Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):  

   (1) section 137A (The FCA’s general rules);  
   (2) section 137T (General supplementary powers);  
   (3) section 138D (Actions for damages); and  
   (4) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 January 2014.

Amendments to the FCA Handbook

D. The General Prudential sourcebook (GENPRU) is amended in accordance with Annex A to this instrument.

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

Notes

F. 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

G. This instrument may be cited as the Capital Requirements Directive IV (GENPRU and BIPRU Amendments) Instrument 2013.

By order of the Board of the Financial Conduct Authority  
12 December 2013
Annex A

Amendments to the General Prudential sourcebook (GENPRU)

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

1 Application

1.1 Application

... 

1.1.2 G Broadly speaking however, GENPRU applies (except as provided in GENPRU 1.1.2-AG) to:

(1) an insurer;
(2) a bank; [deleted]
(3) a building society; [deleted]
(4) a BIPRU investment firm; and
(5) groups containing such firms.

... 

1.1.2- AA GENPRU 3 (Cross sector groups) applies to:

(1) an IFPRU investment firm;
(2) an insurer; and
(3) a group containing both the firms in (1) and (2).

1.1.2-B G GENPRU applies to a collective portfolio management investment firm that is a BIPRU firm in parallel with IPRU(INV) 11 (see IPRU(INV) 11.6).

1.1.2A G A firm should refer to GEN 2.2.13AR (cross-references in the Handbook) and GEN 2.2.23R to GEN 2.2.25G (cutover, application of provisions made by both the FCA and the PRA) when applying the rules and guidance in GENPRU. In particular, many rules in GENPRU are made by both the PRA (in relation to PRA-authorised persons) and by the FCA (in relation to BIPRU investment firms that are FCA-authorised persons.

...
1.2 Adequacy of financial resources

...  

1.2.2A R In relation to any provision in this section which applies to a BIPRU firm, a reference in that provision to "financial resources" does not constitute a reference to "liquidity resources." [deleted]

1.2.3A G In relation to:

(1) a BIPRU firm;

(2) an incoming EEA firm which:

(a) is a full BCD credit institution; and

(b) has a branch in the United Kingdom; and

(3) a third country BIPRU firm which:

(a) is a bank; and

(b) has a branch in the United Kingdom:

BIPRU 12 contains rules and guidance in relation to the adequacy of that firm's liquidity resources. [deleted]

...  

1.2.11 G The adequacy of a firm's financial resources needs to be assessed in relation to all the activities of the firm and the risks to which they give rise and so this section applies to a firm in relation to the whole of its business. In the case of a collective portfolio management investment firm this means that this section also applies to its activities in relation to the management of AIFs and/or UCITS.

1.2.11A G In the case of a collective portfolio management investment firm, GENPRU 1.2.11G means that this section also applies to its activities in relation to the management of AIFs and/or UCITS.

Purpose

...  

1.2.13 G This section amplifies Principle 4, under which a firm must maintain adequate financial resources. It is concerned with the adequacy of the financial resources that a firm needs to hold in order to be able to meet its liabilities as they fall due. These resources include both capital and liquidity resources. As noted in GENPRU 1.2.3AG, however, the appropriate regulator's rules and guidance in relation to the adequacy of the liquidity
resources of a BIPRU firm are set out in BIPRU 12.

1.2.14 G In the case of a bank or building society this section implements Article 123 and (in part) Annex XI of the Banking Consolidation Directive. In the case of a BIPRU investment firm this section implements the third paragraph of article 95(2) of the EU CRR applying Article 34 of the Capital Adequacy Directive so far as that Article applies Article 123 of the Banking Consolidation Directive.

... Outline of other related provisions ...

1.2.21 G ...

(2A) BIPRU 12 sets out material on systems and controls that apply specifically to liquidity risk in relation to a BIPRU firm, a branch of an incoming EEA firm that is a full BCD credit institution and a branch of a third country BIPRU firm that is a bank. [deleted]

... (5) GENPRU 2.2 (Adequacy of financial resources) requires certain BIPRU investment firms to deduct illiquid assets when calculating their capital resources. [deleted]

1.2.21A G (1) BIPRU 12 sets out material on systems and controls that apply specifically to liquidity risk in relation to a BIPRU firm.

(2) GENPRU 2.2 (Adequacy of financial resources) requires certain BIPRU firms to deduct illiquid assets when calculating their capital resources.

... 1.2.24 G BIPRU 10.2.22R (Stress testing of credit risk concentrations) sets out further stress tests that a firm should carry out. Further rules and guidance on such stress tests are set out in BIPRU 2.2 (Internal capital adequacy standards). [deleted]

... Systems, strategies, processes and reviews ...

1.2.33 R ...

(2) In the case of a BIPRU firm the processes, strategies and systems relating to concentration risk must include those necessary to ensure
... compliance with BIPRU 10 (Large exposures requirements). [deleted]

...

1.2.47 R The ICAAP rules apply on a solo basis:

(1) to an insurer to which those rules do not apply on a consolidated basis under GENPRU 1.2.45R; [deleted]

(2) to a BIPRU firm to which those rules do not apply on a consolidated or sub-consolidated basis as referred to in GENPRU 1.2.46R (including a BIPRU investment firm with an investment firm consolidation waiver); and,

(3) a firm referred to in GENPRU 1.2.2R (Application of this section to certain non-EEA firms). [deleted]

...

Capital planning

...

1.2.78 G Additional guidance in relation to stress tests and scenario analysis for liquidity risk as that concept relates to an insurer is available in SYSC 11 (Liquidity risk systems and controls). BIPRU 12 sets out the main Handbook provisions in relation to liquidity risk for a BIPRU firm.

1.2.78A G BIPRU 12 sets out the main Handbook provisions in relation to liquidity risk for a BIPRU firm.

...

1.3 Valuation

Purpose

...

1.3.3 G (1) In the case of a BIPRU firm, this section implements Article 74 of the Banking Consolidation Directive, Articles 64(4) and 64(5) of the Banking Consolidation Directive (Own funds) and Article 33 and Part B of Annex VII of the Capital Adequacy Directive.

...

General requirements: Accounting principles to be applied
1.3.4 R Subject to GENPRU 1.3.9R to GENPRU 1.3.10R and GENPRU 1.3.36R, except where a rule in GENPRU, BIPRU or INSPRU provides for a different method of recognition or valuation, whenever a rule in GENPRU, BIPRU or INSPRU refers to an asset, liability, exposure, equity or income statement item, a firm must, for the purpose of that rule, recognise the asset, liability, exposure, equity or income statement item and measure its value in accordance with whichever of the following are applicable:

…

(4) the Building Societies (Accounts and Related Provisions) Regulation 1998; [deleted]

…

General requirements: Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves

…

1.3.35A G UK banks and BIPRU 730k firms are reminded that they may, in respect of their prudent valuation assessments under GENPRU 1.3.4R and GENPRU 1.3.14R to GENPRU 1.3.34R, be subject to the requirement under SUP 16.16.4R to submit a Prudent Valuation Return to the appropriate regulator. [deleted]

Specific requirements: BIPRU firms

1.3.36 R …

(3) A BIPRU investment firm must deduct any asset in respect of deferred acquisition costs and add back in any liability in respect of deferred income (but exclude from the deduction or addition any asset or liability which will give rise to future cash flows), together with any associated deferred tax.

…

…

2 Capital

2.1 Calculation of capital resources requirements

…

2.1.8 G (1) This section implements minimum EC standards for the capital resources required to be held by an insurer undertaking business that

(2) This section also implements the third paragraph of article 95(2) of the EU CRR applying the provisions of the Capital Adequacy Directive and Banking Consolidation Directive concerning the level of capital resources which a BIPRU firm is required to hold. In particular it implements (in part) Articles 9, 10 and article 75 of the Banking Consolidation Directive and Articles 5, 9, 10 and 18 of the Capital Adequacy Directive.

(3) In the case of a collective portfolio management investment firm this section implements article 9 of AIFMD and (in part) Article 7 of the UCITS Directive. [deleted]

Main requirement: BIPRU firms

Calculation of the variable capital requirement for a BIPRU firm

2.1.45 R Table: Calculation of the variable capital requirement for a BIPRU firm

<table>
<thead>
<tr>
<th>Firm category</th>
<th>Capital requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank, building society or full scope BIPRU investment firm</td>
<td>the sum of the following:</td>
</tr>
<tr>
<td></td>
<td>(1) the credit risk capital requirement;</td>
</tr>
<tr>
<td></td>
<td>(2) the market risk capital requirement;</td>
</tr>
<tr>
<td></td>
<td>(3) the operational risk capital requirement.</td>
</tr>
<tr>
<td>BIPRU limited activity firm</td>
<td>the sum of the following:</td>
</tr>
<tr>
<td></td>
<td>(1) the credit risk capital requirement;</td>
</tr>
<tr>
<td></td>
<td>(2) the market risk capital requirement;</td>
</tr>
<tr>
<td></td>
<td>(3) the fixed overheads requirement.</td>
</tr>
</tbody>
</table>
### Table: Base capital resources requirement for a BIPRU firm

<table>
<thead>
<tr>
<th>Firm category</th>
<th>Amount: Currency equivalent of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>€5 million</td>
</tr>
<tr>
<td>Building society</td>
<td>The higher of €1 million and £1 million</td>
</tr>
<tr>
<td>BIPRU 730K firm</td>
<td>€730,000</td>
</tr>
<tr>
<td>BIPRU 125K firm</td>
<td>€125,000</td>
</tr>
<tr>
<td>BIPRU 50K firm (but not a collective portfolio management investment firm)</td>
<td>€50,000</td>
</tr>
<tr>
<td>Collective portfolio management investment firm</td>
<td>€125,000 plus, if the funds under management exceed €250,000,000, 0.02% of the excess, subject to a maximum of €10,000,000.</td>
</tr>
</tbody>
</table>

2.1.48A  G  A **collective portfolio management investment firm** is required to maintain **base own funds requirement** of €125,000 (in line with **IPRU(INV) 11.3.1R(1)**).

**Definition of BIPRU 730K firm, BIPRU 125K firm and BIPRU 50K firm**

2.1.49  G  The terms **BIPRU 730K firm, BIPRU 125K firm and BIPRU 50K firm** are defined in **BIPRU 1.1 (Application and purpose)**. However, for convenience the table in **GENPRU 2.1.50G** briefly summarises them. The *Capital Adequacy Directive* sets out various categories of **investment firms** subject to differing levels of initial capital. For the purpose of the third paragraph of article 95(2) of the **EU CRR**, a **BIPRU firm** falls into the category in article 5(3) of the *Capital Adequacy Directive*. In summary, a **BIPRU firm**:  

1. **does not provide the ancillary service of safekeeping and administration of financial instruments** for the account of clients, including custodianship and related services such as cash/collateral management, and is not authorised to do so;
(2) is not authorised to provide the following investment services:

(a) to deal in any financial instruments for its own account;

(b) to underwrite issues of financial instruments on a firm commitment basis;

(c) to place financial instruments without a firm commitment basis; and

(d) to operate a multilateral trading facility;

(3) is authorised to provide one or more of the following investment services:

(a) the execution of investors’ orders for financial instruments; or

(b) the management of individual portfolios of investments in financial instruments;

(4) may be authorised to provide one or more of the following investment services:

(a) reception and transmission of investors’ orders for financial instruments; or

(b) investment advice; and

(5) does not hold clients’ money and/or securities and is not authorised to do so (it should have a limitation or requirement prohibiting the holding of client money and its permission should not include safeguarding and administering investments).

Table: Definition of BIPRU 730K firm, BIPRU 125K firm and BIPRU 50K firm

The table in GENPRU 2.1.50G is deleted in its entirety. The deleted text is not shown.

Calculation of the fixed overheads requirement (BIPRU investment firm only)

2.1.53 R In relation to a BIPRU investment firm which is required to must calculate a fixed overheads requirement, the amount of that requirement that is equal to one quarter of the firm's relevant fixed expenditure calculated in accordance with GENPRU 2.1.54R.

2.1.54 R For the purpose of GENPRU 2.1.53R, and subject to GENPRU 2.1.55R to GENPRU 2.1.57R, a BIPRU investment firm's relevant fixed expenditure is the amount described as total expenditure in its most recent audited annual
report and accounts, less the following items (if they are included within such expenditure):

…

…

GENPRU 2.1.63R to GENPRU 2.1.74G are deleted in their entirety. The deleted text is not shown.

2.2 Capital resources

Purpose

…

2.2.4 G This section also implements minimum EC standards for the composition of capital resources required to be held by a BIPRU firm. In particular it implements the third paragraph of article 95(2) of the EU CRR, applying Articles 56 - 61, Articles 63 - 64, Article 66 and Articles 120 - 122 of the Banking Consolidation Directive (2006/48/EC) and Articles 12 - 16, Article 17 (in part), Article 22(1)(c) (in part) and paragraphs 13 - 15 of Part B of Annex VII of the Capital Adequacy Directive (2006/49/EC).

…

2.2.6 G This table belongs to GENPRU 2.2.5G.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Location of text</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td>GENPRU 2.2.22G to GENPRU 2.2.23G; GENPRU 2 Annex 1R</td>
</tr>
<tr>
<td>Calculation of capital resources for insurers</td>
<td>GENPRU 2.2.29R to GENPRU 2.2.41R</td>
</tr>
<tr>
<td>Limits on the use of different forms of capital for insurer (capital resources gearing rules for insurer)</td>
<td>GENPRU 2 Annex 2R</td>
</tr>
<tr>
<td>Calculation of capital resources for banks</td>
<td>GENPRU 2 Annex 3R</td>
</tr>
<tr>
<td>Limits on the use of different forms of capital for banks and building societies (certain types of capital resources cannot be used for certain purposes)</td>
<td>GENPRU 2.2.44R to GENPRU 2.2.45R; GENPRU 2.2.47R to GENPRU 2.2.48R</td>
</tr>
<tr>
<td>Limits on the use of different forms of capital for banks and building societies (capital resources gearing rules)</td>
<td>GENPRU 2.2.29R to GENPRU 2.2.31G; GENPRU 2.2.46R; GENPRU 2.2.49R</td>
</tr>
<tr>
<td>Calculation of capital resources for BIPRU investment firms</td>
<td>...</td>
</tr>
<tr>
<td>Limits on the use of different forms of capital for BIPRU investment firms (certain types of capital resources cannot be used for certain purposes)</td>
<td>...</td>
</tr>
<tr>
<td>Limits on the use of different forms of capital for BIPRU investment firms (capital resources gearing rules)</td>
<td>...</td>
</tr>
<tr>
<td>Core tier one capital: valuation differences and fund for future appropriations for insurers</td>
<td>GENPRU 2.2.104R to GENPRU 2.2.108R</td>
</tr>
<tr>
<td>Core tier one capital: deferred shares (building society only)</td>
<td>GENPRU 2.2.108AR to GENPRU 108BG</td>
</tr>
<tr>
<td>Tier one capital: perpetual non-cumulative preference shares (insurers only)</td>
<td>GENPRU 2.2.109R to GENPRU 2.2.110G</td>
</tr>
<tr>
<td>Innovative tier one capital (excluding issues through SPVs) (insurer only)</td>
<td>GENPRU 2.2.76R; GENPRU 2.2.113R to GENPRU 2.2.122R</td>
</tr>
<tr>
<td>Deductions from tier one capital resources and tier two capital resources</td>
<td>GENPRU 2.2.202R 2.2.208R to GENPRU 2.1.216G; GENPRU 2.2.217G to GENPRU 2.2.220R; GENPRU 2.2.236R to GENPRU 2.2.240G</td>
</tr>
<tr>
<td>Deductions from total capital resources</td>
<td>GENPRU 2.2.14G to GENPRU 2.2.16G; GENPRU 2.2.250R 2.2.259R to GENPRU 2.2.265R 2.2.62G</td>
</tr>
<tr>
<td>Other capital resources for insurers: unpaid share capital or unpaid initial funds and calls for supplementary contributions</td>
<td>GENPRU 2.2.266G to GENPRU 2.2.269G</td>
</tr>
<tr>
<td>Additional requirements for insurer carrying on with-profits insurance business</td>
<td>GENPRU 2.2.270R to GENPRU 2.2.275G 2.2.272G; GENPRU 2.2.274G</td>
</tr>
</tbody>
</table>
Deductions from capital

2.2.14 Deductions should be made at the relevant stage of the calculation of capital resources to reflect capital that may not be available to the firm or assets of uncertain value (for example, holdings of intangible assets and assets that are inadmissible for an insurer, or, in the case of a bank or building society, where that firm has made investments in a subsidiary undertaking or in another financial institution or in respect of participations that it holds).

2.2.15 Deductions should also be made, in the case of certain BIPRU investment firms for illiquid assets (see GENPRU 2.2.19R).

Table: Applicable capital resources calculation

2.2.19 This table belongs to GENPRU 2.2.17R.

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>Location of rules</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer</td>
<td>GENPRU 2 Annex 1R</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>GENPRU 2 Annex 2R</td>
<td></td>
</tr>
<tr>
<td>Building society</td>
<td>GENPRU 2 Annex 3R</td>
<td></td>
</tr>
<tr>
<td>BIPRU investment firm without an investment firm consolidation waiver</td>
<td>…</td>
<td>Applies to a BIPRU investment firm not using GENPRU 2 Annex 5R or GENPRU 2 Annex 6R</td>
</tr>
<tr>
<td>BIPRU investment firm without an investment firm consolidation waiver</td>
<td>…</td>
<td>A BIPRU investment firm must give one Month’s prior notice to the appropriate regulator FCA before starting to use or stopping using this method</td>
</tr>
<tr>
<td>BIPRU investment firm with an investment firm consolidation waiver</td>
<td>…</td>
<td>A firm with an investment firm consolidation waiver must use this method. No other BIPRU investment firm may use</td>
</tr>
</tbody>
</table>
Calculation of capital resource: Which rules apply to BIPRU investment firms

2.2.20  **GENPRU** 2.2.19R sets out three different methods of calculating capital resources for BIPRU investment firms. The differences between the three methods relate to whether and how material holdings and illiquid assets are deducted when calculating capital resources. The method depends on whether a firm has an investment firm consolidation waiver. If a firm does have such a waiver, it should deduct illiquid assets, own group material holdings and certain contingent liabilities. If a firm does not have such a waiver, it should choose to deduct either material holdings or, subject to notifying the appropriate regulator **FCA**, illiquid assets.

...

Limits on the use of different kinds of capital: Purpose for which tier three capital may not be used (BIPRU firm only)

2.2.44  R  **Tier one capital** and **tier two capital** are the only type of capital resources that a BIPRU firm may use for the purpose of meeting:

...

(2)  the operational risk capital requirement;  [deleted]

...

Limits on the use of different kinds of capital: Purpose for which tier three capital may be used (BIPRU firm only)

2.2.47  R  For the purpose of meeting:

...

(3)  the fixed overheads requirement (where applicable);

...

Limits on the use of different kinds of capital: Combined tier two and tier three limits (BIPRU firm only)

...

2.2.50  R  In relation to a BIPRU investment firm which calculates its capital resources under **GENPRU** 2 Annex 4R (Capital resources table for a BIPRU investment firm deducting material holdings), the figure of 200% replaces
that of 250% in GENPRU 2.2.49R.

... Table: Example of how capital resources of a BIPRU firm are measured against its capital resources requirement

2.2.56 G This table belongs to GENPRU 2.2.55G.

<table>
<thead>
<tr>
<th>Description of the stage of the capital resources calculation</th>
<th>Stage in the capital resources table</th>
<th>Amount (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Credit, operational and counterparty risk requirement</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

... 2.2.58 G In this example it is assumed that the maximum possible amount of tier one capital is carried forward to meet the market risk requirement. There are other options as to the allocation of tier one capital and tier two capital to the credit, operational and counterparty risk requirement.

In order to calculate the relevant tier one capital for the upper tier three gearing limit in accordance with GENPRU 2.2.49R it is first necessary to allocate tier one capital and tier two capital to the individual credit, operational and counterparty risk requirements. This allocation process underlies the calculation of the overall amount referred to in GENPRU 2.2.48R. The calculation in GENPRU 2.2.49R(3) and GENPRU 2.2.49R(4) then focuses on the tier one element of this earlier calculation.

In this worked example, if it is assumed that the counterparty risk requirement has been met by tier one capital, the relevant tier one capital for gearing is £50. This is because the deductions of £20 and the credit and operational risk requirements of £90 have been met by tier two capital in the first instance. However, the total sum of deductions and credit and operational risk requirements exceed the tier two capital amount of £80 by £30. Hence the £80 of tier one capital has been reduced by £30 to leave £50.

In practical terms, the same result is achieved for the relevant tier one capital for gearing by taking the amount carried forward to meet market risk of £40 and adding back the £10 in respect of the counterparty risk requirement. Again, there are other options as to the allocation to credit, operational and counterparty risk of the constituent elements of Stage N of the capital resources table.
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; or [deleted]

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:

(3) a deferred share; [deleted]

2.2.85 R (1) Negative amounts, including any interim net losses (but in the case of a BIPRU investment firm, only material interim net losses), must be deducted from profit and loss account and other reserves.

(3) If interim losses as referred to in (2) exceed the 10% figure in (2) then a BIPRU investment firm must deduct the whole amount of those losses and not just the excess.

2.2.156 G Intangible assets include goodwill as defined in accordance with the requirements referred to in GENPRU 1.3.4R (General requirements:
accounting principles to be applied) applicable to the firm. The treatment of deferred acquisition cost assets for BIPRU investment firms is dealt with in GENPRU 1.3 (Valuation); they should not be deducted as an intangible asset.

Deductions from tiers one and two: Special treatment of material holdings and other items (BIPRU firm only)

2.2.240 G The alternative calculation in GENPRU 2.2.239R(3) to (4) is only relevant to BIPRU 11 (Pillar 3 disclosures) and certain reporting requirements under SUP. However the deduction of material holdings at Part 2 of stage E of the capital resources table in the case of a BIPRU investment firm with an investment firm consolidation waiver has effect for all purposes.

Tier three capital: upper tier three capital resources (BIPRU firm only)

2.2.245 R This table belongs to GENPRU 2.2.244R.

<table>
<thead>
<tr>
<th>Tier two capital rule</th>
<th>Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GENPRU 2.2.160R (Holder of a non-deferred share of a building society to be treated as senior creditor)

... DEDUCTIONS FROM TOTAL CAPITAL: ILLIQUID ASSETS (BIPRU INVESTMENT FIRM ONLY)

2.2.259 R GENPRU 2.2.259R to GENPRU 2.2.262G only apply to a BIPRU investment firm.

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

<table>
<thead>
<tr>
<th>Type of capital</th>
<th>Related text</th>
<th>Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total tier one capital plus tier two capital after deductions</strong> = L – M</td>
<td></td>
<td>(N)</td>
</tr>
<tr>
<td>In calculating whether a firm’s capital resources exceed its capital resources requirement:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) the credit risk capital component, the operational risk capital requirement (if applicable) and the counterparty risk capital component; or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) the base capital resources requirement, as the case may be, must be deducted here.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total capital after deductions</strong> (R – S)</td>
<td></td>
<td>(T)</td>
</tr>
<tr>
<td>In calculating whether a firm’s capital resources exceed its capital resources requirement, the market risk capital requirement, the concentration risk capital component and (if applicable) the fixed overheads requirement must be deducted here.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(2) the *base capital resources requirement*, as the case may be, must be deducted here.

\[
\text{Total capital after deductions} = R - S
\]

In calculating whether a firm’s capital resources exceed its capital resources requirement, the market risk capital requirement, the concentration risk capital component and (if applicable) the fixed overheads requirement must be deducted here.

...  

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

<table>
<thead>
<tr>
<th>Type of capital</th>
<th>Related text</th>
<th>Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td><strong>Total tier one capital plus tier two capital after deductions</strong> = (L - M)</td>
<td>...</td>
<td>(N)</td>
</tr>
</tbody>
</table>

In calculating whether a firm’s capital resources exceed its capital resources requirement,

(1) the *credit risk capital component*, the *operational risk capital requirement* (if applicable) and the *counterparty risk capital component*; or

(2) the *base capital resources requirement*, as the case may be, must be deducted here.

...  

\[
\text{Total capital after deductions} = R - S
\]

In calculating whether a firm’s capital resources exceed its capital resources requirement, the market risk capital requirement, the concentration risk capital component and (if applicable) the fixed overheads requirement must be deducted here.
Note (4): The material holdings that must be deducted at part 2 of stage E are material holdings issued by undertakings which would have been members of the firm's UK consolidation group or non-EEA sub-group if the firm did not have an investment firm consolidation waiver if:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>in relation to a BIPRU investment firm, the holding forms part of the undertaking's tier one capital resources; or</td>
</tr>
</tbody>
</table>

Note (6): The contingent liabilities that must be deducted by a firm at Part 1 of stage M are any contingent liabilities which the firm has in favour of BIPRU investment firms, financial institutions, asset management companies and ancillary services undertakings which would have been members of the firm's UK consolidation group or non-EEA sub-group if the firm did not have an investment firm consolidation waiver.

3 Cross sector groups

If a mixed financial holding company is subject to equivalent provisions under this Chapter and under EEA prudential sectoral legislation in relation to the insurance sector as implemented in the United Kingdom and the FCA is the coordinator, the FCA may, on application by the firm and after consulting other relevant competent authorities, disapply such provisions of the EEA prudential sectoral legislation as implemented in the United Kingdom with regard to that undertaking which are considered by the FCA as equivalent to those applying to the firm under GENPRU 3.1.

[Note: article 120(2) of CRD]
responsible for implementing those detailed requirements.

... Risk concentration and intra-group transactions: the main rule

3.1.35 R  A firm must ensure that the sectoral rules regarding risk concentration and intra-group transactions of the most important financial sector in the financial conglomerate referred to in GENPRU 3.1.34R are complied with with respect to that financial sector as a whole, including the mixed financial holding company. The appropriate regulator’s sectoral rules for these purposes are those identified in the table in GENPRU 3.1.36R.

Risk concentration and intra-group transactions: Table of applicable sectoral rules

3.1.36 R  Table: application of sectoral rules

This table belongs to GENPRU 3.1.35R.

<table>
<thead>
<tr>
<th>The most important financial sector</th>
<th>Application sectoral rules</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Risk concentration</td>
</tr>
<tr>
<td><strong>Banking and investment services sector</strong></td>
<td><strong>BIPRU 8.9A (Consolidated large exposure requirements) including BIPRU TP as it applies to a UK consolidation group the EU CRR</strong></td>
</tr>
</tbody>
</table>

3.1.37 R (1)  Where the sectoral rules for the banking and investment services sector are being applied, a mixed financial holding company must be treated as being a financial holding company.

3.1.38 R (1)  This rule applies for the purposes of the definitions of:

(a) a core concentration risk group counterparty; and
(b) a non-core concentration risk group counterparty;

as they apply for the purposes of the rules for the banking and investment services sector as applied by GENPRU 3.1.36 R.

[deleted]
(2) For the purposes of BIPRU 10.9A.4 R(1) and BIPRU 10.9A.4 R(2) (as they apply to the definitions in GENPRU 3.1.38R(1)), the conditions are also satisfied if the counterparty and the firm are included within the scope of consolidated supervision on a full basis with respect to the same financial conglomerate under GENPRU 3.1 or the relevant implementation measures in another EEA State for the Financial Groups Directive. [deleted]

... The financial sectors: asset management companies and alternative investment fund managers

3.1.39 R (1) ... 

(2) An asset management company or an alternative investment fund manager is in the overall financial sector and is a regulated entity for the purpose of:

... 

(c) any other provision of the Handbook or PRA Rulebook relating to the supervision of financial conglomerates.

(5) This rule applies even if:

(a) a UCITS management company is a BIPRU an IFPRU investment firm; or

(b) an asset management company or alternative investment fund manager is an investment firm.

3.2 Third-country groups

... 

Purpose

3.2.2 G GENPRU 3.2 implements in part Article 18 of the Financial Groups Directive and Article 143 of the Banking Consolidation Directive 127 of the CRD.

Equivalence

3.2.3 G The first question that must be asked about a third-country financial group is whether the EEA regulated entities in that third-country group are subject to supervision by a third-country competent authority, which is equivalent to that provided for by the Financial Groups Directive (in the case of a financial conglomerate) or the EEA prudential sectoral legislation for the banking sector or the investment services sector (in the case of a banking sector).
and investment group). Article 18(1) of the Financial Groups Directive sets out the process for establishing equivalence with respect to third-country financial conglomerates and Article 143(1) and (2) of the Banking Consolidation Directive 127(1) and (2) of the CRD does so with respect to third-country banking and investment groups.

Other methods: General

3.2.4 G If the supervision of a third-country group by a third-country competent authority does not meet the equivalence test referred to in GENPRU 3.2.3G, the methods set out in the CRD and EU CRR will apply or competent authorities may apply other methods that ensure appropriate supervision of the EEA regulated entities in that third-country group in accordance with the aims of supplementary supervision under the Financial Groups Directive or consolidated supervision under the applicable EEA prudential sectoral legislation.

Supervision by analogy: introduction

...

3.2.7 G GENPRU 3.2.8R and GENPRU 3.2.9R and GENPRU 3 Annex 2R set out rules to deal with the situation covered in GENPRU 3.2.5G. Those rules do not apply automatically. Instead, they can only be applied with respect to a particular third-country group through the Part 4A permission of a firm in that third-country group. Broadly speaking the procedure described in GENPRU 3.1.22G also applies to this process.

...

3 Annex Capital adequacy calculations for financial conglomerates (GENPRU 1R 3.1.29R)

...

7 Table

| A mixed financial holding company | 4.4 | A mixed financial holding company must be treated in the same way as:  
(1) a financial holding company (if the rules in BIPRU 8) Part One, Title II, Chapter 2 of the EU CRR and the PRA Handbook are applied); or  
(2) an insurance holding company (if the rules in INSPRU 6.1 are applied). |

8 Table: PART 5: Principles applicable to all methods

...
### Transfer-ability of capital

5.1 Capital may not be included in:
- (1) a firm's conglomerate capital resources under GENPRU 3.1.29R; or
- (2) in the capital resources of the financial conglomerate for the purposes of GENPRU 3.1.26R;
if the effectiveness of the transferability and availability of the capital across the different members of the financial conglomerate is insufficient, given the objectives (as referred to in the third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the Financial Groups Directive (Technical principles)) of the capital adequacy rules for financial conglomerates.

### Double counting

5.2 Capital must not be included in:
- (1) a firm's conglomerate capital resources under GENPRU 3.1.29R; or
- (2) the capital resources of the financial conglomerate for the purposes of GENPRU 3.1.26R;
if:
  - (3) (1) it would involve double counting or multiple use of the same capital; or
  - (4) (2) it results from any inappropriate intra-group creation of capital.

### Cross sectoral capital

5.3 In accordance with the second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the Financial Groups Directive (Other technical principles and insofar as not already required in Parts 1-3):
- (1) the solvency requirements for each different financial sector represented in a financial conglomerate required by GENPRU 3.1.29R or, as the case may be, GENPRU 3.1.26R must be covered by own funds elements in accordance with the corresponding applicable sectoral rules; and
- (2) if there is a deficit of own funds at the financial conglomerate level, only cross sectoral capital (as referred to in that sub-paragraph) shall qualify for verification of compliance with the additional solvency requirement required by GENPRU 3.1.26R or, as the case may be, GENPRU 3.1.29R.

...
(2) (For the purposes of Parts 1 and 2), where those rules require a group to be treated as if it were a single undertaking, those rules apply to the banking sector and investment services sector taken together. [deleted]

(3) Any investment firm consolidation waivers granted to members of the financial conglomerate do not apply.

(4) (For the purposes of Part 3), without prejudice to the application of requirements in BIPRU 8 preventing the use of an advanced prudential calculation approach on a consolidated basis, any advanced prudential calculation approach permission that applies for the purpose of BIPRU 8 does not apply.

(5) (For the purposes of Part 3), BIPRU 8.5.9R and BIPRU 8.5.10R do not apply.

(6) (For the purposes of Part 3), where the financial conglomerate does not include a credit institution, the method in GENPRU 2 Annex 4R must be used for calculating the capital resources and BIPRU 8.6.8R does not apply.

(Other than as above) the EU CRR apply for the banking sector and the investment services sector.

<table>
<thead>
<tr>
<th>No capital ties</th>
<th>5.7</th>
</tr>
</thead>
</table>
| (1) This rule deals with a financial conglomerate in which some of the members are not linked by capital ties at the time of the notification referred to in GENPRU 3.1.28R(1) 3.1.29AR (Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive).

(2) If:
(a) GENPRU 3.1.26R (Capital adequacy requirements: Application of Annex I of the Financial Groups Directive) would otherwise apply with respect to a financial conglomerate under GENPRU 3.1.28R; and
(b) all members of that financial conglomerate are linked directly or indirectly with each other by capital ties except for members that collectively are of negligible interest with respect to the objectives of supplementary supervision of regulated entities in a financial conglomerate (the “peripheral members”);
• GENPRU 3.1.28R continues to apply. Otherwise GENPRU 3.1.28R does not apply with respect to a financial conglomerate falling into (1). [deleted]

(3) If GENPRU 3.1.28R applies with respect to a financial conglomerate in accordance with (2) the peripheral members must be excluded from the calculations under GENPRU 3.1.26R. [deleted]
(4) If:

(a) GENPRU 3.1.26R applies with respect to financial conglomerate falling into (1) under GENPRU 3.1.27 R (2) (Use of Part 4A permission to apply Annex I of the Financial Groups Directive); or [deleted]

(b) GENPRU 3.1.29R (Capital adequacy requirements: Application of Methods 1, 2 or 3 Method 1 or 2 from Annex I of the Financial Groups Directive) applies with respect to a financial conglomerate falling into (1);

then:

c) the treatment of the links in (1) (including the treatment of any solvency deficit) is as provided for in whichever of Part 1 or Part 2 of GENPRU 3 Annex 1R the firm has, under GENPRU 3.1.30R, indicated to the appropriate regulator it will apply or, if applicable, in the requirement referred to in GENPRU 3.1.30R 3.1.31R; and

d) GENPRU 3.1.26 R or GENPRU 3.1.29R, as the case may be, apply even if the applicable sectoral rules do not deal with how undertakings not linked by capital ties are to be dealt with for the purposes of consolidated supervision (or, in the case of the insurance sector, supplementary supervision).

(5) Once GENPRU 3.1.26R applies to a firm with respect to a financial conglomerate of which it is a member under GENPRU 3.1.27R(1) (automatic application of Method 4 from Annex I of the Financial Groups Directive on satisfaction of the condition in GENPRU 3.1.28R), the disapplication of GENPRU 3.1.28R under (2) ceases to apply with respect to that financial conglomerate.

[deleted]

9 Table: PART 6: Definitions used in this Annex
Solo capital resources requirement: Banking sector and investment services sector

<table>
<thead>
<tr>
<th>6.2</th>
<th>…</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2) The solo capital resources requirement of a building society is its CRR own funds requirements.</td>
<td></td>
</tr>
</tbody>
</table>

…

(4) If there is a credit institution in the financial conglomerate, the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is, subject to (2) and (3), calculated in accordance with the rules EU CRR for calculating the CRR own funds requirements of a bank that is a BIPRU firm.

(5) If:

(a) the financial conglomerate does not include a credit institution:

(b) there is at least one CAD investment firm in the financial conglomerate; and

(c) all the CAD investment firms in the financial conglomerate are limited licence firms or limited activity firms;

the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is calculated in accordance with the rules EU CRR for calculating the CRR own funds requirements of:

(d[i]) (if there is a limited activity firm in the financial conglomerate), a BIPRU an IFPRU limited activity firm; or

(e[ii]) (in any other case), a BIPRU an IFPRU limited licence firm.

(6) If:

(a) the financial conglomerate does not include a credit institution:

(b) (5) does not apply;

the solo capital resources requirement for any undertaking in the banking sector or the investment
services sector is calculated in accordance with the rules EU CRR for calculating the CRR own funds requirements of a full scope BIPRU IFPRU investment firm.

(7) In relation to a BIPRU firm that is a member of a financial conglomerate where there are no credit institutions or investment firms, any CRR capital resources requirements calculated under a BIPRU TP may be used for the purposes of the solo capital resources requirement in this rule in the same way that the CRR capital resources requirements can be used under BIPRU 8.

---

Solo capital resources requirement: EEA firms in the banking or investment services sector

6.5 The solo capital resources requirement for an EEA regulated entity (other than a bank, building society, designated investment firm, IFPRU investment firm, BIPRU firm, an insurer or an EEA insurer) that is subject to the solo capital adequacy sectoral rules for its financial sector of the competent authority that authorised it is equal to the amount of capital it is obliged to hold under those sectoral rules provided that the following conditions are satisfied:

---

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

<table>
<thead>
<tr>
<th>Financial sector</th>
<th>Appropriate regulator’s sectoral Sectoral rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking sector</td>
<td>BIPRU 8 and BIPRU TP, as adjusted under paragraph 4.5 Part One, Title II, Chapter 2 of the EU CRR and the PRA Rulebook</td>
</tr>
<tr>
<td>Insurance sector</td>
<td>INSPRU 6.1</td>
</tr>
<tr>
<td>Investment services sector</td>
<td>(in relation to a designated investment firm or IFPRU investment firm which is a member of a financial conglomerate for which the PRA is the coordinator) Part One, Title II, Chapter 2 of the EU CRR and the PRA Rulebook;</td>
</tr>
</tbody>
</table>
3 Annex Prudential rules for third country groups (GENPRU 3.2.8R to GENPRU 3.2.9R)

1 Table: PART 1: Third-country financial conglomerates

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2</td>
<td>A firm must comply, with respect to the financial conglomerate referred to in paragraph 1.1, with whichever of GENPRU 3.1.26R and GENPRU 3.1.29R is as applied under paragraph 1.3.</td>
</tr>
<tr>
<td>1.3</td>
<td>For the purposes of paragraph 1.2:</td>
</tr>
<tr>
<td></td>
<td>(1) the rule in GENPRU 3.1 that applies as referred to in paragraph 1.2 is the one that is specified by the requirement referred to in GENPRU 3.2.8R; [deleted]</td>
</tr>
<tr>
<td></td>
<td>(2) (where GENPRU 3.1.29R is applied) the definitions of conglomerate capital resources and conglomerate capital resources requirement that apply for the purposes of that rule are the ones from whichever of Part 1, or Part 2 or Part 3 of GENPRU 3 Annex 1R is specified in that requirement the requirement referred to in GENPRU 3.2.8R; and</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 Table: PART 2: Third-country banking and investment groups

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3</td>
<td>The rules referred to in paragraph 2.2 are as follows:</td>
</tr>
<tr>
<td></td>
<td>(1) the applicable sectoral consolidation rules in BIPRU 8, or paragraph</td>
</tr>
</tbody>
</table>
6.10 of *GENPRU* 3 Annex 1R.

(2) the rules in *ELM* 7.

---

3 Annex 3G  Guidance Notes for Classification of Groups

...  

General guidance

...

Please note the following:

...

(d) You will need to assign non-regulated financial entities to one of these sectors:


- **insurance** activities are listed in – IPRU Insurers Annex 11.1 and 11.2 p 163–168

GENPRU TP 7 (Pillar 3 capital resources) is deleted in its entirety. The deleted text is not shown.

---

TP 8  Miscellaneous capital resources definitions for BIPRU firms

<table>
<thead>
<tr>
<th>8.7</th>
<th>Preference shares</th>
</tr>
</thead>
</table>
| R   | A *bank or BIPRU investment* firm may treat a *preference share* as eligible for inclusion within stage B of the *capital resources table* (Perpetual non-cumulative preference shares) if it would not otherwise be eligible if:

(1) on 31 December 2006 the *firm* was subject to *IPRU(BANK)* or *IPRU(INV)*;

(3) as at 31 December 2006 the *firm* included it, and was entitled to include it, in the calculation of its capital resources under *IPRU(BANK)* or *IPRU(INV)* as capital of a type that corresponded to the non-cumulative preference share.
tier one capital resources;

…

Upper tier 2 instruments: Deferral of interest

8.9 R A bank or BIPRU investment firm may treat a capital instrument as eligible for inclusion within stage G of the capital resources table (Upper tier two capital) if it would not otherwise be eligible if:

(1) on 31 December 2006 the firm was subject to IPRU(BANK) or IPRU(INV);

…

(3) as at 31 December 2006 the firm included it, and was entitled to include it, in the calculation of its capital resources under IPRU(BANK) or IPRU(INV) as capital of a type that corresponded to upper tier two capital resources;

…

Conversion ratio

8.11 R GENPRU 2.2.138R(2) (Tier one capital: Conversion ratio) does not apply to a capital instrument issued by a firm if:

(1) on 31 December 2006 the firm was subject to IPRU(BANK), IPRU(BSOC) or IPRU(INV);

…

(3) as at 31 December 2006 the firm included it, and was entitled to include it, in the calculation of its capital resources under:

(a) (in the case of a bank) IPRU(BANK) as innovative tier one capital as referred to in chapter CA of IPRU(BANK); or [deleted]

(b) (in the case of any other type of firm) IPRU(BSOC) or IPRU(INV) as capital of a type that corresponded to tier one capital.

Legal opinions

8.12 R GENPRU 2.2.118R (Legal opinions for innovative tier one capital) does not apply to a capital instrument issued by a firm if:
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>on 31 December 2006 the firm was subject to IPRU(BANK), IPRU(BSOC) or IPRU(INV);</td>
</tr>
<tr>
<td>(2)</td>
<td>the firm issued the capital instrument on or before 31 December 2006; and</td>
</tr>
<tr>
<td>(3)</td>
<td>(in the case of a bank) as at 31 December 2006 the bank included the capital instrument, and was entitled to include it, in the calculation of its capital resources under IPRU(BANK) as innovative tier one capital as referred to in chapter CA of IPRU(BANK), and [deleted]</td>
</tr>
<tr>
<td>(4)</td>
<td>(in any other case) the firm included the capital instrument, and was entitled to include it, in the calculation of its capital resources under IPRU(BSOC) or IPRU(INV) as capital of a type that corresponded to tier one capital.</td>
</tr>
</tbody>
</table>

8.13 R The following rules:

... do not apply to a capital instrument issued by a firm if:

| (5) | on 31 December 2006 the firm was subject to IPRU(BANK), IPRU(BSOC) or IPRU(INV); |
|    | ... |
| (7) | as at 31 December 2006 the firm included the capital instrument, and was entitled to include it, in the calculation of its capital resources under IPRU(BANK), IPRU(BSOC) or IPRU(INV) as capital of the type that corresponds to: |
|    | ... |

Waivers and concessions

8.16 G A reference to a firm being entitled to include capital instruments in the calculation of its capital resources under IPRU(INV) at a particular level includes the firm being able to do this under a waiver or, in the case of IPRU(BANK) or IPRU(BSOC), a written approval by the appropriate regulator.

...
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:

... 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); [deleted]

(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; [deleted]

... 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):

... 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 [deleted]

... TP 8B Miscellaneous capital resources definitions for BIPRU firms: Core tier one
### Core tier one capital

8B.3  The Royal Bank of Scotland plc may treat a share falling within GENPRU TP 8B.4R as eligible for inclusion within stage A of the capital resources table (Core tier one capital) if it would not otherwise be eligible provided that:

1. the share:
   a. had been issued on or before 30 December 2010; or
   b. if issued after that date, is issued pursuant to a contractual obligation requiring its issue entered into on or before 30 December 2010;

2. as at 30 December 2010, The Royal Bank of Scotland plc was entitled (or would have been entitled, had the share then been issued) to include it in the calculation of its capital resources under GENPRU as permanent share capital and, in the case of a share which had been issued as at that date, did so include it; and

3. the share is held by or on behalf of the Government of the United Kingdom.

8B.4  The shares referred to in GENPRU TP 8B.3R are as follows:

1. The Royal Bank of Scotland Group plc Series 1 Class B Shares of 1p each; and

2. The Royal Bank of Scotland Group plc Series 1 Dividend Access Share of 1p;

either as separate instruments or considered together as connected instruments.

---

GENPRU TP 14 (Continued use of IPRU expenditure requirements by BIPRU investment firms) and GENPRU TP 16 (AIFMD) are deleted in their entirety. The deleted text is not shown.
Annex B

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

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

1 Application

1.1 Application

1.1.1 There is no overall application statement for BIPRU. Each chapter or section has its own application statement. Broadly speaking however, BIPRU applies in the following manner:

(1) a bank; [deleted]

(2) a building society; [deleted]

(3) to a BIPRU investment firm; and

(3A) to an IFPRU investment firm, only BIPRU 12 (Liquidity standards); and

(4) in relation to groups containing such firms:

(a) only BIPRU 12 (Liquidity standards) applies to the group containing any of the firms in (3) and (3A); and

(b) BIPRU as a whole applies to the group containing only the firms in (3).

1.1.2A BIPRU applies to a collective portfolio management investment firm that is a BIPRU firm in parallel with IPRU(INV) 11 (see IPRU(INV) 11.6).

... Purpose

1.1.4 BIPRU 1.1 implements in part the third paragraph of article 95(2) of the EU CRR that permits the FCA to apply the Banking Consolidation Directive and Articles 3(1)(b), 5, 9, 10 and 20 of the Capital Adequacy Directive.

Guidance on the categorisation of BIPRU investment firms

1.1.5 Guidance on the categorisation of investment firms for the purposes of BIPRU and GENPRU is included in PERG 13 (Guidance on the scope of the Markets in Financial Instruments Directive and the recast Capital Adequacy...
The definition of a BIPRU firm

1.1.6 R Subject to BIPRU 1.1.7R, a BIPRU firm means a firm that is:

1. a building society; or
2. a bank; or
3. a full scope BIPRU investment firm; or
4. a BIPRU limited licence firm; or
5. a BIPRU limited activity firm. [deleted]

1.1.7 R None of the following is a BIPRU firm and each is excluded from each of the categories of BIPRU investment firm listed in BIPRU 1.1.6R(3) to BIPRU 1.1.6R(5) and BIPRU 1.1.18R(2) to (4):

... 

1.1.7A G In summary, a BIPRU firm:

1. does not provide the ancillary service of safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management, and is not authorised to do so;
2. is not authorised to provide the following investment services:
   
   (a) to deal in any financial instruments for its own account;
   (b) to underwrite issues of financial instruments on a firm commitment basis;
   (c) to place financial instruments without a firm commitment basis; and
   (d) to operate a multilateral trading facility;

3. is authorised to provide one or more of the following investment services:

   (a) the execution of investors’ orders for financial instruments; or
   (b) the management of individual portfolios of investments in financial instruments;

4. may be authorised to provide one or more of the following investment services:
(a) reception and transmission of investors’ orders for financial instruments; or

(b) investment advice; and

(5) does not hold clients’ money and/or securities and is not authorised to do so (it should have a limitation or requirement prohibiting the holding of client money and its permission should not include safeguarding and administering investments).

1.1.8 R A firm falling within BIPRU 1.1.6R(3) to BIPRU 1.1.6R(5) is a BIPRU investment firm. A BIPRU investment firm includes a collective portfolio management investment firm that is not excluded under BIPRU 1.1.7R. [deleted]

1.1.9 G EEA firms are subject to the prudent standards of their home state regulator. But the Banking Consolidation Directive permits a host state competent authority to require a BCD credit institution to meet certain standards relating to its liquidity. The appropriate regulator’s approach to liquidity for such firms is set out in BIPRU 12. [deleted]

1.1.10 G …

(2) … The reasons for that policy include:

(a) it is unlikely that a firm that is not subject to equivalent supervision will be able to satisfy the threshold conditions (and in particular threshold condition 5 (Suitability)) and it is unlikely that it will be possible to establish that the firm does satisfy them; and

(b) such a firm is likely to pose a threat to the interests of consumers and potential consumers, particularly as effective supervision of an overseas firm depends on cooperation between the appropriate regulator and the regulatory body that authorises the firm in its home country and on the appropriate regulator being able to place appropriate reliance on the supervision carried out by such regulatory body and;

(c) under Article 38(1) of the Banking Consolidation Directive the appropriate regulator should not apply to branches of credit institutions having their head office outside the EEA, when commencing or carrying on their business, provisions which result in more favourable treatment than that accorded to branches of credit institutions having their head office in the EEA. [deleted]

…

(5) An overseas firm that is subject to equivalent supervision is subject to the threshold conditions and the Principles. BIPRU and GENPRU
do not generally apply. However, BIPRU 12 applies to a credit institution with respect to liquidity risk in relation to its United Kingdom branch.

BIPRU 1.1.11R to BIPRU 1.1.26R are deleted in their entirety. The deleted text is not shown.

1.2 Definition of the trading book

…

1.2.2 The Pursuant to the third paragraph of article 95(2) of the EU CRR, the section implements certain provisions of the Capital Adequacy Directive and the Banking Consolidation Directive relating to the trading book. The precise provisions being implemented as listed as a note after each rule.

…

1.3 Applications for advanced approaches and waivers

…

1.3.2 A firm may apply for an Article 129 permission or a waiver in respect of:

…

(b) the advanced measurement approach; [deleted]

…

(2) A firm should apply for a waiver if it wants to:

…

(da) apply the treatment for a core UK group in BIPRU 3.2.25R (Zero risk-weighting for intra-group exposures) or in BIPRU 10.8A (Intra-group exposures: core UK group); or [deleted]

(e) apply the treatment for a non-core large exposures group in BIPRU 10.9A (Intra-group exposures: non-core large exposures group); or [deleted]

(f) apply the treatment in BIPRU 10.6.35R (Sovereign large exposure waiver). [deleted]
Forms and method of application

1.3.14 D If a firm wishes to apply for a waiver or an Article 129 permission to use the advanced measurement approach, it must complete and submit the form in BIPRU 1 Annex 1DD. [deleted]

2 Capital

2.1 Solo consolidation

2.1.2 G The Pursuant to the third paragraph of article 95(2) of the EU CRR, the purpose of this section is to implement Articles 70 and 118 of the Banking Consolidation Directive, so far as they apply under it also implements Articles 2 and 28 of the Capital Adequacy Directive so far as they apply those provisions of the Banking Consolidation Directive to CAD investment firms that are subject to the requirements imposed by MiFID (or which would have been subject to that Directive if its head office were in an EEA State), but excluding a bank, building society, a credit institution, a local and an exempt CAD firm.

2.1.7 R A firm that has a solo consolidation waiver must incorporate in the calculation of its requirements under the main BIPRU firm Pillar 1 rules and BIPRU 10 (Large exposure requirements) each subsidiary undertaking to which the solo consolidation waiver applies. This does not apply to the base capital resources requirement.

2.1.16 R A firm must apply BIPRU 10 (Large exposure requirements) in accordance with BIPRU 8.9A (Consolidated large exposures requirements). Accordingly the firm must apply BIPRU 8.9A to the group made up of the firm and the subsidiary undertakings referred to in BIPRU 2.1.7R in the same way as BIPRU 8.9A applies to a UK consolidation group or non-EEA sub-group. [deleted]

2.1.17 G One effect of BIPRU 2.1.16R is that BIPRU 10.8A (Core UK groups) and BIPRU 10.9A (Non core large exposures groups) do not apply. The corresponding provisions of BIPRU 8.9A (Consolidated large exposures requirements) apply instead. [deleted]
2.2 Internal capital adequacy standards

2.2.48 G (1) **BIPRU 2.2.49G 2.2.61G to BIPRU 2.2.70G** set out guidance for:

(a) a bank or building society; [deleted]

... 

2.3 Interest rate risk in the non-trading book

2.3.2 G (1) Interest rate risk in the non-trading book will normally be a major source of risk for:

(a) a bank;

(b) a building society; and

(e) a **BIPRU investment firm** that deals on own account (including underwriting on a firm commitment basis) and whose non-trading book business equals or exceeds 15% of its total business. [deleted]

(2) However it will not normally be a significant risk for any other **BIPRU investment firm**. [deleted]

(3) The test in (1)(e) should be carried out in the same way as it is for the purpose of the 5% test in **BIPRU 1.2.17R** (Definition of the trading book). [deleted]

(4) The test in (1)(e) should be carried out in the same way as it is for the purpose of the 5% test in **BIPRU 1.2.17R** (Definition of the trading book). [deleted]

... 

3 Standardised credit risk

3.1 Application and purpose
3.1.2 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 3 implements:

...

3.2 The central principles of the standardised approach to credit risk

...

3.2.25A (1) Firms are referred to BIPRU 10.8A (Intra-group exposures: core UK group) under which exposures within the core UK group are exempt from the limits described in BIPRU 10.5 (Limits on exposures) if they would be assigned a risk weight of 0% under BIPRU 3.2.25R. [deleted]

(2) Therefore, a firm that is applying for a core UK group waiver should demonstrate that it meets the conditions in BIPRU 3.2.25R and BIPRU 10.8A for establishing a core UK group. A firm that is granted a core UK group waiver may rely on it for the purpose of assigning a risk weight of 0% to exposures within its core UK group and for the purpose of exempting the exposures within the core UK group from the 25% large exposure limit. [deleted]

...

3.2.27A (2) In relation to a counterparty that is not a firm, the arrangements referred to in (1) must include a legally binding agreement with each firm that is a member of the core UK group that it will promptly on demand by the firm increase the firm’s capital resources by an amount required to ensure that the firm complies with GENPRU 2.1 (Calculation of capital resources requirements), BIPRU 10 (Large exposures) and any other requirements relating to capital resources or concentration risk imposed on a firm by or under the regulatory system.

(3) For the purpose of (2), the obligation to increase the firm’s capital resources may be limited to capital resources available to the counterparty and may reasonably exclude such amount of capital resources that, if transferred to the firm, would cause the counterparty to become balance sheet insolvent in the manner contemplated in section 123(2) of the Insolvency Act 1986.
3.2.30 G For the purpose of BIPRU 3.2.25R(1)(e) (Prompt transfer of capital resources):

(1) in the case of an undertaking that is a firm the requirement in BIPRU 3.2.25R(1)(e) for the prompt transfer of capital resources refers to capital resources in excess of the capital and financial resources requirements to which it is subject under the regulatory system; and

(2) the following guidance relating to the condition in BIPRU 10.8A.2R(6) requiring the prompt transfer of capital resources within a core UK group as applicable for the exemption from large exposure limits is also relevant:

(a) BIPRU 10.8A.6G in respect of the criteria that the appropriate regulator will consider when assessing whether the condition requiring the prompt transfer of capital resources is going to be met; and

(b) BIPRU 10.8A.7G(2) in respect of the counterparty’s obligation to increase the firm’s capital resources and the limitations that may be permitted.

(3) the FCA will consider the following criteria:

(a) the speed with which funds can be transferred or liabilities repaid to the firm and the simplicity of the method for the transfer or repayment;

(b) whether there are any interests other than those of the firm in the core concentration risk group counterparty and what impact those other interests may have on the firm’s control over the core group concentration risk group counterparty and the ability of the firm to require a transfer of funds or repayment of liabilities;

(c) whether there are any tax disadvantages for the firm or the core concentration risk group counterparty as a result of the transfer of funds or repayment of liabilities;

(d) whether the purpose of the core concentration risk group counterparty prejudices the prompt transfer of funds or repayment of liabilities;

(e) whether the legal structure of the core concentration risk group counterparty prejudices the prompt transfer of funds or repayment of liabilities;

(f) whether the contractual relationships of the core concentration risk group counterparty with the firm and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and
whether past and proposed flows of funds between the core concentration risk group counterparty and the firm demonstrate the ability to make prompt transfer of funds or repayment of liabilities.

4 The IRB approach

4.1 The IRB approach: Application, purpose and overview

Application

4.1.1 BIPRU 4 applies to a BIPRU firm with an IRB permission.

Purpose

4.1.2 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 4 implements the following provisions of the Banking Consolidation Directive:

4.1.3 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 4 also implements Annex VIII of the Banking Consolidation Directive so far as it applies to the IRB approach. In particular, it implements) in part:

4.1.4 Similarly, BIPRU 4 also implements Article 40 of the Capital Adequacy Directive as it applies to the IRB approach.

4.2 The IRB approach: High level material

4.2.33 This guidance sets out at what level the tests in BIPRU 4.2.30R—BIPRU 4.2.32G will be applied in the case of a firm that is a member of a group that is part of a bigger group. [deleted]

(2) If an EEA banking and investment group for which the appropriate regulator is the lead regulator is part of a wider EEA banking and investment group for which the appropriate regulator is also lead regulator then BIPRU 4.2.30R—BIPRU 4.2.32G apply with respect to that wider group. [deleted]
(3) If an EEA banking and investment group for which the appropriate regulator is the lead regulator is part of a wider EEA banking and investment group for which another competent authority is lead regulator then BIPRU 4.2.26R(4) applies with respect to that wider group but the requirements of that lead regulator will generally apply in place of BIPRU 4.2.30R – BIPRU 4.2.32G. [deleted]

(4) If an EEA banking and investment group for which the appropriate regulator is the lead regulator is part of a wider third-country banking and investment group that is subject to equivalent supervision by a regulatory authority outside the EEA, then BIPRU 4.2.26R(4) applies with respect to both that wider group and the sub-group of which the appropriate regulator is lead regulator. However the requirements of that third country regulator apply in place of BIPRU 4.2.30R – BIPRU 4.2.32G. The question of whether supervision is equivalent is decided in accordance with GENPRU 3.2 (Third country groups). [deleted]

(5) If an EEA banking and investment group for which the appropriate regulator is the lead regulator is part of a wider third-country banking and investment group that is not subject to equivalent supervision by a regulatory authority outside the EEA, then BIPRU 4.2.30R – BIPRU 4.2.32G will apply. BIPRU 4.2.30R – BIPRU 4.2.32G will apply to the whole group if GENPRU 3.2.9R (Supervision by analogy) applies. If GENPRU 3.2.4G (Alternative measures) applies, BIPRU 4.2.30R – BIPRU 4.2.32G will apply to the EEA banking and investment group. [deleted]

(6) In the case of a group described in (2) or (3) in respect of which the Article 129 procedure applies then BIPRU 4.2.26R(4) applies with respect to that wider group. The detailed requirements that apply will be decided in accordance with that procedure. [deleted]

5 Credit risk mitigation

5.1 Application and purpose

...  

5.1.2 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 5 implements, in part, Articles 78(1) and 91 to 93 and Annex VIII of the Banking Consolidation Directive.
BIPRU 6 (Operational risk) is deleted in its entirety. The deleted text is not shown.

7 Market risk

7.1 Application, purpose, general provisions and non-standard transactions

...  

7.1.2 G The Pursuant to the third paragraph of article 95(2) of the EU CRR, the purpose of this chapter is to implement Annexes I, III, IV and V of the Capital Adequacy Directive.

...

7.2 Interest rate PRR

...

7.2.49 R A debt security is a qualifying debt security if:

...

(4) it is a debt security issued by an institution subject to the capital adequacy requirements set out in the EU CRR or, as may be applicable, the Banking Consolidation Directive that satisfies the following conditions:

...

...

8 Group risk consolidation

8.1 Application

...

8.1.2A R A firm is not subject to consolidated supervision under BIPRU 8 where any of the following conditions are fulfilled:

(1) the firm is included in the supervision on a consolidated basis of the group of which it is a member by the FCA or PRA under the EU CRR; or
(2) the firm is included in the supervision on a consolidated basis of the group of which it is a member by a competent authority other than the FCA under the EU CRR as implemented by that competent authority.

8.1.2B R Where a group includes one or more BIPRU firms and one or more IFPRU investment firms which has permission under article 19 of the EU CRR (Exclusion from the scope of prudential consolidation) from the FCA not to be included in the supervision on a consolidated basis of the group of which it is a member, consolidated supervision under BIPRU 8 applies to those IFPRU investment firms and the BIPRU firms.

Purpose

8.1.3 G Pursuant to the third paragraph of article 95(2) of the EU CRR, this chapter implements articles 71,73(1) and (2), 125, 126, 127(1), 133 and 134 of the Banking Consolidation Directive and articles 2 (in part), 22 – 27 and 37(1) (in part) of the Capital Adequacy Directive.

8.3 Scope and basic consolidation requirements for non-EEA sub-groups

Main consolidation rule for non-EEA sub-groups

8.3.1 R (1) A BIPRU firm that is a subsidiary undertaking of a BIPRU firm or of a financial holding company must apply the requirements laid down in GENPRU 1.2 (Adequacy of financial resources), and the main BIPRU firm Pillar 1 rules (but not the base capital resources requirement) and BIPRU 10 (Large exposures requirements) on a sub-consolidated basis if the BIPRU firm, or the parent undertaking where it is a financial holding company, have a third country banking or investment services undertaking as a subsidiary undertaking or hold a participation in such an undertaking.

8.3.5 G BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group) sets out examples of how to identify a non-EEA sub-group. [deleted]

8.3.7 G A firm will not be a member of a non-EEA sub-group unless it is also a member of a UK consolidation group. So the first step is to identify each undertaking in the firm’s UK consolidation group that satisfies the following conditions:

(1) it is an institution a CAD investment firm, financial institution or
asset management company whose head office is outside the EEA (a third country banking or investment services undertaking);

...

8.3.9 G If more than one BIPRU firm is a direct or indirect parent undertaking in accordance with BIPRU 8.3.7G(2)(a) then the sub-groups of each of them are all potential non-EEA sub-groups. This is illustrated in example three in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group), where the sub-group of UK bank 1 and the sub-group of UK bank 2 are potential non-EEA sub-groups.

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

8.3.11 G The effect of BIPRU 8.3.7G(3) is that a non-EEA sub-group cannot be headed by a parent institution in a Member State. This is illustrated in example one of BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group).

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

(1) it is an institution a CAD investment firm, financial institution or asset management company whose head office is outside the EEA (a third country banking or investment services undertaking);

...

8.3.14 G The financial holding company identified in BIPRU 8.3.12G may be a parent financial holding company in a Member State. This is illustrated by example 2 of BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group).

...

8.3.16 G Similarly if there is more than one financial holding company that holds a participation in the third country banking or investment services undertaking in accordance with BIPRU 8.3.12G(2)(b) then the sub-group of each such financial holding company is a potential non-EEA sub-group.

8.3.17 G The firm should apply the process in BIPRU 8.3.12G to a third country banking or investment services undertaking even though it may be also be part of a potential non-EEA sub-group under BIPRU 8.3.7G.
8.3.18 G Having identified potential non-EEA sub-groups for each third country banking or investment services undertaking in its UK consolidation group the firm should then eliminate overlapping potential non-EEA sub-groups in the following way. If:

... 

(2) the third country banking or investment services undertakings in the two potential non-EEA sub-groups are the same; 

...

8.3.19 G If there is a chain of three or more potential non-EEA sub-groups, each with the same third country banking or investment services undertakings, the elimination process may remove all but the highest. This is illustrated in example three in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group). In this example there are four potential non-EEA sub-groups and the elimination process results in just one remaining (the one headed by the UK parent financial holding company in a Member State).

...

8.3.21 G Examples four and five in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group) show how the same group may contain two non-EEA sub-groups even though the smaller potential non-EEA sub-group is part of a bigger one. The reason for there being two non-EEA sub-groups in these examples is that one of the third country banking or investment services undertakings is not a member of both potential non-EEA sub-groups. [deleted]

8.3.22 G If a UK consolidation group is headed by a parent financial holding company in a Member State the result of the elimination process may be that a firm's UK consolidation group contains only one non-EEA sub-group and that the non-EEA sub-group is the same as the UK consolidation group. In theory that means that there are two sets of consolidation requirements, one in relation to the UK consolidation group and one in relation to the non-EEA sub-group. However as the UK consolidation group and the non-EEA sub-group are the same, in practice this means that the additional non-EEA sub-group consolidation disappears. This is illustrated in example three in BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group).

The effect of BIPRU 8.3.7G(3) is that this is not the case if the UK consolidation group is headed by a parent institution in a Member State, as illustrated in example 1 in BIPRU 8 Annex 3G.

...

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

8.4 CAD Article 22 groups and investment firm consolidation waiver (BIPRU firm only)

Application

8.4.1 R This section applies to a BIPRU investment firm with an investment firm consolidation waiver.

8.4.1A G An investment firm consolidation waiver may be applied for by a BIPRU firm only.

…

8.4.9 R …

(2) There must be no bank, building society, or credit institution or investment firm in the UK consolidation group or non-EEA sub-group.

…

(6) Each BIPRU investment firm in the UK consolidation group or non-EEA sub-group must comply with the main BIPRU firm Pillar 1 rules on an individual basis.

8.4.10 G GENPRU 2.2 (Capital resources) says that a BIPRU investment firm with an investment firm consolidation waiver should calculate its capital resources on a solo basis using GENPRU 2 Annex 6R (Capital resources table for a BIPRU investment firm with a waiver from consolidated supervision). GENPRU 2 Annex 6R requires a BIPRU investment firm to deduct contingent liabilities in favour of other members of the UK consolidation group or non-EEA sub-group. Therefore BIPRU 8.4.9R(5)(b) only imposes the requirement to deduct them on EEA firms.

…

8.4.13 R The solo notional capital resources requirement as referred to in BIPRU 8.4.11R(1) is calculated in the same way as the capital resources requirement for a BIPRU firm:

(1) (if each CAD investment firm in the UK consolidation group or non-EEA sub-group is a limited licence firm) the capital resources
(2) (in any other case) the capital resources requirement for a BIPRU limited activity firm.

8.5 Basis of consolidation

Undertakings to be included in consolidation

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

...  

(2) an institution; [deleted]  

...

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

...

8.5.9 R A firm may, having first notified the appropriate regulator in writing in accordance with SUP 15.7 (Form and method of notification), exclude an institution, a BIPRU firm, asset management company, financial institution or ancillary services undertaking that is a subsidiary undertaking in, or an undertaking in which a participation is held by, the UK consolidation group or non-EEA sub-group if the balance sheet total of that undertaking is less than the smaller of the following two amounts:

...
8.5.11 G Article 73(1) of the Banking Consolidation Directive allows the appropriate regulator to decide to exclude an institution, a BIPRU firm, financial institution, asset management company or ancillary services undertaking that is a subsidiary undertaking in, or an undertaking in which a participation is held by, the UK consolidation group or non-EEA sub-group for the purposes of this chapter in the following circumstances:

... 

(2) where, in the opinion of the appropriate regulator, the undertaking concerned is of negligible interest only with respect to the objectives of monitoring institutions BIPRU firms; or

(3) where, in the opinion of the appropriate regulator, the consolidation of the financial situation of the undertaking concerned would be inappropriate or misleading as far as the objectives of the supervision of institutions BIPRU firms are concerned.

...

8.6 Consolidated capital resources

...

Calculation of consolidated capital resources if there is a building society in the group

8.6.6 R Where a firm's UK consolidation group or non EEA sub-group includes a building society, the firm must calculate that group's consolidated capital resources using the calculation of capital resources for building societies. [deleted]

Calculation of consolidated capital resources if there is a bank or credit institution in the group

8.6.7 R Where a firm's UK consolidation group or non EEA sub-group includes a bank or credit institution but not a building society, the firm must calculate that group's consolidated capital resources using the calculation of capital resources for banks. [deleted]

Calculation of consolidated capital resources for an investment a BIPRU firm group

8.6.8 R Where a firm's UK consolidation group or non EEA sub-group does not include a bank, building society or credit institution, the firm must calculate that group's the consolidated capital resources of its UK consolidation group or non-EEA sub-group using the calculation of capital resources in GENPRU 2 Annex 4R (Capital resources table for a BIPRU investment firm deducting material holdings) or GENPRU 2 Annex 5R
Venture Capital Investments

8.6.21 R  Part 2 of stage M in the capital resources table for banks in GENPRU 2 Annex 2R and the capital resources table for building societies in GENPRU 2 Annex 3R is adjusted so as to read as follows in relation to the deduction of investments in subsidiary undertakings and participations: [deleted]

<table>
<thead>
<tr>
<th>Deductions from the totals of tier-one and tier-two</th>
<th>(M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Investments in subsidiary undertakings and participations excluding:</td>
<td>GENPRU 2.2.216AG</td>
</tr>
<tr>
<td>(1) any amount which is already deducted as material holdings or qualifying holdings; and</td>
<td></td>
</tr>
<tr>
<td>(2) any investment in an undertaking that meets the following conditions:</td>
<td></td>
</tr>
<tr>
<td>(a) the investment has been made by a Venture Capital Investor and the firm is entitled to ignore (i) the Venture Capital Investor making that investment in accordance with GENPRU 2.2.209R(2) or (ii) the Venture Capital Holding Company (or a proportion of it) which holds the Venture Capital Investor in accordance with GENPRU 2.2.209R(3) for the purpose of determining whether there is a material holding;</td>
<td></td>
</tr>
<tr>
<td>(b) the investment is a venture capital investment; and</td>
<td></td>
</tr>
<tr>
<td>(c) the undertaking is not (i) a credit institution or (ii) financial institution the principal activity of which is to perform any activity other than the acquisition of holdings in other undertakings.</td>
<td></td>
</tr>
</tbody>
</table>
8.7 Consolidated capital resources requirements

The first step is for a firm to identify what sort of group it belongs to as the calculation of the consolidated capital resources requirement differs between different types of groups. This is set out in BIPRU 8 Annex 5R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group). BIPRU 8 Annex 5R shows, for each type of group:

(1) which of the consolidated requirement components apply and which do not; and

(2) how to add up the different consolidated requirement components to reach the overall consolidated capital resources requirement.

[deleted]

8.7.4 BIPRU 8 Annex 5R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group) categorises groups by reference to what kind of undertakings they contain (credit institutions, limited licence firms, limited activity firms or CAD full scope firms). [deleted]

A firm must calculate the consolidated capital resources requirement of its UK consolidation group or non-EEA sub-group in accordance with the method identified by the decision tree in BIPRU 8 Annex 5R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group) as the higher of the following consolidated requirements components:

(1) the sum of the consolidated credit risk requirement and the consolidated market risk requirement; and

(2) the consolidated fixed overheads requirement.

This table belongs to BIPRU 8.7.11R

<table>
<thead>
<tr>
<th>Consolidated requirement component</th>
<th>Rules on which the consolidated requirement component are based (the applicable risk capital requirement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Consolidated operational risk requirement</td>
<td>Operational risk capital requirement</td>
</tr>
</tbody>
</table>
The credit risk capital requirement (on which the consolidated credit risk requirement is based) is split into three capital charges. One relates to credit risk in the non-trading book (the credit risk capital component). One relates to credit risk in the trading book (the counterparty risk capital component). The third is a capital charge for exposures in the trading book that exceed the limits in BIPRU 10.5 (Limits on exposures). This is called the concentration risk capital component.

A firm may not apply the second method in BIPRU 8.7.13R(3) (accounting consolidation for the whole group) or apply accounting consolidation to parts of its UK consolidation group or non-EEA sub-group under method three as described in BIPRU 8.7.13R(4)(a) for the purposes of the calculation of the consolidated market risk requirement unless the group or sub-group and the undertakings in that group or sub-group satisfy the conditions in this rule. Instead the firm must use the aggregation approach described in BIPRU 8.7.13R(2) (method one) or BIPRU 8.7.13R(4)(c). Those conditions are as follows:

1. Each of the undertakings in that group or sub-group is an institution that is:
   a. a BIPRU firm;
   b. an EEA firm that is a CAD investment firm; or
   c. a recognised third country credit institution; or [deleted]
   d. a recognised third country investment firm;

2. Each of the undertakings referred to in (1) that is a BIPRU firm has capital resources that are equal to or in excess of its capital resources requirement and complies with BIPRU 10 (Large exposures requirements);

3. Each of the undertakings referred to in (1) that is an EEA firm complies with the CRD implementation measures in its EEA State that correspond to the requirements in (2);

4. Each of the undertakings referred to in (1) that is a recognised third country credit institution or recognised third country investment firm complies with laws in the state or territory in which it has its head office that are equivalent to the requirements of the Banking Consolidation Directive or Capital Adequacy Directive relating to capital adequacy and concentration risk;

5. There is no material legal, regulatory or contractual impediment to the
transfer of funds between those undertakings in that group or sub-group;

(6) there is no material legal, regulatory or contractual impediment to mutual financial support between those undertakings in that group or sub-group;

(7) the market risk position of the undertakings are monitored and managed on a co-ordinated basis; and

(8) there is satisfactory allocation of capital within the group or sub-group.

8.7.30 R (1) This rule applies when the rules applicable under BIPRU 8.7.12 R apply differently for different types of firms. [deleted]

(2) Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 1 in BIPRU 8 Annex 5 R (Decision tree for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group), the rules that apply are those that apply to a bank that is a BIPRU firm. [deleted]

(3) Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 2 in BIPRU 8 Annex 5R, the rules that apply are those that apply to a full scope BIPRU investment firm. [deleted]

(4) Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 3 in BIPRU 8 Annex 5R, the rules that apply are those that apply to a BIPRU limited activity firm. [deleted]

(5) Where a firm's UK consolidation group or non-EEA sub-group is a group identified at Stage 4 in BIPRU 8 Annex 5R, the rules that apply are those that apply to a BIPRU limited licence firm. [deleted]

8.7.32 G Similarly BIPRU 8.7.30 R may have the effect that the risk capital requirement for a BIPRU firm is calculated differently from the way it is on a solo basis. Thus for example if the risk capital requirement is being calculated for a BIPRU limited licence firm that is a subsidiary undertaking of a bank the risk capital requirement should be calculated using the rules for a bank. [deleted]

8.8 Advanced prudential calculation approaches
Special provisions relating to the advanced measurement approach

8.8.5  
R  BIPRU 6.5.27 R(6) (Insurance should be provided by a third party entity for the purposes of the advanced measurement approach) is amended to provide that the insurance must be provided by an undertaking that is not in the same group as the firm or other members of the UK consolidation group or non-EEA sub-group. In the case of insurance through captives and affiliates, the exposure must be laid off to an independent undertaking that is not in the same group as the firm or other members of the UK consolidation group or non-EEA sub-group, for example through reinsurance that meets the eligibility criteria. [deleted]

8.8.6  
G  In the case of insurance through captives and affiliates, the exposure should be laid off outside the firm’s group to an independent third party. [deleted]

8.8.7  
G  BIPRU 8.7.26R deals with the combination of the advanced measurement approach with other approaches to operational risk on a group level. [deleted]

...  

8.8.9  
G  The governance arrangements that apply to the governing body, the senior management and any designated committee of a firm in relation to the IRB approach or the AMA also apply to the body or persons with equivalent powers with respect to the UK consolidation group or non-EEA sub-group. Where the parent undertaking and its subsidiary undertakings use rating systems on a unified basis, the approval and reporting process described in BIPRU 4.3.12G (Approval and reporting arrangements for the IRB approach where rating systems are used on a unified group basis) and BIPRU 6.5.32G (Approval and reporting arrangements for the AMA where rating systems are used on a unified group basis) apply for the purpose of this paragraph too.

BIPRU 8.9A (Consolidated large exposure requirements) is deleted in its entirety. The deleted text is not shown.

...  

BIPRU 8 Annex 2G (Examples of how to identify a UK consolidation group) is deleted in its entirety. The deleted text is not shown.

BIPRU 8 Annex 3G (Examples of how to identify a non-EEA sub-group) is deleted in its entirety. The deleted text is not shown.

...  

BIPRU 8 Annex 5R (Decision trees for identifying the consolidated capital resources requirement of a UK consolidation group or a non-EEA sub-group) is deleted in its entirety.
8 Annex Non-EEA regulators’ requirements deemed CRD-equivalent for individual risks

<table>
<thead>
<tr>
<th>Regime regulators</th>
<th>Market risk</th>
<th>Credit risk</th>
<th>Operational risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 1 (Non-EEA regulators’ requirements deemed CRD-equivalent for individual risks)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swiss Federal Banking Commission [EBK] Swiss Financial Market Supervisory Authority [FINMA]</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9 Securitisation

9.1 Application and purpose

Application

9.1.1 R BIPRU 9.1 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.

Purpose

9.1.2 G The Pursuant to the third paragraph of article 95(2) of the EU CRR, the purpose of BIPRU 9 is to implement:

...
9.3 Requirements for originators and sponsors

9.3.1A 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] [deleted]

BIPRU 10 (Large exposures requirements) is deleted in its entirety. The deleted text is not shown.

11 Disclosure (Pillar 3)

11.1 Application and purpose

11.1.2 The Pursuant to the third paragraph of article 95(2) of the EU CRR, the purpose of BIPRU 11 is to implement:

11.5 Technical criteria on disclosure: General requirements

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the overall Pillar 2 rule

11.5.4 A firm must disclose the following information regarding compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the overall Pillar 2 rule:

(4) ...
(b) …

(ii) foreign currency PRR_{t}\$

(5) its operational risk capital requirement calculated in accordance
with the basic indicator approach, the standardised approach and
the advanced measurement approach and disclosed separately.

[Note: BCD-Annex-XII-Part-2-point-4(part)] [deleted]

…

Disclosure: Operational risk

11.5.14 R The following information must be disclosed by a firm on operational risk:

(1) the approaches for the assessment of the operational risk capital
requirement that the firm qualifies for; and

(2) if the firm uses the advanced measurement approach:

(a) a description of the methodology used in the advanced
measurement approach, including a discussion of relevant
internal and external factors considered in the firm's
measurement approach; and

(b) in the case of partial use, the scope and coverage of the
different methodologies used.

[Note: BCD-Annex-XII-Part-2-point-11] [deleted]

…

11.5.20 R …

[Note: The appropriate regulator has given guidance for the purpose of
providing a framework for complying with the disclosure requirements of
BIPRU 11.5.18R in accordance with the proportionality test set out in
BIPRU 11.5.20R(2). The guidance divides firms into four levels, and
indicates which requirements should be complied with for each level. This
was published as finalised guidance FG12/19 'General Guidance on
Proportionality' and is available at
http://www.bankofengland.co.uk/PRA/Pages/publications/default.aspx.
Feedback on CP10/27 and final rules' and is available at
http://www.bankofengland.co.uk/PRA/Pages/publications/default.aspx]

…

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] [deleted]

12 Liquidity standards

12.1 Application

12.1.1 R Subject to BIPRU 12.1.2R, BIPRU 12 applies to:

(1) a BIPRU firm;

(2) an incoming EEA firm which:
   (a) a full BCD CRD credit institution;
   (b) has a branch in the United Kingdom; and

(3) a third country BIPRU firm which:
   (a) is a bank; and
   (b) has a branch in the United Kingdom. [deleted]

12.1.1A R Subject to BIPRU 12.1.2R, BIPRU 12 applies to:

(1) an IFPRU investment firm; and

(2) a BIPRU firm.

12.1.3 G A firm that is an exempt full scope BIPRU IFPRU investment firm is not an ILAS BIPRU firm.

12.1.4 R (1) An exempt full scope BIPRU IFPRU investment firm is a full scope BIPRU full-scope IFPRU investment firm that at all times has total net assets which are less than or equal to £50 million.

...
12.3 **Liquidity risk management**

... 

12.3.4 **R** A firm must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines, currencies, branches and legal entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks.

[Note: annex V paragraph 14 of the Banking Consolidation Directive article 86(1) of the CRD]

... 

12.3.5 **R** ...

[Note: annex V paragraph 14a of the Banking Consolidation Directive article 86(2) (part) of the CRD]

... 

12.3.7A **R** A firm must, taking into account the nature, scale and complexity of its activities, have liquidity risk profiles that are consistent with, and not in excess of, those required for a well-functioning and robust system.

[Note: article 86(3) of the CRD]

**Governing body and senior management oversight: liquidity risk tolerance**

12.3.8 **R** ...

[Note: annex V paragraph 14a of the Banking Consolidation Directive article 86(2) of the CRD]

... 

**Management of collateral**

... 

12.3.22 **R** ...

A

[Note: annex V paragraph 16 of the Banking Consolidation Directive article 86(5) of the CRD] 

12.3.22B **R** ...
12.4 Stress testing and contingency funding

12.4-1 R A firm must consider alternative scenarios on liquidity positions and on risk mitigants and must review regularly the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of securitisation special purpose entities (SSPEs) or other special purpose entities, as referred to in the EU CRR, in relation to which the firm acts as sponsor or provides material liquidity support.

12.4-2 R …

12.4.5A R A firm must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time horizons periods and varying degrees of stressed conditions must be considered.

Contingency funding plans

12.4.10 R …
12.4.11 R In order to deal with liquidity crisis, a firm must have in place contingency liquidity recovery plans setting out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to branches established in another EEA State. Those plans must be regularly tested at least annually, updated on the basis of the outcome of the alternative scenarios set out in BIPRU 12.4.1R, and be reported to and approved by the firm’s governing body, so that internal policies and processes can be adjusted accordingly. A firm must take the necessary operational steps in advance to ensure that liquidity recovery plans can be implemented immediately.

[Note: annex V paragraph 22 of the Banking Consolidation Directive article 86(11) (part) of the CRD]

12.7 Liquidity assets buffer

12.7.4 R For the purpose of BIPRU 12.7.3R, a firm may not include a debt security unless:

(1) the central government or central bank in question has been assessed by at least two eligible ECAIs as having a credit rating associated with credit quality step 1 in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAIs credit assessments to credit quality steps (Long term mapping)) credit quality step 1 in the table set out in BIPRU 12 Annex 1R (Mapping of credit assessments of ECAIs to credit quality steps); and

12.7.6 R For the purpose of BIPRU 12.7.5R, a firm may not include reserves held at a central bank unless:

(1) the central bank in question has been assessed by at least two eligible ECAIs as having a credit rating associated with credit quality step 1 in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAIs credit assessments to credit quality steps (Long term mapping)) credit quality step 1 in the table set out in BIPRU 12 Annex 1R (Mapping of credit assessments of ECAIs to credit quality steps); and
12.7.6A  For the purpose of BIPRU 12.7.2R(2), a firm may not include securities issues by a designated multilateral development bank unless:

(1) the designated multilateral development bank in question has been assessed by at least two eligible ECAIs as having a credit rating associated with credit quality step 1 in the credit quality assessment scale published by the appropriate regulator for the purpose of BIPRU 3 (The Standardised Approach: mapping of the ECAIs’ credit assessments to credit quality steps (Long term mapping)) credit quality step 1 in credit quality step 1 in the table set out in BIPRU 12 Annex 1R (Mapping of credit assessments of ECAIs to credit quality steps); and

After BIPRU 12, insert the following new annex. The text is not underlined.

12 Annex 1R  Mapping of credit assessments of ECAIs to credit quality steps

<table>
<thead>
<tr>
<th>Credit Quality Step</th>
<th>Fitch’s assessments</th>
<th>Moody’s assessments</th>
<th>S&amp;P’s assessments</th>
<th>DBRS’ assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AAA to AA-</td>
<td>Aaa to Aa3</td>
<td>AAA to AA-</td>
<td>AAA to AAL</td>
</tr>
<tr>
<td>2</td>
<td>A+ to A-</td>
<td>A1 to A3</td>
<td>A+ to A-</td>
<td>AH to AL</td>
</tr>
<tr>
<td>3</td>
<td>BBB+ to BBB-</td>
<td>Baa1 to Baa3</td>
<td>BBB+ to BBB-</td>
<td>BBBH to BBBL</td>
</tr>
<tr>
<td>4</td>
<td>BB+ to BB-</td>
<td>Ba1 to Ba3</td>
<td>BB+ to BB-</td>
<td>BBH to BBL</td>
</tr>
<tr>
<td>5</td>
<td>B+ to B-</td>
<td>B1 to B3</td>
<td>B+ to B-</td>
<td>BH to BL</td>
</tr>
<tr>
<td>6</td>
<td>CCC+ and below</td>
<td>Caa1 and below</td>
<td>CCC+ and below</td>
<td>CCCH and below</td>
</tr>
</tbody>
</table>
13 The calculation of counterparty risk exposure values for financial derivatives, securities financing transactions and long settlement transactions

13.1 Application and purpose

... 

13.1.4 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 13 implements:

... 

14 Capital requirements for settlement and counterparty risk

14.1 Application and purpose

... 

14.1.3 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 14 implements:

... 

BIPRU TP 1 (Applicable chapter of IPRU and other general provisions) is deleted in its entirety. The deleted text is not shown.

TP 2 Capital floors for a firm using the IRB or AMA approaches approach

<table>
<thead>
<tr>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 R Subject to BIPRU TP 2.2R, this section applies to a BIPRU firm that applies the IRB approach or the advanced measurement approach.</td>
</tr>
<tr>
<td>2.2 R BIPRU TP 2.30R to BIPRU TP 2.34G apply to any firm to which BIPRU 8 (Group risk - consolidation) applies and which applies the IRB approach or the advanced measurement approach on a consolidated basis.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3 G Pursuant to the third paragraph of article 95(2) of the EU CRR, this section in part implements Articles 152(1) - (7) of the Banking Consolidation Directive and Article 43 of the Capital Adequacy Directive.</td>
</tr>
</tbody>
</table>
2.7 G BIPRU TP 9 explains how the general principle in this section is applied to a personal investment firm. [deleted]

Capital floors: solo

2.9 R A firm using the advanced measurement approach must, during each of the second, third and subsequent twelve-month periods after 31 December 2006, provide capital resources which are at all times more than or equal to the amounts indicated in BIPRU TP 2.8R(2) and BIPRU TP 2.8R(3). [deleted]

2.11 AG Article 152(5d) and (5e) of the Banking Consolidation Directive allows the appropriate regulator to waive the capital floor calculation based on the IPRU capital resources requirement in BIPRU TP 2.8R(3), or BIPRU TP 2.8R(3) as applied in BIPRU TP 2.9R, on a case-by-case basis only if a firm started to use the IRB approach or the advanced measurement approach on or after 1 January 2010. The appropriate regulator will consider an application for such a waiver in the light of the criteria in section 138A of the Act (Modification or waiver of rules).

2.11 BR If a firm has a waiver referred to in BIPRU TP 2.11AG, it must provide capital resources that equal or exceed 80% of the capital resources requirement that the firm would be required to provide under the relevant sections of BIPRU applicable to it immediately before it started to use the IRB approach or the advanced measurement approach as those sections were in force on 31 December 2010.

Explanation of the calculation

2.12 G The following provides an illustrative example of the application of this section to a bank in a period in which BIPRU TP 2.8R(1) applies (i.e. the 95% requirement). Say that under IPRU(BANK), the firm’s capital resources requirement would be £8.00mn and this would be met in part by general/collective provisions of £0.5mn. This establishes the capital resources requirement under this section at 95% times (£8.00mn less £0.5mn), which equals £7.125mn. [deleted]

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

---

### Individual capital guidance

#### 2.20 R
The **IPRU** capital resources requirement does not include any individual capital ratio notified to a *bank* under Chapter CO of **IPRU**(BANK) or any similar notification by the appropriate regulator to any other *firm*. [deleted]

---

### How to apply **IPRU**

#### 2.22 R
If the part of **IPRU** that applies to a *firm* applies different calculations to different types of *firm* the *firm* must use the calculations that it would have to use under **BIPRU** TP 3 (Pre CRD capital requirements applying on a solo basis during 2007) as applicable before its expiry.

---

#### 2.24 G
**BIPRU** TP 4 to **BIPRU** TP 9 (Pre CRD capital requirements applying on a solo basis during 2007) as applicable before their expiry explain how concepts in **IPRU** and **GENPRU** map onto the ones in **IPRU**. This will enable a *firm* to decide which calculations it should use for the purposes of **BIPRU** TP 2.22R and **BIPRU** TP 2.23R.

#### 2.25 R
For the purpose of calculating the part of the **IPRU** capital resources requirement that corresponds to the concentration risk capital component a *firm* may identify the trading book exposures on which that requirement is based using **BIPRU** 10 (Large exposures requirements) except to the extent that **BIPRU** 10 involves the IRB approach. [deleted]

#### 2.26 G
The concentration risk capital component is the capital requirement for a *firm* that chooses to have trading book exposures that exceed the large exposure limits for the non-trading book. In most cases **IPRU** has a similar capital requirement. The purpose of **BIPRU** TP 2.26R is to allow a *firm* to calculate the amount of the excess trading book exposures for which it calculates the additional capital charge using **BIPRU** 10 (Large exposures requirements) in order to avoid having to apply the **IPRU** large exposure requirements for this purpose only. [deleted]

---

### Capital floors: consolidation
2.30 R If a firm calculates risk weighted exposure amounts on a consolidated basis in accordance with the IRB approach or uses the advanced measurement approach on a consolidated basis, BIPRU TP 2.8R to BIPRU TP 2.27G apply on a consolidated basis in accordance with BIPRU TP 2.30R to BIPRU TP 2.31R.

2.31 R A firm must calculate the consolidation requirements under BIPRU TP 2.30R for the group in question (the group in question is specified in BIPRU TP 2.32R) in accordance with the following:

(1) if the group is a banking group as defined in BIPRU TP 1.7R (Classification of groups for certain consolidation rules), the consolidation provisions of IPRU(BANK) apply; [deleted]

(2) if the group is a building society group as defined in BIPRU TP 1.7R, the consolidation provisions of IPRU(BSOC) apply; and [deleted]

(3) …

2.32 R …

(1) if a firm is a member of a UK consolidation group and applies the IRB approach or the AMA with respect to that UK consolidation group, BIPRU TP 2.30R applies with respect to that UK consolidation group; and

(2) if a firm is a member of a non-EEA sub-group and applies the IRB approach or the AMA with respect to that non-EEA sub-group, BIPRU TP 2.30R applies with respect to that non-EEA sub-group.

…

Capital floors: waiver from consolidation

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

…

TP 15 Commodities firm transitionals: Exemption from capital requirements

<table>
<thead>
<tr>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.1 R</td>
</tr>
<tr>
<td>…</td>
</tr>
</tbody>
</table>
Purpose

15.3 G BIPRU TP 15 implements Article 48(1) of the Capital Adequacy Directive as applied pursuant to the discretion in the third paragraph of article 95(2) of the EU CRR.

Duration of exemption

15.4 R BIPRU TP 15 applies until 31 December 2014 the entry into force of any amendments to BIPRU TP 15 under any legislative amendments to CRD and EU CRR following from the Commission’s report under article 508(3) of the EU CRR on an appropriate prudential regime for the prudential supervision of investment firms and firms referred to in article 4(1)(2)(b) and (c) of the EU CRR.

[Note: CAD Article 48(1)]

Exemption

15.5 G If there are any modifications pursuant to paragraphs 2 and 3 of Article 48 of the Capital Adequacy Directive (European Commission review of prudential regime for exempt commodities firms), the appropriate regulator will revoke TP 15 if the date of coming into force of the implementing measures in relation to those changes is before the date in BIPRU TP 15.4.

[deleted]

15.6 R The provisions of GENPRU and BIPRU on capital requirements and GENPRU 1.2 (Adequacy of financial resources) do not apply to a firm to which BIPRU TP 15 applies. However, BIPRU 10 (Large exposures requirements) continues to apply, including the CNCOM.

15.7 G If a firm meets the conditions in BIPRU TP 16 (Commodities firm transitionals: large exposures) it will be exempt from BIPRU 10 as well.

[deleted]

15.10 G Table: Parts of GENPRU and BIPRU that apply to exempt BIPRU commodities firms

This table belongs to BIPRU TP 15.9G

<table>
<thead>
<tr>
<th>GENPRU and BIPRU provisions</th>
<th>A Y denotes that the provision generally does apply</th>
<th>A N denotes that generally it does not apply</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### GENPRU 2.2 (Capital resources)

<table>
<thead>
<tr>
<th>Y</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>This applies for the purposes of BIPRU 10. If BIPRU 10 does not apply this does not apply either.</td>
<td></td>
</tr>
</tbody>
</table>

### BIPRU 2.1 (Solo consolidation)

<table>
<thead>
<tr>
<th>Y</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applies for the purposes of BIPRU 10.</td>
<td></td>
</tr>
</tbody>
</table>

### BIPRU 10 (Large exposures)

<table>
<thead>
<tr>
<th>¥</th>
</tr>
</thead>
<tbody>
<tr>
<td>If firm also qualifies for exemption under BIPRU TP 16 (Commodities firms transitionals: large exposures) BIPRU 10 does not apply except as described in BIPRU TP 16.7G</td>
</tr>
</tbody>
</table>

---

**Consolidation**

15.13 R **BIPRU TP 15 does not apply for the purposes of BIPRU 8 with respect to a firm's UK consolidation group or, as the case may be, non-EEA sub-group unless the following conditions are satisfied:**

- (2) each **CAD investment firm** in the group meets the conditions in BIPRU TP 15.1R(1);

- (3) each **CAD investment firm** whose head office is in an **EEA State** satisfies the conditions in BIPRU TP 15.1R(2); and

- (4) any **CAD investment firm** whose head office is outside the EEA would have fallen into BIPRU TP 15.1R(2) if:

...
TP 21  Close substitutes for commodities

... 

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

<table>
<thead>
<tr>
<th><strong>IPRU</strong> provisions setting out commodity approach</th>
<th><strong>IPRU</strong> provisions under which notice given</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paragraph 22(2) of appendix 6 of chapter 10 of <strong>IPRU(INV)</strong></td>
<td>Paragraph 23 of appendix 6 of chapter 10 of <strong>IPRU(INV)</strong></td>
</tr>
<tr>
<td>Paragraph 22(2) of chapter CM of <strong>IPRU(BANK)</strong> [deleted]</td>
<td>Paragraph 23 of chapter CM of <strong>IPRU(BANK)</strong></td>
</tr>
</tbody>
</table>

### Explanation

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

The following TPs are deleted in their entirety; the deleted text is not shown:

BIPRU TP 11 (IRB transitionals)

BIPRU TP 13 (Other operational risk transitionals)

BIPRU TP 16 (Commodities firm transitionals: large exposures)

BIPRU TP 22 (Solo consolidation)

BIPRU TP 33 (Intra-group exposures: Transitional provisions for core UK group and large exposures)

BIPRU TP 35 (AIFMD)