CAPITAL REQUIREMENTS DIRECTIVE (HANDBOOK AMENDMENTS NO 4) INSTRUMENT 2011

Powers exercised

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

(1) section 138 (General rule-making power);
(2) section 150(2) (Actions for damages);
(3) section 156 (General supplementary powers); and
(4) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 31 December 2011.

Amendments to the Handbook

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

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

Notes

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

Citation

F. This instrument may be cited as the Capital Requirements Directive (Handbook Amendments No 4) Instrument 2011.

By order of the Board
2 November 2011

Annex A

Amendments to the Glossary of definitions

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

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

all price risk measure	(in *BIPRU* 7.10 (Use of a Value at Risk Model)) has the meaning in *BIPRU* 7.10.116AR (Capital calculations for VaR models), which is, in relation to a *business day*, the *all price risk measure* required under the provisions in *BIPRU* 7.10 about *specific risk* for the *correlation trading portfolio*.
correlation trading portfolio	(in *BIPRU* 7) a portfolio consisting of *securitisation positions* and nth-to-default credit derivatives that meet the criteria set out at *BIPRU* 7.2.42AR, or other *positions* which may be included in accordance with *BIPRU* 7.2.42BR.
resecuritisation position	in *BIPRU* 7 and 9, an *exposure* to a *resecuritisation*. [**Note:** *BCD*, Article 4(40b)]
stressed VaR	The stressed VaR measure in respect of *positions* coming within the scope of the *VaR model permission*, calculated in accordance with the *VaR model*, *BIPRU* 7.10 (Use of a Value at Risk Model) and any methodology set out in the *VaR model permission* based on a stressed historical period.

Amend the following as shown.

~~*credit default swap PRR method*~~	~~the *ordinary credit default swap PRR method* or the *securitisation credit default swap PRR method*.~~
~~*clean*~~ *hypothetical profit and loss figure*	(in *BIPRU* 7.10 (Use of a value at risk model) and in relation to a *business day*) the ~~*clean*~~ *profit and loss figure* that would have occurred for that *business day* if the portfolio on which the *VaR number* for that *business day* is based remained unchanged, as more fully defined in *BIPRU* 7.10.111R (Backtesting: Hypothetical profit and loss).
incremental ~~*default*~~ *risk charge*	(in *BIPRU* 7.10 (Use of a value at risk model)) has the meaning in *BIPRU* 7.10.116R (Capital calculations for ~~*VaR models*~~ VaR models), which is in summary, in relation to a ~~business day~~ *business day*, the incremental ~~default~~ risk charge required under the provisions in *BIPRU* 7.10 about *specific risk*, in respect of the previous *business day's* close-of-business *positions* with respect to which those

	provisions apply.
~~*ordinary credit default swap PRR method*~~	~~the method for calculating the *specific risk* portion of the *interest rate PRR* for credit default swaps that are not *securitisation positions* set out in *BIPRU* 7.11.24R to *BIPRU* 7.11.37R.~~
PRA	Position Risk Adjustment; a percentage applied to a *position* as part of the process of calculating the PRR in relation to that *position* as set out in the tables in *BIPRU* 7.2.44R (Specific risk PRAs), *BIPRU* 7.2.57R (General market risk PRAs), *BIPRU* 7.3.30R (Simplified equity method PRAs), *BIPRU* 7.3.34R (PRAs for specific risk under the standard equity method) and *BIPRU* 7.6.8R (The appropriate PRA) and also as set out in *BIPRU* ~~7.2.46R to 7.2.47R~~ 7.2.48AR to 7.2.48LR.
~~*clean*~~ *profit and loss figure*	(in *BIPRU* 7.10 (Use of a value at risk model) and in relation to a *business day*) a *firm's* actual profit or loss for that day in respect of the trading activities within the scope of the *firm's VaR model permission*, adjusted by stripping out specified items, as more fully defined in *BIPRU* 7.10.100R (Backtesting: Calculating the ~~clean~~ profit and loss).
~~*qualifying equity*~~	~~a *share* that satisfies the conditions in BIPRU 7.3.35R (Definition of a qualifying equity).~~
resecuritisation	~~(in accordance with point 49 of Part 4 of Annex IX of the *Banking Consolidation Directive* (Ratings based method)) *securitisation* of *securitisation exposures* (securitisation having the meaning in paragraph (2) of the definition of securitisation for these purposes)~~ in *BIPRU* 7 and 9, a *securitisation* where the risk associated with an underlying pool of *exposures* is *tranched* and at least one of the underlying *exposures* is a *securitisation position*. [**Note:** *BCD*, Article 4(40a)]
~~*securitisation credit default swap PRR method*~~	~~the method for calculating the *specific risk* portion of the *interest rate PRR* for credit default swaps that are *securitisation positions* set out in *BIPRU* 7.11.39R to *BIPRU* 7.11.53R.~~

Annex B

Amendments to the General Prudential sourcebook (GENPRU)

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

1.3.3	G	(1)	In the case of a *BIPRU firm*, this section implements Article 74 of the *Banking Consolidation Directive*, ~~Article~~ 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*.
		…	

…

1.3.13	R	(1)	Except to the extent that *GENPRU*, *BIPRU* or *INSPRU* provide for another method of valuation, *GENPRU* 1.3.14R to *GENPRU* 1.3.34R (Marking to market, Marking to model, Independent price verification, ~~Adjustments~~ Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves) apply:
			…
		…	
		(3)	Systems and controls under (2) must include at least the following elements:
			(a) documented policies and procedures for the process of valuation, including clearly defined responsibilities of the various areas involved in the determination of the valuation, sources of market information and review of their appropriateness, frequency of independent valuation, timing of closing prices, procedures for adjusting valuations, month-end and ad-hoc verification procedures, and, in the case of a *BIPRU firm*, guidelines for the use of unobservable inputs reflecting the *firm*'s assumptions of what market participants would use in pricing the *position*; and
			…

…

1.3.16	R	(1)	…
		(2)	When calculating the current *exposure* value of a credit risk *exposure* for *counterparty credit risk* purposes:

…

(b) where the difference between the more prudent side of bid/offer and the mid-market price is material, the *firm* must consider making adjustments or, in the case of an *insurer* or a *UK ISPV*, making adjustments or establishing reserves.

General requirements: Marking to model

1.3.17 R Where marking to market is not possible, a *firm* must (in the case of a *BIPRU firm*, conservatively) use mark to model in order to measure the value of the investments and positions to which this *rule* applies under *GENPRU* 1.3.13R and *GENPRU* 1.3.38R to *GENPRU* 1.3.41R. Marking to model is any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. *GENPRU* 1.3.18R to *GENPRU* 1.3.25R apply when marking to model.

…

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

1.3.29 R The recognition of any gains or losses arising from valuations subject to *GENPRU* 1.3.13R and *GENPRU* 1.3.38R to *GENPRU* 1.3.41R must be recognised for the purpose of calculating *capital resources* in accordance with *GENPRU* 1.3.14R to *GENPRU* 1.3.34R (Marking to market, Marking to model, Independent price verification, ~~Adjustments~~ Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves). However, if *GENPRU*, *BIPRU* or *INSPRU* provide for another treatment of such gains or losses, that other treatment must be applied.

1.3.30 R A *firm* must establish and maintain procedures for considering valuation adjustments or, in the case of an *insurer* or a *UK ISPV*, valuation adjustments or reserves. These procedures must be compliant with the requirements set out in *GENPRU* 1.3.33R.

…

1.3.32 R A *firm* must consider the need for making adjustments or, in the case of an *insurer* or a *UK ISPV*, establishing reserves for less liquid positions and, on an ongoing basis, review their continued appropriateness in accordance with the requirements set out in *GENPRU* 1.3.33R. Less liquid positions could arise from both markets events and institution-related situations e.g. concentration positions and/or stale positions.

1.3.33 R (1) …

(2) A *firm* must consider the following adjustments or, in the case of an *insurer* or a *UK ISPV*, adjustments or reserves: unearned

credit spreads, close-out costs, operational risks, early termination, investing and funding costs, future administrative costs and, where appropriate, model risk.

(3) (a) In the case of a *BIPRU firm*, a *firm* must establish and maintain procedures for calculating adjustments to the current valuation of less liquid positions. Those adjustments must, where necessary, be in addition to any changes to the value of the position required for financial reporting purposes and must be designed to reflect the illiquidity of the position.

(b) A *firm* must consider several factors when determining whether a valuation adjustment or, in the case of an *insurer* or a *UK ISPV*, valuation adjustment or reserve is necessary for less liquid positions. These factors include the amount of time it would take to hedge out the position/risks within the position; the average and volatility of bid/offer spreads; the availability of market quotes (number and identity of market makers); the average and volatility of trading volumes; market concentrations; the ageing of positions; the extent to which valuation relies on marking to model and the impact of other model risks.

(4) With regard to complex products including, but not limited to, *securitisation exposures* and nth-to-default credit derivatives, a *BIPRU firm* must explicitly consider the need for valuation adjustments for model risk arising from using a valuation which may be incorrect or the risk from using unobservable calibration parameters in the valuation model.

1.3.34 R If the result of ~~establishing~~ making adjustments or, in the case of an *insurer* or a *UK ISPV*, making adjustments or establishing reserves under *GENPRU* 1.3.29R to *GENPRU* 1.3.33R is a valuation which differs from the fair value determined in accordance with *GENPRU* 1.3.4R, a *firm* must reconcile the two valuations.

…

Trading book and other fair-valued positions, and revaluations

…

1.3.39 R ~~*Trading*~~ Both *trading book* positions and other fair-valued positions are subject to prudent valuation rules as specified in *GENPRU* 1.3.14R to *GENPRU* 1.3.34R (Marking to market, Marking to model, Independent price verification, ~~Adjustments~~ Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves). In accordance with those *rules*, a *firm* must ensure that the value applied to each of its *trading book* positions and other fair-valued positions appropriately reflects the current market value. This value must contain an appropriate degree of certainty having regard to the dynamic nature of *trading book* positions, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of *trading book* positions <u>and other fair-valued positions</u>.

…

1.3.41 R (1) For the purposes of *GENPRU* and *INSPRU*, an *insurer* or a *UK ISPV* must apply *GENPRU* 1.3.14R to *GENPRU* 1.3.34R (Marking to market, Marking to model, Independent price verification, ~~Adjustments~~ <u>Valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments</u> or reserves) to account for:

…

…

…

2.2.237 R A *BIPRU firm* calculating *risk weighted exposure amounts* under the *IRB approach* or the *standardised approach* to credit risk must deduct from its *capital resources* the ~~exposure amount of *securitisation positions* which receive a *risk weight* of 1250% under BIPRU 9 (Securitisation), unless the *firm* includes the *securitisation positions* in its calculation of *risk weighted exposure amounts* (see *BIPRU* 9.10 (Reduction in risk-weighted exposure amounts))~~ <u>following:</u>

<u>(1)</u> <u>the exposure amount of *securitisation positions* which receive a *risk weight* of 1250% under *BIPRU* 9 (Securitisation), unless the *firm* includes the *securitisation positions* in its calculation of *risk weighted exposure amounts* (see *BIPRU* 9.10 (Reduction in risk-weighted exposure amounts)); and</u>

<u>(2)</u> <u>the exposure amount of *securitisation positions* in the *trading book* that would receive a *risk weight* of 1250% if they were in the *firm's non-trading book*</u>.

Annex C

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

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

Exposures to regional governments or local authorities: General

3.4.10 R Without prejudice to *BIPRU* 3.4.15R to *BIPRU* 3.4.19R:

(1) a *firm* must *risk weight exposures* to regional governments and local authorities in accordance with *BIPRU* 3.4.11R to *BIPRU* 3.4.14R and *BIPRU* 3.4.19AR; and

…

…

3.4.19A R Without prejudice to *BIPRU* 3.4.17R to *BIPRU* 3.4.19R, an *exposure* to a regional government or local authority of an *EEA State* denominated and funded in the domestic currency of that regional government or local authority must be assigned a risk weight of 20%.

[**Note:** *BCD* Annex VI Part 2(b)]

…

Deriving the net position in the correlation trading portfolio

7.2.42A R A *correlation trading portfolio* may only consist of *securitisation positions* and nth-to-default credit derivatives that meet the following criteria:

(1) the *positions* are neither *resecuritisation positions*, nor *options* on a *securitisation position*, nor any other derivatives of *securitisation exposures* that do not provide a pro-rata share in the proceeds of a *securitisation tranche*;

(2) all reference instruments are either single-name instruments, including single-name credit derivatives, for which a liquid two-way market exists, or commonly traded indices based on reference entities which meet this criterion;

(3) the *positions* do not fall under the exposure classes outlined in *BIPRU* 3.2.9R(8) (retail claims or contingent retail claims) and *BIPRU* 3.2.9R(9) (claims or contingent claims secured on real estate property); and

(4) the *positions* do not reference a claim on a *special purpose vehicle*.

7.2.42B R *Positions* which are not *securitisation positions* or nth-to-default credit derivatives may be included in the *correlation trading portfolio* only if they hedge other such *positions* in this portfolio and a liquid two-way market exists for the relevant *position* or its reference entities.

7.2.42C R For the purposes of *BIPRU* 7.2.42AR(2) and *BIPRU* 7.2.42BR, a two-way market may be deemed to exist only where there are independent, bona fide offers to buy and sell, so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one *business day* and settled at that price within a relatively short time conforming to trade custom.

7.2.42D R A *firm* must calculate both the net long and the net short *positions* in the *correlation trading portfolio* by applying *BIPRU* 7.2.36R and *BIPRU* 7.2.37R or, where applicable, *BIPRU* 7.11.13R to *BIPRU* 7.11.17R.

Specific risk calculation

7.2.43 R (1) A *firm* must calculate the *specific risk* portion of the *interest rate PRR* for each debt *security* by multiplying the market value of the individual net *position* (ignoring the sign) by the *appropriate PRA* from the table in *BIPRU* 7.2.44R or as specified by *BIPRU* 7.2.45R – *BIPRU* ~~7.2.47R~~ 7.2.48LR or by *BIPRU* 7.11.13R – *BIPRU* 7.11.17R.

…

(3) For the purpose of (1), a *firm* may cap the product of multiplying the individual net *position* by the *appropriate PRA* at the maximum possible default-risk-related loss. For a short *position* in a credit derivative, a *firm* may calculate the maximum possible default-risk-related loss as a change in value due to the underlying names immediately becoming default-risk-free.

…

7.2.46A G *BIPRU* 7.2.43R includes both actual and notional *positions*. However, notional *positions* in a *zero-specific-risk security* do not attract *specific risk*. For example:

(1) interest-rate *swaps*, *foreign currency swaps*, *FRAs*, interest-rate *futures*, *foreign-currency forwards*, *foreign-currency futures*, and the cash leg of *repurchase agreements* and *reverse repurchase agreements* create notional *positions* which will not attract *specific risk*; while

(2) *futures*, *forwards* and *swaps* which are based on the price (or yield) of one or more debt *securities* will create at least one notional *position* that attracts *specific risk*.

Specific risk: securitisations and resecuritisations

7.2.47 R ~~A *securitisation exposures* that would be subject to a deduction treatment under the treatment set out in *GENPRU* 2.2. (Capital resources) or *risk weighted* at 1250% as set out in *BIPRU* 9 (Securitisation) is subject to a capital charge that is no less than that set out under those treatments. Unrated liquidity facilities are subject to a capital charge that is no less than that set out in *BIPRU* 9.~~ [deleted]

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

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

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

7.2.48 G ~~*BIPRU* 7.2.43R includes both actual and notional *positions*. However, notional *positions* in *zero-specific-risk security* do not attract *specific risk*. For example:~~

~~(1)~~ ~~interest rate *swaps*, *foreign currency swaps*, *FRAs*, interest rate *futures*, *foreign currency forwards*, *foreign currency futures*, and the cash leg of *repurchase agreements* and *reverse repurchase agreements* create notional *positions* which will not attract *specific risk*; whilst~~

~~(2)~~ ~~*futures*, *forwards* and *swaps* which are based on the price (or yield) of one ore more debt *securities* will create at least one notional *position* that attracts *specific risk*.~~ [deleted]

7.2.48A R (1) Subject to (3), a *firm* must calculate the *specific risk* portion of the *interest rate PRR* for each *securitisation* and *resecuritisation position* by multiplying the market value of the individual net *position* (ignoring the sign) by the *appropriate PRA* from the table in *BIPRU* 7.2.48DR or BIPRU 7.2.48ER, or in accordance with *BIPRU* 7.2.48FR, as applicable.

(2) In calculating the *specific risk* capital charge of an individual net *securitisation* or *resecuritisation position*, a *firm* may cap the product of the weight and the individual net position at the maximum possible default-risk-related loss. For a short position, that limit may be calculated as a change in value due to the underlying names immediately becoming default-risk-free.

(3) For a transitional period ending on 31 December 2013, where a *firm* holds *securitisation* and *resecuritisation positions*, other than *positions* included in the *correlation trading portfolio*, it must calculate:

(a) the total *specific risk* capital charges that would apply just to the net long *positions*; and

(b) the total *specific risk* capital charges that would apply just to the net short *positions*.

The total *specific risk* capital charge for *securitisation* and *resecuritisation positions* will be the higher of (3)(a) and (3)(b).

7.2.48B R The *firm* must report to the *FSA* the total sum of its weighted net long and net short *securitisation* and *resecuritisation positions*, broken down by types of underlying assets.

7.2.48C R When calculating the *PRR* of a *protection seller* in *securitisation* and *resecuritisation* credit derivatives, a *firm* must apply *BIPRU* 7.11.3R.

7.2.48D R Table: specific risk PRAs – standardised approach

Credit quality step	**1**	**2**	**3**	**4 (only for credit assessments other than short-term credit assessments)**	**All other credit quality steps**
Securitisations	1.6%	4%	8%	28%	100%
Resecuritisations	3.2%	8%	18%	52%	100%

A *firm* may only apply the *PRAs* in this table where it would have to calculate a *risk weighted exposure amount* in accordance with the *standardised approach* to *securitisation* and *resecuritisation positions* if such *positions* were in its *non-trading book* under *BIPRU* 9. The *appropriate PRA* is calculated as 8% of the *risk weight* that would apply to the *position* under the *standardised approach* in *BIPRU* 9.11.2R, subject to the requirements of *BIPRU* 9.9 to *BIPRU* 9.11, where appropriate.

7.2.48E R Table: specific risk PRAs – IRB approach

<table>
<tr><th colspan="2">Credit Quality Step</th><th colspan="3">Securitisation positions</th><th colspan="2">Resecuritisation positions</th></tr>
<tr><th>Credit assessments other than short term</th><th>Short-term credit assessments</th><th>A</th><th>B</th><th>C</th><th>D</th><th>E</th></tr>
<tr><td>1</td><td>1</td><td>0.56%</td><td>0.96%</td><td>1.6%</td><td>1.6%</td><td>2.4%</td></tr>
<tr><td>2</td><td></td><td>0.64%</td><td>1.20%</td><td>2%</td><td>2%</td><td>3.2%</td></tr>
<tr><td>3</td><td></td><td>0.8%</td><td>1.44%</td><td rowspan="3">2.8%</td><td>2.8%</td><td>4%</td></tr>
<tr><td>4</td><td>2</td><td>0.96%</td><td>1.6%</td><td>3.2%</td><td>5.2%</td></tr>
<tr><td>5</td><td></td><td>1.60%</td><td>2.8%</td><td>4.8%</td><td>8%</td></tr>
<tr><td>6</td><td></td><td>2.8%</td><td colspan="2">4%</td><td>8%</td><td>12%</td></tr>
<tr><td>7</td><td>3</td><td>4.8%</td><td colspan="2">6%</td><td>12%</td><td>18%</td></tr>
<tr><td>8</td><td></td><td colspan="3">8%</td><td>16%</td><td>28%</td></tr>
<tr><td>9</td><td></td><td colspan="3">20%</td><td>24%</td><td>40%</td></tr>
<tr><td>10</td><td></td><td colspan="3">34%</td><td>40%</td><td>52%</td></tr>
<tr><td>11</td><td></td><td colspan="3">52%</td><td>60%</td><td>68%</td></tr>
<tr><td colspan="2">all other unrated</td><td colspan="5">100%</td></tr>
<tr><td colspan="7">A firm may only apply the PRAs in this table where it would have to calculate a risk weighted exposure amount in accordance with the IRB approach to securitisation and resecuritisation positions if such positions were in its non-trading book under BIPRU 9. The appropriate PRA is calculated as 8% of the risk weight that would apply to the position under the IRB approach in BIPRU 9.12.11R, subject to the requirements in BIPRU 9.12 where appropriate.</td></tr>
</table>

7.2.48F R (1) A *firm* may use the *supervisory formula method* to calculate the *appropriate PRA* for *specific risk* where:

(a) the *firm* is permitted to apply the *supervisory formula method* to the same *position* if it was held in its *non-trading book* in accordance with *BIPRU* 9.12; or

(b) otherwise, the *firm* is expressly permitted by its *VaR model permission* to apply the *supervisory formula method* to calculate the *appropriate PRA* for *specific risk*.

(2) The *appropriate PRA* under the *supervisory formula method* must be calculated by multiplying the *risk weight* calculated according to *BIPRU* 9.12.21R by 8%.

(3) Where relevant, estimates of *PDs* and *LGDs* as inputs to the *supervisory formula method* must be determined in accordance with *BIPRU* 4.

(4) Where expressly permitted by its *VaR model permission*, a *firm* may use the approach outlined in *BIPRU* 7.10.55AR to *BIPRU* 7.10.55SR (Incremental Risk Charge) to determine *PDs* and *LGDs* as inputs to the *supervisory formula method*.

7.2.48G R Where a *securitisation position* in the *trading book* is subject to an increased *risk weight* in accordance with *BIPRU* 9.15, the *appropriate PRA* must be calculated as 8% of the *risk weight* that would apply to the *position* in accordance with *BIPRU* 9.15.

7.2.48H G *Originators*, investors and *sponsors* of *securitisations* in the *trading book* will have to meet the requirements of *BIPRU* 9.3.1AR, *BIPRU* 9.3.15R to *BIPRU* 9.3.20R and *BIPRU* 9.15.

7.2.48I G (1) Subject to *BIPRU* 7.2.48JG, *BIPRU* 9.15.9R and *BIPRU* 9.15.10R, where the investor, *originator* or *sponsor* of a *securitisation* fails to meet any of the requirements in *BIPRU* 9.3.18R to *BIPRU* 9.3.20R (Disclosure requirements) and *BIPRU* 9.15.11R to *BIPRU* 9.15.16R (investor due diligence requirements) in any material respect by reason of its negligence or omission, the *FSA* will use its powers under section 45 (Variation etc. on the Authority's own initiative) of the *Act* to impose an additional capital charge in accordance with *BIPRU* 7.2.48GR. The additional capital charge imposed will be progressively increased with each relevant, subsequent infringement of the requirements in *BIPRU* 9.3.18R to *BIPRU* 9.3.20R and *BIPRU* 9.15.11R to *BIPRU* 9.15.16AR, up to a maximum of 1250% *risk weight*.

(2) Subject to *BIPRU* 9.3.22G, *BIPRU* 9.15.9R and *BIPRU* 9.15.10R, where a *credit institution* fails to meet in any material respect the requirements in *BIPRU* 9.15.16AR (Group level requirements), the *FSA* may consider using its powers under section 45 (Variation etc on the Authority's own initiative) of the *Act* in the manner described in (1). In order to calculate the *risk weights* that would apply to the *credit institution*, the *FSA* may treat the *securitisation* investments of the *subsidiary undertaking* as if they were *securitisation positions* held directly by the *credit institution*.

7.2.48J G When calculating the additional capital charge it will impose under *BIPRU* 7.2.48GR, the *FSA* will take into account the exemption of certain *securitisations* from the scope of *BIPRU* 9.15.3R under *BIPRU* 9.15.9R and *BIPRU* 9.15.10R and, if those exemptions are relevant, it will reduce the capital charge it would otherwise impose.

7.2.48K R A *securitisation exposure* in the *trading book* that would be subject to deduction in accordance with *GENPRU* 2.2. (Capital resources) or to a 1250% *risk weight* in accordance with *BIPRU* 9 (Securitisation) is subject to a capital charge that is no less than that set out under those provisions, capped at the maximum possible default-risk-related loss. Unrated liquidity facilities are subject to a capital charge that is no less than that set out in *BIPRU* 9.

Specific risk: correlation trading portfolio

7.2.48L R (1) Where a *firm* holds a *position* in the *correlation trading portfolio*, it must calculate:

(a) The total *specific risk* capital charges that would apply just to the net long *positions* of the *correlation trading portfolio*; and

(b) The total *specific risk* capital charges that would apply just to the net short *positions* of the *correlation trading portfolio*.

(2) The higher of (1)(a) and (1)(b) will be the *specific risk* capital charge for the *correlation trading portfolio*.

(3) In calculating the *specific risk* capital charge of an individual net *position* in the *correlation trading portfolio*, a *firm* may cap the product of multiplying the individual net *position* by the *appropriate PRA* at the maximum possible default-risk-related loss. For a short *position*, a *firm* may calculate the maximum possible default-risk-related loss as a change in value due to the underlying names immediately becoming default-risk-free.

…

7.3.30 R Table: simplified equity method PRAs

This table belongs to *BIPRU* 7.3.29R

Instrument	*PRA*
Single *equities*	~~12%~~16%
Qualifying equity ~~indices~~ *indices* (see *BIPRU* 7.3.38R)	8%
All other *equity* indices or baskets	~~12%~~16%
If it is necessary to distinguish between the *specific risk PRA* and the *general market risk PRA*, the *specific risk PRA* for the first and third rows is ~~4~~ 8% and that for the second row is 0%. The rest of the *PRA* in the second column is the *general market risk PRA*.	

…

7.3.34 R Table: PRAs for specific risk under the standard equity method

This table belongs to *BIPRU* 7.3.33R

Instrument	*PRA*
~~*Qualifying equities*~~	~~2%~~
Qualifying equity ~~indices~~ *indices* (see *BIPRU* 7.3.38R)	0%
All ~~other~~ *equities*, and other *equity* indices or ~~*equities*~~ *equity* baskets.	~~4%~~ 8%

Definition of a qualifying equity

7.3.35 R ~~A *qualifying equity* is one that satisfies the following conditions:~~

~~(1)~~ ~~it belongs to a country portfolio that satisfies the following conditions:~~

~~(a)~~ ~~no individual *position* exceeds 10% of the portfolio's gross value; and~~

~~(b)~~ ~~the sum of *positions* (ignoring the sign) which individually represent between 5% and 10% of the portfolio's gross value, does not exceed 50% of the portfolio's gross value;~~

~~(2)~~ ~~it is not of an issuer that has issued only traded debt *securities* that currently attracts an 8% or 12% *PRA* in the table in *BIPRU* 7.2.44R (Specific risk PRA) or that attracts a lower requirement only because they are guaranteed or secured; and~~

~~(3)~~ ~~it is a constituent of an index in the table in *BIPRU* 7.3.39R.~~ [deleted]

7.3.36 G ~~(1)~~ ~~The following example illustrates *BIPRU* 7.3.35R(1).~~

~~(2)~~ ~~A country portfolio has a gross value of £100 and is made up of *positions* in 29 different *equities* (some are long *positions*, others are short *positions*). Not all the *equities* are constituents of an index used to create the FT All-World Index (this criterion only becomes relevant once a *firm* has determined whether the country portfolio meets the test in *BIPRU* 7.3.35R(1)).~~

~~(3)~~ ~~Six *positions* exceed the 5% threshold. The following diagram shows the composition of the portfolio.~~

[Diagram deleted]

~~(4)~~ ~~Part (a): the portfolio meets the first part of the test because no individual *position* is worth more than 10% of the portfolio's value.~~

~~(5)~~ ~~Part (b): the portfolio fails the second part of the test because the sum (ignoring the sign) of the six relevant *positions* is £52; this exceeds 50% of the portfolio's value.~~ [deleted]

7.3.37 G ~~(1)~~ ~~A country portfolio can be split into two sub-portfolios if this enables one sub-portfolio to meet the requirements in *BIPRU* 7.3.35R(1). Individual *positions* may be sub-divided between sub-portfolios.~~

~~(2)~~ ~~Continuing the example above, one of the largest *positions* is taken out of the portfolio and put into a new portfolio. The new portfolio fails the two tests, but the amended portfolio meets both tests:~~

~~(a)~~ ~~Part (a): no single remaining *position* exceeds £9.10.~~

~~(b)~~ ~~Part (b): the sum of the five relevant *positions* is £43, this is less that 50% of the new portfolio's value of £91.~~ [deleted]

[Diagram deleted]

…

7.10.27A R *Stressed VaR* must be calculated at least weekly, using a 99% one-tailed confidence limit.

…

7.10.30A R The *stressed VaR* measure must be based on inputs calibrated to historical data from a continuous twelve-month period of significant financial stress relevant to the *firm*'s portfolio. The choice of that historical period will be subject to the *FSA's* approval and will form part of a *firm's VaR model permission*.

7.10.30B R A *firm* must review the selection of the *stressed VaR* historical observation period at least annually.

…

7.10.35 G The minimum updating frequency for the current *VaR measure* that can be specified in a *VaR model permission* is ~~quarterly~~ monthly.

…

7.10.39A R A *firm* must incorporate risk factors that are included in its pricing model in its *VaR model*. A *firm's VaR model* must capture nonlinearities for *options* and other products, as well as correlation risk and *basis risk*. Where proxies for risk factors are used they must show a good track record for the actual *position* held. In addition, *BIPRU* 7.10.40R to *BIPRU* 7.10.44R apply for individual risk types.

7.10.39B R A *firm* with a *VaR model permission* must justify to the *FSA* any omissions of risk factors from its *VaR model*, if they are included in its pricing model.

…

7.10.46 R …

(7) In addition to the other requirements in *BIPRU* 7.10, a *firm* must have an approach in place to capture, in the calculation of its capital requirements, the ~~default risk~~ *incremental risk charge* of its *trading book positions* that is incremental to the default and migration risk captured by the *VaR measures*, as specified in ~~this *rule*, *BIPRU* 7.10.48R, BIPRU 7.10.49R~~ *BIPRU* 7.10.55AR to *BIPRU* 7.10.55SR and *BIPRU* 7.10.107R (Backtesting: Specific risk backtesting).

(8) ~~A *firm* must be able to demonstrate that the approach referred to in (7) meets soundness standards comparable to the approach set out in *BIPRU* 4 (The IRB approach), under the assumption of a constant level of risk, and adjusted where appropriate to reflect the impact of liquidity, concentrations, hedging and optionality.~~ [deleted]

…

7.10.48 R (1) ~~Where a *firm* is subject to event risk that is not reached in its *VaR measure*, because it is beyond the 10-day holding period and 99 percent confidence interval (low probability and high severity events), the *firm* must ensure that the impact of such~~

~~events is factored into its internal capital assessment.~~ [deleted]

(2) …

…

7.10.50 R ~~To avoid double counting capital requirements under *BIPRU* 7.10.46R(7) a *firm* may, when calculating its incremental default charge, take into account the extent to which default risk has already been incorporated into the *VaR* calculation, especially for risk *positions* that could and would be closed within 10 *business days* in the event of adverse market conditions or other indications of deterioration in the credit environment. Where a *firm* captures its incremental default risk through a surcharge, it must have in place methodologies for validating the measure.~~ [deleted]

7.10.51 R ~~A *firm* that does not capture the incremental default risk through an internally developed approach must calculate the surcharge through an approach consistent with either the *standardised approach* to credit risk or the *IRB approach*.~~ [deleted]

7.10.52 R ~~With respect to *securitisation exposures* that would be subject to a deduction treatment in the calculation of its *capital resources* or *risk weighted* at 1250% as set out in *BIPRU* 9, these *positions* (cash or synthetic) are subject to a capital charge that is no less than set forth under that treatment. A *firm* that is a dealer in these *exposures* may apply a different treatment where it could demonstrate to the *FSA*, in addition to trading intent, that a liquid two-way market exists for the *securitisation exposures* or, in the case of *synthetic securitisation* that rely solely on credit derivatives, for the *securitisation exposures* themselves or all their constituent risk components. For the purposes of this *rule* a two-way market is deemed to exist where there are independent good faith offers to buy and sell so that a price reasonably related to the last sales price or current good faith competitive bid and offer quotations can be determined within one day and settled at such a price within a relatively short time conforming to trade custom. For a *firm* to apply a different treatment, it must have sufficient market data to ensure that it fully captures the concentrated default risk of these *exposures* in its internal approach for measuring the incremental default risk in accordance with the *VaR specific risk minimum requirements*.~~ [deleted]

…

Incremental risk charge: Scope and parameters

7.10.55A R A *firm* must demonstrate that its *incremental risk charge* meets soundness standards comparable to those under the *IRB approach*, assuming a constant level of risk and adjusted, where appropriate, to reflect the impact of liquidity, concentrations, hedging and optionality.

7.10.55B R The *incremental risk charge* must cover all *positions* which are subject to a capital charge for interest-rate *specific risk* in accordance with the *firm's VaR model permission*, except *securitisation positions* and nth-to-default credit derivatives. Where permitted by its *VaR model permission*, a *firm* may choose consistently to include all listed *equity positions* and *derivatives positions* based on listed *equities* for which that inclusion is consistent with how the *firm* internally measures and manages risk, but the approach must reflect the impact of correlations between default and migration events, and it must not reflect the impact of diversification between default and migration events and other market risk factors.

7.10.55C R The *firm's* approach to capture the *incremental risk charge* must measure losses due to default and internal or external ratings migration at the 99.9% confidence interval over a capital horizon of one year.

7.10.55D R The *firm's* correlation assumptions must be supported by the analysis of objective data in a conceptually sound framework. The approach to capture the *incremental risk charge* must appropriately reflect *issuer* concentrations. Concentrations that can arise within and across product classes under stressed conditions must also be reflected.

7.10.55E R The *firm's* approach must be based on the assumption of a constant level of risk over the one-year capital horizon, implying that given individual *trading book positions* or sets of *positions* that have experienced default or migration over their liquidity horizon are re-balanced at the end of their liquidity horizon to attain the initial level of risk. Alternatively, a *firm* may choose consistently to use a one-year constant *position* assumption.

Incremental risk charge: Liquidity horizons

7.10.55F R (1) The *firm's* liquidity horizons for calculating *incremental risk charge* must be set according to the time required to sell the *position* or to hedge all material and relevant price risks in a stressed market, having particular regard to the size of the *position*.

(2) Liquidity horizons must reflect actual practice and experience during periods of both systematic and idiosyncratic stresses. The liquidity horizon must be measured under conservative assumptions and must be sufficiently long that the act of selling or hedging, in itself, would not materially affect the price at which the selling or hedging would be executed.

7.10.55G R The determination of the appropriate liquidity horizon for a *position* or set of *positions* is subject to a floor of three months. The determination of the appropriate liquidity horizon for a *position* or set of *positions* must take into account a *firm*'s internal policies relating to valuation adjustments and the management of stale *positions*.

7.10.55H R When a *firm* determines liquidity horizons for sets of *positions* rather than for individual *positions*, the criteria for defining sets of *positions* must be defined in a way that meaningfully reflects differences in liquidity. The liquidity horizons must be greater for *positions* that are concentrated, reflecting the longer period needed to liquidate those *positions.*

7.10.55I R The liquidity horizon for a *securitisation* warehouse must reflect the time to build, sell and securitise the assets, or to hedge the material risk factors, under stressed market conditions.

Incremental risk charge: Hedges

7.10.55J R (1) Hedges may be incorporated into the calculation of a *firm*'s *incremental risk charge*. *Positions* may be netted only when long and short *positions* refer to the same financial instrument.

(2) Hedging or diversification effects associated with long and short *positions* involving different instruments or different securities of the same obligor, as well as long and short *positions* in different *issuers*, may only be recognised by explicitly modelling gross long and short *positions* in the different instruments.

(3) A *firm* must reflect the impact of material risks that could occur during the interval between the hedge's maturity and the liquidity horizon, as well as the potential for significant basis risks in hedging strategies by product, seniority in the capital structure, internal or external rating, maturity, vintage and other differences in the instruments. A *firm* must reflect a hedge only to the extent that it can be maintained even as the obligor approaches a credit or other event.

7.10.55K R For *trading book positions* that are hedged via dynamic hedging strategies, a rebalancing of the hedge within the liquidity horizon of the hedged position may be recognised only if the *firm*:

(1) chooses to model rebalancing of the hedge consistently over the relevant set of *trading book positions*;

(2) demonstrates that the inclusion of rebalancing results in a better risk measurement;

(3) demonstrates that the markets for the instruments serving as hedges are liquid enough to allow for this rebalancing even during periods of stress; and

(4) reflects in the capital charge any residual risks resulting from dynamic hedging strategies.

Incremental risk charge: Nonlinear positions and model risk

7.10.55L R (1) The *incremental risk charge* must reflect the nonlinear impact of *options*, structured credit derivatives and other *positions* with material nonlinear behaviour with respect to price changes.

(2) The *firm* must also consider the amount of model risk inherent in the valuation and estimation of price risks associated with those products.

7.10.55M R The *incremental risk charge* must be based on objective and up-to-date data.

Incremental risk charge: Validation

7.10.55N R A *firm* must validate its approach to *incremental risk charge*. In particular, a *firm* must:

(1) validate that its modelling approach for correlations and price changes is appropriate for its portfolio, including the choice and weights of its systematic risk factors;

(2) perform a variety of stress tests (not limited to the range of events experienced historically), including sensitivity analysis and scenario analysis, to assess the qualitative and quantitative reasonableness of the approach, with particular regard to the treatment of concentrations; and

(3) apply appropriate quantitative validation including relevant internal modelling benchmarks.

7.10.55O R A *firm's* approach for *incremental risk charge* must be consistent with the *firm*'s internal risk management methodologies for identifying, measuring, and managing trading risks.

Incremental risk charge: Documentation and frequency of calculation

7.10.55P R A *firm* must document its approach for the *incremental risk charge* clearly, setting out its correlation and other modelling assumptions.

7.10.55Q R A *firm* must calculate its *incremental risk charge* at least weekly.

Incremental risk charge: Internal approaches based on different parameters

7.10.55R R A *firm* may use an approach for *incremental risk charge* that does not comply with all the requirements in *BIPRU* 7.10.55AR to *BIPRU* 7.10.55PR, only if:

(1) such an approach is consistent with the *firm's* internal methodologies for identifying, measuring, and managing risks; and

(2) the *firm* can demonstrate that its approach results in a capital requirement that is at least as high as it would be if based on an approach in full compliance with the requirements in *BIPRU* 7.10.55AR to *BIPRU* 7.10.55PR.

7.10.55S G The *FSA* will review at least annually any approach taken by the *firm* under *BIPRU* 7.10.55RR.

All price risk measure: General requirements

7.10.55T R As part of its *VaR model permission*, the *FSA* may authorise a *firm* to use the *all price risk measure* to calculate an additional capital charge in relation to *positions* in its *correlation trading portfolio* if it meets the following minimum standards:

(1) it adequately captures all price risks at a 99.9% confidence interval over a capital horizon of one year under the assumption of a constant level of risk, and adjusted, where appropriate, to reflect the impact of liquidity, concentrations, hedging and optionality;

(2) it adequately captures the following risks:

(a) the cumulative risk arising from multiple defaults, including the ordering of defaults, in *tranched* products;

(b) credit *spread risk*, including the gamma and cross-gamma effects;

(c) volatility of implied correlations, including the cross effect between spreads and correlations;

(d) *basis risk*, including both:

(i) the basis between the spread of an index and those of its constituent single names; and

(ii) the basis between the implied correlation of an index and that of bespoke portfolios;

(e) recovery-rate volatility, as it relates to the propensity for recovery rates to affect *tranche* prices; and

(f) to the extent that the *all price risk measure* incorporates benefits from dynamic hedging, the risk of hedge slippage and the potential costs of rebalancing those hedges.

7.10.55U R The amount of the capital charge for the *correlation trading portfolio* calculated in accordance with the *all price risk measure* must not be less than 8% of the capital charge that would result from applying *BIPRU* 7.2.48LR to all *positions* in the *correlation trading portfolio* subject to the *all price risk measure*.

7.10.55V R A *firm* may include in its *all price risk measure positions* that are jointly managed with *positions* in the *correlation trading portfolio* and would otherwise be included in the *incremental risk charge*. In that case, the *firm* must exclude these *positions* from the calculation of its *incremental risk charge*.

7.10.55W R A *firm* must have sufficient market data to ensure that it fully captures the salient risks of the *positions* in its *all price risk measure* in accordance with the standards set out in *BIPRU* 7.10.55TR.

7.10.55X R A *firm* must demonstrate through backtesting or other appropriate means that its *all price risk measure* can appropriately explain the historical price variation of these *positions*. A *firm* must be able to demonstrate to the *FSA* that it can identify the *positions* within its *correlation trading portfolio*, in relation to which it is authorised to use the *all price risk measure*, separately from those other *positions* in relation to which it is not authorised to do so.

7.10.55Y R A *firm* must calculate the capital charge under the *all price risk measure* at least weekly.

All price risk measure: Stress testing

7.10.55Z R (1) For *positions* within its *correlation trading portfolio* in relation to which a *firm* may use the *all price risk measure*, a *firm* must regularly apply a set of specific, predetermined stress scenarios. These stress scenarios must examine the effects of stress to default rates, recovery rates, credit spreads, and correlations on the profit and loss of the *correlation trading portfolio*.

(2) A *firm* must apply the stress scenarios in (1) at least weekly and report the results to the *FSA* in accordance with *BIPRU* 7.10.129R.

7.10.55ZA R If the results of the stress tests carried out in accordance with *BIPRU* 7.10.55ZR indicate a material shortfall in the amount of capital required under the *all price risk measure*, a *firm* must notify the *FSA* of this circumstance by no later than two *business days* after the *business day* on which the material shortfall occurred.

7.10.55ZB G The *FSA* may use its powers under section 45 (Variation etc. on the Authority's own initiative) of the *Act* to impose on the *firm* a capital add-on to cover the material shortfall reported under *BIPRU* 7.10.55ZAR.

7.10.55ZC G The *all price risk measure* is based on the *incremental risk charge*. Therefore, when applying the *all price risk measure*, a *firm* should have regard to the requirements in *BIPRU* 7.10.55AR to *BIPRU* 7.10.55RR.

…

7.10.90A R A *firm* must also carry out reverse stress tests.

…

7.10.93 G Backtesting conducted only at a whole portfolio level using a single measure of profit and loss has limited power to distinguish an accurate *VaR model* from an inaccurate one. Backtesting should therefore be regarded as an additional safeguard rather than a primary validation tool. Such testing does however form the basis of the *FSA's plus factor* system. The test has been chosen as the basis of the backtesting regime because of its simplicity. A *firm* will therefore be expected to complement this backtesting with more granular backtesting analysis and involving more than one measure of profit and loss (i.e. both a ~~*clean*~~ *profit and loss figure* and a ~~*clean*~~ *hypothetical profit and loss figure*).

7.10.94 R A *firm* must have the capacity to analyse and compare its ~~*clean*~~ *profit and loss figures* and ~~*clean*~~ *hypothetical profit and loss figures* to the *VaR measure*, both at the level of the whole portfolio covered by the *VaR model permission* and at the level of individual books that contain material amounts of risk.

<u>7.10.94A</u> <u>R</u> <u>At a minimum, backtesting of *hypothetical profit and loss figures* must be used for regulatory backtesting and also to calculate *plus factors*.</u>

7.10.95 G ~~Clean profit and loss backtesting should be used for regulatory backtesting and used to calculate *plus factors*. Hypothetical profit and loss backtesting~~ <u>Backtesting of *hypothetical profit and loss figures*</u> is <u>also</u> used for model validation and for reporting to the *FSA*.

Backtesting: Basic testing requirements

7.10.96 R ~~A~~ <u>At a minimum, a</u> *firm* must, on each *business day*, compare each of its 250 most recent *business days*' ~~*clean profit and loss figures*~~ <u>*hypothetical profit and loss figures*</u> (ending with the *business day* preceding the *business day* in question) with the corresponding one-day *VaR measures*.

…

Backtesting: Calculating the ~~clean~~ profit and loss

7.10.99 G The ultimate purpose of backtesting is to assess whether capital is sufficient to absorb actual losses. ~~Therefore backtesting should be performed using a measure of actual daily profit and loss.~~ Actual daily profit and loss means the day's profit and loss arising from trading activities within the scope of the *VaR model permission*. This measure should, however, be 'cleaned' using *BIPRU* 7.10.100R inclusion in profit and loss of non-modelled factors.

7.10.100 R The ~~*clean*~~ *profit and loss figure* for a particular *business day* is the *firm's* actual profit or loss for that day in respect of the trading activities within the scope of the *firm's VaR model permission*, adjusted by stripping out:

(1) fees and commissions;

(2) brokerage;

(3) additions to and releases from reserves which are not directly related to *market risk* (e.g. administration reserves); and

(4) any inception profit exceeding an amount specified for this purpose in the *firm's VaR model permission* (where inception profit is defined as any profit arising immediately on entering into a new transaction).

7.10.101 G The definition of ~~*clean*~~ *profit and loss figure* may be amended or replaced in an individual *VaR model permission* if the *firm* can demonstrate to the *FSA* that the alternative method meets the spirit and purpose of the provisions in *BIPRU* 7.10 about the ~~*clean*~~ *profit and loss figure*.

7.10.102 G The *FSA* will review as part of a *firm's VaR model permission* application the processes and documentation relating to the derivation of profit and loss used for backtesting. A *firm's* documentation should clearly set out the basis for cleaning profit and loss. To the extent that certain profit and loss elements are not updated every day (for example certain reserve calculations) the documentation should clearly set out how such elements are included in the ~~clean~~ profit and loss series.

Backtesting: Definition of backtesting exception

7.10.103 R A *backtesting exception* is deemed to have occurred for any *business day* if the ~~*clean profit and loss figure*~~ *hypothetical profit and loss figure* for that *business day* shows a loss, which in absolute magnitude exceeds the *one-day VaR measure* for that *business day*. The only exception is if that *business day* is identified in the *firm's VaR model permission* as giving rise to an excluded *backtesting exception*.

…

Backtesting: Hypothetical profit and loss

7.10.111 R A *firm* must ~~also~~ perform backtesting against a ~~*clean*~~ *hypothetical profit and loss figure* with respect to each *business day*. A ~~*clean*~~ *hypothetical profit and loss figure* for a *business day* means the ~~*clean profit and loss figure*~~ *hypothetical profit and loss figure* that would have occurred for that *business day* if the portfolio on which the *VaR number* for that *business day* is based remained unchanged.

7.10.112 G (1) A ~~*clean hypothetical profit and loss figure*~~ *hypothetical profit and loss figure* is based on the day's change in the value of the same portfolio that was used to generate the value-at-risk forecast.

(2) ~~Backtesting under *BIPRU* 7.10.111R, although carried out with respect to each *business day*, need not be carried out each day. A *firm* need only carry it out sufficiently frequently to comply~~

~~with its reporting requirements under *BIPRU* 7.10.129R. An exception arising out of such backtesting need not be reported to the *FSA* under *BIPRU* 7.10.104R.~~ [deleted]

(3) The *firm* may also need to calculate a ~~*clean hypothetical profit and loss figure*~~ *hypothetical profit and loss figure* in order to produce profit attribution reports and to analyse the cause of *backtesting exceptions*.

7.10.112A G The definition of *hypothetical profit and loss figure* may be amended or replaced in an individual *VaR model permission* if the *firm* can demonstrate to the *FSA* that the alternative method meets the spirit and purpose of the provisions in *BIPRU* 7.10 about the *hypothetical profit and loss figure*.

Capital calculations: General

7.10.113 R The *model PRR* is, for any *business day* (the "relevant" *business day*), calculated in accordance with the following formula:

(1) …

(2) (in the case of a *VaR model permission* that covers *specific risk*) the ~~*incremental default risk charge* for the relevant *business day*~~ higher of:

(a) the *incremental risk charge* for the relevant *business day*; and

(b) the average of the twelve-week *incremental risk charge*; and

(3) the higher of:

(a) the latest *stressed VaR number*; and

(b) the average of the *firm's* daily *stressed VaR numbers* for the 60 *business days* ending with the relevant *business day*, multiplied by the *multiplication factor* applied to the *stressed VaR* measure for the relevant *business day*; and

(4) (in the case of a *VaR model permission* that covers *all price risk measure*) the higher of:

(a) the *all price risk measure* for the relevant *business day*; and

(b) the average of the twelve-week *all price risk measure*.

…

7.10.116 R The *incremental* ~~*default*~~ *risk charge* for any *business day* means the ~~incremental default risk charge~~ *incremental risk charge* required under the provisions in *BIPRU* 7.10 about *specific risk*, in respect of the previous *business day's* close-of-business *positions* with respect to which those provisions apply.

7.10.116A R The *all price risk measure* for any *business day* means the *all price risk measure* required under the provisions in *BIPRU* 7.10 about *specific risk* for the *correlation trading portfolio*.

7.10.117 G The following equation expresses *BIPRU* 7.10.113R mathematically:

[Editor's Note: The existing formula is deleted and is replaced by the following, which is not shown underlined.]

$$PRR_{VaR} = \mathrm{Max}\left\{\mathrm{VaR}_t, \mathrm{f x} \frac{1}{60}\sum_{i=0}^{59}\mathrm{VaR}_{t-i}\right\} + \mathrm{Max}\left\{\mathrm{SVaR}_t, \mathrm{s x} \frac{1}{y}\sum_{i=0}^{y-1}\mathrm{SVaR}_{t-i}\right\} + \mathrm{Max}\left\{\mathrm{IRC}_t, \frac{1}{z}\sum_{i=0}^{z-1}\mathrm{IRC}_{t-i}\right\} + \mathrm{Max}\left\{\mathrm{APR}_t, \frac{1}{w}\sum_{i=0}^{w-1}\mathrm{APR}_{t-i}\right\}$$

…

(4) *f* is the *multiplication factor* for *VaR*; ~~and~~

(5) ~~*IDRC* is the *incremental default risk charge* (if applicable)~~ $SVAR_t$ represents the latest *stressed VaR* figure;

(6) $SVAR_{t-i}$ represents the *stressed VaR* calculated for *i business days* earlier;

(7) *s* is the *multiplication factor* for *stressed VaR*;

(8) *y* is the number of times the *stressed VaR* was calculated in the last 60 *business days*;

(9) IRC_t represents the latest *incremental risk charge*;

(10) IRC_{t-i} represents the *incremental risk charge* calculated for *i business days* earlier;

(11) *z* is the number of times the *incremental risk charge* was calculated in the last 12 weeks;

(12) APR_t represents the latest *all price risk measure*;

(13) APR_{t-i} represents the *all price risk measure* calculated for *i business days* earlier; and

(14) *w* is the number of times the *all price risk measure* was calculated in the last 12 weeks.

Capital calculations: Multiplication factors

7.10.118 R The *multiplication factor*, for *VaR* and *stressed VaR*, for any *business day* is the sum of the *minimum multiplication factor* and the *plus factor* for that day.

7.10.119 R The *minimum multiplication factor*, for *VaR* and *stressed VaR*, is three or any higher amount the *VaR model permission* defines it as.

7.10.120 G The *minimum multiplication factor*, for *VaR* and *stressed VaR*, will never be less than three. If the *FSA* does set the *minimum multiplication factor*, for *VaR* and *stressed VaR*, above three the *VaR model permission* will have a table that sets ~~outs~~ out the reasons for that add on and specify how much of the add on is attributable to each reason (see *BIPRU* 7.10.121R). If there are weaknesses in the *VaR model* that may otherwise be considered a breach of the minimum standards referred to in *BIPRU* 7.10.42R the *FSA* may apply such an add on to act as a mitigant for those weaknesses.

7.10.121 R Something that would otherwise be a breach of the minimum standards ~~to~~ in *BIPRU* 7.10.26R – *BIPRU* 7.10.53R is not a breach to the extent that that thing is identified in the *firm's VaR permission* as a reason for an increase in the *minimum multiplication factor*, for *VaR* and *stressed VaR*, above 3.

…

7.10.124 R The table in *BIPRU* 7.10.125R sets out the *plus factors* to be added to the *minimum multiplication factor*, for *VaR* and *stressed VaR*, for any *business day*. It is based on the number of *backtesting exceptions* that occurred during the backtesting period as referred to in *BIPRU* 7.10.96R (Backtesting: Basic Backtesting requirements) ending three *business days* preceding the *business day* for which the *model PRR* is being calculated.

…

7.10.129 R A *firm* must, no later than the number of *business days* after the end of each quarter specified in the *VaR model permission* for this purpose, submit, in respect of that quarter, a report to the *FSA* about the operation of the *VaR model*, the systems and controls relating to it and any changes to the *VaR model* and those systems and controls. Each report must outline as a minimum the following information in respect of that quarter:

…

(3) a summary of backtesting performance against ~~*clean*~~ *profit and loss figures* (if calculated) and ~~*clean*~~ *hypothetical profit and loss figures*, which must be provided in electronic format as stipulated by the *VaR model permission*;

…

(9) an up-to-date list of products covered by the *VaR model permission* showing all changes made since the *VaR model*

permission was granted; ~~and~~

(10) where applicable (nil returns are not required), details of:

…

(f) the *VaR model* not accurately capturing risks (as referred to in *BIPRU* 7.10.53R) and any steps taken under *BIPRU* 7.10.53R; and

(11) the results of the stress tests on the *firm's correlation trading portfolio* under *BIPRU* 7.10.55ZR, including a comparison to the current capital charge.

7.10.130 R A *firm* must provide to, and discuss with, the *FSA* details of any significant planned changes to the *VaR model* before those changes are implemented. These details must include information about the nature of the change and an estimate of the impact on *VaR numbers* and the *incremental ~~default~~ risk charge*.

…

7.10.136 R (1) …

(2) ~~If~~ Subject to *BIPRU* 7.10.136AR, if , where the *standard market risk PRR rules* apply, a *position* is subject to a *PRR charge* and the *firm's VaR model permission* says that it covers the risks to which that *PRR charge* relates, the *firm* must, for those risks, calculate the *PRR* for that *position* under the *VaR model approach* rather than under the *standard market risk PRR rules*.

…

7.10.136A R A *firm* must calculate the *market risk capital requirement* for *securitisation positions* and *positions* in the *correlation trading portfolio* in accordance with the *standard market risk PRR rules*, with the exception of those *positions* subject to the *all price risk measure*.

…

7.11.3 R (1) When calculating the *PRR* of the *protection seller*, unless specified differently by other *rules* and subject to (2), the notional amount of the credit derivative contract must be used. For the purpose of calculating the *specific risk PRR charge*, other than for total return swaps, the maturity of the credit derivative contract is applicable instead of the maturity of the obligation.

(2) When calculating the *PRR* of the *protection seller*, a *firm* may choose to replace the notional value of the credit derivative by the notional value adjusted for changes in the *market value* of

the credit derivative since trade inception.

…

7.11.11 R If ~~a first or second-asset to default~~ an nth-to-default derivative is externally rated and meets the conditions for a *qualifying debt security*, then the *protection seller* need only calculate one *specific risk* charge reflecting the rating of the derivative. The *specific risk* charge must be based on the *securitisation PRAs* in *BIPRU* 7.2 as applicable.

…

Deriving the net position in each debt security: Credit derivatives

7.11.12C R A *firm* must calculate both the net long and the net short positions in credit derivatives by applying *BIPRU* 7.2.36R and *BIPRU* 7.2.37R and, where applicable, *BIPRU* 7.2.42AR to *BIPRU* 7.2.42CR or *BIPRU* 7.11.13R to *BIPRU* 7.11.17R.

Recognition of hedging provided by credit derivatives ~~against cash positions~~

7.11.13 R

(1) …

(2) …

(3) ~~*BIPRU* 7.11.13 R – *BIPRU* 7.11.17 R are subject to the requirements of the *credit default swap PRR methods*.~~ [deleted]

…

~~Special treatment of credit default swaps: Provisions applicable to all methods~~
Specific risk calculation

…

7.11.18 R ~~*BIPRU* 7.11.18R - *BIPRU* 7.11.58R set out the calculation of the *specific risk* portion of the *interest rate PRR* for credit default swaps.~~ [deleted]

7.11.19 R ~~The *specific risk* portion of the *interest rate PRR* is calculated separately for:~~

~~(1) credit default swaps (other than those in (2));~~

~~(2) credit default swaps that are also *securitisation positions*;~~

~~(3) other *positions*;~~

~~that are subject to the *interest rate PRR*.~~ [deleted]

7.11.20 R The *specific risk* portion of the *interest rate PRR* for ~~*positions* falling into *BIPRU* 7.11.19R(1) and *BIPRU* 7.11.19R(2)~~ credit derivatives in the *trading book* must be calculated in accordance with ~~the *credit default swap PRR methods* rather than in accordance with *BIPRU* 7.2 (Interest~~

~~rate PRR)~~ *BIPRU* 7.2.43R to *BIPRU* 7.2.46AG (Specific risk calculation), *BIPRU* 7.2.48AR to *BIPRU* 7.2.48KR (Specific risk: securitisations and re-securitisations), *BIPRU* 7.2.48LR (Specific risk: Correlation trading portfolio), *BIPRU* 7.2.49R to *BIPRU* 7.2.51G (Definition of a qualifying debt security) and the other provisions of *BIPRU* 7.11, as applicable. ~~However a *firm* may apply *BIPRU* 7.11.13R-*BIPRU* 7.11.17R before applying the *credit default swap PRR methods*. If it does so the *firm* must apply the *credit default swap PRR methods* to the remaining position in credit default swaps.~~

Delete 7.11.21R to 7.11.58R. The deleted text is not shown.

Amend the following as shown.

7.11.61 G *BIPRU* 7.11.62G - *BIPRU* ~~7.11.64 GG~~ 7.11.63G cover risks relating to credit derivatives that may not be captured in this section. This *guidance* is of particular relevance to the *overall financial adequacy rule*, the *overall Pillar 2 rule* and the *general stress and scenario testing rule*.

…

7.11.64 G ~~If a *firm* uses models in its valuation process, it should consider whether the default capital requirements under the *credit default swap PRR methods* adequately cover the default losses that the *firm's* model estimates it will be exposed to.~~ [deleted]

…

9.1.9 G *BIPRU* 9 deals with:

…

(3) the requirements that investors, *originators* and *sponsors* of *securitisations* in the *trading book* will have to meet (*BIPRU* 9.3.1AR, *BIPRU* 9.3.15R to *BIPRU* 9.3.20R, *BIPRU* 9.6.1AR and *BIPRU* 9.15).

…

9.3.2 G ~~[deleted]~~ A *credit institution* should have regard to the Committee of European Banking Supervisors' Guidelines to Article 122a of the *Banking Consolidation Directive* when considering its obligations under *BIPRU* 9.3.15R to *BIPRU* 9.3.20R and *BIPRU* 9.15. The Guidelines can be found at http://www.eba.europa.eu/Publications/Standards-Guidelines.aspx.

…

Origination criteria

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

…

…

9.6.1 R An *originator* which, in respect of a securitisation in the *non-trading book*, has made use of *BIPRU* 9.3.1R in the calculation of *risk weighted exposure amounts*, or a *sponsor*, must not, with a view to reducing potential or actual losses to investors, provide support to the *securitisation* beyond its contractual obligations.

[**Note:** *BCD* Article 101(1)]

9.6.1A R An *originator* which has sold instruments in its *trading book* to an *SSPE* and no longer holds *market risk capital requirements* for these instruments, or a *sponsor*, must not, with a view to reducing potential or actual losses to investors, provide support to the *securitisation* beyond its contractual obligations.

[**Note:** *BCD* Article 101(1)]

9.6.2 R If an *originator* or *sponsor* fails to comply with *BIPRU* 9.6.1R or *BIPRU* 9.6.1AR in respect of a *securitisation*, it must:

(1) hold capital against all of the *securitised exposures* associated with the *securitisation* transaction as if they had not been *securitised*; and

(2) disclose publicly:

(a) that it has provided non-contractual support~~,~~; and

(b) the regulatory capital impact of doing so.

…

…

9.7.2 R (1) A *firm* ~~may~~ must not use the credit assessment of an *eligible ECAI* to determine the *risk weight* of a *securitisation position* in accordance with *BIPRU* 9.9 unless it complies with the principles of credibility and transparency as elaborated in (2) to (~~4~~6).

…

(5) The credit assessment must not be based, or partly based, on unfunded support provided by the *firm* itself.

(6) In the case of a credit assessment referred to in (5), the *firm* must consider the relevant position as if it were not rated and must apply the relevant treatment of unrated positions as set out in *BIPRU* 9.11 and *BIPRU* 9.12.

[**Note:** *BCD*, Article 97(5) and Annex IX, Part 3, Point 1]

9.7.2A G The requirements in *BIPRU* 9.7.2R(5) and (6) apply to situations where a *firm* holds *securitisation positions* which receive a lower *risk weight* by virtue of unfunded credit protection provided by the *firm* itself acting in a different capacity in the *securitisation* transaction. The assessment of whether a *firm* is providing unfunded support to its *securitisation positions* should take into account the economic substance of that support in the context of the overall transaction and any circumstances in which the *firm* could become exposed to a higher credit risk in the absence of that support.

…

9.7.4 G Where *BIPRU* 9.7.2R(5) applies to *securitisation positions* in an *ABCP programme*, the *firm* may be granted a *waiver* which allows it to use the *risk weight* assigned to a *liquidity facility* in order to calculate the *risk weighted exposure amount* for the positions in the *ABCP programme*, provided that the *liquidity facility* ranks pari passu with the positions in the *ABCP programme* so that they form overlapping positions and 100% of the commercial paper issued by the *ABCP programme* is covered by *liquidity facilities*. For the purposes of this provision, "overlapping positions" means that the positions represent, wholly or partially, an *exposure* to the same risk such that, to the extent of the overlap, there is a single *exposure*.

[**Note:** *BCD*, Annex IX, Part 4, Point 5]

…

9.9.8 R (1) Where a *firm* has two or more overlapping positions in a *securitisation* the *firm* must, to the extent the positions overlap, include in its calculation of *risk weighted exposure amounts* only the position, or portion of a position, producing the higher *risk weighted exposure amounts*. The *firm* may also recognise such an overlap between capital charges for *specific risk* in relation to *positions* in the *trading book* and capital charges for positions in the *non-trading book*, provided that the *firm* is able to calculate and compare the capital charges for the relevant positions.

…

9.9.10 G Where *BIPRU* 9.7.2R(5) applies to *securitisation positions* in an *ABCP programme*, the *firm* may be granted a *waiver* in the terms described in *BIPRU* 9.7.4G.

[**Note:** *BCD*, Annex IX, Part 4, Point 5]

…

9.11 Calculation of risk-weighted exposure amounts under the standardised approach to securitisations

9.11.1 R Subject to *BIPRU* 9.11.5R, the *risk weighted exposure amount* of a ~~*rated*~~ rated *securitisation position* or *resecuritisation position* must be calculated by applying to the *exposure* value the *risk weight* associated with the *credit quality step* with which the credit assessment has been determined to be associated, as prescribed in *BIPRU* 9.11.2R ~~or *BIPRU* 9.11.3R~~.

[**Note:** *BCD*, Annex IX, Part 4, point 6]

9.11.2 R Table ~~Positions other than ones with short-term credit assessments~~

This table belongs to *BIPRU* 9.11.1R

Credit Quality step	1	2	3	4 (only for credit assessments other than short-term credit assessments)	~~5 and below~~ All other credit quality steps
~~*Risk weight*~~ *Securitisation positions*	20%	50%	100%	350%	1250%
Resecuritisation positions	40%	100%	225%	650%	1250%

…

[**Note**: For mapping of the *credit quality step* to the credit assessments of *eligible ECAIs*, refer to: www.fsa.gov.uk/pubs/international/ecais_securitisation.pdf]

[**Note:** *BCD*, Annex IX, Part 4, point 6, Table 1]

9.11.3 R ~~Table: Positions with short-term credit assessments~~

~~This table belongs to *BIPRU* 9.11.1R~~

~~*Credit quality step*~~	~~1~~	~~2~~	~~3~~	~~All other credit assessments~~
~~*Risk weight*~~	~~20%~~	~~50%~~	~~100%~~	~~1250%~~

~~[**Note:** For mapping of the *credit quality step* to the credit assessments of eligible *ECAIs*, refer to: http://www.fsa.gov.uk/pubs/international/ecais_securitsation.pdf]~~ [deleted]

…

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

…

Ratings based method

…

9.12.10 R Under the *ratings based method*, the *risk weighted exposure amount* of a ~~*rated*~~ rated *securitisation position* or *resecuritisation position* must be calculated by applying to the *exposure* value the *risk weight* associated with the *credit quality step* with which the credit assessment is associated as prescribed in *BIPRU* 9.12.11R ~~and *BIPRU* 9.12.12R~~ multiplied by 1.06.

[**Note:** *BCD*, Annex IX, Part 4, point 46]

9.12.11 R Table: ~~Positions other than ones with short-term credit assessments~~

This table belongs to *BIPRU* 9.12.10R

Credit Quality Step ~~(CQS)~~		~~Risk weight~~ Securitisation positions			Resecuritisation positions	
Credit assessments other than short term	Short-term credit assessments	A	B	C	D	E
~~CQS~~1	1	7%	12%	20%	20%	30%
~~CQS~~ 2		8%	15%	25%	25%	40%
~~CQS~~ 3		10%	18%	35%	35%	50%
~~CQS~~ 4	2	12%	20%		40%	65%
~~CQS~~ 5		20%	35%		60%	100%

~~CQS~~ 6		35%	50%	100%	150%
~~CQS~~ 7	3	60%	75%	150%	225%
~~CQS~~ 8		100%		200%	350%
~~CQS~~ 9		250%		300%	500%
~~CQS~~ 10		425%		500%	650%
~~CQS~~ 11		650%		750%	850%
~~Below CQS 11~~ all other, unrated		1250%			

[**Note**: For mapping of the *credit quality step* to the credit assessments of eligible *ECAIs*, refer to: www.fsa.gov.uk/pubs/international/ecais_securitisation.pdf]

[**Note:** *BCD*, Annex IX, Part 4, point 46]

9.12.12 R ~~Table: Positions with short-term credit assessments~~

~~This table belongs to *BIPRU* 9.12.10R~~

~~Credit Quality Step (CQS)~~	~~Risk weight~~		
	~~A~~	~~B~~	~~C~~
~~CQS 1~~	~~7%~~	~~12%~~	~~20%~~
~~CQS 2~~	~~12%~~	~~20%~~	~~35%~~
~~CQS 3~~	~~60%~~	~~75%~~	~~75%~~
~~All other credit assessments~~	~~1250%~~	~~1250%~~	~~1250 %~~

~~[**Note:** For mapping of the *credit quality step* to the credit assessments of eligible *ECAIs*, refer to: http://ww.fsa.gov.uk/pubs/international/ecais_securitsation.pdf]~~ [deleted]

9.12.13 R ~~Subject to *BIPRU* 9.12.17R, the *risk weights* in column A of each table in *BIPRU* 9.12.11R and *BIPRU* 9.12.12R must be applied where the position is in the most senior *tranche* of a *securitisation*.~~ For the purposes of *BIPRU* 9.12.10R:

(1) the weightings in column C of *BIPRU* 9.12.11R must be applied where the *securitisation position* is not a *resecuritisation position* and where the effective number of *exposures* securitised is less than six;

(2) for the remainder of the *securitisation positions* that are not *resecuritisation positions*, the weightings in column B must be applied unless the position is in the most senior *tranche* of a *securitisation*, in which case the weightings in column A must be applied; and

(3) for *resecuritisation positions*, the weightings in column E must be applied unless the *resecuritisation position* is in the most senior *tranche* of the *resecuritisation* and none of the underlying *exposures* were themselves *resecuritisation exposures*, in which case column D must be applied.

[**Note:** *BCD*, Annex IX, Part 4, point 47(part)]

…

9.12.17 R ~~The *risk weights* in column C of each table in *BIPRU* 9.12.11R and *BIPRU* 9.12.12R must be applied where the position is in a *securitisation* where the effective number of *exposures securitised* is less than six.~~ In calculating the effective number of *exposures securitised*, multiple *exposures* to one obligor must be treated as one *exposure*. The effective number of *exposures* is calculated as:

$N = (((\sum_i)(EAD_i))^2)/((\sum_i)(EAD_i^2))$

where EAD_i represents the sum of the *exposure* values of all *exposures* to the ith obligor. If the portfolio share associated with the largest *exposure*, C1, is available, the *firm* may compute N as 1/C1.

[**Note:** *BCD*, Annex IX, Part 4, point 49~~(part)~~]

9.12.18 R ~~In the case of *resecuritisation*, the *firm* must look at the number of *securitisation exposures* in the pool and not the number of underlying *exposures* in the original pools from which the underlying *securitisation exposures* stem. If the portfolio share associated with the largest *exposure*, C1, is available, the *firm* may compute N as $1/C_1$.~~

~~[**Note:** *BCD* Annex IX Part 4 point 49 (part)]~~ [deleted]

9.12.19 R ~~The *risk weight* in Column B in the tables *BIPRU* 9.12.11R and *BIPRU* 9.12.12R must be applied to all other positions.~~

~~[**Note:** *BCD* Annex IX Part 4 point 50]~~ [deleted]

…

Supervisory formula method

9.12.21 R Subject to any *permission* of the type described in *BIPRU* 9.12.28G, under the *supervisory formula method*, the *risk weight* for a *securitisation position* must be ~~the greater of 7% or~~ the *risk weight* to be applied in accordance with *BIPRU* 9.12.22R. However, the *risk weight* must be no less than 20% for *resecuritisation positions* and no less than

7% for all other *securitisation positions*.

[**Note:** *BCD*, Annex IX, Part 4, point 52]

9.12.22 R (1) Subject to any *permission* of the type described in *BIPRU* 9.12.28G, the *risk weight* to be applied to the *exposure* amount must be:

…

…

(19) N is the effective number of *exposures* calculated in accordance with *BIPRU* 9.12.17R – *BIPRU* 9.12.18R. In the case of *resecuritisations*, the *firm* must look at the number of *securitisation exposures* in the pool and not the number of underlying *exposures* in original pools from which the underlying *securitisation exposures* stem.

…

[**Note:** *BCD*, Annex IX, Part 4, point 53 (part)]

…

Application

9.15.1 R Subject to *BIPRU* 9.15.1AR, *BIPRU* 9.15 applies to:

(1) new *securitisations* issued on or after 1 January 2011; and

(2) from 31 December 2014, to existing *securitisations* where new underlying ~~exposures~~ *exposures* are added or substituted after that date.

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

9.15.1A R *BIPRU* 9.15.16AR and *BIPRU* 9.15.16BR only apply to:

(1) new *securitisations* issued on or after 31 December 2011; and

(2) from 31 December 2014, to existing *securitisations* where new underlying *exposures* are added or substituted after that date.

9.15.1B G A *credit institution* should have regard to the Committee of European Banking Supervisors' Guidelines to Article 122a of the *Banking Consolidation Directive* when considering its obligations under *BIPRU* 9.3.15R to *BIPRU* 9.3.20R and *BIPRU* 9.15. The Guidelines can be found at http://www.eba.europa.eu/Publications/Standards-Guidelines.aspx.

…

9.15.6 R Multiple applications of the retention of net economic interest requirements for any given *securitisation* are ~~prohibited~~ not required.

…

Group level requirements

9.15.16A R Subject to *BIPRU* 9.15.16BR, a *credit institution* must ensure that any *undertaking* in relation to which the *credit institution* is a *parent undertaking*:

(1) becomes exposed to the credit risk of a *securitisation* only where the *originator*, *sponsor* or original lender in the *securitisation* has explicitly disclosed to the *undertaking* that it will retain, on an *ongoing basis*, a material net economic interest which, in any event, must not be less than 5%, as set out in *BIPRU* 9.15.3R to *BIPRU* 9.15.10R;

(2) complies before investing in a *securitisation*, and continues to comply thereafter, with the investor due diligence requirements set out in *BIPRU* 9.15.11R to *BIPRU* 9.15.13R; and

(3) complies in relation to its investments in *securitisations* with the monitoring requirements set out in *BIPRU* 9.15.14R to *BIPRU* 9.15.16R.

9.15.16B R The requirements in *BIPRU* 9.15.16AR do not apply in respect of *subsidiaries* of a *credit institution* which are *insurance undertakings*, *reinsurance undertakings* or *UCITS management companies*.

9.15.16C G The purpose of *BIPRU* 9.15.16AR is to ensure that a *credit institution* meets the requirements in *BIPRU* 9.15 at *group* level in relation to its *subsidiary undertakings*. In order to comply with this *rule*, a *credit institution* should be able to demonstrate to the *FSA* that it has put in place adequate *group* policies and procedures which its *subsidiary undertakings* must follow in order to materially meet the requirements for investors set out in *BIPRU* 9.15, and that it regularly monitors compliance with those policies.

9.15.16D G Where a *credit institution* applies to the *FSA* for a *waiver* of *BIPRU* 9.15.16AR in relation to its non-*EEA subsidiary undertakings*, the *FSA* may have regard in its assessment of the waiver tests under section 148 of the *Act* as to whether those *undertakings* are themselves subject to requirements in their jurisdiction similar to those set out in *BIPRU* 9.15 and the extent to which complying with such requirements and *BIPRU* 9.15.16AR would be unduly burdensome, including circumstances where it could create a substantial conflict for the *credit institution*.

9.15.16E G Without prejudice to *BIPRU* 9.15.16AR, when assessing group risk in accordance with *GENPRU* 1.2.30R a *credit institution* should have regard to the potential risks arising from *securitisation* investment activities carried out by other *undertakings* within its *group*, such as *affiliated companies* and *undertakings* in which the *credit institution* has a participating interest. Where these *undertakings* are not subject to similar requirements as those set out in *BIPRU* 9.15, the *FSA* may seek to address the potential risks arising from this situation for example by imposing a specific capital add-on in the *credit institution*'s *ICG*.

Consequences of failure to meet requirements

9.15.17 G (1) Subject to *BIPRU* 9.3.22G, *BIPRU* 9.15.9R to *BIPRU* 9.15.10R and *BIPRU* 9.15.18G, where a *credit institution* fails to meet any of the requirements in *BIPRU* 9.3.18G to *BIPRU* 9.3.20R (disclosure requirements), and *BIPRU* 9.15.11R to *BIPRU* 9.15.16R (investor due diligence requirements) in any material respect by reason of its negligence or omission, the *FSA* will use its powers under section 45 (Variation etc on the Authority's own initiative) of the *Act* to impose an additional *risk weight* of no less than 250% (capped at 1250%) of the risk weight that would otherwise apply to the relevant *securitisation positions* under *BIPRU* 9.11 to *BIPRU* 9.14. The additional *risk weight* imposed will be progressively increased with each relevant, subsequent infringement of the requirements in *BIPRU* 9.3.18R to *BIPRU* 9.3.20R and *BIPRU* 9.15.11R to *BIPRU* 9.15.16R.

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

(2) Subject to *BIPRU* 9.3.22G, *BIPRU* 9.15.9R to *BIPRU* 9.15.10R and *BIPRU* 9.15.18G, where a *credit institution* fails to meet in any material respect the requirements in *BIPRU* 9.15.16AR (Group level requirements), the *FSA* may consider using its powers under section 45 (Variation etc on the Authority's own initiative) of the *Act* in the manner described in (1). In order to calculate the *risk weights* that would apply to the *credit institution*, the *FSA* may treat the *securitisation* investments of the *subsidiary undertaking* as if they were *securitisation positions* held directly by the *credit institution*.

…

Disclosure policy

11.3.3 R (1) A *firm* must adopt a formal policy to comply with the disclosure requirements laid down in *BIPRU* 11.3.1R and *BIPRU* 11.3.2R and have policies for assessing the appropriateness of its disclosures, including their verification and frequency.

(2) A *firm* must also have policies for assessing whether its disclosures convey its risk profile comprehensively to market participants. Where those disclosures do not convey its risk

profile comprehensively to market participants, a *firm* must publicly disclose the information necessary in addition to that required according to *BIPRU* 11.3.3R(1). However, a *firm* may omit one or more items of information if those items are not, in the light of the criterion specified in *BIPRU* 11.4.1R, regarded as material, or if those items are, in the light of the criteria specified in *BIPRU* 11.4.2R and *BIPRU* 11.4.3R, regarded as proprietary or confidential.

[**Note:** *BCD* Article 145(3)]

…

Disclosure: Market risk

11.5.12 R A *firm* must disclose its *capital resources requirements* separately for each risk referred to in (1), ~~and~~ (2) and (3)~~.~~:

(1) in respect of its *trading-book* business, its:

(a) *interest rate PRR*;

(b) *equity PRR*;

(c) *option PRR*;

(d) *collective investment schemes PRR*;

(e) *counterparty risk capital component*; and

(f) *concentration risk capital component*; and

(2) in respect of all its business activities, its:

(a) *commodity PRR*; and

(b) *foreign currency PRR*; and

(3) its specific interest-rate risk of *securitisation positions*.

[**Note:** *BCD* Annex XII Part 2 point 9]

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

11.5.13 R The following information must be disclosed by a *firm* which calculates its *market risk capital requirement* using a *VaR model*:

(1) for each sub-portfolio covered:

(a) the characteristics of the models used;

(b) a description of stress testing applied to the sub-portfolio;

(c) a description of the approaches used for backtesting and validating the accuracy and consistency of the internal models and modelling process;

(d) ~~the highest, the lowest and the mean of the daily *value-at-risk* measures over the reporting period and the *value-at-risk* measure as per the end of the period;~~ for the capital charges calculated according to the *incremental risk charge* and the *all price risk measure* separately, the methodologies used and the risks measured through the use of an internal model, including a description of the approach used by the *firm* to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;

~~(e) a comparison of the daily end-of-day *value-at-risk* measures to the one-day changes of the portfolio's value by the end of the subsequent *business day* together with an analysis of any important overshooting during the reporting period;~~

(2) the scope of the *firm's VaR model permission*; ~~and~~

(3) a description of the extent and methodologies for compliance with the requirements set out in *GENPRU* 1.3.13R(2) and *GENPRU* 1.3.13R(3) and *GENPRU* 1.3.14R to *GENPRU* 1.3.34R;

(4) the highest, the lowest and the mean of the following:

(a) the daily *VaR measures* over the reporting period and the *VaR measure* as per the period end;

(b) the *stressed VaR* measures over the reporting period and the *stressed VaR* measure as per the period end;

(c) the capital charge according to the *incremental risk charge* over the reporting period and as per the period end;

(d) the capital charge according to the *all price risk measure* over the reporting period and as per the period end;

(5) the amount of capital according to the *incremental risk charge* and the amount of capital according to the *all price risk measure* shown separately, together with the weighted average

liquidity horizon for each sub-portfolio covered; and

(6) a comparison of the daily end-of-day *VaR measures* to the one-day changes of the portfolio's value by the end of the subsequent *business day* together with an analysis of any important overshooting during the reporting period.

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

…

Disclosures: Securitisation

11.5.17 R A *firm* calculating *risk weighted exposure amounts* in accordance with *BIPRU* 9 or *capital resource requirements* according to *BIPRU* 7.2.48AR to *BIPRU* 7.2.48KR must disclose the following information, where relevant separately for its *trading book* and *non-trading book*:

(1) a description of the *firm*'s objectives in relation to *securitisation* activity;

(1A) the nature of other risks, including *liquidity risk* inherent in securitised assets;

(1B) the type of risks in terms of seniority of underlying *securitisation positions* and in terms of assets underlying these latter *securitisation positions* assumed and retained with *resecuritisation* activity;

(2) the different roles played by the *firm* in the *securitisation* process;

(3) an indication of the extent of the *firm's* involvement in each of them;

(3A) a description of the processes in place to monitor changes in the credit and market risk of *securitisation exposures*, including how the behaviour of the underlying assets impacts *securitisation positions* and a description of how those processes differ for *resecuritisation positions*;

(3B) a description of the *firm's* policy governing the use of hedging and unfunded protection to mitigate the risks of retained *securitisation* and *resecuritisation positions*, including identification of material hedge counterparties by relevant type of risk exposure;

(4) the approaches to calculating *risk weighted exposure amounts* that the *firm* follows for its *securitisation* activities, including the types of *securitisation exposures* to which each approach applies;

(4A) the types of *SSPEs* that the *firm*, as *sponsor*, uses to securitise third-party *exposures*, including whether, and in what form, and to what extent, the *firm* has *exposures* to these *SSPEs*, separately for on and off-balance sheet *exposures*, as well as a list of the entities that the *firm* manages, or advises, and that invest in either the *securitisation positions* that the *firm* has securitised or in *SSPEs* that the *firm* sponsors;

(5) a summary of the *firm's* accounting policies for *securitisation* activities, including:

(a) whether the transactions are treated as sales or financings;

(b) the recognition of gains on sales;

(c) the methods, key assumptions, inputs and the changes from the previous period for valuing *securitisation positions* ~~retained interests~~; ~~and~~

(d) the treatment of *synthetic securitisations* if this is not covered by other accounting policies;

(e) how assets awaiting *securitisation* are valued and whether they are recorded in the *firm's non-trading book* or *trading book*; and

(f) policies for recognising liabilities on the balance sheet for arrangements that could require the *firm* to provide financial support for securitised assets;

(6) the names of the *ECAIs* used for *securitisations* and the types of *exposure* for which each agency is used;

(6A) where applicable, a description of the *ABCP internal assessment approach* as set out in *BIPRU* 9.12.20R, including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for *ABCP internal assessment approach* capital purposes, the control mechanisms for the internal assessment process (including discussion of independence, accountability, and internal assessment process review), the *exposure* types to which the internal assessment process is applied and the stress factors used for determining *credit enhancement* levels, by *exposure* type;

(6B) an explanation of significant changes to any of the quantitative disclosures in (8) and (13) to (15) since the last reporting period;

(7) ~~the total outstanding amount of *exposures securitised* by the~~

~~*firm* and subject to the *securitisation* framework (broken down into *traditional* and *synthetic*), by *exposure* type;~~ [deleted]

(8) for the *non-trading book* and for *exposures securitised* by the *firm* ~~and subject to the *securitisation* framework, a breakdown by *exposure* type of~~, the amount of impaired and past due *exposures securitised*, and the losses recognised by the *firm* during the current period, broken down by *exposure* type;

(9) ~~the aggregate amount of *securitisation positions* retained or purchased, broken down by *exposure* type;~~ [deleted]

(10) ~~the aggregate amount of *securitisation positions* retained or purchased:~~

~~(a)~~ ~~broken down into a meaningful number of *risk weight* bands; and~~

~~(b)~~ ~~with separate disclosure of *positions* that have been *risk weighted* at 1250% or deducted;~~ [deleted]

(11) ~~the aggregate outstanding amount of *securitised revolving exposures* segregated by the *originator's* interest and the investors' interest; and~~ [deleted]

(12) ~~a summary of the *securitisation* activity in the period, including the amount of *exposures securitised* (by *exposure* type), and recognised gain or loss on sale by *exposure* type.~~ [deleted]

(13) separately for the *trading book* and the *non-trading book*, the following information broken down by *exposure* type:

(a) the total outstanding amount of *exposures securitised* by the *firm*, separately for *traditional securitisations* and *synthetic securitisations*, and *securitisations* for which the *firm* acts only as *sponsor*;

(b) the aggregate amount of on-balance sheet *securitisation positions* retained or purchased, and off-balance sheet *securitisation exposures*;

(c) the aggregate amount of assets awaiting *securitisation*;

(d) for securitised facilities subject to an *early amortisation provision*, the aggregate drawn-down *exposures* attributed to the *originator's* and investors' interests respectively, the aggregate *capital resources requirement* incurred by the *firm* against the *originator's* interest and the aggregate *capital resources requirement* incurred by the *firm* against the investors' shares of drawn balances and undrawn lines;

(e) the amount of *securitisation positions* that have been *risk weighted* at 1250% or deducted; and

(f) a summary of the *securitisation* activity of the current period, including the amount of *exposures securitised* and recognised gain or loss on sale;

(14) separately for the *trading book* and the *non-trading book*, the following information:

(a) the aggregate amount of *securitisation positions* retained or purchased and the associated *capital resources requirements*, broken down by *securitisation* and *resecuritisation exposures*, and further broken down into a meaningful number of *risk weight* or *capital resources requirement* bands, for each *capital resources requirement* approach used; and

(b) the aggregate amount of *resecuritisation exposures* retained or purchased, broken down according to the *exposure* before and after hedging or insurance, and the *exposure* to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name; and

(15) for the *trading book*, the total outstanding *exposures securitised* by the *firm* and subject to a *market risk capital requirement*, broken down into *traditional* and *synthetic*, and by *exposure* type.

[**Note:** *BCD* Annex XII Part 2 point 14]

…

14.2.6 R In the case of a credit default swap, a *firm* the *exposure* of which arising from the swap represents a long position in the underlying may use a figure of 0% for potential future credit *exposure*, unless the credit default swap is subject to closeout upon the insolvency of the entity the *exposure* of which arising from the swap represents a short position in the underlying, even though the underlying has not defaulted, in which case the potential for future credit *exposure* of the *firm* must be limited to the amount of premia which are not yet paid by the entity to the *firm*.

[**Note:** *CAD* Annex II point 7]

…

Treatment of expected loss amounts under the IRB approach

14.2.18	R	Where a *firm* calculates *risk weighted exposure amounts* for the purposes of *BIPRU* 14 in accordance with the *IRB approach*, then for the purposes of the calculation provided for in *BIPRU* ~~4.4.79R (Double default)~~ 4.3.8R, the following will apply:
		…

…

Transitional Provisions

TP 4 Pre CRD capital requirements applying on a solo basis during 2007: Banks

…

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

…

4.43	G	The ~~definitions~~ definition of *qualifying debt security* ~~and *qualifying equity*~~ in the *Glossary* ~~apply~~ applies if the security or obligor in question comes within the scope of a *firm's IRB permission*.

…

TP 6 Pre CRD capital requirements applying on a solo basis during 2007: Investment management firms

…

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

~~The definition of *qualifying equity* also depends in part on the *standardised approach* to credit risk.~~

…

6.34 R The definition of *qualifying debt security* ~~and *qualifying equity*~~ in the *Glossary* ~~apply~~ applies if the security or obligor in question comes within the scope of a *firm's IRB permission*.

…

TP 8 Pre CRD capital requirements applying on a solo basis during 2007: Securities and futures firms

…

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

8.31 G The effect of *BIPRU* TP 8.29R and *BIPRU* TP 8.30R is that a *firm* should apply *rules* 43R to 47R of Appendix 4 of Chapter 10 of *IPRU(INV)* (Specific risk portion of interest rate PRR) instead of *BIPRU* 7.2.43R to *BIPRU* 7.2.49R (*Specific risk* portion of *interest rate PRR*). The reason for this is that the calculation of the *specific risk* portion of the *interest rate PRR* under *BIPRU* 7 (Market risk) involves the use of the *standardised approach* to credit risk. The *specific risk rules* therefore need to be adjusted for a *firm* that is not using the *standardised approach* to credit risk in 2007 so as to apply the pre-2007 method of calculating *specific risk*. ~~The definition of *qualifying equity* also depends in part on the *standardised approach* to credit risk.~~

…

8.38 R The ~~definitions~~ definition of *qualifying debt security* ~~and *qualifying equity*~~ in the *Glossary* ~~apply~~ applies if the security or obligor in question comes within the scope of a *firm's IRB permission*.

TP 9 Pre CRD capital requirements applying on a solo basis during 2007 and capital floors: Personal investment firms

…

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

~~*BIPRU* that applies during 2007 must be interpreted in accordance with the definition in the Glossary to chapter 10 of *IPRU(INV)*.~~

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

…

9.44	R	The definition of *qualifying debt security* ~~and *qualifying equity*~~ in the *Glossary* ~~apply~~ applies if the security or obligor in question comes within the scope of a *firm's IRB permission*.

…

TP 14 Market risk: VaR models

…

14.4 R A *firm* may treat:

…

(2) the *incremental* ~~*default*~~ *risk charge* as being replaced by the provisions of that written concession relating to the calculation of capital requirements for *specific risk*.

…

Sch 2 Notification and reporting requirements

…

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
…				
BIPRU 7.2.48B	Total sum of a *firm*'s weighted net long and net short *securitisation* and *resecuritisation positions*, broken down by types of underlying assets	Total sum of a *firm*'s weighted net long and net short *securitisation* and *resecuritisation positions*, broken down by types of underlying assets	Periodically as set out in *SUP* 16.12	In accordance with *SUP* 16.12
…				
BIPRU 7.10.55 ZAR	Material shortfall in the amount of capital required under the *all price risk measure* identified as a result of performing the stress tests under *BIPRU* 7.10.55ZR	Information about the stress tests and the material shortfall in capital	Existence of a material shortfall in capital	No later than two *business days* after the *business day* on which the material shortfall occurred
…				
BIPRU 7.10.130R	Details of significant planned changes to	Information about the nature of the change and an	Intention to change	Prior to any changes being

	the *VaR model*	estimate of the impact on *VaR numbers* and the *incremental* ~~*default*~~ *risk charge*		implemented

…

Annex D

Amendments to the Supervision manual (SUP)

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

16.12 Integrated Regulatory Reporting

…

Regulated Activity Group 1

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

…	
Note 23	Only applicable to *firms* that hold *securitisation positions*~~,~~ in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* ~~of *trading book exposures*~~ held in the *trading book*.

…

Regulated Activity Group 3

…

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

…	
Note 32	Only applicable to *firms* that hold *securitisation positions*~~,~~ in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* ~~of *trading book exposures*~~ held in the *trading book*.
…	

…

Regulated Activity Group 4

…

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

…	
Note 29	Only applicable to *firms* that hold *securitisation positions*~~,~~ in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* ~~of *trading book exposures*~~ held in the *trading book*.
…	

…

Regulated Activity Group 7

…

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

…	
Note 22	Only applicable to *firms* that hold *securitisation positions*~~,~~ in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* ~~of *trading book exposures*~~ held in the *trading book*.
…	

…

Regulated Activity Group 8

…

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

…	
Note 27	Only applicable to *firms* that hold *securitisation positions*~~,~~ in the *trading book* and/or are the *originator* or *sponsor* of *securitisations* ~~of *trading book exposures*~~ held in the *trading book*.
…	

…

SUP 16 Annex 24 Data items for SUP 16.12

. . .

FSA005
Market risk
Note: In this table numerical references correspond with those shown on the online submission form and are not presented here in strict numerical order.

		A	B	C	D	E	F	G
	Interest rate risk							
	General interest rate risk	USD	GBP	EUR	CHF	YEN	Other	Total
1	Valuations of longs							
2	Valuation of shorts							
3	PRR (as per handbook)							
	Specific interest rate risk							
	Amount by risk bucket							Total
4	0.00%							
5	0.25%							
6	1.00%							
7	1.60%							
8	8.00%							
9	12.00%							
10	PRR							
~~11~~	~~Securitisation exposures/unrated liquidity facilities PRR~~							
66	Net long securitisation (excl. re-securitisation) exposures/unrated liquidity facilities PRR							
67	Net short securitisation (excl. re-securitisation) exposures/unrated liquidity facilities PRR							
68	Net long re-securitisation exposures/unrated liquidity facilities PRR							
69	Net short re-securitisation exposures/unrated liquidity facilities PRR							
12	Ordinary CDS (outside correlation trading portfolio) PRR							
13	Securitisation CDS (outside correlation trading portfolio) PRR							
14	Basic interest rate PRR calculation for equity instruments							
15	Option PRR for interest rate positions							
16	CAD1 PRR for interest rate positions							
17	Other PRR							
70	Correlation trading portfolio - Net long positions PRR							
71	Correlation trading portfolio - Net short positions PRR							
18	Total interest rate PRR							
	Equity risk							
	General equity risk (or simplified)	USD	GBP	EUR	CHF	YEN	Other	Total
19	Valuations of longs							
20	Valuation of shorts							
21	PRR							

FSA005 continued

		A USD	B GBP	C EUR	D CHF	E YEN	F Other	G Total
	Specific equity risk by risk bucket							
~~22~~	~~Qualifying equities~~							
23	Qualifying equity indices							
~~24~~	~~Other equities, indices or equity baskets~~							
<u>82</u>	<u>All equities, and other equity indices or equity baskets</u>							
~~63~~ <u>65</u>	Convertibles adjustment							
25	PRR							
26	Option PRR for equity positions							
27	CAD 1 PRR for equity positions							
28	Other PRR							
29	Total Equity PRR							

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

Foreign currency risk

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

FSA005 continued

		A USD	B GBP	C EUR	D CHF	E YEN	F Other	G Total
45	Option PRR for foreign currency							
46	CAD 1 PRR for foreign currency							
47	Other							
48	Total foreign currency PRR							
	Collective investment undertaking risk							
	General CIU risk	USD	GBP	EUR	CHF	YEN	Other	Total
49	Total net long positions							
50	Total net short positions							
51	PRR							
52	Option PRR for CIU							
53	CAD 1 PRR for CIU							
54	Other PRR							
55	Total CIU PRR							
	Other PRR							
56	Any other PRR							
	Internal models-based charges							
57	Multiplier							
58	Previous day's VaR PRR							
59	Average of previous 60 days VaR							
~~60~~	~~Incremental Default Risk Surcharge~~							
72	SVaR Multiplier							
73	Latest SVaR							
74	Average of previous 60 days SVaR							
75	Latest Incremental Risk Charge							
76	Average of previous 12 weeks Incremental Risk Charge							
77	Latest All Price Risk Measure							
78	Average of previous 12 weeks All Price Risk Measure							
79	Standard Rules charge for net long correlation trading portfolio products in APR model							
80	Standard Rules charge for net short correlation trading portfolio products in APR model							
81	All Price Risk Floor Charge							

FSA005 continued

Add-ons

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

64	Total Add-ons	
61	Internal models-based PRR	
62	GRAND TOTAL PRR	

• • •

FSA046
Securitisation: Non-Trading Book

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

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

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

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
3	Programme Name	Asset class	Originator's Interest	Investors' Interest	Location of Investor Reports	Assets appear on FSA001?	BIPRU 9.3.1R Applied?	Conversion Factor applied?	Exposure value before securitisation	Capital requirement before securitisation	Exposure value after securitisation	Exposure value deducted from capital resources	Capital requirement after securitisation before cap	Capital requirement after securitisation after cap	Retention of net economic interest (% to 2dp)	Method of retention of net economic interest
1																
…																
n																

Risk positions - standardised exposures

		~~A~~	~~B~~	~~C~~	~~D~~	~~E~~	~~F~~
		~~CQS1~~	~~CQS2~~	~~CQS3~~	~~CQS4 (only for credit assessments other than short-term credit assessments)~~	~~All other credit assessments~~	~~Deductions from capital~~
~~4~~	~~Originator~~						
~~5~~	~~Sponsor~~						
~~6~~	~~Counterparty credit risk~~						
~~7~~	~~All other exposures~~						

			A	B	C	D	E	F	G	H
			CQS1	CQS2	CQS3	CQS4 (only for credit assessments other than short-term credit assessments)	All other credit assessments	Deductions from capital	Concentration ratio (Exposure value)	Concentration ratio (Capital requirement)
31	Originator	Securitisation								
32		Resecuritisation								
33	Sponsor	Securitisation								
34		Resecuritisation								
35	Counterparty credit risk	Securitisation								
36		Resecuritisation								
37	All other exposures	Securitisation								
38		Resecuritisation								

FSA046 (cont)
Securitisation: Non-Trading Book

Risk positions - IRB exposures

			B	C	D	E	F	G	H	I	J	K	L	M	N	P	O
			CQS1 ST CQS1	CQS2	CQS3	CQS4 ST CQS2	CQS5	CQS6	CQS7 ST CQS3	CQS8	CQS9	CQS10	CQS11	Below CQS11 All other credit assessments	Supervisory formula (Exposure Value)	Supervisory formula (Capital Requirement)	Deductions from capital
8	Originator	A															
9		B															
10		C															
23		D															
24		E															
11	Sponsor	A															
12		B															
13		C															
25		D															
26		E															
14	Counterparty credit risk	A															
15		B															
16		C															
27		D															
28		E															
17	All other exposures	A															
18		B															
19		C															
29		D															
30		E															

…

FSA058
Securitisation: Trading Book

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

		A
1	Location of the most recent Pillar 3 disclosures for securitisation (BIPRU 11.5.17R)	
21	Additional capital requirements (~~BIPRU 7.2.47HG~~ BIPRU 7.2.48IG)	

Non-correlation trading portfolio securitisations

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

	A	B	C	D	E	F	O	P
3	Programme Name	Asset class	Originator's Interest	Investors' Interest	Location of Investor Reports	Assets appear on FSA001?	Retention of net economic interest (% to 2dp)	Method of retention of net economic interest
1								
…								
n								

[Insert the following tables as new Data Elements for Data Item FSA058. The text is not underlined.]

Risk positions - standardised exposures (net positions)

			A	B	C	D	E	F
			CQS1	CQS2	CQS3	CQS4 (only for credit assessments other than short-term credit assessments)	All other credit assessments	Deductions from capital
31	Originator	Securitisation						
32		Resecuritisation						
33	Sponsor	Securitisation						
34		Resecuritisation						
35	Counterparty credit risk	Securitisation						
36		Resecuritisation						
37	All other exposures	Securitisation						
38		Resecuritisation						

Risk positions - IRB exposures (net positions)

			B	C	D	E	F	G	H	I	J	K	L	M	N	P	O
			CQS1	CQS2	CQS3	CQS4	CQS5	CQS6	CQS7	CQS8	CQS9	CQS10	CQS11	Below CQS11	Supervisory formula (Exposure Value)	Supervisory formula (Capital Requirement)	Deductions from capital
			ST CQS1			ST CQS2			ST CQS3					All other credit assessments			
8	Originator	A															
9		B															
10		C															
23		D															
24		E															
11	Sponsor	A															
12		B															
13		C															
25		D															
26		E															
14	Counterparty credit risk	A															
15		B															
16		C															
27		D															
28		E															
17	All other exposures	A															
18		B															
19		C															
29		D															
30		E															

FSA058 (cont)
Securitisation: Trading Book
Total capital requirement (net long positions plus net short positions) broken down by underlying assets

		A
		Capital requirement
39	Residential mortgages	
40	Commercial mortgages	
41	Credit cards	
42	Leasing	
43	Loans to corporates	
44	Consumer loans	
45	Trade receivables	
46	Securitisations	
47	Other	

Correlation trading portfolio positions

Risk positions - standardised exposures (net positions)

		A	B	C	D	E	F
		CQS1	CQS2	CQS3	CQS4 (only for credit assessments other than short-term credit assessments)	All other credit assessments	Deductions from capital
48	Originator						
49	Sponsor						
50	Counterparty credit risk						
51	All other exposures						

Risk positions - IRB exposures (net positions)

			B	C	D	E	F	G	H	I	J	K	L	M	N	P	O
			CQS1			CQS4			CQS7					Below CQS11			
			ST CQS1	CQS2	CQS3	ST CQS2	CQS5	CQS6	ST CQS3	CQS8	CQS9	CQS10	CQS11	All other credit assessments	Supervisory formula (Exposure Value)	Supervisory formula (Capital Requirement)	Deductions from capital
52	Originator	A															
53		B															
54		C															
55	Sponsor	A															
56		B															
57		C															
58	Counterparty credit risk	A															
59		B															
60		C															
61	All other exposures	A															
62		B															
63		C															

• • • •

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

…

FSA003 – Capital Adequacy

...

103A Concentration risk capital component

This is the CNCOM. See ~~*BIPRU* 10.5.14R to *BIPRU* 10.5.21G~~ *BIPRU* 10.10A.4G to *BIPRU* 10.10A.12R for details of how this is calculated.

Figures appearing here should also appear on FSA008 under data element 5R for the same quarterly reporting date.

...

FSA005 – Market risk

....

~~**11 Securitisation exposures/unrated liquidity facilities PRR**~~

~~See *BIPRU* 7.2.47R.~~

[~~*CEBS' MKR SA TDI item 3.5, column 9*~~]

66 Net long securitisation (excl. re-securitisation) exposures/unrated liquidity facilities PRR

See *BIPRU* 7.2.48AR to *BIPRU* 7.2.48KR.

67 Net short securitisation (excl. re-securitisation) exposures/unrated liquidity facilities PRR

See *BIPRU* 7.2.48AR to *BIPRU* 7.2.48KR.

68 Net long re-securitisation exposures/unrated liquidity facilities PRR

See *BIPRU* 7.2.48AR to *BIPRU* 7.2.48KR.

69 Net short re-securitisation exposures/unrated liquidity facilities PRR

See *BIPRU* 7.2.48AR to *BIPRU* 7.2.48KR.

12 Ordinary CDS (outside correlation trading portfolio) PRR

See *BIPRU* 7.11

[*Part of CEBS' MKR SA TDI item 3, columns 6 and 7*]

13 Securitisation CDS <u>(outside correlation trading portfolio)</u> PRR

See *BIPRU* 7.11.35R

[*Part of CEBS' MKR SA TDI item 3, columns 6 and 7*]

...

17 Other PRR for interest rate risk

Where a 'prudent' uplift is required under *BIPRU* 7.2.46R or PRR arising from other non-standard transactions as required by *BIPRU* ~~7.1.7R~~ <u>7.1.9R</u> to *BIPRU* ~~7.1.13E~~ <u>7.1.16E</u> and that is attributable to interest rate risk

<u>**70 Correlation trading portfolio - Net long positions PRR**</u>

<u>See *BIPRU* 7.2.42A R to *BIPRU* 7.2.42DR and *BIPRU* 7.2.48LR.</u>

<u>**71 Correlation trading portfolio - Net short positions PRR**</u>

<u>See *BIPRU* 7.2.42A R to *BIPRU* 7.2.42DR and *BIPRU* 7.2.48LR.</u>

18 Total interest rate PRR

This is the sum of the general interest rate, specific interest rate, ~~securitisation~~ <u>*securitisation*</u> exposures/unrated liquidity facilities, <u>*re-securitisation positions* / unrated liquidity facilities,</u> ordinary CDS, ~~securitisation~~ <u>*securitisation*</u> CDS, basic interest rate, options, CAD1<u>,</u> ~~and~~ other PRRs<u>, and *correlation trading portfolio positions*</u>.

This will have the same value as data element 96A in FSA003.

[*CEBS' MKR SA TDI column 9 total less item 4 column 9*]

Equity risk

...

~~**22 Qualifying equities**~~
~~Enter the valuation of the instruments. See *BIPRU* 7.3.35R to *BIPRU* 7.3.37G.~~
~~[*CEBS' MKR SA EQU item 2.1, column 6*]~~

23 Qualifying equity indices
Enter the valuation of the instruments. See *BIPRU* 7.3.38R to *BIPRU* 7.3.39R.

~~**24 Other equities**~~
~~Enter the valuation of all other equities, equity indices or equities baskets.~~

~~[*CEBS' MKR SA EQU item 2.2, column 6*]~~

<u>**82 All equities, and other equity indices or equity baskets**</u>

<u>Enter the valuation of all equities, other equity indices or equities baskets. See *BIPRU* 7.3.31G to *BIPRU* 7.3.34R.</u>

…

Internal models-based charges

See *BIPRU* 7.10.

...

59 Average of previous 60 days VaR

This equates to item (3) in *BIPRU* 7.10.117G.

[*CEBS' MKR IM total positions column 1 divided by total positions column 7*]

~~**60 Incremental default risk charge**~~

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

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

72 SVaR Multiplier

See *BIPRU* 7.10.118R *to BIPRU* 7.10.126G.

73 Latest SVaR

See *BIPRU* 7.10.27AR

74 Average of previous 60 days SVaR

See *BIPRU* 7.10.27AR and *BIPRU* 7.10.117G items (6) and (8).

75 Latest Incremental Risk Charge

See *BIPRU* 7.10.116R

76 Average of previous 12 weeks Incremental Risk Charge

See *BIPRU* 7.10.116R and *BIPRU* 7.10.117G items (10) and (11)

77 Latest All Price Risk Measure

See *BIPRU* 7.10.55TR *to BIPRU* 7.10.55YR and *BIPRU* 7.10.116AR

78 Average of previous 12 weeks All Price Risk Measure

See *BIPRU* 7.10.55TR to *BIPRU* 7.10.55YR, *BIPRU* 7.10.116AR and *BIPRU* 7.10.117G items (13) and (14)

79 Standard Rules charge for net long correlation trading portfolio products in APR model

Firms should report the total standard rules capital charge before multiplying the charge by the *APR* floor charge (8%). The *APR* floor charge is reported in data element 81.

See *BIPRU* 7.10.55UR

80 Standard Rules charge for net short correlation trading portfolio products in APR model

Firms should report the total standard rules capital charge before multiplying the charge by the *APR* floor charge (8%). The *APR* floor charge is reported in data element 81.

See *BIPRU* 7.10.55UR

81 All Price Risk Floor Charge

See *BIPRU* 7.10.55UR

61 Internal models-based PRR

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

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

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

This is the sum of the *VaR* capital charge, *stressed VaR* (SVaR) capital charge, *incremental risk charge*, *all price risks measure* and any internal models add-ons. See *BIPRU* 7.10.113R to *BIPRU* 7.10.117G.

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

…

64 Total Add-ons

The total of items 1 to n in 63

FSA005 – Market risk validations

Internal validations

Data elements are referenced by row then column.

Validation number	Data element		
1	3G	=	3A + 3B + 3C + 3D + 3E + 3F
2	10G	=	10A + 10B + 10C + 10D + 10E + 10F
3	18G	=	18A + 18B + 18C + 18D + 18E + 18F
4			[deleted – replaced by validation 52]
5			[deleted]
6			[deleted]
7	~~25G~~	=	~~(22G * 2%) + (24G * 4%) + (23G * 2%)~~ [deleted – replaced by validation 56]
8			[deleted]
…			
52	~~18G~~	=	~~3G + 10G + 11G + 12G + 13G + 14G + 15G + 16G + 17G~~ [deleted – replaced by validation 57]
53	64G	=	SUM (63B)
54	81G	=	Higher of (79G * 8%, 80G * 8%)
55	61G	=	Higher of (58G, 59G * 57G) + higher of (73G, 74G * 72G) + higher of (75G, 76G) + higher of (77G, 78G, 81G) + 64G
56	25G	=	(82G * 8%) + (23G*0%) + 65G
57	18G	=	3G + 10G + 12G + 13G + 14G + 15G + 16G + 17G +higher of (66G + 68G, 67G + 69G) + higher of (70G, 71G)
58	57G	>=	3.00 (if element 57G is reported)
59	72G	>=	3.00 (if element 72G is reported)

FSA008 – Large Exposures

...

5R CNCOM

The amount of CNCOM calculated as set out in ~~*BIPRU* 10.10.4G to 10.10.10R~~ *BIPRU* 10.10A.4G to *BIPRU* 10.10A.10R (or *BIPRU* 10.5.16G to 10.5.24G for those utilising TP 33). It should agree with the amount reported in data element 103A on FSA003 for the same reporting date, except when the firm is a member of a *UK integrated group/core UK group* when there may be some additional CNCOM attributable to the firm.

…

FSA046 – Securitisation – non-trading book

...

Risk positions – standardised exposures

All *exposures* that are treated under *BIPRU* 9.11 should be shown in this section, broken down by credit quality, ~~and~~ how the *exposure* arose, and whether the position is a *securitisation* or *re-securitisation*.

Row ~~4~~ 31 & 32 : Originator

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

Row ~~5~~ 33 & 34: Sponsor

This is for e*xposures* to *Asset backed commercial paper programmes*.

Row ~~6~~ 35 & 36: Counterparty credit risk

This is the *exposure* values generated under *BIPRU* 13.

Row ~~7~~ 37 & 38: All other exposures

This is for any standardised *exposures* not included in *data elements* ~~4 – 6~~ 31 – 38 above.

Columns A – E

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

Column F

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

Column G

Firms should state the exposure value of *securitisation positions* for which *risk weighted exposure amounts* are calculated under *BIPRU* 9.11.6R to *BIPRU* 9.11.7G.

Column H

Firms should state the capital requirement for *securitisation positions* for which *risk weighted exposure amounts* are calculated under *BIPRU* 9.11.6R to *BIPRU* 9.11.7G.

Risk positions – IRB exposures

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

Rows 8 – 10 & 23 -24: Originator

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

Rows 11 – 13 & 25 - 26: Sponsor

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

Rows 14 – 16 & 27 - 28: Counterparty credit risk

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

Rows 17 – 19 & 29 - 30: All other exposures

This covers any IRB *exposures* not included above.

Columns B – M

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

Column N

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

Column O

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

Column P

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

…

FSA058 – Securitisation – trading book

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

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

The data item has been separated into three sections:

- general *trading book securitisation* information;

- information on non-*correlation trading portfolio securitisations*, and
- *correlation trading portfolio securitisations*.

Currency

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

Data elements

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

Non-correlation trading portfolio securitisations

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

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

...

After the entry for "3P – Method of retention of net economic interest" insert the following new text which is not underlined.

Risk positions – standardised exposures

All non-*correlation trading portfolio securitisation positions* that are treated under *BIPRU* 7.2.48DR should be shown in this section, broken down by credit quality, how the *exposure* arose, and whether the position is a *securitisation* or *resecuritisation*.

Row 31 & 32: Originator

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

Row 33 & 34: Sponsor

This is for *exposures* where the firm acts as a *sponsor*.

Row 35 & 36: Counterparty credit risk

This is the *exposure* values generated under *BIPRU* 13.

Row 37 & 38: All other exposures

This is for any standardised *exposures* not included in *data elements* 31 – 38 above. For example, a firm that is an investor in *trading book securitisations*.

Columns A – E

Positions should be split by credit rating according to *BIPRU* 7.2.48DR.

Column F

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

Risk positions – IRB exposures

All *exposures* that are treated under *BIPRU* 7.2.48ER should be shown in this section, broken down by credit quality, granularity and how the *exposure* arose.

Rows 8 – 10 & 23 -24: Originator

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

Rows 11 – 13 & 25 - 26: Sponsor

This is for *exposures* where the firm acts as a *sponsor*.

Rows 14 – 16 & 27 - 28: Counterparty credit risk

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

Rows 17 – 19 & 29 - 30: All other exposures

This covers any *IRB exposures* not included above. For example, a *firm* that is an investor in *trading book securitisations*.

Columns B – M

This should be split by credit rating according to *BIPRU* 7.2.48ER.

Column N

Firms should state the exposure value calculated under *BIPRU* 7.2.48AR to *BIPRU* 7.2.48CR.

Column O

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

Column P

Firms should state the capital requirement calculated under *BIPRU* 7.2.48FR.

Total capital requirement (net long positions plus net short positions) broken down by underlying assets

Rows 39 – 47:

Enter the total capital requirement (net long positions & net short positions) broken down by underlying assets as shown.

Correlation trading portfolio positions

Risk positions – standardised exposures

All *correlation trading portfolio securitisation positions* that are treated under *BIPRU* 7.2.48DR should be shown in this section, broken down by credit quality and how the *exposure* arose.

Row 48: Originator

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

Row 49: Sponsor

This is for *exposures* where the firm acts as a sponsor.

Row 50: Counterparty credit risk

This is the exposure values generated under *BIPRU* 13.

Row 51: All other exposures

This is for any standardised *exposures* not included in *data elements* 48 - 50 above. For example, a firm that is an investor in *correlation trading portfolio positions*.

Columns A – E

Positions should be split by credit rating according to *BIPRU* 7.2.48DR.

Column F

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

Risk positions – IRB exposures

All *exposures* that are treated under *BIPRU* 7.2.47ER should be shown in this section, broken down by credit quality, granularity and how the *exposure* arose.

Rows 52 - 54: Originator

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

Rows 55 - 57: Sponsor

This is for *exposures* where the *firm* acts as a sponsor.

Rows 58 - 60: Counterparty credit risk

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

Rows 61 - 63: All other exposures

This covers any *IRB exposures* not included above. For example, a *firm* that is an investor in *correlation trading portfolio positions.*

Columns B – M

This should be split by credit rating according to *BIPRU* 7.2.48E R.

Column N

Firms should state the exposure value calculated under *BIPRU* 7.2.48AR to *BIPRU* 7.2.48CR.

Column O

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

Column P

Firms should state the capital requirement calculated under *BIPRU* 7.2.48FR.