

## Chapter 8

# Group risk consolidation

## 8.1 Application

- 8.1.1** **R** This chapter applies to:
- (1) a *BIPRU firm* that is a member of a *UK consolidation group*;
  - (2) a *BIPRU firm* that is a member of a *non-EEA sub-group*; and
  - (3) [deleted]
  - (4) a *firm* that is not a *BIPRU firm* and is a *parent financial holding company in a Member State in a UK consolidation group*.
- 8.1.2** **R** This chapter does not apply to a *firm* in ■ BIPRU 8.1.1R (1) to ■ BIPRU 8.1.1R (3) which is a member of the *UK consolidation group* or *non-EEA sub-group* if the interest of the relevant *UK consolidation group* or *non-EEA sub-group* in that *firm* is no more than a *participation*.
- 8.1.2A** **R** A *firm* is not subject to consolidated supervision under ■ BIPRU 8 where any of the following conditions are fulfilled:
- (1) the *firm* is included in the supervision on a *consolidated basis* of the *group* of which it is a member by the *FCA* or *PRA* under the *EU CRR*; 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*.
- 8.1.3** **G** **Purpose**  
 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*.

### How this chapter is organised

- 8.1.4 **G** ■ BIPRU 8.2 sets out the definition of *UK consolidation group* and the basic requirement to apply financial resources and concentration risk requirements to that group on a consolidated basis.
- 8.1.5 **G** ■ BIPRU 8.3 sets out the definition of a *non-EEA sub-group* and the basic requirement to apply financial resources and concentration risk requirements to that group on a consolidated basis.
- 8.1.6 **G** ■ BIPRU 8.4 sets out how a group of *CAD investment firms* can apply for a *waiver* from consolidated capital requirements although remaining subject to consolidated supervision (including reporting requirements).
- 8.1.7 **G** ■ BIPRU 8.5 sets out the basis for including and excluding *undertakings* within the group for the purposes of consolidation.
- 8.1.8 **G** ■ BIPRU 8.6 sets out the calculation of the *consolidated capital resources* of a group and the limits that apply.
- 8.1.9 **G** ■ BIPRU 8.7 sets out the calculation of the *consolidated capital resources requirement* of a group.
- 8.1.10 **G** ■ BIPRU 8.8 deals with the application of *advanced prudential calculation approach* on a consolidated basis.
- 8.1.11 **G** ■ BIPRU 8.9 sets out consolidated concentration risk requirements.

### Consolidation requirements for BIPRU firms elsewhere in the Handbook

- 8.1.12 **G** ■ SYSC 12 (Group risk systems and controls requirement) deals with systems and controls requirements for groups.
- 8.1.13 **G** ■ GENPRU 1.2 (Adequacy of financial resources) deals with the detail about how ■ GENPRU 1.2 applies on a consolidated basis although the underlying requirement to apply it on a consolidated basis is in ■ BIPRU 8.2 and ■ BIPRU 8.3.
- 8.1.14 **G** ■ BIPRU 11 (Disclosure) itself deals with how that chapter is applied on a consolidated basis.
- 8.1.15 **G** ■ GENPRU 3.1 (Cross sector groups) deals with *financial conglomerates*.
- 8.1.16 **G** ■ GENPRU 3.2 (Prudential rules for third country groups) deals, amongst other things, with banking and investment services groups headed by a *parent undertaking* outside the *EEA*.

## 8.2 Scope and basic consolidation requirements for UK consolidation groups

### Main consolidation rule for UK consolidation groups

**8.2.1** **R** A firm that is a member of a UK consolidation group must comply, to the extent and in the manner prescribed in ■ BIPRU 8.5, with the obligations laid down in ■ GENPRU 1.2 (Adequacy of financial resources) and the main BIPRU firm Pillar 1 rules (but not the base capital resources requirement) on the basis of the consolidated financial position of:

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

**8.2.2** **R** Further to ■ BIPRU 8.2.1 R, a firm that is a member of a UK consolidation group must at all times ensure that the consolidated capital resources of the UK consolidation group are equal to or exceed its consolidated capital resources requirement.

**8.2.3** **G** The base capital resources requirement does not apply on a consolidated basis.

### Definition of UK consolidation group

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

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

the *parent financial holding company in a Member State* or the *parent mixed financial holding company in a Member State* identified in ■ BIPRU 8 Annex 1 R together with any other person who is a member of that *consolidation group* because of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*;

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

- 8.2.5 **R** For the purposes of this chapter, what would otherwise be a *UK consolidation group* is not a *UK consolidation group* if all the members of that *UK consolidation group* wholly form part of another *UK consolidation group*.
- 8.2.6 **G**
- 8.2.7 **G** ■ BIPRU 8 Annex 1 (Decision tree identifying a UK consolidation group) shows that Articles 125 and 126 of the *Banking Consolidation Directive* are important in deciding whether the *appropriate regulator* is obliged to supervise a group or part of a group and hence whether that group or part of a group is a *UK consolidation group*. ■ BIPRU 8 Annex 4 (Text of Articles 125 and 126 of the *Banking Consolidation Directive*) sets out these articles together with an explanation of how those articles should be read in the case of a group which also contains *CAD investment firms*.

## 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* or of a *mixed financial holding company* must apply the requirements laid down in ■ GENPRU 1.2 (Adequacy of financial resources) and the *main BIPRU firm Pillar 1 rules* (but not the *base capital resources requirement*) on a sub-consolidated basis if the BIPRU firm, or the *parent undertaking* where it is a *financial holding company* or a *mixed financial holding company*, have a *third country investment services undertaking* as a *subsidiary undertaking* or hold a *participation* in such an *undertaking*.

(2) (1) only applies if the *appropriate regulator* is required by the *Banking Consolidation Directive* or the *Capital Adequacy Directive* to supervise the group established under (1) under Article 73(2) of the *Banking Consolidation Directive* (Non-EEA sub-groups).

**8.3.2** **R** Further to ■ BIPRU 8.3.1 R, a *firm* that is a member of a *non-EEA sub-group* must at all times ensure that the *consolidated capital resources* of that *non-EEA sub-group* are equal to or exceed its *consolidated capital resources requirement*.

**8.3.3** **G** The *base capital resources requirement* does not apply on a consolidated basis.

**8.3.4** **G** The *sub-group* identified in ■ BIPRU 8.3.1 R is called a *non-EEA sub-group*.

### How to identify a non-EEA sub-group

**8.3.5** **G**

**8.3.6** **G** The remainder of this section sets out a process for identifying a *non-EEA sub-group* in straightforward cases.

**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 a CAD investment firm, financial institution or asset management company whose head office is outside the EEA (a third country investment services undertaking);*
- (2) *one of the following applies:*
  - (a) *it is a subsidiary undertaking of a BIPRU firm in that UK consolidation group; or*
  - (b) *a BIPRU firm in that UK consolidation group holds a participation in it; and*
- (3) *that BIPRU firm is not a parent institution in a Member State.*

**8.3.8** **G** The *sub-group of the BIPRU firm identified in ■ BIPRU 8.3.7G (2)(a) or ■ BIPRU 8.3.7G (2)(b) is a potential non-EEA sub-group.*

**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-groups.*

**8.3.10** **G** Similarly if there is more than one *BIPRU firm that holds a participation in the third country investment services undertaking in accordance with ■ BIPRU 8.3.7G (2)(b) then the sub-group of each such BIPRU firm is a potential non-EEA sub-group.*

**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.*

**8.3.12** **G** The *firm should then identify each undertaking in the firm's UK consolidation group that satisfies the following conditions:*

- (1) *it is a CAD investment firm, financial institution or asset management company whose head office is outside the EEA (a third country investment services undertaking);*
- (2) *one of the following applies:*
  - (a) *it is a subsidiary undertaking of a financial holding company in that UK consolidation group; or*
  - (b) *a financial holding company in that UK consolidation group holds a participation in it;*
- (3) *the head office of that financial holding company is in the United Kingdom; and*
- (4) *that financial holding company has a subsidiary undertaking that is a BIPRU firm.*

- 8.3.13 **G** The *sub-group* of the *financial holding company* identified in ■ BIPRU 8.3.12G (2)(a) or ■ BIPRU 8.3.12G (2)(b) is a potential *non-EEA sub-group*.
- 8.3.14 **G** The *financial holding company* identified in ■ BIPRU 8.3.12 G may be a *parent financial holding company in a Member State*.
- 8.3.15 **G** If more than one *financial holding company* is a direct or indirect *parent undertaking* in accordance with ■ BIPRU 8.3.12G (2)(a) then the *sub-groups* of each of them are all potential *non-EEA sub-groups*.
- 8.3.16 **G** Similarly if there is more than one *financial holding company* that holds a *participation* in the *third country investment services undertaking* in accordance with ■ BIPRU 8.3.12G (2)(b) then the *sub-group* of each such *financial holding company* is a potential *non-EEA sub-group*.
- 8.3.17 **G** The *firm* should apply the process in ■ BIPRU 8.3.12 G to a *third country investment services undertaking* even though it may be also be part of a potential *non-EEA sub-group* under ■ BIPRU 8.3.7 G.
- 8.3.18 **G** Having identified potential *non-EEA sub-groups* for each *third country investment services undertaking* in its *UK consolidation group* the *firm* should then eliminate overlapping potential *non-EEA sub-groups* in the following way. If:
- (1) one potential *non-EEA sub-group* is contained within a wider potential *non-EEA sub-group*; and
  - (2) the *third country investment services undertaking* in the two potential *non-EEA sub-groups* are the same;
- then the smaller potential *non-EEA sub-group* is eliminated.
- 8.3.19 **G** If there is a chain of three or more potential *non-EEA sub-groups*, each with the same *third country investment services undertaking*, the elimination process may remove all but the highest.
- 8.3.20 **G** Each remaining potential *non-EEA sub-group* is a *non-EEA sub-group*, even though it may be part of a wider *non-EEA sub-group*.
- 8.3.21 **G**
- 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.

**8.3.23** **G** Even where the requirements for a *non-EEA sub-group* are absorbed into those for the *UK consolidation group* a *firm* should still make clear in its regulatory reporting that the consolidation figures relate to a *UK consolidation group* and a *non-EEA sub-group* and that they both contain the same members.

**8.3.24** **G** The examples in this section have so far assumed that the only *EEA State* involved is the *United Kingdom*. If a potential *non-EEA sub-group* that would otherwise be regulated by the *appropriate regulator* contains a potential *non-EEA sub-group* in another *EEA State* then the *United Kingdom* one is eliminated if the *third country investment services undertaking* in the *UK* potential *non-EEA sub-group* and the potential *non-EEA sub-group* in the other *EEA State* are the same. The intention here is that the *EEA competent authority* closest to the *third country investment services undertaking* should be responsible for the *non-EEA sub-group* subconsolidation. Example 6 in ■ BIPRU 8 Annex 3 (Examples of how to identify a non-EEA sub-group) illustrates this situation.

## 8.4 CAD Article 22 groups and investment firm consolidation waiver

### Application

**8.4.1** **R** This section applies to a *BIPRU 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.

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

**8.4.2** **G** A *BIPRU firm* may apply for a *waiver* of the requirement in this chapter to apply capital requirements on a consolidated basis. Such a *waiver* is called an *investment firm consolidation waiver*.

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

**8.4.4** **G** The *FCA* will not grant an *investment firm consolidation waiver* unless:

- (1) the *UK consolidation group* or *non-EEA sub-group* meets the conditions for being a *CAD Article 22 group*;
- (2) the *FCA* is satisfied that each *BIPRU firm* in the *UK consolidation group* or *non-EEA sub-group* will be able to meet its capital requirements using the calculation of *capital resources* in **■ GENPRU 2 Annex 6R** (Capital resources table for a *BIPRU firm* with a waiver from consolidated supervision); and
- (3) the *firm* demonstrates that the requirements in **■ BIPRU 8.4.11 R** to **■ BIPRU 8.4.18 R** will be met.

**8.4.5** **G** The standards in **■ BIPRU 8.4.4 G** are minimum standards. Satisfaction of these conditions does not automatically mean the *FCA* will give an *investment firm consolidation waiver*. The *FCA* will in addition also apply the tests in Section 138A of the *Act* (Modification or waiver of rules).

- 8.4.6 **G** ■ SUP 8 (Waiver and modification of rules) and ■ BIPRU 1.3 (Application for advanced approaches) are also relevant to applications for an *investment firm consolidation waiver*.

### Meeting the terms of an investment firm consolidation waiver

- 8.4.7 **R** If a *firm* has an *investment firm consolidation waiver* with respect to its *UK consolidation group* or *non-EEA sub-group* but that *UK consolidation group* or *non-EEA sub-group* ceases to meet the definition of a *CAD Article 22 group* the *firm* must comply with the rest of this chapter rather than this section notwithstanding the *investment firm consolidation waiver*.

- 8.4.8 **G** Compliance with the capital requirements set out in ■ BIPRU 8.4.11 R is a condition under the *Capital Adequacy Directive* for the exemption from capital requirements. Thus if they are breached the *FCA* is likely to revoke the *investment firm consolidation waiver*.

### Definition of a CAD Article 22 group

- 8.4.9 **R**
- (1) A *CAD Article 22 group* means a *UK consolidation group* or *non-EEA sub-group* that meets the conditions in this rule.
  - (2) There must be no *bank*, *building society* or *credit institution* in the *UK consolidation group* or *non-EEA sub-group* and any *investment firm* in the *UK consolidation group* or *non-EEA sub-group* must not be subject to consolidated supervision under the *EU CRR*.
  - (3) Each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* which is an *EEA firm* must use the definition of own funds given in the *CRD implementation measure* of its *EEA State* for Article 16 of the *Capital Adequacy Directive*.
  - (4) Each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* must be a:
    - (a) *limited activity firm*; or
    - (b) *limited licence firm*.
  - (5) Each *CAD investment firm* in the *UK consolidation group* or *non-EEA sub-group* which is an *EEA firm* must:
    - (a) meet the requirements imposed by the *CRD implementation measures* of its *EEA State* for Articles 18 and Article 20 of the *Capital Adequacy Directive* on an individual basis; and
    - (b) deduct from its own funds any contingent liability in favour of other members of the *UK consolidation group* or *non-EEA sub-group*.
  - (6) Each *BIPRU firm* in the *UK consolidation group* or *non-EEA sub-group* must comply with the *main BIPRU firm Pillar 1 rules* on an individual basis.
- 8.4.10 **G** ■ GENPRU 2.2 (Capital resources) says that a *BIPRU firm* with an *investment firm consolidation waiver* should calculate its *capital resources* on a solo basis using ■ GENPRU 2 Annex 6 (Capital resources table for a *BIPRU firm* with a

waiver from consolidated supervision). ■ GENPRU 2 Annex 6 requires a *BIPRU firm* to deduct contingent liabilities in favour of other members of the *UK consolidation group* or *non-EEA sub-group*. Therefore ■ BIPRU 8.4.9R (5)(b) only imposes the requirement to deduct them on *EEA firms*.

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

8.4.11

R

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

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

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

8.4.12

R

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

- (1) the capital resources are the sum of *capital resources* calculated at stages D (Total tier one capital before deductions) and I (Total tier two capital) of the version of the *capital resources table* in ■ GENPRU 2 Annex 4R (Capital resources table for a BIPRU firm deducting material holdings) as adjusted in accordance with this *rule*;
- (2) *capital resources* at stage D must not include *innovative tier one capital resources*, but they may be included at stage I if (5) allows this;
- (3) the amount of the items which may be included at stage I must not exceed the amount calculated at stage D of the *capital resources table*;
- (4) the amount of the items which may be included in *lower tier two capital* in stage I must not exceed 50% of the amount calculated at stage D of the *capital resources table*; and
- (5) ■ GENPRU 2.2.25 R (Limits on the use of different forms of capital: Use of higher tier capital in lower tiers) and ■ GENPRU 2.2.27 R (Use of *innovative tier one capital* in lower stages of capital) apply.

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

- 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.
- 8.4.14** **R** A firm must exclude *material holdings* in the notional calculation of the *credit risk capital requirement* for the purposes of ■ BIPRU 8.4.13 R. A firm must identify whether it has any *material holdings* and the amount of them in accordance with ■ GENPRU 2.2 (Capital resources) and ■ GENPRU 2 Annex 4 (Capital resources table for a BIPRU firm deducting material holdings).
- 8.4.15** **G** The notional capital resources requirement calculated under ■ BIPRU 8.4.13 R need not include a credit charge for *material holdings*. However it should include one for *illiquid assets*.
- 8.4.16** **R** Intra-group *exposures* must not be netted for the purpose of ■ BIPRU 8.4.11 R.

### Capital adequacy obligations relating to a CAD Article 22 group: Advanced prudential calculation approaches

- 8.4.17** **R** A firm may not use an *advanced prudential calculation approach* for the purpose of ■ BIPRU 8.4.11 R.

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

- 8.4.18** **R** If a firm has an *investment firm consolidation waiver*, it must:
- (1) ensure that each CAD investment firm in the UK consolidation group or non-EEA sub-group which is a firm or an EEA firm has in place systems to monitor and control the sources of capital and funding of all the members in the UK consolidation group or non-EEA sub-group;
  - (2) notify the FCA of any serious risk that could undermine the financial stability of the UK consolidation group or non-EEA sub-group, as soon as the firm becomes aware of that risk, including those associated with the composition and sources of the capital and funding of members of the UK consolidation group or non-EEA sub-group;
  - (3) report the amount of the consolidated capital resources and consolidated capital resources requirement of the UK consolidation group or non-EEA sub-group on a periodic basis as set out in the investment firm consolidation waiver;
  - (4) report any large exposures risks of members of the UK consolidation group or non-EEA sub-group including any undertakings not located in an EEA State on a periodic basis set out in the investment firm consolidation waiver;
  - (5) notify the FCA immediately it becomes aware that the UK consolidation group or non-EEA sub-group has ceased to meet the conditions for being a CAD Article 22 group; and

- (6) notify the *FCA* immediately it becomes aware of any breach of  
■ BIPRU 8.4.11 R.

## 8.4.19

G

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

## 8.5 Basis of consolidation

### Undertakings to be included in consolidation

8.5.1

**R**

A firm must include only the following types of *undertaking* in a *UK consolidation group* or *non-EEA sub-group* for the purposes of this chapter:

- (1) a *BIPRU firm*;
- (2) [deleted]
- (3) a *financial institution*;
- (4) an *asset management company*;
- (5) a *financial holding company*;
- (6) a *mixed financial holding company*; and
- (7) an *ancillary services undertaking*.

8.5.2

**G**

Although an *undertaking* falling outside ■ BIPRU 8.5.1 R will not be included in a *UK consolidation group* or *non-EEA sub-group* it may be relevant in deciding whether one *undertaking* in the *banking sector* or the *investment services sector* is a *subsidiary undertaking* of another with the result that they should be included in the same *UK consolidation group* or *non-EEA sub-group*.

8.5.3

**G**

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

### Basis of inclusion of undertakings in consolidation

8.5.4

**R**

A firm must include any *subsidiary undertaking* in the *UK consolidation group* or *non-EEA sub-group* in full in the calculations in this chapter.

**8.5.5** **R** In carrying out the calculations for the purposes of this chapter a *firm* must only include the relevant proportion of an *undertaking* that is a member of the *UK consolidation group* or *non-EEA sub-group*:

- (1) by virtue of a *consolidation Article 12(1) relationship*;
- (2) by virtue of an *Article 134 relationship*; or
- (3) because the group holds a *participation* in it.

**8.5.6** **R** In **■ BIPRU 8.5.5 R**, the relevant proportion is either:

- (1) (in the case of a *participation*) the proportion of *shares* issued by the *undertaking* held by the *UK consolidation group* or the *non-EEA sub-group*; or
- (2) (in the case of a *consolidation Article 12(1) relationship* or an *Article 134 relationship*), such proportion (if any) as stated in the *Part 4A permission* of the *firm*.

### Basis of inclusion of collective portfolio management investment firms in consolidation

**8.5.7** **R** **■ GENPRU 2.1.46 R** (Adjustment of the variable capital requirement calculation for collective portfolio management investment firms) does not apply for the purpose of this chapter.

**8.5.8** **G** In general a *collective portfolio management investment firm* only calculates its capital and concentration risk requirements in relation to its *designated investment business* and does not calculate them with respect to *managing an AIF* or *managing a UCITS*. The effect of **■ BIPRU 8.5.7 R** is that this does not apply on a consolidated basis. For the purpose of this chapter the calculations are carried out with respect to the whole of the activities of a *collective portfolio management investment firm*.

### Exclusion of undertakings from consolidation: Balance sheet size

**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 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:

- (1) 10 million Euros;
- (2) 1% of the balance sheet total of the *parent undertaking* or the *undertaking* that holds the *participation*.

**8.5.10** **R** A *firm* must include *undertakings*, to which **■ BIPRU 8.5.9 R** would otherwise apply, if the balance sheet total of those *undertakings* taken together breaches the limit in **■ BIPRU 8.5.9 R**.



### Exclusion of undertakings from consolidation: Other reasons

- 8.5.11** **G** Article 73(1) of the *Banking Consolidation Directive* allows the *appropriate regulator* to decide to exclude a *BIPRU firm*, *financial institution*, *asset management company* or *ancillary services undertaking* that is a *subsidiary undertaking* in, or an *undertaking* in which a *participation* is held by, the *UK consolidation group* or *non-EEA sub-group* for the purposes of this chapter in the following circumstances:
- (1) where the head office of the *undertaking* concerned is situated in a country outside the *EEA* where there are legal impediments to the transfer of the necessary information; or
  - (2) where, in the opinion of the *appropriate regulator*, the *undertaking* concerned is of negligible interest only with respect to the objectives of monitoring *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 *BIPRU firms* are concerned.
- 8.5.12** **G** If a *firm* wishes to exclude an *undertaking* on the basis of any of the grounds set out in **■ BIPRU 8.5.11 G** it should apply to the *appropriate regulator* for a *waiver*. The *appropriate regulator* will consider such applications in the light of the criteria in Section 138A of the *Act*.
- 8.5.13** **G** If several *undertakings* meet the criteria in **■ BIPRU 8.5.11G (2)**, the *appropriate regulator* will not agree to a *waiver* to exclude them all from consolidation where collectively they are of non-negligible interest with respect to the objectives of the supervision of *institutions*.
- 8.5.14** **G** The *appropriate regulator* may require a *firm* to provide information about the *undertakings* excluded from consolidation of the *UK consolidation group* or *non-EEA sub-group* pursuant to this section.

## 8.6 Consolidated capital resources

### General

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

### Notification of issuance of capital instruments

**8.6.1A** **R** This section applies to a *firm* if another member of its *group* intends to issue a *capital instrument* on or after 1 March 2012 for inclusion in the *firm's capital resources* or *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group*.

**8.6.1B** **R** A *firm* must notify the *appropriate regulator* in writing of the intention of another member of its *group* which is not a *firm* to issue a *capital instrument* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group* as soon as it becomes aware of the intention of the *group undertaking* to issue the *capital instrument*. When giving notice, a *firm* must:

- (1) provide details of the amount of capital to be raised through the intended issue and whether the capital is intended to be issued to external investors or within its *group*;
- (2) identify the stage of the *capital resources table* the *capital instrument* is intended to fall within;
- (3) include confirmation from a *senior manager* of the *firm* responsible for authorising the inclusion of the issue within *capital resources* or *consolidated capital resources* that the *capital instrument* complies with the *rules* applicable to instruments included in the stage of the *capital resources table* identified in (2); and
- (4) provide 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 or not specifically contemplated by ■ GENPRU 2.2.

This *rule* does not apply to a *firm* if a *group undertaking* intends to issue a *capital instrument* listed in ■ BIPRU 8.6.1E R.

- 8.6.1C** **R** A firm must provide a further notification to the *appropriate regulator* in writing including all the information required in ■ BIPRU 8.6.1BR (1) to ■ (4) as soon as it becomes aware of any changes that are proposed to the intended date of issue, amount of issue, type of investors, stage of capital or any other feature of the *capital instrument* previously notified to the *appropriate regulator*.
- 8.6.1D** **R** If a *group undertaking* proposes to establish a debt securities program for the issue of *capital instruments* which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group*, it must:
- (1) notify the *appropriate regulator* of the establishment of the program; and
  - (2) provide the information required by ■ BIPRU 8.6.1BR (1) to ■ (4);
- as soon as it becomes aware of the proposed establishment. The *appropriate regulator* must be notified of any changes, in accordance with ■ BIPRU 8.6.1C R.
- 8.6.1E** **R** The *capital instruments* to which ■ BIPRU 8.6.1B R does not apply are:
- (1) ordinary *shares* issued by a *group undertaking* which:
    - (a) are the most deeply subordinated *capital instrument* issued by that *group undertaking*;
    - (b) meet the criteria set out in ■ GENPRU 2.2.83R (2) and ■ GENPRU 2.2.83R (3) and ■ GENPRU 2.2.83A R; and
    - (c) are the same as ordinary *shares* previously issued by that *group undertaking*;
  - (2) debt instruments issued from a debt securities program established by a *group undertaking*, provided the program was notified to the *appropriate regulator* prior to its first drawdown, in accordance with ■ BIPRU 8.6.1D R; and
  - (3) *capital instruments* which are not materially different in terms of their characteristics and eligibility for inclusion in a particular tier of capital to *capital instruments* previously issued by a *group undertaking* for inclusion in the *firm's capital resources* or *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group*.
- 8.6.1F** **R** A firm must notify the *appropriate regulator* in writing, no later than the date of issue, of the intention of a *group undertaking* to issue a *capital instrument* listed in ■ BIPRU 8.6.1E R which the *firm* intends to include within its *capital resources* or the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group*. When giving notice a *firm* must:
- (1) provide the information set out at ■ BIPRU 8.6.1BR (1) to ■ (3); and

- (2) confirm that the terms of the *capital instrument* have not changed since the previous issue of that type of *capital instrument* by that *group undertaking*.

### Limits on the use of different forms of capital

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

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

**8.6.4** **G** The prohibition in ■ GENPRU 2.2 (Capital resources) on including *innovative tier one capital* in *tier one capital* for the purposes of meeting capital resources requirements applies under this section. However ■ GENPRU 2.2.27 R (*innovative tier one capital* may be included in *lower stages of capital* when excluded from *tier one capital*) also applies. So, for example, a *firm* should not include *consolidated indirectly issued capital* in *tier one capital* but should generally include it as *upper tier two capital*.

**8.6.5** **G** The *rules* in ■ GENPRU 2.2 (Capital resources) on what *tier two capital* and *tier three capital* can be used for also apply under this section.

**8.6.6** **R**

**8.6.7** **R**

### Calculation of consolidated capital resources for a BIPRU firm group

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

**8.6.9** **R** A *firm* must give one *Month's* prior notice to the *appropriate regulator* before starting to use or stopping using the method in ■ GENPRU 2 Annex 5 (Capital resources table for a BIPRU investment firm deducting illiquid assets).

### Treatment of minority interests

- 8.6.10** **R** (1) This *rule* sets out how to determine whether minority interests in an *undertaking* in a *UK consolidation group* or *non-EEA sub-group* may be included in *tier one capital*, *tier two capital* or *tier three capital* for the purpose of calculating *consolidated capital resources* (each referred to as a "tier" of capital in this *rule*).
- (2) A *firm* must identify the item of capital of the *undertaking* in question that gives rise to that minority interest.
- (3) A *firm* must include the minority interest in the tier of capital in which that *undertaking* would have to include the capital referred to in (2) if it were a *firm* calculating its *capital resources* on a solo basis under whichever method applies to the group under **■ BIPRU 8.6.6 R** to **■ BIPRU 8.6.8 R**.
- (4) This *rule* does not apply to a minority interest created by *consolidated indirectly issued capital*.

### Indirectly issued capital and group capital resources

- 8.6.11** **R** For the purposes of this chapter, **■ GENPRU 2.2.123 R** to **■ GENPRU 2.2.137 R** (Indirectly issued tier one capital (BIPRU firm only)) do not apply. A *firm* may only include *consolidated indirectly issued capital* in *consolidated capital resources* (whether as a minority interest or otherwise) in accordance with this section.
- 8.6.12** **R** *Consolidated indirectly issued capital* means any *capital instrument* issued by a member of the *UK consolidation group* or *non-EEA sub-group* where:
- (1) some or all of the following conditions are satisfied:
- that capital is issued to an *SPV*; or
  - that capital is issued by an *SPV*; or
  - the subscription for the capital issued by the member of the group in question is funded directly or indirectly by an *SPV*; and
- (2) any of the *SPVs* referred to in (1) is a member of the *UK consolidation group* or *non-EEA sub-group* or a *subsidiary undertaking* of any member of the *UK consolidation group* or *non-EEA sub-group*.
- 8.6.13** **R** A *firm* may only include *consolidated indirectly issued capital* in the *consolidated capital resources* of its *UK consolidation group* or *non-EEA sub-group* if:
- it is issued by an *SPV* that is a member of the *UK consolidation group* or *non-EEA sub-group* to *persons* who are not members of the *UK consolidation group* or *non-EEA sub-group*; and
  - the conditions in **■ BIPRU 8.6.16 R** to **■ BIPRU 8.6.18 R** are satisfied.
- 8.6.14** **R** *Consolidated indirectly issued capital* that is eligible for inclusion in the *consolidated capital resources* of a *UK consolidation group* or *non-EEA sub-*

*group* may only be included as a minority interest created by the *capital instrument* issued by the *SPV* referred to in ■ BIPRU 8.6.13 R. If it is eligible, it is *innovative tier one capital*.

**8.6.15** **R** For the purposes of this section, an *undertaking* is an *SPV* if the main activity of the *SPV* is to raise funds for *undertakings* in:

- (1) (in the case of a *UK consolidation group*) that *UK consolidation group*; or
- (2) (in the case of a *non-EEA sub-group*) that *non-EEA sub-group* or any *UK consolidation group* of which it forms part.

**8.6.16** **R** The *SPV* referred to in ■ BIPRU 8.6.13 R must satisfy the conditions in ■ GENPRU 2.2.127 R (Conditions that an *SPV* has to satisfy if indirectly issued capital is to be included in *capital resources* on a solo basis) as modified by the following:

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

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

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

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

- (1) those capital resources must at least comply with the requirements for *lower tier two capital*; and
- (2) the first call date or fixed maturity date (if any) of those capital resources must not arise before the first call date on the instrument issued by the *SPV*.

- 
- 8.6.19 **R** In relation to the obligation to substitute described in ■ BIPRU 8.6.17R (2), a *firm* must take all reasonable steps to ensure that the *undertaking* in question has at all times sufficient authorised and unissued *tier one instruments* other than *innovative tier one instruments* (and authority to issue them) to enable it to discharge the obligation to substitute.
- 8.6.20 **R** A *firm* must comply with the requirements set out in ■ GENPRU 2.2.135R (Notifying the *appropriate regulator* of unusual transactions in relation to indirectly issued capital) and ■ GENPRU 2.2.137 R (Contents of marketing documents in relation to indirectly issued capital) in relation to *consolidated indirectly issued capital* included in *consolidated capital resources*.
- 8.6.21 **R**

## 8.7 Consolidated capital resources requirements

### General approach

- 8.7.1** **G** The calculation of the *consolidated capital resources requirement* of a *firm's UK consolidation group* or *non-EEA sub-group* involves taking the individual components that make up the *capital resources requirement* on a solo basis and applying them on a consolidated basis. Those components are the capital charge for credit risk (the *credit risk capital requirement*), the capital charge for market risk (the *market risk capital requirement*) and the *fixed overheads requirement*.
- 8.7.2** **G** Each of the capital charges in **■ BIPRU 8.7.1 G**, as applied on a consolidated basis, is called a *consolidated requirement component*. The name of each *consolidated requirement component* reflects the solo capital charge on which it is based. Solo capital charges are called *risk capital requirements*. Thus for example the *consolidated requirement component* for market risk is called the *consolidated market risk requirement*. The calculation of the *consolidated market risk requirement* is based on the calculation of the capital charge for market risk that applies on a solo basis (the *market risk capital requirement*). So the *risk capital requirement* applicable to the *consolidated market risk requirement* is the *market risk capital requirement*.
- 8.7.3** **G**
- 8.7.4** **G**
- 8.7.5** **G** In general a *firm* should calculate each *consolidated requirement component* using the *appropriate regulator's rules*, even in the case of group members who are subject to the capital requirements of an overseas regulator. However this section sets out certain circumstances in which a *firm* may use the capital requirements of an overseas regulator.
- 8.7.6** **G** **■ BIPRU 8.8** (Advanced prudential calculation approaches) says that a *firm* should not apply an *advanced prudential calculation approach* on a consolidated basis unless the *advanced prudential calculation approach permission* allowing the *firm* to use the *advanced prudential calculation approach* specifically allows it to be used on consolidated basis.



**8.7.7** **G** ■ BIPRU 8.8 (Advanced prudential calculation approaches) has further details about how capital requirements are calculated on a consolidated basis if a firm uses an *advanced prudential calculation approach*.

**8.7.8** **G** A firm has a choice about how it should apply a *risk capital requirement* to the group. It may do this by treating the whole of the group as a single entity and applying the *risk capital requirement* to the group (a line by line approach), calculating a separate *risk capital requirement* for each group member (an aggregation approach) or a mixture of the two.

**8.7.9** **G** A firm may make the choice between an aggregation and a line by line approach differently for each *consolidated requirement component*. So for example a firm may decide to calculate the *consolidated market risk requirement* on an aggregation basis and the *consolidated fixed overheads requirement* on a line by line basis.

**Method of calculation to be used**

**8.7.10** **R** A firm must calculate the *consolidated capital resources requirement* of its UK consolidation group or non-EEA sub-group 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*.

**Calculation of the consolidated requirement components**

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

**8.7.12** **R** Table: Capital charges relating to consolidated requirement components  
This table belongs to ■ BIPRU 8.7.11 R

<i>Consolidated requirement component</i>	<i>Rules on which the consolidated requirement component are based (the applicable risk capital requirement)</i>
<i>Consolidated credit risk requirement</i>	<i>Credit risk capital requirement</i>
<i>Consolidated fixed overheads requirement</i>	<i>Fixed overheads requirement</i>
<i>Consolidated market risk requirement</i>	<i>Market risk capital requirement</i>

### Choice of consolidation method

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

**8.7.14** **G** An accounting consolidation basis means applying the *rules* in **■ BIPRU 8.7.12 R** on a line by line consolidation basis rather than an aggregation basis.

**8.7.15** **G** The provisions of this section on credit risk and *market risk* restrict the choice given by **■ BIPRU 8.7.13 R** in certain circumstances.

### Notifying the appropriate regulator of the choice of consolidation technique

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

### Special rules for the consolidated credit risk requirement

**8.7.17** **R** **■ BIPRU 8.7.18 G** to **■ BIPRU 8.7.23 R** relate to the calculation of the *consolidated credit risk requirement*.

- 8.7.18** **G** The *credit risk capital requirement* (on which the *consolidated credit risk requirement* is based) is split into 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*).
- 8.7.19** **G** [deleted]
- 8.7.20** **R** A firm may use a combination of the *CCR standardised method*, the *CCR mark to market method* and the *CCR internal model method* on a permanent basis with respect to the firm's *UK consolidation group* or *non-EEA sub-group* for the purposes of calculating the *consolidated credit risk requirement*. In particular, where the firm is permitted to apply the *CCR internal model method* on a consolidated basis with respect to its *UK consolidation group* or *non-EEA sub-group*, it may combine the use of *CCR standardised method* and *CCR mark to market method* on a permanent basis for *financial derivative instruments* and *long settlement transaction* not covered by its *CCR internal model method permission*.
- 8.7.21** **R** ■ BIPRU 9.4.1 R (Minimum requirements for recognition of significant credit risk transfer) as applied on a consolidated basis requires the transfer to be to a person outside the *UK consolidation group* or *non-EEA sub-group*.
- 8.7.22** **R** A firm must not use both the *financial collateral simple method* and the *financial collateral comprehensive method* with respect to its *UK consolidation group* or *non-EEA sub-group*.
- 8.7.23** **R**
- (1) A firm may only treat an *exposure* as exempt under ■ BIPRU 3.2.25 R (Zero risk-weighting for intra-group exposures) as applied on a consolidated basis if the member of the *UK consolidation group* or *non-EEA sub-group* that has the *exposure*:
    - (a) is a *BIPRU firm* and that *exposure* is exempt under ■ BIPRU 3.2.25 R as it applies to that *BIPRU firm* on a solo basis; or
    - (b) meets the conditions in ■ BIPRU 3.2.25 R (1)(d) (Condition relating to establishment in the *UK*) and that *exposure* would be exempt under (a) if that member was a *BIPRU firm*.
  - (2) The notification obligation in ■ BIPRU 3.2.35 R applies.
- Special rules for the consolidated market risk requirement**.....
- 8.7.24** **R** For the purposes of calculating the *consolidated market risk requirement* of a *UK consolidation group* or *non-EEA sub-group*, a firm must apply ■ BIPRU 1.2.3 R (Definition of the trading book) and ■ BIPRU 1.2.17 R (Size thresholds for the purposes of the definition of the trading book) to the whole *UK consolidation group* or *non-EEA sub-group* as if the group were a single *undertaking*.
- 8.7.25** **R** A firm may not apply the second method in ■ BIPRU 8.7.13R (3) (accounting consolidation for the whole group) or apply accounting consolidation to parts of its *UK consolidation group* or *non-EEA sub-group* 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) [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* ;
- (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 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;
- (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.

8.7.26 ■ R [deleted]

8.7.27 ■ R [deleted]

### Special rules for calculating specific consolidated requirement components

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

### Elimination of intra-group transactions

- 8.7.29 **R** In accordance with ■ BIPRU 8.2.1 R and ■ BIPRU 8.3.1 R (The basic consolidation rules for a UK consolidation group or non-EEA sub-group), a firm may exclude that part of the *risk capital requirement* that arises as a result of:

- (1) (in respect of the *consolidated credit risk requirement*) intra-group balances; or
- (2) (in respect of the *consolidated fixed overheads requirement*) intra-group transactions;

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

### Other provisions about calculating risk capital requirements

- 8.7.30 **R**
- 8.7.31 **G** If a firm is calculating a *risk capital requirement* for an *undertaking* that is not a BIPRU firm it should calculate it as if the *undertaking* were a BIPRU firm.
- 8.7.32 **G**
- 8.7.33 **G** A firm should not use an *advanced prudential calculation approach* for calculating a *risk capital requirement* unless this is permitted as explained in ■ BIPRU 8.8 (Advanced prudential calculation approaches).

### Use of the solo requirements of another EEA competent authority

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

8.7.36 **G** [deleted]

### Use of the consolidated requirements of another EEA competent authority

- 8.7.37 **R**
- (1) This rule applies if:
- (a) a *firm* is applying an accounting consolidation approach to part of its *UK consolidation group* or *non-EEA sub-group* under method three as described in ■ BIPRU 8.7.13R (4)(a); and
  - (b) the part of the group in (a) constitutes the whole of a group subject to the consolidated capital requirements of a *competent authority* under the *CRD implementation measures* relating to consolidation under the *Banking Consolidation Directive* or the *Capital Adequacy Directive*.
- (2) If the conditions in this rule are satisfied, a *firm* may apply the consolidated capital requirement in (1)(b) as the *risk capital requirement* for the group identified in (1)(a) so far as that consolidated capital requirement corresponds to the *appropriate regulator's rules* that would otherwise apply under this section.

8.7.38 **R** [deleted]

### Prohibition on using the standardised rules of a regulator outside the EEA

- 8.7.38A **R**
- (1) This rule applies to a *firm* if:
- (a) an *institution* in its *UK consolidation group* or *non-EEA sub-group* is subject to any of the rules or requirements of, or administered by, a *third-country competent authority* applicable to its *financial sector* that correspond to the *sectoral rules* applicable to that *financial sector* ("corresponding sectoral rules"); or

(b) a part of its *UK consolidation group* or *non-EEA sub-group* constitutes the whole of a group subject to the consolidated capital requirements of a *third-country competent authority* under the corresponding sectoral rules applicable to the *banking sector* or the *investment services sector* for a state or territory outside the *EEA*.

(2) A *firm* may not use the requirements under any of the corresponding sectoral rules of a state or territory outside the *EEA* in order to calculate the *consolidated capital resources requirement* of its *UK consolidation group* or *non-EEA sub-group* for the purpose of this chapter.

### Use of an advanced prudential calculation approach under the rules of an overseas regulator

8.7.39

G

A *firm* should not use the requirements of an overseas regulator if that would involve the use of an *advanced prudential calculation approach* unless this is permitted under ■ BIPRU 8.8 (Advanced prudential calculation approaches).

## 8.8 Advanced prudential calculation approaches

### General

**8.8.1** **R** A *firm* must not apply any *advanced prudential calculation approach* for the purposes of this chapter unless it has an *advanced prudential calculation approach permission* and that *advanced prudential calculation approach permission* requires the *firm* to use that *advanced prudential calculation approach* for those purposes.

**8.8.2** **G** ■ BIPRU 1.3 (Applications for advanced approaches) deals with how to apply for an *advanced prudential calculation approach permission*.

### Prohibition on using the rules of an overseas regulator

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

### Special provisions relating to the internal ratings based approach

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

**8.8.5** **R**

**8.8.6** **G**

**8.8.7** **G**



**Special provisions relating to the CCR internal model method**

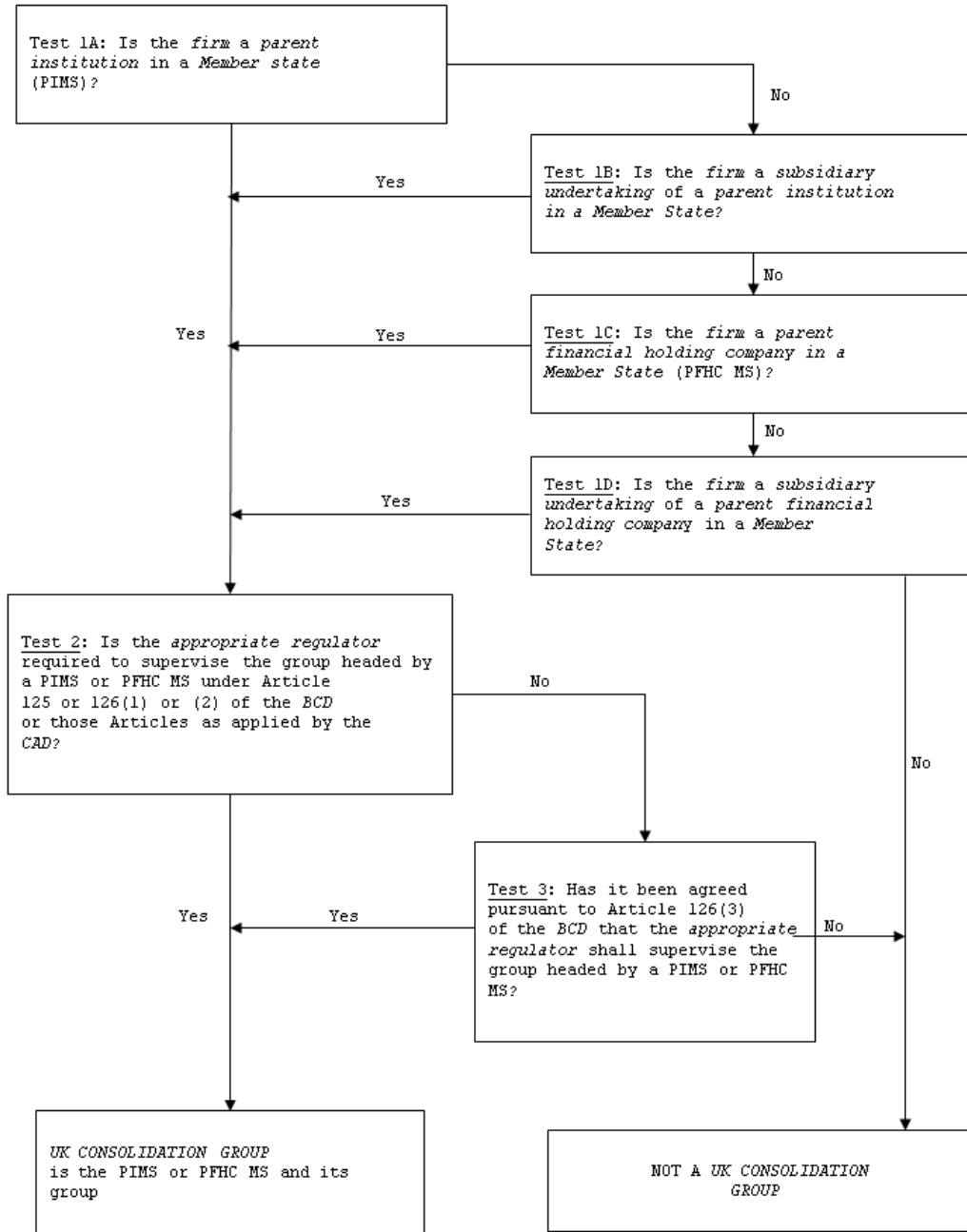
- 8.8.8 **G** ■ BIPRU 8.7.17 R deals with the combination of the *CCR internal model method* with other approaches to calculating exposure values on a group level.

**Corporate governance arrangement for the IRB approach and the AMA**

- 8.8.9 **G** The governance arrangements that apply to the *governing body*, the senior management and any *designated committee* of a *firm* in relation to the *IRB approach* also apply to the body or *persons* with equivalent powers with respect to the *UK consolidation group* or *non-EEA sub-group*. Where the *parent undertaking* and its *subsidiary undertakings* use rating systems on a unified basis, the approval and reporting process described in ■ BIPRU 4.3.12 G (Approval and reporting arrangements for the *IRB approach* where rating systems are used on a unified group basis) apply for the purpose of this paragraph too.



### Decision tree identifying a UK consolidation group





## Text of Articles 125 and 126 of the Banking Consolidation Directive

### Article 125

1. Where a parent undertaking is a parent credit institution in a Member State or an EU parent credit institution, supervision on a consolidated basis shall be exercised by the competent authorities that authorised it under Article 6.
2. Where the parent of a credit institution is a parent financial holding company in a Member State, a parent mixed financial holding company in a Member State an EU parent financial holding company or an EU parent mixed financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities that authorised that credit institution under Article 6.

### Article 126

1. Where credit institutions authorised in two or more Member States have as their parent the same parent financial holding company in a Member State, the same mixed parent financial holding company in a Member State, the same EU parent financial holding company or the same EU parent mixed financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities of the credit institution authorised in the Member State in which the financial holding company or mixed financial holding company is established.  
  
Where the parents of credit institutions authorised in two or more Member States comprise more than one financial holding company or mixed financial holding company which have their head offices in different Member States and there is a credit institution in each of these States, supervision on a consolidated basis shall be exercised by the competent authority of the credit institution with the largest balance sheet total.
2. Where more than one credit institution authorised in the Union has as its parent the same financial holding company or the same mixed financial holding company and none of these credit institutions has been authorised in the Member State in which the financial holding company or the mixed financial holding company is established, supervision on a consolidated basis shall be exercised by the competent authority that authorised the credit institution with the largest balance sheet total, which shall be considered, for the purposes of this Directive, as the credit institution controlled by an EU parent financial holding company or an EU parent mixed financial holding company.
3. In particular cases, the competent authorities may by common agreement waive the criteria referred to in paragraphs 1 and 2 if their application would be inappropriate, taking into account the credit institutions and the relative importance of their activities in different countries, and appoint a different competent authority to exercise supervision on a consolidated basis. In these cases, before taking their decision, the competent authorities shall give the EU parent credit institution, EU parent financial holding company, the EU parent mixed financial holding company, or credit institu-

4.  
Note

tion with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that decision.

[Omitted]

The *Capital Adequacy Directive* says that generally references in Articles 125 and 126 of the *Banking Consolidation Directive* to *credit institution* should be read as including ones to *CAD investment firms*. Also, the *Banking Consolidation Directive* and the *Capital Adequacy Directive* apply to the EEA. Therefore for the purposes of BIPRU 8 Articles 125 and 126 of the *Banking Consolidation Directive* should be read with the following adjustments:

- (1) a reference to a credit institution should be read as being one to a *credit institution* or *CAD investment firm*;
- (2) a reference to a parent credit institution in a Member State should be read as being one to a *parent institution in a Member State*;
- (3) a reference to a EU parent credit institution should be read as being one to an *EEA parent institution*;
- (4) a reference to a EU parent financial holding company should be read as being one to an *EEA parent financial holding company*;
- (4a) a reference to a EU parent mixed financial holding company should be read as being one to an *EEA parent mixed financial holding company*;
- (5) a reference to a Member State should be read as being one to an *EEA State*;
- (6) a reference to a credit institution authorised in the Community should be read as being to a *credit institution* or *CAD investment firm* authorised in an *EEA State*.

Parent financial holding company in a Member State, financial holding company, parent mixed financial holding company in a Member State and mixed financial holding company have the same meaning as they do in the *Glossary*.

## Non-EEA regulators' requirements deemed CRD-equivalent for individual risks

Part 1 (Non-EEA banking regulators' requirements deemed CRD-equivalent for individual risks)

Regime regulators	Market risk	Credit risk	Operational Risk
<b>USA</b>	√	X*	X
Office of the Comptroller of the Currency	√	X*	X
Board of Governors of the Federal Reserve System			
* a US banking subsidiary will be deemed equivalent for credit risk if:			
• it is categorised as well capitalised: and			
• it scales up its US Basel 1 credit risk requirement by 25%			
<b>Australia</b>	√	√	X
Australian Prudential Regulation Authority [APRA]			
<b>Canada</b>	√	√	√
Office of the Superintendent of Financial Institutions [OSFI]			
<b>Switzerland</b> Swiss Financial Market Supervisory Authority [FINMA]	√	√ See note 2	√
<b>Japan</b>	√	X	X
Financial Services Agency, Japan [JFSA]			
<b>South Africa</b>	√	√	√
South African Reserve Bank [SARB]			
<b>Hong Kong</b>	√	√	√
Hong Kong Monetary Authority [HKMA]			
<b>Singapore</b>	√	√	√
Monetary Authority of Singapore [MAS]			

Regime regulators	Market risk	Credit risk	Operational Risk
<b>India</b>	√	√	√
Reserve Bank of India [RBI]			
<b>Korea</b>	√	X	X
Financial Supervisory Service [FSS]			
<b>Jersey</b>	√	√	√
<b>Guernsey</b>	X	√	√
<b>Isle of Man</b>	X	√	√

Note 1: A √ denotes that the requirements have been assessed as equivalent to *EEA* standards.  
A X denotes that the requirements have been assessed as not being equivalent to *EEA* standards.

Note 2: √ International standardised approach only. The treatment of the Lombard loans is not equivalent and they must be treated under the *appropriate regulator's rules*.

Part 2 (Non-EEA investment firm regulators' requirements deemed CRD-equivalent for individual risks)

Regime regulators	Market risk	Credit risk	Operational Risk
<b>Australia</b>	√	X	X
Sydney Futures Exchange	√	X	X
Australian Stock Exchange			
<b>Canada</b>	√	X	X
Ontario Securities Commission	√	X	X
Quebec Securities Commission	√	X	X
British Columbia Securities Commission	√	X	X
Alberta Securities Commission			
Investment dealers Association of Canada			
<b>Hong Kong</b>	√	X	X
Hong Kong Monetary Authority [HKMA]	√	X	X
Hong Kong Securities and Futures Commission			
<b>Japan</b>	√	X	X
Financial Services Agency, Japan [JFSA]			
<b>Singapore</b>	√	X	X
Monetary Authority of Singapore [MAS]	√	X	X



Regime regulators	Market risk	Credit risk	Operational Risk
Stock Exchange of Singapore			
<b>South Africa</b>	√	X	X
South African Futures Exchange	√	X	X
Johannesburg Stock Exchange	√	X	X
Bond Exchange of South Africa			
<b>Switzerland</b>	√	√ Note 2	√
Swiss Federal Banking Commission [EBK]			
<b>USA</b>	√ Note 3	√	X
Securities & Exchange Commission (SEC): Net Capital rule only	√	X	X
Commodities and Futures Trading Commission			

Note 1: A √ denotes that the requirements have been assessed as equivalent to *EEA* standards.  
A X denotes that the requirements have been assessed as not being equivalent to *EEA* standards.  
Note 2: √ International standardised approach only. The treatment of Lombard loans is not equivalent and they must be treated under the *appropriate regulator's rules*.  
Note 3: √ Where entities are subject to a local regulatory capital requirement.

