they are guaranteed;~~

~~(3) other appropriations of profits;~~

~~(4) shared *commission* and fees payable which are directly related to *commission* and fees receivable which are included within total revenue;~~

~~(5) interest charges in respect of borrowings made to finance the acquisition of the *firm's readily realisable investments*;~~

~~(6) interest paid to *customers* on *client money*;~~

~~(7) interest paid to *counterparties*;~~

~~(8) fees, brokerage and other charges paid to *clearing houses*, exchanges and *intermediate brokers* for the purposes of *executing*, registering or clearing transactions;~~

~~(9) foreign exchange losses; and~~

~~(10) other variable expenditure.~~ [deleted]

11.3.5 G ~~The income statement (FSA030) should be completed on a cumulative basis, so that the final income statement in a *firm's* financial year (ie the period that ends on the *firm's accounting reference date*) relates to the entire year.~~ [deleted]

11.3.6 R ~~The relevant fixed expenditure of a *firm* is:~~

~~(1) where its final income statement (FSA030) for the previous financial year does not relate to a twelve-month period, an amount calculated in accordance with *IPRU(INV)* 11.3.4R, pro-rated so as to produce an equivalent twelve-month amount; or~~

~~(2) where it has not completed twelve months' trading, an amount based on forecast expenditure included in the budget for the first twelve months' trading, as submitted with its application for *authorisation*.~~ [deleted]

11.3.7 R ~~A *firm* must adjust its relevant fixed expenditure calculation so far as necessary to the extent that since the submission of its final income statement (FSA030) for the previous financial year or since the budget was prepared (if *IPRU(INV)* 11.3.6R(2) applies):~~

~~(1) its level of fixed expenditure changes materially; or~~

~~(2) the *regulated activities* comprised within its *permission* change.~~ [deleted]

11.3.8 G ~~In *IPRU(INV)* 11.3.4R to *IPRU(INV)* 11.3.7R, fixed expenditure is expenditure which is inelastic relative to fluctuations in a *firm's* levels of business. Fixed expenditure is likely to include most salaries and staff costs, office rent, payment for the rent or lease of office equipment, and insurance *premiums*. It may be viewed as the amount of funds which a *firm* would require to enable it to cease business in an orderly manner, should the need arise. This is not an exhaustive list of such expenditure and a *firm* will itself need to identify which costs amount to fixed expenditure.~~ [deleted]

11.3.9 R ~~If a *firm* has a material proportion of its expenditure incurred on its behalf by another *person* and such expenditure is not fully recharged by that *person*, then the *firm* must adjust its relevant fixed expenditure calculation by adding back in the whole of the difference between the amount of the expenditure and the amount recharged.~~ [deleted]

11.3.10 G ~~Under *IPRU(INV)* 11.3.9R, the *FCA* would consider 10% of a *firm's* expenditure incurred on its behalf by other *persons* as material.~~ [deleted]

Professional negligence

11.3.11 G A ~~*firm* that manages an *AIF*~~ *full-scope UK AIFM* should:

…

…

IPRU(INV) 11.4 and 11.5 are deleted in their entirety. The deleted text is not shown.

Insert the following new sections after the deleted section for IPRU(INV) 11.5. The text is new and is not underlined.

11.6 Additional requirements for collective portfolio management investment firms

11.6.1 G A *collective portfolio management investment firm* is required to comply with the applicable requirements of either of the following sourcebooks in addition to complying with *IPRU(INV)* 11:

(1) *GENPRU* and *BIPRU* if it is a *BIPRU firm*; or

(2) *IFPRU* if it is *IFPRU investment firm*.

11.6.2 G (1) A *collective portfolio management investment firm* may undertake the following *MiFID business*: *portfolio management*; investment advice; safekeeping and administration in relation to *shares* or *units* of collective investment undertakings; and (if it is an *AIFM investment firm*) reception and transmission of orders in relation to *financial instruments*.

(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 *Banking Consolidation Directive* and the *Capital Adequacy Directive* (in line with article 95(2) of the *EU 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*.

11.6.3 G A *collective portfolio management investment firm* is required to comply with the applicable requirements of the sourcebooks set out in *IPRU(INV)* 11.6.1G, in parallel with its requirements under *IPRU(INV)* 11. This means that a capital instrument may be used to meet either or both sets of requirements provided it meets the conditions set out in the relevant

sourcebook.

11.6.4 G (1) When a *collective portfolio management investment firm* that is a *BIPRU firm* calculates the *credit risk capital requirement* and the *market risk capital requirement* for the purpose of calculating the variable capital requirement under *GENPRU* 2.1.40R it must do so only in respect of *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.

(2) Generally, *BIPRU* only applies to a *collective portfolio management investment firm* that is a *BIPRU firm* in respect of its *designated investment business* (excluding *managing an AIF* and *managing a UCITS*). However, *BIPRU* 2.2 (Internal capital adequacy standards), *BIPRU* 2.3 (Interest rate risk in the non-trading book), *BIPRU* 8 (Group risk - consolidation) and *BIPRU* 11 (Disclosure) apply to the whole of its business.

11.6.5 G (1) When a *collective portfolio management investment firm* that is an *IFPRU investment firm* calculates the total risk exposure amount in article 92(3) of the *EU CRR*, the *own funds requirements* referred to in article 92(3)(a) (Risk weighted exposure amount for credit risk and dilution risk) and article 92(3)(b) (Risk weighted exposure amount for position risk) should include only those arising from its *designated investment business*. For this purpose, *managing an AIF* or *managing a UCITS* is excluded from *designated investment business*.

(2) Generally, *IFPRU* only applies to the *designated investment business* (excluding *managing an AIF* and *managing a UCITS*) of a *collective portfolio management investment firm* that is an *IFPRU investment firm*. However, *IFPRU* 2.2 (Internal capital adequacy standards) and *IFPRU* 2.3 (Supervisory review and evaluation process: Internal capital adequacy standards) apply to the whole of its business.

11.7 Capital reporting

11.7.1 G The reporting requirements of capital adequacy for a *collective portfolio management firm* and a *collective portfolio management investment firm* are set out in *SUP* 16.12 (Integrated regulatory reporting). In summary, the relevant capital adequacy forms for its business of *managing an AIF* or *managing a UCITS* are as follows:

(1) a *collective portfolio management firm* is required to submit FIN066 (and FSA042 if it is a *UCITS firm*);

(2) a *collective portfolio management investment firm* that is an *IFPRU investment firm* is required to submit FIN067 (and FSA042 if it is a *UCITS investment firm*) and report using COREP; and

(3) a *collective portfolio management investment firm* that is a *BIPRU firm* is required to submit FIN068 (and FSA042 if it is a *UCITS investment firm*) and FSA003.

Annex D

Amendments to the Supervision manual (SUP)

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

16 Annex 24R Data items for SUP 16.12

FIN066 and FIN067 are deleted and replaced with the following forms (the text of these forms is new and is not underlined).

FIN066 - Capital adequacy (for collective portfolio management firms)

		A
	Regulatory Capital	
	Core Equity Tier 1	
1	Paid up capital instruments	
2	Share premium	
3	Retained earnings	
4	Other reserves	
5	AII other CET1 capital elements	
6	Deductions / Adjustments from CET1	
7	TOTAL	
	Additional Tier 1	
8	AT1 Capital elements	
9	Deductions / Adjustments from AT1	
10	TOTAL	
	Tier 2	
11	Subordinated loans	
12	Other T2 capital elements	
13	Deductions / Adjustments from T2	
14	TOTAL	
15	OWN FUNDS	
	Regulatory capital tests	
	Own funds test for collective portfolio management firms	
16	Own funds	
	Higher of:	
17	Funds under management requirement and	
18	Fixed overheads requirement	
19	+ (either) Professional negligence capital requirement	
20	+ (or) PII capital requirement	
21	Total capital requirement	
22	Surplus / deficit of own funds	
	Liquid assets test	
23	Liquid assets requirement	
24	Liquid assets held	
25	Surplus / deficit of liquid assets	
	Professional indemnity insurance	
26	Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	
27	If PII is held, provide the following policy details	

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
	PII basic information				Required Indemnity Limits				Indemnity Limits				PII detailed information		
PII policy	Annualised premium	Insurer (from list)	Start date	Renewal date	Single Indemnity limits: Sterling/ Euros or Unlimited	Single Limit of Indemnity	Aggregate Indemnity Limit in Sterling/Euros or Unlimited	Aggregate Limit of Indemnity	Single Indemnity limits: Sterling/ Euros or unlimited	Single Limit of Indemnity	Aggregate Indemnity Limit in: Sterling/ Euros or unlimited	Aggregate Limit of Indemnity	Business line	Policy excess	Policy exclusions
1															

FIN067 - Capital adequacy - supplemental (for collective portfolio management investment firms subject to IFPRU)

		A
	Regulatory capital tests	
1	Own funds	
	Higher of:	
	Higher of:	
2	Funds under management requirement	
	and	
3	Fixed overheads requirement	
4	+ (either) Professional negligence capital requirement	
5	+ (or) PII capital requirement	
6	Subtotal	
	and	
7	Own funds requirement	
8	Total requirement	
9	Surplus / (deficit) of financial resources	
	Liquid assets test	
10	Liquid assets requirement	
11	Liquid assets held	
12	Surplus / deficit of liquid assets	
	Professional indemnity insurance	
13	Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	
14	*If PII is held, provide the following policy details*	

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
	PII basic information												PII detailed information		
					Required Indemnity Limits				Indemnity Limits						
PII policy	Annualised premium	Insurer (from list)	Start date	Renewal date	Single Indemnity limits: Sterling/ Euros or Unlimited	Single Limit of Indemnity	Aggregate Indemnity Limit in: Sterling/Euros or Unlimited	Aggregate Limit of Indemnity	Single Indemnity limits: Sterling/ Euros or unlimited	Single Limit of Indemnity	Aggregate Indemnity Limit in: Sterling/ Euros or unlimited	Aggregate Limit of Indemnity	Business line	Policy excess	Policy exclusions
1															

FIN068 is added as follows (the text is new and is not underlined).

FIN068 - Capital adequacy - supplemental (for collective portfolio management firms subject to BIPRU)

		A
	Regulatory Capital	
	Core Equity Tier 1	
1	Paid up capital instruments	
2	Share premium	
3	Retained earnings	
4	Other reserves	
5	All other CET1 capital elements	
6	Deductions / Adjustments from CET1	
7	TOTAL	
	Additional Tier 1	
8	AT1 Capital elements	
9	Deductions / Adjustments from AT1	
10	TOTAL	
	Tier 2	
11	Subordinated loans	
12	Other T2 capital elements	
13	Deductions / Adjustments from T2	
14	TOTAL	
15	OWN FUNDS	
	Regulatory capital tests	
	Own funds test - AIFMD business	
16	Own funds	
	Higher of:	
17	Funds under management requirement	
	and	
18	Fixed overheads requirement	
19	+ (either) Professional negligence capital requirement	
20	+ (or) PII capital requirement	
21	Total capital requirement	
22	Surplus / deficit of own funds	
	Liquid assets test	
23	Liquid assets requirement	
24	Liquid assets held	
25	Surplus / deficit of liquid assets	
	MIFID business	
26	Own funds	
27	Variable capital requirement	
28	Surplus (deficit)	
	Professional indemnity insurance	
29	Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	
30	If PII is held, provide the following policy details	

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
	PII basic information				Required Indemnity Limits				Indemnity Limits				PII detailed information		
PII policy	Annualised premium	Insurer (from list)	Start date	Renewal date	Single indemnity limits: Sterling/ Euros or Unlimited	Single Limit of Indemnity	Aggregate Indemnity Limit in Sterling/Euros or Unlimited	Aggregate Limit of Indemnity	Single Indemnity limits: Sterling/ Euros or unlimited	Single Limit of Indemnity	Aggregate Indemnity Limit in Sterling/ Euros or unlimited	Aggregate Limit of Indemnity	Business line	Policy excess	Policy exclusions
1															

Amend the following as shown.

16 Annex 25G Guidance notes for data items in SUP 16 Annex 24R

…

FIN066 – Capital Adequacy (for *collective portfolio management firms*)

…

Data elements
These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Regulatory capital		
	1 to ~~19~~ 15	The figures in this section should be consistent with those submitted in FSA029 for the same reporting period and should be allocated based on *EU CRR* definitions of regulatory capital. Deductions should be reported as a minus figure.
Regulatory capital test		
Own funds test for collective portfolio management firms		
Own funds	~~20B~~ 16A	The amount of *own funds* calculated in line with ~~*IPRU(INV)* 11.4~~ article 4(1)(118) of the *EU CRR*. This is the figure entered at ~~19B~~15A.
Funds under management requirement	~~21B~~ 17A	…
Fixed overheads requirement	~~22B~~ 18A	This is one quarter of the annualised fixed expenditure calculated in line with *IPRU(INV)* ~~11.3.3R~~ 11.3.3AEU. ~~The amount to be entered in this element is calculated using elements 30 to 42 in the fourth quarter of the preceding financial year. Each of the four quarters in any financial year should use the figure calculated in the fourth quarter of the preceding year.~~ ~~Where there was no preceding year, the figure entered is that determined in line with *IPRU(INV)* 11.3.6R.~~
Professional negligence capital requirement	~~23B~~ 19A	The amount of additional *own funds* used to cover potential liability risks arising from professional negligence for *AIFM* activities in lieu of professional indemnity insurance, as per *IPRU(INV)* 11.3.11G(1)(a). When calculating this amount, *firms* should include the amount of any assets under management that are

		delegated to the firm by mandate, see *IPRU(INV)* 11.3.14EU. Note that this treatment is different from that prescribed for the *funds under management requirement* (see the guidance in line ~~21B~~ 17A). If a firm makes an entry in ~~23B~~ 19A it should not make an entry in ~~24B~~ 20A. This entry is only relevant for *full-scope UK AIFMs* and should be left blank if the *firm* is not a *full-scope UK AIFM*.
PII capital requirement	~~24B~~ 20A	The amount of any additional *own funds* required to cover any defined excess and exclusions in the insurance policy, as required by *IPRU(INV)* 11.3.11G(1)(b). If a firm makes an entry in ~~24B~~ 20A it should not make an entry in ~~23B~~ 19A. This entry is only relevant for *full-scope UK AIFMs* and should be left blank if the *firm* is not a *full-scope UK AIFM*.
Total capital requirement	~~25B~~ 21A	This is the higher of ~~21B~~ 17A and ~~22B~~ 18A, plus either ~~23B~~ 19A or ~~24B~~ 20A.
Surplus / deficit of own funds	~~26B~~ 22A	This is ~~20B~~ 16A less ~~25B~~ 21A.
Liquid assets test		
Liquid assets requirement	~~27B~~ 23A	…
Liquid assets held	~~28B~~ 24A	…
Surplus / deficit of liquid assets	~~29B~~ 25A	This is ~~28B~~ 24A less ~~27B~~ 23A.
~~**Calculation of relevant annual expenditure for forthcoming year**~~		
	~~30 to 42~~	~~This section of the data item must be completed when the reporting period end date is equal to the *firm's* accounting reference date, ie the fourth quarter. This does not need to be completed during the other three quarters. Where appropriate, figures entered should match those on FSA030 for the same reporting period.~~ ~~When, as per *IPRU(INV)* 11.3.6R(2), the *firm* is using projected figures, these should be entered in this section.~~
~~Total expenditure (per income statement)~~	~~30B~~	~~This should be the amount entered in element 22A of FSA030 for the same reporting period. FSA030 should be completed on a cumulative basis, so the amounts entered in the fourth quarter represent the entire financial year up to the accounting reference date.~~

~~Deductions from expenditure~~	~~31A to 40A~~	~~Deductions from expenditure should be made in line with *IPRU(INV)* 11.3.4R~~
~~Relevant fixed expenditure~~	~~41B~~	~~This is 30B less the sum of 31A to 40A~~
~~Relevant annualised fixed expenditure~~	~~42B~~	~~If the figures submitted in FSA030 for the period ending on the *firm's* accounting reference date do not include twelve month's trading, then the amount calculated in 41B must be pro-rated to an equivalent annual amount. This situation may occur if the *firm* has changed its accounting reference date.~~ ~~Where a *firm* has not completed a full year since the commencement of its permitted business, an amount based on forecast expenditure included in its budget for the first twelve months' trading, as submitted with its application for membership, should be entered.~~
Professional Indemnity Insurance		
Specify whether your firm holds additional own funds or PII in accordance with ~~IPRU(INV) 7.3.12R~~ regulatory requirements	~~43B~~ 26A	…
PII Basic information		
	~~44~~ 27	…
Annualised premium	~~44A~~ 27A	…
Insurer (from list)	~~44B~~ 27B	…
Start date	~~44C~~ 27C	…
Renewal date	~~44D~~ 27D	…
~~Currency of indemnity limits~~ Required Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited	~~44E~~ 27E	~~Using the appropriate International Organization for Standardization ISO 4217 three digit code (eg, GBP), enter the currency~~ Specify whether ~~in which~~ the indemnity ~~limits~~ limit in ~~fields~~ field ~~44F~~ 27F ~~to~~ ~~44J~~ ~~are~~ is reported in GBP or EUR. If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27F blank.
~~Limit of indemnity required: single~~ Required Indemnity Limits: Single Limit of Indemnity	~~44F~~ 27F	You should record here, in the currency specified in 27E, the required indemnity limits on the *firm's* PII policy or policies, received in relation to single claims. A *firm* should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate. ~~Where these are denominated in a currency other than the currency of the report, the figure should be~~

		~~converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~
~~Limit of indemnity required: aggregate~~ Required Indemnity Limits: Aggregate Indemnity Limit in Sterling/Euros or Unlimited	~~44G~~ 27G	~~You should record here the required indemnity limits on the *firm's* PII policy or policies, or in aggregate. A firm should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.~~ ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~ Specify whether the indemnity limit in field 27H is reported in GBP or EUR. If the aggregate limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27H blank.
~~Limit of indemnity received: single~~ Required Indemnity Limits: Aggregate Limit of Indemnity	~~44H~~ 27H	You should record here, in the currency specified in 27G, the required indemnity limits on the *firm's* PII policy or policies, received in relation to single claims. A *firm* should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate. ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~
Indemnity Limits: Single Indemnity Limits: Sterling/Euros or unlimited	27I	Specify whether the indemnity limit in field 27J is reported in GBP or EUR. If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27J blank.
~~Limit of indemnity received: aggregate~~ Indemnity Limits: Single Limit of Indemnity	~~44J~~ 27J	You should record here, in the currency specified in 27I, the indemnity limits on the *firm's* PII policy or policies, received in ~~aggregate~~ relation to single claims. ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~
Indemnity Limits:	27K	Specify whether the indemnity limit in field 27L is

Aggregate Indemnity Limit in: Sterling/Euros or unlimited		reported in GBP or EUR. If the aggregate limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 27L blank.
Indemnity Limits: Aggregate Limit of Indemnity	27L	You should record here, in the currency specified in 27K, the indemnity limits on the *firm's* PII policy or policies, received in aggregate.
PII detailed information		
Business line (from list)	~~44K~~ 27M	… Where the policy contains different excesses for different business lines, *firms* should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element ~~44L~~ 27N. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'.
Policy excess	~~44L~~ 27N	… In line with *IPRU(INV)* 11.3.11G(1)(b), a *firm* should include additional own funds sufficient to cover the highest excess in the amount reported in ~~24B~~ 20A.
Policy exclusions	~~44M~~ 27O	… In line with *IPRU(INV)* 11.3.11G(1)(b), a *firm* should include additional own funds sufficient to cover any liabilities arising in the amount reported in ~~24B~~ 20A.

FIN066 – Capital Adequacy (for *collective portfolio management firms*) validations

Internal validations

Data elements are referenced by row, then column.

Validation number	Data element		
1	~~6B~~7A	=	Σ(~~1B~~1A:~~5B~~6A)
2	~~12B~~10A	=	~~Σ(7A:11A)~~8A – 9A
3	~~13B~~14A	=	~~6B~~Σ(11A:12A) – ~~12B~~13A
4	~~19B~~15A	=	~~Σ(13B:18B)~~7A + 10A + 14A
5	~~20B~~16A	=	~~19B~~15A
6	~~25B~~21A	=	(higher of ~~21B~~17A and ~~22B~~18A) + ~~23B~~19A + ~~24B~~20A
7	~~26B~~22A	=	~~20B~~16A – ~~25B~~21A
8	25A	=	24A-23A
~~10~~	~~41B~~	~~=~~	~~30B - Σ(31A:40A)~~

~~External validations~~

~~Validation number~~ ~~Data element~~

~~1 30B – FSA030.22A~~

FIN067 – Capital adequacy – supplemental (for *collective portfolio management investment firms* subject to *IFPRU*)

Introduction

FIN067 provides a framework for the collection of prudential information required by the *FCA* for its supervision activities. The data item is intended to reflect the underlying prudential requirements in ~~*GENPRU* 2.1.63R to 2.1.74R~~ *IPRU(INV)* 11 and *IFPRU* and allows monitoring against those requirements.

…

Data Elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Own funds	1A	This amount should be equal to the figure entered in ~~element 57A of FSA003~~ the appropriate fields under COREP for the same reporting period.
…		
Fixed overheads requirement	3A	The amount calculated in line with ~~*GENPRU* 2.1.53R~~ *IPRU(INV)* 11.3.3AEU. The amount should equal ~~element 104A on FSA003~~ the appropriate fields under COREP for the same reporting period.
Professional negligence capital requirement	4A	The amount of additional *own funds* used to cover potential liability risks arising from professional negligence in relation to *AIFM* activities in lieu of professional indemnity insurance, as per ~~*GENPRU* 2.1.67G(1)(a)~~ *IPRU(INV)* 11.3.11G(1)(a). When calculating this amount, *firms* should include the amount of any assets under management that are delegated to the firm by mandate, as set out in ~~*GENPRU* 2.1.70EU~~ *IPRU(INV)* 11.3.14EU. Note that this treatment is different from that prescribed for the *funds under management requirement* (see the guidance in line 2A). If a *firm* makes an entry in 4A it should not make an entry in 5A. This entry is only relevant for *full-scope UK AIFMs* and should be left blank if the *firm* is not a *full-scope UK AIFM*.

PII capital requirement	5A	The amount of any additional *own funds* required to cover any defined excess and exclusions in the insurance policy, as required by ~~*GENPRU* 2.1.67G(1)(b)~~ *IPRU(INV)* 11.3.11G(1)(b). If a *firm* makes an entry in 5A it should not make an entry in 4A. This entry is only relevant for *full-scope UK AIFMs* and should be left blank if the *firm* is not a *full-scope UK AIFM*.
Subtotal	6A	This is higher of 2A and 3A plus 4A or 5A.
~~Variable capital requirement~~ Own funds requirements	~~6A~~ 7A	The amount of *own funds requirements* ~~calculated~~ in line with ~~*GENPRU* 2.1.45R~~ article 92 of the *EU CRR*. The amount should equal ~~element 70A on FSA003~~ the appropriate fields under COREP for the same reporting period.
Total requirement	~~7A~~ 8A	This is the higher of ~~2A and 3A plus 4A or 5A,~~ 6A and ~~6A~~ 7A.
Surplus / deficit of own funds	~~8A~~ 9A	This is 1A less ~~7A~~ 8A.
Liquid assets test		
Liquid assets requirement	~~9A~~ 10A	The amount of *own funds* required by ~~*GENPRU* 2.1.64R~~ *IPRU(INV)* 11.2.1R(3).
Liquid assets held	~~10A~~ 11A	…
Surplus / deficit of liquid assets	~~11A~~ 12A	This is ~~10A~~ 11A less ~~9A~~ 10A.
Professional Indemnity Insurance		
Does your firm hold additional own funds or PII in accordance with ~~GENPRU 2.1.67G~~ regulatory requirements	~~12A~~ 13A	…
PII Basic information		
	~~13~~ 14	…
Annualised premium	~~13A~~ 14A	…
Insurer (from list)	~~13B~~ 14B	…
Start date	~~13C~~ 14C	…
Renewal date	~~13D~~ 14D	…
~~Currency of indemnity limits~~ Required Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited	~~13E~~ 14E	~~Using the appropriate International Organization for Standardization ISO 4217 three digit code (eg, GBP), enter the currency~~ State whether ~~in which~~ the indemnity ~~limits~~ limit, in ~~fields~~ field ~~13F~~ 14F ~~to 13J are~~ is reported in GBP or EUR.

		If the single limit of indemnity is unlimited, select 'unlimited' from the dropdown and leave 14F blank.
~~Limit of indemnity required: single~~ Required Indemnity Limits: Single Limit of Indemnity	~~13F~~ 14F	You should record here, in the currency specified in 14E, the required indemnity limits on the *firm's* PII policy or policies for single claims. A *firm* should calculate this amount with reference to ~~*GENPRU* 2.1.71EU~~ *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate. ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~
~~Limit of indemnity required: aggregate~~ Required Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or Unlimited	~~13G~~ 14G	~~You should record here the required indemnity limits on the *firm's* PII policy or policies, in aggregate. A *firm* should calculate this amount with reference to *GENPRU* 2.1.71EU and include the amount of any assets under management that are delegated to the firm by mandate.~~ ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~ Specify whether the indemnity limit in field 14H is reported in GBP or EUR. If the single limit of indemnity is unlimited, select 'unlimited' from the dropdown and leave 14H blank.
~~Limit of indemnity received: single~~ Required Indemnity Limits: Aggregate Limit of Indemnity	~~13H~~ 14H	You should record here, in the currency specified in 14G, the required indemnity limits on the firm's PII policy or policies in relation to single aggregate claims. A *firm* should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate. ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~
Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited	14I	Specify whether the indemnity limit in field 14J is reported in GBP or EUR.

		If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 14J blank.
~~Limit of indemnity received: aggregate~~ Indemnity Limits: Single Limit of Indemnity	~~13J~~ 14J	You should record here, in the currency specified in 14I, the required indemnity limits on the *firm's* PII policy or policies, received in aggregate. A *firm* should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate. ~~Where these are denominated in a currency other than the currency of the report, the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date.~~
Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or Unlimited	14K	Specify whether the indemnity limit in field 14J is reported in GBP or EUR. If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 14L blank.
Indemnity Limits: Aggregate Limit of Indemnity	14L	You should record here, in the currency specified in 14I, the indemnity limits on the *firm's* PII policy or policies, received in aggregate.
PII detailed information		
Business line (from list)	~~13K~~ 14M	For policies that cover all business lines, *firms* should select 'All' from the list provided. Where the policy contains different excess for different business lines, *firms* should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element ~~13L~~ 14N. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'.
Policy excess	~~13L~~ 14N	… In line with ~~*GENPRU* 2.1.67G(1)(b)~~ *IPRU(INV)* 11.3.11G(1)(b), a *firm* should include additional own funds sufficient to cover the highest excess in the amount reported in 5A.
Policy exclusions	~~13M~~ 14O	… In line with ~~*GENPRU* 2.1.67G(1)(b)~~ *IPRU(INV)* 11.3.11G(1)(b), a *firm* should include additional own funds sufficient to cover any liabilities arising in the amount reported in 5A.

FIN067 – Capital adequacy – supplemental (for *collective portfolio management investment firms* subject to *IFPRU*) validations

Internal validations

Data elements are referenced by row, then column.

Validation number	Data element		
1	~~7A~~6A	=	~~Higher of ((~~Higher of 2A and 3A) + 4A + 5A~~) and 6A~~
2	8A	=	Higher of 6A and 7A
~~2~~3	~~8A~~9A	=	1A – ~~7A~~8A
~~3~~4	~~11A~~12A	=	~~10A~~11A – ~~9A~~10A

~~**External validations**~~

~~Validation number~~	~~Data element~~		
~~1~~	~~1A~~	~~=~~	~~FSA003.57A~~
~~2~~	~~3A~~	~~=~~	~~FSA003.104A~~
~~3~~	~~6A~~	~~=~~	~~FSA003.70A~~

The following text is new and is not underlined.

FIN068 – Capital Adequacy - supplemental (for *collective portfolio management investment firms* subject to *GENPRU/BIPRU*)

Introduction

FIN068 provides a framework for the collection of prudential information required by the *FCA* for its supervision activities. The data item is intended to reflect the underlying prudential requirements in *IPRU(INV)* 11 and GENPRU/BIPRU and allows monitoring against those requirements.

Defined terms

Where terms used in these notes are defined by the Companies Act 2006, as appropriate, or the provisions of the *firm's* accounting framework (usually UK GAAP or *IFRS*) they should have that meaning. The descriptions in these notes are designed to repeat, summarise or amplify the relevant statutory or other definitions and terminology without departing from their full meaning or effect.

- The data item should comply with the principles and requirements of the *firm's* accounting framework, which will generally be UK GAAP (including relevant provisions of the Companies Act 2006 as appropriate) or *IFRS*.
- The data item should be completed on an unconsolidated basis.
- The data item should be in agreement with the underlying accounting records.
- Accounting policies should be consistent with those adopted in the *firm's annual report and accounts* and consistently applied.
- Information required should be prepared in line with generally accepted accounting standards.

- The data item should not give a misleading impression of the *firm*. A data item is likely to give a misleading impression if a *firm* wrongly omits or includes a material item or presents a material item in the wrong way.

Currency
You should report in the currency of your annual audited accounts, ie in Sterling, Euro, US dollars, Canadian dollars, Swedish Kroner, Swiss Francs or Yen. Figures should be reported in 000s.

Data elements
These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Regulatory capital		
	1 to 15	The figures in this section should be consistent with those submitted in FSA001 for the same reporting period and should be allocated based on *EU CRR* definitions of regulatory capital. Deductions should be reported as a minus figure.
Regulatory capital tests		
Own funds test – AIFMD/UCITS business		
Own funds	16A	The amount of *own funds* calculated in line with article 4(1)(118) of the *EU CRR*. This is the figure entered at 15A.
Funds under management requirement	17A	Up to a maximum of €10,000,000, this is the *base capital resources requirement* plus 0.02% of the amount by which the *firm's funds under management* exceeds €250,000,000. If the data item is not submitted with figures in Euros, then the figure should be converted to the currency of the submission using the closing mid-market rate of exchange on the reporting period end date. The appropriate definition of *funds under management* to be used in this calculation is that set out in the *FCA Handbook* Glossary of definitions.
Fixed overheads requirement	18A	This is one quarter of the annualised fixed expenditure calculated in line with *IPRU(INV)* 11.3.3AEU.
Professional negligence capital requirement	19A	The amount of additional *own funds* used to cover potential liability risks arising from professional negligence for *AIFM* activities in lieu of professional indemnity insurance, as per *IPRU(INV)* 11.3.11G(1)(a). When calculating this amount, *firms* should include the amount of any assets under management that are delegated to the firm by mandate, see *IPRU(INV)* 11.3.14EU. Note that this treatment is different from

		that prescribed for the *funds under management requirement* (see the guidance in line 17A). If a *firm* makes an entry in 19A it should not make an entry in 20A. This entry is only relevant for *full-scope UK AIFMs* and should be left blank if the *firm* is not a *full-scope UK AIFM*.
PII capital requirement	20A	The amount of any additional *own funds* required to cover any defined excess and exclusions in the insurance policy, as required by *IPRU(INV)* 11.3.11G(1)(b). If a *firm* makes an entry in 20A it should not make an entry in 19A. This entry is only relevant for *full-scope UK AIFMs* and should be left blank if the *firm* is not a *full-scope UK AIFM*.
Total capital requirement	21A	This is the higher of 17A and 18A, plus either 19A or 20A.
Surplus / deficit of own funds	22A	This is 16A less 21A.
Liquid assets test – AIFMD/UCITS business		
Liquid assets requirement	23A	This is the amount required by *IPRU(INV)* 11.2.1R(3).
Liquid assets held	24A	This is the amount of liquid assets held by the *firm* at the reporting date. Assets are regarded as liquid if they are readily convertible to cash within one month. This figure must not include speculative positions.
Surplus / deficit of liquid assets	25A	This is 24A less 23A.
Own funds tests – MiFID business		
Own funds	26A	This amount should be equal to the figure entered in element 15A of FSA003 for the same reporting period.
Variable capital requirement	27A	The amount calculated in line with *GENPRU* 2.1.45R. The amount should equal element 70A on FSA003 for the same reporting period.
Surplus (deficit)	28A	This amount should be equal to the figure entered in element 106A of FSA003 for the same reporting period.
Professional Indemnity Insurance		
Specify whether your firm holds additional own funds or PII in accordance with regulatory requirements	29A	The *firm* should report either "Own funds" or "PII". Where a *firm* has PII but also holds *own funds* to cover any excesses and/or exclusions on the policy, the *firm* should report "PII".
PII Basic information		
	30	*Firms* should enter details on all relevant PII policies,

		using a separate line for each policy. A *firm* may satisfy its requirements for professional indemnity insurance with a policy that also provides cover to one or more entities other than the *firm*, provided the policy satisfies the conditions of the *AIFMD level 2 regulation* in respect of the *firm,* exclusive of the cover provided to other entities by the policy. If such a policy is held, each *firm* covered by the policy should include the policy information on their return.
Annualised premium	30A	This should state the premium payable (in descending order of size, where relevant), net of tax and any other add-ons. If the premium covers a period other than 12 months, it should be annualised before ranking.
Insurer (from list)	30B	Select the PII insurer from the list provided. If you have more than one policy with the same insurer, they should be combined. If the insurer is not listed, select 'Other'. If a policy is underwritten by more than one insurance undertaking or Lloyd's syndicate, you should select 'multiple'.
Start date	30C	Enter the start date of the policy.
Renewal date	30D	Enter the renewal date of the policy.
Required Indemnity Limits: Single Indemnity Limits: Sterling/Euros or Unlimited	30E	Specify whether the indemnity limit in field 30F is reported in GBP or EUR. If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 30F blank.
Required Indemnity Limits: Single Limit of Indemnity	30F	You should record here, in the currency specified in 30E, the required indemnity limits on the *firm's* PII policy or policies in relation to single claims. A *firm* should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.
Required Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or Unlimited	30G	Specify whether the indemnity limit in field 30H is reported in GBP or EUR. If the single limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 30H blank.
Required Indemnity Limits: Aggregate Limit of Indemnity	30H	You should record here, in the currency specified in 30G, the required indemnity limits on the *firm's* PII policy or policies in relation to aggregate claims. A *firm* should calculate this amount with reference to *IPRU(INV)* 11.3.15EU and include the amount of any assets under management that are delegated to the firm by mandate.

Indemnity Limits: Single Indemnity Limits: Sterling/Euros or unlimited	30I	Specify whether the indemnity limit in field 30J is reported in GBP or EUR. If the single limit is unlimited, select 'unlimited' from the dropdown and leave 30J blank.
Indemnity Limits: Single Limit of Indemnity	30J	You should record here, in the currency specified in 30J, the indemnity limits on the *firm's* PII policy or policies, received in relation to single claims.
Indemnity Limits: Aggregate Indemnity Limit in: Sterling/Euros or unlimited	30K	Specify whether the indemnity limit in field 30L is reported in GBP or EUR. If the aggregate limit of indemnity is unlimited select 'unlimited' from the dropdown and leave 30L blank.
Indemnity Limits: Aggregate Limit of Indemnity	30L	You should record here, in the currency specified in 30 K, the indemnity limits on the *firm's* PII policy or policies received in aggregate.
PII detailed information		
Business line (from list)	30M	For policies that cover all business lines, *firms* should select 'All' from the list provided. Where the policy contains different excesses for different business lines, *firms* should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 30N. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'.
Policy excess	30N	For policies that cover all business lines with no difference in excesses, this should be the excess applicable. Otherwise, it should contain the highest excess for each business line that differs. In line with *IPRU(INV)* 11.3.11G(1)(b), a *firm* should include additional own funds sufficient to cover the highest excess in the amount reported in 20A.
Policy exclusions	30O	If there are exclusions in the *firm's* PII policy, the business type(s) to which they relate should be selected here from the list provided. In line with *IPRU(INV)* 11.3.11G(1)(b), a *firm* should include additional own funds sufficient to cover any liabilities arising in the amount reported in 20A.

FIN068 – Capital Adequacy (for *collective portfolio management investment firms*) validations

Internal validations

Data elements are referenced by row, then column.

Validation number	Data element		
1	7A	=	Σ(1A:6A)
2	10A	=	9A-8A
3	14A	=	Σ(11A:12A) – 13A
4	15A	=	7A + 10A + 14A
5	16A	=	15A
6	21A	=	(higher of 17A and 18A) + 19A + 20A
7	22A	=	16A – 21A
8	25A	=	24A – 23A
9	28A	=	26A – 27A

Amend the following as shown.

TP 1.8 AIFMD

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: date in force	(6) Handbook provisions: coming into force
1	The changes to *SUP* 16.12 set out in Annex M of the Alternative Investment Fund Managers Directive Instrument 2013, other than those relating to FSA041 and Annex D of the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instruments 2013.	R	(1) Where a *firm* meets the conditions in (2) the changes effected by the ~~Annex~~ Annexes listed in column (2) do not apply…	…	…
2	The changes to SUP 16.12 set out in Annex M of the	R	(1) Where a *firm* meets the conditions in (2) the changes effected by the	From 22 July 2013 until ~~30 January 2014~~	…

	Alternative Investment Fund Managers Directive Instrument 2013, other than those relating to FSA041 and Annex D of the Capital Requirements Directive IV (AIFMD and UCITS Consequential Amendments) Instrument 2013.		~~Annex~~ Annexes listed in column (2) do not apply…	22 July 2014	

Financial Conduct Authority

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25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk
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