

**CAPITAL REQUIREMENTS DIRECTIVE (MISCELLANEOUS AMENDMENTS)
INSTRUMENT 2007**

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 150(2) (Actions for damages);
 - (3) section 156 (General supplementary powers); and
 - (4) 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 on 29 June 2007.

Amendments to the Handbook

- D. The General Prudential sourcebook (GENPRU) is amended in accordance with Annex A to this instrument.
- E. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Capital Requirements Directive (Miscellaneous Amendments) Instrument 2007.

By order of the Board
28 June 2007

Annex A

Amendments to the General Prudential sourcebook (GENPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 Capital

...

2.2 Capital resources

...

Core tier one capital: profit and loss account and other reserves: Dividends

2.2.87 R Dividends must be deducted from reserves as soon as they are ~~declared~~ foreseeable.

2.2.87A G Each firm must assess for itself when, in its particular circumstances, dividends are foreseeable. A dividend is foreseeable at the latest:

(1) in the case of an interim dividend, when it is declared by the directors; or

(2) in the case of a final dividend, when the directors approve the dividend to be proposed at the annual general meeting.

...

Core tier one capital: externally verified interim net profits

2.2.102 R Externally verified interim net profits are interim profits which have been verified by a *firm's* external auditors after deduction of tax, ~~declared~~ foreseeable dividends and other appropriations.

...

2.2.216A G (1) This paragraph gives guidance as to the amount to be deducted at Part 2 of stage M (Deductions from the totals of tier one and two) of GENPRU 2 Annex 2R (Capital resources table for a bank) and Annex 3R (Capital resources table for a building society) in respect of investments in subsidiary undertakings and participations (excluding any amount which is already deducted as material holdings or qualifying holdings).

(2) The effect of those rules is to achieve the deduction of all

investments in subsidiary undertakings and participations for banks and building societies by ensuring that amounts not already deducted under other rules are accounted for at this stage of the calculation of capital resources.

- (3) The following investments in subsidiary undertakings and participations should be deducted at this stage:
- (a) those not deducted in Part 1 of stage M because of the operation of the thresholds in GENPRU 2.2.205R (on qualifying holdings) and GENPRU 2.2.209R (on material holding); and
 - (b) those which do not meet the definition of qualifying holding or material holding.
- (4) For example, an investment in an undertaking which is not a qualifying holding under GENPRU 2.2.204R(2) (on the definition of a non-financial undertaking), that is whose exclusive or main activities are a direct extension of banking or concern services ancillary to banking, such as leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity, should be deducted at this stage.

...

GENPRU 2 Annex 2R

Capital resources table for a bank

The capital resources calculation for a bank			
Type of capital		Related text	Stage
...			
Deductions from the totals of tier one and two			(M)
...			
	Investments in <i>subsidiary undertakings</i> and <i>participations</i> excluding any amount which is already deducted as <i>material holdings</i> or <i>qualifying holdings</i>	None <u>GENPRU 2.2.216AG</u>	(Part 2 of stage M)
...			

GENPRU 2 Annex 3R

Capital resources table for a building society

The capital resources calculation for a building society			
Type of capital		Related text	Stage
...			
Deductions from the totals of tier one and two			(M)
...			
	Investments in <i>subsidiary undertakings</i> and <i>participations</i> excluding any amount which is already deducted as <i>material holdings</i> or <i>qualifying holdings</i>	None <u>GENPRU 2.2.216AG</u>	
...			

...

Annex B

Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 1 Application
- ...
- 1.2 Definition of the trading book
- ...
- Definition of the trading book: Repos
- 1.2.6 R ...
- 1.2.6A G Capital requirements for term trading-related repo-style transactions are the same whether the risks arise in the *trading book* as counterparty credit risk or in the *non-trading book* as credit risk.
- ...
- 10.8 UK integrated groups
- ...
- 10.8.5 G ~~Firms are referred to the guidance in *BIPRU 3.2.30G* and *BIPRU 3.2.31G* (*guidance* relating to 0% risk weights for intra-group exposures under the standardised approach) as follows: on the prompt transfer of capital resources and repayment of liabilities.~~
- (1) *BIPRU 3.2.28G* in respect of *BIPRU 10.8.4R(3)* on same risk evaluation, measurement and control procedures; and
- (2) *BIPRU 3.2.30G* and *BIPRU 3.2.31G* in respect of *BIPRU 10.8.4R(5)* on prompt transfer of *capital resources* and repayment of liabilities.
- 10.8.5A G The FSA may discuss with a firm that makes the notification required in *BIPRU 10.8.1R(2)* the reasons why the firm believes it meets the conditions in *BIPRU 10.8.4R* (Definition of UK integrated group).
- ...
- 13 The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

...

13.6 CCR internal model method

...

13.6.30 R ~~Where appropriate, volatilities and correlations of *market risk* factors used in the joint simulation of *market risk* and credit risk must be conditioned on the credit risk factor to reflect potential increases in volatility or correlation in an economic downturn.~~

~~[Note: BCD Annex III Part 6 point 14] [deleted]~~

...

Alpha

...

13.6.35A R Where appropriate, volatilities and correlations of *market risk* factors used in the joint simulation of *market risk* and credit risk must be conditioned on the credit risk factor to reflect potential increases in volatility or correlation in an economic downturn.

[Note: BCD Annex III Part 6 point 14]

...