

Chapter 8

Group risk consolidation

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 ■ [deleted]

8.7.27 ■ [deleted]

Special rules for calculating specific consolidated requirement components

8.7.28 ■ 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

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- (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

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[deleted]

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

8.7.38A

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- (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

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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).