

Chapter 5

Credit risk mitigation

5.3 On balance sheet netting

Eligibility

5.3.1 **R** A *firm* may recognise as eligible the on-balance sheet netting of mutual claims between the *firm* and its counterparty.

[Note: BCD Annex VIII Part 1 point 3]

5.3.2 **R** Without prejudice to **■** BIPRU 5.6.1 R, eligibility is limited to reciprocal cash balances between a *firm* and a counterparty. Only loans and deposits of the *lending firm* may be subject to a modification of *risk weighted exposure amounts* and, as relevant, *expected loss* amounts as a result of an on-balance sheet netting agreement.

[Note: BCD Annex VIII Part 1 point 4]

Minimum requirements

5.3.3 **R** For on-balance sheet netting agreements - other than master netting agreements covering *repurchase transactions, securities or commodities lending or borrowing transactions* and/or other *capital market-driven transactions* – to be recognised for the purposes of **■** BIPRU 5 the following conditions must be satisfied:

- (1) they must be legally effective and enforceable in all relevant jurisdictions, including in the event of the insolvency or bankruptcy of a counterparty;
- (2) the *firm* must be able to determine at any time those assets and liabilities that are subject to the on-balance sheet netting agreement;
- (3) the *firm* must monitor and control the risks associated with the termination of the credit protection; and
- (4) the *firm* must monitor and control the relevant *exposures* on a net basis.

[Note: BCD Annex VIII Part 2 point 3]

Calculating the effects of credit risk mitigation

5.3.4 **R** Loans and deposits with a *lending firm* subject to on-balance sheet netting are to be treated as cash collateral.

[Note: BCD Annex VIII Part 3 point 4]