

Chapter 3

Standardised credit risk

3.1 Application and purpose

Application

- 3.1.1 **R** ■ BIPRU 3 applies to a *BIPRU firm*.

Purpose

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

- (1) Articles 78 to 80, paragraph (1) of Article 81, Article 83, Annex II and Parts 1 and 3 of Annex VI of the *Banking Consolidation Directive*;
- (2) Article 18 of the *Capital Adequacy Directive* so far as it applies Articles 78 to 80, paragraph (1) of Article 81, Article 83 and Parts 1 and 3 of Annex VI of the *Banking Consolidation Directive* to *investment firms*; and
- (3) Article 40 of the *Capital Adequacy Directive* for the purposes of the calculation of credit risk under the *Banking Consolidation Directive*.

- 3.1.3 **G** ■ BIPRU 3.1 sets out how a *firm* should calculate the *credit risk capital component*, which is one of the elements that make up the *credit risk capital requirement* under ■ GENPRU 2.1.51 R. Part of that calculation involves calculating *risk weighted exposure amounts* for exposures in the *firm's non-trading book*. The rest of ■ BIPRU 3 sets out how the *firm* should carry out that calculation.

- 3.1.4 **G** ■ BIPRU 5 deals with the effect of *credit risk mitigation* on the calculation of *risk weighted exposure amounts*. ■ BIPRU 13 deals with the calculation of *exposure values* for certain kinds of products. ■ BIPRU 14.3 deals with the calculation of the *counterparty risk capital component* for unsettled transactions in the *trading book* and *non-trading book*. ■ BIPRU 14.4 deals with *capital resources* with respect to *free deliveries*.

Calculation of the credit risk capital component

- 3.1.5 **R** The *credit risk capital component* of a *firm* is 8% of the total of its *risk weighted exposure amounts* for exposures falling into ■ BIPRU 3.1.6 R, calculated in accordance with ■ BIPRU 3.

3.1.6

R

An *exposure* falls into this *rule* if:

- (1) it is in a *firm's non-trading book*; and
- (2) it has not been deducted from the *firm's capital resources* under
■ GENPRU 2.2.