

Chapter 5

Concentration risk

5.5 The concentration risk soft limit and exposure value excess

The concentration risk soft limit

- 5.5.1 **R**
- (1) The *concentration risk soft limit* for EVs to an individual *client* or *group of connected clients* is 25% of a *firm's own funds*, subject to (2) and (3).
 - (2) Where an individual client is a *MIFIDPRU-eligible institution*, the *concentration risk soft limit* for that *client* is the higher of:
 - (a) 25% of the *firm's own funds*; or
 - (b) £150 million or 100% of the *firm's own funds*, whichever is the lower.

Where a *group of connected clients* includes one or more *MIFIDPRU-eligible institutions*, the *concentration risk soft limit* for the group is the higher of:

- (a) 25% of the *firm's own funds*; or
- (b) £150 million or 100% of the *firm's own funds*, whichever is the lower, provided that for the sum of *exposure values* with regard to all *connected clients* that are not *MIFIDPRU-eligible institutions*, the *concentration risk soft limit* remains at 25% of the *firm's own funds*.

- 5.5.2 **G**
- The *Handbook* definition of *MIFIDPRU-eligible institution* includes private or public *undertakings*, including the branches of such *undertakings*, provided that those *undertakings*, if they were established in the *UK*, would be *UK credit institutions* or *MIFIDPRU investment firms*, and provided that those *undertakings* have been authorised in a *third country* that applies prudential supervisory and regulatory requirements comparable to those applied in the *UK*.

The exposure value excess (EVE)

- 5.5.3 **R**
- (1) A *firm* that exceeds the *concentration risk soft limit* for a *client* or *group of connected clients* must calculate the *exposure value excess (EVE)*.

- (2) A firm must calculate the *EVE* for an individual *client* or *group of connected clients* using the following formula:

$$EVE = EV - L$$

where:

L = the *concentration risk soft limit* specified in ■ MIFIDPRU 5.5.1R.