

**THE PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND
INVESTMENT FIRMS (TRANSITIONAL PROVISIONS AND SCHEDULES)
INSTRUMENT 2006**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 149 (Evidential provisions);
 - (3) section 150(2) (Actions for damages);
 - (4) section 156 (General supplementary powers); and
 - (5) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force as follows:
- (1) The following provisions of the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) come into force on 1 November 2007:
 - (a) BIPRU TP 15 (Commodities firm transitionals: Exemption from capital requirements); and
 - (b) BIPRU TP 16 (Commodities firm transitionals: large exposures).
 - (2) The remainder of this instrument comes into force on 1 January 2007.

Amendments to the Handbook

- D. The Financial Services Authority creates a new chapter TP (Transitional provisions) and Schedules to BIPRU in accordance with Annex A to this instrument.

Citation

- E. This instrument may be cited as the Prudential sourcebook for Banks, Building Societies and Investment Firms (Transitional Provisions and Schedules) Instrument 2006.

By order of the Board

23 November 2006

Annex A

Chapter TP of BIPRU and BIPRU Schedules

In this Annex all the text is new and is not underlined.

- TP Transitional provisions
- TP 1 Applicable chapter of IPRU and other general provisions
- Application
- 1.1 R *BIPRU* TP 1 applies to:
- (1) a *BIPRU firm*; and
 - (2) any *firm* to which *BIPRU* 8 (Group risk – consolidation) applies.
- Version of IPRU to be used
- 1.2 R Any reference in *BIPRU* TP to *IPRU* is to the version in force on 31 December 2006.
- Categorisation of *BIPRU* investment firms
- 1.3 R For the purposes of *BIPRU* TP the definitions of *securities and futures firm*, *investment management firm* and *personal investment firm* are amended as follows:
- (1) if a *firm* fell into one of those categories on 31 December 2006 it remains in that category unless changed under (2);
 - (2) if a *firm* has got a *permission* that includes a *requirement* that it comply with the provisions of *BIPRU* TP applicable to one of those categories, that *firm* falls into that category; and
 - (3) a *BIPRU investment firm* that is not an *investment management firm*, *UCITS investment firm* or a *personal investment firm* is a *securities and futures firm*.
- Applicable part of IPRU on a solo basis
- 1.4 R
- (1) This *rule* identifies which part of *IPRU* applies where *BIPRU* TP applies *IPRU* to a *firm* on a solo basis.
 - (2) *IPRU(BANK)* applies to a *bank*.
 - (3) *IPRU(BSOC)* applies to a *building society*.
 - (4) *IPRU(INV)* applies to a *BIPRU investment firm* as follows:
 - (a) Chapter 5 applies to an *investment management firm*;
 - (b) Chapter 7 applies to a *UCITS investment firm*;
 - (c) Chapter 10 applies to a *securities and futures firm*; and

(d) Chapter 13 applies to a *personal investment firm*.

General provisions about consolidation

- 1.5 R Each provision of *BIPRU* TP that applies on a solo basis also applies for the purposes of *BIPRU* 8 (Group risk – consolidation). This is subject to the provisions of *BIPRU* TP concerned.
- 1.6 G Many sections of *BIPRU* TP deal specifically with when and how they apply on a consolidated basis. However *BIPRU* TP will still apply for consolidation purposes even where this is not the case. *BIPRU* TP 1.5R does not apply to *BIPRU* TP 2.1 (Solo consolidation) as solo consolidation is a concept that only applies to solo requirements.

Classification of groups for certain consolidation rules

- 1.7 R (1) This *rule* sets out how to classify a *UK consolidation group* or *non-EEA sub-group* ("group") to which consolidated requirements are applied under certain parts of *BIPRU* TP.
- (2) If the answer to the question at stage 1 of the decision tree in *BIPRU* 8 Annex 5R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group) with respect to the group is Yes and there is a *building society* in the group, the group is referred to in *BIPRU* TP as a building society group.
- (3) If a *non-EEA sub-group* is part of a *UK consolidation group* that is a building society group then the *non-EEA sub-group* is also a building society group. However a *firm* may use (2) for the purposes of calculating the consolidated capital resources of the *non-EEA sub-group* where capital resources are calculated under *IPRU*.
- (4) If the answer to the question at stage 1 of the decision tree in *BIPRU* 8 Annex 2R with respect to the group is Yes and the group is not a building society group, the group is referred to in *BIPRU* TP as a banking group.
- (5) In any other case the group is referred to in *BIPRU* TP as an investment services group.

- TP 2 Capital floors for a firm using the IRB or AMA approaches
- Application
- 2.1 R Subject to *BIPRU* TP 2.2R, this section applies to a *BIPRU* firm that applies the *IRB approach* or the *advanced measurement approach*.
- 2.2 R *BIPRU* TP 2.30R to *BIPRU* TP 2.34G apply to any firm to which *BIPRU* 8 (Group risk – consolidation) applies and which applies the *IRB approach* or the *advanced measurement approach* on a consolidated basis.
- Purpose
- 2.3 G This section implements Articles 152(1) – (7) of the *Banking Consolidation Directive* and Article 43 of the *Capital Adequacy Directive*.
- 2.4 G The purpose of this section is to limit the amount of capital reduction arising from the implementation of the *Banking Consolidation Directive* and the *Capital Adequacy Directive* compared with the requirements arising from the previous versions of those Directives. As such it is effectively a comparison of the capital resource requirements arising from *BIPRU* with those arising from the appropriate *IPRU* sourcebook that would have applied as at 31 December 2006. However the effect of changes to the market risk requirements is removed by requiring *BIPRU* 7 (Market risk) to be used for both sides of the comparison.
- How to apply the capital floors
- 2.5 G This section does not require a firm to continue to have capital resources equal to a fixed percentage of the capital requirement that applied to it as at 31 December 2006. Instead a firm should apply the requirements in this section to its business as it changes over time. So for example if a firm is calculating its capital requirements as at 31 December 2008 it will have two calculations. The first is carried out under *BIPRU* and *GENPRU*. The second is carried out under *IPRU* and this section. Both sets of requirements are applied to the firm's figures as at 31 December 2008.
- 2.6 G The Directive provisions on which this section is based are written as a floor on a firm's capital resources requirement. This section however is written as a second capital resources requirement that sits beside the general capital resources requirements of *BIPRU* and *GENPRU*. The reason for this is that a firm should meet the general capital resources requirements of *BIPRU* and *GENPRU* using *capital resources* calculated under *GENPRU* 2.2 (Capital resources). On the other hand a firm should meet the capital resources requirements of this section (which are based on *IPRU*) using the relevant *IPRU* definition. In practice the two sets of definitions of capital resources are similar apart from the provisions about *expected loss*. Therefore as shown by the example in *BIPRU* TP 2.12G and *BIPRU* TP 2.13G, in practice a firm is subject to a single capital resources requirement.

- 2.7 G *BIPRU* TP 9 explains how the general principle in this section is applied to a *personal investment firm*.
- Capital floors: solo
- 2.8 R A *firm* calculating *risk weighted exposure amounts* in accordance with the *IRB approach* must during the first, second and third twelve-month periods after 31 December 2006 provide capital resources that equal or exceed the following amounts:
- (1) for the first twelve-month period, 95%;
 - (2) for the second twelve-month period, 90%; and
 - (3) for the third twelve-month period, 80%;
- of the solo capital resources requirement that applies to the *firm* under whichever part of *IPRU* applies under *BIPRU* TP 1.4R.
- 2.9 R A *firm* using the *advanced measurement approach* must, during the second and third twelve-month periods after 31 December 2006, provide capital resources which are at all times more than or equal to the amounts indicated in *BIPRU* TP 2.8R(2) and *BIPRU* TP 2.8R(3).
- Capital resources: solo
- 2.10 R A *firm* must calculate its capital resources in accordance with whichever part of *IPRU* applies under *BIPRU* TP 1.4R.
- 2.11 R Compliance with the requirements of this section must be on the basis of amounts of capital resources fully adjusted to reflect differences in the calculation of capital resources under *IPRU* and the calculation of *capital resources* under *GENPRU* and *BIPRU* deriving from the separate treatments of *expected loss* and *unexpected loss* under the *IRB approach*.
- Explanation of the calculation
- 2.12 G The following provides an illustrative example of the application of this section to a *bank* in a period in which *BIPRU* TP 2.8R(1) applies (i.e. the 95% requirement). Say that under *IPRU*(*BANK*) the *firm's* capital resources requirement would be £8.00mn and this would be met in part by general/collective provisions of £0.5mn. This establishes the capital resources requirement under this section at 95% times (£8.0mn less £0.5mn), which equals £7.125mn.

- 2.13 G Say that in the absence of this section, the Pillar 1 capital resources requirement of the *firm* in *BIPRU* TP 2.12G would be £6.4m, and the sum of value adjustments and provisions are £0.25mn less than *expected losses*. For the purposes of the *expected loss* calculation, if the result is negative (i.e. value adjustments and provisions are less than *expected losses*) that amount is deducted from *capital resources* (which is equivalent to an increase in the *capital resources requirement*). If the result is positive it is added to *capital resources* (which is equivalent to a decrease in the *capital resources requirement*). In this example the result is negative. As the sum of these two amounts (£6.65mn) is still less than the *IPRU* capital resources requirement of £7.125mn, the effect of this section is that the *firm* is subject to the (higher) *IPRU* requirement. If the sum of the *BIPRU* requirements had been greater than £7.125mn, then the *firm* would not have been subject to the capital resources requirement in this section.

Adjustments to the calculation of capital resources

- 2.14 R A *firm* may treat any *capital instrument* that complies with the requirements of *GENPRU* 2.2 (Capital resources) as complying with the corresponding requirements of *IPRU*.
- 2.15 G An example of *BIPRU* TP 2.14R is that a *firm* may treat subordinated debt with a term of five years or over that qualifies as *lower tier two capital* for the purposes of *GENPRU* as complying with the corresponding provisions for five year subordinated debt under *IPRU*.

Market risk

- 2.16 R A *firm* must substitute the requirements in *BIPRU* for the calculation of the *market risk capital requirement* (excluding those provisions to the extent that they would involve using the *IRB approach*) for the corresponding provisions of *IPRU*.
- 2.17 G *BIPRU* TP 4 to *BIPRU* TP 9 (Pre CRD capital requirements applying on a solo basis during 2007) explain which parts of *IPRU* correspond to the *market risk capital requirement*.

CAD 1 model and VaR model

- 2.18 R If a *firm* has a *CAD 1 permission* or a *VaR model permission* it must also use it for the purposes of the capital floor calculations in this section.
- 2.19 G In applying *BIPRU* TP 2.18R, a *firm* should not adjust the *CAD 1 permission approach* or *VaR model approach* (including the scope of the *CAD 1 permission* or *VaR model permission*) so that it is consistent with Directive 93/6 (the Capital Adequacy Directive) as it stood on 31 December 2006.

Individual capital guidance

- 2.20 R The *IPRU* capital resources requirement does not include any individual capital ratio notified to a *bank* under Chapter CO of *IPRU(BANK)* or any similar notification by the *FSA* to any other *firm*.
- 2.21 G Any further capital resource requirements that a *firm* is required to meet under *GENPRU* 1.2 (Adequacy of financial resources) (i.e. Pillar 2) should not be taken into account.
- How to apply IPRU
- 2.22 R If the part of *IPRU* that applies to a *firm* applies different calculations to different types of *firm* the *firm* must use the calculations that it would have to use under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007).
- 2.23 R If the part of *IPRU* that applies to a *firm* gives the *firm* a choice between methods of calculating capital resources or capital resources requirements it must exercise that choice consistently with the corresponding choices it makes in calculating *capital resources* or *capital resources requirement* under *GENPRU* and *BIPRU*.
- 2.24 G *BIPRU* TP 4 to *BIPRU* TP 9 (Pre CRD capital requirements applying on a solo basis during 2007) explain how concepts in *IPRU* and *GENPRU* map onto the ones in *IPRU*. This will enable a *firm* to decide which calculations it should use for the purposes of *BIPRU* TP 2.22R and *BIPRU* TP 2.23R.
- 2.25 G An example of the effect of *BIPRU* TP 2.22R and *BIPRU* TP 2.23R is that a *securities and futures firm* that calculates its *capital resources* under *GENPRU* 2 Ann 4R (Capital resources table for a *BIPRU* investment firm deducting material holdings) should calculate its capital resources under *IPRU* using table 10-62(2)A of chapter 10 of *IPRU(INV)*.
- 2.26 R For the purpose of calculating the part of the *IPRU* capital resources requirement that corresponds to the *concentration risk capital component* a *firm* may identify the *trading book exposures* on which that requirement is based using *BIPRU* 10 (Concentration risk requirements) except to the extent that *BIPRU* 10 involves the *IRB approach*.
- 2.27 G The *concentration risk capital component* is the capital requirement for a *firm* that chooses to have *trading book exposures* that exceed the concentration risk limits for the *non-trading book*. In most cases *IPRU* has a similar capital requirement. The purpose of *BIPRU* TP 2.26R is to allow a *firm* to calculate the amount of the excess *trading book exposures* for which it calculates the additional capital charge using *BIPRU* 10 (Concentration risk requirements) in order to avoid having to apply the *IPRU* large exposure requirements for this purpose only.
- 2.28 R The calculations under this section do not take into account the *base capital resources requirement* or the part of the *IPRU* solo capital resources requirement that corresponds to the *base capital resources requirement*.

Solo consolidation

- 2.29 R If a *firm* has a *solo consolidation waiver* it also applies for the purpose of this section in place of any corresponding provision of *IPRU*.

Capital floors: consolidation

- 2.30 R If a *firm* calculates *risk weighted exposure amounts* on a consolidated basis in accordance with the *IRB approach* or uses the *advanced measurement approach* on a consolidated basis, *BIPRU* TP 2.8R to *BIPRU* TP 2.27G apply on a consolidated basis in accordance with *BIPRU* TP 2.30R to *BIPRU* TP 2.31R.
- 2.31 R A *firm* must calculate the consolidation requirements under *BIPRU* TP 2.30R for the group in question (the group in question is specified in *BIPRU* TP 2.32R) in accordance with the following:
- (1) if the group is a banking group as defined in *BIPRU* TP 1.7R (Classification of groups for certain consolidation rules), the consolidation provisions of *IPRU(BANK)* apply;
 - (2) if the group is a building society group as defined in *BIPRU* TP 1.7R, the consolidation provisions of *IPRU(BSOC)* apply; and
 - (3) if the group is an investment firm group as defined in *BIPRU* TP 1.7R, chapter 14 of *IPRU(INV)* applies.
- 2.32 R The scope of the consolidation under *BIPRU* TP 2.30R and any exemption from consolidation is determined in accordance with *BIPRU* 8 (Group risk – consolidation) rather than *IPRU*. In particular, the following adjustments apply:
- (1) if a *firm* is a member of a *UK consolidation group* and applies the *IRB approach* or the *AMA* with respect to that *UK consolidation group*, *BIPRU* TP 2.30R applies with respect to that *UK consolidation group*; and
 - (2) if a *firm* is a member of a *non-EEA sub-group* and applies the *IRB approach* or the *AMA* with respect to that *non-EEA sub-group*, *BIPRU* TP 2.30R applies with respect to that *non-EEA sub-group*.
- 2.33 G If for example the consolidation *rules* that apply for the purposes of this section are those in chapter 14 of *IPRU(INV)* (Consolidated supervision of *investment firms*) then *IPRU(INV)* 14.1 (Application) and 14.2 (Scope of consolidation) do not apply. *BIPRU* 8.2 (Scope and basic consolidation requirements for UK consolidation groups), *BIPRU* 8.3 (Scope and basic consolidation requirements for non-EEA sub-groups), *BIPRU* 8.4 (CAD Article 22 groups and investment firm consolidation waiver) and *BIPRU* 8.5 (Basis of consolidation) apply instead.

Capital floors: waiver from consolidation

- 2.34 G If a *firm* has an *investment firm consolidation waiver* and it is applying the *IRB approach* or the *AMA*, the *waiver* will explain how the *investment firm consolidation waiver* applies for the purpose of this section.

- TP 3 Pre CRD capital requirements applying on a solo basis during 2007
- Application
- 3.1 R This section applies to a *BIPRU firm*.
- Purpose
- 3.2 G This section (together with *BIPRU TP 4 - BIPRU TP 10*) implements Articles 152(8) – (14) of the *Banking Consolidation Directive* and Article 50(1) of the *Capital Adequacy Directive*.
- Duration of transitional
- 3.3 R This section applies until 1 January 2008.
- Continued use of IPRU
- 3.4 R Unless a *firm* notifies the *FSA* to the contrary, a *firm* must use on a solo basis the credit risk *rules* in whichever part of *IPRU* applies to it under *BIPRU TP 1.4* rather than the ones in *BIPRU*.
- 3.5 R *BIPRU TP 3.8R* sets out, for all types of *firm*, which parts of *GENPRU* and *BIPRU* do and do not apply when *BIPRU TP 3.4R* applies.
- 3.6 G *BIPRU TP 4 - BIPRU TP 9* set out, for each category of *BIPRU firm*, which sections of the part of *IPRU* that applies to it do and do not apply during 2007 as follows:
- (1) *BIPRU TP 4* applies to a *bank*;
- (2) *BIPRU TP 5* applies to a *building society*;
- (3) *BIPRU TP 6* applies to an *investment management firm*;
- (4) *BIPRU TP 7* applies to a *UCITS investment firm*;
- (5) *BIPRU TP 8* applies to a *securities and futures firm*; and
- (6) *BIPRU TP 9* applies to a *personal investment firm*.
- 3.7 G *BIPRU TP 10* explains how this section is applied on a consolidated basis.
- Disapplication of GENPRU and BIPRU
- 3.8 R Table: Parts of *GENPRU* and *BIPRU* that apply in 2007
This table belongs to *BIPRU TP 3.5R*

| | | |
|--|---|--|
| GENPRU and BIPRU provisions | | A Y denotes that the provision does apply An N denotes that it does not apply |
| GENPRU TP (Transitional provisions) | | Y |
| GENPRU 1.1 (Application and scope) | | Y |
| GENPRU 1.2 (Adequacy of financial resources) | The <i>overall financial adequacy rule</i> | Y |
| | GENPRU 1.2 so far as it applies to liquidity risk | Y |
| | The rest of GENPRU 1.2 for purposes other than liquidity risk | N |
| GENPRU 1.3 (Valuation) | | Y |
| GENPRU 1.4 (Actions for damages) | | Y |
| GENPRU 1.5 (Application of GENPRU 1 to Lloyd's) | | Not applicable as does not apply to <i>BIPRU firms</i> |
| GENPRU 2.1 (Calculation of capital resources requirements) | | Y |
| GENPRU 2.2 (Capital resources) | | Y |
| GENPRU 2.3 (Application of GENPRU 2 to Lloyd's) | | Not applicable as does not apply to <i>BIPRU firms</i> |
| GENPRU 3.1 (Cross sector groups) | | Y |
| GENPRU 3.2 (Third-country groups) | | Y |
| BIPRU TP (Transitional provisions) | | Y |
| BIPRU 1.1 (Application and scope) | | Y |

| | | |
|--|--|---|
| GENPRU and BIPRU provisions | | A Y denotes that the provision does apply An N denotes that it does not apply |
| <i>BIPRU</i> 1.2 (Definition of the trading book) | | Y |
| <i>BIPRU</i> 1.3 (Application for advanced approaches) | | Y |
| <i>BIPRU</i> 1.4 (Actions for damages) | | Y |
| <i>BIPRU</i> 2.1 (Solo consolidation) | | Y |
| <i>BIPRU</i> 2.2 (Adequacy of financial resources) | | N |
| <i>BIPRU</i> 2.3 (Interest rate risk in the non-trading book); | | N |
| <i>BIPRU</i> 3 (Standardised approach to credit risk) | | N |
| <i>BIPRU</i> 4 (The IRB approach) | | N |
| <i>BIPRU</i> 5 (Credit risk mitigation) | | N |
| <i>BIPRU</i> 6 (Operational risk) | | N |
| <i>BIPRU</i> 7 (Market risk) | <i>BIPRU</i> 7.2.43R to <i>BIPRU</i> 7.2.49R (Interest rate specific risk calculation) | N (<i>BIPRU</i> TP 4 - <i>BIPRU</i> TP 9 set out what applies in place of these rules) |
| | <i>BIPRU</i> 7.11.18R to <i>BIPRU</i> 7.11.58R (Special treatment of credit default swaps) | N |
| | Rest of <i>BIPRU</i> 7 | Y |
| <i>BIPRU</i> 8 (Group risk – consolidation) | | Y |
| <i>BIPRU</i> 9 (Securitisation) | | N |
| <i>BIPRU</i> 10 (Concentration risk) | <i>BIPRU</i> 10.5.2R to <i>BIPRU</i> 10.5.5R (Capital resources) | Y |

| | | |
|---|---|---|
| GENPRU and BIPRU provisions | | A Y denotes that the provision does apply An N denotes that it does not apply |
| | <i>BIPRU</i> 10.5.14R (Notification of trading book excesses) | Y Only applies if <i>BIPRU</i> TP 4 to <i>BIPRU</i> TP 10 allow excess exposures in the trading book. |
| | The rest of <i>BIPRU</i> 10 | N |
| <i>BIPRU</i> 11 (Disclosure) | | N |
| <i>BIPRU</i> 12 | | Chapter does not yet exist |
| <i>BIPRU</i> 13 (Financial derivatives, SFTs and long settlement transactions) | | N |
| <i>BIPRU</i> 14 (Capital requirements for settlement and counterparty risk) | | N |
| This table is subject to the adjustments set out in <i>BIPRU</i> TP 3.15R to <i>BIPRU</i> TP 3.21R when a firm also uses the <i>IRB</i> approach. | | |

Application of BIPRU concentration risk rules for underwriting

- 3.9 G Even though *BIPRU* 10 (Concentration risk) does not apply, the provisions in *BIPRU* 7.8 (Securities underwriting) about the calculation of the *net underwriting exposures* still apply.

How to interpret cross-references

- 3.10 R If a provision in *BIPRU* or *GENPRU* that applies under this section refers to a provision of *BIPRU* or *GENPRU* that does not apply that reference must be read as referring to the *IPRU* provision that applies instead under this section (if any). If a provision in *IPRU* that applies under this section refers to a provision of *IPRU* that does not apply that reference must be read as referring to the corresponding provision in *BIPRU* or *GENPRU* that applies under this section.
- 3.11 G *BIPRU* TP 4 - *BIPRU* TP 9 set out, for each category of *BIPRU firm*, some of the main examples of the sort of cross-references referred to in *BIPRU* TP 3.10R.
- 3.12 G *GENPRU* 2.2.187R and *GENPRU* 2.2.188R (Upper tier two capital: General/collective provisions) still applies to a *firm* that uses *BIPRU* TP 3.4R. The reference to the sum of *risk-weighted* assets under the *standardised approach* for credit risk should be read as being to the sum of risk-weighted assets under the provisions of *IPRU* that apply under this section.

Combination of IPRU with the standardised approach to credit risk

- 3.13 R A *firm* may not combine the *standardised approach* to credit risk with the use of *IPRU* under *BIPRU* TP 3.4R.

Effect of switching off GENPRU 1.2

- 3.14 G If *GENPRU* 1.2 (Adequacy of financial resources) does not apply to a *firm*, stress and scenario testing obligations in other parts of the *Handbook* still apply. In particular these include stress and scenario tests required under the *IRB approach* (see in particular *BIPRU* 4.3.39R to *BIPRU* 4.3.42G (Stress tests used in assessment of capital adequacy) and *BIPRU* 2.2.41R to *BIPRU* 2.2.45G), under the *VaR model approach* and under *BIPRU* 10.6.22R to *BIPRU* 10.6.27G (Stress testing of credit risk concentrations).

Continued use of IPRU combined with the IRB approach

- 3.15 R *BIPRU* TP 3.16R to *BIPRU* TP 3.21R only apply to a *firm* that is applying the *IRB approach* as well as using *IPRU*.
- 3.16 R If a *firm's IRB permission* allows it to do this, a *firm* may combine the *IRB approach* with the use of *IPRU* under *BIPRU* TP 3.4R.

- 3.17 G If an *exposure* comes within the scope of a *firm's IRB permission* the *firm* should use the *IRB approach* to calculate the *credit risk capital component* and the *counterparty risk capital component* with respect to that *exposure* in accordance with *BIPRU* rather than *IPRU*. In particular *BIPRU 4* (The *IRB approach*), *BIPRU 5* (Credit risk mitigation), *BIPRU 9* (Securitisation), *BIPRU 13* (Financial derivatives, SFTs and long settlement transactions) and *BIPRU 14* (Capital requirements for settlement and counterparty risk) apply.
- 3.18 R If a *firm* combines the *IRB approach* with the use of *IPRU* under *BIPRU TP 3.14R*, the disapplication of *BIPRU 10* (Concentration risk) still applies. However in the case of *exposures* to which the *firm* applies the *IRB approach*:
- (1) *BIPRU 10.6.14R* to *BIPRU 10.6.26* (Exemptions for firms using the financial collateral comprehensive approach, Exemptions for firms using own estimates of LGDs and conversion factors under the *IRB approach* and Stress testing of credit risk concentrations) apply;
 - (2) a *firm* may not recognise *credit risk mitigation* if it does not comply with *BIPRU 5* and *BIPRU 4.10* (Credit risk mitigation) to the extent they apply to *BIPRU 10*; and
 - (3) *BIPRU 5* and *BIPRU 4.10* apply for the purpose of calculating the amount of *credit risk mitigation* to the extent that they apply to *BIPRU 10*.
- 3.19 R *BIPRU 11* (Disclosure) applies to *exposures* to which the *firm* applies the *IRB approach*. The rest of *BIPRU 11* also applies except to the extent that it relates to parts of *BIPRU* and *GENPRU* that do not apply under this section.
- 3.20 R *BIPRU 7.11.18R* to *BIPRU 7.11.58R* (Special treatment of credit default swaps) apply to *exposures* subject to the *IRB approach*.
- Reduced operational risk capital requirement
- 3.21 R Where *BIPRU TP 3.4R* applies, the *operational risk capital requirement* is reduced by the percentage representing the ratio of the value of the *firm's exposures* for which capital requirements are calculated in accordance with *BIPRU TP 3.4R* to the total value of its *exposures*.

- TP 4 Pre CRD capital requirements applying on a solo basis during 2007: Banks Application
- 4.1 R *BIPRU* TP 4 applies to a *BIPRU firm* that is:
- (1) a *bank*; and
 - (2) applying *BIPRU* TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007).
- Purpose of this section
- 4.2 G *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) says that during 2007 a *firm* may apply the credit risk requirements of *IPRU* instead of the ones in *BIPRU*. For a *bank* this involves applying the credit risk requirements in *IPRU(BANK)*. This section explains how this is done. In particular *BIPRU* TP 4 explains:
- (1) which parts of *IPRU(BANK)* should be treated as credit risk requirements for this purpose;
 - (2) what parts of *IPRU(BANK)* apply during 2007 and what changes are made to *IPRU(BANK)* for that purpose; and
 - (3) what changes are made to *GENPRU* and *BIPRU* to reflect the fact that *IPRU(BANK)* applies in place of parts of *GENRU* and *BIPRU*.
- Duration of transitional
- 4.3 R This section applies until 1 January 2008.
- Drafting approach in this section
- 4.4 G The purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) is that the basic provisions of *BIPRU* and *GENPRU* should be in force from 1 January 2007. However a *firm* should be able to calculate the capital requirements for credit risk under *IPRU* and use the large exposures requirements in *IPRU*. This means that a *bank* should slot the credit risk requirements of *IPRU(BANK)* into the general requirements of *GENPRU* and *BIPRU*.
- 4.5 G The capital calculation for credit risk under *BIPRU* is made up of three elements, which are set out in *GENPRU* 2.1.51R (Calculation of the credit risk capital requirement). These are the *credit risk capital component*, the *counterparty risk capital component* and the *concentration risk capital component*. So the approach in *BIPRU* TP 4.4G involves finding equivalents for these three elements in *IPRU(BANK)*.

- 4.6 G *BIPRU* TP 3.8R (Parts of *GENPRU* and *BIPRU* that apply in 2007) provides that *GENPRU* 2.2 (Capital resources) applies during 2007. So a bank using *BIPRU* TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007) should calculate its *capital resources* under *GENPRU* 2.2, instead of calculating its capital under *IPRU(BANK)*.

Parts of *IPRU(BANK)* that apply in 2007: Chapter GN

- 4.7 R The parts of Chapter GN of *IPRU(BANK)* that do and do not apply during the period that *BIPRU* TP 3.4R applies are as set out in *BIPRU* TP 4.8R.
- 4.8 R Table: Parts of Chapter GN of *IPRU(BANK)* that apply in 2007
This table belongs to *BIPRU* TP 4.7R

| Provisions of Chapter GN of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--|
| GN 3.3.19R to GN 3.3.20G (requirement to have adequate systems and controls for monitoring, controlling and calculating LE) | Y | |
| GN 3.3.21R to GN 3.3.22G (requirement to notify FSA if breach or propose to breach the 25% limit) | Y | Solo consolidation is dealt with by <i>BIPRU</i> 2.1 (Solo consolidation) |
| GN 3.4.1R to GN 3.4.2G (requirement to have written policy statement for LE) | Y | |
| GN 3.4.5R to GN 3.4.6G (requirement to have written provisioning policy statement) | Y | The reference to <i>rule</i> 3.3.17 is replaced by a reference to the requirements in <i>GENPRU</i> 1.3.4R (General requirements: Accounting principles to be applied) |

| Provisions of Chapter GN of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|--|--|---|
| GN 3.4.9E to GN 3.4.12R (Policy statement procedures) | Y | Applies in relation to large exposures and provisioning policy statements |
| GN 3.5.1R (Definitions) | Y | Applies for the purpose of the provisions that continue in force under this table |
| GN 3.6.1 R (Transitional rule for policy statements) | Y | Applies in relation to large exposures and provisioning policy statements |
| The parts of Chapter GN that remain in force even if the <i>bank</i> is not applying <i>BIPRU</i> TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007) | Y | See in particular <i>rules</i> 3.4.3 and 3.4.9 (Liquidity policy statement) |
| Rest of Chapter GN | N | |
| A <i>bank</i> must calculate its capital for the purposes of the <i>rules</i> in this table about large exposures in accordance with <i>BIPRU</i> 10.5.2R to <i>BIPRU</i> 10.5.5R (Capital resources for concentration risk purposes). | | |

Parts of *IPRU(BANK)* that apply in 2007

- 4.9 G The parts of *IPRU(BANK)* that do and do not apply during the period that *BIPRU* TP 3.4R applies are as set out in *BIPRU* TP 4.11G. This section does not explain what parts of *IPRU(BANK)* do and do not apply to an overseas *bank* as this section only applies to a *bank* that is a *BIPRU firm*.
- 4.10 G The table in *BIPRU* TP 4.11G assumes that the *firm* is not applying the *IRB approach*. *BIPRU* TP 4.40G to *BIPRU* TP 4.43G deal with a *firm* that does apply the *IRB approach*.

4.11 G Table: Parts of IPRU(BANK) that apply in 2007
This table belongs to *BIPRU* TP 4.9G

| Provisions of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|---|--|---|---------|
| GN (General) | See the table in <i>BIPRU</i> TP 4.8R | | |
| CO (Capital Adequacy Overview) | Sections 1-3 | Y | |
| | Section 4 | N | |
| CB (Trading Book/Banking Book Division) | N | | |
| CA (Definition of Capital) | N | | |
| BC (Credit Risk in the Banking Book) | Y | | |
| BO (Proxies for Market Risk in Banking Book) | Y | | |
| FX (Foreign Exchange Risk) | N | | |
| CM (Commodities Risk) | N | | |
| DU (Common Treatments for Counterparty Risk) | Y | | |
| TI (Interest Rate Position Risk) | N | | |
| TE (Equity Position Risk) | N | | |
| TC (Counterparty Risk in the Trading Book) | Y | | |
| TL (Incremental Capital for Large Exposures) | Y | | |
| TU (Underwriting in Capital Adequacy Framework) | N | | |

| Provisions of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|---|
| TS (CAD 1 Models) | N | |
| TV (The Use of Internal Models) | N | |
| LE (Large Exposures) | Y | |
| CD (Credit Derivatives) | Y | <p>(1) Applies for the purpose of credit risk (the calculation of the <i>credit risk capital requirement</i>)</p> <p>(2) Applies for the purpose of large exposures to the extent set out in the chapter.</p> <p>(3) Does not apply for the purpose <i>position risk</i> (calculation of the <i>market risk capital requirement</i>).</p> |
| SE (Securitisation and Asset Transfers) | Y | See <i>BIPRU TP 4.17G</i> to <i>BIPRU TP 4.19G</i> |
| LM (Mismatch Liquidity) | Y | Subject to the other provisions of this section, applies in the same way as it does for a <i>bank</i> that does not use <i>BIPRU TP 3.4R</i> (Pre CRD capital requirements applying on a solo basis during 2007). |

| Provisions of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|--|--|---|---|
| LS (Sterling Stock Liquidity) | Y | | Subject to the other provisions of this section, applies in the same way as it does for a <i>bank</i> that does not use <i>BIPRU</i> TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007). |
| AR (Accounting and Other Records and Internal Control Systems) | N | | |
| ST (Foreign Exchange -Risk-Based Supervision) | N | | |
| FR (Fraud) | N | | |
| CL (Comfort letters) | N | | |
| VA (Valuation) | Section 4 | Y | (1) Applies for the purpose of credit risk (the calculation of the <i>credit risk capital requirement</i>) (2) Applies for the purpose of large exposures to the extent set out in the chapter. |
| | Rest | N | |

| Provisions of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---------------------------------|--|--|
| NE (Collateral and Netting) | Y | (1) Applies for the purpose of credit risk (the calculation of the <i>credit risk capital requirement</i>) (2) Applies for the purpose of large exposures to the extent set out in the chapter. |
| CS (Consolidated Supervision) | Paragraph 2b) of Section 3 | Y (1) Applies to the extent it provides for zero risk weighting for intra-group exposures on a solo basis. (2) Applies for the purpose of the exemption for certain intra-group exposures for large exposure purposes on a solo basis (see paragraph 7 of section 9.2.2 of chapter LE of <i>IPRU(BANK)</i>). (3) Otherwise does not apply. |

| Provisions of <i>IPRU(BANK)</i> | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|------------------------------------|--|---|--|
| | Appendices C and D (equivalent third country prudential regimes) | Y | Only has effect to extent that these apply on a solo basis for the purposes of the parts of <i>IPRU(BANK)</i> that apply under this table. In particular applies for the purposes of <i>IPRU(BANK)</i> BC Section 3 paragraph 6 (f) a) regarding equivalent CAD regimes. |
| | Rest | N | |
| OS (Outsourcing) | N | | |
| PN (Provisioning Policy Statement) | Y | | |

General material about the parts of *IPRU(BANK)* that apply in 2007

- 4.12 G Many of the chapters of *IPRU(BANK)* that apply under the table in *BIPRU* TP 4.11G (particularly the application sections) deal with the application of the material on a consolidated basis. However this does not apply for the purpose of this section as consolidation is dealt with under *BIPRU* TP 10 (Pre CRD capital requirements applying on a consolidated basis during 2007). Likewise those provisions also deal with solo consolidation but this material does not apply either as the provisions about solo consolidation in *IPRU(BANK)* do not apply for the purpose of this section. Nevertheless it is possible to combine the use of this section with solo consolidation under *BIPRU* 2.1 (Solo consolidation).

Status of material on credit risk charges

- 4.13 G The credit risk provisions of *IPRU(BANK)* are mostly *guidance* on rule 3.3.13 of Chapter GN of *IPRU(BANK)*. That *rule* does not apply in 2007. When the credit risk provisions of *IPRU(BANK)* are applied under this section they are *guidance* on the *overall financial adequacy rule*. In turn the *overall financial adequacy rule* is the *rule* on which the calculation of the capital requirements for credit risk under *GENPRU* and *BIPRU* is based for a *bank* under this section.

How to calculate credit risk charges

- 4.14 G A *bank* should calculate the *BIPRU* credit risk charge for *non-trading book* items, called the *credit risk capital component*, by adding together the following:
- (1) the capital charge calculated under Chapter BC (taking into account the revised risk weights in Chapter BO);
 - (2) the capital charge for OTC derivatives in the banking book under section 3 of Chapter DU
 - (3) the capital charge for free deliveries for banking book items in section 4 of Chapter DU; and
- 4.15 G A *bank* should calculate the *BIPRU* credit risk charge for *trading book* items, called the *counterparty risk capital component*, by adding together the following:
- (1) the capital charge calculated under Chapter TU;
 - (2) the capital charge for OTC derivatives in the trading book under section 3 of Chapter DU;
 - (3) the capital charge for unsettled transactions and free deliveries for trading book items in section 4 of Chapter DU; and
 - (4) the capital charge for unsettled transactions in the banking book calculated under Chapter TU (the calculation of the *counterparty risk capital component* includes a capital charge for unsettled transactions in the *non-trading book* as an exception to the principle that the *counterparty risk capital component* relates to the *trading book*).
- 4.16 G *BIPRU* TP 4.28G deals with how to calculate the *concentration risk capital component*.

Adjustments to securitisation requirements

- 4.17 G Under Chapter SE a *bank* should deduct certain credit enhancements from capital. A *bank* should deduct these credit enhancements at stage M of the calculation in the *capital resources table* (Deductions from the totals of tier one and two).
- 4.18 G Paragraph 6 of section 10.4 of Chapter SE of *IPRU(BANK)* says that if a *bank* does not meet the policy on liquidity facilities provided by sponsors or repackagers it should fully consolidate the scheme. This does not apply under this section. Instead a *bank* should treat the scheme assets as being on its balance sheet.
- 4.19 G The definition of investment grade for the purposes of Chapter SE (see in particular sections 3.2.2, 9.3 and 11.1) remains based on Chapter TI of *IPRU(BANK)*.

Adjustments to counterparty credit risk: General

- 4.20 G Broadly speaking the Directive transitional provisions that allow pre-2007 credit risk rules to be used in 2007 cover all credit risk rules. However the transitional provisions for *trading book* credit risk (Annex II of the *Capital Adequacy Directive*, which is implemented in *BIPRU 14* (Capital requirements for settlement and counterparty risk)) is not quite as straightforward as that. In some cases pre-2007 requirements can be used. In others they cannot. One of the purposes of *BIPRU TP 4.21G* to *BIPRU TP 4.25G* is to reflect those cases in which the Directive requires the new requirements to apply from 1 January 2007.

Adjustments to counterparty credit risk: Free deliveries

- 4.21 G A *bank* should include *foreign currency* and *commodity* transactions in the calculations under *IPRU(BANK)* Chapter DU section 4.2 (Free deliveries).
- 4.22 G A *bank* should apply the capital treatment in the table in *BIPRU 14.4.3R* and *BIPRU 14.4.4R* (Capital treatment for free deliveries). But when the capital treatment in that table is that the *firm* must treat the transaction as an *exposure*, the *bank* should apply the treatment in *IPRU(BANK)* Chapter BC for *non-trading book exposures* or TC for *trading book exposures* rather than *BIPRU 14* (Capital requirements for settlement and counterparty risk).

Adjustments to counterparty credit risk: Derivative transactions

- 4.23 G A *bank* should treat a credit derivative in the *trading book* as a derivative to which section 3 of *IPRU(BANK)* Chapter TC (OTC derivatives) applies. However the capital treatment for credit derivatives as set out in *BIPRU 14.2.5R* - *BIPRU 14.2.8R* (Capital treatment for credit derivatives) does not apply; a *bank* should continue to use the treatment in *IPRU(BANK)* as adjusted by this section.

Adjustments to counterparty credit risk: Unsettled transactions

- 4.24 G The alternative treatment set out in *IPRU(BANK)* DU 4.1.3 does not apply.
- 4.25 G A *bank* should include *foreign exchange* and *commodity* transactions in the calculations under *IPRU(BANK)* Chapter DU section 4.1 (Unsettled transactions).
- OTC derivatives
- 4.26 G The treatment in section 3 of Chapter DU applies to the derivatives mentioned there whether or not they are off-balance sheet.
- How to use the *IPRU(BANK)* large exposure rules
- 4.27 G *IPRU(BANK)* Chapter LE (Large exposures) applies in place of *BIPRU* 10 (Concentration risk).
- 4.28 G A *bank* should calculate the *concentration risk capital component* as being equal to the capital charge under *IPRU(BANK)* Chapter TL.
- 4.29 G *BIPRU* 10.5.2R to *BIPRU* 10.5.5R (Capital resources for concentration risk purposes) apply in place of the corresponding provisions of *IPRU(BANK)*. The provisions in *IPRU(BANK)* about the calculation of the large exposures capital base (LECB) do not apply.
- 4.30 G Generally a *bank* should use the specific risk weights that apply under *BIPRU* 7 (Market risk) for the purposes of the incremental capital calculation under section 2.2 of Chapter TL and the net trading book position under paragraph 2(b) of section 7 of Chapter LE. However *BIPRU* TP 4.33G also applies for these purposes.
- 4.31 G References in paragraph 4(d) of section 9.2.1 and paragraph 7 of section 9.2.2 of Chapter LE to the requirements in Chapter CS about zero-risk weighting intra-group exposures still apply.
- 4.32 G When Chapter LE of *IPRU(BANK)* is applied under this section it is *guidance* on the *overall financial adequacy rule* as well as on the relevant provisions of Chapter GN of *IPRU(BANK)*.
- Interest rate PRR
- 4.33 G A *bank* should use *IPRU(BANK)* as it applies under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) and *BIPRU* TP 4 to calculate the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7.2 (Interest rate PRR) to the extent that the relevant *rules* in *BIPRU* 7.2 require the use of the *standardised approach* to credit risk.

- 4.34 G The reason for *BIPRU* TP 4.33G is that the calculation of the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7 (Market risk) involves the use of the *standardised approach* to credit risk. The *specific risk rules* therefore need to be adjusted for a *firm* that is not using the *standardised approach* to credit risk in 2007 so as to apply the pre-2007 method of calculating *specific risk*.

Valuation

- 4.35 G *BIPRU* TP 3.8R (Parts of *GENPRU* and *BIPRU* that apply in 2007) says that *GENPRU* 1.3 (Valuation) applies during 2007, so the values of assets and off balance sheet items used in the calculation of credit risk charges should be in accordance with *GENPRU* 1.3.

Definitions

- 4.36 G Any reference to a *qualifying debt security* or *qualifying equity* in a part of *BIPRU* that applies during 2007 should be interpreted in accordance with *IPRU(BANK)*. However *BIPRU* 7.2.50R (Must not apply *qualifying debt security* treatment to risky assets) also applies.

- 4.37 G The reason for *BIPRU* TP 4.36G is that the *BIPRU* definitions rely in part on the *standardised approach* to credit risk. The definitions therefore need to be adjusted for a *bank* that is not using the *standardised approach* to credit risk in 2007.

Mapping *GENPRU* and *BIPRU* concepts onto *IPRU*

- 4.38 G Some of the parts of *IPRU(BANK)* that apply in 2007 refer to parts of *IPRU* that do not apply. *BIPRU* TP 3.10R explains that where this happens a *firm* should interpret that cross-reference in accordance with the provision in *BIPRU* or *GENPRU* that corresponds to the *IPRU* provision that does not apply in 2007. A *firm* should refer to *IPRU* in the case of cross-references in *GENPRU* and *BIPRU* to provisions in *GENPRU* and *BIPRU* that do not apply in 2007. *BIPRU* TP 4.39G sets out how certain concepts in *IPRU(BANK)* correspond to ones in *GENPRU* and *BIPRU*. The purpose of the table is to help *firms* to interpret such cross-references.

- 4.39 G Table: Mapping *GENPRU* and *BIPRU* concepts onto ones in *IPRU(BANK)*
This table belongs to *BIPRU* TP 4.38G

| <i>GENPRU</i> and <i>BIPRU</i> | <i>IPRU(BANK)</i> |
|--------------------------------|-------------------|
| <i>BIPRU</i> 1.2 | Chapter CB |
| <i>GENPRU</i> 2.2 | Chapter CA |
| <i>BIPRU</i> 7.2 | Chapter TI |

| | |
|---|--|
| <i>GENPRU and BIPRU</i> | <i>IPRU(BANK)</i> |
| <i>BIPRU 7.3</i> | Chapter TE |
| <i>BIPRU 7.8</i> | Chapter TU |
| <i>BIPRU 7.4</i> | Chapter CM |
| <i>BIPRU 7.5</i> | Chapter FX |
| <i>BIPRU 7.10</i> | Chapter TV |
| <i>BIPRU 8</i> | Chapter CS |
| <i>GENPRU 1.3</i> | Chapter VA |
| <i>Market risk capital component (excluding charges arising from FX and commodity banking book business) and the counterparty risk capital component, excluding unsettled transactions arising from the banking book.</i> | Trading book capital requirements |
| <i>Non-trading book</i> | Banking book |
| <i>Trading book</i> | Trading book |
| <i>Capital resources calculated under BIPRU 10.5.2R to BIPRU 10.5.5R</i> | Large exposures capital base (LECB) |
| <i>Concentration risk capital component or the capital resources used to meet it</i> | Incremental capital under Chapter TL |
| <i>Financial derivative instruments and trading book credit derivatives</i> | OTC derivatives |
| <i>the overall financial adequacy rule</i> | <i>Rule GN 3.3.13R (Adequate capital)</i> |
| <i>individual capital guidance</i> | Individual capital ratio |
| <i>Bank that calculates its capital requirements under BIPRU 1.2.17R (Firm with small trading book using non-trading book treatments for certain trading book items)</i> | <i>Bank to which the Capital Adequacy Directive does not apply</i> |
| <i>trading book concentration risk excess</i> | Exposures over the 25% in the trading book under Chapter TL |

Firms using the IRB approach during 2007: General

- 4.40 G *BIPRU* TP 4.41G to *BIPRU* TP 4.43G only apply to a *firm* that is applying the *IRB approach* under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as well as using *IPRU*.
- 4.41 G The effect of *BIPRU* TP 3.17G (Pre CRD capital requirements applying on a solo basis during 2007 for *firms* also using the *IRB approach*) is that neither credit risk or counterparty risk requirements of *IPRU*(*BANK*) apply to an *exposure* to which the *firm* applies the *IRB approach*. The *IRB approach* requirements in *BIPRU* apply instead. The main requirements are listed in *BIPRU* TP 3.17G.
- 4.42 G A *firm* should apply *BIPRU* 7.2.45R - *BIPRU* 7.2.47R (Using internal ratings to calculate *specific risk* and treatment of *securitisations*) to calculate the *specific risk* portion of the *interest rate PRR* to the extent that the obligor or *exposure* in question comes within the scope of its *IRB permission*.
- 4.43 G The definitions of *qualifying debt security* and *qualifying equity* in the *Glossary* apply if the security or obligor in question comes within the scope of a *firm's IRB permission*.

- TP 5 Pre CRD capital requirements applying on a solo basis during 2007:
Building societies
- Application
- 5.1 R This section applies to a *building society* that is applying *BIPRU* TP 3.4R (Use of *IPRU* on a solo basis during 2007).
- Purpose of this chapter
- 5.2 G *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) says that during 2007 a *firm* may apply the credit risk requirements of *IPRU* instead of the ones in *BIPRU*. For a *building society* this involves applying the credit risk requirements in *IPRU(BSOC)*. This section explains how this is done. In particular this section explains what parts of *IPRU(BSOC)* apply during 2007 and what changes are made to *IPRU(BSOC)* for that purpose.
- Duration of transitional
- 5.3 R This section applies until 1 January 2008.
- Drafting approach in this chapter
- 5.4 G The purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) is that the basic provisions of *BIPRU* and *GENPRU* should be in force from 1 January 2007. However a *firm* should be able to calculate the capital requirement for credit risk under *IPRU* and use the large exposures requirements in *IPRU*. This means that a *building society* should slot the credit risk requirements of *IPRU(BSOC)* into the general requirements of *GENPRU* and *BIPRU*.
- 5.5 G The capital calculation for credit risk under *BIPRU* is made up of three elements, which are set out in *GENPRU* 2.1.51R (Calculation of the credit risk capital requirement). These are the *credit risk capital component*, the *counterparty risk capital component* and the *concentration risk capital component*. So the approach in *BIPRU* TP 5.4G involves determining which of these three elements apply, and then finding their equivalents (if any) in *IPRU(BSOC)*.
- 5.6 G The general approach to calculating the capital requirements for credit risk in *GENPRU* and *BIPRU* is to calculate the overall *credit risk capital requirement* (which is the sum of the three components listed in *BIPRU* TP 5.5G) – a monetary amount - and to compare it with *capital resources*, also a monetary amount.

- 5.7 G The general approach in *IPRU(BSOC)* is different. A *building society* calculates the total of its own funds (after making the relevant deductions) and the total of its risk weighted assets and off balance sheet items (in the latter case, after applying credit conversion factors). The own funds total is divided by the risk weighted assets total and the quotient expressed as a percentage: this is the pre-CRD solvency ratio.
- 5.8 G To enable a *building society* to use *BIPRU* TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007), the calculation method set out in *IPRU(BSOC)*, which is designed to produce the solvency ratio, needs adjustment so that it produces the *credit risk capital component* instead.
- 5.9 G *BIPRU* TP 3.8R (Parts of *GENPRU* and *BIPRU* that apply in 2007) provides that *GENPRU* 2.2 (Capital resources) applies during 2007. So a *building society* using *BIPRU* TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007) will calculate its *capital resources* under *GENPRU* 2.2, instead of calculating its own funds under *IPRU(BSOC)*.
- Rules in *IPRU(BSOC)* that apply in 2007
- 5.10 R The *rules* in Chapter 7 of Volume 1 of *IPRU(BSOC)* (Large Exposures) apply during the period that *BIPRU* TP 3.4R applies. None of the other *rules* in *IPRU(BSOC)* apply except the *rules* in chapters 4 and 5 which apply to *building societies* generally whether or not they apply the treatment in this section.
- Parts of Volume 1 of *IPRU(BSOC)* that apply in 2007
- 5.11 G The parts of Volume 1 of *IPRU(BSOC)* that do and do not apply during the period that *BIPRU* TP 3.4R applies are set out in *BIPRU* TP 5.13G.
- 5.12 G The table in *BIPRU* TP 5.13G assumes that the *firm* is not applying the *IRB approach*. *BIPRU* TP 5.36R to *BIPRU* TP 5.38R deal with a *firm* that does apply the *IRB approach*.

5.13 G Table: Parts of Volume 1 of IPRU(BSOC) that apply in 2007
This table belongs to *BIPRU* TP 5.11G

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|----------------------------------|--|--|
| Chapter X (Introduction) | <i>Rule</i> X.2.1 (Application) | N <i>BIPRU</i> TP 5.1R applies in its place for the purposes of <i>BIPRU</i> TP 5. However see <i>BIPRU</i> TP 5.15G. |
| | Definition of the BCD in X.7.1G | Y |
| | Other definitions in X.7 | Y Apply to the extent used in the parts of <i>IPRU(BSOC)</i> that have effect under this section. |
| | The rest of chapter X | N |
| Chapter 1 (Solvency) | | |
| Section 1.1 (Introduction) | N | |
| Section 1.2 (Solvency rules) | N | |
| Section 1.3 (Purpose of Capital) | N | |
| Section 1.4 (EU Directives) | N | |
| Section 1.5 (Threshold Ratios) | Y | See <i>BIPRU</i> TP 5.25G to <i>BIPRU</i> TP 5.26G |
| Section 1.6 (Own Funds) | N | |
| Section 1.7 (Minority Interests) | N | |

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|--|--|--|
| Section 1.8 (Deductions) | N | |
| Section 1.9 (Limits on Tier 2 capital) | N | |
| Section 1.10 (Solvency Ratio) | Y | (1) Applies on a solo basis except to the extent <i>BIPRU</i> 2.1 (Solo consolidation) applies. (2) Application on a consolidated basis is covered by <i>BIPRU</i> TP 10 (Pre CRD capital requirements applying on a consolidated basis during 2007). (3) Requirement that the solvency ratio should be calculated on a consolidated basis where a <i>building society</i> has <i>subsidiary undertakings</i> does not otherwise apply. (4) See <i>BIPRU</i> TP 5.20G to <i>BIPRU</i> TP 5.24G. |
| Section 1.11 (Solo consolidation) | N | |
| Section 1.12 (Mortgage Subsidiaries) | N | |
| Section 1.13 (Exclusions from consolidation) | N | |
| Section 1.14 (Mortgage Indemnity Captives) | N | |

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--|
| Section 1.15 (Securitisation) | Y | See <i>BIPRU</i> TP 5.33G to <i>BIPRU</i> TP5.35G |
| Section 1.16 (Deductions of holdings) | N | |
| Section 1.17 (capital cost and pricing) | N | |
| Section 1.18 (CAD) | Y | Only applies to the extent that the relevant provisions of <i>IPRU(BANK)</i> apply to a <i>building society</i> under <i>BIPRU</i> TP 3. See <i>BIPRU</i> TP 5.16R to <i>BIPRU</i> TP 5.19G. |
| Section 1.19 (Credit derivatives) | Y | |
| Annex 1A (Calculation of Own Funds) | N | |
| Annex 1B (Risk Asset Weights) | Y | See <i>BIPRU</i> TP 5.32G |
| Annex 1C (Off Balance Sheet Items) | Y | The treatment of items under section 1C.5 (The treatment of off-balance sheet items using the "mark to market" approach) applies to the types of item listed in section 1C.7 whether they are on or off balance sheet. |
| Annex 1D (Deductions from own funds) | N | |

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--|
| Annex 1E (Verification of Interim Profits) | N | |
| Annex 1F (Definition of Relevant Authority) | N | |
| Annex 1G (Definition of Zones A and B) | Y | |
| Annex 1H – Society Only Definitions | Y | |
| Annex 1J – Threshold Appraisal Sheet | Y | |
| Other chapters | | |
| Chapter 2 (Issued Capital) | N | |
| Chapter 3 (Boards and Management) | N | |
| Chapter 4 (Financial Risk Management) | Annex 4B (Credit derivatives) | Y The provisions in <i>BIPRU</i> TP 4 (Pre CRD capital requirements applying on a solo basis during 2007: Banks) about Chapter CD of <i>IPRU(BANK)</i> (Credit derivatives) apply. |

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--|
| | The rest of Chapter 4 | Y Subject to the other provisions of this section, applies in the same way as it does for a <i>building society</i> that does not use <i>BIPRU</i> TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007). See <i>BIPRU</i> TP 5.15G. |
| Chapter 5 (Liquidity) (including Annexes 5A to 5C) | Y | Subject to the other provisions of this section, applies in the same way as it does for a <i>building society</i> that does not use <i>BIPRU</i> TP 3.4R (Pre CRD capital requirements applying on a solo basis during 2007). See <i>BIPRU</i> TP 5.15G |
| Chapter 6 (Lending) | N | |

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|--|--|--|
| Chapter 7 (Large Exposures) | Y | <p>(1) Applies on a solo basis except to the extent <i>BIPRU</i> 2.1 (Solo consolidation) applies.</p> <p>(2) Application on a consolidated basis is covered by <i>BIPRU</i> TP 10 (Pre CRD capital requirements applying on a consolidated basis during 2007).</p> <p>(3) Requirement that large exposures of a <i>building society</i> with <i>subsidiary undertakings</i> should, in general, be monitored on a fully consolidated basis does not otherwise apply.</p> <p>(4) <i>IPRU(BSOC) 7.7</i> (Systems) applies.</p> <p>(5) See <i>BIPRU</i> TP 5.27R to <i>BIPRU</i> TP 5.30G.</p> |
| Chapter 8 (Mortgage Indemnity Insurance) | N | |
| Chapter 9 (Systems) | N | |

| <i>IPRU(BSOC) rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|--------------------------------|--|--|
| Chapter 10 (Securitisation) | Y | The provisions in <i>BIPRU</i> TP 4 (Pre CRD capital requirements applying on a solo basis during 2007: Banks) about Chapter SE of <i>IPRU(BANK)</i> (Securitisation) apply. See <i>BIPRU</i> TP 5.33G to <i>BIPRU</i> TP 5.35G |
| Chapter 11 (Outsourcing) | N | |

Volume 2 of IPRU(BSOC)

- 5.14 G Volume 2 of *IPRU(BSOC)* does not apply to a *building society* that applies *BIPRU* TP 3.4R (Use of IPRU on a solo basis during 2007). It has been replaced by the Building Societies Regulatory Guide, which applies to all *building societies*, not just ones that apply *BIPRU* TP 3.4R.

Chapters 4 and 5 of Volume 1 of IPRU(BSOC)

- 5.15 G (1) Chapters 4 and 5 of Volume 1 of *IPRU(BSOC)* apply to all *building societies*, not just ones that apply *BIPRU* TP 3.4R (Use of IPRU on a solo basis during 2007). The version that applies to a *building society* that applies *BIPRU* TP 3.4R is the one in force at the relevant time, not the version in force on 31 December 2006. However there are some exceptions to this, as explained in (2) and (3).
- (2) As *BIPRU* 2.3 (Interest rate risk in the non-trading book) does not apply to a *firm* applying *BIPRU* TP 3.4R, references in Chapter 4 to *BIPRU* 2.3 should be disregarded (see in particular paragraphs 4.1.3G, 4.7.1G and 4.7.7G of chapter 4 of Volume 1 of *IPRU(BSOC)*).
- (3) As shown in the table in *BIPRU* TP 5.12G, Annex 4B (Credit derivatives) applies to a *building society* that applies *BIPRU* TP 3.4R.

- (4) *Rule X.2.1* of Chapter X of Volume 1 of *IPRU(BSOC)* (Application) applies to all *building societies*, not just ones that apply *BIPRU TP 3.4R*. However *BIPRU TP 5.1R* is the relevant application *rule* for the purpose of *BIPRU TP 5*.

The trading book

- 5.16 R *BIPRU TP 4* (Pre CRD capital requirements applying on a solo basis during 2007: Banks) applies for the purpose of calculating the *counterparty credit risk component* and the *market risk capital requirement*.
- 5.17 G The reason for *BIPRU TP 5.16R* is explained in *BIPRU TP 5.18G* to *BIPRU TP 5.19G*.
- 5.18 G (1) Only exceptionally will a *building society* have a *trading book*. If a *building society* does not have a *trading book*, the calculations that a *building society* should carry out under *BIPRU TP 3* (Use of *IPRU* on a solo basis during 2007) and this section are simplified as described in this paragraph.
- (2) A *building society* does not have to calculate a *counterparty risk capital component* (the capital charge for counterparty risk in the *trading book*) or a *concentration risk capital component* (the capital charge for exceeding concentration risk limits in the *trading book*).
- (3) *BIPRU 7* (Market risk) does not apply for the most part. This is because most of it only applies to the *trading book*.
- (4) *BIPRU 7.5* (Foreign currency PRR) will apply if a *building society* has *foreign currency* exposure even if the *building society* does not have a *trading book*.
- (5) *BIPRU 7.6* (Option PRR) will apply if a *building society* has *foreign currency option positions*.
- (6) *BIPRU 7.4* (Commodity PRR) and *BIPRU 7.6* (Option PRR) apply to a *firm's commodity positions* in its *non-trading book* as well as its *trading book*. However a *building society* will not generally have *commodity positions*.
- 5.19 G Paragraph 1.18.1G of Volume 1 of *IPRU(BSOC)* (CAD) says that a *building society* on the "Trading" approach to financial risk management (described in chapter 4 of Volume 1 of *IPRU(BSOC)* (Financial Risk Management)), under which it can trade securities and maintain unhedged foreign exchange positions within defined limits, should calculate the capital requirements for its trading book and foreign exchange positions separately in accordance with *IPRU(BANK)*. Therefore if a *building society* does have a *trading book* and applies *BIPRU TP 3.4R* (Use of *IPRU* on a solo basis during 2007):

- (1) it should calculate its credit risk charge for items in the *trading book* using *IPRU(BANK)* as adjusted under *BIPRU TP 4* (Pre CRD capital requirements applying on a solo basis during 2007: Banks);
- (2) it should calculate its capital requirements for *foreign currency positions* under *BIPRU 7* (Market risk), particularly *BIPRU 7.5* (Foreign currency PRR) as adjusted under *BIPRU TP 4*;
- (3) it should calculate its capital requirements for other market risks under *BIPRU 7* as adjusted under *BIPRU TP 4*; and
- (4) even if a *building society* does have a *trading book* it still does not have to calculate a *concentration risk capital component* as *IPRU(BSOC)* does not allow a *building society* to exceed the limits in Chapter 7 of *IPRU(BSOC)* (Large exposures).

How to calculate a credit risk capital component under IPRU

- 5.20 G A *building society* should calculate its *credit risk capital component* (under paragraph 1.10 of Volume 1 of chapter 1 of *IPRU(BSOC)* (Solvency)) by taking the total of its risk weighted assets and off balance sheet items (using the risk weights in Annex 1B and the credit conversion factors in Annex 1C) and multiplying this by 8%.
- 5.21 G *BIPRU TP 5.18G* to *BIPRU TP 5.19G* explain why the *counterparty risk capital component* and the *concentration risk capital component* (which together with the *credit risk capital component* make up the *credit risk capital requirement*) are unlikely to apply to a *building society*.
- 5.22 G *BIPRU TP 3.8R* (Parts of *GENPRU* and *BIPRU* that apply in 2007) says that *GENPRU 1.3* (Valuation) applies during 2007, so the values of assets and off balance sheet items used in the calculation under *BIPRU TP 5.20G* should be in accordance with *GENPRU 1.3*.
- 5.23 G In the light of *BIPRU TP 5.9G*, *BIPRU TP 5.20G* and *BIPRU TP 5.22G*, the first two sentences and the fourth sentence of paragraph 1.10 of Volume 1 of *IPRU(BSOC)* should be disregarded. The remainder of paragraph 1.10 gives useful detail on the credit risk calculations.
- 5.24 G The solvency ratio provisions of *IPRU(BSOC)* are mostly *guidance on rules 1.2.1* and *1.2.2* of Chapter 1 of Volume 1 of *IPRU(BSOC)*. These *rules* do not apply in 2007. When the solvency ratio provisions of Volume 1 of *IPRU(BSOC)* are applied under this section they are *guidance on the overall financial adequacy rule*. In turn the *overall financial adequacy rule* is the *rule* on which the calculation of the capital requirements for credit risk under *GENPRU* and *BIPRU* is based for a *building society* under this section.

How to maintain the threshold ratio

- 5.25 G A *building society* should maintain the amount of *capital resources* (calculated under *GENPRU* 2.2 (Capital resources)) that corresponds to the result of multiplying the total of its risk weighted assets and off balance sheet items (as calculated for the purposes of *BIPRU* TP 5.20G) by its threshold ratio. Further transitional provisions about the threshold ratio can be found in *GENPRU* TP 9 (Individual capital guidance for *BIPRU* firms).
- 5.26 G Complying with *BIPRU* TP 5.25G is treated as satisfying the expectation set out in section 1.5 of chapter 1 of Volume 1 of *IPRU(BSOC)* (Solvency) that a *building society* will maintain the threshold ratio. Maintaining the threshold ratio is in turn treated as satisfying the *overall Pillar 2 rule* so far as that *rule* requires a *firm* to maintain adequate capital resources.

Large exposures

- 5.27 G Chapter 7 of Volume 1 of *IPRU(BSOC)* (Large exposures) applies in place of *BIPRU* 10 (Concentration risk).
- 5.28 G *BIPRU* 10.5.2R to *BIPRU* 10.5.3R and *BIPRU* 10.5.5R (Capital resources for concentration risk) apply for the purpose in *BIPRU* TP 5.27R. Although the table in *BIPRU* TP 3.8R (Parts of *GENPRU* and *BIPRU* that apply in 2007) says that *BIPRU* 10.5.14R (Notification of trading book excesses) also applies, this is irrelevant to a *building society* as it relates to the regime for excess *exposures* in the *trading book*, which does not apply to a *building society*.
- 5.29 G The effect of *BIPRU* TP 5.28R is that a *building society* should treat all references to own funds in chapter 7 of Volume 1 of *IPRU(BSOC)* (Large exposures) as references to *capital resources* under *BIPRU* 10.5.2R to *BIPRU* 10.5.3R and *BIPRU* 10.5.5R (Capital resources for concentration risk). The last sentence of paragraph 7.3.1 of Volume 1 of *IPRU(BSOC)* should be disregarded.
- 5.30 G Chapter 7 of *IPRU(BSOC)* is mostly *guidance* on *rules* 1.2.1 and 1.2.2 of Chapter 1 of Volume 1 of *IPRU(BSOC)*. These *rules* do not apply in 2007. When the large exposures provisions of Volume 1 of *IPRU(BSOC)* are applied under this section they are *guidance* on the *overall financial adequacy rule*.

Operational risk

- 5.31 G *BIPRU* TP 3.21R provides that the *operational risk capital requirement* is reduced where a *firm* uses *BIPRU* TP 3.4R (Capital floors for a firm using the IRB or AMA approaches). A *building society* (unless, exceptionally, it has a *trading book*) will apply *BIPRU* 3.4R to all its *exposures*. So the effect of *BIPRU* TP 3.21R in those cases will be to reduce the *operational risk capital requirement* to zero while *BIPRU* TP 3.4 applies.

Miscellaneous modifications of *IPRU(BSOC)*

- 5.32 G When using Annex 1B of Chapter 1 of Volume 1 of *IPRU(BSOC)* (Risk Asset Weights) for the purposes of *BIPRU* TP 5.20G, the definition of "relevant authority" will be found in Annex 5A of Chapter 5 of Volume 1 of *IPRU(BSOC)* (Prudential Liquidity) instead.
- 5.33 G *BIPRU* TP 5.12R says that chapter 10 of Volume 1 of *IPRU(BSOC)* (Securitisation) applies. Under that chapter a *firm* should deduct certain credit enhancements from capital. A *building society* should deduct these credit enhancements at stage M of the calculation in the *capital resources table* (Deductions from the totals of tier one and two).
- 5.34 G Paragraph 6 of section 10.4 of Chapter SE of *IPRU(BANK)*, which is applied to a *building society* by chapter 10 of Volume 1 of *IPRU(BSOC)* (Securitisation), says that if a *firm* does not meet the policy on liquidity facilities provided by sponsors or repackers it should fully consolidate the scheme. This does not apply under this section. Instead a *building society* should treat the scheme assets as being on its balance sheet.
- 5.35 G The definition of investment grade for the purposes of Chapter SE (see in particular sections 3.2.2, 9.3 and 11.1) remains based on Chapter TI of *IPRU(BANK)*.
- Firms using the IRB approach during 2007: General
- 5.36 R *BIPRU* TP 5.37G to *BIPRU* TP 5.38R only apply to a *firm* that is applying the *IRB approach* under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as well as using *IPRU*.
- 5.37 G The effect of *BIPRU* TP 3.17G (Pre CRD capital requirements applying on a solo basis during 2007 for *firms* also using the *IRB approach*) is that Section 1.10 of Volume 1 of *IPRU(BSOC)* (Solvency Ratio) does not apply to an *exposure* to which the *firm* applies the *IRB approach*. The *IRB approach* requirements in *BIPRU* apply instead. The main requirements are listed in *BIPRU* TP 3.17G.
- 5.38 R A *building society* that has a *trading book* must apply the parts of *BIPRU* TP 4 (Pre CRD capital requirements applying on a solo basis during 2007: Banks) that deal with capital charges for items in the *trading book* for a *bank* that applies the *IRB approach* under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as well as using *IPRU*.

- TP 6 Pre CRD capital requirements applying on a solo basis during 2007:
Investment management firms
- Application
- 6.1 R This section applies to a *BIPRU firm* that:
- (1) is an *investment management firm*; and
 - (2) is applying *BIPRU* TP 3.4R (Use of IPRU on a solo basis during 2007).
- Purpose of this section
- 6.2 G *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) says that during 2007 a *firm* may apply the credit risk requirements of *IPRU* instead of the ones in *BIPRU*. For an *investment management firm* this involves applying the credit risk requirements in chapter 5 of *IPRU(INV)*. This section explains how this is done. In particular this section explains:
- (1) which parts of chapter 5 should be treated as credit risk requirements for this purpose;
 - (2) what parts of chapter 5 apply during 2007 and what changes are made to chapter 5 for that purpose; and
 - (3) what changes are made to *GENPRU* and *BIPRU* to reflect the fact that chapter 5 applies in place of parts of *GENPRU* and *BIPRU*.
- Duration of transitional
- 6.3 R This section applies until 1 January 2008.
- Drafting approach in this section
- 6.4 G The purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) is that the basic provisions of *BIPRU* and *GENPRU* should be in force from 1 January 2007. However a *firm* should be able to calculate the capital requirements for credit risk under *IPRU* and use the large exposures requirements in *IPRU*. This means that an *investment management firm* should slot the credit risk requirements of chapter 5 of *IPRU(INV)* into the general requirements of *GENPRU* and *BIPRU*.
- 6.5 G The capital calculation for credit risk under *BIPRU* is made up of three elements, which are set out in *GENPRU* 2.1.51R (Calculation of the credit risk capital requirement). These are the *credit risk capital component*, the *counterparty risk capital component* and the *concentration risk capital component*. So the approach in *BIPRU* TP 6.4G involves finding equivalents for these three elements in chapter 5 where this is possible.

- 6.6 G Under *GENPRU* and *BIPRU* a *firm* calculating its capital resources may usually choose between deducting *illiquid assets* and *material holdings*. Only if it has a *waiver* from consolidated supervision need it deduct both. However under chapter 5, both illiquid assets and material holdings in credit and financial institutions are deducted.
- 6.7 G The chapter 5 *rules* can still be made to work if a *firm* is allowed to choose between deducting *illiquid assets* and *material holdings* as any *exposure* that is not deducted is covered by the chapter 5 other assets requirement.
- 6.8 G (1) To make the *GENPRU* and *BIPRU* requirements compatible with chapter 5 for the purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007), this section takes the approach in this paragraph.
- (2) The *illiquid assets* and *material holdings* provisions of *GENPRU* 2.2 (Capital resources) apply.
- (3) The chapter 5 counterparty risk requirement and the other assets requirement are used to calculate the *BIPRU* credit risk charge for *non-trading book* items (called the *credit risk capital component*) and the *BIPRU* credit risk charge for *trading book* items (called the *counterparty risk capital component*).
- (4) *BIPRU* 10 (Concentration risk) allows a *firm* to exceed the large exposure limits in the *trading book*. A *firm* that takes up that option is subject to an additional capital requirement, called the *concentration risk capital component*. Chapter 5 does not give a *firm* that option. Therefore the *concentration risk capital component* does not apply to a *firm* under this section.

Parts of chapter 5 of *IPRU(INV)* that apply in 2007

- 6.9 R The parts of chapter 5 of *IPRU(INV)* that do and do not apply during the period that *BIPRU* TP 3.4R applies are set out in *BIPRU* TP 6.11R.
- 6.10 G The table in *BIPRU* TP 6.11R assumes that the *firm* is not applying the *IRB approach*. *BIPRU* TP 6.31R to *BIPRU* TP 6.34R deal with a *firm* that does apply the *IRB approach*.

6.11 R Table: Parts of chapter 5 of IPRU(INV) that apply in 2007
This table belongs to *BIPRU* TP 6.9R

| Chapter 5 rule | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|--|--|---|---|
| 5.1.1(1)(a) and (b) (Application) | N | | <i>BIPRU</i> TP 6.1R applies instead |
| Table 5.1.1(1)(a) (What parts of chapter 5 apply to what <i>firm</i>) | N | | <i>BIPRU</i> TP 6.1R applies instead |
| 5.1.1(1)(c) (Interpretation) | Y | | See <i>BIPRU</i> TP 6.26R to <i>BIPRU</i> TP 6.28G |
| 5.2.1 (General requirement) | N | | |
| 5.2.2 (Financial resources) | N | | <i>GENPRU</i> 2.2 (Capital resources) applies instead |
| 5.2.3(1) (Determination of requirement) | N | | |
| 5.2.3(2) (Exceptions from the liquid capital requirement) | N | | |
| 5.2.3(3) (Own funds requirement) | N | | |
| 5.2.3(4) (Liquid capital requirement) | N | | |
| 5.2.3(5) (Total capital requirement) | Expenditure based requirement | N | |
| | Position risk requirement | N | |
| | Counterparty risk requirement | Y | |

| Chapter 5 rule | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks | |
|---|--|--|--|
| | Foreign exchange requirement | N | |
| | Other assets requirement | Y | |
| 5.2.4 (Annual audited expenditure) | N | | |
| 5.2.5 (Qualifying subordinated loans) | N | | |
| 5.2.6 (Qualifying property and qualifying undertakings) | N | | |
| 5.2.7 (Large exposures) | Y | See <i>BIPRU</i> TP 6.21R to <i>BIPRU</i> TP 6.22R | |
| Table 5.2.2(1) (Calculation of own funds and liquid capital) | N | | |
| Table 5.2.3(3)(b) (Own funds requirement) | N | | |
| Table 5.2.3(5)(a) (Expenditure based requirement) | N | | |
| Table 5.2.3(5)(b) (Position risk requirement) | N | See <i>BIPRU</i> TP 6.254 | |
| Table 5.2.3(5)(c) (Counterparty risk requirement) | Y | See <i>BIPRU</i> TP 6.13R to <i>BIPRU</i> TP 6.19G | |
| Table 5.2.3(5)(c)(i) (Counterparty risk factor –cash settlements) | Y | | |

| Chapter 5 rule | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--|
| Table 5.2.3(5)(c)(ii) (Counterparty risk requirement) | Y | |
| Table 5.2.3(5)(c)(iii) (OTC derivatives calculation of credit equivalent amount) | Y | See <i>BIPRU</i> TP 6.15G and <i>BIPRU</i> TP 6.18R to <i>BIPRU</i> TP 6.19G |
| Table 5.2.3(5)(d) (Foreign exchange requirement) | N | |
| Table 5.2.3(5)(e) (Other assets requirement) | Y | See <i>BIPRU</i> TP 6.20R |
| 5.3.1 (Records) | N | Applied in part under <i>BIPRU</i> TP 23 (Record keeping transitionals) |
| 5.5.1 (Financial notification) | N | |
| 5.7 (Consolidated supervision) | N | |
| Glossary | Y | See <i>BIPRU</i> TP 6.26R to <i>BIPRU</i> TP 6.28G |

Categorisation

- 6.12 R Each *firm* is an ISD firm for the purposes of chapter 5 of *IPRU(INV)* as applied by *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) and this section.

How to use the chapter 5 Counterparty Risk Requirement and the Other Assets Requirement

- 6.13 R A *firm* must calculate the sum of the *credit risk capital component* and the *counterparty risk capital component* as being equal to the sum of the counterparty risk requirement under chapter 5 of *IPRU(INV)* and of the other assets requirement under chapter 5 of *IPRU(INV)*.

- 6.14 R If it is necessary to distinguish between the *credit risk capital component* and the *counterparty risk capital component* a *firm* must allocate:
- (1) any amount calculated for an *exposure* in the *non-trading book* to the *credit risk capital component*; and
 - (2) any amount calculated for an *exposure* in the *trading book* to the *counterparty risk capital component*;

- 6.15 G A *firm* may still apply the netting provisions for OTC derivatives in chapter 5 even though the OTC derivative calculation is split between the *credit risk capital component* and the *counterparty risk capital component* under *BIPRU* TP 6.14R. The net amount should be allocated to the *credit risk capital component* if the gross value of the *non-trading book* derivatives is bigger and to the *counterparty risk capital component* if the gross value of the *trading book* derivatives is bigger.

Adjustments to the Counterparty Risk Requirement calculations: General

- 6.16 G Broadly speaking the Directive transitional provisions that allow pre-2007 credit risk rules to be used in 2007 cover all credit risk rules. However the transitional provisions for *trading book* credit risk (Annex II of the *Capital Adequacy Directive*, which is implemented in *BIPRU* 14 (Capital requirements for settlement and counterparty risk)) is not quite as straightforward as that. In some cases pre-2007 requirements can be used. In others they cannot. The purpose of *BIPRU* TP 6.17R to *BIPRU* TP 6.19G is to reflect those cases in which the Directive requires the new requirements to apply from 1 January 2007.

Adjustments to the Counterparty Risk Requirement calculations: Free deliveries

- 6.17 R
- (1) The calculation of the part of the counterparty risk requirement set out in section 3 of Table 5.2.3(5)(c) of chapter 5 of *IPRU(INV)* (Free deliveries) is amended in accordance with this *rule* for the purposes of *trading book* calculations.
 - (2) A *firm* must include *foreign currency* and *commodity* transactions.
 - (3) The capital treatment in the table in *BIPRU* 14.4.3R (Capital treatment for free deliveries) applies. But when the capital treatment in that table is that the *firm* must treat the transaction as an *exposure*, the *firm* must apply the treatment in chapter 5 of *IPRU(INV)* rather than *BIPRU* 14 (Capital requirements for settlement and counterparty risk).

Adjustments to the Counterparty Risk Adjustments calculations: Credit derivative transactions

- 6.18 R A *firm* must treat a credit derivative in the *trading book* as a derivative to which section 6 of Table 5.2.3(5)(c) of chapter 5 of *IPRU(INV)* (OTC derivatives) and table 5.2.3(5)(c)(iii) (OTC derivatives calculation of credit equivalent amount) apply.
- 6.19 G The capital treatment for credit derivatives set out in *BIPRU* 14.2.5R - *BIPRU* 14.2.8R (Capital treatment for credit derivatives) does not apply.

Adjustments to the Other Assets Requirement calculations

- 6.20 R A *firm* must include the items listed in section 4 of Chapter BC of *IPRU(BANK)* that are in the *firm's non-trading book* as off-balance sheet items in table 5.2.3(5)(e) (Other assets requirement) whether they are on or off balance sheet. A *firm* must include a credit derivative as a full risk item.

How to use the chapter 5 large exposure rules

- 6.21 R Section 5.2.7 of chapter 5 of *IPRU(INV)* (Large exposures) applies in place of *BIPRU* 10 (Concentration risk).
- 6.22 R *BIPRU* 10.5.2R to *BIPRU* 10.5.5R (Capital resources for concentration risk purposes) apply in place of the definition of own funds that applies under section 5.2.7 of chapter 5 of *IPRU(INV)*.

Specific risk calculations

- 6.23 R A *firm* must calculate the *specific risk* portion of the *interest rate PRR* in accordance with *BIPRU* TP 8.28R (Pre CRD *interest rate PRR* for *securities and futures firms*).
- 6.24 R Any reference to a *qualifying debt security* in a part of *BIPRU* that applies during 2007 must be interpreted in accordance with the meaning it has when used in section A of Table 5.2.3(5)(b) of chapter 5 of *IPRU(INV)* (Position risk requirement for qualifying debt securities). However *BIPRU* 7.2.50R (Must not apply *qualifying debt security* treatment to risky assets) also applies. Any reference to a *qualifying equity* in a part of *BIPRU* that applies during 2007 must be interpreted in accordance with the definition in the Glossary to chapter 10 of *IPRU(INV)*.
- 6.25 G The reason for *BIPRU* TP 6.23R and *BIPRU* TP 6.24R is that the calculation of the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7 (Market risk) involves the use of the *standardised approach* to credit risk. The *specific risk rules* therefore need to be adjusted for a *firm* that is not using the *standardised approach* to credit risk in 2007 so as to apply the pre-2007 method of calculating *specific risk*. However chapter 5 does not use the concept of *specific risk*. The nearest equivalent is in chapter 10 of *IPRU(INV)* (*Securities and futures firms*). The definition of *qualifying equity* also depends in part on the *standardised approach* to credit risk.

Definitions

- 6.26 R The definition of trading book is replaced with the definition in the *Glossary*.
- 6.27 R A *firm* may treat a reference in the Glossary to Chapter 5 of *IPRU(INV)* to a financial supervision regime at least equivalent to the Second Consolidated Supervision Directive and the Capital Adequacy Directive (No. 93/6/EEC) as including one to a regime equivalent to the *Banking Consolidation Directive* and Directive 2006/49 (the new version of the Capital Adequacy Directive).
- 6.28 G *GENPRU* 1.3 (Valuation) applies. The definition of exposure in the Glossary to chapter 5 should be read accordingly.

Mapping GENPRU and BIPRU concepts onto IPRU

- 6.29 G Some of the parts of chapter 5 of *IPRU(INV)* that apply in 2007 refer to parts of chapter 5 that do not apply. *BIPRU* TP 3.10R explains that where this happens a *firm* should interpret that cross-reference in accordance with the provision in *BIPRU* or *GENPRU* that corresponds to the chapter 5 provision that does not apply in 2007. A *firm* should refer to *IPRU* in the case of cross-references in *GENPRU* and *BIPRU* to provisions in *GENPRU* and *BIPRU* that do not apply in 2007. *BIPRU* TP 6.30G sets out how certain concepts in chapter 5 of *IPRU(INV)* correspond to ones in *GENPRU* and *BIPRU*. The purpose of the table is to help *firms* to interpret such cross-references.
- 6.30 G Table: Mapping GENPRU and BIPRU concepts onto ones in chapter 5 of *IPRU(INV)*
This table belongs to *BIPRU* TP 6.29G

| <i>GENPRU</i> and <i>BIPRU</i> | Chapter 5 of <i>IPRU(INV)</i> |
|--|---|
| <i>Illiquid asset</i> | Illiquid asset |
| <i>Material holding</i> | Material holdings in credit and financial institutions (item 8 in Table 5.2.2(1) (Calculation of own funds and liquid capital)) |
| Unsettled transaction under <i>BIPRU</i> 14.3 | Delivery of cash against documents and settlements outstanding for 30 days or more (part of counterparty risk requirement) |
| <i>Free deliveries</i> under <i>BIPRU</i> 14.4 | Free deliveries (part of counterparty risk requirement) |

| | |
|---|--|
| <i>GENPRU and BIPRU</i> | Chapter 5 of <i>IPRU(INV)</i> |
| See <i>BIPRU</i> TP 6.8G | Counterparty risk requirement |
| See <i>BIPRU</i> TP 6.8G | Other assets requirement |
| <i>Market risk capital requirement</i> | The position risk requirement and the foreign exchange requirement |
| <i>Trading book concentration risk excess</i> | This concept does not apply in Chapter 5 |
| <i>Risk weight</i> | Risk weights in Table 5.2.3(5)(c)(ii) (Counterparty risk requirement). In general where Table 5.2.3(5)(e) (Other assets requirement) applies a risk factor of 8% that is equivalent to applying a <i>risk weight</i> of 100%. Applying the 1.6% adjustment under that table is equivalent to applying a 20% <i>risk weight</i> under <i>BIPRU</i> together with the standard 8% <i>BIPRU</i> credit risk charge. The "NIL" adjustment under that table is equivalent to applying a 0% <i>risk weight</i> . |

Firms using the IRB approach during 2007: General

- 6.31 R *BIPRU* TP 6.31R to *BIPRU* TP 6.34R only apply to a *firm* that is applying the *IRB approach* under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as well as using *IPRU*.
- 6.32 G The effect of *BIPRU* TP 3.17G (Pre CRD capital requirements applying on a solo basis during 2007 for *firms* also using the *IRB approach*) is that the counterparty risk requirement and the other assets requirement do not apply to an *exposure* to which the *firm* applies the *IRB approach*. The *IRB approach* requirements in *BIPRU* apply instead. The main requirements are listed in *BIPRU* TP 3.17G.
- 6.33 R A *firm* must apply *BIPRU* 7.2.45R - *BIPRU* 7.2.47R (Using internal ratings to calculate *specific risk* and treatment of *securitisations*) to calculate the *specific risk* portion of the *interest rate PRR* to the extent that the obligor or *exposure* in question comes within the scope of its *IRB permission*.
- 6.34 R The definition of *qualifying debt security* and *qualifying equity* in the *Glossary* apply if the security or obligor in question comes within the scope of a *firm's IRB permission*.

- TP 7 Pre CRD capital requirements applying on a solo basis during 2007: UCITS investment firms
- Application
- 7.1 R This section applies to a *BIPRU firm* that:
- (1) is a *UCITS investment firm*; and
 - (2) is applying *BIPRU TP 3.4R* (Use of IPRU on a solo basis during 2007).
- Purpose of this section
- 7.2 G *BIPRU TP 3* (Pre CRD capital requirements applying on a solo basis during 2007) says that during 2007 a *firm* may apply the credit risk requirements of *IPRU* instead of the ones in *BIPRU*. For a *UCITS investment firm* this involves applying the credit risk requirements in chapter 7 of *IPRU(INV)*. This section explains how this is done.
- Duration of transitional
- 7.3 R This section applies until 1 January 2008.
- Drafting approach
- 7.4 G Chapter 7 of *IPRU(INV)* does not contain any credit risk *rules*. Instead it cross refers to the ones in chapter 5 (Interim prudential requirements for former IMRO firms). Therefore this section applies *BIPRU TP 6* (Pre CRD capital requirements applying on a solo basis during 2007: Investment management firms).
- Parts of chapter 7 of *IPRU(INV)* that apply in 2007
- 7.5 R The parts of chapter 7 of *IPRU(INV)* that do and do not apply during the period that *BIPRU TP 3.4R* applies are set out in *BIPRU TP 7.7R*.
- 7.6 G The table in *BIPRU TP 7.7R* assumes that the *firm* is not applying the *IRB approach*. *BIPRU TP 6.31R* to *BIPRU TP 6.34R* (which are applied to a *UCITS investment firm* by *BIPRU TP 7.8R*) deal with a *firm* that does apply the *IRB approach*.

7.7

R Table: Parts of chapter 7 of IPRU(INV) that apply in 2007
This table belongs to *BIPRU* TP 7.5R

| Chapter 7 rule | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--------------------------------------|
| 7.1.1 (Application) | N | <i>BIPRU</i> TP 7.1R applies instead |
| 7.1.2 and 7.1.3 (<i>Guidance</i> on types of <i>UCITS</i> management companies etc) | Y | |
| 7.2.1 (General rule about financial resources and financial resources requirements) | N | |
| 7.2.2 (Financial resources requirement) | N | |
| 7.2.3 (Liquid capital resource requirement) | 13/52 annual audited fixed expenditure requirement | N |
| | Provision of paragraph (2) that says that requirements apply in respect of <i>designated investment business</i> other than when undertaking <i>scheme management activity</i> | Y |
| | Position risk requirement | N |
| | Counterparty risk requirement | Y |
| | Foreign exchange requirement | N |

| Chapter 7 rule | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|--|--|---|--|
| | Other assets requirement | Y | |
| 7.2.4 to 7.2.5 (Calculation of annual expenditure) | N | | |
| 7.3 (Method of calculation of financial resources) | N | | <i>GENPRU 2.2</i> (Capital resources) applies instead |
| 7.4.1 (Application of <i>rules</i> in chapter 5 of <i>IPRU(INV)</i> about qualifying subordinated loans etc) | N | | The record keeping <i>rules</i> referred to in <i>rule 7.4.1(1)(c)</i> are applied under <i>BIPRU TP 23</i> (Record keeping transitionals) |
| 7.4.2 (Application of <i>rules</i> in chapter 5 of <i>IPRU(INV)</i> about large exposures) | Y | | |
| 7.5 (Financial notification) | N | | |
| 7.6 (Records) | N | | Applied under <i>BIPRU TP 23</i> (Record keeping transitionals) |

Application of BIPRU TP 6

- 7.8 R *BIPRU TP 6* (Pre CRD capital requirements applying on a solo basis during 2007: Investment management firms) applies for the purposes of this section.

- TP 8 Pre CRD capital requirements applying on a solo basis during 2007:
Securities and futures firms
- Application
- 8.1 R This section applies to a *BIPRU firm* that is:
- (1) a *securities and futures firm*; and
 - (2) is applying *BIPRU TP 3.4R* (Pre CRD capital requirements applying on a solo basis during 2007).
- Purpose of this section
- 8.2 G *BIPRU TP 3* (Pre CRD capital requirements applying on a solo basis during 2007) says that during 2007 a *firm* may apply the credit risk requirements of *IPRU* instead of the ones in *BIPRU*. For a *securities and futures firm* this involves applying the credit risk requirements in chapter 10 of *IPRU(INV)*. *BIPRU TP 8* explains how this is done. In particular this section explains:
- (1) which parts of chapter 10 should be treated as credit risk requirements for this purpose;
 - (2) what parts of chapter 10 apply during 2007 and what changes are made to chapter 10 for that purpose; and
 - (3) what changes are made to *GENPRU* and *BIPRU* to reflect the fact that chapter 10 applies in place of parts of *GENPRU* and *BIPRU*.
- Duration of transitional
- 8.3 R *BIPRU TP 8* applies until 1 January 2008.
- Drafting approach in this section
- 8.4 G The purpose of *BIPRU TP 3* (Pre CRD capital requirements applying on a solo basis during 2007) is that the basic provisions of *BIPRU* and *GENPRU* should be in force from 1 January 2007. However a *firm* should be able to calculate the capital requirements for credit risk under *IPRU* and use the large exposures requirements in *IPRU*. This means that a *securities and futures firm* should slot the credit risk requirements of chapter 10 of *IPRU(INV)* into the general requirements of *GENPRU* and *BIPRU*. A *firm* that applies *BIPRU TP 3.4R* should not use chapter 3 as the source of its pre-2007 credit risk requirements even if it was subject to chapter 3 before becoming a *BIPRU investment firm*.

- 8.5 G The capital calculation for credit risk under *BIPRU* is made up of three elements, which are set out in *GENPRU* 2.1.51R (Calculation of the credit risk capital requirement). These are the *credit risk capital component*, the *counterparty risk capital component* and the *concentration risk capital component*. So the approach in *BIPRU* TP 8.4G involves finding equivalents for these three elements in chapter 10 where possible.
- 8.6 G Under *GENPRU* and *BIPRU* a *firm* calculating its capital resources may usually choose between deducting *illiquid assets* and *material holdings*. Only if it has a *waiver* from consolidated supervision need it deduct both. This broadly corresponds to the approach in calculating financial resources under Tables 10-62(2)A to 10-62(2)C.
- 8.7 G The financial resources requirements calculations under chapter 10 depend in part on which of the financial resources calculations in Tables 10-62(2)A to 10-62(2)C a *firm* uses. Where this is the case the *firm* should use the requirements calculation associated with the version of the tables in 10-62(2) that corresponds to the *capital resources* calculation the *firm* uses under *GENPRU* 2.2 (Capital resources). *BIPRU* TP 8.33G explains how the *capital resources* calculations in *GENPRU* 2.2 map onto Tables 10-62(2)A to 10-62(2)C.
- 8.8 G
- (1) To make the *GENPRU* and *BIPRU* requirements compatible with chapter 10 for the purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007), this section takes the approach in this paragraph.
 - (2) The *illiquid assets* and *material holdings* provisions of *GENPRU* 2.2 (Capital resources) apply.
 - (3) The 8% illiquid asset adjustment under *IPRU(INV)* 10-65 applies to a *firm* calculating its financial resources under Table 10-62(2)A. It is equivalent to a capital charge for credit risk under *BIPRU*. Therefore a *firm* using the *capital resources* calculation in *GENPRU* that corresponds to Table 10-62(2)A (*GENPRU* 2 Ann 4R (Capital resources table for a *BIPRU investment firm* deducting *material holdings*)) should continue to apply that adjustment. It should be included as part of the *non-trading book* credit risk charge in *BIPRU*, which is called the *credit risk capital component*.
 - (4) A 100% illiquid asset adjustment under *IPRU(INV)* 10-65 is equivalent to a deduction of *illiquid assets* under *GENPRU* 2.2 (Capital resources). Therefore a *firm* should not use this adjustment. This is because, as explained in (2), the *illiquid assets* provisions in *GENPRU* 2.2 apply. Any item that would have been caught by *IPRU(INV)* 10-65 but is not caught by the *illiquid asset* deduction under *GENPRU* 2.2 should be dealt with under *IPRU(INV)* 10-66.

- (5) The *IPRU(INV)* 10-66 liquidity adjustment covers any asset that has not been subject to a liquidity adjustment for illiquid assets under *IPRU(INV)* 10-65. Therefore (subject to (3)) a *firm* should calculate the *credit risk capital component* (the *non-trading book* credit charge in *BIPRU*) by applying *IPRU(INV)* 10-66 to any asset not deducted as an *illiquid asset* under *GENPRU* 2.2 (Capital resources).
- (6) The chapter 10 counterparty risk requirement is used to calculate the *BIPRU* credit risk charge for *trading book* items, called the *counterparty risk capital component*.
- (7) The chapter 10 LER calculation is used to calculate the *concentration risk capital component*.

Parts of chapter 10 of *IPRU(INV)* that apply in 2007

- 8.9 R The parts of chapter 10 of *IPRU(INV)* that do and do not apply during the period that *BIPRU* TP 3.4R applies are as set out in *BIPRU* TP 8.11R.
- 8.10 G The table in *BIPRU* TP 8.11R assumes that the *firm* is not applying the *IRB approach*. *BIPRU* TP 8.35R to *BIPRU* TP 8.38R deal with a *firm* that does apply the *IRB approach*.
- 8.11 R Table: Parts of chapter 10 of *IPRU(INV)* that apply in 2007
This table belongs to *BIPRU* TP 8.9R

| Chapter 10 rule | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|---|
| 10-A (Application of Chapter 10 Glossary) | Y | See <i>BIPRU</i> TP 8.32R |
| 10-B (Application) | N | <i>BIPRU</i> TP 8.1R applies instead |
| 10.10 to 10.12 (Record keeping and Reconciliations) | N | Applied in part under <i>BIPRU</i> TP 23 (Record keeping transitionals) |
| 10-32 (Defaulting repo counterparty and LE Notification Requirements) | N | |
| 10-41 (Repo and Valuation) | N | |

| Chapter 10 <i>rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|---|--|---|--|
| 10-60 to 10-63 (Initial Capital and Financial Resources) | N | | |
| 10-64 to 10-68 (Liquidity Adjustments, Charged Assets and Contingent Liabilities) | 10-64(2) (Intangible assets) | N | <i>GENPRU</i> 2.2 (Capital resources) applies instead |
| | 10-65(12) (Material holdings) | N | <i>GENPRU</i> 2.2 applies instead |
| | The rest | Y | See <i>BIPRU</i> TP 8.13R to <i>BIPRU</i> TP 8.19G. The requirement in 10-64(1)(c) for an illiquid asset adjustment for commodities to be calculated under appendix 6 (the <i>PRR</i> charge for <i>commodities</i>) does not apply |
| 10-69 (Deficiencies in subsidiaries) | N | | |
| 10-70 (Calculation of financial resources requirement) | N | | |
| 10-71 (Primary requirement) | N | | |
| 10-72 (Base requirement) | N | | |
| 10-73 (Expenditure requirement) | N | | |
| 10-74 (Secondary requirement) | Y | | <i>BIPRU</i> TP 3.10R and the table in <i>BIPRU</i> TP 8.34G explain how the terms used in <i>rule</i> 10-74 are to be interpreted |

| Chapter 10 rule | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|--|--|---|---|
| 10-80 to 10-120 (PRR) | N | | But see <i>BIPRU</i> TP 8.29R to <i>BIPRU</i> TP 8.31G |
| 10-170 to 10-176 (CRR) | 10-170(3) and (9) (Valuation) and 10-173(8) (Daily valuation) | N | |
| | The rest | Y | See <i>BIPRU</i> TP 8.20R to <i>BIPRU</i> TP 8.25R |
| 10-190 to 10-196 (Large exposures) | 10-190(1) (Application) | N | <i>BIPRU</i> TP 10 (Pre CRD capital requirements applying on a consolidated basis during 2007) deals with consolidation |
| | The rest | Y | See <i>BIPRU</i> TP 8.26R to <i>BIPRU</i> TP 8.28R |
| 10-200 to 10-204 (Consolidated supervision) | N | | |
| 10-300 (ACMPs) | Y | | Applies to the extent relevant to the parts of chapter 10 that apply under <i>BIPRU</i> TP 8 |
| Appendix 1 (Glossary of Terms for <i>IPRU(INV)</i> 10) | Y | | See <i>BIPRU</i> TP 8.32R |
| Appendices 4 to 11 (PRR) | Appendix 4 43R to 47R (Specific risk portion of the interest rate PRR) | Y | |

| Chapter 10 <i>rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|---|--|---|-----------------------------------|
| | The rest of Appendices 4 to 11 | N | |
| Appendix 20 (Guidance notes on reconciliation of firm's balances with a counterparty which is a member of an exchange (rule 10-11(4)) | N | | |
| Appendix 21 (Note on the valuation of positions) | N | | |
| Appendix 43 (Guidance note on the financial resources and accounting treatment of soft commission agreements (rule 10-73 and 10-175)) | Y | | Applies so far as relevant to CRR |
| Appendix 47 (Counterparty weights to be applied in calculating liquidity adjustment and CRR (rules 10-64 to 10-68, and 10-172 to 10-176)) | Y | | |
| Appendix 48 (Securities and Futures firms: Guidance notes on the secondary requirement) | Y | | |
| Appendix 55 (Guidance notes on the application of adequate collateral or acceptable collateral to reduce counterparty exposures) | Y | | |

| Chapter 10 <i>rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|--|--|---|
| Appendix 56 (Guide to Adequate Credit Management Policy (ACMP) (rules 10-172 to 10-175, 10-300 and "ACMP")) | Y | See remarks for 10-300 |
| Appendix 57 (List of exchanges and clearing houses recognised for the purposes of IPRU(INV)) | Y | |
| Appendix 58 (Verification of interim profits by external auditors) | N | |
| Appendix 59 (List of regulators for the purposes of the definition of recognised third country investment firms) | Y | |
| Appendix 62 (Netting) | Y | |
| Appendix 63 (Guidance on Credit derivatives) | Y | (1) Applies so far as relevant to CRR. (2) Applies so far as relevant to liquidity adjustments. (3) Does not apply so far as relevant to the PRR. (4) If the <i>firm</i> is the protection seller in relation to a credit derivative in the <i>non-trading book</i> it must apply the treatment in <i>IPRU(BANK)</i> . |

Categorisation

- 8.12 R Each *firm* is a Category A firm for the purposes of chapter 10 of *IPRU(INV)* as applied by *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) and this section.

How to use the chapter 10 liquidity adjustment rules

- 8.13 R A *firm* must calculate the *credit risk capital component* by adding together the deductions under the liquidity adjustment *rules* that apply under *BIPRU* TP 8.11R.
- 8.14 R The 100% liquidity adjustment in *IPRU(INV)* 10-65 (Liquidity adjustment on illiquid assets) does not apply.
- 8.15 G The reason for *BIPRU* TP 8.14R is explained in *BIPRU* TP 8.8G.
- 8.16 R *IPRU(INV)* 10-65 (Illiquid assets) only applies to a *firm* calculating *capital resources* under *GENPRU* 2 Annex 4R (Capital resources table for a *BIPRU* investment firm deducting material holdings).
- 8.17 G The reason for *BIPRU* TP 8.16R is explained in *BIPRU* TP 8.8G.
- 8.18 R A *firm* must calculate the credit risk charge for *commodities* in the *non-trading book* as a liquidity adjustment under *IPRU(INV)* 10-64(1)(c) in accordance with the *CRR rules* in Chapter 10. A *firm* must include that amount in the calculation of the *credit risk capital component*.
- 8.19 G A *firm* may still apply the *CRR* netting provisions for *commodities* in chapter 10 even though the calculation is split between the *credit risk capital component* and the *counterparty risk capital component* under *BIPRU* TP 8.18R and *BIPRU* TP 8.20R. The net amount should be allocated to the *credit risk capital component* if the gross value of the *non-trading book commodities* is bigger and to the *counterparty risk capital component* if the gross value of the *trading book commodities* is bigger.

How to use the chapter 10 CRR rules

- 8.20 R Subject to *BIPRU* TP 8.18R, a *firm* must calculate the *counterparty risk capital component* as being equal to the capital charge under the *CRR rules* that apply under *BIPRU* TP 8.11R.

Adjustments to the CRR calculations: General

- 8.21 G Broadly speaking the Directive transitional provisions that allow pre-2007 credit risk rules to be used in 2007 cover all credit risk rules. However the transitional provisions for *trading book* credit risk (Annex II of the *Capital Adequacy Directive*, which is implemented in *BIPRU* 14 (Capital requirements for settlement and counterparty risk)) is not quite as straightforward as that. In some cases pre-2007 requirements can be used. In others they cannot. The purpose of *BIPRU* TP 8.22R to *BIPRU* TP 8.25R is to reflect those cases in which the Directive requires the new requirements to apply from 1 January 2007.

Adjustments to the CRR calculations: Free deliveries

- 8.22 R (1) The calculations under *rule* 10-172 of *IPRU(INV)* (Free deliveries) are amended in accordance with this *rule*.
- (2) A *firm* must include *foreign currency* transactions.
- (3) The capital treatment in the table in *BIPRU* 14.4.3R (Capital treatment for free deliveries) applies. But when the capital treatment in that table is that the *firm* must treat the transaction as an *exposure*, the *firm* must apply the treatment in *rule* 10-172 rather than *BIPRU* 14 (Capital requirements for settlement and counterparty risk).

Adjustments to the CRR calculations: Derivative transactions

- 8.23 R A *firm* must treat a credit derivative in the *trading book* as a derivative to which *rule* 10-174 of *IPRU(INV)* (Derivative transactions) applies.
- 8.24 G The capital treatment for credit derivatives set out in *BIPRU* 14.2.5R - *BIPRU* 14.2.8R (Capital treatment for credit derivatives) does not apply.

Adjustments to the CRR calculations: Cash against documents

- 8.25 R A *firm* must include *foreign currency* transactions in the calculations under 10-171 of chapter 10 of *IPRU(INV)* (Cash against documents transactions).

How to use the chapter 10 large exposure rules

- 8.26 R 10-190 to 10-196 of chapter 10 of *IPRU(INV)* (Large exposures requirement) apply in place of *BIPRU* 10 (Concentration risk).
- 8.27 R A *firm* must calculate the *concentration risk capital component* as being equal to the capital charge under the LER *rules* that apply under *BIPRU* TP 8.11R.
- 8.28 R *BIPRU* 10.5.2R to *BIPRU* 10.5.5R (Capital resources for concentration risk purposes) apply in place of the corresponding provisions of chapter 10.

Specific risk calculations

- 8.29 R A *firm* must use chapter 10 of *IPRU(INV)* as it applies under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) and this section to calculate the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7.2 (Interest rate PRR) to the extent that the relevant *rules* in *BIPRU* 7.2 require the use of the *standardised approach* to credit risk.
- 8.30 R Any reference to a *qualifying debt security* or *qualifying equity* in a part of *BIPRU* that applies during 2007 must be interpreted in accordance with the definition in the Glossary to chapter 10 of *IPRU(INV)*. However *BIPRU* 7.2.50R (Must not apply *qualifying debt security* treatment to risky assets) also applies.
- 8.31 G The effect of *BIPRU* TP 8.29R and *BIPRU* TP 8.30R is that a *firm* should apply *rules* 43R to 47R of Appendix 4 of Chapter 10 of *IPRU(INV)* (Specific risk portion of interest rate PRR) instead of *BIPRU* 7.2.43R to *BIPRU* 7.2.49R (*Specific risk* portion of *interest rate PRR*). The reason for this is that the calculation of the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7 (Market risk) involves the use of the *standardised approach* to credit risk. The *specific risk rules* therefore need to be adjusted for a *firm* that is not using the *standardised approach* to credit risk in 2007 so as to apply the pre-2007 method of calculating *specific risk*. The definition of *qualifying equity* also depends in part on the *standardised approach* to credit risk.

Definitions

- 8.32 R The definitions of trading book, non-trading book, commodity, financial institution, illiquid asset and material holding in the Glossary to chapter 10 of *IPRU(INV)* are replaced by the corresponding definitions in the *Glossary*.

Mapping GENPRU and BIPRU concepts onto IPRU

- 8.33 G Some of the parts of chapter 10 of *IPRU(INV)* that apply in 2007 refer to parts of *IPRU* that do not apply. *BIPRU* TP 3.10R explains that where this happens a *firm* should interpret that cross-reference in accordance with the provision in *BIPRU* or *GENPRU* that corresponds to the *IPRU* provision that does not apply in 2007. A *firm* should refer to *IPRU* in the case of cross-references in *GENPRU* and *BIPRU* to provisions in *GENPRU* and *BIPRU* that do not apply in 2007. *BIPRU* TP 8.34G sets out how certain concepts in chapter 10 of *IPRU(INV)* correspond to ones in *GENPRU* and *BIPRU*. The purpose of the table is to help *firms* to interpret such cross-references.
- 8.34 G Table: Mapping GENPRU and BIPRU concepts onto ones in chapter 10 of *IPRU(INV)*
This table belongs to *BIPRU* TP 8.33G

| | |
|---|--|
| <i>GENPRU</i> and <i>BIPRU</i> | Chapter 10 of <i>IPRU(INV)</i> |
| Calculations of <i>counterparty risk capital component</i> and calculations under <i>BIPRU</i> 14 (Capital requirements for settlement and counterparty risk) | Calculation of CRR |
| <i>Illiquid asset</i> | Illiquid asset |
| Deduction from <i>capital resources</i> as an <i>illiquid asset</i> | 100% liquidity adjustment |
| Calculation of the <i>credit risk capital component</i> | 8% liquidity adjustment |
| <i>Concentration risk capital component</i> | LER |
| Unsettled transaction under <i>BIPRU</i> 14.3 | Cash against documents (<i>IPRU(INV)</i> 10-171) |
| <i>Free deliveries</i> under <i>BIPRU</i> 14.4 | Free deliveries (<i>IPRU(INV)</i> 10-172) |
| Calculation of <i>PRR</i> or of the <i>market risk capital requirement</i> | Calculation of <i>PRR</i> and the foreign exchange requirement |
| <i>Capital resources</i> calculations under <i>GENPRU</i> 2 Ann 4R | Financial resources calculation under table 10-62(2)A |
| <i>Capital resources</i> calculations under <i>GENPRU</i> 2 Ann 6R | Financial resources calculation under table 10-62(2)B |
| <i>Capital resources</i> calculations under <i>GENPRU</i> 2 Ann 5R respectively | Financial resources calculation under table 10-62(2)C |
| <i>Investment firm consolidation waiver</i> | Exemption from consolidated supervision |
| <i>Commodity extended maturity ladder approach</i> | Modified maturity ladder approach (relevant to the CRR calculation – see 10-174) |
| The table in <i>BIPRU</i> 7.8.28R (Net underwriting position reduction factors) | Table 27R of Appendix 7 (Net underwriting position reduction factors) |
| Consolidated supervision in accordance with <i>rules</i> 10-200 to 10-203 (see for example the reference in <i>rule</i> 10-192(1)(g)) | Consolidated supervision under <i>BIPRU</i> 8 (Group risk – consolidation) |

| | |
|---|--|
| <i>GENPRU and BIPRU</i> | Chapter 10 of <i>IPRU(INV)</i> |
| <i>Initial capital</i> | Initial capital |
| <i>Tier one capital resources plus tier two capital resources after deductions (stage N of the capital resources table)</i> | Own funds |
| <i>Capital resources</i> | Financial resources (as referred to for example in <i>rule 10-74</i>) |
| Externally verified interim net profits and losses and partners' capital as referred to in <i>GENPRU 2.2.102R</i> | Interim profit and loss account (as referred to in <i>rule 10-74</i>) |
| <i>trading book concentration risk excess</i> | Excess D under <i>rule 10-194(3)</i> |
| <i>Risk weight</i> | Counterparty weight. |

Firms using the IRB approach during 2007: General

- 8.35 R *BIPRU* TP 8.36G to *BIPRU* TP 8.38R only apply to a *firm* that is applying the *IRB approach* under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as well as using *IPRU*.
- 8.36 G The effect of *BIPRU* TP 3.17G (Pre CRD capital requirements applying on a solo basis during 2007 for *firms* also using the *IRB approach*) is that neither the illiquid asset adjustment nor the CRR requirements of chapter 10 apply to an *exposure* to which the *firm* applies the *IRB approach*. The *IRB approach* requirements in *BIPRU* apply instead. The main requirements are listed in *BIPRU* TP 3.17G.
- 8.37 R A *firm* must apply *BIPRU 7.2.45R - BIPRU 7.2.47R* (Using internal ratings to calculate *specific risk* and treatment of *securitisations*) to calculate the *specific risk* portion of the *interest rate PRR* to the extent that the obligor or *exposure* in question comes within the scope of its *IRB permission*.
- 8.38 R The definitions of *qualifying debt security* and *qualifying equity* in the *Glossary* apply if the security or obligor in question comes within the scope of a *firm's IRB permission*.

- TP 9 Pre CRD capital requirements applying on a solo basis during 2007 and capital floors: Personal investment firms
- Application
- 9.1 R This section (except *BIPRU* TP 9.45R) applies to a *BIPRU* firm that:
- (1) is a *personal investment firm*; and
 - (2) is applying *BIPRU* TP 3.4R (Use of IPRU on a solo basis during 2007).
- 9.2 G *BIPRU* TP 9.45R applies to a *BIPRU* firm that:
- (1) is a *personal investment firm*; and
 - (2) applies *BIPRU* TP 2 (Capital floors for a firm using the IRB or AMA approaches).
- Purpose of this section
- 9.3 G *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) says that during 2007 a *firm* may apply the credit risk requirements of *IPRU* instead of the ones in *BIPRU*. For a *personal investment firm* this involves applying the credit risk requirements in chapter 13 of *IPRU(INV)*. This section explains how this is done. In particular this section explains:
- (1) which parts of chapter 13 should be treated as credit risk requirements for this purpose;
 - (2) what parts of chapter 13 apply during 2007 and what changes are made to chapter 13 for that purpose; and
 - (3) what changes are made to *GENPRU* and *BIPRU* to reflect the fact that chapter 13 applies in place of parts of *GENPRU* and *BIPRU*.
- 9.4 G This section also explains how the obligation in *BIPRU* TP 2 (Capital floors for a firm using the IRB or AMA approaches) is applied to a *personal investment firm*.
- Duration of transitional
- 9.5 R This section applies until 1 January 2008.
- Drafting approach in this section

- 9.6 G The purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) is that the basic provisions of *BIPRU* and *GENPRU* should be in force from 1 January 2007. However a *firm* should be able to calculate the capital requirements for credit risk under *IPRU* and use the large exposures requirements in *IPRU*. This means that a *firm* should slot the credit risk requirements of chapter 13 of *IPRU(INV)* into the general requirements of *GENPRU* and *BIPRU*.
- 9.7 G The capital calculation for credit risk under *BIPRU* is made up of three elements, which are set out in *GENPRU* 2.1.51R (Calculation of the credit risk capital requirement). These are the *credit risk capital component*, the *counterparty risk capital component* and the *concentration risk capital component*. So the approach in *BIPRU* TP 9.6G involves finding equivalents for these three elements in chapter 13 where possible.
- 9.8 G The general approach to calculating the capital requirements for credit risk in *GENPRU* and *BIPRU* is to calculate the overall *credit risk capital requirement* (which is the sum of the three components listed in *BIPRU* TP 9.7G) – a monetary amount - and to compare it with *capital resources*, also a monetary amount. A *firm* calculating its *capital resources* may usually choose between deducting *illiquid assets* and *material holdings*. Only if it has a *waiver* from consolidated supervision need it deduct both.
- 9.9 G The drafting approach of chapter 13 to calculating the capital requirement for credit risk is different from the one in *GENPRU* and *BIPRU*. A *firm* calculates financial resources by adjusting the assets in the balance sheet, taking into account liabilities. Financial resources are then used to test compliance with an own funds test, an expenditure based requirement test and a net asset test. The equivalent of a credit risk charge in Chapter 13 is the deduction of an asset as an Illiquid Adjustment or the deduction of a portion of an asset calculated using the Counterparty Risk Adjustment. Both illiquid assets and material holdings in *credit institutions*, *investment firms* and *insurers* are deducted under Chapter 13.
- 9.10 G To make the *GENPRU* and *BIPRU* requirements compatible with chapter 13 for the purpose of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007), this section takes the approach in *BIPRU* TP 9.11G to *BIPRU* TP 9.18G.
- 9.11 G The *illiquid assets* and *material holdings* provisions of *GENPRU* 2.2 (Capital resources) apply.
- 9.12 G The chapter 13 Illiquid Adjustment and the chapter 13 Counterparty Risk Adjustment are used to calculate the *BIPRU* credit risk charge for *non-trading book* items (called the *credit risk capital component*) and the *BIPRU* credit risk charge for *trading book* items (called the *counterparty risk capital component*).

- 9.13 G When this section requires a *firm* to apply an Illiquid Adjustment to an asset a *firm* should apply a credit risk charge to that asset equal to the amount of the Illiquid Adjustment under Chapter 13 and include that charge in the calculation of the total credit risk charge. The amount of that credit risk charge will generally be equal to the amount of that asset. This is equivalent to a deduction from capital. A *firm* should not apply an Illiquid Adjustment to the extent that the asset has already been included as an *illiquid asset* or *material holding* and deducted from *capital resources* under *GENPRU 2.2*.
- 9.14 G The Chapter 13 Position Risk Adjustment no longer applies. If a *firm* has a *trading book*, an item in the *trading book* that would have received a Position Risk Adjustment is subject to a capital charge under *BIPRU 7* (Market risk). An item in a *firm's non-trading book* that would have received a Position Risk Adjustment is subject under this section to an Illiquid Adjustment. A *firm* should approach its usual supervisory contact at the *FSA* if it believes that this treatment is disproportionate.
- 9.15 G When this section requires a *firm* to apply a Counterparty Risk Adjustment to an asset a *firm* should apply a credit risk charge to that asset equal to the amount of the Counterparty Risk Adjustment under Chapter 13 and include that charge in the calculation of the total credit risk charge. The amount of that credit risk charge will generally be equal to the amount of that asset multiplied by the percentage in Table 13.5.4B or 13.5.4C. A *firm* should not apply a Counterparty Risk Adjustment to the extent that the asset has already been included as an *illiquid asset* or *material holding* and deducted from *capital resources* under *GENPRU 2.2*.
- 9.16 G All *non-trading book* items are excluded under *IPRU(INV) 13.8*. This exclusion is incorporated in the calculations under this section as a credit risk charge of 100%. *IPRU(INV) 13.8* does not apply if the *firm* does not have a *trading book*.
- 9.17 G The calculation of the capital requirements for credit risk in *GENPRU* and *BIPRU* is based on applying a capital charge to the *firm's* assets. The credit risk charge in *GENPRU* and *BIPRU* in broad terms reflects the risk to a *firm* that it will suffer loss because its counterparties do not pay what they owe to the *firm*. Thus generally it is not necessary to continue the requirement in Table 13.5.4 to deduct liabilities. However it is still necessary to include other liabilities deducted as part of the calculation of financial resources under Chapter 13 if they are of the type listed in section 4 of Chapter BC of *IPRU(BANK)*. This is because the Directive provisions that allow pre-2007 credit risk requirements to be used during 2007 require a capital charge for this type of item. In practice it is unlikely that these items will be relevant to a *personal investment firm* except for guarantees.
- 9.18 G The chapter 13 Large exposure Adjustment is used to calculate the *concentration risk capital component*. This is only relevant to a *firm* with a *trading book*.

Parts of chapter 13 of IPRU(INV) that apply in 2007

- 9.19 R The parts of chapter 13 of *IPRU(INV)* that do and do not apply during the period that *BIPRU* TP 3.4R applies are set out in *BIPRU* TP 9.21R.
- 9.20 G The table in *BIPRU* TP 9.21R assumes that the *firm* is not applying the *IRB* approach. *BIPRU* TP 9.41R to *BIPRU* TP 9.44R deal with a *firm* that does apply the *IRB* approach.
- 9.21 R Table: Parts of chapter 13 of IPRU(INV) that apply in 2007
This table belongs to *BIPRU* TP 9.19R

| Chapter 13 rule | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|--|--|---|
| 13.1 (Application) | N | <i>BIPRU</i> TP 9.1R and <i>BIPRU</i> TP 9.2R apply instead |
| 13.1.2 (General requirements) | N | |
| 13.1.3 to 13.1.6 (Professional Indemnity insurance) | N | |
| 13.1.7 to 13.1.9 (Notification) | N | |
| 13.1.10 to 13.1.17 (Record keeping) | N | Applied in part under <i>BIPRU</i> TP 23 (Record keeping transitionals) |
| 13.2 (Financial Resources Tests) | N | |
| 13.3 (Financial Resources Test 1 – Own funds) | N | |
| 13.4 (Financial resources Test 1A – Adjusted net current assets) | N | |

| Chapter 13 <i>rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | | Remarks |
|--|--|---|---|
| 13.5.1R to 13.5.3AG (Expenditure-based Requirement) | N | | |
| 13.5.4 (Calculation of financial resources to meet Tests 1, 1A or 2) | Y | | Only applies for the purpose of deciding whether Table 13.5.4(1) or Table 13.5.4(2) applies |
| 13.5.4A (Obligation to identify trading book items and special adjustments) | Y | | Does not apply to special adjustments that do not apply under this section |
| Part I of Tables 13.5.4(1) and (2) (Net assets requirement for firms in Category A): (Assets calculation) | Illiquid Adjustment | Y | See <i>BIPRU</i> TP 9.23R to <i>BIPRU</i> TP 9.26G |
| | Counterparty Risk Adjustment | Y | See <i>BIPRU</i> TP 9.23R to <i>BIPRU</i> TP 9.31G |
| | Position Risk Adjustment | N | If an <i>exposure</i> in the <i>non-trading book</i> would have been subject to a Position Risk Adjustment a <i>firm</i> must apply an Illiquid Adjustment to it. |
| | Large exposure Adjustment | Y | See <i>BIPRU</i> TP 9.34R |

| Chapter 13 <i>rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|--|
| Part II of Tables 13.5.4(1) and (2) (Net assets requirement for firms in Category A): (Liabilities calculation) | Counterparty Risk Adjustments | Y See <i>BIPRU</i> TP 9.23R to <i>BIPRU</i> TP 9.31G |
| | Liabilities if they are listed in section 4 of Chapter BC of <i>IPRU(BANK)</i> and are in the <i>firm's non-trading book</i> | Y (1) This applies whether they are on or off balance sheet. (2) A <i>firm</i> must include liabilities under a credit derivative. (3) See <i>BIPRU</i> TP 9.23R |
| | Position Risk Adjustment | N If an <i>exposure</i> in the <i>non-trading book</i> would have been subject to a Position Risk Adjustment a <i>firm</i> must apply an Illiquid Adjustment to it. |
| | The rest | N |
| Table 13.5.4A (Position risk) | N | |
| Table 13.5.4B (Unsettled securities transactions) | N | See <i>BIPRU</i> TP 9.28R |
| Table 13.5.4C (Counterparty risk) | Y | See <i>BIPRU</i> TP 9.23R to <i>BIPRU</i> TP 9.31G |
| Table 13.5.4D (Over the counter derivatives) | Y | See <i>BIPRU</i> TP 9.26G and <i>BIPRU</i> TP 9.30R to <i>BIPRU</i> TP 9.31G |
| Table 13.5.4E (Foreign exchange risk) | N | |

| Chapter 13 <i>rule</i> | A Y denotes that the provision does apply An N denotes that it does not apply | Remarks |
|---|--|---|
| 13.5.5 to 13.5.5C (Subordinated debt) | N | |
| 13.6 (Large exposures) | Y | See <i>BIPRU</i> TP 9.32R to <i>BIPRU</i> TP 9.34R |
| 13.7 (Consolidated Supervision of Group Companies) | N | |
| 13.8 (Trading book) | Table 13.8(1) (Definition of trading book) | N |
| | The rest | Y See <i>BIPRU</i> TP 9.23R and <i>BIPRU</i> TP 9.38R |
| 13.9 to 13.9.12 (Financial resources tests for Category B firms) | N | |
| Glossary for chapter 13 | Y | See <i>BIPRU</i> TP 9.38R |

Categorisation

- 9.22 R Each *firm* is a Category A firm for the purposes of chapter 13 of *IPRU(INV)* as applied by *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) and this section.

How to use the chapter 13 Illiquid Adjustment and the Counterparty Risk Adjustment

- 9.23 R A *firm* must calculate the sum of the *credit risk capital component* and the *counterparty risk capital component* as being equal to the sum of the following:

- (1) the amount of the Illiquid Adjustments under chapter 13 of *IPRU(INV)* so far as they are in force under *BIPRU* TP 9.21R;

- (2) the amount of any *non-trading book* assets that would be excluded under *rule* 13.8.2 of chapter 13 of *IPRU(INV)* (exclusion of *non-trading book* items from financial resources calculations);
 - (3) the amount in relation to unsettled securities transactions (Cash against documents) specified in *BIPRU* TP 9.28R;
 - (4) the amount in relation to unsettled securities transactions (Free deliveries) specified in *BIPRU* TP 9.29R;
 - (5) the amount of the Counterparty Risk Adjustments under whichever is applicable of point 22 of Part II of Table 13.5.4(1) and point 22 of Part II of Table 13.5.4(2) of chapter 13 of *IPRU(INV)* (Liabilities adjustments relating to OTC derivatives for calculating financial resources);
 - (6) the amount of the other Counterparty Risk Adjustments under whichever is applicable of Part I of Table 13.5.4(1) and Part I of Table 13.5.4(2) of chapter 13 of *IPRU(INV)* (Assets adjustments for calculating financial resources); and
 - (7) the amount of any other liabilities under whichever is applicable of Part II of Table 13.5.4(1) and Part II of Table 13.5.4(2) of chapter 13 of *IPRU(INV)* but only to the extent provided by *BIPRU* TP 9.21R.
- 9.24 R A *firm* must not apply a credit risk charge to an *exposure* under *BIPRU* TP 9.23R to the extent that it has already been deducted as an *illiquid asset* or a *material holding* under *GENPRU* 2.2 (Capital resources).
- 9.25 R If it is necessary to distinguish between the *credit risk capital component* and the *counterparty risk capital component* a *firm* must allocate:
- (1) any amount calculated for an *exposure* in the *non-trading book* to the *credit risk capital component*; and
 - (2) any amount calculated for an *exposure* in the *trading book* to the *counterparty risk capital component*.
- 9.26 G A *firm* may still apply the netting provisions for OTC derivatives in chapter 13 even though the OTC derivative calculation is split between the *credit risk capital component* and the *counterparty risk capital component* under *BIPRU* TP 9.25R. The net amount should be allocated to the *credit risk capital component* if the gross value of the *non-trading book* derivatives is bigger and to the *counterparty risk capital component* if the gross value of the *trading book* derivatives is bigger.

Adjustments to the Counterparty Risk Adjustments calculations: General

- 9.27 G Broadly speaking the Directive transitional provisions that allow pre-2007 credit risk rules to be used in 2007 cover all credit risk rules. However the transitional provisions for *trading book* credit risk (Annex II of the *Capital Adequacy Directive*, which is implemented in *BIPRU* 14 (Capital requirements for settlement and counterparty risk)) is not quite as straightforward as that. In some cases pre-2007 requirements can be used. In others they cannot. The purpose of *BIPRU* TP 9.28R to *BIPRU* TP 9.31G is to reflect those cases in which the Directive requires the new requirements to apply from 1 January 2007.

Adjustments to the Counterparty Risk Adjustments calculations: Unsettled Securities Transactions

- 9.28 R (1) The calculation of the credit risk charge for unsettled securities transactions is based on the Counterparty Risk Adjustment for such transactions adjusted in accordance with this *rule*.
- (2) Subject to the rest of this *rule*, the amount of the credit risk charge is equal to the Counterparty Risk Adjustment under paragraphs (a) and (b) in the unsettled securities transactions sections of Table 13.5.4(1) or (2).
- (3) The credit risk charge applies where the *firm* is exposed to loss if the counterparty does not perform.
- (4) A *firm* must calculate the Counterparty Risk Adjustment for an unsettled securities transaction in the *trading book* under *BIPRU* 14.3 (Unsettled transactions) rather than under chapter 13 of *IPRU(INV)*.

Adjustments to the Counterparty Risk Adjustments calculations: Free deliveries

- 9.29 R (1) The calculation of the credit risk charge for a free delivery is based on the Counterparty Risk Adjustment for such transactions adjusted in accordance with this *rule*.
- (2) Subject to the rest of this *rule*, the amount of the credit risk charge is equal to the Counterparty Risk Adjustment under paragraphs (a) and (b) in the free delivery sections of Table 13.5.4(1) or (2).
- (3) A *firm* must include *foreign currency* and *commodity* for the purpose of *trading book* calculations.
- (4) The capital treatment in the table in *BIPRU* 14.4.3R (Capital treatment for free deliveries) applies for the purpose of *trading book* calculations. But when the capital treatment in that table is that the *firm* must treat the transaction as an *exposure*, the *firm* must calculate a credit risk charge equal to the amount in (2).

Adjustments to the Counterparty Risk Adjustments calculations: Derivative transactions

9.30 R A *firm* must treat a credit derivative in the *trading book* as a derivative to which paragraph 22 of Part II of Table 13.5.4(1), paragraph 22 of Part II of Table 13.5.4(2) and table 13.5.4D of chapter 13 of *IPRU(INV)* (Over the counter derivatives) apply.

9.31 G The capital treatment for a credit derivative set out in *BIPRU* 14.2.5R - *BIPRU* 14.2.8R (Capital treatment for credit derivatives) does not apply.

How to use the chapter 13 large exposure rules

9.32 R Section 13.6 of chapter 13 of *IPRU(INV)* (Large exposures) applies in place of *BIPRU* 10 (Concentration risk).

9.33 R The following adjustments are made to section 13.6 of chapter 13 of *IPRU(INV)* (Large exposures):

- (1) *BIPRU* 10.5.2R to *BIPRU* 10.5.5R (Capital resources for concentration risk purposes) apply in place of the definition of own funds that applies under section 13.6 of chapter 13 of *IPRU(INV)*;
- (2) *rule* 13.6.2B (Excess over EBR should not be excluded) does not apply; and
- (3) *BIPRU* 10.5.14R (Notification) applies instead of the notification requirement in 13.6.

9.34 R A *firm* must calculate its *concentration risk capital component* as being equal to the sum of the Large exposure Adjustments under whichever is applicable of Part I of Table 13.5.4(1) and Part I of Table 13.5.4(2) of chapter 13 of *IPRU(INV)* (Assets adjustments for calculating financial resources).

Specific risk calculations

9.35 R A *firm* must calculate the *specific risk* portion of the *interest rate PRR* in accordance with *BIPRU* TP 8.29R (Pre CRD interest rate *PRR* for *securities and futures firms*).

9.36 R Any reference to a *qualifying debt security* in a part of *BIPRU* that applies during 2007 must be interpreted in accordance with the definition in the Glossary to chapter 13 of *IPRU(INV)*. However *BIPRU* 7.2.50R (Must not apply *qualifying debt security* treatment to risky assets) also applies. Any reference to a *qualifying equity* in a part of *BIPRU* that applies during 2007 must be interpreted in accordance with the definition in the Glossary to chapter 10 of *IPRU(INV)*.

9.37 R The reason for *BIPRU* TP 9.35R and *BIPRU* TP 9.36R is that the calculation of the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7 (Market risk) involves the use of the *standardised approach* to credit risk. The *specific risk rules* therefore need to be adjusted for a *firm* that is not using the *standardised approach* to credit risk in 2007 so as to apply the pre-2007 method of calculating *specific risk*. However chapter 13 does not distinguish between *specific risk* and *general market risk*. The nearest equivalent is in chapter 10 of *IPRU(INV)* (*Securities and futures firms*). The definition of *qualifying equity* also depends in part on the *standardised approach* to credit risk.

Definitions

9.38 R The definition of trading book is replaced with the definition in the *Glossary*. Section 13.8 of chapter 13 of *IPRU(INV)* (Trading book) and the definition in the *Glossary* to chapter 13 are amended accordingly.

Mapping GENPRU and BIPRU concepts onto IPRU

9.39 G Some of the parts of chapter 13 of *IPRU(INV)* that apply in 2007 refer to parts of chapter 13 that do not apply. *BIPRU* TP 3.10R explains that where this happens a *firm* should interpret that cross-reference in accordance with the provision in *BIPRU* or *GENPRU* that corresponds to the chapter 13 provision that does not apply in 2007. A *firm* should refer to *IPRU* in the case of cross-references in *GENPRU* and *BIPRU* to provisions in *GENPRU* and *BIPRU* that do not apply in 2007. *BIPRU* TP 9.40G sets out how certain concepts in chapter 13 of *IPRU(INV)* correspond to ones in *GENPRU* and *BIPRU*. The purpose of the table is to help *firms* to interpret such cross-references.

9.40 G Table: Mapping GENPRU and BIPRU concepts onto ones in chapter 13 of *IPRU(INV)*
This table belongs to *BIPRU* TP 9.39G

| <i>GENPRU</i> and <i>BIPRU</i> | Chapter 13 of <i>IPRU(INV)</i> |
|--|--|
| See <i>BIPRU</i> TP 9.10G to <i>BIPRU</i> TP 9.17G | Illiquid Adjustment |
| See <i>BIPRU</i> TP 9.10G to <i>BIPRU</i> TP 9.17G | Counterparty Risk Adjustment |
| See <i>BIPRU</i> TP 9. 18G | Large exposure Adjustment |
| <i>Material holding</i> | The nearest equivalent is point 13 of Part I of Table 13.5.4(1) and (2) (All other assets) |

| | |
|---|--|
| <i>GENPRU</i> and <i>BIPRU</i> | Chapter 13 of <i>IPRU(INV)</i> |
| Unsettled transaction under <i>BIPRU</i> 14.3 | Cash against documents |
| <i>Free deliveries</i> under <i>BIPRU</i> 14.4 | Free deliveries |
| <i>Market risk capital requirement</i> | The Position Risk Adjustment and the Foreign Exchange Risk Adjustment |
| <i>Trading book concentration risk excess</i> | Excess X in Table 13.6.2(2) |
| A <i>firm</i> should use the <i>specific risk</i> portion of the relevant <i>PRR charge</i> under <i>BIPRU</i> 7 (Market risk) (subject to the other provisions of this section about specific risk) where Chapter 13 as applied by this section requires the <i>firm</i> to apply position risk discounts. | Position risk discounts (particularly relevant for the purposes of Table 13.6.2(2)) |
| <i>Risk weight</i> | Where Chapter 13 requires an asset to be deducted from capital that is equivalent to applying a <i>risk weight</i> of 1250%. Applying the 1.6% adjustment under Table 13.5.4C is equivalent to applying a 20% <i>risk weight</i> under <i>BIPRU</i> together with the standard 8% <i>BIPRU</i> credit risk charge. The "NIL" adjustment under that table is equivalent to applying a 0% <i>risk weight</i> . |

Firms using the IRB approach during 2007: General

- 9.41 R *BIPRU* TP 9.42G to *BIPRU* TP 9.44R only apply to a *firm* that is applying the *IRB approach* under *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as well as using *IPRU*.

- 9.42 G The effect of *BIPRU* TP 3.17G (Pre CRD capital requirements applying on a solo basis during 2007 for *firms* also using the *IRB approach*) is that the Counterparty Risk Adjustments do not apply to an *exposure* to which the *firm* applies the *IRB approach*. The *IRB approach* requirements in *BIPRU* apply instead. The main requirements are listed in *BIPRU* TP 3.17G. The same applies to the Illiquid Adjustments although *illiquid assets* or *material holdings* will still have to be deducted under *GENPRU* 2.2 (Capital resources).
- 9.43 R A *firm* must apply *BIPRU* 7.2.45R - *BIPRU* 7.2.47R (Using internal ratings to calculate *specific risk* and treatment of *securitisations*) to calculate the *specific risk* portion of the *interest rate PRR* to the extent that the obligor or *exposure* in question comes within the scope of its *IRB permission*.
- 9.44 R The definition of *qualifying debt security* and *qualifying equity* in the *Glossary* apply if the security or obligor in question comes within the scope of a *firm's IRB permission*.

Calculation of capital floors under *BIPRU* TP 2

- 9.45 R (1) This paragraph sets out how the obligation in *BIPRU* TP 2 (Capital floors for a firm using the *IRB* or *AMA* approaches) is applied to a *personal investment firm*.
- (2) A *firm* must apply Financial Resources Test 2 (Expenditure-based Requirement) for the periods specified in *BIPRU* TP 2 by multiplying the Expenditure-based Requirement by the percentage figure in *BIPRU* TP 2.8R or *BIPRU* TP 2.9R.
- (3) *BIPRU* TP 2 does not apply to Financial Resources Test 1 (Own funds) or Financial Resources Test 1A (Adjusted net current assets).

- TP 10 Pre CRD capital requirements applying on a consolidated basis during 2007
Application
- 10.1 R This section applies to a *firm* to which *BIPRU* 8 (Consolidation) applies.
Purpose
- 10.2 G This section sets out how *BIPRU* TP 3 - *BIPRU* TP 9 (Use of *IPRU* during 2007) are applied on a consolidated basis.
Duration of transitional
- 10.3 R *BIPRU* TP 10 applies until 1 January 2008.
Main rule
- 10.4 R A *firm* may apply *BIPRU* TP 3 to *BIPRU* TP 9 (Use of *IPRU* during 2007 on a solo basis) on a consolidated basis. Applying them on a consolidated basis means that *BIPRU* 8 (Group risk - Consolidation) is modified by applying the relevant parts of *BIPRU* TP 3 to *BIPRU* TP 9 (as defined in *BIPRU* TP 10.5R) in place of the corresponding *BIPRU* credit risk and other rules.
- 10.5 R (1) This rule sets out what the relevant parts of *BIPRU* TP 3 to *BIPRU* TP 9 (Use of *IPRU* during 2007 on a solo basis) are for the purposes of *BIPRU* TP 10.4R. The answer depends on the kind of *UK consolidation group* or *non-EEA sub-group* ("group") to which consolidated requirements are being applied.
- (2) If the group is a building society group as defined in *BIPRU* TP 1.7R, the relevant parts of *BIPRU* TP 3 to *BIPRU* TP 9 are those applicable to a *building society*.
- (3) If the group is a banking group as defined in *BIPRU* TP 1.7R, the relevant parts of *BIPRU* TP 3 to *BIPRU* TP 9 are those applicable to a *bank*.
- (4) If the group is an investment services group as defined in *BIPRU* TP 1.7R, the relevant parts of *BIPRU* TP 3 to *BIPRU* TP 9 are those applicable to the main *BIPRU investment firm* in that group. For these purposes the main *BIPRU investment firm* is identified in the same way as the "main *firm*" is identified under rule 14.4.2R(1) of chapter 14 *IPRU(INV)*.

- 10.6 G The application of *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) on a consolidated basis is not done by applying the relevant consolidation provisions in *IPRU*. *BIPRU* 8 (Group risk - Consolidation) still applies, as modified by this section. *BIPRU* TP 10.7G to *BIPRU* TP 10.12G summarise how *BIPRU* TP 3 works on a consolidated basis under this section assuming that the *firm* does not use the *IRB approach*.
- 10.7 G The consolidated credit risk charge (called the *consolidated credit risk requirement*) is normally calculated under *BIPRU* 8 by applying the solo *BIPRU* credit risk charges on a consolidated basis. Under this section the *IPRU* credit risk charges are applied instead, as modified by *BIPRU* TP 3 to *BIPRU* TP 9 (Use of *IPRU* during 2007 on a solo basis).
- 10.8 G Under this section the applicable *IPRU* large exposure requirements, as modified by *BIPRU* TP 3 to *BIPRU* TP 9, apply instead of the ones in *BIPRU* 10 (Concentration risk requirements). *BIPRU* TP 10.15R disapplies most of *BIPRU* 8.9 (Consolidated concentration risk requirements).
- 10.9 G A *firm* should calculate the *consolidated credit risk requirement* so far as it relates to the *concentration risk capital component* using the relevant *IPRU rules*. In particular a *firm* should not use the capital requirements of a regulator other than the *FSA* for this purpose.
- 10.10 G A *firm* should still base its capital resources calculation for consolidation purposes on *BIPRU* 8.6 (Consolidated capital resources) rather than using the *IPRU* capital resources calculations. In turn, *BIPRU* 8.6 is based on *GENPRU* 2.2 (Capital resources). This applies for consolidated concentration risk purposes as well.
- 10.11 G *BIPRU* 8.4 (CAD Article 22 groups and investment firm consolidation waiver) still applies.
- 10.12 G The calculation of consolidated capital requirements under *BIPRU* 8.7 (Consolidated capital resources requirements) depends in part on whether the group contains *banks*, *BIPRU limited activity firms* or *BIPRU limited license firms*. This continues to apply for the purpose of this section in addition to *BIPRU* TP 10.5R. So for instance, if a group contains only *BIPRU limited license firms* the consolidated capital requirements for the group are based on the capital requirements for *BIPRU limited license firms*. However in addition if, for example, the main *firm* (as defined in *BIPRU* TP 10.5R) is a *personal investment firm* the requirements for *BIPRU limited license firms* are modified in accordance with *BIPRU* TP 9 (Pre CRD capital requirements applying on a solo basis during 2007 and capital floors: Personal investment firms). The calculation of notional capital resources requirements under *BIPRU* 8.4.13R (Capital adequacy obligations relating to a CAD Article 22 group: Capital resources requirement) works in a similar way.

Consolidated capital resources requirement: Use of home state requirements for EEA firms

- 10.13 R A *firm* may, for the purposes of *BIPRU* TP 10.4R, use the solo financial resources requirement to which an *EEA firm* is subject in accordance with *BIPRU* 8.7.34R (Use of the solo requirements of another EEA competent authority) or the consolidated financial resources requirements of an *EEA competent authority* under *BIPRU* 8.7.37R (Use of the consolidated requirements of another EEA competent authority). However those requirements must be ones that apply under the *CRD implementation measures* for Articles 152(8) – (14) of the *Banking Consolidation Directive* and Article 50(1) of the *Capital Adequacy Directive* for the relevant *EEA State* (Pre CRD capital requirements applying during 2007).

Consolidated capital resources requirement: Use of home state requirements for third country undertakings

- 10.14 R (1) A *firm* may, for the purposes of *BIPRU* TP 10.4R, use the solo financial resources requirement of a *third country competent authority* in accordance with *BIPRU* 8.7.35R (Use of the solo requirements of a regulator outside the EEA) or the consolidated financial resources requirements of a *third country competent authority* under *BIPRU* 8.7.38R (Use of the consolidated requirements of a regulator outside the EEA) in accordance with the adjustments in this *rule*.
- (2) The list in *BIPRU* 8 Ann 6R (List of equivalent third country regulators) does not apply and instead:
- (a) if the *UK consolidation group* or *non-EEA sub-group* is a banking group or building society group as defined in *BIPRU* TP 1.7R (Classification of groups for certain consolidation rules), the list in Appendix D of chapter CS of *IPRU(BANK)* applies; and
 - (b) if the *UK consolidation group* or *non-EEA sub-group* is an investment firm group as defined in *BIPRU* TP 1.7R, the list in Appendix 57 of chapter 10 of *IPRU(INV)* applies.
- (3) The *firm* must apply the version of those requirements in force on 31 December 2006 or any later version that remains consistent with *EEA prudential sectoral legislation* for the *banking sector* or *investment services sector* in the form it was in on 31 December 2006.
- (4) The requirement in *BIPRU* 8.7.35R(2) and the last sentence of *BIPRU* 8.7.38R(2) (Requirement for calculation not to produce a lower figure than the *FSA's rules*) still applies.

Consolidated large exposures

- 10.15 R A *firm* must apply the concentration risk requirements under *BIPRU* TP 3 to *BIPRU* TP 9 (Use of IPRU during 2007 on a solo basis) applicable to its *UK consolidation group* or *non-EEA sub-group* under *BIPRU* TP 10.4R as if it were a single *undertaking*. *BIPRU* 8.9.2R (Definition of consolidated capital resources for concentration risk purposes) applies for the purpose of this *rule*. *BIPRU* 8.9 (Consolidated concentration risk requirements) does not otherwise apply.

- TP 11 IRB transitionals
- Application
- 11.1 R *BIPRU* TP 11 applies to a *BIPRU* firm that uses the *IRB* approach.
- Purpose
- 11.2 G *BIPRU* TP 11 implements Articles 154(2), (3) and (5) of the *Banking Consolidation Directive* and (in part) Article 17 of the *Capital Adequacy Directive*.
- Use requirement
- 11.3 R In accordance with Article 154(2) of the *Banking Consolidation Directive*, for a firm applying for the use of the *IRB* approach before 2010, the three years' use requirement prescribed in *BIPRU* 4.2.11R (Requirements concerning the experience requirement) is reduced to a period of one year until 31 December 2009.
- 11.4 R In accordance with Article 154(3) of the *Banking Consolidation Directive*, for a firm applying for the use of own estimates of *LGDs* and/or *conversion factors*, the three year use requirement prescribed in *BIPRU* 4.2.13R (Requirements concerning the experience requirement) is reduced to two years until 31 December 2008.
- 11.5 G The transitional period in *BIPRU* TP 11.3R rather than that in *BIPRU* TP 11.4R applies to *retail exposures*.
- Residential properties
- 11.6 R In accordance with Article 154(5) of the *Banking Consolidation Directive*, until 31 December 2010, the *exposure*-weighted average *LGD* for all *retail exposures* secured by residential properties and not benefiting from guarantees from central governments must not be lower than 10%.
- Expected loss
- 11.7 R *BIPRU* TP 11.3R to *BIPRU* TP 11.6R also apply for the purpose of *BIPRU* 14.2.18R and *BIPRU* 14.2.19R (Treatment of expected loss amounts under the *IRB* approach) and *GENPRU* 2.2.193R (Upper tier two capital: Surplus provisions).

- TP 12 Operational risk transitionals: small trading book
- Application
- 12.1 R Subject to *BIPRU* TP 12.2R, *BIPRU* TP 12 applies to a *BIPRU investment firm* that satisfies the following conditions:
- (1) it is a *full scope BIPRU investment firm*;
 - (2) it does not fall within the definition of *limited licence firm* or *limited activity firm* in *BIPRU* 1.1.11R to *BIPRU* 1.1.12R (Definitions of *limited licence firm* or *limited activity firm*);
 - (3) its total *trading book positions* never exceed 50 million Euro;
 - (4) the average number of its relevant employees during the financial year does not exceed 100; and
 - (5) the *firm* has a *waiver* that modifies *BIPRU* 6 (Operational risk) so as to require the *firm* to calculate its *ORCR* in accordance with *BIPRU* TP 12.
- 12.2 R *BIPRU* TP 12.12R to *BIPRU* TP 12.14G apply to any *firm* to which *BIPRU* 8 (Group risk – consolidation) applies.
- Purpose
- 12.3 G *BIPRU* TP 12 implements Article 46 of the *Capital Adequacy Directive*.
- Duration of transitional
- 12.4 R *BIPRU* TP 12 applies until 31 December 2011.
- Calculation of number of employees
- 12.5 R In calculating the average number of its relevant employees a *firm* must:
- (1) include all its *directors*, officers having executive responsibilities and *senior managers*;
 - (2) include all staff whose responsibilities include front office responsibilities in relation to activities that give rise to *positions* in the *trading book*;
 - (3) include all staff whose responsibilities include back office, compliance or risk management responsibilities in relation to activities that give rise to *positions* in the *trading book*;

- (4) include contractors of or *persons* seconded to the *firm* or carrying out functions for the *firm* who would be relevant employees if they were employed by the *firm*; and
- (5) take into account the methodology for calculating an average number of employees referred to in section 247(6) of the Companies Act 1985.

12.6 R A *firm* must have a written policy for identifying *persons* who are relevant employees for the purpose of *BIPRU* TP 12.5R.

Purpose of *BIPRU* TP 12.1R(2)

12.7 G The purpose of *BIPRU* TP 12.1R(2) is to exclude a *firm* that falls into the definition of *full scope BIPRU investment firm* because it has obtained a *waiver* or has a *Part IV permission* that enables it to calculate an *ORCR* instead of the *fixed overheads requirement* (see *BIPRU* 6.1.2G).

Reduction of the *ORCR*

12.8 R The *ORCR* of a *firm* to which this *rule* applies is the lower of:

- (1) the *ORCR* that would have applied but for this *rule*; and
- (2) 12/88 of the higher of the following:
 - (a) the sum of *credit risk capital requirement* and the *market risk capital requirement*; and
 - (b) the *fixed overheads requirement*, notwithstanding that the *fixed overheads requirement* does not apply.

12.9 R The fraction 12/88 in *BIPRU* TP 12.8R(2) increases in accordance with the table in *BIPRU* TP 12.10R.

12.10 R Table: Increase in 12/88 fraction
This table belongs to *BIPRU* TP 12.9R

| Date on which increase takes effect | Fraction |
|-------------------------------------|----------|
| 1 January 2008 | 27/88 |
| 1 January 2009 | 42/88 |
| 1 January 2010 | 57/88 |
| 1 January 2011 | 72/88 |

Minimum capital requirement

- 12.11 R (1) A *firm* must have capital resources at least equal to the capital resources requirement that applies to it under whichever part of *IPRU* applies to the *firm* under *BIPRU* TP 1.4R.
- (2) A *firm* must calculate its capital resources for the purposes of this *rule* in accordance with the same part of *IPRU*.
- (3) The following provisions of *BIPRU* TP 2 (Capital floors for a firm using the IRB or AMA approaches) apply for the purposes of this *rule*:
- (a) *BIPRU* TP 2.14R to *BIPRU* TP 2.15G (Adjustments to the calculation of capital resources);
 - (b) *BIPRU* TP 2.18R to *BIPRU* TP 2.19G (CAD 1 model and VaR model);
 - (c) *BIPRU* TP 2.20R to *BIPRU* TP 2.21G (Individual capital guidance);
 - (d) *BIPRU* TP 2.22R to *BIPRU* TP 2.27G (How to apply *IPRU* for the purposes of the capital floor calculations); and
 - (e) *BIPRU* TP 2.29R (Solo consolidation and the capital floor calculations).

Consolidation

- 12.12 R A *firm* may only calculate the *consolidated operational risk requirement* with respect to its *UK consolidation group* or *non-EEA sub-group* in accordance with *BIPRU* TP 12 if the group in question satisfies the following conditions:
- (1) there is no *credit institution* in the group;
 - (2) the *consolidated capital resources requirement* of the group is calculated in accordance with stage 2 in *BIPRU* 8 Annex 5R (Consolidation requirements for a group containing a *CAD full scope firm*);
 - (3) the group meets the conditions in *BIPRU* TP 12.1R(3) and (4) applied on a consolidated basis; and
 - (4) the *firm* has a *waiver* that modifies *BIPRU* 8 (Group risk – consolidation) so as to require the *firm* to calculate its *consolidated operational risk requirement* in accordance with *BIPRU* TP 12.

Minimum consolidated capital requirement

- 12.13 R If a *firm* applies *BIPRU* TP 12.12R to its *UK consolidation group* or *non-EEA sub-group* it must apply *BIPRU* TP 12.11R to that group in accordance with *BIPRU* TP 2.31R to *BIPRU* TP 2.33G (Consolidated capital floors for a *firm* using the *IRB approach* or *AMA approach*).

Changes in a firm's business

- 12.14 G The *Capital Adequacy Directive* says that a *competent authority* may agree to reduce the capital floor implemented by *BIPRU* TP 12.11R and *BIPRU* TP 12.13R if such a reduction is prudentially justified by a reduction in the size of the *firm's* business. Those *rules* implement that option by requiring a *firm* to apply the *IPRU* requirements to its business as it changes over time.

- TP 13 Other operational risk transitionals
- Application
- 13.1 R *BIPRU* TP 13 applies to a *BIPRU* firm.
- Purpose
- 13.2 G *BIPRU* TP 13.3R implements Articles 155 of the *Banking Consolidation Directive* and Article 44 of the *Capital Adequacy Directive*.
- Relevant indicator
- 13.3 R Until 31 December 2012, a percentage of 15% applies to the business line "Trading and Sales" of a *firm* whose relevant indicator (as referred to in *BIPRU* 6.4.6R) for the business line "Trading and Sales" represents at least 50% of the total of the relevant indicators for all of the *firm's* business lines in accordance with *BIPRU* 6.4.6R to *BIPRU* 6.4.16R (Calculating the *ORCR* under the *standardised approach to operational risk*).
- Reduced operational risk charge in 2007
- 13.4 G *BIPRU* TP 3.21R (Reduced *ORCR* for a *firm* applying pre-CRD capital requirements in 2007) also contains a transitional rule about *operational risk*.
- Systems and controls in 2007
- 13.5 R A reference in *BIPRU* 6 (Operational risk) to *SYSC* 4 to 10 (referred to in this *rule* as the "common platform requirements") or a part of those requirements must be read as being to the corresponding provisions of *SYSC* 3. This *rule* ceases to have effect on 1 November 2007 or on any earlier date on which the *firm* elects to comply with the common platform requirements in accordance with *SYSC*.

TP 14 Market risk: VaR models

Application

14.1 R *BIPRU* TP 14 applies to a *BIPRU* firm that:

- (1) has had a *VaR model permission* since 1 January 2007; and
- (2) on 31 December 2006 calculated its capital requirements under *IPRU* using the *VaR model approach* (as then in force) under a *waiver* or (in the case of a firm to which *IPRU(BANK)* or *IPRU(BSOC)* applied) written *guidance* (a "written concession").

Purpose

14.2 G *BIPRU* TP 14 implements Article 47 of the *Capital Adequacy Directive*.

Duration of transitional

14.3 R *BIPRU* TP 14 applies until 31 December 2009 or any earlier date specified in the firm's *VaR model permission*.

Specific risk calculations for VaR models

14.4 R A firm may treat:

- (1) the *VaR specific risk minimum requirements* and the provisions about backtesting in relation to *specific risk* as being replaced by the provisions of the written concession referred to in *BIPRU* TP 14.1 relating to *specific risk*; and
- (2) the *incremental default risk charge* as being replaced by the provisions of that written concession relating to the calculation of capital requirements for *specific risk*.

- TP 15 Commodities firm transitionals: Exemption from capital requirements
- Application
- 15.1 R Subject to *BIPRU* TP 15.2R, *BIPRU* TP 15 applies to a *BIPRU investment firm*:
- (1) whose main business consists exclusively of the provision of investment services or investment activities in relation to the financial instruments set out in points 5, 6, 7, 9 and 10 of Section C of Annex I to the *MIFID*; and
- (2) to whom the *ISD* would not have applied if it had remained in force in the form it was in on 31 December 2006.
- 15.2 R *BIPRU* TP 15.13R to *BIPRU* TP 15.14G apply to any *firm* to which *BIPRU* 8 (Group risk – consolidation) applies.
- Purpose
- 15.3 G *BIPRU* TP 15 implements Article 48(1) of the *Capital Adequacy Directive*.
- Duration of exemption
- 15.4 R *BIPRU* TP 15 applies until 31 December 2010.
- 15.5 G If there are any modifications pursuant to paragraphs 2 and 3 of Article 48 of the *Capital Adequacy Directive* (European Commission review of prudential regime for exempt commodity firms), the *FSA* will revoke *BIPRU* TP 15 if the date of coming into force of the implementing measures in relation to those changes is before the date in *BIPRU* TP 15.4R.
- Exemption
- 15.6 R The provisions of *GENPRU* and *BIPRU* on capital requirements and *GENPRU* 1.2 (Adequacy of financial resources) do not apply to a *firm* to which *BIPRU* TP 15 applies. However *BIPRU* 10 (Concentration risk) continues to apply, including the *CNCOM*.
- 15.7 G If a *firm* meets the conditions in *BIPRU* TP 16 (Commodities firm transitionals: large exposures) it will be exempt from *BIPRU* 10 as well.
- 15.8 G An *exempt BIPRU commodities firm* (which is the name in the *Glossary* given to a *firm* with the benefit of the exemption in *BIPRU* TP 15.6R) may be subject to the requirements of Chapter 3 of *IPRU(INV)*. Details of which *exempt BIPRU commodities firm* are subject to those requirements can be found in Chapter 3 of *IPRU(INV)*.

15.9 G The table in *BIPRU* TP 15.10G provides an indication of which parts of *GENPRU* and *BIPRU* generally apply to an *exempt BIPRU commodities firm* and which parts in general do not apply. If a section is shown as not in general applying the table also identifies any significant aspects of that section that do apply.

15.10 G Table: Parts of *GENPRU* and *BIPRU* that apply to exempt *BIPRU* commodities firms
This table belongs to *BIPRU* TP 15.9G

| <i>GENPRU</i> and <i>BIPRU</i> provisions | A Y denotes that the provision generally does apply An N denotes that generally it does not apply | Remarks |
|---|--|---------|
| <i>GENPRU</i> TP (Transitional provisions) | Y | |
| <i>GENPRU</i> 1.1 (Application and scope) | Y | |
| <i>GENPRU</i> 1.2 (Adequacy of financial resources) | N | |
| <i>GENPRU</i> 1.3 (Valuation) | Y | |
| <i>GENPRU</i> 1.4 (Actions for damages) | Y | |
| <i>GENPRU</i> 1.5 (Application of <i>GENPRU</i> 1 to Lloyd's) | Not applicable as does not apply to <i>BIPRU firms</i> | |
| <i>GENPRU</i> 2.1 (Calculation of capital resources requirements) | N | |

| <i>GENPRU</i> and <i>BIPRU</i> provisions | A Y denotes that the provision generally does apply An N denotes that generally it does not apply | Remarks |
|--|--|---|
| <i>GENPRU</i> 2.2 (Capital resources) | Y | This applies for the purposes of <i>BIPRU</i> 10. If <i>BIPRU</i> 10 does not apply this does not apply either. |
| <i>GENPRU</i> 2.3 (Application of <i>GENPRU</i> 2 to Lloyd's) | Not applicable as does not apply to <i>BIPRU firms</i> | |
| <i>GENPRU</i> 3.1 (Cross sector groups) | Y | Only applies if the <i>firm</i> is a member of a <i>financial conglomerate</i> |
| <i>GENPRU</i> 3.2 (Third-country groups) | Y | Provisions about <i>financial conglomerate</i> only apply if the <i>firm</i> is a member of a <i>financial conglomerate</i> See remarks on <i>BIPRU</i> 8 for provisions about a <i>third country banking and investment group</i> |
| <i>BIPRU</i> TP (Transitional provisions) | Y | |
| <i>BIPRU</i> 1.1 (Application and scope) | Y | |
| <i>BIPRU</i> 1.2 (Definition of the trading book) | Y | |
| <i>BIPRU</i> 1.3 (Application for advanced approaches) | N | Provisions about <i>BIPRU</i> 2.1 and <i>BIPRU</i> 8 apply to the extent those parts of <i>BIPRU</i> apply. Otherwise does not apply. |

| <i>GENPRU</i> and <i>BIPRU</i> provisions | A Y denotes that the provision generally does apply An N denotes that generally it does not apply | Remarks |
|---|--|--|
| <i>BIPRU</i> 1.4 (Actions for damages) | Y | |
| <i>BIPRU</i> 2.1 (Solo consolidation) | Y | Applies for the purposes of <i>BIPRU</i> 10. |
| <i>BIPRU</i> 2.2 (Adequacy of financial resources) | N | |
| <i>BIPRU</i> 2.3 (Interest rate risk in the non-trading book) | N | |
| <i>BIPRU</i> 3 (Standardised approach to credit risk) | N | |
| <i>BIPRU</i> 4 (The IRB approach) | N | |
| <i>BIPRU</i> 5 (Credit risk mitigation) | N | |
| <i>BIPRU</i> 6 (Operational risk) | N | |
| <i>BIPRU</i> 7 (Market risk) | N | <i>BIPRU</i> 7.8.38R and <i>BIPRU</i> 7.3.39G (Risk management systems and controls) apply in theory although it is unlikely that a <i>firm</i> will be able to carry out these activities without losing the exemption in <i>BIPRU</i> TP 15. |
| <i>BIPRU</i> 8 (Group risk – consolidation) | Y | See <i>BIPRU</i> TP 15.13R to <i>BIPRU</i> TP 15.14G |

| <i>GENPRU</i> and <i>BIPRU</i> provisions | A Y denotes that the provision generally does apply An N denotes that generally it does not apply | Remarks |
|--|--|--|
| <i>BIPRU</i> 9 (Securitisation) | N | <i>BIPRU</i> 9.1.6R to <i>BIPRU</i> 9.1.8G (Risk systems) apply |
| <i>BIPRU</i> 10 (Concentration risk) | Y | If <i>firm</i> also qualifies for exemption under <i>BIPRU</i> TP 16 (Commodities firm transitionals: large exposures) <i>BIPRU</i> 10 does not apply except as described in <i>BIPRU</i> TP 16.7G |
| <i>BIPRU</i> 11 (Disclosure) | Y | |
| <i>BIPRU</i> 12 | Chapter does not yet exist | |
| <i>BIPRU</i> 13 (Financial derivatives, SFTs and long settlement transactions) | N | |
| <i>BIPRU</i> 14 (Capital requirements for settlement and counterparty risk) | N | |

15.11 G *SYSC* applies to an *exempt BIPRU commodities firm*.

Definitions

15.12 R The terms financial instrument, investment services and investment activities have the same meaning as they do in the *MIFID*.

Consolidation

- 15.13 R *BIPRU* TP 15 does not apply for the purposes of *BIPRU* 8 with respect to a firm's UK consolidation group or, as the case may be, non-EEA sub-group unless the following conditions are satisfied:
- (1) there is no *credit institution* in that group;
 - (2) each *investment firm* in the group meets the conditions in *BIPRU* TP 15.1R(1);
 - (3) each *investment firm* whose head office is in an *EEA State* satisfies the conditions in *BIPRU* TP 15.1R(2); and
 - (4) any *investment firm* whose head office is outside the *EEA* would have fallen into *BIPRU* TP 15.1R(2) if:
 - (a) its head office had been in an *EEA State*; and
 - (b) it had carried on all its business in the *EEA* and had obtained whatever authorisations for doing so were required under the *ISD* in the form that Directive was in on 31 December 2006.
- 15.14 G If an *exempt BIPRU commodities firm* is a member of a group that meets the conditions in *BIPRU* TP 15.13R, *BIPRU* 8 will not apply to the group. Chapter 14 of IPRU(INV) (Consolidation) applies instead.

- TP 16 Commodities firm transitionals: large exposures
- Application
- 16.1 R Subject to *BIPRU* TP 16.2R, *BIPRU* TP 16 applies to a *BIPRU investment firm* that satisfies the following conditions:
- (1) it satisfies the requirements in *BIPRU* TP 15.1R and it remains eligible to apply the treatment in *BIPRU* TP 15 (Commodities firm transitionals: Exemption from capital requirements);
 - (2) the *firm* provides investment services or investment activities related to the financial instruments listed in points 5, 6, 7, 9 and 10 of Section C of Annex I of the *MIFID*;
 - (3) the *firm* does not provide such investment services or undertake such investment activities for, or on behalf of, retail clients;
 - (4) breaches of the limits referred to in *BIPRU* TP 16.6R arise in connection with *exposures* resulting from contracts that are financial instruments as listed in (2) and relate to commodities or underlyings within the meaning of point 10 of Section C of Annex I of the *MIFID* and are calculated in accordance with *BIPRU* 13 (Financial derivatives, SFTs and long settlement transactions) or in connection with *exposures* resulting from contracts concerning the delivery of *commodities* or emission allowances; and
 - (5) it satisfies the requirements in *BIPRU* TP 16.8R.
- 16.2 R *BIPRU* TP 16.11R applies to any *firm* to which *BIPRU* 8 (Group risk – consolidation) applies.
- Purpose
- 16.3 G *BIPRU* TP 16 implements Article 45 of the *Capital Adequacy Directive*. The condition in *BIPRU* TP 16.1R(1) is in addition to the Directive conditions.
- Duration of transitional
- 16.4 R The treatment in *BIPRU* TP 16 is available until 31 December 2010.
- 16.5 G If there are any modifications consequent on the treatment of *large exposures*, pursuant to Article 119 of the *Banking Consolidation Directive*, the *FSA* will revoke *BIPRU* TP 16 if the date of coming into force of the implementing measures in relation to those changes is before the date in *BIPRU* TP 16.4R. If the *FSA* revokes *BIPRU* TP 15 it will also revoke *BIPRU* TP 16 at the same time.

Exemption

- 16.6 R (1) A *firm* may exceed the limits concerning *large exposures* in *BIPRU* 10.5.6R (25% limit), *BIPRU* 10.5.8R (800% limit), *BIPRU* 10.5.12R (500% limit) and *BIPRU* 10.5.13R (600% limit).
- (2) The *CNCOM* does not apply.
- 16.7 G Broadly speaking the effect of *BIPRU* TP 16.6R is that *BIPRU* 10 (Concentration risk) does not apply to a *firm* that meets the conditions in *BIPRU* TP 16.1R. However *BIPRU* 10.12 (Systems and controls and general) continues to apply.

Documented strategy

- 16.8 R A *firm* must have a documented strategy for managing and, in particular, for controlling and limiting risks arising from the concentration of *exposures*. The *firm* must notify the *FSA* of this strategy and all material changes to this strategy without delay. The *firm* must make appropriate arrangements to ensure a continuous monitoring of the creditworthiness of borrowers, according to their impact on concentration risk. These arrangements must enable the *firm* to react adequately and sufficiently promptly to any deterioration in that creditworthiness.
- 16.9 R Where a *firm* exceeds the internal limits set according to the strategy referred to in *BIPRU* TP 16.8R, it must notify the *FSA* without delay of the size and nature of the excess and of the *counterparty*.

Definitions

- 16.10 R The terms financial instrument, investment services and investment activities have the same meaning as they do in the *MIFID*.

Consolidation

- 16.11 R *BIPRU* TP 16 does not apply for the purposes of *BIPRU* 8 (Group risk – consolidation) with respect to a *firm's UK consolidation group* or, as the case may be, *non-EEA sub-group* unless the following conditions are satisfied:
- (1) the group satisfies the requirements in *BIPRU* TP 15.13 (Application of *BIPRU* TP 15 on a consolidated basis) and the *firm* remains eligible to apply the treatment in *BIPRU* TP 15.13 with respect to that *UK consolidation group* or, as the case may be, *non-EEA sub-group*;
 - (2) there is no *credit institution* in that group;
 - (3) each *investment firm* in the group meets the conditions in *BIPRU* TP 16.1R(2) and (3); and

- (4) the group meets the conditions in *BIPRU* TP 16.1R(4) to (5) applied on a consolidated basis.

- 17 Large exposures: Exemptions for intra-group exposures for banks and investment firms
- Application
- 17.1 R This section applies to a *BIPRU firm* other than a *building society*.
- Purpose
- 17.2 G This section deals with the exemption or partial exemption of intra-group *exposures* from large exposure limits. It exempts some intra-group *exposures*. It allows a *firm* to use certain of the intra-group exemptions in *IPRU* for others. In some cases those *IPRU* exemptions apply in a modified form.
- 17.3 G This section only applies to *exposures to concentration risk group counterparties*. This term broadly covers group members if they and the *firm* are subject to consolidated supervision by the *FSA*, another *EEA competent authority* or certain non-*EEA* regulators. The full definition can be found in the *Glossary*.
- Duration of transitional
- 17.4 R This section applies until 31 December 2009.
- General rule
- 17.5 R A *firm* may, to the extent permitted by this section, treat an *exposure* to a *concentration risk group counterparty* as exempt or partially exempt for the purposes of *BIPRU 10* (Concentration risk) or, if the *firm* applies *BIPRU TP 3* (Pre CRD capital requirements applying on a solo basis during 2007), the relevant part of *IPRU*.
- Effect of this section on intra-group concentration risk exemptions in *BIPRU 10*
- 17.6 R If a *firm* applies this section, *BIPRU 10.8* to *BIPRU 10.10* (Integrated groups) do not apply.
- 17.7 G The effect of *BIPRU TP 17.6R* is that a *firm* should not apply *BIPRU 10.8* to *BIPRU 10.10* (Integrated groups) to some *exposures to concentration risk group counterparties* and this section to others. The purpose of *BIPRU TP 17.6R* is that a *firm* should choose between treating intra-group *exposures* under the *BIPRU 10* integrated group regime and treating them under the *IPRU rules* but that it should not mix the two approaches.

- 17.8 G If a *firm* applies this section, *BIPRU* 10.7 (Treasury concession and intra-group securities financing transactions) continues to apply. However *BIPRU* 10.7 will not apply if the *firm* applies *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007).

Treatment of intra-group exposures

- 17.9 R If a *firm* applies this section it must allocate each *exposure* to its *concentration risk group counterparties* to one of the categories in the table in *BIPRU* TP 17.10R and apply the applicable treatment in that table to it.

- 17.10 R Table: Treatment for types of group counterparty
This table belongs to *BIPRU* TP 17.9R

| Type of counterparty | Treatment |
|--|---|
| (1) <i>Exposure</i> to an <i>undertaking</i> that is a member of the <i>firm's UK integrated group</i> | Exempt |
| (2) <i>Exposure</i> to a domestic <i>concentration risk group counterparty</i> that is not a member of its <i>UK integrated group</i> | Not exempt or partially exempt unless an exemption outside this section is available |
| (3) An <i>exposure</i> to a foreign <i>concentration risk group counterparty</i> | Apply the treatment in the applicable part of the table in <i>BIPRU</i> TP 17.11R. If it does not qualify as exempt or partially exempt under that table then it is not exempt or partially exempt unless an exemption outside this section is available |
| A domestic <i>concentration risk group counterparty</i> means a <i>concentration risk group counterparty</i> that meets the condition in <i>BIPRU</i> 10.8.4R(4) (Establishment in the <i>United Kingdom</i>) | |
| A foreign <i>concentration risk group counterparty</i> means a <i>concentration risk group counterparty</i> that does not meet the condition in <i>BIPRU</i> 10.8.4R(4) | |

17.11 R Table: Treatment of exposures to non-UK undertakings
This table belongs to *BIPRU* TP 17.10R

| Category of <i>firm</i> | Treatment | Adjustments |
|------------------------------------|---|--|
| <i>Bank</i> | Apply the treatment in <i>BIPRU</i> TP 17.15R | |
| <i>Investment management firm</i> | Treat <i>exposure</i> as exempt if it falls within paragraph (g) or (h) of the definition of exempt exposure in the Glossary to chapter 5 of <i>IPRU(INV)</i> Treat <i>exposure</i> as partially exempt if it falls within paragraph (c) of the definition of partially exempt exposure in the Glossary to chapter 5 of <i>IPRU(INV)</i> | Paragraph (g) of the definition of exempt exposure is adjusted by replacing the reference to the Second Consolidated Supervision Directive and Directive 93/6 (the old version of the <i>Capital Adequacy Directive</i>) with a reference to the <i>Banking Consolidation Directive</i> and the <i>Capital Adequacy Directive</i> . |
| <i>UCITS investment firm</i> | Same as for <i>investment management firm</i> | |
| <i>Securities and futures firm</i> | Treat <i>exposure</i> as exempt if it falls within <i>rules</i> 10-192(1)(g) or 10-192(1)(n) of chapter 10 of <i>IPRU(INV)</i> Treat <i>exposure</i> as partially exempt if it falls within <i>rule</i> 10-192(2)(c) of chapter 10 of <i>IPRU(INV)</i> | <i>Rule</i> 10-192(1)(g) of chapter 10 of <i>IPRU(INV)</i> is adjusted by replacing the reference to <i>rules</i> 10-200 to 10-203 of chapter 10 of <i>IPRU(INV)</i> with a reference to <i>BIPRU</i> 8 and the consolidation provisions of <i>BIPRU</i> TP. |

| Category of <i>firm</i> | Treatment | Adjustments |
|---|--|-------------|
| <i>Personal investment firm</i> | Treat <i>exposure</i> as exempt if it falls within item 11 in Table 13.6.2(1) of Chapter 13 of <i>IPRU(INV)</i> Treat <i>exposure</i> as exempt or partially exempt if it falls within item 15 in Table 13.6.2(1) of Chapter 13 of <i>IPRU(INV)</i> | |
| Note: A <i>firm</i> must apply any exemption or partial exemption in <i>IPRU</i> in accordance with the applicable <i>IPRU rule</i> . | | |

- 17.12 G The effect of *BIPRU* TP 17.9R to *BIPRU* TP 17.11R is that a *firm* may only apply the *IPRU* and other treatments in the table in *BIPRU* TP 17.11R to non-UK undertakings. An *exposure* to a UK undertaking is exempt if it is a member of the *firm's* UK integrated group. If the UK undertaking is not a member of the *firm's* UK integrated group no exemption is available even if an exemption would have been available under *IPRU*.
- 17.13 G If an *exposure* to a concentration risk group counterparty is not exempt or partially exempt under the table in *BIPRU* TP 17.10R or *BIPRU* TP 17.11R the exemptions in *BIPRU* 10.5 (Excess exposures in the trading book), *BIPRU* 10.6 (General exemptions) and *BIPRU* 10.7 (Treasury concession and intra-group securities financing transactions) may be available. *BIPRU* 10.8 to *BIPRU* 10.10 (Integrated groups) do not apply. However none of the exemptions in *BIPRU* 10 will apply if the *firm* applies *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007).
- 17.14 G *BIPRU* TP 1.3R explains whether a *BIPRU investment firm* is a securities and futures firm, an investment management firm or a personal investment firm.
- Exemption for banks
- 17.15 R An *exposure* of a bank coming within column 1 of row (3) of the table in *BIPRU* TP 17.10R is exempt if:
- (1) both the counterparty and the bank are in the same integrated banking group as defined in *BIPRU* TP 17.16R;
 - (2) both the counterparty and the bank are included within the scope of consolidation on a full basis with respect to the same UK consolidation group;
 - (3) the counterparty is not a member of that UK consolidation group in which no more than a participation is held;

- (4) *BIPRU* 8.2.1R (Main consolidation rule for UK consolidation groups) applies to the *firm* with respect to that *UK consolidation group*; and
- (5) *capital resources* are freely transferable between the *counterparty* and the *UK bank* referred to in *BIPRU* TP 17.16R(1).
- 17.16 R An integrated banking group means, in relation to a *firm*, a group of *undertakings* (the "potential integrated banking group") that satisfy the following conditions:
- (1) the potential integrated banking group is managed as an integrated banking business by a *UK bank*; and
- (2) the *UK bank* in (1) is the principal *bank* in the potential integrated banking group.
- 17.17 G An *undertaking* is included within the scope of consolidation of a group on a full basis as referred to in *BIPRU* TP 17.15R(2) if it is at the head of the group or if its assets and liabilities are taken into account in full as referred to in *BIPRU* 8.5.4R (Basis of inclusion of undertakings in consolidation).
- Notification
- 17.18 R A *firm* may not apply this section unless it has given one *Month's* prior notice to the *FSA* that it intends do so. That notice must specify which category of *firm* listed in the table in *BIPRU* TP 17.11R it belongs to.
- 17.19 R A *firm* need only give the *FSA* the notice required in *BIPRU* TP 17.18R once rather than with respect to each *exposure*.
- 17.20 R A *firm* may stop applying this section if it has given one *Month's* prior notice to the *FSA* that it intends to do so.
- 17.21 R If a *firm* stops applying this section it may start to apply it again if it notifies the *FSA* under *BIPRU* TP 17.18R that it intends to do so.
- 17.22 R A *firm* must notify the *FSA* if it becomes aware that any *exposure* that it has treated as exempt or partially exempt under this section has ceased to meet the conditions for that treatment.
- Combination of this section with *BIPRU* TP 3
- 17.23 R A *firm* may apply this section even if it also applies *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007). However such a *firm* may not apply the treatments in the table in *BIPRU* TP 17.11R but must instead apply the corresponding provisions in the part of *IPRU* that it is applying under *BIPRU* TP 3.

- 17.24 G The part of *IPRU(BANK)* that corresponds to *BIPRU* TP 17.15R is paragraph 2b) of part 3.1.1 of section 3 of Chapter CS as applied by Chapter LE for large exposures purposes.
- 17.25 G The reason for *BIPRU* TP 17.23R is that *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) already allows a *firm* to use the *IPRU* exemptions and partial exemptions listed in the table in *BIPRU* TP 17.11R so it is not necessary to give the *firm* an additional right to apply those treatments under this section.
- 17.26 G In general this section does not give any exemption that is not available under *IPRU*. However the exemption in row (1) of the table in *BIPRU* TP 17.10R (*exposures* within the *UK integrated group*) is not in *IPRU* although in practice a *firm* may find that the *IPRU* exemptions will cover most or all the things covered by the exemption in the table in *BIPRU* TP 17.10R.
- 17.27 G If row (2) of the table in *BIPRU* TP 17.10R (certain *exposures* to *UK counterparties*) treats an *exposure* as non-exempt a *firm* that applies *BIPRU* TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) may still treat it as exempt if the relevant provisions of *IPRU* allow this.

Consolidation

- 17.28 G The application of this section on a consolidated basis is dealt with in *BIPRU* TP 19 (Large exposures: Exemptions for intra-group exposures on a consolidated basis).

- 18 Large exposures: Exemptions for intra-group exposures for building societies
- Application
- 18.1 R This section applies to a *building society*.
- 18.2 R This section does not apply to a *building society* that applies *BIPRU TP 3* (Pre CRD capital requirements applying on a solo basis during 2007).
- 18.3 G The reason for *BIPRU TP 18.2R* is that *BIPRU TP 18* reproduces (with amendments) part of the large exposures requirements of Volume 1 of *IPRU(BSOC)*. If a *firm* applies *BIPRU TP 3* (Pre CRD capital requirements applying on a solo basis during 2007) all the large exposure requirements of *IPRU(BSOC)* will apply. There is therefore no need to apply *BIPRU TP 18* in these circumstances.
- Purpose
- 18.4 G This section reproduces, with amendments, paragraphs 7.5.1 to 7.5.3 of Chapter 7 of volume 1 of *IPRU(BSOC)*. However it does not carry forward the 300% limit in paragraph 7.4.2(2) of that volume.
- Duration of transitional
- 18.5 R This section applies until 31 December 2009.
- General rule
- 18.6 R *BIPRU 10.5.6R* (25% exposure limit) does not apply to an *exposure* of a *building society* to a *subsidiary undertaking* of the *building society*. Instead the *building society* must ensure that:
- (1) the total amount of its *exposures* to any single *subsidiary undertaking* within the *building society's UK consolidation group* or to any sub-group of such *subsidiary undertakings* does not exceed 20% of its *capital resources*; and
 - (2) the total amount of its *exposures* to its *subsidiary undertakings* that are not within the *building society's UK consolidation group* does not exceed 20% of its *capital resources*.
- 18.7 G Exposures to *subsidiary undertakings* still count towards the overall limit of 800% of *capital resources* as set out in *BIPRU 10.5.8R* unless otherwise exempted.
- Effect of *BIPRU TP 18* on concentration risk exemptions in *BIPRU 10*

- 18.8 R *A building society* must choose between applying this section to all its *exposures* to its *subsidiary undertakings* or to none of them.
- 18.9 R If a *building society* applies this section, *BIPRU* 10.8 to *BIPRU* 10.10 (Integrated groups) do not apply.
- 18.10 G If a *firm* applies this section, *BIPRU* 10.7 (Treasury concession and intra-group securities financing transactions) continues to apply.
- Notification
- 18.11 R *BIPRU* TP 17.18R to *BIPRU* TP 17.22R (Notification) apply to this section as they do to *BIPRU* TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms).
- Consolidation
- 18.12 G The application of this section on a consolidated basis is dealt with in *BIPRU* TP 19 (Large exposures: Exemptions for intra-group exposures on a consolidated basis).

- 19 Large exposures: Exemptions for intra-group exposures on a consolidated basis
- Application
- 19.1 R This section applies to any *firm* to which *BIPRU* 8 (Group risk – consolidation) applies.
- Purpose
- 19.2 G The purpose of this section is to deal with how *BIPRU* TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms) and *BIPRU* TP 18 (Large exposures: Exemptions for intra-group exposures for building societies) are applied on a consolidated basis.
- Duration of transitional
- 19.3 R This section applies until 31 December 2009.
- General rule
- 19.4 R A *firm* may apply *BIPRU* TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms) and *BIPRU* TP 18 (Large exposures: Exemptions for intra-group exposures for building societies) on a consolidated basis with respect to a *UK consolidation group* or *non-EEA sub-group* for the purposes of *BIPRU* 8.9 (Consolidated concentration risk requirements). If a *firm* applies *BIPRU* TP 17 or *BIPRU* TP 18 on a consolidated basis, it must do so in the way set out in this section.
- Effect of this section on exemptions for intra-group exposures under *BIPRU* 8.9
- 19.5 R If a *firm* applies this section, *BIPRU* 8.9.8R to *BIPRU* 8.9.26R (Application of integrated groups policy on a consolidated basis) do not apply and a *firm* may not otherwise apply *BIPRU* 10.8 to *BIPRU* 10.10 (Integrated groups) on a consolidated basis.
- 19.6 G The purpose of *BIPRU* TP 19.5R is that a *firm* should choose between applying the *BIPRU* 8.9 integrated group regime to intra-group *exposures* or applying the regime in this section but that it should not mix the two approaches.

Parts of BIPRU TP 17 and BIPRU TP 18 that apply on a consolidated basis

- 19.7 R The table in *BIPRU* TP 19.8R sets out what parts of *BIPRU* TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms) and *BIPRU* TP 18 (Large exposures: Exemptions for intra-group exposures for building societies) are applied on a consolidated basis under *BIPRU* TP 19.4R. The answer depends on which of the categories in the first column of that table the *UK consolidation group* or *non-EEA sub-group* in question falls into.
- 19.8 R Table: Parts of *BIPRU* TP 17 and *BIPRU* TP 18 that apply on a consolidated basis
This table belongs to *BIPRU* TP 19.7R

| Category of group | Applicable parts of <i>BIPRU</i> TP 17 and <i>BIPRU</i> TP 18 | Remarks |
|---|---|--|
| Building society group | <i>BIPRU</i> TP 18 (Large exposures: Exemptions for intra-group exposures for building societies) | |
| Banking group | The provisions in <i>BIPRU</i> TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms) that apply to a <i>bank</i> | If the group is a <i>non-EEA sub-group</i> , the exemption in <i>BIPRU</i> TP 17.15R (Integrated banking groups) applies. If the group is a <i>UK consolidation group</i> , the exemption in <i>BIPRU</i> TP 17.15R does not apply. |
| Investment services group | The provisions in <i>BIPRU</i> TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms) that apply to the main <i>BIPRU investment firm</i> | Main <i>BIPRU investment firm</i> has the same meaning as it does in <i>BIPRU</i> TP 10.5R (Pre CRD capital requirements applying on a consolidated basis during 2007) |
| Note: The classes of group in the first column are defined in <i>BIPRU</i> TP 1.7R (Classification of groups for certain consolidation rules) | | |

19.9 G The reason that *BIPRU* TP 17.15R (Integrated banking groups) does not apply to a *UK consolidation group* is that *BIPRU* TP 17.15R requires the *firm* and the *counterparty* to be in the same *UK consolidation group*. The application of *BIPRU* TP 17.15R on a consolidated basis to a *UK consolidation group* would involve applying *BIPRU* TP 17.15R to *exposures* of members of the *UK consolidation group* to *counterparties* outside the *UK consolidation group*. Therefore the exemption in *BIPRU* TP 17.15R cannot apply to a *UK consolidation group*.

How this section applies to banking and investment services groups

- 19.10 R (1) If a *firm* applies *BIPRU* TP 17 (Large exposures: Exemptions for intra-group exposures for banks and investment firms) under this section it must do so in accordance with the principles in this *rule*.
- (2) A *firm* may only apply *BIPRU* TP 17 to *exposures* between members of its *UK consolidation group* or *non-EEA sub-group* and its *consolidation concentration risk group counterparties*.
- (3) A *firm* must treat each category of *exposure* in the first column of the table in *BIPRU* TP 19.11R in accordance with the corresponding treatment in the second column.

19.11 R Table: Treatment for types of group counterparty
This table belongs to *BIPRU* TP 19.10R

| Type of <i>exposure</i> | Treatment |
|---|--|
| (A) <i>Exposures</i> meeting the following conditions: (a) the member of the group that has the <i>exposure</i> is a domestic <i>undertaking</i> and (b) the <i>exposure</i> is to a <i>consolidation concentration risk group counterparty</i> that qualifies for inclusion in the group's <i>consolidation UK integrated group</i> | Exempt |
| (B) The <i>exposure</i> is to a <i>consolidation concentration risk group counterparty</i> that meets the following conditions: (a) the <i>counterparty</i> is a domestic <i>undertaking</i> and (b) the <i>counterparty</i> does not meet the other conditions for inclusion in the group's <i>consolidation UK integrated group</i> | Not exempt or partially exempt unless an exemption outside this section is available |

| Type of <i>exposure</i> | Treatment |
|---|--|
| <p>(C) <i>Exposures</i> meeting either of the following conditions:</p> <p>(a) the <i>exposure</i> meets both the following conditions: (i) the member of the group that has the <i>exposure</i> is foreign and (ii) the <i>consolidation concentration risk group counterparty</i> qualifies for inclusion in the group's <i>consolidation UK integrated group</i>; or</p> <p>(b) the <i>exposure</i> is to a foreign <i>consolidation concentration risk group counterparty</i></p> | <p>Exempt if would be exempt under <i>BIPRU</i> 17.11R (Treatment of non-UK intra-group <i>exposures</i>)</p> <p>Partially exempt if would be partially exempt under <i>BIPRU</i> 17.11R</p> <p>Not exempt or partially exempt if would not qualify as exempt or partially exempt under <i>BIPRU</i> TP 17.11R unless an exemption outside this section is available</p> |
| <p>"Group" means the <i>UK consolidation group</i> or <i>non-EEA sub-group</i> in question</p> | |
| <p>An <i>undertaking</i> is a domestic <i>undertaking</i> if it meets the condition in <i>BIPRU</i> 10.8.4R(4) (Establishment in the <i>United Kingdom</i>)</p> | |
| <p>An <i>undertaking</i> is foreign if it does not meet the condition in <i>BIPRU</i> 10.8.4R(4)</p> | |

- 19.12 G This section as it applies to banking groups and investment services groups (as defined in *BIPRU* TP 1.7R (Classification of groups for certain consolidation rules)) feeds back into the calculations in *BIPRU* 8.9 (Consolidated concentration risk requirements). So if an intra-group *exposure* is exempt under this section it is exempt for the purposes of *BIPRU* 8.9. Likewise, if an intra-group *exposure* is partially exempt under this section it is partially exempt for the purposes of *BIPRU* 8.9.
- 19.13 G (1) This paragraph describes the effect of *BIPRU* TP 19.11R
- (2) An *exposure* between a *UK* member of the group and a *UK counterparty* that meets the consolidated integrated group conditions in *BIPRU* 8.9.9R (Definition of *consolidation UK integrated group*) is exempt. Therefore this exemption is only available if both the group member and the counterparty are *UK undertakings*.
- (3) A *firm* may apply the *IPRU* treatments in the table in *BIPRU* TP 17.11R (Treatment of exposures to non-UK undertakings) to an *exposure* between an overseas member of the group and a *UK counterparty* that meets the consolidated integrated group conditions in *BIPRU* 8.9.9R.

- (4) A *firm* may also apply the *IPRU* and other treatments in the table in *BIPRU* TP 17.11R if the *counterparty* is foreign.
- (5) *Exposures* to *UK undertakings* that do not meet the consolidated integrated group conditions in *BIPRU* 8.9.9R are not exempt. Nor do they benefit from the exemptions and partial exemptions under *BIPRU* TP 17.11R.
- (6) The treatment in this paragraph only relates to *counterparties* who fall within the definition of *consolidation concentration risk group counterparty*.
- (7) In this paragraph "group" means the *UK consolidation group* or *non-EEA sub-group* in question.

- 19.14 G (1) A *consolidation concentration risk group counterparty* is defined in *BIPRU* 8.9.11R. It is the equivalent of a *concentration risk group counterparty* for the purposes of consolidation. Basically it means a *counterparty* that is not a member of the *UK consolidation group* or *non-EEA sub-group* but is a *parent undertaking* of a member of the *UK consolidation group* or *non-EEA sub-group* or a *subsidiary undertaking* of such a *parent undertaking*. It also includes a *subsidiary undertaking* of a member of the *UK consolidation group* or *non-EEA sub-group* that is not itself a member of the *UK consolidation group* or *non-EEA sub-group*.
- (2) The group and the *counterparty* should both be subject to consolidated supervision as part of a wider group by the *FSA*, another *EEA competent authority* or a *third country competent authority* that carries out consolidated supervision to equivalent standards. If this is not the case the *counterparty* is not a *consolidation concentration risk group counterparty*. *Exposures* to such a *counterparty* fall outside this section.
- (3) In this paragraph "group" means the *UK consolidation group* or *non-EEA sub-group*.

Integrated banking groups

- 19.15 G If *BIPRU* TP 17.15R (Integrated banking groups) applies on a consolidated basis, a *firm* may treat an *exposure* between a member of the *non-EEA sub-group* and a non-*UK counterparty* as exempt if the *counterparty* and the *non-EEA sub-group* are part of the same *UK consolidation group* and also part of the same integrated banking group. If the *counterparty* is set up in the *UK* the *exposure* will be exempt if it meets the conditions for inclusion in the group's *consolidation UK integrated group*, whether or not it meets the conditions in *BIPRU* TP 17.15R. If the *counterparty* is set up in the *UK* and does not meet the conditions for inclusion in the group's *consolidation UK integrated group*, there is no exemption, whether or not it meets the conditions in *BIPRU* TP 17.15R.

Building society groups

- 19.16 G If *BIPRU* TP 18 (Large exposures: Exemptions for intra-group exposures for building societies) applies on a consolidated basis to a *non-EEA sub-group* under this section there are two limits. Firstly the total amount of the *exposures* of the *non-EEA sub-group* to any single *subsidiary undertaking* in the *UK consolidation group* of which the *non-EEA sub-group* forms part or any sub-group of such *subsidiary undertakings* should not exceed 20% of the consolidated capital resources of the *non-EEA sub-group*. Secondly the total amount of the *exposures* of members of the *non-EEA sub-group* to *subsidiary undertakings* of the parent *building society* who are not part of the *UK consolidation group* should not exceed 20% of the consolidated capital resources of the *non-EEA sub-group*.
- 19.17 G If *BIPRU* TP 18 (Large exposures: Exemptions for intra-group exposures for building societies) applies on a consolidated basis to a *UK consolidation group* under this section the total amount of the *exposures* of the *UK consolidation group* to *subsidiary undertakings* of the parent *building society* who are not part of the *UK consolidation group* should not exceed 20% of the consolidated capital resources of the *UK consolidation group*. *Exposures* within the *UK consolidation group* are eliminated on consolidation in the usual way.
- 19.18 G The consolidated 25% exposure limit in *BIPRU* 8.9 (Consolidated concentration risk requirements) does not apply to *subsidiary undertakings* of the parent *building society* where the treatment described in *BIPRU* TP 19.16G or *BIPRU* TP 19.17G applies.

Notification

- 19.19 R *BIPRU* TP 17.18R to *BIPRU* TP 17.22R (Notification) apply to this section as they do to *BIPRU* TP 17. The notice referred to in *BIPRU* TP 17.18R must state what kind of group listed in *BIPRU* TP 1.7R (Classification of groups for certain consolidation rules) the *firm* belongs to rather than what category the *firm* falls into.

- TP 20 Standardised credit risk transitionals
- Application
- 20.1 R This section applies to a *BIPRU firm*.
- Days past due
- 20.2 R (1) This *rule* applies to an *exposure* in another *EEA State* of a type to which a *CRD implementation measure* in that *EEA State* for the first paragraph of Article 154(1) of the *Banking Consolidation Directive* (Transitional rule for days past due for claims on *PSEs* and *corporates* and *retail exposures*) applies.
- (2) If the number of days past due set under that *CRD implementation measure* is greater than the number in *BIPRU 3.4.96R* (Treatment of items past due for more than 90 days) that higher number applies.
- 20.3 R *BIPRU TP 20.2R* applies until 31 December 2011 or any earlier date on which the relevant *CRD implementation measure* ceases to apply.
- 20.4 G *BIPRU TP 20.2R* implements (in part) Article 154(1) of the *Banking Consolidation Directive*.
- Central government exposures
- 20.5 R Until 31 December 2012, a 0% *risk weight* applies to *exposures* to the central government of the *United Kingdom* and of the Bank of England denominated and funded in the currency of another *EEA State*.
- 20.6 R If the *CRD implementation measures* of another *EEA State* apply a 0% *risk weight* to *exposures* to its central government or *central bank* denominated and funded in the domestic currency of another *EEA State* a *firm* must *risk weight* such *exposures* in the same manner.
- 20.7 R *BIPRU TP 20.6R* applies until 31 December 2012 or any earlier date on which the relevant *CRD implementation measure* ceases to apply.
- 20.8 G *BIPRU TP 20.5R* to *BIPRU TP 20.7R* implements (in part) Article 153 of the *Banking Consolidation Directive*.

21 Close substitutes for commodities

Application

21.1 R This section applies to a *BIPRU firm* that on 31 December 2006 was applying the approach referred to in the first column of the table in *BIPRU TP 21.3R* with respect to particular grades or brands of the same *commodity*-class.

Commodities: close substitutes

21.2 R A notice given under the *IPRU* provision in the second column of the table in *BIPRU TP 21.3R* is treated as having been given under *BIPRU 7.4.23R* (Notice to the *FSA* about treatment of different grades or brands of the same *commodity*) for the purposes of *BIPRU 7.4.22R* (Treatment of different grades or brands of the same *commodity*) with respect to the *commodity* grades or brands referred to in *BIPRU TP 21.1R*.

21.3 R Table: Commodity treatments under *IPRU*
This table belongs to *BIPRU TP 21.2R*

| <i>IPRU</i> provisions setting out <i>commodity</i> approach | <i>IPRU</i> provisions under which notice given |
|---|--|
| Paragraph 22(2) of appendix 6 of chapter 10 of <i>IPRU(INV)</i> | Paragraph 23 of appendix 6 of chapter 10 of <i>IPRU(INV)</i> |
| Paragraph 22(2) of chapter CM of <i>IPRU(BANK)</i> | Paragraph 23 of chapter CM of <i>IPRU(BANK)</i> |

Explanation

21.3 G *BIPRU 7.4.22R(1)(b)* says that a *firm* should treat *positions* in different grades or brands of the same *commodity*-class as different *commodities* unless they are close substitutes and have price movements which have exhibited a stable correlation coefficient of at least 0.9 over the last 12 months. *BIPRU 7.4.23R* says that a *firm* should notify the *FSA* in writing at least 20 *business days* prior to the date the *firm* starts relying on this treatment. The purpose of this section is to allow a notice given under the corresponding provisions of chapter 10 of *IPRU(INV)* or *IPRU(BANK)* to continue to have effect without the *firm* having to serve a new notice under *BIPRU 7.4.23R*.

22 Solo consolidation

Application

22.1 R This section applies to a *BIPRU firm* that:

- (1) is a *bank* or *building society*; and
- (2) on 31 December 2006, was, in accordance with the provision of *IPRU* referred to in *BIPRU* TP 22.2R and in accordance with a concession (as defined in *BIPRU* TP 22.8R), solo-consolidating a *subsidiary undertaking*.

22.2 R The provisions of *IPRU* referred to in *BIPRU* TP 22.1R are:

- (1) (in the case of a *bank*) section 9 of chapter CS of *IPRU(BANK)*; and
- (2) (in the case of a *building society*) section 1.11 of chapter 1 of volume 1 of *IPRU(BSOC)*.

Deemed solo consolidation waiver

22.3 R A concession referred to in *BIPRU* TP 22.1R is treated as a *solo consolidation waiver* with respect to the *subsidiary undertaking* to which it relates if the *firm* notifies the *FSA* that the *firm* wishes to apply the treatment in *BIPRU* 2.1 (Solo consolidation) to that *subsidiary undertaking*.

Notice to the FSA

22.4 R The following requirements apply to a notice under *BIPRU* TP 22.3R:

- (1) the *firm* must give the *FSA* the notice on or after 1 June 2006 and on or before 29 December 2006;
- (2) the notice must contain details of the concession concerned;
- (3) the notice must give the name of the *subsidiary undertaking* concerned and say where it is incorporated and has its head office; and
- (4) the notice must say whether that *subsidiary undertaking* is a *body corporate* and state the legal form of that *subsidiary undertaking*.

Limitations

- 22.5 R Any condition, limitation or requirement to which a concession referred to in *BIPRU* TP 22.1R is subject continues to apply to the extent that it is compatible with *BIPRU*. In particular, if the concession was only for the purpose of large exposures it only has effect for the purposes of *BIPRU* 10 (Concentration risk) and if it was only for the purposes of capital adequacy it only has effect for the purposes of *GENPRU* 2.1.13R (Obligation to hold capital resources equal to or greater than the capital resources requirement) or *GENPRU* 2.1.60R (Calculation of base capital resources requirement for banks authorised before 1993).

Obligation to meet other qualifying conditions

- 22.6 R A *firm* with a deemed *solo consolidation waiver* under *BIPRU* TP 22.3R may not apply the treatment in *BIPRU* 2.1 (Solo consolidation) to the *subsidiary undertaking* concerned unless the conditions in *BIPRU* 2.1.12R and *BIPRU* 2.1.13R (Solo consolidation – Minimum standards) are met with respect to that *subsidiary undertaking*.

Notification of relevance etc of concession

- 22.7 R A *firm* which has the benefit of a concession that has effect under *BIPRU* TP 22.3R must notify the *FSA* immediately if it becomes aware of any matter which is material to the relevance or appropriateness of the concession.

Meaning of concession

- 22.8 R A concession means for the purposes of *BIPRU* TP 22:
- (1) a consent or approval by the *FSA* under the provisions of *IPRU(BANK)* or *IPRU(BSOC)* referred to in *BIPRU* TP 22.2R; and
 - (2) a concession also means for the purposes of *BIPRU* TP 22 a written concession as defined in *SUP* TP 1.4 (Grandfathering of concessions granted by the *FSA*'s predecessor regulators: rules in the Handbook) or *SUP* TP 1.2.6A (Grandfathering of concessions granted by the *FSA*'s predecessor regulators: guidance in the Handbook) that had effect for the purposes of the provisions of *IPRU(BANK)* or *IPRU(BSOC)* referred to in *BIPRU* TP 22.2R.
- 22.9 G *BIPRU* TP 22.8R(2) provides a mechanism for keeping in effect solo consolidation concessions granted by the Bank of England and the Building Societies Commission.

23 Record keeping transitionals

Application

23.1 R This section applies to a *BIPRU investment firm*.

Duration of transitional

23.2 R This section applies until 1 November 2007.

Continuing record keeping requirements

23.3 R A *firm* in the first column of the table in *BIPRU* TP 23.4R must comply with the *rules* in *IPRU(INV)* specified in the second column adjusted in accordance with *BIPRU* TP 23.5R.

23.4 R Table: List of IPRU reporting rules
This table belongs to *BIPRU* TP 23.3R

| Type of <i>firm</i> | <i>IPRU(INV)</i> rules |
|------------------------------------|--|
| <i>Investment management firm</i> | <i>Rule 5.3.1</i> of chapter 5 |
| <i>UCITS investment firm</i> | <i>Rules 7.4.1(c)</i> and <i>7.6.2</i> of chapter 7 |
| <i>Securities and futures firm</i> | <i>Rules 10-10, 10-11</i> and <i>10-12</i> of chapter 10 |
| <i>Personal investment firm</i> | <i>Rules 13..1.10</i> to <i>13.1.17</i> of chapter 13 |

Adjustments

23.5 R The adjustments referred to in *BIPRU* TP 23.3R are as follows:

- (1) a reference to a *firm's* financial resources requirements must be read as a reference to its obligations under *GENPRU* 2.1 (Calculation of capital resources requirement) and any capital resources requirement under *BIPRU* TP;
- (2) the terms *trading book* and *non-trading book* have the meanings in the *Glossary*; and
- (3) a reference to requirements in *IPRU(INV)* must be read as a reference to the requirements of *GENPRU* and *BIPRU* applicable to the *firm* concerned.

- 24 Mid market valuations
- Application
- 24.1 R This section applies to a *BIPRU firm*.
- Duration of transitional
- 24.2 R This section applies until 1 January 2008.
- Transitional rule
- 24.3 R When marking to market (see *GENPRU* 1.3.14R to *GENPRU* 1.3.16R (General requirements: Marking to market)) for the purposes of valuing a *trading book* item for the purpose of *BIPRU* 14 (Capital requirements for settlement and counterparty risk), a *firm* may choose between using the mid market value and the more prudent side of bid/offer whether or not the *firm* is a significant market maker in the item concerned. A *firm* must be consistent in the basis it chooses.

- 25 Exclusions from consolidation
- Application
- 25.1 R This section applies to a *firm* to which *BIPRU* 8 (Group risk – consolidation) applies.
- Duration of transitional
- 25.2 R This section applies until 1 January 2008. However *BIPRU* TP 25.8R continues in force until it is revoked.
- Transitional rule
- 25.3 R A *firm* may exclude a member of its *UK consolidation group* or *non-EEA sub-group* that would otherwise have been included under *BIPRU* 8.5 (Basis of consolidation) if, as at 31 December 2006, that member was excluded from the *firm's UK consolidation group* in accordance with any of the following:
- (1) bullet points one or three of paragraph 6 of section 4 of Chapter CS of *IPRU(BANK)* (exclusion from consolidation where inclusion would be inappropriate or misleading or where there are legal impediments to the transfer of information); or
 - (2) section 1.13 of Chapter 1 of Volume 1 of *IPRU(BSOC)* (exclusion of subsidiary undertakings where inclusion in the consolidation would be misleading or inappropriate); or
 - (3) *IPRU(INV)* 14.2.5R(2) (exclusion from consolidation where inclusion would be inappropriate or misleading); or
 - (4) any *waiver* from the consolidation provisions of Chapter 14 of *IPRU(INV)* or (in the case of *IPRU(BSOC)*) a written consent or approval by the *FSA* on the ground set out in indent one of Article 52(3) of the Directive 2000/12 (the previous version of the *Banking Consolidation Directive*) (exclusion from consolidation where there are legal impediments to the transfer of information).
- 25.4 R A *firm* may only apply *BIPRU* TP 25.3R to a member of its *UK consolidation group* or *non-EEA sub-group* if the *firm* or another member of its *UK consolidation group* notifies the *FSA* in writing that it intends to apply that *rule* to that member and the notice complies with the following requirements:
- (1) the *FSA* was notified on or after 1 November 2006 and on or before 29 December 2006;

- (2) the notice must give the name of the member concerned and say where it is incorporated and has its head office; and
- (3) the notice must say whether that member is a *body corporate* and state the legal form of that member.

Limitations

- 25.5 R Any condition, limitation or requirement to which the treatment in *BIPRU* TP 25.3R is subject continues to apply to the extent that it is compatible with *BIPRU*.

Obligation to meet other qualifying conditions

- 25.6 R A *firm* may only apply the treatment in *BIPRU* TP 25.3R if the conditions in whichever is applicable of Article 73(1)(a) (exclusion from consolidation where there are legal impediments to transfer of information) or Article 73(1)(c) (exclusion from consolidation where inclusion would be inappropriate or misleading) of the *Banking Consolidation Directive* continue to be satisfied.

Notification of relevance etc of concession

- 25.7 R A *firm* must notify the *FSA* immediately if it becomes aware of any matter which is material to the relevance or appropriateness of the continuance of the treatment in *BIPRU* TP 25.3R.

Small balance sheet size exclusion

- 25.8 R If a *firm* excluded a member of its *UK consolidation group* or *non-EEA subgroup* from the *firm's UK consolidation group* in accordance with:
- (1) bullet point two of paragraph 6 of section 4 of Chapter CS of *IPRU(BANK)* (exclusion from consolidation where combined balance sheet is below certain thresholds);
 - (2) *IPRU(INV)* 14.2.5R(1) (exclusion from consolidation where combined balance sheet is below certain thresholds); or
 - (3) a written consent or approval by the *FSA* under *IPRU(BSOC)* on the ground set out in indent two of Article 52(3) of the Directive 2000/12 (the previous version of the *Banking Consolidation Directive*) (exclusion from consolidation where combined balance sheet is below certain thresholds);

the *firm* need not notify the *FSA* under *BIPRU* 8.5.9R (exclusion from consolidation where combined balance sheet is below certain thresholds) as long as it has notified the *FSA* of its intention to take advantage of this *rule* and that notice complies with *BIPRU* TP 25.4R.

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Schedule 1

Record keeping requirements

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1 The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant record keeping requirements.

2 It is not a complete statement of those requirements and should not be relied on as if it were.

3 Table

| Handbook reference | Subject of Record | Contents of Record | When record must be made | Retention Period |
|---------------------|---------------------|--|--------------------------|------------------|
| <i>BIPRU 2.2.5G</i> | <i>Firm's ICAAP</i> | (1) The results of the <i>ICAAP</i> (2) An explanation of the processes used (3) How the process is used internally and for what purpose (4) Internal governance (5) The main sources of risk to which the <i>firm</i> is exposed (6) How the <i>firm</i> is managing each of those risks | Annually | Not specified |

| Handbook reference | Subject of Record | Contents of Record | When record must be made | Retention Period |
|---|---|---|--|--------------------------------------|
| | | <p>(7) Details of stress and scenario testing that has been conducted</p> <p>(8) The rationale behind the chosen scenarios</p> <p>(9) The results of those scenario tests</p> | | |
| <p><i>BIPRU</i> 5.2.3R, <i>BIPRU</i> 5.4.11R(2), <i>BIPRU</i> 9.5.1R(5)</p> | <p>Legal opinions confirming enforceability</p> | <p>A record of the legal review showing enforceability of credit protection arrangements in all relevant jurisdictions</p> | <p>Not specified, but before risk mitigant is recognised</p> | <p>Review conducted as necessary</p> |
| <p><i>BIPRU</i> 5.2.9R</p> | <p>Risk management processes</p> | <p>Documented risk management processes to control the risks that <i>firm</i> may be exposed to as a result of carrying out <i>credit risk mitigation</i></p> | <p>Not specified, but before risk mitigant is recognised</p> | <p>Not specified</p> |
| <p><i>BIPRU</i> 5.4.12R</p> | <p>Collateral procedures</p> | <p>(1) A clear and robust procedure for the liquidation of collateral</p> <p>(2) Documented policies covering the types and amounts of collateral accepted</p> | <p>Not specified, but before collateral is recognised</p> | <p>Not specified</p> |

| Handbook reference | Subject of Record | Contents of Record | When record must be made | Retention Period |
|---|---|--|--|-------------------------------|
| <i>BIPRU</i> 5.4.59R, <i>BIPRU</i> 5.4.60R | Volatility adjustments for financial collateral | (1) Documentation of a system estimating volatility adjustments and the integration of the volatility adjustments in its risk management process (2) Review of system estimating volatility adjustments | Not specified, but before <i>own estimates of volatility adjustments approach</i> is used for capital purposes | Not specified |
| <i>BIPRU</i> 5.7.8R | System to manage concentration of risk arising from guarantees and credit derivatives | Documentation of a system to manage potential concentration risk arising from <i>unfunded credit protection</i> and how this interacts with its management of its overall risk profile | Not specified, but before <i>unfunded credit protection</i> is recognised | Not specified |
| <i>BIPRU</i> 7.10.53R, <i>BIPRU</i> 7.10.54G | Material risks not captured in the <i>firm's VaR model</i> | Documented risks not captured in the <i>VaR model</i> and creation of a prudent incremental <i>PRR</i> charge for the risk not captured | Not specified | Not specified |
| <i>BIPRU</i> 9.4.3R | Legal opinions for <i>securitised exposures</i> | A record of the legal opinions confirming that the <i>securitised exposures</i> have been put beyond the reach of the <i>originator</i> | Not specified, but before <i>securitised exposures</i> are excluded from capital calculation | Review conducted as necessary |
| <i>BIPRU</i> 9.13.12R (1) | Capital plan in case of early amortisation | For controlled amortisation, the | Not specified | Not specified |

| Handbook reference | Subject of Record | Contents of Record | When record must be made | Retention Period |
|--------------------------|--|--|--|------------------------|
| | | capital/liquidity plan to ensure that sufficient capital and liquidity are available in the event of early amortisation | | |
| <i>BIPRU</i> 9.13.21R | Capital plan in case of either scheduled or early amortisation | The capital plan to address the capital implications of both scheduled and early amortisation | Not specified | Not specified |
| <i>BIPRU</i> 10.4.47R | <i>Exposure</i> to undisclosed counterparties | A record of the steps taken by the <i>firm</i> to satisfy itself that it will continue to meet the limits in <i>BIPRU</i> 10.5 for <i>non-trading book exposures</i> and <i>trading book exposures</i> | Not specified | Not specified |
| <i>BIPRU</i> 13.6.48R | Operation of <i>CCR</i> management system | Documented set of internal policies, controls and procedures concerning the operation of the <i>CCR</i> management system | Prior to application for <i>CCR internal model method permission</i> | Continuous |
| <i>BIPRU</i> 13.7.6R (2) | Legal opinion regarding netting agreements | A record of legal opinions that, in the event of a legal challenge, relevant courts and administrative authorities would find that the <i>firm's</i> claims and obligations would be | On entering into a transaction and making use of netting agreements | While transaction held |

| Handbook reference | Subject of Record | Contents of Record | When record must be made | Retention Period |
|--------------------|-------------------|--|--------------------------|------------------|
| | | limited to the net sum in <i>BIPRU</i> 13.7.6R (1) | | |

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Schedule 2

Notification and reporting requirements

1 The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant notification requirements.

2 It is not a complete statement of those requirements and should not be relied on as if it were.

3 Table

| Handbook reference | Matter to be notified | Contents of notification | Trigger event | Time allowed |
|---------------------------------------|---|--|---|--|
| <i>BIPRU</i> 1.2.30R | Adoption of or significant change to a <i>trading book policy statement</i> | Copy of the <i>trading book policy statement</i> | Adoption of or significant change to a <i>trading book policy statement</i> | Immediately |
| <i>BIPRU</i> 3.2.35R (1), (4) and (5) | Intention to apply <i>BIPRU</i> 3.2.25R | (1) and (4): Fact of intention (5): Fact of <i>exposure</i> or <i>firm</i> ceasing to meet the conditions in <i>BIPRU</i> 3.2.25R | (1) and (4): Intention to apply (5): Ceasing to meet conditions | (1) and (4): One month's prior notice (5): First report date after the obligation to notify becomes due |
| <i>BIPRU</i> 7.4.23R | Intention to rely on approach in <i>BIPRU</i> 7.4.22R (1)(b) | Fact of intention and details on which <i>commodities</i> the <i>firm</i> intends to treat as same <i>commodity-class</i> | Intention to rely | At least 20 <i>business days</i> prior to the date the <i>firm</i> starts relying on <i>BIPRU</i> |

| Handbook reference | Matter to be notified | Contents of notification | Trigger event | Time allowed |
|------------------------|--|---|-----------------------------------|--|
| | | and justification | | 7.4.23R |
| <i>BIPRU 7.5.4R</i> | Intention to use an exclusion under <i>BIPRU 7.5.4R (1)</i> | Fact of intention and the terms on which the relevant item will be excluded from the <i>firm's foreign currency PRR</i> calculation | Intention to use | Before use of the exclusion |
| <i>BIPRU 7.10.104R</i> | Occurrence of <i>backtesting exception</i> | Fact of <i>backtesting exception</i> | <i>Backtesting exception</i> | Orally within 2 <i>business days</i> , and written account of all <i>backtesting exceptions</i> that <i>Month</i> , within 5 <i>business days</i> after the <i>Month</i> |
| <i>BIPRU 7.10.129R</i> | Operation of the <i>VaR model</i> , systems and controls relating to it and changes to the <i>VaR model</i> and those systems and controls | Documentation specified in the <i>VaR model waiver/VaR model permission</i> | <i>FSA</i> specified requirements | No later than number of <i>business days</i> after the end of each quarter specified in the <i>VaR model permission</i> |
| <i>BIPRU 7.10.130R</i> | Details of significant planned changes to the <i>VaR model</i> | Information about the nature of the change and an estimate of the impact on <i>VaR numbers</i> and the <i>incremental</i> | Intention to change | Prior to any changes being implemented |

| Handbook reference | Matter to be notified | Contents of notification | Trigger event | Time allowed |
|--------------------------------|---|---|--|---|
| | | <i>default risk charge</i> | | |
| <i>BIPRU</i> 8.4.18R (2) | Serious risk that could undermine the financial stability of the <i>CAD Article 22 group</i> | Fact of serious risk to group financial stability | Events/ activities leading to serious risk to group financial stability | As soon as the <i>firm</i> becomes aware of that risk |
| <i>BIPRU</i> 8.4.18R (3) | <i>Consolidated capital resources and consolidated capital resources requirement of the CAD Article 22 group as set out in the investment firm consolidation waiver</i> | Amount of <i>CAD Article 22 group consolidated capital resources and consolidated capital resources requirement</i> | Periodically as set out in the <i>investment firm consolidation waiver</i> | Not specified |
| <i>BIPRU</i> 8.4.18R (4) | Large exposures risks of the <i>CAD Article 22 group</i> including <i>undertakings</i> not located in a <i>Member State</i> | Large exposures risks of the <i>CAD Article 22 group</i> including <i>undertakings</i> not located in a <i>Member State</i> | Periodically as set out in the <i>investment firm consolidation waiver</i> | Not specified |
| <i>BIPRU</i> 8.5.9R | Intention to exclude an <i>undertaking</i> from consolidation | Fact of intention and details of <i>undertaking</i> to be excluded | Intention to exclude | In accordance with <i>SUP</i> 15.7 |
| <i>BIPRU</i> 8.7.16R | (1) The choice of consolidation technique in <i>BIPRU</i> 8.7.13R it applies for which consolidated requirement component: and (2) to which members of the relevant group it is applying | (1) The choice of consolidation technique in 8.7.13R to be applied for each consolidated requirement component | See <i>SUP</i> 16 | See <i>SUP</i> 16 |

| Handbook reference | Matter to be notified | Contents of notification | Trigger event | Time allowed |
|---|---|--|--|-----------------------------------|
| | the different methods in BIPRU 8.7.13R | (2) the members of the relevant group to which it is applying the different methods in BIPRU 8.7.13R | | |
| <i>BIPRU</i> 8.9.4R, <i>BIPRU</i> 8.9.27R | Use of Treasury concession in <i>BIPRU</i> 10.7 on a consolidated basis | See <i>BIPRU</i> 10.11 | Intention to use Treasury concession | See <i>BIPRU</i> 10.11 |
| <i>BIPRU</i> 8.9.8R, <i>BIPRU</i> 8.9.27R | Creation of a <i>consolidation UK integrated group</i> | See <i>BIPRU</i> 10.11 | Intention to form <i>consolidation UK integrated group</i> | See <i>BIPRU</i> 10.11 |
| <i>BIPRU</i> 9.6.2R | Provision of implicit support to a <i>securitisation</i> | (1) Provision of non-contractual support, and (2) The regulatory capital impact of providing implicit support | Provision of implicit support | Not specified |
| <i>BIPRU</i> 10.5.9R | Breaching the <i>large exposures</i> limits in <i>BIPRU</i> 10.5.6R or <i>BIPRU</i> 10.5.8R | Fact of breach or expectation of breach | Breach or expectation of breach | Immediately |
| <i>BIPRU</i> 10.5.14R | All cases of <i>trading book concentration risk excesses</i> | All cases in the three month period of each | End of three month period | Within 30 days of the end of each |

| Handbook reference | Matter to be notified | Contents of notification | Trigger event | Time allowed |
|-----------------------------------|---|--|---|--|
| | over a three month period | <i>trading book concentration risk excess</i> that existed in that period, giving the amount of the excess and the name of the <i>counterparty</i> | | third <i>Month</i> |
| <i>BIPRU</i> 10.6.7R (2) | Intention to use capital maintenance agreement | Fact of intention and details of the terms and conditions of capital maintenance agreement | Intention to enter into agreement | One month before entering agreement |
| | | | | |
| <i>BIPRU</i> 10.11.1R (1) and (4) | Intention to use the concession in <i>BIPRU</i> 10.7.1R, or <i>BIPRU</i> 10.7.4R or the <i>UK integrated groups</i> concession in <i>BIPRU</i> 10.8 | Fact of intention | Intention to use <i>BIPRU</i> 10.7.1 R, or <i>BIPRU</i> 10.7.4, or <i>BIPRU</i> 10.8 | One month prior to using the concessions in <i>BIPRU</i> 10.7.1 R or <i>BIPRU</i> 10.8 and <i>BIPRU</i> 10.8 |
| <i>BIPRU</i> 10.11.1 (3) | Intention to stop applying <i>BIPRU</i> 10.7 or <i>BIPRU</i> 10.8 | Fact of intention | Intention to stop using <i>BIPRU</i> 10.7.1 R, or <i>BIPRU</i> 10.7.4, or <i>BIPRU</i> 10.8 | One month prior to using the concessions in <i>BIPRU</i> 10.7.1 R or <i>BIPRU</i> 10.7.4R or <i>BIPRU</i> 10.8 |
| <i>BIPRU</i> 10.11.2R | <i>Exposure</i> being treated under <i>BIPRU</i> 10.7.1R or <i>BIPRU</i> 10.7.4R or <i>BIPRU</i> 10.8 or <i>BIPRU</i> 10.9 ceases | Fact or expectation of any exposure to which it has applied the | Awareness of situation | Not specified |

| Handbook reference | Matter to be notified | Contents of notification | Trigger event | Time allowed |
|-----------------------|--|---|---|---------------|
| | to meet the conditions for application of the relevant treatment | treatment ceases to meet the conditions for application of the relevant treatment | | |
| <i>BIPRU</i> 10.12.6R | Artificial transfer, transaction or arrangement. | Fact of entry into a transfer, transaction or arrangement of the type mentioned in <i>BIPRU</i> 10.12.5R | Entry into an artificial transfer, transaction or arrangement | Not specified |
| <i>BIPRU</i> 13.2.2R | Counterparty risk <i>exposure</i> of non-standard type | Fact of <i>exposure</i> , <i>counterparty</i> involved, nature of the <i>exposure</i> and capital treatment adopted | Entry into non-standard <i>exposure</i> | Immediately |
| <i>BIPRU</i> 13.6.20R | Cessation to comply with requirements set out in <i>BIPRU</i> 13.6 for <i>CCR internal model method permission</i> | Plan for timely return to compliance or demonstration that the effect of non-compliance is immaterial | Ceasing to comply with requirements | Immediately |

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Schedule 3

Fees and other requirement payments

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There are no requirements for fees or other payments in *BIPRU*.

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Schedule 4

Powers exercised

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1 The following powers and related provisions in the *Act* have been exercised by the *FSA* to make the rules in *BIPRU*:

- (1) section 138 (General rule-making power);
- (2) section 148(3) (modification or waiver of rules);
- (3) section 149 (Evidential provisions);
- (4) section 150(2) (Actions for damages); and
- (5) section 156 (General supplementary powers).

2 The following power in the *Act* has been exercised by the *FSA* to give *guidance* in *BIPRU*:

- (1) section 157(1) (Guidance).

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Schedule 5

Rights of action for damages

1. The table below sets out the rules in *BIPRU* contravention of which by an *authorised person* may be actionable under section 150 of the *Act* (Actions for damages) by a person who suffers loss as a result of the contravention.

2. If a "Yes" appears in the column headed "For private person", the rule may be actionable by a private person under section 150 (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). A "Yes" in the column headed "Removed" indicates that the *FSA* has removed the right of action under section 150(2) of the *Act*. If so, a reference to the rule in which it is removed is also given.

3. The column headed "For other person" indicates whether the rule may be actionable by a person other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of person by whom the rule may be actionable is given.

| Chapter/ Appendix | Section/ Annex | Right of action under section 150 | | |
|---------------------------|-------------------|-----------------------------------|------------------------------|---------------------|
| | | For private person | Removed | For other person |
| <i>All rules in BIPRU</i> | | No | Yes – <i>BIPRU</i> 1.4.1R | No |

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Schedule 6

Rules than can be waived

The rules in *BIPRU* may be waived by the *FSA* under section 148 of the *Act* (Modification or waiver of rules). However, if the *rules* incorporate requirements laid down in European directives, it will not be possible for the *FSA* to grant a *waiver* that would be incompatible with the *United Kingdom's* responsibilities under those directives. It therefore follows that if a *rule* in *BIPRU* contains provisions which derive partly from a directive, and partly not, the *FSA* will be able to consider a *waiver* of the latter requirements only, unless the directive provisions are optional rather than mandatory.