

**CAPITAL REQUIREMENTS DIRECTIVE (HANDBOOK AMENDMENTS)
INSTRUMENT 2010**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 150(2) (Actions for damages);
 - (c) section 156 (General supplementary powers);
 - (d) section 157(1) (Guidance); and
 - (2) the other powers listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 31 December 2010.

Amendments to the Handbook

- D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
General Prudential sourcebook (GENPRU)	Annex B
Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)	Annex C
Supervision manual (SUP)	Annex D

Notes

- E. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

Citation

- F. This instrument may be cited as the Capital Requirements Directive (Handbook Amendments) Instrument 2010.

By order of the Board
22 July 2010

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>deferred share</i>	in relation to a <i>building society</i> , a deferred share as defined in the Building Societies (Deferred Shares) Order 1991.
<i>hybrid capital</i>	an item of capital that is stated in <i>GENPRU 2.2</i> as eligible for inclusion at stage B1, B2 or C of the calculation in the <i>capital resources table</i> .
<i>mezzanine securitisation positions</i>	<p>for the purposes of <i>BIPRU 9.3.7R</i>, <i>9.4.11R</i> and <i>9.5.1R(6)</i>, <i>securitisation positions</i> to which a <i>risk weight</i> lower than 1250% applies and which are more junior than the most senior position in the relevant <i>securitisation</i> and more junior than any <i>securitisation position</i> in the relevant <i>securitisation</i> to which:</p> <ul style="list-style-type: none"> (a) in the case of a <i>securitisation position</i> subject to the <i>standardised approach to securitisation</i> set out in <i>BIPRU 9.11.1R</i> and <i>9.11.2R</i>, a <i>credit quality step 1</i> is assigned; or (b) in the case of a <i>securitisation position</i> subject to the <i>IRB approach to securitisation</i> set out in <i>BIPRU 9.12.10R</i> and <i>9.12.11R</i>, a <i>credit quality step 1</i> or <i>2</i> is assigned under <i>BIPRU 9.7.2R</i>, <i>9.8.2R</i> to <i>9.8.7R</i> and regulation 23 of the <i>Capital Requirements Regulations 2006</i>. <p>[Note: <i>BCD</i>, Annex IX, Part 2, Point 1, paragraph 1b]</p>
<i>ongoing basis</i>	<p>in <i>BIPRU 9.15</i>, maintaining on an <i>ongoing basis</i> means that the retained positions, interest or exposures are not hedged or sold.</p> <p>[Note: <i>BCD</i>, Article 122a, paragraph 1]</p>

Amend the following definition as shown.

<i>netting set</i>	(in accordance with Part 1 of Annex III of the <i>Banking Consolidation Directive</i> (Definitions) and for the purpose of <i>BIPRU 13</i> (The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions)) a group of transactions with a single counterparty that are subject to a legally
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enforceable bilateral netting arrangement and for which netting is recognised under *BIPRU* 13.7 (Contractual netting), *BIPRU* 5 (Credit risk mitigation) and, if applicable, *BIPRU* 4.10 (The IRB approach: Credit risk mitigation); each transaction that is not subject to a legally enforceable bilateral netting arrangement, which is recognised under *BIPRU* 13.7 must be interpreted as its own *netting set* for the purpose of *BIPRU* 13. Under the method set out at *BIPRU* 13.6, all *netting sets* with a single counterparty may be treated as a single *netting set* if negative simulated market values of the individual sets are set to zero in the estimation of *expected exposure (EE)*.

[Note: *BCD*, Annex III, Part 1, point 5]

Annex B

Amendments to the General Prudential sourcebook (GENPRU)

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

Table: Arrangement of GENPRU 2.2

2.2.6 G This table belongs to GENPRU 2.2.5G

Topic	Location of text
...	...
Limits on the use of different forms of capital for <i>banks</i> and <i>building societies</i> (certain types of <i>capital resources</i> cannot be used for certain purposes)	GENPRU 2.2.42R <u>2.2.44R</u> to GENPRU 2.2.45R; GENPRU 2.2.47R to GENPRU 2.2.48R
...	...
Limits on the use of different forms of capital for <i>BIPRU investment firms</i> (certain types of <i>capital resources</i> cannot be used for certain purposes)	GENPRU 2.2.42R <u>2.2.44R</u> to GENPRU 2.2.45R; GENPRU 2.2.47R to GENPRU 2.2.48R
...	...
<i>Tier one capital</i> instruments: general	GENPRU 2.2.9G to GENPRU 2.2.10G; GENPRU 2.2.62R to GENPRU 2.2.69G; GENPRU 2.2.80R to GENPRU 2.2.82G
<u><i>Tier one capital: payment of coupons (BIPRU firm only)</i></u>	<u>GENPRU 2.2.69AR to GENPRU 2.2.69FG</u>
...	...
<u><i>Core tier one capital: deferred shares (building society only)</i></u>	<u>GENPRU 2.2.108AR to GENPRU 2.2.108BG</u>
<i>Tier one capital: perpetual non-cumulative preference shares (insurer only)</i>	GENPRU 2.2.109R to GENPRU 2.2.110G
<i>Tier one capital: PIBS</i>	GENPRU 2.2.76R; GENPRU

	2.2.111R to GENPRU 2.2.112G
<i>Innovative tier one capital</i> (excluding issues through SPVs) (<i>insurer only</i>)	GENPRU 2.2.76R; GENPRU 2.2.113R to GENPRU 2.2.122G
<i>Hybrid capital</i> (excluding issues through SPVs) (<i>BIPRU firm only</i>)	<u>GENPRU 2.2.115AR to GENPRU 2.2.119G</u>
<i>Innovative tier one capital</i> <i>Hybrid capital</i> (issues through SPVs) (<i>BIPRU firm only</i>)	GENPRU 2.2.123R to GENPRU 2.2.137R
...	...
Redemption of <i>tier one instruments</i>	GENPRU 2.2.64R(3); GENPRU 2.2.70R to GENPRU 2.2.79G
<u>Purchases of <i>tier one instruments</i>:</u> <u>BIPRU firm only</u>	<u>GENPRU 2.2.79AR to GENPRU 2.2.79HG</u>
...	...

2.2.9 G *Tier one capital* typically has the following characteristics:

- (1) it is able to absorb losses;
- (2) it is permanent or (in the case of a *BIPRU firm*) available when required;

...

2.2.10 G The forms of capital that qualify for *Tier one capital* are set out in the *capital resources table* and include, for example, *share capital*, reserves, partnership and *sole trader capital*, verified interim net profits and, for a *mutual*, the *initial fund* plus permanent members' accounts. *Tier one capital* is divided into:

- (1) in the case of an *insurer*, *core tier one capital*, perpetual non-cumulative preference shares, ~~permanent interest bearing shares (*PIBS*)~~ and *innovative tier one capital*; and
- (2) in the case of a *BIPRU firm*, *core tier one capital* and *hybrid capital*. *Hybrid capital* is further divided into the different stages B1, B2 and C of the calculation in the *capital resources table*.

...

Limits on the use of different forms of capital: Use of higher tier capital in lower tiers

2.2.25 R A *firm* may include in a *lower stage of capital*, *capital resources* which are eligible for inclusion in a *higher stage of capital* if the *capital resources gearing rules* would prevent the use of that capital in that *higher stage of capital*. However:

...

(2) (subject to *GENPRU 2.2.26R* and *GENPRU 2.2.26AR*) the *rules* in *GENPRU* governing the eligibility of capital in that *lower stage of capital* continue to apply.

...

2.2.26A R A dated item of *tier one capital* which is included in a *BIPRU firm's tier two capital resources* under *GENPRU 2.2.25R* is not subject to the requirement to have no fixed maturity date in *GENPRU 2.2.177R(1)*.

2.2.27 R ~~A *BIPRU firm* may include in a *lower stage of capital*, *innovative tier one capital* that it is prohibited from using under *GENPRU 2.2.42R* (*BIPRU firms* may not use *innovative tier one capital* to meet the *CRR*). However:~~

~~(1) the *capital resources gearing rules* applicable to that *lower stage of capital* apply to that *innovative tier one capital*; and~~

~~(2) (subject to *GENPRU 2.2.28R*) the *rules* in *GENPRU* governing the eligibility of capital in that *lower stage of capital* continue to apply. [deleted]~~

2.2.28 R ~~The~~ In the case of a *BIPRU firm*, the requirement to obtain a legal opinion in *GENPRU 2.2.159R(12)* does not apply to *innovative tier one capital hybrid capital* treated under *GENPRU 2.2.27R 2.2.25R* but the requirements to obtain a legal opinion in *GENPRU 2.2.118R* continue to apply.

Limits on the use of different forms of capital: Limits relating to tier one capital applicable to ~~all firms except *BIPRU investment firms*~~ insurers

2.2.29 R In relation to the *tier one capital resources* of an *insurer, bank or building society*, calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions), at least 50% must be accounted for by *core tier one capital*.

~~Limits on the use of different forms of capital: Limits relating to tier one capital applicable to all firms~~

2.2.30 R In relation to the *tier one capital resources* of an *insurer*, ~~and subject to *GENPRU 2.2.42R* (Restriction on the use of *innovative tier one capital*), those of a *BIPRU firm*~~, calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions), no more than 15% may be accounted for by *innovative tier one capital*.

Limits on the use of different forms of capital: Limits relating to tier one capital

applicable to BIPRU firms

- 2.2.30A R In relation to the tier one capital resources of a BIPRU firm, calculated at stage F of the calculation in the capital resources table (Total tier one capital after deductions):
- (1) no more than 50% may be accounted for by hybrid capital;
 - (2) no more than 35% may be accounted for by hybrid capital included at stages B2 and C of the calculation in the capital resources table; and
 - (3) no more than 15% may be accounted for by hybrid capital included at stage C of the calculation in the capital resources table.

Limits on the use of different forms of capital: Limits relating to tier one capital:
Purpose of the requirements

- 2.2.31 G The purpose of the requirements in GENPRU 2.2.29R and GENPRU 2.2.30AR(1) is to ensure that ~~at least 50% of the firm's tier one capital resources (net of tier one capital deductions) is met by~~ includes a minimum proportion of core tier one capital which provides ~~maximum loss absorbency on a going concern basis to protect the firm from insolvency the highest quality capital.~~ Although a ~~perpetual non-cumulative preference share or a PIBS is in legal form a share,~~ it behaves in many ways like a ~~perpetual fixed interest debt instrument.~~ Within the 50% limit on non-core tier one capital,;
- (1) GENPRU 2.2.30R places a further sub-limit on the amount of innovative tier one capital that ~~a firm~~ an insurer may include in its tier one capital resources; and
 - (2) GENPRU 2.2.30AR(2) and GENPRU 2.2.30AR(3) place further sub-limits on the amounts of hybrid capital included at stages B2 and C of the calculation in the capital resources table that a BIPRU firm may include in its tier one capital resources.

~~This limit is~~ These limits are necessary to ensure that most of a firm's tier one capital comprises items of capital of the highest quality.

...

~~Limits on the use of innovative tier one capital: BIPRU firm~~

- 2.2.42 R ~~For the purpose of meeting the main BIPRU firm Pillar 1 rules, a BIPRU firm may not include innovative tier one capital in its tier one capital resources. [deleted]~~
- 2.2.43 G ~~A BIPRU firm may include innovative tier one capital in its tier one capital resources for the purpose of GENPRU 1.2 (Adequacy of financial resources) and BIPRU 10 (Concentration risk). A firm may also include it in its upper tier two capital resources under GENPRU 2.2.25R (Limits on the use of different forms of capital: Use of higher tier capital in lower tiers) for all~~

purposes as long as it meets the conditions for treatment as *upper tier two capital*. [deleted]

...

2.2.52 G This table belongs to *GENPRU 2.2.51G*

Description of the stage of the capital resources calculation	Stage in the <i>capital resources table</i>	Amount (£)
Total <i>tier one capital</i> after deductions (excluding innovative tier one instruments — see <i>GENPRU 2.2.53G</i>)	Stage F	80
Total <i>tier two capital</i> (including innovative tier one instruments — see <i>GENPRU 2.2.53G</i>)	Stage K	80
Deductions	Stage M	(20)
Total <i>tier one capital</i> and <i>tier two capital</i> after deductions	Stage N	140
<i>Upper tier three capital</i> (this example assumes the firm has no <i>lower tier three capital</i> (trading book profits))	Stage Q	50
Total <i>capital resources</i>	Stage T	190

2.2.53 G ~~*GENPRU 2.2.42R* (Limits on the use of innovative tier one capital) prohibits the inclusion of *innovative tier one instruments* in the *tier one capital* of a *BIPRU firm* for the purpose of meeting the *capital resources requirement*. Thus they are not included in the calculation of stage F of the *capital resources table*. Instead all *innovative tier one instruments* have been included in *tier two capital* in accordance with *GENPRU 2.2.25R* (Use of higher tiers of capital in lower tiers). [deleted]~~

...

2.2.61 G The explanation for *GENPRU 2.2.60R* can be found in *GENPRU 2.2.43G 2.1.43G* (Base capital resources requirement). ...

...

2.2.63 R The categories referred to in *GENPRU 2.2.62R(1)* are:

(1) *permanent share capital*;

- (2) *eligible partnership capital*;
- (3) *eligible LLP members' capital*;
- (4) *sole trader capital*;
- (5) (in the case of an insurer) a perpetual non-cumulative *preference share*;
- (6) ~~(in the case of a building society) PIBS; and [deleted]~~
- (7) (in the case of an insurer) an *innovative tier one instrument*; and
- (8) (in the case of a BIPRU firm) hybrid capital.

General conditions for eligibility as tier one capital

- 2.2.64 R The conditions that an item of capital of a *firm* must comply with under *GENPRU 2.2.62R(2)* are as follows:
- (1) it is issued by the *firm*;
 - (2) it is fully paid and the proceeds of issue are immediately and fully available to the *firm*;
 - (3) it:
 - (a) cannot be redeemed at all or can only be redeemed on a winding up of the *firm*; or
 - (b) complies with the conditions in *GENPRU 2.2.70R* (Basic requirements for redeemability) and *GENPRU 2.2.76R* (Redeemable instrument subject to a *step-up*);
 - (4) the item of capital meets the following conditions in relation to any *coupon*:
 - (a) the *firm* is under no obligation to pay a *coupon*; or
 - (b) (if the *firm* is obliged to pay the *coupon*) the *coupon* is payable in the form of an item of capital that is:
 - (i) in the case of a BIPRU firm, core tier one capital; and
 - (ii) in the case of an insurer, included in a higher stage of capital or the same stage of capital as that first item of capital;
 - (5) any *coupon* is either:
 - (a) non-cumulative; or

- (b) (if it is cumulative) it must, if deferred, be paid by the *firm* in the form of *tier one capital* complying with (4)(b);
- (6) it is able to absorb losses to allow the *firm* to continue trading and:
 - (a) in the case of an *insurer*, in particular it complies with GENPRU 2.2.80R to GENPRU 2.2.81R (Loss absorption) and, in the case of an *innovative tier one instrument*, GENPRU 2.2.116R to GENPRU 2.2.118R (~~Innovative tier one instrument should not constitute a liability~~) (Other tier one capital: loss absorption); and
 - (b) in the case of a *BIPRU firm*, it does not, through appropriate mechanisms, hinder the recapitalisation of the *firm*, and in particular it complies with:
 - (i) GENPRU 2.2.80R to GENPRU 2.2.81R (Loss absorption); and
 - (ii) in the case of *hybrid capital*, GENPRU 2.2.116R to GENPRU 2.2.118R (Other tier one capital: loss absorption);
- (7) the amount of the item included must be net of any foreseeable tax charge at the moment of its calculation or must be suitably adjusted in so far as such tax charges reduce the amount up to which that item may be applied to cover risks or losses;
- (8) it is available to the *firm* for unrestricted and immediate use to cover risks and losses as soon as these occur;
- (9) it ranks for repayment upon winding up, administration or any other similar process:
 - (a) in the case of an *insurer*, no higher than a *share* of a company incorporated under the Companies Act 2006 (whether or not it is such a *share*); or
 - (b) in the case of a *BIPRU firm*, lower than any items of capital that are:
 - (i) eligible for inclusion within the *firm's tier two capital resources*; and
 - (ii) not eligible for inclusion within the *firm's tier one capital resources*; and
- (10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9) and, where it applies, GENPRU 2.2.271R (Other requirements: insurers carrying on with-profits business (Insurers only)).

...

- 2.2.68A R A BIPRU firm must not include a capital instrument in its tier one capital resources if:
- (1) the capital instrument is affected by a dividend stopper; and
 - (2) the dividend stopper operates in a way that hinders recapitalisation.

- 2.2.68B G A dividend stopper prevents the firm from paying any coupon on more junior or pari passu instruments in a period in which the firm omits payments to the holder of the capital instrument containing the dividend stopper, and so may hinder the recapitalisation of the firm contrary to GENPRU 2.2.64R(6).

...

Tier one capital: payment of coupons (BIPRU firm only)

- 2.2.69A R A BIPRU firm must not make a payment of a coupon on an item of hybrid capital if the firm has no distributable reserves.
- 2.2.69B R A BIPRU firm must cancel the payment of a coupon on an item of hybrid capital if the BIPRU firm does not meet its capital resources requirement or if the payment of that coupon would cause it to breach its capital resources requirement.
- 2.2.69C R A BIPRU firm must not pay a coupon on an item of hybrid capital in the form of core tier one capital in accordance with GENPRU 2.2.64R(4)(b) unless:
- (1) the firm meets its capital resources requirement; and
 - (2) such a substituted payment preserves the firm's financial resources.
- 2.2.69D G The FSA considers that a BIPRU firm's financial resources are not preserved under GENPRU 2.2.69CR(2) unless, among other things, the conditions of the substituted payment are that:
- (1) there is no decrease in the amount of the firm's core tier one capital;
 - (2) the deferred coupon is satisfied without delay using newly issued core tier one capital that has an aggregate fair value no more than the amount of the coupon;
 - (3) the firm is not obliged to find new investors for the newly issued instruments; and
 - (4) if the holder of the newly issued instruments subsequently sells the instruments and the sale proceeds are less than the value of the coupon, the firm is not obliged to issue further new instruments to

cover the loss incurred by the holder of the instruments.

- 2.2.69E R A BIPRU firm must cancel the payment of a coupon if circumstances arise whereby the payment of the coupon by newly issued instruments, in accordance with GENPRU 2.2.64R(4)(b), does not comply with the requirements of GENPRU 2.2.69CR.
- 2.2.69F G (1) In relation to the cancellation or deferral of the payment of a coupon in accordance with GENPRU 2.2.64R(4) and (5), GENPRU 2.2.69AR, or GENPRU 2.2.69BR, the FSA expects that situations where a coupon may need to be cancelled or deferred will be resolved through analysis and discussion between the firm and the FSA. If the FSA and the firm do not agree on the cancellation or deferral of the payment of a coupon, then the FSA may consider using its powers under section 45 of the Act to, on its own initiative, vary a firm's Part IV permission to require it to cancel or defer a coupon in accordance with the FSA's view of the financial and solvency situation of the firm.
- (2) In considering a firm's financial and solvency situation, the FSA will normally take into account, among other things, the following:
- (a) the firm's financial and solvency position before and after the payment of the coupon, in particular whether that payment, or other foreseeable internal and external events or circumstances, may increase the risk of the firm breaching its capital resources requirement or the overall financial adequacy rule;
- (b) an appropriately stressed capital plan, covering 3-5 years, which includes the effect of the proposed payment of the coupon; and
- (c) an evaluation of the risks to which the firm is or might be exposed and whether the level of tier one capital ensures the coverage of those risks, including stress tests on the main risks showing potential loss under different scenarios.
- (3) If the BIPRU firm is required to cancel or defer the payment of a coupon by the FSA, it may still be able to pay the coupon by way of newly issued core tier one capital in accordance with GENPRU 2.2.64R(4)(b) and GENPRU 2.2.69CR. The FSA may consider using its powers under section 45 of the Act to, on its own initiative, vary a firm's Part IV permission to impose conditions on the use of such a mechanism or to require its cancellation, based on the factors outlined in this guidance.

Redemption of tier one instruments

- 2.2.70 R A firm may not include a capital instrument in its tier one capital resources, unless its contractual terms are such that:

- (1) (if it is redeemable other than in circumstances set out in *GENPRU* 2.2.64R(3)(a) (redemption on a winding-up)) it is redeemable only at the option of the *firm* or, in the case of a *BIPRU firm*, on the date of maturity; and
- (2) the *firm* cannot exercise that redemption right:
 - (a) before the fifth anniversary of its date of issue;
 - (b) unless it has given notice to the *FSA* in accordance with *GENPRU* 2.2.74R; and
 - (c) unless at the time of exercise of that right it complies with *GENPRU* 2.1.13R (the main capital adequacy rule for *insurers*) or the *main BIPRU firm Pillar 1 rules* and will continue to do so after redemption;
- (3) (in the case of a *BIPRU firm* and if it is undated) if it provides for a moderate incentive for the *BIPRU firm* to redeem it, that incentive does not occur before the tenth anniversary of its date of issue; and
- (4) (in the case of a *BIPRU firm* and if it is dated):
 - (a) it has an original maturity date of at least 30 years after its date of issue; and
 - (b) it does not provide an incentive to redeem on any date other than its maturity date.

2.2.70A G In the case of a *BIPRU firm*, an incentive to redeem is a feature of a *capital instrument* that would lead a reasonable market participant to have an expectation that the *firm* will redeem the instrument. The *FSA* considers that interest rate step-ups and principal stock settlements, in conjunction with a call option, are incentives to redeem. Only instruments with moderate incentives to redeem are permitted as *tier one capital*, in accordance with the limited conversion ratio in *GENPRU* 2.2.138R and the rule on step-ups in *GENPRU* 2.2.147R.

2.2.71 R A *firm* may include a term in a *tier one instrument* allowing the *firm* to redeem it before the date in *GENPRU* 2.2.70R(2)(a) if the following conditions are satisfied:

- (1) the other conditions in *GENPRU* 2.2.70R are met;
- (2) the circumstance that entitles the *firm* to exercise that right is:
 - (a) (in the case of an *insurer*) a change in law or regulation in any relevant jurisdiction or in the interpretation of such law or regulation by any court or authority entitled to do so; and
 - (b) (in the case of a *BIPRU firm*) a change in the applicable tax

treatment or regulatory classification of those instruments;

- (3) (a) (in the case of an *insurer*) it would be reasonable for the *firm* to conclude that it is unlikely that that circumstance will occur, judged at the time of issue or, if later, at the time that the term is first included in the terms of the *tier one instrument*; and
- (b) (in the case of a *BIPRU firm*) the circumstance that entitles the *firm* to exercise that right was not reasonably foreseeable at the date of issue of the *tier one instrument*; and
- (4) the *firm*'s right is conditional on it obtaining the *FSA*'s consent in the form of a *waiver* of *GENPRU 2.2.72R*.

...

2.2.74 R A *firm* must not redeem any *tier one instrument* that it has included in its *tier one capital resources* unless it has notified the *FSA* of its intention at least one month before it becomes committed to do so. When giving notice, the *firm* must provide details of its position after such redemption in order to show how it will:

- (1) meet its *capital resources requirement*; ~~and~~
- (2) have sufficient financial resources to meet the *overall financial adequacy rule*; and
- (3) in the case of a *BIPRU firm*, not otherwise suffer any undue effects to its financial or solvency conditions.

2.2.74A G The *FSA* considers that, in order to comply with *GENPRU 2.2.74R*, the *firm* should, at a minimum, provide the *FSA* with the following information:

- (1) a comprehensive explanation of the rationale for the redemption;
- (2) the *firm*'s financial and solvency position before and after the redemption, in particular whether that redemption, or other foreseeable internal and external events or circumstances, may increase the risk of the *firm* breaching its *capital resources requirement*;
- (3) an appropriately stressed capital plan covering 3-5 years, which includes the effect of the proposed redemption; and
- (4) an evaluation of the risks to which the *firm* is or might be exposed and whether the level of *tier one capital* ensures the coverage of such risks including stress tests on the main risks showing potential loss under different scenarios.

2.2.74B R If a *BIPRU firm* does not comply with its *capital resources requirement* or if the redemption of any dated *tier one instrument* would cause it to breach its

capital resources requirement, it must suspend the redemption of its dated tier one instruments.

...

Step-ups and redeemable tier one instruments: Insurer only

2.2.76 R In the case of an insurer, in relation to an innovative tier one instrument or a PIBS which is redeemable and which satisfies the following conditions:

...

...

Purchases of tier one instruments: BIPRU firm only

2.2.79A R A BIPRU firm must not purchase a tier one instrument that it has included in its tier one capital resources unless:

- (1) the firm initiates the purchase;
- (2) it is on or after the fifth anniversary of the date of issue of the instrument; and
- (3) the firm has given notice to the FSA in accordance with GENPRU 2.2.79GR.

2.2.79B G In exceptional circumstances a BIPRU firm may apply for a waiver of GENPRU 2.2.79AR(2) under section 148 (Modification or waiver of rules) of the Act.

2.2.79C R GENPRU 2.2.79AR(2) does not apply if:

- (1) the firm replaces the capital instrument it intends to purchase with a capital instrument that is included in a higher stage of capital or the same stage of capital; and
- (2) the replacement capital instrument has already been issued.

2.2.79D R GENPRU 2.2.79AR(2) does not apply if:

- (1) the firm intends to hold the purchased instrument for a temporary period as market maker; and
- (2) the purchased instruments held by the firm do not exceed the lower of:
 - (a) 10% of the relevant issuance; or
 - (b) 3% of the firm's total issued hybrid capital.

2.2.79E G In the circumstances provided for in GENPRU 2.2.79DR, a firm would purchase the instrument and, instead of cancelling it, the firm would hold the

instrument for a temporary period. In that case a *firm* should have in place adequate policies to take into account any relevant regulations and *rules*, which include those relating to market abuse.

- 2.2.79F R For the purposes of calculating its *tier one capital resources*, a *firm* must deduct the amount of any item of *hybrid capital* which it then holds.
- 2.2.79G R A *BIPRU firm* must not purchase a *tier one instrument* in accordance with *GENPRU 2.2.79AR* unless it has notified the *FSA* of its intention at least one month before it becomes committed to doing so. When giving notice, the *firm* must provide details of its position after the purchase in order to show how, over an appropriate timescale, adequately stressed, and without planned recourse to the capital markets, it will:
- (1) meet its *capital resources requirement*; and
 - (2) have sufficient financial resources to meet the *overall financial adequacy rule*.
- 2.2.79H G The *FSA* considers that:
- (1) in order to comply with *GENPRU 2.2.79GR*, the *firm* should, at a minimum, provide the *FSA* with the following information:
 - (a) a comprehensive explanation of the rationale for the purchase;
 - (b) the *firm*'s financial and solvency position before and after the purchase, in particular whether the purchase, or other foreseeable internal and external events or circumstances, may increase the risk of the *firm* breaching its *capital resources requirement* or the *overall financial adequacy rule*;
 - (c) an appropriately stressed capital plan covering 3-5 years, which includes the effect of the proposed purchase; and
 - (d) an evaluation of the risks to which the *firm* is or might be exposed and whether the level of *tier one capital* ensures the coverage of such risks including stress tests on the main risks showing potential loss under different scenarios; and
 - (2) the proposed purchase should not be on the basis that the *firm* reduces capital on the date of the purchase and then plans to raise new external capital during the following 3-5 years to replace the purchased capital.

Loss Absorption

- 2.2.80 R A *firm* may not include a *share* in its *tier one capital resources* unless (in addition to complying with the other relevant *rules* in *GENPRU 2.2*):

...

- (2) (in the case of a *building society*) it is a deferred share “~~deferred share~~” as defined in the Building Societies (Deferred Shares) Order 1991; or

...

...

- 2.2.82 G There are additional loss absorption requirements for (in the case of an insurer) innovative tier one capital and (in the case of a BIPRU firm) hybrid capital in GENPRU 2.2.116R to GENPRU 2.2.118R (~~Innovative tier one instrument should not constitute a liability~~) (Other tier one capital: loss absorption).

Core tier one capital: permanent share capital

- 2.2.83 R *Permanent share capital* means an item of capital which (in addition to satisfying GENPRU 2.2.64R) meets the following conditions:

- (1) it is:

...

- (c) part of the *initial fund* of a *mutual*; or

- (d) a deferred share;

...

...

- 2.2.85 R (1) ...
- (2) For these purposes material interim net losses mean unaudited interim losses arising from a *firm's trading book* and *non-trading book* business which exceed 10% of the sum of its *capital resources* calculated at ~~stages~~ stage A (Core tier one capital) and ~~B~~ (~~Perpetual non-cumulative preference shares~~) in the *capital resources table*.

...

...

- 2.2.97 R The items *permanent share capital* and *share premium account* (which form part of *core tier one capital*) and ~~perpetual non-cumulative preference shares~~ (~~which forms stage B of the capital resources table~~) do not apply to a *BIPRU firm* that is a partnership or a *limited liability partnership*.

...

Core tier one capital: deferred shares (building society only)

2.2.108A R A building society may include a deferred share at stage A of the calculation in the capital resources table if (in addition to satisfying all the other requirements in relation to tier one capital) it is permanent share capital and is otherwise equivalent to an ordinary share in terms of its capital qualities, taking into account the specific constitution of building societies under the Building Societies Act 1986.

2.2.108B G The other main provisions relevant to inclusion of a deferred share in tier one capital are GENPRU 2.2.62R (Tier one capital: General), GENPRU 2.2.64R (General conditions for eligibility as tier one capital), GENPRU 2.2.65R (Connected transactions) and GENPRU 2.2.80R (Loss absorption).

Other tier one capital: perpetual non-cumulative preference shares (insurer only)

2.2.109 R A In the case of an insurer, a perpetual non-cumulative preference share may be included at stage B of the calculation in the capital resources table if...

...

2.2.110 G The other main provisions relevant to the eligibility of a perpetual non-cumulative preference share for inclusion by an insurer in tier one capital are...

Other tier one capital: permanent interest bearing shares (building societies only)

2.2.111 R A building society may include a PIBS at stage B of the calculation in the capital resources table if (in addition to satisfying all the other requirements in relation to tier one capital) it is a “deferred share” as defined in the Building Societies (Deferred Shares) Order 1991. [deleted]

2.2.112 G The other main provisions relevant to inclusion of a PIBS in tier one capital are GENPRU 2.2.62R (Tier one capital: General), GENPRU 2.2.64R (General conditions for eligibility as tier one capital), GENPRU 2.2.65R (Connected transactions), GENPRU 2.2.70R to GENPRU 2.2.75R (Redemption of tier one instruments), GENPRU 2.2.76R (Step-ups and redeemable tier one instruments) and GENPRU 2.2.80R (Loss absorption). However many of the rules in this section about features of capital instruments that result in treatment as innovative tier one capital do not apply. [deleted]

Other tier one capital: innovative tier one capital: general (insurer only)

2.2.113 R If, in the case of an insurer, an item of capital is stated to be an innovative tier one instrument by the rules in GENPRU 2.2, it cannot be included in stages A (Core tier one capital) or B (Perpetual non-cumulative preference shares) of the calculation in the capital resources table.

Other tier one capital: innovative tier one capital: redemption (insurer only)

- 2.2.114 R If, in the case of an insurer, a tier one instrument, other than a PIBS:
- (1) is redeemable; and
 - (2) a reasonable person would think that:
 - (a) the firm is likely to redeem it; or
 - (b) the firm is likely to have an economic incentive to redeem it;

that tier one instrument is an innovative tier one instrument.

- 2.2.115 G Any feature that in conjunction with a call would make a firm an insurer more likely to redeem a tier one instrument, other than a PIBS, would normally result in classification as innovative tier one capital resources....

Other tier one capital: conditions for eligibility for hybrid capital to be included at the different stages B1, B2 and C of the calculation in the capital resources table (BIPRU firm only)

- 2.2.115A R A BIPRU firm must not include a capital instrument at stage B1 of the calculation in the capital resources table unless (in addition to satisfying all the other requirements in relation to tier one capital and hybrid capital) its contractual terms are such that:

- (1) it cannot be redeemed in cash but can only be converted into core tier one capital;
- (2) it must be converted into core tier one capital by the firm during emergency situations;
- (3) the emergency situations referred to in (2):
 - (a) are clearly defined within the terms of the capital instrument, legally certain and transparent; and
 - (b) occur at the latest, and include, when the BIPRU firm does not meet its capital resources requirement;
- (4) the FSA may require its conversion into core tier one capital when the FSA considers it necessary;
- (5) it may be converted into core tier one capital by the firm or the holder of the instrument at any time; and
- (6) the maximum number of capital instruments which are core tier one capital into which it may be converted must:
 - (a) be determined at the date of its issue;
 - (b) be determined on the basis of the market value of those other instruments at the date of its issue;

- (c) have an aggregate value equal to its par value; and
- (d) not increase if the price of those other instruments decreases.

- 2.2.115B G The intention of GENPRU 2.2.115AR is to ensure that capital instruments included in stage B1 of the calculation in the capital resources table have the same permanence as core tier one capital; the presence of a call option for these instruments may reduce their permanence.
- 2.2.115C G (1) In respect of GENPRU 2.2.115AR(4), the FSA may require the firm to convert the instrument into core tier one capital based on its financial and solvency situation. The FSA will take into account, among other things, the factors identified at GENPRU 2.2.69FG(2), adjusted to take into account the effects of a conversion rather than payment of a coupon.
- (2) Even if a firm meets its capital resources requirement, the FSA may consider the amount or composition of the firm's tier one capital as inadequate to cover the financial and solvency risks of the firm in which event the FSA may require the firm to convert the instrument into core tier one capital.
- 2.2.115D R A BIPRU firm may include a capital instrument at stage B2 of the calculation in the capital resources table if (while satisfying all the other requirements in relation to tier one capital and hybrid capital) it cannot be included at stage B1 of that calculation as it does not satisfy the requirements of GENPRU 2.2.115AR.
- 2.2.115E G (1) The other main provisions relevant to the eligibility of a capital instrument to be included at stages B1 and B2 of the calculation in the capital resources table are GENPRU 2.2.62R (Tier one capital: General), GENPRU 2.2.64R (General conditions for eligibility as tier one capital), GENPRU 2.2.65R (Connected transactions), GENPRU 2.2.68AR (Dividend stoppers), GENPRU 2.2.70R to GENPRU 2.2.75R (Redemption of tier one instruments), GENPRU 2.2.80R (Loss absorption) and GENPRU 2.2.116R to GENPRU 2.2.118R (Other tier one capital: loss absorption).
- (2) The rule about hybrid capital included at stage C of the calculation in the capital resources table in GENPRU 2.2.115FR is also relevant. Capital instruments that would otherwise qualify for inclusion at stages B1 or B2 of the calculation in the capital resources table may only be eligible for inclusion at stage C of that calculation.
- 2.2.115F R A BIPRU firm may include a capital instrument at stage C of the calculation in the capital resources table, and must not include it in stage B1 or B2 of that calculation, if (in addition to satisfying all the other requirements in relation to tier one capital and hybrid capital) it either:

- (1) is dated; or
- (2) provides an incentive for the *firm* to redeem it, as assessed at the date of its issue.

2.2.115G G An incentive to redeem is a feature of a *capital instrument* that would lead a reasonable market participant to have an expectation that the *firm* will redeem the instrument. The effect of *GENPRU 2.2.115FR(2)* is that the classification of an instrument that provides an incentive to redeem is always assessed at the date of its issue, and it cannot be reclassified.

Other tier one capital: ~~innovative tier one capital~~: loss absorption

2.2.116 R ~~A *firm* may~~ An *insurer* must not include a *capital instrument* that is not a share in its *innovative tier one capital resources* ~~if~~ unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *innovative tier one capital*) ~~it satisfies the condition in this rule. In addition a *firm* may not include any other capital in its *innovative tier one capital resources* unless it satisfies the condition in this rule. The condition in this rule is that the *firm*'s obligations under the instrument either:~~

- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
- (2) do constitute such a liability...

...

2.2.116A R A *BIPRU firm* must not include a *capital instrument* that is not a share at stage B1, B2 or C of the calculation in the *capital resources table* unless (in addition to satisfying all the other requirements in relation to *tier one capital* and *hybrid capital*) the *firm*'s obligations under the instrument either:

- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
- (2) do constitute such a liability but the terms of the instrument are such that:
 - (a) any such liability is not relevant for the purposes of deciding whether:
 - (i) the *firm* is, or is likely to become, unable to pay its debts; or
 - (ii) its liabilities exceed its assets;
 - (b) a *person* (including, but not limited to, a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may

become unable to pay any such liability; and

- (c) the firm is not obliged to take into account such a liability for the purposes of deciding whether or not the firm is, or may become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (Wrongful trading).

2.2.117 G The effect of *GENPRU 2.2.116R* and *GENPRU 2.2.116AR* is that if a *potential tier one instrument* does constitute a liability, this should only be the case when the *firm* is able to pay that liability but chooses not to do so. As *tier one capital resources for an insurer* should be undated, this will generally only be relevant on a solvent winding up of the *firm*....

2.2.117A R A BIPRU firm must not include a capital instrument at stage B1, B2 or C of the calculation in the capital resources table unless (in addition to satisfying all the other requirements in relation to tier one capital and hybrid capital) its contractual terms provide for a mechanism within the instrument which:

- (1) is clearly defined and legally certain;
- (2) is disclosed and transparent to the market;
- (3) makes the recapitalisation of the firm more likely by adequately reducing the potential future outflows to a holder of the capital instrument at certain trigger points;
- (4) enables the firm, at and after the trigger points, to operate the mechanism; and
- (5) when initiated, operates in one of the following ways:
 - (a) the principal of the instrument is written down permanently;
or
 - (b) the principal of the instrument is written down temporarily. During the write-down period any coupon payable on the instrument must be cancelled and any related dividend stoppers and pushers must operate in a way that does not hinder recapitalisation; or
 - (c) the instrument is converted into core tier one capital. The maximum number of capital instruments which are core tier one capital into which it must be converted must:
 - (i) be determined at the date of its issue;
 - (ii) be determined on the basis of the market value of those other instruments at the date of its issue;
 - (iii) have an aggregate value no more than 150% of its par value; and

(iv) not increase if the share price decreases; or

(d) an alternative process applies which has the same or greater effect on the likelihood of recapitalisation as (a), (b), and (c).

2.2.117B R The trigger points required by GENPRU 2.2.117AR(3) must:

(1) be clearly defined within the instrument and legally certain;

(2) be disclosed and transparent to the market; and

(3) be prudent and timely, and include trigger points which occur:

(a) before a breach of the firm's capital resources requirement and both:

(i) when the firm's losses lead to a significant reduction of the firm's retained earnings or other reserves which causes a significant deterioration of the firm's financial and solvency conditions; and

(ii) when it is reasonably foreseeable that the events described in (i) will occur; and

(b) when the firm is in breach of its capital resources requirement.

2.2.117C G (1) The effects of the mechanisms described in GENPRU 2.2.117AR will be more meaningful if they happen immediately after losses cause a significant deterioration of the financial as well as the solvency situation and even before the reserves are exhausted.

(2) If a firm does not operate the loss absorption mechanism in a prudent and timely way, then the FSA may consider using its powers under section 45 of the Act to, on its own initiative, vary the firm's Part IV permission to require it to operate the mechanism.

2.2.118 R (1) ~~A firm~~ An insurer may not include an innovative tier one instrument, unless it is a preference share, in its tier one capital resources unless it has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the criteria in GENPRU 2.2.64R(6) (loss absorption) and GENPRU 2.2.80R to GENPRU 2.2.81R (Loss absorption) are met.

(2) A BIPRU firm may not include a capital instrument at stage B1, B2 or C of the calculation in the capital resources table unless it has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the criteria in GENPRU 2.2.62R (Tier one capital: General), GENPRU 2.2.64R(1) to (9) (General conditions for eligibility as tier one capital) and GENPRU 2.2.80R to GENPRU 2.2.81R (Loss absorption) are met.

2.2.118A G For the purposes of GENPRU 2.2.118R(2), the focus of the legal opinion in considering GENPRU 2.2.64R(6)(b) should be on whether appropriate mechanisms exist and are designed to operate to ensure that the value of the hybrid capital instrument and the position of the hybrid capital holder are not enhanced by recapitalisation.

...

Other tier one capital: innovative tier one capital: coupons (insurer only)

2.2.120 R ~~A In the case of an insurer, a tier one instrument, other than a PIBS,~~ with a cumulative or mandatory coupon is an innovative tier one instrument.

Other tier one capital: innovative tier one capital: step-ups (insurer only)

2.2.121 R If, in the case of an insurer:

(1) a potential tier one instrument, ~~other than a PIBS,~~ is or may become subject to a step-up;

(2) ...

that potential tier one instrument is an innovative tier one instrument.

...

Other tier one capital: ~~innovative tier one capital~~ hybrid capital: indirectly issued tier one capital (BIPRU firm only)

...

2.2.124 R ...

(3) A BIPRU firm may not include capital coming within this rule in its capital resources unless the requirements in the following rules are satisfied:

(a) (if 2(a) applies and (2)(b) does not) GENPRU 2.2.127R, GENPRU 2.2.129R and GENPRU 2.2.132R; or

(~~a~~b) (in any other case)...

2.2.125 R A BIPRU firm may only count capital to which GENPRU 2.2.124R applies as innovative tier one capital at stage C of the calculation in the capital resources table.

...

2.2.127 R The SPV referred to in GENPRU 2.2.124R (2)(a) must satisfy the following conditions:

...

- (2) ...; ~~and~~
- (3) ...; and
- (4) it is incorporated under, and governed by, the laws and jurisdiction of England and Wales, Scotland or Northern Ireland.

...

- 2.2.128A R GENPRU 2.2.127R(4) does not apply if the firm has conducted a properly reasoned analysis confirming that any potential risks, including legal and operational risks, associated with cross-border issues, which undermine the quality of the capital for the issuer, that arise from an SPV not being incorporated under or governed by the laws and jurisdiction of England and Wales, Scotland or Northern Ireland, are adequately mitigated.
- 2.2.128B R The analysis must be set out in writing and dated before the date of issue of the capital instrument and the firm must be able to show that the analysis has been fully considered as part of its decision to proceed with the issue. The analysis must be conducted by a person or persons appropriately qualified to assess the relevant risks and that person may be an independent adviser or an employee of the firm who is not part of the business unit responsible for the transaction (including the drafting of the issue documentation).
- 2.2.129 R The SPV referred to in GENPRU 2.2.124R(2)(a) must fund its subscription for the capital issued by the firm by the issue of capital that satisfies the following conditions:
- (1) it must comply with the conditions for qualification as *tier one capital*, as amended by GENPRU 2.2.130R, as if the SPV was itself a firm seeking to include that capital in its *tier one capital resources*;
 - (2) ~~its terms must include an obligation on the firm, when the capital resources of the firm fall below, or are likely to fall below its capital resources requirement, to substitute for the instrument issued by the SPV a tier one instrument issued by the firm that:~~
 - (a) ~~is not an innovative tier one instrument; or~~
 - (b) ~~is an innovative tier one instrument provided that~~
 - (i) ~~it is only being classified as such because it is or may become subject to a step up, and~~
 - (ii) ~~the terms of the original instrument issued by the SPV included a step up.~~
- (a) its terms must include an obligation on the firm that, in the event of a collapse of the SPV structure, and if the mechanism contained within the instrument under GENPRU

2.2.117AR is a conversion, the firm must substitute the capital instrument issued by the SPV with core tier one capital issued by the firm; and

- (b) there must be no obstacle to the firm's issue of new securities;
- (3) the conversion ratio in respect of the substitution described in (2) must be fixed when the SPV issues the *capital instrument*; ~~and~~
- (4) to the extent that investors have the benefit of an obligation by a *person* other than the SPV:

...

- (b) the extent of that obligation must be no greater than would be permitted by *GENPRU* if that obligation formed part of the terms of a *capital instrument* issued by that member which complied with the *rules* in *GENPRU* relating to ~~*innovative tier one capital*~~ *tier one capital* included at stage C of the calculation in the *capital resources table*; and
- (5) if the SPV structure collapses, the holder of it has no better a claim against the firm than a holder of the same type of instrument directly issued by the firm.

...

2.2.131 R In relation to the obligation to substitute described in *GENPRU* 2.2.129R(2), a *firm* must take all reasonable steps to ensure that it has at all times authorised and unissued ~~*tier one instruments* that are not *innovative tier one instruments* or that are *innovative tier one instruments* only because they are or may become subject to a *step-up* (and the authority to issue them)~~ *capital instruments* which are *core tier one capital* (and the authority to issue them) sufficient to discharge its obligation to substitute.

2.2.131A G *GENPRU* 2.2.129R(2) and *GENPRU* 2.2.131R allow a *firm* to replace the capital issued by the SPV with a *capital instruments* which are *core tier one capital instrument* that is not an *innovative tier one instrument* or that is an *innovative tier one instrument* provided that:

- (1) ~~it is only being classified as such because it is or may become subject to a *step-up*, and~~
- (2) ~~the terms of the original instrument issued by the SPV included a *step-up*.~~

~~In all other respects, the *innovative tier one instrument* issued by the *firm* must meet the conditions to be an item of *tier one capital* capable of inclusion in Stage B or higher of the *capital resources table*.~~

- ...
- 2.2.138 R ...
- (2) A *firm* must not include a *potential tier one instrument* to which this rule applies in its *tier one capital resources* if:
- (a) the conversion ratio as at the date of redemption may be greater than the conversion ratio as at the time of issue by more than ~~200%~~:
- (i) in the case of a *BIPRU firm*, 150%; and
- (ii) in the case of an *insurer*, 200%; or
- ...
- ...
- 2.2.143 G (1) The significance of the limitations on conversion in *GENPRU 2.2.138R(2)* can be seen in the example in this paragraph, which uses the conversion ratio applicable to an *insurer*.
- (2) ~~A *firm*~~ An *insurer* issues innovative notes with a par value of £100 each....
- ...
- 2.2.144 G (1) In addition to the maximum conversion ~~ratio~~ ratios of 200% for an *insurer* and 150% for a *BIPRU firm*. *GENPRU 2.2.138R(2)(b)* does not permit a *firm* to issue *shares* that would have a market value that exceeds the issue price of the instrument being redeemed.
- ...
- ...
- 2.2.147 R ...
- (4) A *BIPRU firm* may not include a *capital instrument* in its *tier one capital resources* if it is redeemable and subject to more than one *step-up*.
- ...
- 2.2.157 G *Tier two capital resources* are split into upper and lower tiers. A major distinction between *upper* and *lower tier two capital* is that, except as provided by *GENPRU 2.2.26AR* for *BIPRU firms*, only perpetual instruments may be included in *upper tier two capital* whereas dated instruments, such as fixed term *preference shares* and dated subordinated debt, may be included in *lower tier two capital*.

...

2.2.179 G ...

- (3) GENPRU 2.2.26AR provides an exception, in the case of a *BIPRU firm*, to the rule that instruments must have no fixed maturity date to be eligible for *upper tier two capital resources*.

...

2 Annex 2R Capital resources table for a bank

The capital resources calculation for a bank		
Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	<i>GENPRU 2.2.83R</i>	
Profit and loss account and other reserves (taking into account interim net losses)	<i>GENPRU 2.2.85R to 2.2.90R</i>	
<i>Eligible partnership capital</i>	...	...
...		
<u>Hybrid capital</u> Perpetual non-cumulative preference shares		(B)
<u>Stage B1</u> Perpetual non-cumulative preference shares	<i>GENPRU 2.2.109R</i> <i>2.2.115AR to GENPRU 2.2.117BR</i>	<u>(B1)</u>
<u>Stage B2</u>	<i>GENPRU 2.2.115DR</i> <i>to GENPRU 2.2.117BR</i>	<u>(B2)</u>
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i> <u>Stage C</u>	<i>GENPRU 2.2.113R</i> <i>2.2.115FR to</i> <i>GENPRU 2.2.137R to</i> <i>GENPRU 2.2.117BR</i>	<u>(C)</u>
Total tier one capital before deductions = A + B <u>B1 + B2</u> + C		<u>(D)</u>
...		

Note (3): Stage C must be omitted except where *capital resources* are being used for a purpose for which *innovative tier one capital* may be used (see *GENPRU 2.2.27R*)

2 Annex 3R Capital resources table for a building society

The capital resources calculation for a building society		
Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Deferred shares</i>	<i>GENPRU 2.2.108AR</i>	
Profit and loss account and other reserves (taking into account interim net losses)	<i>GENPRU 2.2.85R to 2.2.90R</i>	
...
Perpetual non-cumulative preference shares		
<i>PIBS</i>	<i>GENPRU 2.2.111R</i>	(B)
<u>Hybrid capital</u>		
<u>Stage B1</u>	<i>GENPRU 115AR to GENPRU 2.2.117BR</i>	(<u>B1</u>)
<u>Stage B2</u>	<i>GENPRU 2.2.115DR to GENPRU 2.2.117BR</i>	(<u>B2</u>)
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i> <u>Stage C</u>	<i>GENPRU 2.2.113R 2.2.115FR to GENPRU 2.2.137R to GENPRU 2.2.117BR</i>	(<u>C</u>)
Total tier one capital before deductions = A + B <u>B1 + B2</u> + C		(<u>D</u>)
...		

Note (3): Stage C must be omitted except where *capital resources* are being used for a purpose for which *innovative tier one capital* may be used (see *GENPRU 2.2.27 R*)

2 Annex 4R Capital resources table for a BIPRU investment firm deducting material holdings

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	<i>GENPRU 2.2.83R</i>	
Profit and loss account and other reserves (taking into account interim net losses)	<i>GENPRU 2.2.85R to 2.2.90R</i>	
<i>Eligible partnership capital</i>	...	...
...		
<u>Hybrid capital</u> Perpetual non-cumulative preference shares		(B)
<u>Stage B1</u> Perpetual non-cumulative preference shares	<i>GENPRU 2.2.109R</i> <i>2.2.115AR to</i> <i>GENPRU 2.2.117BR</i>	(B1)
<u>Stage B2</u>	<i>GENPRU 2.2.115DR</i> <i>to GENPRU</i> <i>2.2.117BR</i>	(B2)
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i> <u>Stage C</u>	<i>GENPRU 2.2.113R</i> <i>2.2.115FR to</i> <i>GENPRU 2.2.137R to</i> <i>GENPRU 2.2.117BR</i>	(C)
Total tier one capital before deductions = A + B <u>B1 + B2</u> + C		(D)
...		
...		

Note (3): Stage C must be omitted except where *capital resources* are being used for a purpose for which *innovative tier one capital* may be used (see *GENPRU 2.2.27R*)

2 Annex 5R Capital resources table for a BIPRU investment firm deducting illiquid assets

The capital resources calculation for an investment firm that deducts illiquid assets		
Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	<i>GENPRU 2.2.83R</i>	
Profit and loss account and other reserves (taking into account interim net losses)	<i>GENPRU 2.2.85R to 2.2.90R</i>	
<i>Eligible partnership capital</i>	...	...
...		
Hybrid capital Perpetual non-cumulative preference shares		(B)
Stage B1 Perpetual non-cumulative preference shares	<i>GENPRU 2.2.109R 2.2.115AR to GENPRU 2.2.117BR</i>	(B1)
<u>Stage B2</u>	<u><i>GENPRU 2.2.115DR to GENPRU 2.2.117BR</i></u>	<u>(B2)</u>
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i> <u>Stage C</u>	<i>GENPRU 2.2.113R 2.2.115FR to GENPRU 2.2.137R to GENPRU 2.2.117BR</i>	(C)
Total tier one capital before deductions = A + B <u>B1 + B2 + C</u>		(D)
...		

...
Note (3): Stage C must be omitted except where <i>capital resources</i> are being used for a purpose for which <i>innovative tier one capital</i> may be used (see <i>GENPRU 2.2.27R</i>)

2 Annex 6R Capital resources table for a BIPRU investment firm with a waiver from consolidated supervision

Part 1 of the capital resources calculation for an investment firm with a waiver from consolidated supervision		
Type of capital	Related text	Stage
Core tier one capital		(A)
<i>Permanent share capital</i>	<i>GENPRU 2.2.83R</i>	
Profit and loss account and other reserves (taking into account interim net losses)	<i>GENPRU 2.2.85R to 2.2.90R</i>	
<i>Eligible partnership capital</i>	...	...
...		
<u>Hybrid capital</u> Perpetual non-cumulative preference shares		(B)
<u>Stage B1</u> Perpetual non-cumulative preference shares	<i>GENPRU 2.2.109R 2.2.115AR to GENPRU 2.2.117BR</i>	<u>(B1)</u>
<u>Stage B2</u>	<i>GENPRU 2.2.115DR to GENPRU 2.2.117BR</i>	<u>(B2)</u>
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i> <u>Stage C</u>	<i>GENPRU 2.2.113R 2.2.115FR to GENPRU 2.2.137R to GENPRU 2.2.117BR</i>	<u>(C)</u>
Total tier one capital before deductions = A + B <u>B1 + B2</u> + C		<u>(D)</u>
...		

...
Note (3): Stage C must be omitted except where <i>capital resources</i> are being used for a purpose for which <i>innovative tier one capital</i> may be used (see <i>GENPRU 2.2.27R</i>)
...

After GENPRU TP 8 insert the following new transitional provisions. The text is not underlined.

TP 8A Further miscellaneous capital resources definitions for BIPRU firms

Application and interpretation

8A.1 R This section applies to a *BIPRU firm*. In this section a reference to 30 December 2010 means 23.59 on 30 December 2010.

Tier one capital

8A.2 R Until 31 December 2040 a *BIPRU firm* may treat a *capital instrument* as eligible for inclusion as *hybrid capital*, if it would not otherwise be eligible, if:

- (1) on 30 December 2010 the *BIPRU firm* was subject to *GENPRU*; and
- (2) as at 30 December 2010 the *BIPRU firm* included it, and was entitled to include it, at stage B or C of the calculation in the *capital resources table*.

8A.3 R If a *BIPRU firm* treats a *capital instrument* as eligible for inclusion as *hybrid capital* under *GENPRU TP 8A.2R*, then the *firm*:

- (1) if it included the *capital instrument* as *innovative tier one capital* as at 30 December 2010, must treat the *capital instrument* as *hybrid capital* included at stage C of the calculation in the *capital resources table*;
- (2) except where it is a *building society*, must apply the limit in *GENPRU 2.2.30AR(3)* to the aggregate of the *capital instruments* treated under (1) and the *hybrid capital* that is eligible under *GENPRU 2.2* for inclusion at stage C of the calculation in the *capital resources table*;
- (3) in the case of a *building society*, must not include *hybrid capital* at stage C of the calculation in the *capital resources table* under *GENPRU 2.2*, except as provided by (4), if the amount of *PIBS* with incentives to redeem treated under *GENPRU TP 8A.2R* exceeds the limit in *GENPRU 2.2.30AR(3)*;

- (4) in the case of a *building society*, may include *hybrid capital* at stage C of the calculation in the *capital resources table*, notwithstanding (3), if the *firm* issued it after 30 December 2010 and:
- (a) the *capital instrument* would otherwise be eligible for inclusion as *hybrid capital* at stage C of the calculation in the *capital resources table* under *GENPRU 2.2*; and
 - (b) the *firm* issued it in order to replace a *PIBS* with an incentive to redeem that the *firm* treated as *hybrid capital* under *GENPRU TP 8A.2R*;
- (5) must not include *hybrid capital* at stage B2 of the calculation in the *capital resources table* under *GENPRU 2.2*, except as provided by *GENPRU TP 8A.4R*, if and to the extent that the aggregate of the following exceeds the limit in *GENPRU 2.2.30AR(2)*:
- (a) *capital instruments* included at stage C in the *capital resources table* under (1) and *GENPRU 2.2*; and
 - (b) *capital instruments* included at stage B of the calculation in the *capital resources table* as at 30 December 2010 and treated under *GENPRU TP 8A.2R*;
- (6) if it includes *hybrid capital* at stage B2 of the calculation in the *capital resources table* under *GENPRU 2.2*, except as provided by *GENPRU TP 8A.4R*, must include *capital instruments* treated under *GENPRU TP 8A.2R* in the calculation of the limit in *GENPRU 2.2.30AR(2)*;
- (7) must not include *hybrid capital* at stage B1 of the calculation in the *capital resources table* under *GENPRU 2.2*, except as provided by *GENPRU TP 8A.5R*, if and to the extent that the aggregate of the following exceeds the limit in *GENPRU 2.2.30AR(1)*:
- (a) *capital instruments* included at stage C in the *capital resources table* under (1) and *GENPRU 2.2*; and
 - (b) *capital instruments* included at stage B of the calculation in the *capital resources table* as at 30 December 2010 and treated under *GENPRU TP 8A.2R*; and
- (8) if it includes *hybrid capital* at stage B1 of the calculation in the *capital resources table* under *GENPRU 2.2*, except as provided by *GENPRU TP 8A.5R*, must include *capital instruments* treated under *GENPRU TP 8A.2R* in the calculation of the limit in *GENPRU 2.2.30AR(1)*.

8A.4 R A *BIPRU firm* may include *hybrid capital* at stage B2 of the calculation in the *capital resources table*, notwithstanding *GENPRU TP 8A.3R(5)*, if the *firm* issued it after 30 December 2010 and:

- (1) the *capital instrument* would otherwise be eligible for inclusion as *hybrid capital* at stage B2 of the calculation in the *capital resources table* under *GENPRU 2.2*; and
- (2) the *firm* issued it in order to replace another *capital instrument* that the *firm* treated as *hybrid capital* under *GENPRU TP 8A.2R*.
- 8A.5 R A *BIPRU firm* may include *hybrid capital* at stage B1 of the calculation in the *capital resources table*, notwithstanding *GENPRU TP 8A.3R(7)*, if the *firm* issued it after 30 December 2010 and:
- (1) the *capital instrument* would otherwise be eligible for inclusion as *hybrid capital* at stage B1 of the calculation in the *capital resources table* under *GENPRU 2.2*; and
- (2) the *firm* issued it in order to replace another *capital instrument* that the *firm* treated as *hybrid capital* under *GENPRU TP 8A.2R*.
- 8A.6 R In relation to the *tier one capital resources* of a *BIPRU firm*, calculated at stage F of the calculation in the *capital resources table* (Total tier one capital after deductions):
- (1) from 31 December 2020 until 30 December 2030:
- (a) no more than 20% may be accounted for by items treated under *GENPRU TP 8A.2R* as *tier one capital*; and
- (b) in the case of a *building society*, any *PIBS* with an incentive to redeem treated under *GENPRU TP 8A.2R* is to be treated as *hybrid capital* included at stage C of the calculation in the *capital resources table* and as subject to the limit in *GENPRU 2.2.30AR(3)*; and
- (2) from 31 December 2030 until 30 December 2040, no more than 10% may be accounted for by items treated under *GENPRU TP 8A.2R* as *tier one capital*.
- 8A.7 R *BIPRU firms* which do not comply by 31 December 2010 with the limits set out in *GENPRU 2.2.29R* to *GENPRU 2.2.30AR(3)* must develop strategies and processes on the necessary measures to resolve this situation before the dates set out in *GENPRU TP 8A.6R*.

...

Schedule 2

Notification and reporting requirements

...

3 Table

Handbook reference	Matter to be notified	Contents of notification	Trigger events	Time allowed
...
<i>GENPRU</i> 2.2.74R	Intention to redeem <i>tier one instrument</i> included in <i>tier one capital resources</i>	Fact of intention and details of the <i>firm's</i> position after such redemption in order to show how it will meet the <i>capital resources requirement</i> , and how it will have sufficient financial resources to meet the <i>overall financial adequacy rule</i> <u>and, in the case of a <i>BIPRU firm</i>, how it will not otherwise suffer any undue effects to its financial or solvency conditions</u>	Intention to redeem	At least one month prior to becoming committed to redeem
<u><i>GENPRU</i></u> <u>2.2.79GR</u>	<u>Intention to purchase a <i>tier one instrument</i> in accordance with <i>GENPRU</i> 2.2.79AR</u>	<u>Fact of intention and details of the <i>firm's</i> position after the purchase in order to show how, over an</u>	<u>Intention to purchase</u>	<u>At least one month prior to becoming committed to purchase</u>

		<p><u>appropriate timescale, adequately stressed, and without planned recourse to the capital markets, it will meet its <i>capital resources requirement</i> and have sufficient <u>financial resources to meet the <i>overall financial adequacy rule</i></u></u></p>		
...

Annex C

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, unless otherwise stated.

1.2 Definition of the trading book

...

Internal hedges

...

- 1.2.16 R ~~Notwithstanding~~ By way of derogation from BIPRU 1.2.14R to BIPRU 1.2.15R, when a *firm* hedges a *non-trading book* credit risk exposure using a credit derivative booked in its *trading book* (using an internal hedge), the *non-trading book* exposure is not deemed to be hedged for the purposes of calculating capital requirements unless the *firm* purchases from an eligible third party protection provider a credit derivative meeting the requirements set out in *BIPRU 5.7.13R* (Additional requirements for credit derivatives) with regard to the *non-trading book* exposure. ~~Where~~ Without prejudice to the second sentence of BIPRU 14.2.10R, where such third party protection is purchased and is recognised as a hedge of a *non-trading book* exposure for the purposes of calculating capital requirements, neither the internal nor external credit derivative hedge must ~~may~~ be included in the *trading book* for the purposes of calculating capital requirements.

[Note: CAD Annex VII Part C point 3]

...

3.4 Risk weights under the standardised approach to credit risk

...

Exposures to institutions: Credit assessment based method

- 3.4.34 R ~~Exposures to institutions with an original effective maturity of more than three months~~ with a residual maturity of more than three months for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in *BIPRU 3.4.35R* in accordance with the assignment by the *FSA* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: BCD Annex VI Part 1, point 29]

Table: Exposures to institutions ~~with an original effective maturity of more than three months~~ with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available

...

- 3.4.37 R ~~Exposures to an institution with an original effective maturity of three months or less~~ with a residual maturity of three months or less for which a credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in *BIPRU 3.4.38R* in accordance with the assignment by the *FSA* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: *BCD Annex VI Part 1, point 31*]

Table: Exposures to an institution ~~with an original effective maturity of three months or less~~ with a residual maturity of three months or less for which a credit assessment by a nominated ECAI is available

...

~~Short term exposures~~ Exposures to institutions and corporates with a short-term credit assessment

- 3.4.112 R ~~Short term exposures to an institution or corporate~~ Exposures to institutions where *BIPRU 3.4.34R* to *BIPRU 3.4.39R* apply, and exposures to corporates for which a short-term credit assessment by a *nominated ECAI* is available must be assigned a *risk weight* according to the table in *BIPRU 3.4.113R* in accordance with the mapping by the *FSA* in accordance with the *Capital Requirements Regulations 2006* of the credit assessments of *eligible ECAIs* to six steps in a *credit quality assessment scale*.

[Note: *BCD Annex VI Part 1, point 73*]

- 3.4.113 R Table: ~~Short term exposures on an institution or corporate~~ Exposures to institutions where *BIPRU 3.4.34R* to *BIPRU 3.4.39R* apply, and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available
This table belongs to *BIPRU 3.4.112R*.

...

...

- 3.4.134 R The *exposure* value for leases must be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option (i.e. an option the exercise of which is reasonably certain). Any guaranteed residual value fulfilling the set of conditions in *BIPRU 5.7.1R* (Eligibility), regarding the eligibility of protection providers as well as the minimum requirements

for recognising other types of guarantees provided in BIPRU 5.7.6R (Minimum requirements: General) to BIPRU 5.7.12R (Additional requirements for guarantees) must also be included in the minimum lease payments. These exposures must be assigned to the relevant exposure class in accordance with BIPRU 3.2.9R, BIPRU 3.2.10R, BIPRU 3.2.11R, BIPRU 3.2.12R, BIPRU 3.2.13R and BIPRU 3.2.14G. When the exposure is a residual value of leased properties, the risk weighted exposure amounts must be calculated as follows:

$1/t * 100\% * \text{exposure value};$

where t is the greater of 1 and the nearest number of whole years of the lease term remaining.

[Note: BCD Annex VI Part 1, point 90]

...

4.2.26 R ...

(5) A firm may apply the *standardised approach to exposures* to the central ~~government~~ governments of the United Kingdom EEA States and ~~to its~~ their regional governments, local authorities and administrative bodies, provided that:

...

...

4.2.29 R For the purposes of BIPRU 4.2.26R(4), the *equity exposure IRB exposure class* of a firm must be considered material if its aggregate value, excluding *equity exposures* incurred under legislative programmes as referred to in BIPRU 4.2.26R(8); but including exposures in a CIU treated as equity exposures in accordance with BIPRU 4.9.11R to BIPRU 4.9.15R, exceeds, on average over the preceding year, 10% of the firm's *capital resources*. If the number of those *equity exposures* is less than 10 individual holdings, that threshold is 5% of the firm's *capital resources*.

[Note: BCD Article 89(2)]

...

4.4.67 R ...

(4) For *exposures* arising from fully or nearly-fully collateralised *financial derivative instruments* transactions and fully or nearly-fully collateralised *margin lending transactions* which are subject to a master netting agreement M must be the weighted average remaining maturity of the transactions where M must be at least 10 days. For repurchase transactions or securities or commodities lending or borrowing transactions which are subject to a master netting agreement, M must be the weighted average remaining maturity of transactions, where M must be at least 5 days. The notional amount

of each transaction must be used for weighting the maturity.

...

- 4.4.68 R Notwithstanding *BIPRU* 4.4.67R(2)-(3)(4) and (8)-(9), M shall be at least one day for:

...

...

- 4.7.24 R The *risk weighted exposure amount* is the potential *loss* on the *firm's equity exposures* as derived using internal value-at-risk models subject to the 99th percentile, one-tailed confidence interval of the difference between quarterly returns and an appropriate risk-free rate computed over a long-term sample period, multiplied by 12.5. The *risk weighted exposure amounts* at the ~~individual exposure~~ equity exposure portfolio level must not be less than the ~~sum~~ total of the sums of the minimum *risk weighted exposure amounts* required under the *PD/LGD approach* and the corresponding *expected loss* amounts multiplied by 12.5 and calculated on the basis of the *PD* values set out in *BIPRU* 4.7.18R(1) and the corresponding *LGD* values set out in *BIPRU* 4.7.20R and *BIPRU* 4.7.21R.

[Note: BCD Annex VII Part 1 point 25]

...

- 4.9.6 R The *risk weighted exposure amounts* must be calculated according to the formula:

Risk-weighted exposure amount = 100% * *exposure* value except for when the *exposure* is a residual value of leased properties in which case it ~~should be provisioned for each year and will~~ must be calculated as follows:

$1/t * 100\% * \textit{exposure value}$;

where *t* is the greater of 1 and the nearest number of whole years of the lease ~~contract term remaining~~.

[Note: BCD Annex VII Part 1 point 27]

...

- 4.9.11 R (1) Where *exposures* in the form of a ~~CIU~~ CIU meet the criteria set out in *BIPRU* 3.4.121R to *BIPRU* 3.4.122R (Conditions for look through treatment under the standardised approach) and the *firm* is aware of all of the underlying *exposures* of the *CIU*, the *firm* must look through to those underlying *exposures* in order to calculate *risk weighted exposure amounts* and *expected loss* amounts in accordance with the methods set out in *BIPRU* 4. *BIPRU* 4.9.12R applies to the part of the underlying exposures of the CIU of which the firm is not aware or could not reasonably be aware. In particular, BIPRU

4.9.12R must apply where it would be unduly burdensome for the firm to look through the underlying exposures in order to calculate risk weighted exposure amounts and expected loss amounts in accordance with methods set out in this rule.

- (2) Where (1) applies but a firm does not meet the conditions for using the methods set out in BIPRU 4 for all or part of the underlying exposures of the CIU, risk weighted exposure amounts and expected loss amounts must be calculated in accordance with the following approaches.

...

- (4) For all other underlying exposures, the standardised approach must be used, subject to the following modifications:
- (a) ~~the exposures are assigned to the appropriate exposure class under the standardised approach and attributed the risk weight of the credit quality step immediately above the credit quality step that would normally be assigned to the exposure; and [deleted]~~
 - (b) ~~exposures assigned to the higher credit quality steps, to which a risk weight of 150% would normally be attributed, are assigned a risk weight of 200%. [deleted]~~
 - (c) for exposures subject to a specific risk weight for unrated exposures or subject to the credit quality step yielding the highest risk weight for a given exposure class, the risk weight must be multiplied by a factor of two, but cannot be higher than 1250%; and
 - (d) for all other exposures, the risk weight must be multiplied by a factor of 1.1 and subject to a minimum of 5%.

[Note: BCD Article 87(11)]

4.9.12 R ...

- (2) Alternatively to the method described in (1), a firm may calculate itself or rely on a third party to calculate and report the average risk weighted exposure amounts based on the CIU's underlying exposures and calculated in accordance with the ~~remaining provisions of this rule, approaches in BIPRU 4.9.11R(3) to BIPRU 4.9.11R(4),~~ provided that the correctness of the calculation and the report is adequately ensured.
- (3) ~~For exposures belonging to the equity exposure IRB exposure class, the approach set out in BIPRU 4.7.9R – BIPRU 4.7.12R (Simple risk weight approach) must be used. If, for those purposes, a firm is unable to differentiate between private equity, exchange traded and other equity exposures, it must treat the exposures concerned as other~~

~~equity exposures. [deleted]~~

- (4) ~~For all other underlying exposures, the standardised approach must be used, subject to the following modifications:~~
- ~~(a) the exposures must be assigned to the appropriate exposure class under the standardised approach and attributed the risk weight of the credit quality step immediately above the credit quality step that would normally be assigned to the exposure; and~~
 - ~~(b) exposures assigned to the higher credit quality steps, to which a risk weight of 150% would normally be attributed, must be assigned a risk weight of 200%. [deleted]~~

...

- 4.10.25 R Where the ratio of the value of the collateral (C) to the *exposure* value (E) is below a threshold level of C* (the required minimum collateralisation level for the *exposure*) as laid down in *BIPRU* 4.10.28R, LGD* must be the *LGD* laid down in the other sections of *BIPRU* 4 for uncollateralised *exposures* to the counterparty. For this purpose, the *exposure* value of items listed in *BIPRU* 4.4.37R to *BIPRU* 4.4.39R and *BIPRU* 4.8.29R must be calculated using a *conversion factor* or percentage of 100% rather than the *conversion factors* or percentages indicated in those rules.

[Note: *BCD* Annex VIII Part 3 point 69]

...

- 4.10.41 R The requirements in *BIPRU* 4.10.40R(2) and *BIPRU* 4.10.42R - *BIPRU* 4.10.48R do not apply ~~for~~ to guarantees provided by institutions, and central governments, and central banks and other corporate entities which meet the requirements in *BIPRU* 5.7.1R(7) if the firm has received approval under *BIPRU* 4.2 to apply the standardised approach for exposures to such entities. In this case the requirements of *BIPRU* 5 (credit risk mitigation) apply.

[Note: *BCD* Annex VII Part 4 point 96]

...

- 4.10.49 R ...
- (4) For the covered portion of the *exposure* value E (based on the adjusted value of the credit protection G_A), the *PD* for the purposes of *BIPRU* 4 may be the *PD* of the protection provider, or a *PD* between that of the borrower and that of the guarantor if a full substitution is deemed not to be warranted. In the case of subordinated *exposures* and non-subordinated unfunded protection, the *LGD* to be applied for the purposes of *BIPRU* 4 may be that

associated with senior claims.

- (5) For any uncovered portion of the *exposure* value *E* the *PD* must be that of the borrower and the *LGD* must be that of the underlying *exposure*.
- (6) G_A is the value of G^* as calculated under *BIPRU* 5.7.17R (Valuation of unfunded credit protection) further adjusted for any maturity mismatch as laid down in *BIPRU* 4.10.51R (Maturity mismatches).
- (7) *E* is the *exposure* value as related to the following rules: *BIPRU* 4.4.38R, *BIPRU* 4.4.39R, *BIPRU* 4.4.71R to *BIPRU* 4.4.78R, *BIPRU* 4.7.7R, *BIPRU* 4.8.28R, *BIPRU* 4.8.29R and *BIPRU* 4.9.9R. For this purpose, the *exposure* value of the items referred to in *BIPRU* 4.4.37R to *BIPRU* 4.4.39R and *BIPRU* 4.8.29R must be calculated using a *conversion factor* or percentage of 100% rather than the *conversion factors* or percentages indicated in those rules.

[Note: *BCD* Annex VIII Part 3 points 90 to 92]

...

- 5.4.6 R (1) Units in *CIUs* may be recognised as eligible collateral if the following conditions are satisfied:
- (a) they have a daily public quote; ~~and~~
 - (b) the *CIU* is limited to investing in instruments that are eligible for recognition under *BIPRU* 5.4.2R to *BIPRU* 5.4.5R; and
 - (c) if the *CIU* is not limited to investing in instruments that are eligible for recognition under *BIPRU* 5.4.2R to *BIPRU* 5.4.5R, units may be recognised with the value of the eligible assets as collateral under the assumption that the *CIU* has invested to the maximum extent allowed under its mandate in non-eligible assets. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, the *firm* must calculate the total value of the non-eligible assets and must reduce the value of the eligible assets by that of the non-eligible assets in case the latter is negative in total.

...

...

- 5.4.8 R (1) In addition to the collateral set out in *BIPRU* 5.4.2R to *BIPRU* 5.4.7R, where a *firm* uses the *financial collateral comprehensive method*, the following financial items may be recognised as eligible collateral:

...

(b) units in *CIUs* if the following conditions are met:

...

(ii) the *CIU* is limited to investing in instruments that are eligible for recognition under *BIPRU* 5.4.2R to *BIPRU* 5.4.5R and the items mentioned in (a); and

(c) if the *CIU* is not limited to investing in instruments that are eligible for recognition under *BIPRU* 5.4.2R to *BIPRU* 5.4.5R and the items mentioned in (a) of this rule, units may be recognised with the value of the eligible assets as collateral under the assumption that the *CIU* has invested to the maximum extent allowed under its mandate in non-eligible assets. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, the *firm* must calculate the total value of the non-eligible assets and must reduce the value of the eligible assets by that of the non-eligible assets, in case the latter is negative in total.

...

...

5.4.16 R A *firm* must not use both the *financial collateral simple method* and the *financial collateral comprehensive method*, unless such use is for the purposes of *BIPRU* 4.2.17R to *BIPRU* 4.2.19R and *BIPRU* 4.2.26R, and such use is provided for by the *firm's IRB permission*. A *firm* must demonstrate to the *FSA* that this exceptional application of both methods is not used selectively with the purpose of achieving reduced minimum capital requirements and does not lead to regulatory arbitrage.

[**Note:** *BCD* Annex VIII Part 3 point 24 (part)]

...

5.4.18 R The *risk weight* that would be assigned under the *standardised approach* to credit risk if the *lending firm* had a direct *exposure* to the collateral instrument must be assigned to those portions of ~~claims~~ *exposure values* collateralised by the market value of recognised collateral. For this purpose, the *exposure* value of an off-balance sheet item listed in *BIPRU* 3.7.2R must be 100% of its value rather than the *exposure* value indicated in *BIPRU* 3.2.1R. The *risk weight* of the collateralised portion must be a minimum of 20% except as specified in *BIPRU* 5.4.19R to *BIPRU* 5.4.21R. The remainder of the *exposure value* receives the *risk weight* that would be applied to an unsecured *exposure* to the counterparty under the *standardised approach*.

[Note: BCD Annex VIII Part 3 point 26]

...

5.4.28 R ...

- (4) For the purpose of (3)(a), for a *firm* calculating *risk weighted exposure amounts* under the *standardised approach* the *exposure value* of an off-balance sheet items listed in *BIPRU 3.7* must be 100% of its value rather than the ~~percentages~~ *exposure value* indicated in *BIPRU 3.2.1R* and *BIPRU 3.7.2R*.

[Note: BCD Annex VIII Part 3 point 33]

...

5.5.5 R For life insurance policies pledged to a *lending firm* to be recognised the following conditions must be met:

- (1) ~~the party providing the life insurance may be recognised as an eligible unfunded credit protection provider under *BIPRU 5.7.1R*~~ must be subject to Directive 2002/83/EC and Directive 2001/17/EC of the European Parliament and of the Council, or is subject to supervision by a competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the Community;
- (2) the life insurance policy is openly pledged or assigned to the *lending firm*;
- (3) the party providing the life insurance is notified of the pledge or assignment and as a result may not pay amounts payable under the contract without the consent of the *lending firm*;
- (4) ~~the declared surrender value of the policy~~ the *surrender value* is declared by the company providing the life insurance and is non-reducible;
- (4A) the *surrender value* must be paid in a timely manner upon request;
- (4B) the *surrender value* must not be requested without the consent of the *lending firm*;
- (5) the *lending firm* must have the right to cancel the policy and receive the *surrender value* in the event of the default of the borrower;
- (6) the *lending firm* is informed of any non-payments under the policy by the policyholder;
- (7) the credit protection must be provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the *lending firm* must ensure that

the amount deriving from the insurance contract serves the lending firm as security until the end of the duration of the credit agreement;
and

- (8) the pledge or assignment must be legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.

[Note: BCD Annex VIII Part 2 point 13 (part)]

...

- 5.5.7 R (1) Where the conditions set out in *BIPRU 5.5.5R* are satisfied, ~~credit protection falling within the terms of *BIPRU 5.5.4R* may be treated as a guarantee by the party providing the life insurance. The value of the credit protection recognised must be the surrender value of the life insurance policy.~~ the portion of the exposure collateralised by the current surrender value of credit protection falling within the terms of *BIPRU 5.5.4R* must be either:
- (a) subject to the risk weights specified in (3) where the exposure is subject to the standardised approach to credit risk; or
- (b) assigned an LGD of 40% where the exposure is subject to the IRB approach but not subject to the firm's own estimates of LGD.
- (2) In case of a currency mismatch, the current surrender value must be reduced according to *BIPRU 5.7.17R* and *BIPRU 5.5.18R*, the value of the credit protection being the current surrender value of the life insurance policy.
- (3) For the purpose of (1)(a), the following risk weights must be assigned on the basis of the risk weight assigned to a senior unsecured exposure to the company providing the life insurance:
- (a) a risk weight of 20%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 20%;
- (b) a risk weight of 35%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 50%;
- (c) a risk weight of 70%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 100%; and
- (d) a risk weight of 150%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 150%.

[**Note:** BCD Annex VIII Part 3 point 80 and BCD Annex VIII Part 3 point 80a]

...

- 5.7.9 R Where an *exposure* is protected by a guarantee which is counter-guaranteed by a central government or *central bank*, a regional government or local authority or a *public sector entity*, claims on which are treated as claims on the central government in whose jurisdiction they are established under the *standardised approach*, a *multilateral development bank* or an *international organisation*, to which a 0% *risk weight* is assigned under or by virtue of the *standardised approach*, or a *public sector entity*, claims on which are treated as claims on *credit institutions* under the *standardised approach*, the *exposure* may be treated as protected by a guarantee provided by the entity in question provided the following conditions are satisfied:

...

...

- 5.7.23 R For the purposes of BIPRU 3.2.20R to BIPRU 3.2.26R, g shall be the *risk weight* to be assigned to an *exposure*, the *exposure value* (E) of which is fully protected by *unfunded credit protection* (G_A), where:
- (1) g is the *risk weight* of *exposures* to the protection provider as specified under the *standardised approach*; ~~and~~
 - (2) G_A is the value of G^* as calculated under BIPRU 5.7.17 R further adjusted for any maturity mismatch as laid down in BIPRU 5.8; ~~and~~
 - (3) E is the *exposure value* according to BIPRU 3.2.1R to BIPRU 3.2.3R and BIPRU 13; for this purpose the *exposure value* of an off-balance sheet item listed in BIPRU 3.7.2R shall be 100% of its value rather than the *exposure value* indicated in BIPRU 3.2.1R.

[**Note:** BCD Annex VIII Part 3 point 87]

...

- 5.7.24 R Where the protected amount is less than the *exposure value* and the protected and unprotected portions are of equal seniority - ~~ie i.e.~~ the *firm* and the protection provider share losses on a pro-rata basis, proportional regulatory capital relief is afforded. For the purposes of BIPRU 3.2.20R to BIPRU 3.2.26R *risk weighted exposure amounts* must be calculated in accordance with the following formula:
 $(E - G_A) \times r + G_A \times g$
 where:

- (1) E is the *exposure value* according to BIPRU 3.2.1R to BIPRU 3.2.3R and BIPRU 13; for this purpose, the *exposure value* of an off-balance sheet item listed in BIPRU 3.7.2R shall be 100% of its value rather

than the *exposure* value indicated in *BIPRU 3.2.1R*;

...

...

- 6.4.6 R The *ORCR* under the *standardised approach* is ~~the average over three years of the risk weighted relevant indicators calculated each year~~ calculated as the three-year average of the yearly summations of the capital requirements across the business lines referred to in *BIPRU 6.4.15R*.

[Note: *BCD Annex X, Part 2 point 1 (part)*]

- 6.4.7 R ~~In each year, a negative capital requirement in one business line, resulting from a negative relevant indicator, may be imputed to the whole. However, where the aggregate capital charge across all business lines within a given year is negative, then the input to the average for that year must be zero. In any given year, negative capital requirements (resulting from negative gross income) in any business line may offset positive capital requirements in other business lines without limit. However, where the aggregate of the capital requirements across all business lines within a given year is negative, the input to the numerator for that year must be zero.~~

[Note: *BCD Annex X, Part 2 point 1 (part)*]

...

- 6.5.21 R ...

- (3) A *firm* must be able to map its historical internal loss data into the business lines defined in *BIPRU 6.4.15R* and into the event type categories defined in *BIPRU 6.5.25R*, and must be able to provide this data to the ~~FSA~~ FSA upon request. Loss events which affect the entire *firm* may be allocated to an additional business line ‘corporate items’ due to exceptional circumstances. The *firm* must have documented, objective criteria for allocating losses to the specified business lines and event types. A *firm*’s *operational risk* losses that are related to credit risk and have historically been included in the internal credit risk databases must be recorded in the *operational risk* databases and be separately identified. Such losses will not be subject to the *ORCR*, as long as they continue to be treated as credit risk for the purposes of calculating the *capital resources requirement*. *Operational risk* losses that are related to market risks must be included in the scope of the capital requirement for *operational risk*.

...

- 6.5.27 R ...

- (9) The capital alleviation arising from the recognition of ~~insurance~~ insurances and other risk transfer mechanisms must not exceed 20% of the capital requirement before the recognition of risk mitigation techniques.

[**Note:** *BCD* Annex X Part 3 points 27 to 29]

...

- 6.5.29 G For the purposes of *BIPRU* 6.5.27R(9), a *firm* should be able to set out clearly how it made its assessment of the appropriate level of capital alleviation, including any assumptions made by the *firm* and how the insurances and other risk transfer mechanisms ~~has~~ have been factored into the *firm*'s risk measurement system.

- 6.5.30 R A *firm* may recognise a risk transfer mechanism other than insurance to the extent that a noticeable risk mitigating effect is achieved and the risk transfer mechanism is included in the *firm*'s *AMA permission*.

[**Note:** *BCD* Annex X Part 3 point 25]

...

7.2 Interest rate PRR

...

Specific risk calculation

...

- 7.2.44 R Table: specific risk PRAs

This table belongs to *BIPRU* 7.2.43R

Issuer	Residual maturity	PRA
...
(A)
(B)
(C)
(D) Debt <i>securities</i> issued or guaranteed by <i>corporates</i> which would qualify for <i>credit quality step 1, 2 or 3</i> under the <i>standardised approach</i> to credit risk.
(E)

(A) ...	...	...
(B) Debt <i>securities</i> issued or guaranteed by <i>corporates</i> which would qualify for <i>credit quality step 3</i> or 4 under the <i>standardised approach</i> to credit risk.		
(C) ...	...	...
...

[**Note:** *CAD* Annex I point 14 Table 1]

...

7.2.47 R ...

7.2.47A G Originators, investors and sponsors of securitisations in the trading book will have to meet the requirements of BIPRU 9.3.1AR, BIPRU 9.3.15R to BIPRU 9.3.20R and BIPRU 9.15.

7.2.47B G Subject to BIPRU 7.2.47CG, BIPRU 9.15.9R and BIPRU 9.15.10R, where the investor, originator or sponsor of a securitisation fails to meet any of the requirements in BIPRU 9.3.18R to BIPRU 9.3.20R (Disclosure requirements) and BIPRU 9.15.11R to BIPRU 9.15.16R (investor due diligence requirements) in any material respect by reason of its negligence or omission, the FSA will use its powers under section 45 (Variation etc on the Authority's own initiative) of the Act to impose an additional capital charge of no less than 250% (capped at 1250%) of the PRR that would otherwise apply to the relevant securitisation positions under the rules in BIPRU 7.2. The additional capital charge imposed will be progressively increased with each relevant, subsequent infringement of the requirements in BIPRU 9.3.18R to BIPRU 9.3.20R and BIPRU 9.15.11R to BIPRU 9.15.16R.

7.2.47C G When calculating the additional capital charge it will impose under BIPRU 7.2.47BG, the FSA will take into account the exemption of certain securitisations from the scope of BIPRU 9.15.3R under BIPRU 9.15.9R and BIPRU 9.15.10R and, if those exemptions are relevant, reduce the capital charge it would otherwise impose.

...

7.11 Credit derivatives in the trading book

...

Establishment of positions created by credit derivatives: Treatment of the protection buyer

- 7.11.12 R For the *protection buyer*, the *positions* are determined as the mirror ~~image~~ principle of the *protection seller*, with the exception of a credit linked note (which entails no short *position* in the issuer). If at a given moment there is a call option in combination with a *step-up*, such moment is treated as the maturity of the protection. In the case of first-to-default credit derivatives and nth to default credit derivatives, ~~a firm that is a protection buyer may off-set specific risk for n-1 of the underlyings (i.e., the n-1 assets with the lowest specific risk PRR)~~ the treatment in BIPRU 7.11.12AR and BIPRU 7.11.12BR applies instead of the mirror principle.

[Note: CAD Annex I point 8.B]

- 7.11.12A R Where a firm obtains credit protection for a number of reference entities underlying a credit derivative under the terms that the first default among the assets will trigger payment and that this credit event will terminate the contract, the firm may off-set specific risk for the reference entity to which the lowest specific risk percentage charge among the underlying reference entities applies according to the Table in BIPRU 7.2.44R.

[Note: CAD Annex I point 8.B]

- 7.11.12B R Where the nth default among the exposures triggers payment under the credit protection, the protection buyer may only off-set specific risk if protection has also been obtained for defaults 1 to n-1 or when n-1 defaults have already occurred. In those cases, the methodology set out in BIPRU 7.11.12AR for first-to-default credit derivatives must be followed, appropriately modified for nth-to-default products.

[Note: CAD Annex I point 8.B]

...

9.1 Application and purpose

Application

- 9.1.1 R BIPRU 9 applies to a BIPRU firm, with the exception of the rules in BIPRU 9.3.15R to BIPRU 9.3.20R (dealing with origination criteria and disclosure requirements) and the rules in BIPRU 9.15 (dealing with requirements for investors) which apply exclusively to credit institutions.

...

General obligations: Systems

- 9.1.6 R The risks arising from *securitisation* transactions in relation to which a *firm* is investor, originator or sponsor, including reputational risks, must be evaluated and addressed through appropriate policies and procedures, to ensure in particular that the economic substance of the transaction is fully reflected in ~~the~~ risk assessment and management decisions.

[Note: BCD Annex V, Point 8]

...

Trading book and non-trading book

- 9.1.9 G *BIPRU* 9 deals with:
- (1) requirements for investors, originators and sponsors of securitisations of non-trading book exposures; ~~and~~
 - (2) the calculation of risk weighted exposure amount for securitisation positions for the purposes of calculating either the credit risk capital component or the counterparty risk capital component; and
 - (3) the requirements that investors, originators and sponsors of securitisations in the trading book will have to meet (BIPRU 9.3.1AR, BIPRU 9.3.15R to BIPRU 9.3.20R and BIPRU 9.15).

...

9.3 Requirements for originators and sponsors

...

- 9.3.1A R The provisions of BIPRU 9.3.15R to BIPRU 9.3.20R apply with respect to:
- (1) new securitisations issued on or after 1 January 2011; and
 - (2) from 31 December 2014, to existing securitisations where new underlying exposures are added or substituted after that date.

[Note: BCD, Article 122a, paragraph 8]

- 9.3.2 G ~~Subject to BIPRU 9.3.6G, for the purposes of BIPRU 9.4.1R and BIPRU 9.5.1R the transfer of credit risk to third parties should only be considered significant if the proportion of risk transferred is broadly commensurate with, or exceeds, the proportion by which risk weighted exposure amounts are reduced. [deleted]~~
- 9.3.3 G ~~For measuring the reduction in risk and risk weighted exposure amounts, an originator should assess the securitisation positions it holds against the underlying exposures if they had never been securitised. [deleted]~~
- 9.3.4 G ~~An originator should use an appropriate method, consistent with its own internal processes, to assess whether the risk transferred is significant. [deleted]~~
- 9.3.5 G ~~If the result of,~~
- (1) ~~applying a risk weight of 1250% to all positions that an originator holds in the securitisation; or~~

~~(2) deducting all those positions from *capital resources*;~~

~~is a reduction in the *originator's* capital requirement compared to the capital requirements that would apply had it not transferred the *securitised exposures*, then the *originator* may treat the risk transferred as significant for the purposes of *BIPRU 9.4.1R* and *BIPRU 9.5.1R*. [deleted]~~

...

9.3.7 R Significant credit risk will be considered to have been transferred for *originators* in the following cases:

- (1) *the risk weighted exposure amounts of the mezzanine securitisation positions held by the originator in the securitisation do not exceed 50% of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;*
- (2) *where there are no mezzanine securitisation positions in a given securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from capital resources or a 1250% risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator does not hold more than 20% of the exposure values of the securitisation positions that would be subject to deduction from capital resources or a 1250% risk weight.*

[Note: *BCD*, Annex IX, Part 2, Point 1, paragraph 1a and Point 2 paragraph 2a]

9.3.8 R An *originator* must notify the *FSA* that it is relying on the deemed transfer of significant credit risk under *BIPRU 9.3.7R* within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:

- (1) *the risk weighted exposure amount of the securitised exposures and retained securitisation positions;*
- (2) *the exposure value of the securitised exposures and the retained securitisation positions;*
- (3) *details of the securitisation positions, including rating, exposure value broken down by securitisation positions sold and retained;*
- (4) *a statement that sets out why the firm is satisfied that the reduction in risk weighted exposure amounts is justified by a commensurate transfer of credit risk to third parties;*
- (5) *any relevant supporting documents, for example, a summary of the transaction.*

9.3.9 G In the event that the *FSA* decides that the possible reduction in *risk weighted*

exposure amounts which the originator would achieve by the securitisation referred to in BIPRU 9.3.7R is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 45 of the Act (Variation etc on the Authority's own initiative) to require the firm to increase its risk weighted exposure amount to an amount commensurate with the FSA's assessment of the transfer of credit risk to third parties.

9.3.10 G An originator may be granted a waiver of the requirements in BIPRU 9.3.7R and BIPRU 9.3.8R.

9.3.11 D An originator's application for a waiver of the requirements in BIPRU 9.3.7R and BIPRU 9.3.8R must demonstrate that the following conditions are satisfied:

- (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the originator achieves by the securitisation is justified by a commensurate transfer of credit risk to third parties; and
- (2) that such transfer of credit risk to third parties is also recognised for the purposes of the originator's internal risk management and its internal capital allocation.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1c and Point 2 paragraph 2c]

9.3.12 G BIPRU 1.3.10G sets out the FSA's approach to the granting of waivers. The conditions in BIPRU 9.3.11D are minimum requirements. Satisfaction of those does not automatically mean the FSA will grant the relevant waiver. The FSA will in addition also apply the tests in section 148 (Modification or waiver of rules) of the Act.

9.3.13 G When considering an application for a waiver of the requirements in BIPRU 9.3.7R and BIPRU 9.3.8R, the FSA may undertake a visit to the firm in order to examine the firm's risk management and governance arrangements. Before such a visit, the FSA may request information from the firm additional or supplementary to that provided in the waiver application.

9.3.14 G An originator should clearly state the scope of the waiver of the requirements in BIPRU 9.3.7R and BIPRU 9.3.8R it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the waiver. Relevant asset classes may therefore be defined according to a firm's internal usage of terms.

Origination criteria

9.3.15 R A credit institution, whether acting as sponsor or originator, must apply the criteria used for credit-granting in respect of exposures held on their trading and non-trading book under SYSC 7.1.9R to exposures to be securitised. The criteria applied must include the processes for approving and, where

relevant, amending, renewing and re-financing credits.

[Note: BCD, Article 122a, paragraph 6]

- 9.3.16 R A credit institution, whether acting as sponsor or originator, must apply the same standards of analysis as are applied under BIPRU 9.3.15R to participations or underwritings in securitisation issues purchased from third parties regardless of whether those participations or underwritings are to be held on their trading book or non-trading book.

[Note: BCD, Article 122a, paragraph 6]

- 9.3.17 R Where a credit institution as originator fails to meet the requirements under BIPRU 9.3.15R to BIPRU 9.3.16R, it may not rely on and apply BIPRU 9.3.1R(1) to reduce its risk weighted exposure amounts or exclude the relevant securitised exposures from the calculation of its risk weighted exposure amounts, and, as relevant, expected loss amounts of those exposures.

[Note: BCD, Article 122a, paragraph 6]

Disclosure requirements

- 9.3.18 R The sponsor or originator credit institutions of a securitisation must disclose to investors the level of its commitment to maintain a net economic interest in the securitisation under BIPRU 9.15.3R.

[Note: BCD, Article 122a, paragraph 7]

- 9.3.19 R The sponsor or originator credit institutions of a securitisation must ensure that prospective investors have readily available access to all materially relevant data concerning it, including:
- (1) on the credit quality and performance of the individual underlying exposures;
 - (2) cash flows and collateral supporting the securitisation exposure; and
 - (3) such information as is necessary to conduct comprehensive and well-informed stress-tests on the cash flows and collateral values supporting the underlying exposures.

[Note: BCD, Article 122a, paragraph 7]

- 9.3.20 R Under BIPRU 9.3.19R, materially relevant data is determined as at the date of the securitisation and where appropriate due to the nature of the securitisation thereafter.

[Note: BCD, Article 122a, paragraph 7]

- 9.3.21 G Subject to BIPRU 9.3.22G, BIPRU 9.15.9R and BIPRU 9.15.10R, where the originator or sponsor of a securitisation fails to meet any of the

requirements in BIPRU 9.3.18R to BIPRU 9.3.20R (disclosure requirements) in any material respect by reason of its negligence or omission, the FSA will use its powers under section 45 (Variation etc on the Authority's own initiative) of the Act to impose an additional risk weight of no less than 250% (capped at 1250%) of the risk weight that would otherwise apply to the relevant securitisation positions under the rules in BIPRU 9.11 to BIPRU 9.14. The additional risk weight imposed will be progressively increased with each relevant, subsequent infringement of the requirements in BIPRU 9.3.18R to BIPRU 9.3.20R.

[Note: BCD, Article 122a, paragraph 5]

- 9.3.22 G When calculating the additional risk weight it will impose, the FSA will take into account the exemption of certain securitisations from the scope of BIPRU 9.15.3R under BIPRU 9.15.9R and BIPRU 9.15.10R and, if those exemptions are relevant, reduce the risk weight it would otherwise impose.

[Note: BCD, Article 122a, paragraph 5]

9.4 Traditional securitisation

Minimum requirements for recognition of significant credit risk transfer

- 9.4.1 R The originator of a traditional securitisation may exclude securitised exposures from the calculation of risk weighted exposure amounts and expected loss amounts if either of the following conditions is fulfilled:
- (1) significant credit risk associated with the securitised exposures has is considered to have been transferred to third parties; or
 - (2) the originator applies a 1250% risk weight to all securitisation positions it holds in the securitisation or deducts these securitisation positions from capital resources according to GENPRU 2.2.237R;

and the transfer complies with the conditions in BIPRU 9.4.2R – BIPRU 9.4.10R ~~9.4.14R~~.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1 (part)]

...

- 9.4.11 R Significant credit risk will be considered to be transferred for an originator in the following cases:
- (1) the risk weighted exposure amounts of the mezzanine securitisation positions held by the originator in the securitisation do not exceed 50% of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;
 - (2) where there are no mezzanine securitisation positions in a given

securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from capital resources or a 1250% risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator does not hold more than 20% of the exposure values of the securitisation positions that would be subject to deduction from capital resources or a 1250% risk weight.

[**Note:** *BCD*, Annex IX, Part 2, Point 1, paragraph 1a]

- 9.4.12 R An originator must notify the FSA that it is relying on the deemed transfer of significant credit risk under BIPRU 9.4.11R within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:
- (1) the risk weighted exposure amount of the securitised exposures and retained securitisation positions;
 - (2) the exposure value of the securitised exposures and the retained securitisation positions;
 - (3) details of the securitisation positions, including rating, exposure value broken down by securitisation positions sold and retained;
 - (4) a statement that sets out why the firm is satisfied that the reduction in risk weighted exposure amounts is justified by a commensurate transfer of credit risk to third parties;
 - (5) any relevant supporting documents, for example, a summary of the transaction.
- 9.4.13 G In the event that the FSA decides that the possible reduction in risk weighted exposure amounts which the originator would achieve by the securitisation referred to in BIPRU 9.4.11R is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 45 (Variation etc on the Authority's own initiative) of the Act to require the firm to increase its risk weight exposure amount to an amount commensurate with the FSA's assessment of the transfer of credit risk to third parties.
- 9.4.14 G An originator may be granted a waiver of the requirements in BIPRU 9.4.11R and BIPRU 9.4.12R.
- 9.4.15 D An originator's application for a waiver of the requirements in BIPRU 9.4.11R and BIPRU 9.4.12R must demonstrate that the following conditions are satisfied.
- (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the originator achieves by the securitisation is justified by a commensurate transfer of credit risk to third parties; and

- (2) that such a transfer of credit risk to third parties is also recognised for the purposes of all the *firm's* internal risk management and internal capital allocation.

[Note: BCD, Annex IX, Part 2, Point 1, paragraph 1c]

- 9.4.16 G *BIPRU* 1.3.10G sets out the FSA's approach to the granting of *waivers*. The conditions in *BIPRU* 9.4.15D are minimum requirements. Satisfaction of those does not automatically mean the FSA will grant the relevant *waiver*. The FSA will in addition also apply the tests in section 148 (Modification or waiver of rules) of the *Act*.
- 9.4.17 G When considering an application for a *waiver* of the requirements in *BIPRU* 9.4.11R and *BIPRU* 9.4.12R, the FSA may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the FSA may request information from the *firm* additional or supplementary to that provided in the *waiver* application.
- 9.4.18 G An *originator* should clearly state the scope of the *waiver* of the requirements in *BIPRU* 9.4.11R and *BIPRU* 9.4.12R it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.

9.5 Synthetic securitisation

Minimum requirements for recognition of significant credit risk transfer

- 9.5.1 R (1) An *originator* of a *synthetic securitisation* may calculate *risk weighted exposure amount amounts*, and, as relevant, *expected loss amounts*, for the *securitised exposures* in accordance with *BIPRU* 9.5.3R and *BIPRU* 9.5.4R, if either of the following conditions is fulfilled:
- (a) significant credit risk ~~has~~ is considered to have been transferred to third parties, either through funded or unfunded credit protection; or
- (b) the *originator* applies a 1250% *risk weight* to all *securitisation positions* he holds in this *securitisation* or deducts these *securitisation positions* from *capital resources* according to *GENPRU* 2.2.237R;

and the transfer complies with the conditions in (2)-(58).

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2]

...

- (6) Significant credit risk will be considered to have been transferred if either of the following conditions is met:
- (a) the risk weighted exposure amounts of the mezzanine securitisation positions which are held by the originator in this securitisation do not exceed 50% of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;
 - (b) where there are no mezzanine securitisation positions in a given securitisation and the originator can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from capital resources or a 1250% risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator does not hold more than 20% of the exposure values of the securitisation positions that would be subject to deduction from capital resources or a 1250% risk weight.

[Note: BCD, Annex IX, Part 2, Point 2, paragraph 2a]

- (7) An originator must notify the FSA that it is relying on the deemed transfer of significant credit risk under BIPRU 9.5.1R(6) within a reasonable period before or after a relevant transfer, not being later than one month after the date of the transfer. The notification must include the following information:
- (a) the risk weighted exposure amount of the securitised exposures and retained securitisation positions;
 - (b) the exposure value of the securitised exposures and the retained securitisation positions;
 - (c) details of the securitisation positions, including rating, exposure value broken down by securitisation positions sold and retained;
 - (d) a statement that sets out why the firm is satisfied that the reduction in risk weighted exposure amounts is justified by a commensurate transfer of credit risk to third parties;
 - (e) any relevant supporting documents, for example, a summary of the transaction.

9.5.1A G An originator may be granted a waiver of the requirements in BIPRU 9.5.1.R(6) and (7).

9.5.1B D An originator's application for a waiver of the requirements in BIPRU 9.5.1.R(6) and (7) must demonstrate that the following conditions are satisfied:

- (1) it has policies and methodologies in place which ensure that the possible reduction of capital requirements which the *originator* achieves by the *securitisation* is justified by a commensurate transfer of credit risk to third parties; and
- (2) that such transfer of credit risk to third parties is also recognised for the purposes of all the *originator's* internal risk management and its internal capital allocation.

[**Note:** *BCD*, Annex IX, Part 2, Point 2, paragraph 2c]

9.5.1C G *BIPRU* 1.3.10G sets out the *FSA's* approach to the granting of *waivers*. The conditions in *BIPRU* 9.5.1BD are minimum requirements. Satisfaction of those does not automatically mean the *FSA* will grant the relevant *waiver*. The *FSA* will in addition also apply the tests in section 148 (Modification or waiver of rules) of the *Act*.

9.5.1D G When considering an application for a *waiver* of the requirements in *BIPRU* 9.5.1.R(6) and (7), the *FSA* may undertake a visit to the *firm* in order to examine the *firm's* risk management and governance arrangements. Before such a visit, the *FSA* may request information from the *firm* additional or supplementary to that provided in the *waiver* application.

9.5.1E G An *originator* should clearly state the scope of the *waiver* of the requirements in *BIPRU* 9.5.1.R(6) and (7) it is seeking in its application. For example, residential mortgage backed securities may be subdivided into prime and sub-prime with only one sub-category within the scope of the *waiver*. Relevant asset classes may therefore be defined according to a *firm's* internal usage of terms.

9.5.1F G In the event that the *FSA* decides that the possible reduction in *risk weighted exposure amounts* which the *originator credit institution* would achieve by the *securitisation* referred to in *BIPRU* 9.5.1R(6) is not justified by a commensurate transfer of credit risk to third parties, it will use its powers under section 45 (Variation etc on the Authority's own initiative) of the *Act* to require the *firm* to increase its *risk weight exposure amount* to an amount commensurate with the *FSA's* assessment of the transfer of credit risk to third parties.

...

Treatment of unrated liquidity facilities

9.11.10 R When the conditions in this paragraph have been met, and in order to determine its *exposure* value, a conversion figure of 20% ~~may be applied to the nominal amount of a liquidity facility with an original maturity of one year or less and a conversion figure of 50%~~ may be applied to the nominal amount of a *liquidity facility* with a nominal maturity of more than one year.

...

Liquidity facilities that may be drawn only in the event of a general market

disruption

- 9.11.11 R ~~To determine its *exposure* value a conversion figure of 0% may be applied to the nominal amount of a *liquidity facility* that may be drawn only in the event of a general market disruption (i.e. where more than one *SSPE* across different transactions are unable to roll over maturing commercial paper and that inability is not the result of an impairment of the *SSPE*'s credit quality or of the credit quality of the *securitised exposures*), provided that the conditions set out in *BIPRU* 9.11.10R are satisfied.~~

~~[Note: *BCD* Annex IX Part 4 point 14] [deleted]~~

...

9.12 Calculation of risk-weighted exposure amounts under the IRB approach

...

Ratings based method

...

- 9.12.13 R ~~Subject to *BIPRU* 9.12.16R and *BIPRU* 9.12.17R, the *risk weights* in column A of each table in *BIPRU* 9.12.11R and *BIPRU* 9.12.12R must be applied where the position is in the most senior *tranche* of a *securitisation*.~~

...

...

- 9.12.16 R ~~A firm may apply a *risk weight* of 6% to a position in the most senior *tranche* of a *securitisation* where that *tranche* is senior in all respects to another *tranche* of the *securitisation positions* which would receive a *risk weight* of 12% under *BIPRU* 9.12.10R, provided that:~~

- ~~(1) it can be demonstrated that this is justified due to the loss absorption qualities of subordinate *tranches* in the *securitisation*; and~~
- ~~(2) either the position has an external credit assessment which has been determined to be associated with credit quality step 1 in *BIPRU* 9.12.11R and *BIPRU* 9.12.12R or, if it is unrated, requirements (1) to (3) in *BIPRU* 9.12.7R are satisfied where 'reference positions' are taken to mean positions in the subordinate *tranche* which would receive a *risk weight* of 12% under *BIPRU* 9.12.10R.~~

~~[Note: *BCD* Annex IX Part 4 point 48] [deleted]~~

...

Liquidity facilities only available in the event of general market disruption

- 9.12.26 R ~~A conversion figure of 20% may be applied to the nominal amount of a~~

~~liquidity facility that may only be drawn in the event of a general market disruption and that meets the conditions to be an eligible liquidity facility set out in BIPRU 9.11.10R.~~

~~[Note: BCD Annex IX Part 4 point 56] [deleted]~~

...

- 9.12.28 G (1) When it is not practical for the *firm* to calculate the *risk weighted exposure amounts* for the *securitised exposures* as if they had not been *securitised* and the position does not qualify for the *ABCP internal assessment approach*, a *firm* may apply to the *FSA* for a variation of its *IRB permission* under which, on an exceptional basis, it may temporarily apply the method in (2) for the calculation of *risk weighted exposure amounts* for an *unrated securitisation position* in the form of a *liquidity facility* that meets the conditions to be a *liquidity facility* set out in *BIPRU 9.11.10R* ~~or that falls within the terms of *BIPRU 9.12.26R*.~~
- (2) Under the method in this paragraph, the highest *risk weight* that would be applied under the *standardised approach* to any of the *securitised exposures* had they not been *securitised* may be applied to the *securitisation position* represented by the *liquidity facility*. To determine the *exposure* value of the position a conversion figure of 50% may be applied to the nominal amount of the *liquidity facility*, if the facility has an original maturity of one year or less. ~~If the *liquidity facility* complies with the conditions in *BIPRU 9.12.26R* a conversion figure of 20% may be applied.~~ In other cases a conversion factor of 100% must be applied.

...

After BIPRU 9.14 insert the following new section. The text is not underlined.

9.15 Requirements for investors

Application

- 9.15.1 R *BIPRU 9.15* applies to:
- (1) new *securitisations* issued on or after 1 January 2011; and
 - (2) from 31 December 2014, to existing *securitisations* where new underlying exposures are added or substituted after that date.

[Note: BCD, Article 122a, paragraph 8]

Purpose

- 9.15.2 G The purpose of *BIPRU 9.15* is to implement Article 122a of the *Banking Consolidation Directive*, with the exception of those parts of Article 122a

that are implemented through the *rules* in *BIPRU* 9.3.

Exposures to transferred credit risk

- 9.15.3 R Subject to *BIPRU* 9.15.9R and *BIPRU* 9.15.10R, a *credit institution*, other than when acting as an *originator*, a *sponsor* or original lender, will be exposed to the credit risk of a *securitisation position* in its *trading book* or *non-trading book* only if the *originator*, *sponsor* or original lender has explicitly disclosed to the *credit institution* that it will retain, on an *ongoing basis*, a material net economic interest which, in any event, must not be less than 5%.

[**Note:** *BCD*, Article 122a, paragraphs 1 and 3]

Retention of net economic interest

- 9.15.4 R Retention of net economic interest means any of the following:
- (1) retention of no less than 5% of the nominal value of each of the *tranches* sold or transferred to the investors;
 - (2) in the case of *securitisations* of *revolving exposures*, retention of the *originator's* interest of no less than 5% of the nominal value of the *securitised exposures*;
 - (3) retention of randomly selected *exposures*, equivalent to no less than 5% of the nominal amount of the *securitised exposures*, where those *exposures* would otherwise have been *securitised* in the *securitisation* provided that the number of potentially *securitised exposures* is no less than 100 at origination;
 - (4) retention of the first loss *tranche* and, if necessary, other *tranches* having the same or a more severe risk profile than those transferred or sold to investors and not maturing any earlier than those transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the *securitised exposures*.

[**Note:** *BCD*, Article 122a, paragraph 1]

- 9.15.5 R Net economic interest is measured at the origination and must be maintained on an *ongoing basis*. It must not be subject to any *credit risk mitigation* or any short positions or any hedge. The net economic interest must be determined by the notional value for off-balance sheet items.

[**Note:** *BCD*, Article 122a, paragraph 1]

- 9.15.6 R Multiple applications of the retention of net economic interest requirements for any given *securitisation* are prohibited.

[**Note:** *BCD*, Article 122a, paragraph 1]

- 9.15.7 R Subject to *BIPRU* 9.15.8R, where an *EEA* parent credit institution or an *EEA*

financial holding company, or one of its *subsidiaries*, as an *originator* or a *sponsor*, *securitises exposures* from several *credit institutions*, *investment firms* or other *institutions* which are included within the scope of supervision on a consolidated basis, the requirement to retain a net economic interest referred to in *BIPRU* 9.15.3R may be satisfied on the basis of the consolidated situation of the related *EEA* parent credit institution or *EEA* financial holding company.

[**Note:** *BCD*, Article 122a, paragraph 2]

- 9.15.8 R *BIPRU* 9.15.7R only applies where the *credit institutions*, *investment firms* or *institutions* which created the *securitised exposures* have committed themselves to adhere to the requirements in *BIPRU* 9.3.15R to *BIPRU* 9.3.17R and deliver, in a timely manner, to the *originator* or *sponsor* and to the *EEA* parent credit institution or an *EEA* financial holding company the information needed to satisfy *BIPRU* 9.3.18R to *BIPRU* 9.3.20R.

[**Note:** *BCD*, Article 122a, paragraph 2]

- 9.15.9 R *BIPRU* 9.15.3R does not apply where the *securitised exposures* are claims or contingent claims on, or fully, unconditionally and irrevocably guaranteed by:

- (1) central governments or *central banks*;
- (2) regional governments, local authorities and public sector entities of *EEA States*;
- (3) *institutions* to which a 50% *risk weight* or less is assigned under *BIPRU* 3.4.31R to *BIPRU* 3.4.46R; or
- (4) *multilateral development banks*.

[**Note:** *BCD*, Article 122a, paragraph 3]

- 9.15.10 R The requirements in *BIPRU* 9.15.3R do not apply with respect to the following:
- (1) transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than *securitisation positions*; or
 - (2) syndicated loans, purchased receivables or credit default swaps where these instruments are not used to package and/or hedge a *securitisation* that is within the scope of *BIPRU* 9.15.3R.

[**Note:** *BCD*, Article 122a, paragraph 3]

Investor due diligence

- 9.15.11 R Before investing, and as appropriate thereafter, a *credit institution* must be

able to demonstrate to the *FSA* for each of its individual *securitisation positions*, that it has a comprehensive and thorough understanding of, and has implemented, formal policies and procedures appropriate to its *trading book* and *non-trading book* and commensurate with the risk profile of its investments in *securitised positions* for analysing and recording:

- (1) information disclosed under *BIPRU* 9.15.3R, by *originators* or *sponsors* to specify the net economic interest that they maintain, on an *ongoing basis*, in the *securitisation*;
- (2) the risk characteristics of the individual *securitisation position*;
- (3) the risk characteristics of the *exposures* underlying the *securitisation position*;
- (4) the reputation and loss experience in earlier *securitisations* of the *originators* or *sponsors* in the relevant *exposure* classes underlying the *securitisation position*;
- (5) the statements and disclosures made by the *originators* or *sponsors*, or their agents or advisors, about their due diligence on the *securitised exposures* and, where applicable, on the quality of the collateral supporting the *securitised exposures*;
- (6) where applicable, the methodologies and concepts on which the valuation of collateral supporting the *securitised exposures* is based and the policies adopted by the *originator* or *sponsor* to ensure the independence of the valuer; and
- (7) all the structural features of the *securitisation* that can materially impact the performance of the *credit institution's securitisation position*.

[**Note:** *BCD*, Article 122a, paragraph 4]

9.15.12 R A *credit institution* must regularly perform its own stress tests appropriate to its *securitisation positions*.

[**Note:** *BCD*, Article 122a, paragraph 4]

9.15.13 R For the purposes of *BIPRU* 9.15.12R, a *credit institution* may rely on financial models developed by an *ECAI* provided that the *credit institution* can demonstrate, when requested by the *FSA*, that they took due care prior to investing to validate the relevant assumptions in and structuring of the models and to understand methodology, assumptions and results.

[**Note:** *BCD*, Article 122a, paragraph 4]

Monitoring requirements

9.15.14 R A *credit institution*, other than when acting as *originator* or *sponsor* or original lender, must establish formal procedures appropriate to its *trading*

book and *non-trading book*, and commensurate with the risk profile of its investments in *securitised positions*, to monitor, on an *ongoing basis* and in a timely manner, performance information on the *exposures* underlying its *securitisation positions*.

[Note: BCD, Article 122a, paragraph 5]

- 9.15.15 R (1) Where relevant, the information required to be monitored under *BIPRU* 9.15.14R must include:
- (a) the *exposure* type;
 - (b) the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure;
 - (c) collateral type and occupancy;
 - (d) frequency distribution of credit scores or other measures of credit worthiness across underlying exposures;
 - (e) industry and geographical diversification; and
 - (f) frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis.
- (2) Where underlying exposures are themselves *securitisation positions*, a *credit institution* must have the information set out in paragraph (1) not only on the underlying *securitisation tranches*, such as the issuer name and credit quality, but also on the characteristics and performance of the pools underlying those *securitisation tranches*.

[Note: BCD, Article 122a, paragraph 5]

- 9.15.16 R A *credit institution* must have a thorough understanding of all structural features of a *securitisation transaction* that would materially impact the performance of its *exposures* to the *transaction*, such as the contractual waterfall and waterfall related triggers, credit enhancements, *liquidity* enhancements, market value triggers and deal-specific definition of default.

[Note: BCD, Article 122a, paragraph 5]

Consequences of failure to meet requirements

- 9.15.17 G Subject to *BIPRU* 9.3.22G, *BIPRU* 9.15.9R to *BIPRU* 9.15.10R and *BIPRU* 9.15.18G, where a *credit institution* fails to meet any of the requirements in *BIPRU* 9.3.18R to *BIPRU* 9.3.20R (disclosure requirements), and *BIPRU* 9.15.11R to *BIPRU* 9.15.16R (investor due diligence requirements) in any material respect by reason of its negligence or omission, the *FSA* will use its powers under section 45 (Variation etc on the Authority's own initiative) of the *Act* to impose an additional *risk weight* of no less than 250% (capped at 1250%) of the risk weight that would otherwise apply to the relevant *securitisation positions* under *BIPRU* 9.11 to *BIPRU* 9.14. The additional

risk weight imposed will be progressively increased with each relevant, subsequent infringement of the requirements in *BIPRU* 9.3.18R to *BIPRU* 9.3.20R and *BIPRU* 9.15.11R to *BIPRU* 9.15.16R.

[Note: *BCD*, Article 122a, paragraph 5]

- 9.15.18 G When calculating the additional *risk weight* it will impose, the *FSA* will take into account the exemption of certain *securitisations* from the scope of *BIPRU* 9.15.3R under *BIPRU* 9.15.9R and *BIPRU* 9.15.10R and, if those exemptions are relevant, reduce the *risk weight* it would otherwise impose.

[Note: *BCD*, Article 122a, paragraph 5]

Amend the following as shown.

11 Disclosure (Pillar 3)

...

- 11.5.3 R A *firm* must disclose the following information regarding its *capital resources*:
- (1) summary information on the terms and conditions of the main feature of all *capital resources* items and components thereof, including:
 - (a) hybrid capital;
 - (b) capital instruments which provide an incentive for the firm to redeem them; and
 - (c) capital instruments which the firm treats as tier one capital under GENPRU TP 8A;
 - (2) *tier one capital resources* ~~less any innovative tier one capital resources~~, with separate disclosure of:
 - (a) all positive items and deductions;
 - (b) the overall amount of hybrid capital, with specification of those instruments treated as tier one capital under GENPRU TP 8A; and
 - (c) the overall amount of capital instruments that provide for an incentive to redeem them, with specification of those instruments treated as tier one capital under GENPRU TP 8A;

...

...

Disclosure: Use of VaR model for calculation of market risk capital requirement

- 11.5.13 R The following information must be disclosed by a *firm* which calculates its *market risk capital requirement* using a *VaR model*:
- (1) for each sub-portfolio covered:
 - (a) the characteristics of the models used;
 - (b) a description of stress testing applied to the sub-portfolio;
 - (c) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
 - (d) the highest, the lowest and the mean of the daily *value-at-risk* measures over the reporting period and the *value-at-risk* measure as per the end of the period;
 - (e) a comparison of the daily end-of-day *value-at-risk* measures to the one-day changes of the portfolio's value by the end of the subsequent *business day* together with an analysis of any important overshootings during the reporting period;

...

[Note: BCD Annex XII, Part 2, point 10]

...

11.6 Qualifying requirements for the use of particular instruments or methodologies

...

Disclosure: Insurance for the purpose of mitigating operational risk

- 11.6.6 R A *firm* using the *advanced measurement approach* for the calculation of its *operational risk capital requirement* must disclose a description of the use of insurance and other risk transfer mechanisms for the purpose of mitigating the risk.

[Note: BCD Annex XII, Part 3, point 3]

...

Exceptions

- 13.3.14 R When a *firm* purchases credit derivative protection against a *non-trading book exposure*, or against a *CCR exposure*, it must compute its capital requirement for the hedged asset in accordance with:

- (1) *BIPRU 5.7.16R to BIPRU 5.7.25R and BIPRU 4.10.49R(4) to (6)* (Unfunded credit protection: Valuation and calculation of risk-weighted exposure amounts and expected loss amounts); or
- (2) ~~*BIPRU 4.4.79R (Double default)*~~; or where a firm calculates risk weighted exposure amounts in accordance with the IRB approach:
 - (a) *BIPRU 4.4.79R (Double default)*; or
 - (b) *BIPRU 4.10.40R to BIPRU 4.10.48R. (Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives).*
- (3) ~~*BIPRU 4.10.40R to BIPRU 4.10.48R (Unfunded credit protection: Minimum requirements for assessing the effect of guarantees and credit derivatives).*~~ [deleted]

[Note: *BCD Annex III Part 2 point 3 (part)*]

13.3.15 R ~~In the cases in *BIPRU 13.3.14R*, a firm must set the exposure value for these credit derivatives to zero.~~

~~[Note: *BCD Annex III Part 2 point 3 (part)*]~~

- (1) In the cases in *BIPRU 13.3.14R*, and where the option in the second sentence of *BIPRU 14.2.10R* is not applied, the exposure value for CCR for these credit derivatives is set to zero.
- (2) However, a firm may choose consistently to include for the purposes of calculating capital requirements for counterparty credit risk all credit derivatives not included in the trading book and purchased as protection against a non-trading exposure or against a CCR exposure where the credit protection is recognised under the BCD.

[Note: *BCD Annex III Part 2 point 3 (part)*]

...

13.5.6 R This table belongs to *BIPRU 13.5.5R*

Transaction or instrument	Calculation of size of risk position
...	
Credit default swap	The notional value of the reference debt instrument multiplied by the remaining maturity of the credit default swap.
<u>'Nth to default' credit default</u>	<u>The effective notional value of the reference debt instrument, multiplied by</u>

<u>swap</u>	<u>the modified duration of the ‘nth to default’ derivative with respect to a change in the credit spread of the reference debt instrument.</u>
Subject to <i>BIPRU 13.5.9R</i> to <i>BIPRU 13.5.10R</i> , <i>financial derivative instrument</i> with a non-linear risk profile, including <i>options</i> and <i>swaptions</i> except in the case of an underlying debt instrument.	Equal to the delta equivalent effective notional value of the <i>financial instrument</i> that underlies the transaction.
...	

[**Note:** *BCD* Annex III Part 5 points 5 to 9 and 15 (part)]

...

- 13.5.15 R There is one *hedging set* for each issuer of a reference debt instrument that underlies a credit default swap. ‘Nth to default’ basket credit default swaps must be treated as follows:
- (1) the size of a *risk position* in a reference debt instrument in a basket underlying an ‘nth to default’ credit default swap is the effective notional value of the reference debt instrument, multiplied by the modified duration of the ‘nth to default’ derivative, with respect to a change in the credit spread of the reference debt instrument;
 - (2) there is one *hedging set* for each reference debt instrument in a basket underlying a given ‘nth to default’ credit default swap; *risk positions* from different ‘nth to default’ credit default swaps must not be included in the same *hedging set*; and
 - (3) the *CCR* multiplier applicable to each *hedging set* created for one of the reference debt instruments of an ‘nth to default’ derivative is 0.3% for reference debt instruments that have a credit assessment from a recognised *ECAI* equivalent to *credit quality step* 1 to 3, and 0.6% for other debt instruments.

[**Note:** *BCD* Annex III Part 5 point 15]

....

- 13.5.22 R This table belongs to *BIPRU 13.5.21R*.

<i>Hedging set</i>	<i>CCR</i> Multiplier (<i>CCRM</i>)	
--------------------	---------------------------------------	--

categories		
...
(9)	Other <i>commodities</i> (excluding precious metals and electricity power)	10.0%
(10)	Underlying instruments of <i>financial derivative instruments</i> that are not in any of the above categories Reference debt instruments of an <u>'nth to default' derivative that have a credit assessment from a recognised ECAI equivalent to <i>credit quality step 1 to 3</i></u>	10.0% <u>0.3%</u>
(11)	Reference debt instruments of an <u>'nth to default' derivative that do not have a credit assessment from a recognised ECAI equivalent to <i>credit quality step 1 to 3</i></u>	<u>0.6%</u>
(12)	<u>Underlying instruments of <i>financial derivative instruments</i> that are not in any of the above categories.</u>	<u>10.0%</u>

[Note: BCD Annex III Part 5 Table 5 and Part 5 point 15 (c)]

...

14.2 Calculation of the capital requirement for CCR

...

Credit derivatives

...

- 14.2.10 R Where a credit derivative included in the *trading book* forms part of an internal hedge and the credit protection is recognised under the BCD for the purposes of the calculation of the *credit risk capital component*, there is deemed to be no counterparty risk arising from the position in the credit derivative. Alternatively, a firm may consistently include for the purposes of calculating *capital requirements for counterparty credit risk* all credit derivatives included in the *trading book* forming part of internal hedges or purchased as protection against *CCR exposure* where the credit protection is recognised under the BCD.

[**Note:** *CAD* Annex II point 11]

...

TP 15 Commodities firm transitionals: Exemptions from capital requirements

...

Duration of exemption

15.4 R *BIPRU* TP 15 applies until 31 December ~~2010~~ 2014.

[**Note:** *CAD* Article 48(1)]

...

TP 20 Standardised credit risk transitionals

...

20.5 R Until 31 December ~~2012~~ 2015, 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*.

...

20.7 R *BIPRU* TP 20.6R applies until 31 December ~~2012~~ 2015 or any earlier date on which the relevant *CRD implementation measure* ceases to apply.

Annex D

Amendments to the Supervision manual (SUP)

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

15.3 General notification requirements

...

Breaches of rules and other requirements in or under the Act

15.3.11 R (1) A *firm* must notify the *FSA* of:

...

(e) a breach of any requirement in regulation 4C(3) (or any successor provision) of the Financial Services and Markets Act 2000 (Markets in Financial Instruments) Regulations 2007; or

(f) it exceeding (or becoming aware that it will exceed) the limit in BIPRU 10.5.6R;

...

(2) ...

...

16.12 Integrated Regulatory Reporting

...

16.12.3A G The following is designed to assist *firms* to understand how the reporting requirements set out in this chapter operate when the circumstances set out in *SUP* 16.12.3R(1)(a)(ii) apply.

(1) Example 1

A *BIPRU 730K firm* that undertakes activities in both *RAG 3* and *RAG 7* Overlaying the requirements of *RAG 3* (*data items*) with the requirements of *RAG 7* shows the following:

RAG 3 (<i>SUP</i> 16.12.11R) data items	RAG 7 (<i>SUP</i> 16.12.22AR) data items
...	

IRB portfolio risk	IRB portfolio risk
Securitisation: <u>non-trading book</u>	Securitisation: <u>non-trading book</u>
...	
Systems and Controls Questionnaire (if it is a <i>non-ILAS BIPRU firm</i>)	
Securitisation: <u>trading book</u>	Securitisation: <u>trading book</u>

From this, the additional reports that are required are:

...

(2) Example 2

A UK bank in RAG 1 that also carries on activities in RAG 5

Again, overlaying the RAG 1 reporting requirements with the requirements for a RAG 5 firm gives the following :

RAG 1 requirements (<i>SUP</i> 16.12.5R)	RAG 5 requirements (<i>SUP</i> 16.12.18AR)
...	...
IRB portfolio risk	
Securitisation: <u>non-trading book</u>	
...	...
Currency Analysis (if it is an <i>ILAS BIPRU firm</i>)	
Securitisation: <u>trading book</u>	
	Lending - Business flow and rates
	...

In this case, it is more obvious that the firm's reporting requirement in RAG 1 is not all the data items listed above. However, for the purposes of this exercise, it is the list of potential data items that is important. Thus comparing RAG 1 with RAG 5, the additional reporting requirements are:

...

...

Regulated Activity Group 1

16.12.5 R The applicable *data items* and forms or reports referred to in SUP 16.12.4R are set out according to *firm* type in the table below:

Description of <i>data item</i>	Prudential category of firm <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)							
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits, other than one with permission for cross border services only</i>	<i>EEA bank that does not have permission to accept deposits, other than one with permission for cross border services only</i>	<i>Electronic money institutions</i>	<i>Credit union</i>	<i>Dormant account fund operator (note 15)</i>
...								
IRB portfolio risk	FSA045 (note 13)	FSA045 (note 13)						
Securitisation: <u>non-trading book</u>	FSA046 (note 14)	FSA046 (note 14)						
...								
Currency Analysis	...							
<u>Securitisation: trading book</u>	FSA058 (Note 23)							
...								
Note 14	Only applicable to <i>firms</i> that <u>hold securitisation positions, or are the originator or sponsor of undertake securitisations of non-trading book exposures.</u>							
...								
Note 23	Only applicable to <i>firms</i> that <u>hold securitisation positions, or are the originator or sponsor of securitisations of trading book exposures.</u>							

16.12.6 R The applicable reporting frequencies for submission of *data items* and periods referred to in SUP 16.12.5R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Unconsolidated <i>UK banks</i> and	Solo consolidated	Report on a <i>UK consolidation</i>	Other members of <i>RAG 1</i>
------------------	------------------------------------	-------------------	-------------------------------------	-------------------------------

	<i>building societies</i>	<i>UK banks and building societies</i>	<i>group or, as applicable, defined liquidity group basis by UK banks and building societies</i>	
...				
FSA046	<u>Half-yearly</u> <u>Quarterly</u>		<u>Half-yearly</u> <u>Quarterly</u>	
...				
FSA054	...	...	...	...
<u>FSA058</u>	<u>Quarterly</u>		<u>Quarterly</u>	
...				

16.12.7 R The applicable due dates for submission referred to in SUP 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in SUP 16.12.6R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly submission	Quarterly submission	Half yearly submission	Annual submission
...						
FSA046				<u>20 business days (Note 3), 45 business days (Note 4)</u>	30 business days (note 3), 45 business days (note 4)	
...						
FSA054			...			
<u>FSA058</u>				<u>20 business days (Note 3), 45 business days (Note 4)</u>		
...						

...

Regulated Activity Group 2.2

16.12.9 R The applicable *data items* referred to in SUP 16.12.4R are set out according to type of *firm* in the table below.
The applicable reporting frequencies for submission of *data items* and periods

referred to in SUP 16.12.4R are set out in the table below and are calculated from a firm's accounting reference date, unless indicated otherwise. The applicable due dates for submission referred to in SUP 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

	<i>Member's adviser</i> (note 3)		the <i>Society</i> (note 1)		
Description of <i>data item</i> and <i>data item</i>	Frequency	Submission deadline	Description of <i>data item</i>	Frequency	Submission deadline
...					
Large Exposures					
FSA008 (note Notes 20, 21)	Quarterly	20 business days (note 19)			
...					
...					
<u>Note 21</u>	<u>This will not be applicable to BIPRU limited activity firms or BIPRU limited licence firms unless they have a waiver under BIPRU 6.1.2G.</u>				

...

Regulated Activity Group 3

...

16.12.11 R The applicable *data items* referred to in SUP 16.12.4R are set out according to *firm* type in the table below:

Description of <i>data item</i>	Firms <u>Firms</u> ' prudential category and applicable <i>data items</i> (note 1)							
	<i>BIPRU firms</i> (note 17)			<i>Firms other than BIRPU firms</i>				
	730K	125K and UCITS investment firms	50K	IPRU (INV) Chapter 3	IPRU (INV) Chapter 5	IPRU (INV) Chapter 9	IPRU (INV) Chapter 13	UPRU
...								
Large exposures	FSA008 (note Notes 2, 6)	FSA008 (note Notes 2, 6)	FSA008 (note Notes 2, 6)					

...								
Securitis- ation: <u>non- trading book</u>	FSA046 (note 23)	FSA046 (note 23)	FSA046 (note 23)					
...								
Systems and Controls Question- naire	...							
<u>Securitis- ation: trading book</u>	<u>FSA058 (Note 32)</u>	<u>FSA058 (Note 32)</u>	<u>FSA058 (Note 32)</u>					
...								
Note 6	This will not be applicable to <i>BIPRU limited activity firms</i> or <i>BIPRU limited licence firms</i> unless they have a waiver under <i>BIPRU 6.1.2G</i> .							
...								
Note 23	Only applicable to <i>firms that hold securitisation positions, or are the originator or sponsor of undertake securitisations of non-trading book exposures.</i>							
...								
<u>Note 32</u>	<u>Only applicable to firms that hold securitisation positions, or are the originator or sponsor of securitisations of trading book exposures.</u>							

...

16.12.12 R The applicable reporting frequencies for *data items* referred to in *SUP 16.12.4R* are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data Item</i>	<i>BIPRU 730K firm</i>	<i>BIPRU 125K firm and UCITS investment firm</i>	<i>BIPRU 50K firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms</i>
...					
FSA046	<u>Half-yearly Quarterly</u>	<u>Half-yearly Quarterly</u>	<u>Half-yearly Quarterly</u>	<u>Half-yearly Quarterly</u>	
...					
FSA055	...			...

<u>FSA058</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>	
...					

16.12.13 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.12R, unless indicated otherwise.

<i>Data item</i>	Monthly	Quarterly	Half yearly	Annual
...						
FSA046				<u>20 business days (Note 1),</u> <u>45 business days (Note 2)</u>	30 business days (note 1), 45 business days (note 2)	
...						
FSA055						...
<u>FSA058</u>				<u>20 business days (Note 1),</u> <u>45 business days (Note 2)</u>		
...						

Regulated Activity Group 4

...

16.12.15 R The applicable *data items* referred to in *SUP* 16.12.4R according to type of *firm* are set out in the table below:

Description of data item	<i>Firms Firms'</i> prudential category and applicable <i>data items</i> (Note 1)							
	<i>BIPRU</i>			<i>Firms other than BIRPU firms</i>				
	730K	125K and UCITS investment firms	50K	<i>IPRU (INV)</i> Chapter 3	<i>IPRU (INV)</i> Chapter 5	<i>IPRU (INV)</i> Chapter 9	<i>IPRU (INV)</i> Chapter 13	<i>UPRU</i>
...								
Large exposures	<u>FSA008 (note Notes 2, 6)</u>	<u>FSA008 (note Notes 2, 6)</u>	<u>FSA008 (note Notes 2, 6)</u>					
...								

Securitis- ation: <u>non- trading book</u>	FSA046 (note 19)	FSA046 (note 19)	FSA046 (note 19)					
...								
Systems and Controls Question- naire	...							
Securitis- ation: <u>trading book</u>	FSA058 (Note 29)	FSA058 (Note 29)	FSA058 (Note 29)					
...								
Note 6	This will not be applicable to <i>BIPRU limited activity firms</i> or <i>BIPRU limited licence firms</i> unless they have a waiver under <i>BIPRU 6.1.2G</i> .							
...								
Note 19	Only applicable to <i>firms that hold securitisation positions, or are the originator or sponsor of undertake securitisations of non-trading book exposures.</i>							
...								
Note 29	Only applicable to <i>firms that hold securitisation positions, or are the originator or sponsor of securitisations of trading book exposures.</i>							

...

16.12.16 R The applicable reporting frequencies for *data items* referred to in *SUP 16.12.15R* are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Firm's <i>Firms'</i> prudential category				
	<i>BIPRU 730K firm</i>	<i>BIPRU 125K firm and UCITS investment firm</i>	<i>BIPRU 50K firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firm other than BIPRU firms</i>
...					
FSA046	<u>Half yearly Quarterly</u>	<u>Half yearly Quarterly</u>	<u>Half yearly Quarterly</u>	<u>Half yearly Quarterly</u>	
...					
FSA055	...			...

<u>FSA058</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>	
...					

16.12.17 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.16R, unless indicated otherwise.

Data item <i>Data item</i>	Monthly	Quarterly	Half yearly	Annual
...						
FSA046				<u>20 business days (Note 2),</u> <u>45 business days (Note 3)</u>	30 business days (note 2), 45 business days (note 3)	
...						
FSA055						...
<u>FSA058</u>				<u>20 business days (Note 2),</u> <u>45 business days (Note 3)</u>		
...						

...

Regulated Activity Group 7

...

16.12.22A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of <i>data item</i>	Firm <i>Firms</i> ' prudential category and applicable <i>data item</i> (note 1)					
	<i>BIPRU730K firm</i>	<i>BIPRU 125K firm and UCITS investment firm</i>	<i>BIPRU 50K firm</i>	<i>Exempt CAD firms</i> subject to <i>IPRU (INV)</i> Chapter 13	<i>Firms</i> (other than <i>exempt CAD firms</i>) subject to <i>IPRU (INV)</i> Chapter 13	<i>Firms</i> that are also in one or more of <i>RAGs</i> 1 to 6 and not subject to <i>IPRU (INV)</i> Chapter 13
...						
Large exposures	FSA008 (note <u>Notes</u>)	FSA008 (note <u>Notes</u>)	FSA008 (note <u>Notes</u>)			

	<u>2.6</u>	<u>2.6</u>	<u>2.6</u>			
...						
Securitis- ation: <u>non- trading book</u>	FSA046 (note 14)	FSA046 (note 14)	FSA046 (note 14)			
...						
Systems and Controls Question- naire	...					
Securitis- ation: <u>trading book</u>	FSA058 (Note 22)	FSA058 (Note 22)	FSA058 (Note 22)			
...						
Note 6	This will not be applicable to <i>BIPRU limited activity firms</i> or <i>BIPRU limited licence firms</i> unless they have a waiver under <i>BIPRU</i> 6.1.2G.					
...						
Note 14	Only applicable to <i>firms</i> that <u>hold securitisation positions, or are the originator or sponsor of undertake securitisations of non-trading book exposures.</u>					
...						
Note 22	Only applicable to <i>firms</i> that <u>hold securitisation positions, or are the originator or sponsor of securitisations of trading book exposures.</u>					

...

- 16.12.23 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	Frequency				
	Unconsolidated <i>BIPRU investment firm</i>	Solo consolidated <i>BIPRU investment firm</i>	<i>UK Consolidation Group or defined liquidity group</i>	Annual regulated business up to and including £5 million	Annual regulated business revenue over £5 million
...					
FSA046	<u>Half yearly</u> <u>Quarterly</u>	<u>Half yearly</u> <u>Quarterly</u>	<u>Half yearly</u> <u>Quarterly</u>		

...					
FSA055	...	...	...
<u>FSA058</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>		
...					

16.12.24 R The applicable due dates for submission referred to in SUP 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in SUP 16.12.23R, unless indicated otherwise.

<i>Data item</i>	Monthly	Quarterly	Half yearly	Annual
...						
FSA046				<u>20 business days (Note 1), 45 business days (Note 2)</u>	<u>30 business days (note 1), 45 business days (note 2)</u>	
...						
FSA055						...
<u>FSA058</u>				<u>20 business days (Note 1), 45 business days (Note 2)</u>		
...						

Regulated Activity Group 8

...

16.12.25A R The applicable *data items* referred to in SUP 16.12.4R are set out according to type of *firm* in the table below:

Description of data item	Firms <i>Firms</i> ' prudential category and applicable <i>data items</i> (note 1)							
	<i>BIPRU</i>			<i>Firms other than BIRPU firms</i>				
	730K	125K	50K	<i>IPRU (INV) Chapter 3</i>	<i>IPRU (INV) Chapter 5</i>	<i>IPRU (INV) Chapter 9</i>	<i>IPRU (INV) Chapter 13</i>	<i>UPRU</i>
...								
Large exposures	FSA008 (note Notes 2 _a)	FSA008 (note Notes 2 _a)	FSA008 (note Notes 2 _a)					

	6)	6)	6)					
...								
Securitisati on: <u>non- trading book</u>	FSA046 (note 19)	FSA046 (note 19)	FSA046 (note 19)					
...								
Systems and Controls Question- naire	...							
Securitisati- on: <u>trading book</u>	FSA058 (Note 27)	FSA058 (Note 27)	FSA058 (Note 27)					
...								
Note 6	This will not be applicable to <i>BIPRU limited activity firms</i> or <i>BIPRU limited licence firms</i> unless they have a waiver under <i>BIPRU</i> 6.1.2G.							
...								
Note 19	Only applicable to <i>firms</i> that <u>hold securitisation positions, or are the originator or sponsor of undertake securitisations of non-trading book exposures.</u>							
...								
Note 27	<u>Only applicable to firms that hold securitisation positions, or are the originator or sponsor of securitisations of trading book exposures.</u>							

...

16.12.26 R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.25AR are set out according to the type of *firm* in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>Data item</i>	<i>BIPRU 730K firm</i>	<i>BIPRU 125K firm</i>	<i>BIPRU 50K firm</i>	<i>UK consolidation group or defined liquidity group</i>	<i>Firms other than BIPRU firms</i>
...					
FSA046	<u>Half yearly Quarterly</u>	<u>Half yearly Quarterly</u>	<u>Half yearly Quarterly</u>	<u>Half yearly Quarterly</u>	
...					
FSA055	...			...

<u>FSA058</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>	<u>Quarterly</u>	
...					

16.12.27 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.26R, unless indicated otherwise.

<i>Data item</i>	Monthly	Quarterly	Half yearly	Annual
...						
FSA046				<u>20 business days (Note 1),</u> <u>45 business days (Note 2)</u>	30 business days (note 1), 45 business days (note 2)	
...						
FSA055						...
<u>FSA058</u>				<u>20 business days (Note 1),</u> <u>45 business days (Note 2)</u>		
...						

16 Annex 24R Data items for SUP 16.12

...

FSA003

Capital adequacy

The firm completing this is subject to the capital rules for (tick one only):

- 1 A UK bank or a building society
- 2 A full scope BIPRU investment firm
- 3 A BIPRU limited activity firm
- 4 A BIPRU limited licence firm, including a UCITS investment firm

5 If you are a full scope BIPRU investment firm, do you meet the conditions in BIPRU TP 12.1R?

If you are a BIPRU investment firm, are you a:

- 6 BIPRU 730K firm
- 7 BIPRU 125K firm (excluding UCITS investment firms)
- 8 UCITS investment firm
- 9 BIPRU 50K firm
- 10 Do you have an investment firm consolidation waiver under BIPRU 8.4?
- 11 Have you notified the FSA, at least one month in advance of the date of this report, that you intend to deduct illiquid assets?

12 Basis of reporting Unconsolidated/Solo-consolidated/Consolidated

If consolidated, please complete data elements 13 and 14, otherwise go straight to data element 15.

13 For consolidated reporting, provide

A	B
Group reference <input type="checkbox"/>	Group name <input type="checkbox"/>

14 For consolidated reporting, provide details of all other FSA authorised firms included in this consolidated report.

A	B
FRN <input type="checkbox"/>	Name <input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

A
Capital resources for all other purposes

B
Capital resources emitting Stage C

15 Total capital after deductions

16 Total tier one capital after deductions

17 Core tier one capital

18 Permanent share capital

19 Profit and loss account and other reserves

20 Interim net losses

21 Eligible partnership, LLP or sole trader capital

22 Share premium account

23 Externally verified interim net profits

135 Hybrid tier one capital

136 50% bucket

137 35% bucket

138 15% bucket

24 Other tier one capital

25 Perpetual non-cumulative preference shares subject to limit

26 Innovative tier one instruments subject to limit

FSA003 continued

27	Deductions from tier one capital	
28	Investments in own shares	
29	Intangible assets	
139	<u>Excess on limits for 50% bucket capital instruments</u>	
140	<u>Excess on limits for 35% bucket capital instruments</u>	
141	<u>Excess on limits for 15% bucket capital instruments</u>	
30	Excess on limits for non innovative tier one instruments	
31	Excess on limits for innovative tier one instruments	
32	Excess of drawings over profits for partnerships, LLPs or sole traders	
33	Net losses on equities held in the available-for-sale financial asset category	
34	Material holdings	
35	Total tier two capital after deductions	
36	Upper tier two capital	
37	Excess on limits for tier one capital transferred to upper tier two capital	
38	Upper tier two capital instruments	
39	Revaluation reserve	
40	General/collective provisions	
41	Surplus provisions	
42	Lower tier two capital	
43	Lower tier two capital instruments	
44	Excess on limits for lower tier two capital	
45	Deductions from tier two capital	
46	Excess on limits for tier two capital	
47	Other deductions from tier two capital	
48	Deductions from total of tiers one and two capital	
49	Material holdings	
50	Expected loss amounts and other negative amounts	
51	Securitisation positions	
52	Qualifying holdings	
53	Contingent liabilities	
54	Reciprocal cross-holdings	
55	Investments that are not material holdings or qualifying holdings	
56	Connected lending of a capital nature	
57	Total tier one capital plus tier two capital after deductions	
58	Total tier three capital	
59	Excess on limits for total tier two capital transferred to tier three capital	
60	Short term subordinated debt	
61	Net interim trading book profit and loss	
62	Excess on limit for tier three capital	
63	Unused but eligible tier three capital (memo)	
64	Total capital before deductions	
65	Deductions from total capital	
66	Excess trading book position	
67	Illiquid assets	
68	Free deliveries	
69	Base capital resources requirement	

FSA003 continued

70	Total variable capital requirement	
71	Variable capital requirement for UK banks and building societies	
72	Variable capital requirement for full scope BIPRU investment firms	
73	Variable capital requirement for BIPRU limited activity firms	
74	Variable capital requirement for BIPRU limited licence firms	
75	Variable capital requirement for UCITS investment firms	
76	Variable capital requirements to be met from tier one and tier two capital	
77	Total credit risk capital component	
78	Credit risk calculated by aggregation for UK consolidation group reporting	
79	Credit risk capital requirements under the standardised approach	
80	Credit risk capital requirements under the IRB approach	
81	Under foundation IRB approach	
82	Retail IRB	
83	Under advanced IRB approach	
84	Other IRB exposures classes	
85	Total operational risk capital requirement	
86	Operational risk calculated by aggregation for UK consolidation group reporting	
87	Operational risk basic indicator approach	
88	Operational risk standardised/alternative standardised approaches	
89	Operational risk advanced measurement approaches	
90	Reduction in operational risk capital requirement under BIPRU TP 12.1	
91	Counterparty risk capital component	
92	Capital requirements for which tier three capital may be used	
93	Total market risk capital requirement	
94	Market risk capital requirement calculated by aggregation for UK consolidation group reporting	
95	Position, foreign exchange and commodity risks under standardised approaches (TSA)	
96	Interest rate PRR	
97	Equity PRR	
98	Commodity PRR	
99	Foreign currency PRR	
100	CIU PRR	
101	Other PRR	
102	Position, foreign exchange and commodity risks under internal models (IM)	
103	Concentration risk capital component	
104	Fixed overhead requirement	
105	Capital resources requirement arising from capital floors	
106	Surplus (+) / Deficit (-) of own funds	
107	Solvency ratio (%)	
108	Individual Capital Guidance - total capital resources	
109	Individual Capital Guidance - general purpose capital	
110	Surplus/(deficit) total capital over ICG	
111	Surplus/(deficit) general purposes capital over ICG	
	MEMORANDUM ITEMS	
112	Value of portfolio under management - UCITS investment firms	

FSA003 continued

Prudential filters		
113	Unrealised gains on available-for-sale assets	
114	Unrealised gains (losses) on investment properties	
115	Unrealised gains (losses) on land and buildings	
116	Unrealised gains (losses) on debt instruments held in the available for sale category	
117	Unrealised gains (losses) on cash flow hedges of financial instruments	
118	Unrealised gains (losses) on fair value financial liabilities	
119	Defined benefit asset (liability)	
120	(Deficit reduction amount) if used	
121	Deferred acquisition costs (deferred income) (DACs/DIRs)	
Minority interests		
122	Minority interests included within capital resources	
123	of which: innovative tier one instruments	
Profits		
124	Profits not externally verified at the reporting date but subsequently verified	
125	Total capital after deductions after profits have been externally verified	
Allocation of deductions between tier one and two capital		
126	Material insurance holdings excluded from allocation	
127	Allocated to tier one capital	
128	Allocated to tier two capital	
Firms on the IRB/AMA approaches		
129	Total capital requirement under pre-CRD rules	
130	Total credit risk capital component under pre-CRD	
131	Expected loss amounts - wholesale, retail and purchased receivables	
132	Expected loss amounts - equity	
133	Total value adjustments and provisions eligible for the "EL less provisions" calculation under IRB	
134	Total deductions from tier 1 and tier 2 capital according to pre-CRD rules	

...

FSA005
Market risk

	A	B	C	D	E	F	G
	USD	GBP	EUR	CHF	YEN	Other	Total
Interest rate risk							
General interest rate risk							
1							
2							
3							
Specific interest rate risk							
Amount by risk bucket							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
Equity risk							
General equity risk (or simplified)							
19							
20							
21							

FSA005 continued

	A	B	C	D	E	F	G
Specific equity risk by risk bucket							Total
22 Qualifying equities							
23 Qualifying equity indices							
24 Other equities, equity indices or equity baskets							
25 PRR							
26 Option PRR for equity positions							
27 CAD 1 PRR for equity positions							
28 Other PRR							
29 Total Equity PRR							

	Precious metals	Base metals	softs	energy	other	Total
Commodity Risk						
30 Valuation of longs						
31 Valuation of shorts						
32 Outright PRR						
33 Spread PRR						
34 Carry PRR						
35 Simplified PRR						
36 Total PRR						
37 Option PRR for commodity positions						
38 CAD 1 PRR for commodity positions						
39 Other PRR						
40 Total Commodity PRR						

	USD	GBP	EUR	CHF	YEN	Other	Total
Foreign currency risk							
General foreign currency risk							
41 Total net long positions							
42 Total net short positions							
43 Net gold position							
44 PRR							

	A USD	B GBP	C EUR	D CHF	E YEN	F Other	G Total
45 Option PRR for foreign currency							
46 CAD 1 PRR for foreign currency							
47 Other							
48 Total foreign currency PRR							

Collective investment undertaking risk

General CIU risk

	USD	GBP	EUR	CHF	YEN	Other	Total
49 Total net long positions							
50 Total net short positions							
51 PRR							
52 Option PRR for CIU							
53 CAD 1 PRR for CIU							
54 Other PRR							
55 Total CIU PRR							

Other PRR

56 Any other PRR	
------------------	--

VaR model Risk Internal models-based charges

57 Multiplier	
58 Previous day's VaR PRR	
59 Average of previous 60 days VaR	
60 Incremental Default Risk surcharge	

Add-ons

	A Description	B Value
63 1		
2		
3		
...		
n		

64 Total Add-ons	
------------------	--

61 VaR-model-based PRR Internal models-based PRR	
--	--

62 GRAND TOTAL PRR	
--------------------	--

...

FSA008

Large exposures

1 Is this report by a UK consolidation group under BIPRU 8 Ann 1R? A B

For consolidated reporters only
2 List the FSA Firm Reference Numbers of the members of the UK consolidation group

Index no	FSA FRN
1	
...	
n	

For unconsolidated/solo-consolidated reporters only
3 Is the firm a member of a UK integrated group

Part 1: Large exposures at the reporting date (other than to members of integrated groups under BIPRU 10.8 or BIPRU 10.9)

4 Capital resources under BIPRU 10.5.3R Capital resources (BIPRU 10.5.4R) B

Exposure no	Counterparty name (or group name)	Gross exposure	% of capital resources under BIPRU 10.5.3R	Funded credit protection	Unfunded credit protection	Exposure after credit risk mitigation	Of which						Trading book concentration risk excesses			CNCOM	PD %	LGD %	EL %	Credit risk capital requirement	
							Exempt exposures		Non-exempt exposures				% of capital resources under 10.5.4R	Existed for 10 business days or less - %	Persisted for more than 10 business days - %						
							Amount	% of capital resources	Non-trading book	% of capital resources	Trading book	% of capital resources									Aggregate %
A	B	C	D	W	X	E	F	G	H	J	K	L	M	N	P	Q	R	S	T	U	V
1																					
...																					
n																					
Total																					

6 I confirm that the firm has notified the FSA under BIPRU 10.5.6R SUP 15.3.11R of all exposures that have exceeded, or will exceed, the limits set out in BIPRU 10.5.6R or 10.5.8R (tick to confirm) A

Part 2: Details of connected counterparties at the reporting date (excluding to members of integrated groups under BIPRU 10.8 or BIPRU 10.9)

Exposure no	Individual counterparties (each individually above 2.5% capital resources)	Gross exposure	% of capital resources under BIPRU 10.5.3R	Funded credit protection	Unfunded credit protection	Exposure after credit risk mitigation	Of which						
							Exempt exposures		Non-exempt exposures				
							Amount	%	Non-trading book	%	Trading book	%	Aggregate %
A	B	C	D	N	O	E	F	G	H	J	K	L	M
1	Individually <2.5% of capital resources												
2													
...													
n													

FSA008 continued

Part 3: Trading-book concentration risk excesses since the last reporting date (excluding any that exist in Part 1 at the reporting date)

Exposure no	Counterparty name	Gross exposure	% of capital resources under BIPRU-10.5.3R	Exposure after credit risk mitigation	Of which			Is it a member of a diverse block or residual block?
					Non-exempt exposures			
					Non-trading-book amount	Trading-book amount	Amount in excess of 25% of capital resources under BIPRU-10.5.4R	
A	B	C	D	E	F	G	H	J
1								
...								
n								

Unconsolidated or solo-consolidated reporters only

Part 4: Significant transactions with the mixed activity holding company and its subsidiaries

Transaction no	Counterparty name	Transaction or exposure value	% of capital resources
A	B	C	D
1			
...			
n			

FSA046
Securitisation: Non-Trading Book

Transaction level information - Where the firm is an originator or sponsor

	A
1	Location of the most recent Pillar 3 disclosures for securitisation (BIPRU 11.5.17R) disclosure
2	Additional capital requirement for significant risk transfer (BIPRU 9.3.1R)
21	Additional capital requirements (BIPRU 9.3.21G and BIPRU 9.15.17G)
22	Reduction in RWAs according to BIPRU 9.10.4R and BIPRU 9.10.6R

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Programme Name	Asset Class	Originator's Interest	Investors' Interest	Location of Investor Reports	Assets appear on FSA001?	BIPRU 9.3.1R applied?	Conversion Factor applied? BIPRU 9.13. applies?	Exposure value before securitisation	Capital requirement before securitisation	Exposure value after securitisation	Exposure value deducted from capital resources	Capital requirement after securitisation before cap	Capital requirement after securitisation after cap	Retention of net economic interest (% to ZDP)	Method of retention of net economic interest
1																
n																

Risk positions - standardised exposures

	A	B	C	D	E	F
4	CQS1	CQS2	CQS3	CQS4 (only for credit assessments other than short term credit assessments)	CQS5 and below All other credit assessments	Deductions from capital
5	As Originator					
6	As Sponsor of an ABCP programme					
7	Counterparty credit risk					
7	All other exposures					

Risk positions - IRB exposures

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	P	O	
8	As Originator	Firms applying BIPRU 9.12.16R	CQS 1	CQS2	CQS3	CQS4	CQS5	CQS6	CQS7	CQS8	CQS9	CQS10	CQS11	Below CQS11 All other credit assessments	Supervisory formula (Exposure Value)	Supervisory formula (Capital Requirement)	Deductions from capital
9		ST CQS 1	ST CQS2			ST CQS3											
10																	
11	As Sponsor of an ABCP programme																
12																	
13																	
14	Counterparty credit risk																
15																	
16																	
17	All other exposures																
18																	
19																	

SUP 16 Annex 25G Guidance notes for data items in SUP 16 Annex 24R

...

FSA003 – Capital adequacy

...

Columns A and B

There are two different measures of capital resources. For the purposes of the capital resources requirement under *GENPRU 2.1.40R* onwards and for disclosure purposes under *BIPRU 11*, it is calculated and set out in Column B of this data item. This column excludes stage C in the capital resources calculation set out in *GENPRU 2 Annexes 2R, 3R, 4R, 5R and 6R*. For the purposes of *GENPRU 2.2.17R*, capital resources are set out in Column A. The difference between them is in relation to innovative tier one capital (ie Stage C) which, for the purposes of *GENPRU 2.1.9R*, cannot be included (*GENPRU 2.2.42R*). [deleted]

...

Data elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

...

[Editor's Note: There are no changes to data elements 1A to 13A]

...

~~13B For consolidated reporting, please provide the Group name~~

~~If 12A is completed as a consolidated report, then please enter the group name here. [deleted]~~

...

~~14B For consolidated reporting, please provide the names of the firms included~~

~~List here the names (against the FRN) of all FSA authorised firms included within the UK consolidation group. [deleted]~~

...

~~15B Total capital after deductions~~

~~This is equivalent to 15A, but excludes stage C (in *GENPRU 2 Annexes 2R, 3R, 4R, 5R and 6R*). It will only differ from 15A if the firm has issued *innovative tier one capital*. [deleted]~~

...

~~16B Total tier one capital after deductions~~

~~This is equivalent to 16A, but reflecting *GENPRU 2.2.42R* and *GENPRU 2.2.43G*. It will only differ from 16A if the firm has issued *innovative tier one capital*. [deleted]~~

...

17B Core tier one capital

This will have the same value as 17A. ~~[deleted]~~

...

24A Other tier one capital, subject to limits

Data elements 25A and 26A should only contain items that are subject to grandfathering as they are not compliant with the hybrid capital rules. Instruments that do comply with the hybrid capital rules should be included within elements 136A to 138A, as appropriate.

[CEBS' CA 1.1.4]

24B Other tier one capital, subject to limits

This will have the same value as in 24A. ~~(Although innovative tier one capital is not included for CRR purposes, it is included here and the disallowable portion is reported in 31B.) [deleted]~~

25A Perpetual non-cumulative preference shares

This data element (after deduction of data element 30A) is equivalent to Stage B in:

- GENPRU 2 Annex 2R for a *UK bank*;
- GENPRU 2 Annex 3R for a *building society*;
- GENPRU 2 Annex 4R for a *BIPRU investment firm deducting material holdings*;
- GENPRU 2 Annex 5R for a *BIPRU investment firm deducting illiquid assets*; and
- GENPRU 2 Annex 6R for a *BIPRU investment firm* with a waiver from consolidated supervision.

It includes perpetual non-cumulative preference shares (see GENPRU 2.2.109R) and *PIBS* (see GENPRU 2.2.111R). See also GENPRU TP 8.2R to GENPRU TP ~~8.6R~~ 8.7R.

All the preceding references to GENPRU in this note are to the version of GENPRU in force on 30 December 2010.

See also GENPRU TP 8A.

[CEBS' CA 1.1.4.1]

26A Innovative tier one instruments subject to limit

See GENPRU 2.2.113R to GENPRU 2.2.137R, before the application of GENPRU 2.2.30R. Also see GENPRU TP ~~8.7R~~ 8.8R.

This data element (after deduction of data element 31A) is equivalent to Stage C in:

- GENPRU 2 Annex 2R for a *UK bank*;
- GENPRU 2 Annex 3R for a *building society*;
- GENPRU 2 Annex 4R for a *BIPRU investment firm deducting material holdings*;
- GENPRU 2 Annex 5R for a *BIPRU investment firm* deducting *illiquid assets*; and
- GENPRU 2 Annex 6R for a *BIPRU investment firm* with a waiver from consolidated supervision.

All the preceding references to GENPRU in this note are to the version of GENPRU in force on 30 December 2010.

See also GENPRU TP 8A.

[CEBS' CA 1.1.4.2]

...

27B Deductions from tier one capital

This figure will differ from 27A only if a firm has issued *innovative tier one instruments* in 26A. [deleted]

...

28B Investments in own shares

This is the same figure as in 28A. [deleted]

...

29B Intangible assets

This is the same figure as in 29A. [deleted]

30A Excess on limits for non-innovative tier one instruments

The amount reported in 25A which is in excess of the limits set out in *GENPRU 2.2.29R*. See also *GENPRU 2.2.25R*.

All the preceding references to *GENPRU* in this note are to the version of *GENPRU* in force on 30 December 2010.

See also *GENPRU TP 8A*.

[CEBS' CA 1.1.5.2, but with the opposite sign]

30B Excess on limits for non-innovative tier one instruments

This is the same figure as in 30A. [deleted]

31A Excess on limits for innovative tier one instruments

The amount reported in 26A which is in excess of the limits set out in *GENPRU 2.2.30R*. See also *GENPRU 2.2.25R*. As set out in *GENPRU 2.2.25R* to *GENPRU 2.2.27R*, the excess is however available in *upper tier two capital* in 37A.

All the preceding references to *GENPRU* in this note are to the version of *GENPRU* in force on 30 December 2010.

See also *GENPRU TP 8A*.

[CEBS' CA 1.1.5.3, but with the opposite sign]

31B Excess on limits for innovative tier one instruments

In line with *GENPRU 2.2.42R*, *innovative tier one capital* cannot be included in *tier one capital resources*. This figure equates to the whole of the firm's *innovative tier one capital* (26A). As set out in *GENPRU 2.2.25R* to *GENPRU 2.2.27R*, the capital is however available in *upper tier two capital* in 37B.

It gives effect to Note (3) in:

- *GENPRU 2 Annex 2R* for a *UK bank*;
- *GENPRU 2 Annex 3R* for a *building society*;
- *GENPRU 2 Annex 4R* for a *BIPRU investment firm* deducting *material holdings*;
- *GENPRU 2 Annex 5R* for a *BIPRU investment firm* deducting *illiquid assets*; and
- *GENPRU 2 Annex 6R* for a *BIPRU investment firm* with a waiver from consolidated supervision. [deleted]

...

32B Excess of drawings over profits for partnerships, LLPs and sole traders

This is the same figure as reported in 32A. [deleted]

...

33B Net losses on equities held in the available-for-sale financial assets categoryThis is the same figure as reported in 33A. [deleted]

...

34B Material holdingsThis is the same figure as reported in 34A. [deleted]

...

35B Total tier two capital after deductionsThis is broadly similar to 35A, except that it takes account of *GENPRU 2.2.42R* where a firm has *innovative tier one capital* that cannot be included in tier one. [deleted]

...

36B Upper tier two capital, subject to limitsThis data element (after deducting 44B and 46B) is equivalent, after taking account of *GENPRU 2.2.42R* where a firm has *innovative tier one capital*, to Stage G in:

- *GENPRU 2 Annex 2R* for a *UK bank*;
- *GENPRU 2 Annex 3R* for a *building society*;
- *GENPRU 2 Annex 4R* for a *BIPRU investment firm* deducting *material holdings*;
- *GENPRU 2 Annex 5R* for a *BIPRU investment firm* deducting *illiquid assets*; and
- *GENPRU 2 Annex 6R* for a *BIPRU investment firm* with a waiver from consolidated supervision. [deleted]

...

37B Excess on limits for tier one capital transferred to upper tier two capitalAs 37A, but includes all *innovative tier one capital* as none of it could be included in *tier one capital resources* as a result of *GENPRU 2.2.42R*. This will not exceed the sum of 30B and 31B. [deleted]

...

38B Upper tier two capital instruments, subject to limitsThis is the same figure as reported in 38A. [deleted]

...

39B Revaluation reserveThis is the same figure as reported in 39A. [deleted]

...

40B General/collective provisionsThis is the same figure as reported in 40A. [deleted]

...

41B Surplus provisions

This is the same figure as reported in 41A. [deleted]

...

42B Lower tier two capital

This figure will differ from 42A if the firm had any *innovative tier one capital* reported in 26A. [deleted]

...

43B Lower tier two capital instruments subject to limits

This is the same figure as reported in 43A. [deleted]

...

44B Excess on limits for lower tier two capital

The amount reported in 43B that is in excess of the limits set out in *GENPRU 2.2.46R (2)*. If the firm has not reported *innovative tier one capital instruments* in 26A, this number will be the same as 44A. [deleted]

...

45B Deductions from tier two capital

If the firm has not reported *innovative tier one instruments* in 26A, this number will be the same as 45A.

Otherwise, this data element (excluding 46B) is equivalent to Stage J (after taking account of Note (3)) in:

- *GENPRU 2 Annex 2R* for a *UK bank*;
- *GENPRU 2 Annex 3R* for a *building society*;
- *GENPRU 2 Annex 4R* for a *BIPRU investment firm* deducting *material holdings*;
- *GENPRU 2 Annex 5R* for a *BIPRU investment firm* deducting *illiquid assets*; and
- *GENPRU 2 Annex 6R* for a *BIPRU investment firm* with a waiver from consolidated supervision. [deleted]

...

46B Excess on limits for tier two capital

If the firm has not reported *innovative tier one instruments* in 26A, this number will be the same as 46A. Otherwise it is the amounts reported in 36B and 42B in excess of the limits set out *GENPRU 2.2.46R (1)*. [deleted]

...

47B Other deductions from tier two capital

This is the same figure as reported in 47A. [deleted]

...

48B Deductions from total of tiers one and two

This is the same figure as reported in 48A. [deleted]

...

57B Total tier one capital plus tier two capital after deductions

This may differ from 57A if the firm reported *innovative tier one instruments* in 26A.

This is equivalent to Stage N of:

- ~~GENPRU 2 Annex 2R for a UK bank;~~
- ~~GENPRU 2 Annex 3R for a building society;~~
- ~~GENPRU 2 Annex 4R for a BIPRU investment firm deducting material holdings;~~
- ~~GENPRU 2 Annex 5R for a BIPRU investment firm deducting illiquid assets; and~~
- ~~GENPRU 2 Annex 6R for a BIPRU investment firm with a waiver from consolidated supervision.~~

Firms should note that if this figure is less than the *base capital resources requirement* (reported in data element 69A), the firm's *capital resources* are less than its *capital resources requirement*. See Note (2) in *GENPRU 2 Annexes 2R, 3R, 4R, 5R and 6R*.

~~{CEBS' CA 1.4 plus 1.5 minus 1.3.10}~~ [deleted]

...

58B Total tier three capital

This is broadly similar to 58A, except that it takes account of *GENPRU 2.2.42R* where a firm has *innovative tier one capital* that cannot be included in tier one. [deleted]

...

59B Excess on limits for tier two capital transferred to tier three capital

See *GENPRU 2.2.25R* to *GENPRU 2.2.27R*. This will be no greater than the sum of 44B and 46B. If the firm has not reported *innovative tier one instruments*, the figure should be the same as 59A. [deleted]

...

60B Short term subordinated debt, subject to limits

This figure will be the same as 60A.

~~{CEBS' CA 1.6.3}~~ [deleted]

...

61B Net interim trading book profit and loss

This figure will be the same as 61A.

~~{CEBS' CA 1.6.2}~~ [deleted]

...

62B Excess on limit for tier three capital

The amount reported in 59B and 60B in excess of the limits set out in *GENPRU 2.2.49R* to *GENPRU 2.2.50R*. It will only differ from 62A if the firm has reported *innovative tier one capital* in 26A. [deleted]

...

63B Unused but eligible tier three capital (memo)

See ~~GENPRU 2.2.47R~~.

This is the sum of data elements 58B less the amount shown in data element 92A. If the result is negative, enter 0. This is the surplus tier three capital which may only be used for the purposes set out in ~~BIPRU 2.2.47R~~.

It may differ from 63A if the firm has reported *innovative tier one capital* in 26A. ~~[deleted]~~

...

64B Total capital before deductions

This figure will differ from 64A if the firm had any innovative tier one capital reported in 26A. ~~[deleted]~~

...

65B Deductions from total capital

This will be the same value as reported in 65A. ~~[deleted]~~

...

[Editor's Note: There are no changes to data elements 66A to 106A]

...

106B Surplus/deficit of own funds

This is 15B less 70A.

This should be a positive figure, showing the amount of excess capital over that required for the risks measured at the reporting date, as well as any requirements.

Firms that have adopted the *IRB approach* for credit risk or *advanced measurement approach* for operational risk should also be monitoring data element 105A against 15B.

Firms should note that although this figure may show a surplus, if this figure reported in data element 57B is less than the *base capital resources requirement* (reported in data element 69A), the firm's *capital resources* are less than its *capital resources requirement*. See Note (2) in ~~GENPRU 2 Annexes 2R, 3R, 4R, 5R and 6R~~.

This should be a positive figure and is the calculation required in ~~GENPRU 2.1.40R~~. ~~[deleted]~~

...

107B Overall solvency ratio

This is 15B divided by 70A, multiplied by 100 and represents the firm's overall solvency for CRR purposes.

This ratio represents the firm's solvency in relation to its variable capital requirement under ~~GENPRU 2.1.9R(1)~~. In most cases, it may be the same as figure as appears in Column A, but that will not be the case if data element 15 differs between Column A and Column B because of the different treatment of *innovative tier one instruments* (see ~~GENPRU 2.2.43R~~). ~~[deleted]~~

...

[Editor's Note: There are no changes to data elements 108A to 134A]

...

135A Hybrid tier one capital

This element is equivalent to Stages B1, B2 and C in:

- GENPRU 2 Annex 2R for a UK bank;
- GENPRU 2 Annex 3R for a building society;

- GENPRU 2 Annex 4R for a BIPRU investment firm deducting material holdings;
- GENPRU 2 Annex 5R for a BIPRU investment firm deducting illiquid assets; and
- GENPRU 2 Annex 6R for a BIPRU investment firm with a waiver from consolidated supervision.

[See GENPRU 2.2.30AR to 2.2.30CR]

136A 50% Bucket

This data element (after deduction of data element 139A) is equivalent to Stage B1 in:

- GENPRU 2 Annex 2R for a UK bank;
- GENPRU 2 Annex 3R for a building society;
- GENPRU 2 Annex 4R for a BIPRU investment firm deducting material holdings;
- GENPRU 2 Annex 5R for a BIPRU investment firm deducting illiquid assets; and
- GENPRU 2 Annex 6R for a BIPRU investment firm with a waiver from consolidated supervision.

[See GENPRU 2.2.30AR]

137A 35% Bucket

This data element (after deduction of data element 140A) is equivalent to Stage B2 in:

- GENPRU 2 Annex 2R for a UK bank;
- GENPRU 2 Annex 3R for a building society;
- GENPRU 2 Annex 4R for a BIPRU investment firm deducting material holdings;
- GENPRU 2 Annex 5R for a BIPRU investment firm deducting illiquid assets; and
- GENPRU 2 Annex 6R for a BIPRU investment firm with a waiver from consolidated supervision.

[See GENPRU 2.2.30BR]

138A 15% Bucket

This data element (after deduction of data element 141A) is equivalent to Stage C in:

- GENPRU 2 Annex 2R for a UK bank;
- GENPRU 2 Annex 3R for a building society;
- GENPRU 2 Annex 4R for a BIPRU investment firm deducting material holdings;
- GENPRU 2 Annex 5R for a BIPRU investment firm deducting illiquid assets; and
- GENPRU 2 Annex 6R for a BIPRU investment firm with a waiver from consolidated supervision.

[See GENPRU 2.2.30CR]

139A Excess on limit for 50% bucket capital instruments

The amount reported in 136A which is in excess of the limit set out in GENPRU 2.2.30AR.

140A Excess on limit for 35% bucket capital instruments

The amount reported in 137A which is in excess of the limit set out in GENPRU 2.2.30BR.

141A Excess on limit for 15% bucket capital instruments

The amount reported in 138A which is in excess of the limit set out in GENPRU 2.2.30CR.

FSA003 – Capital adequacy validations

Internal validations

Data elements are referenced by row then column.

Validation number	Data element		Validation
1	1A		If (2A+3A+4A)=yes, then no, else yes
2	2A		If (1A+3A+4A)=yes, then no, else yes
3	3A		If (1A+2A+4A)=yes, then no, else yes
4	4A		If (1A+2A+3A)=yes, then no, else yes
5	5A		If 2A = no, then no
6	6A		If (3A+4A) = no, then no
7	7A		If (1A+8A+9A)=yes, then no
8	8A		If (1A+7A+9A)=yes, then no
9	9A		If (1A+7A+8A)=yes, then no
10			[deleted – replaced by validation 114]
11			[deleted – replaced by validation 115]
12			[Not used]
13	15A	=	64A – 65A
14	15B	=	64B – 65B [deleted]
15	16A	=	17A + 24A - 27A + 135A
16	16B	=	17B + 24B – 27B [deleted]
17	17A	=	18A + 19A – 20A +21A +22A + 23A
18	17B	=	17A [deleted]
19	24A	=	25A + 26A
20	24B	=	24A [deleted]
21	27A	=	28A + 29A + 30A + 31A + 32A + 33A+34A + 139A+140A+141A
22		=	[deleted – replaced by validation 116]
23	28B	=	28A [deleted]
24	29B	=	29A [deleted]
25	30B	=	30A [deleted]
26	31B	=	26A [deleted]
27	32B	=	32A [deleted]
28	33B	=	33A [deleted]
29	34A		If 10A = no, then 0
30	34B	=	34A [deleted]
31			[Not used]
32	35A	=	36A + 42A - 45A
33	35B	=	36B + 42B – 45B [deleted]
34	36A	=	37A + 38A + 39A + 40A + 41A
35	36B	=	37B + 38B + 39B + 40B + 41B [deleted]
36	37A	≤	30A + 31A
37	37B	≤	30B + 31B [deleted]
38	38B	=	38A [deleted]
39	39B	=	39A [deleted]
40	40B	=	40A [deleted]
41	41B	=	41A [deleted]

Validation number	Data element		Validation
42	42A	=	43A – 44A
43	42B	=	43B – 44B [deleted]
44	43B	=	43A [deleted]
45	45A	=	46A + 47A
46	45B	=	46B + 47B [deleted]
47	47B	=	47A [deleted]
48	48A	=	49A + 50A + 51A + 52A + 53A + 54A + 55A + 56A
49	48B	=	48A [deleted]
50	49A		If 11A = yes, then 0
51	52A		If 1A = no, then 0
52	53A		If 10A = no, then 0
53	55A		If 1A = no, then 0
54	56A		If 1A = no, then 0
55	57A	=	16A + 35A – 48A
56	57B	=	16B + 35B – 48B [deleted]
57	58A	=	59A + 60A + 61A - 62A
58	58B	=	59B + 60B + 61B – 62B [deleted]
59	59A	≤	44A + 46A
60	59B	≤	44B + 46B [deleted]
61	60B	=	60A [deleted]
62	61B	=	61A [deleted]
63			[deleted – replaced by validation 102]
64			[deleted – replaced by validation 103]
65	64A	=	57A + 58A
66	64B	=	57B + 58B [deleted]
67	65A	=	66A + 67A + 68A
68	65B	=	65A [deleted]
69	66A		If 1A = no, then 0
70	67A		If 11A = no, then (if 10A = no, then 0)
71	69A		If 12A = consolidated, then 0, else >0
72	70A	=	71A + 72A + 73A + 74A + 75A
72a			[deleted]
72b			[deleted]
72c			[deleted]
72d			[deleted]
72e			[deleted]
73			[deleted – replaced by validation 104]
74			[deleted – replaced by validation 105]
75			[deleted – replaced by validation 106]
76			[deleted – replaced by validation 107]
77			[deleted – replaced by validation 108]
78	76A	=	77A + 85A – 90A +91A
79			[Not used]
80	77A	=	78A + 79A + 80A
81	78A		If 12A ≠ consolidated, then 0
82	80A	=	81A + 82A + 83A + 84A
83	85A		86A + 87A + 88A + 89A

Validation number	Data element		Validation
84	86A		If 12A ≠ consolidated, then 0
85	90A		If 5A = no, then 0
86			[deleted – replaced by validation 109]
87	93A	=	94A + 95A + 102A
88	94A		If 12A ≠ consolidated, then 0
89	95A	=	96A + 97A + 98A + 99A + 100A + 101A
90	104A	=	If 1A = yes, then 0, else (if 2A = yes, then 0, else > 0)
91	106A	=	15A – 70A
92	106B	=	15B – 70A [deleted]
93			[deleted – replaced by validation 110]
94			[deleted – replaced by validation 111]
95	110A		If 108A = 0, then 0, else (15B – 108A) [deleted – replaced by validation 118]
96	111A		If 109A = 0, then 0, else (57B – 109A) [deleted – replaced by validation 119]
97			[deleted – replaced by validation 112]
98	123A	≤	26A
99			[deleted – replaced by validation 113]
100	127A	≤	16B [deleted – replaced by validation 120]
101	128A	≤	35B [deleted – replaced by validation 121]
102	63A	=	Max (59A + 60A + 61A – 62A – 92A), 0
103	63B	=	Max (59B + 60B + 61B – 62B – 92A), 0 [deleted]
104	71A		If 1A = Yes, then 76A + 92A, else 0
105	72A		If 2A = Yes, then 76A + 92A, else 0
106	73A		If 3A = Yes, then 76A + 92A, else 0
107	74A		If 4A = Yes, then (if 8A = Yes, 0, else (Max (77A + 91A + 93A + 103A), 104A)), else 0
108	75A		If 8A = Yes, then (Max ((77A + 91A + 93A + 103A), 104A)), else 0
109	92A	=	93A + 103A + 104A
110	107A	=	(15A/70A) * 100
111	107B	=	(15B/70A) * 100 [deleted]
112	112A		If 8A = no, then 0
113	127A + 128A	=	49A + 50A + 51A – 126A
114	10A		If 1A = yes, then no
115	11A		If 1A = yes, then no
116	27B	=	28B + 29B + 30B + 31B + 32B + 33B + 34B [deleted]
117	<u>135</u>	=	<u>136A+137A+138A</u>
<u>118</u>	<u>110A</u>		<u>If 108A = 0, then 0, else (15A – 108A)</u>
<u>119</u>	<u>111A</u>		<u>If 109A = 0, then 0, else (57A – 109A)</u>
<u>120</u>	<u>127A</u>	≤	<u>16A</u>
<u>121</u>	<u>128A</u>	≤	<u>35A</u>

...

FSA005 – Market risk

...

56 Any other PRR

PRR arising from other non-standard transactions as required by *BIPRU 7.1.7R* to *BIPRU 7.1.13E* and that is not attributable to any of the other categories e.g. PRR arising from nonfinancial spread betting.

This will have the same value as data element 101A in FSA003.

VAR model risk Internal models-based charges

See *BIPRU 7.10*.

57 Multiplier

This is the multiplication factor set out in *BIPRU 7.10.118R* to *BIPRU 7.10.126G*.

[*CEBS' MKR IM total positions column 7*]

...

60 Incremental default risk charge

This is the incremental default risk charge under *BIPRU 7.10.116R*. It also includes the specific risk surcharge under *BIPRU 7.10.127G*.

[*CEBS' MKR IM total positions columns 3 and 4*]

61 ~~VaR model based PRR~~ Internal models-based PRR

See *BIPRU 7.10.113R* to *BIPRU 7.10.117G*.

This will have the same value as data element 102A on FSA003.

[*CEBS' MKR IM total positions column 5*]

...

Add-ons**63 Add-ons**

This comprises the add-ons to model based PRR under *BIPRU 7.10*

64 Total Add-ons

The total of items 1 to n in 63

FSA005 – Market risk validations
Internal validations

Data elements are referenced by row then column.

Validation number	Data element		Validation
...			
<u>53</u>	<u>64G</u>	≡	<u>SUM (63B)</u>

...

External validations

[Editor's Note: No changes]

FSA008 – Large exposures

This data item captures information on *large exposures*, connected exposures within that, exposures by integrated/core/non-core groups, *trading book concentration risk excesses*, and also significant transactions with mixed activity holding companies and their subsidiaries.

Unless indicated otherwise, the valuation of items should follow *GENPRU* 1.3.

...

3A Are you a member of a UK integrated group

This is only relevant for unconsolidated or solo-consolidated reporters.

The answer is either Yes or No.

If the answer to 73A is Yes, and the firm is part of a *UK integrated group*, one of the members of the *UK integrated group* is also required to submit FSA018 on behalf of all members of the *UK integrated group* for the reporting date.

Part 1 – Large exposures at the reporting date

This section should contain details of all *large exposures* at the reporting date, as defined in *BIPRU* 10.5.1R.

~~However, where~~ Where a *BIPRU* firm is relying on *BIPRU* TP 33 has established a *UK integrated group* (as defined in *BIPRU* 10.8), it should exclude from Part 1 any *large exposures* to members of a wider integrated group (as defined in *BIPRU* 10.9) or to members of each *diverse block* (~~*BIPRU* 10.9~~) and the *residual block* (~~*BIPRU* 10.8 and *BIPRU* 10.9~~) (see *BIPRU* TP 33 for further details) – these exposures will be reported separately on FSA018 by the *UK integrated group*. They should ~~obviously~~ also be excluded from Part 2 (Connected counterparties) in these circumstances.

Exposures to connected counterparties (other than members of an integrated group) should be reported here in aggregate, with a more detailed breakdown provided in Part 2.

Where a firm has established a *core UK group* (as defined in *BIPRU* 10.8.2R), it should detail these *exposures* in Part 2.

...

5B Counterparty name

List here the names of the *counterparties*, *groups of connected clients*, and *connected counterparties* (as set out in *BIPRU* 10.3) that represent *large exposures* (excluding, as indicated above, by a member of a *UK integrated group* to members of the diverse blocks and the residual block, or by a *core UK group*). Details of individual counterparties comprising the *connected counterparties* will be shown in Part 2, although the aggregate should be shown here. (Details of exposures by members of a *UK integrated group* to a ~~members~~ member of a *diverse block* within its *wider integrated group* or a member of its *residual block* will be reported in FSA018 and should be excluded from this section.)

5C Gross exposure

Report here the gross exposures calculated in accordance with *BIPRU* 10.2 and *BIPRU* 10.4.

...

5F Amount of the exposure that is exempt

That part of the amount reported in column E that is an exempt under *BIPRU* 10.6 and *BIPRU* 10.7.

...

5N Trading book concentration risk excess

This is the *trading book concentration risk excess*, arising under *BIPRU* 10.10.8R (or *BIPRU* 10.5.20R for those utilising TP33), expressed as a percentage of data element 4B. It should be entered to two decimal places, omitting the % sign.

5P Trading book concentration risk excesses that have existed for 10 business days or less

This is the amount of the *trading book concentration risk excesses* that have existed for 10 business days or less, as a percentage of data element 3B. ~~A total is given for this column to monitor it against *BIPRU* 10.5.12R.~~

5Q Trading book concentration risk excesses that have persisted for more than 10 business days

This is the amount of the *trading book concentration risk excesses* that have persisted for more than 10 business days. ~~A total for this column is given to monitor it against *BIPRU* 10.5.13R.~~

5R CNCOM

The amount of CNCOM calculated as set out in *BIPRU* 10.10.4G to 10.10.10R (or *BIPRU* 10.5.16G to 10.5.24G for those utilising TP33). It should agree with the amount reported in data element 103A on FSA003 for the same reporting date, except when the firm is a member of a *UK integrated group/core UK group* when there may be some additional CNCOM attributable to the firm.

...

5W Funded credit protection

Report here the portion of the *exposure* being covered by collateral and for which the *exposure* is assigned to the issuer of the collateral.

5X Unfunded credit protection

Report here the portion of the *exposure* which is guaranteed and is assigned to the protection provider.

6A Confirmation

Firms should confirm that we have been notified under ~~BIPRU 10.5.9R~~ SUP 15.3.11R of all exposures that have exceeded, or will exceed, the limits set out in ~~BIPRU 10.5.6R or 10.5.8R~~.

Part 2 – Details of connected counterparties at the reporting date

Details of connected counterparties

This part sets out details of any *connected counterparties* reported in aggregate in Part 1, but this time showing each counterparty whose individual exposure exceeds 2.5% of the capital resources calculated under *BIPRU 10.5.3R* (data element 4A). As with Part 1, this figure should exclude exposures by a member of a *UK integrated group* to members of a wider integrated group or to members of the diverse blocks and the residual block (which are reported in FSA018).

If a firm has a core UK group, its exposures should be included here.

...

7B Individual counterparty names, each individually above 2.5% of capital resources

Report here the individual counterparty names that make up a group of connected counterparties (see *BIPRU 10.3.9R*), where each counterparty's exposure is individually 2.5% or more of *capital resources* (data element 4A).

If a firm has a core UK group, its exposures should be included here.

As with Part 1, this figure should exclude exposures by a member of a *UK integrated group* to members of the diverse blocks and the residual block.

...

7F Amount of the exposure that is exempt

That part of the amount reported in column E that is an exempt under *BIPRU 10.6* and *BIPRU 10.7*.

...

7N Funded credit protection

Report here the portion of the *exposure* being covered by collateral and for which the *exposure* is assigned to the issuer of the collateral.

7O Unfunded credit protection

Report here the portion of the *exposure* which is guaranteed and is assigned to the protection provider.

...

Part 3 Trading book concentration risk excesses since the last reporting date

This part provides an analysis of those *trading book concentration risk excesses* that have occurred since the previous reporting date. It should therefore:

- ~~exclude exposures to those counterparties that, at the reporting date, give rise to a *trading book concentration risk excess* (and are shown in Part 1);~~
- ~~include exposures to counterparties that do not, at the reporting date, give rise to a *trading book concentration risk excess* but are nevertheless shown in Part 1 as there is a *large exposure* at that date; and~~
- ~~include exposures to counterparties that do not appear in Part 1 (as they did not give rise to a *large exposure* at the reporting date).~~

If a counterparty gives rise to a *trading book concentration risk excess* on a number of separate occasions during the quarter, it should only be reported once in this Part. The highest gross exposure should be reported. This fulfils the requirements of *BIPRU 10.5.13R*.

8A Exposure number

Please number each large exposure consecutively.

8B Counterparty names

List here the names of the *counterparties, groups of connected clients, and connected counterparties* (as set out in *BIPRU 10.3*) that account for *trading book concentration risk excesses* that have occurred since the previous reporting date but do not exist at the current reporting date.

For those firms that are member so of a *UK integrated group*, they should report those exposures to individual members of the diverse and residual blocks that gave rise to a *trading book concentration risk excess* during the period.

8C Gross exposure

Report here the gross exposures calculated in accordance with *BIPRU 10.2*. This should be the highest value in the period.

8D % of capital resources

This is column C as a percentage of data element 4A and should be more than 25%. It should be entered to two decimal places, omitting the % sign.

8E Exposure after credit risk mitigation techniques

This is the figure reported in column D after *credit risk mitigation*.

8F Non-exempt exposures in the non-trading book

This is the amount of the non-exempt exposures that were in the non-trading book.

8G Non-exempt exposures in the trading book

This is the amount of the non-exempt exposures that were in the trading book.

8H Amount of non-exempted exposures in excess of 25% of capital resources under *BIPRU 10.5.4R*

This is the amount reported in columns F and G that was in excess of 25% of data element 4B.

8J Is it a member of a diverse block or residual block

This will only be relevant to a firm that answers Yes to data element 3A.

If the firm had a *trading book concentration risk excess* to a member (of the diverse blocks or residual block), it should be marked with an X to show it is a member of one of these blocks. [deleted]

FSA008 – Large exposures validations

Internal validations

Data elements are referenced by row then column.

Validation number	Data element		Validation
...			
33	8E	≠	8C[deleted]
34	8F	≠	8E[deleted]
35	8F+8G	≠	8E[deleted]
36	8H	≡	8F + 8G - (4B/4) [deleted]
...			

FSA046 – Securitisation – non-trading book

This data item allows a greater understanding of the prudential risk profile of the ~~firm~~ firm and ~~avoids~~ reduces the need for ad hoc data requests from ~~firms~~ firms. It also enables the FSA to lead debate on credit risk transfer in international discussions.

This data item captures information on a firm's non-trading book securitisation positions which fall under BIPRU 9 where they are acting as originator, sponsor or investor. Trading book securitisations are captured in FSA058.

...

Data elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Transaction level information - Where the firm is an originator or sponsor

All securitisations where you have acted as an originator or sponsor where the assets are held in the non-trading book should be shown in this section, irrespective of whether you meet BIPRU 9.3.1 R.

3A Programme name

Enter the common name of the programme in the market.

[COREP CR SEC Details column 2]

3B Asset class

This is the class of assets securitised in accordance with the options in FSA004 with an additional entry for "Asset Backed Commercial Paper Programme". Where the underlying exposures consist of different types of assets, a firm should indicate the most important type.

[COREP CR SEC Details column 9]

3C Originator's interest

For the purposes of reporting, originator's interest means the exposure value of the notional part of a pool of drawn amounts sold into a securitisation, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cash-flows generated by principal and interest collections and other associated amounts which are not available to make payments to those having securitisation positions in the securitisation. The originator's interest may not be subordinate to the investors' interest.

See BIPRU 9.13.4R (1). The exposure value should be used.

3D Investors' interest

Investors' interest means the exposure value of the remaining notional part of the pool of drawn amounts.

~~See BIPRU 9.13.4R (3). The exposure value should be used.~~

[COREP CR SEC Details 7]

...

3G BIPRU 9.3.1 applied?

Yes/No to indicate whether the assets have been excluded from the calculation of *risk weighted exposure amounts* under BIPRU 9.3.1R.

[COREP CR SEC Details 25]

~~3H BIPRU 9.13 applies~~ Conversion factor applied?

Yes/No to indicate whether the transaction is a *securitisation of revolving exposures* with an *early amortisation* provision to which a conversion factor is applied under BIPRU 9.13.

[COREP CR SEC Details 26]

Insert the following additional data elements.

3I Exposure Value before securitisation

Total exposure value of the *exposures* or pool of *exposures* which have been securitised.

[COREP CR SEC Details 7]

3J Capital requirement before securitisation

Total capital requirements held against the *exposures* or pool of *exposures* before they are securitised. For these purposes, where appropriate, firms should specify the capital requirements against the "investors' interest" as defined above.

[COREP CR SEC Details 14]

3K Exposure Value after securitisation

Total exposure value subject to risk weights under BIPRU 9.

[COREP CR SEC Details 16-26]

3L Exposure value deducted from capital resources

Exposure value applying BIPRU 9.10.2 R

[COREP CR SEC Details 27]

3M Capital requirement after securitisation before cap

Capital requirements derived from the *risk weighted exposure amount* without taking into account the provisions in BIPRU 9.11.5 R, BIPRU 9.12.8 R or BIPRU 9.13.9R regarding the maximum *risk-weighted exposure amounts*.

[COREP SR SEC Details 28]

3N - Capital requirement after securitisation after cap

Total capital requirements subject to *securitisation* treatment after applying the cap as specified in BIPRU 9.11.5 R, BIPRU 9.12.8 R or BIPRU 9.13.9R.

[COREP SR SEC Details 29]

3O – Retention of net economic interest (% to 2DP)

Percentage of the nominal value of the securitised *exposures* retained by an *originator* or *sponsor* as calculated under BIPRU 9.15.4R. Show the percentage to two decimal places (2DP).

3P – Method of retention of net economic interest

Please detail a number according to the method of retention as calculated under BIPRU 9.15.4R.

1. = BIPRU 9.15.4R(1);

2. = BIPRU 9.15.4R(2);

3. = BIPRU 9.15.4R(3);

4. = BIPRU 9.15.4R(4).

Risk positions – standardised exposures

All *exposures* that are treated under BIPRU 9.11 should be shown in this section broken down by credit quality and how the *exposure* arose.

Row 4: Originator

This is for *exposures* where the *firm* originated the underlying assets.

Row 5: Sponsor

This is for *exposures* to *asset backed commercial paper programmes*.

Row 6: Counterparty credit risk

This is the *exposure* values generated under *BIPRU 13* ~~where the exposure is also a securitisation position.~~

Row 7: All other exposures

This is for any standardised *exposures* not included in *data elements 4 – 6* above.

Columns A – DE

Positions should be split by credit rating according to *BIPRU 9.11.2R* and *BIPRU 9.11.3R*.

Column EF

This is for positions deducted from capital at part 1 of stage M of the capital calculations in *GENPRU 2*, Annexes 2R, 3R, 4R, 5R or 6R as appropriate.

Risk positions – IRB exposures

All *exposures* that are treated under *BIPRU 9.12* should be shown in this section, broken down by credit quality, granularity and how the *exposure* arose.

Rows 8 – 10: Originator

This is for *exposures* where the *firm* originated the underlying *exposures*.

Rows 11 – 13: Sponsor

This is for *exposures* to *asset backed commercial paper programmes*.

Rows 14 – 16: Counterparty credit risk

This is for exposure values generated under *BIPRU 13* where the *exposure* is also a *securitisation position*.

Rows 17 – 19: All other exposures

This covers any IRB *exposures* not included above.

Columns AB – M

This should be split by credit rating according to *BIPRU 9.12.11R* and *BIPRU 9.12.12R*.

Column N

~~This is for positions calculated~~ Firms should state the exposure value calculated under *BIPRU 9.12.21R* to *BIPRU 9.12.23R*.

Column O

This is for positions deducted from capital at part 1 of stage M of the capital calculations in *GENPRU 2*, Annexes 2R, 3R, 4R, 5R or 6R as appropriate.

Column P

Firms should state the capital requirement calculated under *BIPRU 9.12.21R* to *BIPRU 9.12.23R*.

...

FSA046 – Securitisation: non-trading book validations

There are no validations for this data item.

External validations

There are no validations for this data item.

...

Insert the following new text as a new Data Item FSA058. The text is not underlined.

FSA058 – Securitisation: trading book

This data item allows a greater understanding of the prudential risk profile of the *firm*. It also enables the *FSA* to lead debate on credit risk transfer in international discussions.

This data item captures information on the *firm's trading book securitisation positions* which fall under *BIPRU 7.2* where they are acting as *originator, sponsor* or investor. *Non-trading book securitisations* are captured in FSA046.

Currency

You should report in the currency of your annual audited accounts i.e. in Sterling, Euro, US dollars, Canadian dollars, Swedish Kroner, Swiss Francs or Yen. Figures should be reported in 000s.

Data elements

These are referred to by row first, then by column, so data element 2B will be the element numbered 2 in column B.

Transaction level information - Where the firm is an originator or sponsor

All *securitisations* where you have acted as an *originator* or *sponsor* where the assets are held in the *trading book* should be shown in this section, irrespective of whether you meet *BIPRU 9.3.1R*.

3A Programme name

Enter the common name of the programme in the market.

[COREP CR SEC Details column 2]

3B Asset class

This is the class of assets securitised in accordance with the options in FSA004 with an additional entry for "Asset Backed Commercial Paper Programme". Where the underlying *exposures* consist of different types of assets, a *firm* should indicate the most important type.

[COREP CR SEC Details column 9]

3C Originator's interest

For the purposes of reporting, *originator's* interest means the exposure value of the notional part of a pool of drawn amounts sold into a *securitisation*, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cash-flows generated by principal and interest collections and other associated amounts which are not available to make payments to those having *securitisation positions* in the *securitisation*. The *originator's* interest may not be subordinate to the investors' interest.

3D Investors' interest

Investors' interest means the exposure value of the remaining notional part of the pool of drawn amounts.

[COREP CR SEC Details 7]

3E Location of investor reports

Provide either a URL to the location of the investor reports published on the performance of the assets or, if not available via the internet, a description of where to find the investor reports.

3F Assets appear in FSA001?

Yes/No to indicate whether the assets appear on the balance sheet provided in FSA001.

3O– Retention of net economic interest (% to 2DP)

Percentage of the nominal value of the securitised exposures retained by an *originator* or *sponsor* as calculated under *BIPRU* 9.15.4R.

3P– Method of retention of net economic interest

Please detail a number according to the method of retention as calculated under *BIPRU* 9.15.4R.

1. = *BIPRU* 9.15.4R(1);
2. = *BIPRU* 9.15.4R(2);
3. = *BIPRU* 9.15.4R(3);
4. = *BIPRU* 9.15.4R(4).

FSA058 – Securitisation: non-trading book validations

Internal validations

There are no validations for this data item.

External validations

There are no validations for this data item.